

How members make decisions, what influences their decisions and what we can learn from them.

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Discipline of Finance

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Members' voluntary super contributions went down in 2016

By Dan Purves (<https://investmentmagazine.com.au/author/dan-purves/>)

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Total



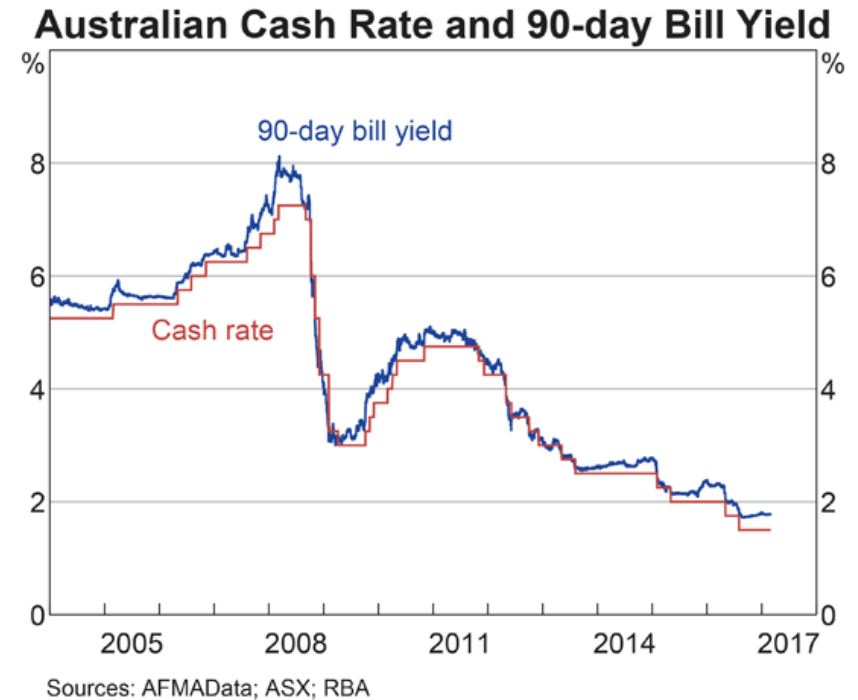
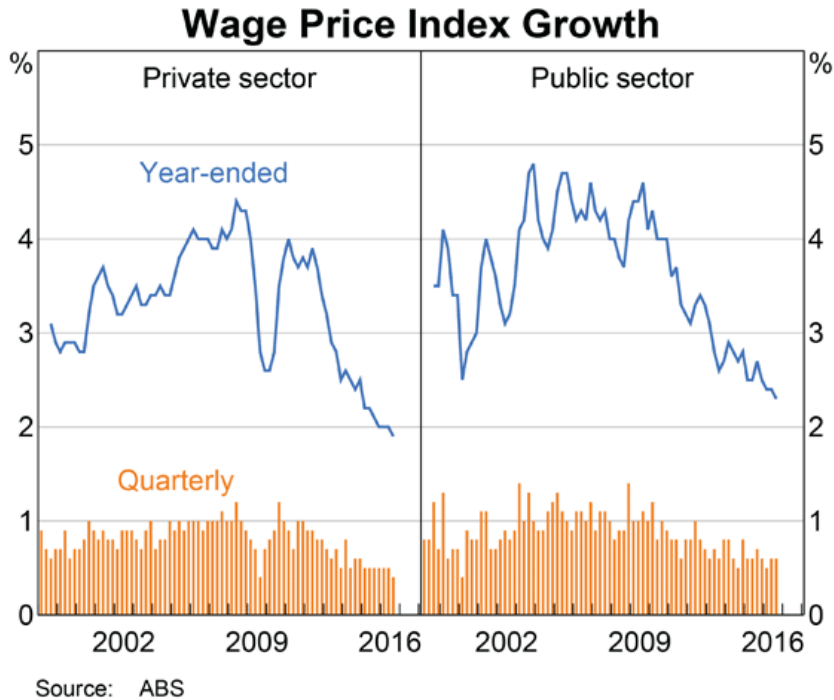
contributions to superannuation in the year to September 30, 2016, fell 1.1 per cent compared with the previous year, a joint report from the Financial Services Council and UBS Asset Management has stated.

Why did member voluntary contributions go down in 2016?

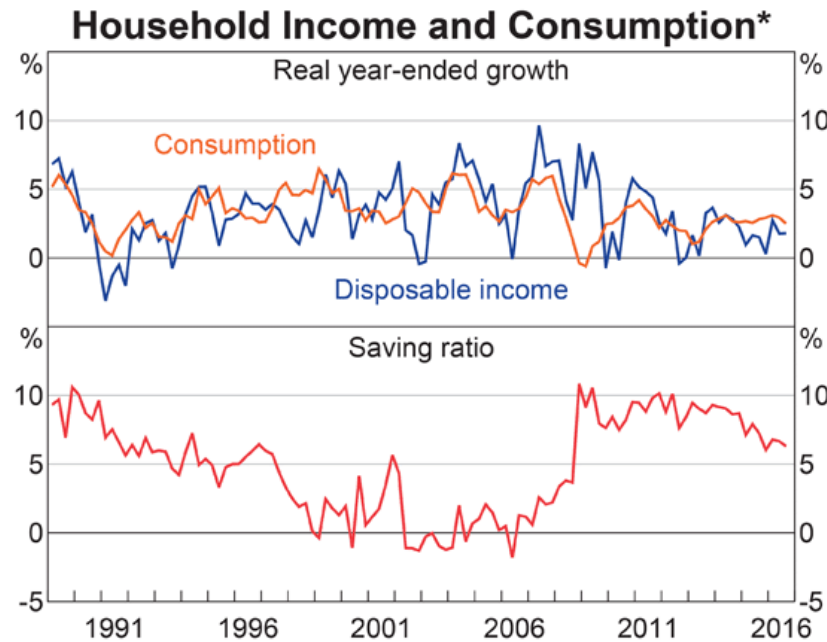
1. It's the economy.
2. It's the members.
3. It's the funds.
4. It's the government.

It's the economy.

Household savings depends on income, interest rates, impatience and risk aversion



Lower wages + lower interest rates = lower savings



* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; income level smoothed with a two-quarter moving average between March quarter 2000 and March quarter 2002; saving ratio is net of depreciation

Sources: ABS; RBA

<http://www.rba.gov.au/chart-pack/>



It's the members.

Planning, Passivity and Procrastination

- Low Planning:

Have you ever tried to work out how much you need to save for retirement?

- 32% of all pre-retirees; 48% of 50-65 yr olds

- High Passivity:

Following the line of least resistance?

- 85% passive; 15% active
- Procrastination
- Disconnection with future self
- Low skill and knowledge
- Misperceptions of compounding, risk, life expectancy etc.

Who does make voluntary contributions?

- Around 80% of all members don't make personal contributions (ABS 2007)
- Why not?
 - Can't afford to (30%)
 - Can't be bothered (12%)
- Who does make voluntary contributions?
 - Women 4% more likely than men but...
 - Men more likely to salary sacrifice
 - Higher wages
 - Older ages : 10% at age 30; 17% at age 40; 27% at age 50
 - *Involved – high interest in super*
 - *Promoters – recommend fund*

Voluntary contributions raised by trust, engagement and need... but not all at once

		Correlation with V.C.
Advocacy	How likely are you to recommend fund?	0.82
Involvement	How much interest do you personally take in your superannuation ?	0.20
Complacency	“My superannuation will take care of itself” Agree?	-0.06
Trust	“I trust the investment decisions of my fund” Agree?	0.06
Sufficiency	“I am confident that other assets outside of superannuation will give me an income in retirement” Agree?	-0.02

Higher VC clusters:

1. Super engaged: Advocacy + Involvement + Trust + Sufficiency
2. Needily engaged: Advocacy + Trust – Sufficiency
3. Mistrustingly engaged: Involvement – Complacency – Trust

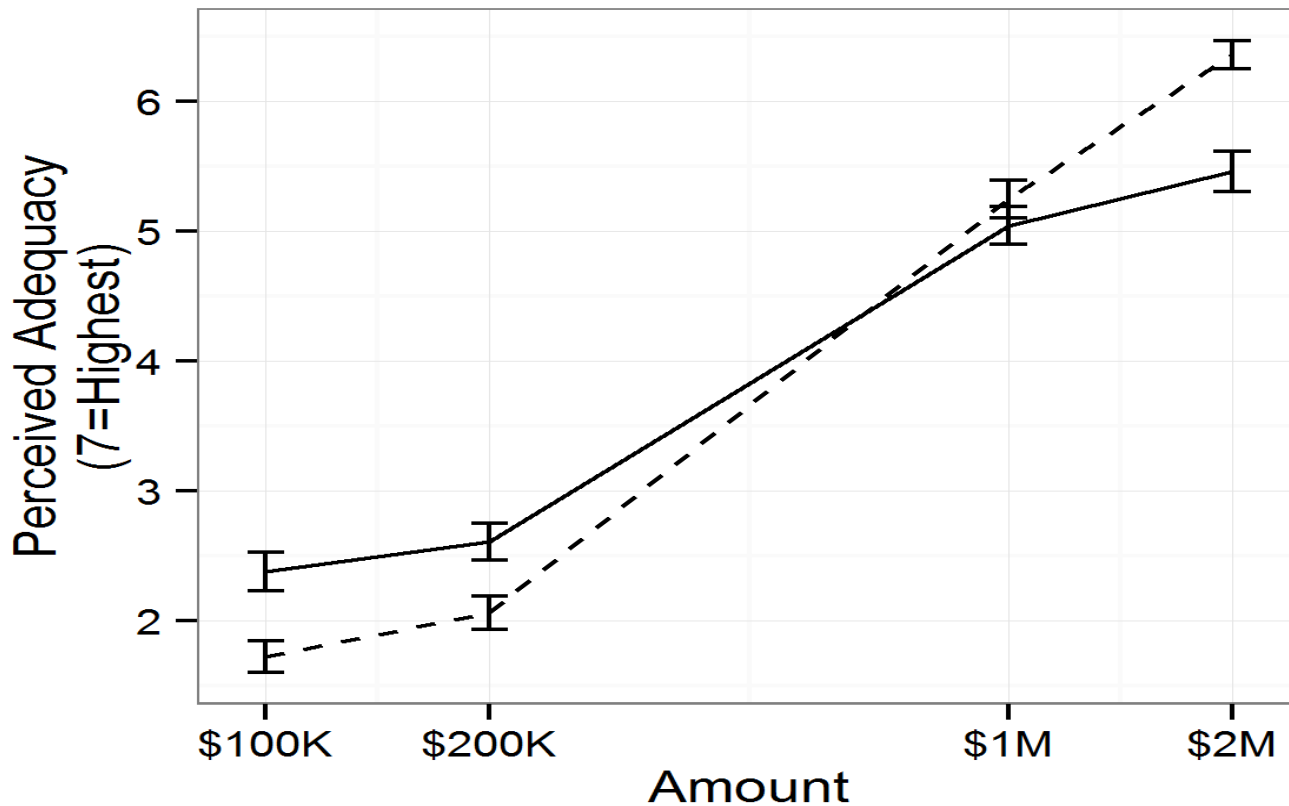


It's the funds.

Can fund communication cause complacency?

- Do account balances (lump sums) seem larger than their monthly income equivalents?
- Does the illusion depend on the wealth amount?
- What about savings responses?

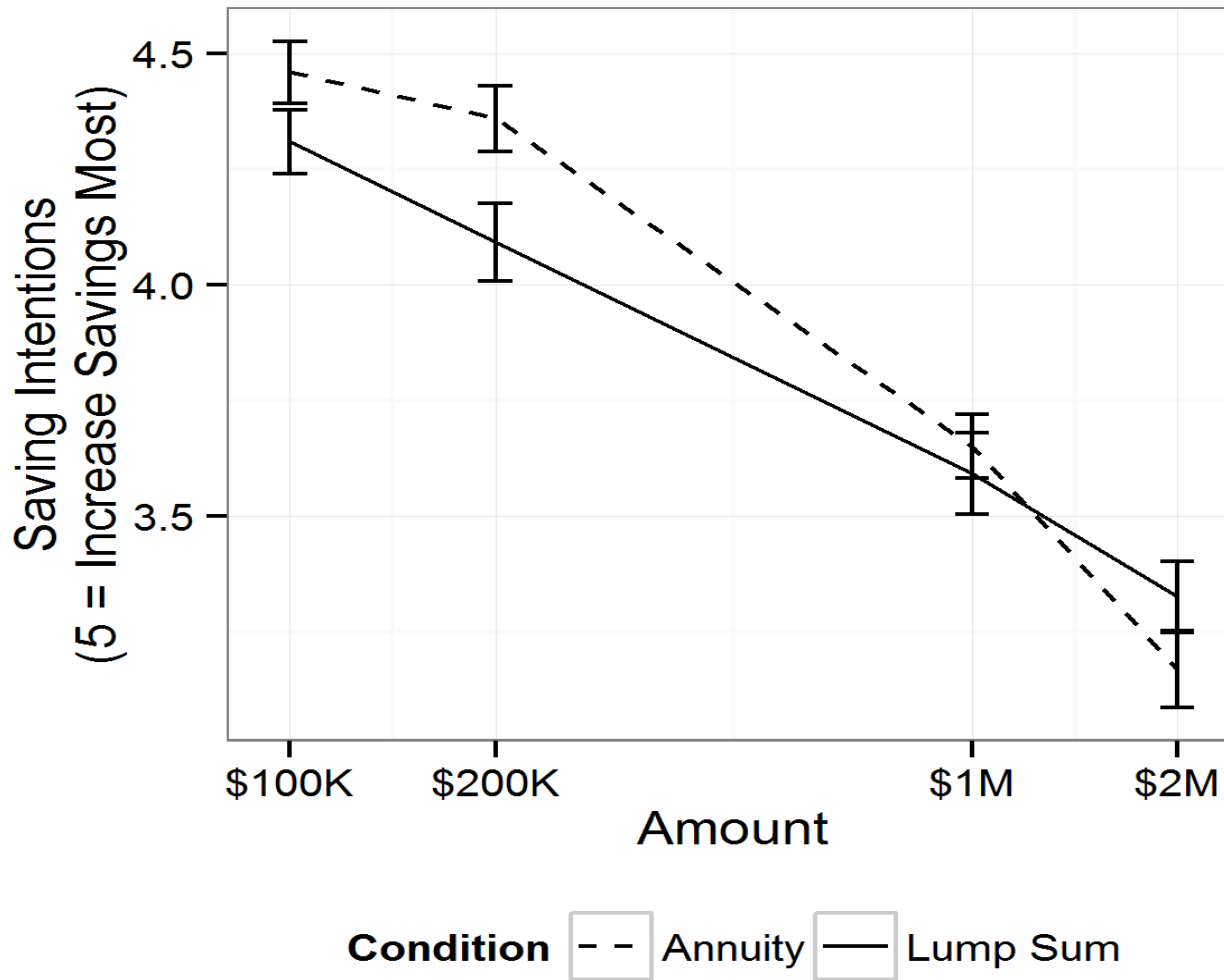
Account balances can create complacency



More sensitive to **monthly amounts** than **lump sums**

Condition -- Annuity — Lump Sum

Savings intentions rise for income streams



Savings plans are higher for **monthly amounts** than **lump sums**

I want to make a voluntary contribution...

<https://www.unisuper.com.au/>



It's the government.

“We would point to the rules in super look for other way head of Australia :

MAJOR POLICY DECISIONS		TAXATION SITUATION (a)
1990		<p>The tax treatment that applied to superannuation from 1990 to 2007 was as follows:</p> <ul style="list-style-type: none"> ▪ Contributions taxed at 15%, plus a surcharge between 1997–98 and 2004–05 ▪ Earnings taxed at 15% ▪ Benefits taken as a lump sum taxed at 0% or 15% depending on the amount ▪ Benefits taken as an income stream taxed at personal tax rates less a 15% rebate
1992	Superannuation Guarantee introduced	
1997	Capital gains tax small business retirement exemption introduced	
1999	Preservation rules strengthened	
	Self-managed superannuation funds regulated by the ATO. Small APRA-regulated funds replace excluded superannuation funds	
2002	Superannuation Guarantee reached 9%	<p>In 2007, the tax treatment of superannuation was changed to the following:</p> <ul style="list-style-type: none"> ▪ Contributions taxed at 15% ▪ Accumulation earnings taxed at 15% ▪ Benefits taken as a lump sum or income stream tax-free for individuals aged 60 and over <p>From 2012, an additional contributions tax of 15% introduced for individuals earning over \$300,000 per annum</p>
2003	Government co-contribution introduced	
2005	Transition to retirement pensions introduced	
2007	<p>Tax on superannuation benefits paid from a taxed fund abolished for people aged 60 and over</p> <p>Contributions caps introduced to place limits on the concessionality of superannuation, replacing the previous Reasonable Benefits Limit system</p>	
2009	Concessional contributions cap halved	
2012	One-year payment of up to \$500 for low-income earners to refund tax paid on their contributions	
2013	<p>Superannuation Guarantee age limit abolished</p> <p>Gradual increase in the Superannuation Guarantee from 9% to 12% commenced</p>	
2014	<p>Introduction of MySuper, a low-cost and simple superannuation product, to replace existing default funds</p> <p>Start of SuperStream — electronic data and payments for superannuation</p>	
2016	Gradual increase in the preservation age to 60 commences	
2022	Superannuation Guarantee scheduled to reach 12%	
2024	Preservation age reaches 60	

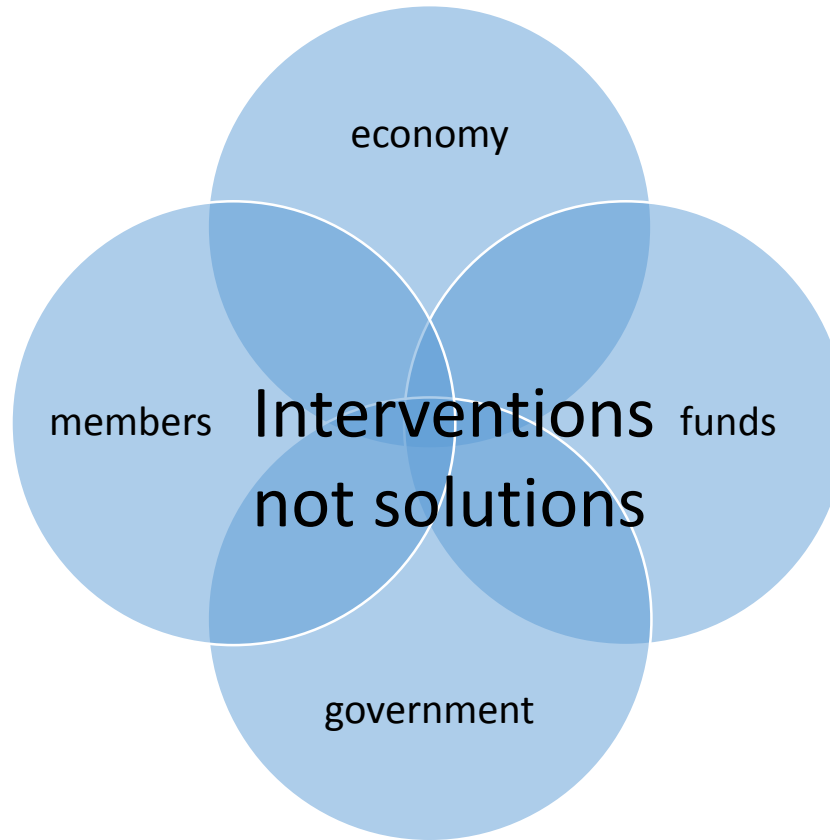
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But members are not very aware of regulations

Question	Yes	No/Don't know
For most people, superannuation is taxed at a higher rate than similar investment outside superannuation.	60%	40%
If you have superannuation, you will not qualify for the Age Pension.	69%	31%
Do you know the minimum age at which you can spend the money in your superannuation account?	52%	48%
Have you heard about MySuper? (Default members)	36%	64%

Sources: Butt, Adam, Scott Donald, Doug Foster, Susan Thorp and Geoff Warren (2015) 'Delegation, trust and defaulting in retirement plans: Perspective from managers and members', CIFR Working paper 065/2015. <http://ssrn.com/abstract=2638998>; Agnew, Julie, Hazel Bateman and Susan Thorp 2013 'Superannuation Knowledge and Plan Behaviour', *JASSA*, vol. 2013, no. 1, 45-50.

It's a Wicked Problem.



- Many interrelated systems that are constantly changing
- No single solution