



SUBMISSION 35 GESB

House of representatives Standing Committee on
Economics, Finance and Public Administration

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Level 4 Central Park
152 St Georges Tce, Perth WA 6000
PO Box J 755, Perth WA 6842
Member Services Centre: 13 43 72
Fax: 1800 300 067
Email: memberservices@gesb.wa.gov.au
Website: www.gesb.wa.gov.au
ABN 43 418 292 917

Our Ref: M05/004
Contact: Kirsty Tippett

Ph: (08) 9263 4203

The Committee Secretary
Standing Committee on Economics, Finance and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr Baird

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

I refer to your letter dated 2 June 2005, requesting the views of the Western Australian Government on the "Inquiry into Improving the Superannuation Savings of People Under Age 40."

Please find attached a submission prepared on behalf of the Western Australian Government by the Government Employees Superannuation Board (GESB), in consultation with the Department of Treasury and Finance, and other WA State Government Agencies. This submission addresses the terms of reference of the Committee.

A copy of the submission was also forwarded to the Committee Secretary via email on Wednesday, 10 August 2005.

Yours sincerely

MICHELE DOLIN
CHIEF EXECUTIVE OFFICER

10 August 2005

Att

Inquiry Into Improving Superannuation Savings Of People Under Age 40 – Response on behalf of the Western Australian Government

The Commonwealth's House of Representatives Standing Committee on Economics, Finance and Public Administration is inquiring into improving the superannuation savings of people under the age of 40.

The terms of reference are:

To inquire into improving the superannuation savings of people under age 40 with particular reference to:

- *Barriers and/or disincentives to contribute to superannuation;*
- *Current incentives in place to encourage voluntary superannuation contributions; and*
- *Improving their awareness of the importance of saving early for their retirement.*

The Committee is seeking views from the public and interested stakeholders on the inquiry.

This submission has been prepared on behalf of the Western Australian Government by the Government Employees Superannuation Board (GESB) in consultation with the Department of Treasury and Finance. The Department of Consumer and Employment Protection, the Department of Premier and Cabinet and the Department of Community Development were also invited to comment. GESB administers superannuation arrangements for most public sector workers in Western Australia, with total member accounts exceeding 300,000 and over \$5 billion of assets under management.

Survey data collected annually by an independent research company¹ employed by GESB provides an insight into the attitudes and expectations of Western Australian current and former public sector workers under the age of 40 with respect to superannuation. The most recent data collected in February 2005 is summarised in the attachment.

The research indicates that members under the age of 40 not only know very little about their superannuation scheme as a result of being less likely to read the information contained in their newsletters and statements, they feel that they would be better off investing in a range of other options such as mortgages and shares, rather than superannuation.

In light of the research findings, GESB's views on each of the three aspects of the inquiry are detailed below.

1. Barriers and/or disincentives to contribute to superannuation

GESB views, as supported by the findings of an annual survey conducted by Research Solutions, an independent research company employed by GESB², are that there are three barriers and/or disincentives for people under the age of 40 to contribute to superannuation.

These include age, the high level of uncertainty and low level of involvement/engagement associated with a member of an accumulation type scheme, and the lack of awareness or knowledge about the concepts and principles of superannuation.

Age

The biggest disincentive for people under age 40 to contribute to superannuation is their age. People under the age of 40 are at a stage in their lives where superannuation is not a priority.

¹ *Research Solutions' Strategic Research Members Study Report, February 2005*

² *Ibid.*

Attitudinal data indicates that conflicting interests such as the responsibilities to pay off mortgages, HECS debts and loans, and the opportunity to invest in more short-term investments such as shares or term deposits are impacting on the decisions of members under the age of 40 with respect to investing their money in the longer term option of superannuation.

High Level of Uncertainty and Low Level of Involvement/Engagement Associated with Accumulation Type Schemes

The changing superannuation environment in Australia over the past 10-15 years may also have contributed to people's attitudes towards superannuation savings.

The shift from pension and defined benefit schemes to accumulation type schemes has seen a decrease in the level of involvement of a member under the age of 40, and the resulting engagement in decisions regarding superannuation savings. Pension and defined benefit schemes generally required members to make relatively straightforward decisions regarding contributions in a relatively stable environment, while in accumulation type schemes, the responsibility is on the member to choose from multiple investment options in a relatively uncertain environment.

The level of involvement and engagement in superannuation related decisions is likely to be lower in people under the age of 40 because of the proximity to retirement, and the length of time before the benefit of making additional superannuation savings (i.e. in retirement) is realised.

Although not restricted to those members aged under 40 years, the level of involvement and engagement by Western Australian current and former public sector employees in superannuation related decisions may also be impacted by the Western Australian Government's role in overseeing the superannuation framework for public sector employees, through policies and rules such as decisions regarding choice of fund.

Lack of Awareness or Knowledge about Superannuation

As identified in the research, members under the age of 40 are less likely to be aware of, or knowledgeable about superannuation. Not only are members under the age of 40 less likely to read information such as newsletters and member statements regarding superannuation, as a result of their age, people under the age of 40 are less likely to be aware of the history behind the introduction of compulsory superannuation contributions.

For example, people under the age of 40 are less likely to be aware of the reasons behind the introduction of the Commonwealth's Three Pillars Policy on Superannuation and the impact of these factors on their future.

The Commonwealth introduced this policy to ensure that the needs of future generations of Australians are met in retirement and that a higher standard of living would be provided for than if the age pension is made available alone. The policy introduced compulsory employer superannuation guarantee contributions, and encourages employee voluntary private superannuation savings in addition to compulsory superannuation contributions to top up the Age Pension.

Increasing the awareness of and knowledge about the key aspects of superannuation, in particular the tax advantages associated with voluntary individual superannuation savings, may be a key to increasing the superannuation savings of people under the age of 40.

2. Current incentives in place to encourage voluntary superannuation contributions

While GESB carries out various campaigns targeting co-contributions and voluntary top-ups, there are no incentives targeted specifically at public sector employees under the age of 40, and no further incentives in addition to existing incentives such as taxation arrangements provided by the Commonwealth, or the provision of flexible payment options.

3. Improving their awareness of the importance of saving early for their retirement

GESB has carried out several programs and initiatives designed to improve members' awareness of the importance of saving early for their retirement.

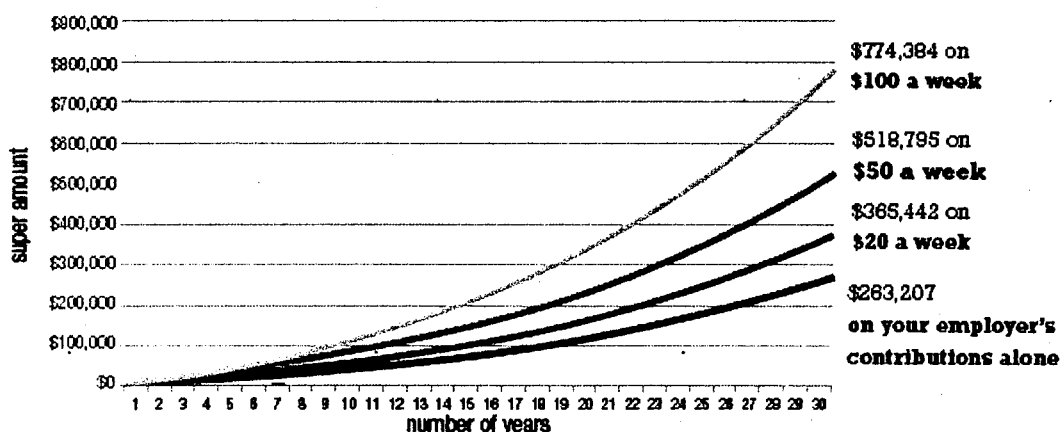
In the first half of 2005, GESB implemented campaigns specifically targeting increased member awareness of superannuation and the benefits associated with roll-ins and voluntary contributions. Although no strategies have targeted members under 40 years of age in isolation, this group was captured as part of the broader campaigns. The following GESB initiatives which are either already implemented, or are underway, have the potential to stimulate the interest in the under 40 age group in making voluntary contributions:

- GESB's West State Super Accumulation Product Information Booklet (released in March 2005) as well as the member section of the website, contains information promoting small additional contributions to superannuation to make significant increases in retirement benefits. The booklet illustrates the benefits of topping up superannuation savings as shown in Figure 1 below.

Figure 1: Excerpt from WSS Product Information Booklet encouraging voluntary contributions³

contributing a little or a lot makes a big difference!

Let's say you're 30 years old and you're on a salary of \$35,000. Look at how much you can expect to have at age 60 with personal contributions of \$20, \$50 and \$100 a week.



Assumptions: A yearly net earnings rate of 6%, employer SG contributions of 9% and taxable base salary of \$35,000 with a yearly increase of 2% for both the salary and the personal contributions, consistent with inflation.

³ Source: Mercer HR Consulting

- GESB's website also has a calculator which allows members to input a variety of data to show the impact that increased contributions can have on their final benefit.
- Statement mail-outs and member newsletters are also a cost-effective way of communicating with and increasing the awareness of members. GESB's most recent mail out in March 2005 specifically targeted educating members on the benefits of increasing roll-ins, and included an easy step-by-step process for members, including pre-populated information on the roll-in form, and direct reference to the value of consolidating their superannuation accounts on the member statements. During the 2 months following the posting of statements, there was an increase of 68% and 105% respectively in the number of roll-ins received from those received during the previous 2 statement mail-outs. Similar initiatives are planned for the next statement mail-out to specifically target increasing the number of voluntary contributions made.
- GESB conducted an email campaign in May 2005 encouraging voluntary contributions, focusing on the Commonwealth Government's co-contribution initiative. The email was distributed through 97% of GESB's employer agencies via their address books. Direct contributions increased by 245% during May compared to May 2004, indicating that the email campaign was an effective way to encourage people to make voluntary contributions. GESB plans to evaluate the direct email and statement campaigns to include an age breakdown to determine which members were most receptive to the campaigns and to determine if the campaign was successful in reaching the younger age groups.

Other initiatives carried out by GESB designed to encourage members to make personal contributions to their superannuation are also being planned. These initiatives include:

- GESB is conducting marketing campaigns during 2005/06, through email and direct mail. This includes a campaign to promote a \$20 per week voluntary contribution to make a significant difference to retirement benefits.
- Communication to new members has been streamlined and simplified. It includes pre-populated roll-in forms, and will include pre-populated top-up forms, to make it easy for members to use.
- GESB is proposing to implement a series of corporate mass media campaigns via radio and print, to educate members on the importance of long-term saving via superannuation to ensure financial security at retirement.

The Department of Community Development's Western Australian Office for Children and Youth publish a guide titled *Managing and Avoiding Debt: A Young Person's Guide*. Although this publication does not focus on superannuation matters only, it may indirectly improve young Western Australian's awareness of saving early for their retirement by providing advice on budget management and how to avoid incurring significant debt.

Summary

GESB views, as supported by the findings of research which explores the attitudes and expectations of Western Australian current and former public sector employees are that the under 40 age group is relatively less interested in and aware of issues related to superannuation. This finding combined with evidence that suggests this group of members is more likely to prioritise paying off the mortgage and investing in short term investment options such as shares indicates that providing incentives that encourage the superannuation savings of people under the age of 40 years is necessary.

In responding to the Commonwealth's inquiry into improving the superannuation savings of people under age 40, GESB has provided an insight into the attitudes and expectations of Western Australian current and former public sector workers under the age of 40 with respect to superannuation, and the programs and initiatives carried out by GESB aimed at improving member awareness of the importance of saving early for their retirement.

Attitudinal Research Data on Superannuation

Research conducted by Research Solutions on behalf of GESB in February 2005 investigated the attitudes and expectations with respect to superannuation of current and former GESB members. The survey results provide some insight into how people under the age of 40 years view superannuation. Please note that the sample is representative of current and former Western Australian public sector employees, not the Western Australian general public.

The most recent survey indicates that members under 40 years are significantly more likely than people over the age of 40 years to:

- know very little about their superannuation scheme (if accumulation as opposed to defined benefit);
- not read information like newsletters which arrive with their superannuation statement;
- feel there are more important things to think about than superannuation;
- feel uncertain regarding the prospects of superannuation as a long term investment (more likely to not be confident their superannuation will be there when they retire);
- feel they would be better off investing in a range of other options (like mortgages, shares, property or term deposits) rather than superannuation; and
- be confident they understand the legislation surrounding superannuation (most likely due to the propensity of younger people to better deal with change).

Table 1: GESB Members' Attitudes Towards Superannuation (February 2005)

| <i>Attitudinal statement</i> | % agree/strongly agree | |
|--|------------------------|---------------|
| | Under 40 years | Over 40 years |
| I know very little about my Superannuation Scheme – West State Super | 46.1 | 33.6 |
| I never read the information accompanying my statement which is sent to me by my superannuation fund (eg. Newsletters) | 24.0 | 16.9 |
| I have more important things to think about than superannuation | 35.5 | 26.1 |
| I am not confident that my superannuation will be there when I retire | 35.0 | 26.9 |
| I get confused by changes in legislation and tax related to superannuation | 65.6 | 79.5 |
| I'd rather invest in term deposits and investment accounts at my bank than top up my super | 32.8 | 18.7 |
| I would rather invest in shares and property than top up my super | 60.7 | 42.3 |
| I would be better off paying off my mortgage than investing in superannuation | 67.8 | 40.8 |

**Government Employees Superannuation Board
10 August 2005**