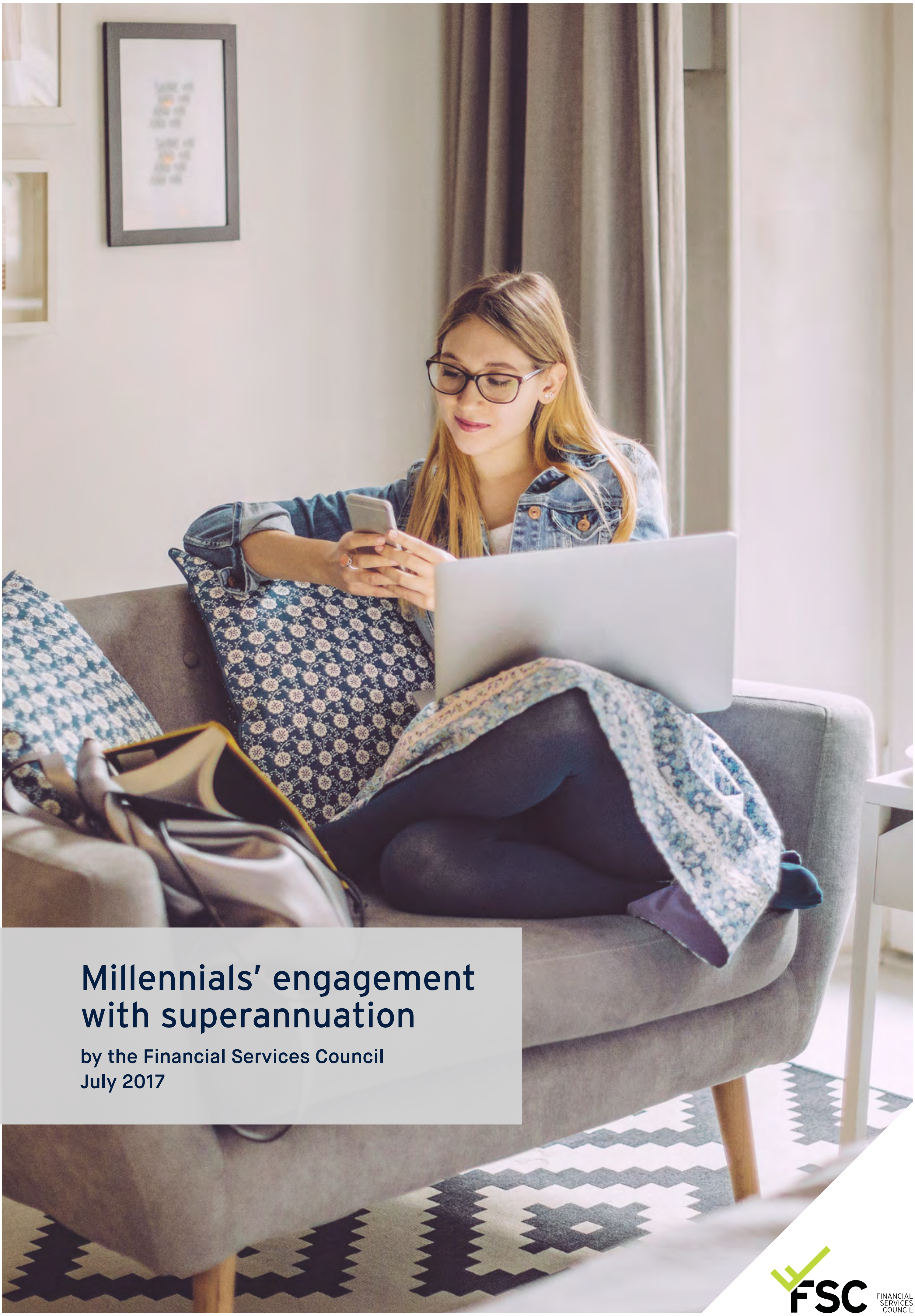

Millennials' engagement with superannuation

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Foreword

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Millennials are now the world's number one source of income, spending and wealth creation. But aside from some popular stereotypes about smashed avocados and short attention spans, how well do we know them? And are our services up to scratch for this enormous (and enormously crucial) demographic?

The most powerful forces driving the inevitable change to financial services – and superannuation in particular - are coming from the generation that has recently entered the workforce.

This generation has grown up never knowing life without the internet or the mobile phone. The 25 year old millennial today was born in the same year compulsory super began – 1992.

We asked Deloitte Access Economics to look more closely at the 18-34 year olds – who in just eight years' time will comprise two-thirds of the workforce – to understand what we need to do to get them interested in their retirement and in superannuation.

Survey after survey has found that millennials are uninterested and unengaged with their superannuation.

The economic ramifications of chronic disengagement are dire. Disengagement by millennials with their superannuation could mean the super system will not be able to meet the individual's retirement income needs, and shift part of that burden to the government through greater use of the age pension.

In other words, the more we allow – and indeed condone – apathy and disengagement, the worse off young people will be at the end of their working life, and so will we, the taxpayer.

The idea that 18-34 year olds are uninterested and ill-equipped to handle their retirement savings journey is not based on fact. Locked out of the housing market, experiencing record low wage growth and experiencing low interest rates on any bank savings they have, this generation understands all too well the importance of money and growing wealth over the long term.

Millennials engage very quickly when financial services and products are provided to them on the right platform – their smartphone – and are easy and simple to use.

As start-up superannuation fund Zuper's co-founder, Jon Holloway told the researchers, millennials have been brought up in the digital age where they are used to convenience at their fingertips and they expect the same convenience with their super funds. They benchmark their superannuation service not against other super funds, or even other financial services they use, but against Uber.

As the research shows, this demographic demands better products, sophisticated digital platforms, and transparency. They also want their money to be making a positive difference in the world.

Getting millennials interested in super will lead to greater financial competencies and more effective financial decision-making; consumers better able to choose a super fund suited to their personal circumstances; reduction of lost and multiple accounts; and a cohort better able to self-fund their retirements.

In other words, a generation better able to take care of themselves through every stage of their lives.

Introduction

Who are millennials?

- Millennials are defined to be individuals between the age of 18 and 34 in 2017.
- Around 6.2 million millennials in Australia.[1]
- Nearly 70% of individuals aged 34 and below have at least one superannuation account.[2]

The superannuation system contains a significant share of Australian households' assets. The purpose of the superannuation system is to deliver incomes to individuals in retirement, and it is typically paid more attention to by those at or close to retirement age. However, it is just as important for individuals that are still in the early stages of their career. The investment decisions that they make early on can have an impact on the funds they will have available upon their retirement. In other words, it could make a significant difference to the lifestyle that they are able to enjoy later in life.

The Productivity Commission (2017) draft report on *Superannuation: Alternative Default Models* noted that most risks within the Australian superannuation system is borne by individuals, in particular, the risk of not having sufficient benefits in retirement. At the same time, it noted that "the superannuation system hasn't always afforded or encouraged individual decision making." In part, some 'well-intentioned paternalism' by Australian policymakers has led to

1. Australian Bureau of Statistics (ABS) Cat 3101.0 – Australian Demographic Statistics, Sep 2016.
2. ABS Cat 6523.0 – Household Income and Wealth, Australia, 2013-14.

the design of the current arrangements for allocating default superannuation members to products.

The superannuation industry has generally considered that there is an ongoing need for 'default arrangements', mainly due to four inter-related factors (Productivity Commission, 2017):

- The compulsory nature of superannuation.
- The level of employee/member disengagement (especially for young members).
- The complexity and costs associated with members making decisions.
- The inability of some members to make good decisions due to a lack of financial literacy or the influence of various behavioural or cognitive biases.

The Productivity Commission (2017) was especially concerned that younger people showed little interest in their superannuation and were particularly vulnerable to making poor decisions, particularly given that many individuals are first prompted to choose a superannuation product when they are under the age of 18.

This disengagement by millennials with their superannuation raises concerns for the individual themselves and also for public policy more broadly. Against this background, encouraging greater engagement by this group may lead to greater overall financial competence and more effective financial decision-making. Improving their ability to make good financial decisions, and empowering them to actually do so, can make the difference between an individual being able to fund their desired lifestyle in retirement and them needing to access the age pension.

This research paper focuses on the interaction between millennials and their superannuation fund. To understand this dynamic we consider their attitudes to retirement planning, as well as financial literacy more broadly. The first section of this paper summarises some of the key pieces of evidence that indicate millennials are disengaged with their superannuation. The second section explores some of the potential drivers of this disengagement, including individuals' behavioural biases and millennials' relatively poor financial knowledge. The third section discusses some of the general benefits if millennials were more engaged with their superannuation. The final section outlines some suggestions for the superannuation industry to improve the engagement of millennials.

01

Millenials are disengaged

Key points

- Younger people were three times less interested in their personal superannuation affairs compared to older people.
- Retirement is a distant thought for millennials, only 8% were able to identify an amount of money they needed for retirement.
- The majority of young adults do not check their superannuation accounts frequently or change investment options, with only one third reading their periodic statements.

There has been a wide range of research conducted over the years which has offered some evidence to indicate that millennials are disengaged with superannuation.

A report prepared for the Australian Taxation Office by Colmar Brunton (2010) sought to better understand individuals' attitudes and values towards superannuation in the wake of the global financial crisis, which had a significant impact on superannuation balances and the wealth of many Australians. This report found that younger people were three times less interested in their personal superannuation affairs compared to older people; nearly one-fifth (17%) of individuals aged between 18 and 29 were interested in their personal superannuation affairs, compared to around three-fifths (58%) of those individuals aged 45 years or older.

The Centre for International Finance and Regulation (CIFR) published a report on *Superannuation Knowledge, Behaviour and Attitudes in Young Adults in Australia* (Ali et al., 2014) which presented evidence of serious deficiencies in the superannuation knowledge, behaviours and attitudes of individuals between 25 and 34 years. As an illustration, more than half of those young adults surveyed failed the nine questions on superannuation and financial literacy. The ANZ Survey of *Adult Financial Literacy of Australia* (ANZ, 2015) also noted that some of the lowest scores on 'financial knowledge and numeracy' were found amongst young adults aged 18-24 years. More specifically, a survey conducted by REST Industry Super (2013) found that nearly half (46%) of Australian Gen Y's "[cannot] correctly explain superannuation or admitted they didn't know what it is."

The CIFR report also found that young adults "are unengaged by and uninterested in superannuation or retirement planning". The majority of young adults do not check their superannuation accounts regularly nor do they change their investment options; only one-third of all young adults read their periodic superannuation fund statements. At the same time only one-third of this group thought that they paid an adequate amount of attention to superannuation matters. The report described the attitude of young people towards superannuation as "worried and sceptical".

In line with the findings of the CIFR report, the ANZ survey also found that younger superannuation fund members were less engaged with superannuation fund statements. The proportion of young people aged between 18 and 24 that read their superannuation fund statement was 39%, nearly half of the average (68%). At the same time, ASIC (2016a) found that people aged under 35 years were less likely than those aged over 35 to report that they knew the balance of their main superannuation fund.

More broadly, the CIFR report noted that only a small number of young people planned for retirement, and that most regarded superannuation as a relatively low priority at this stage of their lives. The majority (93.5%) of young people surveyed had made no retirement plans at all, and nearly half of the young people surveyed had 'not given it any thought at all'. Along these lines, the ANZ survey found that only 8% of superannuation fund members aged between 18 and 24 were able to identify an amount that they needed to live on in retirement, compared to 28% of superannuation fund members aged under 65. It is unsurprising that individuals closer to retirement age are more likely to pay attention to retirement planning; 54% of fund members aged between 55 and 64 were able to identify a target income for retirement.

The ANZ survey results also revealed that use of financial planners among young people was also below average. It also found that there was some degree of disengagement amongst 18-24 year olds with other traditional sources of financial information, e.g. financial sections of newspapers and magazines, and internet finance sites. The survey found that use of financial sections of newspapers and magazines among 18 to 24 year olds declined from 32% in 2011 to 25% in 2014. This group also recorded a decrease in their use of internet finance sites, from 40% to 29% over the same time period. These changes suggest that individuals in this group may be relatively unengaged with financial affairs more broadly.

Millennials are uninterested and unengaged with their superannuation. More broadly, younger people are generally less interested and engaged in their financial affairs. These conclusions are supported by a recent study (Anderson, et al., 2017), which found that 25-34 year old Australians "are generally uninterested in their superannuation accounts. They seldom read the information provided by their funds, rarely change their fund, and a majority of them do not make voluntary contributions. Overall the results suggest significant lack of interest in, and engagement and concern with issues related to their retirement planning."

02

Millennials are more focused on near-term goals, do not understand superannuation, and are less likely to trust the industry

Key points

- Millennials place a higher value on near-term goals, such as buying a house.
- Millennials were more likely to have difficulty understanding financial matters.
- Millennials were uncertain about the superannuation system, and less than a quarter of young people had trust in the superannuation industry.

Millennials generally have lower superannuation account balances than other pre-retirement cohorts (i.e. those still in the 'wealth accumulation' phase), and they may think that 'they don't have enough in superannuation to bother paying attention'.[3] Younger individuals will always be less wealthy than older individuals, and so it may not be reasonable to expect that they will ever be as engaged with their superannuation. However, this does not mean that they cannot be more engaged than they currently are.

Behavioural biases

People do not always behave rationally and make choices that serve their best interests. The rational person may be subject to certain behavioural biases. These behavioural biases may explain, in part, people's engagement with their superannuation and financial affairs. The Productivity Commission's report on How to Assess the Competitiveness and Efficiency of the Superannuation System (2016) noted that:

"[C]ognitive constraints and behavioural biases may impede member engagement and optimal decision making. For example, lack of financial literacy, myopia, complexity of long-term decision making, loss aversion, reliance on mental shortcuts, a tendency to procrastinate and general apathy."

3. Similarly, 'not having enough money' was cited as the main reason why individuals do not participate in investing (Deloitte Access Economics, 2017).

While these constraints and biases afflict people of all ages, some of these may be particularly prominent among younger people. This may be the case for: (i) hyperbolic discounting; (ii) bounded rationality; and (iii) inertia.

People tend to over-value their satisfaction today, relative to their satisfaction in the distant future (Benartzi et al., 2007). This is known as hyperbolic discounting. Individuals which are prone to this are referred to as being "present-biased". Given that young people are further out from their retirement, their effective discount rate is much higher.
A research report commissioned by CHOICE (2016) and supported by Financial Literacy Australia, *Project Superpower: Informing a strategy to engage people with their superannuation*, found that young adults who identified as being unengaged with their superannuation cited that superannuation being "[too] distant to worry about" was one of the three key reasons for their lack of engagement. The two other reasons identified by the research was that young people considered that super was "problem too hard to solve" and that "[unengaged young adults] were completely unaware of what super was".

More broadly, the ASX Australian Investor Study 2017 (Deloitte Access Economics, 2017) found that millennials were more short-term focused with regards to their financial goals. For example, the top three financial goals for millennial investors were accumulating wealth, saving for a home deposit and saving for travel compared to the top three financial goals for older investors of planning for retirement, supplementing current or future income and accumulating wealth.

In addition to this bias towards the near-term, as noted above, CHOICE (2016) found that disengaged young people thought superannuation was a "problem too hard to solve". This could suggest that young people may not be able to access to the information needed to 'solve the problem', that they lack the cognitive ability to be able to process the information, or they lack the necessary time to devote to it. This is referred to as the theory of bounded rationality, that is, individuals may not make economic decisions that maximise their benefits because they are bound by cognitive limits. Superannuation involves comparing many different choices of funds, which can be overwhelming (The Australia Institute Industry Super Network, 2008). It is conceivable that millennials are restricted from further engagement with superannuation, particularly decision-making, by a lack of information, knowledge, or time. The barrier of inadequate financial knowledge, which may be more applicable to young people, is discussed in the section below.

Millennials may also be subject to status quo bias (i.e. inertia). This is the tendency to prefer maintaining the current state of affairs, which prevents them from taking corrective actions to improve their circumstances (Benartzi et al., 2007). The Australia Institute Industry Super Network (2008), noted that inertia, in addition to "bewilderment at the complexity of the super system", has contributed to accumulation of multiple accounts. It cites a previous CHOICE report which notes that onerous administrative requirements and fees, inadequate consumer education and difficulties accessing advice, as well as inadequate assistance given to fund members have contributed to this inertia. A more recent CHOICE (2016) report found that young adults did not think about the number of superannuation accounts they could – or should have. It noted that "a number assumed that they only had the one account, or that employers would sort it out for them."

Financial knowledge

The lack of understanding about superannuation – what it is and how it works – it likely to be a significant driver to millennials' disengagement. The Colmar Brunton (2014) research noted that Gen Y's engagement in superannuation is not a sign of disinterest, but is related to a lack of understanding and education in superannuation.

The Australian Securities and Investments Commission (ASIC, 2017a) defines financial literacy as a mixture of financial knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions for individual well-being. Australia generally scores well on international measures of financial literacy, for example, an OECD study evaluating the financial literacy of 15 year olds from 15 countries found that Australia ranked fifth (ASIC, 2017b).[4] Nonetheless, as noted by ASIC Deputy Chair Peter Kell, "while Australia performed well, there is still work to be done." In particular, millennials typically perform more poorly than the rest of the population on measures of financial literacy. The CIFR report (Ali et al., 2014) which found that more than half (55%) of the 18 to 24 year olds surveyed could not achieve more than a 'pass mark' (greater than 44%) on six basic questions on superannuation and three key financial literacy questions. One of the most difficult questions for these young people was accurately stating the age at which they could first access their superannuation. The ANZ Survey of Adult Financial Literacy of Australia (2015) also found that people aged between 25 and 34 had consistently lower scores on most aspects of financial literacy.

It is not straight-forward to define what constitutes an 'adequate understanding' or what counts as an individual being 'financially literate', but it may be reasonable to assume that individuals who report some 'difficulty understanding financial matters' do not feel they have an adequate understanding. ASIC (2016a) found that individuals under 35 years old were more likely to indicate they have difficulty understanding financial matters (24%) compared to those over 35 years old (13%).

More specifically, young people also generally have a poor knowledge of their retirement needs. The CIFR (Ali et al., 2014) report found that younger people did not know where to start when it came to effectively planning for retirement. With regards to reaching a level of comfort adequate for decision-making about superannuation, only 40% of young people surveyed by CIFR (Ali et al., 2014) felt that they could assess the pros and cons of a superannuation fund based on fund provided information. Additionally, only one out of three young people felt well informed about superannuation. The CHOICE (2016) report notes that a lack of knowledge about the basic features of the superannuation system is often the main barrier to engagement with superannuation.

Trust issues

The FSI (2014) noted that the superannuation system should be invested in the best interests of superannuation fund members. If members do not trust that this is the case, the superannuation system cannot function. That is, fund members will need to have confidence that the superannuation system acts in their long-term best interests. At the same time, fund members will need to trust that the superannuation system, and superannuation funds in particular, have the right accountability and transparency mechanisms in place.

Australians have traditionally placed a level of trust in the institutions and legislative frameworks that regulate the superannuation industry, however this has been undermined by: (i) a period of frequent changes to superannuation legislation; and (ii) a perceived lack of transparency among superannuation funds.

First, rules around superannuation are seen to have changed too much and too frequently, with more than 38% of 18-24 year old fund members of this view (Ali et al., 2014). Former-Treasurer Peter Costello (Sales, 2015) noted that the number of

4. Students from fifteen countries and economies participated in the assessment of financial literacy, including 10 OECD countries and economies (Australia, the Flemish community of Belgium, seven provinces of Canada, Chile, Italy, the Netherlands, Poland, the Slovak Republic, Spain, and the United States), and five partner countries and economies (Brazil, four provinces of China, Lithuania, Peru and the Russian Federation).

changes made to superannuation rules have damaged people's confidence in the system. CHOICE (2016) noted a general perception among young adults that superannuation laws are always changing and that they felt unsure about the future of superannuation. In addition to this uncertainty, CHOICE found that both engaged and unengaged young adults considered that these changes were "seemingly for the worst" and saw it as the government as "trying to get at the money or reduce the benefits for the average Australian."

Second, young people consider superannuation funds to be "biased and self-serving – putting their own interests before the interest of their customers" (CHOICE, 2016). This perception is partly due to a perceived lack of transparency from superannuation funds, which is also "felt to be deliverable or due to a lack of interest in their customers." Specifically, the CIFR report (Ali et al., 2014) also found that over half (57%) of young adults felt that superannuation fund fees were not transparent enough.

Overall, less than a quarter (23%) of 18-24 year old fund members said that they "have trust in the superannuation industry" (Ali et al., 2014). Young people tend to be reticent and sceptical in dealing with their superannuation (CHOICE, 2016). This potentially makes it more difficult to encourage them to engage.

Inconvenience and personalisation

Millennials have been brought up in a digital environment where they are accustomed to accessing information and services online and on-demand, such as through mobile apps. In this context, paper-based forms are an anachronism. For example, Colmar Brunton (2014) found that very few Gen Y's recalled completing their superannuation form when they started their job, often the first contact with their superannuation fund. This was partly attributed to them being "disinterested in the paperwork".

The superannuation industry has already begun to move in this direction of paper to digital, particularly as the Government's SuperStream reforms have forced superannuation funds to overhaul their back office systems. However, continued developments in technology suggest that there are further opportunities to satisfy young people's needs, that is, by making changes to their customer-facing systems. In particular, CHOICE (2016) found that young people want answers relating to their superannuation rather than more information. In effect, they are seeking personalised guidance about what to do. The industry already makes a lot of information available, but this is largely ignored. For example, the CIFR (Ali et al., 2014) report noted that an "overwhelming majority of booklets or guides often accompanying the [superannuation] statement are not read." In fact, only 14% of young adults reported that they read this material.

The existence of behavioural biases, relatively low financial literacy, and a lack of trust suggests that the quality of the communication between superannuation funds and their young members will need to be improved. At the same time, improvements to the method of communication between superannuation funds and their young members could also make them more receptive to these communications and reduce their reluctance to interact.

03

Better engagement delivers better outcomes for millennials and the economy

Key points

- More engaged millennials are better able to choose a superannuation fund suited to their personal circumstances.
- More active engagement by millennials would reduce the number of duplicate accounts, which could mean lower overall fees and higher retirement incomes for them.
- Better prepared millennials will be less likely to need to access Government support in retirement.

Millennials' disengagement with their superannuation can produce poor outcomes for millennials themselves, and have implications for the draw on the public purse. Australia's current retirement income system consists of three pillars:

1. the superannuation guarantee, i.e. compulsory employer contributions;
2. voluntary private savings, including voluntary superannuation contributions made by individual fund members; and
3. the Age Pension which is funded by current taxpayers.

Improved engagement can lead to a more efficient superannuation system (Pillars 1 and 2), which will in turn reduce the imposition on Pillar 3.

In recent times, there has been an emphasis on ensuring that the superannuation system is competitive and efficient. The Productivity Commission (2016) noted that a competitive and efficient system "is more likely to be fair, adequate and sustainable than one that is not ... For example, an efficient system will generate higher net investment returns overtime and therefore deliver higher retirement incomes and decrease dependence on the Age Pension."

Millennials not making the right decisions for themselves about their superannuation could be faced with lower levels of income in retirement. The decisions about the choice of fund and the fees they are willing to pay, the selection of investment options and the risk they are willing to assume, as well as management of duplicate accounts, will have a bearing on their retirement balances. While it may not be reasonable to expect that all young people will end up actively managing all their investment choices, deferring to the default option may mean that the choice of fund and allocation of assets are less than optimal for their individual circumstances.

The Productivity Commission (2017) draft report on Superannuation: Alternative Default Models recognises the implications of these inefficiencies, and identifies the need for default superannuation arrangements that:

- guide members to products that seek to maximise long-term net returns; and
- allocates people to a default product only once, rather than creating multiple accounts.

Millennials' disengagement with their superannuation is partly reflected in the fact that they tend to hold multiple superannuation accounts, often unaware, and mainly because they simply select the default fund when they start a new job. The Deloitte (2017) Millennial Survey found that 38% of millennials globally would leave their jobs within two years, if given the choice, implying they did not feel as much loyalty to their employers. Considering millennials may change jobs more frequently, they may also be more likely to hold multiple superannuation accounts. According to research by the Association of Superannuation Funds Australia (AFSA, 2017), more than 30% of young people aged under 29 years have more than one superannuation account, and 10% have three or more superannuation accounts.

The Productivity Commission (2017) noted that multiple accounts are problematic among younger members, where it is less likely to be a deliberate outcome. As a result, millennials that are unaware of their multiple superannuation accounts may be unnecessarily paying more than one set of fees (CHOICE, 2016).

At the same time, default insurance products is bundled with superannuation. Default insurance within superannuation is the result of the Stronger Super reforms implemented from 1 July 2013. The Superannuation Industry (Supervision) Act 1993 (SIS Act) prescribes that superannuation trustees must provide a default level of term life and total permanent disability insurance to members on an opt-out basis subject to reasonable conditions (e.g. "...the cost of this insurance does not inappropriately erode the retirement incomes of beneficiaries"). Individuals that are unaware that they hold multiple superannuation accounts are also less likely to have opted out of their default insurance products. This could result from people being provided with insurance they do not need, while paying fees for it.

An individual unnecessarily holding multiple superannuation accounts and insurance will be paying additional fees. In addition, a lack of awareness of superannuation may have also contributed to more lost superannuation accounts. At 30 June 2016, there were a total of over 5.7 million lost and ATO-held accounts with a total value of just over $14 billion (ATO, 2016).

The 2014 Financial System Inquiry (FSI) noted, based on Treasury modelling, that addressing account proliferation and reducing the extent of workers paying fees and insurance in multiple accounts or losing superannuation accounts could increase superannuation balances at retirement by around $25,000 and retirement incomes by up to $1,600 per year.

Furthermore, it may be reasonable to assume that individuals that are less engaged with their superannuation and retirement planning are also less likely to be making voluntary contributions to their superannuation. However, the superannuation guarantee contribution alone may not be adequate to fund an individuals' lifestyle preferences in retirement. It is also not clear that young people are significantly increasing their private savings outside of the superannuation system. And while young people are less interested in retirement planning, they are also more ambitious about the age they want to retire – "more than one in four young Australians think they will retire before 60, compared to just 15% of 30-49 year olds" (NAB, 2017). As such, there is a broader issue of the importance of individuals being more active in their retirement planning. Planning early can be the difference between a modest and comfortable retirement, as well as being able to retire when they want.

Failing to address the issue of engagement could mean that the superannuation system will not able to meet an individuals' retirement incomes needs, and shift part of the burden to the Government through greater use of the Age Pension. This will have implications for the taxpayer burden over time.

04

Increasing engagement – superannuation should be tangible, demystified, transparent, and better aligned with millennials' values

To improve millennials' engagement with their superannuation, the superannuation industry should:

- Make superannuation tangible for millennials, such as by tailoring its communications to make sure it resonates and consider how immediate rewards can be introduced to encourage behaviour with typically long-term outcomes;
- Help inform and advise millennials, including through financial literacy initiatives and improving access to financial advice;
- Be transparent and easy to deal with, such as by making use of technology to enable millennials to interact in ways they prefer;
- Appeal to what's important to millennials, including by making it easier for them take into account their environmental, social and ethical values in decision-making.

Clearly millennials are disengaged with their superannuation. To improve their engagement will mean addressing their behavioural biases, improving financial literacy, restoring trust, and improving convenience and personalisation. Mercer's 2020 Super Fund Executive Report (Mercer, 2017) noted that 39% of superannuation funds rated 'improving member engagement and service' as their top business and strategic priority.

Make superannuation tangible for millennials

CHOICE (2016) noted that there is need to reframe the superannuation system in terms that young people may understand – "make it tangible". The superannuation industry should communicate with messaging that resonates with millennials:

- **Framing messages in ways that connects with millennials' current needs and wants:** Millennials see retirement as a distant event and discount its significance. In addition, superannuation advertising which is typically targeted at older people entrenches this view. It will be important to empathise with millennials by putting messages in terms that matter to them. For example, "Having more than one super account means you could be losing thousands to the super companies (that's equivalent to your yearly Netflix & Spotify subscriptions combined, or a trip to Bali)."
- **Not assuming a level of knowledge that people do not have:** Millennials already consider superannuation a complex issue. This does not mean that the communications should be over-simplified and patronising. Instead, it is about taking the time to explain basic concepts and avoiding the use of industry jargon. Mercer's 2020 Super Fund Executive Report (Mercer, 2017) states that the industry "needs to educate young people about the full power of lifelong compounding – and the supercharging benefits of additional contributions – to significantly enhance their financial futures".
- **Better highlight the cost of doing nothing:** Inertia means that the hurdle for getting millennials to engage is higher. Colmar Brunton (2014) noted that targeted messaging to young people should highlight the contrasting realities of retirement for those who have planned, versus those who have not. Choice (2016) also recommends providing information that allows young people to benchmark themselves against others in similar circumstances. There are examples of industry providing these benchmarks. For example, some financial advisers have featured promotional articles of 'young property millionaires' who own various properties and their tips for other young people (Benchmark Private Wealth, 2017).

Ensuring that messages are tailored is an important step to helping millennials better understand the consequences of their decisions. Taking this a step further, providing millennials with the experiences that reinforce these messages may have an even more powerful effect in encouraging the right behaviour.

For example, millennials who are present-biased will have a greater preference for immediate payoffs. One way to address this bias would be to incentivise behaviours that typically have long term consequences (e.g. putting money away for the future) by linking them to immediate outcomes. Gamification offers some examples of how this has been done. Gamification is "the application of game design and game mechanics to real world contexts" (Moroku, 2017c). The in-development Moroku Smart Saver platform is an app designed to provide 'challenges' to encourage young people to save money (see Case Study: Moroku). The successful completion of these challenges would allow users to earn points which could be traded for immediate and tangible rewards, such as gift vouchers.

Users are incentivised to take action now because they see an immediate reward. Superannuation fund providers could seek to embed the concept of 'challenges and rewards' in their products to encourage users to undertake activities such as check their superannuation account balance, read their superannuation statements, and take online learning modules on the basics of superannuation.

Case study – Moroku

http://www.moroku.com/

Moroku is a mobile banking and payments company that aims to help people with their finances by creating engaging mobile experiences by gamifying consumer interactions (Moroku, 2017a).

Moroku CEO Colin Weir's philosophy is simple: banking is boring, so let's make it fun.

According to its website, Moroku's GameSystem is the only purpose built gamification platform for Financial Services (Moroku, 2017b).

Gamification is the application of game design and game mechanics to real world contexts (Moroku, 2017c). It aims to educate, engage, motivate and modify behaviour by providing a fun, engaging and rewarding experience.

Gamification leverages the motivations and desires in people for community, feedback, achievement and reward (Bunchball, 2017). Moroku utilises gamification to educate customers on the need for and use of complex products, while helping organisations to engage them on an ongoing basis (Moroku, 2017c). They "reward, recognise and motivate" people to do the right things with their money to help them succeed (Moroku, 2017d).

Moroku sees gamification as a way to address the present bias that individuals have which sees them discounting future returns in favour of immediate rewards. Their apps are designed to provide present rewards for completing future-related goals.

"People have an inherent need for social connection, and as life has become more digitised with social media, social success has become more important than individual success," says Mr. Weir, adding that gamification puts people in a social environment and allows them to compare their success with others.

Moroku's apps also cater to millennials, who have grown up in an era of a high level of connectedness, where they are used to receiving instant feedback and recognition, according to Colin Weir. Moroku's Smart Saver platform, while still being under development, has been tested in Sydney universities. Its aim is to provide challenges to help young people find where they can save money on various things such as eating out, drinking and utilities. It allows people to earn points as they complete challenges, resulting in current tangible rewards, such as Netflix and Amazon vouchers. Through this, Moroku aims to help young people to plan for future visions such as purchasing a car or house.

Another of Moroku's offerings is Chore Scout, a mobile app which is aimed at children. It allows parents and their children to interact around money, savings and allowances (Moroku, 2016). It allows children to decide how much of their allowance should be spent or saved and perform chores for an allowance, while parents track chore completion and pay allowances. It creates opportunities for parents and children to communicate about money, fitting in with the need for community interactions.

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Help millennials be informed and advised

Lifting financial literacy has been long been a part of the Government policy agenda. Since 2008, the Australian Securities and Investments Commission (ASIC) has had responsibility for financial literacy. ASIC leads the National Financial Literacy Strategy (NFLS), and as part of this they have managed the MoneySmart website since 2011. The website provides free, independent financial guidance to all Australians. There is evidence of it being used in schools. In 2016, more than 50% of all Australian schools had engaged with some aspect of ASIC's MoneySmart Teaching program (ASIC, 2016b). Financial literacy is also included in the school curriculum.

Nonetheless, there seems to be a case to further improve the financial education specifically around superannuation – only one out of three young people felt well informed about superannuation (Ali et al., 2014). To do so, will require educational material about superannuation to be better targeted at millennials, as well as use of communications channels that are more appropriate for the audience. As noted above, young people want answers rather than more information. CHOICE (2016) recommends making available simple profiling questionnaires to help provide young adults with more personalised guidance and tailored information about their superannuation.

At the same time, there could be a case to improve access to other avenues of information, such as professional financial advisors. However, the industry needs to change in order to appeal to this younger clientele. There are already some examples of advisers turning their attention to this younger cohort (see 'Wealth Enhancers'). In addition, recent developments in digital wealth advisory (i.e. robo advice) could provide further options for millennials to access financial advice at a lower cost and greater convenience. Young people are more likely to use robo advice than older people. For example, 15% of investors aged 18-24 and 24% of investors aged 25-34 would use robo advice (Deloitte Access Economics, 2017). The willingness of investors to use robo advice is only 10% for those aged between 35 and 44, and declines further with older age cohorts.

In addition to improving financial knowledge, an individuals' confidence in managing their financial matters can also be boosted by accumulating practical experience. However, young people may feel that they are unable to participate in investing because of a lack of funds (Deloitte Access Economics, 2017). Acorns Australia lowers the barriers to investing by allowing individuals to invest with their spare change (see Acorns Australia). This helping them to save and invest, as well as be more active participants in their financial affairs.

However, choice of fund and asset allocation decisions are complex, even for the well-informed. It is not simply about selecting a fund or asset based on its historical performance, but also about taking into account the broader economic environment and the individuals' circumstances. It is also important to acknowledge that there is a limit to how well-informed the average individual can be expected to be.

Example – Acorns Australia

https://acornsau.com.au/

Acorns Australia enables investors to put their 'spare change' to use. Acorns is an app that is especially popular with millennials.

The app allows users to round up their daily purchases and automatically invest the change into a diversified portfolio of index funds.

By doing this, Acorns Australia is encouraging millennials to make small investments that will build their savings.

Example – Wealth Enhancers

http://wealthenhancers.community/

Wealth Enhancers Pty Ltd, is a financial advisory firm that focuses on younger investors. They claim to be Australia's most experienced Gen Y financial advisory firm.

They recognise that for these younger clients, getting value is the most important thing. They engage with Gen Y by tailoring their messaging and language to how young people are used to communicating – their advisers are termed as 'Gladiators' and 'Financial Coaches'.

Wealth Enhancers aims to empower young people and make them feel like their interests are front and centre.

Be transparent and easy to deal with

Millennials are more likely to engage with a superannuation industry that they have trust in.

The continuing changes to superannuation are making members feel increasingly uncertain about their benefits. This may be even more daunting for younger members that are already relatively less knowledgeable about superannuation. The superannuation industry should consider how it can help provide further transparency around these changes.

However, it is not enough to simply make the information available to millennials. As noted above, this information needs to be readily accessible. Technology can assist by making this information more accessible and in a scalable way. Millennials have been brought up in the digital age where they are used to convenience at their fingertips with the multitude of devices available. They expect the same convenient access to information about their superannuation funds.

The platform being developed by soon-to-launch superannuation fund, Zuper, demonstrates how superannuation providers can cater to this preference (see Case Study: Zuper). The upcoming Zuper app is expected to provide users with visibility and control over their superannuation on their mobile phone, including access to real-time balance information, deposit alerts and the ability change their asset allocation. A cornerstone of Zuper's app will be their chatbot, Zena, which will enable users to engage in superannuation matters through interaction with a chat interface. Zuper's investment into this digital experience reflects an understanding that millennials "benchmark [their superannuation service] experience with Uber" rather than against other superannuation funds.

CHOICE (2016) notes that it is important to make superannuation easy, including by providing access to superannuation in the places that they normally go to for dealing with their finances. For example, centralising access through ATO's etax software, the myGov portal, and through online banking applications. The behavioural bias, inertia, is compounded by the perceived costs of taking action, such as onerous administrative requirements.

The Chief Executive of Kinetic Super, Katherine Kaspar, sees technology as a key enabler of trust to achieve greater member engagement (Goh, 2017):

"Technology is going to continue to be a way in which we engage with Millennials and we need to be delivering features and products that allow us to connect early with our Millennials to understand their needs and enable us to be able to help them make those decisions"

Kaspar also notes that trust will be generated by "being reliable, adding value to their day-to-day interaction." She also noted that in order to add value, they had to provide more personalised services, and this can technology can enable this.

An example of a strong digital presence resonating with millennials can be seen in the Commonwealth Bank's Essential Super product, which reportedly experienced a 37% increase in members through its digital channel in 2015-16, of which, 89% of these new members were aged between 18 and 34 years old (Commonwealth Bank 2016).

Greater transparency is important to generating trust, but information needs to be delivered in a way which is personalised, and technology can facilitate this. It may not be realistic to expect that millennials will feel completely comfortable with the complexity, constant changes and details of regulation in this space, but the goal should be to ensure that young people are not suspicious about their superannuation.

Case study – Zuper

http://www.zuper.com.au/

It's well known that superannuation companies are missing opportunities to connect with millennials.

Some point to lower levels of financial literacy among younger members while others says it's hard to get people to think about outcomes that are 40 or 45 years in the future.

For Jon Holloway, the co-founder of newly launched superannuation fund Zuper, the answer is far simpler: "Their setup and language is complex, while their marketing is not quite up to the mark, adding to the apathy of members."

He points out that the majority of superannuation companies were started before the digital era, and have not embraced the new ways of communication that millennials are used to.

While millennials are used to interacting with digital platforms, such as Uber and Airbnb, superannuation companies are still not taking advantage of digital platforms.

Zuper is a superannuation fund that allows its members to align their investment choices with their life choices (Goh, 2017). It utilises technology to give Australians visibility and control over their long-term wealth with a mobile experience, real-time balance, deposit alerts and the ability to invest in what matters to them (Goh, 2017). The app is expected to launch later this year.

Zuper believes that it is important to address the present bias that people exhibit in spending today versus saving for tomorrow. To do this, it is vital to get people "emotionally connected and thinking about the future", explains Mr. Holloway. The way people are wired these days, requires superannuation companies to make people first understand the product before they think about the future.

Mr. Holloway says that millennials acquire wealth in different ways, where the focus is no longer on traditional things, like buying a house, making superannuation savings even more important. For millennials, "it's not an age thing, but a mindset thing" when it comes to interacting with financial services and superannuation, it is first about engaging their interests.

The Zuper platform addresses these issues in a number of ways. Zuper shows people where their money is going today, and how it is impacting the world; whether it be investing in renewable energy or other investments in line with their passions, according to Mr. Holloway. The app addresses the present bias by showing customers what their income will be post-retirement, in real time, and then providing nudges to encourage people to save money today. It provides an interface that is "super easy and intuitive to manage" with "simple app interfaces and visual data to behavioural and artificial intelligence" (Zuper, 2017a).

Millennials don't compare their superannuation service experience with other superannuation funds, they benchmark it against their experience with Uber, says Mr. Holloway. A cornerstone of the app is the chatbot Zena, which can have conversations with customers about general education, and provide easy to understand answers to help people plan for today and tomorrow (Zuper, 2017b). Zena reflects how young people like to interact (in chat), and can handle about 80% of the questions that people will ask it before needing to defer to a human, notes Mr. Holloway.

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Appeal to what's important to millennials

The Deloitte (2017) millennials' survey found nearly three-fifths (59%) of millennials felt a fair amount of accountability for protecting the environment. This group also believed that they had an accountability for some of the world's biggest challenges (Deloitte, 2017).

The superannuation industry has begun to better understand what is important to younger people. Appealing to what they feel is important, and at the same time, what they are interested in, could help foster a willingness to engage.

For example, millennials are 'digital natives' in that they have grown up with digital technologies. This shapes how they view the world and interact with various aspects of their lives. They are more interested in, and knowledgeable of the latest offerings of major technology companies such as Apple and Amazon. The Spaceship superannuation fund is an example of the industry appealing to the interests of this digitally inclined group (see Example: Spaceship).

The attempt to appeal to people's interests extends beyond technology. Superannuation funds like Cruelty Free Super are an example of the industry tapping into an individual's preference for ethical investing (see Example: Cruelty Free Super).

More broadly, beyond offering superannuation funds with specific investment mandates, there is a lesson for superannuation service providers to better help millennials "express what they think is important" (see Case Study: Goodments). Goodments is a soon-to-launch investment app that seeks to help investors select shares based on their environmental, social and ethical values. Goodments believes that young investors are more likely to engage because they are interested in more than just financial returns, which is often the focus of investment decision-making.

However, while efforts to appeal to the interests of millennials should be encouraged as a means to getting them more engaged, any decision by individuals which affect their superannuation holdings should take into account the purpose of superannuation, which is to fund their retirement. Clearly millennials are disengaged with their superannuation. To improve their engagement will mean addressing their behavioural biases, improving financial literacy, restoring trust, and improving convenience and personalisation. Mercer's 2020 Super Fund Executive Report (Mercer, 2017) noted that 39% of superannuation funds rated 'improving member engagement and service' as their top business and strategic priority.

Example – Cruelty Free Super

https://www.crueltyfreesuper.com.au/

Cruelty Free Super claims to be Australia's only animal friendly Superfund. It promises to invest in line with people's principles and to avoid investments that do harm (Cruelty Free Super, 2017).

Appealing to millennials through combining super with the values they hold, could be another way of engaging millennials, especially when they are concerned with issues such as the environment. Enabling millennials to connect with superannuation on this level might enable more engagement.

This is another example of targeted messaging that could help drive greater interest in superannuation by millennials, where they think that they are making a difference by using this super.

Example – Spaceship

https://www.spaceship.com.au/

Spaceship is a superannuation fund that plays to the interests of younger people.

Its major point of difference is that its investments are weighted towards technology sector, in particular, in high-profile companies such as Apple, Google, Facebook, Amazon and Microsoft (Yoo, 2017).

Case study – Goodments

https://www.goodments.com/

Goodments is a new investment app that matches investors to shares based on their environmental, social and ethical values.

Tom Culver, the group's CEO, believes engagement for young people only happens when their ethics and values are taken into account in making decisions. People are looking for a "more complete picture of a company's performance, which includes not only financial performance but also environmental, social and ethical performance" (Goodments, 2017). Goodments believes these issues drive job and financial decision-making.

Far from being the "self-gratifying smashed avocado generation" of popular wisdom, Culver and his team have found that younger people demonstrate more maturity and foresight than expected, particularly when it comes to living in a sustainable way and managing and growing their money with the same mindset (Goodments, 2017). "Younger people want to be able to express what they think is important, rather than being told what they should do," notes the Goodments CEO. They want to "make money and do good", and have a genuine attitude to change.

In a survey conducted by Goodments of 100 customers, 56% would accept slightly lower, or average financial returns in exchange for good sustainable performance (Goodments, 2017). As a result, these types of considerations are what provide value to investors, notes Mr. Culver.

The other aspect of Goodments' value proposition is being simple in a complex system. It is about "simplicity through technology", says Mr. Culver, adding that through technology Goodments can provide better access to the right information in the right way, without financial jargon, and hence, engagement.

The Goodments app, which is still under beta testing, frames investment decisions in a different way, by initially providing investors with prospective shares based on these emotional value considerations. It utilises a visual heavy user interface to present these options to investors. Investors are invited to invest on their terms, where individuals are responsible for telling Goodments what they think is good. It is their opportunity to "use finance to achieve change", says the Goodments CEO. People in the 25-38 age group are the bulk of their user base. Mr. Culver notes that younger people do not want to be told what to value by a 'suit'. This involves asking users questions about what is important to them.

Goodment customers also include people aged over 55, who generally have more financial freedom and are looking to incorporate more ethical consideration in their decisions, notes Mr. Culver. The Goodments app matches investors to stocks based on these values, before bringing up the issue of financial returns and risk.

Goodments notes that brand awareness also influences which investments users choose. The younger generation are interested in companies with high-profile brands such as Apple, Google and Tesla, according to the Goodments CEO. However, while a company with a high-profile brand might be of interest to an investor, its values might not actually be in line with their values, notes Mr. Culver. Their app helps users navigate these decision, and may change the way the investor selects investments in the initial stage. The company's major secondary user group, 'best of breed' investors, are those who decide they want to invest in particular sectors, like banks, but choose the most sustainable company within the group.

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05

Conclusion

Greater engagement does not necessarily mean that young people will now be expected to make a lot more unilateral decisions about their superannuation, instead it is about making them aware of the need to make a conscious decision.

To encourage millennials to be more engaged, the superannuation industry should:

- **make superannuation tangible for millennials;**
- **help millennials be informed and advised;**
- **be transparent and easy to deal with;**
- **appeal to what's important to millennials.**

The superannuation industry and the Australian Government are already taking steps to improve people's engagement with superannuation. The barriers to further engagement by millennials are not trivial, but neither are they insurmountable. The industry needs to make a conscious effort to connect with this group, and it needs to be more than lip-service. The superannuation industry will need to better understand this group of members to be able to cater to their preferences, including by investing in targeted communication and making better use of technology. The stakes are too high not to.

Nonetheless, choice of funds and asset allocation decisions can be complex even for the well-informed. At the same time, there is a limit to how well-informed the average individual can be expected to be.

Summary

Millennials are defined to be individuals between the age of 18 and 34 in 2017.

There are around 6.2 million millennials in Australia.

Nearly 70% of individuals aged 34 and below have at least one superannuation account.

Millennials are disengaged

Younger people were

3x ▽

less interested in their personal superannuation affairs compared to older people.

Retirement is a distant thought for millennials;

only **8%**

were able to identify an amount of money they needed for retirement.

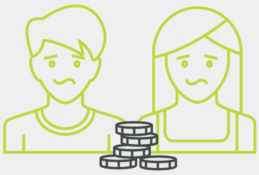
The majority of young adults do not check their superannuation accounts frequently or change investment options, with only

one third

reading their periodic statements.

Millennials are more focused on near-term goals, do not understand superannuation, and are less likely to trust the industry

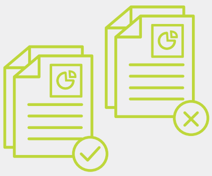
Millennials place a higher value on near-term goals, such as buying a house.



Millennials were more likely to have difficulty understanding financial matters.

Millennials were uncertain about the superannuation system, and less than a quarter of young people had trust in the superannuation industry.

Better engagement delivers better outcomes for millennials and the economy



Choose a superannuation fund better suited to their personal circumstances.

Fewer duplicate accounts could mean lower overall fees and higher retirement incomes.

Better prepared millennials will be less likely to need to access Government support in retirement.

Superannuation should be tangible, demystified, transparent, and better aligned with millennials' values

The superannuation industry should...

- Make superannuation tangible for millennials, such as by tailoring its communications to make sure it resonates and consider how immediate rewards can be introduced to encourage behaviour with typically long-term outcomes.
- Help inform and advise millenials, including through financial literacy initiatives and improving access to financial advice.
- Be transparent and easy to deal with, such as by making use of technology to enable millennials to interact in ways they prefer.
- Appeal to what's important to millennials, including by making it easier for them to take into account their environmental, social and ethical values in decision-making.

About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies.

The industry is responsible for investing more than $2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

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