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Understanding Superannuation

Preliminary Report: Qualitative Investigation with Employers, Consumers & Industry

prepared for

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1.1 General Perspectives on Superannuation

All agree that superannuation is an important concept and is critical (given the current aging population) to take the strain off of government for providing for people in their retirement. Compulsory superannuation is seen as a forced savings plan, especially beneficial to those who would be less likely to plan and save for their retirement, such as those on low incomes and young people. Fundamentally, while engagement levels differ considerably by age group, there was a clear sense that the system is working well in most respects.

1.2 Key Attitudes to Superannuation

Young people are highly disengaged. They are aware that superannuation is there and what it is for. While they support the concept of superannuation in an abstract theoretical way, retirement (and how they will fund lifestyle at this point) is generally far too distant to concern them. The superannuation system is also perceived by many as too complex for them to invest time and effort in understanding.

People aged 30-44 have a high level of anxiety about superannuation. They see their children being disengaged with superannuation and also see their parents deferring retirement or reverting to pensions due to superannuation losses. There is a sense of guilt about superannuation among this group; they know they should understand superannuation and be more active in managing it, but they make myriad excuses for why they will "do it later". Mostly the reasons for delaying engagement with superannuation revolve around having other priorities, considering other investments (such as property) to provide a better return, or superannuation being something that is done for them that does not require their time and attention.

Older people are more knowledgeable about superannuation and also have significant concerns about it. A significant concern for this group is that the age pension will not exist when they retire and they will have to completely rely on their superannuation. This generates a concern that their superannuation funds will be insufficient for their retirement. Even among those who believe that the pension will be retained; there is fear of being reliant on the pension. The key concern here is that reliance on age pension will impose dramatic changes to lifestyle and spending habits. Beyond this, there is a genuine desire among many to be self-reliant, with some expressing significant discomfort at the concept of relying on the Government to support them in their retirement.

Among employers there is a degree of resentment about the superannuation guarantee. From their perspective, contributions to staff superannuation are not being reciprocated by employees. Superannuation payments are seen as an additional burden and a disincentive to employing staff. They fear that the 9% will increase and they will be unable to afford the increase. There is a general sense that the superannuation guarantee is paid *in addition* to wages rather than being a part of the wage or salary amount.

Finance professionals such as accountants, tax agents, financial planners and superannuation fund representatives see many benefits to superannuation, and to the compulsory system. Generally, there is need for some reforms but not complete revision. This group believes there is a great need for public education and understanding of superannuation.

1.3 Key Concerns about Superannuation

There is universal concern that 9% of salary is unlikely to be sufficient to allow people adequate funds for retirement. There is recognition that people are living longer and are incurring higher medical costs. The inadequacy of the 9% is compounded by the compulsory superannuation system having yet to run a full cycle; there are few people who have been contributing at least 9% over a full 40 year working life. However, there is general consensus and concern that current contributions to savings will be insufficient for an average retirement.

Among those with a greater degree of knowledge about superannuation, such as accountants and tax agents, financial planners, association representatives and consumers nearing retirement, this issue of inadequacy is compounded by the recent implementation of concessional caps. This change to the system is seen to be self-defeating and to have sent the wrong message to people who require encouragement to maximise their superannuation contributions when they have sufficient disposable income to do so. A lot of people actively strategise to maximise their superannuation contributions towards the end of their working life and these legislative changes have invalidated this strategy. It has resulted in some people diversifying investment away from superannuation into areas where caps do not apply and losing the tax advantages of contributing directly into superannuation.

There is a great deal of concern about the degree and incidence of changes to superannuation. The perceived frequency of reform generates distrust and unease in planning superannuation strategies over a life-cycle. Consumers are confused and disenchanted; the superannuation system seems complex enough without having to constantly monitor and understand changes to regulations. Perceived regulatory risk has many viewing superannuation not as their primary retirement savings vehicle, Funds are being diverted to other investment classes (such as property or direct share holdings) where people feel a greater degree of control over their money.

There are deep-seated fears that the age pension will be abolished and that there will be no safety net for those who have inadequate superannuation at the point of retirement. These concerns are compounded by changes such as the implementation of concessional caps which impact on longer term superannuation funding strategies. Across the consumer group there is worry and guilt about superannuation, and a strong sense of disempowerment. The ability to know how much will be required in superannuation to fund an adequate lifestyle seems very difficult to calculate for the majority of consumers, with factors such as increasing life expectancy, market performance uncertainty and the cost of living all contributing to the complexity of deciding how much needs to be saved 'today'.

1.4 Lack of Engagement

Employers feel resentment that they are paying for their employee's retirement fund, which is not seen to be reciprocated with voluntary payments from employees. Employers feel that the compulsory payment by the employer increases the level of disengagement among employees as there is no tangible contribution to superannuation.

Accountants, tax agents and financial planners are concerned that there is a general lack of understanding about how superannuation works. The degree of shock about how little clients understood the nature of superannuation investments and how the portfolios can be affected by general and specific economic conditions. Many people misunderstood this and had assumed that superannuation was somehow guaranteed and isolated from market forces.

Very few consumers have a clear picture of how much superannuation will be sufficient for an average retirement. Many do not consider life-span when calculating required superannuation. They do not look at it in terms of how much do they need per year in retirement, nor in terms of how much they need to be contributing to reach this starting point at retirement, or for how many years this saving pool will need to support them. Some are anticipating that $100,000 will be sufficient, while others are looking at $1million required to live a "comfortable" lifestyle. This is compounded by the many unknown factors such as changing dollar values, the impact of market performance and the costs of medical support and retirement accommodation.

1.5 Impact of the Economic Downturn

Many consumers were shocked by the loss of value of superannuation account balances as a consequence of the economic downturn. People had assumed that superannuation amounts were somehow guaranteed and separate from market fluctuations – there was little understanding that superannuation is an investment portfolio like any other. While the economic downturn created a degree of cynicism about superannuation it also served to increase awareness and basic levels of understanding of the nature of superannuation. Young people assume that regardless of recent market performance, their superannuation will continue to grow over the course of their working life. Attitudes among the 30-44 age group were heavily impacted as they watched their parents struggling to survive on their superannuation; reverting to the age pension or deferring retirement and trying to top up lost superannuation. Those closer to retirement age lost trust in superannuation and, compounded with fears about the abolition of the age pension, were left feeling vulnerable.

For employers there was little impact of the economic downturn on their approach to superannuation other than impacts flowing directly from cash flow for the business. There was little evidence of changing investment strategies for default funds – this reflects the generally low level of engagement among employers with their default funds.

Accountants, tax agents and financial planners were often quite shocked by how little clients understood the nature of superannuation investments and how the portfolios can be affected by general and specific economic conditions. They generally counselled their clients to maintain investment strategies to recoup losses as the market recovered rather than crystallising losses by converting investments to cash and term deposits.

Among self managed superannuation funds (SMSFs) there was a mixed reaction – some managed to ride the downturn with losses comparable or better than other investment portfolios and professional funds. Others lost significant amounts and then converted to increasingly conservative strategies thus crystallising losses. As there is generally a higher level of engagement with the financial system among this market there was less evidence of the shock that occurred among the general consumer group.

1.6 Choice of Funds

Most consumers are aware that they have a choice of funds although there is still some confusion about whether they "should" be with certain funds – especially in relation to industry funds. Among young consumers there is a high propensity to choose the employer's default fund even if they have existing funds elsewhere, thus generating increasing incidences of multiple accounts.

The advent of choice of funds seemed to lack information provision about the differences between funds and comparable performance of different funds. This type of information is perceived as being difficult, if not impossible, to access. Hence, consumers see little distinction between different funds and fail to see any impetus to consider changing funds. This lack of distinction was reinforced when the economic downturn was seen to impact all funds similarly.

From the employer perspective, choice of funds significantly increased the administrative burden of superannuation contributions. Additional costs were incurred through the requirement to make payments across many different funds rather than into the single default fund. These additional costs are compounded by different information requirements and different payment method requirements of the different funds.

Feedback from bookkeepers supported this increased administrative burden. Their recommendation for improving this system was to require all funds to accept and encourage electronic payment of contributions. This maximises the efficiency of actual payment administration and the record keeping.

Choice of funds did not generate a need for additional information about superannuation among employers because very few considered changing their default fund in response to the change in legislation. Generally there is high level of disengagement between employers and their default funds – these are seen as being provided for the employee's benefit and not being worth investing resources in reviewing.

1.7 Consolidation of Multiple Funds

Many consumers have multiple funds, in most cases because they have yet to instigate the rollover process. This is far more prevalent among young people who have changed jobs and residences multiple times. There are legitimate reasons for consumers to have multiple funds, for example, where a significant corporate fund can no longer receive contributions but is maintained for its conditions.

For those who had multiple funds and had considered trying to consolidate funds, this was seen to be a time-consuming, complex and potentially expensive process. It was perceived much more difficult by younger than older people although this may reflect the higher mobility among younger consumers and the different information requirements to find and rollover lost superannuation (i.e. requirements for statutory declarations etc.). There is a sense among all consumers that funds are unwilling to close accounts, and make this process more difficult than it should be. In some cases, the exit fees applied made rollover unprofitable for smaller accounts.

1.8 Information about Superannuation Funds

Consumers generally find information about superannuation to be confusing, too complex and full of impenetrable technical language. The younger the consumer, the less likely they are to actively seek out information about superannuation and to rely on information sent to them by superannuation funds. Consumers rarely read Product Disclosure Statements (PDS) and these documents are unlikely to be fully understood in the event that they are read. Consequently, consumers have little understanding of the fees they are being charged and what the fees cover. There is also a general lack of knowledge about the options available in the fund and whether the funds also provide life insurance as part of the default option.

Employers do not see a need to get information about superannuation funds – particularly as there is little reason for them to consider changing default funds. Employers are also extremely cautious about providing advice to employees about fund details as they feel they are at risk of being sued if they are seen to be providing advice. If questions are asked employers generally direct the employee to the superannuation fund to seek the information.

1.9 Improvements to Information

Consumers could see value in being able to source comparable information across different superannuation funds. Currently there is only a low incidence of seeking this information, but if it were easily accessible it has the potential to increase engagement with superannuation and to highlight greater differentiation between the funds.

Information must be in simple language and contain examples to illustrate financial concepts. Tools like online calculators were well received, especially among the younger age groups.

Information must be independent as there is a degree of cynicism about the veracity of information from superannuation funds. The government is seen to be an appropriate source of comparative and unbiased information.

1.10 Information about Regulations

Among consumers, the need for information about regulatory change depends largely on the age of the consumer. The level of disengagement among young people precludes the need for detailed information about regulatory changes unless it can be highly tailored and made easily understandable through the use of case studies and examples. Even then, there is no guarantee that this age groups will seek out and pursue this type of information. However, for those aged 30-45 and for those in the 45+ age group this information is increasingly important, particularly when planning long-term strategies for retirement funding. Generally consumers get information about changes to legislation through the mass media – particularly through the financial or business sections of local newspapers. They also receive information from their accountants or financial advisors.

Information about regulatory change is particularly important to employers to ensure that they continue to be compliant. This information is usually sourced from the ATO; through newsletters, emails and the website. Advice is also received from accountants and bookkeepers. These people see it as their role to be aware of changes to regulation and to provide information to their clients. Accountants and bookkeepers are generally sourcing regulatory information through the ATO, from membership of professional bodies and through forums and networking.

For those with SMSFs the dedicated website and email listing from the ATO is considered very useful and is the key source of information about regulatory change. They also receive information from accountants and financial advisors.

Accountants, tax agents, financial planners and bookkeepers had the greatest need to quickly understand changes to superannuation regulation and resultant implications. They will often source this information from the ATO, many have access to professional bodies (such as CPA Australia) and to seminars and forums which greatly enhance their understanding of changes and the ramifications.

1.11 Fees, Charges and Commissions

While all consumers are aware that they pay fees as part of their superannuation, most have little understanding of the specific amount and what the fees cover. Generally this is due to a lack of information seeking, and the complexity of provided information rather than a lack of transparency on the part of the superannuation funds. The use of terms such as "units" makes the information provided in the annual statements less meaningful. It is not uncommon for consumers to be unsure whether life insurance is embedded in their superannuation account or of the cost implications of embedded insurance. Older consumers have a better understanding of the fees that they pay and generally considered fees to be too high. There is the opinion that the fund receives the same fee regardless of its performance. Some are aware that they pay commissions based on fund performance, this is less common and perceived to generally incur higher cost, or that one can never be certain of the cost.

1.12 Areas in Most Need of Review

A lot of discussion was had about the recent changes to concessional caps among financial planners, superannuation fund associations and accountants. All were concerned that this sent the wrong message in relation to encouraging people to maximise their contributions to superannuation and had a very negative impact on those who had planned to increase their contributions significantly toward the end of their working life after other debts were finalised. This was seen as one the most urgent areas for review with a significant increase in concessional caps being required.

Another area in urgent need of review was tax efficiency of superannuation for low income earners. The 15% tax rate for superannuation contributions is not considered to be a sufficient incentive for those on lower income tax rates. There was suggestions that tax be completely abolished on superannuation contributions to encourage lower income earners to contribute to their superfund. Similarly, it was considered important that the co-contribution scheme was continued as an incentive for low income earners to contribute to superannuation.

There is seen to be an urgent need to legislate financial advisors and superannuation funds to act in the best interests of their clients and to abolish the payment of commissions.

Another major area of concern (particularly among bookkeepers) is for there to be an increase in the efficiency of making superannuation contribution, by encouraging or enforcing electronic transactions for all superannuation payments and reporting.

Finance professionals, employers and even consumers, all cited the need for more accessible and understandable information to enable consumers to be more knowledgeable about superannuation, about their options within superannuation and about the implications of those options. Similarly, a greater degree of education is required as to the likely amounts required to have sufficient superannuation for retirement.

2 Background, Objectives & Methodology

2.1 Background

The global financial crisis has recently had an effect on superannuation balances and wealth. This may cause some people to retire later than they had originally intended. Furthermore a number of self funded retirees may chose to come out of retirement and return to the work force. However as the global financial crisis bites and the income and capital of the self-funded retirees diminishes, increasing numbers are likely to access the aged pension. In recent months the number of people applying for the age pension has increased from 2000 to 3000 a week as more retirees qualify due to reduced income and value of assets.

Global financial crisis aside, due to recent changes to superannuation and a relaxation of means-testing, there have already been significant increases in the number of new entrants to the age pension receiving a part-rate pension. For example in the three months to 30 June 2008 57% of age pension entrants were granted part-rate pensions as compared to the 44% of all age pension recipients (which itself was eight percentage points higher than in 2004).[1]

Traditionally, stock markets have overcome downturns and have provided solid investment returns over the longer term. We note that several industry participants have already initiated advertising campaigns advising fund members to be mindful of this when considering making changes to their superannuation investment strategy. The Association of Superannuation Funds of Australia (ASFA) notes that even those of retirement age (who may feel most concerned regarding current market conditions), growing life expectancy means, on average, people spend more than 15 years in retirement. Historically, this time period offers significant scope to recoup recent losses[2].

If the Government is to sustain confidence and participation levels in superannuation, it is critical to understand how the current market situation has impacted on attitudes and behaviours in relation to superannuation holdings. Has the media's love of a crisis and a focus on the 'doom and gloom' of recent negative returns influenced decision making? Or are most Australians not engaged enough with the system to be actively considering how they could be personally affected by these recent developments? And how has the crisis impacted on the relationship between investors and key intermediaries (such as financial planners)? Is there scope to better empower Australians to take a more active interest in their superannuation savings? This research project will be critical in presenting an accurate picture of the mindset of Australians, which in turn will provide a robust evidence –based platform for potential Government intervention (through either policy or public education channels).

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1 Department of Families, Housing, Community Services and indigenous Affairs (2008). Output Group 2.1 Annual Report 2007-2008 Commonwealth of Australia.

2 ASFA Superannuation Stakeholder Joint Communiqué 3rd February 2009

2.2 Report Focus

This report outlines the findings of the first stage of a multi-stage research project investigating the perceptions of superannuation among key stakeholder groups. This preliminary report covers the findings of qualitative research with consumers and employers.

2.2.1 Research Objectives

The Australian Taxation Office (ATO), in partnership with Department of the Treasury and the Minister for Financial Services, Superannuation and Corporate Law, is seeking research on current attitudes and values towards superannuation. The research is to inform the analysis and reform in the structure and regulation, contributions, tax treatment, rates of returns and related matters of superannuation system and its impact. This research could enable the fine tuning of the superannuation system for modern employer practices and consumer needs.

This research includes focus on consumers (community), employers and industry participants, exploring issues such as:

- Attitudes and values towards superannuation;
- Attitudes to investment options, such as superannuation, pensions, insurance, direct property;
- Attitudes to superannuation members' long term decisions in regards to their superannuation and other retirement savings information and advice sources;
- Attitudes to risk taking and risk mitigation strategies;
- Superannuation topics such as the system itself, tax treatments, voluntary contributions, co-contributions and tax concessions;
- Attitudes among different members of different fund types, for example retail, industry, public sector funds, corporate funds and self managed superannuation funds (SMSF);
- Information needs and sources;
- Attitudes among demographic groups – age groups, socioeconomic status, gender, etc;
- Contextual understanding – for example, is superannuation a significant issue when compared to other issues such as health.

2.3 Research Methodology

This report covers the results from the first and second stages of the research.

2.3.1 Stage 1: Qualitative Investigation with Consumers and Employers

The first phase consisted of a total of 16 focus groups including 8 groups of employers and 8 groups of consumers. The following table outlines the structure of the groups:

Date	Location	Participants	Profile
6pm Thur 8 Oct	Sydney	Employers	Fewer than 20 employees
6pm Mon 12 Oct	Sydney	Employers	20 or more employees
8pm Mon 12 Oct	Melbourne	Employer	Fewer than 20 employees
8pm Tue 13 Oct	Melbourne	Employer	20 or more employees
6pm Thurs 13 Oct	Gosford	Employer	Mix of business sizes
6pm Tue 14 Oct	Brisbane	Employer	20 or more employees
6pm Thur 15 Oct	Adelaide	Employer	Fewer than 20 employees
6pm Wed 7 Oct	Sydney	Consumers	18-29 years old
8pm Wed 7 Oct	Sydney	Consumers	30-45 years old
8pm Thur 8 Oct	Sydney	Consumers	45-65 years old
6pm Mon 12 Oct	Melbourne	Consumer	18-29 years old
6pm Tue 13 Oct	Melbourne	Consumer	30-45 years old
8pm Tue 13 Oct	Brisbane	Consumer	45-65 years old
8pm Thur 13 Oct	Gosford	Consumer	Mix of ages
6pm Wed 14 Oct	Adelaide	Consumer	45-65 years old
8pm Wed 14 Oct	Adelaide	Consumer	30-45 years old

Focus groups lasted for 1.5 hours. Consumers were provided an incentive of $80 for their attendance while employers were provided a $100 incentive to attend. Ten participants were recruited for each group and groups were conducted with a maximum of 8 participants.

The discussion guides used for each group are provided as an Appendix to this report. Broadly, discussions with each group covered the following areas:

- General attitudes to superannuation including perceptions, understanding, concerns and intentions;
- General knowledge about superannuation including awareness of changes to regulations, knowledge of the Superannuation Guarantee, knowledge of tax implications and the differences between different superannuation fund types;

- Superannuation behaviours including the maintenance of multiple funds, voluntary contributions, comparative performance and the critical factors in choosing a superannuation fund or choosing the employer's default fund;

- Information sources and preferences including required information, sufficiency of required information and appropriate information channels;

- Other specific superannuation issues such as knowledge of the types of investments allowable for self-managed superannuation funds (SMSFs), embedded life insurance and the sources of funding for superannuation advertising.

2.3.2 Stage 2: Qualitative Investigation with Other Superannuation Stakeholders

Telephone depth interviews were conducted with a range of other superannuation stakeholders between October 19 2009 and November 19 2009. Participants were recruited from New South Wales, Victoria, Queensland, Western Australian and South Australia. Telephone interviews lasted for 45 to 60 minutes and covered a range of topics dependent on the type of stakeholder. Each interviewee was provided a $100 incentive for their participation.

The following table outlines the structure of the depth interviews:

Stakeholder group	No. of depths	Guide used
Superannuation Funds	8	Appendix 5: Depth Interview Discussion Guide: Industry Stakeholders
Industry/Superannuation associations	4	Appendix 5: Depth Interview Discussion Guide: Industry Stakeholders
Tax agents/accountants	4	Appendix 4: Depth Interview Discussion Guide: Tax Agents, Accountants, Financial Planners and Bookkeepers
Financial planners/advisors	4	Appendix 4: Depth Interview Discussion Guide: Tax Agents, Accountants, Financial Planners and Bookkeepers
Bookkeepers	4	Appendix 4: Depth Interview Discussion Guide: Tax Agents, Accountants, Financial Planners and Bookkeepers
Self managed superannuation fund trustees	12	Appendix 3: Depth Interview Discussion Guide: Self-Managed Super Funds
Sole traders	8	Appendix 6: Depth Interview Discussion Guide: Sole Trader and Contractors
Contractors	8	Appendix 6: Depth Interview Discussion Guide: Sole Trader and Contractors
Total	52	

Notes on specific samples:

Bookkeepers: These are people who in the business of providing bookkeeping for a fee.

Superannuation Funds: A total of eight (8) interviews were conducted with superannuation funds as part of this qualitative phase of the study. Four interviews were conducted with industry funds, while the remaining four were conducted with retail funds. A reasonable cross section of the industry was obtained across the eight interviews, with funds ranging in size from just a few hundred members and just $16 million funds under management, through to the largest industry and retail funds across the industry (serving hundreds of thousands of account holders and with multiple billions of dollars under management). Interviews were largely conducted with the Chief Executive Officer of each fund, or a delegate nominated directly by the CEO. All interviews were conducted by phone, and averaged between 45 minutes and 1 hour in length.

3 STAGE ONE – EMPLOYERS

3.1 Attitudes towards Superannuation

3.1.1 General Perspectives on Superannuation

Employers generally consider superannuation to be an important necessity that ensures people make some savings in relation to their retirement. For most employers this is seen as a necessary component of the cost of employing people. However, there is a sense that the employer is contributing to superannuation on behalf of the employee, which is an added burden on employers. In some cases, the compulsory contribution provokes a sense of victimisation, where superannuation is seen an additional administrative and financial burden to creating employment opportunities. Some think that the contribution should be rewards-based and reflect good service from the employee. Employers cited cases of resentment associated with being required to make superannuation contributions on behalf of poor quality, short term employees, despite poor performance.

> *"I think it's important for a majority of wage earners – they don't want to consider a plan and want others to do it for them." (Employer, less than 20 staff)*

> *"Lots of people think superannuation is irrelevant – especially young people" (Employer, 20 or more staff)*

There was a sense that employers would view the compulsory contribution more favourably if the employee was to make an equivalent contribution. Employers generally consider superannuation to be very important, but they feel that employees do not consider it as important, largely due to the low incidence (among some employee groups) of voluntary contributions.

> *"It's for their benefit. Why shouldn't the employee make a contribution too? The employer has enough rates and taxes to pay now." (Employer, less than 20 staff)*

> *"I think quite seriously that 5% to 6% would be fine and then whatever the employee wants to put in." (Employer, less than 20 staff)*

> *"Some really bad employees can cost you tens of thousands of dollars...I would like to see some incentive based on productivity – rather than you have to pay superannuation because they are entitled to it." (Employer, less than 20 staff)*

3.1.2 Employees' Knowledge of Superannuation

Employers perceive that employees know little and care less about their superannuation. This is particularly the case for young people and for lower income and semi-skilled workers. However, it is acknowledged the compulsory superannuation system is probably most effective for these groups as they are unlikely to have alternative funds to invest in retirement, and because they are unlikely to self-impose a savings plan.

> *"I think as a compulsory contributions scheme it works well because it puts more focus on the individual whether they think about the long term or not." (Employer, less than 20 staff)*

> *"I think you really have to know about superannuation to make it work for you." (Employer, 20 or more staff)*
>
> *"I like to think that everyone would look at it somehow – it's their money, at least review it." (Employer, 20 or more staff)*
>
> *"My experience is that the employees don't consider it remuneration – they don't feel it's actually part of their income even though they get it in retirement." (Employer, less than 20 staff)*

3.1.3 Importance of Superannuation

Superannuation is not seen as being a particularly important aspect of running a business. For most it is just another compulsory bill and more compulsory administration. Relative to other aspects of running a business, superannuation payments and the associated administration are seen as things that "just have to be done". They are not considered to be important in their own right and are lumped in with similar obligations such as WorkCover and GST. Consequently employers spend very little time dealing with superannuation unless their role is specifically relevant to its administration. Most employ book-keepers or office managers to administer contributions to superannuation funds and so spend very little time themselves in relation to superannuation. Employers estimated that they would spend between an hour and 4 hours on superannuation in a typical 3 month period.

> *"In terms of importance, for me superannuation is right down the bottom…you've got to make money first." (Employer, less than 20 staff)*
>
> *"There are things that are more important and more fundamental." (Employer, less than 20 staff)*
>
> *"The only time it comes up is when a new employee comes in and does not use the company fund." (Employer, 20 or more staff)*

3.1.4 Best Aspects of Superannuation

At a conceptual level, employers supported superannuation in that it is a forced savings plan which is considered to be especially important for those who would not consider their retirement to be a priority specifically, particularly those who are quite young and those on lower incomes. It is seen to supplement the pension and to have the potential to significantly reduce government obligations in relation to supporting older Australians in their retirement.

> *"Providing an income once you retire - so you aren't reliant on the pension." (Employer, 20 or more staff)*
>
> *"I don't think it's that bad for low income earners – people who take a lot of time investing slowly. For others there are other avenues like property." (Employer, less than 20 staff)*
>
> *"By the time people get interested they are running out of time." (Employer, 20 or more staff)*

There is little recognition among employers that compulsory superannuation contribution increases may have been offset by lack of wage increases (as suggested by superannuation experts and associations in subsequent depth interviews). Many employers are concerned that the superannuation guarantee may increase. While there is recognition that 9% may not be sufficient to accumulate an adequate retirement fund, there is a sense that the employee should be responsible for voluntarily supplementing the contribution rather than it being a compulsory contribution from the employer.

3.1.5 Impact of the Economic Downturn

The Global Financial Crisis (GFC) has generally reduced the trust people used to feel about superannuation. Where superannuation was previously seen to be a slow-growing investment that was not subject to negative returns, it is now seen as "just another investment" on par with investments such as property and stocks. It has been shown to be vulnerable to market fluctuations and employers are concerned that at the point of retirement there may be another market slump which would force people to reconsider their retirement plans.

> *"If you went back 20 years ago people had the perception that superannuation was like putting your money in the bank – now it is a speculative vehicle." (Employer, less than 20 staff)*

> *"If people could actually see that they are making good money out of their superannuation they would be far more inclined to think about who and how come, but the fact is that the returns are so scarily bad everybody just doesn't want to know...it's depressing." (Employer, less than 20 staff)*

> *"I think it has had a deflating effect - you are expecting the thing to be working away in the background and then you get a statement and you are worse off than when you started." (Employer, less than 20 staff)*

> *"In some ways it was an adjustment – that the superannuation returns were too high and now they have stabilized....need to think of it as long-term." (Employer, 20 or more staff)*

3.1.6 Concerns about Superannuation

Employers are concerned about the perceived frequent changes to the regulations relating to superannuation. There is a lack of trust in the consistency of the superannuation regulations, and concern that such changes undermine confidence in the system. An example of this is the recent capping of concessional contributions. Employers reported that many employees were aiming to focus on contributing to superannuation towards the end of their working life, contributing as much as possible over the last few years. The caps are seen as a disincentive to contribute heavily to superannuation and to be sending mixed messages to the broader community about the role of superannuation as a key retirement vehicle.

Another concern that employers have about superannuation is the extent to which they are asked to advise employees on superannuation considerations. The majority of employers are adamant that it is not their role to provide advice as it will leave them susceptible to litigation in the event of poor advice. Hence, the majority pass on information from the superannuation fund to the employees and provide no further supporting information. Some are reluctant to even provide information about the company's default superannuation fund as this is seen to be providing advice.

> *"From a work point of view we cannot advise where they put their money." (Employer, 20 or more staff)*

> *"I don't have issue with the cost of superannuation as long as it applies to everyone fairly and doesn't disadvantage some businesses from their competitors." (Employer, less than 20 staff)*

3.1.7 Superannuation compared to other Investment Options

The relative positioning of superannuation as compared to other investment options is quite variable. There are those who consider the returns of superannuation to be very poor, and in light of the recent economic downturn, to be at risk of fluctuation and negative returns. For these people property is seen to provide a more reliable investment. Property prices are seen to always increase. Others consider that superannuation provides sufficient returns for the nature of a long-term and largely conservative investment strategy.

> *"There is no incentive for employees to put anything into superannuation." (Employer, less than 20 staff)*

3.1.8 Superannuation as a Long Term Investment

Superannuation is seen to perform better as a long-term investment due to the high level of recognition that compound interest can make a vast different to a relatively small sum when invested over a long period of time. Some also consider superannuation to be a good medium term investment citing examples of employees who started late but contributed large amounts into superannuation over a shorter period of time. However the recent economic downturn served to highlight the risk of this strategy. Generally it is not seen to be a good short-term investment.

> *"Super is good for younger employees when they have plenty of time to earn interest. For people who are closer to retirement you have to rethink if it is the best investment option." (Employer, less than 20 staff)*

> *"It's really a long term thing" (Employer, 20 or more staff)*

3.2 Knowledge about Employee Superannuation

3.2.1 General Knowledge of Superannuation Requirements

All employers in the groups were aware that they are required to contribute 9% for each employee into a superannuation fund of the employee's choice. Beyond this basic information more detailed knowledge is highly variable; some employers demonstrates a high level of engagement and involvement with superannuation, yet most have only a basic understanding of the system. For those with a greater level of understanding this is resulted generally from investigation into their own personal superannuation.

Employers perceive that there have been a great number of changes to superannuation in recent times. Various changes were cited such as the caps to concessional contributions, potential changes to the co-contribution scheme and the change enabling employees to choose their own funds. Generally, superannuation is seen to be highly complex with many variations and subtleties. There is a high degree of cynicism about the perceived frequency of changes to superannuation which is seen to impact on employees strategies in relation to superannuation and is seen to require an unnecessary level of commitment by employers to keep up to date with the changes. This perception contributes heavily to the reluctance of employers to provide any information to employees about superannuation or superannuation options. There is a sense that nothing is fixed and as changes to regulations are implemented across the board there is a high degree of risk in developing strategies for the future.

The term "superannuation guarantee" is not a familiar term to all employers, although all are aware of the obligation to pay 9% superannuation for each employee. The majority of businesses process the superannuation guarantee as part of the payroll system, with most paying it quarterly rather than monthly. There is a big preference for online submission and processing of payments, particularly among the larger employers, as this makes the process quicker and simpler and also assists with record keeping.

> *"Necessary evil but I understand the whole basis of it – better quality of life down the track." (Employer, less than 20 staff)*

> *"You know what you need to know and then you leave it to the bookkeepers – it's one of those things we don't want to concern ourselves with." (Employer, less than 20 staff)*

3.2.2 Superannuation Administration

Most employers have superannuation guarantee contributions administered in-house with the responsibilities sitting with bookkeepers, office managers or Human Resources staff employed within the business. The responsibility is usually bundled with pay administration, so if this function is performed externally to the business then superannuation administration is similarly outsourced. A small number of participants used a clearing house and found that this provided relief from the administrative burden of dealing with multiple funds with differing methods of payment and differing information requirements.

> *"It just adds to the cost if you outsource any of it." (Employer, less than 20 staff)*

> *"It is collected weekly and paid quarterly." (Employer, less than 20 staff)*

> *"We pay manually every quarter – I have to do a lot of running around." (Employer, less than 20 staff)*

> *"They talk about making it easier if you are doing it electronically –there is a certain amount of knowledge that you are expected to have on computers – it's just too hard." (Employer, less than 20 staff)*

There is a mixed level of awareness about the consequences of failing to pay superannuation. Some feel that there will be significant financial penalties and as a result have never dared to fail to pay. In other cases, people have been exposed to the process and consider the process to be unlikely to result in any sort of penalty with the threat of fines being seen as rarely enacted. Most information about penalties is sourced from either the ATO website or from experience.

> *"I suspect that being unable to pay superannuation would be like being unable to pay your tax on time – there are ways and means for the Tax Office to penalise you." (Employer, less than 20 staff)*

> *"I know there are some penalties for not paying superannuation.... but I don't know what they are." (Employer, 20 or more staff)*

> *"The Tax Office comes and audits you." (Employer, 20 or more staff)*

3.2.3 **Adequacy**

Most employers feel that 9% is not a sufficient amount to provide for a comfortable retirement. This perception is influenced by the recent economic downturn and the associated lack of trust with guarantees of positive returns. There is also acknowledgement that the compulsory superannuation system has not been in place for a sufficiently long time to have demonstrated its adequacy over a full working lifecycle of payment and retirement funding. However, the general feeling is that 9% will not be sufficient.

> *"No one has reached retirement yet on just [compulsory] super" (Employer, less than 20 staff)*
>
> *"It's not nearly enough for most people...by the time they get interested in it they are running out of time" (Employer, less than 20 staff)*

This perception does not naturally lead to a desire for the superannuation guarantee to be increased. Employers largely see the guarantee as providing a baseline of retirement funding while the responsibility for supplementing this amount should rest with the employee. There is recognition that employees may have other life investments such as mortgages and stock portfolios that are intended to supplement retirement income in the absence of unplanned adverse impacts such as economic downturns, divorce and unemployment. The biggest constraint to voluntarily contributing to superannuation is seen to be the inability to access the funds for more immediate needs such as mortgage commitments and the costs of raising children.

> *"I am not sure that businesses could afford more than 9%."(Employer, 20 or more staff)*
>
> *"I'm not sure that businesses could afford to raise [the 9%]" (Employer, less than 20 staff)*

3.2.4 **Voluntary Contributions**

The vast majority of employers are aware of employees' ability to make voluntary contributions to superannuation and most have knowledge about the regulations and tax implications associated with voluntary contributions. The incidence of employees' choosing to make voluntary contributions is highly mixed, being much less likely among younger employees and those in semi-skilled and lower income positions. Most employers make no effort to encourage employees to voluntarily contribute as this is seen to constitute advice which they are reluctant to provide. A small number of employers had incentive schemes such as co-contribution to encourage voluntary contributions. The recent economic downturn is seen to have had a particularly negative impact on people's willingness of voluntarily contribute, and on those who were already contributing.

> *"Why on earth would you contribute to super if you didn't have to? They have mortgages on homes, young children...and then the super funds go backwards" (Employer, 20 or more staff).*
>
> *"We used to [provide an incentive] but it was too expensive...too many people were taking it up." (Employer, 20 or more staff).*

3.2.5 **Tax Implications**

Employers are generally knowledgeable about the tax implications of superannuation mostly as a result of having their own superannuation. They do not seek and convey this information purely for the benefit of the employees. Tax implications and tax concessions are considered to benefit only the employee and therefore to be the responsibility of the employee. All employers were aware of (and most allowed) contributions via salary sacrifice. In most cases information about this arrangement is only available to employees when they proactively seek the information from the employer.

"If I was paying $80 a week I would want to know what it's for. They can go and find out how if works for themselves" (Employer, less than 20 staff).

"I do not advise on super funds, but I do on general tax information' (Employer, 20 or more staff)

Similarly, very few employers had employees with self-managed superannuation funds. Some of the smaller employers had their own self-managed funds. Again, this was not an area about which employers provided information or advice; they see their role as merely contributing to the employee's fund regardless of its nature.

3.2.6 Different Types of Superannuation Funds

While most employers could identify a number of types of superannuation funds, with industry, retail and corporate funds being the best known, there was generally very little knowledge about the differences between fund types. At a broad level, it is generally acknowledged that industry funds have lower fees and that corporate funds have restricted membership. The recent advertising for industry superannuation funds was well recalled and had contributed to the perception of industry funds having lower fees.

Generally there is seen to be little distinction between different types of superannuation funds. There are no clear advantages to one fund over another and there is a sense that they are all going to have similar outcomes. This perception was influenced by the economic downturn which demonstrated that all funds are subject to the same market forces.

"There are as many types of funds as there are people" (Employer, 20 or more staff)

"Not a lot of difference between industry and retail funds – it depends on who the rep is in the fund." (Employer, 20 or more staff)

"I have not had it explained to me about the different funds...I don't have time to look at all the information from the different funds." (Employee with 20 or more staff).

3.2.7 Choice of Funds

The majority of employers were aware that employees could choose their own superannuation fund. There is however some confusion particularly around industry superannuation funds that are targeted at a particular industry. In these cases the fund is sometimes considered to be a "default" and almost a requirement. This perception is contributed by the perceived lack of distinction between funds and lack of information about comparative performance.

The incidence of employees choosing their own fund depends largely on the profile of employees. Where there is a specific industry fund a lot of employees will use this fund consistently through their working life in that industry. Similarly, young employees, and especially first-time employees tend to use the employer's default fund. Those that have an existing fund will often nominate that fund as their choice when starting with a new employer.

"You have to tell staff that they have a choice [of funds]." (Employer, less than 20 staff)

"We have a lot of unskilled employees and it goes into the default fund – it's defensive." (Employer, 20 or more staff)

"It's like petrol – you know you are getting ripped off ... does it matter if you go to BP or Shell?" (Employer, less than 20 staff)

3.3 Superannuation Behaviours

3.3.1 Default and Choice of Fund

A lot of employers perceived the advent of laws allowing employees to choose their own superannuation fund to have lacked an accompanying education process that would have allowed employees to make informed decisions about the funds they chose and the choices they have within those funds. Having multiple employee funds creates a significant amount of additional administration which is also seen to be disadvantaging the employer in favour of the employee.

Most employers provide only minimal information to new employees about funds. In some cases the employer does not even inform the employee about the default fund unless this information is specifically requested. In most cases this is because employers see this as making a recommendation which they consider to carry a risk. In other cases, the standard information about the default fund is included in all the information given to the employee and it is up to the employee to nominate their fund.

"Superannuation is onerous with the choice of funds – we have 30 funds that we make contributions to." (Employer, 20 or more staff)

"Multiple funds are a logistic nightmare – monthly comes around fairly often." (Employer, 20 or more staff)

"We are paying to 15-20 superannuation funds – it's getting ridiculous." (Employer, 20 or more staff)

"We give them a brochure of the fund – and a form to indicate their own or the default one." (Employer, 20 or more staff)

"Someone will hopefully come to you with account details for their own superannuation so there is no risk of being seen to recommend a fund." (Employer, less than 20 staff)

"The majority of ours are with the industry fund – they can choose their own fund but they usually just go with the default." (Employer, 20 or more staff)

3.3.2 Superannuation Information Provision

Most employers do not find that employees ask a lot of questions about superannuation. The majority of employers indicated that employees choose the default settings of their funds and in most cases are probably not even aware of investment strategy and insurance options within their funds. This is less true of those closer to retirement when employees' interest and engagement with superannuation becomes more proactive and employees start to look at options such as salary sacrifice and voluntary contributions. In these cases, the employee often seeks information from the employer; and in most cases the information is sought by the employer from the superannuation fund on behalf of the employee.

No employers indicated that they did not have access to the specific information requested by employees. Some funds offer free financial advice and where this is an option the employer will often suggest that the employee utilise this service. In other cases, the employer will seek answers to questions either directly from the fund, or through the Tax Office if it is a regulatory-based question.

> *"I think a lot of people do not understand the jargon the funds use. It needs to be more simple for the average person and they really need to have it really simple for everybody." (Employer, less than 20 staff)*

Employers generally provide information in response to direct queries, while avoiding what they see as providing information constituting advice. In some cases they will follow up queries with the appropriate organisations and pass the information back to the employee. In other cases they direct the employee to seek financial advice. Employers are most comfortable providing information about regulations and limitations as this information is considered objective. Most employers will use the ATO website for information about regulations or will approach the superannuation funds directly for more specific queries. On the whole there is a reluctance to provide information and advice on superannuation and this is especially the case for smaller businesses.

> *"If we give advice and it goes wrong... we could be sued" (Employer, less than 20 staff.*

> *"As soon as they mention superannuation – I give them the super fund contact." (Employer, less than 20 staff)*

> *"I tell all new employees that they need to seek financial advice" (Employer, 20 or more staff)*

3.3.3 Information Provision to Superannuation Funds

Not all businesses have a default superannuation fund although the vast majority do. In some cases where there is no default fund, employers reported difficulties with getting employees to nominate a fund. This leaves the employer exposed to defaulting on payments as they have no nominated fund to pay into. Those with a default fund will use that fund in the absence of employee nomination while others will remind the employee and then not pay any superannuation until a fund is nominated.

Employers provide the nominated information requested by superannuation funds when a new employee joins the organisation. The specific information required varies depending on the fund, but this was generally considered to be a simple process with no significant implications.

3.3.4 Choosing a Default Fund

Most employers had not chosen the default fund; in most cases it had been inherited. For those who had been involved in choosing a superannuation fund the process was considered to be relatively straight forward, although this reflects the perceived lack of distinction between the funds rather than access to comprehensive and simple information. In fact, in many cases the superannuation system is considered very complex with plenty of variations to consider. Employers naturally evaluate funds based on the ease of contribution and processing. Some funds require employers to be members in order to contribute on behalf of their employees. This is considered to be disadvantageous if multiple funds are required. Similarly, most employers look for ease of processing and online transactions in choosing their default funds. Low fees are also important. Some employers also looked for funds that would be proactive in communicating with the employees, and anecdotally there is a lot of variation in the degree to which funds are proactive in this way. In some cases superannuation funds send representatives to workplaces on a regular basis to provide updates and discuss superannuation with clients. In other cases there is no face-to-face representation from the superannuation fund. The incidence of the superannuation fund being proactive seems to stem partly from the fund itself and partly from the concentration of members at a single workplace. Hence where there are multiple funds it is less likely that superannuation fund representatives would visit the worksite.

> *"The problem is each of the individual fund managers wants to come in during your lunch break – it turns into a sales meeting rather than a superannuation meeting." (Employer, less than 20 staff)*

> *"I chose my superannuation fund because they went out and talked to each employee and helped them make the decision – once a year I think." (Employer, less than 20 staff)*

None of the employers reported being offered inducements or incentives to encourage employees to select the default fund. Given the reluctance of employers to provide any sort of advice on superannuation options, it is unlikely that would be a successful strategy in the majority of cases. Generally they just ask new employees what fund they want and only offer them the default fund if they asked for it.

As the vast majority of employers had not chosen their employee default superannuation fund they could only hypothetically discuss the types of information they would require. For those who had chosen the default fund, most had taken the advice of their accountant and not investigated any further. There was general acknowledgement that information about comparative performance between funds, even between fund types was not well known and it was not felt that this information would be easy to find. One of the issues in comparing funds is that the system is seen to be very complex with no common baseline to provide an accurate comparison. Differing fee structures, the payment of commissions and differing investment strategies are all seen to confuse the picture in terms of a straight comparison between funds.

> *"I would choose CBUS as most of the tradies are in it." (Employer, less than 20 staff)*

"I would steer to AMP or MLC – one that has been around for years." (Employer, less than 20 staff)

How easy or difficult it is to find information about superannuation funds depends largely on the employer's financial literacy. The ATO and ASIC websites were mentioned as a source by a few employers but these do not seem to be a particularly common source of information about superannuation fund performance.

"We took the accountant's advice about what would be best at the time." (Employer, less than 20 staff)

"You have to take advice because the education is not there." (Employer, less than 20 staff)

"Once superannuation is set up no one is interested." (Employer, less than 20 staff)

"I'm not sure how a comparison tool would work – you're just not comparing apples with apples." (Employer, 20 or more staff)

Employers would be more inclined to consider changing their default superannuation fund if it was clear that membership of one fund would provide financial or resource benefit to the company. However, as "choice of fund" means that employers are required to deal with the funds as nominated by the employees this is seen as having less impact specifically for the default fund. There was little acknowledgement of the potential incentive to minimise the number of funds dealt with by having a proactive and engaged default fund that encouraged all members to join – the overall level of disengagement with the system precludes this degree of consideration.

"I think I rate superannuation companies like I rate insurance companies – they all do the same thing." (Employer, less than 20 staff)

For those who had set up the default fund, there was mention of being sure there were no rollover fees. In this case, the employer paid only into their default fund and then the employees could nominate to roll the money out into their fund of choice. This made it important that there were no exit fees from the default fund.

3.3.5 Actively Seeking Information

There is a very low incidence of having read the PDS. This is generally as they are viewed as being too complex to understand and too long. They were also seen to contain a lot of jargon that made them difficult to understand. While there is recognition that these documents are a legal requirement and need to contain comprehensive information, improvement would require a "layman" summary to be included which highlighted the critical information in accessible language. It was felt that this type of information would encourage both employers and employees to understand their options within the fund and to understand the extent of their control over the various aspects of investment.

Most employers do not actively seek information about the performance of their default superannuation fund. They are generally seen to be of lower priority in the scheme of business requirements. As a lot of employers have different arrangements to their business superannuation funds they are not actively concerned about the performance and consider this to be the employee's responsibility to investigate if it is something they are interested in. This attitude is reinforced by the perceived lack of distinction between different superannuation funds and different superannuation fund types. None of the employers had considered changing their default fund, or changing the default options within their chosen fund.

"We had Price Waterhouse Coopers do a comparison with us – it was hard to compare even with the expert analysis" (Employer, less than 20 staff)

"Information about superannuation is complex and hard to get." (Employer, 20 or more staff)

3.3.6 Voluntary contributions

All employers allow their employees to make voluntary contributions. In a very small number of cases, mostly in larger organisations, employers provide an incentive to employees to make voluntary contributions such as offering a co-contribution arrangement up to a certain percentage limit (usually about 12%). Such incentives are considered to be effective, not only in encouraging employees to make additional voluntary contributions, but to also raise awareness of, and level of engagement with, superannuation generally. However, they are not common and were not evident at all among small businesses for which the superannuation guarantee is largely seen as an additional cost.

While there was no general trend in the perceptions of what employees are likely to do with their voluntary contributions in the future there is general recognition that as employees get older and closer to retirement they are more likely to start to contribute voluntarily or to increase voluntary contributions. This is seen to be a reflection of a combination of retirement becoming a more immediate concern and the lessening of other financial commitments such as mortgages and children. Some cited examples of employees stopping or reducing voluntary contributions as a result of the recent economic downturn.

Generally employers do not pay for financial advice for employees in relation to superannuation and do not intend to do so in the future. This is largely due to their general "arms-length" approach to employee superannuation and partly reflects a fear of being seen to be giving advice and partly the perspective that it is the employee's responsibility to be concerned about their own superannuation.

"Some of the big ones provide advice – the industry funds run seminars and have financial planners." (Employer, less than 20 staff)

3.3.7 Information sources

Due to the reactive approach of most employers to information about superannuation funds, the majority of information comes directly from the superannuation funds. Employers agreed that it would be good to be able to access comprehensive information about comparative performance and different options within superannuation funds but this was at a more academic than practical level. It is not certain that if this information were available that employers would actively seek it out. Of more importance to employers is information about the regulations governing superannuation as it affects payments to their staff. Generally, employers feel that this information is currently provided by the ATO in a format that is accessible, timely and comprehensive.

However, concerns were expressed about the extent of changes to superannuation and being unable to predict what might change in the future and how this might impact on strategies for covering superannuation.

> *"What we would like to see is a bit more flexibility and information - what is an administration fee? Is [that what funds] the booklet? If so, then we don't want the booklet!" (Employer, less than 20 staff)*

> *"You get the member updates every six months – I get barrages of stuff...from payroll and tax people." (Employer, 20 or more staff)*

> *"I usually get changes from the tax office more so than the superannuation funds. I'm more likely to read it if it comes from the Tax Office." (Employer, 20 or more staff)*

Generally if employers are to receive information they would like hard copy information to be included with other official documentation such as BAS. It is important that this information is provided from an "us" perspective as there is a sense that the government sector generally lacks an understanding of the difficulties of running a small business. Some positive comments were made about Business SA and their assistance with superannuation queries. This positive review was strongly aligned with the sense that Business SA is cognisant of the barriers experienced by small business.

> *"We need something that is written – like a folder or something. It should come with other important documents – like from the Tax Office." (Employer, less than 20 staff)*

Employers are sometimes asked for information about superannuation by employees. Generally, employers will provide information in relation to tax and regulations but will not provide any form of advice on superannuation. If this is requested they will direct the employee to their superannuation fund to seek advice.

> *"If you tell an employee to go with a particular fund and it doesn't work – that leaves you open to being sued." (Employer, less than 20 staff)*

> *"I am not allowed to tell an employee – I'm not a financial advisor, I have to be really careful." (Employer, less than 20 staff)*

> *"It's rare that employees ask about superannuation – but if they do I refer them to the fund." (Employer, less than 20 staff)*

> *"The fund has a financial planner and we tell staff if they go to the fund they will get help – that opens the door to more knowledge." (Employer, less than 20 staff)*

There is not a great degree of interest about the government departments or agencies that are responsible for superannuation. Again, this is not something employers can see a benefit in investigating.

3.3.8 Investment Strategies

Employers generally do not concern themselves with the default investment strategies for their default fund. The default setting is taken as a recommendation from the fund and is generally taken for granted that these settings are designed to work in the best interests of the members. Employers see no benefit in investigating this further or encouraging staff to do so. Among some there is a perception that investing time and effort into reviewing superannuation fund performance and reconsidering default funds will only end up in lost time and productivity with no conceivable gain.

"We changed the risk profile of our default fund; the default profile was too conservative and there was a small referendum on site to let staff know – so they could individually change their profile if they wanted." (Employer, 20 or more staff)

"If I had to do it for an employee I'd make it as conservative as possible." (Employer, less than 20 staff)

3.4 Knowledge of Specific Superannuation Issues

3.4.1 Knowledge of Accessing Superannuation Prior to Retirement

Employers do not actively seek information on early access to benefits. Those who knew about the conditions or process did so due to personal experience with the process. There is a resistance to providing this sort of information or to investing the required resources to find out. This is seen as the employees' responsibility as it is they who benefit.

3.4.2 Embedded Life Insurance

Generally employers are quite knowledgeable about whether their own funds or their default funds have a life insurance option. In most cases it appears that this is provided as a default and most employers agree that this is appropriate, especially given the perceived lack of engagement with the investment options by employees. Despite the overall lack of engagement by employees this seemed to be one area where they were more likely to be seen as knowledgeable, and this was reinforced in the feedback from consumers. For those who are informed about life insurance and disability options the information is most likely to have been made clearly available by the superannuation fund when the employee joined the fund. Again, this is not something that employers feel the need to investigate on behalf of employees.

"Having insurance as part of the superannuation is seen as a duty of care in some circumstances." (Employer, less than 20 staff)

"The insurances all just come as part of the package." (Employer, 20 or more staff)

"Our industry does not have life insurance – so it is our responsibility to tell them that it is not included." (Employer, 20 or more staff)

3.4.3 Knowledge of fees

Fees associated with superannuation funds are seen to largely contribute to the administration of the fund. It is expected that some fees are required but there is a sense that it is not clear what the fees specifically cover and how they are differentiated. There is generally a low level of knowledge about the difference between funds that pay commissions and those that do not. On the whole fees are considered to be high and this largely reflects the lack of information about the specific things that fees cover.

> *"Not really sure what the fees are for – to pay the investor to drive a fast car? It's not really clear what the service is – it's not good value." (Employer, 20 or more staff)*

> *"They advertise that there are no fees – but then they take money out of the earnings so it's more like a tax than a fee." (Employer, 20 or more staff)*

> *"There is no transparency in the fees." (Employer, less than 20 staff)*

3.4.4 Superannuation Fund Advertising

Across the employers the use of member fees to contribute to marketing costs is considered to make commercial business sense. Employers see the benefits of large membership bases and the impact this has on the fee structure and so can see that the use of membership fees to support marketing can work in the favour of the member in the long term. A concern was raised about the concept of marketing for a compulsory service given that all member gains are losses to other organisations. It was suggested that there should be a better way of distributing members across funds without using the competitive marketing environment. This perspective is contributed to by the perceived lack of comparative information that would demonstrate competitive performance.

> *"Our fees are coming out and being used for media – but they are getting their members by law. If they grow one fund they are just stealing people from another fund." (Employer, less than 20 staff)*

4 STAGE TWO - CONSUMERS

4.1 General Attitudes to Superannuation

4.1.1 Key Perspectives of Superannuation

18-29 years

Superannuation is considered to be a boring and complex subject. It is something that "just happens" for this group and to be something they do not need to worry about it until they are older. There are many other things more important to young people than superannuation at this age.

Superannuation is seen as being of benefit because it is "forced savings" which a lot of people in this age group recognise as not being one of their strengths. They see it is beneficial to have these savings when they are older but they are not interested in understanding or contributing to it voluntarily in the near future.

> *"It's very important when I consider my parents will have to rely on the pension but I won't have to." (Consumer aged 18-29 years)*

> *"I don't think it should be optional." (Consumer aged 18-29 years)*

30-44 years

Superannuation is far more of a priority for this group compared to the younger age group. They are at an age where they are starting to consider their future and starting to plan for post-employment living. However, retirement is still seen as a long way off and many in this age group are more focussed on children, mortgages and careers than on retirement and superannuation. In this age group there has been some exposure to seeing parents at retirement struggling with decreasing superannuation values, and seeing their own children very disengaged from superannuation.

Superannuation is considered to be important but there are many other competing priorities – especially in terms of other financial responsibilities such as the costs of raising children and meeting mortgage repayments. While superannuation is seen to be increasingly important in terms of planning for the future, this group generally considers putting money into investment alternatives such as mortgages to make better fiscal sense than putting it into superannuation which they cannot access or benefit from until they have retired. Emotionally, there is a sense of understanding superannuation being too difficult; it is not something that they need to know the detail of. However, this comes with a sense of guilt and worry that they should take more interest in it and that if they fail to do this it will be a cause of regret in the long run.

> *"There is a worry is it going to be enough – if you have extra do you put it on the mortgage or in superannuation?" (Consumer aged 30-44 years)*

"I don't think about it until retirement – worry about it later." (Consumer aged 30-44 years)

"I'm not confident about it because the rules change about when you can access it." (Consumer aged 30-44 years)

"It's too hard to understand – the boss pays it. I don't need to know." (Consumer aged 30-44 years)

45+ years

There is a lot of concern about superannuation among this age group. Many of them report losing a degree of trust in superannuation when the economic downturn had an adverse impact on their account balances. Previously they had thought that superannuation couldn't be so affected by market conditions; and that it was somehow 'protected'. In some cases the impact of the economic downturn on balances has caused people to revise their retirement plans, including a realisation for some that they will to stay in the workforce longer than originally anticipated. Some participants reported feeling quite confused with regards to superannuation and do not know if superannuation is still the best place to have their money.

As a concept, superannuation is considered extremely important by this group. Being so close to retirement they are now seeing the value of 'life-long superannuation' and there is a sense of regret that a greater investment wasn't made at a younger age. A lot of people in this age group are trying to encourage their children to contribute to superannuation if they can in order to offset the regret that they feel about not contributing more while younger. Superannuation is also seen to be increasingly important due to the aging population and increased life expectancy, with this saving vehicle seen as critical in terms of relieving the potential strain on Government resources.

"Confused – it's hard to know where superannuation is going....if it is still safe to invest in superannuation...the fluctuating share market." (Consumer aged 45+ years)

"People like me see the advantage of forced savings. We find it easier to pay off than to save. It's another method of ensuring there is enough money left." (Consumer aged 45+ years)

4.1.2 Concerns about Superannuation

18-29 years

Concerns about superannuation in this group are centred on the GFC – they have seen or heard stories about people who suddenly found their funds to be insufficient to retire or live on. This has created a lot of distrust around superannuation and it is no longer seen as the "safe" investment as it was prior to the GFC. Consequently a lot of people in this age group, and indeed among the older age groups also, consider superannuation to be a base on which to build, but something that needs to be complemented via other diversified investments such as mortgages and share portfolios.

"A few years ago I had more – it doesn't seem like it's gone up at all. I still feel like I am losing money." (Consumer aged 18-29 years)

"I think they should let people have more control over their accounts, if they were standard bank accounts people would have more control." (Consumer aged 18-29 years)

30-44 years

Superannuation among this group is primarily seen as a 'fall-back' to support them in retirement should their active wealth generation activities be insufficient at the point of retirement. Concerns were voiced that the age pension may not exist by the time they get to retirement age and this has resulted in greater recognition of the importance of superannuation. Furthermore, changes to the superannuation system undermine confidence that they can predict who they will be able to manage their superannuation. Superannuation is seen as playing an 'insurance' type role if other investment options do not go as planned, or if a major life-change (such as divorce or children) results in losing money that was intended to bring investment returns and supplement retirement income. They consider the compulsory superannuation system to be of benefit as it forces them to make at least a minimal contribution to their retirement even in the context of other investment options; however it is something that they will focus more on in the future.

> *"It's unpredictable. It's good now, but who knows in 20 years time? (Consumer aged 30-44 years)*
>
> *"The pension won't last much longer, pensions are a luxury...it's a user-pays system now" (Consumer 30-44 years)*
>
> *"My dad was a believer – but for our generation the rules chop and change and you can't rely on it as an only income like you once could" (Consumer 30-44 years)*
>
> *"Superannuation is a bit of a bonus....you should be set by then from other investments like property" (Consumer 30-44 years)*

45+ years

A lot of people in this group suspect that the aged pension will be phased out and that they will have to rely on their own funds in retirement. This is a great concern to this group as the pension is seen as a safety net should their superannuation funds prove insufficient. This group is also concerned that the rules and regulations governing superannuation keep changing, producing an inability to follow a long-term strategy. For instance, some people in this age group had intended to finalise their debts and then put significant amounts of money into superannuation in their last working decade. Recent changes to concessional caps have prevented people from being able to do this to the extent they had planned.

> *"They shift the goalposts all the time. When we reach retirement...who knows what the rules are going to be." (Consumer aged 45+ years)*
>
> *"I don't think there will be a pension in years to come. The rules will change again and again – the self-funded retirees will be penalised at the end of the day." (Consumer aged 45+ years)*

4.1.3 Superannuation as an Investment

18-29 years

This age group sees superannuation as a good long term investment and are confident that at retirement age their superannuation will have grown, despite short term fluctuations and losses. They also see it as being a sufficiently good medium to short term investment. They believe that they can start contributing significantly to superannuation much closer to retirement and that it will still provide a good return at retirement time.

"A lot of other things are going bust – how many buildings are around that are unfinished because they can't afford them?" (Consumer aged 18-29 years)

"Depends on the financial situation of the world – like the stock exchange, it depends on fluctuations." (Consumer aged 18-29 years)

Generally this age group has no idea how much they will need to retire. Most have not even considered their requirements and generally do not apply formulas to the calculation such as looking at current earnings and lifestyle and working out an annual contribution requirement. Some suggestions were "a couple of hundred thousand" or "about two hundred and fifty thousand". Despite this lack of detailed knowledge about how much they will need to retire, the majority of this group do not believe that their superannuation will be sufficient for retirement and are likely to consider supplementing superannuation with other income streams through diversified investment.

"150 or 200 thousand dollars" (Consumer aged 18-29 years)

"Really don't know" (Consumer aged 18-29 years)

30-44 years

Superannuation is seen to be both a good long term and short-medium term investment among this group. While they recognise the advantage of having additional superannuation which will grow through compound interest (and thus would be best served putting more in at an earlier point over their working life) the majority believe that they can sufficiently contribute closer to retirement and still see good returns through the superannuation system.

"It's a bit of a bonus – I should be set up by then." (Consumer aged 30-44 years)

"There is no option on the term – it is forced long-term." (Consumer aged 30-44 years)

"Superannuation has never entered our conversations as an investment option." (Consumer aged 30-44 years)

"For me it's a low priority. I'm paying off the house and raising the kids – I can't play with it." (Consumer aged 30-44 years)

In this age group people are starting to consider how much they will need for a comfortable retirement. Some have considered that they will each need at least $25,000 per year to have a comfortable retirement. They have also considered that the amount required needs to be considered in the context of survival age. Estimates of total superannuation fund balances required range from $500,000 to $1,000,000. This group has also considered that they aim to have paid off their debts by the time they retire and so will have less debt service outlay per year. There is much evidence among this age group that the details of superannuation requirements are being considered. To some extent this is because they are starting to look to the future and set ten to twenty year plans, while in other cases it is because they are seeing their parents reaching retirement age and seeing demonstrations of the requirements and adequacy, or otherwise, of their parents' superannuation arrangements.

"I think a million dollars." (Consumer aged 30-44 years)

"$25,000 per year you would expect to live. If you live to 90 you will need $500,000". (Consumer aged 30-44 years)

"My financial advisor told me to think of what income you want to live on each year and times that by 20." (Consumer aged 30-44 years)

None of the participants in this age group were confident that their superannuation was going to be sufficient for their retirement. There is a concern among this group that the 9% superannuation guarantee could never be enough to provide for retirement sufficiently. There was some recognition that those who have been paying 9% since they started work at a young age may build up sufficient funds over time, but generally there is little faith that their savings are or will be sufficient at retirement. There is also concern that time off for children would also impact negatively on retirement funds, especially among female participants in the groups. Other investments such as property that can be used to supplement superannuation at the point of retirement were considered favourably.

"No way – not even putting it in the bank at 3-4% is going to achieve sufficient amounts." (Consumer aged 30-44 years)

"Not just the employer contribution." (Consumer aged 30-44 years)

"If you average 10% of your income over 40 years you retire with 4 years worth of salary – that won't be sufficient for retirement." (Consumer aged 30-44 years)

45-65 years

Among this age group, superannuation is seen to be a weaker investment than property, especially in light of the economic downturn. The main disadvantage to superannuation as an investment is the perceived lack of control and the inability to access the funds to leverage the capital. A lot of people in this group see the need to supplement superannuation with other investments which are seen as stronger performers or that do not have the restrictions of superannuation.

"We have bought an investment property. We are not relying totally on superannuation – we are putting the money into the mortgages." (Consumer aged 45+ years)

"Superannuation would be good if you could leverage off it." (Consumer aged 45+ years)

This group see superannuation as a long term investment. It is seen to be a weaker investment option over the short or medium term.

"The GFC didn't worry me – I see superannuation as a long term strategy." (Consumer aged 45+ years)

Anticipated requirements for superannuation fund balances at retirement range from $500,000 to $2,000,000. There is a great deal of concern about the unknown and unpredictable costs in retirement such as health costs, life span, the increasing cost of living and the potential for changes to superannuation regulations that might minimise superannuation. All these unknowns create uncertainty about adequate amounts for retirement. As a whole, this group is very concerned that they do not have sufficient funds on which to retire and will be unable to generate sufficient funds prior to retirement, with many fearing major changes to lifestyle maybe a painful reality.

"The amount depends on lifestyle and how you expect to live." (Consumer aged 45+ years)

"The majority of people retiring now are going out on $150,000 or $200,000 – it just isn't enough." (Consumer aged 45+ years)

"I am a pessimist and I would say it is not enough. I'm not extravagant but I have a gut feeling it won't be enough." (Consumer aged 45+ years)

4.2 General Knowledge about Superannuation

4.2.1 Understanding of Superannuation

18-29 years

This age group has a basic understanding that 9% of their wage is put into a superannuation account by their employers. Some young people are aware that they are able to put additional amounts into superannuation but again, the understanding of voluntary contributions does not extend past this. Only a minority were aware of the co-contributions initiative for low income earners.

"Whatever we are earning – 9% of that goes into superannuation." (Consumer aged 18-29 years)

"You can elect to put more in." (Consumer aged 18-29 years)

30-44 years

There is a degree of confusion about how superannuation works among this group. There is a basic understanding that the contributions are invested on their behalf and the returns on the investments provide the growth but there is little detailed knowledge about how superannuation is managed or regulated. Some expressed shock and confusion that superannuation could attract the losses seen in the recent economic downturn and felt that they didn't understand why superannuation was so dependent on market forces. It is seen as "forced savings" and this group are very cognisant that it is "their money". There is a general perception that the superannuation guarantee is additional to salary and is generally not considered to be part of salary. This contributes to the sense of disengagement with superannuation resulting from a combined lack of immediacy and perceived lack of control. Generally, this group feel that they should know more about superannuation and how it works to ensure that they are making the right decisions for their circumstances. This comes with a feeling of guilt about not appropriately attributing importance to superannuation and not finding the time to educate themselves more about how it works and how it take full advantage of it.

"I don't know how it works – I don't understand how we lose money on it." (Consumer aged 30-44 years)

> *"I think it has become more and more complicated. A few years ago you couldn't choose." (Consumer aged 30-44 years)*

45+ years

Despite being closer to retirement this group also has only a basic understanding of how superannuation works. Many take advice on superannuation from accountants and financial planners. This group also struggles to differentiate between different superannuation brands and different types of superannuation funds. Most knowledge is gleaned from the mass media rather than proactively seeking other sources of information. This group sees superannuation as trusting someone to invest on their behalf, with the assumption that they will act in the best interest of the members. It is this lack of control and transparency that encourages people in this age group to diversify their investments and not rely solely on superannuation.

> *"I would not say I know a lot. I talk to my advisor and I understand the basics...I'm not an expert." (Consumer aged 45+ years)*
>
> *"You place a lot of trust in people to manage your money on your behalf. I haven't really looked into it...." (Consumer aged 45+ years)*
>
> *"The whole superannuation operation and how things work is beyond me." (Consumer aged 45+ years)*

4.2.2 Awareness of Changes to Superannuation

18-29 years

Young people are generally not aware of any changes to superannuation. Any knowledge they have gleaned on changes is from the mass media and they are unlikely to actively pursue information about superannuation as it is not seen as being important or relevant at their stage of life. There was some understanding that the retirement age had recently changed and some thought that it might now be 65 years, but they were not sure and had no further knowledge of these changes.

30-44 years

There is some awareness of changes to superannuation with mentions of changes to retirement age, government co-contribution and ability to manage your own superannuation fund. However, there is a lot of confusion around the implications of these changes and how they might affect the individual's superannuation arrangements. There is a sense that the already complicated system is further complicated by changes. People struggle to understand the implications of these changes as they lacked clarity about the system in the first place. There is a need among this group to have these aspects of changes to superannuation explained in a simple and user-friendly way that minimises effort and use of jargon. Knowledge about changes to superannuation is generally from the mass media, again reflecting the low incidence of this group proactively seeking information about superannuation.

> *"There were big massive changes about two years ago – but I have lost track now." (Consumer aged 30-44 years)*

45+ years

There is awareness among this group of changes to superannuation that impact on consumers. They see it as a complex issue and require information to be tailored to their needs, and for the implications of changes to be clearly explained – ideally with practical examples. Many of the changes to superannuation have the potential to impact on long term strategies so this group feels it is important to be up to date. As noted earlier, there is a degree of frustration among this group that constant changes to the system and contribution rules can severely disrupt overall retirement plans and strategies.

> *"Only the changes to the superannuation co-contribution...it's now one for one." (Consumer aged 45+ years)*

> *"It is a complex area. Superannuation statement each year – a brochure I don't have time to look at. You don't worry about the 15 page brochure that comes with it." (Consumer aged 45+ years)*

4.2.3 Awareness of the "Superannuation Guarantee"

18-29 years

While all young people were aware that their employer is contributing 9% on their behalf they are generally not aware of the term "superannuation guarantee", and they do not associate this term with the money being contributed by their employer.

Most young people are aware that the amount of superannuation being paid on their behalf is provided on their payslip. This is something they are aware of and would potentially notice if missing, but they have not checked their actual superannuation accounts to consolidate the contributions or check that they are actually receiving their entitlement. In the event that a young person became aware that they were not receiving their entitlement from their employer, most would raise it with the employer directly and request that the contribution be made.

30-44 years

The term "superannuation guarantee" is more familiar to this group and most correctly identified it as the "9% that your employer puts in". Some see this as part of their salary, while others consider it to be paid by the employer on top of the salary amount. Some evidently confused this with the government co-contribution scheme. Generally, this group is quite vigilant about checking that the superannuation has been paid on their behalf on their payslips. There is a strong sense of entitlement in this group and they would be angered if the contribution was not paid by their employer. The majority would immediately speak to the person responsible for pay or to their accountant if they suspected that the contributions were not being made.

> *"It's the 9% your employer puts in for you." (Consumer aged 30-44 years)*

> *"I would be very annoyed if my employer didn't pay it – I would feel ripped off. It is a total package – my salary, my superannuation, my car..." (Consumer aged 30-44 years)*

"I always check to see that it is on there." (Consumer aged 30-44 years)

45+ years

There is little use of the term "superannuation guarantee" among this age group, although they are all aware that employers are required to contribute 9% into superannuation for each staff member. This group largely sees the 9% as providing a low level 'baseline' for superannuation, and that it is the employee's responsibility to contribute additional amounts to supplement this very minimal level of superannuation.

While everyone in this group would be likely to react to their superannuation not being paid by their employer, there was minimal consistency in where they would take their complaint. Those with union membership would go to the relevant union, while others would go to the superannuation fund. Some would approach the employer directly, while others assumed there must be an ombudsman with whom a complaint can be lodged.

"The concern is that if you take it to the relevant people they still might not doing anything...it's like hitting your head against a brick wall." (Consumer aged 45+ years)

"The rules are so slack – I wasn't paid for 18 months, they filed for bankruptcy and my money was never recovered." (Consumer aged 45+ years)

"I'm part of a union and I would approach them in the first instance." (Consumer aged 45+ years)

4.2.4 Knowledge of Voluntary Contributions

18-29 years

There is some awareness of voluntary contributions but little if any detailed knowledge about how the system works. None of the young people involved in this research were making voluntary contributions to their superannuation. There was some limited understanding of the co-contribution initiative, although none of the participants had ever taken advantage of it.

"I know there was one where you put $1,000 in the government put $1,000 in." (Consumer aged 18-29 years)

"There is something called a tax rebate...." (Consumer aged 18-29 years)

30-44 years

There is a high level of awareness of the ability to make voluntary contributions and there is a mix among this group of having done so. There is also some understanding of the tax incentives for voluntary contributions. For those who do make voluntary contributions, one of the main drivers of this is that it is seen as a tax effective way of saving money for the future. For those who do not make voluntary contributions, they currently see more value in investing in their mortgages or in other investment options that provide them access to the profits when they want it without having to wait for the retirement age. Others simply feel that they cannot afford to voluntarily contribute additional funds to their superannuation accounts. In a small number of cases, people who had previously made voluntary contributions to their superannuation had ceased this practice as a consequence of the economic downturn and the impact of this on their superannuation balances.

"I would rather offset debts right now – or in an investment property and have a lump sum." (Consumer aged 30-44 years)

45+ years

There is a high level of awareness of voluntary contributions. Many people in this group have started to make voluntary contributions but are concerned that they have started too late, especially in light of the recently announced cuts to the concessional caps. This group are trying to educate themselves about the tax advantages of contributing to superannuation and are starting to plan to increase contributions as they approach retirement. They also have a basic understanding of retail and industry funds and of the differences between them, and that they can choose between alternate fund offerings.

"Up to your discretion how much you want to put in." (Consumer aged 45+ years)

"No tax on the contribution....I think that is the case." (Consumer aged 45+ years)

4.2.5 Knowledge of tax concessions

18-29 years

The knowledge of the tax concessions of superannuation contributions is very minimal. Some are aware that "you do not get taxed as much if it goes into your superannuation", but this is the full extent of the knowledge about tax concessions. Most are not aware of tax concessions at all.

"I think there is meant to be it's not commonly known." (Consumer aged 18-29 years)

30-44 years

Among those participants aged 30-44 years, there was a fairly high level of knowledge about the tax implications of superannuation. While recognising that superannuation attracts the lowest tax of any type of investment, most of this group feel that superannuation contributions should not attract any tax. Many saw superannuation contributions as a benefit to the government in that these savings serve to minimise (or at least reduce) their future pension obligations, and therefore that Government is "double dipping" when taxing superannuation contributions. There is awareness that superannuation payouts are not taxed after the retirement age, but that they are taxed significantly prior to that age.

"Superannuation is pre-tax and other investments are not." (Consumer aged 30-44 years)

"Tax free after 65 but 20% before then." (Consumer aged 30-44 years)

"Superannuation is taxed at pretty much the lowest rate compared to any investment option." (Consumer aged 30-44 years)

45+ years

This group is becoming increasingly aware of the tax implications and concessions for superannuation contributions. They have the highest level of any age group and are actively seeking to educate themselves and strategise the best use of funds to maximise tax effectiveness and start accumulating funds for retirement, although some are still confused about the choices they will need to make in the not so distant future.

> *"Towards the end of your career – that's when the tax benefits kick in." (Consumer aged 45+ years)*
>
> *Normally I just go and talk to the financial advisor, hear what they say and then have a think about it." (Consumer aged 45+ years)*
>
> *"I'm very confused about it." (Consumer aged 45+ years)*

4.2.6 Knowledge of Self-Managed Superannuation Funds

18-29 years

There is some minimal awareness of self-managed superannuation funds (SMSFs) and there is a fundamental awareness that these are funds where the person has control over the specific investments. Some were under the impression that some assets (such as businesses) could form part of an SMSF. It was generally perceived that one has to be very knowledgeable about the financial market and the rules of superannuation to be able to have an SMSF. This was generally not an appealing prospect to this age group.

> *"They are difficult. It depends if you have a tax agent then they are not so bad – if you are doing it all yourself it is hard." (Consumer aged 18-29 years)*

30-44 years

There is awareness of (SMSFs) among this group, but minimal detailed information about how they work and of the benefits and risks associated with SMSFs. Some have considered taking this option and in a small number of cases people did have SMSFs. There was a sense that one needed significant capital to start an SMSF and that it was an option for wealthy people and not for those on average incomes. Some thought that houses and businesses could form part of an SMSF but that there were tight restrictions. SMSFs were considered to be high cost if an accountant or advisor managed the fund, or to be high risk if the fund is self-managed.

> *"We looking into them – you get a financial manager to do it but it still needs a commission." (Consumer aged 30-44 years)*
>
> *"You are not saving anything until after you have $100,000 in the account."*
>
> *"I would be too worried – what if you got it wrong and get audited? You might not realise you had stuffed something up." (Consumer aged 30-44 years)*

45+ years

A lot of these people have looked into SMSFs and so have a degree of knowledge about how they operate and the types of investments they cover. For most the concept of SMSF is intimidating due to the amount of work and the personal responsibility for losses. None of those involved in this stage of research had an SMSF – they were considered to be appropriate only for those with a high degree of financial literacy or a large amount of capital.

> *"Needs a lot of researching and monitoring." (Consumer aged 45+ years)*

> *"I guess you have more control over what happens....it's a bit scary for me." (Consumer aged 45+ years)*

> *"There is more flexibility with investments. It's difficult to compare a self-managed fund with an industry fund in my opinion." (Consumer aged 45+ years)*

> *"The so-called experts don't know what they are doing – I'm not qualified so I won't do it any better!" (Consumer aged 45+ years)*

4.2.7 Knowledge of different types of superannuation funds

18-29 years

There is some knowledge of the different types of funds among this age group, although the differences between the different types are not understood. There was some awareness that some different funds charge different types of fees, but the reasons for this were not well understood.

> *"Perhaps they invest differently – in areas of their own expertise." (Consumer aged 18-29 years)*

> *"Some charge different fees. The private ones charge you more but you get more help from financial advisors." (Consumer aged 18-29 years)*

30 to 44 years

Research participants from this age group are generally aware of the different types of funds, but feel they have little information about how they differ. There is a tendency with this group to stay with the fund they first joined when they started working rather than assessing different funds to join one completely of their own choosing. There is a perception that industry funds are cheaper, but that you can only join them if you work in the appropriate industry.

There is a high level of awareness of the ability to choose funds. However, most people in this age group have maintained the default funds they accepted prior to being able to choose. It is seen to be too much trouble and cost to select a new fund and roll all the balances into a different fund. Similarly, they are discouraged by a perceived lack of differentiation between the different funds and lack of differentiating information.

> *"I've not even thought about different funds." (Consumer aged 30-44 years)*

> *"I know we can choose our own funds....but it's easier to have the default fund." (Consumer aged 30-44 years)*

> *"Some of their rules might be different." (Consumer aged 30-44 years)*

45+ years

Although the understanding of different types of superannuation funds is higher among this group compared to other age groups, there is still a significant degree of confusion about the differences between different types of funds and the advantages of one type of fund over another.

4.3 Superannuation Behaviours

4.3.1 Multiple Funds

18-29 years

The majority of young people have more than one superannuation account, with some having up to seven accounts. Mostly this is a result of joining default funds while in casual work or when starting new jobs and not being sufficiently knowledgeable to nominate one of their existing funds when starting with a new employer. Some of these participants said they were going to leave accounts with low balances until they reduced to zero and assumed that the accounts would be automatically closed at this point.

> *"It's annoying because you have to send so much paperwork, then you get a licensed JP to sign and go through all that hassle....it's frustrating." (Consumer aged 18-29 years)*

> *"I have a few accounts, but it's too hard [to merge them]. There's no money in a few....." (Consumer aged 18-29 years)*

There is not perceived to be much advantage to having multiple accounts, although some feel that this spreads the risk of losses across the different sums. In most cases, accounts are not consolidated because of a perception that it is a lot of work and costs money. Some cited the need to have a signed statutory declaration or the need to go to a police station in order to consolidate accounts. For the vast majority of participants it was seen to be not worth the hassle. This is especially the case when there are a number of accounts with very small balances.

> *"If you have multiple funds one might invest better than another. I don't think people would be opening accounts just for the sake of it though." (Consumer aged 18-29 years)*

The advantages of having a single account are minimising fees and paperwork and that it is easier to keep track of a single fund rather than multiple funds – but this advantage is not perceived to outweigh the effort required to consolidate accounts.

30-44 years

From those who participated in the study, it appears there is a relatively high incidence of individuals having multiple superannuation accounts among this age group. Most of those with multiple accounts plan to roll them into one at some point and see that there are more advantages to having the funds in one account rather than in multiple accounts. They feel that there are too many fees and charges associated with rolling funds from one account to another but that the process is not overly onerous. In some cases these people have multiple funds because of changes to employment which preclude their current employer from contributing to their existing superannuation fund. An example of this is when someone has left the public sector (where the fund only accepts contributions from Government employees) for the private sector. In other cases people had overseas superannuation accounts and considered it too complex to try and move the superannuation into Australia. In a small number of cases people felt that they did not have a choice of fund (or that they were pressured into choosing a particular fund) and this has resulted in multiple accounts.

> *"I thought, I have all these accounts – I will make more interest if I put them all into one fund." (Consumer aged 30-44 years)*

The main advantages of having all funds in one account are to minimise the fees and charges, minimise the paperwork and to maximise the returns resulting from having larger balances to invest. It is also considered easier to keep a track of superannuation if it is consolidated into a single fund. There are minimal advantages perceived to having multiple funds, unless the person has a fund to which contributions cannot be made by the current employer but was considered to be a valuable fund. Despite the clearly recognised advantages of having a single consolidated account, people are discouraged from rolling their funds into one account by perceptions of complexity and cost. In some cases superannuation funds are seen to make consolidation more difficult than it should be with requirements for evidence of identity and the application of fees.

> *"It's a risk having it all in one account." (Consumer aged 30-44 years)*

45+ years

People in this age group tend to have a single fund with the key advantage being the minimisation of fees. If they do have multiple funds they are likely to be in the process of consolidating into a single fund or to have every intention of doing so. Most have found the process of rolling over funds to be simple and efficient. The only advantage to having money in multiple funds is to spread the risk of poor performance. Some have observed different results across two different funds in light of the economic downturn.

> *"Two funds – I used to have three. I was going to let it go – every year the amount got lower and lower. I rolled it into the main one." (Consumer aged 45+ years)*

> *"I kept mine – I don't like to have all my eggs in one basket. Both have done differently since the crisis." (Consumer aged 45+ years)*

4.3.2 Lost Superannuation

18-29 years

Young people had some knowledge of the process for finding lost superannuation, although only a few had experience with the process. In a number of cases participants reported that the "lost" superannuation had reduced to zero before being found. Generally, feedback on the finding of lost superannuation is positive, but the process of rolling funds over into a single account is perceived as discouragingly complex and this reduces the desire to even search for lost superannuation.

> *"Find my Superannuation – I think that's the company you can call." (Consumer aged 18-29 years)*

> *"When I called them to consolidate the account was down to zero and they had closed the account – it wasn't much, but it was mine and I lost it all to fees because I left it for a few years." (Consumer aged 18-29 years)*

30-44 years

There were a few cases of lost superannuation reported among study participants in this age group. In most cases they became aware of this because they were notified that they had lost superannuation. For those who have experienced the process they were quite positive about it. The use of the internet to find lost superannuation and to take action to recover these funds was viewed favourably. In some cases people have not pursued lost superannuation because they considered the balances in the "lost" accounts to be too small to warrant the effort of rolling it over.

> *"I have superannuation out there somewhere. I have moved so many times I cannot remember my address so I can't access it." (Consumer aged 30-44 years)*

45+ years

There is a high level of awareness about the process to track down lost superannuation and a number of people in this age had been through this process. They also appreciate the proactive approach and being informed that they may have lost superannuation. The process is seen to be straight forward, but the sums associated with lost superannuation tend to be fairly low and so unlikely to make a significant difference to overall superannuation.

> *"During my property settlement we checked off superannuation and I found money I didn't know I had." (Consumer aged 45+ years)*

4.3.3 Making Voluntary Contributions

18-29 years

Most young people do not make voluntary contributions to their superannuation. On the one hand this is because they cannot afford to or consider other things to be of higher priority such as paying mortgages. Others have a more cynical approach and believe that the small amounts they could contribute would be quickly diminished by fees or poor market performance.

> *"No – I'm a student, I can't afford it." (Consumer aged 18-29 years)*

> *"That money won't add to the balance – it will just pay the fees...it just goes. Maybe when times are good I will consider." (Consumer aged 18-29 years)*

30-44 years

This group is amenable to making voluntary contributions – but at some time in the future for the majority. While they have active mortgages and personal loans, superannuation is not considered a good investment. This is partly due to feelings resulting from the recent economic downturn, but mostly due to limitations in being able to access and use the funds to grow investment prior to approaching retirement age. Direct investment options are seen as more appealing investment types than locking it away in superannuation (a savings vehicle where trust has been somewhat diminished following the recent global financial crisis).

> *"I would hope that my accountant would tell us that there's a benefit in voluntary contributions. Accountants should be more liable". (Consumer aged 30-44 years)*

45+ years

A lot of people in this age group are currently making voluntary contributions to superannuation, mostly through salary sacrifice. In most cases they intend to increase their contributions as they near retirement. Some did stop their voluntary contributions in light of the economic downturn and intend to assess superannuation as an investment against options like property to determine if they will go back to making voluntary contributions. Others are not currently making voluntary contributions but intend to once they have finalised existing debts.

> *"I will definitely be increasing mine." (Consumer aged 45+ years)*

> *"I started to stop voluntary contributions during the crisis. I will assess it annually from here on in...I'm more likely to go into property." (Consumer aged 45+ years)*

4.3.4 Information about Superannuation Fund Performance

18-24 years

This group does not actively seek information about superannuation fund performance as they have little engagement with the system at this early stage. Information that is sent from superannuation funds generally commands only scant attention for the majority of this group, generally because the balances are so low – and the ability to access these funds is so far away - they are not considered to be worth being concerned about.

30-44 years

Superannuation fund performance is most commonly judged from individual account statements sent from the relevant fund. While there is greater interest in performance of their own fund among this group, there is very little active comparison between funds. For those who are seeking this type of "fund vs. fund" information, they are mostly using the internet to access comparative performance tables. Information from superannuation funds themselves tends to be viewed cynically and assumed to be misleading and self-serving. Overall, there was a strong sense that information must come from an independent source to be seen as credible and is delivering value. Generally this group feel there is a lot of information 'out there' about superannuation fund performance, but the majority do not know where to find it. If they were to find it (and motivation for actively seeking this information is generally low) a common perception is that it would be too complex and full of jargon to be useful.

> *"The information is designed to make you not read it." (Consumer aged 30-44 years)*

> *"You get these information sites for home insurance, home loans and everything – but not for superannuation." (Consumer aged 30-44 years)*

Most people in this age group have 'chosen' their fund in that they have carried existing funds to new employers. This is much more likely than actively shopping around and choosing a completely new fund. They are discouraged from researching a new fund by lack of clear and concise information, but also often due to a perception that they are all essentially the same.

> *"The information is never shown the same way." (Consumer aged 30-44 years)*
>
> *"When choice of fund came in I wanted to know where to get information. My manager said they are all the same so I just stayed where I was." (Consumer aged 30-44 years)*

45+ years

This group is the most active of all the age groups in seeking performance information about their superannuation funds. Some are reviewing this information monthly and most are doing so at least annually. They read the information that is sent to them and some proactively seek information, mostly using the internet. There is recognition of the limitations of this information, with comments about returns not taking into account fees and charges, and the system and information is generally perceived to be complex and difficult to understand and interpret. Some noted they seek clarification of any issues by directly by calling the superannuation fund for additional information or clarification.

> *"I look at the annual report every year and compare that to what appears in the newspapers." (Consumer aged 45+ years)*
>
> *"I read what they send me but it doesn't make much difference". (Consumer aged 45+ years)*
>
> *"I believe that the returns don't take into account the fees and charges." (Consumer aged 45+ years)*

4.3.5 Seeking Financial Advice

18-29 years

Young people are reticent to pay for financial advice in relation to superannuation as it is not seen to be worth the expense. In a number of cases people in this age group were aware that their superannuation fund offers a financial advice service – either as part of membership or at a small cost. This was seen to be a preferable option, but one that would be taken up once in permanent employment or once income was seen to be sufficient to warrant advice.

> *"Where do you get that from?" (Consumer aged 18-29 years)*
>
> *"I haven't [sought advice]...but once I start teaching I will." (Consumer aged 18-29 years)*
>
> *"You can get advice [from the fund]. I wouldn't go and pay the big guys...the help would be good though; it can broaden horizons." (Consumer aged 18-29 years)*

30-44 years

This group are happy to seek and follow financial advice, but they are less willing to pay for it. Hence, when it is provided as part of the services of the superannuation fund, or when a friend has the expertise to provide advice they will take it. They generally do not see the value of paying for it at this stage in their lives. However, this does not preclude them intending to seek financial advice in the future. In part, this attitude has been influenced by the recent economic downturn. This gave many people the impression that even the experts lost money, and so devalued the advice they might receive.

"I get my information from word of mouth – there is a cost to a financial advisor" (Consumer 30-44 years)

"I would consider paying for financial advice, but not until I'm closer to retirement" (Consumer 3044 years).

Most of this group recalls having at least flicked through the PDS when they joined their superannuation fund. It was very rare to have someone read through it closely. Generally they are discouraged from reading these documents by both the length of the document and the legal jargon being used. While there is recognition that the information in the PDS is legally required, a brief summary outlining the critical information is generally preferred.

"This is designed to make you not read it." (Consumer aged 30-44 years)

"The fine print needs to be big print...and pretty so we read it" (Consumer aged 30-44 years)

"There is too much info..to try and read though it all and get the information that way." (Consumer aged 30-44 years)

45+ years

There is a willingness among this group to pay for financial advice although not many currently do. It is important that the financial advisor has a lot of credibility as there is a required level of trust between the client and the advisor. Some are aware that they can seek financial advice from their superannuation fund and that in many cases there is a provision for some free advice. Others seek advice from their tax agents. Among those not currently paying for financial advice, some indicated they would be willing to pay for financial advice in the future when they are closer to retirement age.

"You can get free financial advice – this is best as it is not biased." (Consumer aged 45+ years)

"My husband and I went [to get financial advice] – I would go back as I thought they were honest and informative – I'd be willing to pay, just not yet." (Consumer aged 45+ years)

"I do ring up and say 'please explain I can't understand' – that is to the financial advisor." (Consumer aged 45+ years)

Very few in this group had tried to read the PDS of their current fund or funds. These documents are considered to be overly complex and difficult to understand. While there is recognition that they are a legal requirement, they are not seen as accessible, useful information.

"It is so hard to understand." (Consumer aged 45+ years)

"I do think in years to come it would be important to read the PDS." (Consumer aged 45+ years)

"I put it in the same category as household insurance – you don't really know until it happens." (Consumer aged 45+ years)

4.3.6 Choice of Fund

18-29 years

About half of young people participating in the study had chosen the default fund of their employer, while the remainder had chosen their own funds. Decisions about which funds to join are largely based on recommendations from trusted others such as parents, friends and occasionally, accountants.

> *"It's hard enough when you start a new job." (Consumer aged 18-29 years)*

> *"It didn't occur to me that I could choose a fund." (Consumer aged 18-29 years)*

The most common experience with choosing options within a fund is to be aware that choices were there, to have chosen the higher risk fund (under the premise that they had plenty of time to assuage the risk) but to have not looked into the options in great detail or to have felt particularly informed about the options. Again, this is not an area where people feel they particularly need more information as it is seen as currently of low importance both in terms of time and account balances.

> *"I didn't want to get into investing. I chose the basic fund and a steady growth rate – I quizzed others about it."(Consumer aged 18-29 years)*

30-44 years

When choosing a fund this group is interested in having information about the past performance of the superannuation fund over a number of years. Ideally this would be comparative between different funds or at least in relation to well known benchmarks. Ease of paying into the account is also important, with the clear preference being for online payments and account management. This process aligns with how many of this group do the rest of their financial management (banking, insurance etc.). Information about fees is required; including how they compare and exactly what they are for. Similarly, clear and concise information is required on what is included in the options such as life insurance and income protection. It was clear from these groups that this comparative phase happens only at the point of fund selection, rather than on a regular or semi-regular basis (e.g. once a fund is selected there is generally very little impetus to review again on a fund vs. fund basis).

There is some understanding and awareness in this group about the investment strategy options within their superannuation fund. Most could recall which option they chose, although there is little active consideration of when and how their current investment strategy might change. Most lean towards higher risk funds when younger with the intention of changing to a lower risk fund in the future. However, there is little consideration or planning about when this change might be enacted.

For those who used their employers default fund, this was generally considered to be an easier option that having to find their own fund. This perspective is contributed to by the sense that there is very little difference, in the long run, between different funds. Some felt that the employer would have done the 'background work' to determine the most appropriate fund. Those in industry funds sometimes feel that they "should" be with the fund that serves their industry. Some thought there were added benefits to going with the default fund, such as the employer paying fees and charges for the default fund while they maintained their employment. While not always the case, most of those who had chosen to use their employers default fund had also taken the default options within that fund. This is often based on the premise that "they know best".

45+ years

Most people in this group stay with the one fund when they start with a new employer. This is generally because they see little reason to investigate and select a new fund. A few people use the default fund of their employer and continue to roll the funds over into new default funds when they start with a new employer.

> *"I asked around and it seemed a good idea to stay." (Consumer aged 45+ years)*
>
> *"I stuck with the fund I knew. One fund is fine – I didn't want to change again." (Consumer aged 45+ years)*

There is a high incidence of being aware of choosing the investment strategy of their fund in this age group. Very few have their money in high risk strategies and there was an even split between those with a low risk strategy and those with a medium risk strategy across the groups. Some changed to a low risk strategy when they were losing a lot of money during the economic downturn and have since reverted to a medium risk to increase their returns while still having some working years left prior to retirement.

> *"I just know the main three – I was diversified for a while and then went to cash." (Consumer aged 45+ years)*
>
> *"There is an expectation that management has looked into the fund and the default is the 'best' option – but they don't care about performance, it is about the fees." (Consumer aged 45+ years)*

4.4 Information Sources and Preferences

18-29 years

This age group generally reported doing very little to proactively seek information about superannuation funds and about their performance. Generally this is due to lack of interest stemming from a perceived lack of importance or relevance. Some said they flick through the reports received from the superannuation funds, but none of the participants in this age group said they take the time to read them properly. On the rare occasions that this age group proactively seeks information about superannuation, there is a preference to look up information on the internet and to have information that is tailored to their requirements or to their accounts rather than needing to sift through generalised information.

Young people are discouraged from reading the information that is sent to them as they perceive it to be full of jargon and difficult to understand. This is particularly the case with PDS.

> *"Bits and pieces...a couple of lines – all their legal jargon," (Consumer aged 18-29 years)*

"It's in the annual reports – I don't know how to read them though." (Consumer aged 18-29 years)

"They make it so complicated that you don't want to go through it." (Consumer aged 18-29 years)

The type of information required by these participants is a clear explanation of the benefits resulting from membership and projections of what their current balance might mean at the point of retirement. This information needs to be tailored to the circumstances of the person and would serve as a motivator to make contributions to superannuation at a younger age. Participants in this age group also noted there would also be value in drawing direct comparisons in outcomes of different investment options such as comparison for a mortgage or a share portfolio. However, this group does recognise the difficulties in providing such information and all the caveats that would be associated with these types of estimates.

"I would like information about their performance over the last 5 years." (Consumer aged 18-29 years)

"I would love to sit down and compare them all but I just don't have time." (Consumer aged 18-29 years)

"The superannuation funds know our ages – they could send information more suited to your age...16 year old, the first steps; at 28 years a bit more information etc." (Consumer aged 18-29 years)

There is very little knowledge among this group of the government departments or agencies that are responsible for superannuation. This is not considered to be particularly important information to have.

35-44 years

Some had sought superannuation information from the Tax Office and reported difficulties getting through on the phone line and navigating the website. There was a feeling that although most information is seen as "independent", some of it is also too generic to be useful. Information about superannuation in this context is seen to be different from other experiences this group has had with complex financial arrangements such as mortgages. Superannuation is seen to be more complex and harder to understand, even for those who have been through this process for other financial arrangements.

One of the barriers to seeking further information among this group is a lack of urgency and a perceived lack of ownership over the money. Because it goes from the employer straight to the fund, this creates a lack of ownership which precludes the desire to get additional information about superannuation generally and their account specifically.

This group relies heavily on word of mouth for advice about superannuation; both from their parents and from their peers. Some also consult with their accountants and in a number of cases rely on their own research, mostly on the internet.

This group assumes that the responsibility for superannuation sits with the ATO, ASIC or Treasury, although actual knowledge of the respective roles of regulatory agencies in the superannuation system is limited.

45+years

Information about superannuation is sourced from a number of places. Some attend seminars and seek information from the superannuation funds directly, while others ask their financial advisors. There is a high incidence of seeking information online through Google and the Tax Office website. This group also sources information from the media through radio and financial magazines and newspapers. The key things that discourage seeking of information are the general lack of engagement and sense of urgency, fears of being "sold to" by someone with a vested interest, and the perceived complexity of information available.

The study suggested there is a feeling among this group that the Government should be taking more of a lead role in providing accessible, independent information about superannuation and particularly about comparative performance of different funds. This group assumes that the responsibility for superannuation sits with the Tax Office.

> *"It takes you a lifetime to get [comparative] information." (Consumer aged 45+ years)*
>
> *"I don't think there is a lot of difference – to me each superannuation fund offers you different options as to how you want to split your money."*
>
> *"It doesn't matter which fund – there are only a limited number of choices." (Consumer aged 45+ years) (Consumer aged 45+ years)*

4.5 Knowledge of Specific Superannuation Issues

4.5.1 Early Access to Superannuation

18-29 years

The majority in this group are not aware of the conditions allowing early access to superannuation. A minority are aware that this is possible in the case of financial hardship or chronic illness. Some believe that it can be accessed but at a penalising tax rate. Generally this type of information is of little interest to this group because their superannuation balances are not high enough to be a feasible source of money.

> *"I think you can access it when you are 60." (Consumer aged 18-29 years)*
>
> *"Financial hardship – or chronic illness." (Consumer aged 18-29 years)*

30-44 years

There is a moderate degree of knowledge among this group of the conditions under which superannuation can be accessed prior to retirement age. They believe that this can be done in cases of financial hardship, permanent disability and if over 55 and not working full time.

Generally this group did not feel that they were particularly well informed about the rules for early access to superannuation but were confident that they would be able to find this information if the need arose.

> *"You have to apply with special reasons." (Consumer aged 30-44 years)*

45+ years

There is some confusion among this group of the conditions for early access of benefits with a sense that "the goal posts keep moving". They are aware that it can be accessed in cases of financial hardship, although they are not clear about the conditions that might define financial hardship. Some are aware that this is related to mortgage repayments and accessing Centrelink services, but there is little detailed knowledge. Disability and terminal illness were also identified as possible requirements for early release of benefits. Generally there is a sense that the circumstances have be extreme and that it is very difficult to access superannuation prior to retirement age.

> *"It's hard to do. Very hard to do." (Consumer aged 45+ years)*
>
> *"I suspect it is only in dire circumstances." (Consumer aged 45+ years)*

4.5.2 Embedded Life Insurance

18-29 years

Most know that superannuation funds offer life insurance as an option but are not aware of whether or not it is offered as part of the default plan. Those who could recall making choices in relation to life insurance when joining a superannuation fund generally chose to have this option. Generally there is agreement among this group that life insurance should be set as part of the default fund options.

> *"I think I do [have insurance] but I didn't realise it was an optional addition." (Consumer aged 18-29 years)*
>
> *"You have an option to choose." (Consumer aged 18-29 years)*

30-44 years

Most people in this age group were aware that life insurance was an option on their superannuation and most had selected to have this option. There was little understanding however about what this insurance covers, or of the nature of fees or charges. Some were aware that there are some funds in which this is an 'embedded' option, while for others it has to be requested.

> *"Some funds have a default option – some you have to request." (Consumer aged 30-44 years)*
>
> *"My financial advisor told me about it." (Consumer aged 30-44 years)*
>
> *"You need to know what it covers – to check you have adequate cover." (Consumer aged 30-44 years)*

45+years

There is a high degree of awareness of whether consumers in this age group have selected life and disability insurance as part of their superannuation options. There is some confusion about how it is paid for as some believe it is free rather than taken from their balance. Participants were generally aware of the costs of this insurance and had made comparisons between having this insurance through their superannuation or having it separately. There is also a high level of awareness of the extent of the benefits in the event of death or disability.

"They actually ask you when you are filling in the forms whether you want it. Tick it and it doesn't cost you any more." (Consumer aged 45+ years)

" I have got two of the three – I did not realise you were paying for it." (Consumer aged 45+ years)

"I thought it was part of the package." (Consumer aged 45+ years)

"At my age it would cost too much to have life insurance." (Consumer aged 45+ years)

4.5.3 Self-Managed Fund Investment Options

18-29 years

Generally there is very little knowledge among this group about SMSFs as a concept and very little knowledge about the specifics of how these funds are managed and regulated. This group assume there must be regulation to ensure honesty in SMSFs but have little or no knowledge about the details.

"The whole point of the fund is to manage it yourself." (Consumer aged 18-29 years)

"You would probably need to have some control – things could become fraudulent." (Consumer aged 18-29 years)

30-44 years

There is awareness that SMSFs are a "do it yourself" version of superannuation and that investments can be made in property and in stocks. Generally there was a lack of interest in SMSFs among this group as they did not think they have sufficient capital for it to be relevant to them.

"It's do-it-yourself – like the stocks. You put in some money and you watch it." (Consumer aged 30-44 years)

45+years

There is awareness that SMSF investments can include shares and property and that there are restrictions around the use of the property by the trustee. There is a general feeling among this group that there should be a higher degree of regulation around SMSFs to ensure funds are not mismanaged.

4.5.4 Superannuation Fees and Charges

18-29 years

Young people are mostly aware that they pay fees on their superannuation account but have little knowledge about what the fees are paying for or how they are structured. There is no knowledge among this group about the differences between fees and commissions or about whether they are paying fees or commissions as part of their superannuation.

"I know there are standard fees....not sure about commissions." (Consumer aged 18-29 years)

"Even when the money goes down the fees don't." (Consumer aged 18-29 years)

30-44 years

This age group are aware that fees are charged for administration and for moving money between accounts. There is a general feeling that the ability to choose a fund should necessarily increase competition and reduce fees, although this is supposition and not based on investigation. Some are aware that their funds operate on a commission basis in terms of the fees they pay, although there seems to be minimal information about the advantages or disadvantages of commissions versus fees.

45+years

There is awareness that fees cover administration and management of the fund. Most in this group perceive superannuation fees to be too high and to lack sufficient detailed disclosure about what they cover. There is also some confusion around flat fees and commissions in terms of how fees are applied and what they amount to. There is a general feeling that there should be a greater degree of disclosure in relation to fees and charges.

> *"It's not broken down. I only read the last page with the information about the fees – you can't do anything about it." (Consumer aged 45+ years)*

4.5.5 Retirement Savings Accounts

18-29 years

There is no knowledge among this group about retirement savings accounts (RSAs). It is not a concept they have ever come across and there is little interest in such a concept in the immediate term. It is seen as something they might investigate when they are closer to retirement but are unlikely to consider in the near future.

30-44 years

There is little awareness of RSAs among this group. When described to them this group indicated that they might consider this type of arrangement in the future when they are closer to retirement. Using an RSA is seen as a conservative investment strategy to protect capital from market fluctuations and as such, a strategy that wouldn't be required until close to retirement.

> *"I wouldn't consider this until I was 55 – to save my savings from stock crashes." (Consumer aged 30-44 years)*
>
> *"Could be quite attractive to some people. 1% interest compared to 3% interest or admin fees, compare if it will grow faster than superannuation." (Consumer aged 30-44 years)*

45+ years

None of the consumers in the 45-65 age group included in this research were aware of RSAs. Once the concept was described there was some interest, although all felt that they would need significantly more information to make a decision about one. Even in this age group they felt that they would need to be closer to retirement to consider such an arrangement. There was also a degree of cynicism in terms of the guarantee with questions about what offsets this minimal risk.

"It would not be classed as an asset and you would still qualify for the pension." (Consumer aged 45+ years)

"Yes I'd want to consider this – but I would need a lot more information." (Consumer aged 45+ years)

4.5.6 Superannuation Fund Advertising

18-29 years

This group are not aware that superannuation funds use membership fees to fund advertising, however it is not a surprise to learn this is the case. Some can see the benefit of increasing membership for all fund members, but in general this information highlighted how little they knew about what the fees were actually being used for. The advertising that this group have been exposed to has not been used to glean information. There is a degree of cynicism about trusting the information as it is being provided in a competitive environment.

"They all say the same thing." (Consumer aged 18-29 years)

"I don't think they should be allowed to advertise – they are supposed to be offering the same service. Advertising won't make you change...it doesn't seem relevant." (Consumer aged 18-29 years)

30-44 years

This group were not actively aware that funding for superannuation fund advertising was sourced from membership fees but when asked they assumed this to be the case. Advertising is seen to keep superannuation brands top of mind but are also seen to lack differentiation between the brands to actually encourage a shift from one brand, or type of superannuation fund, to another. There is a general feeling that advertising funds belong to the members and should be used to directly benefit members rather than through the advantages of large membership. Because consumers do not see the ads as influencing superannuation fund choice, they do not believe that they have sufficient impact on membership numbers to benefit them in this way.

"They are protecting their industry – loads of people thought they were stuck with the default fund so they are spending money to keep customers who might move." (Consumer aged 30-44 years)

"All you hear is industry funds are better than other funds. What are they trying to achieve?" (Consumer aged 30-44 years)

45+ years

There is concern among this group that advertising might send misleading messages in the efforts to "sell" the fund and that while advertising increases awareness of superannuation funds it does not provide an informative educational role which is seen as lacking. They are not surprised to learn that the funding comes from membership fees and consider this to be acceptable considering the commercial and competitive nature of the funds.

"Personally I don't agree with the advertising – they only project the upside. It's not evidence based." (Consumer aged 45+ years)

"It brings it to your attention – we are drawn to think about it rather than just letting it flow along." (Consumer aged 45+ years)

5 Superannuation Fund Associations

5.1 Attitudes towards Superannuation

5.1.1 Health of the Superannuation System

Generally, superannuation fund associations rate the health of Australia's superannuation system very highly. They felt the superannuation system has proved itself with relatively consistent growth over a number of years. Superannuation Fund Associations felt that the fact that the recent economic downturn did not have a devastating effect on superannuation is seen as testament to the strength and robustness of the system.

Generally, there is considered to be a high level of security around fraud that sufficiently protects the system – this is particularly important in relation to SMSFs. In particular, the trustee system is seen to be performing well, showing positive returns and high growth. However, there is concern that the high growth in the incidence of SMSFs is outstripping the resources required to properly monitor the individual funds for compliance. For one association, this was the area most urgently in need of reform.

Superannuation fund associations felt that one of the key issues requiring attention was the payment of commissions for advice which has the potential to generate a conflict of interest where the advisor receives greater benefit for not providing the advice best suited to the client. It was felt that the requirement for an advisor to act solely in the best interest of the client should be legislated.

Another area of weakness identified by superannuation fund associations was the inefficiencies generated through the lack of use of electronic payments by employers and in some cases by the superannuation funds. This was seen to create a great deal of inefficiency, especially in light of choice of funds meaning each employer is required to deal with multiple funds.

Superannuation fund associations were also concerned about the lack of understanding and transparency about superannuation funds from the perspective of the consumer. The fact that a lot of people were surprised that a general market downturn would affect superannuation investments shows a lack of understanding about how the system works. Superannuation fund associations felt that greater understanding of the system has the potential to lead to greater engagement and therefore better decision-making and tracking of superannuation accounts and benefits.

> *"One of the weaknesses of the system is the level of disengagement – people don't understand or look at it as an effective vehicle – they see it as separate from the market." (Superannuation Fund Association)*
>
> *"Before the GFC there was this expectation of unrealistically high returns for superannuation – people thought this was normal. Expectations for growth should only be about GDP plus 3%."(Superannuation Fund Association)*

5.1.2 Perspectives on the Compulsory System

All superannuation fund associations involved in this research supported the compulsory superannuation guarantee. While the system has yet to run a full cycle of 20 years and have had the chance to demonstrate its full potential, it is believed that only a compulsory system will be successful in ensuring that people are saving for their retirement. Similarly, the body of funds created by compulsory superannuation contributions is seen to be advantageous to the economy as it provides an investment base for capital development to further strengthen the economy.

> *"The compulsory nature of the system is critical – anything else doesn't work." (Superannuation Fund Association)*

> *"The accumulation of superannuation is also good for the economy as it allows for investment in infrastructure." (Superannuation Fund Association)*

One concern raised about the compulsory system was the inequitable tax benefit of superannuation for low income earners compared to higher income earners. Some superannuation fund associations felt that the superannuation system needs to be amended to ensure that superannuation contributions are tax efficient for all contributors.

There is also some concern amongst superannuation fund associations about the adequacy of a 9% contribution. As this contribution attracts a further reduction of 15% tax and fees from the superannuation fund the resulting amount is not considered sufficient to provide adequate funds for retirement, especially for those on lower incomes and those who take breaks from working such as maternity leave.

Another weakness identified in the superannuation system is the lack of ability for the Tax Office to recover defaulted contributions that employers have failed to pay. Superannuation fund associations felt that 'lost' superannuation, especially those with balances less than $1,000, should be rolled into a centralised fund controlled by the Tax Office.

The Tax Office is seen to be insufficiently resourced to enforce the payment of the superannuation guarantee. This is considered an important issue since many employees do not closely monitor the contributions made on their behalf. Superannuation fund associations felt this was inequitable when compared to the amount of policing for other compulsory payments such as fringe benefits tax.

> *"One of the weaknesses with the system is the lack of enforcement or penalties for employers who fail to pay the superannuation guarantee." (Superannuation Fund Association)*

Similarly, while there is a legal requirement to make the contribution, there is no legal requirement to supply the data for the specific superannuation accounts. This results in accumulation of lost amounts which cannot be accessed for other uses. There is a sense that this amount has been growing rapidly since in the introduction of the superannuation guarantee.

5.1.3 **Efficiency**

Superannuation fund associations felt that the greatest inefficiency in the superannuation system is the lack of consistency and legislation for use of electronic payment of funds. This creates additional administration and results in errors in a significant percentage of contributions. This is also seen to be a key inefficiency in the rolling over of funds; a process which should be made easier and more effective to encourage greater consolidation of funds and fewer lost superannuation accounts.

> *"There are a lot of inefficiencies in the industry – for example the way that employer contributions are dealt with. There are too many checks which makes it really inefficient – it lacks a standard format of delivering data and money." (Superannuation Fund Association).*

> *"All funds should do electronic transactions – doing it manually causes a lot of delays and it affects member and processing costs. If there is an error it takes a long time to come back and potentially leads to penalties for employers". (Superannuation Fund Association)*

5.1.4 **Regulatory Regime**

Overall, the regulatory regime governing superannuation is seen to work well. There is not seen to be a need for a total review of regulations, rather some "tweaking" of the regulations would be sufficient to improve the system. However, it was felt that there should be a long-term vision for the superannuation system and that any future changes to the system be timely, efficient and aligned with the vision. Concern was expressed that ad-hoc changes undermine confidence in the superannuation system.

> *"The ATO knows there are issues and are working to improve the system – it's not a lack of willingness, just the complexity of the issues...it's all taking too long." (Superannuation Fund Association)*

> *"I would love to see them stop tinkering with the rules and set a clear long term vision with bi-partisan support. Set a goal for the next 40 years – then any changes would be in line with the long term strategy."(Superannuation Fund Association)*

Some feel that there should be a single regulator for superannuation rather than various aspects of the system being split across different responsibilities such as the Tax Office, APRA and ASIC. However, it was generally considered infeasible to put them all under one regulator. Rather, there is a need to identify gaps and inefficiencies and make roles clearer and encourage greater communication between the different bodies. An example of this type of inefficiency was the inability to use an individual's tax file number as the sole identifier when locating superannuation accounts.

> *"Generally the regulations work well. Some feel there should be a single regulator for superannuation....but it is not conceivable to pull them all into one. There should be closer cooperation between regulators though – clarity over gaps and ownership." (Superannuation Fund Association)*

"The regulatory regime is fine. There is some rigidity on funds and advice – on the whole it is not broken, it just needs a little tweaking – there is scope for review." (Superannuation Fund Association)

5.1.5 Role of Intermediaries

Intermediaries are considered by fund associations to have an important role. Legislation and enforcement is required to limit the ability to advise to those best placed to give advice. Many people are seen to use their tax agent for superannuation advice and in some cases this is not appropriate. Financial planners are best suited to provide advice, but many people are not aware from whom they should be seeking advice, and many do not see the value in paying for financial advice. Superannuation fund associations felt that education is required to overcome this barrier to seeking financial advice.

"Intermediaries have a role to play – especially for SMSFs. Accountants are backward looking while financial planners are forward looking – financial planners have the more important role to play." (Superannuation Fund Association)

Another major concern with the role of intermediaries is the payment of commissions as this may not result in the best advice being provided to the consumer. Fee-for-service arrangements are seen to be much more equitable and some believe that this should be legislated.

"The payment of commissions encourages favouring advice based on the benefit to the advisor. They should be required to act in the best interest of the client – we have to outlaw commissions."(Superannuation Fund Association)

5.1.6 Self-Managed Superannuation Funds

Superannuation fund associations are aware of the significant growth of SMSFs in recent years. They all attribute this growth to an increasing desire for control and greater financial literacy levels. One association did feel that many had gone into SMSFs as a result of the economic downturn believing that they *"could do a better job"*. However, this is not a consistent belief as another association believed that the incidence of SMSFs had been growing independent of the economic downturn. They all felt that many people with SMSFs had assumed it would be easier to manage a fund than it actually is. Others were concerned that people are *"pushed into"* setting up an SMSF without the required financial literacy, or without sufficient starting funds.

"There is a good role for SMSFs but they need to be sure it is an appropriate vehicle – it will probably continue to grow." (Superannuation Fund Association)

Generally, SMSFs are seen to compete with professional funds and to provide competitive incentive to professional funds to improve their performance and to improve their reporting of their performance. This is seen as a positive impact. The increasing incidence of SMSFs is also seen to increase the diversity of investments in superannuation with business and properties being included as superannuation investments.

"The APRA managed funds compete with the SMSFs – this leads to a greater range of options in APRA funds so they can compete". (Superannuation Fund Association)

Superannuation fund associations believe that there should be a minimum capital amount required to start an SMSF in the order of $250,000-$300,000. There is a need for greater education of trustees with associations citing examples of trustees being penalised for errors made in ignorance of the regulations. Superannuation fund associations suggested there should either be minimum training requirements for trustees with demonstrated understanding of the regulations, or a requirement for trustee to engage financial experts and follow their advice. There was also considerable concern expressed in relation to the compliance monitoring of SMSFS.

> *"The explosion in self-managed funds has led to ineffective compliance monitoring – which leads to illegal early access of funds and ID fraud" (Superannuation Fund Association)*

> *"There are laws for [SMSF] trustees – but no requirement that they actually know the law. We have done research that indicates that they don't know the rules. They should be required to engage advisors – and follow their advice, or they should be tested on their knowledge." (Superannuation Fund Association)*

5.2 Information and Advice

5.2.1 Availability and Quality of Information

Superannuation fund associations generally believe that there is a lot of financial advice available to Australians, but that most do not choose to access it and do not see the value in paying for advice. This is seen to particularly be the case among lower income earners, who in many cases would benefit from the advice if they were willing to seek it out and pay for it. There is recognition amongst superannuation fund associations that most people just manage their immediate financial affairs without sufficient future planning. The superannuation guarantee provides a base for retirement but in many cases might prove to be insufficient when it comes to retirement. There is concern that people start to focus on, and invest in, superannuation too late precluding sufficient time to build up superannuation prior to retirement. Superannuation fund associations reported that there is not necessarily a need for additional information, but for existing information to be better tailored to the needs of consumers.

> *"People have access to information but they don't utilise it. Something like 3 out of 10 people get financial planning advice. Those on lower incomes would probably benefit." (Superannuation Fund Association)*

> *"There is lots of information out there – from the ATO and ASIC, plus funds are always sending out information.....but do people avail themselves of it? They probably think they don't need to." (Superannuation Fund Association)*

Superannuation fund associations felt it was critical that the advice made available to consumers is clearly communicated, cost-effective and provided in a number of formats utilising face-to-face and telephone contact as well as internet tools such as calculators to suit a variety of member types with differing levels of engagement with the system. There is a sense that there is a degree of cynicism about financial advisors among consumers, largely assumed to be sourced from the media. Consumers are seen to be concerned that financial advisors will not act in their best interest, or that they may end up losing more money due to volatile markets regardless of investing in financial advice.

> *"Funds have to ensure they are offering cost effective advice. Things such as electronic calculators, face-to-face meetings, phone contact – all of which need to be designed to suit the membership."(Superannuation Fund Association)*

5.2.2 Fees and Charges

Superannuation fund associations felt that the perceived of lack of transparency about fees reflects a lack of understanding. The information provided around fees and charges, such as that provided in the PDS, is seen to be too complex and too much for consumers to read and understand. Thus consumers tend to come from the perspective of *"how much does it cost me?"* rather than *"what am I paying for?"*. Again, superannuation fund associations felt that this is not an area where more information is required, but rather information that is simpler and more tailored to the requirements of consumers.

> *"The response to fees is emotive and complex. People see some as dead cost – advice in particular...fees don't get reported transparently." (Superannuation Fund Association)*

> *"Superficially there is a lack of transparency in reporting fees, but this reflects a lack of understanding – the more information that is provided the less they understand it." (Superannuation Fund Association)*

5.3 Adequacy of Superannuation

5.3.1 Current Superannuation Guarantee Level

Superannuation fund associations reported that the current system and the 9% superannuation guarantee are seen to only provide sufficient funds for retirement if the amount has been contributed consistently over a full working life with no breaks in employment. They felt that the current system gives lower income people less incentive to voluntarily contribute to superannuation compared to those on higher incomes. Superannuation fund associations felt that changes to superannuation, such as the capping of concessional contributions and reduction of co-contribution arrangements, further disadvantage those who are on lower incomes, have broken work histories and those who are trying to *"top-up"* their superannuation towards the end of their working life.

> *"9% is too low – once you take out the 15% you're down to 7.8% then there are the fees so you are down to 7.5% in reality – it should be more like 12%." (Superannuation Fund Association)*

> *"The 9% won't deliver an adequate retirement prior to a mature system. It's not just a sum of money – it's about protecting and insuring retirement – about promoting a saving culture." (Superannuation Fund Association)*

5.3.2 **Age Pension**

Superannuation fund associations viewed the age pension as a welfare benefit and to be only just sufficient for a restricted lifestyle. Being able to live off superannuation, or to at least supplement the pension allowance with superannuation, is seen as a matter of dignity and as very important for retirees even if it is only a modest amount. Superannuation fund associations expressed concern about people who do not own their house and how they would continue to pay rent in addition to other living expenses if the pension allowance was their only source of income. The age pension is seen as an important safety net, but one that should be supplemented, or replaced, with additional income in the vast majority of cases.

> *"There is more dignity from being able to provide your own income for retirement – people just give up if they are on the pension." (Superannuation Fund Association)*

> *"Not everyone owns their house...resources would be very stretched if rent had to be paid out of the pension." (Superannuation Fund Association)*

> *"The age pension is not sufficient – super should always be available to supplement the pension." (Superannuation Fund Association)*

> *"It's a welfare benefit designed for those who can't support themselves in retirement." (Superannuation Fund Association)*

5.3.3 **Income Stream vs. Lump Sum**

There is a mixed view among the superannuation fund associations of the benefits of lump sum versus income stream access to superannuation. Some feel that a lump sum withdrawal is advantageous if the total superannuation is at a low level. In this situation withdrawing a lump sum may enable people to spend money in preparation for a future on the pension by investing in infrastructure that will last for their retirement. There is a perception amongst superannuation fund associations that people starting retirement are not likely to "waste" a lump sum on short-term gain but rather purchase long-term items to see them through their retirement. However, there is concern that retirees will be unrealistic about the amount of time they can live off a lump sum. Superannuation fund associations felt that lump sum should be an option, but possibly limited by the total amount of superannuation available at retirement age. Other superannuation fund associations felt that it would be appropriate to allow a certain percentage to be available as a lump sum withdrawal but that most should be encouraged to take an income stream.

> *"If there is a low account total, I can't see the point of forcing an income stream. They are better off upgrading and setting up what they need for retirement." (Superannuation Fund Association)*

> *"Taking an income stream should be more incentivised. People taking out a lump sum may not blow it but are likely to be unrealistic about how far the money will go." (Superannuation Fund Association)*

Superannuation fund associations reported that annuities can be a beneficial way to offset the risk of higher longevity. Annuities were seen as a useful investment tool for those concerned that there will be no age pension by the time they retire, and a way of offsetting this risk. They are seen to provide added security as they can also be supplemented with other income sources. Some superannuation fund associations felt that annuities should be based on a government income to guarantee payments while other associations felt they would be better managed by the private sector. All expressed concern that annuities had to be appropriately priced to be a viable option.

5.3.4 **Tax Effectiveness**

Superannuation fund associations reported that superannuation is particularly tax effective for those in middle to high income brackets. It is seen as less effective for those in lower income brackets. Improving the tax effectiveness of superannuation for lower income earners was considered an important priority among superannuation fund associations. The 15% tax rate for contributions is considered to be a strong incentive, and in addition to the tax free withdrawals beyond retirement age makes the system highly tax effective.

> *"Tax free over 60 is a big incentive, as is the standard 15% tax rate. For those on lower incomes the co-contribution scheme is a better incentive." (Superannuation Fund Association)*

6 Bookkeepers

6.1 General Attitudes to Superannuation

6.1.1 Health of Superannuation in Australia

Among bookkeepers there is a sense that the health of Australia's superannuation system is not very good. This perception is largely driven by the evident impact of the economic downturn. There is a sense that superannuation should be protected from this type of market fluctuation, especially in light of the compulsory nature of the investments. In some cases, bookkeepers saw this as the most urgent area required for review.

> *"Superannuation has been pretty poor due to the economic climate – everything has had poor growth rates." (Bookkeeper)*

> *"The system is too risky – needs to be immune from things like the GFC – more secure and with guarantees." (Bookkeeper)*

One of the weaknesses of the system from the perspective of bookkeepers is the lack of knowledge about superannuation among consumers and employers. Employers know their requirements and are not motivated to learn more about superannuation. It is generally viewed in a negative light being seen only as a cost to the business. Similarly, employees are seen to have only a basic level of understanding about superannuation and to have little interest in learning more or actively participating in their superannuation position. Another weakness identified by bookkeepers is the lack of compulsory contributions for some business operators. Bookkeepers indicated that when the contributions are not compulsory, business operators are unlikely to make a voluntary contribution to their own superannuation.

Some bookkeepers were concerned that the 15% tax applied to superannuation, while lower than the standard income tax bracket for most people is still not sufficiently lower to be an incentive for those on low incomes. For those being taxed at 30% bracket, the amount does act as a sufficient incentive to lock the money away until retirement age.

Some bookkeepers were concerned that 65 is too old for some people to be accessing superannuation and that some of the superannuation should be made available for more immediate investments, such as property, at a younger age. This would also act as an incentive to have more superannuation at a younger age.

Bookkeepers are exposed to the different levels of performance reporting provided by superannuation funds and there is seen to be a need for this information to be provided more regularly and with greater consistency between funds. Some bookkeepers felt that since most employers pay their superannuation quarterly, there is a need for quarterly performance reporting. These reports should include the amount of contributions made in the quarter in addition to a yearly performance report.

"Some funds could provide better information to clients – like regular quarterly updates. I've seen a lot of different levels of reporting." (Bookkeeper)

"Superannuation funds need to market and promote themselves. There is not enough information about the different funds."(Bookkeeper)

6.1.2 Compulsory Nature of the System

Bookkeepers view the compulsory nature of the system as one of its main advantages as it functions as a forced savings plan for those who normally would not be saving for their future. However, while the compulsory nature is seen to benefit employees, bookkeepers reported that it can be disadvantageous to employers as they sometimes cannot afford to pay the superannuation guarantee. It is also seen to be reducing the pension burden on Government in light of the aging population. Another strength of the system highlighted by bookkeepers was the co-contribution scheme for low income earners.

Bookkeepers feel the 9% superannuation guarantee is inadequate, but they also see that increasing the superannuation guarantee would put additional pressure on employers. There is a perception, amongst bookkeepers, that the onus should be on employees contributing an amount to top-up the superannuation guarantee as a compulsory payment.

"The compulsory system is good for employees because they would save it themselves. It's hard for businesses though – especially in this economic climate." (Bookkeeper)

6.1.3 Impact of the Economic Downturn

Bookkeepers felt that the GFC had affected people's attitudes towards superannuation. Bookkeepers reported that many people are unsure whether superannuation will recover completely from the economic downturn and what the long-term impacts will be on people's ability to retire in expected timeframes. Bookkeepers reported a loss of trust in superannuation. They observed movement towards putting money into strategies that are perceived as being more stable such as saving accounts, albeit at lower interest rates. Overall there has been a big shift towards taking more conservative strategies with superannuation.

"The GFC made people have less trust in superannuation and made them put less money in – they are more likely now to put it in the bank. There has been a big shift to more conservative investments." (Bookkeeper)

6.1.4 Efficiencies of the System

Bookkeepers consider online payments methods to be far more efficient than other payment methods to superannuation funds. This inefficiency is exacerbated by each employer having to pay into multiple funds due to the ability of employees to choose their superannuation funds. Bookkeepers feel there is a need for all superannuation funds to provide online payment options and for employers to be encouraged to use this facility. Similarly, some bookkeepers had experienced superannuation funds "requiring" monthly contributions which also impacts on the administration time required to maintain superannuation payments. This also requires a greater degree of consistency with all funds being willing and able to take quarterly payments.

"Some super funds insist that you pay monthly – they can be too pushy." (Bookkeeper)

"Having most super paid online saves huge amounts of time – employees should be encouraged to use only those funds that allow online payments." (Bookkeeper)

6.1.5 Regulatory Reforms

Bookkeepers are mostly aware of the reforms to the superannuation system. Changes to the co-contribution scheme were mentioned.

"It's easy enough to keep across the changes." (Bookkeeper)

Mostly bookkeepers see it as their role to keep their clients informed about changes to superannuation. In the majority of cases they find that employers are not overly knowledgeable about superannuation and will seek advice from their bookkeepers. Bookkeepers are comfortable seeking required information and providing advice based on the information they source.

"They look to me for advice. If I can't give it I will look into it for them. I never refer them on, I always find the information myself." (Bookkeeper)

6.2 Information and Advice

6.2.1 Information Sources

For bookkeepers, the main information sources about reforms are "MYOB" newsletters, Tax Office newsletters and advice received about changes to tax laws. In the majority of cases this information is received reactively and most bookkeepers do not actively seek this type of information. One bookkeeper was able to attend superannuation seminars presented by the ATO and the superannuation industry as part of her role. This was seen as a particularly beneficial way of accessing the required information.

Bookkeepers felt many information sources contained unnecessary jargon and were overly complex. The use of layman's terms and of examples would assist bookkeepers in efficiently seeking the information they require. Despite the issues with sourcing accessible information about superannuation, most bookkeepers do not see the need for more information. They tend to seek specific information on a very ad-hoc basis and consider the communications they receive from various other sources (MYOB, ATO, superannuation funds) to be sufficient to alert them to changes or reforms in the system.

"You have to search around for information. The ATO website has a lot of info and I generally go there first." (Bookkeeper)

"I just get information from specific funds – it gives me what I need." (Bookkeeper)

"It can be hard to find the information you need...some of it is too complex and you have go through all this other stuff before you find what you need." (Bookkeeper).

6.2.2 Time Consuming Aspects of Superannuation

The most time consuming part of the bookkeepers task is the administration of payments to multiple accounts. In some cases the time this takes is hard to justify to the employer – to many employers superannuation is just another expense of hiring staff. This administration is particularly time-consuming if not all superannuation funds (or employers) allow online payments. This requires letters and cheques which significantly increase administration time. Others cite setting up accounts for new staff as a time-consuming process requiring all the relevant details. One bookkeeper cited double-checking the outputs from the payroll system to ensure that the correct payments are made.

> *"They don't all allow online payments – some require cheques and letters…it's very inefficient". (Bookkeeper)*
>
> *"A lot of employers don't see the value in paying a person to do their super stuff – they don't see how much admin it can be." (Bookkeeper)*
>
> *"The different information and formats required by different funds is very time consuming." (Bookkeeper)*

6.2.3 Provision of Information

If responding to specific questions, the Tax Office website is the most common source of information. This is seen as having much useful information; however it can be hard to navigate and find the appropriate information.

Most bookkeepers do not provide advice or reporting for SMSFs and very few had clients with SMSFs. Those who did have SMSF clients did not administer these accounts.

> *"The ATO provides unbiased and accurate info. There's lot of information on the website." (Bookkeeper)*
>
> *"[The employers] have very poor knowledge of super – and they look to me for explanations. I will look into specific queries for them…usually through the ATO or the super funds."*

6.2.4 Tax Effectiveness

Bookkeepers consider superannuation to be tax effective for most people due to the reduced tax rate on contributions. However, it is seen to be less tax effective for lower income earners as the differential between the reduced tax rate and the income tax bracket decreases.

> *"I don't think superannuation should be taxed. Compared to 30% income tax – might as well keep the money." (Bookkeeper)*
>
> *"The most important thing is to keep encouraging people to contribute. Small business owners don't have the resources and need increased incentives." (Bookkeeper)*

6.3 Awareness of Specific Superannuation Issues

6.3.1 Retirement Age

The retirement age is seen by some to be too old. However, it is recognised that as the population ages, life expectancy increases so this age bracket may become increasingly appropriate.

> *"65 is a bit old...although with death rates getting older I suppose it makes sense." (Bookkeeper)*
>
> *"A lot of people will never get to access their super". (Bookkeeper)*

6.3.2 Transition to Retirement

There is some knowledge about transition to retirement but the biggest barrier is seen to be companies being in a position to enable their staff to slowly reduce their work commitment. Introduction of a standard 2-year transitional period was suggested.

Among bookkeepers, knowledge about specific superannuation issues such as retirement age, preservation age and early release of benefits is relatively high. However, this is the sort of information that they would access if the need arose and is not part of their standard information requirements.

> *"I support saving to retirement....it would be good the company could co-support the transition but many can't do that". (Bookkeeper)*
>
> *"A gradual transition, like over a 2 year period, would make it a lot easier to get used to." (Bookkeeper)*
>
> *"I know about [retirement age, preservation age and earl release of benefits] but I don't know the details – I would look into specific areas if I was asked to." (Bookkeeper)*

7 Contractors and Sole Traders

While these were two separate target groups, the perceptions and attitudes of sole traders and contractors were so similar that results have been combined for the purposes of this report.

7.1 Attitudes towards Superannuation

7.1.1 Perspectives on Superannuation

The majority of sole traders and contractors (STC) consider superannuation to be a necessary part of Australia's financial system. Most are of the opinion it is a forced savings saving scheme and important for individual's financial security and quality of life in retirement as well as the country's financial wellbeing.

The current system shifts the burden of responsibility for supporting those in retirement away from the public purse to the private purse.

Those who were self-employed often needed to borrow money and may have significant debt during their careers. Superannuation is seen to provide security in the long term and a safety net in the event the business fails.

Superannuation was described variously as extremely important, a must-have, fantastic and an essential concept.

> *"It's an essential concept for individuals and families to have money put aside so when they retire that there is an amount of money available for them to access and use for their living." (Contractor)*

> *"Must have it! Have to pay into it and have it managed by my partner. My accountant also believes there should be some sort of mandatory superannuation - a mandatory contribution from your salary. Seems quite appropriate to me." (Contractor)*

Some were also happy to utilise the immediate tax benefits of contributing to superannuation as well as the opportunity to save for their retirement.

There were a small minority (two respondents) who were less than positive about an enforced savings scheme with one quite vocal about not having the system imposed on them. One person felt that their choice of how they manage their money and assets was being eroded through the imposition of mandatory superannuation. However they both acknowledged that some people have less ability to manage their personal finances and therefore require governmental assistance to ensure they look after their future.

> *"From a personal perspective I hate it. Ideologically I hate being told by the government I have to have superannuation this way. I just hate it. As such I have always only ever put what I have to. For the companies I worked for I would never put any extra in"(Contractor)*

I guess I can talk from a personal perspective I don't think it's important at all. I'm planning for my future with other things. From a national perspective I think it's really hard to legislate stupidity. You're never going to be able to help the people in trouble without superannuation. For people who genuinely need help." (Sole Trader)

Another, who had lost some capital in the recent economic downturn, also had quite a negative attitude towards superannuation but seemed less ideologically opposed to the lack of choice overall. This person was more concerned about the security of superannuation and would prefer to choose his own types of investments. This person had also had other negative poor experiences with family members losing financial security through superannuation schemes so was less trusting of the system in general.

"I think with what's happened at the moment where people are losing money you would be better off putting money away yourself…" (Contractor)

"That it's just not a reliable thing. It can change within a couple of months where you think it's secure. Seeing what's happened to other people who it was time to retire and they lost a lot of money." (Sole Trader)

7.1.2 Importance of Superannuation

Overall superannuation was viewed more as a fact of life and assigning importance to it was somewhat more theoretical than practical. Superannuation was viewed as a safety net and often as one part of a broader portfolio of assets.

"Superannuation is just something that's there. It's like earning a wage. Whatever. It's just something you do. I don't see it sitting in the hierarchy of needs. It's down there with security and a roof over my head." (Contractor)

That said, however, the perceived importance of superannuation was strongly influenced (for the majority of those with a positive disposition to it) by the age of the respondent - with those closer to retirement ranking it highly and on par with the importance of their other assets and their overall health. For younger respondents, providing a home and developing their shorter-term financial security was of greater importance than superannuation. In particular, owning a home is considered a significant security asset and was generally prioritised ahead of superannuation contributions.

The health and wellbeing of family and a work-life balance was also a priority for respondents. Less important were things like cars (a means to an end) and worrying about interest rates.

"I think I'm of the baby boomer mould. Own your own home. I think that's an important goal. Once you've got a home you know you're home. Don't have to worry about the landlord putting the rent up or getting rid of you…" (Sole Trader)

"To me a motor vehicle is not a big deal. A car is a means to an end. I don't spend a lot of money on motor vehicles." (Contractor)

"At the moment. I am 29 years of age. I've got more important things. My mortgage and my family. I would say it's moderately important..." (Contractor)

"I think getting a bit of financial stability is also more important. Equity in the house. On the financial side of things it's very important. Also finding the balance between work and family life. Superannuation wouldn't be something that's at the forefront of my mind. It is at the moment with tax time gone by. There are definitely other things at the moment." (Sole Trader).

7.1.3 Benefits and Concerns in Relation to Superannuation

As well as providing financial security in retirement some of the good things about superannuation are:

- the immediate tax benefits of contributing;
- that, when others are managing it for you, there is less work than making your own successful investment in other options like the share market.

More generally, sole traders and contractors had concerns about the level of fees imposed on superannuation and a sense that there was little that could be done to minimise the fee burden.

"It supplements the age pension which is insufficient – you get a better quality of life on superannuation." (Contractor)

"The tax benefits are good – it motivates you to contribute." (Sole trader)

"If you don't have much in there the fees can really eat into your balance." (Sole trader)

7.1.4 Impact of the Economic Downturn

The economic downturn caused concern for a number of sole traders and contractors (primarily the older ones), however few had made changes to their superannuation portfolio in response. Although a few had actively changed their other investments such as selling stock options or taking advantage of reduced share prices after the markets fell. Most sole traders and contractors felt that in the long term the markets would rebound and the value of their portfolio would improve (if not regain all the lost value). Primarily the economic downturn brought to light the fluid nature and volatility of the world economy.

One respondent had taken advice from a financial advisor to invest her superannuation in an SMSF which subsequently failed four months later. Consequently, the respondent considered professional superannuation funds as a much safer option.

"Well what I would do. See I don't have any superannuation anymore now. If I was to start up another superannuation I would put it in the superannuation fund and let them take care of everything. Just sit back and not worry about it. From my experience I wouldn't advise anyone to go self managed unless they have heaps of money and heaps of good advice." (Contractor)

For more mature sole traders and contractors, the impact of the economic downturn had come as a shock as they had always assumed that superannuation would be secure. There was an acceptance that the level of growth would fluctuate but not that it would actually reduce.

"One of the big issues has been that you never thought that we would lose capital. If you look back to the recession of 89/90 interest or earnings went into the negative, then they recovered. I think most people said: "I didn't earn any interest, it didn't go up in value or I didn't lose any capital". This time around we've all lost significant amounts of capital." (Contractor)

7.1.5 Superannuation as an Investment

"Look in general it's probably on par with the share market. Because I think that all things over time are successful" (Sole Trader)

Contractors and sole traders generally perceived superannuation as a reasonably good long-term investment that out-performs options like bonds and cash. They perceive that the stock market and property have had higher returns (since the last recession) but there is also a greater risk, especially with the stock market. The property market is seen as achieving consistent gains even during the economic downturn however there is an acceptance that even property values can decline, although this is seen to have not been the case recently in Australia.

However for most sole traders and contractors (and especially those with greater financial acumen and perhaps more significant capital/earning capacity), superannuation was just one of a number of options to ensure a comfortable retirement. They had a preference towards a more diverse portfolio - with the other investment options not necessarily having the associated fees and giving the individual more control and choice in their asset management.

"I guess my only argument against that is the cost involved in the superannuation such as the management fees and the inability to have personal control. I like the fact that I can get on to Comsec and buy and sell shares. Or I can buy a property and buy and sell whenever I want. But I don't have any control over my investments in superannuation." (Sole Trader)

Sole traders and contractors reported that the limitations of access to superannuation and the greater volatility of the share and property markets make superannuation a less attractive short to medium term investment. Although as with all options there can be consistent gains over a shorter period. The enforced savings capacity, limited access and tax benefits make superannuation a more attractive option in the longer term.

"With superannuation it's a savings you don't see till another 20 years. To wake up one day and think I've got $100,000. I mean to save $100,000 would be near impossible. I think the government is not going to be able to help us forever. We need to be a bit more responsible for our life." (Contractor)

"Well I guess it's a combination of a reasonable return and some tax benefits… it goes up and down a lot more than a term deposit. Not too conservative. In the longer term I think it's more attractive. Superannuation is something for the long term anyway. That goes without saying. I don't look at it in the short term at all." (Contractor)

7.1.6 Adequacy of Superannuation

About half of the sole traders and contractors interviewed had given serious thought to the actual amount of superannuation they would require when they retired - again this was skewed towards more mature respondents. The figures that were given appeared to be relative to the individual's current earning capacity and standard of living. With one respondent indicating he and his wife currently earn $200,000 a year and believes that figure to be attainable in retirement, whilst another couple currently survive on $30,000 a year and were hoping for about $35,000 a year in retirement.

> *"Really don't know. I don't know how much money I would need. I live pretty frugally. We don't go out and spend lots of money on stuff." (Sole Trader)*

Actual lump sums that were suggested ranged between $1-2million. These were given at current dollar values - especially for those with a number of years until retirement. For a couple of female respondents they expected to rely more on their husband's superannuation as he had been the main breadwinner in the relationship.

> *"If I am still married yes. My husband's earning capacity will be more than mine. I think we will be doing ok." (Contractor)*

There was a general sentiment amongst sole traders and contractors that superannuation alone would not be enough to maintain standards of living into retirement (especially if those are already quite good) with a number of respondents suggesting that they will also have to ensure that they look after their other investments wisely. A number of respondents also suggested that they did not necessarily expect to retire at 65 or at least supplement their income with part-time work.

> *"Superannuation won't be enough. It's 3 out of 10 other investments. If I didn't have other investments I would feel very worried as I'm accustomed to a certain standard of living." (Contractor)*

7.2 Superannuation Behaviours

7.2.1 Profile of Superannuation Account Holding

The majority of sole traders and contractors interviewed were making some form of regular or semi-regular contributions to a superannuation fund. For a number of people the contributions were in part made on their behalf from part-time work with another employer. These contributions were also topped up by personal contributions from their own business, depending on their personal circumstances and disposition towards having to contribute to superannuation in the first instance.

The majority of sole traders and contractors had not made recent choices about their fund. Some had been with their funds for a number of decades (e.g. they may have been insurance policies that became superannuation accounts once the legislation was introduced in the late 1980s such as with AMP, GIO etc).

> *"30 years ago I started. Life insurance it started as. I went back 20 or 25 years ago it was good to get life insurance cover. Transferred to superannuation. Lifetime policy attached to it." (Contractor)*

Others had continued to use the industry funds (e.g. REST, HESTA) of their previous employment even though they now worked in a different field as a sole trader or contractor. A number of those who had contributions made by a previous employer had used the employer's default fund.

For these individuals, the main advantage of using a professional fund was the lack of time and attention required to maintain the fund. Although some paid more attention to the performance of their fund during the economic downturn, most consider it too much work or too confusing to draw performance comparison between different funds. They were also generally aware that all funds were affected by the economic downturn and assumed the impact to be the same across all funds.

> *"I have compared funds. It's just laziness not getting around to doing something about it. Superannuation is something that's not on your mind all the time." (Sole Trader)*

For those who had made more recent decisions about their superannuation fund a number had taken the advice of colleagues/clients they trusted or taken advice from financial advisors or accountants. These people were generally more active in managing their funds, although in some cases this active role was entrusted to an intermediary.

> *"I place a lot of trust with my accountant. I have had him for 11 years now. He helped me with setting up the business. I have a high level of trust." (Contractor)*

> *"My accountant understands finance a lot better than me.... he researches and it's to his advantage to keep me happy because I'm a client. I trust his judgment because that's his business" (Contractor)*

7.2.2 Options within Superannuation

Approximately half of the sole traders and contractors interviewed had chosen the investment strategy of their funds, most often based on advice of their accountant/financial advisor or by an advisor supplied by the fund. Many had not amended the strategy for a number of years (even during or after the economic downturn). Most had chosen medium risk strategies with some (mostly younger) choosing more high risk strategies.

> *"I had been speaking to a financial planner. No massive problems going into a high risk when you're young. When the crisis hit everyone took losses but it wasn't as bad as it could have been." (Sole Trader)*

> *"As I get older I am thinking I need to make sure I have the money there when I do want to retire. That's why I am very disappointed that we've had this capital loss." (Contractor)*

7.2.3 Life Insurance

There was a high awareness of life insurance status among sole traders and contractors. A few had chosen to have their own separate policies while others had chosen it as part of their superannuation arrangement. Others had been offered it as an option with their superannuation but had declined because of the cost. About a third did not have any life insurance.

> *"Yes, it's an option but you have to pay additional for it." (Sole Trader)*

> *"I have it, but not through my superannuation fund." (Contractor)*

7.2.4 Multiple Accounts

Approximately half of the sole traders and contractors interviewed had a single fund. For those who did hold more than one superannuation fund the main reason was wanting to use the default fund of a previous employer.

> *"With the corporate and part time, I don't have a choice, they do it automatically." (Contractor)*

Others has accumulated a number of smaller funds as they had changed jobs over the years and had yet to consolidate their accounts into one. In all of these cases, there was an intention to consolidate eventually.

> *"Because I am lazy. Thinking I must do that and then you get tied up doing other things. I am the worst offender. I keep saying to my kids you've got to roll your superannuation over to the one fund."*

One respondent has maintained one large fund as she benefits from leaving it as it is it – she continues to get bonuses. It is not in her favour to close the account or merge with her other one.

> *"I worked for Telstra for 11 years. Telstra have a good superannuation plan. Whatever you put in they put in extra. When I left I had a nice chunk in that. But that's special preserved one and I have left it as it is. The reason I don't add to that is there is some funny rule. This is my argument. There are so many rules with different funds. This has a rule in 1993 with them I could have a special rollover and get bonuses as long as I don't change it or add to it myself." (Sole trader)*

Some felt that consolidating funds was time-consuming and there would be extensive paperwork involved, especially for finding lost superannuation. There was also concern about the fees that would be incurred as a result of consolidating funds. Being able to roll over funds using a simple online process would encourage these sole traders and contractors to consolidate funds into a single account.

Holding one account was generally viewed to be the simpler option, making it easier to manage and track superannuation. Similarly, a single fund minimises the fees applied to the capital providing a more cost effective solution. The main disadvantage of having a single fund was seen to be the risk of concentrating poor performance in the one account.

Some sole traders and contractors felt that having multiple accounts would diversify risk and provide an element of choice when working for another employer; being able to have the superannuation guarantee go to the default fund while voluntary payments can go to another fund. The reported disadvantages of having multiple funds are the added complexity, additional administration, additional fees and the risk of losing track of accounts.

7.2.5 Lost Superannuation

A small number of sole traders and contractors had lost track of superannuation accounts and had gone through the process of tracking them down. All had used the online facility or had been alerted to lost superannuation. However, the process of validating their identity was seen as onerous and in some cases the process had never been completed.

> *"I know there is a dedicated website to find your super but I haven't bothered with it." (Sole Trader)*

> *"I've used the website to track lost super but it was too hard for the amount in there." (Sole trader)*

7.2.6 Reasons for Not Making Voluntary Contributions

All but three of the sole traders and contractors interviewed were currently contributing in some form to a superannuation account. One had stopped contributing after recently losing all of her superannuation after investing in an SMSF. Another was in her early 70s and had not contributed to a fund for 10 to 15 years. Another had stopped contributions during maternity leave prior to which she had been making minimum contributions to keep the fund ticking over.

> *"I was aware of that but I only contributed enough to cover the costs plus 10% extra. It was costing me about $200 a quarter for their fees. So I thought the least I can do is put $1,000 a year and I am not going backwards." (Sole Trader)*

However there were a number who, although currently making some form of contribution, had previously not contributed or didn't contribute outside of part-time work. Although already contributing to superannuation through part-time employment one respondent had ceased his personal contributions once he had taken up part-time employment as he lost his ability to claim tax deductions.

Another respondent had not contributed for a number of years after he left employment as he was investing a lot of money and resources into establishing his business. For this respondent, the priority was the immediate investment of the business which would form a part of his retirement plan.

7.2.7 Awareness of Superannuation Incentives

There was mixed understanding of the tax deductions and co-contribution payments from all sole traders and contractors interviews, with some leaving that up to their accountants to manage and others having some broad ideas of the benefits. In general this was not a strong motivation to make personal contributions, except for those who were more financially literate. Many made contributions out of habit and an appreciation of the forced savings/requirement of superannuation in general.

> *"I am aware of the co-contribution scheme, I have used it and will probably do so again....it just depends on the budget year to year." (Contractor)*

> *"The co-contribution scheme was good at one stage...but when I looked at it in more detail it didn't really give you much...it was a bit deceptive." (Sole trader)*

7.2.8 Self-Managed Superannuation Funds

Three respondents had an SMSF. One was very cautious of SMSFs having lost all their superannuation in one.

Two others had placed their funds under the management of a financial advisor or accountant who managed their fund on their behalf. They had minimal administration tasks involved as their intermediaries did the administration and merely liaised about the options of the fund.

> *"I don't spend much time managing my fund. Hand it to my accountant. It's minimal. He advises and then I make decisions" (Contractor)*

These respondents considered the advantage of an SMSF as being able to exercise greater control over their fund but were happy to pay for the advice and administrative support from an intermediary.

7.3 Information and Advice

7.3.1 Information Sources

In general sole traders and contractors were not actively looking for information about superannuation funds. There is a tendency to passively digest information that has been sent to them by their superannuation fund (as in annual statements), in the mass print and television media and through conversations with friends and colleagues (particularly as a consequence of economic downturn).

Others were happy to take advice from accountants/financial advisers and trust the professionals to seek out the appropriate information they require. This was especially so for those who had funds directly managed by intermediaries. One respondent felt they had a partnership with their accountant and trusted them to guide in the right direction.

Those sole traders and contractors who are seeking information are most likely to look online and are generally looking to make comparisons between the performances of different funds. This has become especially prevalent since the economic downturn. Some found sourcing this information to be time consuming and found it difficult and confusing to draw comparisons between funds.

Often respondents were prompted into seeking information when they received their statements (this also increased in wake of the economic downturn). Some complained that all they received from their funds were annual statements that were difficult to read and, as recently experienced, can provide significant a shock.

> *"I don't actively seek it. It's mainly losing money that triggered it off. That's when we started looking around. Found out it was virtually on par. We could've lost a lot more money than just sitting. Lucky we're not ready to retire just yet." (Sole Trader)*

Those who were more directly involved and engaged in financial processes generally are more likely to read more targeted financial media as well as seeking professional advice.

The usefulness of the information depended on the financial literacy of the individual, with those with higher financial literacy being more likely to be happy with the information they access. However others found the information difficult to understand and want more user-friendly information that contain less 'mumbo jumbo'.

Others complained that it was difficult to make comparisons between different funds as each fund had its own nuances in reporting figures and describing different investment options. An analogy was made to the information provided by telephone companies where they try to differentiate their plans and find comparable information difficult. When compared to the relative ease for comparing share and property values, superannuation was considered a more involved process.

> *"I used to think why can't they just tell me you're worth $2,000. Rather than saying you've got 2,000 units. You're left thinking how much is a unit." (Contractor)*

> *"If I happen to pick up the newspaper with the share prices I can easily compare. It's the same as what I look at with Comsec and in particular Domain.com...those things are really easy." (Sole Trader)*

> *"I think [in] a perfect world... I would look at my [superannuation statement] and it would say this is your current fund and this is the breakdown of your investment and this is how it performed in the last 3 years. ... make it simple to read." (Sole Trader)*

A website that makes comparison easier would be considered a very useful tool. There was also a need identified for free financial advice proved by the Government.

> *"I think there should be some sort of advice as to getting free advice on what sort of fund you should be in. Getting independent advice based on your circumstances at the end of the day it is a bit of a lucky dip." (Contractor)*

Some are discouraged from seeking financial advices as they are too busy.

> *"I think it's all about time management. [I'm] self employed. Don't have a secretary. Got no time to sit down and really read things through." (Sole Trader)*

In general sole traders and contractors felt they were too busy or 'lazy' to actively seek out information on their fund's performance or other funds in general. They are either not that concerned with the performance of their fund (excluding the initial shock and action some took after suffering a capital loss on their fund) or they would prefer to leave that to the professionals as that is what they're paid for.

Others thought that the performance of most funds was too similar to make comparisons meaningful.

> *"In my own readings of the financial press and journals they're all saying the same thing. I think what's the point in hunting and going somewhere else." (Sole Trader)*

7.3.2 Government Regulation of Superannuation

Most sole traders and contractors were not sure which government agencies managed superannuation. Whilst some mentioned the Tax Office, others suggested Treasury, Department of Finance and ASIC.

7.3.3 Compulsory Contribution Concept

In general sole traders and contractors were positive toward the notion of compulsory contributions for people in their position. This reflects their general support of compulsory superannuation. Compulsory contributions provide greater security for them in their retirement.

> *"I think it's a good idea. The danger is when you're self employed you don't allow for this. I think it should apply to everybody in the workforce." (Contractor)*

The support for the imposition of compulsory superannuation did come with appropriate caveats such as having a minimum or set amount that had to be paid, setting a threshold minimal income beyond which superannuation is compulsory or having a fixed price to apply to charges similar to the GST.

> *"It should be some sort of threshold. If you're business is earning x amount and you're up and running." (Sole Trader)*

Those who were opposed to the idea did not like that their ability to choose would be removed and placed the responsibility on the individual to make that choice. One respondent thought it would require additional resources for administration and compliance reporting.

7.4 Knowledge of Specific Superannuation Issues

7.4.1 Early Release of Benefits

Most sole traders and contractors reported that they had limited knowledge of early release of superannuation. There was presumption that there would be a number of restrictions imposed such as being in dire financial circumstances or permanently leaving the country.

7.4.2 Embedded Life Insurance

Awareness of embedded life insurance in superannuation arrangements was not generally high. Some sole traders and contractors had chosen to take this option but others were not sure if it was an option or if it was part of their default superannuation arrangements. Generally there was support of embedded life insurance as part of the default options for a superannuation fund. Even those who had other insurance policies and/or had elected to not take the option offered by their superannuation fund (as it was an additional expense) thought that it was a good idea.

> *"I think it's a really good idea, because people like me who don't think they're in a position to put money into personal insurance at least have something to cover an emergency." (Contractor)*

Some felt that while they supported embedded life insurance, that it was more relevant for those with families and that it should be provided at minimal additional cost. One suggestion was that it could also cover disability insurance making it more relevant for younger people and those without families.

7.4.3 Knowledge of SMSF Restrictions

Knowledge of the investment restrictions for SMSFs was limited. This lack of knowledge generally reflects the low incidence of SMSFs among this group. To protect people's interests respondents felt it was necessary to ensure that good advice/guidance was required for SMSFs and that there should be limitations on the level of risk they can take.

> *"Yes I do have some concerns. There are a lot of people out there with self managed funds that aren't capable of making those decisions or make some very poor decisions". (Sole Trader)*

> *"A bit of guidance would be useful. I'm not sure that trustees are all that good at managing the funds." (Contractor).*

7.4.4 Fees and Commissions

Sole traders and contractors had mixed feelings about the fees paid to funds. Although accepting some form of payment had to be made for management of funds on their behalf, respondents felt that fees were too high and not relative to the amount of work involved or the actual performance of the fund (e.g. the fees remain the same despite poor fund performance). Some called for greater transparency, for fees to be reduced and perhaps a penalty for poor performance.

The following respondent had recently moved from a performance based fund to a service based fund.

> *"I don't think it's appropriate. I think you pay for a service. The service has a cost. I am happy the provider puts a margin on the cost and bills it to me. I think it's totally inappropriate that the fees should reflect the size of the investment. It's almost immoral." (Contractor)*

Those who had advisors to actively manage their fund were happier for those individuals to receive some form of performance-based commission as it recognised a job well done. Some felt that the fees they paid to their fund were more reasonable than others and were generally happy with what they received in return.

7.4.5 Retirement Savings Accounts

Sole traders and contractors had limited knowledge of the existence of RSAs. Once the concept of a bank providing a capital guarantee was explained to them most could see a benefit in that arrangement but recognised that this would require a trade-off for interest rates to provide the safety net. It would be an easy option but not necessarily a profitable one. Some respondents were attracted to the apparent security of their retirement funds in such an account and were interested in investigating further.

7.4.6 Superannuation Fund Advertising

Generally respondents were ambivalent or content about superannuation fund advertising with some seeing value in the commercials.

> *"I quite enjoy the advertising - it is informative" (Sole Trader)*

Most saw that it was a reasonable cost to the member that the fund be able to use marketing to inform people what the fund has to offer and to be able to attract more members. However it was expected that the advertisements would communicate factual information and provide transparent information about costs. It was also expected that the ads would not incur excessive cost through high incidences of airtime and expensive advertisement content.

Although most expected that the membership would have to share the costs associated with advertising some respondents were less comfortable with members having to pay for something from which they were not receiving a tangible benefit.

8 Self-Managed Superannuation Fund Trustees

8.1 Attitudes towards Superannuation

8.1.1 Perspectives of Superannuation

Generally, superannuation is considered by those with an SMSF to be a strong long-term investment option and an important part of a larger portfolio. The Australian superannuation system appears to be working extremely well compared to systems in other countries with a more appropriate balance between compulsory contributions and tax benefits for voluntary contributions.

For some, superannuation is considered particularly important so as to not be reliant solely on the age pension. It is seen as a forced saving plan for young people who are not as likely to commit their funds to a superannuation account voluntarily. The tax benefits associated with superannuation make it best investment to maximise returns – no other investment option is seen to provide the same level of incentive.

> *"Marvellous that government encourages people to be self-funded retirees and the combination of 9% contribution is fantastic, and the encouragement to put more in if available is great. Also fact it is portable and you have choice of funds also." (SMF)*

> *"At my age (64 years) the compulsory contributions are great – if I was 20 I would resent having the money locked away." (SMSF)*

> *"Superannuation is an excellent form of investment – I have a mix of investments in term deposits and shares. I don't have enough to go into property." (SMSF)*

8.1.2 Compulsory Contributions

Most SMSF trustees believe 9% to be insufficient to provide adequate funds at retirement age. There is a general consensus that this amount should be 12% to 15% to provide adequate funds. The reverse of this is that 9% does not put too much pressure on employers and the amount can easily and tax-effectively be supplemented through voluntary contributions. The choice of funds within the compulsory system is considered advantageous as it enables people to have control over how their money is invested.

The compulsory system is seen to be especially beneficial to those who would not normally save for their retirement including young people and those in low incomes.

> *"There is an opportunity to increase the 9%...or to encourage people to contribute more." (SMSF)*

> *"At my age compulsory super is great but at 20 you are resentful of having it taken out." (SMSF)*

"It should be more like 15%. Especially for those who take time out of the workforce like mothers. Most people will not have enough for retirement." (SMSF)

8.1.3 Economic Downturn

Generally, amongst SMSF trustees there was a sufficient level of financial literacy resulting in having either anticipated the economic downturn and moved towards more conservative investments prior to the crash, or to at the very least have not been overly surprised by the impact of the downturn on superannuation balances. As SMSF trustees perceive superannuation to be a long-term investment, the response to the economic downturn was quite minimal. In cases where the downturn was anticipated, the funds were moved into more conservative investments such as cash prior to the downturn. However, if the funds were still invested in higher risk strategies during the downturn, most have maintained their investment strategy to maximise gains from a recovering market rather than crystallising the losses resulting from the economic downturn.

Similarly, most SMSF trustees anticipate some form of "life-cycle investing" and have moved, or intend to move, to more conservative investments as they approach retirement. For some, anticipation of the economic downturn resulted in this strategy being employed earlier than expected; for others they will maintain higher risk strategies for longer than anticipated to maximise gains from the recovering market.

For some SMSF trustees, the economic downturn prompted them to set up their SMSF in the belief that a greater degree of control would result in better returns for their superannuation. Similarly, the downturn produced a degree of cynicism among some people that they could "do a better job" than the experts if all funds were losing significant capital.

"Anyone could see the GFC coming. I sold all my shares and exited the market before 2008 and went into cash. Only now am I starting to reinvest in the market." (SMSF)

"The GFC was a wake-up call – it showed that you must have a balanced portfolio. I moved a lot of money into fixed interest to protect the capital." (SMSF)

8.1.4 Concerns about Superannuation

One of the major concerns among this group was the changing regulations governing superannuation. In some cases (such as the changes to concessional caps) these changes have a negative impact the long-term strategies employed to ensure sufficient superannuation at retirement age. For example, some people intended to maximise their contributions to superannuation when they were closer to retirement, but the concessional caps have prevented them from contributing as much as they planned in their last few working years.

There was a general concern among this group about whether the economic downturn would affect their predicted retirement age depending on the impact on their superannuation levels. Those who have conservative investment strategies generally (or in response to the economic downturn) were concerned about how long the market would take to recover and whether this would provide sufficient time to maximise their superannuation prior to retirement.

8.1.5 Changes to Concessional Caps

There was a high level of awareness about the changes to concessional caps. For those already in retirement phase this was not a problem or a concern. However, for those still in the accumulation phase the caps were of great concern. Many had planned to maximise their contributions towards the end of their working life, most particularly once mortgages and other investments were finalised. The concessional caps have seriously affected this strategy.

At a broader level, the concessional caps were seen to send the wrong message at a time when people are being encouraged to accumulate adequate superannuation. There is no clear and believable justification for applying the caps.

> *"I'm not particularly happy with most recent changes to contribution limits. As someone who had kids at a late age and didn't start putting away for retirement until fairly well into...in my 50s really, the opportunity to contribute heavily in a concessional way was something I felt gave me a decent opportunity to make myself self supporting in retirement. I really think it was a bad move for me and people in my position to limit that opportunity." (SMSF)*

> *"I didn't like the changes [to concessional caps]. I had planned to increase my contributions but I can't do that now." (SMSF)*

8.1.6 Role of Trustee

The key role of the trustee is seen to be acting in the best interests of the fund and to ensure compliance with relevant regulations. The need for separating personal finances and trust finances is highly recognised as is separating the 'emotion' from managing the account. It is seen as "your money, but not yet". Trustees are required to develop and maintain an investment strategy, document financial dealings relevant to the fund and provide thorough and accurate records for auditing.

A number of trustees included in this research do much of the administration for their funds themselves and this requires excellent record-keeping and high attention to detail. Others manage the investments of their funds but use intermediaries such as an accountant to manage the records and audit preparation. Electronic trading and banking is of great assistance in allowing easier tracking and more accurate records.

Others with less active investment strategies find that their role requires little time and effort with the key aspects being aware of changing regulations and ensuring that they are not breached.

> *"The main role is ensuring the funds are growing – it's your money, but not yet. You have to divorce yourself from ownership of the money" (SMSF)*

8.2 Trustee Attitudes and Behaviours

8.2.1 Information Sources for Trustee Role

Most trustees' source regulatory information from the ATO website dedicated to SMSFs and through the ATO newsletter. Financial media is used a lot for those more actively investing for their superannuation funds. Some receive email updates of share advice from companies such as Morning Star, Eureka Report, Australian Stock Report and Wise Owl and some also subscribe to investment magazines such as *Smart Investor*.

Generally, SMSF trustees find these information sources to be sufficient. Some have strong financial backgrounds and find that they have more information than they require. Others occasionally have trouble sourcing particular information but will talk to financial advisors or the Tax Office with specific queries and generally find these sources to be reliable and informative.

8.2.2 Advantages of SMSFs

One of the main advantages of having an SMSF is the control. Linked to this is the sense that the responsibility for success or failure sits wholly with the trustee. Many consider SMSFs to be more cost-effective in terms of fees and charges and many consider their funds to be more successful in achieving growth than if they were with professional funds.

A lot of trustees enjoy their involvement with their fund and find that it becomes a hobby, especially once in retirement phase. Others considered their immediate access to information about fund performance to be advantageous.

8.2.3 Disadvantages of SMSFs

Most trustees do not see many disadvantages of having an SMSF. There is seen to be a particularly high risk to those who are not financially literate and a financial background is considered to be a significant advantage. Similarly, the administration and record keeping required can be intimidating and has the potential to be disastrous if not regularly and closely managed. Others cited some of the limitations of SMSFs as disadvantages such as being able to borrow to buy and investment property.

The other major risk that was highlighted was the potential consequence of making an honest mistake or of not being sufficiently knowledgeable about current regulations. The potential for the ATO to penalise the fund for up to one-half of its assets was considered a significant risk if not managed correctly.

> *"SMSFs can be dangerous – investments like property are more stable." (SMSF)*

> *"Some people might find the administration and legal side confronting – it could be really time consuming. I use all electronic transfers so it's easy for me." (SMSF)*

8.2.4 Improvements to System

Generally, trustees consider the system to work very well and to only need minor improvements. One improvement cited was requiring a certain capital minimum to start an SMSF as the fees and charges can be a significant impost without sufficient capital. There was also concern that there were insufficient checks to ensure that the people starting SMSFs are capable of meeting the requirements of the role, or of being forced to take, and follow, professional financial advice.

There was a need to improve the compliance system with the ATO being able to ensure that trustees are compliant without needing the unnecessary expense of an audit every year. Suggestions to improve this system were to introduce random ATO audits and the threat of significant penalties to ensure compliance. Some felt there was a need to increase the caps for concessional contributions.

8.2.5 Reasons for Establishing SMSF

A lot of trustees had a natural interest in investment or financial management prior to starting their SMSF. This might simply be investing as a hobby, or from having worked in the finance industry. Others wanted the control of a self-managed fund and in some cases the impact of the economic downturn made people believe that they could generate greater growth through a self-managed fund rather than a professional fund.

In most cases the establishment of funds was not generated from a recommendation. In the few cases where it was based on advice, this was generally from professionals such as accountants or financial advisors.

8.2.6 Lost Superannuation

Very few of the trustees had ever lost superannuation and none had been through the process of searching for their own lost superannuation accounts. For the few who had been through this process on behalf of partners or children, they were very supportive of the system and found it easy and straight-forward. It is possible that this reflects the relative stability of these people in terms of being able to provide the required personal details to access lost funds (such as naming employers and providing residential addresses at the time of employment); requirements that may have been harder for some other groups such as young consumers.

8.2.7 Time Commitment to SMSF

The amount of time committed to managing the fund varies greatly between trustees. The amount of time that must be spent depends on how active the fund is. For those with highly conservative strategies almost no time is required. About one hour a month is used to monitor records and gather appropriate information to provide for auditing. Those more actively involved in managing their funds might spend one hour a week checking investments, changing investments and managing records. Others, who have turned management of their fund into a hobby, might spend a couple of hours a day monitoring financial performance and educating themselves about investment opportunities.

> *"I'm very up to speed. I put a lot of time into researching companies before I invest in them – attending shareholders meetings etc. I don't deviate outside normal investment." (SMSF)*

> *"Initially there was a lot of reading. I found the ATO website very informative and got a lot of information from my accountant." (SMSF)*

8.2.8 Degree of Involvement in SMSF

There is a big range in the degree of involvement with self-managed funds depending on the strategy. Some trustees have conservative strategies with money wholly invested in term deposits. This strategy does not require active participation in account monitoring. Others have far more active strategies and are constantly monitoring investment performance and opportunities.

Some undertake monthly reviews and some are part of an SMSF network group to share ideas. A number are not buying and selling on a frequent basis (e.g. 20 to 40 transactions a year described as moderately active) but will not hold onto investments that continue to perform badly overtime. To achieve this, they carefully monitor and are extremely active in terms of monitoring and keeping up to date with investments.

> *"I'm moderately active but I'm not buying and selling everyday – I tend to hold them for longer." (SMSF)*

> *"I don't like to take risks as I'm close to retirement so I'm more passive. Most of my money is in term deposits."*

8.2.9 Importance of Investment Strategy

The investment strategies are considered a critical part of managing the superannuation fund, and while some temporary deviations may have occurred in the wake of the economic downturn, most follow their strategy very closely. It is considered good to document intention and intended outcome and provide a framework of reference for managing the fund. Many have strategies that give them greater flexibility than they generally need. One trustee indicated that while having a strategy is legislated, following the strategy is not.

> *"Having an investment strategy is a good discipline. You understand from the outset what you are trying to achieve – writing it down helps you to focus." (SMSF)*

8.2.10 Source of Information on Investment Options

Those who are more actively managing their accounts identified a number of sources of information about investment options. These include electronic reports such as Morning Star, Smart Co, Alan Cola on ABC, the ASX website and Business Sunday as well as free information sources online. Others used single one-stop sources such as Lincoln Indicators report (which provides graphical information and the ability to project) and information from online brokerage firms such as E-Trade. Most also use the mass media and the financial media such as *The Age* and *The Financial Review*. Others subscribe to dedicated investment magazines such as *Smart Investor*, use financial forums and networks to source opportunities and speak with financial advisors and accountants for information.

8.2.11 Life Insurance as Part of SMSF

Most SMSF trustees do not have any separate life insurance and consider the fund to be sufficient insurance for any dependents who outlive them. For these trustees, life insurance is seen as an additional and unnecessary cost. Others have life insurance as part of their SMSF.

8.3 Information and Advice

8.3.1 Sources of Information about Managing Fund

Most trustees had ample knowledge about managing the fund due to their financial backgrounds, whilst other trustees had sourced the necessary information prior to setting up the fund. A number of information sources mentioned included:

- tax office website, newsletters and forums;
- accountants, financial planners and financial advisors;
- others with SMSFs;
- attending training courses and seminars.

The key information required is on an ongoing basis; particularly in relation to changes regarding regulations and compliance laws. Generally, trustees are able to easily source the information required and find this information to be, reliable accurate and of sound quality. A small number had experienced difficulty finding information about specific areas of interest but generally all information is considered to be available and accessible.

> *"I've been able to find everything I need to know but without bragging I'm very computer literate and have worked with computers since 1980s. ATO has done a good job in the last few years with info available on self-managed superannuation funds, like the booklets on roles and responsibilities of trustees and leaves no doubt in your mind as to what things you need to do, deadlines etc." (SMSF)*

8.3.2 Changing Regulations

Information about regulations is sourced from many areas, mostly through magazines, newspaper reports, ATO website and emails, information from accounting peak bodies, advisory services. Some rely on accountants or auditors to alert them to any changes to regulations.

8.3.3 Use of Intermediaries

Most trustees do a lot of the work of managing the fund themselves. A lot use an accountant to lodge returns and all, as required, have independent auditors to audit their funds annually. One trustee was paying for specialist advisory service to manage investment options but this does not seem to be common.

The assistance provided is usually with collating information, lodging tax returns and auditing. As most have only minimal support from intermediaries, they generally have contact with them once a year and most are paying flat fees for the service. There was some concern among this group that intermediaries would not necessarily act in the best interest of the investors, especially where commissions were involved.

> *"There should be laws to monitor performance and quality of advice – there should be more control over the advice." (SMSF)*

8.3.4 Fund Performance

The incidence of comparing SMSF fund performance with the performance of other funds is mixed. Some compare the performance of their funds against the performance of other SMSF within networking groups. Other compare against major industry funds or other professional funds. It is considered difficult to make a direct comparison and most consider the returns of the funds only and do not take fees into account. Others compare the performance of their fund against share values provided in the general media. For others, as long as their fund is performing to their expectations they do not see a need to compare to other funds.

Most trustees report that their funds have out-performed other comparison funds.

> *"In 5 years I've averaged about 21% ....Australian Superannuation Fund would be around 12.5%. It's a significant margin that I'm up." (SMSF)*

> *"I don't make comparisons – it's too difficult. I would need a more accurate break up of ongoing value. I'm happy as long as it doesn't go into the red." (SMSF)*

> *"I do significantly better when things are good and somewhat bad when things are worse. In long run I'm doing better. That's over 10 years I've been running self managed fund." (SMSF)*

8.3.5 Gearing through SMSF

There is generally a strong resistance to gearing through SMSFs as it is generally considered too risky. A number of trustees cited examples on the stock market where this has been an unsuccessful strategy. Just two trustees were positive about gearing, one who uses this strategy a lot to grow the fund (while recognising it as a high risk strategy) and the other who would be in favour of gearing but considered the process too complex.

"I can understand why they do it but I don't choose to. I don't want to be in a situation where I get caught...if I'd been geared when market dropped... I could have ended up with not much at all in my fund. I want to be able to sleep at night and know that shares I have I own." (SMSF)

8.3.6 Impact of Global Economic Downturn on Investment Strategy

Many investors became more conservative with investments, shifting investments into cash or increasing their focus on blue chip shares, as a consequence of the economic downturn. In a number of cases, this was done prior to the crash as a natural interest in finances had made the downturn seem likely. Some didn't change their strategy at all as they already had diversified portfolios and felt that changing to a more conservative strategy would only crystallise losses already experienced.

No variations to contribution amounts were reported and none considered shifting into a professional fund. In fact, as mentioned previously, some had found that the economic downturn had encouraged them to shift funds from professional funds and into self-managed funds. Generally there is a high degree of confidence that the markets will recover and that losses will be minimised.

"The GFC changed my attitude – I'm much more careful and less trusting now. I never invest more than ten thousand in any one thing." (SMSF)

"It was a big wake up call. I put a lot of money into fixed interest to protect the capital" (SMSF)

"Anyone could see it coming – I put all my investments into cash at the beginning of 2008." (SMSF)

8.3.7 Views on Current SMSF Regulations

Generally, trustees consider the regulations surrounding SMSFs to be appropriate and not overly onerous. On the whole, trustees can see why certain limitations apply and consider them appropriate. It is recognised that the rules have to be strict and that there is plenty of temptation to do the wrong thing if the regulations and penalties were not in place. Most considered the current level of individual responsibility to be in appropriate balance and didn't want to see SMSFs become more regulated.

The restrictions applied to the various types of investments that can be made as part of a self managed fund and are considered appropriate and to be the main strength of the current arrangements. The only weakness identified was the inability to recoup money lost in the SMSF and the cost of the required annual audit.

"I begrudge paying $1000/year which is a small % of my holding but I think it's an unnecessary expense. I would be happy for ATO to audit me at any time. I would do record keeping exactly same way whether being audited or not." (SMSF)

"The regulations are fine once you understand them – once you understand the limitations." (SMSF)

8.3.8 Encouraging Others to Establish SMSFs

Most trustees would be happy to encourage others to establish an SMSF with the caveat that the person has to have a high level of financial literacy and have sufficient interest to dedicate the required time to managing the fund. Similarly, they would have to be technologically literate to be able to manage online transactions and record keeping. Generally it is considered of benefit that SMSFs are an option that is there for people who want to pursue it.

> *"It would depend on their abilities and their accounting and legal knowledge. If this is not their area they should pay for advice." (SMSF)*
>
> *"Yes I would recommend it – for the control." (SMSF)*
>
> *"I wouldn't recommend it – you're in the firing line if you don't do it right. I wouldn't want to advise people." (SMSF)*

8.3.9 Awareness of Life-Cycle Investments

The term "life-cycle investment" is not one that most trustees are familiar with. However, nearly all have the intention to increase their conservative investments as they get closer to retirement age to minimise the risk. Just one trustee indicated they would maintain high risk right up to retirement and this was due to commencing superannuation quite late (2003) and wanting to maximize potential contributions prior to retirement.

> *"I am more aggressive at the moment because I'm only 50 but I will move it into more secure funds as I get older." (SMSF)*
>
> *"I don't know what that is.....but I will become more risk adverse as I get closer to retirement age." (SMSF)*

8.4 Adequacy of Superannuation

8.4.1 Requirement Amount of Superannuation for Retirement

This group is looking to have at least three quarters of a million dollars on which to retire. In most cases, the intention is to live off the interest of the saved amount for as long as possible while still actively growing the capital through management of the fund. There is evidence of some consideration about adequacy of superannuation with deliberations of considering a per-year requirement and discussions on formulas to calculate current needs translated into retirement needs.

Most trustees are making regular, mostly monthly, contributions to their superannuation fund, while others are doing so sporadically when funds are available. They are encouraged to contribute regularly in order to build up the funds quickly in preparation for retirement. The main motivation is to maintain a lifestyle in retirement that one is accustomed to while still having earning capacity.

"I'm working on having $1 million so the money will last for 15 or 20 years after retirement." (SMSF)

8.4.2 Age Pension

Most trustees feel they could not survive on the age pension, at least not with a lifestyle that they consider desirable. For trustees, avoiding being dependent on the age pension is also a matter of pride and dignity. There is some concern among this group that the pension may not always be there as a safety net.

"I'd hate it if I was living like that. I wouldn't be able to do much more than pay my rates, food on table, pay utilities and do very, very low cost activities."

8.4.3 Lump Sum vs. Income Stream

Taking an income stream is considered highly preferable to taking a lump sum withdrawal. Partly this is in respect of the tax benefits of taking an income stream but it is typically to maintain maximum capital in the fund to continue growing the investment. Some intend to take an income stream that will be drawn solely from the dividends of the superannuation account and so minimise impact on capital.

While there is some concern of greater than anticipated longevity and resultant impacts on superannuation adequacy, annuities are treated with some caution. They are considered to be a gamble with no guarantee that they will pay off. Given the significant desire of this group to have control over their superannuation, annuities are considered too rigid an option to be viable.

"Income is a much better option...a lump sum will just go." (SMSF)

"Having an income stream means that the capital can continue performing in the fund." (SMSF)

8.4.4 Superannuation as a Tax Effective Investment

Trustees definitely see superannuation as being a tax-effective investment, and for many it is the most tax effective investment that can be made. This is particularly the case as the funds are not taxed once in pension phase. The tax benefits of salary sacrifice are also considered to make superannuation a tax-effective investment. Superannuation is seen to be more tax-effective for higher income earners than for those on middle or low incomes. The tax benefits are seen as a reward for doing the right thing and investing in a retirement fund.

There is a high level of awareness of the tax benefits associated with superannuation among trustees. They are aware of the lower tax on contributions, the ability to salary sacrifice from gross income, and the tax-free status of funds in pension phase.

There is some level of confusion around the age for tax-free benefits but most are aware that it is either 60 or 65 years of age. Most see this as an incentive to remain in the workforce as long as possible.

Most are not overly familiar with the eligibility rules applying to transition to retirement income streams. Some are aware that information is available on the ATO website and will investigate when they are closer to retirement.

There is some confusion around the preservation age and what it actually means. Some are aware that at 55 years of age they can start to access superannuation although they are also aware that there are some tax implications of doing so.

Most are not overly familiar with the conditions for early release of benefits. Mostly this is because none had experienced the need to seek early release. Generally there was confidence that they could find this information if it was required. Some were aware of the conditions of dire financial circumstances but were not familiar with the details.

> *"Superannuation is best as a long term investment so you can make the most of compound interest. But it can work as a medium or short term investment if you maximise your contributions." (SMSF)*
>
> *"Can't get more tax effective than that." (SMSF)*

9 Accountants and Tax Agents

9.1 Attitudes towards Superannuation

9.1.1 Perceptions of the System

Accountants and tax agents consider recent changes to concessional caps to have made contribution amounts too low, especially for small business and for those who have surplus money at specific points in time. This regulation is seen to be sending the wrong message when people are supposed to be being encouraged to maximise their contributions to superannuation.

There are some concerns among this group that the imposition of compulsory superannuation is meaning that employers encourage employees to become contractors to avoid their superannuation obligations. This group also see that those without continuous employment (particularly women who take maternity leave) are unlikely to be able to accumulate sufficient superannuation. Also, the capping doesn't allow for different employment structures and different incomes.

> *"There is an urgent need for a completely transparent and cohesive strategy that provides a framework for any changes." (Accountant/Tax Agent)*

9.1.2 Perceptions of Compulsory Superannuation

Some accountants/tax agents consider it inappropriate that the employer is contributing to superannuation and feel that it should be the employee making their own contributions. There is also concern that the 9% will not be sufficient to adequately provide for retirement and that it has remained on 9% for too long. It should be up to 12% but there is recognition that this will put greater pressure on employers, especially small employers. It was suggested that a graduated increase of 1% per year may assuage this issue.

The compulsory system is seen as beneficial because it constitutes forced saving and provides tax concessions to encourage saving. There is a sense that this is encouraging people to take responsibility for their own retirement and removing the expectation that retirement will be sponsored by the government. It is also considered beneficial that the employee now has choice of funds as this gives the employee a greater degree of control.

There is some concern about the compulsory nature of the system having a negative impact on employment conditions such as employers pushing employees into contracting to avoid superannuation obligations. Other concerns were about the current limitations on contributions to superannuation, the large growth in SMSF which is seen to impact negatively on long term planning for those who are less experienced with SMSFs and the fees associated with managed being too high and driving up the incidence of SMSFs. Other concerns with superannuation focus exclusively on the impact of large numbers of SMSFs such as low fees for auditing resulting in less accurate audits, lack of penalisation when SMSFs are not compliant and the higher likelihood of SMSF investments concentrating money into low-yielding returns and not stimulating the economy.

"It is necessary to have a compulsory system or people just won't do it…there is no immediate benefit – you have to see things in the long term." (Accountant/Tax Agent)

"Because super is such a long term investment there need to be some predictability built in." (Accountant/Tax Agent

"I've heard stories about people being fired and hired back as contractors so that the employee avoids super obligations." (Accountant/Tax Agent)

9.1.3 Impact of Economic Downturn

The economic downturn and resultant impact on superannuation was seen to have created fear and panic. People lost a lot of money through selling shares at low prices and then converting to cash and crystallising their losses. Some small businesses attempted to access money held in superannuation funds or used money for superannuation to supplement their cash flow. It also discouraged people from making voluntary contributions as they were not seeing the returns and needed to divert the money to more immediate requirements. The economic downturn also highlighted the lack of understanding among people that superannuation is based on the share market and is not independently secure from market fluctuations.

"When the future is uncertain people prioritise their immediate funds – long term investments seem less important." (Accountant/Tax Agents)

"Some businesses started defaulting on super payments because their cash flow was so restricted." (Accountant/Tax Agent)

9.2 Perspective of Accountants/Tax Agents

9.2.1 Overall Functioning of the Superannuation System

The main strength of the superannuation system was seen to be the compulsory nature that forced people to save for the future at times when people would not otherwise be saving, such as when starting out in the workforce or when paying off mortgages and other debts. The choice of funds is also considered to be strength of the system as it encourages better competitiveness in service offer and associated fees between funds.

A number of concerns were expressed by accountants and tax agents about the current superannuation system in Australia. The large retail funds are seen to be driven by profitability and to lack transparency in their fee structures. This encourages some people to look into SMSFs when they lack the financial literacy to be competent trustees. For others is creates frustration and inertia being unsure what they should do. Industry funds are seen to be run more effectively and to produce better returns for lower fees. The fees associated with superannuation funds are in need of urgent review, especially those for rolling over accounts and exiting funds. The fact that accountants who do not hold an Australian Financial Services licence are not allowed to provide advice on financial planning issues, and the payment of commissions to financial planners has resulted in growth of a financial planning industry that does not necessarily act in the best interests of the clients.

> *"The system is fairly healthy – it provides retirement security and choice." (Accountant/Tax Agent)*
>
> *"There needs to be more clarity about what people are paying for in the fees of professional funds." (Accountant/ Tax Agent)*
>
> *"Commissions are an ongoing problem – they should be legislated to provide advice that is in the best interest of the client." (Accountant/ Tax Agent)*

9.2.2 Awareness of Reforms

The only reform that was cited here was the recent changes to concessional caps. Accountants and tax agents were not aware of any other upcoming reforms.

9.2.3 Clients' Knowledge of Superannuation

Accountants and tax agents are concerned that most people do not understand how much they will need in retirement or the cost of good management for a superannuation fund. The area that is most challenging for their clients is around contribution levels and caps.

There is also a level of concern that people can set up SMSFs when they really do not have the knowledge or the skills to ensure that they are run effectively and compliantly. This group believes there should be required evaluation criteria to be met before someone can become a trustee.

> *"Whenever I have spoken to clients about superannuation a lot of them their eyes glaze over. They want something to miraculously happen. You're taking them into an area that is not ordinary, everyday thinking." (Accountant/Tax Agent)*
>
> *"The whole idea [of superannuation] for clients is very challenging. It's not their expertise and all the rules are seen as very complex. Most people think of it as a category of investment." (Accountant/Tax Agent)*

9.2.4 Keeping up to Date

Accountants and tax agents cite ATO newsletters, CPA Australia training courses, manuals and the ATO website as the key sources of information for keeping up to date with changes to the rules governing superannuation.

The most time consuming aspect of the accountant role is reviewing the paperwork and records of trustees with SMSFs. There is a feeling that a standard format should be encouraged as currently it is a lot of work to go through everything to see what has and had not been covered.

9.2.5 Behaviours of SMSF Clients

About one third of the clients dealt with have SMSFs. It is especially prevalent among people with a small business.

Accountants/Tax Agents have mixed views on the success of their SMSF clients in running their funds. Some feel that in some cases there is a dangerous level of ignorance of the rules while others feel that their clients are very aware of the regulations and limitations of SMSFs. Most SMSF clients are close to retirement and this is seen as being beneficial as they have the time and inclination to invest in understanding and monitoring their SMSF. There was concern that the mass media makes SMSF look too easy to manage and overstate the potential differences in positive outcome of SMSFs compared to professional funds.

Generally accountants and tax agents do not encourage people to set up self-managed funds, and in some cases they try to dissuade people from doing so. This reluctance is often motivated by concern about the amount of work involved, the extent to which the client has the fiscal intelligence to have a self-managed fund and the sufficiency of capital to start the fund. In most cases where accountants and tax agents were assisting with SMSF the client had come to them with the fund already established, or having already made the decision that they want to establish an SMSF.

> *"Their knowledge isn't very good …and they don't always know what questions they need to be asking." (Accountant/ Tax Agent)*
>
> *"The mass media misrepresents SMSF – they don't detail the complexity of the rules and the consequences of doing the wrong thing." (Accountant/Tax Agent)*
>
> *"You have to be a financial planner to recommend…so I can't advise whether people should do it or not, but I can tell them how it works." (Accountant/ Tax Agent)*

9.3 Awareness of Specific Superannuation Issues

9.3.1 Superannuation as a Tax-Effective Investment

Generally, superannuation is considered to the most tax-effective investment it is possible to make. However, it is more tax effective for those on middle to high incomes and less effective for those on low incomes. A suggested improvement to the tax-effectiveness of the system was to make it a tiered system for taxable contributions with high income earners contributing to superannuation paying more tax than lower income earners.

Accountants and tax advisors have a high level of awareness and understanding of the tax incentives associated with superannuation. Some of the incentives cited were 15% tax on contributions and tax free payments once in pension phase. They were also aware of the age limit for tax free benefits.

> *"The tax incentives for superannuation are important as they provide compensation for being unable to access the funds." (Accountant/Tax Agent)*
>
> *"Most SMSFs work really well and provide genuine savings vehicles. Those who do the wrong thing give the system a bad name." (Accountant/Tax Agent)*

9.3.2 Transition to Retirement Strategies

These were strongly supported in this group particularly as it allows greater flexibility in how much can be contributed to superannuation at a time when people have the money available as other debts have been finalised. The recent changes to concessional caps are seen to have had a very negative impact on transition to retirement strategies. This is particularly the case where people approaching retirement focussed on paying off debt (such as mortgages) with the intention of maximising superannuation contributions towards the end of their working life. The implementation of concessional caps have had a detrimental impact on their ability to maximise these contributions.

> *"Excellent. Provides people with a direct tax incentive. It works well where people haven't got quite enough, so it encourages them to dump money in at a faster rate. I think the only thing I would suggest is that it could be made more generous. I think there are a lot of people who don't have enough superannuation. Towards 50s when they are earning higher incomes I think they ought to be encouraged to put more into superannuation ." (Tax Agent, NSW)*

Accountants were aware that individuals can retire and access superannuation from 55 years of age, and were also aware that benefits could be released early in the event of financial hardship or disability.

10 Financial Planners

10.1 Attitudes to Superannuation

10.1.1 Current Australian Superannuation System

Overall the superannuation system is seen to be good in principle; particularly that it enables people to have choices about their retirement lifestyle and to have the dignity of being self-funded rather than relying on what is seen as a welfare benefit. It is seen to operate under a sound structure that successfully provides people the opportunity to make sound long term investments which in turn provides a pool of funds to assist in the development of infrastructure.

Financial planners see some serious problems with the current superannuation system arising mostly from the extent of changes to the regulations. There is a lot of concern about recent changes to the concessional caps. This limitation is seen to conflict with the overall message of encouraging people to contribute to superannuation. These limits are seen to particularly impact on those who are self-employed as they often invest heavily in the business and start contributing significant amounts to superannuation much later than others. One financial planner indicated that the caps meant that for those earning more than $200,000 the compulsory 9% can mean that they are contributing more than the cap just with the compulsory contribution. The limitations imposed by the caps could be offset by reducing the 15% tax rate on contributions.

There is also concern that the 9% superannuation guarantee is insufficient and has remained at 9% for too long. This should be increased to 12% although perhaps not in the current economic climate.

The changes made to superannuation have resulted in uncertainty among people who are trying to do the right thing and save for their retirement. This is especially the case for longer-term strategies as there is a lack of confidence that the rules won't change and invalidate the strategy.

> *"The principle is good – it provides dignity and choice to people in their retirement." (Financial Planner)*
>
> *"There are some serious problems [with superannuation].mostly from the inability of the Government to stop making changes." (Financial Planner)*
>
> *"There is lack of clarity now about what people should do – they don't understand....is superannuation still a good investment? Too many knee-jerk reactions by government." (Financial Planner)*
>
> *"I was very angry when they reduced caps on salary sacrificing and making superannuation contributions, I thought it was terrible legislation. Won't let people help themselves. Went against grain of what superannuation is all about. Dismal! That is the most stupid decision in superannuation law in my 25 years by a long way." (Financial Planner)*
>
> *"There is an urgent need to raise the level of contributions that can be made. They should be encouraged to be self-funded" (Financial Planner)*

10.1.2 Compulsory Nature of Superannuation

The compulsory aspect is supported among financial planners but there is concern that the 9% is too low and has remained at 9% for too long. While there is recognition that increasing the amount in the current economic climate will negatively impact businesses, it is not considered sufficient to provide for retirement. The compulsory nature is seen to overcome the reluctance of people to invest in something they cannot access for many years.

> *"The compulsory aspect is excellent – it creates a habit." (Financial Planner)*

> *"9% has been 9 for quite a while. It needs to be lifted but now is not the right time. But really it should be raised to 12%." (Financial Planner)*

10.1.3 Economic Downturn Impact

The impact of the economic downturn on superannuation came as a surprise to a lot of people who somehow though the superannuation was independent of the investment market. In a way it has served to educate people about the nature of superannuation although some still feel that it was superannuation that crashed rather than the share market generally. In terms of reaction, mostly older people are quite sanguine as they have little control. Some people have become quite hostile and lost trust in superannuation funds while some young people are oblivious to the whole concept and take little or no notice of their superannuation.

Generally the clients of financial planners did not change their investment strategies because they had access to education about why superannuation fell and the best strategy to recover the losses.

> *"A lot of people did not understand that superannuation was in the market – there is a better understanding now" (Financial Planner)*

10.2 The Financial Planner Perspective

10.2.1 Reforms to the System

Financial planners feel that there are constant reforms to superannuation. They are aware of the Henry Review and of specific issues being debated such as changing pension age. However it is considered unlikely that any major change will occur in the next 12 months due to the potential political sensitivity of making significant changes in the middle of the Government's term.

> *"I don't think we will see major structural changes…I don't see the government being brave enough to do anything – they would lose government." (Financial Planner)*

> *"We won't see any major changes in the next 12 months." (Financial Planner)*

10.2.2 Time Consuming Aspects of Role

For some the most time consuming aspect of the financial planner role is managing retirement strategies for clients where they are contributing to and drawing from superannuation accounts at the same time. The strategy setting for these people is very time consuming due to the complexities of contributing and withdrawing at the same time.

Others mentioned researching roll-overs from professional into self-managed funds as a particularly time-consuming aspect, especially with industry funds. This can involve extensive research time which can be hard to justify to the client as they don't see the difficulties of tracking down some of the relevant information and the required time to do so.

> *"The most time-consuming part of my job is researching roll-overs into self-managed funds. Particularly from industry funds – trying to work out how much they cost to run…that information is hard to track down." (Financial Planner)*

> *"The mathematical equations based on age and ability to salary sacrifice – the strategies around pre-retirees is the most time consuming part." (Financial Planner)*

10.2.3 Knowledge of Clients

The superannuation guarantee at 9% is general knowledge. Similarly, the 15% tax rate applied to contributions is also considered generally well known and understood. Most clients are fairly sophisticated and see superannuation as part of a larger wealth building strategy, however, the strategies around transition to retirement can become quite complex and be difficult for clients to understand. There was concern that consumers tended to rely on advice provided by people who are not financial planners.

> *"Accountants must be stopped from giving investment advice. There should be an education process about the value of the financial advisor's role." (Financial Planner)*

10.2.4 Keeping up to Date

Financial planners source information about changes from the ATO website, from investment fund managers and tax advisors. There is a concern that information from the government is released too late and that it needs to be pre-empted with other sources of information. Some financial planners have access to forums and training sessions for discussions about change and strategies through their organisations. There are a lot of regular internal discussions and meetings to keep up to date with changes within financial planning organisations.

"We do forms of ongoing education. We meet very regularly and discuss issues and strategies. With a practice the size of ours, information flow is good." (Financial Planner)

> *"Information between planners is good." (Financial Planner)*

> *"We use the ATO site to see the changes. We also attend up to 8 seminars a year on specific issues."*

10.2.5 Self-Managed Superannuation Funds

Most financial advisors have about one-third of their client base with SMSFs. In the majority of cases these are not recommended for clients but rather client's come seeking advice about setting up or managing SMSFs. In some cases financial planners have more clients coming to them needing to dismantle SMSFs than setting them up. One of the concerns with SMSFs is the ongoing ability of trustees to manage their funds at they get older.

Generally clients are not aware of the amount of work required for an SMSF and most who come seeking advice also have minimal knowledge about what they entail and what the limitations are. Mostly financial advisors provide support for the investment aspect of SMSFs and outsource accounting work.

> *"It's fine to have sophisticated and able people running self-managed funds, but as they get older they are less able to run the funds properly as they are incapacitated by age." (Financial Planner)*
>
> *"It's more common that people don't know how much work is involved compared to those who do." (Financial Planner)*

10.3 Effectiveness of Superannuation

10.3.1 Superannuation as a Tax Effective Investment

Superannuation is considered to be highly tax-effective based on the 15% taxation rate for contributions and the tax-free status of funds in pension phase. It is seen to be most tax effective for those earning more than $35,000 due to the income tax brackets. People could be more encouraged to maximise their contributions to superannuation by further cuts to tax on superannuation contributions.

> *"It's the best investment strategy out there in terms of tax incentives." (Financial Planner)*

There is a feeling that the preservation age should be maintained at the current age. Making it older will only serve to further discourage people from contributing to superannuation.

Transition to retirement strategies are also seen to be highly beneficial, even in light of the concessional caps as it gives people the opportunity to make significant contributions to superannuation once all their other debts are finalised.

> *"Great. One of the best things ever brought in, gives people chance to get ahead in their later years where they can salary sacrifice, albeit they have now got reduced caps, still benefit and draw income back out on other side. When legislation was brought in thought it was one of the most brilliant pieces of legislation ever invented." (Financial Planner, VIC)*

The rules around early release of benefits are seen to be appropriate. The perception is that it would be an overall negative result if there was no possibility for people to use superannuation to prevent foreclosure of their mortgage.

11 Superannuation Fund Representatives

11.1.1 Perceived health of Australia's superannuation system

All superannuation fund representatives interviewed indicated they felt the system was working quite well at the overall level, albeit with scope for positive reform 'at the margins' (particularly at an operational level). With a common view that apathy towards superannuation among the general population an almost 'given' of the superannuation landscape in Australia, there was universal agreement that the compulsory contribution elements of the system is critical in ensuring Australians had the opportunity to save for their retirement.

Underpinning the health of the system was the existing regulatory regime, which has shown to be sufficiently robust as to withstand the recent challenging economic and financial market environment. While adherence to this regulatory framework does come at a cost, on balance most felt this was a necessary cost to bear in terms of maintaining the community's confidence in the system itself. Interviewees also noted the regulatory and prudential settings ensured the industry had come through the recent global financial crisis in relatively good shape.

> *"I think employers are paying their superannuation guarantee, I think the understanding of what superannuation guarantee is, is out there, where or not 9% is sufficient or adequate we'll just leave that alone, but employers are paying that, superannuation funds are holding those monies is in trust for benefits of its members, whenever they get to retirement. So I think the basic philosophy behind superannuation is working. I think the superannuation funds, in general, are run quite professionally. I think the fiduciary obligations of the trustee are being met, and you hear all sorts of stories about all sorts of games that people play but essentially I think that's happening. So I think the people that are responsible for holding all of this money are doing so in a responsible manner." (Superannuation fund representative)*

Almost universally, the greatest concern in regards to the health of the system was a potential reduction of confidence among the general public towards superannuation likely to result from multiple changes to the policy framework governing the system. The recent changes to the cap on voluntary superannuation contributions was cited as an example where public confidence in the system had been eroded to some degree, with interviewees reporting that many of those affected were now having to re-evaluate their plans for workforce participation and retirement. These changes were not only affecting views towards superannuation in those facing retirement in the next 5 to 10 years, they were also having an impact on those in the generation below. While many fund managers noted voluntary contributions among those in the 30-45 age bracket tend to decline as they need to use income to fund mortgage payments and the costs of raising families, there was concern that continual changes in rules governing superannuation may not see the usual upswing in voluntary contributions once these members reach a life stage where they have greater disposable income.

> *"I don't think whole combination is meeting the original aim 15/18/20 years ago of getting more people off the old age pension. And the chopping and changing is resulting in people losing*

confidence. I'm expecting that those under 50, for a reasonable amount of those under 50 and to say 'look superannuation's just too hard or I don't trust it' and start putting it –money/ what would have been superannuation money , and putting it into property and other investments."(Superannuation fund representative)

Given the above, while most fund managers cautiously welcomed the review (and could point to a number of aspects of the system where greater efficiencies could be obtained), there was a desire for the system to subsequently be 'left alone' for a reasonable period of time in order to provide planning certainty and boost public confidence in the system and to facilitate greater certainty in planning for retirement.

Most fund managers noted the recent downturn in investment performance had seen an increased focus on fees, which in turn was driving debate about the way industry participants (particularly financial planners) are remunerated (e.g. trailing commissions versus fee-for-service or a combination of the two). While most agreed there was need for reform in this area, there was general reluctance for the Government to become prescriptive in terms of either fees or charges, or the remuneration structure of industry participants. One interviewee from a large retail fund manager noted they were moving to a more transparent fee for service only model by mid-2010 in response to consumer demand.

11.1.2 **Perceived inefficiencies in the system**

Perhaps the greatest scope identified for improving the efficiency of the system was to move the majority of superannuation fund transactions to an electronic basis. Compared to other areas of the financial services industry, fund managers felt there was a significant over-reliance on paper-based transactions within the superannuation industry. Any reforms that included incentives to migrate transactions to an electronic basis - or indeed development of some kind of industry-wide electronic clearing house - would be welcomed by the industry.

"If I'm a member in my fund and I want to put through a trade and say I want to sell 1,000 units of ABC managed funds. That's picked up under my administrator, and then my administrator then faxes off the request to the manager, and the fund manager then processes it and he come backs again and I am sure electronically there could be a lot of speeding up. I suppose there could be a clearing house, you know with the shares you've got the CHESS system that the ASX handles and we don't have equivalent of managed funds. So the process of buying and selling managed funds, I think there can be efficiencies in the process of rolling over monies from one superannuation fund to the other." (Superannuation fund representative)

This call for greater use of electronic–based transactions was common across fund managers interviewed. In the modern financial age, the fact that some superannuation transactions required presentation of cheques was seen as an anomaly and an aspect of the system that increases both the time and cost of transactions.

"There's a lot of inefficiencies, there's a lot of paper that goes on, for example - we have a custodian because it has to be held on behalf of the members for someone other than us, we have a custodian –

one of the big 4 banks. Now they insist that they have to physically write cheques. So the physical cheque has to come out of Melbourne, to Brisbane and then go somewhere else. Now we've convinced them we do some EFT stuff but I can't even convince them that I go to the local branch around the corner, and get the branch around the corner to write the cheque, so my receptionist goes and picks it up and saves postage from Melbourne to Brisbane and 2 days – for God's sake. Some of that sort of stuff is just garbage. There is a lot of work that can be done on inefficiencies." (Superannuation fund representative)

One fund manager noted that while the rationale behind the small balance protection mechanisms was understandable (e.g. to ensure low fund balances are not eroded by fees and charges over time), this hallmark of the system was a key efficiency that should be addressed as part of the review. The cross subsidy of theses balances by active fund members was felt to be both unfair and inefficient. Give this, the way small balances are managed, in particular the timing with which such balances could be shifted to the Tax Office or rolled into other administration vehicles, or the small balances provisions done away with entirely, was one area the fund managers felt warranted greater exploration as part of the review.

Some fund managers felt the anti-money laundering provisions, while there to serve an important purpose, were too onerous, particularly the information collection requirements when funds were being rolled over between accounts with the same provider. It was felt these regulations need to be examined from a risk management perspective to get the balance right between integrity provisions and efficiencies. This was especially the case considering fund managers noted SMSFs are exempt from these provisions.

One fund manager also felt there was scope for efficiency gains in terms of the specific rules governing superannuation funds and the way they are treated under the current rules governing goods and services tax (GST). It was suggested efficiency gains could be achieved if superannuation funds were treated in the same way as other legal entities for GST purposes.

"Certainly a specific area that comes to mind is when you look at GST. Superannuation funds come under specific rules that are different from a normal company, so we cannot recover 100% of the GST we pay out. Instead we can claim – like charities - 5% on some items but not all items. So if we could have a rule change that said that we were treating like any other normal company - that we could just claim 100% on everything, then that would save an enormous amount time and trouble." (Superannuation fund representative)

Another area of the system that was identified as offering scope for increased efficiency was the common requirement of PDSs. One fund manager noted that many funds were risk averse in terms of making reference to other information in PDS documents, and as such tended to make these longer than they needed to be. She suggested common PDS elements could be maintained in an area of the ASIC or APRA website, with superannuation funds then able to direct potential members to this information knowing it would be both complete and accurate.

"Product disclosure statements are another classic. And you know this argument will go round and round and what the short form PDS and incorporation by reference etc. What I'd love to see around that is have the government – in whatever form so as long as it's a site that is government

maintained – be it the ATO or ASIC or whatever a lot of stuff in our PDSs – it's in everybody's PDSs because everybody needs to have it, and everybody's too scared to incorporate by reference, because you're not sure what a regulator is going to slap you on the wrist for not incorporating whatever it may be. But if there was a government-maintained site, where all the contribution rules, and the payment rules and whatever's are held so we can all incorporate by reference to that site. And that site was available to everybody that would cut down on a lot of a drama." (Superannuation fund representative)

11.1.3 GFC impacts

Fund operators noted there had been generally very little movements in either investment type (e.g. a shift to lower risk investment categories) or in level of regular voluntary contributions during the peak of the recent global financial crisis. Those most concerned tended to be those closest to retirement. Some fund managers did note that there had been a reduction in the volume of 'ad-hoc' contributions.

"Those that are locked into a program that have (voluntary contributions) running automatically deducted as a feature in their salary contribution - that hasn't necessarily changed. For those people who have traditionally had to write out a cheque whenever they have had some spare cash or they put their tax return into their superannuation - that has been impacted. I guess that's more the discretionary contribution. And outside that we really haven't seen very many changes at all." (Superannuation fund representative)

Some of the managers of larger funds noted how they had geared up call centre operations on the basis that fund members may have been 'spooked' by the falls in global markets and may have been seeking information or advice. These additional resources were generally under-utilised, with the actual volume of calls or requests for information generally falling well short of what had been expected. Some joked that not even a financial crisis can jolt Australians out of their apathy towards superannuation!

11.1.4 Regulatory regime

Fund members noted they had worked diligently in maintaining positive working relationships with both APRA and ASIC. The reporting impost in relation to these agencies was viewed as considerable, and at times there was a sense of some duplication across the two agencies in terms of reporting requirements. Some fund managers also questioned whether all the information provided is actually used, and said there was scope to be better informed at times about why certain information is being requested and what this information will subsequently be used for.

However, on reflection most felt the regulatory regime was largely appropriate and played an essential role in terms of ensuring public confidence in the system is maintained. There were generally few areas where fund operators could identify where the current regulatory regime needed to be changed or amended.

"I have the detailed involvement with ASIC and APRA. We've got a very good relationship with APRA, and yes, compliance in this world is expensive. Last week I spent 3 days of the week doing things that have got absolutely nothing to do with benefiting my members or growing my fund - rewriting the conflict of interest policy, rewriting the policies on fit and proper and all of those sorts of things. So yes that's been a lot of my time on the regulatory requirements - but they're also there for a reason. So if you were talking to my CFO, he'd tell you a whole lot of regulations are just a joke and it's far too much but I'm a bit more lenient on that – I think there is a purpose to it." (Superannuation fund representative)

11.1.5 **Views on role of superannuation guarantee and voluntary contributions**

While there was general consensus among fund managers that 9% superannuation guarantee was likely to be inadequate to provide a comfortable retirement income for most, there was less agreement abort what should be done to boost levels of superannuation savings overall. Some argued for an increase in the employer contribution to at least 12%, while others felt this was too much of an impost for employers and instead advocated greater tax concessions to encourage higher levels of voluntary contributions. So while agreement existed on the need to boost the level of contributions overall, there was far less agreement about the appropriate way this should be achieved.

One suggestion put forward by a fund manager was to incorporate a form of 'soft compulsion' into the employer/voluntary contribution mix. He suggested a model whereby if a person changes employer, the 'default' voluntary contribution is 3% of superannuation (added to the 9% superannuation guarantee component) rather than the current situation where an employee needs to notify if they want to make any voluntary contribution (e.g. the default level is zero). The fund manager noted that the level of apathy among employees in relation to their superannuation would suggest many may just accept this new arrangement and not change it back down to zero.

11.1.6 **Provision of financial advice**

While the majority of funds offered financial planning advice, take-up of this was generally very low. This was despite the fact that fees for these services could be drawn from superannuation balances. Overall, the majority of fund managers interviewed argued that both greater incentives and education are needed for people to take up financial advice, both free and paid. Making fees paid for financial advice or planning tax deductible was one practical suggestion put forward in terms of encouraging greater engagement between individuals and their financial affairs.

"Look I think most people can probably access (financial advice) but they're probably not aware of it. So awareness is a big part of it and education around those who benefit, but also the process. I think a lot of people are put off (seeking financial advice) by the fact that they could get a complex or invasive process. I mean most of us wouldn't like to have our financial affairs put under the microscope or so to speak so some people have a natural apprehension about that." (Superannuation fund representative)

Several interviewees said the issue was so important as to warrant not just greater engagement of adults in terms of planning for their financial future, but that money management skills should become a much higher priority at both the secondary and tertiary education sectors.

> *"There would be very few funds that don't have education information available on their website, there is some absolutely fantastic basic booklet that ASIC has put out – so everyone has access to it – but they just don't take that step, and do something about it. On that - another soap-box topic of mine, is you can come out of a uni degree – being an accountant, a lawyer, whatever - and not know anything about superannuation. I think we should be teaching much more financial awareness in schools and at university." (Superannuation fund representative)*

11.1.7 Growth of self managed funds seen as a key concern

All fund managers noted the large growth in popularity of SMSFs, with the majority having key concerns about the lack of regulation (compared to that faced by public offer funds) of this sector. Many are losing members who are establishing their own SMSF, often on the advice of an accountant or other intermediary who bears no responsibility for the risks associated with such action. While there was agreement that SMSFs can work well for the right kind of client – generally those with sufficient superannuation assets to warrant the costs associated with the ongoing administration of the fund – the main concern was that those with very modest assets and incomes were being encouraged to establish an SMSF.

> *"What's the driver of growth? I think it's an ego thing. An accountant tells people they control their funds and superannuation funds don't know what they're doing. A lot of people shouldn't be in SMSF. People think they are stock market geniuses. SMSF aren't as regulated – not enough anyway. They are the largest sector and don't come under the control of APRA. SMSF should be regulated by APRA. The additional costs of compliance would make it obvious that SMSF aren't worthwhile. SMSF under $100,000 shouldn't be allowed". (Superannuation fund representative)*

Interviewees felt that this segment of the industry needed greater regulation in order to protect those with insufficient financial literacy from potentially losing their superannuation savings to potentially unscrupulous promoters. It is these advisors, who currently face little to no oversight of their activities, who are seen to be establishing SMSFs solely to create a future income stream from the managing, reporting and compliance tasks required of SMSF trustees.

> *"I think it's too easy for the advisors of self managed fund… they don't have to have any formal qualifications or licence. So you hear of the friend of a friend of a friend saying "go and see this guy and set up a self managed fund and you can do this, this and this", and the average punter sets them up. I've seen the ATO statistics that the 36% of people earn less than $50,000 a year. Now the sort of people that should be in self managed funds are people that have got balance of half a million or more." (Superannuation fund representative)*

Two suggestions were put forward to protect the interests of both existing and potential SMSF trustees. Firstly, there was a call for greater regulatory oversight of this sector by either APRA, ASIC or both. Secondly, fund managers suggested a minimum required asset balance may also protect those who potentially shouldn't be establishing their own fund.

12 Appendices

12.1 Appendix 1: Focus Group Discussion Guide: Consumers

INTRODUCTION (2 MINUTES)

Self, CBSR, thank you for coming, has anyone done anything like this before? Introduce topic, encourage openness and honesty, confidentiality, taping, client viewing (if necessary), 2 hours, qualitative research – no right or wrong answers, turn off mobiles and group rules.

Today we're going to be talking about your views on superannuation. It does not matter how knowledgeable you are about superannuation, we're just really interested in your thoughts and opinions. Are there any questions before we get going?

ICE BREAKER (3 MINUTES)

Before we start, let's introduce ourselves and tell everyone where we are from and what we do.

ATTITUDES TOWARD SUPERANNUATION

- How do we feel about superannuation generally?
- Is superannuation important? How come?
- Where does superannuation fit relative to other important things in your life? What's more important? What's less important?
- What are the good things about superannuation?
- What concerns do we have about superannuation? PROBE: What impact has the Global Financial Crisis had on your thoughts and feelings about superannuation?
- In relation to other investment options (e.g. property, stock market, term deposits) how good or poor an investment do we think superannuation is?
- Is superannuation a good long term investment? How come?
- Is superannuation a good short-medium term investment? How come?
- Have we thought about how much superannuation we'll need when we retire? How come?
- How confident are we that our superannuation will be sufficient for our needs when we retire? How come?

GENERAL KNOWLEDGE ABOUT SUPERANNUATION

- What do we know about superannuation? How does it work?
- What, if anything, have we heard about changes to superannuation?
- What do we know about compulsory contributions or 'the Superannuation Guarantee'?
    - What would we do if we found out our employer had not paid superannuation into our superannuation fund?
- What do we know about voluntary contributions to superannuation?
- What do we know about the tax implications for superannuation?
- What, if any, tax concessions are available in relation to superannuation?
- What do we know about Self Managed Superannuation Funds?

- How much do we know about the different types of superannuation funds? PROBE: RETAIL, PUBLIC SECTOR, INDUSTRY, CORPORATE AND SELF MANAGED SUPER FUNDS. What are the differences between these different types of superannuation funds? In what ways are they similar? IF NECESSARY PROBE: Fees and charges, Member benefits, Life insurance options.
- Are we able to choose which superannuation fund we use?

SUPERANNUATION BEHAVIOURS

- Do we have single or multiple superannuation funds? Why do we have more than one?
    - How come we haven't combined all of our different superannuation funds into a single account?
    - What would encourage us to merge multiple funds into a single account?
    - What are the advantages of having a single account? What are the disadvantages?
    - What are the advantages of having multiple accounts? What are the disadvantages?
    - What would we do if we lost some superannuation? That is, we lost all contact details and account information for one of our superannuation funds.
- Do we make extra voluntary contributions to our superannuation? How come?
    - Do we intend to increase, decrease or maintain our currently level of voluntary contributions? How come?
- How much do we know about the performance of our superannuation fund? Where do we get this information from?
    - Do we actively seek information or wait for it to come to us?
- How many of us chose the superannuation fund that we currently contribute to? And how many of us are using the superannuation fund nominated by our employer?
- Do any of us pay for financial advice regarding superannuation? How come?
- Would we consider paying for financial superannuation advice in the future? How come? When?
- Do we read our superannuation fund's Product Disclosure Statement? Did we understand it?
- FOR THOSE THAT CHOSE THEIR FUND:
    - What are the important factors in choosing a superannuation fund?
    - What information did we use to choose our superannuation fund? PROBE: FEES? PERFORMANCE? RECOMMENDATIONS OR ADVICE – FROM WHO?
    - Did we make comparisons between different superannuation funds? What comparisons did we make? How easy or difficult was it to find this information? Where did we get it?
    - What type (i.e. retail, industry, corporate, public sector, self managed) of superannuation fund did we choose? How come?
    - Did we choose the investment strategy of our superannuation fund? How come?
    - What if information, if any, did we use to choose the investment strategy?
    - What kind of investment strategy did we choose (e.g. higher risk/higher return v medium risk/medium return v lower risk/lower return)? How come?
- FOR THOSE THE USE THE EMPLOYER'S DEFAULT FUND:
    - How come we use the superannuation fund nominated by our employer?
    - Why didn't we choose a different superannuation fund?
    - What type (i.e. retail, industry, corporate, public sector, self-managed) of superannuation fund does our employer use? How come?
    - Did we choose the investment strategy of our superannuation fund? What kind of investment strategy does this superannuation fund employ (e.g. higher risk/higher return v medium risk/medium return v lower risk/lower return)? How come?
- FOR THOSE WITH SELF MANAGED FUNDS (IF THERE ANY IN THE GROUP):
    - How come you chose to self manage your superannuation fund? What are the benefits of self managing? What are the disadvantages?

- How much time would you spend running your Self Managed Superannuation Fund, including all administration and investment activities?

INFORMATION SOURCES AND PREFERENCES

- Where do we get information about superannuation funds?
- What sort of information do we need? Where would we look for it?
- What information do you currently access to help you choose your superannuation fund? What information would you like to have to help choose a superannuation fund?
- What information do you currently have access to help you choose your superannuation fund's investment strategy? What information would you like to have to help choose an investment strategy for your superannuation fund?
- Since 2005 people have been able to choose their own superannuation fund. Has this impacted on our need for information?
- What do you think of the sources of information you have used? What would make them more useful?
- What discourages us from finding out more about the different superannuation funds that might be available to us?
- What things discourage us from seeking information about how our fund performs relative to other superannuation funds?
- Do we seek advice from other people? From who? How does this influence our choice of funds?
- Which government departments or agencies do you think manages superannuation on behalf of the government?

OTHER SPECIFIC SUPERANNUATION ISSUES

- What do we know about accessing superannuation before we retire?
- Are we aware of embedded life insurance in superannuation funds and the associated costs? Are we aware of having been given an option about life insurance? Do we think it should be a default part of the superannuation offer?
- What do we know about the types of investments that Self Managed Superannuation Funds are permitted to make? How do we feel about this? What do we think of their ability to protect their own interests?
- What do we know about the fees we pay to our superannuation funds? Are we aware of the distinction between default fees and commissions? What are the good things about this? What are the bad things about it?
- Are we aware of "Retirement Savings Accounts" (RSA)? RSAs can be offered by banks, credit unions, building societies and life offices? What do we know? They are capital guaranteed by the institution and so are not subject to negative investment returns. Have we or would we consider such a fund? Why? Why not?
- What do we think about superannuation fund advertising? The costs of advertising are spread across the membership to increase membership and improve economies of scale. Did we know this? What do we think of it? What are the good things about this? What are the bad things about it?

WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input. HAND OUT INCENTIVES.

12.2 Appendix 2: Focus Group Discussion Guide: Employers

INTRODUCTION (2 MINUTES)

Self, CBSR, thank you for coming, has anyone done anything like this before? Introduce topic, encourage openness and honesty, confidentiality, taping, client viewing (if necessary), 2 hours, qualitative research – no right or wrong answers, turn off mobiles and group rules.

Today we're going to be talking about your views on superannuation generally and the superannuation of your employees. It does not matter how knowledgeable you are about superannuation, we're just really interested in your thoughts and opinions. Are there any questions before we get going?

ICE BREAKER (3 MINUTES)

Before we start, let's introduce ourselves and tell everyone where we are from and what we do.

ATTITUDES TOWARD SUPERANNUATION

- As employers, how do we feel about employee superannuation generally?
- Is employee superannuation important? How come?
- Where does employee superannuation fit relative to other important things in your business? What's more important? What's less important? Over a typical 3 month period, how much time would we spend discussing or thinking about employee superannuation?
- What are the good things about employee superannuation?
- What concerns do we have about employee superannuation? PROBE: What impact has the Global Financial Crisis had on your thoughts and feelings about employee superannuation?
- In relation to other investment options (e.g. property, stock market, term deposits) how good or poor an investment do we think employee superannuation is?
- Is superannuation a good long term investment for our employees? How come?
- Is superannuation a good short-medium term investment for our employees? How come?

GENERAL KNOWLEDGE ABOUT SUPERANNUATION

- What do we know about employee superannuation? How does it work?
- What, if anything, have we heard about changes to superannuation?
- What do we know about compulsory contributions or 'the Superannuation Guarantee'? How are compulsory contributions handled in your business?
    - How often do you transfer the contributions through to superannuation funds (e.g. every three months or more frequently?)
    - Do you administer the SG payments yourselves or do you outsource this work? If so, to whom do you outsource it (clearing house, superannuation fund, payroll provider)?
    - With the transfer of Superannuation Guarantee payments and employee details - how is this done (e.g. electronic/online or paper based)?
- What do we know about the consequences/ penalties, if any, of not paying the Superannuation Guarantee on time? What do we know about the steps to take if we are unable to pay the Superannuation Guarantee on time?

- What do we think about the current level (i.e. 9%) of the Superannuation Guarantee? Do we think it is sufficient to provide for an employee's retirement?
- What do we know about voluntary contributions to superannuation? How are voluntary superannuation contributions handled in your business?
- What do we know about the tax implications for employee superannuation?
- What, if any, tax concessions are available in relation to employee superannuation?
- What do we know about Self Managed Superannuation Funds? Do any of your employees use Self Managed Superannuation Funds? Do any of us use Self Managed Superannuation Funds?
- How much do we know about the different types of superannuation funds? PROBE: RETAIL, PUBLIC SECTOR, INDUSTRY, CORPORATE AND SELF MANAGED SUPER FUNDS. What are the differences between these different types of superannuation funds? In what ways are they similar? IF NECESSARY PROBE: Fees and charges, Member benefits, Life insurance options.
- Are your employees able to choose which superannuation fund they use? What proportion of your employees use the default superannuation fund for your business? What proportion of your employees' choose their own superannuation fund?

SUPERANNUATION BEHAVIOURS

<u>Default fund & choice of fund</u>

- When a new employee starts in your business, what information (if any) do you give them in regards to superannuation?
    - [IF NONE] Is there any reason for that?
    - What questions have we had from new employees in regards to superannuation?
    - Have you been able to answer these?
        - [IF NOT] Where do you direct them to find that information (if at all)?
- Does your business have a default superannuation fund (e.g. a fund that superannuation is paid into on an employee's behalf if the employee does not notify you of a chosen fund)?
- What information do you provide to the fund when you make the first contribution/ open the new account for a new employee?
- How many of us were involved in the decision to choose the default superannuation fund for our employees? How many of us have been involved in this decision at another business or organisation? How does the process work?

MODERATOR: IF PARTICIPANTS HAVEN'T BEEN INVOLVED IN CHOOSING A DEFAULT EMPLOYEE SUPER FUND, ASK THEM TO ANSWER THE REMAINING QUESTIONS IN THIS SECTION FROM A HYPOTHETICAL POINT OF VIEW. HOWEVER GIVE GREATER EMPHASIS TO THOSE PARTICIPANTS THAT HAVE BEEN INVOLVED IN THIS PROCESS.

- What are the important factors in choosing a default employee superannuation fund? PROBE: FEES? PERFORMANCE? RECOMMENDATIONS OR ADVICE – FROM WHO?
    - Has your organisation been offered any kind of benefits or inducements from superannuation funds to encourage your business to select them as the default fund for your business? [IF YES} What type of benefits have been offered? Which benefits were most attractive to us? Which were less attractive?
- Did we make comparisons between different employee superannuation funds? What comparisons did we make? How easy or difficult was it to find this information? Where did we get it?
- What type (i.e. retail, industry, corporate, public sector, self managed) of superannuation fund did we choose for our employees? How come?
- Are employees given any options within the default fund as to…
    - Their investment risk profile (e.g. cash, conservative, balanced, growth etc.)?
    - The level of insurance cover (either life insurance or total permanent disability insurance)?

IF NO EMPLOYEE INVOLVEMENT IN INVESTMENT PROFILE DECISION MAKING:

    - Did we choose the investment strategy of our employee superannuation fund? How come?
    - What if information, if any, did we use to choose the investment strategy for our employee superannuation fund?
    - What kind of investment strategy did we choose (e.g. higher risk/higher return v medium risk/medium return v lower risk/lower return)? How come?
- Did we read our default employee superannuation fund's Product Disclosure Statement? Did we understand it?
- How much do you know about the performance of the default superannuation fund for your employees? Where do we get this information from?
    - Do we actively seek information or wait for it to come to us?
- Have any of considered changing or actually changed the default superannuation fund for our employees? How come? What happened?
- Do you use the default superannuation fund that your employees use? How come?

<u>Voluntary contributions</u>

- Do you allow your employees to make extra voluntary contributions to their superannuation (via your payroll system)? How come?
    - Do we think our employees intend to increase, decrease or maintain their currently level of voluntary contributions? How come?
    - Do we encourage our employees to make voluntary contributions to their superannuation? How come?
    - Is there any additional administrative burden for your business if employees wish to make voluntary contributions? Is there additional cost involved? If yes, do you pass that cost to the employee/ share that cost or absorb that cost?

<u>Financial advice</u>

- Do any of us pay for financial advice regarding employee superannuation? How come? What kind of advice do you seek regarding employee superannuation?
- Would we consider paying for employee superannuation advice in the future? How come? When?

INFORMATION SOURCES AND PREFERENCES

- Where do we get information about employee superannuation funds?
- What sort of information do we need? Where would we look for it?
- What information do you access to help you choose or evaluate your employee superannuation fund? What information would you like to have to help choose or evaluate your employee superannuation fund?
- What information do you currently access to help you choose ore valuate your employee superannuation fund's investment strategy? What information would you like to have to help choose or evaluate the investment strategy for your employee superannuation fund?
- Since 2005 people have been able to choose their own superannuation fund. Has this impacted on your need for information? Has this made managing superannuation in your business more difficult? In what ways?
- What do you think of the sources of information you have used? What would make them more useful?
- What discourages us from finding out more about the different employee superannuation funds that might be available to us?
- What things discourage us from seeking information about how our employee superannuation fund performs relative to other superannuation funds?
- Do we seek advice from other people? From who? How does this influence our choice of employee superannuation funds?

- Which government departments or agencies do you think manages superannuation on behalf of the government?
- Do our employees ask us for information about superannuation? What information do they ask for?
- Do we have the information that employees ask for? If not, what do we do?

OTHER SPECIFIC SUPERANNUATION ISSUES

- What do we know about employees accessing superannuation before they retire?
- Are we aware of embedded life insurance in employee superannuation funds and the associated costs? Are we aware that some superannuation funds provide the option of life insurance? Do we think it should be a default part of the employee superannuation offer? What does your employee superannuation fund do in relation to life insurance?
- What do we know about the fees our employees pay to our superannuation funds? Are we aware of the distinction between default fees and commissions? What are the good things about this? What are the bad things about it? What fees, if any, do employers like us pay in relation to employee superannuation?
- What do we think about superannuation fund advertising? The costs of advertising are spread across the membership to increase membership and improve economies of scale. Did we know this? What do we think of it? What are the good things about this? What are the bad things about it?

WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input. HAND OUT INCENTIVES.

12.3 Appendix 3: Depth Interview Discussion Guide: Self-Managed Superannuation Funds

1. INTRODUCTION (2 MINUTES)

My name is ------ from Colmar Brunton research. I'd understand that we have an appointment to go through a depth interview today at this time? We will be talking today about superannuation. We may record the call for reporting purposes, but everything you say is confidential. The interview will take up to an hour.

If you do not have any questions we will get started.

2. GENERAL ATTITUDES TOWARDS SUPERANNUATION

- How do you feel about superannuation generally? In relation to other investment options (i.e. property, stock market, term deposits) how good or poor an investment do you think superannuation is? Do you think it is a good short-medium term or long term investment?
- What are your thoughts on the compulsory superannuation system? What works? What doesn't work? How could this system be improved?
- What is your reaction to the recent global economic downturn? How did it change your attitude to superannuation? Did it make you change your superannuation strategy?
- Do you have any specific concerns about superannuation at the moment? What are your intentions with superannuation in the future? Why is this?
- Have you heard of changes to caps for concessional superannuation contributions? What do you know about this?

3. SMSF TRUSTEE ENGAGEMENT WITH THE SYSTEM

- You have been invited to participate in this interview today because you are a trustee for a self managed superannuation fund – is this correct?
    - What does performing this role entail?
    - What information do you access to help you to perform this role?
    - Do you require any further information at this point? Why is that?
    - From your experience, what are the main advantages for a person establishing their own self managed superannuation fund? What are the main disadvantages?
    - If there was scope to improve the system, what changes or improvements would you suggest?
- For what reason/s did you decide to establish a self managed superannuation fund? [PROBE AS TO GREATER CONTROL OVER INVESTMENTS, A FEELING THEY COULD MANAGE FUNDS BETTER THEMSELVES, TAX ADVANTAGES, LOWER/NO FEES, OTHER REASONS]. Were you recommended to establish a self-managed superannuation fund? (If so, by whom? Tax agent, accountant, other?)
- Are you aware of whether you have any lost superannuation?
    - What would you/ did you do about finding lost superannuation?

  - What impact does lost superannuation have on final retirement savings? Does this make it worth finding and incorporating lost superannuation?
  - Are you aware of the current measures being taken to assist people in finding and consolidating lost superannuation? What do you think of these measures? What's good about them? How could they be improved?
- How much time (eg an hour a day) do you spend running your SMSF? (this includes administration and investment activities - including research etc)
- How active/passive are you about investing (eg buying and selling on a regular basis: daily, weekly etc or alternatively is it a set and forget approach?)
- How important is your investment strategy? Do you have one? Do you follow it?
- Where do you get information on investment options? [PROBE RECOMMENDED BY FINANCIAL ADVISOR, FRIENDS, FINANCIAL PRESS]
- Do you have life insurance? Is the cover through your SMSF? If yes, are you self-insured?

4. INFORMATION AND ADVICE

- Where do you get information about managing your own superannuation fund?
  - What sort of information do you feel you need?
  - Are you able to find the required information?
  - What do you think of the quality of the information you access about superannuation? How could it be improved?
- How do you keep up to date with changes to the laws regulating SMSFs?
- To what extent do you 'do it yourself' versus having others help?
  - [IF OTHERS HELP] Who do you receive help from? (PROBE FINANCIAL ADVISERS, ACCOUNTANTS, TAX AGENTS, SPECIALIST SMSF ADMINISTRATION COMPNAIES ETC.)
  - What kind of help or assistance do they provide you?
  - How often do you have contact with them in relation to your SMSF?
  - Are their services generally provided on to you on a commission basis, a flat fee, an hourly fee or a combination of these?
- Do you engage the services of an intermediary to assist with your SMSF reporting obligations?
  - IF YES: What kind of intermediary do you use?(PROBE AS TO TAX AGENT, FINCIAL ADVISOR, SPECIALIST SMSF PROVIDER). What kind of services do they provide to your SMSF? Is it ongoing service?
  - IF NO: How do you describe completing the reporting obligations associated with managing your own superannuation fund? What are the most difficult or time consuming aspects of this process?

5. FUND PERFORMANCE

- Do you compare the performance of your fund against other funds?
  - Which funds or benchmarks do you use as a point of comparison?
  - Do you compare based on investment returns only, or do you take fees into account also?

    - How do you think your SMSF has performed compared to other funds?

- What are your thoughts on gearing through SMSF? Do you use gearing as part of your strategy in your SMSF?
- What impact did the recent global financial crisis have in terms of your investment strategy?
    - Did you vary the amounts you are contributing to your SMSF?
    - Did you shift to more conservative investments?
    - Did you consider shifting funds from your SMSF to a professional fund?

6. FUTURE OF SMSF

- What are your views on the current rules and regulations governing self managed superannuation in Australia? [Probe: views on restrictions and investment rules]
    - What do you see as the main strengths of the current arrangements?
    - What about the main weaknesses or drawbacks?
- Based on your experience, would you encourage others in a similar situation to establish a self managed superannuation fund? Why is that?
- Are you aware of life-cycle investing? Have you changed your investment strategy over time in terms of investment risk? What factors have prompted this review of investment strategy?

7. ADEQUACY

- How much superannuation do you think you will need when you retire? How long does this provide for? What do you think of the adequacy of your superannuation currently? What are your intentions in relation to the adequacy of your superannuation?
- Do you make regular or semi-regular contributions to your self-managed superannuation fund? Why do you (or do you not) do this? What do you think most encourages people to make voluntary contributions to superannuation? What else encourages them? What discourages them?
- What do you think about living on the Age Pension? How is this different if you are living off superannuation? What are the advantages of living of superannuation? What are the disadvantages?
- What is your attitude to taking an income stream contribution versus a lump sum? Why is one better than the other?
- Are you concerned that you may outlive your superannuation assets in retirement? Have you considered any strategies you could use to reduce this risk? For example, have you considered purchasing an annuity? Why is that?
    - IF INTENTION IS TO TAKE AN ANNUITY/PENSION/INCOME STREAM RATHER THAN LUMP SUM: Do you intend to draw funds down from your SMSF, or will you rollover your benefits to another fund to do so?

8. EQUITY

- Do you consider superannuation to be a tax effective investment? Why is this?
- What tax incentives are you aware of? What do you think of these? Are some more significant than others? Do they work? Do they need improving? How could they be improved?

- Are you aware of the age limit for tax free benefits? What do you think of this?
- Are you aware of the eligibility rules applying to transition to retirement income streams? What do you think of this strategy?
- Are you aware of the preservation age? What do you think of this?
- Are you aware of the conditions for early release of benefits? What do you think of these?

9. WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input.

12.4 Appendix 4: Depth Interview Discussion Guide: Tax Agents/Accountants, Financial Planners, Bookkeepers

1. INTRODUCTION (2 MINUTES)

My name is ------ from Colmar Brunton research. I'd understand that we have an appointment to go through a depth interview today at this time? We will be talking today about superannuation. We may record the call for reporting purposes, but everything you say is confidential. The interview will take up to an hour.

If you do not have any questions we will get started.

2. GENERAL ATTITUDES TOWARDS SUPERANNUATION

- At the broadest level, how would you rate the health of Australia's superannuation system?
    - What elements of the system do you think are working well?
    - What elements are not working as well?
    - What elements (if any) of the current superannuation system do you feel is in most urgent need of review? Why is that?
- What are your thoughts on the compulsory nature of the superannuation system? What works? What doesn't work? How could this system be improved?
- What is your reaction to the recent global economic downturn? What impact have you seen this have in terms of attitudes towards superannuation in the broader community? Has it changed your attitude towards superannuation at all?

3. FINANCIAL PLANNERS

- As a financial planner, what are your views regarding the way the Superannuation system operates in Australia?
    - What are the key strengths of the current system?
    - And what are the weaknesses of the system?
- Are you aware of any potential reforms to the system?
    - [IF YES] What have you heard about? Where did you hear about this?
    - If this was to happen, how would this impact on your business?
- In your role, what is the most time consuming aspect when it comes to superannuation matters?
- How would you describe your client's level of knowledge on superannuation matters?
    - Do they look to you as a key channel for advice on superannuation? [IF YES] Are you able to provide this advice? If you are unable to provide this advice, do you refer your client to another party? If so, who do you generally refer them to?
    - Which aspects of the system do you/your clients find most difficult or challenging?

- How do you keep up to date with changes to rules governing superannuation? (PROBE GOVERNMENT CHANNELS, INDUSTRY CHANNELS ETC.)
    - Are there any aspects of the system you require more information on?
    - How should this information be provided to you?
- What proportion of your clients have established a Self Managed Superannuation Fund?
    - Did they suggest this to you, or was this on your recommendation?
    - [IF ON RECOMMENDATION] Why do you recommend clients establish a self managed superannuation fund? (PROBE PERCEIVED BENEFITS SUCH AS LOWER FEES, BETTER INVESTMENT RETURNS, OTHER FACTORS ETC.)
    - Do you think your clients are aware of the amount of work and responsibility associated with operating an SMSF?
    - Do you/your firm play an ongoing role in terms of…
        - Investment strategy for SMSF?
        - Administration and Governance reporting for SMSFs?
        - Auditing?

4. ACCOUNTANTS/TAX AGENTS

- As an accountant/tax agent, what are your views regarding the way the Superannuation system operates in Australia?
    - What are the key strengths of the current system?
    - And what are the weaknesses of the system?
- Are you aware of any potential reforms to the system?
    - [IF YES] What have you heard about? Where did you hear about this?
    - If this was to happen, how would this impact on your business?
- How would you describe your client's level of knowledge on superannuation matters?
    - Do they look to you as a key channel for advice on superannuation? [IF YES] Are you able to provide this advice? If you are unable to provide this advice, do you refer your client to another party? If so, who do you generally refer them to?
    - Which aspects of the system do you/your clients find most difficult or challenging?
- How do you keep up to date with changes to rules governing superannuation? (PROBE GOVERNMENT CHANNELS, INDUSTRY CHANNELS ETC.)
    - Are there any aspects of the system you require more information on?
    - How should this information be provided to you?
- In your role, what is the most time consuming aspect when it comes to superannuation matters?
- What proportion of your clients have established a Self Managed Superannuation Fund?
    - Did they suggest this to you, or was this on your recommendation?

    - [IF ON RECOMMENDATION] Why do you recommend clients establish a self managed superannuation fund? (PROBE PERCEIVED BENEFITS SUCH AS LOWER FEES, BETTER INVESTMENT RETURNS, OTHER FACTORS ETC.)
    - Do you/your firm play an ongoing role in terms of…
        - Investment strategy for SMSF?
        - Administration and Governance reporting for SMSFs?
        - Auditing?
- Do you manage superannuation matters for any business clients (e.g. play a role in the administration of quarterly superannuation guarantee payments, etc.)?
- [IF YES] What specific functions do you perform in relation to superannuation for your business clients?
    - Do you have any comments in relation to the way the 'superannuation guarantee' element of the current superannuation system from an administrative perspective?
    - If administers SG for client, how often does your client fulfil their SG obligations? [weekly, fortnightly, monthly, quarterly, longer]

5. BOOKKEEPERS PROVIDERS

- As a bookkeeper service provider, what are your views regarding the way the Superannuation system operates in Australia?
    - What are the key strengths of the current system?
    - And what are the weaknesses of the system?
- Are you aware of any potential reforms to the system?
    - [IF YES] What have you heard about? Where did you hear about this?
    - If this was to happen, how would this impact on your business?
- How would you describe your client's level of knowledge on superannuation matters?
    - Do they look to you as a key channel for advice on superannuation? [IF YES] Are you able to provide this advice? If you are unable to provide this advice, do you refer your client to another party? If so, who do you generally refer them to?
    - Which aspects of the system do you/your clients find most difficult or challenging?
- How do you keep up to date with changes to rules governing superannuation? (PROBE GOVERNMENT CHANNELS, INDUSTRY CHANNELS ETC.)
    - Are there any aspects of the system you require more information on?
    - How should this information be provided to you?
- In your role, what is the most time consuming aspect when it comes to superannuation matters?
- What proportion of your clients have established a Self Managed Superannuation Fund?
    - Do you/your firm play an ongoing role in terms of…
        - Investment strategy for SMSF?
        - Administration and Governance reporting for SMSFs?

        - Auditing?

- Do you manage superannuation matters for any business clients (e.g. play a role in the administration of quarterly superannuation guarantee payments, etc.)?
- [IF YES] What specific functions do you perform in relation to superannuation for your business clients?
- If administers SG for client, how often does your client fulfil their SG obligations? [weekly, fortnightly, monthly, quarterly, longer]
    - Do you have any comments in relation to the way the 'superannuation guarantee' element of the current superannuation system from an administrative perspective?

6. OTHER SPECIFIC SUPERANNUATION ISSUES (ASK ALL)

- Do you consider superannuation to be a tax effective investment? Why is this?
- What tax incentives are you aware of? What do you think of these? Are some more significant than others? Do they need to improve? How can they be improved?
- Are you aware of the age limit for tax free benefits? What do you think of this?
- What are your thoughts on transition to retirement strategies?
- Are you aware of the preservation age? What do you think of this?
- Are you aware of the conditions for early release of benefits? What do you think of these?

7. WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input.

12.5 Appendix 5: Depth Interview Discussion Guide: Industry Stakeholders

1. INTRODUCTION (2 MINUTES)

My name is ------ from Colmar Brunton research. I'd understand that we have an appointment to go through a depth interview today at this time? We will be talking today about superannuation. We may record the call for reporting purposes, but everything you say is confidential. The interview will take up to an hour.

If you do not have any questions we will get started.

2. GENERAL ATTITUDES TOWARDS SUPERANNUATION

- At the broadest level, how would you rate the health of Australia's superannuation system?
  - What elements of the system do you think are working well?
  - What elements are not working as well?
  - Which elements (if any) of the current superannuation system do you feel are in most urgent need of review? Why is that?
- What are your thoughts on the compulsory nature of the superannuation system? What works? What doesn't work? How could this system be improved?
- What is your reaction to the recent global economic downturn? What impact have you seen this have in terms of attitudes towards superannuation in the broader community? Has it changed your attitude towards superannuation at all? Do you think it has changed the investment strategies of the individuals and funds both within and outsides of superannuation?

3. EFFICIENCY

- Do you feel the current structure of the superannuation system is efficient?
  - Can you identify any specific inefficiencies warranting attention?
  - How could the efficiency of the system be improved?

4. REGULATION

- What are your views on the current regulatory regime governing the superannuation system?
  - Where do you see scope for positive reform?
  - Are there any key barriers or obstacles to achieving this?
- There has been some recent debate regarding the level of the superannuation guarantee at nine percent (9%) – do you have a view on this?
- What are your views on the roles of intermediaries in the system (e.g. financial advisers, accountants etc).
  - Do you see the need for any changes in the level of regulation of these intermediaries? Why is that?

- Self Managed Superannuation Funds have grown significantly in popularity in recent years.
    - What factors do you see as driving this?
    - What impact is the growth of self-managed superannuation funds likely to have on the broader superannuation industry (if at all)?
    - What are your thoughts on trustee education? Should there be minimum training standards set for trustees similar to those for financial product advisors?

5. INFORMATION AND ADVICE

- Do you think most Australians have access to the information or advice they need to make informed decisions regarding their superannuation?
    - What sort of information do you feel most people need?
    - Is this information available? Where is this available from (PROBE GOVERNMENT, SUPER FUNDS, OTHER SOURCES)
    - What do you think about the frequency and level of information provided to people by their superannuation funds?
    - What do you think of the quality of information available to people regarding superannuation? How could it be improved?
- What are your views on the ability of Australians to access financial advice?
    - What impact does this have on the ability for people to make informed decisions about their superannuation?
    - Do you think most Australians are well informed about commissions associated with obtaining financial advice? If not, how can it be improved?
    - Do you have any views other views in relation to financial advice?
- Do you think most Australians are aware of the fees and charges associated with their superannuation account [administrative, advisor commissions, insurance premiums]?
    - Do you think they understand the impact on their account balance?
    - Do you think they are generally satisfied with the cost of superannuation?

6. ADEQUACY & EQUITY

- Does superannuation provide an avenue for all to save adequately for their retirement?
    - Which sectors of our community are most advantaged by the current settings?
    - Which sectors of our community (if any) are disadvantaged by current superannuation arrangements?
    - Do you have any views as to what needs to be done to ensure…
        - The equity of the superannuation system?
        - Australians have adequate savings to support themselves in retirement?
- What do you think about living on the Age Pension? How is this different if you are living off superannuation? What are the advantages of living of superannuation? What are the disadvantages?

- What is your attitude to drawing an income stream versus taking a lump sum? Why is one better than the other?
  - Do you think the current range of income stream products is sufficient?
  - There has recently been a debate around the use of annuities to address longevity risk. Do you have any views on this?
- Do you consider superannuation to be a tax effective investment? Why is this?
  - Which aspect of the taxation arrangements do you think is most effective in encouraging individuals to save for their retirement (for example: compulsory SG? 15 per cent tax rate? Government co-contribution? Tax-free superannuation for those over age 60 in taxed scheme?)
- What tax incentives are you aware of? What do you think of these? Are some more significant than others? Do they need improving? How can they be improved?
- Are you aware of the age limit for tax free benefits? What do you think of this?
- Are you aware of the transition to retirement strategy? What do you think of this?
- Are you aware of the preservation age? What do you think of this?
- Are you aware of the conditions for early release of benefits? What do you think of these?
- Have you heard of proposed changes to caps on personal contributions to superannuation? What do you know about this?

7. WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input.

12.6 Appendix 6: Depth Interview Discussion Guide: Sole Traders And Contractors

1. INTRODUCTION (2 MINUTES)

My name is ------ from Colmar Brunton research. I understand that we have an appointment to go through a depth interview today at this time? We will be talking today about superannuation. We may record the call for reporting purposes, but everything you say is confidential. The interview will take up to an hour.

If you don't have any questions we will get started.

2. ATTITUDES TOWARD SUPERANNUATION

- How do you feel about superannuation generally?
- Is superannuation important? How come?
- Where does superannuation fit relative to other important things in your life? What's more important? What's less important?
- What are the good things about superannuation?
- What concerns do you have about superannuation? PROBE: What impact has the Global Financial Crisis had on your thoughts and feelings about superannuation? Did you vary your investment options as a result of the GFC?
- In relation to other investment options (e.g. property, stock market, term deposits) how good or poor an investment do you think superannuation is? Is this dependent upon age? i.e. the life cycle for superannuation
- Is superannuation a good long term investment? How come?
- Is superannuation a good short-medium term investment? How come?
- Have you thought about how much superannuation you'll need when you retire? How come?
- How confident are you that your superannuation will be sufficient for your needs when you retire? How come?

3. SUPERANNUATION BEHAVIOURS

- Do you have an active superannuation account (e.g. one that you are paying monies into regularly or semi-regularly)?

  IF YES (NOTE THAT THOSE WHO ARE SELF EMPLOYED AS SOLE TRADERS/CONTRACTORS ARE NOT LEGALLY OBLIGED TO CONTRIBUTE TO SUPERANNUATION FOR THEMSELVES)
  - What are the important factors in choosing a superannuation fund?
  - What information did you use to choose your superannuation fund? PROBE: FEES? PERFORMANCE? RECOMMENDATIONS OR ADVICE – FROM WHOM?
  - Did you make comparisons between different superannuation funds? What comparisons did you make? How easy or difficult was it to find this information? Where did you get it?

  - What type (i.e. retail, industry, corporate, public sector, self managed) of superannuation fund did we choose? How come?
  - Did we choose the investment strategy of our superannuation fund? How come?
  - What if information, if any, did you use to choose the investment strategy?
  - What kind of investment strategy did you choose (e.g. higher risk/higher return v medium risk/medium return v lower risk/lower return)? How come?
  - Who advised you? (no-one, accountant, financial adviser…etc)
  - Do you have life or other insurance? If so, is it through your superannuation account or direct with a provider?
- Do you have single or multiple superannuation funds? Why do you have more than one?
  - How come you haven't combined all of your different superannuation funds into a single account?
  - What would encourage you to merge multiple funds into a single account?
  - What are the advantages of having a single account? What are the disadvantages?
  - What are the advantages of having multiple accounts? What are the disadvantages?
  - What would you do if you lost some superannuation? That is, you lost all contact details and account information for one of your superannuation funds.

IF NOT REGULARLY CONTRIBUTING TO AN ACTIVE SUPERANNUATION ACCOUNT:

- Is there any reason why you don't contribute to a superannuation fund? Or are you investing outside of superannuation?
  - Are you aware that contributions to superannuation by sole traders & contractors are fully tax deductible? (providing you haven't earned more than 10 per cent of your income in salary and wages)?
  - Are you aware that you may also be eligible for a superannuation co-contribution payment?
  - Do you have any concerns about how you will live in retirement without any superannuation?
  - What might motivate you to start contributing regularly to a superannuation account?
  - IF INTERVIEWEEE SAYS THEY INVEST FUNDS DIRECTLY RATHER THAN THROUGH SUPER:
  - Are you aware you may be paying more tax on these types of direct investments rather than investing in a superannuation fund or holding these assets in a self-managed superannuation fund?
  - What are the advantages of holding these assets directly? Do these advantages outweigh the costs?
  - Do you have life or other insurance? If so, is it through your superannuation account or direct with a provider?

FOR THOSE WITH SELF MANAGED FUNDS:

  - How come you chose to self manage your superannuation fund? What are the benefits of self managing? What are the disadvantages?

  - How much time would you spend running your Self Managed Superannuation Fund, including all administration and investment activities?
  - Do you involve others in the running of your Self Managed Superannuation Fund? If so, who and in what capacity?
  - Do you have life insurance through your SMSF? If yes, are you self-insured?

4. INFORMATION SOURCES AND PREFERENCES

- Where do you get information about superannuation funds?
- What sort of information do you need? Where would you look for it?
- What do you think of the sources of information you have used? What would make them more useful?
- What discourages you from finding out more about the different superannuation funds that might be available to you?
- What things discourage you from seeking information about how your fund performs relative to other superannuation funds?
- Do you seek advice from other people? From who? How does this influence your behaviour with regards to superannuation?
- Which government departments or agencies do you think manages superannuation on behalf of the government?

5. OTHER SPECIFIC SUPERANNUATION ISSUES

- Do you think that sole traders and contractors should contribute 9 per cent of their labour income into superannuation, just as employers do for regular employees?
- What do you know about accessing superannuation before you retire?
- Are you aware of embedded life insurance in superannuation funds and the associated costs? Are we aware of having been given an option about life insurance? Do you think it should be a default part of the superannuation offer?
- What do you know about the types of investments that Self Managed Superannuation Funds are permitted to make? How do you feel about this? What do you think of their [trustee/members] ability to protect their own interests?
- What do you know about the fees we pay to our superannuation funds? Are you aware of the distinction between default fees and commissions? What are the good things about this? What are the bad things about it?
- Are you aware of "Retirement Savings Accounts" (RSA)? RSAs can be offered by banks, credit unions, building societies and life offices? What do you know? They are capital guaranteed by the institution and so are not subject to negative investment returns. Have you or would you consider such a fund? Why? Why not?
- What do you think about superannuation fund advertising? The costs of advertising are spread across the membership to increase membership and improve economies of scale. Did you know this? What do you think of it? What are the good things about this? What are the bad things about it?

6. WRAP UP

Thanks – any final comments or questions. Thanks for your time and your input. CONFIRM ADDRESS DETAILS FOR INCENTIVES.