Savings Adequacy: The ‘Plum’ Story

1) Introduction – are our members saving enough for retirement?

We’ve heard a lot of discussion around retirement adequacy and research results. I’d like to take a few minutes to tell our story at Plum Financial Services (Plum), our experiences and the industry leading techniques we have used to better help our members be comfortable in retirement. Last year, we launched for the first time in Australia a savings program based on soft compulsion… and our initial results are in! Today, I will run through why we implemented this program and how it has already had a huge impact on some of our members, changing their savings patterns for the better. Think of us as a real live case study!!

Plum is one of the premium corporate superannuation providers in Australia today. Plum was created in 1998 and since then has provided integrated superannuation solutions for medium to large Australian corporations. It is a wholly owned subsidiary of MLC Limited, which in turn, is part of the National Australia Group of companies. As of June 2007, Plum administers $9 billion of assets for 82 clients and approximately 127,000 members.

Purpose-built for the era of member investment choice, Plum’s philosophy is to provide members with a meaningful education experience to help build their knowledge and understanding of superannuation so that they are empowered to manage their financial future. In doing so, Plum’s goal is to help all members work towards achieving a financially secure retirement.

Access to the Plum Superannuation Fund, and Plum’s education program, is primarily available for employees of Plum clients. However, spouses of existing Plum
members, and members of the Plum Personal Plan, are also able to receive these benefits.

2) The key decisions members should make

Falling short of retirement goals

We knew that in order to help our members, we first needed to know more about how they were positioned for retirement. Plum’s evidence told us members were falling short of the commonly accepted retirement income levels with our internal statistics telling us:

- the average Plum member makes a contribution of around 12% of income annually;
- only 26% of Plum members make additional contributions.

Commonly-accepted industry data says around 15% of a person’s income is required in order for them to be comfortable in retirement meaning most of our members were falling short of this goal. The data also indicated Plum’s members were making more contributions than the industry average\(^1\), however many might still be falling short of their retirement goals. Plum began to look at how to improve our members situation with the end goal of increasing the number of members making contributions to 50% and increasing the average amount of contributions to 15% of people’s income. We had some great ideas (more on these later) but knew in order for them to be effective we would also need the support of our clients – our members’ employers.

So in January 2007 Plum launched the Savings Adequacy Tool, to better help Plum and our clients understand whether or not their member base is saving enough. The tool is used internally by our Relationship Managers in their regular reports to, and

\(^1\) Rice Warner (formerly Rice Walker) *Investment Strategies in Australian Super Funds*  
Touchstone Newsletter, April 2006
discussions with, clients over how their member base is faring. The tool breaks each client’s member base into average ages and analyses their financial state. It shows how prepared for retirement, within these broad age demographics, the average member for each client is and it has really made our clients sit up and take notice.

To make our tool as useful and applicable as possible, it uses two commonly accepted standards of adequacy, which the data is run against. It considers whether the member has saved enough based on:

1. Does the member’s income in retirement represent 70% or more of their current salary?

2. The Westpac – Association of Super Funds of Australia’s (ASFA) Retirement standards.$^2$

The results from the Savings Adequacy Tool confirmed our belief – whilst our member contribution rates are much higher than the industry average, our members are still falling short of both these standards and were not on track to have an adequate super fund in retirement. This was most obvious in the 40+ age category where members have not been able to take advantage of the 9% Superannuation Guarantee (SG) like our younger members.

But knowing our member’s situation was just half the challenge – we also needed to know how to influence our members to achieve their end goal of a comfortable retirement.

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Encouraging members to save more – key decisions

When Plum first started up nine years ago we had a vision that if we could educate and help our members make decisions as to their super, they would actively make decisions over their financial future.

Plum realised there is three key decisions each person has to make to be able to achieve a financially secure retirement:

1. Where to invest? (Asset allocation)
2. How much to invest? (The level of contributions required)
3. How long for? (The longer you accumulate the less time there is to draw down your retirement savings)

If we can help people make these decisions they will have the best possible chance of being comfortable in retirement! At the same time we also know the third decision is something we have limited control over. We can’t and won’t dictate how long a member should work for. So instead we have concentrated our resources on helping members with the first two decisions, which this presentation will focus on. We initially thought all we had to do for Plum’s members to take action was give them all the information they needed to make these decisions, but Plum soon realised that was not enough.

3) Influencing members – segmentation and behavioural finance theories

Plum liaised with Vanguard in the US, who we have a strategic alliance with, to learn more about the latest segmentation research based on attitudes to money. We found that people, no matter what their demographics are, tend to have certain behaviours towards money – what we call Money Attitudes. We identified five main behaviours but broadly speaking people tend to be ‘planners’ or ‘avoiders’. This means that not everyone wants to be financially literate or get the same amount of financial information.
The question facing us was how to get these planners and avoiders to make these decisions? For example for the avoiders, it doesn’t matter how much education we give them, as they will avoid making a decision on their finances. As a result Plum developed different techniques to cater to the different learning styles.

**Decision one – Where to invest**

**Planners** – For these guys it is easy. We developed a range of materials with our main tool the *Planning Your Future Today* education kit. The kit is given to new members when they join the Plum fund and it includes all the forms they need, as well as information to help them make these decisions. The kit is also designed to suit all of our member’s levels of interest using different techniques for the different learning styles. This includes:

- The booklet; divided into two sections with the first four pages containing simple ‘step-by-step’ processes for those members who don’t want to read through masses of information – with the steps guiding them towards action. The second section of the booklet is designed for members who require more detailed information and want to read through strategies in detail.
- Simple checklists and summaries for those who like a quick overview
- More in-depth information for the dedicated planners
- A DVD to suit those who like to have someone talk them through the options.
- We also provide tools such as the *asset allocation tool* which helps both experienced investors and those with no existing knowledge of investing and asset classes, by giving them an appreciation of how a range of different investment options would look in terms of asset allocation
Avoiders – These were the hard ones. We have built into all of our plans default strategies for our members, giving them the best chance of achieving the best long term investment returns. For most Plum members the default is 80% in growth assets (shares and property) and 20% in defensive assets (fixed interest in cash). This default is more aggressive than most of our peers but we think this is appropriate for long term investments.

Decision two – How much to invest?

Planners – Once again, we have developed a range of materials suiting all their levels of interest:

- We provide them with the Breaking Myths education kit which uses similar techniques to the Planning your Future Today education kit. It has a variety of super savings strategies at a both a high level and more in-depth level.
- We also offer members a retirement gap savings calculator so they can see where their own individual situation fits.

Avoiders – This is the really tough one. How do you make a person decide to invest more if they weren’t investing enough, particularly when they were unlikely to make a financial decision? The default contribution level for most Australians is the 9% Superannuation Guarantee, but as mentioned above common retirement theories predict this is not enough by itself. Plum looked to behavioural finance theories and from those introduced to Australia for the first time a program called the Escalator Program. I will talk more about this program shortly!

Behavioural finance

Plum has long been a proponent of the use of behavioural finance in the development of our education materials. Behavioural finance integrates insights from psychology with economic theory to better understand economic decisions and how
and why we make them. Plum looked at both segmentation and behavioural finance theories in developing the *Escalator Program*.

The *Escalator Program* is based on a proven initiative called SmarT (Save More for Tomorrow) designed in the US by behavioural finance researchers Professor Shlomo Benartzi from UCLA and Professor Richard Thaler from the University of Chicago. The Program is also offered by Vanguard in the US and is called ‘One Step Save’.

Launched in September 2006, the program makes it easy for people to save by addressing the issues that usually prevent them from making financial decisions. These are primarily inertia and loss aversion. The *Escalator Program* overcomes people’s inertia towards making decisions and helps increase their savings by making decisions for them – this is popularly known as ‘soft compulsion’.

The program works by:

- Providing a voluntary contribution solution for accumulation members that automatically increases pre-or-post tax contributions by chosen increments of 1%, 2% or 3% p.a.
- The increases continue up to a maximum of 15% p.a, inclusive of the Super Guarantee.
- The timing of the first automatic increase is set for a specific point of time in the future for all members, as nominated by the employer. This is usually in line with the employer’s remuneration review so they often will notice little or no change to their take home pay, or it may even go up.

The program is available to employees with accumulation benefits and adopts solutions for ‘opt-in’ (the member needs to sign an application form when they agree
to participate in the program) and ‘opt-out’ (member signs form if they do not want to participate) approaches.

**Escalator Program results to date**

*Escalator* was launched in September 2006 and a few versions of these programs are underway with clients, who have seen how their members are positioned according to Plum’s *Savings Adequacy Tool*. Initial results have been really positive for ‘opt in’ versions of the programs and for the ‘opt out’ versions, the results have been absolutely phenomenal.

Already 12 of Plum’s clients are in the process of adopting a version of *Escalator*. Another five have implemented their own version and we have had discussions with another 24 clients who have indicated they are receptive to the concept. These clients range from manufacturing companies to industrial equipment providers, wine and beverage merchants and a financial management and advisory company. This means that 50% of our clients are taking up, or have indicated they are likely to take up, a version of the *Escalator Program*… and that is just in the first ten months!

Plum’s clients are taking up the program in a combination of ‘opt in’ and ‘opt out’ with many choosing ‘opt out’ for new employees. The flow-on effect is that, over time, a large proportion of Plum’s members will be contributing more to their super and the average contribution rate will go up. A great outcome for members!

Our first client to take up *Escalator Program* implemented it on a combination of an ‘opt in’ basis for current employees and ‘opt out’ basis for new employees. Within the first few weeks of the campaign launch 35% of members responded. Of these members, a total of 68% ‘opted in’ to the program. That is much higher than our pilot results of a response rate of 6%, which was offered on an ‘opt-in’ only basis, and
reflects the commitment shown by the sponsoring employer to get members to the education programs. Over time we can expect the proportion of members who make contributions to increase as those new members who are offered it on an 'opt out' basis take up the program.

But the real story is about our first client who has implemented an 'opt out' version of the program. In the first few weeks alone, the number of members making voluntary contributions has risen from 60% to 90%. In addition, under this version of the program all voluntary contributions jumped by 5% across the board. Only 10% of members took action and chose not to participate in the program. This clearly demonstrates the power of soft compulsion. We will continue to monitor our client’s results and further analysis of them is underway.

In addition, since the launch of the Escalator Program, Plum has received widespread media coverage in the major dailies and trades press. The concept has been applauded publicly, and was the subject of an ASFA submission to the Government and has been supported by leading superannuation thinkers, including former Prime Minister Paul Keating, who called on the Government for the concept to be compulsory for all employers.

4) Conclusion – Next steps

Key learnings

- Behavioural finance tells us being financially literate does not necessarily result in people taking action over their finances. That is why Plum believes financial providers need to continue to do more research and find better ways

for their members to be comfortable in retirement. The Escalator Program is one way to overcome the inertia of those ‘avoiders’ and initial results show the program is highly successful at increasing member contribution rates. These results validate the theory behind the program, telling us financial providers need to continue to find new ways to encourage their members to save.

- Although there is a lot of theory around what is an adequate retirement income, more work needs to be done to look at actual case studies. In the coming months, Plum is looking at doing research into the adequacy of retirement incomes and will continue to leverage off the latest intellectual property and research from our partner Vanguard in the US. Plum believes better understanding the adequacy of retirement incomes is essential for super funds to help and support their members. Looking to case studies in other systems, such as the US, is part of this approach and can give us invaluable insight into new and better ways of doing things.

- Our statistics tell us we are on the right track with our education approach. Around 76% of Plum members made an active investment choice when they joined Plum – that is far above the industry average of 10%\(^4\). Not only does that mean our use of segmentation and behavioural finance theory is working, it also means our members are more likely to be making decisions that will result in them having an adequate retirement income.

- Prior to the Escalator Program being introduced, 26% of our members were putting more contributions into super. One of our aims in initiating the

Escalator Program is to increase the number of members making contributions to 50% of our member base over the next four years. The initial results of the Escalator Program tell us we are well on track to achieve this goal as Escalator continues to be rolled out to our clients.

- Member reaction to Escalator has been positive. Our results show that the response rate of members ‘opting in’ to the programs range from 3% to 24% for ‘opt in’ and when combined with ‘opt out’ for new members, these figures will rise over time. The ‘opt out’ experience has had a fantastic result, with 90% of employees now making voluntary contributions. That means we have successfully changed the savings behaviours of avoiders, and by saving more now, they are more likely to have an adequate retirement income. This reinforces the recent IUS / SuperReview\textsuperscript{5} survey that showed that 84% of respondents thought ‘soft compulsion’ was a good idea (ie ‘opt-out’).

Finally, with the Government’s Simpler Super changes implemented from 1 July 2007, super is a much more attractive savings vehicle for many of our members. The tax savings in particular can really add up and make contributing to super more effective in the long run compared with other savings options. With the evidence telling us most Australians will not have adequate retirement incomes, super funds must continue to find new and better ways to encourage members to save, and programs such as Escalator will become increasingly important. Our initial results from Escalator lend credence to the behavioural finance and segmentation theories on which it is based, and show members are receptive to the idea of soft compulsion. At Plum, we would like to see every other corporate super providers offer such a program, giving all Australians the opportunity to benefit from it and giving them the

\textsuperscript{5} Super Review Industry Demanding Change, June 2007, p 24.
best possible chance of retiring with an adequate income. While that is probably a few years away yet, at least Plum is on track to help our members save more!

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