

THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM:

Dynamics, tensions and
opportunities

Written by Teagan Altschwager and Jody Evans



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ACKNOWLEDGEMENTS

This research report is the second of two key reports detailing the findings from the first stage of the research conducted in 2018, which comprises of insights from consumers (focus groups with near- and recent-retirees) and key informants (interviews with members of the Australian retirement planning ecosystem). The qualitative phase forms stage one of a three-year project conducted by Melbourne Business School investigating the Australian Retirement Ecosystem. This project, entitled 'The Orford Initiative: Improving the retirement outcomes for Australians by optimising their retirement income and financial security' is funded by the Orford Foundation in collaboration with the Melbourne Business School. The project team acknowledges the invaluable support of the Orford Foundation. Please read the 'Retirement planning in Australia - an ecosystem perspective' research brief for further information on the background and motivations of this study; <https://go.mbs.edu/orford/>.

Project team

Dr Teagan Altschwager is Senior Research Fellow for the Orford Initiative at Melbourne Business School, The University of Melbourne.

Dr Jody Evans is Associate Dean, Advancement and Associate Professor, Marketing at Melbourne Business School, The University of Melbourne.

Research approach

The team adopts an engaged research approach to all projects. Engaged research is based on authentic partnerships with communities and organisations to craft a research program that creates value with and for communities or organisations and that has aligned academic outcomes.

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EXECUTIVE SUMMARY

Despite Australian and global trends identifying consistent growth in ageing populations, people are saving less for retirement (Brüggen et al. 2017). This dichotomy has motivated the present study, which investigates the dynamics of the Australian ‘retirement planning ecosystem’ and consumer issues and barriers that limit their engagement in retirement planning and saving. Stage 1 of this three-year study took an exploratory qualitative approach, running nation-wide focus groups with 168 near- and recent-retirees, and conducting 69 key informant interviews (representing 61 unique ecosystem voices).

This second report shifts focus toward identifying the nuances, dynamics, and relationships between various members of the retirement ecosystem. Retirement planning is not a decision that is made with one provider at one point in time; it is an extensive set of interactions and (in)decisions that are made with various providers – superannuation funds, financial planners, government departments – throughout an individual’s entire working life and beyond. We argue that the key to understanding the complexity of retirement planning is through understanding the retirement planning ecosystem through which an individual engages.

First, we map the retirement planning ecosystem using two conceptual approaches; one takes a holistic approach of capturing the entire ecosystem, while the other focuses on identifying key members within the ecosystem. The two approaches allow us to identify both the potential size and complexity of the ecosystem (117 unique ecosystem members from this group of key informants alone) and the relative influence and impact of focal members within the ecosystem (17 qualified as key ecosystem members including 7 government members, 9 industry bodies, and 1 consultant). Three key dynamics are identified from the qualitative data that provide further insight and context to the ecosystem.

1. We identify a **highly saturated and fragmented ecosystem** – competing industry voices and rivalry between retail and industry superannuation funds produce conflicting messages, creating uncertainty for government and fuelling distrust in consumers.

2. We investigate the **feelings of disconnection and tension between government and industry**. Government is criticised for being too far removed to effectively regulate or understand the industry and the needs of the everyday Australian. Industry is criticised for allowing self-interest to take priority over consumer-interest. Together, this relationship is built on distrust and cynicism.
3. We unveil a deeper philosophical clash contributing to these dynamics; the **mindset of paternalism** versus consumer engagement. Paternalism seeks to protect consumers from vested interests within industry, as well as to protect them from themselves. Those who advocate for consumer engagement argue that a paternalistic view is an excuse for inaction, a misinterpretation of the consumer experience, and a position that breeds further consumer disengagement.

Three examples of ‘the ecosystem in action’ provide further demonstration of ecosystem dynamics.

1. **Perceived responsibility for driving change** in the retirement planning ecosystems – the prevailing opinion from key informants was that a combined approach of genuine collaboration between industry and government was the only way to effectively drive change. Government can create the regulatory environment necessary for industry to innovate, while also ensuring decisions are in the best interest of consumers. Industry can provide government with unique insight into key issues and are responsible for effective implementation of strategy.
2. Interviewee responses to the **Retirement Income Covenant Position Paper** (Australian Government the Treasury, 2018) and **Superannuation: Assessing Efficiency & Competitiveness** Draft Report (Productivity Commission, 2018) unveil a key distinction between intention and implementation. While the strategy and intention behind both papers was commended, various elements of implementation and application were questioned.

3. A **tone of passivity** towards addressing key ecosystem issues is discussed. We argue that passivity is a symptom of the issues within the ecosystem, rather than a criticism of individual ecosystem members.

The report concludes with a revised framework of the retirement planning ecosystem in Australia. In contrast to the initial framework described in the 2018 research brief, which highlights ecosystem quadrants with the consumer at the centre, the updated model takes a layered approach to convey varying levels of influence across ecosystem members. The consumer, while still acknowledged as the recipient or end-user, is now placed on the outermost layer of the ecosystem, reflecting the fact that the consumer is influenced by the sum of the actions of other members of the ecosystem.

Finally, a comparison of themes between report 1 and 2 is included to reflect that the customer journey and the retirement planning ecosystem are two sides of the same coin.

Over the coming months we will hold roundtable forums with interested representatives of the retirement planning ecosystem to engage in discussion over the findings and interpretations from stage 1 (qualitative) and seek feedback regarding strategy and direction for stage 2 (experimental design). Interested parties are invited to contact the researchers.

INTRODUCTION



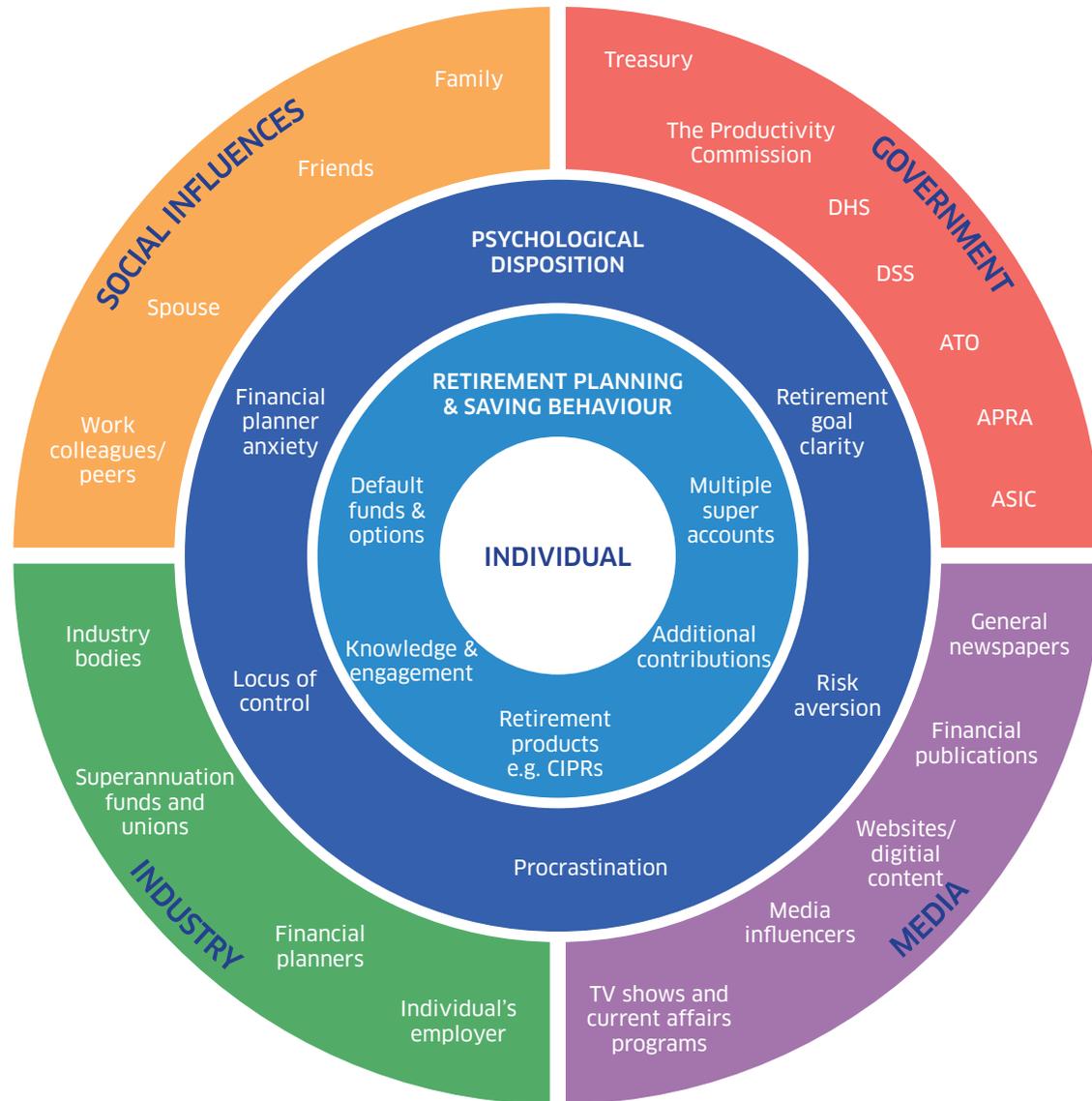
INTRODUCTION

Australia is experiencing an ageing population (consistent with worldwide trends), thanks to increased life expectancy resulting from medical and technological developments. The focus on the retiree, therefore, has never been more important (Hesketh et al. 2011; Heybroek et al. 2015; Yeung 2018). With this shift also brings a greater likelihood of outliving one's retirement savings, making adequate retirement preparedness even more paramount. Research indicates that people are saving less in general, and particularly so for retirement (Brüggen et al. 2017). Many Australian retirees are financially ill-prepared for retirement (ASFA, 2017; Burnett et al. 2013; Heybroek et al. 2015). This dynamic led us to commence a 3-year study to understand the dynamics and key issues within the retirement planning ecosystem in Australia.

We conceptualise various providers, contributors, voices, and regulators related to retirement planning as members of an 'ecosystem'. The ecosystem perspective considers how a community of subjects (individuals, firms, government & regulatory bodies, industry bodies, unions, the media) exist within a given environment or context comprising of various interactions, relationships and interdependencies between them (Pilinkienė & Maciulis 2014; Frow et al. 2016). In doing so, the ecosystem perspective allows us to observe the various sources of information, influence, and interactions between providers and consumers as well as interrelationships between providers. An initial framework of the Australian Retirement Planning Ecosystem is depicted in figure 1.

The ultimate aim of this study is to better understand how to communicate and engage consumers in the retirement planning process, and what products, policies or structures within the retirement planning ecosystem will aid in Australians achieving financial security in retirement. To comprehensively grasp the complexity of the retirement planning ecosystem and consumer perceptions, barriers and drivers of retirement savings, we conducted an initial exploratory stage of research of interviews with key informants representing facets of the retirement planning ecosystem, as well as nation-wide focus groups with near- and recent-retirees. This is the second of two major research reports detailing the qualitative findings from research conducted in late 2018.

FIGURE 1: “AN INITIAL FRAMEWORK OF THE AUSTRALIAN RETIREMENT ECOSYSTEM” (ALTSCHWAGER & EVANS 2018)





DRAWING MEANING FROM ECOSYSTEMS

DRAWING MEANING FROM ECOSYSTEMS

A review of academic literature (please see [Retirement planning in Australia - an ecosystem perspective: 2018 Research Brief](#) for the full review) revealed considerable interest in retirement planning across a variety of disciplines, including finance & economics, society & ageing, and marketing/ psychology. However, a key omission across these studies is a holistic, comprehensive view of the varied and complicated interactions that arise as individuals consider retirement planning over their life. Further, these studies do not capture the plethora of different providers, influencers and voices that all collectively contribute to the individual's retirement planning journey. Retirement planning is not a decision that is made with one provider at one point in time; it is an extensive set of interactions and (in) decisions that are made with various providers – superannuation funds, financial planners, government departments – throughout an individual's entire working life and beyond. Even if a single member of the ecosystem connects with an individual in one unique and specific interaction, research indicates that the individual may perceive providers

(ecosystem members) as a collective, as each member contributes to the individual's overall experience (Baccarani & Cassia 2017; Tax et al. 2013). Therefore, we argue that the key to understanding the complexity of retirement planning is through understanding the retirement planning ecosystem through which an individual engages.

The term ecosystem derives from biology, however it is also an important analogy for how a *community of subjects (individuals, firms, government, industry bodies) exist within a given environment or context comprising of various interactions, relationships and interdependencies between them* (Pilinkienė & Maciulis 2014). The Ecosystem lens allow us to “zoom out” for a more complete observation and analysis of the interconnected network of various subjects (Järvi & Kortelainen 2017). It also enables understanding of multiple perspectives and allows us to identify both the granular and broad-level interconnectedness between subjects (Järvi and Kortelainen 2017; Chandler and Vargo 2011).

While there is agreement that ecosystems are a superior lens to identify the dynamics and interrelationships in a particular context, it is also acknowledged that they are extremely difficult to empirically demonstrate (West et al. 2017). As a result, research focuses predominantly on conceptualisation. For example, Tax et al. (2013) explores the notion of *service delivery networks*, identifying that from the consumer perspective, multiple organisations can contribute to an overall interconnected service experience. Chandler and Lusch (2015) argue for the perspective of service systems, which encapsulates the larger context through which various ‘actors’ interact through time and space. Similarly, Baccarani & Cassia (2017) focuses on how resource integration occurs within service ecosystems. All of these papers are conceptual in nature. This study is the first (to our knowledge) to empirically identify and explore the various members within the retirement planning ecosystem.

DRAWING MEANING FROM ECOSYSTEMS

West et al. (2017) acknowledge the immense difficulties of identifying an ecosystem, using the analogy of spaghetti to describe the indecipherable mess of connections between the many different ecosystem members. West et al. (2017) advise following a visual process of identifying key actors (members) and drawing links to represent connections between actors. Through the process of populating the ecosystem, further actors are identified and added to the ecosystem. Consideration should be given to what level of ecosystem granularity is valuable, and how to define, quantify, and categorise different types of exchanges (West et al. 2017).

The principles outlined by West et al. (2017) were implemented in our process of identifying and depicting the Australian retirement planning ecosystem. First, we conducted extensive desk research to identify key sectors, subsectors, and ecosystem voices (Please see *Retirement planning in Australia – an ecosystem perspective; 2018 Research Brief* for more detail on this desk research). This process aided in our key informant recruitment strategy, which is further described in the **method** section of this report and **Appendix 1**. We then used the qualitative data to validate and revise our conceptual understanding of the ecosystem. By using the empirical data to define ecosystem members and their relationships, we create the ecosystem as perceived *by those in the ecosystem* rather than imposing our own beliefs on who key individuals are and what focal relationships exist.

METHOD



METHOD

The objective of the study was to gain a thorough and representative cross-section of the diverse range of views apparent both in the Australian retirement planning ecosystem, and the transitioning retiree population. A qualitative approach was taken as it allows us to explore how individuals interpret and construct meaning around their experiences (Merriam, 2009). While quantitative survey research is very common, a survey cannot capture or reflect the subtlety and emotional aspects of retirement planning, nor the complexity of ecosystem relationships. A detailed account of method strategy and process can be found in appendices.

Focus groups were used to capture consumer insights, while one-on-one interviews were conducted with key informants from the retirement planning ecosystem. Report 1 focuses predominantly on the consumer perspective and journey through retirement planning; further details regarding focus group rationale, approach and participant profile are provided in that report. In contrast, on-one-one interviews were deemed more appropriate to gain insights from key informants, as they may not speak openly about company information or strategy in the presence of others (Merriam, 2009).

KEY INFORMANT INTERVIEWS

Key informant interviews were conducted with members of the Australian retirement planning ecosystem. A detailed account of recruitment steps and justification of 'who' comprises the ecosystem is included in Appendix 1. One hundred and fifteen interview requests were sent, with a 60% acceptance rate. Sixty-nine interviews were conducted, representing 61 unique ecosystem perspectives (on occasion interviews were conducted with more than one person from the same organisation, or various representatives from within one broad government department).

METHOD

KEY INFORMANT PROFILE:



Consistent with national statistics of women in CEO and key management positions (17.1% and 30.5% respectively) (WGEA 2019)

A WIDE VARIETY OF POSITIONS



METHOD

SECTORS (AND SUBSECTORS/INCLUSIONS)



METHOD

RESEARCH PROCESS AND DATA ANALYSIS

Interviews and focus groups followed a semi-structured protocol; this assured broad consistency across groups and interviews, while at the same time allowing participants to direct part of the conversation and raise topics of particular importance to them without constraint (Matthyssens & Vandenbempt 2003).

Key informants were asked to share their perceptions on key issues facing their customers and retirees more broadly. They also discussed dynamics, relationships and responsibility of those within the retirement ecosystem. Key informants shared their opinions on the focal changes required in the ecosystem to ultimately improve outcomes for Australians. Interviews were conducted in person or via telephone and ranged from 30-60 minutes.

All interviews and focus groups were audio recorded, professionally transcribed, and cross-checked by the researcher to ensure accuracy and quality of transcription. This produced 995 pages (565,399 words) of textual data.

The researchers use an *inductive approach* to analyse the qualitative data; this means that textual data is read with an 'open mind', without looking for pre-determined themes or topics of interest. This approach allows impactful themes; from the perspective of the participants, not the researchers to naturally emerge (Spiggle 1994).

Data analysis involved an iterative process of reading over transcripts multiple times, creating and grouping 'codes' (topics/issues/sentiments) within and across different transcripts (Spiggle 1994). 'Open codes' (broad and diverse codes very closely reflecting key words in transcripts) were used as a first step, followed by a process of distilling and consolidating into a smaller number of more meaningful codes (called 'axial coding'), from which themes (overarching topics which include interpretation or presence of phenomena) were formulated (Gioia et al. 2013). The researchers would also move between the data and external research, both academic and industry, to see how the themes and topics raised in the data compared to other commentary and dialogue in the area (Matthyssens & Vandenbempt 2003).



**DYNAMICS
OF THE
AUSTRALIAN
RETIREMENT
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ECOSYSTEM**

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

The purpose of investigating the Australian retirement planning ecosystem is to understand the broader context through which consumers engage in retirement planning. Consumers interact with and are exposed to information from various ecosystem members throughout their retirement planning journey (the focus of Research Report 1). While each interaction from the provider's (ecosystem member) perspective is unique and isolated, consumers often view interactions from various providers as a collective, as each member contributes to the individual's overall journey (Baccarani & Cassia 2017; Tax et al. 2013). We must focus on the collective set of interactions, not just isolated interactions with one provider, in order to truly understand the consumer experience and journey towards financial security and well-being in retirement.

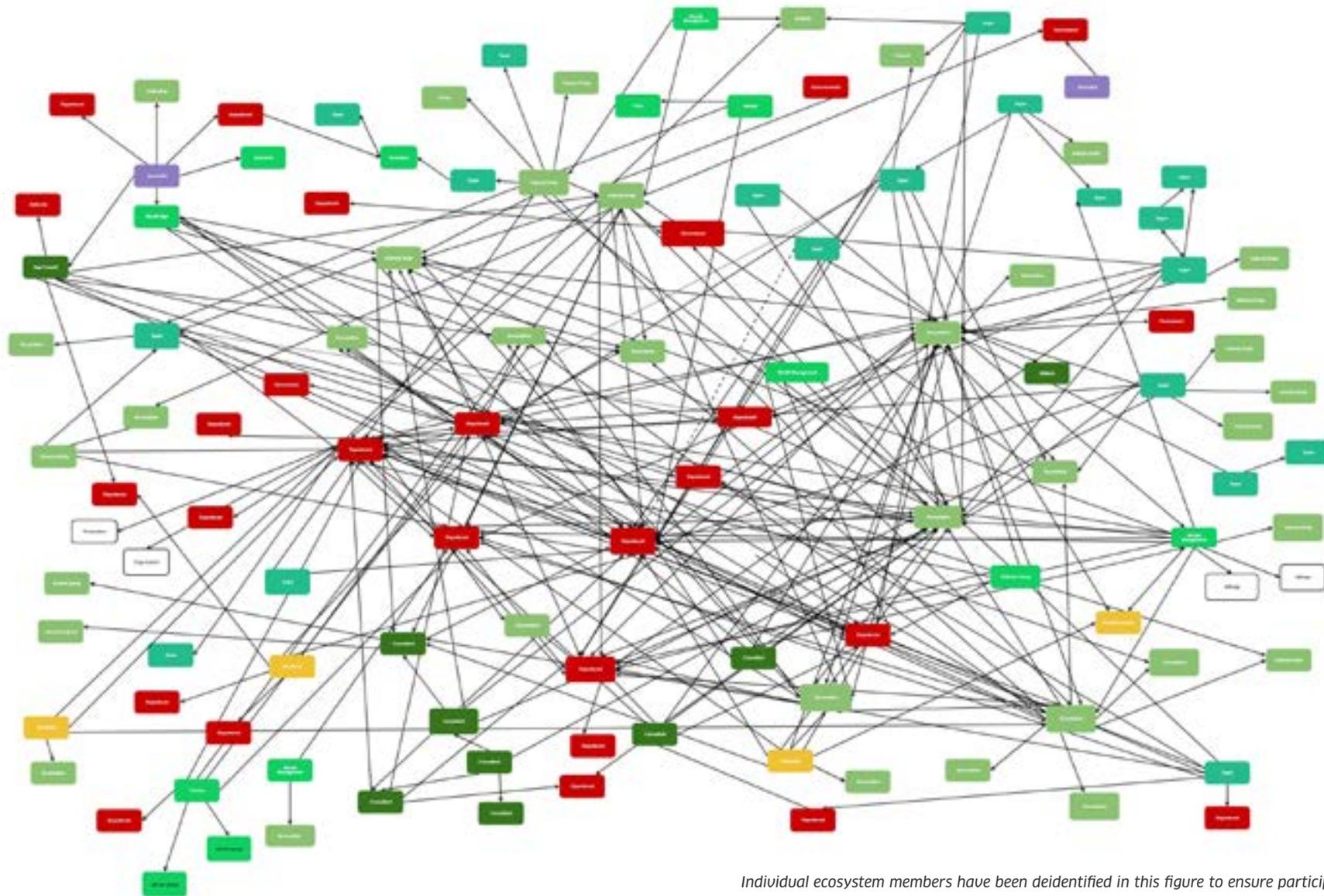
First, we map the retirement planning ecosystem using two conceptual approaches; one takes a holistic approach of capturing the entire ecosystem, while the other focuses on identifying key members within the ecosystem. We then explore three key dynamics identified from the qualitative data that provide further insight into the ecosystem. Overall, we identify an ecosystem that is (1) highly saturated and fragmented, with a (2) feeling of disconnection and tension between government and industry. Beneath these dynamics lies a deeper clash of mindset and strategy around (3) the desired role and level of consumer engagement. We then highlight three topics that demonstrate the ecosystem in action; (1) perceptions of responsibility for driving change in the retirement planning ecosystem, (2) responses to recent key legislative strategies, and (3) a tone of passivity towards addressing key ecosystem issues.

MAPPING THE RETIREMENT PLANNING ECOSYSTEM

We employed two conceptual approaches to arrive at the ecosystem model to ensure rigour and accuracy. First, as a comprehensive overview, each individual interviewee and all specific relationships they identified were visually depicted through an overall ecosystem map, see figure 1. This process was followed for all interviews and in total 117 unique ecosystem members were identified. Broad statements like 'we have relationships with all the major superannuation funds' were excluded from the diagram, meaning there are many more than 117 relationships even within this subsection of key informants.

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

FIGURE 1: OVERALL ECOSYSTEM MAP



DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

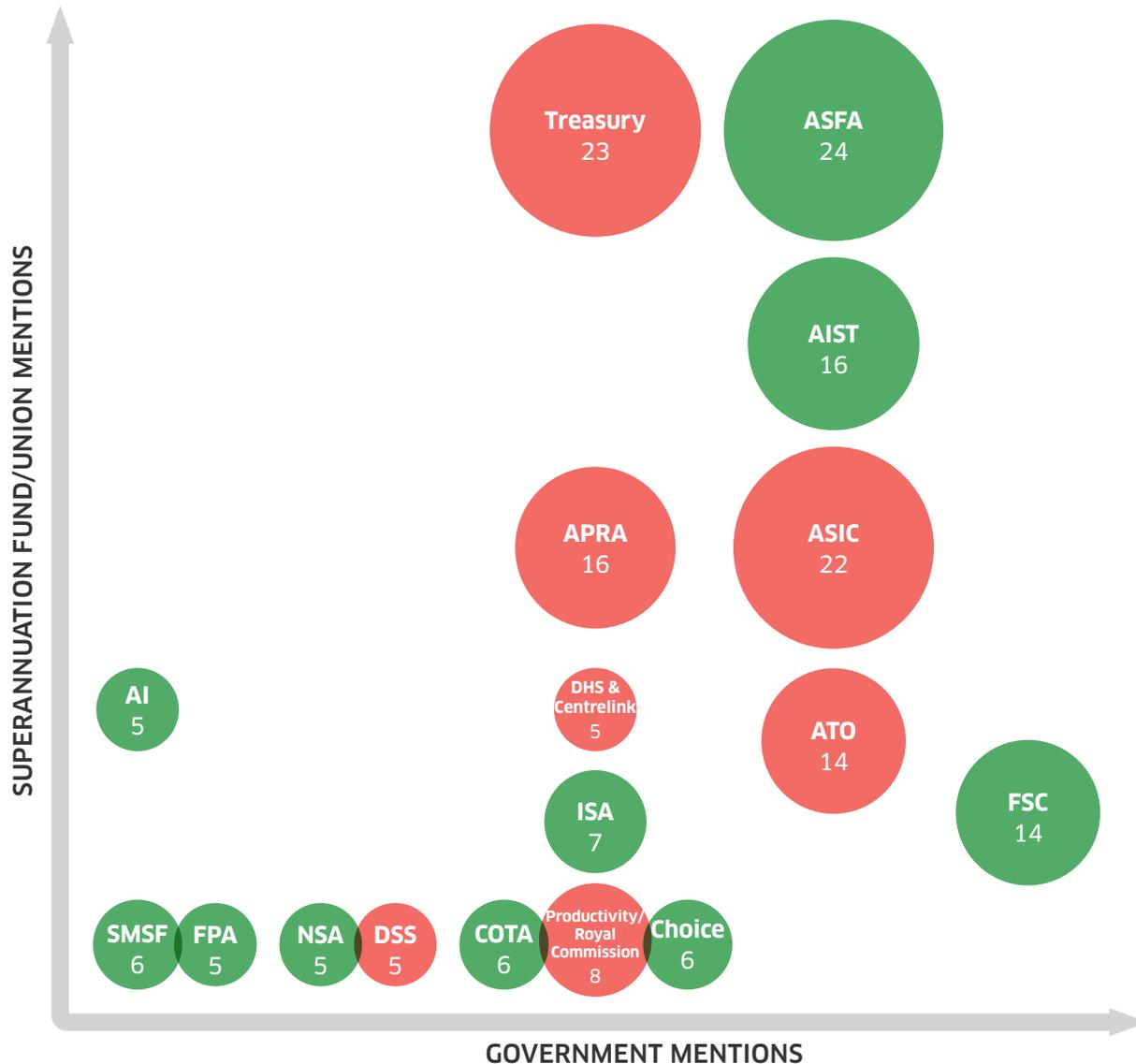
While this broad map is incomprehensible, it demonstrates why understanding the ecosystem is so important. The retirement planning ecosystem is extremely large and complex, with infinite potential relationships therein. Given the sheer size and complexity of this ecosystem, how is any single member meant to effect change?

The second conceptual approach sought to consolidate the ecosystem down into key members. To do this, the data was reassessed to quantify how many times an ecosystem member was identified across all interviews, irrespective of who identified them. This method reflects the importance of ecosystem members without over-representing those key informants who agreed to participate in the study. This approach also ensures the anonymity of interviewees. Ecosystem member mentions were counted and depicted in figure 2, according to the following considerations;

- Circle size reflects the total number of mentions across interviews.
- Number of mentions are included in each circle; only ecosystem members with 5+ mentions were included.
- Location of circles on the X axis represents the relative number of mentions from a government interviewee. E.g. FSC received the most government mentions, while SMSFA, FPA, and AI were not mentioned by Government interviewees.
- Location of circles on the Y axis represents the relative number of mentions from a superannuation fund/union interviewee. E.g. Treasury and ASFA received the most superannuation fund/union mentions.

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

FIGURE 2: RETIREMENT PLANNING ECOSYSTEM – KEY MEMBERS



- AFA: Association of Financial Advisers
- AI: Actuaries Institute
- AIST: Australian Institute of Superannuation Trustees
- APRA: Australian Prudential Regulation Authority
- ASIC: Australian Securities & Investments Commission
- ASFA: Association of Superannuation Funds of Australia
- ATO: Australian Taxation Office
- COTA: Council on the Ageing
- DHS: Department of Human Services
- DSS: Department of Social Services
- FPA: Financial Planning Association
- FSC: Financial Services Council
- ISA: Industry Super Australia
- NSA: National Seniors Australia
- SMSFA: Self-Managed Super Fund Association

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

In comparison to the broad ecosystem map comprising of 117 ecosystem members, the consolidated diagram includes only 17 ecosystem members. This closer snapshot shows industry bodies and government as the key ecosystem groups (7 government members, 9 industry bodies, and 1 consultant qualified as key ecosystem members). Superannuation funds and those in the wealth management sector sit further toward the periphery of the ecosystem. Consultants and academics seemed to have ad-hoc or niche ecosystem relationships, and media sit on the periphery of the ecosystem.

Several key dynamics were raised to provide further insight to the ecosystem.

1. Market saturation and fragmentation

The strong presence of industry bodies as key members of the ecosystem reflects the purpose of industry bodies in the first instance; these groups exist to provide a unified voice of their industry members and express key issues to government representatives. Their role is also born out of necessity, given the relative number of superannuation and wealth management members in contrast to the government departments who regulate them.

We tend to [communicate with government] through the industry body where we'll provide them with support and views but do it through a collective rather than individually. So, rather than wanting to stand out and be a single voice, we would use the industry to lobby. (W3; Wealth Management Sector)

However, interviewees raised issues within this dynamic. Many felt there was a saturation of the market, both in terms of superannuation and wealth management firms as well as industry bodies and groups. This results in fragmentation and division rather than presenting a united voice. Inter-group conflict does not serve the greater purpose that the ecosystem is trying to achieve; improving the retirement planning system for Australians.

Organisations like AIST and ASFA should merge. We don't need two. AIST is focused on the not-for-profit sector and ASFA is like all super funds. I don't think there should be a difference. We only need one organisation because that's members money that's being used to fund those two groups. We don't have any other money other than member's money. (S9; Superannuation Fund/Union)

I do think the problem is the industry bodies - we've got those two, ASFA and AIST at odds in certain cases which doesn't present a united force to the government and therefore, I think, makes change difficult because the government see that maybe as not necessarily a definite outcome that they should pursue that's good for the whole industry. (S13; Superannuation Fund/Union)

Perceived market fragmentation was also felt towards superannuation funds, with the divide between industry and retail funds highlighted as a key example. This division was considered detrimental in terms of conveying information effectively with government, as well as eroding consumer trust in superannuation funds broadly. When consumers lose trust, they pull away from the system.

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

The trouble with the industry is it's so fragmented between the for-profit funds and the not-for-profit funds that it's hard for a government to know who to listen to because their vested interests tend to get in the way. (S12; Superannuation Fund/Union)

The superannuation industry - including regulators, industry funds and retail funds - we do a fantastic job of turning people away from us. Just think about the industry funds. The fox in the henhouse advertising... promoting industry funds over retail funds, and you can say, 'That's fine. That's just Coca Cola promoting themselves ahead of Pepsi' but in superannuation a lot of people don't know what industry funds and retail funds even mean. It just sounds like the industry fighting against the industry... [This is problematic] because it means people have less confidence in superannuation and then they say, 'superannuation is all about fees, fees for dead people. Its wealthy fund managers lining their own pockets'... they argue with themselves 'why should I have to put 9.5% of my salary into superannuation when I want to buy a house?'... that's the downside of people looking critically at superannuation. (M7; Media)

The amount of debating between the not-for-profit sector and the for-profit sector have been fairly loud and, I think, problematic in terms of trying to give people confidence (I5; Industry Body).

Similarly, a number of interviewees argued that the market as too highly saturated with small funds, which leads to inefficiency. As a result, various calls have been made to consolidate and merge small funds. Government policies have also been introduced that are likely to force consolidation of small funds.

Looking at the Australian superannuation system, the biggest impact that my international colleagues look at is the fees. For a system that's gone from 100 billion to 2.7 trillion, we would expect to see the benefits of scale and the fees to come down much more dramatically than what they have... and I think that's partly down to the large number of small funds just isn't an efficient model. (W1; Wealth Management Sector)

The industry is at a tipping point. I think we'll start to see more and more fund mergers given there's more pressure being placed on funds to continue to grow in what is not really a growing market in terms of membership necessarily. So, we're working with a number of funds to look at where they can potentially merge and provide better outcomes for their members. (C2; Consultant)

The [policy changes] that are particularly relevant, I think, are the requirement for super funds to put small inactive accounts with the ATO and not hold onto them. Not popular in the super industry but absolutely appropriate public policy... That's going to have a big impact on us but at least we've got some size there to mitigate that. Some other funds are going to really cop it and that will be the biggest force for consolidation of the industry... That sort of model should have happened before now. (S2; Superannuation Fund/Union)

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

2. The disconnect between government and industry

Despite government and industry bodies being the key members of the retirement planning ecosystem, many interviewees perceived a significant disconnect between government and industry.

The reality is there is a massive disconnect between government and the superannuation sector (I6; Industry Body).

The disconnect between government and industry is further explained through the criticisms of each group. Key informants raised two key criticisms of government. First, government was considered too far removed from the industry and the experience of the average Australian to effectively make decisions or enforce regulation around retirement planning.

We've got decisions being made and policies being made by people who don't have to worry about their retirement, and that's changing but - even the current batch of politicians have guaranteed pension... The Treasury guys and girls are on guaranteed pensions. So, everyone who is making policies on behalf of the rest of the country don't have to worry about retirement and

that's a problem. We don't have someone who's got skin in the game making these decisions. (M3; Media)

The superannuation schemes that parliamentarians and government employees were connected to are not the same as the everyday Australians. So, therefore there's never been an alignment, which in my view has distorted policy around superannuation for a long time. As a result, many who are making decisions are in a privileged position that don't understand how the superannuation system really does work or impact the everyday Australian citizen... unless there was a fundamental change to equalise superannuation rules across all occupations, then I think that still presents a problem. (I6; Industry Body).

Second, government was also seen to use superannuation and the aged pension as playing cards and topics to politicise and debate. This causes considerable friction from a regulatory perspective, as frequent changes seem to be made to the system as each new government enters power.

I think that one of the big challenges for people that have just retired are probably around changes around superannuation.

We get a lot of feedback around people trying to understand what that means to an individual's circumstances. So, depending on the government of the day and their changes to superannuation, that is difficult. It's difficult for people to get the right advice. (G4; Government)

Even if you look at government, you've got Treasury with policy. You've got DSS with the age pension. You've got health with the Department of Health, the Department of Aged Care. The government is not looking at it holistically and you'll get tensions within government. (W8; Wealth Management Sector)

I hate things which are government led because it just depends on lobby groups and changes of government and populism and people responding to what sounds good that month. (M7; Media)

In contrast, the focal criticism of industry is that vested interests are seen to significantly drive behaviour.

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

We have the superannuation system set up so that the incentive is for trustees to have people keep their money in their accounts and not spend more than they absolutely have to or take more out of it than they have to. So, there's no incentive there for the trustees to say, "Well, actually if you did this or took this much out, then you could do XYZ." (G1; Government)

I think [industry] have a role to play, particularly in making sure governments understand how their business works and how their superannuation products work and so forth, but I don't think - you know, they have a vested interest. They've clearly got an interest in making the superannuation industry as big as possible. (A5; Academic)

[Discussion around developing voluntary codes of practice] What we've found is that there was really just far too much self-interest in the sector to properly lead the kinds of reforms that needed to be made. So, they ended up with a pretty weak code that was unenforceable with no monitoring or oversight. It was just so far short of what we would really expect from an industry that was acting responsibly. (C8; Consultant)

One interviewee compared the superannuation sector to self-regulating industries and argued that the disagreements and vested interests plaguing industry have forced government to take a disciplinary approach, reprimanding industry and creating boundaries that ultimately lead to a sub-optimal outcome for all involved, including consumers. Others mirrored this sentiment that over-regulation resulting from a lack of trust or in response to industry malpractice has caused detrimental outcomes for consumers, for example financially blocking them out of the advice market.

In the end, the government had to step in and basically legislate a lot of the changes that we all knew upfront were the kinds of things the industry was going to have to do if they wanted to better serve consumers... So, I would say government is always the one we eventually have to use to get good consumer friendly changes through. The industry just hasn't been a force for positive change for the most part which is really disappointing. (C8; Consultant)

The problem is the level of work that is required for me to do under the current legislation means that it is quite prohibitive for moderate needs. So, if somebody asks me, "I just want to know whether I've got enough for retirement and putting money into super." Even at its most basic, it would cost say \$2,000 to do the level of investigation I would need to do and write that up... somebody turns around and goes, "That's quite expensive. If I've only got \$50,000 in super, that's a lot of money," and I agree but I'm not allowed to go and do half the job when they've got half the money... The level of work I'm required to do in order to provide that basic personal advice is really very significant. (W4; Wealth Management Sector)

In combination, these criticisms and perceptions placed on both groups create a relationship plagued with distrust and friction. As the following quotes demonstrate, this dynamic creates a barrier for meaningful collaboration to occur; industry might ignore government direction because of their perceived lack of industry understanding, and government may attribute industry perspectives as promoting self-interest, rather than the interest of Australians.

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

I think [change] should be a combined effort because if it's just government, industry will go, "Oh, here we go again. They're going to restrict it again. They're making it harder for us to make money," but if it's the financial planning industry, well, ASIC and the government will crack down on them because "they're trying to cut around corners". It needs to be a collective process, driven by an objective panel somehow that has representation. I know for instance, even the ATO will have an industry consultation but they're not listening. By having an independent panel from different aspects of the industry, really nutting this out and finding what needs to be done. (W10; Wealth Management Sector)

In response, interviewees argue that a bipartisan approach with genuine input from industry is required for meaningful and positive change to occur.

I genuinely believe that both sides need to come together on this and think about it from a bipartisan perspective, take the politics out of it and think about what the mathematics of the equation is actually saying and explain to the general populous what will happen if this is not addressed. Then over a sustainable and suitable

timeframe, find ways to get the settings right that can allow people to invest more over a longer period of time and give them confidence that it won't change every three weeks or it won't change when they get to retirement and can't touch it. (S14; Superannuation Fund/Union)

The government needs to lead but I don't think any one government can provide that leadership by itself. There will need to be work by the industry in trying to come together with more areas of shared agreement. (I5; Industry Body)

In the policy space - for example around income streams - it was worked up very much in concert with industry. Industry had been raising concerns about the past rules. The department also knew there were problems with the past rules... There was a position paper that went out for public consultation. We held round tables with key industry players and so on in the superannuation and financial services industry about those rules. So, it was very much a partnership of both the private sector and government in how those rules were developed, and government took all that feedback in when it made the final decisions in the budget context. (G6&7; Government)

3. Differences in Mindset: Consumer engagement versus paternalism

Key informants were divided on the concept of paternalism versus consumer engagement. Those in favour of paternalism argued its benefit from various perspectives; first, paternalism was a means of protection against the vested interests of the industry.

There's a great reluctance to embrace the paternalistic nature of compulsory super, but the truth is the beauty of it and the way it functions is because it is paternalistic and it does make collective decisions... I think the expectation that is placed on the average punter to be able to make informed choices from the hundreds or thousands of retirement financial products when the providers are allowed to get away with such ridiculously obtuse, long and opaque disclosures is simply not fair. I think the government and the regulators have to take responsibility for the fact it is - and this is not saying that most people are stupid. I think most people, even who work in the industry acknowledge that they can't even make these choices by themselves because the products are too complicated and too opaque. (M2; Media)

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

Paternalism was also argued as a means of 'protecting consumers from themselves'. Interviewees spoke of evidence around individuals making sub-optimal investment decisions by acting reactively or conservatively.

The My Super default product was introduced to be a no bells and whistles product, maximise returns, minimise fees. It set up basically for the ill-informed, unengaged member. There is some analysis out there to suggest that members that choose to move away from that product actually can cause themselves more harm than good. So, it's a fine balance - you can empower a consumer but sometimes they end up being worse off than if they just stay in the default product. It's a balance that needs to be considered when you are empowering a consumer because, at the end of the day, they may actually make decisions that make them worse off and there has been analysis to actually back that up. I think whilst there is a trust model in place, it is up to the trustees to obviously act in the best interests of members. (G8&9; Government)

The choice of investment option is driven by ignorance. If you ask a 25-year-old how they feel about risk, they're likely to say, "I don't want to risk losing my superannuation, I want a conservative option," which is absolutely the wrong decision. It's important to understand what their risk appetite is but, if they base their decision only on that, then it's quite problematic. Your instinct will always be to say, "I don't want to risk my superannuation, therefore I'll go conservative or in cash," and that's going to cost you some hundreds of thousands of dollars over your working life. So, people just don't get it, is really the point. They've got to get into the right option and if you're 25, its growth. It's almost always growth. (C9; Consultant)

One interviewee attributed sub-optimal decision making to the fact that industry tries to engage people with important information (that requires expert decision making), rather than meaningful information.

Bob Merton (Nobel Prize winner) uses a phrase, "We should communicate meaningful information, not important information," and that's a criticism for us as an industry. We communicate all this important information - where your money is invested - absolutely crucially important. What kind of shares you have, what the asset allocation is. But is it meaningful for people? No... What do people want to know - When can I retire? How much am I going to get? How long is it going to last? - That's meaningful. What do we and the financial planners do? We tell them where they should invest. There's information asymmetry there. The people that buy and sell these shares have the information and they will abuse that if they have clients who don't. So, if every individual now starts participating and making their own investment decisions, then it's why we have a Royal Commission, right? (S11; Superannuation Fund/Union)

DYNAMICS OF THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM

The same interviewee (S11) argued that “engagement and education creates confidence, not ability”, urging individuals to instead rely on the expertise of industry professionals rather than making their own investment decisions. They used an experience with a tyre dealership as an analogy for this relationship.

I had to get some tyres replaced on my car. I drove to the tyre place and I gave the guy my keys... I came back in the afternoon - "Alright, they look like new tyres." I paid, I got in the car and drove off - my life depends on these four pads on the road. I didn't check if it was pumped. I didn't check what the make was. I mean, I didn't know. I wouldn't have a clue. Now, the tyre manufacturers could go to great lengths to educate me on the compound and the construction of the tyres, how much air they put in there and how much they pumped and so on, but it wouldn't mean a thing to me and I trust my life on this, right? I put my life in their hands... I'm not saying communication and education is bad. I'm saying when you're asking people to make really long-term financial decisions, the onus lies upon those highly qualified individuals who are trained to think about these things to do most of the heavy work. (S11; Superannuation Fund/ Union)

Further, paternalism was viewed by some as a necessity given that the majority simply do not, and never will, have an in-depth interest in financially preparing for retirement.

The fundamental issue we have here is this is a compulsory system. People have no choice about whether they are part of it. So, we cannot rely on them being financially literate and interested because, as government, we have foisted this upon them and I can well understand why a lot of people are just not that interested. And of course, given that the dominant emotion around financial services is fear, most people are never going to get interested. What that means is we have to design the system around the assumption that most people are not going to get interested. (C1; Consultant)

In argument of consumer engagement, some interviewees believed that those in the ‘paternalism camp’ use lack of consumer interest as an excuse for inaction and maintaining the current dynamic of disengagement. Interviewees used emotive terms like ‘arrogant’, ‘slack’, ‘cop-out’ and ‘defeatist’ to express their disagreement. They argued that the current state of consumer disengagement is misinterpreted and call for industry and government to address the underlying issues that foster disengagement in the first place.

I find it so disingenuous when you hear from industry, "People are just not interested in this," because it's an excuse for doing nothing... When we ask people about their level of interest in their superannuation, the answer that we get from members is not that they're not interested, but it is that they don't consider themselves to be skilled. (A4; Academic)

If you've been working 10 or 15 years [full time], you've got a pretty hefty amount of money there. For any organisation to say to someone, 'well, you shouldn't worry about that' is, I think, arrogant... I think it's a bit slack, actually. It's a cop out. (M3; Media)

It's a defeatist approach where people think that you're never going to change people so why bother trying... I think we should push for engagement and, if they're not engaged, then maybe what we're doing isn't working as opposed to just thinking 'oh they're never going to'. (M1; Media)

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Others argued that consumer engagement and paternalism were not mutually exclusive, and that both strategies can run in harmony. Some thought that paternalism need not take away choice, and those individuals who want to engage are still able to;

I very much support measures to improve financial literacy, financial education, greater involvement of people in superannuation decisions but we're starting from a very, very low base... I think it's fair to say that 80% to 90% of Australians have little or no detailed appreciation of superannuation or even basic financial concepts such as what is a percentage. Other than those circumstances, the system has to be designed around fundamentally providing people with high levels of protection so that they can't make a wrong decision and they are protected from predatory organisations that try and get them to make decisions that are not in the members own interests but are in the interest of selling a product or providing an income stream or whatever from the individual. (I1; Industry Body)

Why not have a system that defaults people without binding them into something that on average is going to take care of it? There's paternalism where you force things and there's paternalism where you just facilitate so if people want to make different decisions for themselves, they're perfectly free to. (A5; Academic)

However, others refuted this claim. They argue that, even if not directly hindering engagement, paternalism indirectly breeds further disengagement.

It's a catch 22 - because people don't take the interest, are disengaged nor have the desire to learn for whatever reason, they leave it up to the hands of the financial planning industry. It only takes a few rotten eggs to then cause the Royal Commission to then cause further political angst and it just goes around in circles. Whereas if responsibility [was brought to the fore] by saying, "we need to find ways to really engage Australians around financial literacy," a lot of this wouldn't be happening - it's just a blame game. (W10; Wealth Management Sector)

Overall, these mindsets were not limited to a particular sector, but rather were dispersed across the entire ecosystem. This is an important underlying belief to consider because it frames and directs strategies and the involvement and consultation of Australians within these strategies. It adds an additional layer of complexity to strategy and decision making in the ecosystem.

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS



THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

1. ASSIGNMENT OF RESPONSIBILITY

Key informants were asked who they believed was responsible for driving change in the retirement ecosystem. Four key responses arose (outlined and attributed in the following table 1); a combined strategy across various sectors of the ecosystem was the most popular approach. However, of any one individual sector in the ecosystem, government was flagged as the key group responsible for driving change. A smaller number of interviewees thought industry should drive change, and a small few believed individuals should be responsible.

TABLE 1: ASSIGNMENT OF RESPONSIBILITY TALLY

| | |
|-----------------|---|
| Government (21) | W1; W4; W6; W8; W9; W11 (Wealth Management Sector); I2 (Industry Body); C5; C8 (Consultant); A2 (Academic); M2; M3; M4 (Media); G3 (Government); S2; S3; S4; S7&8; S9; S12; S14 (Superannuation Fund/Union) |
| Industry (6) | A6 (Academic); C9 (Consultant); G6&7 (Government); M7 (Media); S15 (Superannuation Fund/Union); W5 (Wealth Management Sector) |
| Individual (3) | C6&7 (Consultant); I1 (Industry Body); M1 (Media) |
| Combined (26) | A1; A3; A4 (Academic); C2; C3; C4 (Consultant); G1; G2; G4; G5; G8&9 (Government); I3; I4; I5; I6; I7; I9 (Industry Body); M6; M8 (Media); S5; S6; S10; S13 (Superannuation Fund/Union); W2; W7; W10 (Wealth Management Sector) |

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

Government was identified as the focal individual group responsible for driving change in the ecosystem. This was due to their power to direct policy and regulation that would steer industry towards particular changes.

I think government. I think policy settings personally would have the biggest impact... I have a lot of interest in financial education, but I think we are kidding ourselves if we think that the reason people are ending up approaching retirement and in retirement [unprepared] is poor financial literacy. (W4; Wealth Management Sector)

If we've identified there's an issue to address, it's not going to be addressed by informed and interested individuals because most people are neither informed nor interested. I don't think it's the employer's responsibility to do this and super funds are willing, but frankly not able - and it might be a fault of the super funds for not having identified the correct means to engage with people but, in any event, not a single super fund has been able to do that. So, it does come back to public policy. (S2; Superannuation Fund/ Union)

Interviewees explained that any attempts by industry to drive change are largely ineffective because they don't have power or autonomy to do so; the government needs to provide the necessary environment for any change to occur.

I think government has got the biggest role or at least the role that enables others to do things. For example, if you look at it from a superannuation perspective, we're restrained in terms of what we can be getting involved in, in terms of the retirement area because we've got the sole purpose test in place. If we start to stray outside of that, then we're not following the law and being compliant. The other part of it is 'are we spending the members money in the most appropriate way' because we're effectively taking - it's got to be somebody's money at the end of the day either through the fees deducting from their accounts or reduced investments, that's people's money we're using elsewhere. So, unless government allows opening up of what super funds can get involved in, retirement and doing things outside of accumulating and investing and paying it down, we need that empowerment to be able to do things. (S3; Superannuation Fund/ Union)

In addition, one interviewee stated the responsibility should be placed on government because that is where consumers expect to receive trusted information. This sentiment mirrors those expressed by many focus group participants (discussed in research report 1); being responsible for legislation and regulation of superannuation and financial advice, many said they trusted government information and sought information from various government sources including ASIC, ATO, MyGov, and Centrelink.

A smaller number of interviewees highlighted the key role that industry should play in driving change. Superannuation funds in particular have the benefit of having a direct connection with consumers, while government may struggle to attain that same level of reach. Financial advisers have a key role in translating products and offerings into accurate and timely personal advice, something that government cannot provide to the same extent. Interviewees acknowledge, however, the conflicted interests of those in industry which can prevent consumers from receiving good advice.

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

It's really got to be industry... Government try to do the right thing. The Moneysmart site isn't bad actually. I think it's pretty good, but people don't read it. It's not fun, you know? ... So, they're always going to struggle. Whereas the industry can be right in the face of their members. So, it is for the industry to deal with the issues and to better educate people. (C9; Consultant)

Interviewee 1: Industry plays a critical role in providing accurate, timely, bespoke advice to people about how the services that are available are going to give them the best bang for their buck in their retirement. The government does put a lot of information out but there's only so far we can go until somebody needs to go and open up their books to an advisor who can trawl through it and say, 'well, this is how things work and this is how it's going to be best for you'... which again takes us back to things like the Royal Commission into financial services and the like about ensuring that advice is accurate, timely and in the best interests of the individual... (G6&7; Government)

Only a very small number of interviewees believed that individuals should be the key drivers of change in the retirement ecosystem. The key point made from this perspective was that regardless of strategies developed by government or industry, ultimately individuals need to see value and relevance for change to occur.

There's influences, but ultimately the individual has to make the choice. No one can force the individual. We've had forced superannuation savings in place now for quite some time, but that still doesn't necessarily force the individual to start to think about and properly plan for their retirement. So, you've had the stick approach to some degree. You've had the carrot where we're encouraging more people to put more money into super and think about their retirement, but all of those are still - at the end of the day, the decision needs to sit with the individual. Now, the influencers and the educators, there are plenty of those around. The advisors, the industry, the media, a whole range of other different providers play an important role in that but, if you talk about the ultimate decision, it really rests with the individual. (C6&7; Consultant)

However, for some this view seemed to reflect exasperation with government and industry rather than a genuine belief that consumers should take responsibility for driving change.

Ultimately, I'd hope government would do it [drive change] but I don't think - I don't have confidence that they will, and I don't have confidence in the industry, so it would have to be consumer led, I guess. (M1; Media)

The majority of interviewees agreed that only a combined approach across government, industry, and the individual would ensure effective change in the retirement planning ecosystem. The combined approach brought together each of the strengths identified in the prior arguments; government can drive change by having the appropriate regulatory environment to allow industry to innovate, while also ensuring that industry is accountable and acts in the best interests of consumers. Industry can provide insight to government on what changes would be required and whether proposed changes would be effective. They also have the benefit of direct consumer contact and the expertise necessary to deliver accurate and timely individual information and effectively implement change.

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

No amount of information provision by super fund or even if the government were to spend tax payer's money on advertising or brochures, etc., is going to convince a certain cohort of people who just don't want to engage. So, there has to be a willingness on behalf of the individual to have an interest in their retirement. (G2; Government)

Industry can't do it on its own. It needs the behavioural nudges from the government to make it happen and consumers aren't going to do it because they're not organised enough to make a big enough difference... I see it's a combination of government creating the environment for industry to innovate, do things differently, solve problems that have been there all the time but there haven't been elegant solutions. (W7; Wealth Management Sector)

I think inevitably it's impossible to give the responsibility to one group over another. However, I think superannuation fund members are unlikely to initiate change because they have neither the skill nor the power to do it. In terms of the government and industry, that's got to be a partnership because this is a publicly mandated, privately managed system so you can't separate out the two components. Those two groups - the public mandated and the private managers - have got to act together to make the thing work. (A4; Academic)

Finally, while not responsible for driving change per se, the media were viewed as pivotal in informing the public on developments in the ecosystem and raising interest and attention the area. However, the use of scare tactics and sensationalism driving sales are problematic in casting an overly negative view on the industry and can lead the public to disengage in a system that, for many, is an effective mechanism for saving for retirement.

Any time we're talking about these things in mainstream media, we're reaching people that perhaps haven't thought about retirement yet or don't have a specific

interest in it but it might spark their interest or curiosity or encourage them to ask more questions and to build their confidence. So, I think there is absolutely opportunities for the mainstream media to shine a light and put a focus on retirement issues. (G4; Government)

The media should be playing a highly informative and factual view of retirement, superannuation and everything that associates with it. Unfortunately, often good news stories don't sell newspapers. So, we have seen a lot of sensationalism of negative press across the industry on specific issues that realistically affect a very small portion of members. So, our view is unfortunately a lot of Australians look at the press and take it as gospel and potentially a lot of that is not necessarily truth and again that dampens confidence in the system more broadly. I'll be fascinated to see the impact of the negative press around the Royal Commission... I certainly believe that we will see, as a result of this, a diminishing of trust in the system as a whole, which realistically means that people will stop contributing to super because if you can't trust the system then why would you put more money into it? (C2; Consultant)

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

2. RESPONSE TO RECENT LEGISLATIVE DEVELOPMENTS

Two key legislative/regulatory developments were front of mind for members of the retirement planning ecosystem at the time of interviews, each focusing on particular elements of the ecosystem and proposing significant change:

1. **Retirement Income Covenant Position Paper** (Australian Government the Treasury, May 2018)
2. **Superannuation: Assessing Efficiency & Competitiveness** Draft Report (Productivity Commission, April 2018)

Interviewees were asked to comment on the overall direction, intention and implementation of the proposed strategies. In addition to understanding their views, these comments also unveiled additional insights about the dynamics and tensions that inhabit the ecosystem. Overall, there was general support behind the intention of both papers; many saw the Retirement Income Covenant Position Paper as shining a light on a key issue in the ecosystem – the emphasis placed on accumulation strategy, while ignoring the decumulation phase.

What is true though is our retirement income market is predominantly made up of account-based pensions. We don't have a large annuity style or alternative retirement product solutions in the Australian market, as is available overseas, and that's because of our size and other reasons. So, I think there's a need to have options. I think consumers and advice professionals should be armed with different options to try and solve different solutions for clients in retirement. Some care about longevity risk, some don't. Some care about estate planning, some don't. So, you know, I think again people should be able to plan for a retirement that they want and/or plan for a generational transition or whatever it is they want to do. (I6; Industry Body)

There are account based pensions now and there are annuity products but the number of annuities in Australia is so minimal, it barely rates mentioning. Australians are terrified of annuities. (G3; Government)

The concern we have is I think we've now had three or four goes at draft consultation papers and I think it's fair to say the industry is still very unsure as to what would constitute a CIPR and what the requirements are for those products. So, absolutely

we think there is a need for a retirement covenant and for funds to focus on it, but we need some specific guidance from the government as to what their expectations are for those CIPR products. (C2; Consultant)

However, a number of interviewees raised issues around implementation. They raised concerns from a consumer segmentation perspective, that the proposed Comprehensive Income Products for Retirement (CIPRs) would not be advantageous to those with low incomes, nor those with high incomes. The 'middle group' of people with moderate retirement savings were identified as those would most likely benefit from a CIPR.

Compulsory or default CIPR's will hugely disadvantage people on the lowest incomes and with the lowest balances. It's only once you get over a certain balance that a CIPR becomes something that you should even consider. If you've got less than \$100,000 in super, conversation about CIPR just shouldn't even be happening. So, that's a very future conversation given that the average Australian has a lot less than \$100,000 in super and retires with much less than \$100,000 in super. It's not relevant to them. So, it's a more long-term conversation and it should be something that kicks in at a certain level. (M2; Media)

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[High net worth individuals] tend not to be interested in packaged products when they can invest directly themselves. They want to invest directly themselves to have the involvement and also to take advantage of opportunities with dexterity and speed... A set and forget packaged product that's wrapped up in a fee structure isn't usually of interest to them. (W3; Wealth Management Sector).

In addition, some interviewees felt that CIPRs were attempting to introduce a product to solve what is a much broader and strategic problem. Similarly, others acknowledged that the real issue is much broader than 'how to turn our attention to decumulation'. It stems back to consumer disengagement, a problem which plagues the consumer experience across their whole retirement planning journey (see report 1). Addressing the broader problem of engagement from the outset was argued to help solve specific engagement with decumulation strategy and potential CIPRs.

It's too simple to say let's just introduce a CIPR or let's just introduce a new retirement income policy. It needs to be about post-retirement policy planning really and for people to know to make decisions - it's not even right to say this, but at age 65 which

is the default retirement age - you make a decision on that day that's going to impact you until you're 85 or even 95. How does one do that without knowing all their options and getting some professional advice? ... I just feel that it's too simple to think that you introduce a new product that is going to be the answer to everyone's problems for retirement. It's not. (I6; Industry Body)

I think the concept is valuable, that there is a more mature decumulation product system... [However] even the accumulation phase, people find it challenging to engage. So, if they can't get their head around the accumulation phase, which is actually much simpler, how are we going to get their heads around retirement? So, I think it's a huge area of work. (C3; Consultant)

Similarly, a key recommendation in the Productivity Commission Draft Report was the concept of developing a '10 best in show' list of superannuation funds. New members would be defaulted into one of these 10 funds if they did nominate a particular fund of choice. There was broad recognition that this approach sought to improve the overall quality of all superannuation funds by encouraging competition to be among the 10 best in show. It also sought to ensure that default members

were being assigned to well performing funds, and alleviated employer involvement in default fund decision making. Furthermore, it sought to reduce the number of inactive or multiple accounts. However, many identified potential unintended consequences of implementing this strategy - for example, the potential for well-performing funds who did didn't make the top 10 being pushed out of the market, temporarily running at a loss to make the top 10 list. The nuances of evaluation were also questioned; what metrics would be used, who would form the evaluative committee and how would impartiality be ensured.

The Productivity Commission, I think, haven't got a fully formed vision about who or how or where it would be administered, this top ten. It's an interesting idea. It's got some elegance in its simplicity but -from our perspective, it's not the right solution for a number of reasons.

First of all, the process taken outside the Fair Work Commission could be open to political interference... we understand the Productivity Commission is suggesting that the minister of the day would appoint the panel that decides who is on the top ten list. That, in itself, is a risk of influence pedalling that we've seen from industry players.

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The second is that market concentration - if you start talking about a top ten, very quickly you're going to see a wind up of quite a lot of potentially good funds that have been delivering long term good returns to members with low fees outside that top ten and you're going to start to see kind of a significant concentration of power. The third point really just comes down to the question about whether it's the right solution for the problem. We recognise that there's probably too many funds. You are starting to see funds coming together and talking about merging. The one way that you wouldn't want to see this top ten play out is for a financial institution to game the system, to get onto the top ten and put forward some loss leading products... "listen, we'll run at a loss. We'll make it look really attractive in terms of fees. We'll get onto the top ten and then we'll use that product as a platform to cross sell and to flip consumers into higher fee, lower performing products." That's something that we've seen unearthed as part of the Royal Commission.... (I4; Industry Body)

The contrast between intention and implementation speaks to the previous discussion of disconnect between government and industry. Government was criticised for being too far removed from the industry to understand the nuances of implementation. This is reflected in the disconnect between strategy and intention as opposed to the feasibility of products or recommendations in practice. Furthermore, these papers demonstrate the dynamic of government providing the regulatory space for industry to implement new strategies. In the case of the proposed CIPRs, interviewees expressed 'sitting on their hands' while legislation is developed.

We're working with providers to start to consider what sort of products they should be offering in the market. So, again the challenge is that we still don't have necessary legislation around what a comprehensive income product is in retirement. So, most funds are completely sitting on their hands waiting until we get legislation, but we're looking to work with a number of providers to build pension type products that will provide a reasonable long-term sustainable income. (C2; Consultant)

They haven't taken off, as in there's not many - there are a couple of providers who are offering these products at the moment but they've been hamstrung by a couple of things, which have recently been fixed in the law. So, the tax treatment wasn't settled so sometimes these products would result in you actually paying tax on some of your retirement savings whereas, as you know, otherwise it's all tax free as it should be. That's the government's position. So, we've changed the law such that these products won't generate a tax liability now. The other one was the treatment under the age pension assets test was not settled. So, these products previously could potentially cut back your entitlement - your part entitlement - to the age pension. So, that has just been - budget has been announced that will be fixed. That will be legislated next year. So, they're the two big handbrakes that the industry has told us on developing these products. (G2; Government)

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

Finally, the question of motives was raised. Some interviewees questioned whether the introduction of CIPRs solves a consumer need or a government or industry need. Some felt that government might want people to have less reliance on the aged pension, and industry might want an additional source of profit, neither of which address a genuine consumer need.

There's a problem that the government feels it needs to resolve and that's longevity risk issues. Also, you don't want people wasting money that you've mandated them to save so that they just then go into an age pension system. So, therefore why are we trying to solve this? What are we trying to solve? ... The government wants to ensure that you don't become an age pension recipient or you delay that for as long as you can until you do. (I6; Industry Body)

We're concerned that all the behaviours that we've seen playing out in the Royal Commission around conflicts and, you know, spruiking and cross-selling and mis-selling will only be compounded if a comprehensive retirement product is the subject of selling and is kind of set up as a market or a platform for choice. (I4; Industry Body)

Overall, there was some scepticism around the motives of the retirement income covenant. In response, some interviewees have discussed how they might resist such strategies towards CIPRs.

I think CIPR's - rightly said, longevity is a big problem but adequacy is a bigger problem. If you haven't got adequacy to start with then, you know, you don't really address longevity. Longevity doesn't become a problem anyway because your money is going to only last a defined amount of time. As I've said before, the government is the ultimate longevity insurance. So, what they're trying to do really by the look of it is pass on or try and structure the system to reduce reliance on the government which doesn't necessarily translate to 'is that the best thing for the person'? (S1; Superannuation Fund/Union)

THE ECOSYSTEM IN ACTION: KEY SENTIMENTS AND TOPICS

3. PASSIVITY

A final theme that emerged from the data was a certain level of passivity in terms of how key informants planned to respond to the issues they highlighted. This is not intended as a criticism of the interviewees, but rather as a reflection of the broader barriers and tensions unveiled in this report. In an oversaturated and fragmented ecosystem where key members need to work together as a unified collective to drive change, but often do not have the level of trust necessary to effectively collaborate, what alternative is there than to do nothing?

We're doing a lot of thinking about it. (W1; Wealth Management Sector)

We are watching things very carefully. We are not directly involved in the Royal Commission, but our members have been involved and we're quite interested in the whole system. (I5; Industry Body)

Because of the limits on our resources, we took a pretty confined approach to how we would deal with these problems. (C8; Consultant)

We've done some expansive thinking about it and wondered what we could do. In terms of what we do [actually] do is very limited. We will invest a member's savings while they're working and then, when they retire, we'll either give them a cheque and they can go off and do what they like or they'll keep the money in the fund and draw down a pension. That's our core purpose... We've thought about could we establish social networks for people? Could we act as a hub for people coming together to either just socialise or establish common interest groups or help them develop ways to talk with one another about how they invest or whatever, all those sorts of things. That's all whiteboard stuff for us at the moment. In time, we might become something quite different but frankly that is a way off. We haven't got anybody working full-time on it. We've been talking about this in sort of planning sessions for a couple of years. We haven't really developed what it might look like. (S2; Superannuation Fund/Union)

CONCLUSION AND NEXT STEPS



CONCLUSION AND NEXT STEPS

This was the second of two research reports detailing insights from stage 1 of the Orford Initiative, comprising of qualitative enquiry with near- and recent-retirees (focus groups) and members of the Australian retirement planning ecosystem (key informants). Report 2 explored the nuances and dynamics between the various members of the retirement planning ecosystem. Through two conceptual approaches the ecosystem was developed to (1) capture a holistic – and indecipherable – view of all the unique relationships identified in the data, and (2) distinguish a consolidated group of key ecosystem members. Government and industry bodies were identified as the two focal groups within the ecosystem.

Further analysis revealed three distinct dynamics comprising the retirement planning ecosystem. First, the market is saturated and fragmented. Divergent industry bodies and rivalry between retail and industry funds hinder effective dialogue with government and erode consumer trust in the sector at large. Second, a disconnect between government and industry was identified, causing severe barriers to facilitating positive change in the ecosystem. Government was criticised for being too far removed from the experience of the average Australian, and industry motives and self-interest were questioned. In combination, the

relationship between these two key groups is plagued with distrust and friction. Third, there was a strong underlying philosophical divide between the merits of paternalism versus consumer engagement. Those who advocated for paternalism sought to protect consumers against the vested interests of industry, as well as protect them from themselves. Others found paternalism problematic and an excuse to keep consumers at a distance. This broad difference in mindset was dispersed across all sectors of the retirement planning ecosystem.

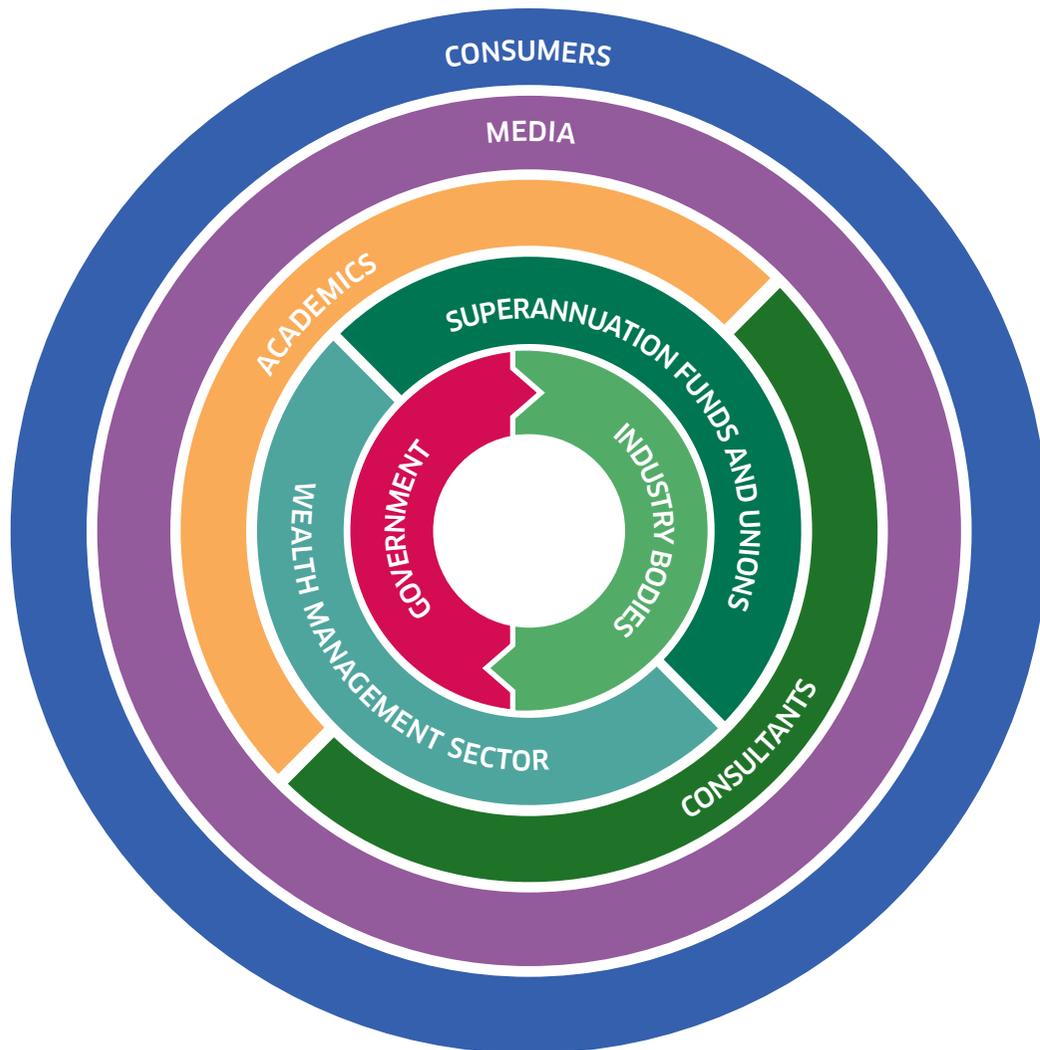
These key dynamics were then exemplified through three examples of the ‘ecosystem in action’; which group(s) were assigned responsibility for driving change, how interviewees responded to two key legislative papers released in 2018; and how they planned to individually implement change. These examples reiterated the friction between government and industry, but also highlighted their interdependence; without a supportive regulatory framework, industry is unable to innovate, and without industry buy-in government is unable to implement strategy or change the hearts and minds of consumers.

To summarise the two conceptual ecosystem mapping approaches and qualitative insights from this report, we revisited the ‘initial

framework of the retirement planning ecosystem in Australia’ [see page 7](#) from the 2018 research brief drawing from preliminary insights from secondary research. We have now incorporated our empirical qualitative findings to create a revised framework of the retirement planning ecosystem in Australia, see Figure 3. The revised framework demonstrates the layers of influence across the various subgroups of the ecosystem, with government and industry bodies at the core. Superannuation funds/unions and wealth management sector exist in the first layer, contributing to the core government-industry body dynamic. The second layer comprises consultants and academics, who have unique, niche or ad-hoc relationships with various members of the ecosystem. The media exist on the third layer of the ecosystem, as they observe and critique behaviours across the ecosystem (with particular attention paid to government, superannuation funds/unions, and the wealth management sector). The consumer, while still acknowledged as the recipient or end-user, is now placed on the outermost layer of the ecosystem. This reflects the fact that consumer is influenced by the collective actions of the ecosystem and also the fact that the media is often the lens through which they view behaviours of others in the ecosystem.

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FIGURE 3: REVISED FRAMEWORK OF THE RETIREMENT PLANNING ECOSYSTEM



To conclude stage 1 of the Orford Initiative, we draw attention to the fact that the two research reports ultimately show two sides of the same coin. The first report reflects the consumer experience with retirement planning through various stages of their lives, and the second report provides a snapshot of the various members with which Australians are likely to engage through the retirement planning process. Consumers see 'retirement planning' as a collective of interactions and experiences, not one interaction with one provider at one point in time. Therefore, taking an ecosystem lens actually allows us to view the sector *through the consumers eyes* – a bombardment of different voices, perspectives, and providers telling (or forcing) them to 'trust us, but don't trust *them*', all the while communicating in incomprehensible jargon. Key connections between reports are highlighted in table 2.

EXPRESSIONS OF INTEREST – ROUNDTABLE FORUM

In keeping with an engaged research approach, the researchers are interested in running roundtable forums with interested parties from government, industry, the media, and the academy. The objective of these roundtables is to explore and critique the qualitative findings from stage 1, debating key themes and finding consensus on strategic priorities and directions. We would also value feedback and contribution on preliminary interventions proposed for stage 2, experimental design (discussed in report 1). If you are interested in attending a roundtable forum, please contact Dr Teagan Altschwager; t.altschwager@mbs.edu or Associate Professor Jody Evans; j.evans@mbs.edu

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TABLE 2: SUMMARY OF QUALITATIVE REPORTS

| Ecosystem Dynamics (Report 2) | Overarching consumer themes (Report 1) | Relationship |
|---|---|--|
| <p>Market saturation and fragmentation</p> <ul style="list-style-type: none"> inter-group conflict inefficiency of small funds | <ul style="list-style-type: none"> Trust in institutions | <ul style="list-style-type: none"> Too many options, too many voices, presence of underperforming funds, inter-group conflict fuels the fear rhetoric and creates consumer distrust |
| <p>Disconnect between government and industry</p> <ul style="list-style-type: none"> Government is too far removed Government politicises super Industry fuelled by self-interest Tension leads to potential undermining of regulation and creates an inefficient system | <ul style="list-style-type: none"> Education and Information Trust in institutions | <ul style="list-style-type: none"> Consumers fear constant regulatory change, which hinders their confidence in employing financial strategies Consumers have very low trust in the sector, particularly financial planners Consumer trust appears higher for Government, but veiled with scepticism around competence to effectively regulate industry |
| <p>Consumer engagement versus paternalism</p> <ul style="list-style-type: none"> consumers don't care about retirement planning need to protect consumers from industry and themselves | <ul style="list-style-type: none"> Relevance and engagement Emotion in retirement planning Expectations and Assumptions Education and Information | <ul style="list-style-type: none"> Consumer apathy and disengagement might be a misinterpretation of deeper issues including fear, uncertainty, or a perceived inability to effectively communicate with ecosystem members (overuse of jargon, language seen as a mechanism to dissuade interaction) Many reported rude or impersonal experiences with ecosystem members lacking emotional intelligence Paternalism in a sense might be reflected in consumer assumptions/expectations (i.e. 'it's government's role to regulate industry, or to provide an aged pension, therefore I don't need to think about it' - paternalism breeds further disengagement) |
| <p>Responsibility of driving change</p> | <ul style="list-style-type: none"> Relevance and engagement Expectations and Assumptions Trust in institutions | <ul style="list-style-type: none"> Consumers see government as impartial and unbiased (relative to financial planners and superannuation funds), and thus a source of information and education Some participants suggested education through government, as well as accessible/ government provided financial advice to near-retirees Further perceived responsibility of government in many cases was the provision of the age pension (as compensation for taxes paid while in the workforce) Consumers identified media as a viable (albeit sensationalised) information source |

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APPENDICES

APPENDIX 1: THE AUSTRALIAN RETIREMENT PLANNING ECOSYSTEM – INCLUSIONS AND RECRUITMENT PROCESS

The *Australian retirement planning ecosystem* includes firms, government & regulatory bodies, industry bodies, unions, the media, as well as academia.

Firms include organisations who have direct or indirect contact with consumers (superannuation funds, financial planners/ advisers, wealth management advisers, SMSF advisers, life insurers)

Government and regulatory bodies refer to any government group with input or regulatory power concerning

- conduct of any firm (listed above) within the retirement planning ecosystem
- communication between these firms and consumers (the Australian public)
- regulation around the SIS act or related regulatory interventions (e.g. tax, aged pension)

Industry bodies are groups brought together to communicate the broad needs and interests of firms within a given industry. They can take a lobbying role, a consumer advocacy role, research/thought leadership role, among others.

Unions have historically been a focal player in protecting and communicating the needs of Australian workers with key ecosystem members (namely firms and government)

While **the media** may not formally contribute to decision-making or actions within the retirement planning ecosystem, they serve as a key communication (and translation) tool for the Australian public. Announcements concerning firms and government are translated and critiqued through media commentary into simple, comprehensible language and widely distributed to the public. The media includes a diversity of channels, including

- the news reported through TV/print/digital

- current affairs/public interest programs which highlight (or sensationalise) relatable 'human stories' to personify key issues,
- consumer websites/ niche publications that sit outside of the 'mainstream media' environment – this also includes publication of books (personal finance books, self-help guides etc.
- Media influencers – authors, well-known editors, and personalities who provide expert commentary on financial and retirement issues.

Academia refers to academics/researchers who have expertise in retirement/financial topics. While often not communicating directly with the public, academics provide high-level thinking, integrity and rigorous research to provide insight on key issues facing the retirement ecosystem. They provide an impartial, and somewhat removed/external perspective, and often inform or collaborate with industry and government.

APPENDICES

Recruitment of ecosystem members involved the following steps:

1. Identify key sectors, subsectors, and ecosystem voices (Please see *Retirement planning in Australia – an ecosystem perspective; 2018 Research Brief* for more detail on this desk research and four key perspectives identified: academic, government, media, and industry).
2. Identify specific government departments, organisations, industry bodies, consultants, media representatives, and academics comprising each (sub)sector of the ecosystem
3. Retrieve contact information of key informants representing a broad and diverse cross-section of ecosystem members; contact information was found online, via government submissions (e.g. productivity commission submissions), or requests were sent through digital platforms (e.g. LinkedIn) or via media requests. Contacts were also sought through the researchers' and donor's network of contacts.
4. 115 interview requests were sent; 69 agreed to participate (60% acceptance rate).

APPENDIX 2: KEY INFORMANT INTERVIEW PROFILE

TABLE 2: SUMMARY OF QUALITATIVE REPORTS

| Ecosystem segment | Unique voices represented (total participants) | Participant label |
|---|--|-------------------|
| Industry bodies | 8 (9) | I1; Industry Body |
| | | I2; Industry Body |
| | | I3; Industry Body |
| | | I4; Industry Body |
| | | I5; Industry Body |
| | | I6; Industry Body |
| | | I7; Industry Body |
| | | I8; Industry Body |
| | | I9; Industry Body |
| Consultants (researchers, evaluators, service provider) | 9 (10) | C1; Consultant |
| | | C2; Consultant |
| | | C3; Consultant |
| | | C4; Consultant |
| | | C5; Consultant |
| | | C6&7; Consultant |
| | | C8; Consultant |
| | | C9; Consultant |
| | | C10; Consultant |

APPENDICES

| Ecosystem segment | Unique voices represented (total participants) | Participant label |
|---------------------------------|--|--|
| Superannuation funds and unions | 15 (16) | S1; Superannuation Fund/Union |
| | | S2; Superannuation Fund/ Union |
| | | S3; Superannuation Fund/ Union |
| | | S4; Superannuation Fund/ Union |
| | | S5; Superannuation Fund/ Union |
| | | S6; Superannuation Fund/ Union |
| | | S7&8; Superannuation Fund/ Union |
| | | S9; Superannuation Fund/ Union |
| | | S10; Superannuation Fund/ Union |
| | | S11; Superannuation Fund/ Union |
| | | S12; Superannuation Fund/ Union |
| | | S13; Superannuation Fund/ Union |
| | | S14; Superannuation Fund/ Union |
| | | S15; Superannuation Fund/ Union |
| | | S16; Superannuation Fund/ Union |
| | | Wealth management sector (financial planners, fund management firms/self-managed super fund advisers, life insurers) |
| W2; Wealth Management Sector | | |
| W3; Wealth Management Sector | | |
| W4; Wealth Management Sector | | |
| W5; Wealth Management Sector | | |
| W6; Wealth Management Sector | | |
| W7; Wealth Management Sector | | |
| W8; Wealth Management Sector | | |
| W9; Wealth Management Sector | | |
| W10; Wealth Management Sector | | |
| W11; Wealth Management Sector | | |

| Ecosystem segment | Unique voices represented (total participants) | Participant label |
|---------------------------------------|--|-------------------|
| Government | 5 (9) | G1; Government |
| | | G2; Government |
| | | G3; Government |
| | | G4; Government |
| | | G5; Government |
| | | G6&7; Government |
| | | G8&9; Government |
| | | |
| Academia | 6 | A1; Academic |
| | | A2; Academic |
| | | A3; Academic |
| | | A4; Academic |
| | | A5; Academic |
| | | A6; Academic |
| Media (journalists, editors, authors) | 8 | M1; Media |
| | | M2; Media |
| | | M3; Media |
| | | M4; Media |
| | | M5; Media |
| | | M6; Media |
| | | M7; Media |
| | | M8; Media |
| TOTAL | 61 unique voices (69 participants) | |

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