

Preferred Sources of Financial Information and Communications for Superannuation Decisions

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The purpose of this study was to evaluate the importance placed by superannuation fund members on various types of financial information and communications on their educational requirements for saving for retirement. Through a web-based survey of university superannuation defined contribution members, five sources of information were investigated to determine the importance placed on non-superannuation fund educational sources. These sources are radio and television, financial newspapers and magazines, friends and colleagues and financial planners or advisers. It was found that many respondents place importance on these information sources and that friends and colleagues were rated as the most important source followed by newspaper publications, personal financial planner/adviser, financial magazines, and radio and television. Some important findings were that females, the less educated and those having a lower awareness of investment and investment and finance matters were more likely to find the financial planner/adviser and friend and colleagues more important to their superannuation decisions. Males, the more highly educated, and those with greater knowledge in investment and finance matters were more likely to find newspaper publications and financial magazines more important to their superannuation decisions.

JEL Codes: D03, D14 and I22

1. Introduction

Economic theory assumes that individuals will exhibit rational behaviour when it comes to saving for retirement (Modigliani & Brumberg 1954). This economic (life-cycle) theory assumes that individuals will accumulate sufficient wealth to allow them to enjoy an expected standard of living in retirement. However, behavioural research evidence suggests that many individuals will exhibit irrational behaviour when it comes to saving for their retirement and will fail to plan and save adequately for it (Belsky & Gilovich 2000). It is suggested that individuals generally lack the mental capability and willpower required to plan and save for retirement (Mullainathan & Thaler 2000). This is reinforced by a recent survey (AXA 2008) on retirement that found that almost 50 percent of Australians were not prepared for their retirement. Therefore, assessing and improving the level of financial literacy among Australian workers who are choosing to make investment decisions for their superannuation have emerged as important issues.

The OECD (2006) emphasises the importance of financial literacy in assisting individuals to save adequately for their retirement income. Research indicates that as an individual's financial knowledge increases so will their ability to better plan and save for their retirement (Lusardi 2005). Surveys conducted by the Australian and the New Zealand Banking Corporation (ANZ A.C.Neilson 2005; ANZ 2008) and

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Mercer (2006) found that a significant number of Australians had a low awareness of superannuation issues.

The federal government and Australia's major banks have all emphasised the importance of consumer financial literacy. In 2003 the Australian government established a national consumer and financial literacy 'Taskforce' to develop a national strategy to raise levels of financial literacy in Australia. As part of its terms of reference, the Taskforce was asked to consider the issues of "enhancing awareness of the importance of saving and better communicating the need for a focus on retirement savings" and to consider "the availability of financial information and education to maximise superannuation and retirement savings" (The Treasury 2003). An OECD report (OECD 2005) on improving financial literacy emphasised the need for and potential benefits of financial education for retirement savings, while an ANZ A.C. Nielsen survey (2005, p. 3) indicated that "a minority of those surveyed had calculated how much they needed to save for retirement".

Some studies have shown that financially educated consumers are more likely to save and to save more than their less financially literate counterparts (Bayer, Bernheim & Scholz 1996; Clark & Schieber 1998; Lusardi 2005; Clark et al. 2006). An OECD July policy brief (OECD 2006) further supports the notion that financially educated individuals are more likely to save and, furthermore, to challenge financial service providers to provide products that meet their investment needs. The OECD report identifies the complexity of financial products and markets as factors making financial education increasingly important. Another OECD report (2008, p. 119) states that:

Financial education can contribute to the well-being of workers in retirement by providing them with information and skills to make wise investment choices with both their pension plans and any individual savings plans.

The remainder of this paper proceeds as follows: Section 2 and 3 contain the research objectives and significance, and research methodology. The relevant literature is outlined in section 4; major findings are presented in section 5. In section 6, the implications and conclusions are discussed.

2. Research Objectives and Significance

The objectives in this research are to determine the importance placed by superannuation fund members on other non-superannuation fund provided sources of educational information. Moreover, the research will examine whether any significant differences exist between groups in respect of the importance they place on non-superannuation fund provided educational resources.

This study contributes significantly to knowledge, as there is a gap in the research evaluating the adequacy and effectiveness of financial information and education for superannuation saving in an Australian context. The majority of research in Australia has been largely confined to surveys seeking to identify levels of financial and superannuation literacy (ANZ A.C.Neilson 2005; ANZ 2008). Other Australian research has been driven more by why investors fail to make active superannuation choices, why they find these choices difficult, the role of a default fund option (Clark-Murphy, Kristoferson & Gerrans 2002; Brown, Gallery & Gallery 2002; Gallery,

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Gallery & Brown 2004), and the extent to which superannuation fund provided educational resources were used to make a decision on whether or not to switch from a defined benefit fund to a defined contribution fund and the importance these resources played in this decision (Clark-Murphy & Gerrans 2001). This study assesses the importance placed on other non-superannuation provided resources (not just other persons) and measures the importance placed by superannuation fund members on friends and colleagues, financial newspapers, financial magazines, investment advice, and radio and television.

This study extends previous research in Australia by determining whether non superannuation fund provided information and education is considered important to meet the needs of individuals exercising investment choice so that they can make appropriate financial decisions for their retirement funding. The importance of this matter is reinforced by an OECD report (OECD 2005) titled: 'Improving Financial Literacy' where it is stated that "there is much more to do and learn about financial education programmes and how to make them better" (p. 16).

3. Literature Review

Surveys indicate a low level of adult financial literacy in Australia (ANZ 2008; Mercer 2006). It is suggested that those with more financial knowledge are more likely to plan for retirement (Lusardi & Mitchell 2006). Inertia and procrastination in decision making appear to be behavioural influences that inhibit the retirement savings behaviour of individuals (Madrian & Shea 2001; Choi et al. 2002; Gallery & Gallery 2005). Other behavioural influences such as heuristics, decision framing and loss aversion were also identified as behavioural influences that can potentially inhibit rational decision making.

A theoretical framework for superannuation fund investment choice depicts informed investor choice as a prerequisite to maximising retirement income (Brown, Gallery & Gallery 2002). The framework also recommends education programs as a policy resolution for those superannuation fund members prepared to actively engage in decisions regarding their retirement savings. It is shown that different types of financial education programs do change retirement savings behaviour (Bayer, Bernheim & Scholz 1996; Clark & Schieber 1998; Lusardi 2005; Clark et al. 2006).

Research indicates that employers and fund managers use educational resources such as seminars and workshops, written communication, websites and financial counselling to educate employees about retirement saving (Bernheim 1998; Ernst & Young LLP Human Capital 2004; Krajnak, Burns & Natchek 2008). It has also been shown that these educational resources can influence an individual's retirement saving intentions and behaviour (Clark & Schieber 1998; Lusardi 2003; Muller 2003; Nyce 2005). Studies by Rhine and Toussaint-Comeau (2002) and Hilgert, Hogarth and Beverly (2003) researched on how individuals have a preference for receiving information on financial issues. Rhine and Toussaint-Comeau (2002) found that individuals prefer their information through magazines, and newspapers. Hilgert, Hogarth & Beverly (2003) found a preference for television, radio, magazines and newspapers. It was also found that individuals rely on financial advice from friends and colleagues for making retirement saving decisions (as found by Benartzi & Thaler 1999; Duflo & Saez 2002). Clark-Murphy and Gerrans (2001) also found that a substantial number of superannuation fund members relied on work colleagues

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and family and friends on making a decision on a matter relating to their retirement fund.

A research model for superannuation education developed by Ntalianis (2011) (refer figure 1) is an extension of a theoretical framework which suggests that superannuation member education leads to more rationality in investment decision making. The evaluation is based on the financial education guidelines provided by the OECD (2005) that suggest that financial education is a process by which financial consumers improve their understanding of financial matters through information, instruction and/or objective advice. The research literature indicates that financial education impacts on how individuals plan and save for retirement. The educational seminar, financial counselling, website information and written communication are identified in the literature as educational resources that changed individual retirement savings behaviour. In addition, the model identifies other non-superannuation fund provided sources of educational information as part of this education model. This includes information from friends and colleagues, financial newspapers, financial magazines, advisers and radio and television. The evaluation provided by superannuation fund members of these educational resources will determine whether superannuation fund members feel they are being informed on superannuation fund matters.

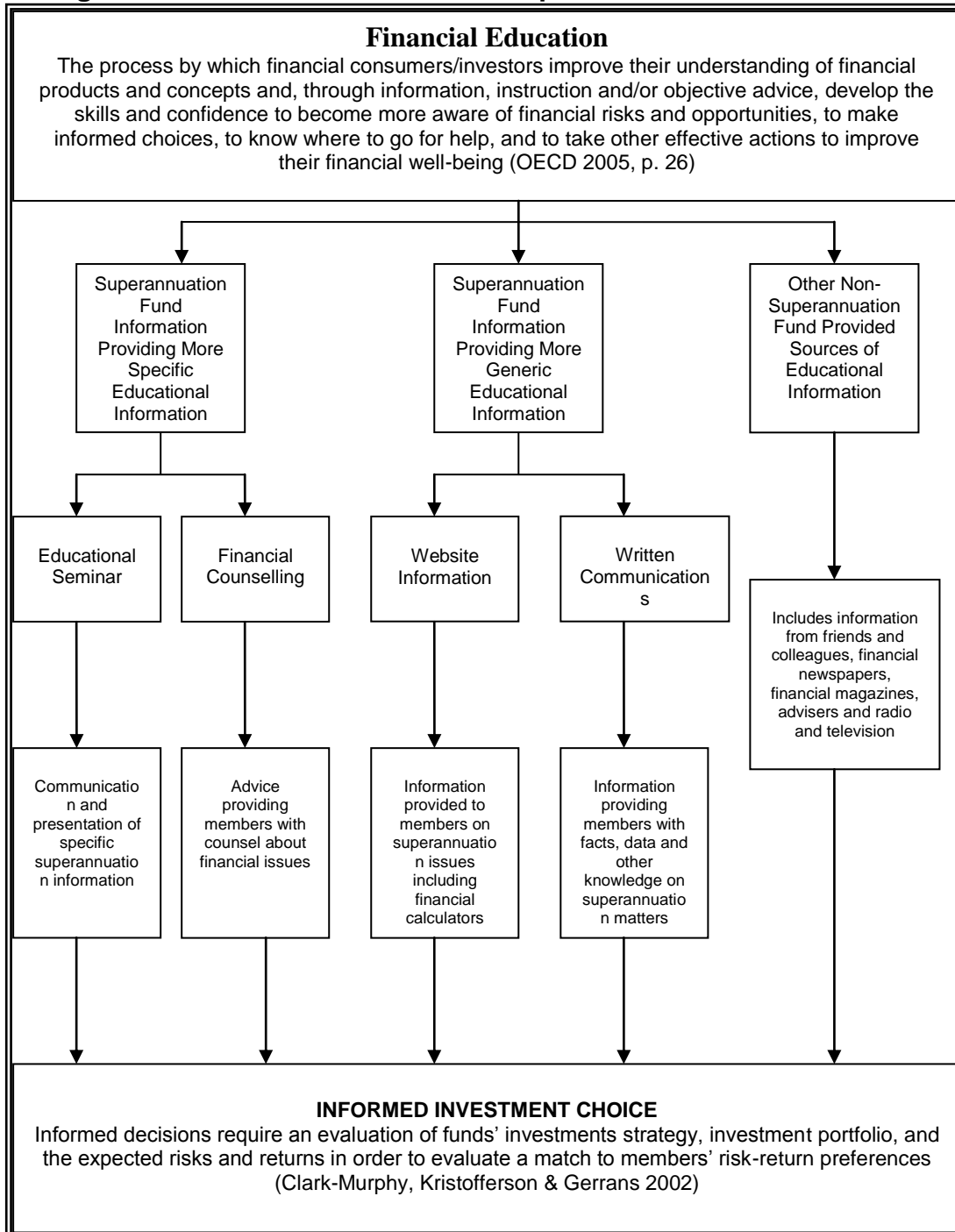
4. Methodology

This study examines the attitudes of superannuation defined contribution fund members about the educational resources provided to them by their superannuation fund. A survey approach was adopted to obtain the data necessary to address the research questions. The survey approach to research is regarded as the best method for gathering data from large unobservable populations (Babbie 2008). Because of the geographical dispersion of the sample an electronically mailed questionnaire (web-based survey) was used to ascertain members' perceptions of the benefit of educational information in enabling them to make informed decisions regarding their superannuation. The decision to use an electronic questionnaire was made after consideration of both the advantages and disadvantages of different survey types. This decision process was guided by the Trochim (2006) framework.

The sample was drawn from an Australia-wide university sector and was specifically targeted to those superannuation fund members who had a defined contribution fund. The sample comprised 6000 staff from 27 Australian universities. Particular effort was made to ensure that these universities represented various geographical locations across Australia. More specifically, steps were taken to ensure that rural and city-based university campuses were included in the sample: this ensured geographical diversification. Systematically, different departments and faculties within each university were chosen to obtain a mix of academic and non-academic university staff in the sample. Defined contribution fund members were chosen as they actively participate in the investment decision making process by nominating where their funds will be invested from a list of available investment options. Intensity scales were used to determine the importance respondents placed on educational information. In addition, respondents were asked to provide demographic and background information. They were also asked to estimate their superannuation account balance.

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Figure 1: The Research Model for Superannuation Education



Source: Ntalianis (2011, p. 244)

5. Major Findings

The response rate to the survey was 30.1 percent. The responses to the demographic questions on gender, age and education were representative of the university sector. It was also revealed that the respondents' attitude to risk and knowledge in financial matters generally aligned to findings in other studies surveying members of the university sector superannuation fund. The respondent superannuation account balances were broadly representative of a range of values in the different categories.

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5.1 Importance Placed on Non-Superannuation Fund Educational Resources

The initial research question relates to the importance placed by superannuation fund members on non-superannuation fund sources of educational information. Five sources of information were investigated: newspaper publications; financial magazines; radio and television; personal financial adviser or planner; and friends and colleagues. The respondents were asked to rate, on a five-point scale, the importance of each source to their superannuation educational needs. Respondents rated information from friends and colleagues as the most important resource for their educational needs followed by newspaper publications, personal financial adviser or planner, financial magazines, and radio and television. Clark-Murphy and Gerrans (2001) also found that a large percentage (49 percent) of the respondents to their study consulted with colleagues when making a superannuation decision; and, Duflo and Saez (2002) confirmed that respondents placed high importance on advice from their colleagues when it came to decisions on retirement savings. Hilgert, Hogarth and Beverly (2003) found evidence that US households prefer to receive financial information through newspaper publications. This research evidence suggests that individuals utilise other non-superannuation fund information sources and that they also place importance on this information for their superannuation educational requirements. Accordingly, its inclusion in the superannuation education model is justified as it provides another avenue for superannuation fund members to become informed on superannuation matters.

5.2 Group Differences in Respect of the Importance Placed on Non-Superannuation Fund Educational Resources

Chi-square tests of independence were conducted to determine whether the demographic and background group categories were statistically significant when it came to the importance placed on other non-superannuation fund educational resources. It was found that males were more likely to place greater importance on newspaper publications for their superannuation education than females; and those with postgraduate or undergraduate qualifications placed more importance on newspaper publications for their superannuation education than those with no undergraduate qualification. Those with moderate or substantial knowledge in investment matters were more likely to place higher importance on newspaper publications than respondents with little or no knowledge in these matters; and, those with an aggressive attitude to investment risk were more likely to place more importance on newspaper publications for their superannuation education than those with a neutral or a conservative attitude to investment risk. Respondents with higher superannuation account balances were also likely to place more importance on newspaper publications for their superannuation education than those with lower balances.

Statistical testing indicated that males were more likely to place more importance on financial magazines for their superannuation education than females; and, those with postgraduate qualifications were less likely to place importance on financial magazines for the superannuation education than those with undergraduate qualifications. Further, those with an employment history in investment and finance were more likely to find financial magazines important for their superannuation education than those without such employment history; and, those with educational training in finance and investment were more likely to find financial magazines

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important for their superannuation education than those without this education. It was also found that those with moderate or substantial knowledge in investment matters were more likely to find financial magazines important for their superannuation education than those with little or no knowledge in these matters; and, non-academics were also likely to find financial magazines more important than academics. Respondents that did not know their superannuation account balance were less likely to find financial magazines important for their superannuation education than those who knew their account balance. Only one statistically significant result was obtained for importance placed by respondents on radio and television. It was found that both those with a conservative and those with an aggressive attitude to investment risk were more likely to find radio and television more important to their superannuation education than those with a neutral attitude.

In respect of the financial adviser/planner it was found that females were more likely to find the financial adviser/planner more important for their superannuation education than males; and, those with an undergraduate or no undergraduate qualification were more likely to find the financial adviser/planner important for their superannuation education than those with a postgraduate qualification. It was found that those without any educational training in investment and finance were more likely to find the financial adviser/planner important for their superannuation education than those with educational training; and, those with little or no knowledge in finance and investment matters were more likely to find financial adviser/planner important for their superannuation education than those with moderate or substantial knowledge. Also, non-academics were likely to find the financial adviser/planner more important for their superannuation education than academics; and, those with the highest superannuation account balances were likely to find the financial adviser/planner more important for their superannuation education than those with lower account balances.

Further testing indicated that those without any educational training in finance and investment were likely to find friends and colleagues more important for their superannuation education than those with such training; and, those with little or no knowledge in finance and investment matters were likely to find friends and colleagues more important for their superannuation education than those with moderate or substantial knowledge. Those respondents with the lowest superannuation account balances were more likely to find friends and colleagues important for their superannuation education when compared to those with higher account balances.

6. Implications and Conclusions

This paper dealt with other non-superannuation fund provided sources of information. It appears from the results to these questions that non-superannuation fund sources of information also play an important role in informing superannuation fund members on investment issues. Therefore, new evidence has been presented that determines the importance placed by defined contribution fund members on non-superannuation fund sources of superannuation education. Furthermore, chi-square tests of independence indicated that some significant relationships exist between the demographic and background characteristics of respondents against the importance they placed on other non-superannuation fund educational resources for their superannuation information requirements. The superannuation account

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balance, perceived knowledge in investment matters, educational training in finance and investment, and the level of qualification produced the most significant results when it came to the level of importance placed on this non-superannuation fund provided information.

This study does however contain some limitations. The purposive sample chosen in this study is not considered to be random and was selected from the researcher's judgement as a representation of a population. However, a carefully chosen purposive sample can be deemed to represent a population and, therefore, the results obtained from the study can be generalised. Purposive sampling was utilised in this study because generating a purely random sample was not possible. Furthermore, the results were obtained within the context of superannuation fund members in a university industry fund and validity to members of other types of superannuation funds remains to be tested in future research.

Acknowledgement

I wish to thank Associate Professor Victoria Wise for her helpful comments on earlier drafts of this paper.

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