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Abstract

Household disengagement in retirement planning is an important policy issue across the OECD. In contrast to conventional behavioural economics framing, this paper draws on the literature on political alienation and insider/outsider theory to explore links between distributional outcomes and household engagement with Australia's defined contribution pension system. The paper argues that support for the system is much weaker than assumed in the empirical literature, which tends to ignore concerns about equity even as they arise in empirical research, because distributional issues don't sit comfortably in the prevailing behavioural framework. The paper uses primary survey data collected in a financial diaries study to construct objective and subjective measures of attitudes, engagement and distributional outcomes for individual households in the pension system. The analysis finds widely held concerns about fairness and a positive correlation between disengagement and poor distributional outcomes within the pension system.

JEL classification: J32; G41; D31

Keywords: superannuation, households, inequality, financial diaries

Introduction

Retirement savings remain problematic for social policy across the OECD. In economies where individual responsibility has been aggressively promoted through policy reform, the widespread failure of individuals to step up to their financial obligations is particularly troublesome. Australia's defined contribution pension system, for example, requires household engagement both to deliver decent retirement incomes to households and to maintain efficiency in the system itself. With the public pension set on or around the poverty line (Melbourne Institute, 2021), the onus is on households to avoid elderly poverty by assessing their own retirement income needs, taking advantage of tax concessions by choosing to sacrifice current income to voluntary payments and choosing a pension stream that strikes the right balance between risk and return in the best performing fund. But the system also requires active household engagement because it relies on some degree of market self-regulation, in which consumers' informed choice and active switching maintains effective competition between pension providers (Productivity Commission, 2018a).

With Australia's pension system now over 30 years old, however, Australian households are still falling far short in their obligations. Households tend to rely on default options instead of making individualized decisions about pension products and seldom shop around between products and funds, thus accruing high and unnecessary fees in products ill-suited to their preferences (Butt et al. 2018; Productivity Commission, 2018a; Gerrans, 2012). Generous tax breaks fail to attract commensurate voluntary contributions (Butt et al. 2018; Feng, 2014) and the system tends to be poorly understood: most adults don't know the size of their pension savings, are unfamiliar with the incentives for participation and don't properly understand basic investment principles (Agnew, Bateman and Thorp, 2013; Agnew, Dalton et al. 2013; Ali, Anderson et al., 2015).

Household disengagement in the pension system is similarly problematic in other OECD countries, where the same underlying principles of consumer choice and market competition have been implemented through pension reform. Like in Australia, these defined contribution systems require household engagement insofar as they require that households ensure they have appropriate occupational and private savings to supplement meagre public pensions. Although details vary, the Australian example is instructive because it is weighted heavily away from the public pension pillar, thereby emphasizing the dynamics of engagement that are, to varying degree, relevant to all OECD pension systems.

In order to understand disengagement with the pension system, this paper draws on the small but growing literature on political alienation and political participation, which marks out a relationship between economic marginalization and electoral participation. This literature focuses on those such as Ferragina, Arrigoni and Spreckelsen's (2020) 'invisibles', who are unemployed or precariously employed and are at risk of poverty. These groups have less trust in institutions and are less likely to participate in social and political life. More specifically, these 'labor market outsiders' are more likely to abstain from voting or to vote for radical parties (Schraff, 2019; Emmenegger, Schraff and Marx, 2015; Rovny and Rovny, 2017). Captured by Goodin and Dryzek's phrase 'don't play if you can't win'

(1980:292), these groups are seen to have rejected mainstream politics because they see the system as stacked against them.

The present paper overlays this framework onto the dynamics of disengagement in Australia's defined contribution system to capture the interaction of citizens with their pension obligations in the context of the pension system as a public, and indeed compulsory, system (Donald, 2009). It thus extends the alienation literature's analysis of disengagement with the *political* responsibilities of citizenship to disengagement with the newer *financial* responsibilities of citizenship. Certainly, civic responsibilities have grown to include prudent financial behavior, not only in terms of investment in assets but also investment in human capital and insurance coverage, as the pillars of social policy – housing, education, healthcare and pensions – have become investible assets (Martin, 2001). The shift from defined benefit to defined contribution pensions is integral to this stepping up of responsibilities, or what Langley (2006) describes as 'the making of the investor subject'. The push for financial literacy, which is now taught alongside traditional civic education in schools, is a symptom of this change.

This paper considers the question of disengagement in Australia's defined contribution system using household data collected in a financial diaries study, which collects a combination of detailed household financial data and in-depth qualitative interview data over a sustained period of engagement with each household. The analysis is consequently able to build on in-depth knowledge of individual households' social and economic circumstances to explore the hypothesis that distributional outcomes in the pension system affect the degree to which individuals engage with the system.

The findings suggest that those who are disadvantaged by the system (such as women, low-paid workers and the self-employed) see themselves as marginal to the pension system and don't see the system as a trusted and legitimate pillar of social policy (in contrast, for example, to the healthcare, policing and tax system). That is, these groups see themselves as peripheral to the constituency for whom the system was designed and thus see themselves as losing out in the system. Moreover, the analysis finds that this marginalization is associated with low levels of engagement with the pension system. Its central proposition is that widespread disengagement may in fact reflect a serious lack of support for the system amongst ordinary people, even though Australians are widely understood to support the system. Indeed, commentators, policymakers and the pension fund sector itself have long celebrated the system as an exemplary national policy achievement, consistently rated amongst the top four in the Mercer Global Pension Index.

The present paper's approach is thus distinct to that taken in industry, academic and policy circles, where the persistent failure of households to adequately engage with their financial obligations relating to retirement is addressed in terms of behavioral biases and deficient financial literacy. The behavioral approach follows the seminal contribution of Benartzi and Thaler (2007) in applying behavioral insights first developed by Kahneman and Tversky (1979) to the decisions that households make about retirement income. An extensive behavioral economics literature henceforth explores how 'bounded rationality' and psychological factors, such as 'present bias' or the tendency to rely on heuristics, deter individuals from choosing and implementing optimal strategies in relation to retirement preparedness.[1] This literature points policymakers towards the detail of policy design on the short-term, and a longer-term agenda of financial education. From discursive devices to the design of default options, pension systems are consequently curated by policymakers to work with the suite of biases that behavioral economists have identified in relation to financial services in order to 'nudge' households towards their efficient frontier.

The key distinction between the behavioral approach and the alienation literature's framing, then, is that the latter situates distributional equity as critical to individuals' engagement with the system. The preferences, beliefs and decision-making processes that the behavioral economics literature maps out in relation to retirement preparedness, by contrast, steer wide of distribution or notions of fairness. This behavioral framing feeds into the empirical literature, which, this paper argues, consequently avoids engaging with distributional issues throughout its own analysis of household disengagement in the pension system.

This paper thus presents an argument that the defined contribution pension system creates winners and losers and that those who lose out in the pension system are more likely to be disengaged. But this is not a normative argument. The article neither argues that households should be engaged with the pension system or that they shouldn't. Neither does it build a critique of the shift to defined contribution systems nor pose an argument about how to solve the problem of retirement savings in the context of aging populations. The point is, rather, that the existing mainstream literature misdiagnoses the problem of disengagement because it's theoretical framework is not equipped to interpret problems of fairness.

This paper thus provides an alternative explanation to the conventional focus on financial literacy in exploring the question of why households are reluctant to embrace the opportunities for consumer choice that are offered to them by defined contribution pension systems. Indeed, a growing body of literature on variegated financial subjectivities explores individuals' unwillingness to adopt the entrepreneurial subjectivities bestowed upon them by economic reforms, such as the shift to defined contribution pensions (Weiss, 2015; Agunsoye, 2021; Au-Yeung and Chan, 2020). This literature argues that such 'reluctant financialization' is a substantially more common response to pressures on individuals to take greater control of their financial lives than the eager embrace of financial control that pension reform seeks to engender in individuals (Pellandini-Simanyi, 2021).

For the conventional literature, this reluctance is explained by low levels of financial literacy (Lusardi and Mitchell, 2011). Yet despite its huge influence on policy and academic work, analysis of the role of financial literacy in poor household financial management is plagued by methodological problems (Fernandes et al., 2014; Hastings et al., 2013), which undermine the case for financial literacy as a policy response to poor household engagement with finance. Although financial literacy has faced important scrutiny from the critical literature (Weiss, 2020; Ailon, 2021; Santos, 2017), the critical literature offers little systematic analysis of alternative explanations for the reluctance of households to seize the opportunities for financial control that the marketisation of pensions provide. A number of studies provide insight into the determinants of attitudes towards pension

[1] For a summary, see chapter 5 of the OECD's 2018 Pensions Outlook.

reform (van Groezen et al., 2009; Lynch and Myrsklä, 2013, Jaime-Castillo, 2013), some of which engages concerns amongst the public about uneven distributional impacts of defined contribution pension systems (Taylor-Gooby et al., 2020; Abid and O'Donoghue, 2014; Au-Yeung and Chan, 2020). This literature however doesn't explore links between attitudes and behavior. By applying the political alienation framework to the pension system, the present paper thereby offers an explicitly political economy explanation for the question of what drives 'reluctant financialization'.

The paper is structured as followed. The first section presents the Australian system in the context of other OECD pension systems. The second section introduces the alienation literature and maps out the mainstream and marginalized groupings that are relevant to defined contribution systems such as Australia's.

The third section tests the relationship between marginalization and disengagement using detailed objective and subjective measures of engagement, distributional outcomes and attitudes towards the pension system collected in a financial diaries study. This analysis presents a positive correlation between disadvantage in the system and disengagement, suggesting that trust issues run deeper than the existing literature proposes.

The fourth section turns to the existing empirical literature on attitudes to the pension system amongst Australian households. It explores tensions between the policy and industry-sourced literature's survey and focus group work, and the behavioral approach in which it is framed.

This paper thus applies concepts developed in the political economy literature to the new financial responsibilities of citizenship. By addressing the importance of distributional equity to attitudes to the pension system, the paper presents a working hypothesis that experiences of marginalization in the defined contribution system are a key barrier to engagement. This critique suggests that the 'nudges' and financial education campaigns that dominate the policy agenda will continue to fall short in their efforts to increase efficiency in the system until issues of equity are addressed.

Disengagement and Australia's defined contribution system

With the public pension and its public safety net function weaker in the Australian system than in many other OECD countries, disengagement in the pension system is a particularly important policy problem in Australia. No matter how well defaults are designed, the optimization of individuals' savings depends on idiosyncratic portfolio choices, especially when the floor that the system puts under disengaged households is low. Moreover, consumer engagement is crucial to avoiding market failure because active switching behavior by consumers from poor to well performing funds and products maintains competitiveness in the market (Productivity Commission, 2018a).

In this context, disengagement with the pension system continues to be seen in policy circles as a crucial shortcoming of Australia's system. This is reflected in extensive survey and focus group literature. In research on attitudes to superannuation, for example, typical summary statements are those such as that 'most people are uninterested and disengaged from what is happening in their super' (CEPAR, 2018:9) and there is a 'general apathy of fund members in engaging themselves in their retirement savings' (Clark et al., 2013:8). Although statistics vary, findings that 70% of Australians describe themselves as having no active engagement with superannuation are characteristic of widely publicized findings in this literature (Suncorp 2012:10). These include that only around a third of Australian employees report choosing their own pension fund (Colmar Brunton, 2010:12); less than one in five report comparing different funds before making that choice (ANZ 2015:62); and the bulk of Australians are subscribed to the default investment option (Australian Government, 2010:9). Similarly, less than a third of Australians report that they give more consideration to their superannuation statements than a quick flick through; only around a quarter take advantage of generous tax concessions by making voluntary contributions (FSC/ING 2014:21; ANZ, 2015:62; Colmar Brunton, 2010; Feng, 2014) and one third of all accounts in the system are duplicates.[2] Even though the self-employed only acquire superannuation through their own voluntary contributions, these are made by only around a quarter of self-employed workers (Australian Government, 2020:307).

These issues are familiar to an international literature on household behavior in defined contribution systems (Hershey et al., 2012) where reliance on defaults (Badarinza et al., 2016), weak responses to tax incentives (Choi, 2015; Agarwal et al., 2017) and insufficient pension awareness (Debets et al, 2018; Lusardi and Mitchel, 2011) remain problematic. The degree to which household disengagement is a problem however depends on the significance of the private savings pillar and the role of consumer choice, both for household outcomes and for maintaining competition. Reforms, which have been introduced in Australia and across the OECD countries, also mediate the impact of household disengagement. Although reforms vary, there has been a general push to better protect households from poor outcomes in local pension systems, not only through continued financial literacy training but also by improving default positions, strengthening consumer protection and improving transparency in pension products.[3] These reforms seek to support households to make better choices in the system but also seek to introduce safeguards that provide some insulation from market consequences to households that fail to engage or make poor decisions in the system.

But reforms also pose an important contradiction insofar as they go against the grain of the dual premise of consumer choice and market competition. That is, reforms cannot protect disengaged households without winding back the consumer choice and market competition that defined contribution systems are predicated on. In this delicate balance, household disengagement remains an inescapable problem of defined contribution systems, although it is most problematic in systems like Australia's, which emphasize the pillars of private accumulation over the public pension pillar.

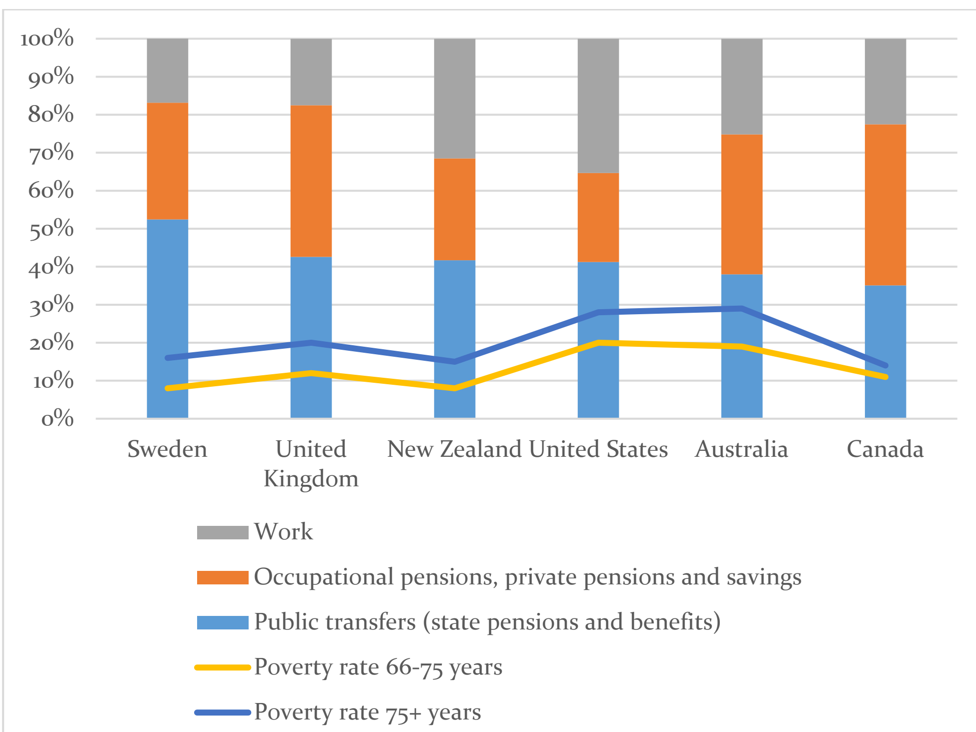
[2] If employees do not designate a fund upon starting a new job they are automatically enrolled into a fund that the employer choses. Multiple accounts can be rolled into one through the individual's online account with the Tax Office in the central web portal for government services, MyGov. According to CEPAR (2018:9) billions of dollars are wasted each year in duplicate fees and insurance.

[3] For example, the EU's 2007 MiFID and 2018 MiFID II reforms and the UK's 2021 Pension Schemes Act, which builds on the 2015 Choice and Freedom reforms. Similarly, in Australia we have the MySuper reforms of 2012 and the 2021 Your Future, Your Super reforms.

Indeed, the Australian pension system is broadly similar to those in other OECD countries. Although international comparison is complicated by ancillary factors like the nature of the housing market and the level of subsidies on medical care, Figure 1 presents comparable defined contribution systems, which reflect their broad similarity. In these systems, the public pension pays some 35-50% of retirement incomes and a further 25-40% is made up of a mix of occupational and private pensions and savings, driven by tax concessions. Elderly poverty rates provide a measure of system performance.

The most obvious stand-out characteristic of the Australian system is its high mandatory employer contribution, set at 12% of wages. This contribution is channeled into individual pension accounts, which attract generous tax concessions for any additional 'voluntary contributions' made by households. The system thus combines the occupational and private savings pillar into the one account, known as a superannuation account. Individuals are able to nominate the superannuation provider of their choice and select from an array of investment streams, although regulation mandates each provider offer a basic default stream if no choice is actively made by the employee. The default includes life insurance but is not tailored to the individual's age. The third pillar, the public pension, is low and highly means-tested. Reforms over the years have primarily focused on bolstering transparency to aid market competition so that households can more easily choose better suited pension products in an efficient competitive market.

Figure 1: Income sources of people aged 65 years and older and elderly poverty rates



Source: OECD (2019) Pensions at a Glance

The political alienation literature and the defined contribution system's 'outsiders'

Although the problem of pension system disengagement is widely framed in terms of behavioral economics, this paper takes a different tack. Indeed, there is a civic angle to engagement with the defined contribution pension system as a public and indeed compulsory system (Donald, 2009) that lends itself to analysis in the terms put forward by the political economy literature. Specifically, the literature on political alienation identifies notions of fairness as a critical determinant of political disengagement amongst groups who are marginal to the economic mainstream. Insider/outsider theory (Rueda, 2005), for example, casts society into competing camps of economic winners and losers. 'Insiders' are securely employed and have access to the social safety net; 'outsiders' include low-income, part-time, casual and self-employed workers, the unemployed and those outside of the workforce, and those that have limited access to government benefits.[4] Amongst outsiders, the literature identifies patterns of disengagement with the political mainstream expressed both in electoral abstention and radical party voting (Emmenegger, Marx and Schraff, 2015; Schraff 2019; Lindvall and Rueda, 2013; Marx and Pico 2013; Rovny and Rovny, 2017). Outsiders are seen to reject mainstream politics because they don't see their economic interests as aligned with the median position and hence see the system as serving the interests of other, competing groups. Schraff (2019), for example, finds that long or repeated periods in low-wage work drive political alienation that undermines perceptions of the system's legitimacy and increases voter abstention. Ferregina, Arrigioni and Spreckelsen (2020) focus on those that are marginalized by structural unemployment, labor market precariousness and poverty, finding lower levels of engagement in political and social life. At issue is the erosion of trust and feelings of estrangement from and disenchantment with the political system.

Similarly work on the relationship between economic inequality and voter abstention puts forward a 'rational abstention' explanation of low voter turnout in countries with high levels of income inequality (Goodin and Dryzek, 1980; Solt 2008; Schäfer and Schwander, 2019). This literature explains low levels of political participation amongst the poor as a function of the sidelining of their interests in political landscapes that are characterized by wealth concentration. Schäfer and Schwander, for example, propose that 'as the poor learn from experience that the system is biased against them, they give up on participating' (2019:396).

Disengagement with mainstream politics, be it driven by the experience of marginalization within the labor market or within an unequal society at large, is captured by Goodin and Dryzek's (1980:292) phrase 'don't play if you can't win'. This sentiment is explained by Schraff: 'politically alienated people believe that the cards are stacked against them and therefore either refrain from political participation or switch to protest forms' (2019:24).

This framework can be overlaid onto the defined contribution system, with which the equivalent of voter abstention is disengagement. Like paying taxes and voting, managing one's pension savings is a basic civic responsibility in a pension system such as

[4] Although there are various competing definitions in insider/outsider theory. See Rovny and Rovny (2017).

Australia's (Donald, 2009). But like in the social security and labor market systems, some groups reap greater benefits than others.

Certainly, distributional issues are significant and have long been prominent in the public debate on Australia's pension system (Clare, 2012). It is worth outlining some of the pointiest ends of this debate in order to convey a sense not only of what those distributional impacts are but of the kinds of statistics that are reported in the media, which might fuel individuals' concerns about fairness. It is also worth providing some international context to show that Australia's performance on distributional aspects is not markedly out of step with those of other defined contribution systems.

With regards to the gender pension gap, Australia is reported to perform better than the OECD average, although women's superannuation balances are still at around 65% lower than men's (CEPAR, 2018:17) due to factors including gender-based differences in wages, careers and career progression, as well as caring responsibilities and divorce outcomes. Even in Sweden, a world leader in tackling gendered financial outcomes, women's pensions are on average 67% of the value of men's pensions upon retirement.[5]

As for distributional equity across income groups in the Australian system, almost half of tax concessions on individual contributions to pension accounts are accrued by the richest 20% of households (Grudnoff and Littleton, 2021). The Government's 2020 Retirement Income Review notes that the system is used by the wealthy 'as a tax minimization strategy, separate to any retirement goals' (pg. 244). These kinds of figures are similar in comparable systems: 40% of the £38 billion spent by the UK government on annual subsidies to pension savings goes to the wealthiest 10% of households.[6] Amongst a number of tax breaks in Canada's pension system, the wealthiest 10% of households capture two-thirds – that is, CA$27 billion – of tax concessions on Registered Retirement Savings accounts, compared to just 1% accrued by the bottom 10% of households.[7]

At the same time, low balance accounts are penalized by flat-rate service and insurance fees that charge high proportional fees on low balances, which is commonly expressed in declining balances over time. The Productivity Commission (2018b:3) notes that 'balance erosion can be excessive and highly regressive – having a disproportionate impact on members with low income, intermittent labor force attachment and/or multiple accounts.'

Similarly, penalties imposed on renters, uncoupled households and the self-employed have attracted considerable interest in the public debate. Again, these issues are familiar problems to defined contribution systems, particularly in the Anglo economies where private housing dominates. Eligibility and payment rates for the public pension favor

[5] See media reports, https://www.ipe.com/swedish-pension-boss-calls-for-more-action-on-the-gender-pension-gap/10031142.article?adredir=1 and in the populist daily Aftonbladet, https://www.aftonbladet.se/minekonomi/pension/a/nA8Bao/tio-fragor-det-handlar-pensionsdebatten-om

[6] As noted in The Guardian, see https://www.theguardian.com/business/2018/sep/01/tax-relief-pensions-serve-enrich-wealthy

[7] See Canadian Parliament research, https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201940E#a4.3

homeowners and couples[8] and are reflected in elderly poverty rates, which are at over 60% and 40% for uncoupled and coupled retiree renters respectively (Australian Government, 2020:32). For the self-employed, pension account balances are less than half of those of employees (ibid., pg. 307).

'Outsiders' to the Australia's defined contribution system, then, are low-wage workers, part-timers and the self-employed, those who take career breaks (notably due to caring responsibilities), as well as renters and young people in general. As we have seen, these groups tend to be penalized during their working lives by the proportionally high fees that accrue to low pension savings balances and tend to experience poor outcomes in retirement, with lower balances at retirement and higher rates of elderly poverty. 'Insiders' by contrast are well-paid, fulltime workers in continuous employment, those who own their own homes, as well as the wealthy in general who use the pension system for tax minimization. These divisions map fairly neatly onto other OECD pension systems (Ferragina et al., 2022; Au-Yeung and Chung, 2020), especially those with similar housing markets, such as the UK (Kaifala et al. 2021; Taylor-Gooby et al, 2020, Waine, 2006) and clarify how disengagement with the pension system might follow from experiences of marginalization within the system. That is, those who feel that they are marginal to the constituency for whom the system was designed may reject the system, expressed as disengagement, because they feel that the system is organized to the benefit of others.

Superannuation in financial diaries data

We now turn to household data collected in a financial diaries study with 41 Australian households. The study involved 16 interviews over 10 months with each of 29 households and a condensed set of 3 interviews for a further 12 households.[9] Households were selected from across Melbourne, seeking a loosely even distribution across inner, middle and outer suburbs and across income levels. All households are headed by working age adults and all households have work as their main source of income.

The interviews combine the minutiae of income and expenditure with in-depth qualitative surveys to develop a rich picture of the economic life of each household. This includes the construction of a set of objective and subjective measures of households' engagement, success and attitudes in relation to the superannuation system, covering conventional indicators of engagement (do households check their statements, know their investment stream?) alongside an array of unconventional indicators (do households think the system is fair, have stable incomes?) and quantitative measures of advantage or disadvantage in the system (income, homeownership status). These are presented in Figures 2 and 3, with details of questions administered provided in appendix 1.

Throughout the course of the study, in-depth knowledge was developed about households, including sensitive information on issues like the financial impacts of mental

[8] For example the family home is exempt from public pension means testing and the rate for singles is not commensurate with the higher cost of living for those living alone.
[9] Demographic details are presented in Figure 2, including income, employment stability, self-employed status, and housing tenure.

illness, chronic health problems and family violence; access to private safety nets like inheritances and family loans; and details about divorce settlements and historical financial decisions. These details uniquely place the study in a position to construct an overall measure of insider/outsider status for each household, which reflects the spirit of the insider/outsider literature in assessing the overall benefit that individual households are likely to gain from the pension system. This measure draws on income and likely future earnings to reflect the close alignment of pension outcomes with income; as well as wealth and expected future windfalls, which for example could affect expected future homeownership and mortgage status; caring responsibilities and illness, which affect costs and labor market participation both in the past and in the future; relationship status, job tenure and current superannuation balance relative to age, as well as idiosyncratic shocks and historical circumstances. The overall insider/outsider measure thus utilizes the depth and breadth of the interview data to make sense of basic indicators like income or superannuation balance.

The first column in Figure 2 sets out this overall insider/outsider status of households in the defined contribution system and is followed by three sets of indicators: attitudes to the system, objective measures of advantage/disadvantage in the system, and indicators of engagement. The final column shows investment property ownership.

The figure shows that outsiders are generally low-to-middle income households with relatively low superannuation balances, often with insecure work, such as casual, contract or subcontract work; and often with extra caring duties, such as long-term health issues in the household.[10] A number of households earn disadvantaged employer contributions, defined here as when over 25% of wages of the primary earner in a household is made up of non-superannuation accruing overtime. Insiders, by contrast, tend to either have middle incomes in secure jobs with good income growth potential or high incomes. Insiders have mid-to-high superannuation balances, tend to have less caring responsibilities and often enjoy advantaged employer contributions, such as the high superannuation contributions that accrue to wages of federal employees.[11]

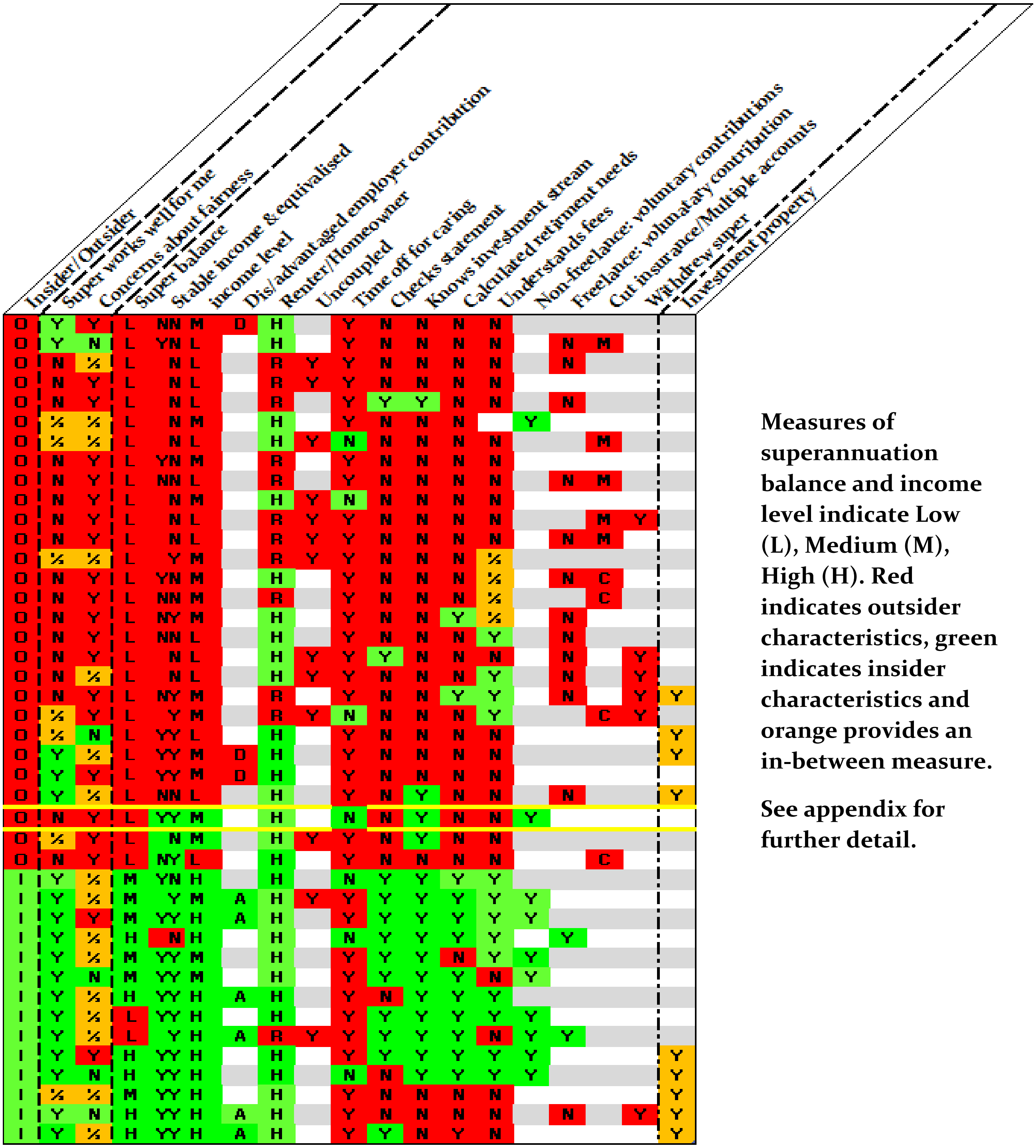
Figure 2 reflects pervasive concerns about equity and reveal a link between disadvantage in the pension system and disengagement. In fact, with very few exceptions, the analysis finds a tidy split in the sample between 'insiders', who are well placed in the system and are engaged with their pension savings; and 'outsiders', who are disadvantaged and disengaged. Attitudes to superannuation are mostly similarly split, with insiders generally positive towards the system and outsiders generally unhappy. Although concerns about system fairness are skewed towards outsiders, these concerns are nonetheless widespread.

Attitudes: Figure 2 shows that negative attitudes towards superannuation don't always track objective measures of individuals' success in the system. In fact, four of the 28 outsider households agree that the system works well for them and was designed for

[10] The exact nature of caring responsibilities are not shown in the figure.

[11] Federal public servants accrue 15.4% and university staff 17%. At 17%, a $90,000 salary earns more super than a $160,000 salary on the standard 9.5% super. Someone on $90,000 who earns 25% of their wages in non-super accruing overtime, by contrast, earns as much super as someone on $67,000.

Figure 2: Key attributes of households as 'insiders' or 'outsiders'



Measures of superannuation balance and income level indicate Low (L), Medium (M), High (H). Red indicates outsider characteristics, green indicates insider characteristics and orange provides an in-between measure.

See appendix for further detail.

Source: Author's calculations using Australian Financial Diaries Study data.

people like them (column 2) despite clear objective disadvantage. These are, for example, households in low paid subcontract work and are hence ineligible for employer contributions yet don't make voluntary contributions and have low superannuation balances.

A further five outsider households gave neutral or contradictory responses to questions about how well suited the system is to their needs (marked in orange in Figure 2).[12] Interestingly, outsiders who either agree that the system works well for them or give contradictory responses are all households from working class backgrounds who have worked long hours in relatively low-paid jobs but have managed, against the odds, to succeed in real-estate markets.[13] These are more or less entirely non-university educated households and have all had a 'leg up' in one way or another, for example with unusually cheap rent while saving for a house deposit or help from family in entering the housing market. These households see themselves as lucky in financial terms more generally and are consequently not inclined towards complaint, even if they are quite aware that the superannuation system doesn't suit their needs well. There is one exception amongst these neutral or contradictory households: a university-educated, middle-income and white collar worker who is in precarious employment and is aware of her outsider status but holds contradictory attitudes to the pension system because she consciously aspires to insider status.

The majority (75%) of outsiders, however, feel that the system isn't designed for people like them and doesn't work for them. For insiders, all but one feel well placed in the system in this regard. This suggests that, by and large, people do indeed have a fairly accurate sense of being winners or losers in the system.

Patterns are similar for concerns about fairness in the defined contribution system. These are represented in column 3 as an index of responses to a set of six question that ask if respondents agree that the system is fair and ask about fairness in relation to wealthy households, women and carers, low-paid and casual workers and freelance workers (see Figure 3 for individual responses to each question). Only two outsider households agree that the system is fair and see the system as neither unfairly favoring wealthy households nor leaving women and carers, low-paid and casual workers or freelance workers behind. Seven outsider households (25%) have concerns with a minority of these aspects of fairness (marked in orange) and 18 (64%) have concerns with the majority of these aspects of fairness (marked in red).

These concerns with fairness are widely shared by insiders, although insiders don't see the system as unfair on as many fronts as outsiders do. Only two of 14 insider households have concerns about fairness across the majority of aspects raised in the questions but two thirds have concerns with a minority of aspects of fairness. Only three insider households feel that the system is fair on each front.

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[12] For example, agreeing that the system works well for them but disagreeing that the system was designed for people like them or responding 'neither agree nor disagree' to these statements.

[13] For example, these households have either worked extremely hard in low-skilled jobs to buy property in the decades prior to the real-estate boom or include a semi-skilled labourer whose regular long overtime hours bring in the equivalent of a well-paid professional job ($100,000 per year) allowing success in housing markets (although at significant personal toll, including not earning superannuation on overtime and being unable to manage domestic labour without a second income earner working part time).

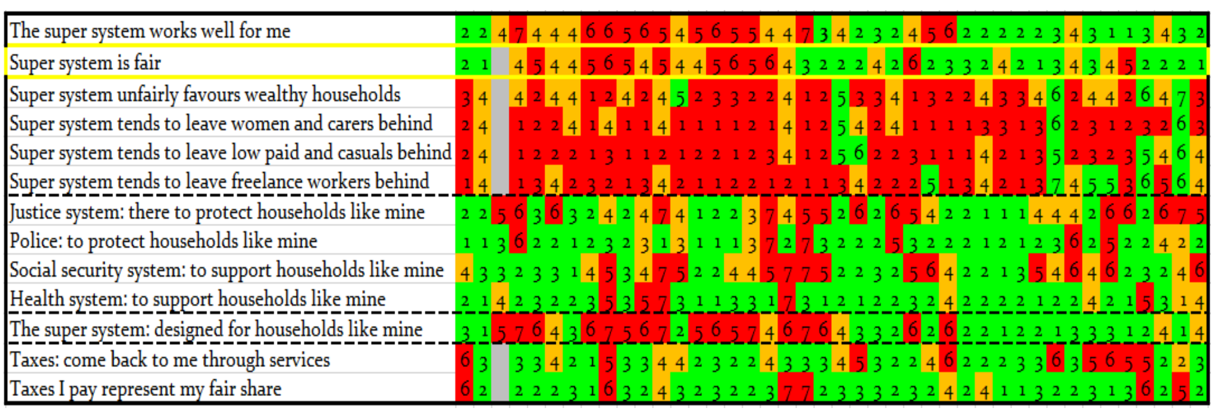
These results flag major concerns with perceptions of fairness in the system: overall barely more than 10% of households agree that the system is fair across all aspects. This suggests that the superannuation system is widely seen as unfair but that it is those who are disadvantaged in the system who perceive it to be most unfair.

Outsiders' stronger concerns with unfairness are clarified further in Figure 3. This figure displays responses to the constituent questions captured in Figure 2's fairness index in the order that the questions were administered.[14] The second row in Figure 3 (outlined in yellow) shows that when respondents are asked if the system is a fair system, outsiders generally answer in the negative and insiders generally answer in the positive. It is only when follow up questions are asked about fairness in relation to particular groups that insiders agree that the system is not fair.

This shows that outsiders are much more familiar with unfairness in the pension system than insiders, who need to be prompted to agree that women and carers, low-income, casual and self-employed households are disadvantaged in the system. Interestingly, of all the specific groups addressed in the questions, households were most ambivalent about the treatment of wealthy households in the system, which attracted the most 'neither agree nor disagree' answers (marked in orange in Figure 3). Recognition of wealthy households' advantage is in fact concentrated primarily amongst insiders, themselves wealthy households.

It is notable that there is no correlation between households that have negative attitudes to superannuation and those that have negative attitudes to other aspects of social policy. The detailed responses to questions about an array of government institutions, from the courts to the tax system displayed in Figure 3 show that those with negative attitudes to superannuation in fact tend to have largely positive attitudes to other institutions. Moreover, of each of these systems, superannuation by far attracts the most discontent.

Figure 3: Household support for various government institutions, answers on a 1-7 scale (strongly agree – strongly disagree)



NB: The order of households corresponds to the order of households in Figure 2.
Source: Author's calculations based on Australian Financial Diaries data

[14] Note that the first six questions about superannuation and the last nine about other government institutions were delivered in two separate waves.

Engagement: Indicators of engagement in Figure 2 are even more clearly aligned with insider/outsider status than indicators of attitudes. Outsiders generally neither regularly read their statements, know their investment stream, have a good understanding of the fees they pay on superannuation or have made efforts to calculate their income needs in retirement (for example with online calculator tools). A surprisingly large number of outsiders have at least one member in freelance work, none of whom make superannuation contributions (column 16). Four outsider households have multiple accounts and four have cut the insurance attached to superannuation without organizing alternative coverage (combined in column 17). Interestingly a comparison of Figures 2 and 3 show that cutting insurance is in all cases connected to strong concerns about unfairness in the superannuation system whereas multiple accounts are associated with more passive concerns about inequity.

Arguably the most important indicator of engagement is voluntary contributions. Although affordability is a real concern for low-to-middle income households, public messaging from the media, government and superannuation sector urges households to put in to super as little as $10 per week to benefit from 'the magic of compounding interest'. Yet of outsider households, only two households make voluntary contributions (column 15). One (outlined in yellow in Figure 2) is an outlier to the insider/outsider division constructed here: a relatively low income, semi-skilled household with low to moderate income potential. Given these demographics, this household is unusually engaged in the system, which cannot be explained in the framework proposed. The other outsider household that makes voluntary contributions, however, began making contributions as part of a historical government matching scheme and is unaware that the scheme was dramatically reduced over 15 years ago and that these contributions are no longer being matched as before. For this household, voluntary contributions are not properly a sign of engagement.

For insiders, on the other hand, the majority make voluntary contributions and the remainder are either keenly committed to super but focused on paying down the mortgage on the family home first (not shown in Figure 2), or uninterested in super and focused on a portfolio of investment properties (amongst the cluster of households with investment properties, shown on the last column in Figure 2). With only very few exceptions, all insider households, except those keenly focused on their portfolio of investment properties, read their statements, know their investment stream, understand fees, have calculated their retirement income needs and make voluntary contributions.

These patterns are generally consistent within households. Indicators in Figure 2 generally reflect the insider/outside status for the household as a whole, although engagement indicators pertain to the individual respondent. For coupled households, the respondent was asked about the engagement of their spouse/partner, which revealed consistency within households. The only exception is split into two entries that straddle the border between insiders and outsiders in Figure 2. The female member of the household (the final outsider household in Figure 2) has had extensive career breaks due to caring responsibilities, is in part-time middle-income professional work and is ambivalent about continuing in that career. Her husband (the first insider household in Figure 2) is in extremely well paid, specialist and stable work but works rotating shifts, requiring that his wife accommodate his roster in managing her work and domestic duties. She is resentful of super for neglecting carers; indeed she will only catch up to the recommended pension savings balance with extensive contributions for the rest of her working life. By contrast her husband's earnings are high enough that he won't need to make any additional contributions to stay on track with the recommended balance for his age. He is considerably engaged with his super but she is disengaged.

The empirical literature on attitudes to super and disengagement

The insider/outsider approach strikes a sharp contrast to the established empirical literature on disengagement in Australia's pension system. This literature is the product of close collaboration between industry, policymakers and academics, who address barriers to consumer engagement in a growing empirical literature on attitudes towards superannuation. The literature includes extensive surveys and focus group research undertaken on behalf of government agencies, pension funds and consumer groups, described here as the policy and industry-sourced literature (see the list of reports provided in appendix 2); as well as academic work that both draws on that literature and includes its own surveys and laboratory experiments. We now turn to this literature for two reasons.

Firstly, its focus group and survey research identifies serious misgivings about the defined contribution system amongst Australian household, with distinct undertones of concerns about fairness. These findings support the proposition that distributional equity in the defined contribution system is a significant concern for households and important impediment to engagement. However, the way that these issues are handled in this literature is also informative. The policy and industry-sourced literature is plagued by tensions that reflect the difficulty that the behavioral approach has in dealing with distributional issues. This provides a second reason for considering this literature here, as it helps to explain why distributional issues are so resoundingly unexplored in the empirical literature.

But first, a brief outline of this literature's key findings. The policy and industry-sourced literature presents a largely consistent view on Australians' attitudes towards superannuation. There is consensus in the literature that disengagement is a key issue; indeed the *raison détre* of much of the survey and focus group literature is to advise strategies for arresting disengagement. The general consensus is that headline support for the system is strong but that consumers are concerned about the 'affordability of retirement', reflected in consistent findings that only around a third of Australians are confident that they will have enough super and savings to retire comfortably. The low prioritization of retirement planning amongst households that is found across this literature is generally attributed to perceptions of superannuation as boring and confusing. Most policy and industry-sourced studies identify concerns about fees and reticence to pay for financial advice; some identify dissatisfaction with customer service and others concerns about impacts of market volatility on returns. Many raise issues about trust and some show concerns about transparency and the frequency of legislative changes to superannuation. Questions about satisfaction with the system (as opposed to satisfaction with pension funds) are strikingly rare and when asked attract a lukewarm response: only around half of Australians agree that they have confidence in the superannuation system (FSC/ING, 2014:7). Still, the policy and industry-sourced literature paints an overall positive picture of attitudes to superannuation. Included in the 'strong support' and 'high sentiments' that are characteristically reported in this literature are statistics such as that 61% of Australians agree that the system is 'something to be proud of' (FSC/ING, 2014:6); almost 70% strongly support compulsory employer superannuation contributions (ASFA 2019:4) and 75% support a rise in the employer contribution rate (ASFA, 2010, 2020; see also CIFR, 2015; Suncorp, 2016).

Yet amongst these generally upbeat descriptions can be found a minority of reports that include characterizations of attitudes to super as 'cynical', 'disillusioned', 'reticent and skeptical' (CHOICE, 2016; Verve, 2019; CIFR 2015) and as a 'love/hate relationship' (Suncorp, 2012). These contradictory depictions of attitudes to super are particularly striking in the literature's treatment of trust, where empirical work finds a level of distrust that sits uncomfortably with the overall outlook of the policy and industry-sourced literature. That is, there is tension between the prominence of distrust in policy and industry-sourced research on attitudes to superannuation and its absence in the behavioral framework that guides that research, which is set out in the academic literature. This is of particular interest because of the close link between notions of trust and fairness. Before considering how trust in handled in the literature, however, we first turn to a brief review of the much-cited CHOICE report, which demonstrates a deep sense of discomfort with the pension system that is well suited to the 'don't play if you can't win' interpretation.

Undertaken on behalf of consumer-advocate CHOICE and funded by the federal government's Financial Literacy Board, the CHOICE report stands out from the rest of the literature by explicitly exploring emotional responses to superannuation.[15] Combining in-depth qualitative interviews, multi-stakeholder workshops and focus groups, the CHOICE report seeks to explore how Australians think and feel about the defined contribution pension system in order to tackle disengagement by identifying barriers and triggers.

The report identifies nine key 'research insights', the bulk of which reflect dissatisfaction and mistrust on the part of Australian households – 'Conflict and tension about super lie just below the surface', for example.[16] More importantly, however, in synthesizing these insights into a set of policy recommendations, the CHOICE report presents deeply harbored concerns about inequity in the super system as the primary driver of disengagement. The first of the report's three key recommendations express findings that feelings of 'systemic injustice undermine individual action', hence 'there is an opportunity to call out this injustice….(and) give a voice and path to action for the individual' (pg. 16). In other words, in order to spur engagement, consumers' sense of injustice about the pension system should be targeted. Although the report doesn't explore why respondents associate a 'sense of injustice' with the superannuation system, it nonetheless demonstrates the centrality of equity issues to attitudes towards

[15] See also Verve (2019) and Suncorp (2012).

[16] Others of note are titled: 'Uncertainty and lack of trust about super', 'People are looking for answers, not more information', 'People are looking for an independent, impartial arbiter' and 'Money troubles take priority over money worries', which refers to emotionally charged concerns about current and future security that the pensions system taps into.

superannuation. Noting that 'every mother (in the study) expressed resentment in the inequality in the system', for example, messaging must 'invoke(e) a sense of inequality' in order to encourage new mothers to make up through voluntary contributions what is lost to time off work raising children (pg. 23). Similarly, the report recommends that messaging to young people address the problem of duplicate accounts by invoking a 'sense of injustice' in unnecessarily paying duplicate fees and insurance (pg. 21).

The report's three key recommendations combine this novel behavioral attempt at operationalizing concerns about fairness with recommendations far more conventional to the behaviorist literature. That is, the report recommends firstly 'calling out the flaws in the system' but also delivering a better user experience by both using new IT tools (not just more information) and communicating in more convenient and personalized formats to make superannuation 'tangible' by bringing pension savings from the distant future into consumers' everyday lives (pg 44).

Regardless of the merit of the report's proposed strategies, of interest here is that the CHOICE study thus reveals the prevalence and centrality of concerns about fairness in superannuation. The CHOICE findings thereby implicitly support the argument put forward here that concerns about inequity in Australia's defined contribution system are central to Australians' attitudes to the system and hinder engagement with the system.

The CHOICE findings also demonstrate the second point of interest in the policy and industry-sourced literature: this literature has difficulty making sense of concerns about trust and equity and thereby struggles to transpose these concerns into meaningful policy recommendations. By resoundingly avoiding distributional analysis in its consideration of perceptions of mistrust and injustice, for example, the CHOICE report is forced to address trust issues only in terms of the agency of individuals and funds. With this narrowed scope, strategies to enhance trust are oriented around the hope that trust will grow as households become more engaged. Hence, recommendations to tackle perceptions of mistrust and injustice are essentially those that target disengagement: improved user experiences, better consumer interfaces, targeted messaging and financial literacy training. Without thorough analysis of the origins of perceptions of mistrust and inequity, these policy recommendations ring hollow, at least insofar as they address the trust issue.

This dynamic recurs in Verve Super's research on attitudes to superannuation, which finds widespread concerns about equity but does little to explore those concerns or address them in policy recommendations. To the statement, 'the superannuation system is not designed to support the average woman to retire comfortably', Verve finds only one in five Australians disagree (Verve, 2017:11). This question is highly unusual amongst this literature for its direct engagement with opinions on a specific demographic's disadvantage in the system. Yet the report does little to explore perceptions of fairness or how women's' understanding of their own disadvantage interacts with engagement. Instead the report's recommendations remain limited to the confines of financial literacy: women must be educated to make up for low balances with extra voluntary contributions.[17]

[17] See also Suncorp (2012) for another example of the same dynamic.

A blinkered interrogation of fairness combined with simplistic behaviorist policy recommendations occurs across the policy and industry-sourced literature in its handling issues of trust. Although trust is raised as a key concern amongst households by an array of studies,[18] in each case trust is interrogated not in relation to the defined contribution system but in relation to individual pension funds. A typical example of this narrow interrogation of trust is the FSC/ING Sentiment Index (2014:11), which asks respondents if they trust superannuation funds and if they are concerned about transparency in funds and fee structures.[19]

These concerns echo the federal government's high level 2018 inquiry, the Royal Commission into Misconduct in Banking, Superannuation and Financial Services. The inquiry explored opacity in superannuation fees, including the extensive practice of what came to be known as 'fees for no service', as well as misuse of member funds and conflict of interest concerns. For the government's 2020 Retirement Income Review, 'poor system integrity' of this nature is the key issue undermining trust in Australia's defined contribution system (pg. 399). Yet by not asking respondents if they perceive the system to be fair or if they feel themselves to be disadvantaged by the system, trust is interpreted simply as a reputational problem for individual funds, leaving issues of trust in the system *as a whole*, let alone questions of the relationship between trust and equity, outside of the analysis. The result is a set of policy recommendations that seek change not in the system but in individuals and funds.

There is thus tension in the policy and industry-sourced literature between nebulous policy recommendations for addressing trust issues and the prominence of those trust issues in attitudes to the defined contribution system. The source of this tension, it is argued, is the central role of behavioral economics in the academic literature. The academic literature on household attitudes to the superannuation system closely follows the work of Bernatzi and Thaler (2007) which itself is built upon the seminal work in behavioral economics of Kahneman and Tversky (1979). This framework effectively sets the parameters of analysis for the policy and industry-sourced literature, despite its inability to engage issues of equity. This is reflected in the policy recommendations of the policy and industry-sourced literature, which reproduce those of the academic literature.

Financial literacy, for example, is a key implication of behaviorist academic analysis and the primary policy recommendation of the policy and industry-sourced literature. From a behaviorist perspective, improved financial literacy has the potential to overcome the kinds of heuristics and biases that behavioral economists document, by which individuals systematically depart from 'rational' economic behavior. The academic literature consequently finds that those who score badly in financial literacy tests are likely to be both less active and less competent in managing pension savings (Debets et al, 2018; Lusardi and Mitchel, 2011). These findings are reproduced in the academic literature on Australian households' engagement with superannuation (Agnew, Bateman and Thorp

[18] Notably Colmar Brunton (2010, 2019); FSC (2017); CIFR (2015); FSC/ING (2014); Suncorp (2016); CEPAR (2018); CHOICE (2016), aside from those already mentioned.

[19] Finding that around half of Australians *do* trust superannuation funds and almost 70% are concerned about transparency in funds and fee structures. CIFR (2015:3) find that 20% of young Australians trust superannuation funds.

2013; Agnew, Dalton et al., 2013; Bateman, Eckert et al. 2016; Batemen, Eckert et al. 2011; Gallery et al. 2011; Speelman, Clark-Murphy and Gerrans, 2013), producing a pervasive policy focus on financial literacy in the policy and industry-sourced literature.

Similarly, the focus on communication tools and strategies in the policy and industry-sourced literature, such as that consumers need not necessarily more information but better delivery of information (see especially CHOICE, 2016; FSC, 2017; CEPAR, 2018), reflects behavioral economists' work. Experimental studies find that simplifying investment product information can help overcome the status quo bias that hinders active decision-making and support consumers to make better decisions in the pension system (Agrawal et al., 2017). Again, those findings are reproduced with Australian data (Thorp, Bateman et al. 2020; Bateman, Lai and Stevens 2015; Bateman et al. 2016; Parrish and Delpachitra, 2012; Foster, Ng and Wee, 2015).

Moreover, messaging developed in the policy and industry-sourced literature explicitly addresses key behavioral biases, notably hyperbolic discounting and loss aversion, by 'connecting' with consumers' 'current needs and wants' (FSC, 2017:17) and emphasizing the opportunity costs of disengagement. Similarly, the policy and industry-sourced literature's recommended tools and strategies include using framing effects, monetary incentives (such as for completing financial literacy modules or making voluntary contributions) and 'gamification' of engagement with superannuation (for example, FSC, 2017; CHOICE, 2016; Colmar Brunton, 2019), which seek to counter time inconsistency through immediate rewards and 'wins'.

Yet in all this there is no place for equity. Reciprocity and, later, 'inequity aversion' (Fehr and Schmidt, 1999i) are explored in public goods and 'dictator' games in behavioral theory and have been incorporated into work on policy compliance and perceived fairness (see Lind and Arndt, 2016). Individuals' tendency towards noncooperation in circumstances that they deem to be unfair, however, does not appear amongst the heuristics and biases that are addressed in the seminal work of Benartzi and Thaler (2007) on retirement savings. This feeds through to the academic literature on Australia's defined contribution system, which remains predominantly within the framework set by Benartzi and Thaler's work (Kingston and Thorp, 2019). This literature tests for inertia, framing effects and bounded rationality and thus informs policy 'nudges' that push households towards more efficient engagement with the defined contribution system. But it makes no effort to engage with issues of distributional equity.

The policy and industry-sourced literature in turn reproduces recommendations from the academic literature. But it does this without adequately incorporating its own findings about trust (and indeed injustice) in attitudes to the superannuation system. That is, there is no place in policy recommendations reproduced from the academic literature for findings such as those of Verve super that most people see women as systemically disadvantaged in the superannuation system. Hence, this finding is effectively ignored in the policy recommendations made by the Verve report. Similarly, a report for the Tax Office finds a key concern for households is that 'the superannuation system is designed to benefit the wealthy, not ordinary households' (Colmar Brunton, 2019). Again, this finding is distinctly out of step with the policy recommendations that the report makes, which make no meaningful reference to distributional inequities in the superannuation system. Indeed although the policy and industry-sourced literature and the academic literature are unusually well integrated (Kingston and Thorp, 2019), the problem of trust (however poorly analyzed) has not carried from the policy and industry-sourced literature into the academic literature. Instead issues of fairness have remained in large part outside of the empirical literature altogether. In this, the empirical literature demonstrates an overwhelming unwillingness to explore if and how issues of fairness interact with attitudes towards super and the problem of consumer disengagement, even though trust is nevertheless central to its empirical findings on attitudes.

Section 3: Discussion and conclusion

The government's 2020 Retirement Income Review concludes that 'although some concerns about system equity may be valid, limited evidence exists to suggest they will undermine the system's political sustainability' (p. 405). This position is supported by the empirical literature insofar as equity issues are not identified in the academic, policy and industry-sourced literature as a serious problem for the system. Yet the policy and industry-sourced literature uncovers pervasive concerns about trust and equity, most strongly in focus group research where consumer responses most easily move beyond the boundaries typically imposed by survey questions. These concerns sit uncomfortably with the recommendations that the policy and industry-sourced literature produce, which reproduce the financial literacy and framing devices explored in the academic literature. It is argued here that this disjuncture in the policy and industry-sourced literature between empirical findings and recommendations arises because the behavioral approach that dominates the literature is poorly equipped to explore issues of equity. That is, the literature misdiagnoses the engagement issue because the theoretical framework guiding the analysis inadequately engages equity issues.

Certainly, the waters are muddied by the complicated political context in which attitudes to Australia's defined contribution system take shape. As a policy that shifts the burden of retirement incomes from the public pension to private markets, the superannuation system appeals to the pro-market position on the right of domestic politics. However, Australia's defined contribution system has bipartisan support. Superannuation was introduced by the Labor party to extend the pension privileges that had been enjoyed by a minority of white-collar professionals to the mass of workers as part of the radical economic reforms of the 1980s and 1990s that modernized and integrated the Australian economy into global markets through a policy package developed with unions. The superannuation system continues to be championed by Paul Keating, long-running Labor Prime Minister, figurehead for the reforms and widely respected on both sides of politics. Hence although there are considerable partisan fault lines within super – notably around the relationship between unions and a suboset of non-profit super funds – the system as a whole enjoys bipartisan support and is persistently championed in the media, not least by the industry itself, as a world leading system.

The conflict for individuals, then, who align themselves however loosely with 'Labor values' and the union movement yet at the same time experience poor outcomes from the system, might explain some of the more contradictory findings in survey data – or what

Suncorp (2012) terms the 'love/hate relationship' that Australians have with superannuation. Certainly these conflicting political rationales are unhelpful to the task of making sense of attitudes towards super.

In contrast to the behavioral approach to superannuation, the literature on political alienation provides a theoretical framework that is capable of integrating concerns about equity in meaningful ways. This is a particularly important approach given the way that responsibilities associated with citizenship have extended over the last four decades into the realm of financial responsibility, not least in the shift from defined benefit to defined contribution pensions.

The political alienation framework (Schraff, 2019; Emmenegger, Marx and Schraff, 2015; Rovny and Rovny, 2017; Ferragina et al, 2022) explains which economic groups disengage with mainstream politics and why, and can thus be overlaid onto the problem of disengagement in superannuation. This suggests that disadvantage experienced by 'outsiders' to the system (Rueda, 2005) has a role in driving the rejection of responsibilities to the defined contribution system that are widely observed across the system. That is, the dynamics of distributional equity within the system are critical to making sense of the problem of disengagement.

By collecting extensive information about the financial circumstances of households, the financial diaries data are amendable to this approach. Repeated in-depth qualitative interviews allow the financial diaries study to draw on rich detail in assessing households' insider/outsider status in relation to the pension system. Comparing insider/outsider status to indicators of pension system engagement, such as checking one's statement, knowing one's investment stream and making voluntary contributions, reflects clear patterns that show that insider households tend to be engaged and outsider households disengaged. The only significant exception to this is in the case of a number of households that consciously reject superannuation in favor of investment properties.

Moreover, the link between alienation and disengagement is suggested by the much stronger concerns about fairness amongst outsider households. Compared to insiders, outsiders feel much more strongly that the system is unfair and that they themselves have been left behind by the system. This reflects the disenchantment and estrangement from the system that is the focus of the political alienation literature.

The fit between political alienation and alienation from the defined contribution system, however, is not seamless. Notably, there are much more tangible rewards to be reaped from participating in the defined contribution pension system than from participating in the electoral system. This could be expected to lessen the likelihood of non-participation in superannuation by outsiders because the costs of non-participation are higher. Yet on the other hand, there are more alternatives to superannuation than there are to the political system. Hence, individuals who reject the superannuation system can abstain by allocating money to alternative assets, such as real-estate, which counter the costs imposed by noncooperation.

Either way, the parallels remain significant. For Australian employees, both voting and having a superannuation account are mandatory and although both democracy and superannuation are widely celebrated in Australia, it is well known that they both have unequal distributional consequences. The financial diaries data shows that people feel alienated from the pension system - both estranged and untrusting - insofar as they feel that the system is not designed for people like them and that it systematically favors some groups and not others. This is not dissimilar to political alienation, by which individuals feel disenchanted with and estranged from an electoral system that they see as fundamentally unfair. Goodin and Dryzek's phrase 'don't play if you can't win' seems equally applicable.

This approach offers an alternative explanation to the conventional claim that a lack of financial literacy drives poor household engagement with the pension system. This is not to say that financial literacy has no bearing on disengagement but rather to recognize that financial literacy is a partial explanation for disengagement and that causality between financial literacy and engagement is complicated and certainly not complete. Moreover, the proposition that alienation drives some degree of disengagement is not disrupted by the potential endogeneity of financial illiteracy driving disengagement. That is, alienation is not driven by low financial literacy but by caring duties, precarious employment and low wages. Alienation can thus be seen as one piece of the complex puzzle of household disengagement in pension savings.

At issue, then, is that distributional issues do matter. This is perceptible in the existing literature, where 'a sense of injustice', disenchantment and trust issues are repeatedly picked up on in survey and focus group research but swept to the side in a focus on affecting change in individuals and pension providers that steers clear of critique of the system itself. The financial diaries findings show that when households are asked about fairness in the pension system, they have clear concerns. Moreover, by showing that households that are systematically disadvantaged in the system not only are much more likely to be disengaged but have much stronger convictions about unfairness in the system, the findings link disengagement to alienation. The study's findings thus demonstrate an important gap in conventional approaches to understanding the financial behavior of households. This suggests that the behaviorist focus on financial literacy may not be effective in bringing disengaged households into active engagement with the system unless perceptions about systemic fairness are addressed. Contrary to the federal government's Retirement Income Review, concerns about system equity may undermine the system's political sustainability after all.

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APPENDIX 1: Notes on Figure 2

The figure combines objective and subjective measures of attitudes, engagement and disadvantage in the superannuation system drawn from the financial diaries study undertaken by the author in 2020 and 2021.

- 'Insider/outsider' is an objective measure that characterizes if the individual/household has an overall advantaged or disadvantaged position in the superannuation system based on an array of factors, as per discussion on page 7-9.
- 'Super works well for me' is a subjective indicator that refers to answers given to two questions delivered in different waves, which asked respondents to evaluate the statement: 'The superannuation system works well for people like me' and 'The superannuation system was designed for people like me'. 'Concerns about fairness' reflects responses to five statements: The super system is fair, the super system unfairly favours wealthy households, the super system tends to leave women and carers behind, the super system tends to leave low-paid and casual workers behind, and the super system tends to leave freelance workers behind.
- 'Super balance relative to recommended amount' uses the Australian Superannuation Fund Association's Comfortable Standard, calibrated to the age of the individual/household. Balances that are less than 50% of the recommended level are defined as 'very low', those that are 50-75% of the recommended level are defined as 'low'; those that are 75%-110% are defined as 'mid' and those over 110% of the recommended level are defined as 'high'.
- 'Stable income and equivalised income level' is an objective measure based on the employment status of the household head/s over the last 5 years. 'N' indicates that the individual is usually self-employed, on a contract of one year or less or casual. Equivalized income level takes account of dependent children. 'Low' income is defined as less than \$80,000 per year for a two income household with dependent children or less than \$65,000 for an uncoupled household with dependent children. For households without dependent children, the thresholds are \$70,000 for couples and \$50,000 for uncoupled households. 'High' income households are above \$180,000 for a two-income household with dependent children and above \$130,000 for uncoupled households without dependent children. Note that colouring of this cell takes into account advantaged/disadvanted employer contribution status.
- 'Advantaged/disadvantaged employer contribution' refers to either receiving employer contributions in excess of the standard 9.5% of wages, such as in the case of federal public servants, university staff and some financial sector workers; or receiving in excess of 25% of wages in the form of overtime, which does not accrue superannuation.
- Indicators of engagement are 'checks statements', 'knows investment stream', 'Calculated retirement needs' and 'good understanding of fees' are both subjective indicators, the half fraction reflects moderate understanding of fees.
- 'Freelance - voluntary contributions' are only noted in the negative for households that do freelance work but don't pay themselves super. Blank cells in this column denote no freelance work undertaken by the household

- For households at the outer reaches of the age scale, a limited number of indicators are implied. A young married couple that report planning for a family have the box checked for 'time off work caring' based on the reasonable expectation that this will occur. Similarly, a young couple, both in graduate positions of very high paid professions are identified as high income, based on reasonable expectations. This household also has the box ticked for investment property, expressing a distinct predilection for real estate investment expressed throughout the survey period and realistic plans for the near future. Similarly, pre-retiree respondents
- This approach is taken with two households that are very young where outcomes can be reasonably implied.

APPENDIX 2: List of policy and industry-sourced literature

title	year	Produced for	Undertaken by consulting firm?
Superannuation and Australians' expectations	2020	Association of Superannuation Funds of Australia	Y
Community attitudes to superannuation, retirement income adequacy and government policies on superannuation	2010	Association of Superannuation Funds of Australia	Y
Shaping community beliefs, attitudes and norms to achieve willing and correct participation in the tax and super system	2018	Australian Taxation Office	Y
Understanding Superannuation, Preliminary Report: Qualitative investigation with employers, consumers and industry	2010	Australian Taxation Office	Y
Superannuation Guarantee Research	2018	Australian Taxation Office	Y
Investigation Superannuation: Quantitative investigation with superannuation consumers	2010	Australian Taxation Office	Y
Retirement planning, saving and attitudes: survey report	2020	Behavioural Economics Team of the Australian Government	
Retirement income in Australia: Part III – Private resources	2018	ARC Centre of Excellence in Population Ageing Research, University of NSW	
Suncorp-ASFA Super Attitudes Survey	2012	Suncorp Group and Australian Superannuation Fund Association	Y
Suncorp Attitudes to Super Report	2016	Suncorp Group	
Make Our Future Fair: What millennial women want from the superannuation system	2019	Verve Super	Y
Superannuation knowledge, behavior and attitudes in young adults in Australia	2015	Centre for International Finance and Regulation, University of Melbourne	
Project Superpower: Informing a strategy to engage people with their superannuation	2016	CHOICE and Financial Literacy Australia	Y

Superannuation Sentiment Index	2014	Financial Services Council and ING Direct	
ANZ Survey of Adult Financial Literacy in Australia	2015	ANZ Bank	Y
Millennials' Engagement with Superannuation	2017	Financial Services Council	Y

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