

ISN RESEARCH
REPORT

EMERGENCY EXIT

ISN INVESTIGATES HOW OLDER AUSTRALIANS ARE USING THEIR SUPER

RETIREMENT
INTENTIONS

November 2010

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Industry
Super
Network

Retirement Intentions

Contents

About Industry Super Network	iii
About the authors	iii
Summary	iv
- Findings	iv
- Policy context	v
1. Introduction	1
2. The market research methodology	2
3. Findings	3
- 3.1 Gender and age break-down of survey respondents	3
- 3.2 Marital status and decision-making of respondents in couples	3
- 3.3 Timing of and transition to retirement	4
- 3.4 Retirement savings and income adequacy	5
- 3.5 Investment and spending plans	9
- 3.6 Motivations driving use of super fund payouts	13
- 3.7 Financial literacy and awareness of retirement income products	15
- 3.8 Financial advice	17
Sources	18

Tables and figures

Table 1. Gender and age breakdown	3
Table 2. Breakdown of respondents by work status	4
Table 3. Characteristics of retired and non-retired respondents	5
Figure 1. Percentage of respondents by ratio of debt to household super assets	6
Table 4. Superannuation, other assets and debts at the point of retirement	7
Table 5. Perceived adequacy of income	7
Figure 2. Breakdown of respondents by perceived adequacy of income	8
Figure 3. Percentage of respondents planning a given use of household retirement savings by level of savings	10
Figure 4. Plans for use of household retirement savings by level of savings (per cent)	11
Figure 5. Plans for use of household retirement savings by level of savings	12
Table 6. Factors influencing plans to use superannuation payouts	14
Table 7. Reasons not to invest in retirement income products	14
Table 8. Financial literacy by savings level	15

Tables and figures continued

Table 9. Awareness of retirement income products	15
Table 10. Awareness of retirement income products offered by own industry fund	16
Table 11. Awareness of retirement income products by financial literacy	16
Table 12. Sources of financial advice	17

About Industry Super Network

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective policies on behalf of a number of industry super funds with the objective of maximising the retirement savings of five million industry super fund members.

About the authors

The market research that forms the central element of the project was performed by Forethought Research. The paper was written by Dr Sacha Vidler, ISN Chief Economist with the assistance of Julia Finn who also provided research assistance.

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EXECUTIVE SUMMARY

The ageing of the population and the maturation of the superannuation system are leading to a rapid increase in the proportion of superannuation assets in the post retirement or decumulation phase.

Indicative of this trend, in the four years to June 2009 the assets in Australian Prudential Regulatory Authority (APRA)-regulated funds held by those aged 60 and over increased by \$100 billion to \$251 billion (APRA, 2006, 2010). A significant proportion of Self Managed Super Fund (SMSF) assets are also held by those in or approaching retirement.

The financial decisions retirees make at the point of retirement can have a powerful impact on the adequacy of retirement income, particularly in the later stages of retirement. Yet little is known about what drives these decisions.

In modelling the adequacy of current retirement income policy, the Federal Treasury has for some time assumed that all retirement accumulations are invested at retirement in term or life annuities (AFTS, 2009)¹. In practice, however, only a small proportion of superannuation payouts is invested in these products.

In order to better understand the investment priorities of recent retirees and provide a basis for discussion of the assumptions underpinning Treasury's modelling, ISN commissioned research into the expenditure and investment priorities of industry fund members who had received a recent superannuation payout.

The research included members from the following five funds: AustralianSuper, Cbus, HESTA, HOSTPLUS² and MTAA Super.

This research was designed to examine members' planned retirement spending behaviour, explain the drivers of this behaviour including payout size, financial literacy, and gender on the use of superannuation payout, and examine members' awareness and uptake of pension products.

Findings

Almost half of the respondents (all of whom were 55 and over and had received a payout from their superannuation fund) were not retired. For these people, it appears less likely that superannuation savings will be available to support income needs in later retirement. The study provides some support for the notion that those respondents who are not retired are drawing down super because they are under financial pressure. This group had higher debts and lower retirement savings than retired respondents on average.

The study found that three-quarters of couples make financial decisions jointly, but that decisions about superannuation were made largely independently of the partners' income, superannuation savings and timing of retirement.

¹This assumption is consistent with the most basic version of the lifecycle theory of saving, which predicts decumulation in retirement. It may also be somewhat consistent with asset rundown in aggregate, reflecting on the one hand very rapid decumulation of some retirees, particularly those with relatively small balances, and zero or increased saving by relatively wealthy retirees.

²HOSTPLUS withdrew from the survey in the early stages of polling, with the result that less than 10 respondents are HOSTPLUS members.

For income adequacy, respondents were split into three roughly equal groups having comfortable finances, a little spare cash in the budget and a very tight budget or not making ends meet. On average, the situation was slightly worse for retired respondents than non-retired, women were worse off than men and single respondents worse off than couples. For single retirees (51 respondents), 59 per cent said either their budget was very tight or that they were not making ends meet.

The overwhelming majority of those surveyed did not make any significant investment in long term assets, including pension products; however, the allocation to such assets did increase markedly with retirement savings. Only around 12 per cent of households with less than \$100,000 in retirement savings made any allocation to pension products, and in this savings range the allocation represented around 5 per cent of assets on average. By contrast, around 45 per cent of households with retirement savings of \$100,000 and over made some allocation to pension products and the allocation represented 32 per cent of their assets on average.

Large numbers of retirees across all levels of retirement savings used a significant proportion of their payout for immediate consumption, repaying debt and short-term investments, including bank deposits.

Research into debts showed that 60 per cent of respondents had no debt, and another 14 per cent had relatively moderate debt relative to their retirement savings (up to 25 per cent of their savings). However, the remaining 26 per cent had debt levels of more than 25 per cent of their savings, including 20 per cent that reported having debt worth more than half the value of their retirement savings. Retirement for this group would be a particularly complicated financial decision, with options likely to be considered including delaying retirement, paying down debt using retirement savings and selling housing or other assets to pay down debt and free up capital.

The pattern of use of retirement savings was consistent with the leading motivations behind respondents' plans for use of retirement savings, which were dominated by lifestyle choices, a need to repay debt, 'immediate needs', providing financial assistance to family members and a desire to move money out of super.

Respondents were asked about their awareness and understanding of a range of investments including super. 21 per cent of respondents described themselves as having low knowledge, 51 per cent having some understanding, and 28 per cent reported strong familiarity and understanding. As might be expected, the level of familiarity and understanding were associated with the level of retirement savings. Many more respondents with limited savings reported less confidence and more respondents with more savings reported greater confidence.

The study also found that awareness of pension and income stream products was quite low (45 per cent of all respondents) but increased with savings level – 73 per cent of those with \$100,000 or more in retirement savings were aware of these products. Awareness was not that much stronger (around 60 per cent) among those who self-assessed as being familiar with a wide range of investment products.

Policy context

In recent months the Government has announced a series of superannuation policy changes, including on the rate of compulsory contributions, the tax treatment of contributions, on administration, on workplace defaults, on compliance and on the financial advice industry. Together these announced reforms represent the most significant set of changes to superannuation since the introduction of compulsory superannuation in the early 1990s.

The final frontier remains longevity risk. Longevity risk – usually defined as the risk of outliving life expectancy (as at least half of retirees will) – is currently borne by the government through the public age pension, as well as the individual to the extent that the public pension provides inadequate retirement income.

As the twin processes of population ageing and system maturation continue, the need and capability to address this risk from both policy and commercial perspectives will only become more pressing.

Although discussed at length in the Henry Review of the tax-transfer system (AFTS, 2010), few concrete recommendations on longevity risks were made and so far none accepted. The Cooper Review has recommended that all workplace default funds be lifetime products – that is, they have a retirement phase product entered by default – and that the retirement phase product address investment, inflation and longevity risks. This is an admirable if unrealistic goal (Super Review, 2010).

This research affirms the concern that longevity risks are poorly managed under current arrangements. Worrying findings include that the use of superannuation savings is driven mostly by short term considerations, low levels of savings are being used for long term investment, and half of the respondents had received payouts before retirement.

On the other hand, the strong relationship between level of retirement savings and allocation to long term investment does suggest that some improvement in this situation will occur automatically as the superannuation system matures and a larger proportion of workers reach retirement with more significant retirement savings.

1. Introduction

The proportion of superannuation assets in the post retirement or decumulation phase is rapidly increasing due to both population ageing and the maturation of the superannuation system.

Indicative of this trend, in only four years from June 2005 to June 2009 the assets in APRA-regulated funds vested with members aged 60 and over increased by \$100 billion from \$151 billion to \$251 billion; that is, from 23 per cent to 29 per cent of assets (APRA, 2006, 2010). In the SMSF sector, as at June 2008, around 54 per cent of assets – \$168 billion – was held by members aged 55 and over (Super Review, 2010).

Despite this developing trend, financial behaviour at the point of retirement and into retirement is poorly understood. This gap in understanding means that retirees may not be well served by current policy or commercial offerings.

Modelling of adequacy, including that performed by Treasury, has traditionally assumed that all retirees, potentially with very different levels of accumulated savings, run down assets in a manner most economists would view as rational; namely, purchase of a lifetime annuity or a term annuity to life expectancy.

However, given the lack of empirical research of retiree behaviour, such an assumption could be unfounded for a number of reasons.

First, discussion of retirement age normally revolves around the incentives and choices faced by workers: broadly speaking, the factors that 'pull' workers into retirement such as the desire for leisure and the ability to access superannuation and public benefits. However, many workers may not have much discretion over the timing of retirement, with decisions driven by workplace 'push' factors, such as redundancy or an inability to work due to health problems. Moreover, the transition to retirement may not be abrupt. Anecdotally, many people have periods of part-time work as they shift towards retirement, and it may not be uncommon for people to reverse their retirement (by rejoining the workforce). These factors complicate any decision to formally enter a 'decumulation phase' by investing all retirement savings in an annuity product.

Second, many recent retirees and workers approaching retirement have very little in the way of retirement savings. The superannuation contributions of much of the 'SG population' – most of the workforce excluding private sector executives and public service workers – is limited to compulsory employer superannuation guarantee (SG) contributions and these only reached the current rate of 9 per cent of income in 2002. (And many of the self-employed will have little or no superannuation savings.) Workers approaching retirement now whose super funds have only received compulsory SG contributions will typically have quite low balances. For this group, investment in long term income products may appear unappealing compared to investment in housing capital, through reducing mortgage debt or home improvements, purchase of consumer durables, or saving 'for a rainy day' in liquid assets.

Finally, even amongst retirees with ample savings, it is fairly clear that very few invest much of their assets in long term annuities, notwithstanding some recent reports that the global financial crisis has increased investor interest in products with guaranteed returns.

Industry Super Network (ISN) has sought to address the lack of understanding by commissioning a survey of retiring members.

The project's intent is to shed light on questions such as:

- When do industry fund members retire? And why?
- How do industry fund members, as individuals and couples, make decisions about their retirement and super?
- What do those retiring now plan to do with their accumulated savings?
- Why do (or don't) retirees invest in pension products?
- Where do retirees get advice about retirement planning?
- Are the answers to these questions driven by the size of the fund member's payout or their level of financial literacy?

2. The market research methodology

ISN engaged Forethought Research to conduct a telephone survey of industry fund members aged over 55 who had received a superannuation payout in the preceding 6 months.

The survey was carried out in December 2009.

Forethought contacted 550 industry fund members who met the criteria. Of these, 174 (31.6 per cent) were excluded from the full survey as they were taking a payout to transfer their superannuation to another fund, leaving 376 respondents.

Survey respondents were selected from the participating funds Australian Super, Cbus, HOSTPLUS³, MTAA Super and HESTA, in proportion to their relative membership bases.

As we were interested in whether the size of payouts (and the level of retirement savings generally) influenced behaviour, respondents were filtered so that people with relatively high payouts were adequately represented. For this reason, the sample cannot be used to make inferences about the average level of payouts among those of the industry fund member population aged 55 years and over. However, the sample does provide an indication of the size of super fund assets relative to other assets (and debts).

Survey respondents were asked:

- to estimate the value of their total retirement savings, property and financial assets, as well as any debts. If they were in a couple, they were asked to value the couple's combined retirement savings, other financial assets, property and debts;
- for those in relationships, whether they made financial decisions jointly with their partner and whether their decisions specifically in relation to their super were affected by their partner's circumstances;
- about their work status to more fully understand what phase of the retirement transition (if at all) they were in. This was necessary because respondents were identified on the basis of being in a particular age group and receiving a superannuation payout; these factors may be indicative of retirement, but are not necessarily conclusive;

³HSTPLUS withdrew from the survey in the early stages of polling, with the result that less than 10 respondents are HSTPLUS members.

- a simple question on their level of financial literacy. Participants were grouped by low, medium and high financial literacy;
- on what they planned to spend their payout and overall retirement savings;
- about their awareness of pension products and, if they had not invested in them, their reasons for not investing in them; and finally
- about their subjective perspective on the adequacy of their income⁴

3. Findings

3.1 Gender and age break-down of survey respondents

Of the 376 survey respondents, 55 per cent were male and 45 per cent female. Thirty-one per cent were aged between 55 and 59, 33 per cent between 60 and 64, 30 per cent between 65 and 69 and 7 per cent over 70 (see Table 1)⁵

Table 1 - Gender and age breakdown

Age	Female	Male	Total
50-59	67	48	115
60-64	52	71	123
65-69	41	72	113
70 and over	9	16	25
Total	169	207	376

3.2 Marital status and decision-making of respondents in couples

Two hundred and fifty-five of the respondents (68 per cent) reported being in a relationship.

Of those in relationships, around half (52 per cent) of partners had at least some super. There was a slight gender difference on this question with around 50 per cent of the partners of males having some super and 55 per cent of the partners of females having some super. The level of these super accounts is discussed in section 3.4.

Of those in a relationship, only 24 per cent regarded their financial decisions as theirs alone, whereas 76 per cent regarded financial decisions as joint decisions. There was no significant gender difference in these answers.

To explore whether decisions around superannuation in particular were joint decisions, the following question was also asked: 'Has your partner's superannuation balance, superannuation payout, or income influenced your own plans regarding how you have used or plan to use your superannuation payout?'

⁴This is not a straightforward test of the adequacy of retirement incomes because a significant proportion of respondents were not retired, or are the partner of a non-retired individual.

⁵The percentages do not sum to 100 due to rounding.

The response to this question was much less definitive and predominantly negative. Only 127 of 255 (almost exactly half) of the respondents in relationships answered the question. Of these, 67 per cent of men and 69 per cent of women said their partner's super and income did not have an impact on their own decisions on super.

This apparent inconsistency warrants further investigation. One possible explanation is that superannuation decisions are not seen as financial decisions, instead being workplace and employment decisions which may often be taken more independently than major financial decisions such as mortgages or investment in property.

3.3 Timing of and transition to retirement

3.3.1 Work participation of respondents

Forty per cent of respondents were still working – either on a full time, part-time, casual or self-employed basis (see Table 2). This is a surprisingly large proportion of respondents considering that our sample contains only people aged over 55 who are receiving superannuation payouts. This group, having reached the current preservation age, is fairly obviously drawing down on super to supplement current income. It raises questions about the extent to which superannuation savings will be available to fund consumption during retirement. We note the preservation age is scheduled under current law to increase from 55 to 60 by 2025.

Table 2 - Breakdown of respondents by work status

Work Status	Count	Per cent
Retired	179	48%
Part-time employment	45	12%
Full-time employment	61	16%
Casual employment	24	6%
Self-employed	17	5%
Full-time home duties	4	1%
Unemployed / not in paid employment	22	6%
Other pension (for example, a disability pension)	24	6%
Total	376	100%

There is some evidence in the study to support the idea that the group of non-retired respondents drawing down on super is under more financial pressure than retired respondents. Although having a slightly more comfortable budget, on average, non-retired respondents also had less superannuation savings and more debt than retired respondents (see Table 3). In fact, on average non-retired respondents had more debt than superannuation savings.

Table 3 - Characteristics of retired and non-retired respondents

	Debt	Household super	Budget ⁶	Age
Averages				
Retired	109,038	188,504	1.97	62.9
Non-retired	124,357	113,149	2.18	61.9
Medians				
Retired	0	70,000	2	64
Non-retired	0	51,000	2	62

3.3.2 Timing of retirement

Retired respondents were asked about the timing of their retirement – specifically whether they had retired at the time they had planned, or earlier or later than planned:

- 32 per cent had retired when planned;
- 11 per cent had retired later than planned;
- 48 per cent had retired earlier than planned; and
- only 9 per cent had not had a plan for the timing of their retirement.

The reasons for retirement were not explored in this study. However, an ABS publication released early this year showed that common reasons for retirement of respondents who had worked at some stage in the previous 20 years were:

- ‘reached retirement age/eligible for superannuation/pension’ (42 per cent of men and 27 per cent of women);
- ‘own sickness, injury or disability’ (29 per cent of men and 19 per cent of women); and
- ‘retrenched/dismissed/no work available’ (10 per cent of men and 11 per cent of women) (ABS, 2010).

This research strongly suggests that factors that push workers out of the workforce are as important for determining the timing of retirement as those that pull workers into retirement.

The findings in this and the previous section indicates that retirement is a complex and difficult transition. Policies and product offerings clearly need to accommodate a wide variety of approaches in those making this transition.

3.4 Retirement savings and income adequacy

An important aim of the project is to investigate whether the use of payouts changes as the payout level increases. Respondents were therefore filtered so that people with relatively high payouts were adequately represented. For this reason, the sample cannot be used to make inferences about the average level of payouts of those among the industry fund member population aged 55 years and over. However, the sample does provide an indication of the size of super fund assets relative to other assets (and debts) (see Table 4).

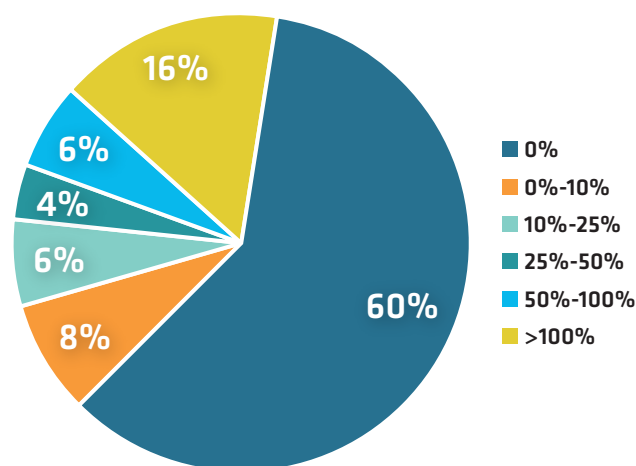
⁶Simple average of score where 1 = ‘not making ends meet’, 2 = ‘having a very tight budget’, 3 = having some spare cash for things such as entertainment and 4 = having comfortable finances (see section 3.4.1 below).

Findings in relation to assets include that:

- the overwhelming majority of assets (typically 70 – 80 per cent) in this group are held in housing and other property;
- super was the next most important asset at around 15 per cent of assets; and
- savings and other financial assets, including shares and managed funds, represented less than 10 per cent of assets combined (despite almost 30 per cent of respondents reporting having at least some shares, bonds or managed funds).

Forty per cent of respondents reported having at least some debt. This implies, obviously, that 60 per cent have no debt, and therefore that the median level of debt is zero. Figure 1 shows the breakdown of respondents by ratio of debt to household super assets.

Figure 1 - Percentage of respondents by ratio of debt to household super assets



Beyond the 60 per cent of respondents with no debt, 8 per cent had debt at low levels relative to super assets (less than 10 per cent) and another 6 per cent had debt levels of between 10 and 25 per cent of their retirement savings.

For the remaining quarter of respondents, debts would be likely to cancel out a significant proportion of super savings. One in five respondents reported having debts that represented over 50 per cent of the value of their household retirement savings.

The aggregate figures are also a potential concern. Debt on average is around 37 per cent of the super of single people and 88 per cent of the combined super of those in couples. As discussed above, debt is higher than retirement savings on average for un-retired respondents.

Table 4 - Superannuation, other assets and debts at the point of retirement

	Super	Partners super	Savings	Shares, bonds managed funds	House and other property	Other	Total assets	Mortgage debt	Other debt	Total debt	Net assets
Averages											
All	109,548	39,475	26,438	28,520	754,285	10,519	968,784	72,418	44,646	117,064	851,720
	11%	4%	3%	3%	78%	1%	100%	7%	5%	12%	88%
In couples	122,658	58,206	30,689	27,602	917,718	4,608	1,161,480	93,260	64,699	157,959	1,003,520
	11%	5%	3%	2%	79%	0%	100%	8%	6%	14%	86%
Singles	81,920		17,480	30,455	409,860	22,975	562,689	28,496	2,384	30,880	531,809
	15%		3%	5%	73%	4%	100%	5%	0%	5%	95%
Men	135,403	27,186	34,288	32,309	599,430	15,145	843,761	101,616	6,107	107,723	736,038
	16%	3%	4%	4%	71%	2%	100%	12%	1%	13%	87%
Women	77,879	54,527	16,823	23,878	943,959	4,852	1,121,918	36,656	91,850	128,505	993,412
	7%	5%	1%	2%	84%	0%	100%	3%	8%	11%	89%
Medians											
All	40,000	28,000	4,000	0	200,000	0	326,500	0	0	0	305,000
In couples	48,000	28,000	5,000	0	250,000	0	420,000	0	0	0	389,500
Singles	30,000		2,000	0	0	0	125,000	0	0	0	112,000
Men	50,500	10,000	4,000	0	129,500	0	298,100	0	0	0	275,000
Women	30,000	50,000	3,000	0	200,000	0	316,000	0	0	0	303,000
Per cent of respondents with...	100%	52%*	63%	29%	57%	5%	100%	27%	21%	40%	

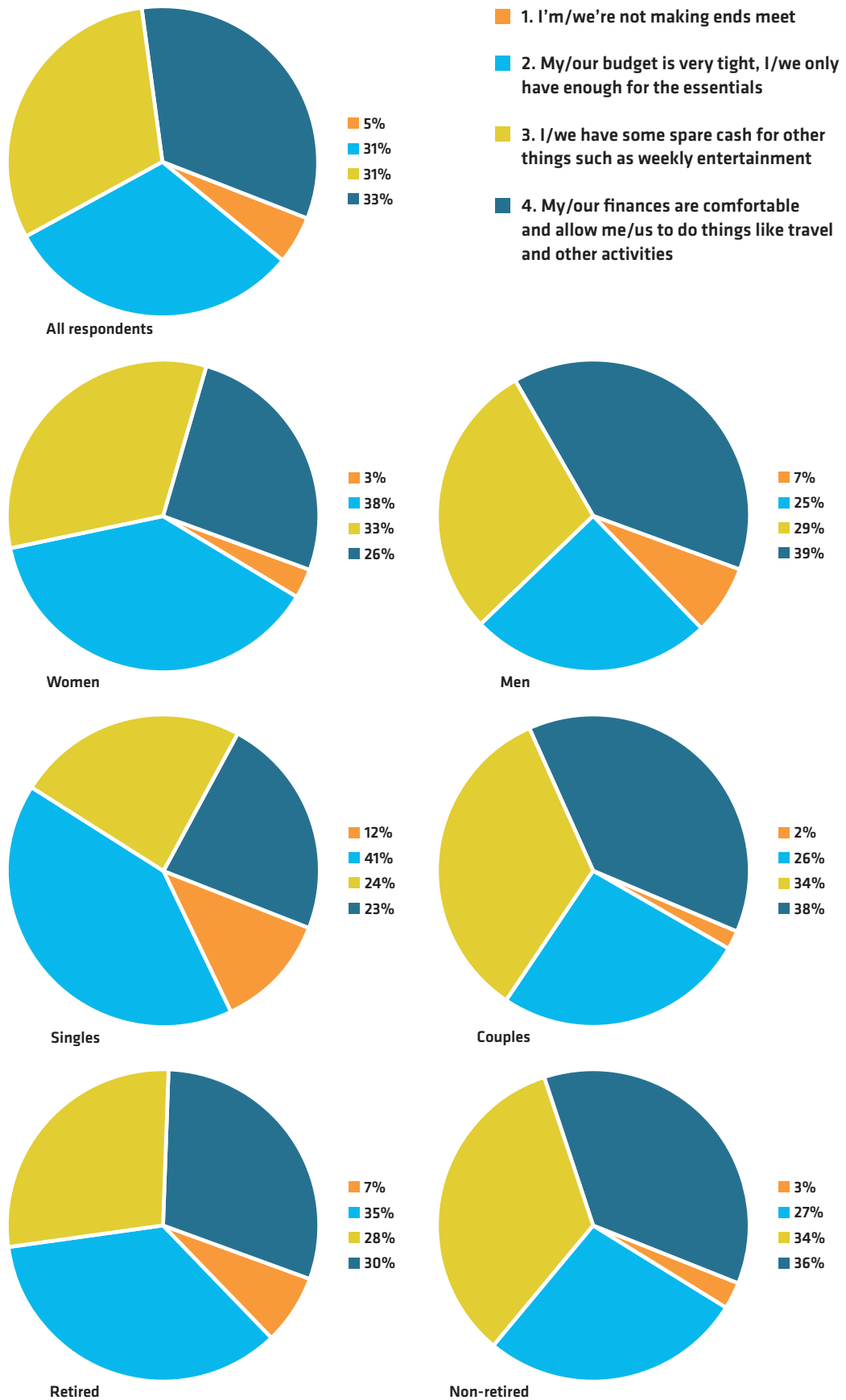
*Note: 52 per cent of those in relationships reported that their partners had at least some super, while 48 per cent said their partner had none.

Table 5 - Perceived adequacy of income

	All		Woman		Men		Singles		Couples		Retired		Non-retired	
	Count	Super (\$)*	Count	Super (\$)	Count	Super (\$)	Count	Super (\$)	Count	Super (\$)	Count	Super (\$)	Count	Super (\$)
Not making ends meet	19	41,100	5	39,600	14	41,636	14	32,407	5	65,440	6	29,667	13	46,377
Budget is very tight	117	73,279	64	49,889	53	101,523	50	45,074	67	94,327	48	76,792	69	70,835
Some spare cash	116	140,807	56	147,039	60	134,990	29	80,307	87	160,974	60	195,145	56	82,588
Finances are comfortable	124	246,169	44	244,352	80	244,913	28	174,143	96	265,297	65	279,531	59	206,356
All	376	149,315	169	132,406	207	162,590	121	81,920	255	180,864	179	188,504	197	113,149

*Average household super for respondents in category (ie. includes respondent's estimate of partner's super if in a relationship).

Figure 2. Breakdown of respondents by perceived adequacy of income



3.4.1 Income adequacy

Respondents were asked about the adequacy of their income. A relatively small number (5 per cent) reported that they were not making ends meet, 31 per cent reported having a very tight budget, 31 per cent reported having some spare cash and 33 per cent reported being comfortable (see Figure 2). Table 5 breaks down respondents' perceived income adequacy by household super holdings and group.

As might be expected, responses indicating more adequate income corresponded with successively higher levels of household super assets.

Broken down by group the proportion of those reporting either not making ends meet or having a very tight budget were 41 per cent of women and 33 per cent of men, 53 per cent of singles and 28 per cent of couples, and, interestingly, 30 per cent of retirees and 42 per cent of non-retirees.

A higher proportion of men (39 per cent) than women (26 per cent) reported having comfortable finances and the proportion of couples with comfortable finances (38 per cent) was much larger than singles (23 per cent).

3.5 Investment and spending plans

Respondents were asked to indicate how they planned to use their retirement savings.

The responses to the various options provided have been grouped into four categories: short term investment (including savings and debt repayment), long term investment, consumption (including home renovations, boat or car purchase and travel) and transfers to children. Pension products⁷ are a sub category within long term investment, presented discretely where appropriate.

The responses in aggregate suggest that 82 per cent of assets will be invested in long term investment, including a mere 13 per cent in income streams. However, this result is skewed so heavily by the relatively small number of high net worth respondents that it is quite meaningless as an indicator of general behaviour.

Nonetheless, it is a result with powerful commercial significance on two levels. First, it gives a sense of the concentration of holdings within the superannuation system. Second, it suggests that a quite small proportion of financial assets are currently held within the superannuation system after retirement.

3.5.1 Patterns of behaviour based on level of retirement savings

As we were interested in whether the size of payouts (and the level of retirement savings generally) influenced behaviour, respondents were grouped across four payout tranches:

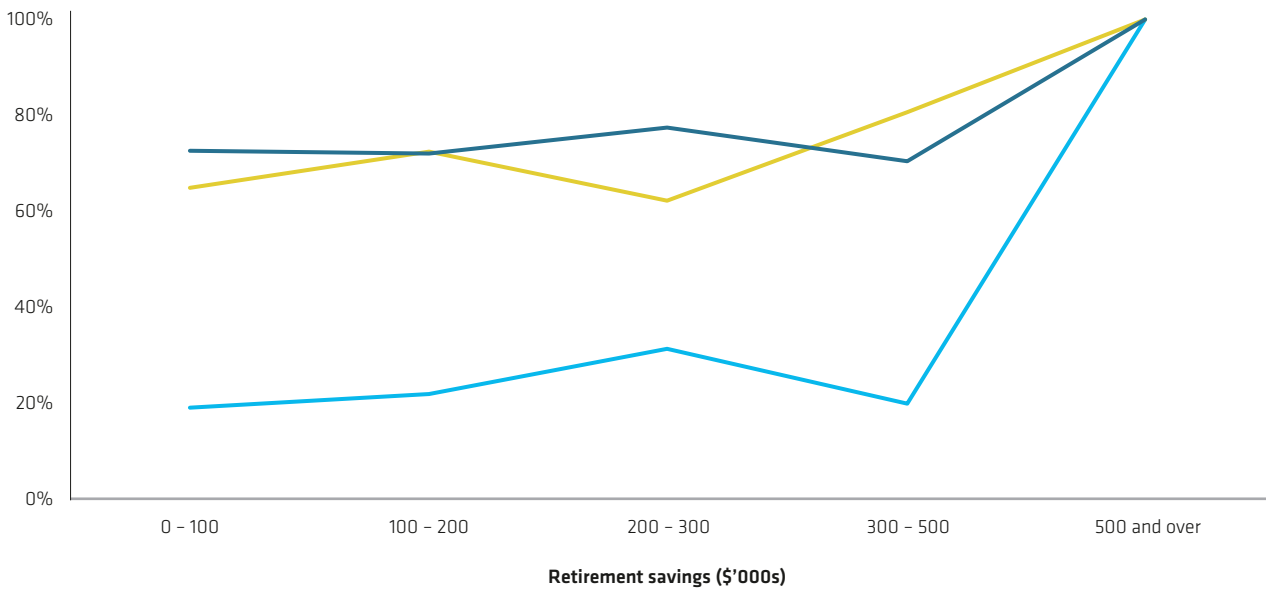
- low payout (\$1,000 - \$24,999)
- low - medium payout (\$25,000 - \$49,999)
- medium - high payout (\$50,000 - \$99,999)
- high payout (\$100,000+).

⁷Pension products or income streams products.

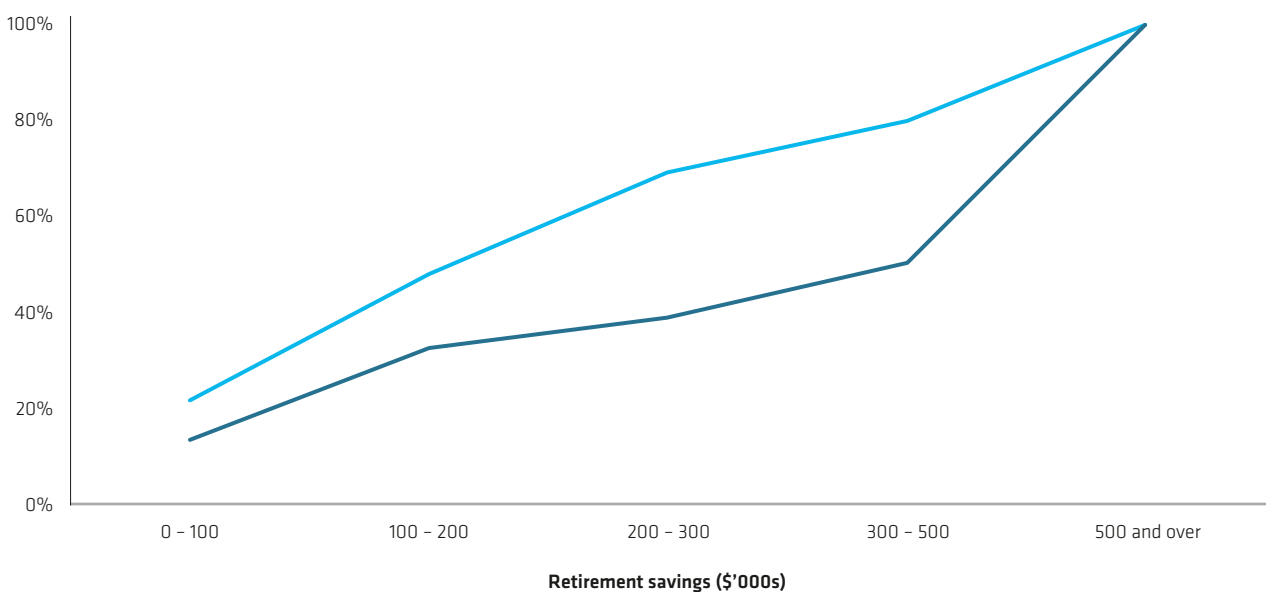
Patterns of behaviour are evident when respondents are broken down by the level of retirement savings. The most common uses of retirement savings across the wealth distribution were short term investment and consumption. Around 60-70 per cent of respondents at all levels of retirement savings say they would dedicate some savings to both of these uses (see Figure 3).

Figure 3 - Percentage of respondents planning a given use of household retirement savings by level of savings

■ Short term investment (including debt repayment) ■ Transfer to children ■ Consumption (including house renovation)



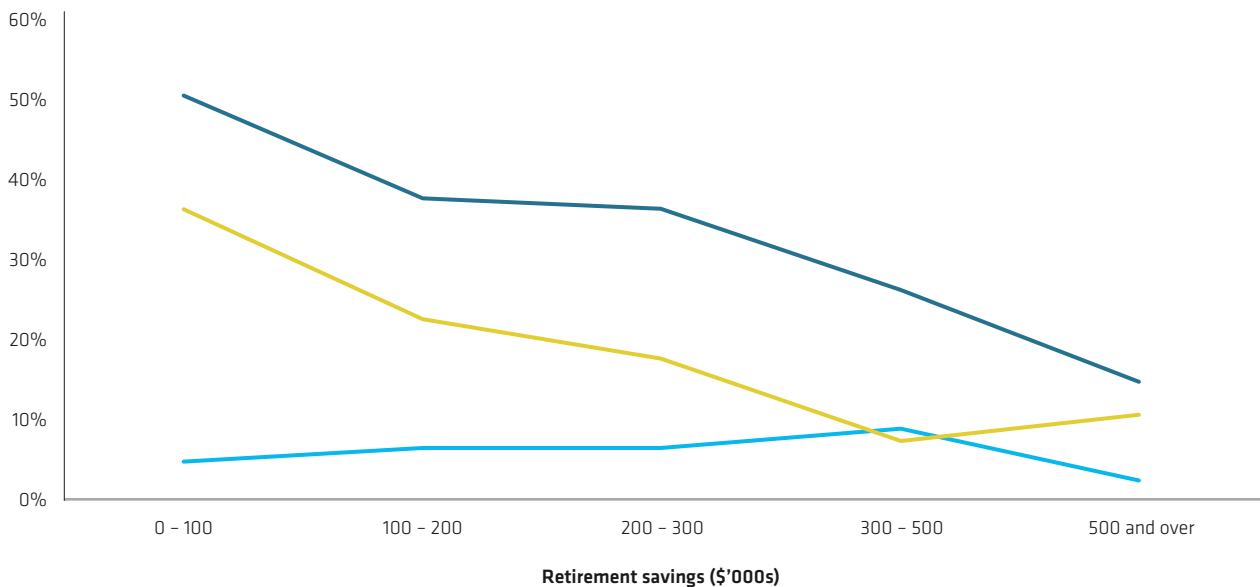
■ Income stream/pension product ■ All long term investment (including income streams)



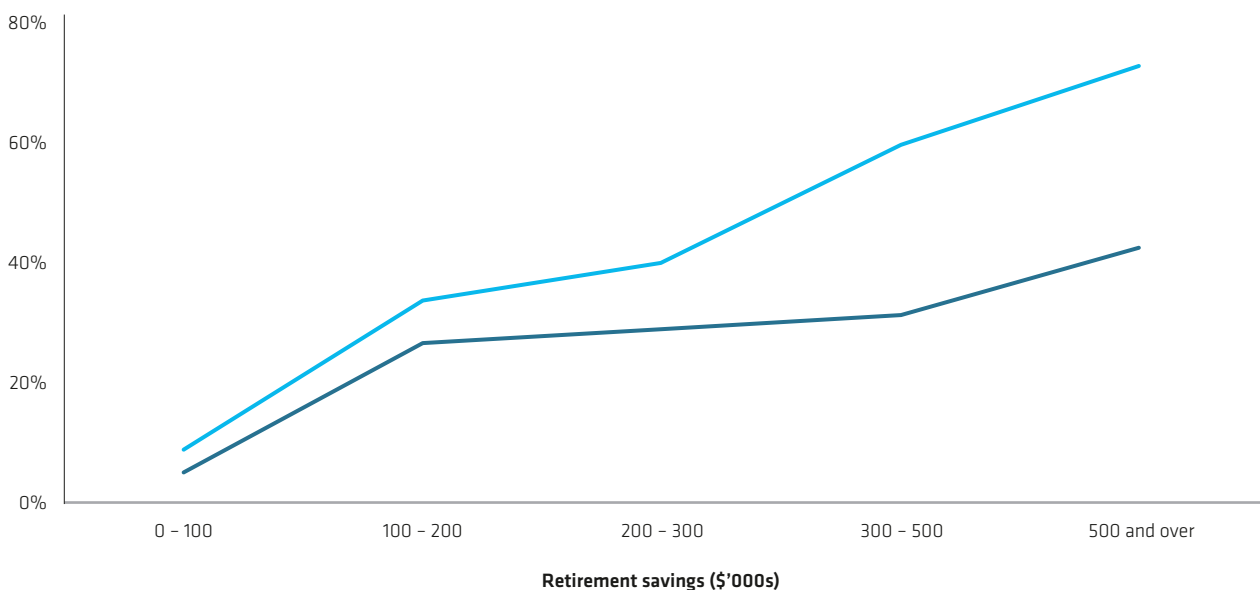
Planned use for long term investment starts at very low levels for those with limited savings and rises steeply as savings increase (see Figures 4 and 5). Only 20 per cent of respondents with assets of up to \$100,000 reported any commitment to long term investments, with their commitment on average representing only 10 per cent of their savings (or a little over \$2,000).

Figure 4 - Plans for use of household retirement savings by level of savings (per cent)

■ Short term investment (including debt repayment) ■ Transfer to children ■ Consumption (including house renovation)



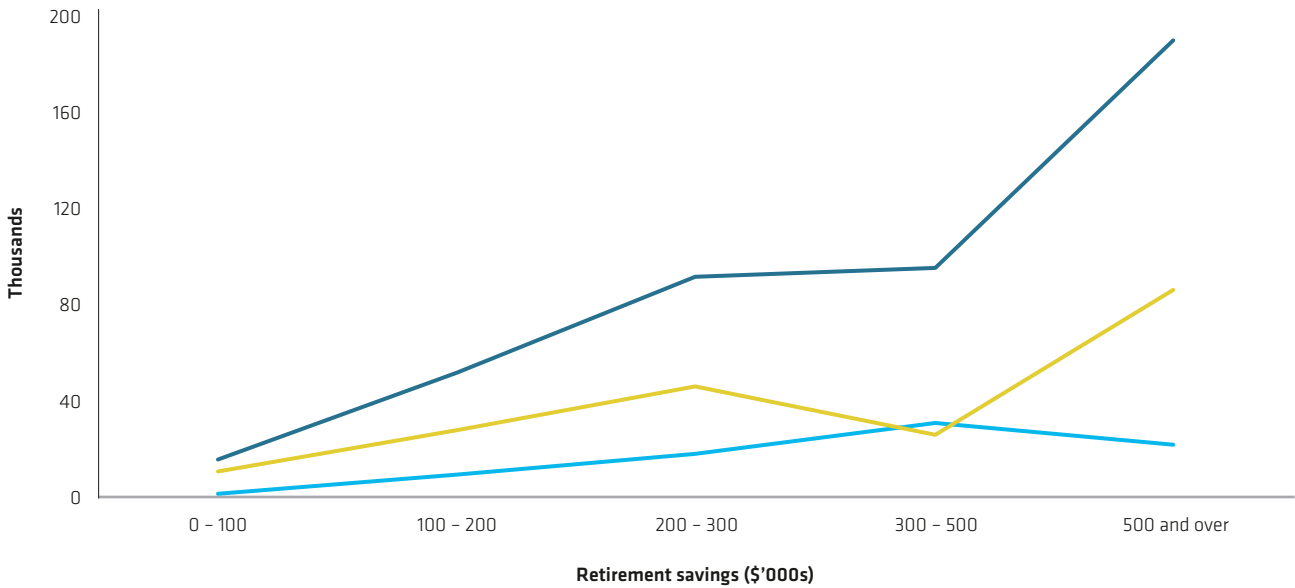
■ Income stream ■ All long term investment (including income streams)



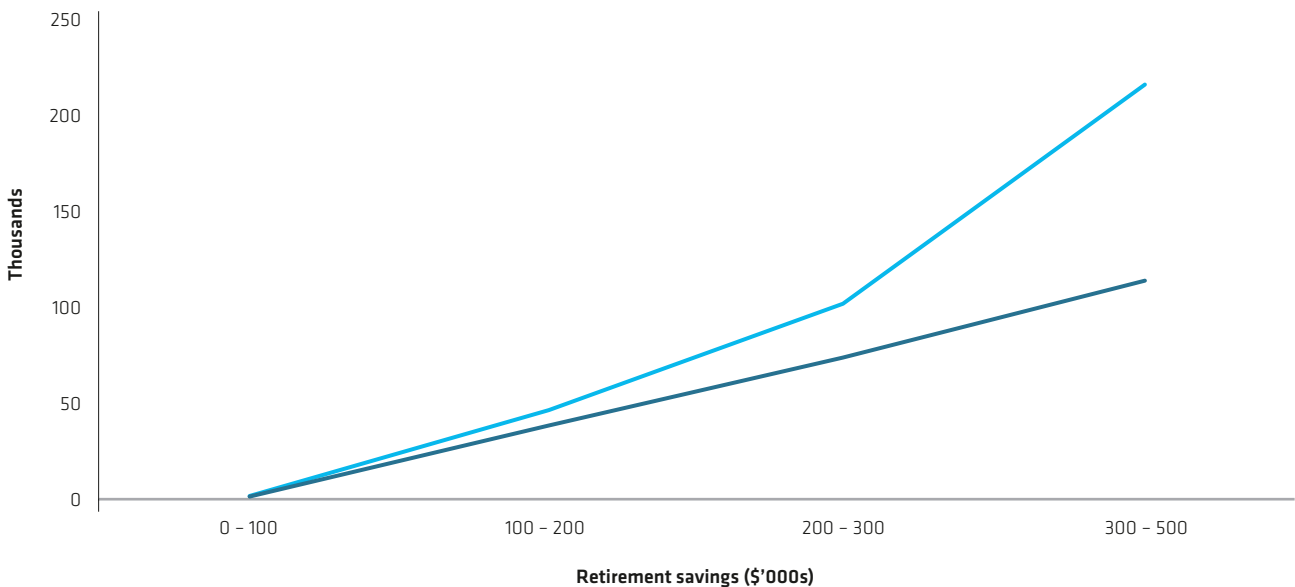
The average planned use of funds for consumption and short term investment combined started at around \$25,000 for people with low savings (which was around 85 per cent of their savings), rising to around \$127,000 (54 per cent of savings) for people with quite high savings levels and \$250,000 (23 per cent of savings) for those with very high savings levels (see Figures 4 and 5).

Figure 5 - Plans for use of household retirement savings by level of savings

■ Short term investment (including debt repayment) ■ Transfer to children ■ Consumption (including house renovation)



■ Income stream ■ All long term investment (including income streams)



The level of commitment to long term investment is much higher for those with household retirement savings of \$100,000-200,000, with 48 per cent having some commitment including one third of respondents stating they had some commitment to a pension product. On average 27 per cent of savings of respondents in this savings level category were in pension products, with an average dollar commitment of \$37,000 (\$47,000 to long term investment more generally).

Commitment to pension products continues to increase at savings levels above \$200,000 though at a lower rate. Commitment to other long term investment increases more rapidly with increased savings, consistent with the notion that those with higher asset levels have a proportionately higher level of shares and property investment.

Finally, around 20 per cent of respondents at all saving levels planned to use retirement savings to make transfers to children, with the exception of the highest wealth category (all of whom planned to make at least some transfer to their children).

The average percentage commitment to transfers to children starts at around 5 per cent of savings for those with the lowest savings, rising to around 8-9 per cent of savings for those with a high level of savings.

3.6 Motivations driving use of super fund payouts

Respondents were asked what factors were behind their plans for use of their superannuation payout. Respondents were able to elect up to three factors; however, only 11 per cent selected more than one.

The responses are gravely discouraging with regard to the role of super as a source of retirement income and coverage for longevity risk.

The three dominant primary factors were lifestyle choices (30 per cent), the need to pay off debt (19 per cent) and immediate needs (15 per cent) with a number of other choices scoring about 5 per cent of responses (see Table 6).

Table 6 - Factors influencing plans to use superannuation payouts

Factor	First	Second	Third	Total
Lifestyle choices, such as travel and leisure activities	111	5	0	116
I needed to pay off existing debts	71	6	0	77
Immediate needs	58	7	0	65
I needed to provide financial assistance to my family	19	3	0	22
Wanted to move the money out of Super	19	3	0	22
Wanted to save or invest for future	17	3	0	20
Advice from financial planners / advisers / accountants	16	3	0	19
The amount of savings I have outside of superannuation	12	3	0	15
The size of my payout (e.g. whether the size of my balance is large enough to make investing in a pension worthwhile)	9	1	0	10
Tax optimisation (i.e. I wanted to minimise the amount of tax I would pay)	8	4	1	12
None of the above	5	0	0	5
Lack of investment knowledge	2	0	0	2
Don't know	10	0	0	10
Other	19	5	1	24
Total	376	43	2	419

Those respondents who did not make an investment in retirement income products were asked what was behind that decision. Of those that answered, the leading answers were not having enough funds to invest (29 per cent), wanting money for short term consumption (16 per cent) and preferring to repay debt (10 per cent) (see Table 7).

Table 7 - Reasons not to invest in retirement income products

Reason	Count	Percent
I do not have sufficient funds to invest	83	29%
Needed / wanted money for short term consumption	46	16%
Preferred to repay debt	28	10%
I prefer to invest directly in a bank account(s)	24	8%
I do not trust having my money in superannuation	19	7%
I prefer not to plan in the long term	14	5%
I am not aware of any super income stream/pension product available	13	5%
I prefer to invest in property	7	2%
My partner / family will be able to provide for me	6	2%
I will rely on the aged pension	4	1%
I was advised by a financial planner / adviser not to	3	1%
Other	39	14%
Total	286	100%

3.7 Financial literacy and awareness of retirement income products

Survey participants were asked to describe their level of financial literacy. Specifically, they were asked whether they were familiar with, had some understanding or had little or no understanding of a range of investments and financial products including superannuation, insurance, property investments and shares.

Overall, 21 per cent of respondents described themselves as having low knowledge of these areas, 51 per cent as having some understanding and 28 per cent claimed familiarity with and understanding of those areas of finance. Women tended to report their financial literacy as lower than men.

Answers indicating greater confidence in knowledge of financial matters were correlated with savings to some extent. The size of the group with medium confidence was very consistent across all savings levels. However, at higher savings levels there were relatively few with low confidence (5 per cent) and almost half of respondents had a high degree of confidence, whereas at lower savings levels those with lower confidence (27 per cent) outnumbered those with high confidence (see Table 8).

Table 8 - Financial literacy by savings level

Financial literacy	All	Under \$100,000 in savings	\$100,000 or more in savings	\$200,000 or more in savings
Low	22%	27%	7%	5%
Medium	51%	50%	52%	51%
High	28%	23%	40%	44%
Total	100%	100%	100%	100%

Respondents were asked about their awareness of pension or retirement income products, both in general, and being offered by their industry fund. Less than half of respondents knew of the existence of these products, though the understanding was strongly associated with the level of savings. A strong majority of those with moderate and high levels of savings had knowledge of these products (see Table 9).

Table 9 - Awareness of retirement income products

Awareness of pension/retirement income products besides the public pension	All	Under \$100,000 in savings	\$100,000 or more in savings	\$200,000 or more in savings
No	55%	67%	27%	20%
Yes	45%	33%	73%	80%
Total	100%	100%	100%	100%

The pattern of answers regarding the respondent's own industry fund was very similar, though awareness levels of the fund offering were around 5-8 per cent lower.

Comparing respondents' answers to the questions on awareness of retirement income products to those indicating their confidence in dealing with financial products and investments shows that higher confidence is an indicator of higher knowledge (see Table 10).

Table 10 - Awareness of retirement income products offered by own industry fund

Awareness of pension/ retirement income products from own industry fund	All	Under \$100,000 in savings	\$100,000 or more in savings	\$200,000 or more in savings
No	61%	72%	34%	28%
Yes	39%	28%	66%	72%
Total	100%	100%	100%	100%

However, close to 40 per cent of those with confidence in their financial knowledge did not know about retirement income products (see Table 11), indicating both that a lack of awareness of these products is a potential obstacle to greater take-up, and that some individuals overestimate their financial knowledge and capability.

Table 11 - Awareness of retirement income products by financial literacy

Awareness of pension/ retirement income products besides the public pension	Financial literacy		
	Low	Medium	High
No	81%	53%	39%
Yes	19%	47%	61%
Total	100%	100%	100%

3.8 Financial advice

Across all respondents, 27 per cent had sought financial advice about use of their superannuation payout. For those with savings of over \$100,000, 41 per cent had sought financial advice.

The main sources of advice were a financial adviser from the respondent's own super fund (32 per cent), an independent financial adviser (22 per cent) and an accountant (10 per cent) (see Table 12).

Table 12 - Sources of financial advice

Source	Per cent
Financial planner / adviser from own fund	32%
Independent financial planner / adviser	22%
Accountant	10%
Financial planner / adviser from an insurance company	8%
Financial planner / adviser from a bank or credit union	7%
Other	7%
Bank or credit union employee	6%
Financial planner / adviser from an industry superannuation	6%
Super fund	1%
Can't recall	1%
Mortgage broker	0%
Insurance company	0%
Tax agent	0%
Lawyer	0%
Total	100%

Sources

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