



# THE ORFORD INITIATIVE



## *CONSUMER SURVEY REPORT: AUSTRALIAN RETIREMENT PRIORITIES, PERCEPTIONS, AND PRODUCTS. 2019*

Written by Teagan Altschwager and Jody Evans

# Acknowledgments

This report presents the findings of a survey of 930 Australians aged 50+ exploring various retirement issues.

This survey is the first of a series of quantitative studies to be conducted in 2019 by Melbourne Business School. The 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.

Please see the [Orford Initiative webpage](#) for further information on the background, motivations, and other research conducted as part of this project.

## Project team

Dr Teagan Altschwager is Senior Research Fellow for the Orford Initiative at Melbourne Business School.

Jody Evans is Associate Dean, Advancement and Associate Professor, Marketing at Melbourne Business School.

## 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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# 1. Executive Summary

Despite ageing population trends and the increasing risk of outliving our retirement savings, Australians are underprepared and disengaged with retirement. In response, the Melbourne Business School's *Orford Initiative* conducted a survey of 930 Australians aged 50+ to investigate retirement priorities, perceptions, and products. The findings highlighted in this report reveal four key drivers of pension/annuity attitudes and purchase intentions;

1. Pension/annuity product knowledge
2. Perceived fairness of pensions/annuities
3. Emotional decision making
4. Self-confidence in financial information search.

The first prevailing finding is the considerable **uncertainty** that clouds pension/annuity

perceptions. Many respondents give neutral responses to attitudes, low ratings for product knowledge, and high levels of 'do not know' responses to questions of perceived fairness. While this might not appear to be 'good news' for pensions/annuities, it does represent a significant opportunity, as it deviates from the common rhetoric that 'Australians do not like pensions/annuities'. Our findings suggest that instead of deeply engrained negative attitudes (that are difficult to change), the key issue is confusion. This can be more easily combatted through awareness campaigns and clear, understandable information on pension/annuity benefits and mechanics of the market.

The next key finding is that emotional decision making significantly drives

pension/annuity attitudes and purchase intentions, despite majority of respondents *reporting* that they predominantly rely on rational decision making. In an industry that is typified by its emphasis on complex product comparisons with rational decision making at the core, this finding suggests that there is great value in appealing to the emotional side of the consumer. In addition, the individual's confidence in their *own ability* to find, assess and engage in financial information search is a key element to developing positive pension/annuity attitudes. A strategy of consumer empowerment, driven by timely and digestible information distributed via trusted information sources, is recommended to give consumers the tools to assess and understand the value of pensions/annuities for themselves.

# 1. Executive Summary *continued*

To deepen our understanding of drivers and barriers surrounding pensions/annuities, we explore three consumer characteristics that further explain differences in intentions and attitudes;

1. level of retirement savings
2. concern about financial security
3. level of financial literacy.

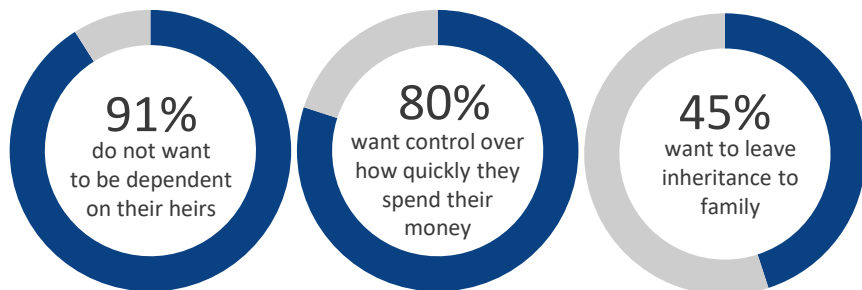
Those with higher financial literacy have more positive attitudes toward pensions/annuities, but people with moderate retirement savings (\$100,000-\$500,000) and those who are *concerned about financial security* report higher purchase intentions. These consumer characteristics provide a framework for segmentation strategy, as groups have varying retirement priorities, different levels of knowledge and perceived fairness, and have

different perceptions of trustworthiness across information sources.

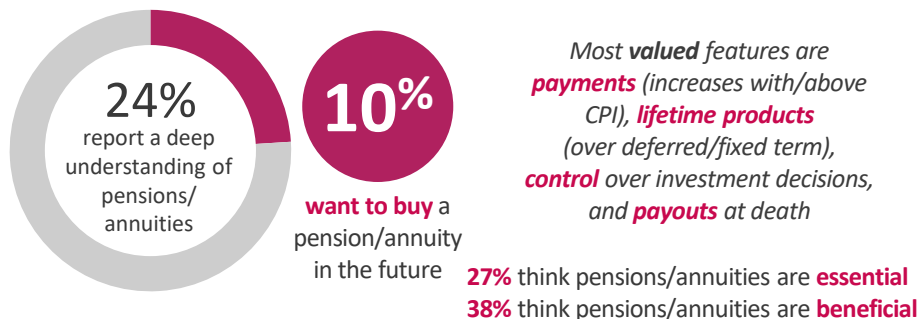
The findings from this survey provide initial insights that will aid in our development of subsequent study stages. The next stage will incorporate discrete choice experiments to reveal the relative importance of various pension/annuity product features. In addition, experimental manipulations will aid in comparing the effectiveness of endorsement across information sources, and assess various communication methods in building comprehension, engagement, and driving behaviour.

## 2. Research Highlights

### Financial priorities in retirement



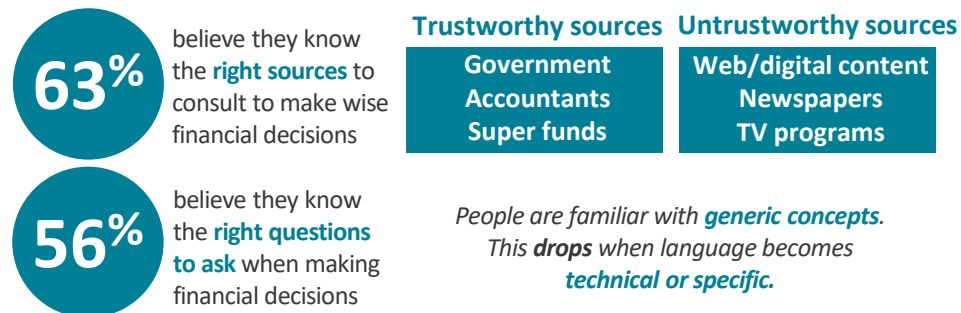
### Pension/annuity sentiments



### Drivers of attitudes & intentions



### Self-confidence & trustworthy information



# 3. Introduction

**We are living longer, and with that comes an inherent risk of outliving our retirement savings.**

Despite this, Australians continue to underprepare financially for retirement and engagement with retirement issues, decisions, and products remains low. The Melbourne Business School's *Orford Initiative* seeks to understand the barriers of engaging retirees in financial decision making for retirement. This report details the findings from an initial online survey conducted with 930 Australians aged 50+.

The survey covered various retirement topics, including

- Retirement priorities (bequest motivation and need for control)
- Self-confidence in financial information search
- Trustworthiness of retirement information sources
- Emotional versus rational decision making
- Financial literacy, and familiarity of various retirement concepts

Specific questions were asked about pensions/annuities, including

- Product knowledge
- Perceived fairness of pensions/annuities
- Importance of pension/annuity features
- Attitudes and purchase intentions

The Orford Initiative aims to help retirees in Australia to optimise their lifestyle for the duration of their retirement, through addressing the following research objectives:

- 1. To objectively investigate the value of lifetime pensions, annuities and other forms of optimising income and financial security in retirement.**
- 2. To test and identify the most effective mechanisms that**
  - Reach retirees (or those nearing retirement)
  - Educate and inform them about their retirement planning options
  - Engage them in the decision-making process
  - Influence their choices so that they make the optimum decisions to suit their lifestyle and retirement goals

# 4. Method

## The survey findings reflect a representative cross-section of Australians nearing or in retirement.

The survey was distributed by Qualtrics and took an average of 14m to complete. Data quality was assessed for speeders<sup>1</sup>, flatliners<sup>2</sup>, duplicate IP addresses<sup>3</sup>, and those who provided incomprehensible responses to a written question. Responses that did not satisfy quality requirements were removed from analysis. A total of 930 quality responses were maintained for analysis.

Quotas were employed to ensure balance across key population characteristics and representation of relevant groups of interest. Respondents are representative of Australian demographics in terms of gender and age<sup>4</sup>, those living within versus outside of capital cities, and across all States and Territories. Respondents also represent a cross-section of education levels, household annual income brackets, and stages of retirement (not retired, partially retired, fully retired, and never worked). See Appendix 1 for a summary of respondent characteristics.

The survey was constructed using established measures from academic literature, and were subject to reliability and validity testing (see Appendix 2 for a complete list of measures and their sources, and Appendix 3 for results of construct testing).

Two versions of the survey were evenly distributed across respondents (quotas were maintained in each survey version), and were identical except for use of the terms 'pension' and 'annuity'. This was employed to explore any biases or differences in interpretation that may arise from use of either term. See Appendix 4 for further information.

### Notes:

<sup>1</sup> Speeders are people who complete the survey significantly shorter or longer than average.

<sup>2</sup> Flatliners are people who answer questions in noticeable patterns or give exactly the same response to majority of questions (e.g. all 7s).

<sup>3</sup> Duplicate IP addresses could indicate a respondent trying to complete the survey multiple times.

<sup>4</sup> People aged 50+ qualified to participate in the survey given their proximity to retirement, and likely recency of considering retirement issues and engaging in retirement decision making.

# 5. Key Findings

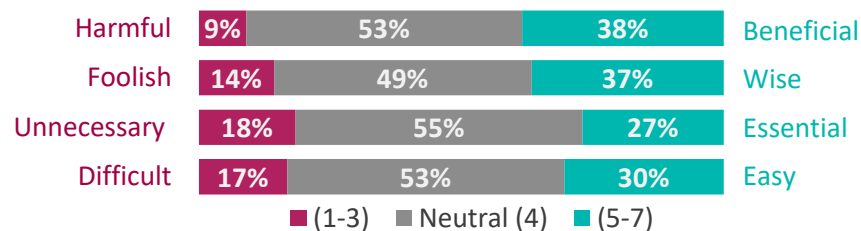
Attitudes toward pensions/annuities are ambivalent, and intentions to purchase are low.

Respondents report significant uncertainty regarding their attitudes toward pensions/annuities. Approximately half of respondents give 'neutral' responses across each of the four attitude characteristics (figure 5.1). While this is not immediately positive for pensions/annuities, it does indicate an opportunity; as many people do not have strong or deeply engrained attitudes, there is great potential for initiatives to engage, inform, and shift attitudes.

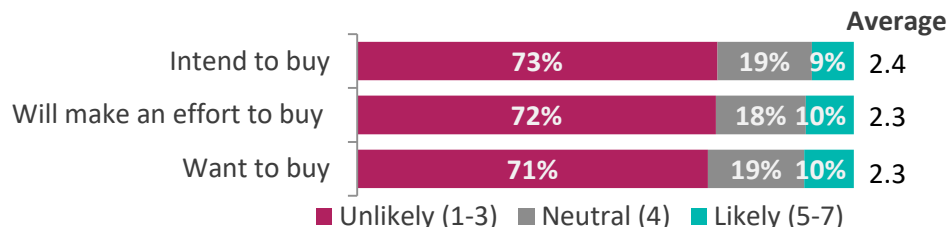
For those with positive attitudes, 38% and 37% believe pensions/annuities to be 'beneficial' and 'wise' respectively. A lower percentage find pensions/annuities to be 'easy' (30%) or 'essential' (27%). This is mirrored in the percentage of respondents with negative attitudes; future communications could seek to improve the perceived necessity and ease of pensions/annuities.

Pension/annuity purchase intentions are generally low, with 71-73% of respondents reporting low purchase likelihood across the three intention measures (figure 5.2). 9-10% of respondents indicate high purchase likelihood, while 18-19% give a 'neutral' response.

## 5.1. ATTITUDES TOWARD PENSIONS/ANNUITIES



## 5.2. INTENTIONS TOWARD LIFETIME PENSIONS/ANNUITIES



**Notes:** See Appendix 2 for complete wording of questions

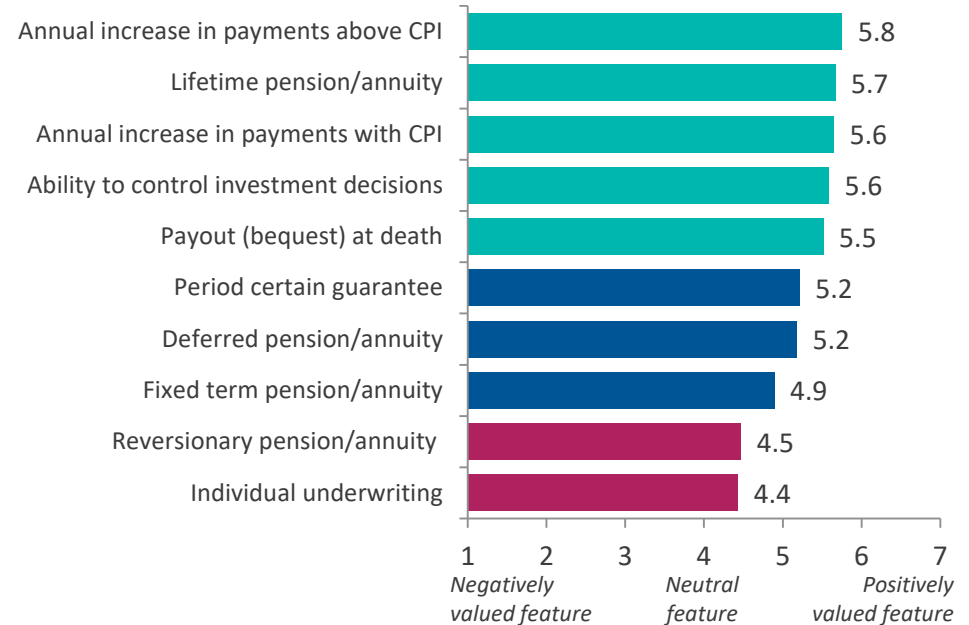
# 5. Key Findings

## People value annual payment increases and lifetime products.

When asked to rate the importance of various pension/annuity features, respondents identify features related to *payments* (increases with or above CPI), *lifetime* products (over deferred or fixed term), *control* over investment decisions, and *payouts* at death as the most positively valued features (figure 5.3).

In contrast, features relating to the specific mechanics of pensions/annuities (reversionary annuity, individual underwriting) receive the lowest value ratings.

### 5.3. IMPORTANCE OF PENSION/ANNUITY FEATURES



**Notes:** See Appendix 2 for complete wording of questions

# 5. Key Findings

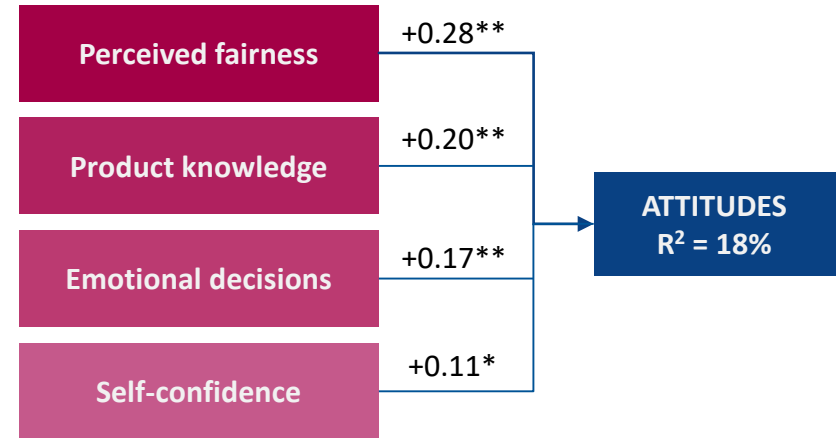
There are several significant drivers of pension/annuity attitudes.

The findings reveal several significant drivers of attitudes; (1) pension/annuity product knowledge, (2) perceived pension/annuity fairness, (3) emotional decision making, and (4) self-confidence. These findings indicate that initiatives aimed at increasing one or more of these drivers could aid in improving attitudes toward pensions/annuities.

Path estimates calculated through Smart-PLS software are reported in figure 5.4. Estimates indicate the relative predictive power of each driver on attitudes. For example, 'perceived fairness' has the highest predictive power on attitudes; for each increase of 1 for perceived fairness, we see a +0.28 increase in attitudes.

$R^2$  is also reported to signify the proportion of variance for attitudes that is explained by all of the drivers collectively; perceived fairness, product knowledge, emotional decision making and self-confidence helps to explain 18% of attitudes towards pensions/annuities.

## 5.4. DRIVERS OF PENSION/ANNUITY ATTITUDES



### Notes:

\*\* = significant at 95% confidence

\* = significant at 90% confidence

*Non-significant relationships removed*

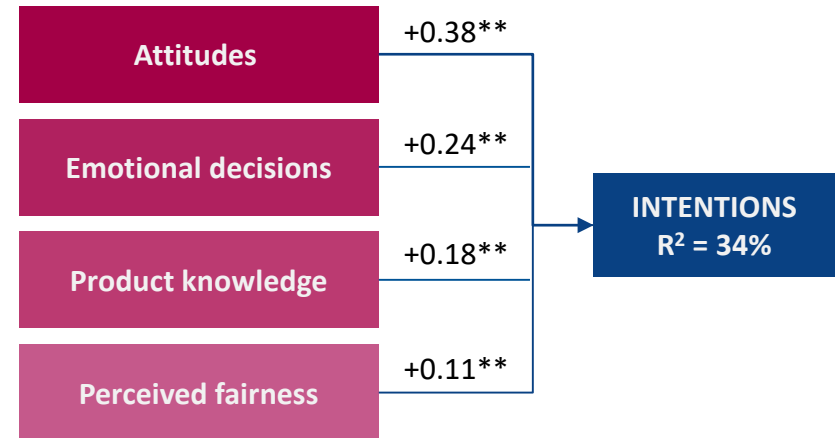
# 5. Key Findings

There are also several significant drivers of pension/annuity intentions.

The findings also reveal several significant drivers of intention to purchase; (1) attitudes; (2) emotional decision making; (3) pension/annuity product knowledge, and (4) perceived pension/annuity fairness. While self-confidence is a significant driver of attitudes, it does not (directly) significantly drive intentions. It is important to note that *attitudes* (the outcome measured in figure 5.4) is also tested for its predictive power on *intentions* (figure 5.5), and is found to have the greatest relative predictive power on intentions (+0.38). This also means that the other drivers (emotional decision making, product knowledge, and perceived fairness) *indirectly* contribute to intentions *via attitudes* (figure 5.4), as well as directly impact intentions (figure 5.5).

R<sup>2</sup> has also increased for intentions (compared to attitudes); attitudes, emotional decision making, product knowledge and perceived fairness helps to explain 34% of pension/annuity intentions.

## 5.5. DRIVERS OF PENSION/ANNUITY INTENTIONS



### Notes:

\*\* = significant at 95% confidence

*Non-significant relationships removed*

## IMPLICATION #1

The findings suggest that if we enhance the perceived fairness of pensions/annuities, build product knowledge, boost consumer self-confidence and appeal to emotions, then intentions to purchase pensions/annuities will improve (either directly or indirectly via improving attitudes). Each driver is now explored in detail.

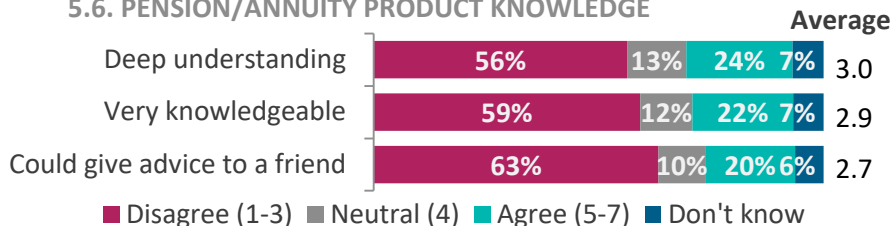
In designing and promoting pension/annuity products, focus should be given to ongoing payment increases, lifetime products, and options that give individuals a level of control over investment decisions and a payout at death.

# 5. Key Findings

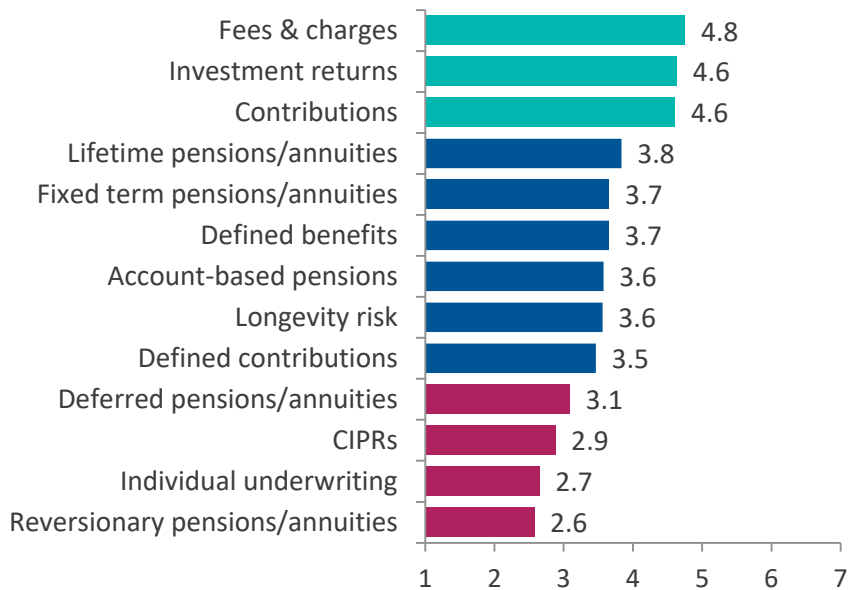
Greater knowledge of annuity/pension products can drive positive outcomes.

Product knowledge is low (figure 5.6), and has a significant and positive effect on outcomes (figures 5.4 and 5.5). When asked about their perceived familiarity of retirement terms, respondents have a reasonable grasp of basic or 'generic' concepts (those in green in figure 5.7 - fees and charges; investment returns; contributions). However, familiarity decreases for annuity/pension related terms. Those in blue in figure 5.7. represent the 'middle tier' of familiarity (e.g. different product 'types' of lifetime versus fixed term pensions/annuities, and account-based pensions), and those in maroon have low familiarity (these are more technical terms, e.g. CIPRs, individual underwriting, reversionary pensions/annuities).

## 5.6. PENSION/ANNUITY PRODUCT KNOWLEDGE



## 5.7. FAMILIARITY OF RETIREMENT TERMS



Notes: See Appendix 2 for complete wording of questions

## IMPLICATION #2

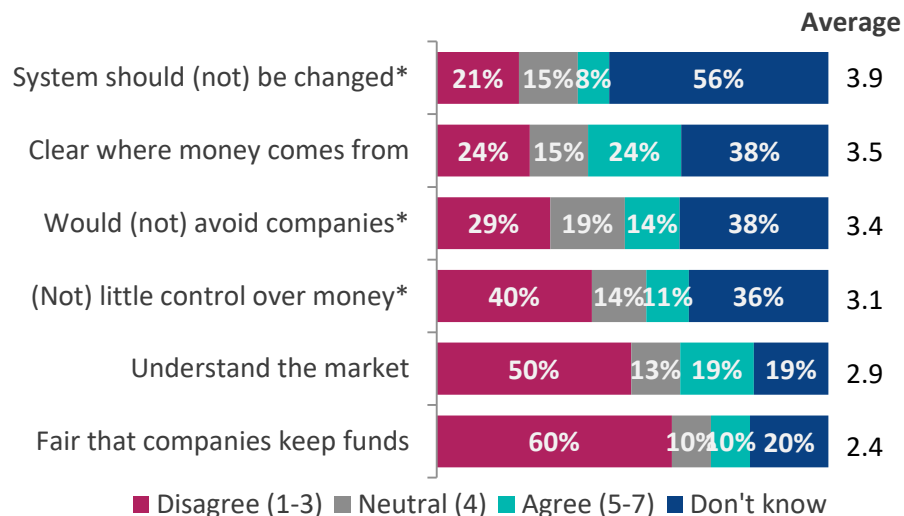
Product knowledge is low, particularly around the specific mechanics of pensions/annuities. However, if we can enhance product knowledge, then attitudes and intentions will increase.

# 5. Key Findings

## Perceived fairness of pensions/annuities frame attitudes and intentions.

Consistent with product knowledge, there is considerable confusion regarding the perceived fairness of pensions/annuities (figure 5.8). While many respondents find elements of pensions/annuities unfair (e.g. 'it is not fair that companies are allowed to keep the excess funds'; 'I would have too little control over my retirement money if I bought a lifetime pension/annuity'), the large majority (56%) *do not know* if the system should be changed, nor do they understand where pension/annuity money comes from (38%).

5.8. PERCEIVED FAIRNESS OF PENSION/ANNUITY



**Notes:** See Appendix 2 for complete wording of questions

\*= Reverse coded items. See Appendix 5 for details and interpretation

## IMPLICATION #3

This presence of confusion veiling perceived fairness is an interesting finding. It suggests that, rather than people inherently perceiving pensions/annuities as 'unfair', the key issue is around the lack of understanding of the product, the market, and the mechanics of pensions/annuities.

Consistent with the product knowledge and retirement familiarity findings (figure 5.6 and 5.7), an emphasis on building consumer knowledge and specifically explaining the mechanics of the pension/annuity market (providing clarity around 'where the money comes from' and 'why the company keeps excess funds') would help to improve attitudes and intentions.

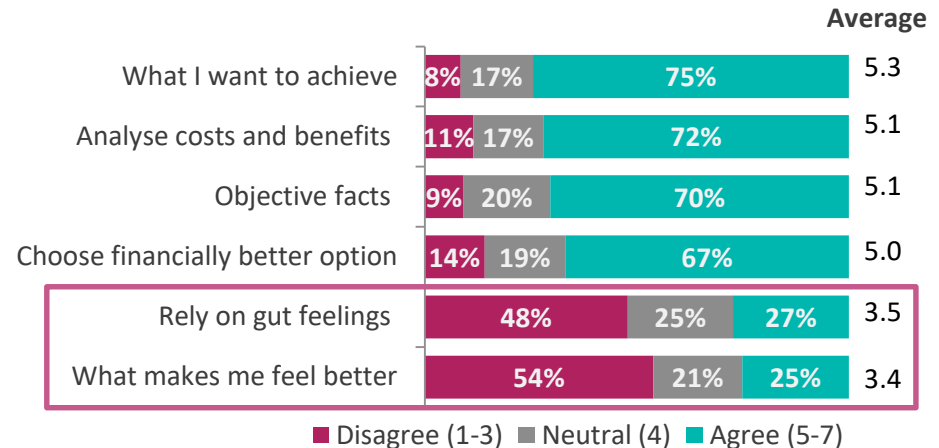
# 5. Key Findings

Consumers are driven by emotion (but will tell you they are rational).

When making purchase decisions, respondents rate rational decision making higher/more important than emotional decision making. As shown in figure 5.9, the two questions emphasising emotions (outlined in maroon) rate considerably lower than the rational-focused questions.

However, while respondents *report* making rational choices in their purchase decisions, the findings from this study (figure 5.4 and 5.5) reveal that it is actually *emotions* that significantly drive attitudes and purchase intentions towards pensions/annuities. Furthermore, the findings suggest that rational decision making does **not have a significant effect** on outcomes at all.

## 5.9. EMOTIONAL/RATIONAL DECISION MAKING



Notes: See Appendix 2 for complete wording of questions

## IMPLICATION #4

While people might *say* they make decisions rationally, their motivations are emotionally driven in reality. This has interesting implications for pensions/annuities; while the findings in this study show the importance in building consumer knowledge and understanding around pensions/annuities, there is also value in appealing to more than just the 'rational' side of the consumer.

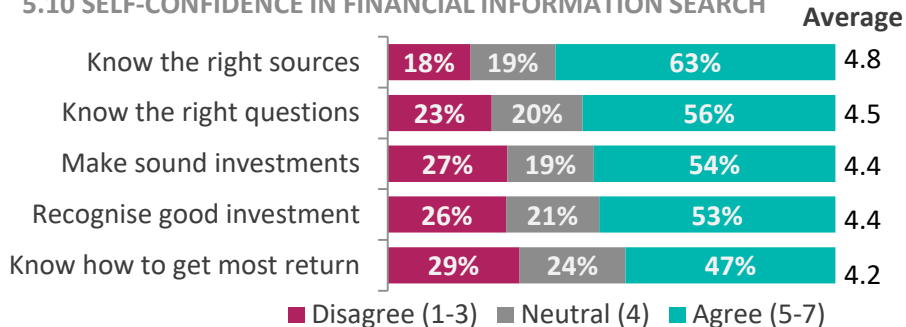
Above and beyond the 'viability of investment' and anticipated returns that a pension/annuity might yield, a key emotional proposition of this product is the sense of security and stability that an 'income for life' provides.

# 5. Key Findings

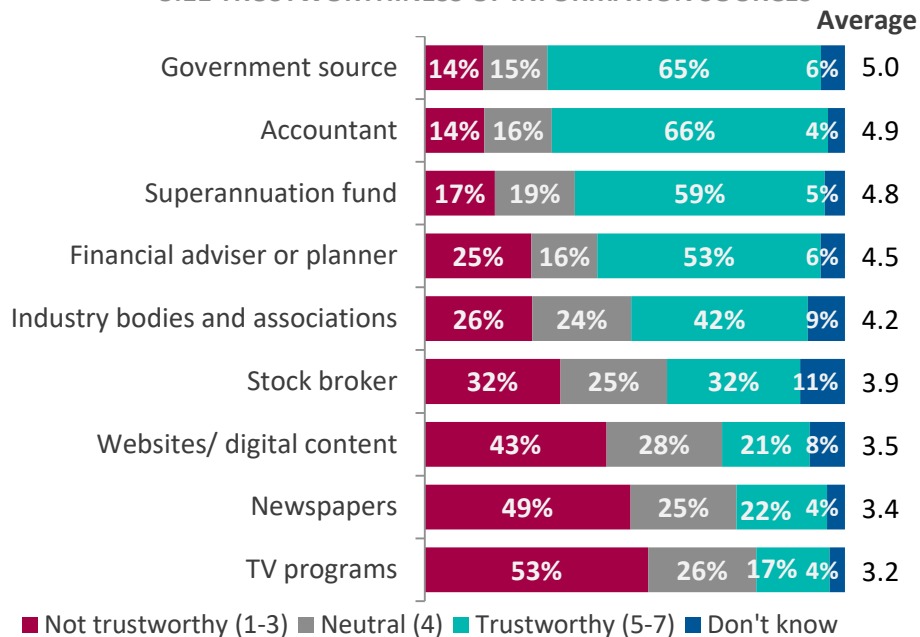
## The role of self-confidence and trustworthy information.

An individual's self-confidence in financial information search also drives their attitudes towards pensions/annuities. 63% believe that they know the right sources to consult to make wise financial decisions (figure 5.10). When asked what information sources they found the most trustworthy, respondents rank government sources, accountants and superannuation funds as the top 3 (figure 5.11). Conversely, websites/digital content, newspapers and TV programs are rated the least trustworthy.

### 5.10 SELF-CONFIDENCE IN FINANCIAL INFORMATION SEARCH



### 5.11 TRUSTWORTHINESS OF INFORMATION SOURCES



**Notes:** See Appendix 2 for complete wording of questions

## IMPLICATION #5

Evaluating pensions/annuities (and indeed other financial products) is partly a function of an individual's confidence in their *own ability* to identify the right sources of information and know the right questions to ask.

If practical resources can be provided to consumers *via* trusted information sources (Government, accountants, superannuation funds), this can aid in building consumer self-confidence in understanding and evaluating pensions/annuities as a viable investment option in retirement.

# 5. Key Findings

## The benefit of profiling consumer characteristics

The complexity of the 'annuity puzzle' continues to plague retirement researchers, industry, and government. The findings from this survey show significant drivers of pension/annuity attitudes and intentions. We test further concepts that deepen our understanding of drivers and barriers surrounding pensions/annuities. The findings reveal that a number of **consumer characteristics** can help further explain differences in intentions and attitudes.

Three key characteristics are examined; (1) level of retirement savings, (2) concern about financial security, and (3) level of financial literacy. We present a number of profiles based on these consumer characteristics, and explain what effect this has on overall findings.

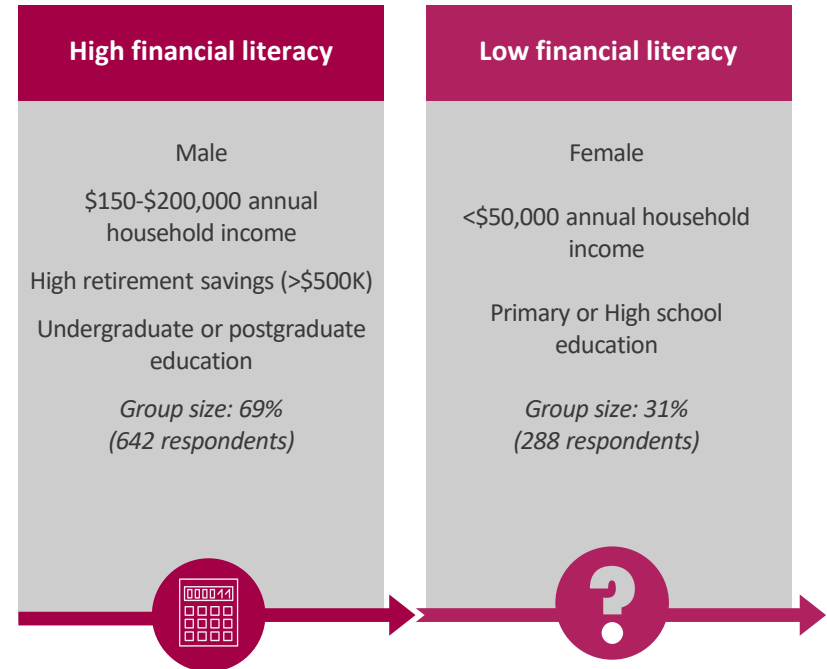
# 5. Key Findings

## Consumer profiles: Financial literacy

Financial literacy was assessed using five quiz-style questions. Respondents scored an average of 3.8/5. A low literacy group (who scored between 0-3), and a high literacy group (who scored 4-5) were created for comparison. See Appendix 6 & 7 for further details on financial literacy measurement and grouping.

The high and low financial literacy groups are compared across demographics. Figure 5.12 lists the demographics on which significant differences across high and low groups are apparent. Significant differences are reported in Appendix 8.

### 5.12 FINANCIAL LITERACY PROFILES



# 5. Key Findings


## Significant differences across financial literacy levels

While people with **high financial literacy** more strongly identify pensions/annuities as beneficial, wise, and easy, **no significant difference in intention** is found across high and low literacy groups. This could be due to the high financial literacy group having a higher desire for control over their money in retirement, paired with their heightened concern that pensions/annuities take away such control.

Further significant differences across financial literacy groups are listed in figure 5.13.

5.13 FINANCIAL LITERACY DIFFERENCES

High financial literacy	Low financial literacy
Higher attitudes	
Value independence & control over money in retirement	Emphasise emotional decision making
Concerned that pensions/ annuities take away control	
Higher self-confidence in financial information search	Higher trust in TV programs
Higher self-assessed familiarity across most retirement terms	More concerned about their financial security in retirement
Emphasise rational decisions	
Higher trust in government, accountants, & industry bodies	



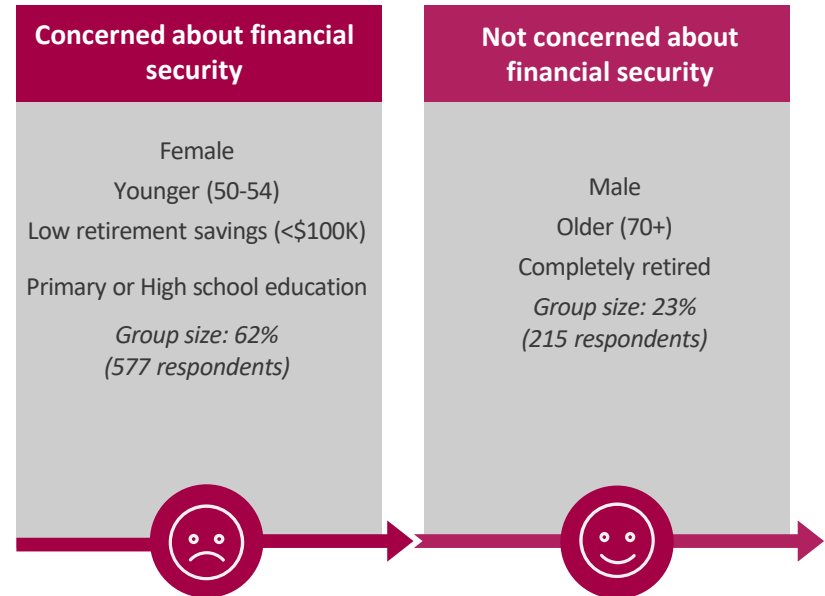
# 5. Key Findings

## Consumer profiles: concern about financial security

Level of concern about financial security was assessed according to the participant's response to the question '*I am concerned about having enough money to last through my retirement*'. A *concerned about financial security* group (who agreed with this statement; rated 5-7), and a *not concerned about financial security* group (who disagreed with this statement; rated 1-3) were created for comparison. See Appendix 6 for grouping details and Appendix 9 for significant differences.

The high and low 'concern about financial security' groups are compared across demographics. Figure 5.14 lists the demographics on which significant differences across high and low concern groups are apparent.

### 5.14 FINANCIAL SECURITY CONCERN PROFILES





# 5. Key Findings

## Significant differences across level of concern about financial security

People who are **concerned about financial security** more strongly identify pensions/annuities as essential, and also have higher purchase intentions. This is a particularly interesting finding given this group also report lower product knowledge, and more strongly believe that they would lose control over their retirement money if they had a lifetime pension/annuity. This implies that those who are concerned about financial security are willing to relinquish control in exchange for the security and continuity that a pension/annuity provides.

Further significant differences across 'concern about financial security' groups are listed in figure 5.15.

5.15 FINANCIAL SECURITY CONCERN DIFFERENCES

Concerned about financial security	Not concerned about financial security
<p>Pensions/annuities are seen as more <i>essential</i></p> <p>Higher purchase intention</p> <p>Lower product knowledge (+lower familiarity of various retirement terms)</p> <p>Not clear where pension/ annuity money comes from</p> <p>Believe that pensions/ annuities take away control</p> <p>Higher trust in TV programs</p>	<p>Lower attitudes and intentions</p> <p>Higher self-confidence in financial information search</p>
	

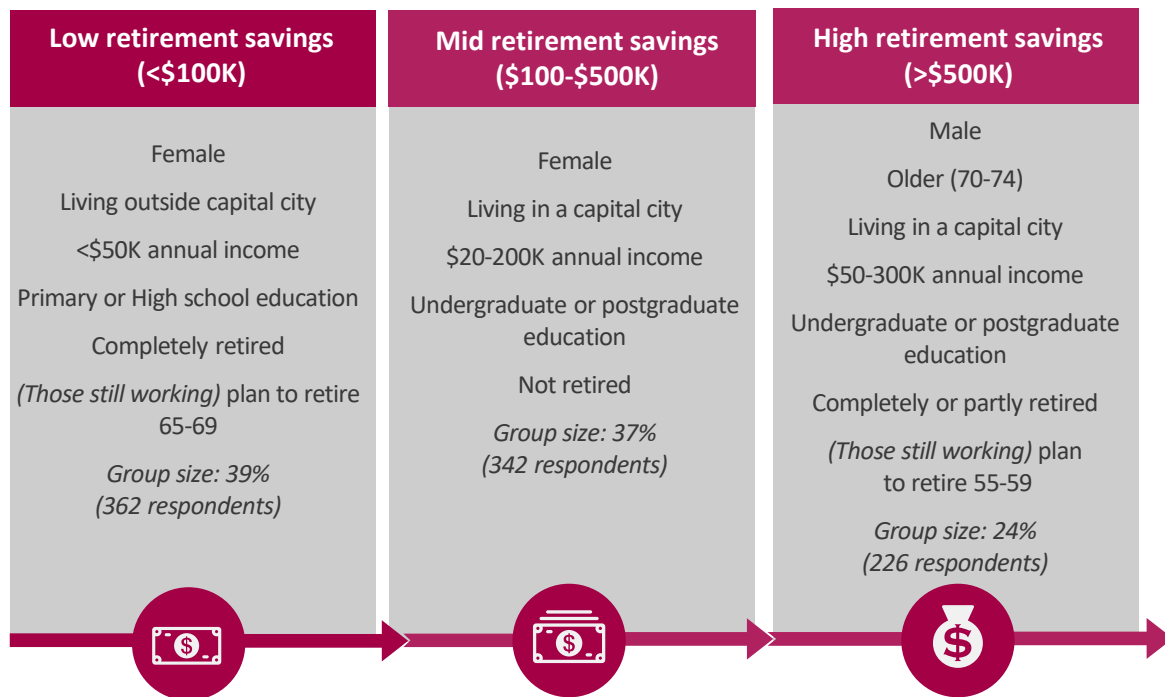
# 5. Key Findings

## Consumer profiles: level of retirement savings

Level of retirement savings was assessed according to the participant's response to the question "How much do you currently have saved for your retirement?". Low (<\$100K), mid (\$100-\$500K), and high (>\$500K) retirement savings groups were created for comparison. See Appendix 6 for grouping details and Appendix 11 for significant differences.

The low, mid, and high groups are compared across demographics. Figure 5.16 lists the demographics on which significant differences across retirement savings levels are apparent.

### 5.16 RETIREMENT SAVINGS PROFILES



# 5. Key Findings

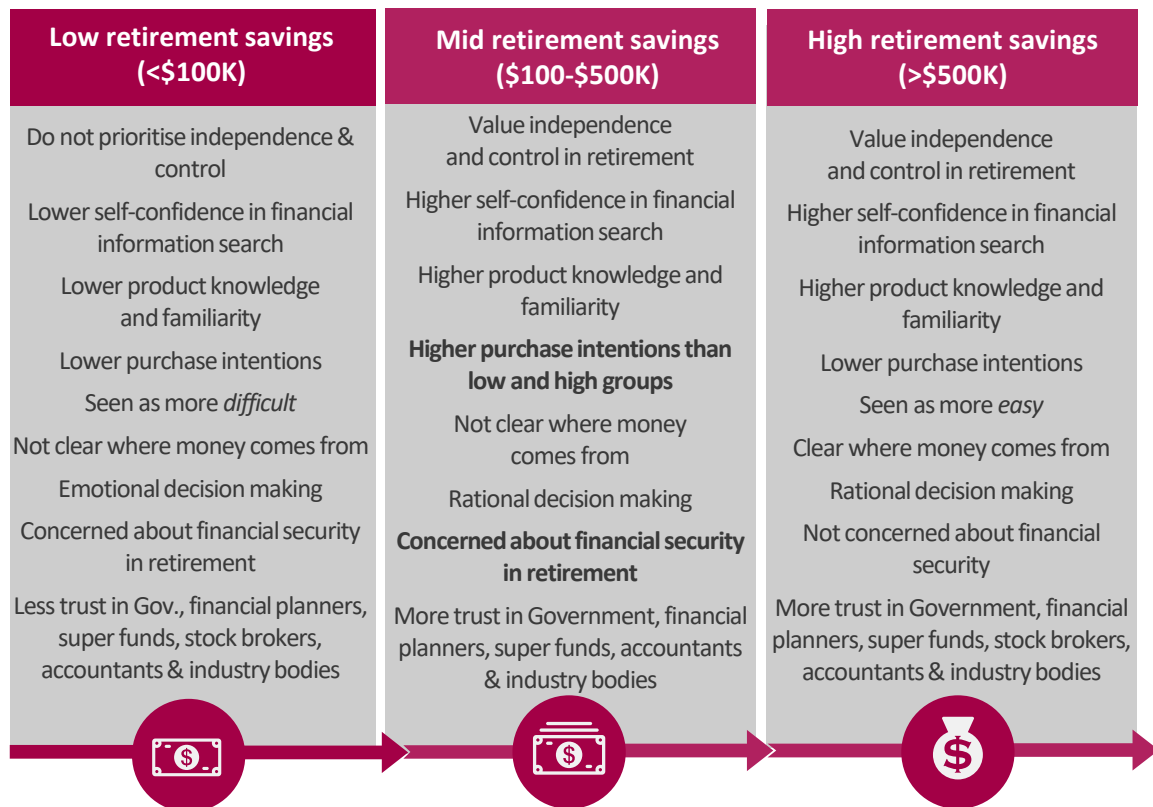
## Significant differences across retirement savings levels

### 5.17 RETIREMENT SAVINGS DIFFERENCES

People in the **mid retirement savings** group have greater pension/annuity purchase intentions compared to both low and high groups, although it should be noted that mean values are still 'low' (below neutral) (see appendix 11). Key distinctions of the mid retirement savings group that could explain their heightened purchase intentions are their

- 1. higher product knowledge and familiarity** (compared to the low savings group), paired with
- 2. higher concern about financial security** in retirement (compared to the high savings group).

Further significant differences across retirement savings levels are listed in figure 5.17.



## 6. Summary of implications



# 6. Summary of implications

Based on the findings of this study, there are several opportunities to drive pension/annuity outcomes.

Understanding the key drivers of pension/annuity attitudes and purchase intentions paired with consumer profiling insights provide a framework for segmentation strategy. Consumer groups have varying retirement priorities, different levels of knowledge and perceived fairness, and have different perceptions of trustworthiness across information sources.

## 1. Priority segments

People with **moderate retirement savings** (\$100,000-\$500,000) and those who are **concerned about financial security** report higher purchase intentions. Those with **higher financial literacy** have more positive attitudes toward pensions/annuities, but this does not result in a higher intention to purchase. It is recommended that these priority segments be focal to any immediate targeted strategy, as they are the most likely to convert to purchase.

## 2. Balancing emotion

The significance of emotional decision making as a driver of pension/annuity attitudes and purchase intentions introduces a layer of complexity to communication strategy. While the findings of this study reveal that emotions drive outcomes, the *reported* decision making strategy remains rational – particularly for priority segments. The moderate retirement savings group and the high financial literacy group both report higher levels of reported rational decision making. This suggests the presence of social desirability bias, whereby people believe rational decision making is ‘superior’ to emotion, and thus report making decisions in this manner rather than revealing that their true motivations are based on emotion.

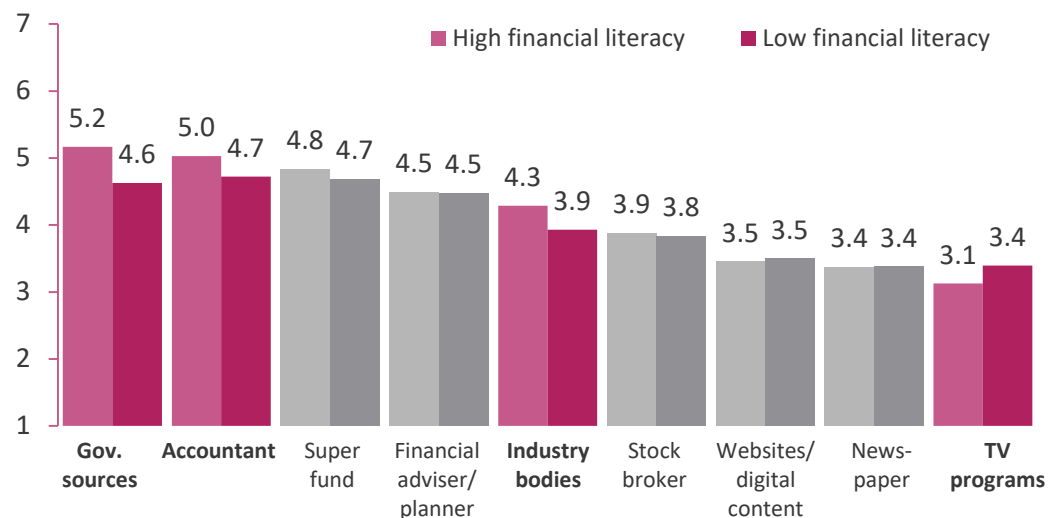
In response, a pension/annuity communication strategy needs to satisfy the latent motive of emotion in a subtle, indirect manner, while also appealing to the manifest (reported, surface level) motive of rational decision making.

# 6. Summary of implications

## 3. Communication strategy

A common thread throughout this report is the need to build product knowledge, perceived fairness and consumer self-confidence. However, in formulating a communication strategy, attention must be given to the varied perceived trust in information sources across consumer groups to determine appropriate channels. For example, figure 5.18 shows that the *ratings dispersion*\* for trustworthiness is *smaller* for the **low financial literacy group**, which means they perceive less of a distinction in trust across information sources (e.g. they do not perceive as large a difference in trustworthiness between government sources and TV programs). This implies a repertoire of choice for communication channels when targeting low financial literacy groups. People who are **concerned about financial security** also report higher trustworthiness in TV programs. This speaks to the effectiveness of fear mongering tactics often seen in program content, but also presents an opportunity to communicate via mass media channel and attempt to change the rhetoric.

5.18. TRUSTWORTHY INFORMATION SOURCES ACROSS FINANCIAL LITERACY LEVELS



**Notes:** Those in maroon are significantly different between groups

\**Ratings dispersion* = the difference between the highest and lowest rankings.

High financial literacy = highest rating (5.2) - lowest (3.1) = 2.1 rating dispersion.

Low financial literacy = highest rating (4.7) - lowest (3.4) = 1.3 rating dispersion.

# 7. Report Conclusions and Next Steps

In conclusion, this report has highlighted the key findings from *the Orford Initiative* survey of 930 Australians aged 50+ on retirement priorities, perceptions, and products. Four key drivers – product knowledge, perceived fairness, emotional decision making, and self-confidence in financial information search – were found to significantly predict pension/annuity attitudes and purchase intentions.

To further understand the ‘annuity puzzle’, survey respondents were grouped according to their (1) level of financial literacy, (2) concern about financial security, and (3) level of retirement savings. The findings indicate that those with moderate retirement savings (\$100,000-\$500,000) and those who are concerned about financial security have higher intentions to purchase, and those with high financial literacy possess more positive attitudes toward pensions/annuities.

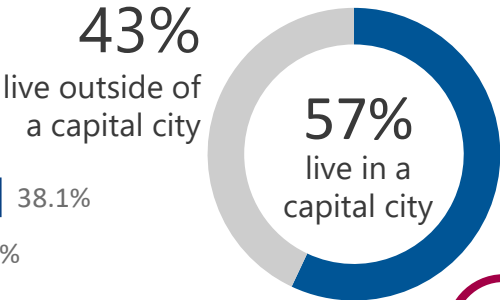
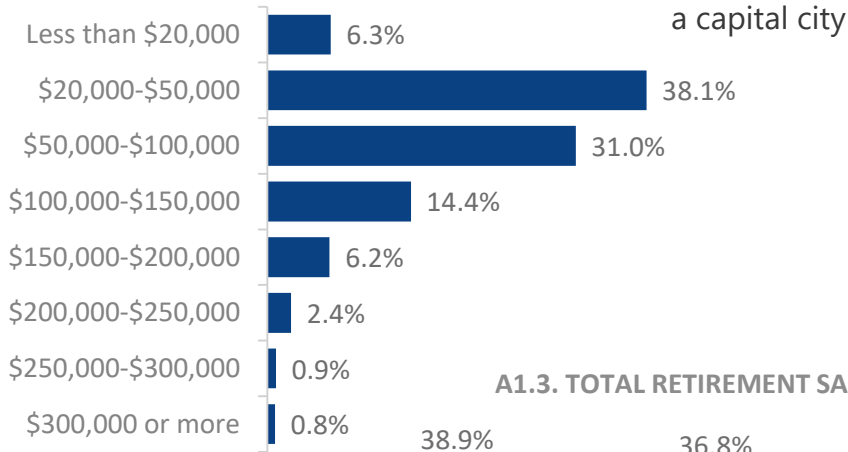
The findings from this survey provide initial insights that will aid in our development of subsequent study stages.

1. To further understand the value of pension/annuity product features, the next stage will incorporate discrete choice experiments that force individuals to make trade-offs between various features, unveiling their relative importance with greater accuracy.
2. Information sources will be further explored to test their effectiveness as providing endorsement to pensions/annuities.
3. Communication methods (e.g. text, video, gamification) will be compared and contrasted for their relative effectiveness in aiding pension/annuity comprehension, stimulating engagement, and driving behaviour.

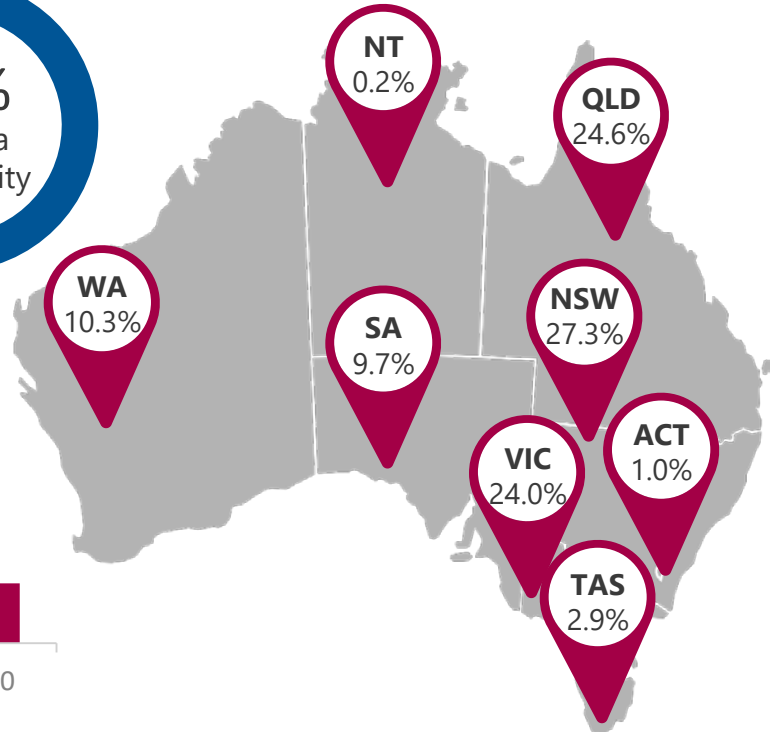
# 8. Appendices

## A1 Respondent Characteristics: Demographics

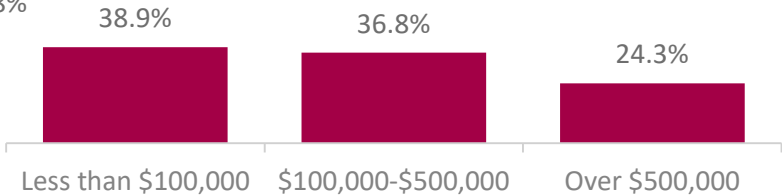
A1.1. HOUSEHOLD ANNUAL INCOME



A1.2. LOCATION



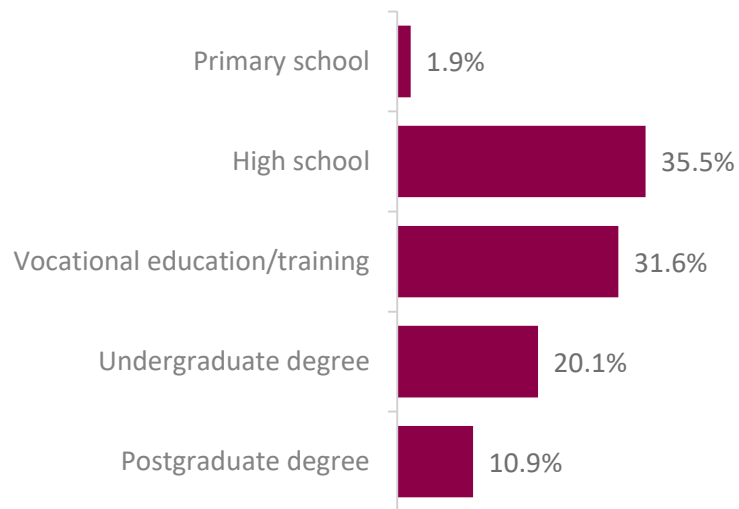
A1.3. TOTAL RETIREMENT SAVINGS



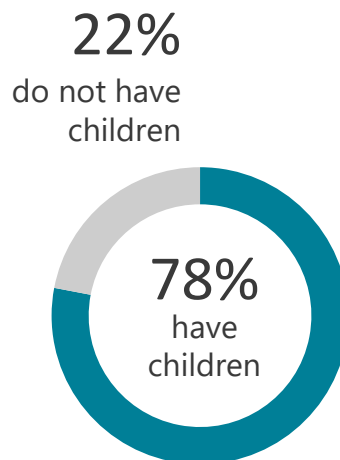
# 8. Appendices

## A1 Respondent Characteristics: Demographics

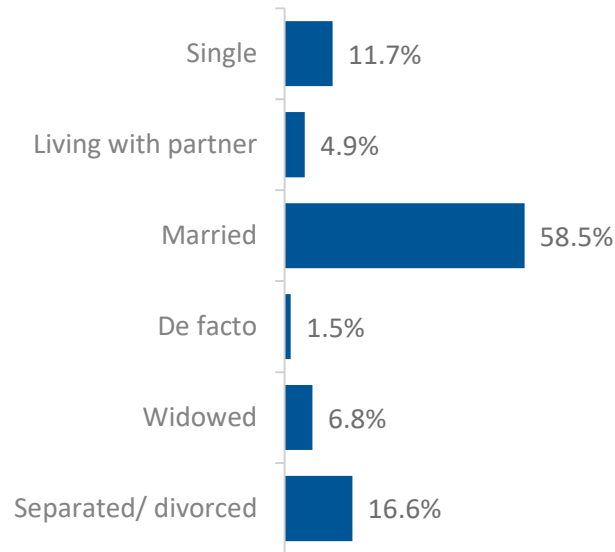
A1.4. HIGHEST LEVEL OF EDUCATION COMPLETED



A1.5. CHILDREN



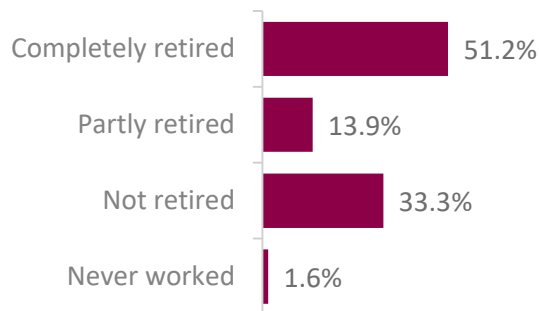
A1.6. RELATIONSHIP STATUS



# 8. Appendices

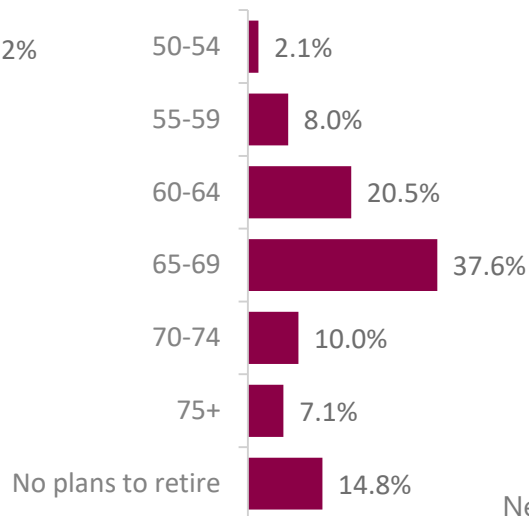
## A1 Respondent Characteristics: Retirement status and intention

A1.7. RETIREMENT STATUS

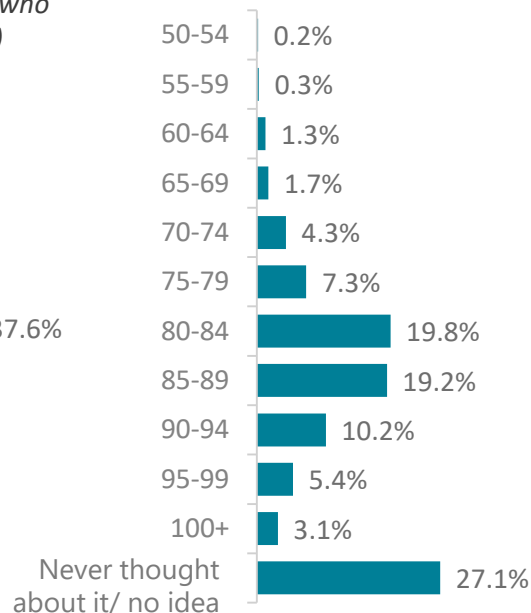


A1.8. PLANNED RETIREMENT AGE

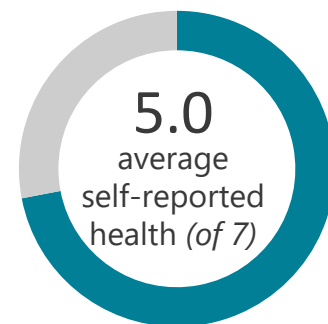
*\*Percentages based on respondents who had partly or not retired (n= 439)*



A1.9. LIFE EXPECTANCY



A1.10. SELF-REPORTED HEALTH



# 8. Appendices

## A2 Survey measures – questions and sources

*Each question begins with ‘Please indicate how much you agree or disagree with each of the following statements’, rated on a 7-point Likert scale (where 1=strongly disagree, 7=strongly agree), unless indicated otherwise.*

### **Bequest motives & desire for control of savings<sup>1</sup>**

1. I am concerned about having enough money to last through my retirement
2. It is important to me to leave behind inheritance money to family members
3. It is important to me to leave behind inheritance money to organisations that I care about
4. I think my family members have sufficient funds to take care of themselves without any inheritance from me
5. Having enough money to care for myself in retirement is more important than leaving money to my heirs
6. I like being able to control how quickly I spend my retirement money
7. I like being able to decide how to invest my retirement savings
8. I do not want to be dependent on my heirs to support me in my retirement

### **Consumer Confidence in Financial Information Search<sup>2</sup>**

1. I am confident in my ability to recognise a good financial investment.
2. I know what investments to look for to get the most return on my money.
3. I know the right questions to ask when making financial investment decisions.
4. I have the skills required to make sound financial investments.
5. I know the right sources to consult to make wise financial decisions

### **Self-assessed familiarity<sup>3</sup>**

*Please indicate your level of understanding of each of the following terms relating to retirement savings and products (1=poor; 4=average; 7=excellent)*

My understanding of \_\_\_\_\_ is:

1. Contributions
2. Fees and charges
3. Investment returns
4. Defined contributions
5. Defined benefits
6. Account based pensions
7. Lifetime annuities
8. Fixed term annuities
9. Deferred annuities
10. Comprehensive Income Products for Retirement (CIPRs)
11. Reversionary annuities
12. Longevity risk
13. Individual underwriting

### **Financial literacy<sup>4</sup>**

1. Suppose you put \$100 into a no-fee savings account with a guaranteed interest rate of 2% per year. You don’t make any further payments into this account and you don’t withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?
  - More than \$102
  - Exactly \$102 [correct]
  - Less than \$102
  - Don’t know

2. Imagine now that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy more than today, exactly the same as today, or less than today with the money in this account?

- More than today
- Exactly the same as today
- Less than today [correct]
- Don’t know

3. Do you think that the following statement is true or false? “Buying shares in a single company usually provides a safer return than buying shares in a number of different companies.”

- True
- False [correct]
- Don’t know

4. Again, please tell me whether you think the following statement is true or false: “An investment with a high return is likely to be high risk.”

- True [correct]
- False
- Don’t know

5. Suppose that by the year 2025 your income has doubled, but the prices of all of the things you buy have also doubled. In 2025, will you be able to buy more than today, exactly the same as today, or less than today with your income?

- More than today
- Exactly the same as today [correct]
- Less than today
- Don’t know

# 8. Appendices

## A2 Survey measures – questions and sources *continued*

### Emotional and rational decision making (*Lay Rationalism*)<sup>2, 5</sup>

1. When making decisions, I like to analyse financial costs and benefits and resist the influence of my feelings.
2. When choosing between two options, one of which makes me feel better and the other better serves the goal I want to achieve, I choose the one that makes me feel better.
3. When making decisions, I think about what I want to achieve rather than how I feel.
4. When choosing between two options, one of which is financially superior and the other “feels” better to me, I choose the one that is financially better.
5. When choosing between products, I rely on my gut feelings rather than on product specifications (numbers and objective descriptions).
6. When making decisions, I focus on objective facts rather than subjective feelings.

### Information source trust<sup>6</sup>

*Please indicate the trustworthiness of information on retirement issues & products provided by the following information sources:*

1. Government source (ASIC, APRA, ATO, MyGov website)
2. Financial adviser or planner
3. Superannuation fund
4. Stock broker
5. Accountant
6. TV programs
7. Websites/ digital content
8. Industry bodies and associations
9. Newspapers

### Pension/Annuity Product Knowledge<sup>7</sup>

1. I am very knowledgeable about lifetime pensions/annuities.
2. If a friend asked me about a lifetime pension/annuity, I could give him/her advice about the product.
3. I have a deep understanding of how a lifetime pension/annuity works.

### Perceived pension/annuity fairness<sup>8</sup>

1. I feel like I understand the lifetime pension/annuity market well.
2. The system behind lifetime pensions/annuities should be changed. (R)
3. I would avoid companies that sell lifetime pensions/annuities if I could. (R)
4. It is clear where the money for lifetime pension/annuity products come from.
5. It is fair that the company is allowed to keep the excess funds.
6. I feel that I would have too little control over my retirement money if I bought a lifetime pension/annuity. (R)

### Stated attributes importance measures<sup>9</sup>

*If you were considering purchasing a pension/annuity product, how would you rate each of the following features as impacting your decision? Please rate each of the following where 1=a 'negatively valued' feature, 4=a 'neutral' feature, & 7=a 'positively valued' feature.*

1. Individual underwriting
2. Ability to control investment decisions
3. Reversionary pension/annuity
4. Period certain guarantee
5. Annual increase in payments with CPI

6. Annual increase in payments above CPI (real increase in value)
7. Fixed term pension/annuity (guaranteed income for a fixed number of years)
8. Lifetime pension/annuity (guaranteed income for life)
9. Deferred pension/annuity (guaranteed income for life, to begin from a certain age)
10. Payout (bequest) at death

### Attitude towards annuities<sup>10</sup>

*Please evaluate your view on purchasing a pension/annuity according to the following attributes. (7pt semantic differential) Purchasing a lifetime pension/annuity is...*

1. 1= Harmful; 7= Beneficial
2. 1=Foolish; 7=Wise
3. 1=Unnecessary; 7=Essential
4. 1=Difficult; 7=Easy

### Behavioural intention<sup>10</sup>

*Please indicate how likely or unlikely it is that you will engage in the following behaviours: (7pt Likert)*

1. I intend to buy a lifetime pension/annuity in the future
2. I will make an effort to buy a lifetime pension/annuity in the future
3. I want to buy a lifetime pension/annuity in the future

### Notes:

(R) = reverse coded item. See Appendix 5 for details.

# 8. Appendices

## A3 Survey measures – construct testing

As each construct (topic) is measured using multiple questions, *construct testing* is necessary to ensure each question contributes adequately to the construct of interest (construct validity: Table A3.1 and A3.3) and *only* that construct (discriminant validity: Table A3.2)<sup>11</sup>. First, a factor analysis was conducted using SPSS statistical software. Construct validity is assessed through identifying and removing cross-loading factors or those with low factor values (values range from 0-1, < 0.4 is a low factor value). Construct validity was achieved for the final set of items listed in Table A3.1.

### Notes:

R-DM = rational decision making  
 E-DM = emotional decision making  
 SC = self-confidence  
 ATT = attitude  
 INT = intention  
 PK = product knowledge  
 PF = perceived fairness  
 CON = control  
 BEQ = bequest  
 \_N = question number. See Appendix 2 for complete questions.

### Factor analysis notes:

Reported = Rotated Component Matrix  
 Extraction Method = Principal Component Analysis.  
 Rotation Method = Varimax with Kaiser Normalization.

### A3.1. FACTOR ANALYSIS

Questions	SC	R-DM	ATT	INT	PK	PF	CON	E-DM	BEQ
SC_1	.86								
SC_2	.83								
SC_3	.84								
SC_4	.86								
SC_5	.79								
PK_1					.88				
PK_2					.87				
PK_3					.89				
DM_1		.74							
DM_3		.83							
DM_4		.77							
DM_6		.83							
DM_2								.83	
DM_5								.86	
PF_2						.79			
PF_3						.80			
PF_6						.79			
ATT_1			.86						
ATT_2			.88						
ATT_3			.81						
ATT_4			.63						
INT_1				.90					
INT_2				.92					
INT_3				.93					
BEQ/CON_4									.84
BEQ/CON_5									.78
BEQ/CON_6							.79		
BEQ/CON_7							.73		
BEQ/CON_8							.66		

# 8. Appendices

## A3 Survey measures – construct testing

The final items remaining after the factor analysis (Table A3.1) were then further assessed for reliability and validity. These tests were conducted using Smart-PLS statistical software. Convergent validity is achieved for majority of constructs as AVE values exceed 0.5 (Table A3.3), and reliability is achieved for majority of constructs as CA and CR both exceed 0.7<sup>11</sup>.

For the **bequest** construct, CA falls below threshold, however CR exceeds the threshold – while CA is a widely used measurement for reliability, it is also criticised for underestimating reliability<sup>12</sup>. Given that CR was achieved, we deem this construct acceptable.

The **control** construct, however, fails reliability and validity testing. This could reflect the complexity of the construct (i.e. each question covers a unique and independent consideration rather than each collectively contributing to one cohesive concept of ‘control’. One particular question (‘I am concerned about having enough money to last through my retirement’) was found to have a significant impact on outcomes, and thus was used to compare responses according to the individual’s ‘level of concern about financial security’ (see Appendices 6 & 9).

Discriminant validity was achieved for all constructs (see Table A3.2) as HTMT values all fall below <0.85<sup>12</sup>.

### A3.2. CONSTRUCT DISCRIMINANT VALIDITY (HTMT)

	E-DM	R-DM	PK	PF	ATT	BEQ	SC	CON
R-DM	0.18							
PK	0.14	0.39						
PF	0.12	0.27	0.08					
ATT	0.20	0.15	0.32	0.26				
BEQ	0.17	0.33	0.08	0.13	0.09			
SC	0.06	0.49	0.54	0.17	0.23	0.3		
CON	0.24	0.47	0.22	0.17	0.08	0.51	0.45	
INT	0.38	0.08	0.30	0.17	0.51	0.06	0.09	0.08

### A3.3. CONSTRUCT RELIABILITY AND VALIDITY

Construct	CA	CR	AVE
ATT	0.86	0.90	0.71
INT	0.97	0.98	0.95
PK	0.96	0.97	0.92
PF	0.74	0.81	0.59
E-DM	0.71	0.87	0.78
R-DM	0.87	0.91	0.70
SC	0.93	0.94	0.77
BEQ	0.60	0.83	0.72
CON	0.67	0.48	0.35

#### Notes:

R-DM = rational decision making  
 E-DM = emotional decision making  
 SC = self-confidence  
 ATT = attitude  
 INT = intention  
 PK = product knowledge  
 PF = perceived fairness  
 CON = control  
 BEQ = bequest

#### Reliability and validity notes:

AVE = Average Variance Extracted  
 CR = Composite Reliability  
 CA = Cronbach’s Alpha  
 HTMT = Heterotrait-Monotrait Ratio  
 Blue = threshold achieved  
 Red = threshold not achieved

# 8. Appendices

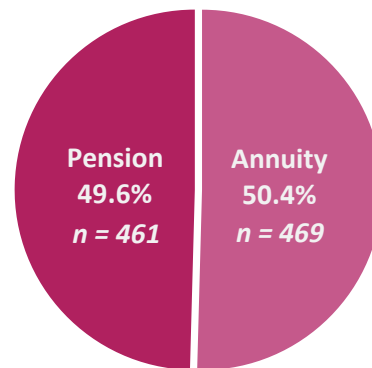
## A4 Survey versions

Two versions of the survey were evenly distributed across respondents (quotas were maintained in each survey version), and were identical except for use of the terms 'pension' and 'annuity'. This was employed to explore any biases or differences in interpretation that may arise from use of either term.

The results indicate very little significant differences across pension and annuity versions of the survey – and importantly, no significant difference for pension/annuity attitudes or intentions.

The two significant differences are listed in Table A4.2. Respondents who saw the term 'lifetime pension' reported significantly higher understanding than those who saw the term 'lifetime annuity'. In rating product features, respondents who saw the term 'fixed term annuity' rated it significantly higher than those who saw the term 'fixed term pension'.

### A4.1. SURVEY VERSION DISTRIBUTION



### A4.2. SIGNIFICANT DIFFERENCES ACROSS SURVEY VERSIONS

Construct	Question	Annuity	Pension
Retirement terms	Lifetime pensions/annuities	3.6	4.0
Features	Fixed term pension/annuity	5.0	4.8

#### Notes:

Blue shading = significantly higher value

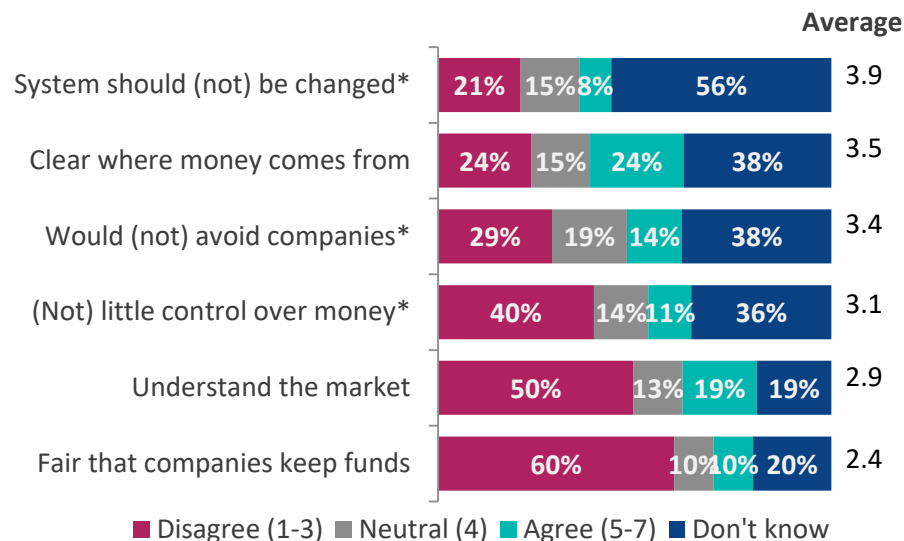
Maroon shading = significantly lower value

# 8. Appendices

## A5 Reverse-coded items

Please note the three reverse coded measures from figure 5.8 (copied in A5.1), identified with an asterisks\*. In the survey these questions were negatively worded, e.g. 'I would avoid companies selling pensions/annuities' has a negative fairness frame versus 'it is fair that companies get to keep the excess funds' has a positive fairness frame. For consistency these measures are reversed so that 'agree' (5-7) values all represent high fairness and 'disagree' (1-3) values all represent low fairness. Caution should be given to the double negative in the reverse coded questions, i.e. 'the system should (not) be changed' (21% *disagree*) should be interpreted as 21% of respondents **agree** that the system **should** be changed.

### A5.1. (COPY OF FIGURE 5.8) PERCEIVED FAIRNESS OF PENSION/ANNUITY



# 8. Appendices

## A6 Data grouping by consumer characteristics

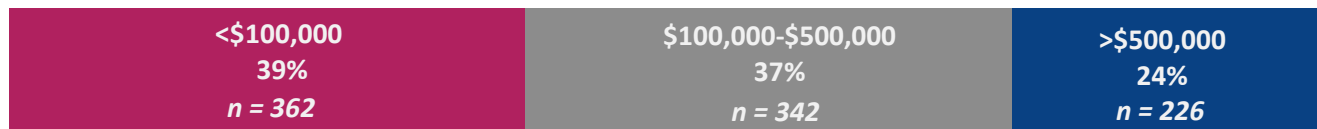
### A6.1. FINANCIAL LITERACY: GROUPS



### A6.2. CONCERNED ABOUT FINANCIAL SECURITY: GROUPS



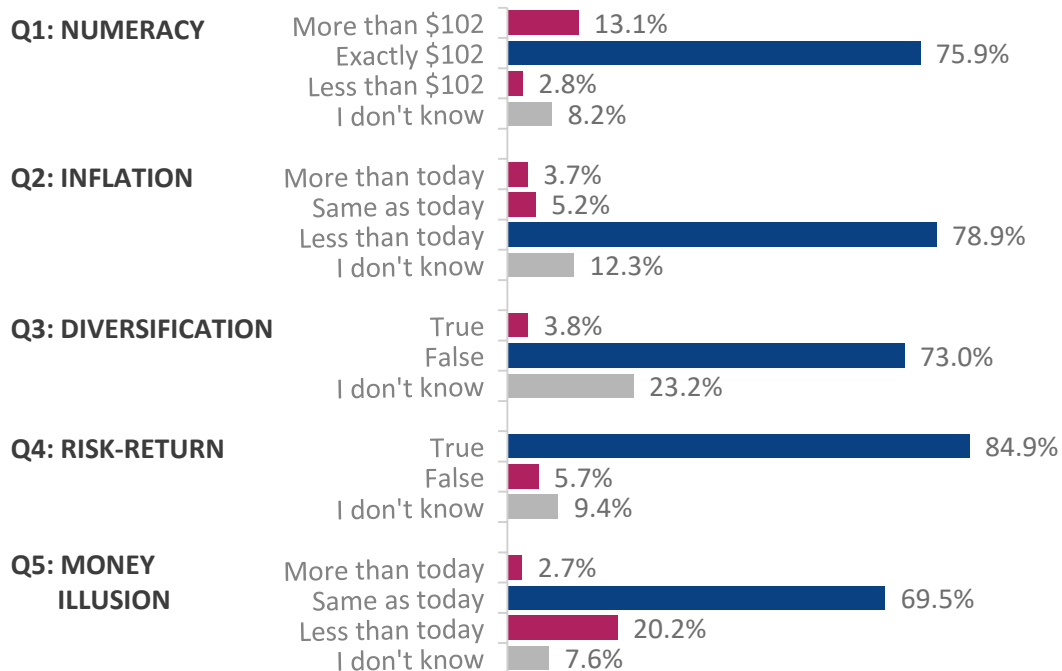
### A6.3. RETIREMENT SAVINGS: GROUPS



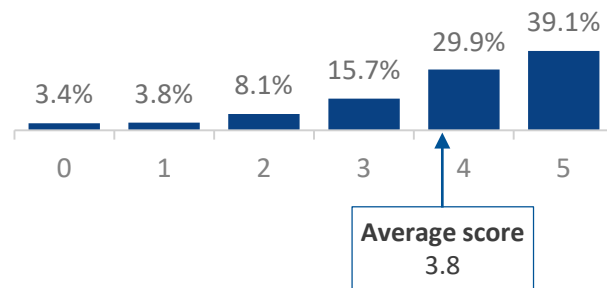
# 8. Appendices

## A7 Financial literacy results

### A7.1. FINANCIAL LITERACY: DISTRIBUTION OF RESPONSES



### A7.2. FINANCIAL LITERACY: DISTRIBUTION OF SCORE



**Notes:** See Appendix 2 for questions  
Maroon shading = incorrect answer  
Blue shading = correct answer

# 8. Appendices

## A8 Significant differences across financial literacy groups

Construct	Question	Low	High
Bequest motives & desire for control	BEQ/CON_1	5.1	4.8
	BEQ/CON_5	5.4	5.6
	BEQ/CON_6	5.3	5.8
	BEQ/CON_7	5.2	5.6
	BEQ/CON_8	6.1	6.3
Self-confidence	SC_1	4.0	4.5
	SC_2	3.8	4.4
	SC_3	4.1	4.7
	SC_4	4.0	4.6
	SC_5	4.4	5.0
Emotional/ rational decision making	R-DM_1	4.8	5.3
	E-DM_2	3.8	3.3
	R-DM_3	4.9	5.4
	R-DM_4	4.7	5.1
	E-DM_5	4.0	3.3
	R-DM_6	4.7	5.3
Perceived fairness	PF_6	3.4	2.9
Product knowledge	PK_2	2.8	3.1
Attitudes	ATT_1	4.3	4.6
	ATT_2	4.3	4.5
	ATT_4	4.0	4.3

Construct	Question	Low	High
Familiarity	Contributions	3.9	4.9
	Fees and charges	4.0	5.1
	Investment returns	3.9	5.0
	Defined contributions	3.0	3.7
	Defined benefits	3.0	3.9
	Account-based pensions	3.2	3.8
	Lifetime annuities	3.4	4.0
	Fixed term annuities	3.3	3.8
	Deferred annuities	2.7	3.2
	CIPRs	2.8	2.9
	Reversionary annuities	2.6	2.6
	Longevity risk	3.0	3.8
	Individual underwriting	2.6	2.7
	Government source	4.6	5.2
	Financial adviser or planner	4.5	4.5
Trust	Superannuation fund	4.7	4.8
	Stock broker	3.8	3.9
	Accountant	4.7	5.0
	TV programs	3.4	3.1
	Websites/ digital content	3.5	3.5
	Industry bodies	3.9	4.3
	Newspapers	3.4	3.4

Construct	Question	Low	High
Features	Ability to control investment decisions	5.4	5.7
	Period certain guarantee	4.9	5.3
	Annual inc. payments with CPI	5.3	5.7
	Annual inc. payments >CPI	5.4	5.9
	Lifetime annuity	5.4	5.7
	Payout (bequest) at death	5.3	5.6

### Notes:

R-DM = rational decision making  
 E-DM = emotional decision making  
 SC = self-confidence  
 ATT = attitude  
 INT = intention  
 PK = product knowledge  
 PF = perceived fairness  
 CON = control  
 BEQ = bequest

\_N = question number. See A2 for questions.  
 Blue shading = significantly higher value  
 Maroon shading = significantly lower value  
 No shading = no significant difference between values

# 8. Appendices

## A9 Significant differences across 'concern about financial security' groups

Construct	Question	Not concerned	Concerned
Self-confidence	SC_1	4.9	4.1
	SC_2	4.7	4.0
	SC_3	5.0	4.3
	SC_4	5.0	4.2
	SC_5	5.4	4.6
Product knowledge	PK_1	3.7	3.0
	PK_2	3.6	2.8
	PK_3	3.8	3.2
Perceived fairness	PF_4	4.3	3.8
	PF_6	2.7	3.2
Attitudes	ATT_3	3.9	4.2
Intentions	INT_1	1.8	2.5
	INT_2	1.8	2.5
	INT_3	1.8	2.6

Construct	Question	Not concerned	Concerned
Familiarity	Contributions	4.9	4.5
	Fees and charges	5.2	4.6
	Investment returns	5.0	4.5
	Defined contributions	3.7	3.4
	Defined benefits	4.0	3.5
	Lifetime annuities	4.2	3.7
	Features	6.0	5.7
Bequest & control	BEQ/CON_4	5.0	4.6
Trust	TV programs	3.0	3.3

### Notes:

R-DM = rational decision making  
 E-DM = emotional decision making  
 SC = self-confidence  
 ATT = attitude  
 INT = intention  
 PK = product knowledge  
 PF = perceived fairness  
 CON = control  
 BEQ = bequest  
 \_N = question number. See Appendix 2 for complete questions.  
 Blue shading = significantly higher value  
 Maroon shading = significantly lower value

# 8. Appendices

## A10 Significant differences across retirement savings groups

Construct	Question	<\$100K	\$100-\$500K	>\$500K
Bequest motives & desire for control	BEQ/CON_1	5.5	4.8	3.9
	BEQ/CON_5	5.4	5.6	5.8
	BEQ/CON_6	5.3	5.6	6.0
	BEQ/CON_7	5.1	5.7	6.0
	BEQ/CON_8	6.1	6.3	6.5
Self-confidence	SC_1	3.8	4.5	5.1
	SC_2	3.6	4.2	5.1
	SC_3	4.0	4.7	5.3
	SC_4	3.9	4.5	5.1
	SC_5	4.1	5.0	5.6
Product knowledge	PK_1	2.4	2.9	3.6
	PK_2	2.2	2.8	3.2
	PK_3	2.5	3.1	3.6

Construct	Question	<\$100K	\$100-\$500K	>\$500K
Emotional/ rational decision making	R-DM_1	4.8	5.2	5.6
	E-DM_2	3.6	3.5	3.1
	R-DM_3	5.0	5.4	5.6
	R-DM_4	4.7	5.1	5.3
	E-DM_5	3.8	3.5	3.2
	R-DM_6	4.8	5.2	5.5
Perceived fairness	PF_1	2.5	3.0	3.5
	PF_4	3.5	3.9	4.4
Attitudes	ATT_4	4.1	4.3	4.4
Intentions	INT_1	2.1	2.5	2.2
	INT_2	2.1	2.6	2.2
	INT_3	2.2	2.6	2.2

### Notes:

R-DM = rational decision making

E-DM = emotional decision making

SC = self-confidence

ATT = attitude

INT = intention

PK = product knowledge

PF = perceived fairness

CON = control

BEQ = bequest

\_N = question number. See Appendix 2 for complete questions.

Blue shading = significantly higher value  
(dark blue shading signifies significant differences across all 3 groups)

Maroon shading = significantly lower value

No shading = no significant difference between values

# 8. Appendices

## A10 Significant differences across retirement savings groups *continued*

Construct	Question	<\$100K	\$100-\$500K	>\$500K
Familiarity	Contributions	4.0	4.8	5.4
	Fees and charges	4.2	4.9	5.5
	Investment returns	3.9	4.8	5.5
	Defined contributions	2.8	3.6	4.3
	Defined benefits	3.0	3.7	4.7
	Account-based pensions	2.9	3.6	4.5
	Lifetime annuities	3.3	4.0	4.5
	Fixed term annuities	3.2	3.8	4.3
	Deferred annuities	2.7	3.2	3.6
	CIPRs	2.5	3.0	3.2
	Reversionary annuities	2.3	2.6	3.0
	Longevity risk	3.0	3.6	4.4
	Individual underwriting	2.4	2.7	3.0
Trust	Government source	4.7	5.1	5.4
	Financial adviser	4.2	4.6	4.9
	Superannuation fund	4.5	4.9	5.1
	Stock broker	3.6	3.9	4.2
	Accountant	4.6	5.0	5.3
	Industry bodies	3.9	4.2	4.5

Construct	Question	<\$100K	\$100-\$500K	>\$500K
Features	Individual underwriting	4.2	4.5	4.6
	Ability to control investment decisions	5.4	5.6	5.8
	Reversionary annuity	4.4	4.3	4.7
	Period certain guarantee	5.0	5.3	5.4
	Annual increase in payments with CPI	5.4	5.7	5.9
	Annual increase in payments above CPI	5.6	5.8	6.0

### Notes:

Blue shading = significantly higher value  
 (dark blue shading signifies significant differences across all 3 groups)  
 Maroon shading = significantly lower value  
 No shading = no significant difference between values

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