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The influence of educational resources on superannuation investment choice

Michael Ntalianis and Victoria Wise

This paper reports on an investigation of whether educational resources supplied by a superannuation fund provide members with the required information to assist them in making informed choices regarding their superannuation investment funds. The data indicated that certain demographic groups are less likely to utilise the resources provided by their superannuation fund and other information sources. Females, younger individuals, those with low superannuation balances or limited knowledge of financial matters were the key groups identified as less likely to utilise the educational information offered to them.
Introduction

Some studies have shown that financially educated consumers are more likely to save and to save more than their less financially literate counterparts (Lusardi 2005). Further, a 2006 Organisation for Economic Co-operation and Development (OECD) policy brief supports the notion that financially educated individuals are more likely to challenge financial service providers to provide products that meet their investment needs. The OECD report identifies the complexity of financial products and markets as factors making financial education increasingly important. Research indicates that employers and fund managers use educational resources, such as seminars and workshops, written communication, websites and financial counselling to educate employees about retirement saving (Krajnak et al. 2008). It has been shown that these educational resources can influence an individual's retirement saving intentions and behaviour (Nyce 2005). Further, individuals have exhibited a preference for receiving information on financial issues through other sources such as television, radio, magazines and newspapers (Hilgert et al. 2003). They also rely on financial advice from friends and colleagues for making retirement saving decisions (Duflo and Saez 2002).

Members of the Australian university sector superannuation fund system have a defined benefit plan or a defined contribution plan. The focus of this study is on superannuation fund members who are part of a defined contribution plan and have made, and may again in the future make, investment decisions involving the allocation of their accumulated savings to various investment plans offered by the superannuation fund. This action is described as within fund choice. The retirement wealth of these members is directly influenced by the investment choices they make. Therefore, informed investment choice is of vital importance and strongly linked to their financial understanding of the alternative investment choices. Knowing whether members exercising choice use the educational information supplied by their superannuation fund, and whether this contributes to them being informed on superannuation issues, is of critical importance in determining the level and adequacy of the information provided.

Method

This study examined the attitudes of defined contribution fund members about the educational resources provided to them by the fund. A survey approach was adopted. Due to the geographical dispersion of the sample, an electronically-mailed questionnaire (web-based survey) was used to ascertain members' perceptions of the benefit of educational information in enabling them to make informed decisions regarding their superannuation. Rating scales were used to determine the importance respondents placed on educational resources provided by the superannuation funds. These measured agreement, intensity and frequency.

The sample was drawn from the Australia-wide university sector and was specifically targeted to those superannuation fund members who had a defined contribution fund. The sample comprised 6000 staff from 27 Australian universities. Defined contribution fund members were chosen as they are able to actively participate in the investment decision-making process by nominating where their funds will be invested from a list of available options. Statistics derived from the university sector superannuation fund (Unisuper) reveal that approximately 25 per cent of members belong to the defined contribution fund and around 75 per cent have a defined benefit plan. Accordingly, it was expected that approximately 1500 members from the sample would belong to the defined contribution fund and could, therefore, participate in the survey. A total of 406 responses were received, representing a response rate of 30.1 per cent. The response rate was calculated after discounting the sample size for those who were unreachable or ineligible to participate in the survey.

Findings

The responses to the demographic questions on gender, age and education were representative of the university sector. That is, more females than males, with a majority of respondents aged between 40–59 years and generally possessing postgraduate qualifications. The majority of respondents worked as academics, with the remainder working within service areas.

The majority of respondents believed their superannuation fund provided educational resources that were important for their financial decision making. The written communications were the most used
educational resource, and financial counselling provided by the superannuation fund was the least used. A lack of time and motivation were reasons most respondents gave for not utilising the educational resources their fund provided. Unsurprisingly, advice from friends and colleagues was found to be an important resource when it came to superannuation decision making.

Investment choice

In Australia, investment choice in a defined contribution fund is a recent concept. In 2005, the Australian federal government legislated to allow superannuation fund members a choice of which fund they join and the ability to switch to other funds. Schubert (2008) explains that 10 years ago, members had no choice about where their money was invested, but now 90 per cent of defined contribution funds involve some level of choice. A survey conducted recently by McNair Ingenuity Research (Balogh 2008) on behalf of the Association of Superannuation Funds of Australia found that eight per cent of respondents had changed superannuation funds in the preceding 12 months.

Defined contribution fund members also have within-fund investment choice, so they can select where to place their funds from a menu of available investment options. Statistics released by the Australian Prudential Regulation Authority (APRA) (2009) indicate that 62.4 per cent of all funds with more than four members now offer investment choice to their members. Schubert (2008) suggests there can be typically anywhere between 10 and 60 choices and that there is an emphasis on multi-management of assets, active management and diversified options. APRA statistics show that retail funds offer the greatest number of investment choices to members, with an average of 112 options per fund. Furthermore, industry funds had an average of eight investment options per fund and the public sector and corporate funds had an average of eight and seven choices per fund, respectively.

Benefit structure of superannuation funds

As indicated in Table 1, the majority of superannuation assets are in defined contribution (accumulation) funds ($712.4 billion) and hybrid funds ($357.5 billion). Defined benefit funds hold a total of $64.3 billion from total superannuation assets of $1.13 trillion. There is also a substantial number of defined contribution funds (393,910) representing 99.95 per cent of the total number of superannuation funds. The trend, involving a move
away from defined benefit to defined contribution funds, has been very strong in Australia and the United States (Ross and Wills 2002). However, this is not the case in Canada and the United Kingdom where the majority of assets and members remain concentrated in defined benefit funds (Broadbent et al. 2006). Superannuation fund members in defined contribution funds are exposed to the investment risks associated with investment choices. These investment risks influence members’ returns and will ultimately determine the amount of any retirement benefit. It is, therefore, crucial that the risk/return relationships are properly understood and managed by investors.

Table 1 Distribution by benefit structure

<table>
<thead>
<tr>
<th>Benefit structure</th>
<th>Assets ($billion)</th>
<th>%</th>
<th>No. of funds</th>
<th>%</th>
<th>No. of members (’000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation</td>
<td>712.4</td>
<td>62.8</td>
<td>393 910</td>
<td>99.95</td>
<td>19 190</td>
<td>59.9</td>
</tr>
<tr>
<td>Defined benefit</td>
<td>64.3</td>
<td>5.7</td>
<td>35</td>
<td>0.001</td>
<td>669</td>
<td>2.1</td>
</tr>
<tr>
<td>Hybrid</td>
<td>357.5</td>
<td>31.5</td>
<td>171</td>
<td>0.004</td>
<td>11 422</td>
<td>38.0</td>
</tr>
<tr>
<td>Total</td>
<td>1 134.2</td>
<td>100.0</td>
<td>394 116</td>
<td>100.000</td>
<td>31 281</td>
<td>100.0</td>
</tr>
</tbody>
</table>

APRA (2009, p. 27) Statistics from the annual superannuation bulletin

Implications of financial literacy for retirement saving

A lack of financial literacy has important consequences when it comes to planning and saving for retirement (Lusardi and Mitchell 2006). A 2008 ANZ survey of adult financial literacy in Australia (ANZ 2008) found that adults are generally financially literate; however, certain groups face particular challenges when it comes to money management and financial products. These groups are:

- the young (18–24 years)
- females
- people with a low level of education (year 10 and below)
- those living in the most disadvantaged socio-economic areas.

Literacy scores were significantly higher for:

- people aged between 35–39 years
- males
- people with a university degree
- people living in the least disadvantaged socio-economic areas
- senior white-collar workers
- those with annual household incomes of at least $150,000 per annum.

When it came to superannuation matters, the ANZ survey reported that a significant proportion of people failed to read their superannuation statements and that people generally had a low level of awareness of some advantages and risks of superannuation.
Thirty-one per cent of those who read their annual superannuation statements found them difficult to understand. An earlier study of working Australians conducted by Mercer (2006) also found that Australians knew little about their own superannuation.

**Implications of financial education on behaviour**

The issue of financial education promoting greater retirement saving has received widespread interest (OECD 2005). The provision of financial education to those who lack adequate levels of financial literacy is one of the tools that has been utilised, in various forms, to assist those making investment decisions. It has been shown that as an individual’s financial knowledge increases, so will their ability to plan better and save for retirement (Lusardi and Mitchell 2007).

Research has been conducted to evaluate the influence of financial education in changing individual savings behaviour and investment decision making for retirement savings. Such research supports the premise that various types of education programs change the retirement saving intentions and behaviour of individuals (Lusardi 2003; Kerry et al. 2007).

Individuals without appropriate financial knowledge and skills are likely to lack the capacity to save adequately for their retirement needs. Therefore, well-directed and structured educational programs are required to eliminate individual gaps in knowledge.

Most frequently used information resources

In this study, it was found that written communications were the most frequently utilised information resource followed by (in descending order) the superannuation fund website, educational seminars and financial counselling provided by the superannuation fund (see Figure 1). These findings support previous research, except that website access was found to be much more highly utilised as an information resource than in previous studies.

Although it was the least used resource, financial counselling services received the highest mean rating by users. Respondents also rated highly the presentation of information at seminars and communication with financial counsellors. Respondents were asked to rate the importance of certain website information. All of the items received a high rating for importance; however, the website items relating to the return performance of investment choices, expected future return performance of investment options, and risk characteristics relating to the investment options received very high ratings.

Respondents who indicated that they did not use any of the educational resources said that a lack of time and motivation and their ability to satisfy information requirements from other sources were the main factors for not utilising the information resources provided by the superannuation fund.

**Figure 1  Frequency of use of information resources**

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Respondents who indicated that they did not use any of the educational resources said that a lack of time and motivation and their ability to satisfy information requirements from other sources were the main factors for not utilising the information resources provided by the superannuation fund.
Respondents were asked to rate the importance placed on other non-superannuation fund sources of information. Information obtained from friends and colleagues was rated highest followed (in descending order) by newspaper publications, personal financial advisers or planners, financial magazines, and radio and television. It is apparent from the results that non-superannuation fund sources of information also play an important role in informing fund members of investment issues.

Overall, the findings appear to support the need for educational information from both superannuation funds and other sources in order to meet members' information requirements. The results also support superannuation funds' capacity to provide educational resources that inform defined contribution fund members through information, instruction and advice, so that they can make informed investment choice.

Summary and conclusions

This study was motivated by the growing literature suggesting that many Australians in the university sector lack adequate levels of financial literacy to structure a retirement savings plan properly. Indeed, survey evidence suggests that many Australians are not adequately saving for retirement and that several groups within the community will not accumulate sufficient funds to provide them with a comfortable retirement lifestyle.

The main contribution of this study is the determination of whether education provided by superannuation funds is perceived by defined contribution fund members as leading to more informed decision making with regard to their retirement savings. The results have provided new evidence indicating that superannuation fund members are using the educational resources provided to them by their superannuation fund. Moreover, new evidence was compiled to determine reasons why superannuation fund members fail to use the educational resources and the importance placed by defined contribution fund members on non-superannuation fund sources of superannuation education.

The government and the superannuation industry need to vigorously pursue and inform less financially-educated individuals of the need to plan for retirement with specifically targeted information and educational programs. Less financially-literate individuals are at risk of not accumulating sufficient retirement savings and, so superannuation education needs to be more directly targeted at better informing this group.
References


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