ASIC

Australian Securities & Investments Commission

REPORT 31

Consumer decision making at retirement

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CHANT LINK & ASSOCIATES

A REPORT FOR ASIC ON CONSUMER DECISION MAKING AT RETIREMENT

Project 2514

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EXHIBITS

1. EXECUTIVE SUMMARY

1.1 Background and Structure of This Report

The current research for ASIC involved 10 focus groups among people who have retired from full time employment in the last 12 months, and who have made a decision as to what they would be doing with their super benefit. The group discussions were held in Sydney and Melbourne, and only those who had a super benefit of $50,000 or more were included. The research sought to understand the decision processes undertaken, and to identify awareness and knowledge of the main options available to retirees when deciding what to do with their superannuation benefit.

The report mainly deals with the current research exercise. However, since an earlier piece of research conducted for the Investment and Financial Services Association (IFSA) dealt with a similar topic and included a quantitative survey of 400 pre-retirees and 200 retirees, Section 7 provides a summary of the main relevant findings from the 2001 IFSA survey in order to augment the current findings.

The following is a summary of the main findings.

1.2 Main Findings From the Current Qualitative Research

The main findings from the 2004 focus groups conducted for ASIC were as follows.

1.2.1 Retirees Have Imperfect Knowledge of Their Past Super Benefit Decisions

Difficulties in recruitment illustrated a number of things about people who have faced the decision concerning what to do with their super benefit once they cease full time employment:

- Many people had taken a mix of lump sum and an allocated pension.
- It was difficult to find people who had purchased a life annuity or pension.

- Many people were confused by the terminology used in recruitment (allocated pension or annuity versus life pension or annuity) due to these terms not being in common use, they did not understand the products very well, and they had difficulty in recalling the correct label for what they had purchased.
- Some people had difficulty in stating even an approximation of the percentage split they had decided upon (between lump sum, allocated pension/annuity and life pension/annuity). From those who attended the group discussions, later findings showed this may have been partly because of the complexity of the whole decision area, and a consequent reliance on the advice of a financial planner.
- At the time of recruitment for this research, many people had difficulty estimating the degree of their dependence on income from their super benefit as a proportion of all forms of income they personally had, in retirement. Later discussions with those who attended the focus groups showed this type of calculation was something that, for many people, required a detailed conversation, and some assistance from a financially literate person.

1.2.2 Level of Interest in Super Prior to Retirement

- The vast majority of people thought little about their superannuation until retirement or retrenchment was imminent, or there was a particular trigger (eg change of job, illness, divorce).
- While those in government organisations or larger companies were better informed about superannuation, most of them also thought little about their superannuation, until they really had to (at or near retirement).
- There was a range of attitudes towards superannuation. While most felt it was good to have superannuation, a number of people displayed reservations about the wisdom of putting all of their assets in superannuation (as opposed to holding some assets outside of super) driven by perceptions of poor recent returns, fees and charges related issues, and a relative lack of awareness, understanding or acceptance of the taxation benefits associated with superannuation.
- Thinking about income stream decisions (in terms of what to do with the superannuation benefit post-retirement) was almost non existent in the pre-retiree stages, as is further explained below.

1.2.3 Thinking About/Planning for Retirement in Advance

- Retirement from full time employment was often early and unexpected. This resulted in many people having little or no opportunity to plan for a range of aspects of retirement, including financial aspects.

- Full retirement often occurs over a period of time, as many retirees continue with some part time paid employment. In addition, many of them have other sources of income, such as a spouse still in employment. This has many important consequences. One of these is that many retirees do not need to immediately access any of their super benefit. Another is that some retirees need to reassess their initial decisions about retirement income streams if and when they periodically re-enter the workforce.

- There were widely varying attitudes to retirement itself, and to the task of planning for retirement.

- Even among those whose retirement date was known well in advance, there was little forward planning for retirement, other than in a very general sense. The most usual preplanning had been limited to thinking about whether they wanted to retire, roughly when they would like to retire, and in some cases, analysing how much money they may need to have accumulated to invest for an income in retirement.

- Very few retirees had been aware of or given thought to the need to make a decision as to what to do with their superannuation benefit once they had retired from full time employment.

- A small minority had done sufficient planning for retirement to realise they would need to plan exactly how their income stream would be structured. These tended to be some of those who worked in larger corporations or some government sector employers, who had been exposed to seminars and publications over a period of time, either from their employer or their union.

1.2.4 Awareness of Need to Make a Decision

- Most retirees felt that they only became aware of a need to make a decision about what to do with their super benefit at or after the point of retirement from full time employment (not significantly before this point in time).

1.2.5 Awareness of Main Three Options

- They were similarly, usually unaware of the main three options available to them at that time. (The main options are: allocated pensions/annuities, life pensions/annuities, and a lump sum).
- Once they approached or had reached the point of retirement however, they had become aware of both a need to make a decision, and at least two of the options available to them (eg – take a lump sum or buy an allocated pension, or possibly a mix of these).
- At that stage, most felt compelled to pay attention to the decision and learn something about the options. Retirees attended to this in various ways and with various levels of attention and interest.

1.2.6 Knowledge Levels at Point of Making a Decision

- Most felt that, at the time of making a decision, they knew enough about the options in order to make a decision that suited their needs.
- However, discussion revealed their knowledge was less than perfect and that in retrospect, many would have liked to have achieved a greater understanding of the options prior to making a decision.

1.2.7 Access to Information

- The majority felt they had sufficient access to information about the main options facing them. However, there were many difficulties in absorbing and analysing the significant quantity of information to which most of them had been exposed.
- Very few participants could recall receiving literature from their super funds concerning the various options open to them at retirement, and indeed many said they received no information until they contacted their fund.
- Early retirees usually said that, upon contacting their funds, they received only a statement of the dollar value of the super benefit available to them at that point in time.
- Similarly, retirees at the statutory retirement age did not usually recall receiving anything more than a statement of benefit available and a request for the member to make a decision as to what they would like the fund to do with this benefit.

- Some people could recall receiving something about the main options open to the fund member on retirement, although none had received simple yet insightful information in such paperwork.

1.2.8 Main Information Sources Used

- There was a wide array of information sources used by retirees, in preparation for making a decision about their super benefit after retirement. These included:
  - Financial planners (where more than one was often consulted).
  - Respected colleagues, networks or family members.
  - Accountants.
  - Trade unions.
  - Bank advisers.
  - Their super funds (literature and/or advice).
  - Other fund managers and insurance companies.
  - Seminars (often several).
  - Magazines, newspapers, radio talkback, television.
  - Web sites and emails.
  - Employers.
  - Impartial sources (eg Australian Taxation Office, Centrelink, Department of Health, National Information Centre on Retirement Investments [NICRI]).
- The most used and most trusted sources of information varied across the sample, and provided a useful way of segmenting the retirees market for ASIC's purposes. The two largest such segments were:
  - Financial planner/advisor oriented retirees. These tended to be either guided by their planner in decision, or assessed friends and colleagues' views against those of their planner,
  - Independent active information seekers. These retirees liked to make their own decision based on many sources. A subset of this group were those who were:
    - Seekers of totally unbiased advice.

Several minority segments showed other patterns of information usage and dependence:

- Reactive retirees.
- Independent lump sum focused retirees.

1.2.9 Tax and Social Security Information and Advice

- Tax and social security information and advice was something that retirees felt could only be properly explained to them by an adviser (rather than in any literature).
- While taxation was a feature of financial planner's and accountant's advice, discussion on the main options showed that taxation issues were not regarded as instrumental (in this decision) by many people in each of the focus groups. In many instances, views about taxation were naïve or missed the point about taxation advantages of allocated or life pensions/annuities.
- Overall, the complexity and frequent changes in eligibility rules for social security and taxation treatments on super meant that retirees either ignored these issues, or simply asked their adviser for guidance on the best option for them to take.

1.2.10 Awareness and Understanding of the Three Main Options

- Unprompted, only a few people could give a reasonable list and description of the three main options available for their super benefit on retirement.
- However, when provided with descriptions of the main attributes of the three options, most people said felt they understood them sufficiently to make a decision at the time of retirement. Later discussion, however, showed many were not fully aware of all of the options - especially about life annuities.
- However, retirees were also very confused about the terminology, often mis-using the four terms: allocated, life, annuities and pensions. The most resonance existed with the two labels: "allocated pension" and "life annuity", probably because these have been the products and terms most often marketed and used by the industry.
- There was usually some confusion regarding one or more of the attributes of each of the three main options, for at least one third of each focus group. In particular, the attributes of life pensions/annuities were not as well known to retirees as the other options.

- There were a number of examples of a lack of understanding of the potential negative tax implications associated with taking the benefit as a lump sum.
- Many participants stated a wish that the one page descriptions shown to them for each of the main options as part of the research process, could have been made available to them at the time they had been making their decisions in real life, since this kind of simple explanation would have avoided the difficulties associated with too much, too complex and biased information provided from the various available sources.

1.2.11 The Decision Process

- While there were many variations in the processes used, the most common steps mentioned included the following, in roughly the order shown:
  - Contact fund (check on the available super benefit).
  - Possibly ask for information on what has to be done to access the funds/deal with the funds.
  - Consult spouse, friends, colleagues, a financial planner, bank adviser and/or accountant.
  - Attend seminar(s), and for a few, check with a government agency (like Centrelink).
  - Continue to speak with friends, colleagues, one or more financial planners.
  - Take action as agreed with the financial planner.
- The process generally took a minimum of a few weeks, but sometimes lasted as long as two years, depending on whether the retirement was unexpected or not, the amount of notice available on a retirement date, and the information behaviour segment to which the retiree belonged (See Section 6.4.3 for a description of the information behaviour segments).
- The main drivers and priorities used in deciding between the three main options included:
  - Beliefs about which option would maximise their annual income during retirement.
  - Flexibility.
  - Access to capital.

- Security (capital preservation).
- Life expectancy.
- Bequest/estate preferences.
- Taxation.
- Control.

- Those first four mentioned drivers received the widest attention, being mentioned by most. Life expectancy was raised as an important issue by a substantial minority. Smaller numbers of people mentioned the last three priorities.

- Although all of these issues were mentioned, most people were still influenced heavily by their advisers' recommendations, which they hoped had properly taken account of their individual preferences and priorities. Quite a few retirees were oblivious (or unable to be sure) of the probability that their advisor was also considering a number of un-stated drivers of the decision, most notably taxation and social security issues.

1.2.12 Evaluation Processes and Criteria Used For Advice Provided

- Participants in the current research experienced significant difficulty in assigning weight to the various (at times conflicting) sources of advice they received.

- While most participants would have liked unbiased advice, most felt this was unavailable. Some overlooked this shortcoming in the advice and information available, believing it was unavoidable, while others sought to overcome it by either:
    - Extensive information gathering and analysis from multiple sources, or;
    - Using an unbiased source, such as Centrelink or NICRI. This sub-set of the sample was a minority.

- Most had difficulty determining when they had received sufficient advice to make a decision, but looked for convergence of opinion.

1.2.13 Expectations Versus Reality

- Many commented that it was a decision that just had to be taken, and they knew they had to engage in the process, and by various means, make a suitable decision about their super benefit.

- The decision process was not enjoyable because of a range of factors such as:
  - Time consuming process.
  - Degree of concentration required.
  - Anxiety associated (caused by, for example, a lot at stake, potential for an incorrect or irreversible decision, recent years of poor returns from investment markets)
  - Coincidence of this decision with negative life events, such as loss of job, ill health.
  - Confusing issues involved, including conflicting advice.
  - Requirement to consult with financial advisors, and their costs.
  - Uncertainties that the decisions made would fully or optimally meet their future needs.
- It was seen as an unavoidable and extremely major decision.
- Time pressure in making the decision was not normally a problem for retirees.

1.2.14 Suggested Desired Improvements in the Process

- While most retirees had not thought about how the process could have been improved, and said they had been happy with the process they had followed, there were several suggestions as to how they would like the process to be improved, given the wisdom of hindsight. These included:
- Invest earlier, and put more into superannuation.
- Take more control of the decision making (from spouse, informal or paid advisors).
- Be better informed. Superannuation (at retirement) seemed more of an issue than they had previously realised.
- Obtain access to a simple set of guidance notes from an unbiased and credible authoritative source.
- Find a way of judging the quality of the advice they had received.

1.3 Relevant Findings From IFSA 2001 Research

Earlier research conducted in 2001 for IFSA (Investment and Financial Services Association) was released by IFSA for use in the current study.

- Many of the main findings from the earlier research supported the findings from the current research.

1.3.1 IFSA Qualitative Findings – 2001

Most importantly, the qualitative findings showed:

- Many people planned to retire early for a variety of reasons, while others wanted to work on past the statutory retirement age.
- There were low levels of pre-planning for retirement funding during the employment years.
- Those who showed any pre-planning inclination tended to be those who displayed one or more of a number of characteristics, such as:
  - Had been encouraged by their employer to pay attention to their retirement financing (via education/provision of information or advise from the company's superannuation fund).
  - Were in a very favourable superannuation scheme or one that otherwise encouraged higher employee contributions
  - Had been subjected to or feared an adverse event (eg ill health, redundancy, a forced early retirement for any reason, divorce, a business failure).
- Decisions about what to do with super benefits were heavily influenced by the forms in which wealth had been accumulated and/or held during employment years.
- Those in the higher income brackets involved in this research were positively disposed towards superannuation and more likely to have made both salary sacrifice and un-deducted contributions to their super.
- There was a similar set of reservations about superannuation to that displayed in the ASIC 2004 research.
- For those who still had a mortgage at the time of retirement, discharging the mortgage was a high priority in dealing with the super benefit at retirement.

- Prior to retirement, there was a low level of understanding of the need to convert a super benefit into an income stream upon retirement. Most assumed they would simply take a lump sum and invest it somehow.
- Among both pre-retirees and retirees, there was a low level of knowledge about the various forms of income stream products available to them.
- The main "hooks" or attributes of such products of importance to retirees and pre-retirees were similar to those found in the current ASIC research.

1.3.2 IFSA Quantitative Findings – 2001

Some of the more relevant quantitative findings from the IFSA research in 2001 included:

- Most (65%) of the pre-retirees were unsure of when they would retire, with many wanting to retire early.
- The single most important vehicle for investment at the point of retirement was employer contributions to superannuation for almost half (46%) of the overall sample.
- The IFSA data shed slight on the other main forms of investment at retirement, and the variations between demographic segments on this matter.
- Superannuation benefits were the single most important source of income in retirement for 43% of people in the sample. For pre-retirees the figure was higher at 54%. Those on higher incomes were more dependent than lower income recipients. Men were more dependent on super than women. Those in cities were more super oriented than those in regional and rural locations.
- Detailed data on the split of super benefits by decision outcomes at the point of retirement (lump sum, allocated pensions, guaranteed annuities) provides a detailed insight into the manner in which retirees in the IFSA sample allocated their super benefits. In the overall sample, the incidence of the main options were:
    - All/almost all as an income stream product: 33% incidence.
    - All/almost all as a lump sum: 30% incidence.
    - 50:50 income/lump sum: 12% incidence.
    - Others/don't know: 23% incidence.

- The data showed that the incidence of income stream products is likely to be increasing, since the pre-retirees indicated a much higher incidence of such a destination for their super benefits than did retirees, who had made their decisions in the last five years.
- Lump sums, where taken, were used to:
  - Invest for a regular income (in 37% of cases).
  - Invest for capital growth (in 28% of cases).
  - Retire mortgage (25%) or other debt (28%).
  - Spending on holidays (28%) car (38%), home improvements (37%), and other items (20%).
- In all of these end uses of the super benefit, the mean percentages allocated were measured and provide informative insights.
- Only 21% of the sample overall (and only 12% of pre-retirees) said they acted/predicted they would act on their own, without advice, in deciding how to proceed with their super benefit at retirement.
- The main source of advice (where used or anticipated) was a financial planner (69% of cases), followed by accountants (28%), bank employee (26%), a friend (18%), a super fund (18%), a relative (16%) and a fund manager (14%).
- On average, each respondent used 2.3 external advice sources.
- Women showed a higher preference for purchasing from an adviser (as distinct from directly from a fund manager) than men.

2. CONCLUSIONS

As a result of the findings from the current ASIC research among retirees, and the 2001 IFSA research among pre-retirees and retirees, the following conclusions are evident.

2.1 Little Pre-Planning Effort Regarding Super Benefits

At retirement, the superannuation benefit represents a high proportion of total savings and the single most important source of income in retirement for many people.

Whilst many people retire early, a high proportion of all people who retire from full time employment conduct a very small amount of pre-planning for retirement, including very little financial planning specifically for retirement.

Many participants in this research stated they wished they had started paying attention to their superannuation earlier in their careers. They also wished they had paid more attention, and possibly at a time earlier than on the point of retirement, to the decision as to what to do with their super benefit upon retirement.

2.2 Retirement Rarely Occurs at a Single Point in Time

The research showed that full retirement is increasingly occurring as a gradual process over a period of time, with many retirees not needing to access their superannuation benefits immediately on retirement from their long term full time career employment. Thus the term “retirement” when describing a discrete event in time in both financial and lifestyle senses, does not fit well with many people who are part way through a retirement process.

2.3 Consumers Unaware of Need to Make a Decision

Most retirees only became aware that they needed to make a decision about their superannuation benefit at, or after they had retired from full time employment.

2.4 Consumers Unaware of Main Options Available for the Superannuation Benefit Destination

Most retirees only became aware of two of the options (lump sum or an allocated pension) at, or after they had retired from full time employment. Thus, this awareness was both *later in time than they wished* (in hindsight), and *incomplete at the time of making a decision*. Further, even where people became aware of the main three options, they remained unaware of two further options: taking the benefit as a mix of two or all three options; or leaving the benefit in the superannuation fund (or rolling it over to another complying fund) while they used other sources of money to live on, and/or gave further consideration as to what they might do with the benefit.

2.5 Confusion in Terminology and Attributes of the Main Options

Focus group discussions showed that very few people completely understood the key attributes of the main options open to people with regard to their superannuation benefits at retirement, a number of people had a very poor understanding of all options, and a minority failed to appreciate that different approaches, products and indeed a mix of approaches and products may have been optimal for them.

Further, this lack of understanding was accompanied by and may have been contributed to by confusion in the terminology associated with income stream products and the large amount of complex and often conflicting advice and information people received prior to making a decision.

There were strong feelings that the whole issue was so complex, and yet so important that an advisor should be used to guide or make the main decisions, despite concerns expressed about the quality and impartiality of advisors. Many retirees felt anxious about their decision making prior to, during and after making their decisions, and thought that information from funds and advisers was sales oriented (and thus not necessarily in their best interests).

A critical issue was that many participants in the current research appeared unaware of or confused about the taxation benefits associated with both superannuation contributions, and the two main income stream options available to superannuants in retirement, as opposed to taking a lump sum.

2.6 Consumer Segmentation Using Information Sourcing Behaviour Patterns

The current research suggested that segmenting retirees according to their approach to gathering information would provide a useful method of tailoring and targeting appropriate consumer education approaches to this market.

In addition, both the ASIC and IFSA research on this topic showed that multiple sources of information are used by most retirees.

2.6.1 The Decision Process

The main drivers and priorities used in deciding between the three main options included:

- Beliefs about which option would maximise their annual income during retirement.
- Flexibility.
- Access to capital.
- Security (capital preservation).
- Life expectancy.
- Bequest/estate preferences.
- Taxation.
- Control.

The IFSA research (in 2001) showed a similar range of underlying drivers and needs amongst retirees, with respect to income stream products. Most people were still influenced heavily by their advisers' recommendations, which they hoped had properly taken account of their individual preferences and priorities.

In addition, quite a few retirees did not know what their advisor had actually taken into account, and many were uneasy about how to evaluate their adviser.

3. INTRODUCTION

3.1 Background

As the Australian population ages, there is an increasing demand for investment products to fund their retirement. In the face of this increasing demand are concerns about people's financial preparedness for retirement, their unrealistic expectations about standard of living in retirement, and their inadequate financial literacy.

Compounding these concerns is growing consumer unease about the uncertainties presented by both the current economic environment (i.e. low/negative returns) and the high profile debate about the quality of financial advice.

While there is no specific research available in Australia on post-retirement financial decisions, some data is available from the ANZ Financial Literacy Survey on the general level of confidence and knowledge in superannuation products. This suggests relatively low levels of understanding of financial products, other than commonly used day to day banking products, particularly in relation to superannuation.

The survey also found that while around half the population shops around for major items such as loans (46%), insurance (51%), mortgages (56%) and investments (56%), only around one quarter do so in choosing a financial specialist (24%), superannuation product (23%) or bank account (33%).

Further, consumers appeared to recognise difficulties in relation to understanding financial products and services. Only 5% of respondents claimed to have no difficulties in dealing with their finances, and only 14% of respondents felt they needed no further education in this area. The most common educational needs identified were for: investing (47%); superannuation (20%); budgeting (15%); and taxation (10%).

Thus, available evidence points to low levels of knowledge and understanding about options available in superannuation and upon retirement, coupled with concerns about the effects of this level of knowledge, and about the quality of financial advice.

3.2 The Issue Facing ASIC Management

ASIC commissioned the current research to identify the specific challenges retirees are faced with when making decisions at the point of retirement and what they do in the face of such challenges.

Improved understanding of the consumer experience is intended to inform both its programs concerning consumer education, and the superannuation policy debate.

4. RESEARCH OBJECTIVES

4.1 Overall Objectives

The overall objectives for this research were:

- To determine how recent retirees make decisions when entering the post retirement market, with a particular focus on decision making in relation to allocated pensions and annuities. This included identifying:
  - Sources of information about options available;
  - Evaluation processes and criteria used for the advice provided;
  - Evaluation processes and criteria used for products available to them.
- To identify problems experienced by retirees in sourcing relevant information about options available to them, and in making decisions about how to manage their superannuation funds once they retire.

4.2 Operational Research Objectives

To meet these overall objectives, there were a number of operational objectives to be addressed as follows:

- To identify the demographic characteristics of retirees making different types of decisions in relation to their superannuation funds, particularly of those retirees who purchase allocated pensions and annuities.
- To explore the decision process that retirees go through in purchasing retirement products.
- To identify the sources of information used, and to explore the manner in which they are used.
- To identify the number and type of post retirement product choices retirees were made aware of, and the channels used to identify those choices.

] To identify whether information or advice provided included information on the taxation and social security implications of the options available.

] To explore the role played by tax and social security considerations in making the decision.

] To identify the type of paperwork received, and to explore how this paperwork was used.

] To explore the criteria used by retirees in making choices, and especially to explore the impact of others (financial advisers, accountants, etc) on those criteria.

] To explore retirees' expectations about the process, and to compare and contrast those expectations with the actual situation.

] To explore whether retirees, in hindsight, believe they should have approached management of their retirement funds in a different way.

] To identify any factors which would make the retirement decision-making process easier for retirees.

5. RESEARCH APPROACH

5.1 Stage One: Workshop With ASIC

An initial workshop was conducted, attended by Chant Link consultants and senior ASIC staff coordinating the project. In addition, Chris Connelly – Director, Financial Services Consumer Policy Centre, Law faculty, University of NSW attended the workshop.

This workshop refined the project objectives, agreed on the sample size and structure, agreed the definitions and descriptions of various options facing superannuants at the time of retirement, and arranged for the passing over of various past research papers on the subject to and from the consultants.

5.2 Stage Two: Focus Group Discussions

A series of 10 group discussions were held – split equally between Melbourne and Sydney[1]. The specifications of the attendees were as shown in the following Exhibit. In summary, it was intended that some of the groups would be males and some females, in order to explore any differences on issues such as investment risk propensity, and the extent to which this may affect people's decision making process (and outcomes) with respect to choosing between allocated pensions/annuities, life pensions/annuities and lump sums. It was also intended that 6 of the groups would be attended by those for whom the superannuation benefit at retirement contributed at least half of their income generating assets, and 4 groups would comprise people whose super benefit was less than 50% of their income generating assets after retirement.

The structure allowed for some groups to include only people who took the majority of their superannuation benefit as a lump sum, some groups for those who had decided to put the majority into an allocated pension/annuity, and other groups for those who had decided to put the majority into a life pension/annuity.

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1 Due to small attendances at two of the focus groups, an additional focus group was held making eleven discussions, although two of them were regarded as a single group for analysis purposes.

Finally, only people who had retired in the last 6 months and who had made a decision as to what to do with their superannuation benefit were to be included.

Exhibit 1. Specifications of Focus Group Participants

Gender & City		**50% of more of Income Generating Assets at Retirement Derived from Superannuation**[2]			**Less than 50% of Income Generating Assets at Retirement Derived from Superannuation**		**Total**
		Lump Sum	**Allocated Pension/ Annuity**	**Fixed Term Annuity**	**Lump Sum**	**Allocated Pension/ Annuity**	
Male	**Syd**	1		1		1	**3**
	Melb		1		1		**2**
Female	**Syd**		1		1		**2**
	Melb	1		1		1	**3**
Total		**2**	**2**	**2**	**2**	**2**	**10**

The following respondents were excluded:

] Those who worked for superannuation companies immediately prior to retirement;

] Those who have/had self managed superannuation funds;

] Those who were in a Defined Benefits Fund.

In addition, all respondents were to meet the following criteria:

] Aged between 55 and 70 years.

] Retired; ie, to be in paid employment no more than 10 hours per week.

] To have retired within the last 6 months (although this criterion was relaxed to allow those who had retired up to 12 months ago to be included).

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2 This split of respondents is based on feedback from Centrelink's Financial Information Service (FIS) that a good discriminator of retirees approach to superannuation was likely to be the relative dependency they have on superannuation; ie, the proportion of total income producing funds available which are based in superannuation compared with the proportion outside superannuation.

- At the time of retirement, must have had available within superannuation a minimum of $50,000[3].
- The research aimed to include a spread of respondents who, immediately prior to retirement worked for:
  - Large corporations
  - Government departments and bodies
  - Small to medium size businesses
  - Self employed

A number of definitions were provided to the recruiters, so that they could question prospective respondents about their status with respect to the specifications of required participants. These definitions appear in Appendix 2.

Running Changes to the Recruitment Criteria

- When the recruitment process was conducted for this research, a number of difficulties arose, making exact conformation with the intended sample unrealistic. The nature of the difficulties resulted in some key findings for the subject of the current research, and they are therefore discussed in the results section.

5.3 Stage Three: Data Analysis and Report Writing

In this stage, the data from the focus groups was analysed and the current report was written. Results of an earlier study conducted by Chant Link & Associates, for IFSA (Investment and Financial Services Association) on the drivers of retiree decision making before and at the point of retirement were also analysed.

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3 This figure is based on the following information (a) advice from FIS that it would not be likely that those with less than $50,000 would buy an income stream; (b) advice from NICRI that it would not be likely that those with less than $40,000 would buy an income stream, and (c) the AFSA submission to Select Committee on Superannuation Planning For Retirement July 2003, which stated that the average retirement savings of retirees was $65,000, which The Association of Superannuation Funds of Australia Ltd (ASFA) felt was not sufficient for an income stream.

Relevant findings from the Chant Link research for IFSA are summarised in a section of this report (Section 7) since this study:

- Addressed the first research objective concerning the nature of those who buy allocated pension/annuities, life pensions/annuities, and those who take lump sums, and;
- Provided quantitative data on the way in which superannuation benefits were actually taken by retired people, and how pre-retirees predicted they would take their super benefit.
- Provided comparative data on a range of issues that were common to both pieces of research.

Chant Link and ASIC wish to acknowledge and thank IFSA for generously making the findings of its 2001 study fully available for consideration and inclusion in the current research report.

6. MAIN FINDINGS

6.1 Running Adjustments to Participant Recruitment Criteria

As indicated in the Research Approach section, a number of adjustments were required in the recruitment criteria due to certain problems which arose in finding appropriate participants for this research.

For example, many people were unable to accurately describe to the recruiters, what they had done with their super benefit. Thus, there were several consequences for the resultant research design:

- There was considerable difficulty finding people who would attend each focus group, as many people (possibly incorrectly) ruled themselves out of contention, believing they did not meet the profile. As a consequence, pragmatic decisions were taken, with ASIC approval, to widen the criteria to include those who had retired in the last 12 months (instead of 6 months), and to include men and women together in several of the groups, while maintaining the remaining participant specifications.

- The people who did attend each group often had mis-represented their status on one or more criteria. For example, many people who said they had taken a lump sum, revealed during the group discussions that they had indeed "taken the lump sum" and "then had bought an allocated pension product with it". Many others had been confused about the differences between the terms "allocated pension" and "life annuity" or variations in these terms, and had thus mis-classified themselves prior to the group discussion. One or two people with self managed super funds as well as other super products were admitted to a few of the groups. Perhaps most importantly, some people attended the focus groups who had retired, and who had made their decision as to what to do with their superannuation benefit, but for whom the decision had been to do nothing. That is, they did not need to access an income stream or any capital from their superannuation straight away, and had just left the money in their super scheme or rolled it over into a complying public offer super fund, pending a later decision to access the capital (via a lump sum) or receive an income stream from it. It is worth noting that some of these people referred to their rollover as "a lump sum" that they had rolled into another product.

] Further, there was evidence in most of the groups that the concept “greater than 50% or less than 50% dependent on the superannuation benefit for income generation after retirement, as opposed to other assets accrued while working” was not widely understood, and therefore people were likely to have mis-classified themselves on this criterion. The group discussions also revealed that the potential effects of this criterion on the main research topics was overshadowed by another (similar) factor – the presence or absence of a spouse, whether the spouse was still working (and thus providing a household income), and whether or not the spouse owned significant assets (whether superannuation or other) at retirement.

] The knowledge of many people about the proportion of their superannuation benefit that had gone to various products (or to a lump sum) was shown in recruitment to be imperfect, leading to some mis-classification of participants.

As a result of these factors, the researchers considered that some of the ten focus groups were blended in terms of the variables discussed in Exhibit 1. Firm conclusions about differences between segments defined by these variables were therefore difficult to draw. Despite this:

] The research has resulted in a number of hypotheses about certain segments, some of which are based on variables other than those in the intended formal research structure.

] Notwithstanding the above point, for almost all topics, there was a consistent set of findings from most of the focus groups. These provide a solid basis upon which ASIC can build its policies and make input to the debate on superannuation disclosure issues, consumer education and other regulatory matters surrounding decision making at retirement.

Summary

Difficulties in recruitment illustrated a number of things about people who have faced the decision concerning what to do with their superannuation benefit once they cease full time employment:

] Many people had taken a mix of lump sum and an allocated pension.

] It was difficult to find people who had purchased a life annuity or pension.

] Many people were confused by the terminology used in recruitment (allocated pension or annuity versus life pension or annuity) due to these terms not being in common use, they did not understand the products very well, and they had difficulty in recalling the correct label for what they had purchased.

] Some people had difficulty in stating even an approximation of the percentage split they had decided upon (between lump sum, allocated pension/annuity and life pension/annuity). From those who attended the group discussions, later findings showed this may have been partly because of the complexity of the whole decision area, and a consequent reliance on the advice of a financial planner.

] At the time of recruitment for this research, many people had difficulty estimating the degree of their dependence on income from their super benefit as a proportion of all forms of income they personally had, in retirement. Later discussions with those who attended the focus groups showed this type of calculation was something that, for many people, required a detailed conversation, and some assistance from a financially literate person.

6.2 Level of Interest in Superannuation Prior to Retirement

Early Career – Low Interest

Most of the retirees commented that they were not interested in superannuation during the majority of their working lives, feeling:

"We were not brought up to worry about super and funding our retirement"

"I didn't really worry about super until I was close to retirement. Super was just a word until I was 50".

Late Career – Higher Interest

A number of the participants felt that within a few years of retirement (from 2 to 5 years), they began to think about their superannuation for the first time, realising they would soon have to use this money for their living expenses. Similarly, for others, there was a gradual increase in interest once they reached the age of approximately 50 years.

"You really don't look at it until you hit about 50. Prior to 50 you get your statement every year and just file it".

"I can't remember exactly when it was, but I decided to pay more attention (to super) and (to) salary sacrifice".

"Well you're sort of thinking you're going to retire around your 50s. 55, 56, 57, around that age. I didn't think of it much until about 50. I thought well, there's (only) another 6 years, I've got to start doing something."

A few respondents commented that it was difficult to avoid the topic of superannuation because it was covered regularly in the media.

"Our financial advisor always tells us to top up superannuation every year.. It's emblazoned everywhere. You're always thinking – do you have enough? It hits you in the face every week… every paper… and I think its very much in your subconscious. You don't want to be poor in your old age, or dependent on your children, or on the government."

Nevertheless, these respondents noted that they really didn't pay attention to these messages until they started to think about their own retirement.

Once people began to pay more attention to their superannuation at this stage of their careers, they were likely to take certain decisions or action accordingly, such as one or more of the following:

- Begin to think about whether they had sufficient funds to retire.
- Formulate plans as to when to retire (a minority only).
- Decide whether to make additional contributions to super by salary sacrifice (a very small minority).

Those who made additional contributions by salary sacrificing, did so to increase the money available to them at retirement (locking it away) and for favourable taxation treatment reasons. They were a small minority. A few commented that they only became aware that salary sacrificing superannuation contributions was an option in the last few years of their working life.

There was no evidence of people making non-deducted contributions (as opposed to salary sacrifice) to their superannuation in this sample.

For one or two participants across the sample, additional contributions by salary sacrifice (or other) contributions were considered but rejected due to Reasonable Benefits Limit (RBL) constraints.

"I had a problem with reasonable benefit limits and thought that putting more money in it was only going to make that worse".

The most usual reasons for not contributing more to superannuation, included:

- A lack of income relative to living expenses, including home mortgage payment.
- Beliefs by some (usually women, although by no means all of the women) that their spouse's superannuation, or other assets would be sufficient for retirement purposes.
- Beliefs that other forms of investing were safer, likely to yield higher returns, and/or ensured the capital was accessible should it be required for unexpected purposes.

Large Employer Effects

Several of the groups appeared to have thought more about their superannuation prior to retirement, than the others. These were groups which included a high proportion of former government or very large corporation long term employees. They commented that their employers and/or their union (eg the teachers' union) had organised regular seminars, sent them information pamphlets from time to time, and generally raised their awareness of the importance of superannuation. However, even in these groups, there was relatively little attention paid to the issue until retirement or retrenchment was imminent.

Triggers for Sudden/Increased Interest

Many people commented that one of a number of triggers had suddenly made them think carefully about their superannuation, whether it was adequate, what returns it was achieving, and what impact this may have on their potential to retire at a particular date. The most commonly mentioned triggers included:

- Retrenchment or fears of retrenchment.
- Introduction of early retirement incentives (eg Victorian government incentives, especially for teachers, to retire under 58 years [men] and 53 years [women]).
- Ill health.
- Divorce, or death of partner.
- Retirement of partner.
- Changes to the employee's superannuation system.
- Change of job (and therefore change of superannuation scheme).

Example of some of these triggers are illustrated in the following comments:

"A few years earlier our organisation pressured us to change to a new super system. So I started to do my calculations (then)."

"When Jeff Kennett came in he tried to get everyone out of the government scheme because it had a defined benefit and was an unfunded liability for the government."

"(I was informed that) taking a resignation benefit at 54 years and 11 months, provided you have worked for that employer for 30 years, gave me $30,000 more than if I had worked on."

"I didn't start thinking about my super until I was nearly at retirement AND I got my annual statement from my fund."

"When my marriage broke up I went to (a financial institution) and got a personal endowment for the children, but didn't worry about my super. Even when I returned to work, I didn't – not even when 6 months away from retiring – we just weren't brought up to think about super." (Female participant)

Mixed Attitudes to Super

There was a range of attitudes towards superannuation. The most positive attitudes appeared to be associated with beliefs that it represented compulsory savings, and that it would be needed for retirement. Many expressed regret that they had not joined superannuation funds earlier in their careers, or made higher contributions while employed.

"I had an option, whether to join or not to join, and .I chose not to at first. (She joined in 1990). So my lump sum was a little bit less than it should have been…

…I was quite happy to leave it all in my husband's hand and it was a big mistake… because instead of putting it in his super he put it on the horses. And lost everything, so I had to revise… but …I did have another interest in an investment property so that (was a) sort of safety net."

Several participants had made additional contributions because their employer provided incentives if they did so (eg matching contributions, in excess of the superannuation guarantee charge amount).

Many women commented that they had not been entitled to superannuation until later in their careers, had experienced interruptions in their employment (eg for raising children) and thus did not have large superannuation benefits. Some women were from an era in which their husbands took control of the finances, or whose husbands had a larger superannuation benefit or other assets making the superannuation benefit of the women relatively small. In many cases, this had led to less thought and planning about superannuation among women. Some of them, for example, simply followed the same approach to superannuation as their husbands. Others relied on their husbands' superannuation , minimised their own contributions and had always intended to cash out their superannuation on retirement for lifestyle purchases/spending. Single women, however, tended to think more about superannuation than married women or men generally.

Reservations About Superannuation

While most felt it was good to have superannuation, a number of people displayed reservations about the wisdom of putting all of their assets in superannuation (as opposed to holding some assets outside of superannuation). The drivers of their reservations appeared to be a mix of:

- Concern over low or variable recent investment returns by their funds.
- Beliefs (by a reasonably large minority) that bank interest (eg in cash management accounts or trusts) matched or exceeded superannuation fund returns, at lower risk.
- Concern about the level, complexity and lack of understanding or transparency of fees associated with superannuation.
- Concern about changes in the regulatory environment relating to superannuation, creating uncertainty about the value of superannuation relative to other investments.
- A relative lack of awareness and understanding of the taxation benefits associated with superannuation.

Where there were reservations about superannuation, the participants often had carried such attitudes through to their income stream decisions upon retirement.

For example, many such people had chosen to take the benefit as a lump sum, or substantially as a lump sum, rather than leaving all of the money invested in an income stream product. For these people, income stream products were perceived to be similar to the superannuation funds in which the benefit had been accumulated, and thus were seen as having the same shortcomings (eg poor returns, high costs, lack of control for the member).

Retirement Income Stream Decisions

In all of the focus groups, there appeared to be little or no thought given to decisions about retirement income streams (eg what to actually do with the superannuation benefit when retirement did eventuate) until at or close to the actual point of retirement (or retrenchment). There were only one or two individual people who were exceptions on this point, across the ten focus groups. This is discussed in detail in subsequent sections.

In summary:

- The vast majority of people thought little about their superannuation until retirement or retrenchment was imminent, or there was a particular trigger (eg change of job, illness, divorce).
- While those who had worked in government or larger companies were better informed about superannuation, they too thought little about their superannuation, until they really had to (at or near retirement).
- There was a range of attitudes towards superannuation. While most felt it was good to have superannuation, a number of people displayed reservations about the wisdom of putting all of their assets in superannuation (as opposed to holding some assets outside of superannuation) driven by perceptions of poor recent returns, fees and charges related issues, and a relative lack of awareness, understanding or acceptance of the taxation benefits associated with superannuation.
- Thinking about income stream decisions (in terms of what to do with the superannuation benefit post-retirement) was almost non existent in the pre-retiree stages, as will be further explained in subsequent sections.

6.3 Thinking About/Planning for Retirement in Advance of the Event

Retirement Often Unexpected

About half of the participants in each discussion group said they had ceased full time employment at an earlier time than they expected, due to retrenchment, ill health, or being offered an attractive early retirement package. This had a large effect on how such people prepared for their retirement. For example, it often meant they did not receive any information from their superannuation fund relating to the retirement benefit until after they had ceased to be employed by their main employer. There were wider implications too. Retirees in this category often commented they had not prepared any (or many) aspects of their lives for early retirement, including thinking about alternative work and lifestyle issues, housing requirements, social and recreational aspects, community work and generating an income.

Full Retirement Often Occurs Over a Period of Time

The notion of retirement at a point in time tended to be a poor fit with quite a few of the retirees in this research. Retirees could only participate in the research if they had ceased employment with their full time employer in the last twelve months and had made/were making a decision about what to do with their superannuation benefit. However, discussion showed that such retirees often engaged in part time work, or even returned to full time employment elsewhere after a break of several months. Others bought businesses, or assisted family members with their businesses, receiving an income from that employment. They were aware of others who continued in this way for a considerable number of years after ceasing their "main" life career.

Some of the relevant implications of this for the current research were that:

- Some had not needed to access any of their super benefit as yet, and had simply "parked" the super benefit by "rolling it over".
- Others had made decisions about an income stream, only to find they needed to revise their choice, due to changes in employment circumstances after "retirement".

Mixed Attitudes to Retirement

The data showed that there were widely different views about the merits of retirement, prior to its onset. Some had been very keen to retire, while others avoided it for as long as possible.

Little Planning in Advance of Retirement

General lack of planning: There was a general lack of planning for retirement. The vast majority of participants spoke about their planning for retirement in terms of one or more of the following issues:

- Their general attitudes to retirement (most gave some thought to this prior to retirement);
- Thinking about when they would like to retire (most);
- Analysing how much money they would need to retire (some), and therefore;
- When they would be able to retire, as opposed to when they would like to retire (some).
- Whether they should salary sacrifice a little more, to ensure there would be sufficient funds available for retirement (a few had thought about this in the period of approximately 10 years away from retirement).

Late and/or transitional planning: However, beyond this, the vast majority did not begin to prepare for retirement until very late (just before, or some time after retirement from their full time career employment). Often this was associated with shifting to part time work, rather than complete retirement. Several people described a kind of "trial retirement" where they may have taken a few months off to see what retirement felt like, and then took up part time work as a transition to full retirement. There was a feeling that for those opting for part time retirement, planning ahead for changes in lifestyle and income were not a high priority, since critical financial and social changes were not as significant as may be the case for those who move from full time employment to no employment/full retirement. However, even those moving to full retirement had often not planned ahead, other than in some of the ways indicated in bullet points above.

Lack of detailed income planning ahead of retirement: The general lack of planning for retirement included a lack of forethought regarding retirement income sources. This included a lack of planning about what to do with their superannuation benefit, when an income would (sooner or later) be needed.

As mentioned in 6.2 above, most people did not think about their superannuation very much, if at all, prior to the actual event of retiring from their full time employment. This generally applied whether retirement from full time employment had been expected or not.

Most respondents did not begin to even become aware of the fact that they would need to make a decision about converting their superannuation benefit into one of the three broad options, in order to gain access to it, (The three broad options include: a lump sum for consumption or investment outside of the superannuation environment, an allocated pension/annuity, or a life pension/annuity) until either just before or some time after they had retired. And for those who retired early (a substantial part of the sample), there was often no need to make such a decision if they had sufficient other investments or purchased a business from which to generate a living, or if they were in part time paid employment, or if they had a spouse who was still working..

The following comments serve to illustrate the extent and nature of planning for retirement.

"I was getting close to the end of my career, and I had some health problems. The company offered me a redundancy package. I hadn't planned to retire for another two years, but I took it."

"I just worked hard to make sure I would have a good retirement. I had been putting money into superannuation and had planned a specific retirement date when I turned 65. However I retired early instead."

"Changes at the workplace force retirement sometimes. (Our firm) took in contractors, the work all changed, so I decided to retire early."

"Once you are over 45, its very difficult to get a job… so I did contract work for a number of years and then retired."

"I had no plans as to what to do with my superannuation – I just thought of it as a nest egg and that was that."

"Most people I know dodge around the business of retirement. Very few plan well financially."

"It all just comes up. It's not like you're 60 and you say – now I'm going to retire in 5 years, I'd better start planning. It just comes up at the last minute. With me, they couldn't give me a date when I was going to finish up."

"My husband's job was made redundant, and he wanted part time work, so I retired at 55 to be with him. Now he has gone back to work full time. We didn't plan any of this."

Larger Amount of Planning: There were only a small number of people in the focus groups who did quite a lot of forward planning. Within this sub-set, very few began to explore or plan the nature of their future income stream. However, one or two had done considerable thinking about this.

"I did a fair bit of planning. I was thinking about my super and what I could do with it two years out from retiring. I did a lot of general reading, spoke to a lot of others. So I knew about the options, for example (by the time retirement was imminent)."

"I was a self employed plumber. My son took the business over when I had to stop work. I put a lot of thought in before retiring, as to my income in retirement… my wife is a part time nurse, which helps."

"Well, you're sort of thinking you are going to retire around your 50s. Maybe 55, 56 or 57, around then. (At 50) I thought well, there's another 6 years, I have got to do something, so I began salary sacrificing."

"I started looking into it in the last couple of years (of my employment) and I went to the bank I had been with for many years, then to friends who had already been through it. I went to the organisations they were with (three in all) and eventually decided on one of them."

There were some examples of teachers, other government employees, and some from very large corporations, who had been subjected to considerable ongoing seminars and other communications from their employer or their union, who had given more thought than others, to various aspects of their future retirement:

"I went to seminars 18 months in advance of retiring, on financial planning, social planning and so on."

"I thought about it from 50 onwards. I received circulars from my fund and employer advising me to seek advice. I saw and listened to as many people as possible, the teachers union, (financial institutions), and so on."

"The Victorian Government Superannuation Office can plot various (dollar) outcomes for you by computer if you talk to them about your options – whether to wait and retire or resign early in the teaching service. This was a type of planning ahead for me."

Summary

- Retirement from full time employment was often early and unexpected. This resulted in many people having little or no opportunity to plan for a range of aspects of retirement, including financial aspects.

] Full retirement often occurs over a period of time, as many retirees continue with some part time paid employment. In addition, many of them have other sources of income, such as a spouse still in employment. This has many important consequences. One of these is that many retirees do not need to immediately access any of their super benefit. Another is that some retirees need to reassess their initial decisions about retirement income streams if and when they periodically re-enter the workforce.

] There were widely varying attitudes to retirement itself, and to the task of planning for retirement.

] Even among those whose retirement date was known well in advance, there was little forward planning for retirement, other than in a very general sense. The most usual preplanning had been limited to thinking about whether they wanted to retire, roughly when they would like to retire, and in some cases, analysing how much money they may need to have accumulated to invest for an income in retirement.

] Very few retirees had been aware of or given thought to the need to make a decision as to what to do with their superannuation benefit once they had retired from full time employment.

] A small minority had done sufficient planning for retirement to realise they would need to plan exactly how their income stream would be structured. These tended to be some of those who worked in larger corporations or some government sector employers, who had been exposed to seminars and publications over a period of time, either from their employer or their union.

6.4 Superannuation Benefit Options at Retirement – Awareness and Understanding

6.4.1 Awareness of Options Available

ASIC is particularly interested to establish whether consumers are aware of the various options facing them with respect to their superannuation benefit, at the time they retire (or cease full time career employment). Part of probing this involved determining whether people received information from any sources about this, and then whether they paid attention to it, and the degree to which they understood and internalised such information.

As mentioned above, the focus groups revealed that for the majority of people (although not all people), there was a low level of planning ahead with respect to all facets of retirement, including financial issues, while in full time employment. Mostly, planning occurred either immediately prior to finishing work, or in the (sometimes lengthy) period following retirement or retrenchment.

However, the discussion groups also showed that overall, when people reached the point of retiring from full time employment, most of them felt that:

- Dealing with their superannuation benefit carefully was something they simply had to attend to.
- This meant that one way or another, most people felt they eventually had learned something about the options open to them (eg lump sum, allocated income stream, life or life expectancy income stream). Subsequent discussion in the focus groups revealed however, that unprompted awareness of the three options and clear definitions/understanding of them were rarely forthcoming from the retirees. Typically, about half of each group felt they had informed themselves (usually with the assistance of an adviser) of the main options and understood them well enough to make a decision (although in fact they did not always know what the main options were). A minority (maybe a quarter) felt they had not understood the options as clearly as they wished, and another group (perhaps a quarter) had completely or largely left the knowledge gathering, analysis and decision making to their husband, or to an adviser.

All agreed superannuation was complex - made more so by a strong belief that the rules keep changing which makes it difficult to be sufficiently informed.

However, while most felt sufficiently knowledgeable at the point of retirement to make an informed choice, the dilemma for most was to know how much knowledge was sufficient. Some people observed that *"you don't know what you don't know"*.

Qualitatively, most felt that one could not be sufficiently informed if they did not visit an advisor (or multiple advisors) or did not go to seminars and actively read literature. Ultimately, the respondents said they had to make a judgement as to when they had sufficient knowledge which was hard to know and required some degree of faith. This dilemma resulted in varying levels of anxiety about the whole decision.

For most, being informed did not necessarily mean having complete knowledge. Also, because the outcomes of their decision-making were not yet known it was hard for consumers to judge whether they had sufficient knowledge. They felt unable to answer that question until many years into retirement when it became apparent how their money was performing and therefore, whether they had made an informed and good choice.

An important finding, however, was that the majority of participants felt they had obtained sufficient knowledge to make a decision, although the timing of receipt of that knowledge was most usually on the point of retirement or just after it.

"I was fairly knowledgeable by decision time."

"That's right. I would say fairly (well informed). We'd looked at all the options."

"Sufficiently well informed.. there can be too much (information) and it is too confusing. I also became cynical and did not have a great deal of trust in anybody selling these products."

"You just have to pay attention to it when you retire, as it is so important."

"I found it a bit complicated. I had to make up my mind which was the best being offered. I don't know whether I did the right thing or not."

"I felt reasonably comfortable about my knowledge in the years before retirement and then I realised, when somebody explained a few things to me, how much I didn't know. You can feel comfortable with the advice you are getting or the knowledge you have but you don't know what you don't know. Somebody might open up another door and mention another issue, which might conflict with the other advice you have received or show you something better which you had not heard about before."

"The most complex part about super is that the rules keep changing and the government keeps moving the goalposts, which impacts on tax and makes is hard to project where you want to be and how to get there. No matter how much you read."

"About five years before retirement I got an invitation from the company to go to a superannuation seminar. I thought, what is the company trying to tell me? It was a gentle tap on the shoulder, and I nearly didn't go, because I thought it would just be a sales event. But it was fantastic. They handed out a booklet which had lots of information. That told me that the issue was too complicated for me. So I guess I had gained sufficient knowledge to (know I would need to) go and see an expert."

"It's always changing. It is different now to the eighties. Every year the Government changes something about super. It's too confusing."

"My ex-husband always looked after our super. He walked out with over $400,000 in super in 1990. And he regarded my super as my play money for when we retired. His leaving was a rude awakening. It prompted me to get good advice and top up my super."

"I started reading things and going to seminars well before-hand, so that by the time retirement came around I had a relatively good idea."

Sufficient Access to Information?

Thus, the majority felt they did have access to sufficient information about the main options facing them. However, as the next sections will show in more detail, retirees felt that there was too much information, the information was almost always too complex, the rules surrounding superannuation and income streams were too complex for them to fully understand, available information used too much jargon, and much of the information was presented by advisers or institutions, bundled with advice or sales literature. All of these factors contributed to one or more of the following outcomes for retirees:

- With difficulty, they eventually learned about the existence of the main options.
- Most (not all) felt they needed to rely on a trusted advisor or colleague to obtain either a fair understanding, or a recommended course of action, as the literature was too complex or unclear.
- Most felt the super rules were changing so rapidly that any literature or indeed, any single source of information or advice could be misleading.
- There was a strong perceived need for impartial information about the options available.

6.4.2 Paperwork Received from Super Funds At/Near Retirement

Very few participants could recall receiving literature from their super funds, concerning the specific options available to them with respect to their super benefit when retiring. This does not necessarily mean that they did not receive information from their funds. However, it was clear that:

- Many early retirees did not recall receiving any unprompted information relating to options open to them. Early retirees tended to contact their funds, and could only recall receiving a statement of the account balance or the benefit available at that point in time.
- Retirees at the statutory retirement age also did not usually recall receiving anything more than a statement of the benefit available at retirement age.

Some people could recall receiving something about the main options open to the fund member on retirement, although none had received simple yet insightful information in such paperwork. Instead, they tended to recall the information being process oriented, calling for a decision as to what the member wanted to do with the funds. In some instances there was an invitation to seek advice from the fund or to seek other advice, as illustrated by the following typical comments.

"Nothing at all."

"I got something from them about 10 days after retiring. It was a statement of the money (the benefit), and it asked me what I wanted to do with it. When I replied that I wanted to transfer it to a bank account, they sent a release form so I could get the money."

"I just got a statement of how much money I had."

"I got a little brochure, but I can't remember what it covered."

"I got a letter with the same type of information, the amount of super there and asking for a decision, also saying if you want advice ring this number. But I didn't follow that up."

"Because we're forced to pay financial planners for information, the superannuation funds would be reluctant to give you any information."

"I'm sure I got something about the pros and cons of different things."

"I did get a letter saying now you are 63 or something, call us if you are thinking of retiring."

"The fund ought to give you what your choices are. Then if you've got a financial planner you can give it to them to look at and they can work out what the ideal mix is."

"(I received) nothing much at all. A print out of how much money I'd be getting, how much tax I'd be paying, and that I couldn't leave it with them once I stopped work."

"They wanted to roll over my money, but I didn't want to. I wanted to pay my mortgage out. I've had shares for years and that's really my superannuation."

"My adviser happened to be an agent for the fund and the fund fully informed him for me and gave me tailored advice."

"The fund said to me 'roll it over', but only after I requested information from them."

"You have to wheedle it out of them. It took me about 6 months to get final figures out of them."

Regarding the fund suggesting the retiree sees a financial planner: *"They won't suggest names because they're not allowed. So it becomes – what do I do. Get the phone book out and stick a pin in it?"*

Thus, none of the groups contained more than one or two retirees who could recall receiving (unprompted) any income stream decision related material from their funds, and none could recall such information clearly providing much, if any, of the following information:

- A decision would need to be made about their superannuation benefit at a certain time.
- The three main generic options available, plus any option to temporarily leave the superannuation benefit in its current fund, or roll it over to another complying fund.
- The advantages and disadvantages of each of the three options.
- Which of the three options (if any) the institution may be able to supply a product in (eg an allocated pension or annuity, or a lifetime pension or annuity or similar).
- How to obtain tailored personal financial planning advice as to which of the options the retiree should choose.

Instead, most participants indicated that they had only received limited information from their funds, and only when asked to provide it. Once their funds did provide information, it was usually sales literature about a possible product they could supply.

The following were typical remarks made about literature received from the super provider as ongoing information while employed and contributing to the fund:

"Pages and pages of it. Too much. Annual reports... I never know what to keep and what to chuck. They show balance sheets that don't mean a thing to me and I'm reasonably intelligent."

"Up to the 50 years of age mark, you only glance at super, but beyond this you take more interest in the information they are providing for you."

6.4.3 Sources of Information

Sources Used

Information gathering by pre-retirees, according to focus group attendees, seemed to be informal and low level, such as listening to financial talkback on radio, chatting to colleagues/friends, reading papers in the few years prior to retirement.

Then, for some people in the last few months prior to retirement (and for many, after retirement), the information gathering became much more active and involved seminars and visiting financial advisors. This was not usually prompted by the fund but initiated by the respondent.

There was no shortage of advice and information available for most people. However, the retirees had to access the information themselves, and then there was some difficulty sifting through it. Indeed, many commented about "information overload". Respondents wanted impartial advice which would explain their options in simple terms. In particular, some said this type of information would be particularly useful at the beginning of their decision process, because it would give them a basis for discussing their options with financial planners, and evaluating the advice provided.

Financial Planners

Of all the sources of advice, financial planners received the most comments. They appeared to be the most used source, although overall, there was a high level of distrust of them. While there were individuals who trusted their advisors because they happened to have found one they liked, as a profession they were regraded with suspicion. Respondents used them because the whole area of superannuation is so complex, they felt they had no choice, but they were often unhappy about having to do so.

On the one hand the majority of retirees felt they needed formal advice, since the amount of funds was often quite high, the options not known or not fully understood, the number of product providers extremely high and the rules pertaining to income stream products extremely complex and rapidly changing.

Further, they felt that a financial planner was the most accessible source of such advice, and should be well qualified to provide that advice.

On the other hand, many participants (especially those who used them) stated a series of reservations about financial planners as a source of information and advice on retirement:

- Difficult to find a good one. Many were aware of recent publicity by the Australian Consumers Association (ACA) and ASIC about the poor quality of some plans prepared by financial planners.
- They provide too much information (often forced to do so by regulations).
- The information they provide is difficult to understand because they use complex, unfamiliar jargon.
- Many charge for their services via entry fees to managed products, or are paid high or hidden fees.
- Often are not independent. That is, they effectively promote or favour products of their employer or its institutional owner.
- Often only recommend managed funds, rather than property or direct shares, and thus may not be providing the best advice. Some felt that advisers recommended only managed funds because they made their income from managed funds. Several gave examples of what they regarded as poor advice, with advisors telling them to sell investment properties.

There was no mention of specialist superannuation advisers, except in the context of government superannuation schemes, which people saw as requiring special adviser knowledge.

Typical comments included:

"The issue of advisors being tied to funds, I see that as a problem but I don't see a solution."

"You have to be concerned about the quality of advice."

"The hard part is getting the trust factor, which to me gets down to word-of-mouth, reputation. You might pay more money."

"You don't need much education to become a financial adviser."

"You have to look at them like used car salesman. Take everything with a grain of salt."

"A lot of them deal with certain companies and that's it. So you are not getting the breadth of available options. They're just giving the company spiel."

"The first financial advisor we had gave us all these promises and when we made enquiries he said, 'we're just having a rough trot at the moment', and so we terminated that relationship."

"Another thing you have to watch when you seek financial advice is the fees. They can be high and the brochures only tell you in the fine print."

"I'm not against paying fees if it's clear, but it's not clear. It's based on percentages. It's a very small percentage but over a number of years it adds up. It's not clear exactly what you are paying."

"I wasn't advised fully I don't feel when I took it (super pension) about the commissions earned by my advisor."

"I had an interview with my bank financial advisor. All he offered me was bank products, which I found too narrow."

Because of the perceived pitfalls with financial advice, many respondents felt compelled to keep reading and attempting to self-educate.

Respected Colleagues/Networks or Family Members

For a sizable minority, the most important source of advice, was an individual or group of individuals whom they respected and who was believed to have expertise/experience with making a decision about retirement incomes and superannuation benefits.

For teachers, this was often one or more recently retired principals or other senior staff. For others, it may have been a retired family member, a family member who held a senior position in the finance sector (eg a bank) or their accountant.

Where such a source was used, the main value was seen in:

- Speaking in plain language, rather than jargon.
- Being able to raise fundamental questions about the individual's context, so the individual could later seek expert answers to such questions.
- Being able to offer a fully independent and unbiased view, with the retiree's interest uppermost.
- Opening up new options for consideration.

] In the case of teachers, obtaining an explanation of the option chosen by the respected colleague with a similar service record, together with the reasons, believing a similar set of rationale is likely to apply to the individual retiree.

Those who used this approach tended to summarise their approach to obtaining advice in a manner similar to the following comment.

"Sifting through information and listening to others and getting advice and seeing how other people have fared, and you eventually arrive at your own conclusion."

A small number of respondents commented they would not approach friends for financial advice.

"It would be a terrible thing if a friend gave you advice and you followed it and lost your money. That's why you'd never ask a friend."

Accountants

Many people mentioned that they sought general information or ideas from their accountants, or tested their possible decisions against their accountants, if they used an accountant.

Trade Unions

Several participants mentioned their trade union as a source of advice and information. The teachers' union was particularly well regarded and was said to be active in this.

Bank Advisers

A few people had used a bank employee to advise them about their superannuation benefit decisions upon retirement, as they trusted their long term bank as a source of advice on many aspects of their finances.

"Bank advisors will give you 30 minutes or so for free."

"Yes, that's to get you in. Then they charge you $260 at the bank for a plan after an initial free consultation."

Super Funds – Literature and Advice

The section above showed that participants did not recall receiving useful information unprompted, from their funds at retirement age. A few commented they had sought out information and advice from their funds, with variable levels of satisfaction.

"With my fund, you make an appointment to see them and they key your fund and needs into the computer, which throws out certain information about your options. It was good."

Many participants stated that if and when they contacted their funds for information or advice, they viewed the resultant information as being sales oriented. Also, the information from this source was seen as incomplete (eg lacking a list of generic options available to a retiree, with main advantages and disadvantages).

"They are not going to say their allocated pension is not very good, or is unsuitable for me are they?"

Other Fund Managers and Insurance Companies

Once a retiree had seen a financial planner and received information about various institutional products, they were generally overwhelmed by the amount and apparent complexity of information they had received.

"Very complicated."

"Yeah, I was going to say that. It takes about a week to read it through at all and when it comes to the end you don't know what you.. what they're talking about. So you still go back to some advisor and he advises you what's the best to do in the papers they sent you. You believe it or you don't, it's as simple as that."

"You need your own adviser to advise you."

"It's a bit overwhelming."

"Even though I was in a superannuation scheme that really, you know, on paper it looks as though you contribute and there are a few decisions, you automatically make them, they actually said take all of this information to a financial adviser. I thought that was fairly poor actually that the scheme was advising that you take their own materials to an adviser."

Seminars

Many participants had attended at least one, and more usually two or three seminars on financial options upon retirement. The quality of information and advice received at these seminars was assessed as variable, although retirees usually found at least something of value from each seminar. Those who had attended more than one seminar variously observed that:

- Each seminar raised new issues or communicated in a different way, and thus multiple seminars were worthwhile attending, in order to maximise learning.
- Notwithstanding the above point, most retirement seminars seemed to result in a similar set of advice, as well as usually pushing managed funds or other income stream products.

] Some seminars did explain how to avoid/minimise tax and obtain a pension, but were described by some participants as confusing and did not always apply to them.

] A major limitation of seminars was that they presented very general information, and might not be relevant to a particular individual's circumstances. A common observation of this type was that examples given at such seminars often involved people with a $500,000 superannuation benefit at retirement, when many people in the discussion groups seemed to have much smaller amounts in their super funds at retirement.

] Some felt there were too many attendees at some seminars.

Retirement oriented seminars attended were variously run by financial institutions and advisory organisations (financial planners rather than stock brokers).

"Some seminars made me more confused."

"I found I got a lot out of attending several seminars."

"(A financial institution) ran one that clarified a lot of ideas for me after attending other seminars. It involved a girl who used simple language. I came away with a good understanding for the first time, of the difference between an allocated pension and a lifetime annuity, for example."

Magazines, Newspapers, Radio Talkback, Television

There were many mentions of the use of Personal Investor magazine, Australian Financial Review, ABC Radio and certain television programs regarding money matters. About half of the participants attended to these sources at some stage during the decision making process, particularly among the minority who began to take an interest in retirement planning more than a few months prior to retiring.

Some of the women mentioned women's magazines as a useful information source.

"Some of the 'better' women's magazines like Marie Clare and Vanity Fair have some very good information for women in retirement. For the year before I retired I kept magazine articles and put them in a folder. I got what I felt what was quite impartial advice, written in simple language. It also meant that when you went to see an advisor you had some idea of what he was talking about."

Some liked television programs like Money as the information was presented in a very user friendly way. However, some of those relying on television programs seemed to have a poor grasp of the issues involved.

For example, one such person had heard about the government matching super contributions up to $1,000 for low income earners, and had misinterpreted it to mean the government would match contributions of any amount for anyone.

There were several mentions of Choice magazine and its articles on the quality of financial planners.

Web Sites and Emails

Some organisations provided modelling where a member/retiree could input their details and the fund would calculate the benefit on retirement at a given date. Most agreed that there was plenty of information on the internet. A number of specific sites were referred to, including bank and stockbrokers' web sites.

Several participants said they used web sites and the press to formulate questions to take along to their financial planner. A few had received unsolicited superannuation related emails.

Employers

Many people felt that their employers were poor sources of information on what to do about their superannuation benefit at retirement, as a general rule.

"I had more trouble with my employer. We got paid a redundancy straight into the bank and were never asked about where we wanted it to go, which may have tax implications, if I'm not careful."

Australian Taxation Office

Similarly, several people had tried the Australian Taxation Office (ATO), but the responses and level of satisfaction varied widely among these.

"I asked the tax office. They don't even know the rules."

"The tax office helped me a bit with some ideas."

Centrelink

Quite a number of participants (especially in Sydney) had experienced very good financial advice sessions at Centrelink, either at seminars or by talking with a Centrelink adviser. The main advantage of Centrelink as a source of information was that it provided <u>impartial</u> information.

"Centrelink is the only place where you can get unbiased information - they're straight. They were the most informative as to which way to go to maximise your income. They tell you your options and lay it out for you. That's all you want really."

"I saw a gentleman there (Centrelink) this morning who runs their seminars. He went through our plans for the next 30 years – he said we had to look at from the point of view of wealth creation, not just getting the pension. He helped us tremendously in changing our thinking to looking for the right financial advice where we can earn money (from investments) – he said there was no point in losing money just to get the pension."

"I went to Centrelink and they said it would be OK to stick with (a financial institution)."

"I find them very helpful. They don't give you financial advice as such, but they give you the options. I was very happy. They talk in a language you can understand….they'll tell you if you do this, then you can get some pension. They really gave me a good understanding of things."

Some people felt that it takes a long while to get an appointment at Centrelink, because the service is free. However, retirees felt the wait was worthwhile in order to get very good unbiased information – not advice.

Some said the service was promoted in the Seniors paper.

One lady said she went to Centrelink and had *"….a terrible experience… I was told I was lucky to have a husband…….(It was) like trying to find my way through a maze."*

Many retirees were unaware they could go to Centrelink for information in this area. Some of those who were aware, said they only knew about Centrelink's financial information service because of having to deal with them for a disability pension inquiry. They had been pleasantly surprised by the range of brochures and other information there.

Department of Health – Senior's Website

Some of the participants had tried this website and found some relevant information.

NICRI

One of the Sydney participants said NICRI had been recommended to her by Centrelink, as a source of information. This was seen as a valued and credible source of information, since, as a government body, it was seen as unbiased.

Most Used Sources of Information

The main sources of information used proved a useful way of segmenting the retiree market for the purposes of the current research.

There were a number of segments, with different patterns of information used for the income stream decision. The two largest segments included:

- **Financial Planner/Advisor Oriented:** For a small majority of the participants, a mix of financial planner advice, and discussion with trusted and respected colleagues or "financially savvy" family members represented the most used sources of information about the income stream options available to them in deciding what to do with their superannuation benefit. Some people in this segment relied heavily on their trusted financial planner, while others relied mainly on one or a network of colleagues for guidance.

- **Independent Active Information Seekers:** Some retirees relied heavily on their own assessments of the options, after absorbing a lot of information from the financial press (Australian Financial Review, Money features in daily papers, Personal Investor magazine), perhaps TV programs like Money, and radio talkback programs.

  This group also used any information they could glean from their own fund, and from several other institutions they had identified in their reading and research, as being potentially valuable to them. They were likely to have attended several (up to five) seminars. These retirees were often better informed and more confident of their decision than those in other segments. Retirees in this group had usually also sought the advice of at least one financial planner.

  A sub-segment of this group was:

  - **Seekers of Fully Unbiased Advice:** There was a very small minority who had either actively sought, or somehow stumbled across a government agency which they saw as informative and unbiased in its advice (eg Centrelink, NICRI). This group received a range of other information, but obtained most useful insights from the unbiased source.

There were other patterns displayed by several smaller segments:

- **Reactive:** Some relied mainly on information sent by their fund (usually at the request of the retiree) coupled with discussion with their partner/spouse. Retirees in this group may have attended a seminar delivered by their fund or employer.

- **Independent Lump Sum Focused:** There were a few participants in each focus group who appeared to have either received or absorbed minimal information, but decided what to do with their super benefit seemingly independently of any particular advice or information guidance. While they may have received some information and advice from some or all of the sources identified above, this was either minimal or not highly valued by them.

Typically, such individuals wished to take their benefit as a lump sum, for particular reasons (eg pay off the mortgage, overseas travel, property purchase or renovation, invest themselves in shares or managed funds, place the money in the bank). A few of these respondents expressed high levels of concern both about the prospect of paying tax on their superannuation and of paying high (or hidden) fees to financial advisors. These respondents tended to take their superannuation as a lump sum and place it in a bank account, in an attempt to avoid tax and adviser fees.

Credibility and Usefulness of Information Sources

The credibility and usefulness of each of the various sources of information and advice varied somewhat across the above segments, as implied by the descriptions of each segment. Whilst the *seekers of fully unbiased information* clearly regarded government agencies such as Centrelink as the most credible source, this group of retirees was only a small segment in the market. Therefore, it cannot be concluded that government information sources were the most credible according to the whole sample in this research.

Similarly, the financial *planner/advisor oriented* segment clearly placed most credibility on their trusted advisor, while those in other segments displayed reservations of varying intensity, concerning the expertise, cost, quality and level of independence of financial planners.

Other research has shown the most used channels by retirees in buying an income stream are financial planners and the financial institutions themselves.[4]

6.4.4 Tax and Social Security Information and Advice

Some retirees said their financial planners were actively looking to arrange their affairs to maximise the chances of being eligible for a pension of some size.

Many were also being encouraged to visit an accountant as well as a financial planner to ensure the tax implications were fully known.

It was difficult to determine from the focus groups, whether information provided to retirees from various sources contained sufficient or appropriate tax and social security information.

[4] A useful guide to the quantitative use of various information and advice sources by retirees appears in the Chant Link research conducted for IFSA in 2001 – (Retirement Savings – Desires and Drivers - Quantitative Report Section 2.10).

For most participants, tax issues should have been important, and for those meeting the relevant conditions, social security was extremely important.

According to the retirees, taxation and social security issues could really only be explained by a financial planner and/or an accountant, who had suggested strategies to improve their tax situation. There were a number of examples of advisors showing how to arrange the money to entitle the retiree to a part-pension.

"I had no idea about this until I went to an advisor who told me (about tax) and also suggested that I might be eligible for a Centrelink pension."

"Once I worked it out in my head I felt reasonably comfortable with tax implications."

"You have to be constantly on guard (for tax changes). You can't really relax."

"When I was looking at them all I did get a bit confused about the tax benefits."

While taxation was a feature of financial planning and accountants' advice, discussion on the main options (reported later) showed that taxation issues were not instrumental in this decision by many people in each focus group. There was a substantial minority who were expressed high levels of concern about the amount of tax they could be liable for, but these people often did not understand the tax implications of the various options available to them.

Further, in most of the focus groups, discussion about superannuation in general demonstrated that many people had perhaps never fully understood the taxation advantages of superannuation. Further, after retirement benefit decisions had been taken, most did not fully appreciate that taxation considerations should have been a major factor in making a decision about post retirement income streams from their superannuation benefit.

For example, most had not sought information about taxation implications of the recommended financial plan, or of the alternative options available.

In many instances, views about taxation were naïve, or missing the point about taxation advantages of allocated or lifetime pensions/annuities.

"Tax was important to me. I took some as a lump sum and invested part of it in (a financial institution) in a capital guaranteed fund where they pay the tax. Whatever I get out of it is my money and there's no tax on it, so that's the way to look at it."

"I am concerned about my super paying too much tax. It is taxed going in, and taxed coming out again. I discussed ways of reducing my super's tax with my adviser, and with an accountant and people at work, but I was and am still confused about the tax paid…. And with the options – how do they differ on tax treatments?"

A number of participants had received advice from a financial planner that their assets or income would mean a part pension was not feasible.

Overall, the complexity and frequent changes in eligibility rules for social security and taxation treatments on superannuation meant that retirees either ignored these issues, or simply asked their adviser for guidance on the best option for them to take.

For example, an area of related confusion for a few people was the interaction of superannuation with other assets, such as shares, property, other family member assets, and resultant taxation implications of the mix.

"The mechanics of the super fund and how it pays out I am reasonably comfortable with. However the thing I have found the hardest in all of this is how the super benefit interacts with what I earn outside of super, such as my private investments… For example, the tax rate depends on when you start the allocated pension stream and then you have to worry about capital gains and that changes between "taxable in" and "non-taxable in" and putting contributions in or not. I could go crazy trying to understand all the issues. It's just so complex to work out how the tax treatments changes."

Generally speaking, the better financially informed retirees displayed a greater ability to deal with taxation issues than less informed retirees.

"if you put it into a rollover fund the fund itself is taxed at 15% but the individual is not. If you exceed the RBL which is about $1.4m - you pay tax on that. But if you don't exceed that and put into rollover you're not. The other time you're taxed is if you withdraw lump sums. If you put it in an annuity or allocated pension they're tax protected."

Overall, retirees had not, as a group, received or understood basic messages about tax advantages of superannuation, or of allocated or lifetime pensions and annuities. Many did not understand that taking a lump sum could have some negative taxation consequences.

6.4.5 Knowledge of & Attitudes Towards Main Options

General Views

Unprompted, only a few people could give a reasonable list and description of the three main options available to retirees with respect to their superannuation benefit on retirement from their full time career employment (ie allocated pension/annuity, lifetime pension/annuity or similar, or lump sum).

As noted elsewhere in this report, for many, a gradual move into full retirement meant that a fourth option was available to them – to roll over the benefit to another complying fund, leave the money in the original fund until needed or until required by rules governing this issue forced a decision between the original three options.

Confusion About Terminology

Retirees tended to be very confused about the terminology applying to retirement income streams, often mis-using the four terms – allocated, life, annuity and pension. For example, when asked if they knew there were three basic options to choose from, one person said:

"I'm not sure what the third one is. I know annuity and allocated. What is the third?"

Another example was that many people thought an allocated annuity would result in no access to capital and would leave nothing in an estate, since it contained the word "annuity" in its title. They were confusing it with the commonly known term: life annuity.

There should not be two terms for the one thing - annuity and pension, if they are the same."

"But an allocated pension is not the same as an annuity – they are two different things."

"You can have an allocated annuity, they are very similar I think."

"An annuity is something you buy for say $100,000 and then you sell that to someone and then it's guaranteed. Once you've sold it to an insurance company you can't buy it back. An allocated pension is not guaranteed. It goes up and down."

"Doesn't it come down to definitions?"

"It's very confusing to me."

The most resonance existed with respect to the two labels – "allocated pension" and "life annuity" possibly because these are the products and the labels that have applied to the most marketed products by the various sectors of the retirement income stream industry.

Further, some people had completely incorrect notions of the applicability of these terms and the products and rules governing them. For example, one man had money in an allocated pension now, but believed that on turning 65 he would have to put it in an annuity (by which he meant a life annuity). He was worried about this because he wanted access to funds in an emergency, or for occasional large ticket purchases.

The researchers guided the participants for the balance of the discussions towards the terms “allocated pension or annuity”, and “life pension or annuity”.

Prompted Views

When each participant in the focus groups was given a set of descriptions of the three main options (see the sheets appended to the discussion guide in Appendix A) initial reactions showed that:

- Most retirees claimed they were familiar with the basic attributes of the three options (although some people had clearly not understood them very well at the time they made their decision).
- There was usually some confusion for at least a third of the individuals in each group, regarding one or more of the attributes of the two pension/annuity options. For example, people differed in the interpretation they brought to the group about how taxation may affect the various options.
- Access to capital applying to the annuity options was not well understood, and in particular, the ability for a benefit in a lifetime annuity to transfer (or substantially transfer) to a spouse for the term of their life (or the fixed term, if applicable) was often a new concept to people.

The specific comments and level of understanding of each of the three options is now discussed in turn.

Allocated Pensions/Annuities Option

Most retirees in the focus groups claimed to have had a good awareness and understanding of allocated pensions, given the information presented to them on the researchers’ sheet.

“I think we’d all done our homework.”

Some people commented that there was a lot more information concerning such pensions and annuities, and that advice from an expert was still needed to evaluate their applicability to an individual’s situation.

“The things you need to know to understand the allocated pension is not one page but probably about 30. And then your advisor is supposed to know 300 or 3000 pages.”

Many people had elected to take at least part of their superannuation benefit as an allocated pension or annuity, mainly because of being able to access a regular income stream, and because they could access their capital if they encountered unexpected requirements such as illness, car replacement or home repairs.

“I took an allocated pension because I am a spendthrift and I get a set amount which I have to budget for, plus access to capital if I have a disaster.”

However, there were comments in most of the focus groups indicating people may not have fully understood the merits or important details of allocated pensions/annuities.

“I was originally attracted to that actually and then they said ‘oh, you can give yourself an annual income of $20,000 or $40,000 and I'm, thinking ‘oh great, it's terrific’, and then they said ‘5 years it's all gone’ or something and I said ‘oh forget that’. … I can see somebody could be interested in that, but that was kind of the death knell as far as I was concerned, and they certainly did give us this information.”

“Well I wasn't aware of everything that's on that summary. I was supposed to have known all that through my financial adviser. That doesn't mean that's what he's doing is wrong for me. He's getting paid by someone to advise me what to do with my money. And the way he puts things, you trust everything he says. ‘See you next time’… you know … I just got a letter from them recently giving me a general view of what is being done with their clients’ money, but (it meant) nothing to me.”

“Well I didn't know about the mix of cash, fixed interest, balanced portfolio, growth style. I only knew about the fixed interest and the cash area.”

Despite claiming to know the attributes and many selecting this option for part or all of their superannuation benefit, quite a few retirees were a long way from being comfortable with the performance of their pension account:

“That was why I didn’t put all my money in allocated pensions because I had seen these investments go backwards.”

“My advisor told me to invest $80,000 in a unit in a retirement village. This brings in over $600 per month as income. I have the same amount in an allocated pension and I get less - $369 a month, and I won’t be left with any asset at the end of 15 years compared with the unit. The allocated pension is the worst performing of them all.”

“I have a friend who just retired and put her money into an allocated pension and lost quite a lot of money.”

Finally, people formed views as to the applicability of this option to their situation, often based on a single attribute of the option. For example access to capital was a key positive to some, a regular monthly income between two limits was a positive for some and a negative for others. Some felt they would need to have a very large superannuation benefit to make this worthwhile, otherwise they preferred a lump sum.

Life Pensions/Annuities Option

There was less understanding of life pensions and annuities, particularly surrounding issues such as: access to capital, ability to arrange the income level for life expectancy or a fixed period instead of for life, ability to arrange for the income to increase with the Consumer Price Index (CPI) and the consequences of doing that, ability to arrange for a spouse to receive a proportion of the income upon the death of the member, and the consequences of that to the pension level during the course of the income stream.

Some of the comments illustrated incomplete knowledge and naivety. For example, some people clearly were trying to cast a single judgement on the worth of each option, irrespective of the different personal circumstance facing each retiree.

A key reason for less understanding of life pensions and annuities appeared to be that a major source of information and knowledge was financial planners, who in turn, did not explain this option, or did not spend as much time explaining it, if they felt it was unsuitable to the person.

"So this one's not as good as the allocated pension?" Group's response:

"Well, yes and no, it's different."

"It wasn't recommended to me so we really didn't go into it."

The fact that most respondents did not recognise the term – Reasonable Benefits Limit or RBL - probably illustrated that their knowledge of the options prior to attending the focus groups was incomplete and also that their superannuation benefits were rarely approaching the RBL limits mentioned in the descriptive materials shown to them.

In summary, only those who were very well informed had a good working understanding of life pensions and annuities, despite many people claiming they knew the basic attributes, once they saw them on the prompt materials.

"Even the Centrelink people are very cautious about these ..they say you need some growth in your assets. They say to be very wary – you always have a guaranteed amount, but there's no upside in your investments. If the market changes and it's more favourable, you won't benefit from it."

The guaranteed income aspect provided peace of mind for some, but others were worried about inflation, or losing some of "their money" that would otherwise go into their estate. Many were quite suspicious of the life pension concept, seeing it as "not a very good deal" if they happened to die soon after purchasing such a product.

"It doesn't sound like value for money. You could croak in a few years."

Lump Sum Option

Most people understood this option. More accurately, most people understood that the other options were often more advantageous to the retiree, because of taxation and in a few cases social security benefits of the other options.

However, there were quite a few spectacular examples of a lack of understanding that taking the money as a lump sum and either spending it, or investing it privately could have negative taxation implications.

A large minority had elected, or felt they would elect when the time came, to take at least some of the benefit as a lump sum, for a variety of reasons – to acquire a car, pay the mortgage or take a holiday. Another smaller minority wanted to take a lump sum so they could avoid fund manager and adviser fees, escape the uncertainties of the ever-changing superannuation rules and regulations, or because they felt more comfortable with investments in property (and occasionally shares) and wanted more control of their own funds.

Conversely, many people with what they viewed as a substantial superannuation benefit, felt that taking a lump sum would place excessive demands on their meagre investing skills.

"I always planned to not take a lump sum because I'm not a speculator, never had enough money to do that, so I decided I wanted a regular income. I know inflation will nibble away at it, but I thought for at least 10 years after I retire I'll have a very reasonable lifestyle and then I'll be too decrepit to worry about it."

"Lump sums start depreciating the minute you take it out – because of tax and because you take it out in today's dollars and in 5 years time there's nothing really there. I'd rather have a smaller regular amount than a good return one year and a bad return the next, and all the tax hassles that causes. I don't want to spend my retirement constantly worrying about my money."

"I don't want to have another job as an unpaid financial planner and spend the rest of my life worrying about what's happening (in the markets)."

Comments on the Descriptions Post-Discussion

It was interesting to note that towards the end of several of the focus groups, participants commented that the simple one page summaries presented by the researchers would have actually been a very useful aid for them, when making their retirement income stream decisions. From those who still felt able to change their affairs, there were a number of requests to be able to take these sheets away for later reference.

"You should really hand those out to everybody who is thinking of retiring."

One of the groups suggested a standard form of disclosure for making people aware of the three basic options and the key advantages and drawbacks of each.

"I don't see why they're can't be a government document that in 3 or 4 pages of plain English spells out what your options are and the advantages and disadvantages of each – would be a good start point. Then you could go and talk to the different financial planners about what they'd propose."

When asked which government body should provide this, Centrelink was suggested by some as it was known to provide information already, but others felt it could be another government agency, or the funds could be regulated to provide such information.

"When we retire, the superannuation funds could have a requirement to give us a government approved form that describes the broad options. And then you could go and see an advisor."

Thus, retirees wanted some impartial basic information to give them a basis for discussing options with advisor.

In addition, most participants tended to think about the three options as being all or nothing options. Thus, some suggested that a standard set of options should include clear reference to the suggestion that a mix of two or more of the options may suit some people.

Summary

- Most retirees felt that they only became aware of a need to make a decision about what to do with their super benefit at or after the point of retirement from full time employment (not significantly before this point in time).
- They were similarly, usually unaware of the options available to them at that time.

- Once they approached or had reached the point of retirement however, they had become aware of both a need to make a decision, and at least two of the options available to them (eg – take a lump sum or buy an allocated pension, or possibly a mix of these).
- At that stage, most felt they "just had to" pay attention to the decision and learn something about the options. Retirees attended to this in various ways and with various levels of attention and interest.
- Most felt that, at the time of making a decision, they knew enough about the options in order to make a decision that suited their needs. However, discussion revealed their knowledge was less than perfect and that in retrospect many would have liked to have achieved a greater understanding of the options prior to making a decision.
- The majority felt they had sufficient access to information about the main options facing them. However, there were many difficulties in absorbing and analysing the significant quantity of information to which most of them had been exposed.
- Very few participants could recall receiving literature from their super funds concerning the various options open to them at retirement, and indeed many said they received no information until they contacted their fund.
- Early retirees usually said that, upon contacting their funds, they received only a statement of the dollar value of the super benefit available to them at that point in time.
- Similarly, retirees at the statutory retirement age did not usually recall receiving anything more than a statement of benefit available and a request for the member to make a decision as to what they would like the fund to do with this benefit.
- Some people could recall receiving something about the main options open to the fund member on retirement, although none had received simple yet insightful information in such paperwork.
- There was a wide array of information sources used by retirees, in preparation for making a decision about their super benefit after retirement. These included:
    - Financial planners (where more than one was often consulted).
    - Respected colleagues, networks or family members.
    - Accountants.

- Trade unions.
- Bank advisers.
- Their super funds (literature and/or advice).
- Other fund managers and insurance companies.
- Seminars (often several).
- Magazines, newspapers, radio talkback, television.
- Web sites and emails.
- Employers.
- Impartial sources (eg Australian Taxation Office, Centrelink, Department of Health, NICRI).

] The most used and most trusted sources of information varied across the sample, and provided a useful way of segmenting the retirees market for ASIC's purposes. The two largest such segments were:

- Financial planner/advisor oriented retirees.
- Independent active information seekers.

There were other patterns of information usage and dependence in several minority segments:

- Reactive retirees.
- Seekers of totally unbiased advice.
- Independent lump sum focused retirees.

] Tax and social security information and advice was something that retirees felt could only be properly explained to them by an adviser (rather than in any literature).

] While taxation was a feature of financial planner's and accountant's advice, discussion on the main options (reported later) showed that taxation implications were not clearly understood by many people in each of the focus groups. In many instances, views about taxation were naïve or missed the point about taxation advantages of allocated or life pensions/annuities.

] Overall, the complexity and frequent changes in eligibility rules for social security and taxation treatments on superannuation meant that retirees either ignored these issues, or simply asked their adviser for guidance on the best option for them to take.

] Unprompted, only a few people could give a reasonable list and description of the three main options available for their superannuation benefit on retirement. However, when provided with descriptions of the main attributes of the three options, most people said they felt they understood them sufficiently to make a decision at the time of retirement.

] However, retirees were also very confused about the terminology, often mis-using the four terms: allocated, life, annuities and pensions. The most resonance existed with the two labels: "allocated pension" and "life annuity", probably because these have been the products and terms most often marketed and used by the industry.

] There was usually some confusion regarding one or more of the attributes of each of the three main options, for at least one third of each focus group. In particular, the attributes of life pensions/annuities were not as well known to retirees as the other options.

] There were a number of examples of a lack of understanding of the potential negative tax implications associated with taking the benefit as a lump sum.

] Many participants stated a wish that the one page descriptions shown to them for each of the main options as part of the research process, could have been made available to them at the time they had been making their decisions in real life, since this kind of simple explanation would have avoided the difficulties associated with too much, too complex and biased information provided from the various available sources.

6.5 The Decision Process

6.5.1 Steps and Participants in the Process

Since this was a once in a lifetime decision, people did not have a routine which they could describe as being the way they tackled the decision process. There was a wide variety of behaviours observed as focus group attendees described how they had reached a decision.

While there were major variations (as implied in the segmentation basis reported in Section 6.4.3), the following steps were taken by many people, once it became clear that they would be retiring (if they had advanced knowledge of this) or had retired or been retrenched (if things happened precipitously):

- Contact their fund to check on the super benefit value in dollars.
- Possibly ask for information on what has to be done to access the funds/deal with the funds. In some cases, receive and read any material that may be sent from the fund, or speak to an adviser at/suggested by the fund.
- Begin a process of talking with spouse, friends, colleagues, a financial planner, bank adviser and/or accountant.
- Attend one or more seminars, and possibly check with a government agency (like Centrelink).
- Continue to speak with friends, colleagues, one or more financial planners.
- Take action as agreed with the financial planner.

Discussion with the spouse or partner of the retiree was a crucial part of the exercise, where applicable. In some cases, as already reported, married women followed one of the following patterns, which showed a range of alternative significant spouse effects:

- Were influenced by their husband, if they thought he was knowledgeable.
- Copied their husbands' earlier decision about his superannuation benefit.
- Had decided early in the process (or beforehand) that their superannuation benefit would be taken as a lump sum, since it was small relative to their husbands', or relative to overall joint assets.

One of the effects of gathering information through seminars, paperwork and even advisors was to demonstrate to the respondents how little they seemed to know and how important professional advice was (even if it had to be treated cautiously):

"I was aware of my own ineptitude!"

"The way super is put can be very confusing and until you find something like those sheets that we read (stimulus materials), they're very easy to read, concise and straight-forward. But we had to wade through so much before it made sense."

The sources most used in the final decision process often tended to be financial advisors and those trusted friends and family who were knowledgeable and preferably also in a similar position to the particular retiree.

"Once you go to a financial planner you know you're going to be up for a certain amount of money, so I think you need to do your homework first before you make that final step. Go to your accountant first, and do some other homework. The financial planner is the final step."

6.5.2 Timing of the Process

The process generally took a minimum of a few weeks, but sometimes lasted as long as 2 years, depending on the circumstances. For example:

- Those retiring unexpectedly but with no other means of support besides their superannuation benefit, needed to make decisions quickly in order to begin gaining an income stream from the benefit, whether through a complying pension/annuity or by investing the money outside of the superannuation structure.

  "I wasn't prepared for what was going to happen,. I hadn't been to any seminars. I had to do something pretty quickly once my salary stopped."

- Those retiring unexpectedly with other sources of income to live from in the short term, including part time work, often simply rolled the benefit over or left it in the superannuation fund until they needed the money and/or had spent time exploring the options. Thus the initial decision was likely to be fast, and the subsequent decision was similar to those who retired in a planned way.

] Those retiring at a date that was known in advance, spent between a month and 2 years, depending on which segment they fell into, and exactly how much time was available from the time of deciding to retire and actually retiring. Ignoring the amount of notice available, those taking longest were likely to be *independent active information seekers*, *seekers of unbiased advice*, and some of the *financial planner/adviser oriented* segments. Those taking a shorter time were likely to be those who were *reactive*, some of the *financial planner/advisor oriented* segment and the *independent lump sum focused* segments

6.5.3 Drivers and Priorities in Deciding Between Options

The retirees variously mentioned a set of drivers and priorities which determined which option they chose.

These included the following.

Overall Priorities: An overriding priority for many was simply to maximize income over the remaining years of their life. Therefore the main drivers of their decision tended to fall into place around this driver. Some retirees stressed they took advice and did what they had to do to ensure this occurred.

"I looked at it from an overall view. Over the next 15 years can somebody tell me what the best thing to do with my money is? So, tax issues and other priorities are all about the end result."

Flexibility: This was important to most and related to access to capital.

"You don't want to have $600,000 in a super fund and not be able to get at it and end up having to pay hire purchase for a car."

"For my circumstances I was advised against buying a property in that I would not have ready access to my money."

Access to Capital: Access was a key driver for many of the retirees, although some comments about access again highlighted a lack of understanding of superannuation.

"Access to my money is an important priority because you don't know what's ahead of you, so you've got to have the option. So we didn't want to lock it all away."

"You don't slave for 30 years so the government gets access to your money when you kick the bucket."

Access was not important to everyone, however.

"Access to capital was only moderate importance as I know I can't afford to spend all the capital anyway, so it wasn't the driving force."

Security (Capital Preservation): For some, the perceived inability to manage a lump sum made that option prohibitive. Some women were particularly keen on life pensions/annuities, and in some cases allocated pensions/annuities because of this factor.

"We tried the share market with not much success so a lump sum was not an option for us, in terms of investing it this way."

"I have gone with (a financial institution), which is very conservative and probably I'm not utilising my money to the fullest, but I feel secure and that's worth a lot to me."

For quite a few people, concerns about falls in investment markets and superannuation fund values in the period 2000 to 2003 had led to feelings that bank interest was a safer option. This had influenced their behaviour to a considerable degree. The following is a typical example of this kind of view.

"My main concern is having access to capital amount, and security of the money. I still have money in my superannuation fund – only paying 4%. The banks will pay up to 5.25% unless you lock it in for long periods, but I don't want to lock it in, want to be able to use it. Don't want to go on the dole either. I had to take money out of work superannuation fund and find another superannuation fund to put money in (I was not allowed to leave it in work fund when no longer working). I wasn't interested in a life pension because I was told that if I died in a few years time and my wife also died, the money would "cease to exist". I've got 3 kids – I want to leave something to them. I preferred to have the money and earn a little bit of interest, rather than nothing at all – it's so easy to lose it. I am thinking of taking it all out of superannuation fund and putting it all in the bank because they're paying higher interest (and it's safe). I'll live on the superannuation money until I am 65 – 10 yrs away (he retired early), and then go on the pension. I'll get pension and health/PBS benefits, hopefully with some of my super money left over."

Interestingly, a few others in this focus group advised this man against this, because he would end up paying too much tax – stressing he needed to retain it in a superannuation fund of some sort. His reply was that:

"The bloke handling it now (a financial advisor) told me that as long as I leave $14,000 in the superannuation fund I am OK. If I take this $14,000 out I would have to pay a lot of tax. As long as I leave it there I can take other funds out without paying tax. (possibly due to concessions re superannuation pre 1983 – the respondent had no idea why – he said he had to find out more about it.)"

Bequest: Leaving money in the estate was not a strong consideration for most people. There was an attitude that these people did not get parental assistance (as their parents did not have many assets) and that they managed to reach goals on their own. Also, a common view was that the family home was a good bequest for the children, although this was not held by everyone.

"My children said, 'Mum, if you spend the lot we'll still have the house and if you need to sell the house, we'll look after you…they earn heaps of money."

"I talk to my children and their both doing better than I ever did and they both said, 'you need a good life' so don't worry about us."

"Our kids are all much better off than we were."

"My husband's got a sticker: 'we're spending our children's inheritance'."

"I want to be able to help the kids at important stages in their life as opposed to them getting money when I die."

"I almost took one of those pensions where if you die you lose it all. Then I started to think about it and thought no thank you. I want my kids to benefit."

Life expectancy: was a major priority because respondents were mostly forced to attempt to estimate this as this would affect their choice of product and benefits received.

For many, the assumption was a long life, and thus decisions had to be made with a long period of income requirement in mind.

"I think another thing that made me think about the amount of money I would need was that all my relatives live into their 90s."

For others with a low life expectancy (based on family illnesses) decisions which made monies available to children or other heirs became more important.

Taxation: For the majority, taxation was not a large consideration in the way they thought they were making their decision about the superannuation benefit at retirement.

"The government gets its taxes out of you no matter which way you go."

"These would all be tax neutral options I would think."

"As they throw in a benefit here, they take something away over there."

"That's right, they are setting traps for us everywhere."

Tax was a decisive factor for a few only, and probably only for more highly superannuated respondents.

"To me the tax implications and social security are the most important."

While many people said they did not consider taxation, it must be remembered that many of them relied upon advisers and financial planners who most probably did consider taxation and social security issues for the retiree. As mentioned elsewhere in this report, retiree comments about taxation considerations in their income stream decision making demonstrated a lack of understanding of relevant taxation effects.

"I didn't consider tax in that decision."

"I didn't think of it that way. Also tax minimisation schemes don't appeal to me. They are shady and risky."

Control: Some people wanted to maximise their control over their investments, for a variety of reasons, often to do with avoiding risks of fund managers failing, avoiding fees, or simply having guaranteed access to funds. Such people were likely to take a lump sum/take a high proportion as a lump sum, and invest the money themselves, sometimes in property, shares or managed funds.

Role of Advisers Regarding Priority Setting

It was clear from every discussion group, that retirees were heavily dependant on their adviser(s) to help them to choose the best option for their superannuation benefit, given their stated priorities and drivers. It was often not apparent or openly expressed by retirees that their advisers were probably considering a number of un-stated drivers of the decision (especially taxation and social security issues).

Summary

- While there were many variations in the processes used, the most common steps mentioned included the following, in roughly the order shown:
  - Contact fund (check on the available superannuation benefit).
  - Possibly ask for information on what has to be done to access the funds/deal with the funds.

- Consult spouse, friends, colleagues, a financial planner, bank adviser and/or accountant.
- Attend seminar(s), and for a few, check with a government agency (like Centrelink).
- Continue to speak with friends, colleagues, one or more financial planners.
- Take action as agreed with the financial planner.

- The process generally took a minimum of a few weeks, but sometimes lasted as long as two years, depending on whether the retirement was unexpected or not, the amount of notice available on a retirement date, and the information behaviour segment to which the retiree belonged (See Section 6.4.3 for a description of the information behaviour segments).

- The main drivers and priorities used in deciding between the three main options included:
  - Beliefs about which option would maximise their annual income during retirement.
  - Flexibility.
  - Access to capital.
  - Security (capital preservation).
  - Life expectancy.
  - Bequest/estate preferences.
  - Taxation.
  - Control.

- Those first four mentioned drivers received the widest attention, with fewer numbers of people mentioning the last three priorities.

- Although all of these issues were mentioned, most people were still influenced heavily by their advisers' recommendations, which they hoped had properly taken account of their individual preferences and priorities. Quite a few retirees were oblivious (or unable to be sure) of the probability that their advisor was also considering a number of un-stated drivers of the decision, most notably taxation and social security issues.

6.6 Evaluation of the Experience in Hindsight

6.6.1 Expectations Versus Reality

Few Prior Expectations: Most people made few comments on this point. Retirees felt they had not entered the superannuation decision-making process with many expectations, having devoted very little thought to it.

Importance of Superannuation and Size of the Decision: As younger people, the expectation had sometimes been that superannuation was not important, and that the Government would provide because they had paid taxes.

A resulting expectation requiring adjustment during the retirement decision making process was that people had to be financially literate and self-funding. For some, this realisation came late, and for some women, it came through divorce and left them feeling partly cheated. Some said if they had their time again, they would have paid more attention to financial matters and building a retirement fund:

"A few years ago it wasn't such a big issue, what you were going to retire on. Whereas now, I even notice my daughter, paying attention. And a lot of women didn't pay attention. It used to be optional and we didn't realise how important it would be. It was never encouraged."

"Our anticipation when we were 30 was that we would retire at 55. Come 55 we weren't ready. My expectation has changed. I would like to carry on working, but on my terms, perhaps a couple of days per week."

"I think back to when I was 30 and we assumed that my husband's super would be enough."

Not Enjoyable: Generally, retirees felt the process was generally as they expected it might be, although not very enjoyable since it was:

- Time consuming.
- Required a lot of concentration.
- A source of anxiety (a lot at stake, and concerned about making an incorrect and irreversible decision). An important exacerbating factor was the move from a steadily increasing income during years of employment, to the perceived prospect of a prolonged period at a fixed income.

"Being on a fixed income makes it very difficult. When I was employed, my career moved along with inflation….and now I'm stuck with whatever I choose."

"You're on a fixed income, if you don't make the right decision, that's it."

- Anxiety was heightened by recent years of poor returns in many superannuation funds, and abundant stories about poor financial planning advice and money lost in various investments, complexity & uncertainty surrounding the ever changing taxation and superannuation rules.
- For some, a lot of difficult issues coincided – the (often unexpected) loss of employment and wages income, poor health (them or partner), together with the need to make important superannuation decisions
- The issues were confusing and involved conflicting advice.
- It required consulting with one or more financial planners, with an attendant cost.
- Retirees were rarely sure that the decisions made would ultimately provide outcomes in line with their needs or expectations, because of the potential for market fluctuations, poor initial or ongoing financial advice, and the potential for rule changes.

Time Pressure in Decision Making? The whole issue of the time available to make a decision was not a particular problem for many participants. Only one or two people said they felt pressured for time, in making a decision as to what to do with their superannuation benefit. These people only commented about this when prompted, indicating time pressures were not a large issue in this sample.

"There's nothing like the event happening to crystallise your thinking. Anyhow, you can't make the decision until you retire. You don't have to make up your mind on the day. You've got a few months to think about it, so information from your fund when you retire would be good."

Results Have Not Been Encouraging Recently

A number of participants were happy with their decisions. However, for the majority there were comments indicating uncertainty about the long term efficacy of the decisions they had made. Some of those who were uneasy, commented that the performance from their allocated pension funds or life annuities have either been hidden from them, or have been shown to represent a concerning (in some cases, an alarming) downward trend. This had resulted in a significant minority of retirees believing their decision making and the advice they had received to be somewhat flawed.

In some instances, such views appeared to be influenced by the investment market cyclical dip in recent years.

On financial planners: *"They just lie – they take their money and your funds progressively slip – I started 3 years ago and they've dropped probably 50% in that time….I just don't believe what they say, but there's no way you can check it."*

"I agree entirely. I went to see a number of financial planners when I retired – I got an allocated pension and what amazed me was that even when things were rosy (ie, supposedly good returns) the balance was always down the fees were up. The adviser kept saying it was a long term thing and I keep saying – I'm only looking at 2 years (to age 65). If my funds keep dropping at the rate they are, I'll have nothing left to invest. I draw down 7% which is about the minimum you can take but at the end of each quarter when you get your statement taking into account the fees taken out and your 7% the capital sum is depreciating. It's not returning a very good sum, irrespective of how the markets are going."

"There's no sort of audit – the planner says 'the shares we invested on your behalf produced that – we lost a bit here and gained a bit there'. You don't get a picture of what your money has done. You just get the overall balance. 'You opened with this, this is what you get, here are the fees and charges', and it's less than it was."

"They tell you of all the money in the fund, this much is in cash and this much is in international shares and so on. Who knows if that's true or not? You have to take their word that they're doing what they say they're doing. But they still take their 2% off the top."

"I can find out how much money they have invested in things like international shares, but so what? I want to know why my money continually drops. ……in carrying out their job as professionals, they still lose my money….we need someone to ensure that these people do a proper form of investment so your money doesn't continually drain away."

There were a few people who related stories revealing very poor advice or a lack of knowledge which led to poor decisions carrying significant financial penalties. For example, several people appeared to have taken their benefit as a lump sum and subsequently purchased an annuity. One had lost $35,000 in tax because of this.

Summary

- Many commented that it was a decision that just had to be taken, and they knew they had to engage in the process, and by various means, make a suitable decision about their superannuation benefit.
- The decision process was not enjoyable because of a range of factors such as:
  - Time consuming process.
  - Degree of concentration required.
  - Anxiety associated (caused by, for example, a lot at stake, potential for an incorrect or irreversible decision, recent years of poor returns from investment markets)
  - Coincidence of this decision with negative life events, such as loss of job, ill health.
  - Confusing issues involved, including conflicting advice.
  - Requirement to consult with financial advisors, and their costs.
  - Uncertainties that the decisions made would fully or optimally meet their future needs.
- It was seen as an unavoidable and extremely major decision.
- Time pressure in making the decision was not normally a problem for retirees.

"It was time consuming at first. But I wouldn't say it was easy or hard. It was just a fact of life and you deal with it like you do with cleaning a house."

"It's something you have to do."

"Whatever else you have to do it. It's something that you cannot avoid."

6.6.2 Suggested/Desired Improvements in the Process

Despite the fact that the researchers observed major shortfalls in awareness and understanding of the various options, the participants in each group largely felt happy with their level of knowledge at the time of retirement. Notwithstanding the reservations they had about the nature of the challenge mentioned in 6.5.1 above, they were also generally happy with their decision making process.

A few respondents in each group said they were more knowledgeable following their participation in the current research process, with some of them admitting they wished they had done more analysis and obtained better or clearer advice prior to making a decision.

Typical comments summing up how the process could have been improved included the following.

Invest Earlier, Put More into Super

"I would tell my kids to start investing in super at an early age."

Take More Control of the Decision Making

"I'm quite happy with where I'm going. I went to a reasonable bloke."

"I wouldn't have trusted my husband!" (Although said in jest, other women in this group agreed that they probably didn't pay enough attention to superannuation and tended to leave this to their husbands, which had proven to be risky in several cases).

Be Better Informed

"I would be much better informed. My husband had all the super. Granted I let him manage it, but in hindsight I would have thought about my financial situation independently. But when you got married you never thought about that."

"I would have been better informed."

"I would get a better estimate of the cost of living in retirement. You don't realise how much you actually need to live when you're not working."

"There was difficulty estimating in advance how much we need to live on."

"I would love there to be a website – 'retirement for dummies' – which gives you the options and independently states how various funds are doing, and what the charges are. (It would) be lovely to have a one stop shop."

"I wish I had rolled the money over and thought for longer before I made a decision."

"I wish had known about Centrelink as a source of unbiased advice."

"A discussion or set of discussions like this one – with strangers - would have been very useful as we can learn a lot from each other, and it's not something I would want to discuss with my friends."

Access to a Simple Set of Guidance Notes

A number of people returned to the idea that they needed a much simpler set of guidance notes at the outset of the decision process, preferably from a credible, unbiased and authoritative source.

"Access to those sheets you showed us would be a start."

"That's right."

"Simplification of the printed information we got."

"Better explanations of the basic options, and more unified terminology."

The main information required in the guidance notes (which people stressed would need to be brief, and published by an accepted unbiased body such as a government department), would include the ideas that were expressed in different parts of most of the focus groups:

- That a decision has to be made about the superannuation benefit, and by when.
- That the five fundamental options are allocated pensions/annuities, life pensions/annuities, taking a lump sum and investing outside the tax advantaged superannuation environment, choosing a mix of two or all three of the former options, or leaving the funds where they are/rolling over until certain time or age limits are reached.
- The main benefits and drawbacks of each option, in a simple table.
- Advice that everyone's circumstances are different, and therefore they should seek financial planning advice.
- How to find a suitable financial planner.
- How to evaluate a financial planner.
- What questions to ask a financial planner.

Government Regulation/Provision of a Government Run Super Scheme

Another category of suggestions included a series of ways in which the government could better regulate fund managers and financial planners. These suggestions were normally along the lines of better qualifications of planners and fund managers, better control of fees and charges or disclosure of fees and charges, and in several focus groups, the strong suggestion that the government should replace the public offer super fund system with a comprehensive government run system. Typical comments of this type, were as follows.

"The best thing to do is to put your money into government bonds. "I don't see why the government, instead of the government borrowing from overseas we could put our investment money into government debentures or whatever; they could pay us a reasonable rate – say 5% tax free and you're money's safe - you don't have to worry about anyone running off with it…..why pay a private company to take 2% off the top. They're going to loan it back to the Feds anyway."

"I think the government should provide a super scheme for everyone, so it would be much more reliable and secure."

These and similar comments surfaced in a number of the focus groups. They reflected a high level of insecurity and uncertainty associated with making these decisions. The Government is seen in this context as a surrogate for security.

Summary

- While most retirees had not thought about how the process could have been improved, and said they had been happy with the process they had followed, there were several suggestions as to how they would like the process to be improved, given the wisdom of hindsight. These included:
  - Invest earlier, and put more into superannuation.
  - Take more control of the decision making (from spouse, informal or paid advisors).
  - Be better informed. Superannuation (at retirement) seemed more of an issue than they had previously realised.
  - Obtain access to a simple set of guidance notes from an unbiased and credible authoritative source.
  - Find a way of judging the quality of the advice they had received.

7. RELEVANT FINDINGS FROM IFSA 2001 RESEARCH

Important Notes: **Chant Link acknowledges the generous offer by IFSA to allow the use of its 2001 research results in this report. The IFSA research was conducted three years earlier, targeted a slightly different sample, and involved a different set of objectives, compared to the current ASIC research. However, many of its findings are relevant to the current research – especially the quantitative findings relating to what retirees did (and what pre-retirees planned to do) with their superannuation benefits, and how this varied between demographic segments.**

In this section, the terminology used is "allocated pensions" and "guaranteed annuities", reflecting industry practice at the time, compared to the terms used in the ASIC results section reported earlier: "allocated pensions/annuities" and "life pensions/annuities". This terminology difference has not been harmonised, since the IFSA research may have yielded different results if the ASIC terminology had been used.

7.1 IFSA Qualitative Research

7.1.1 IFSA Qualitative Research Approach

This IFSA research aimed to identify underlying drivers of retiree decisions, particularly those concerning financial matters. There were two phases - a qualitative phase followed by a quantitative phase. The qualitative phase involved six focus groups held among pre-retirees and recent retirees in middle and upper income brackets. This attitudinal and behavioural research concerned financial matters associated with:

- Planning and saving for retirement.
- Decisions and actions at the point of retirement.
- Various features of retirement income stream products.

A key objective of this research was to generate information on the key needs and drivers of decisions in all of the above areas, from the retirees' (and pre-retirees') perspective.

It is important to note that only certain parts of the market were studied in this part of the research as follows.

- ***This phase of the research was deliberately skewed towards people who were more likely to have considered retirement income decisions.*** Thus, only people who were close to retirement or had recently retired were included. Further, only people in the middle income (or asset) segment and those in the higher income/asset segment were involved.

- ***Since the research sought to understand underlying drivers of retiree decisions, intermediaries were not included.*** This research sought to understand retiree and pre-retiree attitudes, awareness, and knowledge of financial issues and products associated with retirement, and in particular, their felt needs regarding income stream products. Thus, the views of intermediaries were not sought. The researchers expected that many of the attitudes explored in this IFSA project (especially those of pre-retirees) may be altered if and when they sought advice or a retirement income stream product, through exposure to intermediaries and/or product education.

The six focus groups were split between Sydney and Melbourne. There were three groups of pre-retirees and three of retirees. Pre-retirees were split into middle income (household income between fourth and sixth deciles) and higher income (top three deciles). The retiree groups were split between middle asset levels (less than $300K excluding the family home) and higher asset levels (over $300K of assets excluding direct property of any kind). Each focus group contained 8 or 9 participants and involved a moderated discussion of duration 100 to 120 minutes.

7.1.2 IFSA Research - Selected Qualitative Findings

The following selected findings either reinforce the current ASIC research findings, or serve to further explain them.

Retiring Age

- Many people planned to retire prior to age 65 for a variety of reasons:
  - Avoiding stress.

- Ill health.
- Industry rationalisation/redundancy.
- Lifestyle aspirations.
- So that retirement coincided with spouse's retirement.
- Being available for babysitting grand children (often a factor for women).

- Despite this, there was a large segment who expected to continue working until the accepted retirement age (eg 65 for men) or beyond, for one or more of several reasons:
  - Like working, like current employment
  - Feel unable to retire until sufficient savings have been accumulated to enable self funded retirement.

Saving for Retirement

- Many pre-retirees were placing a high importance on saving, either for general wealth creation, or for retirement, since:
  - They all believed that the government would not be providing for their old age.
  - Those with children did not want to become a financial burden on their families as they aged.
  - Desire for quality lifestyle in retirement
  - Unknowns in life eg divorce, ill health, retrenchment (which translates to a need to protect oneself against unknowns in life)
  - Prompts from advisers or product provider advertisements
- Some were just natural wealth creators or had such high paid careers, they had to manage their savings responsibly.
- Some were under pressure to retire due to either wanting to reduce stress levels or change lifestyle.

Degree of Pre-planning for Retirement Funding

- There were very low levels of planning the financial aspects of retirement, among pre-retirees. The main reasons for this included:

- Other commitments eg children, home, too much debt, businesses being a drain on funds or drain on energy
- Poor ability to save/failure to think long term/other more immediate goals take priority eg extending/upgrading home
- Belief that they would always be able to earn an income/would want to work in some capacity
- Lack of disposable income to devote to saving (eg due to business failure)
- Life events intervening or reducing existing savings or investments (eg retiring earlier than expected due to ill health).

] Those who were pre-planning at all (the minority) tended to be those who displayed one or more of the following characteristics:

- Looking forward to retirement (early retirement for some) because of lifestyle aspirations (reduce stress and/or pursue a hobby or low intensity small business interest).
- Encouraged by their employer to pay attention to their retirement financing (via education/provision of information or advise from the company's superannuation fund).
- In a very favourable superannuation scheme or one that otherwise encouraged higher employee contributions
- Feared ill health, redundancy or a forced early retirement for any reason.
- Business failure or other severe denting of life savings to date
- Women for whom divorce or death of spouse had triggered them to plan for retirement
- Sudden inheritance and associated realisation this is the only nest egg they have for retirement at this stage
- Wealth accumulation occurring naturally. (eg by luck or good management a person finds themselves owning a successful business or earning a lot of money and needing to manage it).
- Wealth accumulation by nature or background.
- Children leaving home, triggering a realisation among parents that retirement is now a possibility and increasing the level of disposal income available for saving.

] In other words, key triggers for planning retirement savings strategies could be divided into those associated with excess funds for saving, and those associated with an actual or perceived shortfall in savings.

Sources of Funds for Retirement

Welfare Benefits

] None expected to/did actually rely mainly on welfare in these focus groups. There was a strong belief that welfare would not be available to the next generation of retirees (unless they were virtually destitute).

] Some believed that welfare was not for retirees with a reasonable level of assets of their own, though many thought it was important to be able to access some social security benefits (namely the Senior's Card).

Self Funding Savings Vehicles

] Mid-income pre-retirees tended to believe the main source of funding for their retirement would be superannuation benefits stemming from employer contributions.

] Some higher income pre-retirees ranked their own contributions equal with, or more important than employer contributions in their expected superannuation benefits on retirement, but still felt that superannuation was likely to be their largest source of retirement funding.

] In addition, pre-retirees in all groups were saving in non-super investment forms, and thought these (eg property, shares and managed funds) would augment their superannuation benefits when they retired. Thus, while superannuation was popular and considered very important, non-super investments were also being accumulated to a greater or lesser degree across virtually the whole sample.

] There was little or no mention of life insurance products funding retirement among pre-retirees, although some retirees had used this asset class extensively.

] Inheritances were rarely predicted to be a major part of retirement savings. Even when inheritances were anticipated, they did not influence retirement savings planning or behaviour since they were unpredictable (timing and amount) and were usually small, relative to amounts required for self funded retirement among these income and asset segments.

Attitudes Towards Superannuation

] Superannuation was strongly supported, because:

- It was considered easy to contribute to.
- It required little decision making on their behalf.
- It is enforced saving, which may otherwise not occur given the financial spending needs they were still experiencing
- It appears safe
- It is money locked away (preservation), and hence had to be kept for retirement. Most respondents in these groups regarded preservation as a positive (particularly in hindsight).
- Some were in a scheme they had been told was performing particularly well, or had very good retirement benefit arrangements.

] Reasons for not contributing more into super, however, included:

- Lack of available funds to invest.
- Concern that current superannuation rules are too complex.
- Lack of understanding of the benefits of super (a few).
- Concern that the government keeps changing the superannuation rules, and will therefore probably continue to do so.
- More particularly, a concern that being allowed to take benefits at retirement in a lump sum may be abolished altogether, or made too unattractive by tax penalties in the future.

] Despite all of these drawbacks, pre-retirees were nonetheless very positive towards superannuation overall, and wanted to continue to amass employer contributions *at least*, until retirement.

] Most higher asset retirees had tended to make voluntary contributions into their super funds for much of the latter half of their working lives. Some had made significant un-deducted contributions as well, especially close to retirement, in order to maximise the taxation benefits of their benefits at retirement.

- There was an almost overwhelmingly positive attitude towards superannuation, because of the *compulsory saving* and lack of access aspects, and because of the *favourable taxation treatment.*

Impact of Attitudes Towards Superannuation on Own Contributions

- A high proportion had made their own contributions to superannuation (either into employer based scheme or into a personal plan).
- Retirees and pre-retirees sometimes perceived "problems" with superannuation, with some believing it had started too late for them (superannuation wasn't compulsory when they started working).
- Many had chosen, consciously or unconsciously (mainly the latter) not to make large own-contributions to superannuation, instead relying mainly on employer contributions and perhaps modest own contributions. This behaviour was driven by:
  - Concerns about access to capital (pre and post retirement) and general concerns that the superannuation rules are too complex, and that governments cannot be trusted to hold the current advantages of superannuation.
  - Apathy or lack of awareness, for some retirees. For these retirees, none of the hypothesised barriers were raised. The main barrier was seen to be apathy – failing to think about superannuation or think about making own contributions, or else a lack of awareness of superannuation and its benefits.

Debt

- The vast majority of pre-retirees in this research desired and expected to be free of debt prior to the time of retirement.
- For those who still carried a home mortgage at the time of retirement (or expected to), all had a strong desire to retire this debt, and anticipated using part of their superannuation benefit to accomplish this.
- Prime drivers re the desire to eliminate debt included:
  - Providing a greater chance to save (pre-retirement)
  - Lower level of savings required to fund retirement if no debt carried into retirement
  - Would reach a pre-determined saving level sooner, thus enabling earlier retirement, if no debt to service or pay off.

“Point of Retirement” Issues

] *Diverse forms for many*. Assets held at point of retirement for those involved in this research usually included superannuation + family home +/- shares +/- property investments.

] *Few had retired with debt.* For most, elimination of debt had been/would be critical prior to retirement. Indeed, unless forced to retire early (with debt), many could not imagine thinking about retirement if they were still in debt.

] *Low awareness of decisions to be made on point of retirement.* There was a very low level of understanding among pre-retirees of the decisions they may need to make to convert their superannuation benefit to an income stream on retirement. Most assumed they would simply take a lump sum and invest it somehow (eg in property, managed funds, shares, bank term deposits).

] There was very little or no awareness or knowledge of income stream products amongst pre-retirees.

] Even amongst retirees, knowledge of these products was quite low. Many could not readily name products nor describe product features, nor how they differed. They had mainly purchased a retirement income stream product on advice.

] The main point of perceived difference among these various retirement income stream products amongst retirees (unprompted) was that some leave you with no money at the end (rejected by most) and some do not allow you to get hold of your money if you need it (again rejected by most).

] Virtually all retirees had sought advice close to retirement re what to do with their superannuation benefit. They used a range of advice sources including the superannuation fund itself and aligned and non aligned advisors.

] Several consulted multiple sources (some free, may have paid for one) to compare advice.

] Wealth accumulators were more likely to have longer-term advisors (eg accountant, solicitor, stock broker and so called independent financial planners).

] Most pre-retirees predicted they would need advice closer to, and at the point of retirement, but were largely uncertain about which types of advisers they would choose, and how they would find a good adviser.

Leaving an Estate

] Most pre-retirees had given little thought to whether they would leave an estate, and if so, how large, and in what form.

] There was a general belief that children would be left something, and the prediction was that this would be the family home (or the residence at the point of death).

] Most people felt that there were too many unknowns to predict what may be left in their estate (not least of which related to how long they may live), and so they did not attempt to plan for an estate.

] Only those with a relatively large expected estate had sought estate-planning advice and were aware of the need to plan in this area to minimise tax impacts on the estate beneficiaries.

Allocated Pensions and Guaranteed Annuities – Knowledge and Preferences

] There was a very low level of knowledge of the purposes, benefits, and features of the existing main categories of retirement income stream products among pre-retirees and retirees.

] Even those that had been through the process of deciding what they would do with their superannuation benefit were somewhat confused re the products on offer to them and what the product they had chosen delivered. None had a good understanding of either allocated pensions or annuities (though their understanding of the former was somewhat better than the latter).

] None had done much research on the issue themselves. They had responded to advice they had been given regarding which product (if any) would suit their needs best.

] The key hooks were: *access to capital*, and *control over the funds*.

] Access to capital was a deep-seated, emotive need, concerned with anticipation that unexpected needs for lump sums of money would inevitably arise (such as for weddings, parties, holidays, new car as well as illness, repairs to home). There was also, a deep-seated reluctance to "lock money away" forever. There were associated fears, for example, of the money being kept by the fund after death, a fear of fraud being somehow higher if the money is inaccessible, and a fear that poor investment performance may be "locked in" if a product does not allow access to capital.

] Control meant various things to different participants, in some instances appearing to overlap with "access to funds". For example, participants defined control to include things such as:

- Ability to vary income up or down,
- Initial choice of asset class
- Ability to change the mix of asset class (and risk) over time
- Ability to change fund managers over time if the performance was poor (without high exit fees)
- Access to capital (ie included as part of "control" for some)

] The opportunity for reasonable rates of interest (rather than very low interest rates) was also somewhat attractive

] Access to some level of social security benefits (for a few in the mid-income category) was also attractive.

] Accordingly and not surprisingly, when shown information about allocated pensions and guaranteed annuities, most participants preferred allocated pensions. Access and control were the most important drivers of this preference.

] A small segment of both pre-retirees and retirees preferred the simple promise of a fixed income for life, perhaps indexed for inflation. They saw the lack of access to capital as an advantage (avoids temptation to spend the capital), and asset test advantages for social security benefit access purposes as very important. However, this was very much a minority view.

7.2 IFSA Quantitative Research

7.2.1 IFSA Quantitative Survey Approach

The IFSA 2001 quantitative sample was comprised as follows:

- National sample of metropolitan, regional and rural areas; sample proportional to population in each State
- Total sample of 600 “pre-retirees” and “retirees”
- Quota of 400 “pre-retirees”, screened to comprise:
  - Main income earner
  - Aged 45 or over
  - In paid employment for more than 25 hours a week
- Quota of 200 “retirees”, screened to comprise:
  - Former main income earner
  - Aged 55 or over
  - Retired in the past 5 years
  - Either fully retired or in paid employment for less than 10 hours per week

Structured questionnaires were administered to respondents, with a separate questionnaire administered to “pre-retirees” and “retirees”. The number of in-common questions was maximised as far as possible to maximise reporting at an aggregate level (n = 600).

7.2.2 IFSA Research - Selected Quantitative Findings

Age at Retirement

- 65% of pre-retirees (given the pre-retiree sample were all aged over 45) were unsure when they would retire.
- Bearing in mind that in the retirees sub-sample, only those who had retired in the last 5 years were included, 17% of such retirees had retired before age 55.
- A further 35% had retired between the ages of 55 and 59. 76% had retired by the age of 65. Five percent were over 70 when they retired.

Investment Vehicles at Point of Retirement

- The single most important investment vehicle for almost half of the overall sample of retirees and pre-retirees (46%) was employer contributions to super.
- Own contributions to the employer's super scheme was the most important retirement savings vehicle for 28% of the sample.
- Although shares were used as a retirement investment vehicle by almost half of the respondents, only 7% cited shares as the *main* retirement investment vehicle.
- Other personal superannuation products were used by 26% of respondents, and were the main investment vehicle for 8% of people in the sample.
- Males were more likely than females to have made contributions themselves to work super (56% versus 44% for females).
- Men were more likely to have used shares as an investment vehicle for retirement (50% versus 41%).
- Do It Yourself (DIY) super schemes seemed to be more popular with men (15%) than women (9%).
- Pre-retirees cited employer contributions to super more frequently (76%) than did retirees (58%), as a source of savings for retirement.
- Pre-retirees were also using shares in greater numbers (51%) than retirees had done in preparing for retirement (38%).
- Pre-retirees also:
  - Used banks less for preparing for retirement (38% versus 47% for retirees)
  - Used managed funds/life insurance more (35%, 29%)
  - Used other personal super schemes more (30%, 19%).

Age at Which Started to Save for Retirement

- The median age at which respondents in the sample started to consciously save for retirement was 45, and the mean was 36 years. This compares with the mean current age of those in the sample, of 56 years. (Pre-retirees were currently 53 on average and retirees 64).
- 28% of people felt they started saving for retirement before the age of 30.

- Higher income households tended to commence retirement savings earlier than lower income households, which was explained by surplus cash availability in the qualitative phase of the research.

Sources of Income in Retirement

- By far the highest incidence of actual or planned source of income for people in retirement, was superannuation benefits (72%).
- A range of other sources of income were cited by between a quarter and one third of respondents, ranging from part time work (31%) to income from managed funds/life insurance investments (23%).
- Five percent cited "other" responses. The most frequent "other" responses included disability pensions, overseas pensions, redundancy packages, and spouse's income.
- The average number of sources nominated per person was three.
- Superannuation benefits were the *single main* source of income in retirement for 43% of people.
- 20% of respondents were using or expected to use a full pension, and 11% a part pension, as their single main source of retirement income.
- Next most frequently cited as the single most important source of retirement income were:
  - Income from property (10%).
  - Income from managed funds or life insurance investments (7%).
  - Part time work (6%).
  - Income from shares (4%).
- Over half of the pre-retirees (54%) predicted they would be dependent mainly on superannuation benefits in retirement. This compared with 22% of retirees who said they were mainly dependent on super benefits in their actual retirement.
- Men were (or predicted they would be) more dependent on superannuation benefits than women in retirement (48% to 34%).
- Those in cities were/predicted they would be more dependent (46%) than those in regional and rural areas (37%) on superannuation for income in retirement.

- Higher income respondents were more dependant on superannuation in their retirement than lower income respondents.
- The older age groups were less dependent on superannuation at retirement, than younger age groups.
- Professionals and former professionals were more dependent on their superannuation for income than white and blue collar employment categories.

Action Taken (or Anticipated taking) Regarding Superannuation Benefits at Retirement

- The most frequently mentioned action taken with superannuation (of the options open to those with superannuation) on retirement, was to take it all as a lump sum (24%).
- Males and females were similar (23% and 27%).
- 37% of retirees had taken it as a lump sum, whereas only 18% of pre-retirees expected to take all their benefit as a lump sum.
- Preference for taking the benefits all in a lump sum increased with age and income.
- 7% of responses were "other" actions taken, including did not have superannuation /did not withdraw the benefit/just left it there/purchased various items.
- The summary of superannuation benefit usage across the whole sample of 600, and then separately among 400 pre-retirees and 200 retirees in the sample is provided in the next three pages.

Exhibit 2. Summary of Superannuation Benefit Usage (Actual & Anticipated) – Whole Sample n=600

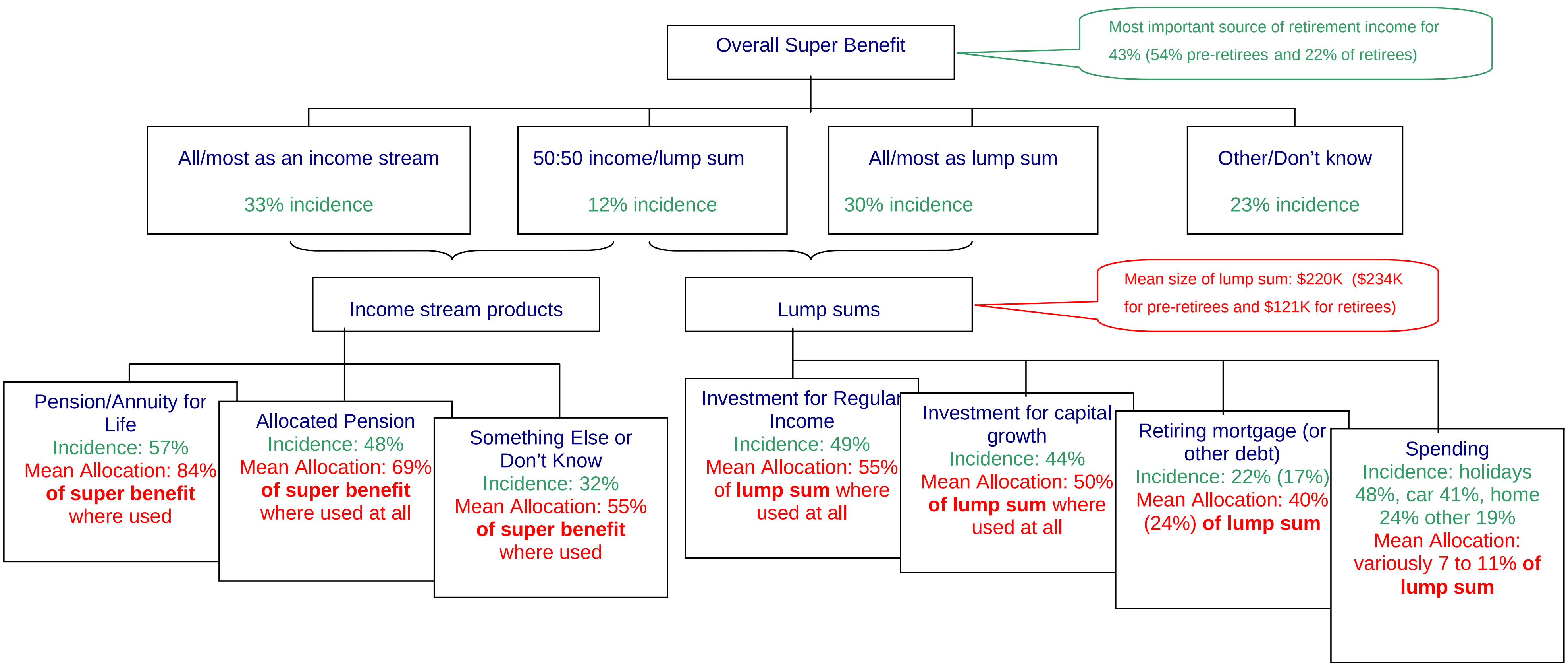


Exhibit 3. Summary of Anticipated Superannuation Benefit Usage on Retirement– Pre-retirees (n=400)

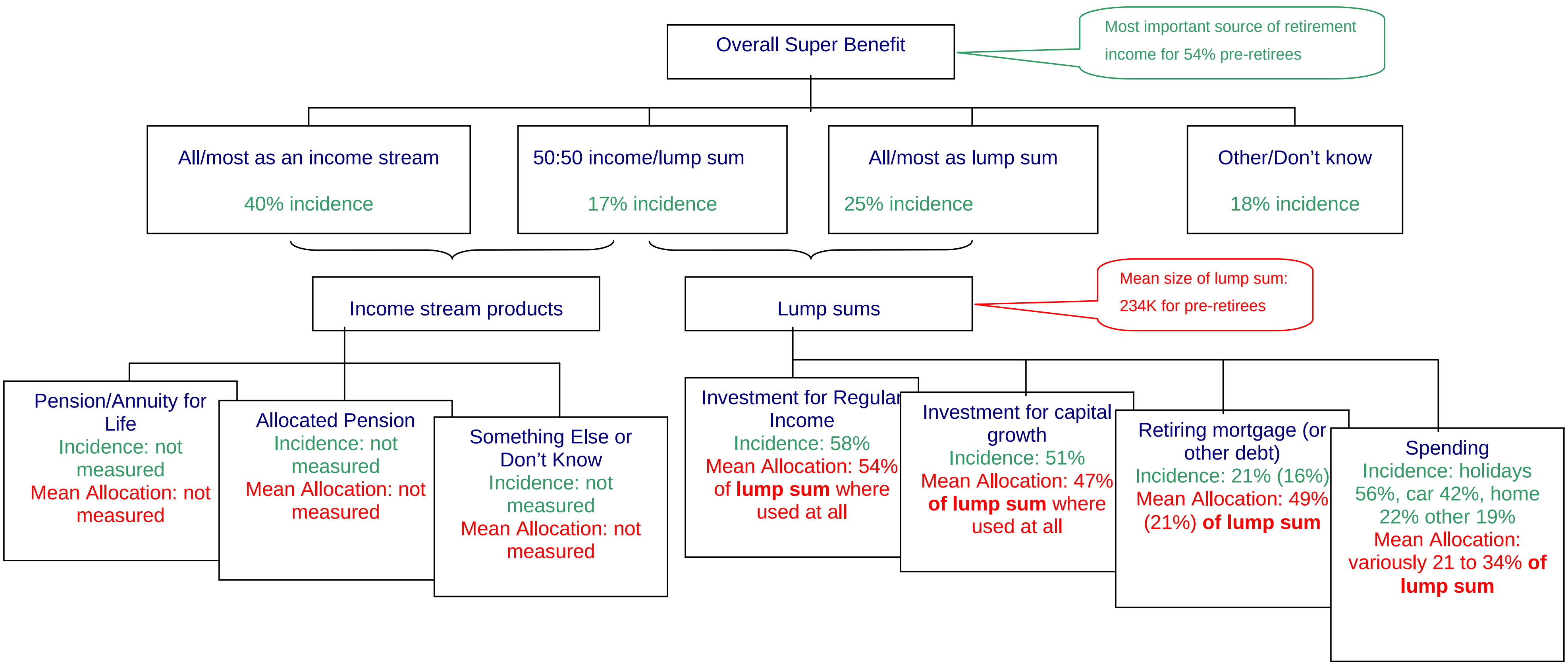
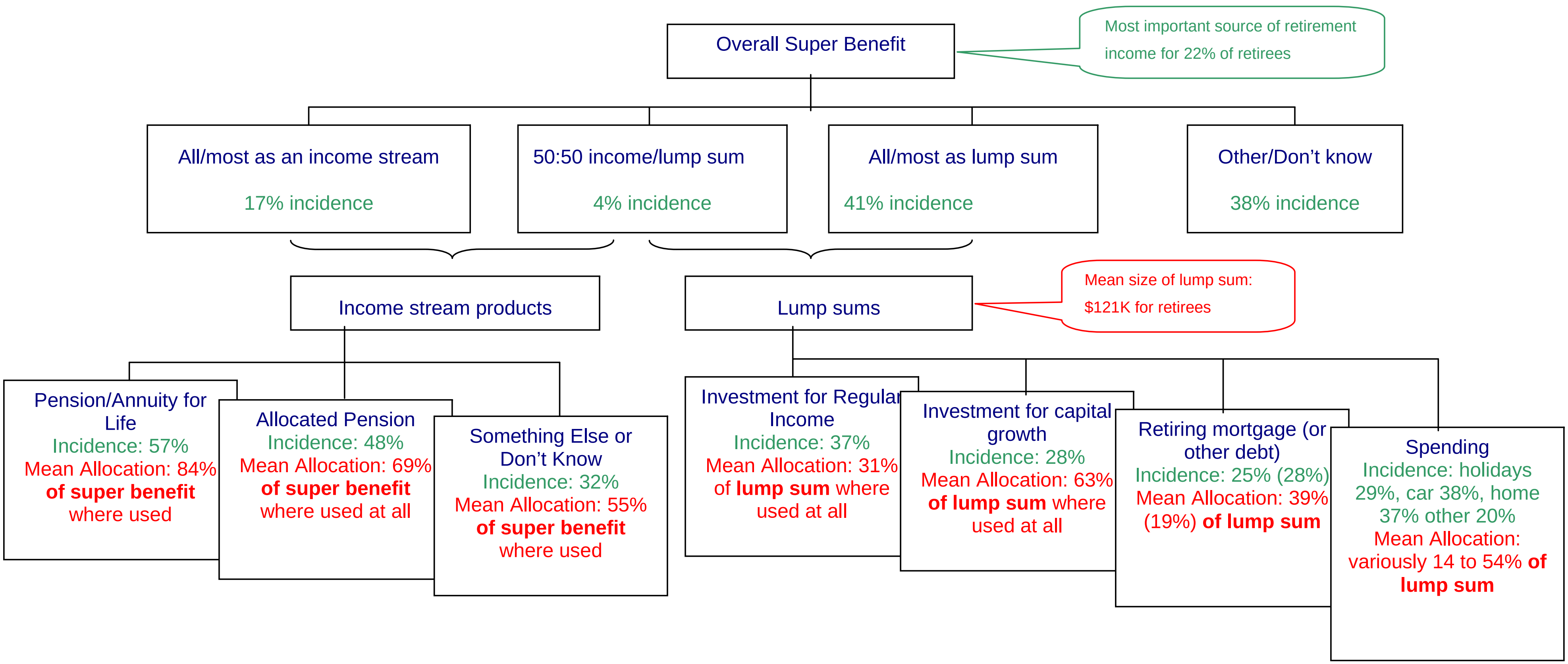


Exhibit 4. Summary of Superannuation Benefit Usage– Retirees (n=200)



Advice Sources for Investing for Retirement

] In the combined sample, the most usual approach to obtaining advice was to obtain views from one or two outside sources.

] 29% of pre-retirees were currently receiving financial advice.

] One quarter of the total sample of retirees and pre-retirees used/predicted they would use a lot of sources of advice.

] Only around one fifth of the sample (21%) acted on their own, without seeking outside advice.

] Only 12% of pre-retirees felt they would act on their own, without seeking outside advice, whereas 39% of retirees said they had acted alone.

Type of External Advisers Used/Anticipated Using for retirement Investment Advice

] The main source of advice (where used or anticipated) was a financial planner or financial adviser (69%).

] Of moderate incidence were:

- Accountant (28%)
- Bank employee (26%)
- Friend (18%)
- Superannuation fund (18%)
- Relative (16%)
- Fund manager (14%).

] Other sources of advice were used/anticipated by only a minority of respondents.

] Other sources mentioned included other government, seminars, and stockbrokers.

] On average each respondent used 2.3 external advice sources

Used and Preferred Purchasing Channel for Investing in Retirement

Respondents were asked which of three statements best summed up how they would prefer to purchase investments or other products to provide an income in retirement. The results showed that:

- The main source of advice (where used or anticipated) was a financial planner or financial adviser (69%).
- Women showed a higher preference for purchasing from an adviser than men, and a correspondingly lower propensity than men to buy direct from a fund manager.
- Pre-retirees and retirees showed no significant differences in channel preferences, for investing in retirement.

8. APPENDICES

8.1 Appendix A: Discussion Guide

- **Background and preamble**: Explain that this research is being undertaken to understand the way people go about making decisions about what to do with their superannuation money when they retire. Emphasise the confidentiality of responses and gather some background information on:
  - When respondent retired;
  - When their partner (if any) retired;
  - Where they worked immediately before retirement;
  - Attitude to retirement – was it something they looked forward to or not?
- **Explore interest in superannuation prior to retirement**: Had they paid attention to their superannuation (eg, how much they had, how it was invested, made extra contributions, etc). When did they become interested in super?
- **Explore behaviour re superannuation in relation to retirement**: At what point did they start thinking about what they would do with their superannuation funds when they retired? (years before, months before, not until the point of retirement). What were the prompt(s) for them to start thinking about it? Did the retirees super fund, employer, financial adviser or other person or entity provide a prompt?
- **Level of knowledge**: How knowledgeable do respondents believe they were at the time of retirement about options available to them with their superannuation funds. Did they feel able to make an informed choice? Did they feel able to find a suitable advisor?

- **Paperwork**: Identify the type of paperwork respondents received from their superannuation fund, and explore how this paperwork was used (use paperwork brought to the discussion by respondents if applicable). When was it received? Did they have enough time to digest it in order to make a decision? Would they have preferred to receive it earlier or later? Was it easy to understand; sufficiently informative?

- **Sources of Information**: Where did respondents get information about options available? (Explore extent to which information was sought out by them as opposed to unsolicited). If necessary, prompt with:

  - Work based advisors/seminars
  - Their super fund (was it via the workplace or directly arranged with them?)
  - Financial planner
  - Accountant
  - Bank
  - Friends/family/colleagues
  - Government agencies
  - Newspaper/magazines/radio
  - Internet

  Explore how each of these sources was used. Perceived credibility and usefulness of each source?

- **Tax and Social Security**: In particular, explore whether information or advice provided included information on the taxation and social security implications of the options available.

- **Options**: Explore respondents' knowledge of what options were available (ie, aware of allocated pensions/annuities; life pensions/annuities; lump sum?).

  How did they become aware of each option?

Explore level of understanding of each option, and identify areas of misunderstanding /confusion. In particular, understanding about what happens to capital for various types of income streams.

In relation to lump sums, it would be useful to track what they planned to do with the lump sum (invest it, spend it). If investing, what sort of investments and what information sources did they use to help make those decisions?

After establishing level of understanding, show respondents cards describing each option, and further explore extent to which these options were known and understood.

- **Decision process**: Explore the process involved in making the decision on what to do with the superannuation funds. Who was involved in this decision process (spouse, accountant, financial planner, family/friends, etc). What role did each play?

- **Priorities**: What were the most important factors in selecting a retirement product and/or a lump sum? If necessary, prompt with:

  - Level of risk
  - Access to capital (in the case of lump sums, explore what capital being used for)
  - Cost of product (including cost of advice)
  - Access to social security benefits
  - Tax implications (eg. RBLs, tax free income, offsets)
  - Residual available for bequest. Ability to make bequest to a particular person (not all income stream products are the same in this regard)
  - Involvement in investment decisions/avoidance of investment decisions

  Explore why each factor was / was not important.

- **Expectations versus reality**: Explore what respondents expectations about the process had been, and compare those expectations with the process as it actually had been? Easier or harder? Why?

  What factors, if any, would have made the retirement decision-making process easier?

- **Hindsight**: Looking back now, how well informed do respondents believe they were at the time at of retirement? With the benefit of hindsight, would they do anything differently if they had the opportunity?

Allocated Pension / Annuity

] An individual uses their superannuation money to purchase an allocated pension or annuity from a superannuation or life insurance company.

] Provides regular income – the individual can select an annual income from that account between certain legislated limits; ie, flexibility in choosing amount of income each year

] The pension/annuity continues until the account is exhausted. On death the capital is not lost and the pension/annuity or the account balance can be transferred to a beneficiary

] No guarantee that regular income payments will continue for lifetime or for a fixed term. The size and duration of the account balance is affected by withdrawals, fees and investment returns

] Can choose investment mix eg mix of cash, fixed interest, balanced portfolio or growth style investments

] Can invest for growth (if desired), but with greater risk of losing capital.

] Access to capital if needed.

] Tax advantages eg super benefit at retirement not usually taxed, income of the fund after retirement favourably treated for tax. However, higher pension RBL not available. Tax and social security benefits are less than for life pensions/annuities.

] No exemption from age pension asset test. However, receive age pension income test concession which enables an amount of income (called the exempt amount) to be ignored for income test purposes each year.

Life Pension / Annuity

] An individual uses their superannuation money to purchase a pension or annuity for their life time or life expectancy from a superannuation or life insurance company.

] Guaranteed annual income for life or life expectancy (life expectancy calculated according to actuarial tables).

] Income must be set at outset and can be indexed to increase. The level of indexation must be specified at the outset and will affect the initial level of annual income payable.

] Investment choice is not relevant as the income is fixed.

] Individuals do not have an account balance and have no or very limited access to their capital (called "non-commutable").

] The pension or annuity can be established on a single life basis or on a reversionary basis where the pension or annuity would be paid to the reversionary beneficiary on death of the original beneficiary.

] Exempt from age pension asset test and receive age pension income test concession.

] There is no residual capital value on death of original beneficiary and reversionary beneficiary.

] Super benefit going into this pension or annuity is not usually taxed.

Lump Sum

] An individual takes their superannuation benefit as a single payment (or multiple payments).

] An individual may choose to take part of a superannuation benefit as a lump sum, and part as a pension or annuity.

] The lump sum can then be used in whatever way the individual chooses.

] If reinvested into non-complying investments (ie those outside of the super framework) the income generated is taxable without the concessions available to income from allocated and life pensions/annuities.

] The lump sum is included in age pension asset test.

8.2 Appendix B. Definitions Used in Recruiting Focus Group Participants

Definitions:

Income Generating Assets at Retirement Derived from Superannuation	The amount of money the individual (or couple if relevant) had available upon retirement to invest to provide some income. This money may be sourced from superannuation, from an ETP, or from other money that the individual had available.
50% of more of Income Generating Assets at Retirement Derived from Superannuation	Taking into account all the money the individual (or couple if relevant) had available upon retirement to invest for income, where at least 50% has come directly from superannuation money.
Less than 50% of Income Generating Assets at Retirement Derived from Superannuation	Taking into account all the money the individual (or couple if relevant) had available upon retirement to invest for income, less than 50% has come directly from superannuation money.
ETP	Eligible Termination Payment, which normally consists of a lump sum payment from a superannuation fund, and or funds from a rollover fund.
Rollover Fund	transfer of an eligible termination payment to a rollover fund or to another superannuation fund.
Lump Sum	A superannuation benefit taken as a single payment, rather than taken as a pension or annuity. Note an individual may choose to take part of a superannuation payment as a lump sum, and part as a pension or annuity.
Fixed Term Annuity /Pension	A series of payments made at regular intervals, usually purchased with a lump sum, typically to provide retirement income. Where regular payments are made from a life insurance company, the word 'annuity' is most common. Where regular payments are made from a superannuation fund, the word 'pension' is most common. The relationship between the size of the lump sum and the size of the regular payment depends on the expected future investment return, the pattern of payments, administration, expenses and the life expectancy of the purchaser (or the term, if it is a fixed-term annuity). Lifetime and Life expectancy annuities can be include din this group for the purposes of this research.
Allocated Pension/ Annuity	A person has his/her own account and regularly (e.g. monthly) draws down an amount from the account, within certain legislated limits. The pension/annuity continues until death or until the account is exhausted. An allocated pension/annuity offers continual access to the capital sum invested, flexibility in

	drawdowns, and no protection against money running out early.
Defined Benefits Fund	A superannuation fund where the formula for calculating the retirement benefit (and possibly other benefits also) is specified in terms of years of service with the employer (or years of membership of the fund) and average salary level over the last few years prior to retirement. (E.g. the formula may be that a member on retiring will receive 15 per cent of final average salary for each year of membership.) Not many organisations, other than government organisations now offer these funds to new members, although older members (including recently retired) may still be in a Defined Benefits Fund.
Self Managed Fund (SMSF or DIY)	A superannuation fund of fewer than five members, where one or more members act as trustees. The trustees manage the investments of the fund themselves on behalf of the members.