HOUSEHOLDER ATTITUDES TOWARDS RETIREMENT INCOMES, AUSTRALIA, 1997.

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Householder attitudes towards retirement incomes, Australia, 1997.

Abstract

In May 1997 the Melbourne Institute conducted a telephone survey of 1200 households across Australia in order to assess community attitudes towards government retirement income plans and superannuation. Our survey found considerable support for some form of contributory superannuation scheme and also a high degree of awareness that people, especially the young, will have to support themselves by superannuation or private assets in their retirement. This implies that people are likely to a sanguine view of governments which take positive policy steps to further these intentions. However, if left in its current form, superannuation programs appear unlikely to deliver higher saving rates. Very few people indicated that they would voluntarily put more of their discretionary incomes into superannuation.

Introduction

Current demographic trends together with the pattern of early retirement suggest that Australia will have to provide income support for an increasing portion of its adult population over the coming decades.[1] During 1993-94, 73.1 per cent of households where the interviewed adult was over 65 years of age, derived their main source of income from government pensions and allowances.[2] This high rate of dependence on public funds clearly represents the attitudes and institutional arrangements from previous decades. If the Government is to continue to support this portion of the retired community from its current revenues, it would need to either increase its revenue base, reduce its expenditures in other portfolios or allow the real value of the pension to erode over time.

[1] ABS projection estimate that the proportion of the population over the age of 65 will double between June 1995 and June 2051. ABS PCAUSSTATS.
[2] ABS cat 6537.0. Also 54.4 per percentage of household income for this group came from government pension and allowances, ABS cat 6531.0.

An alternative is to encourage progressively larger and larger portions of new retirees to support themselves through earlier savings. However, whether this is possible and how it should be done is influenced by people’s current attitudes towards government retirement plans, their personal preparedness to put money into superannuation and their intended source of retirement income.

With this in mind, the Melbourne Institute has collected information on people’s attitudes towards superannuation and other schemes for retirement incomes. The questions formed part of the Institute’s quarterly Survey of Household Savings which was run during May 1997. These additional questions included people’s expected source of retirement income, people’s attitudes towards contributory and means tested pension plans, and factors reducing people’s interest in superannuation. We sought in some cases to compare these responses with work undertaken at the Melbourne Institute during 1994-95.[3] As far as possible the same questions were asked in 1997, however, the different method of collection made it difficult to do this exactly. The 1994-95 survey was part of the National Social Sciences Survey, from the Research School of Social Sciences, ANU. It was a mail out survey and responses reported here are from the first 1300 replies. The Melbourne Institute survey is a telephone survey of 1200 people. The sample was stratified by age, sex, and location. Nevertheless, the consistency of answers across many of the questions suggests that the different method of data collection has not distorted the responses unduly.

We found that people’s expected source of retirement income depended on their age. While only 9 per cent of people 18 to 24 years believed that they would be relying upon Government pensions, over half of people over the age of 50 were intending to rely on (or were using) a Government pension. In addition, over half of all people under 50, who said that they would depend on the pension also expected to receive income from a superannuation fund.

[3] K Zagorski & S Carne (1995) ‘Australian Public Opinion on superannuation’, working paper, 1/95, Melbourne Institute(IAESR), University of Melbourne .

There has been strong but declining support for superannuation across the three years and also a shift in preferences towards schemes which are voluntary rather than compulsory. In 1994-95, two thirds of people who favoured contributory schemes, thought it should be compulsory, but in 1997 this had fallen to just under a half. In keeping with this, we found that in 1997, the most popular form of retirement plan was a contributory non-means tested scheme. In 1994-95, a universal (non-contributory non-means tested) old age government pension, was the most preferred option.

Finally we asked people about the main factors which made them hesitate to put more of their income into superannuation. Just under on third of people said that they had better uses for their money, given their current incomes. Either they preferred to spend their money, pay off debts or they simply believed that they had enough in superannuation already. Just over a quarter were more positively repelled by the existing superannuation arrangement. Ten per cent thought taxes were too high and government policy too changeable, 8 per cent thought returns were both too uncertain too far in the future and a further 8 per cent thought the returns were below average. These answers are consistent with other findings from the February and May 1997 surveys which found that if they had extra savings at their disposal, only 2 to 6 percent of people would put extra money into superannuation.

Several important caveats are worth bearing in mind when interpreting these results. Our survey responses are primarily about expectations and attitudes, and as such, we have only sought qualitative answers.[4] We cannot therefore give them a quantitative meaning and we have to be careful about interpreting results which are summed across individuals. Attitudes do not represent actual behaviours nor are they necessary good predictors of future behaviours. However, they do indicate parameters to the scope of politically acceptable government retirement plan policies. Additionally, many of our socio-demographic variables relate to the individual respondent, while access to a retirement income is usually assessed on a

[4] It is considered false precision to ask people for precise answers to expectational matters in many cases.

partnership basis. Accordingly we expect to have a certain amount of low income or non-working respondents who have wealthy partners and household incomes.

Expected sources of retirement income

We asked working age people which sources of income they expected to rely upon in their retirement and retirees what their current main forms of income were. We found that people's expectations were strongly related to age which suggests that the polices of the Commonwealth Government and the retirement industry generally, have caused a significant shift in expectations over time and over the age cohorts. While an overall 32 per cent of respondents anticipate relying upon (or indeed do rely on) a government pension, only 9 per cent of people aged 18 to 24 years hold this expectation. About a quarter of middle aged people (25 to 49 years) expect to rely on the government pension but over half of people over the age of 50 either do or intend to derive an important part of their retirement income from the pension.

By enlarge, this discrepancy has been taken up by an increased intended reliance on superannuation rather than private assets or incomes from another sources. The very young (18 to 24) seem the most sanguine about their prospects for living off private assets in their old age. Over half of this age group thought it would be an important source of income for them. Unfortunately this capitalist enthusiasm does not appear to be matched by their current saving behaviour. Less that 20 per cent of respondents in the 18 to 24 year old age group indicated that their household was currently saving towards retirement (nearly half of them were saving to buy a car or household item instead).[5] However, these households do have a slightly better self assessed savings records, possible because of the absence of children.

Intended retirement income was also related to one's political leanings. Democrat voters were more likely to believe that private assets will carry them through retirement than ALP and independent voters. Only a quarter of this group believed that they would have to rely upon a government pension. Approximately the same

[5] See Norwich-Melbourne Institute Survey of Household Saving Intentions, Detailed Quarterly Report, May 1997.

proportion of Liberal voters as ALP voters believed that they would depend upon the pension to some extend, but Liberal voters are more likely to expect a supplement from private savings.

Few people had no ideas or thoughts about their retirement incomes. Overall, only 5 per cent replied that they did not know and not surprisingly this proportion was highest for the youngest age group.

Table 1. Main sources of income expect to rely upon in retirement (for self and spouse), by age and voting intention+, Australia, May 1997*

Source of retirement income	**Total**	**Age**				**Voting intention**			
		18-24	25-34	35-49	50+	Liberal	ALP	Demo-crats	Independent
	%	%	%	%	%	%	%	%	%
• Government pensions	32	9	23	25	54	31	33	26	33
• Superannuation	58	60	72	68	41	60	65	62	53
Employer based	44	44	57	50	30	44	50	47	39
Personal	9	7	9	12	8	9	9	14	7
Do-it-yourself	3	1	4	4	2	3	3	1	4
• Private assets and income	43	55	47	42	37	51	43	55	35
• Other such as overseas pension	3	1	2	2	4	3	2	1	2
• Don't know	5	9	4	5	4	3	3	2	7
Total responses (percentage)	**141**	**134**	**148**	**143**	**139**	**148**	**146**	**146**	**130**

+Respondents were asked who they would vote for if a federal election were held that day.
*Includes current retirement incomes for retirees.

Anticipated (or current) sources of retirement income were also related to the respondent's occupation. Over half of respondents who were not working believed that they would (or do) depend upon a government pension. Of the working population, plant and machine operators and labourers etc, expected to rely the most upon the pension. However, even for this group, nearly three quarters believe that their pension will be supplemented by superannuation (or their superannuation will be supplemented by the pension). Twenty-one per cent of clerical, sales and personal service workers believed that they would ultimately rely upon a government pension, but 60 per cent of these also expected some income support from superannuation. The situation for people currently working as para-professionals, tradespeople, manager and professionals is similar. Sixty-six per cent of para-professional and trade workers and 60 per cent of manager and professional who said that they would rely to some extent on a government pension, also believed that they would derive some support from superannuation. Private income is considered most important for people currently working in the managerial and professional occupations.

Table 2. Main sources of income expect to rely upon in retirement (for self and spouse), by occupation, Australia, May 1997*

Source of retirement income	**Total**	**Occupation**				
		Managers, profess-ionals	Clerks, sales-people	Para-profess-ionals , trades-people	Plant & machine operators, labourers etc	Retired, unemployed, home duties etc.
	%	%	%	%	%	%
• Government pension	32	18	21	23	33	47
• Superannuation	58	71	76	69	64	39
Employer based	44	54	62	51	49	28
Personal	9	12	8	10	10	7
Do-it-yourself	3	3	2	6	4	2
• Private assets and income	43	57	51	45	40	32
• Other such as overseas pension	3	2	2	2	1	4
• Don’t know	5	4	1	5	6	7
Total responses (percentage)	**141**	**152**	**150**	**145**	**143**	**129**

About half of those currently aged under 50, and who were intending to use the Government pension, also expected to receive superannuation payments.

Table 3. Sources of additional income respondents expect to rely upon in retirement (for self and spouse) as well as Government pension, by age, Australia, May 1997*

Additional source of retirement income other than Government pension	**All ages**	**Age**			
		18-24	25-34	35-49	50 +
	%	%	%	%	%
• Superannuation	38	50	59	51	26
• Private assets and income	18	0	6	6	15
• Other such as overseas pension	2	0	6	0	3
• Nothing else	49	50	34	41	56
Total	100	100	100	100	100
Total expecting to rely to some extent on the pension (percentage)	**32**	**9**	**23**	**25**	**54**

Attitudes to a universal old age pension

Householders were asked their views on four basic retirement income policies and these were compared with the responses given in 1994-95. First, a *laissez faire* scheme where-by all retirement incomes are financed out of private savings and the government does not provide any pension. Second, a scheme whereby the government provides pensions for the poor only. This is a non-contributory means-tested scheme. Third, a scheme whereby the government only provides a pension for families where at least one member had worked and paid taxes for at least ten years. This is a contributory non-means tested scheme. And fourth, a universal government pension for every one over 65. This is a non-contributory non-means tested scheme.

With respect to the first three options, attitudes appear to change little between 1994-95 and 1997. About three quarters of people believed that the *laissez faire* scheme is a bad policy in both years. Pensions for poor people only, which approximates the present Australian non-contributory, means-tested scheme, was in both years more popular than the *laissez faire* scheme, but was not the most popular scheme. About half of respondents considered this a bad policy. In May

1997, it was most popular among clerical, sales and personal service sector workers and households with low incomes. It was also relatively more favoured by Liberal voters.

People were on balance positive about a scheme to only provide pensions for those who had worked and paid taxes for at least 10 years. It was less popular with by older people over 50 years and people on low incomes, and Green and Democrat voters.

The main change between 1994-95 and 1997 in attitudes, was towards the provision of a universal pension scheme. In 1994-95, this was the most popular scheme, with over half of people considering this a good policy. At this time it was more favoured by clerical sales and unskilled workers and Liberal voters. In 1997 however, only 30 per cent thought it was a good policy and it was less preferred over a contributory non-means tested scheme for tax payers and their families. There is no strong socio-demographic pattern to the people who still supported a universal (un-means tested) policy. It was slightly more favoured by retirees and home owners. However, there was relatively strong support for it among National party and independent voters.

In summary, we have found that while Australian householders appear to favour non-contributory non-means tested government pensions in 1994-95, there have been a shift in attitude in favour of contributory non-means tested pension schemes.

Table 4. Views on retirement income policies, Australia, 1994-95 and 1997.

Type of retirement plan	1994-95*	1997#
	%	%
1. No government old age pension. People save for themselves.		
• Good policy	15	10
• Mixed feelings	15	15
• Bad policy	70	73
2. Government old age pensions for poor people.		
• Good policy	35	36
• Mixed feelings	18	21
• Bad policy	48	40
3. Government old age pensions for families who worked and paid taxes for at least 10 years.		
• Good policy	42	420
• Mixed feelings	22	19
• Bad policy	36	36
4. Government old age pensions for every-one over 65.		
• Good policy	54	30
• Mixed feelings	18	16
• Bad policy	30	52

*Based on the National Social Sciences Survey, Research School of Social Sciences, ANU. Mail-out survey, 1300 responses, November 1994 - January 1995. Data drawn from K Zagorski & S Carne (1995) ‘Australian Public Opinion on superannuation’, working paper, 1/95, Melbourne Institute(IAESR), University of Melbourne .
#Norwich-Melbourne Institute household Savings survey, May 1997.

Support for a contributory superannuation scheme

In both 1994-95 and 1997, there was strong support for the provision of some form of contributory superannuation scheme. Ninety-eight per cent supported it in 1994-95 compared with 88 per cent in 1997. However, there has been a shift in preferences over the degree of compulsion used to recruit members. In 1994-95, two out of three householders supported some form of compulsory superannuation scheme, however this fell to 43 per cent by May 1997. In 1997, people were more evenly split between compulsory and voluntary schemes. Only 8 per cent did not think superannuation is a good idea and 4 per cent did not know. High income earning households, those with incomes over $50 000 per year, are slightly more likely to favour compulsory contribution schemes that low income households.

Table 5. Should a superannuation scheme exist that takes 10 per cent of earnings during working years and saves for retirement?, Australia, 1994-95 and 1997.

Response	1994-95*	1997#
	%	%
No, not a good idea	2	8
Yes, but people should join only if they want to.	34	45
Yes, people should be required by law to join a scheme	64	43
Don't know		4
Total (percentage)	**100**	**100**

*Based on the National Social Sciences Survey, Research School of Social Sciences, ANU. Mail-out survey, 1300 responses, November 1994 - January 1995. Data drawn from K Zagorski & S Carne (1995) 'Australian Public Opinion on superannuation', working paper, 1/95, Melbourne Institute(IAESR), University of Melbourne.
#Norwich-Melbourne Institute household Savings survey, May 1997.

Table 6. Should a superannuation scheme exist that takes 10 per cent of earnings during working years and saves for retirement?, by household income, Australia, 1997#.

Response	Annual household income					
	Up to $20 000	$21 to $30 000	$31 to $40 000	$41 to $51 000	$51 to $70 000	Over $71 000
	%	%	%	%	%	%
No, not a good idea	8	5	11	10	10	6
Yes, but people should join only if they want to.	49	48	41	45	39	36
Yes, people should be required by law to join a scheme	39	45	45	42	47	56
Don't know	4	2	4	2	3	2
Total (percentage)	**100**	**100**	**100**	**100**	**100**	**100**

#Norwich-Melbourne Institute household Savings survey, May 1997.

Factors reducing interest in superannuation

In the 1997 survey, householders were also asked what inhibited them putting more of their household income into superannuation. Importantly, respondents were not prompted and the interviewer was asked to classify the responses as well as they could. While this was done to avoid biasing responses, it resulted in a wide dispersion of answers. Most people only gave one response although a multiple was acceptable.

About one in three householders indicated that they would not like to contribute more towards a superannuation fund because they were positively attracted to other uses for their incomes. Fifteen per cent indicated that they were generally satisfied with the level of their superannuation given their income constraints (this reason was more commonly given by people receiving incomes under $40 000). This was either because they did not have any income to spare, they were happy with their existing superannuation levels or they were paying the full amount they could have under an employer based scheme. Seven per cent preferred to pay off debts rather than invest (especially the 25 to 44 year olds). Eight per cent gave retirement as a reason and one per cent said it was because they did not have a job.

Over one quarter were disinclined to put more funds into superannuation, because they were repelled by some features of existing schemes. Ten per cent thought tax rates were too high or were concerned about future government changes to rules regarding superannuation (this reason was more likely to be mentioned by the 25 to 49 year old age group and receiving over $60 000 a year). Eight per cent thought the investment was too risky given the very long period the funds were tied up for. A further 8 per cent did not feel the returns were very good compared with other forms of investment (again this was more likely to be mentioned by 25 to 49 year olds) and 5 per cent wanted to be able to access the fund when they needed it (especially people under 45 years). Only 3 per cent were concerned with potential losses to their investments when they changed employers and 2 per cent thought they would lose too much of their government old age pension when they retired.

One in five householders appeared to be passively discouraged, being confused or uncertain about the whole issue. Six per cent did not feel they knew enough about the issues and 3 per cent found the whole business too complex to understand. A rather large 13 per cent were simply unsure about the whole business.

Four per cent indicated that they would not hesitate about putting more money in a superannuation schemes.

Table 7. Main factors which make you hesitate to put more of your household income into existing superannuation schemes?, Australia, May 1997[#].

Response	**Frequency**	
	%	
Better alternative uses	31	
• Prefer to spend the money, have enough super.		15
• Prefer to pay off mortgage and other debts		7
• Retired, no job		9
Passively discouraged	22	
• Don't know enough about them		6
• Find it too complex to understand		3
• Don't know		13
Repelled	28	
• Will lose too much of my old age pension when I retire		2
• Lose too much if I change employers		3
• Returns are not good compared with other investments		8
• Current and future taxes, changes to government rules		10
• Investment is too risky		8
• Access to money		5
Enthusiastic	4	
• Don't hesitate, happy to put more money in		4
Other	8	
Total	**101**	

#Norwich-Melbourne Institute Household Savings survey, May 1997.

Table 8. Best form of future household savings, percentage giving each form, Australia,
February 1997 and May 1997#.

Best form of future household savings	1997 Feb	1997 May
	%	%
• Bank, credit union, building society	15	13
• Managed trust and direct ownership of shares etc	23	21
Managed trusts such as equity, property or CMTs	8	8
Direct ownership of shares, bonds, debentures	15	13
• Real estate	25	20
• Employer based superannuation	1	2
• Personal superannuation	1	3
• Do-it-yourself superannuation	0	1
• Pay house mortgage	17	18
• Pay other debt	8	10
• Other	8	7
• Don't know	2	3
Total responses (percentage)	**100**	**100**

#Norwich-Melbourne Institute Household Savings survey, February and May 1997.

Summary

- While there exists reservations over superannuation policies, in principle, most people would like to see some form of contributory retirement income plan in place, either as a superannuation plan or as a contributory government pension.
- On balance, people do not favour the two more extreme forms of retirement plan, that is, no government pension or a universal pension.
- There is a considerable difference in retirement expectations across the generations. Very few young adults expect to rely upon a government pension in their old age and about half of these expect their pensions to be supplemented by superannuation to come extent. On the other hand, about half of all people aged over 50 either plan to use a pension or are receiving it.
- Between 1994-95 and 1997, people have become more disenchanted with both universal government pension schemes and compulsory superannuation schemes.

- Approximately, one third of householders currently do not put more of their incomes into superannuation because they would rather spend the money or pay off debts, given their incomes.
- Just over one quarter of householders are repelled by the existing schemes. This is largely because they believe that the returns will not be good enough given existing tax rates, lack of access to their funds, the long time horizons involved and the propensity of governments to change the rules.

Conclusions

Whether current superannuation contribution levels will be enough to make the retiree and their spouse independent from the pension, it is not clear from our survey. People may not be aware of whether they are saving enough or may believe that they will save more ‘tomorrow’. However, our survey of community attitudes suggests that because people support some form of contributory schemes and are also aware that they will have to support themselves some how in their retirement, they will are likely to a sanguine view of governments which take positive policy steps towards these ends. However, in its current state, superannuation programs appear unlikely to deliver higher saving rates.

Of course, higher rates of saving are not the only way to increase the level of household savings. Higher employment and income levels will also raise this level but this is another story.