RETIREMENT PLANNING IN AUSTRALIA – AN ECOSYSTEM PERSPECTIVE

RESEARCH BRIEF

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Acknowledgements

This research brief is the inaugural report for a three-year project conducted by Melbourne Business School investigating the Australian Retirement Ecosystem. This project, entitled 'The Orford Initiative: Improving the retirement outcomes for Australians by optimising their retirement income and financial security' is funded by the Orford Foundation in collaboration with the Melbourne Business School. The project team acknowledges the invaluable support of the Orford Foundation.

PROJECT TEAM

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RESEARCH APPROACH

The team adopts an engaged research approach to all projects. Engaged research is based on authentic partnerships with communities and organisations to craft a research program that creates value with and for communities or organisations and that has aligned academic outcomes.

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Executive Summary

The following research brief highlights the importance of continued research into retirement planning and savings behaviours in Australia. Thanks to advances in science, healthcare and technology we are living longer, which also means a greater likelihood of outliving one's retirement savings. This puts Australians in a financially vulnerable state, and places additional pressure on an already exhausted Government Age Pension system. Various implications arising from low engagement and preparedness for retirement are already apparent, including women finding themselves in financial vulnerability in retirement, aged homelessness, elder abuse, as well as projected issues facing the next generation of Australians. Continued research on retirement planning is therefore paramount; the earlier and the better Australians engage in retirement planning, the greater financial security they will achieve in retirement.

This research brief establishes the foundation for stage one of a three-year project conducted by Melbourne Business School investigating the Australian retirement ecosystem. We argue that by understanding the viewpoints of members of the ecosystem (i.e. government agencies, financial planners, superannuation funds, the media, consumers), we are better able to identify the mechanisms that will assist retirees to adequately plan for their retirement and obtain financial security. There is a plethora of information available on retirement planning in Australia. However, there is significant disconnect between the perspectives of industry, government, media and academia, as well as the inherent biases and limitations of each perspective in isolation. The benefit of the ecosystem perspective of retirement lies in its ability to reflect these perspectives, to understand the diverse relationships and levels of influence within the ecosystem, and to explore the collective impact the ecosystem has on Australian retirees.

The four key perspectives addressed in this research brief are:

1. Academic research on retirement savings, which comes from various literature areas including finance and economics, society and ageing, and marketing. Our review identifies four categories of drivers impacting retirement planning;

- Social forces from family, friends, and colleagues who provide an informal but critical influence due to the trustworthiness and closeness with the individual
- Economic influences include perceived trustworthiness and strength of the nation's retirement system, government support, and company pensions. Each drive feelings of security, with subsequent impacts on retirement planning
- Psychological dispositions encompass a broad range of individually unique perspectives towards risk, control, ability to project and plan for the future
- Interactions and interventions consider the efforts made to educate, engage and interact with individuals regarding retirement planning

Academics acknowledge the granular nature of these studies, and encourage future research to take a broader view of influences impacting retirement planning. Building on this recommendation, we adopt the retirement ecosystem perspective which aims to capture the broad set of interactions, relationships and influences of members of the ecosystem with various others.

2. Government research, in particular the Retirement Income Covenant Position paper and the Productivity Commission Draft Report on Superannuation: Assessing Efficiency and Competitiveness both released in 2018 are fundamentally shaping the current dialogue around retirement planning; specifically, superannuation and retirement products. While Government provides frameworks and mandates for how the industry should operate, this relies on acceptance and adoption from industry players to be effective.

3. Media perspectives reflect government and industry action, and play a large role in driving public sentiment and understanding of the sector. A common, and problematic, thread within media reporting is fear. Fear in Government, in superannuation funds, in financial planners, and fear that the retirement that Australians imagine and aspire towards will not be realised. While a wariness of issues and implications from industry are important, an overemphasis of fear can drive inaction, which also does not serve the interest of Australians.

4. Industry research in retirement planning is a complex and multi-faceted perspective due to the large number of corporate, consulting, and industry bodies therein. These reports serve various purposes, including reputation building, imparting knowledge and assuming influence within government, industry, or public dialogue. However, this perspective may suffer from information saturation and inconsistent messaging, which inhibits its effectiveness in driving change.

In synthesising these research perspectives, we identify three key themes of agreement and three corresponding points of disagreement.

- We agree that Australians are not ready for retirement, however we disagree on who is responsible within the ecosystem
- We share a common focus on problems, however we disagree on the scope of the problem, and who should drive change
- We agree that retirement planning is a complex consumer issue, however we do not consider the overall influence of various members collectively on the individual.

Finally, we present an exploratory map of the retirement ecosystem. At the core of the ecosystem is the individual Australian. Surrounding the individual is their need to consider retirement planning and saving behaviour, and their various psychological disposition that influence how they make retirement planning decisions. Four external influences surround the individual; social influences (family, friends, spouse, colleagues/peers), government agencies/ divisions, industry, and the media. The interrelationships and influences within the retirement ecosystem will be explored, validated, and further developed through qualitative interviews with members of the ecosystem, and consumer focus groups with Australians nearing or recently entering retirement.

Introduction

Retirement is an increasingly important topic in Australia considering our ageing population and improved health care enabling people to live longer. This trend has significant implications for 'longevity risk', the risk that a person will outlive their retirement savings.

In Australia, people save for retirement through compulsory contributions to superannuation, as well as through independent savings and accumulation of assets (i.e. the family home). In addition, the Government provides the Age Pension as a replacement or supplementary income for those with depleted retirement funds. Financial independence in retirement benefits both the individual and society; for the individual, substantial retirement savings means they can enjoy retirement and maintain a comfortable lifestyle. For society, greater independent retirement savings means less reliance on Government Age Pension programs, funded through taxation. Despite the benefits of financial independence in retirement, the Australian population at large does not sufficiently engage with retirement planning: many have a low understanding of how much retirement savings they will require, how their superannuation accumulates and the options available to them, nor the products and options available to them in the decumulation phase of retirement. Low engagement and low readiness for retirement puts Australians in severe financial risk in retirement. Already we are experiencing the flow-on issues arising from low engagement and preparedness for retirement;

- Women are financially vulnerable in retirement – women on average have less superannuation accumulation due to salary differences, breaks from the workforce, and/or reliance on partner for financial support (Institute of Actuaries Australia 2015; ASFA 2017b).
- Aged homelessness – while currently a small group, aged homelessness is one of the fastest growing populations seeking assistance in Australia (AIHW 2018).
- Retirement issues for the next generation – with a heightened casualisation of the workforce, combined with greater difficulties in entering the housing market, future generations will have a very different retirement savings portfolio (Institute of Actuaries Australia 2015).
- Elder abuse – the most common of which is financial abuse (Kaspiew, Carson & Rhoades 2015; CBA 2018). Often this abuse is at the hands of a family member, and can stem from 'inheritance impatience' of adult children (Collett 2018).

The importance of continued research on retirement planning cannot be understated. Ultimately, consumer engagement in retirement planning has crucial implications for the broader economic and societal issues facing Australians, and the earlier we can engage people in retirement planning, the earlier they can act and the better off they will be in retirement.

This project will help retirees in Australia to optimise their lifestyle post-retirement. The preliminary step in achieving this outcome is to understand the structure of the retirement ecosystem in Australia, and identify key relevant members therein. Members of the retirement ecosystem have considerable influence over what retirement products are offered to consumers, government legislation that facilitates or hinders the delivery of various retirement products, as well as the dissemination of information to consumers. To understand consumer attitudes and behaviour regarding retirement, we must first understand the attitudes and behaviours of those within the retirement ecosystem who construct and frame the products and information provided to consumers.

In this research brief, we introduce four key perspectives on Australian retirement planning – Academic, Government, Media, and Industry. We consider how these perspectives (1) help us understand the broad 'ecosystem' of retirement planning, (2) enable us to identify where there are gaps, inconsistencies or biases in information, and (3) understand how the broad 'retirement ecosystem' impacts Australians and helps or hinders them in engaging with planning for retirement. Each of these areas contribute a unique piece to the overall retirement planning 'puzzle', but little research makes the effort to consider all of these perspectives and the unique value they provide.

There are two key considerations that frame research on retirement planning. First, retirement planning and savings are regulated and considered differently across countries. This makes it difficult to collate findings from different countries, as even minor changes in how retirement planning, savings, and government intervention is handled can influence the retirement ecosystem and individual behaviour in each country. For example, the fact that Australia has compulsory superannuation contribution may impact general attitudes towards independently saving for retirement, as compared to a country where such compulsions are not mandated.

Second, due to ongoing changes in regulatory frameworks around retirement savings and government social support, the findings or sentiments reflected in older studies may no longer be valid. Indeed, the complex and dynamic nature of the retirement ecosystem requires continual research to best reflect contemporary issues and sentiments. For these reasons, the current review of literature gives preference to research conducted in the Australian retirement ecosystem, and research conducted in more recent years to reflect contemporary issues and sentiments. This review is supplemented with insights from international research where appropriate.

THE AUSTRALIAN RETIREMENT ECOSYSTEM IN 2018

Academic research

The various perspectives of retirement planning, and the benefit of considering the 'ecosystem'.

Academic research on retirement planning is present within various academic disciplines, including finance & economics (e.g. Agnew, Bateman & Thorp 2013; Chomik & Piggot 2012; Gerrans, Moulang, Feng & Strydom 2018; Butt, Donald, Foster, Thorp & Warren 2018), society & ageing (e.g. Croy, Gerrans & Speelman 2010; Hershey, Henkens & Van Dalen 2010), and marketing/psychology (e.g. Hershfield et al. 2011; Goldstein, Johnson & Sharpe 2008; Ng, Plewa & Sweeney 2016; Sweeney, Plewa & Zurbruegg 2018). While each of these perspectives provide unique insights and benefits, they do not provide a complete account of the varied and complicated interactions that arise when individuals consider retirement planning over their life. As stated by Hershey et al. (2010, p30), "disciplinary accounts can only tell part of the story when it comes to explaining the range of forces that structure the thought processes of those who save for retirement". While a few key studies (e.g. Hershey et al. 2010) have taken an interdisciplinary approach, we argue that taking an ecosystem perspective is beneficial in understanding these interactions and relationships.

The term ecosystem derives from biology, however it is also an important analogy for how a community of subjects (individuals, firms, government, industry bodies) exist within a given environment or context comprising of various interactions, relationships and interdependencies between them (Pilinkiené & Povilas 2014). For this reason, ecosystems have been explored in business, entrepreneurship, innovation and industrial perspectives (Pilinkiené and Povilas 2014), as well as in marketing and management (Vargo & Lusch 2016; Chandler & Vargo 2011). In fact, a recent marketing study advocated the importance of taking an ecosystem perspective in complex service environments, specifically referring to the financial planning sector (Ng et al. 2016). Ecosystems are beneficial as a conceptual lens for several reasons:

1. They allow for a more complete observation and analysis of the interconnected network of various subjects (Järvi & Kortelainen 2017). In other words, the ecosystem lens allows us to "zoom out" to a holistic and dynamic perspective of subjects interacting with various others within a context, and reiterates that an individual's behaviour (or lack thereof) is not completely understood without the broader level influences and context of that behaviour (Vargo & Lusch 2016).
2. The ecosystem lens enables understanding of multiple perspectives or multiple levels within a context. Järvi and Kortelainen's (2017, pp218-219) systematic review of business ecosystem research derives three core perspectives; "the individual actor (typically a firm), the relationship between the actors (typically a dyadic inter-firm relationship) and the ecosystem" itself. Chandler and Vargo's (2011) conceptualisation includes micro (dyads), meso (triads) and macro (complex networks) levels of context. Regardless of terminology, these conceptualisations describe how an ecosystems lens allows us to recognise all subjects in a context, and identify both the granular and broad-level interconnectedness between those subjects.

We now review key studies from academia regarding different facets of the retirement ecosystem, with a view to collate these insights (as well as insights from other sections within this research brief) into a map of the entire retirement ecosystem.

Drivers of retirement savings and behaviours

Academic studies have sought to evaluate retirement savings adequacy (Burnett, Davis, Murawski & Wilkinson 2013) as well as provide long-term projections (Chomik & Piggot 2012). Academic research addresses a range of pertinent questions regarding individual's retirement behaviour, including;

- Why don't people put more time and effort in understanding and planning for retirement? (Hershey et al. 2010)
- Why do so many people stay in default accumulation options? (Butt et al. 2018)
- Why don't people make additional voluntary contributions? (Croy et al. 2010)
- Why do people choose to take lump sums in retirement over annuities or other longevity products that would ensure a comfortable income for life? (Brown et al. 2008)

Literature on retirement planning covers various influences on retirement planning and saving behaviour (and similar outcomes). Various academic disciplines explore 'internal and external environmental factors' to better understand a myriad of complex decision-making processes facing both organisations (Duncan 1972) and individuals (Adams & Rau 2011). In the context of retirement planning Adams & Rau (2011) conceptualise that, as with any decision-making process, an individual's inherent differences and characteristics in addition to the broader external environmental frames how that individual prepares for retirement. The external environment comprises of the "immediate social environment (family, friends, and the work organization) as well as the general societal and economic environment (e.g., social norms regarding retirement, the status of social security, and stock market performance)" (Adams & Rau 2011, p3). Likewise, Rickwood & White (2009)

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explore how an individual's propensity to save for retirement is impacted by various internal, external and risk factors. The strength of Hershey et al.'s (2010) conceptualisation in particular lies in its multidisciplinary perspective, which is closely aligned with the ecosystem lens taken in this project. Using the multidisciplinary categories of social forces, economic influences and psychological dispositions (Hershey et al. 2010) as a broad framework, we review the key drivers studied in academic literature. We also identify and include a further interventions and interactions category.

Social forces

Social forces encompass the influences a spouse/partner, family, friends, work colleagues or broad social norms might have on an individual's decision making regarding retirement planning (Hershey et al. 2010; Gerrans et al. 2018; Croy et al. 2010). These forces vary in their degree of personal connection or closeness with an individual; i.e. spouse/partner, family and friends comprise the inner-most level of connection with an individual, where influence is based on trust and strong personal relationships (Hershey et al. 2010). Work colleagues are less likely to have the same level of personal connection and trust, however their social influence stems from being a respected information source, as well as sharing similar workplace and financial circumstances to the individual (Gerrans et al. 2018). At the broadest level of social influence lies injunctive social norms, where 'acceptable behaviours' perceived by society can also steer individual decision making (Croy et al. 2010).

As a trustworthy and personal source, social support from friends, work colleagues and a spouse/partner have been found to help an individual find clarity in their retirement goals and consider the future, with subsequent impacts on retirement planning and saving (Hershey et al. 2010; Payne, Yorgason & Dew 2014). People adopt financial behaviours and attitudes through observation and learning from the experience of family members (Payne et al. 2014). Early learning experiences from an individual's parents can cultivate goals and future-oriented savings habits (Hershey et al. 2010). Financial attitudes and behaviours derived from family socialisation are also brought into marital relationships, whereby an individual's financial habits are imparted onto their spouse (Payne et al. 2014). A couple further develop their financial management practices together over time as they plan for shared investments and or expenses (e.g. purchasing a house or raising children), and in particular prepare and coordinate the timing of retirement as a couple (Payne et al. 2014).

The basis of peer influence can stem from social learning, whereby individuals assume that their peer has conducted significant information search or has high financial competence, and therefore has confidence in purchasing the same financial products without conducting independent information search themselves (Bursztyn, Ederer, Ferman & Yuchtman 2014). Individuals may also be motivated by social utility and follow a peer's financial investments to "keep up with the Joneses" or to share an experience related to that investment, for example "peers can follow and discuss financial news together, track returns together, etc" (Bursztyn et al. 2014, p2). Work colleagues are respected sources of information, and are likely to share somewhat similar financial circumstances as well as access to the same workplace retirement plans which can also influence financial behaviour (Gerrans et al. 2018). However, the argument provided in Gerrans et al. (2018, p163) is based on probability modelling of a company database, where it was found that an "individual's propensity to make an investment strategy change is positively associated with the overall level of activity within their workplace sub-plan". We argue that deeper insights would be gained from consulting individuals directly to gauge how (and why) they are influenced by their workplace peers.

Social forces are also apparent on a broader level via injunctive social norms; "one's perception of what others believe to be appropriate conduct" i.e. what one should/ought/be expected to do (Croy et al. 2010, p261). Injunctive social norms are argued to significantly motivate an individual to change retirement investment strategies, as well as make extra voluntary contributions, with researchers recommending that future research measure the effect of such intervention strategies in promotional messages (Croy et al. 2010).

Economic influences

Economic influences capture country-specific government and industry frameworks that impact individual planning and decision making for retirement. From a government perspective, the perceptions of the Australian retirement system, government pensions, and general trust in government each influence an individual's retirement planning. Australia is placed among the best retirement systems globally (Chomik & Piggott 2012; Chomik & Rodgers 2018), with a key facet of the system being compulsory employer contributions to retirement savings. Although perhaps counter-intuitive, the perceived role and strength of the retirement system and government pension is argued to disincentivise Australians from saving for retirement (Agnew et al. 2013; Hershey et al. 2010). Agnew et al. (2013, p17) argue that "the existence of a compulsory employer

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contribution rate may well encourage many Australians to feel that, since they are following government policy prescriptions, their retirement is secure and therefore does not need attention". Furthermore, in Hershey et al.'s (2010) comparison of US and Dutch consumers they speculate that "a high-quality pension could, paradoxically, serve under certain circumstances as a disincentive to save" (Hershey et al. 2010, p29). These arguments are consistent with the issues currently faced in Australia; the average Australian has insufficient retirement savings to achieve financial independence for the duration of retirement (Burnett et al. 2013), and the majority will require the Age Pension in some capacity (Chomik & Piggott 2012).

The industry perspective includes perceived quality of employer pensions, in which it is argued that in certain circumstances a high-quality employer pension may demotivate individuals to save (Hershey et al. 2010). Further, it is acknowledged (but not empirically examined) that financial planners may be influenced by broader institutional arrangements, whether it be organisational systems, industry level policies or government mandates (Ng et al. 2016). The interrelationships within industry and perceived influences guiding financial planners, superannuation providers and others within the retirement ecosystem is unexplored in academic research, and is therefore of particular interest in this project, as we argue these complexities contribute to a lack of confidence and trust in industry.

Psychological dispositions

The term 'psychological disposition' covers a broad range of personality and individual-level factors that impact decision making. In the context of retirement planning, this refers to an individual's level of knowledge necessary to engage in retirement planning, which may be perpetuated by anxiety experienced in seeking financial advice (e.g. financial adviser anxiety). A lack of clear retirement goals and high levels of procrastination also contribute to low retirement planning. Psychological dispositions also reflect broader sentiments regarding one's perceived level of control over what happens to them (locus of control), as well as one's ability to conceptualise themselves in the distant future as an aged person.

In the context of retirement planning, the prominent influence is an individual's level of financial literacy (Agnew et al. 2013; Gerrans & Hershey 2017). Australians generally have been found to possess low financial literacy, however are on par with similar 'comparable' countries (Agnew et al. 2013). Young, low education, not employed/not in labour force, and female demographics are most likely to have low financial literacy, and subsequently tend to also have low engagement with retirement planning (Agnew et al. 2013). In the specific context of engaging with a financial planner, low financial literacy translates into high financial adviser anxiety, or the "anxiety individuals may have at the prospect of an encounter with a professional financial adviser" (Gerrans & Hershey 2017, p55). Financial language and jargon are major elements of financial adviser anxiety. Individuals with low financial literacy and high financial adviser anxiety have a low likelihood of engaging with a financial adviser in the future, even if it is in their best interest to seek such advice (Gerrans & Hershey 2017). Further individual-level factors impact retirement savings and planning, for example financial retirement goals and procrastination (Topa & Herrador-Alcaide 2016). Goals are important in converting an individual's financial knowledge into action (retirement saving behaviours), while procrastination can inhibit positive financial outcomes by negatively impacting goal setting, and restricting the translation of goals into behaviours (Topa & Herrador-Alcaide 2016).

Other psychological dispositions refer to broader sentiments towards control. For example, those with an external locus of control who "attribute life's outcomes to external factors" will generally save less and contribute less to their pensions (Cobb-Clark, Kassenboehmer & Sinning 2016, p114). The various uncertainties surrounding old age (mortality, quality of life, retirement legislation, the Age Pension) fuelled by an external locus of control collectively make a compelling argument against planning and saving for retirement. In contrast, individuals with an internal locus of control would see this same retirement landscape as just cause for saving more for retirement, as doing so would allow one to take control and combat these unknowns. Finally, an individual's ability to forward-focus and imagine themselves in the future as an aged person serves as motivation for retirement planning (Hershfield et al. 2011). Based on the theoretical concept of psychological connectedness, individuals generally find difficulty in connecting with a distant future self (e.g. me in 40 years) versus a near future self (e.g. me in 1 year), and thus are less likely to make financial decisions in the interest of a distant future self. This disconnect with one's distant future self raises important questions around why people may disengage with retirement savings that can only be accessed well into the future.

Academic research

Interventions and interactions

The final category of drivers within this review encompass interventions and interactions aimed at improving an individual's engagement with financial planning. The emphasis in these studies is the engaged individual, for example the nature of interactions between financial planners and their existing clients, or the helpfulness of personal financial blogs. What is not addressed, however, is the interventions that are effective for the disengaged individual.

Personal financial blogs have gained popularity in recent years as an effective and informal method of obtaining financial education (Hoffmann & Otteby 2018). However, evidence suggests that personal finance blogs are mainly used by individuals who already have higher levels of financial literacy and who have low perceived financial uncertainty, and are thus not helping those most in need of financial planning information (Hoffmann & Otteby 2018). Further, research has explored the nature of interactions between individuals and their financial planners, distinguishing broad styles of how financial planners integrate resources with their clients (Ng et al. 2016). There are both positive and negative attributes identified of financial planners from the individual's perspective. Positive attributes include education, the financial planner's expertise, convenience, and motivation, while negative attributes include costs in time and effort, emotional stress, ongoing service costs, and lifestyle sacrifices (Sweeney et al. 2018). These facets collectively influence the individual's satisfaction with the financial decisions made, satisfaction with financial quality of life, and word of mouth.

While it is acknowledged that individuals have various preferences in terms of frequency of interactions and the level of education and participation they desire, and both positive and negative attributes associated with financial planners exist, the focus here remains on existing (and longer-term) clients (Ng et al. 2016; Sweeney et al. 2018). It is important to understand how customers interact with financial providers, however these studies do not acknowledge that only a relatively small number of individuals engage with a financial planner or take an active role in saving for retirement (Agnew et al. 2013). Focusing on long term clients does not help us understand why the relationship between an individual and financial planner breaks down (or why there is no relationship to begin with). While extrapolating these insights may predict disengagement (for example a mismatch between a financial planner's style and their clients preferences may lead to disengagement), there must also be explicit emphasis on understanding why some individuals do not engage with retirement planning from the outset.

A recent meta-analysis revealed that, of the studies included, the majority supported financial education in improving financial outcomes (Miller, Reichelstein, Salas & Zia 2015). However, the analysis also revealed that in the area of financial education and literacy, there is a dearth of studies that evaluate the effectiveness or influence of a financial education intervention (Miller et al. 2015). This reflects a broader emphasis on exploring and identifying 'problems' in retirement planning, rather than focusing on potential solutions. The ecosystem perspective taken in this project addresses these issues by allowing us to investigate all types of consumers, irrespective of their level of engagement.

In summary, while there is a plethora of research that identifies and measures the influence of various factors on retirement planning, savings and behaviours, there is a tendency for studies to take a siloed (from a discipline perspective) or granular approach whereby further impacting variables are acknowledged (e.g. Croy et al. 2010; Ng et al. 2016; Topa & Herrador-Alcaide 2016); researchers advocate for future studies to take a 'broader view' of the various antecedents influencing retirement savings behaviours. The contribution of the ecosystem approach taken in this project lies in the ability to identify and explore a broad range of factors in combination, as well as the interrelationships that exist between various subjects.

KEY TAKEAWAYS

- Retirement planning is considered by various academic disciplines, including finance/economics, society and ageing, and marketing
- Four categories of drivers are apparent: social forces, economic influences, psychological dispositions, and interventions and interactions
- Research often has a granular focus, acknowledging that a 'broader view' needs to be taken
- An ecosystem perspective allows us to 'zoom out' and observe the various dynamic and complex interactions and relationships influencing individuals

ACADEMIC TAKEAWAYS

Government research

The Australian Government has released two key papers in 2018 that are fundamentally shaping the current dialogue around retirement planning; specifically, superannuation and retirement products.

1. The Retirement Income Covenant Position Paper (Australian Government the Treasury 2018).

The introduction of the Superannuation Industry (Supervision) Act of 1993 (SIS Act) mandates employer contributions to an individual's retirement fund. While previous modifications and covenants have been integrated into the SIS Act throughout its history, these changes have focused on fund accumulation rather than how funds decumulate in retirement (Australian Government the Treasury 2018). The retirement income covenant is the first step of the Government's 'retirement income framework' to address the decumulation phase of superannuation (Australian Government the Treasury 2018).

The key principles of the covenant are the requirement of trustees (financial providers/ superannuation funds) to develop a retirement income strategy for individuals and provide a flagship Comprehensive Income Product for Retirement (CIPR). Trustees also need to engage individuals in understanding the choices available to them concerning the retirement income products on offer (Australian Government the Treasury 2018). Although trustees would be required to offer a CIPR, the Government has not mandated that individuals must take a CIPR (Australian Government the Treasury 2018).

The Retirement Income Covenant Position Paper represents one of the largest regulatory interventions to the SIS Act since its inception, and has major implications for all within the retirement ecosystem in that an entirely new product(s) must be developed in-house or facilitated via a third-party provider. What is interesting about the covenant, and important to its ultimate success, is the emphasis on engagement while not mandating that individuals take a CIPR. Lifetime annuity products are not a new concept; however, they have experienced rather low levels of adoption (O'Meara, Sharma & Bruhn 2015). Even in the presence of the covenant, individuals are still not obligated to take a CIPR, and even if trustees have such a product on offer, if the engagement and sharing of information is not compelling or even understood by individuals, then the success of converting them to CIPRs is questionable.

2. The Productivity Commission Draft Report on Superannuation: Assessing Efficiency and Competitiveness (Productivity Commission 2018).

Over the past few years the Productivity Commission has been tasked with conducting a three-stage review of the Australian superannuation system. Stage one established efficiency and competitiveness criteria by which the superannuation system could be assessed; stage two developed alternative models for allocating default fund members to products (Productivity Commission 2018). The third and final stage, released in April 2018, provided the assessment of efficiency and competitiveness across the majority of Australian trustees (financial providers/ superannuation funds). While there are various findings and recommendations within the report, the core issue comes back to individual engagement. Individuals generally show little engagement with retirement planning (specifically superannuation in this report) which manifests in two key ways: (1) many have more than one superannuation account, and (2) the majority of individuals have default funds (recommended by their employer) and default plans. The report highlights personal and industry factors contributing to disengagement – on a personal level, individuals may not have the time, financial literacy or inclination to better understand superannuation (and retirement planning at large). In terms of industry factors, individuals are often faced with complicated and inconsistent information from trustees (and hence are unable to accurately compare offers). In addition, financial planners have demonstrated widely dispersed performance, however their quality is difficult for individuals to compare or assess. Ongoing disengagement on a broad scale puts individuals in a vulnerable position, as superannuation funds and financial planners do not feel pressure to change their offering (Productivity Commission 2018).

The Productivity Commission's recommendation in relation to this issue has two core themes – the first is to engage individuals to interact more with trustees, and gain greater knowledge and understanding of the financial planning system. The second is to further mandate trustees to provide better products (including defaults for non-engaged members) and consistent information to enable comparisons between offerings (Productivity Commission 2018). Further recommendations aim at improving transparency of the retirement planning system, with less opportunity for exploitation; various Government departments including ASIC (the Australian Securities & Investments Commission), APRA (the Australian Prudential Regulation Authority), and ATO (the Australian Taxation Office) have been tasked with roles in improving system transparency.

The Government perspective towards retirement planning is beneficial as a 'roadmap' and identifies the various roles and requirements of financial providers and superannuation funds, as well as Government bodies who are tasked with imposing regulation on various parts of the ecosystem. It also aids in our understanding of what is mandatory for trustees to follow, and what is only recommended or self-regulated. It reflects an aspiration of how the system is meant to work from the Government's perspective, rather than what occurs in practice. These reports do not necessarily reflect industry compliance to regulation. From an individual perspective, while these reports do acknowledge (dis)engagement, there is not a comprehensive understanding of where individuals seek retirement planning information and why – this can include social influences and the media. It also fails to recognise or address issues individuals might have with the Government itself.

KEY TAKEAWAYS

- The Government perspective provides a broad 'roadmap' identifying various players and their roles within the retirement ecosystem
- However, it reflects how the ecosystem is meant to work, rather than reality
- Consumers have additional sources of information outside of the ‘formal’ channels of trustees and government departments (i.e. social influences and media)

GOVERNMENT TAKEAWAYS

Media perspectives

Retirement is an ongoing point of interest for Australian media, with the overarching message that the average Australian does not have enough accumulated superannuation at retirement (Das 2017; Hendy 2017). The media plays a considerable role in shaping public sentiment towards retirement planning, perceptions towards Government, financial planners and superannuation funds, as well as aspirations and expectations of what retirement should look like. Each of these areas are commonly fuelled by fear; fear that one is on a trajectory towards financial vulnerability in retirement, without the financial literacy to understand or change their situation; that superannuation funds, financial planners and even Government act in their own self-interest rather than considering the livelihoods of the people they serve; and that this image of the 'golden years' is being taken from them.

Perceptions of Government, financial planners and superannuation funds

The current dialogue concerning government and retirement planning in the media focuses on the Productivity Commission Draft Report on Superannuation, and (to a lesser extent) the Retirement Income Covenant Position paper. The media acts as a 'facilitator' or interpreter of the report findings and recommendations to the general public, however, their interpretation is not always accurate or comprehensive.

For example, Roddan's (2018) interpretation of the Retirement Income Covenant Position paper is that Comprehensive Income Products for Retirement (CIPRs) would be introduced as a default product to members, and eludes that individuals may be forced to (or unknowingly agree to) "lock up" or "hand over a large chunk of savings in return for a steady income". This interpretation is problematic for several reasons. First, it misrepresents the recommendations in the covenant paper; the paper recommends that all trustees must offer at CIPR, but clearly states that individuals are not obligated to take this product, nor that this product would become a default option. Second, it fuels distrust in the Government and scepticism of CIPR products by using the emotive terms "lock up" or "hand over" people's savings. Public trust in the banking sector in general has taken a considerable hit following the Royal Commission's investigation of the banking sector, with speculation that a similar trend will result from the superannuation investigation. Further, the Government has been criticised in the media for 'politicising' superannuation to reflect party ideology and gain voter support rather than attempting to encourage positive change to the retirement income system (Whiteley 2018). A similar fear-based strategy is apparent with regards to sentiments towards financial planners. The following quote from Klan's (2018) "Fleecing the Lambs of Superannuation" article typifies the emotive language found in the media;

"The [fees, charges and asset management costs] is the Maserati you just saw rev past you at the shops, a few thousand Louis Vuitton handbags and designer suits, and the Sydney Harbour mansion you read about last week that sold for $34 million… Over time, given the wonders of compound interest, the cost to you is enormous. It's the holiday you can't afford for your wife's 70th birthday, the slightly expensive toy you 'really shouldn't' buy your first grandchild for acing his first school test, or not being treated with care in your sunset years following decades of hard work and countless super contributions."

This article conjures feelings of fear (loss of quality of life in retirement) and resentment towards companies who, Klan (2018) argues, profit from the hardship of individuals. This emotive reporting fuels a lack of trust in financial institutions and negativity towards superannuation, and is compounded by 'information asymmetry' i.e. the comparative financial literacy of individuals versus finance professionals (Klan 2018).

Fears, aspirations and expectations of retirement

Negative expectations (fear appeals) surround working longer/until a later age (Leggatt 2018), or not retiring at all according to Das' (2017) article "Retirement in Australia is unrealisable for most workers" in the Australian Financial Review. Indeed, Leggatt (2018) also somewhat eludes to this by discussing the potential for contingency work (e.g. Uber) after retirement. Das (2017) attributes this to Australia's significant household debt, the fact that retirement savings need to last us longer as well as in the face of increasing healthcare costs, and from Government perspective their debts and weaknesses having a flow-on effect for self-reliance (less subsidies for healthcare for example). The issue is even worse for younger generations faced with greater contingency in work (lowering their superannuation balances), and a diminishing working population who will be taxed greatly to support older generations. Articles including Barro (2018) take fear appeals to the extreme, titled "'I go without food': Struggling pensioners reveal what retirement is like". This article illustrates the lives of elderly women living on the poverty line, unable to pay for essential items and bills, creating a miserable and isolating retirement.

Aspirations driven in the media of 'what retirement should look like' are varied and extensive, from increased longevity and wellness, to technology aiding us in living a more positive lifestyle in retirement (Leggatt 2018). A common aspiration in current media is relocation in retirement, whether it be domestically (Hendy 2017) or internationally (Gillespie 2018; Hendy 2017). Gillespie (2018) romanticises the idea of overseas retirement, linking it to ideals of financial independence/home ownership, enhanced lifestyle compared to Australia, medical tourism (to alleviate fear of foreign healthcare systems), earlier retirement (particular importance in light of the ongoing dialogue of Australians having to work later in life), travel and adventure, and expat communities. One article that received considerable attention was from Seyrak (2018) in ABC News, titled "Why I decided to skip home ownership to retire at the ripe age of 35". The article raises issues around financial hardship of home ownership, particularly expensive capital cities, the benefits and considerable risks in the share market, along with challenging conventions of materialism, priorities, flexibility in spending and working. In general, these aspirational stories together with fear-based reporting can further fuel public fear by driving a deeper wedge between aspiration and reality; aspirations of independence, early retirement, and enjoyment throughout retirement are not being realised because of actions by those in the retirement ecosystem (Government, financial providers and superannuation funds).

Expectations regarding Government benefits are also raised. The media commonly discusses the role of Government benefits in supplementing income or providing financial assistance for everyday products and services for retirees. For example, a quote in Hendy's (2017) article regarding a retired couple downsizing their family home states "the principal place of residence is exempt from the asset test for the age pension, therefore by downsizing their property it may result in them either reducing their age pension entitlement or losing it altogether. Similarly, Gillespie's (2018) article advises on conditions to access an Australian pension while living abroad. It is interesting to consider whether this ever-present public dialogue of 'how best to navigate government systems' fuels pre-existing feelings of entitlement towards government support in retirement. This sense of entitlement could have implications for individual's perceived necessity in independently financing and, hence planning for, retirement.

Consistent with a fear-based approach, there is a tendency in media articles to dwell on the problems rather than propose solutions. The few solutions that are recommended are superficial (Hendy 2017) or ill-advised. For example, Klan (2018) advocates for independent investments, rather than having a financial planner. Seyrak (2018) also discusses managing independent investments. However, these recommendations do not consider the consumer's level of financial literacy; taking on investment decisions independently is not advisable for consumers with low financial literacy.

KEY TAKEAWAYS

- Media is the most widespread distribution of information to the public, and is pivotal in driving public sentiment
- The media acts as a 'translator' of complicated Government and financial reporting, however, can be over-simplified or leave out key considerations
- Fear-driven reporting grabs public attention, but doesn't incite an individual to engage with financial planning for retirement
- Focuses on blame (often directed at Government and financial providers/ superannuation funds) rather than solutions and actions
- Considering various perspectives and questioning the actions of the retirement ecosystem is an important exercise for the public, if it facilitates engagement (too much scepticism/fear leads the public to disengagement and inaction)
- It may be difficult for the public to distinguish a journalist's biases and personal perspectives from objectivity in reporting

MEDIA TAKEAWAYS

Industry research

Industry research in retirement planning is extensive and multi-faceted. As a complex and heavily regulated industry, superannuation and financial planning for retirement not only consists of a large number of companies and offerings, but also extensive representation through industry bodies, associations and institutes. Prominent industry bodies include the Actuaries Institute, the Association for Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST), the Financial Planning Association of Australia (FPA), Industry Fund Services (IFS), Self-Managed Super Fund (SMSF) Association, and Industry Super Australia to name a few. In addition to peak bodies, industry research is also published from individual superannuation funds and financial planners as part of their thought leadership or member engagement/marketing objectives. Further, consulting firms produce reports either independently, or in collaboration with a peak body, superannuation fund or financial planner. The core purpose behind these reports stems back to reputation building and solidifying their position as an authority in the ecosystem. Reports are also created for various audiences, namely government, industry, or the public.

Reports to inform government policy are either general calls for policy change, or are in response to specific government papers; the key government papers of concern in current dialogue include the retirement income covenant position paper (Australian Government the Treasury 2018) and the Productivity Commission draft report on superannuation: assessing efficiency and competitiveness (Productivity Commission 2018). There is general agreement across these reports that there is a low level of readiness/preparedness for retirement (Institute of Actuaries Australia 2015; ASFA 2017b). Findings from a multi-country study of Australia, the UK and America reveal that key issues around preparedness include "knowing how much they will need when they retire, how long their money will last, and preparing for the risks associated with longevity, chronic ill health, and being forced to stop work unexpectedly early" (American Academy of Actuaries et al. 2017, p3). Further, foundational questions around the purpose and intent of superannuation are raised. For example, a report from the Institute of Actuaries Australia (2015, p2) queries;

"Is the system working? What is it for – to build a nest egg or provide an income stream? Should that stream provide a modest or comfortable living standard? … We can only really gauge answers to these questions when we have an agreed set of superannuation objectives enshrined in legislation – currently they do not exist".

Interestingly the report calls for government to further clarify the objectives of superannuation, however this fails to recognise or capture the general public's existing sentiments towards how they plan for retirement, and how they wish to use their retirement accumulation. While government changes can encourage or dissuade individual behaviours to a certain extent, a person's perceptions around lump sums versus income streams (for example) are likely to be deeply engrained. Changes mandated by government without consideration of public sentiments are like to cause friction and resistance, rather than positive change. Viewing the retirement ecosystem allows us to capture and compare various sentiments held by different subjects (e.g. public versus government), and identify moments of friction that inhibit change.

Industry reporting can also seek to more directly inform and engage the public. These reports are often characterised by a simplified language around complex financial information or government reporting, for example Smith's (2018) article published on Canstar titled "What is the Productivity Commission's Superannuation Report?". Further, ASFA's report titled "Mythbusters - myths that super will come up short" (ASFA 2017a) responds to various commentary from consultants and government that criticise the performance of the superannuation system and its providers. The report advocates for the current superannuation system across various factors; (1) the positive impact of superannuation on the Age Pension – including a plateau in national expenditure on the Age Pension, take-up of the Age Pension in a part of full capacity, as well as higher self-funded retirement incomes, (2) superannuation being the focal savings mechanism for retirement, and providing greater return on investment compared to external savings options, and (3) superannuation providers providing good returns for members, as well as the necessity of fees (ASFA 2017a). This report, however, is somewhat inconsistent in overall tone with other ASFA publications released in the same year. For example, the ASFA (2017b) publication titled "Superannuation account balances by age and gender" provides commentary and insights from the most recent release of data from the Australian Bureau of Statistics Survey of Income and Housing regarding superannuation. While recognising that more positive superannuation values in recent years reflect maturity of the system, the average superannuation balance at retirement will "fall well short of the $545000 needed for a comfortable retirement (according to the ASFA retirement standard) for a single person", and concludes that many retirees will require assistance from the Age Pension (ASFA 2017b, p5). While perhaps the intention of one article (ASFA 2017a) was to enhance public assurance in the superannuation system and the other (ASFA 2017b) to encourage government policy change, these conflicting messages are not in the best interest of the general public as it can cause confusion and distrust.

In summary, while all contributors from industry have valid perspectives and unique contributions to the financial planning for retirement dialogue, a number of questions arise; with such an abundance of information and industry representation from bodies/associations and the like, who stands out as a key authority? Does an abundance of industry bodies help the industry overall, or does it create confusion? Further, the question of objectivity also comes into play; if industry bodies require the support of those within the industry to thrive, then are their research projects and reports entirely objective?

INDUSTRY TAKEAWAYS

KEY TAKEAWAYS

- Industry perspectives come from peak bodies, superannuation providers/financial planners, and consultancy groups
- Industry research and reporting for various purposes, including government policy, reputation building, and public education/engagement
- There is a tendency for industry to push responsibility for public engagement on to government
- With such a saturated market of peak bodies and other contributors, who stands out as a key authority? Who can drive change (on a policy/industry/consumer level)? Who is objective?

RESEARCH SYNTHESIS

Synthesis of research perspectives

Each of the perspectives highlighted in this research brief – academic, government, media and industry – represent valid and unique insights, and overall indicate that there is a wealth of valuable research available on various facets of the retirement ecosystem. However, each perspective also comes with its own frame of reference, priorities, and subsequent limitations. By bringing these perspectives together, we can begin to delineate points of agreement and disagreement, identify areas where we need further investigation, and create a map of the retirement ecosystem in Australia.

1a. We agree that Australians are not ready for retirement

Sources agree that Australians are not prepared for retirement. Academia argues that from an attitudinal and behavioural perspective, individuals do not adequately prioritise or plan for retirement. Industry reflections mirror this perspective, with projections indicating that the average person will not save enough to ensure financial independence for the duration of their retirement. Changes in Government policy reflect the fact that Australians are underprepared, with two key papers in 2018 directed specifically at efficiency of superannuation and recommendations for CIPRs to combat this issue. Media fuels this issue with a dialogue of fear that individuals who are unprepared for retirement will face financial and emotional hardship.

1b. We disagree on who is responsible within the ecosystem

Where these perspectives differ is in determining who within the retirement ecosystem is responsible for this unpreparedness. For instance, academic literature identifies financial literacy as an individual attribute, and hence something an individual can actively change. In contrast, when the media discusses financial literacy, the focus is on information asymmetry – the level of information available to and understood by the public compared to government and industry. This emphasis places blame primarily on government and industry 'withholding' information, rather than encouraging individuals to gain information independently. In reality, the responsibility should fall somewhere in the middle, where individuals take ownership and responsibility of their retirement future, and where government and industry facilitate the dissemination of accurate and helpful information to assist individuals in making those choices.

2a. We share a common focus on problems

There is a consistent focus on identifying the retirement planning problems (and assigning blame), rather than providing solutions. The identified problems are various, and include but are not limited to:

- Insufficient government regulation
- Inconsistent information provided by funds that limit individuals in making product comparisons
- Poor financial literacy or simply low levels of interest in the topic
- Choice overload of superannuation plans, options within plans, or in choosing a financial planner
- Difficulties in comparing financial planners, or having assurance in the quality of their advice
- Competing government parties 'politicising' the issue of retirement rather than facilitating change
- Lack of trust in superannuation funds or financial planners

The media, in particular, as the most widespread distribution of information to the public, is pivotal in driving public sentiment. However, the media tends to fuel this problem-centric mindset, driving public fear and scepticism of ecosystem members. While it is important for the public to understand and identify limitations or biases in the ecosystem, it can lead to inaction and disengagement when the level of fear and distrust becomes too severe – an outcome which also doesn't serve the public's best interest.

2b. We disagree on the scope of the problem, and who should drive change

Again, where perspectives differ is in determining who within the retirement ecosystem should facilitate change and drive solutions. The list of problems above each relate to specific interrelationships between ecosystem members, for example between government and industry, between industry and the individual, between government and the individual, or indeed inherent sentiments within an individual (literacy and interest). With such a plethora of 'problems', who is responsible for creating solutions? The relationship between government and industry is pertinent in this regard. Government dialogue seems to push industry to take the lead in driving change, while the industry perspective argues that government should take responsibility for providing frameworks for change that industry can follow.

3a. We agree that retirement planning is a complex consumer issue

The varying voices and perspectives on the issue of retirement in Australia reflect the fact that retirement planning is a complex problem, with various (and at times conflicting) sources of information available to individuals. In addition, numerous academic disciplines have identified various drivers covering social forces, economic influences, psychological dispositions, and interventions and interactions. However, these studies often take a granular focus which ignores extraneous impacts and interrelationships also at play. It is for this reason that an ecosystem perspective is so valuable. A key benefit of the ecosystem perspective is the ability to identify the various dynamic and complex interactions, relationships and interdependencies occurring between ecosystem members. While research has advocated for its use, there is little academic empirical inquiry into the retirement ecosystem in its entirety.

Synthesis of research perspectives

3b. We do not consider the overall influence of various members collectively on the individual

The various research sources summated in this research brief tend to try and identify isolated cause-and-effect between a specific member of the ecosystem (e.g. government, industry) and the individual. In reality, these influences are not isolated, nor are they linear. Rather, various influences will be evaluated and compared, and in the case of conflicting information the individual will attribute their own rationale for this discrepancy. For example, if information from industry and the media are inconsistent, the individual then makes a judgment of which member of the ecosystem is 'correct' and why. In particular, the role of the media in disseminating, translating, or offering conflicting information to other members of the ecosystem is predominantly overlooked. However, this influence is crucial because at each moment when an individual receives conflicting information from ecosystem members, there is the potential to dilute the strength of that information. Therefore, the only way to comprehensively understand the relative and cumulative impact of various influences framing retirement decision making is to identify and evaluate the retirement ecosystem on a holistic and comprehensive level. We have developed an exploratory map of the retirement ecosystem, based on the preliminary review of research perspectives.

An initial framework of the Australian Retirement Ecosystem

Our framework (figure 1) highlights key members within the retirement ecosystem in Australia. At the core of the ecosystem is the individual Australian, surrounded by the various influences that frame their perspectives and decision making regarding retirement. An individual's life stage will also dictate their level of knowledge, engagement and contact with other ecosystem members as they progress through accumulation, to transition, to decumulation stages of retirement.

Surrounding the individual is their need to consider retirement planning and saving behaviour. This manifests in various ways, from their level of knowledge and engagement, to the likelihood of that individual exhibiting particular behaviours. Those with low engagement are likely to stay with default funds/options, and have multiple superannuation accounts. Those with high engagement are likely to make independent investments or additional contributions to superannuation, and may have knowledge of and interest in various retirement products including CIPRs.

The individual's psychological disposition influences how they prioritise retirement planning and saving, as well as how they make decisions. Psychological disposition covers various attributes (e.g. risk aversion, retirement goal clarity, financial planner anxiety, procrastination, locus of control) that impact financial decision-making for retirement. Individuals with clear retirement goals and an internal locus of control are more likely to engage in retirement planning and saving behaviour, while those who are risk averse, have financial planner anxiety or tend to procrastinate may engage in less retirement planning and saving behaviours.

Social influences (family, friends, spouse, colleagues/peers) are an important source of informal, trusted knowledge. It is important to recognise that each social influence has developed their perceptions based on their interactions with the same broad groups of members within the ecosystem, i.e. their own unique experience with government, industry, the media, and others within their social connections all frame and build the recommendations that they in turn pass on to others. Therefore, social influences can also indirectly distribute government, industry, and/or media information to the individual, albeit with their own interpretation or analysis of that information.

Government agencies/ divisions play various roles in regulation, compulsory contributions, consumer information (e.g. ASIC, ATO, APRA) as well as the provision of social services i.e. the Age Pension. Government regulations have a direct impact on what industry providers can offer to individuals, as well as how they share information. Government also aids in facilitating information for individuals to engage and make financial decisions (both directly to individuals and by mandating what information industry must provide).

Industry bodies and consultants aim to influence government regulation, industry behaviours and public engagement. Superannuation funds and financial planners are the key providers of retirement products, however an individual's employer also plays a role in deciding on default funds.

The media drives public sentiment around retirement, and tries to influence public attitudes towards government and industry. The media also plays a role in 'translating' industry and government information – this can have positive and negative consequences. On the one hand, media drives public awareness and knowledge around current important topics and changes happening in government and industry that will impact their retirement planning and financial security in retirement. Government and industry can therefore influence individuals via information delivered through the media. On the other hand, this information has the potential to be misinterpreted, or veiled with the media's own interpretation – this can impact on the quality of information being shared, as well as the effectiveness of proposed strategies or interventions.

Figure 1: An initial framework of the Australian Retirement Ecosystem

The interrelationships and influences within the retirement ecosystem will be explored, validated, and further developed through qualitative inquiry. Findings from qualitative interviews and focus groups will help us to more accurately and comprehensively map the retirement ecosystem and understand the various interactions, relationships and interdependencies therein. From here we can begin to make recommendations of how to build individual engagement with retirement planning, and in a manner that will actually drive change.

ECOSYSTEM FRAMEWORK

CONCLUDING REMARKS

In conclusion, this research brief provides a foundation for a three-year project conducted by Melbourne Business School, made possible by a generous donation from the Orford Foundation. The research brief has reviewed the various perspectives of government, media, industry and academia towards retirement planning, and has argued the benefit of utilising an ecosystem perspective to derive more comprehensive understanding of the various interactions, relationships and interdependencies between various subjects.

We have commenced the first stage of exploratory research, in which we conduct interviews with key members of the retirement ecosystem and consumer focus groups. These findings will be contrasted and analysed to further develop our preliminary map of the retirement ecosystem. This will ultimately aid in understanding how information is disseminated to the public, and likewise where individuals actively seek out information for retirement planning. Subsequent research phases will follow in the second and third year (2019-2020).

If you would like to know more about this research initiative or be involved, please contact the project lead:

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