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## Introduction

The Government has announced a revised co-contribution superannuation scheme in the 2004 budget. Under the new scheme, the Government will contribute \$1.50 for every \$1 of personal contributions, up to personal income of \$28,000, reducing by \$0.05 for every \$1.00 and phasing out completely at \$58,000.

This report provides estimates of the level of response to the new scheme announced in the 2004 budget, based on primary research data collected in 2002.

## Baseline levels of voluntary contributions

A measure of the likelihood of making a voluntary contribution to super in the next 12 months was taken before the planned Government co-contribution scheme was described to respondents.

In the next 12 months, 40% of the target population consider it likely that a voluntary contribution will be made to their super. This rises to 81% amongst those with a voluntary contribution in the last 12 months, and falls to 18% amongst those without a voluntary contribution in the last 12 months. The median estimated contribution was again \$2,000 while the trimmed mean was \$2,600 (trimmed of the highest and lowest 5%).

**Discounting 5-point scales** How should responses to questions such as ‘how likely are you to make a voluntary contribution?’ be interpreted? It is probable that many of those who say they are ‘very likely’ to carry out a particular behaviour will in fact do so. It is also probable that some of those who say they are ‘quite likely’ to carry out the same behaviour will do so. It is fair to assume that the majority of those who are unsure whether they will do something, and those who think they are unlikely to do something, will indeed not carry out the behaviour. So what use can be made of responses to a behavioural intention question on 5-point likelihood scales?

An intuitively appealing and frequently used, but empirically unvalidated rule of thumb used for discounting ‘intention’ scales in market research is to take 75% of ‘top-box’ responses, together



with 25% of 'second top box' responses on a five point scale as a more likely level of action (this will be referred to as the '75/25 rule').

So, as mentioned above, 40% of the target population consider it likely that a voluntary contribution will be made to their super in the next 12 months: 28% think it is very likely and 11% think it is quite likely that a voluntary contribution will be made to their super.

If the 75/25 rule of thumb is applied to these figures, then 24% of the target population could be expected to make a voluntary contribution to their super in the next 12 months, assuming no changes are made to the super system.

## Take-up of the Government co-contribution scheme

The primary objectives of the research were to determine the overall level of participation in the original (2002) proposed scheme, the level and duration of participation, and to determine those segments of the population most likely to participate.

It is important to note that the research environment produced 100% awareness of the scheme. That is, the Government co-contribution plan was described to all participants in the research. While this situation of universal awareness is theoretically possible, it is extremely unlikely to occur in real life (and indeed any attempt to produce universal awareness would represent a vast waste of resources). The estimates of uptake must be interpreted with this in mind. Several other caveats are discussed later in this report.

Even with the 100% awareness caveat in mind, the data from this research suggest that Government co-contributions to individuals' super will positively impact the incidence of voluntary contributions to super.

The levels of participation likely to be observed under a Government co-contribution scheme are presented and discussed below.

### Overall participation in 2002 scheme

Overall, 49% of the target population said they would definitely make a voluntary contribution to their super in the next 12 months if the co-contribution plan went ahead at the 1:1 matching level, and a further 27% said they probably would make a voluntary contribution.

Applying the 75/25 rule gives an overall participation figure of 43% of the target population at the 1:1 matching level, assuming 100% awareness. This represents a 79% increase in the percentage of the target population that would make a voluntary contribution to super, compared with the proportion that plan to make a voluntary contribution in the next 12 months with the super status quo.

The figures for the 1:2 level, while lower than those under a 1:1 matching level, still suggest that co-contribution would have a significant impact on the level of voluntary contributions to super. About one person in three (32%) would participate in the co-contribution scheme at the 1:2 matching level (based on the 75/25 rule) – a 33% increase in the proportion of the target population intending to make a voluntary contribution in the absence of the co-contribution scheme.

**Take-up by income level** At both 1:1 and 1:2 matching levels, people from households with higher income are more likely to participate in the co-contribution scheme than people from lower income households.

Nevertheless, there will be significant take-up of the co-contribution offer even in the lowest household income bracket included in the research (\$10,000-\$20,000). As can be seen in the chart 1 (next page), 28% of people in households in the \$10,000-\$20,000 bracket could be expected to make a contribution at the 1:1 matching level – an 87% increase in the proportion who intend to make a voluntary contribution in the absence of 1:1 Government co-contribution.

Similarly, one in three people (33%) from households in the \$20,001-\$30,000 income bracket could be expected to make a voluntary contribution under a 1:1 matching scheme, compared with a baseline level of 19%. This represents a 74% increase in the proportion of people in the \$20,001-\$30,000 income bracket intending to make a voluntary contribution.

**Estimates of take-up at 3:2 co-contribution** Eureka has been asked to estimate the likely participation in the new scheme, based on data collected in 2002. It is important to note that a 3:2 (\$1.50 for \$1.00) scenario was not examined in this research.

The estimates of likely participation in the new scheme presented in this document are based on the following procedure:

- An estimate of likely participation in the 3:2 scheme at all income levels was produced from participation rates at 1:1 and 1:2 co-contribution levels. The fundamental (and fairly safe) assumption is that 3:2 co-contribution will be more appealing than 1:1 and 1:2 contribution, albeit by a non-linear amount. This estimate ignores the phase out of the co-contribution
- An estimate of the effect of the phase out was also produced:
  - Level of participation at \$28,000 was interpolated from participation in the 3:2 scheme
  - Level of participation at \$58,000 is assumed to be the same as the baseline level of contributions at this income level (ie the proportion of people at this income level that will make a personal contribution in the absence of a co-contribution scheme, and assuming no other changes to super legislation)
  - The phase out of \$0.05 per \$1.00 income is shaded in between \$28,000 and \$58,000

Chart 1 below shows baseline level of personal contributions, together with estimates of participation at 1:2, 1:1 and 3:2 co-contribution levels, by income.

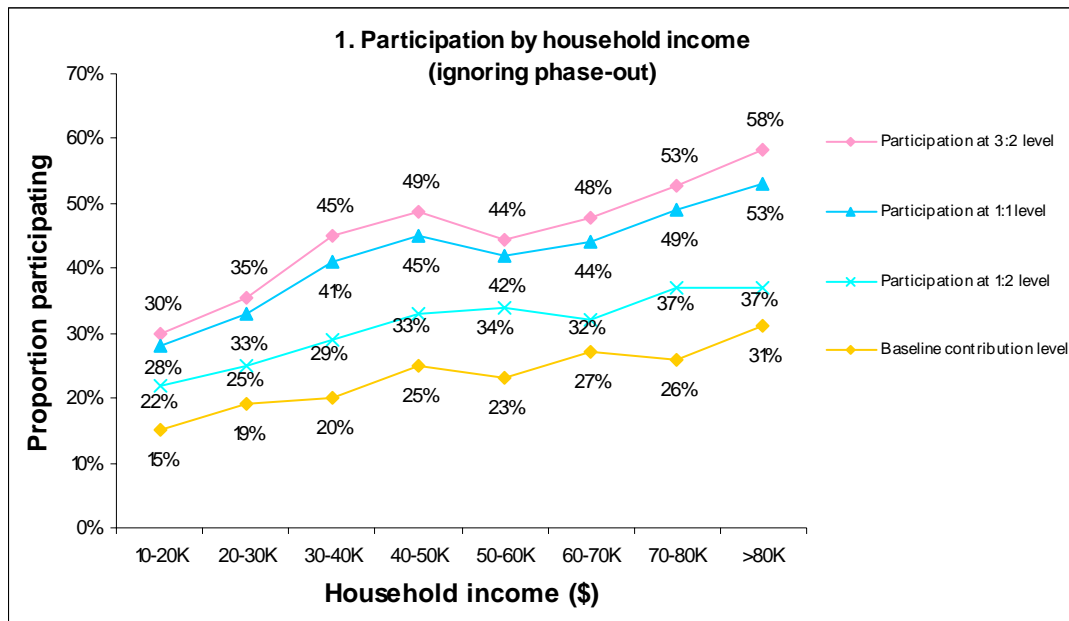
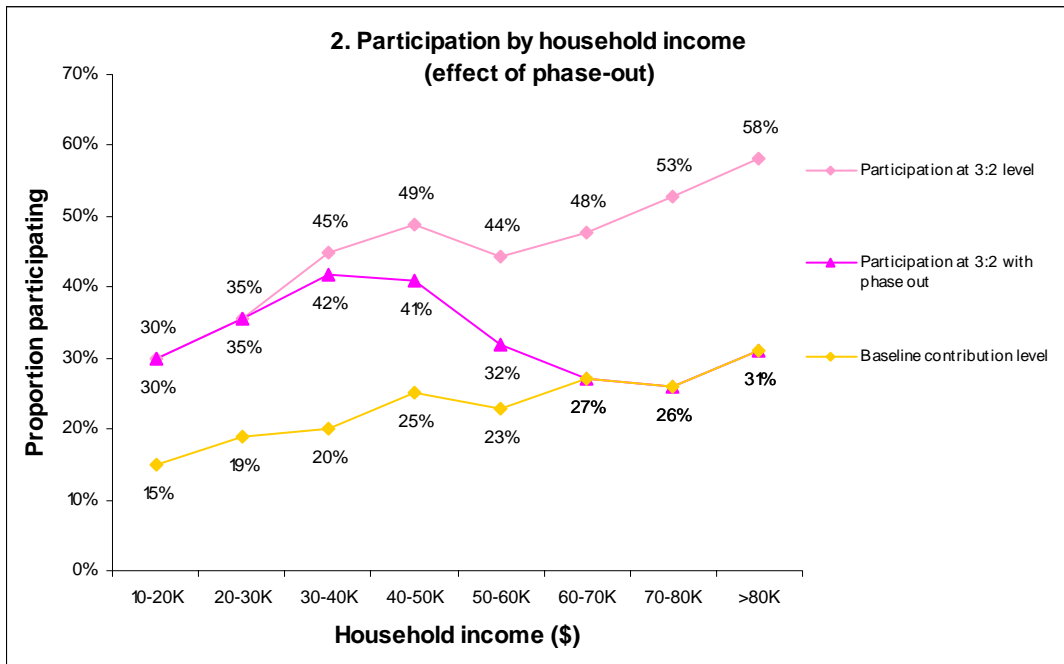


Chart 2 (below) shows the effect of the phase out of the co-contribution for incomes between \$28,000 and \$58,000. The chart illustrates that the level of participation will peak around the \$35,000 income level at 42%. The level of participation will remain at this level up to incomes of \$45,000, then decline towards the baseline level of contributions.



Some specific estimates of the level of participation are as follows:

Income of \$38,000 (maximum co-contribution of \$1,000 at personal contribution of \$667 or more): 41.6%

Income of \$40,000 (maximum co-contribution of \$900 at personal contribution of \$600 or more): 41.5%

Income of \$48,000 (maximum co-contribution of \$500 at personal contribution of \$333 or more): 38.3%

Income of \$50,000 (maximum co-contribution of \$400 at personal contribution of \$267 or more): 36.4%

Income of \$58,000: 24.2%

## Some important considerations

The data presented in this report suggest that Government co-contribution will be very successful in driving voluntary contributions to super.

Some important issues that should be kept in mind while interpreting the data are discussed below.

### AWARENESS

As already discussed, the research produced universal awareness of the proposed co-contribution scheme – a necessary artifice, but one that obviously produced an over-estimate of the likely actual participation in the scheme. If promotion of the program (which would most likely occur via a combination of marketing and third-party communication) were to produce awareness of 75% in the target population, then the maximum possible participation would also be 75%. The maximum participation level that could have been found in the research was 100%. No attempt has been made in this report to discount participation numbers according to a target level of awareness. The estimates of participation presented in this report are best interpreted as likely participation rates among those members of the target population who are made aware of the co-contribution scheme. In our opinion, it would be reasonable to assume that a combination of direct Government promotion, promotion from retail and industry super funds, financial planners and accountants, and word of mouth would achieve 75% awareness.

Superannuation is not an issue that people think about very much in ordinary circumstances (nor when considering what to do with unexpected spare cash: see section below - ‘use of a windfall’). By their nature, market research interviews focus individuals’ attention on issues to which they may ordinarily give little thought. This research indicates that co-contribution has the potential to be a very useful element in the superannuation system – as long as it can be communicated effectively.

HEADLINE MESSAGE: “THE GOVERNMENT WILL GIVE YOU \$1500”

The co-contribution scheme was presented to respondents in a way that described the positive attributes of the scheme (ie the Government will match your contributions 1 for 1), but did not cover issues such as contributions tax, preservation, and up to a one year lag for co-



contributions. It is probably reasonable to assume that most people are aware that voluntary super contributions are inaccessible until retirement and that they do not escape the attentions of the ATO entirely unscathed. However, it is likely that the scheme, as presented, was interpreted along rather positive lines - “the Government will give me \$1000 – that’s great!”. The fact that the contributions would have to be made with after-tax dollars was left implicit.

However, it is also likely that promotion of the scheme by the Government (and others, such as financial planners and retail funds) will focus on the headline “\$1.50 for \$1 matching up to a maximum co-contribution of \$1,500”.

#### UNFORESEEN CIRCUMSTANCES

So far the discussion has focused on discounts that should be considered in relation to participation in the scheme. It is also necessary to consider discounts that might apply to the level of participation. Respondents who indicated that they are likely to participate in a co-contribution scheme were asked how much money they would put into super over a 12 month period. Many said that they would contribute at least \$1,000, or close to this amount.

Despite these ‘best intentions’, it is inevitable that through the year people will be blown off their financial course by things such as holidays, periods of unemployment, repairs to the car, and so on. As with the ‘awareness discount’, no attempt has been made in this report to apply a ‘stickability’ discount. The contribution levels reported here should thus be regarded as upper limits.