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Does Financial Education Influence Retirement Savings?
An Examination of Australian Employees

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DOES FINANCIAL EDUCATION INFLUENCE RETIREMENT SAVINGS?
AN EXAMINATION OF AUSTRALIAN EMPLOYEES

by

Michael Kerry

Abstract

In order to ensure a financially secure retirement, Australians will need to plan and save for their retirement many decades before they retire. The age pension, paid for out of Commonwealth government taxes is currently the backbone of the retirement system, but will not replace as much pre-retirement income in the future as it does today. Given the shift from the defined benefit style to the accumulation style, superannuation funds involve considerably more uncertainty, and as such, one might have thought that individuals would be saving more on their own. But personal saving outside of superannuation plans is virtually non-existent. Combine the retirement income crunch with the dramatic increase in life expectancy, and the need for careful retirement planning and sacrificing current consumption for later consumption becomes imperative for ensuring the financial security of older Australians. The hard question is whether individuals will be prepared to make the necessary sacrifices today to ensure a more secure financial future in retirement? This paper explores the willingness of individuals to make these sacrifices, and whether financial education can influence individuals in this difficult decision.

Key Words
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Superannuation; Retirement; Investment Strategies; Education; Defined Benefit; Defined Contribution

Introduction

Many Australians are worried about their retirement. This ‘worry’ comes in many forms, from their own health concerns, concerns about their aging parents, their children’s futures, and their lifestyle in retirement. Whilst financial concerns are only one dimension to this problem they are nonetheless a significant contributor to this worry.

People worry that they will not have saved enough to meet their income needs in retirement. This was not such a concern at the commencement of the last century – when the aged pension was introduced for 65 year olds in Australia in the early 1900’s the average life expectancy was considerably less than 65, that is, the average person was expected to die before funding a retirement became a problem. The latest published life expectancy tables show that a 65 year old male has a life expectancy of 17.7 years and a 65 year old female has a life expectancy of 21.15 years.

How does one plan 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
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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 conducted a series of financial literacy surveys which suggest the level of financial literacy in the general community is very low.

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.
Research Aim

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 in these seminars revised their expected retirement age and / or their desired level of retirement income in the light of the information they received at the seminar.

Research Methodology

This research is based on two surveys of participants attending the ASF ‘How Much is Enough’ seminar series from April to June 2005.

The ‘How Much is Enough’ seminar was developed by ASF in late 2004 and early 2005 as a means of addressing member concerns with, as the title of the seminar implies, how much do members need to accumulate in superannuation during their working lives in order to finance their retirement? 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.
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The first survey was given to participants as they entered the seminar room and they were asked to complete it before the seminar commenced. The second survey was completed by the participants at the end of the one and a half hour seminar. The two surveys were included within the one document so that answers for individual participants could be linked between surveys 1 and 2.

The first survey asked participants about their retirement goals and retirement savings. The survey also asked participants where they sourced their financial information from as well as gathering some background demographic data.

In survey 2, participants were asked whether any of the retirement settings they had established in survey 1 had changed as a result of attending the seminar. Seminars were held across all states of Australia. A total of 1646 participants attended these seminars with an average attendance of 51. A total of 1500 surveys were distributed and 961 participants responded to surveys 1 and 2 resulting in a response rate of 64%.

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 two surveys 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.
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What is their current superannuation position?

ASF members have a choice of three types of pension plans. This is illustrated in the following figure:

**Figure 1: Survey respondents membership of pension plans – Survey 1**

![Plan membership chart]

It is worth noting that 11.8% of participants did not know which 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.

**Figure 2: Survey respondents average account balances – Survey 1**

![Average account balance by plan type chart]
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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.

Financial information, knowledge and 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.
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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 together 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’.

Figure 3: Attitude to investment risk – Survey 1

Figure 4: Attitude to investment risk by financial knowledge – Survey 1
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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.

**What impact did the seminar have on their retirement goals?**

Survey 1 was conducted as participants entered the room and before the seminar commenced. Survey 2 was conducted immediately after the seminar finished and before the participants had left the seminar room. The discussion below highlights the changes between Survey 1 and 2.

**At what age did they want to retire?**

The expectation is that financial education seminars cause people to reflect on their retirement strategies and with increased knowledge, will come to acknowledge that they may not have saved sufficient amounts to fund the lifestyle they desire in
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retirement. Accordingly there is likely to be an appreciation by the members of the need to increase their expected retirement age.

The average preferred retirement age at the start of the seminar was about sixty years (60.2 years). Similar research in the US indicated a desired retirement age of 64.0 years. The higher desired retirement age in the US compared with Australia should also be seen in the context of a higher desired retirement income percentage in the US (to be discussed shortly) and generally lower preservation ages in Australia relative to the US – although in both countries preservation ages are increasing as are tax incentives to encourage people to extend their working life.

Participants were asked about their confidence of retiring at their nominated age and their commitment to retiring at this age. Nearly 50% of participants were confident that they would be able to retire at their preferred retirement age. However, only one-third would be prepared to sacrifice their current lifestyle in order to achieve their retirement age goal.

Most participants (about 74%) recorded the same planned retirement age at the beginning and finish of the seminar. About 6.4% reported a younger planned retirement age, and 19.3% reported an older retirement age. On average, the seminar seems to have produced a delay in planned retirement age of about 7.5 months and the difference is statistically significant.

As a result of the seminar, participants were generally more prepared to make sacrifices and more confident that they could achieve their age retirement goals.
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What was their retirement income goal?

Participants were asked to nominate a percentage of final working year income as a retirement goal. The expectation is that financial education seminars cause people to reflect on their retirement strategies and appreciate that they may not have enough in retirement savings to fund the lifestyle they desire in retirement and therefore reduce their retirement income goal.

At the start of the seminar participants reported a goal of 68% of final working year income at retirement. Similar research in the US indicated a desired retirement percentage of final working year income of 80%. This higher income goal in the US is consistent with a higher desired retirement age discussed earlier. It can also be argued that less generous social security provisions and higher health costs in the US may lead to higher desired retirement incomes.

Participants were asked about their confidence of retiring on this level of income and their commitment to retiring at this level of income. The confidence in being able to retire on a preferred level of income was significantly less than that for achieving a preferred retirement age. Only 22.6% of the participants were confident in being able to retire at their preferred level of income.

At the end of the seminar, the average retirement income goal of participants (expressed as a percentage of final working year income) declined by slightly more than two percentage points between the two surveys (68.4% for survey 1 and 66.1% for survey 2). This difference is statistically significant.

As a result of the seminar, participants were generally more prepared to make sacrifices and more confident that they could achieve their retirement income goals.
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**What impact did the seminar have on their retirement strategies?**

Survey 2 identified four retirement savings strategies that participants might consider altering 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 (only available to members of this plan).
3. Change their rate of voluntary contribution to superannuation.
4. Commence making voluntary contributions (mutually exclusive to strategy three immediately above).

With the exception noted above, these strategies are not mutually exclusive. Participants were asked whether as a result of attending the seminar, they intended to change any of these retirement strategies.

The expectation is that the financial education provided by the seminar increases an individual’s understanding of retirement saving strategies which makes them more likely to adopt these strategies to achieve their retirement goals.

Participants identified a more aggressive attitude to investment risk in survey 2. This was further reflected by participants in both the Award Plus Plan and the Investment Choice Plan when they signalled an intention to increase the aggressiveness of their investment strategy selection.

Forty one percent of participants (378 people) for survey 1 indicated that they currently make voluntary contributions. The average contribution was $3,091.
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Of these 378 people, 190 indicated in survey 2 a desire to change their level of voluntary contributions. In Survey 1 this group of 190 people made a mean voluntary contribution of $3,755 and in Survey 2 they indicated that they would make a mean voluntary contribution of $5,380.

Also in Survey 2, 205 participants who were previously not making voluntary contributions indicated their intention to begin making contributions. The mean intended contribution for this group was $3,194.

What impact does gender have on retirement strategies?

Results from previous studies indicate that, with respect to investment risk, females are generally more conservative than males. There is also the expectation that females will have lower expected retirement ages and retirement incomes which in part reflects the historical legacy of males being perceived as the main household income earners.

On average, the number of males attending financial education seminars is slightly higher than for females, but this difference is not statistically significant. Similarly, there are no gender differences between those currently working with a financial advisor to help achieve financial goals. Males rated their financial knowledge much more strongly than did females across all age groups. In general, males typically rated their knowledge as ‘moderate’, compared with ‘weak’ for females. Females tended to be much more conservative than males, 30.5% of females are ‘Conservative’ compared with 18% for males.
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In each survey females had a lower expected retirement age than males and the difference is statistically significant.

In each survey females had a lower expected retirement income as a percentage of their current income than males and this difference is also statistically significant.

What impact does age have on retirement strategies?

The expectation is that as we get older we accumulate more financial knowledge. There is also the expectation that the retirement goals of younger participants are more malleable than older participants, given that they have more scope to make changes to their retirement goals and strategies.

There are quite strong age differences in the likelihood of participants working with a financial advisor. Overall, 16.7% said they are currently working with a financial advisor, but percentages vary from 9% among the under 40 year olds, 13.7% among 40-49 year olds, 18.3% among 50-59 year old, and 31.4% among the over 60s.

As expected, there is a significant relationship between age and self rated financial knowledge. Older participants tend to rate their knowledge more highly than younger participants.

There is also a strong interaction between age and gender. Males over 50 are more likely than other cohorts to rate their financial knowledge as ‘strong’ whereas females under 50 are more likely than other cohorts to rate their knowledge as ‘none’.

The greatest change in the mean retirement age goal between the two surveys was for participants aged under 49.
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Those aged under 40 showed the greatest fall in their retirement income goal between the two surveys.

**Implications for the provision of retirement education into 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.

Given that in most cases an individual’s retirement expectations exceed what their current retirement settings are likely to provide, there is an *a priori* expectation that financial education will seek to close this gap by individuals:

- raising their expected retirement age
- lowering their income requirements
- increasing their commitment to their retirement goals
- increasing their rate of voluntary contributions to superannuation
- adopting a more aggressive investment strategy in line with their investment time horizon

Evidence has been provided in this paper to suggest, that in the very short term, the increased knowledge which flows from financial education does make a difference to an individual’s intended retirement settings. The seminars were very well received by the audience as evidenced in the survey results. Indeed the discipline with which the surveys were completed was testimony to how seriously the audience addressed the issues raised by the seminar. Seminars and workshops do have an immediate...
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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.

The evidence on whether financial education has an effect on retirement settings in the longer term is more mixed – as indeed it was always going to be when a range of intervening variables come into play between the completion of a seminar and the conducting of a survey some months later. The power of inertia is not to be underestimated – ‘good’ intentions tend to evaporate over time.

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
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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
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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 the retirement education, for example:
  - younger members have more malleable retirement settings
  - women self rate their financial knowledge lower than men
  - Defined Benefit Plan members rate their financial knowledge lower than Investment Choice Plan members.

Members of ASF have a multi-faceted relationship with their fund. Members see the fund as an important source of retirement education. As such ASF 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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