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FINANCIAL PLANNING EDUCATION: TURNING INTENTION INTO ACTION

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ABSTRACT

Most superannuation funds in Australia conduct seminars in financial literacy in the belief that they make a difference to their members when considering their retirement strategies. The investment intentions of seminar attendees was captured at the end of the seminar, and this was followed up three months later to see whether the intentions expressed at the end of the seminar had been implemented. The results were mixed, with expressed intentions not necessarily translating into action. The implications of this research is that while such seminars are valuable, they should be specifically targeted

INTRODUCTION

An increasing number of individuals in Australia are attempting to overcome the issue of outliving their savings by planning for their retirement. Planning involves setting goals and devising strategies for how those goals are to be achieved. Arguably all individuals should have a retirement plan even if their circumstances dictate that they will have to rely primarily on the government’s age pension. Whilst there might be some argument over what items should be included in a modest or comfortable lifestyle there does not appear to be any dispute that the age pension by itself will not provide the standard of living that most Australians expect in retirement, and as a result, members are increasingly looking to their superannuation fund to assist them in understanding the complexities of superannuation and to assist them in planning for retirement.

Planning is more than simply asking the member to nominate a desired retirement income level and entering this value into a software program which will produce a projected level of savings at retirement. As Clark et al. (2002, p.3) point out … ‘[u]nder certain restrictive conditions, life cycle models can predict the age of retirement, annual saving rates, and the level of income in retirement compared to pre-retirement earnings. Most of these models assume that individuals understand the financial markets, and know the risk-return distribution of all assets’. As we mentioned earlier, planning is about setting goals and devising strategies to assist in achieving those goals – understanding and committing to these strategies is based on a presumed level of financial literacy which may not exist. The ANZ Bank has been particularly active in Australia in promoting financial literacy. Research conducted by ANZ highlights that the financial literacy of particular groups in the community is very low and that there is a strong positive correlation between education levels and financial literacy. In recognition of the perceived lack of financial literacy in the general community the Federal Government established the Consumer and Financial Literacy Taskforce. This taskforce produced a series of preliminary recommendations in August 2004. These recommendations included the establishment of a permanent Financial Literacy Foundation.

Many superannuation funds in Australia have accepted responsibility for improving the financial literacy of their members – to assist in improving their financial knowledge and understanding and to help them formulate and achieve their retirement goals. However the question remains – does financial education make a difference? A series of sub questions then flow from this main question – what form of financial education is required, is the content and delivery of education seminars appropriate, can the seminars be better targeted to specific cohorts, etc?

To date there has been very little research carried out in Australia which attempts to measure the nexus between financial education and changes to an individual’s retirement goals and strategies. Research into this nexus has been conducted by Clarke and d’Ambrosia (2002) in the United States where they reviewed the impact of financial education provided by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). TIAA-CREF provides a range of financial services to professionals in the academic, medical, cultural and research fields. The research methodology used in this report is similar to the methodology adopted by Clarke et al. Where appropriate in this report comparisons will be drawn with US data.

The aim of this research is to examine the various factors influencing the retirement planning decisions of Australians and whether participation in financial education seminars offered by an Australian Superannuation Fund (ASF) have any impact on the retirement goals and retirement savings decisions of the participants.

Specifically, this research examines whether participants acted upon any revised retirement goals arrived at after the seminar, by changing their retirement strategies.

METHODOLOGY

This research is based on two surveys of participants attending an ASF ‘Retirement Seminar’. This seminar was held in all Australian states and territories in 2005. As such the participants self selected by attending the seminar and arguably participants were more engaged in trying to resolve the dilemma of whether their projected retirement savings would afford their desired retirement income than the general ASF population.
The ‘Retirement Seminar’ was specifically developed by ASF in late 2004 and early 2005 as a means of addressing member concerns with this dilemma. The seminar used a goals based approach – presenters discussed with participants some of the factors, which influence retirement goals, which in turn caused participants to reflect on their own retirement goals. The seminar then proceeded to consider how much money would be needed to finance a given set of retirement goals and how cash flow and risk could be managed to assist in achieving these goals. The seminar concluded with the presenter demonstrating a software package which models retirement savings and resultant retirement incomes.

The first survey was given to participants to complete at the end of the one and a half hour seminar, and they were invited to provide their email address for a follow up survey (survey 2). This survey was conducted via email approximately three months after the seminar and was linked back to responses in survey 1.

The first survey asked participants, in the light of the information just received at the seminar, what their retirement goals or settings were.

Examples of these goals and settings are: At what age did they want to retire? Did they currently make voluntary contributions to superannuation? The survey also gathered some background demographic information.

In survey 2 participants were asked whether any of the changes in retirement settings, which were indicated in survey 1, for example an indication that the participant was going to change an investment choice, had actually taken place. The second survey also gave participants the chance to reflect on the impact of financial education three months after the seminar had been conducted.

Seminars were held at 19 Universities which included all states of Australia. A total of 328 participants responded to surveys 1 and 2.

Where comment is made in the report that a particular result is significant, this implies significance at the 1% level, in other words the results imply a 99% confidence level.

**DEMOGRAPHICS**

The sample in the first survey represented a broad cross section of ASF members. The youngest participant was 17 and the oldest 69. The average age of participants was 48. Fifty five percent of the sample was female. Forty one percent of participants worked in administration with the next largest cohort being academics at 32%. Females were more concentrated than males in administration, and this applies across all age groups.

Seventy one percent of participants held a Bachelor, Masters or Doctoral degree and the mean annual household income was $91,353 with $60,996 of this provided by the respondent indicating that our cohort was on average more highly educated and earning higher incomes than the general population.

It is worth noting that 11.8% of participants did not know which superannuation plan they are a member of. This is a sobering statistic and highlights that answers to higher level questions regarding retirement must be treated with some caution.

Membership of the Defined Benefit Plan and the Investment Choice Plan represents 79% of participants. These participants receive a contribution of 24% of salary (17% employer and 7% employee). This is a very high contribution rate by community standards and arguably this will dampen participants’ enthusiasm for changing their retirement settings in an environment where the general community debate is about the adequacy or otherwise of a 9% Superannuation Guarantee Contribution producing the desired level of retirement income.

The Investment Choice and Award Plus Plans are defined contribution, accumulation style plans. As a result, members can choose their investment strategy. ASF offer seven different investment choices, ranging from the most defensive strategy (cash) to the most aggressive strategy (shares).

For the Award Plus Plan, the most common strategy selected was the Balanced option (55%). Participants in the Investment Choice Plan were slightly more aggressive in their investment choice with the Growth strategy the most common selected (38%). In identifying the reasons for investment choice it was pleasing to note that the most common reason provided was a personal decision based on my attitude to risk and an assessment of my needs (55%). Less pleasing was the fact that 33% of participants responded ‘I have not made a choice. I remain in the default option because I have not determined which option best suits me’.

Participants have the opportunity to make voluntary contributions to superannuation. Forty one percent of participants indicated that they currently make voluntary contributions.

**ATTITUDES TO RISK**

About 36% of the participants had not attended a financial education seminar prior to this, and a further 20% had attended only one.

Approximately 18% of respondents are working with a financial advisor.

For those working with an advisor, not surprisingly, nearly 63% say a financial advisor is their main source of financial advice. For those not currently working with a financial advisor, 31% rely primarily on their own research, 24% rely on seminars and ASF is the main source of financial planning advice for a further 19% of respondents. These three sources are the main sources of financial advice for 74% of those who are not currently working with a financial advisor.
Sixty five percent of respondents rated their attitude to investment risk as ‘Conservative or Moderately conservative’. Only 4% classified themselves as ‘Aggressive’.

There is a strong and statistically significant relationship between financial knowledge and attitude to investment risk. In particular respondents with low levels of financial knowledge had a much higher likelihood of having conservative attitudes to investment risk.

**INTENTION AND ACTION**

Survey 2 was conducted by email approximately three months after the conclusion of the seminar series. Clearly trying to measure the impact of financial education three months after that education has taken place is difficult given the ability for other explanatory factors to have an impact on the process. For example, during the three month period in question, the federal government embarked on an extensive advertising campaign to promote the benefits of the co-contribution scheme.

In survey 2 respondents were asked to nominate their retirement age goal. The respondents to survey 2 had a mean retirement age goal of 60.5 compared to the mean in survey 1 of 61.1 and this change was statistically significant.

In survey 2 respondents were asked to nominate their retirement income goal. The respondents to survey 2 had a mean retirement income goal of 69.4%, compared to the mean in survey 1 of 67.6% however this change was not statistically significant.

Survey 1 identified four retirement savings strategies that respondents are likely to consider changing as a result of attending the seminar.

1. Change their investment strategy for the Award Plus Plan.
2. Change their investment strategy for the Investment Choice Plan.
3. Change their rate of voluntary contribution to superannuation.

In survey 2, respondents were asked whether the changes to the retirement strategies they foreshadowed in survey 1 had actually been acted upon and if not, why not?

**INVESTMENT STRATEGIES**

In survey 1, respondents were asked if they intended to change their investment strategy for their Award Plus Plan and then in survey 2, were asked whether they had acted upon the proposed change. The likelihood of actually changing an investment strategy was similar for those who did intend to change as for those who did not. Of those who did intend to change, only about 9% did so, compared with about 7% of those who did not intend to change, but this difference is not statistically significant.

Similar questions were asked about the Investment Choice Plan. In this case, those who said they did intend to change were less likely to actually change their investment strategy than those who said they did not intend to do so.

**VOLUNTARY CONTRIBUTIONS**

In survey 1, those not already making voluntary contributions were asked if they intended to do so. In survey 2, they were asked if they had started to make voluntary contributions.

Of the cohort in survey 1 who indicated that they intended to start making voluntary contributions, only 23% had actually commenced making such contributions. This is comparable to the US experience where 25% of respondents who indicated that they were going to establish a supplementary retirement plan actually established that plan three months later.

Not surprisingly given the US experience, a significant number of respondents who indicated in survey 1 that they did not intend to commence making voluntary contributions in fact decided to do so. In the ASF survey, 28% of respondents who indicated that they did not intend to commence making voluntary contributions actually commenced making voluntary contributions. The difference in the rate of commencing voluntary contributions between those who indicated in survey 1 that they did intend to commence and those that indicated that they did not intend to commence is not statistically significant and should be interpreted as meaning that the stated intention of a member has not affected their subsequent action.

Those who were already making voluntary contributions were asked in survey 1 if they intended to change the amount of the voluntary contributions they make. Forty one percent of respondents that indicated that they were going to increase their level of contributions in survey 1 actually increased their level of contributions. The comparable figure in the US was 42%. There is, however, a substantial number of respondents who indicated that they did not intend to increase their level of voluntary contribution in survey 1 who actually did – 25%. This compares to 30% in the comparable US study.
REASONS FOR NOT ACTING

The main reason given by respondents for not acting upon the changes to retirement strategies identified in survey 1 was that three months after the seminar, they were ‘Still planning to make the changes in the future’ (35%) which begs the following questions:

➢ Will these respondents eventually change their retirement settings?
➢ How long does the impact of the seminar last?
➢ Is it reasonable to attribute changes beyond three months back to the information provided in the seminar?

For those respondents who provided a written comment to this question, their responses can be broadly disaggregated into four groups. One group might be categorised as the ‘just ran out of time, still on my desk’ group. The second group discussed how other spending priorities have taken precedence over superannuation. The third group highlighted the need to discuss proposed changes with their partner. The fourth group outlined how ASF is not their only retirement savings vehicle and that some changes to retirement settings may be achieved outside of the ASF environment.

RESPONSIBILITY FOR FINANCIAL EDUCATION

Respondents were also asked to rank various groups in a descending order of responsibility for the provision of financial education which would allow them to make informed decisions about their retirement.

Clearly individuals accept that it is their primary responsibility to ensure that they have sufficient financial education. Interestingly ‘my superannuation fund’ is seen as having more responsibility than my financial advisor and this links in with the earlier observation that 82% of respondents were not currently working with a financial advisor. Respondents were also asked if a significant responsibility for financial education lies with a group not listed and the most common comment in this section was the ‘Employer’.

This notion of individual responsibility has parallels in the AXA Retirement Scope research. In that research Australia ranked number one out of twelve countries in the ‘belief’ that the individual should be responsible for the provision of retirement income. AXA also found that this ‘belief’ that the individual is responsible has significantly increased from 2001 to 2006. During that time period the Federal Government has deliberately attempted to shift the view that the ‘Government’ is responsible towards the view that the individual is responsible by inter alia:

➢ Promotion of the Co-contribution scheme.
➢ Introduction of Superannuation Choice.
➢ Establishment of the Consumer and Financial Literacy Taskforce.

IMPLICATIONS FOR THE FUTURE

Throughout the Australian community, there is a considerable gap between an individual’s retirement expectations and what their current retirement settings will provide. The primary focus of financial education should be to make the gap as narrow as possible, that is, ensuring individuals have realistic retirement expectations and are equipped with the requisite knowledge and skills to achieve those expectations.

Seminars and workshops do have an immediate motivating effect which may overstate participant’s intentions to make subsequent changes to their retirement settings. Conversely however, a case can be made that such education takes a while for individuals to process and that a significant number of individuals who indicated at the end of the seminar that they did not intend to change their retirement settings did in fact change their retirement settings – whether this was because of some latent effect of the seminar or is simply the normal rate of change you would expect to see within the general population of ASF members is a matter for further research.

Education is a public good where the value resides in the recipient. Employers are often criticised for not taking on enough apprentices and argue that in their defence that they spend a considerable amount of time and cost educating and training their staff only to see some future employer benefit. It could be argued that the benefit of retirement education may or may not be captured by the provider of that education. Individuals may decide to invest in an alternate superannuation fund or to accumulate assets outside a superannuation environment based on the knowledge and skills they have acquired through financial education. This is not necessarily a bad thing if we accept that part of the mission of a superannuation fund is to try and close the gap between an individual’s retirement expectations and what their current retirement settings will provide. Indeed, whilst participants of the surveys indicated that they were primarily responsible for ensuring that they had sufficient financial education to make informed decisions about their retirement, the second most important group identified as having some responsibility was the superannuation fund.

Nor should we constrain our thinking to assume that the benefits of financial education are confined to the measurable changes in retirement settings referred to in this report. Benefits may be much less obvious but equally as valuable. For example, the survey has demonstrated a strong positive relationship between self rated financial knowledge and attitudes to investment risk. If we hold the view that individuals are often too conservative in their investment strategy choice due in part to a lack of financial understanding and knowledge,
then educating members about investment risk is likely to have an impact on investment attitudes and therefore long-term accumulated balances. Moreover, the survey results also provide us with the opportunity to further target specific groupings within the membership base. For example, it was found that women self rated their financial knowledge lower than men and this was reflected in the more conservative investment attitudes adopted by females.

Specific seminar implications:

- The seminar content and presentation was well regarded by participants and well pitched as evidenced by the number of participants who thoughtfully reflected on the gap between their retirement expectations and what their current retirement settings would provide.
- The process by which individuals are able to change their retirement settings needs to be made as simple as possible. It would be tempting to have a system whereby individuals could sign up as they leave the seminar to avoid the inertia – but this may not always be appropriate. Some participants commented that they changed their view after discussing the contents of the seminar with their partner whilst others may need longer to reflect on the content of the seminar before deciding on changes to their retirement settings.
- Given that for couples their superannuation decisions are often interdependent, consideration should be given to conducting seminars at a time and place where partners could also attend.
- Certain cohorts of members may be specifically targeted to maximise the impact of retirement education, for example:
  - younger members
  - female members
  - members who receive 9% contributions
    - Defined Benefit Plan members

Members have a multi-faceted relationship with their superannuation fund. Members see the fund as an important source of retirement education. As such the superannuation fund has a responsibility through the provision of education to reduce the gap between their members retirement expectations and what their current retirement settings will provide. In the context of a member’s total circumstances, it is difficult to tie a particular seminar to the closure of this gap. Nonetheless, the seminar forms a vital part of an ongoing educational relationship between fund and member.

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