FSC FINANCIAL SERVICES COUNCIL

ING DIRECT
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SUPERANNUATION SENTIMENT INDEX 2014

MESSAGE FROM JOHN BROGDEN

THE FSC/ING DIRECT Superannuation Sentiment Index provides a barometer of how confident and engaged Australians are with their superannuation.

The index improved in 2014 driven by more positive perceptions of performance, favourability, trust and confidence in the system.

A second year of double digit returns for superannuation has clearly had a positive impact on sentiment.

This year's survey results also show the impact the decision by both major political parties to leave superannuation policy and tax settings alone has had on views of the superannuation system with the largest improvement coming in response to perceptions of "stability and certainty".

This result is underlined by the continued strong support for superannuation with the index on "Pride in superannuation as a system" increasing from the already high level recorded in 2013.

The survey also indicates that there are some areas where the industry needs to improve the perception of consumers.

Whilst satisfaction with returns has improved, perception of fees has declined, indicating a clear need for the industry to make clearer the link between higher returns and costs of managing the growth asset.

This year's survey also includes questions on possible future changes to the tax treatment of superannuation. Results show that there is widespread opposition to the majority of potential changes to tax concessions for superannuation.

The overall increase in the index for 2014 is reflected in strong growth in contributions to superannuation funds in the past nine months and we expect that in time, the series will become a key indicator of future rates of voluntary contributions.

JOHN BROGDEN
Chief Executive Officer
Financial Services Council

MESSAGE FROM VAUGHN RICHTOR

THE AUSTRALIAN superannuation system is one of which we can be justifiably proud. As one of only a few countries in the world which enables people to take responsibility for their retirement planning, we have a strong foundation on which to build.

However, if we want to maintain our financial wellbeing in our later years, then understanding and managing our superannuation now is essential to creating a sound financial future once we leave the workforce.

Our second *FSC/ING Direct Superannuation Sentiment Index* allows us to compare Australians' perceptions around superannuation over a 12 month period for the first time, offering us valuable insights into Australians' sentiment, and further shaping our focus areas for individuals, the industry and society as a whole.

It's encouraging to see that Australians continue to hold our superannuation system in high regard. However there is more that needs to be done.

As Australians increasingly show signs of wanting to take control of their superannuation, we believe the onus is on the industry to make it easier for them to do so.

This includes ensuring any fees and charges are fair and provide value for money; allowing Australians to view their superannuation balance and activity on a regular basis; and creating more education and transparency around investments.

We would like to see more Australians achieve greater engagement with their superannuation so that they can be confident they are making the right financial decisions now to safeguard their future financial wellbeing.

There are some positive indications that as a nation we're heading in the right direction; but all parties – individuals, society and industry – need to be proactive in making it happen.

VAUGHN RICHTOR
Chief Executive Officer
ING Direct

EXECUTIVE SUMMARY

Findings at a Glance

SUPERANNUATION CONSUMER sentiment has improved slightly since 2013, with the index rising from 103 to 105.

This improvement is driven by larger increases in positive ratings for fund performance, favourability of the super sector (including pride in it), trust and confidence in the super system. These are offset by losses on the value of fees paid, support for the current system and fund transparency.

	2013	2014	CHANGE
Total Index (average of ratings below)	**103**	**105**	**3**
Performance (returns) of own fund this year	114	121	7
Better or worse performance than last year	103	102	-1
Judgement of value from fees	92	87	-5
Favourable opinion of sector	101	107	6
Have trust in super	100	106	6
NOT too many changes in system	71	70	-1
Have confidence in system	99	107	8
Provides stability and certainty	103	114	11
Something to be proud of	105	111	6
Essential in comfortable retirement	134	133	-1
Funds ARE transparent enough	70	67	-3
Support for Australia's super system	139	136	-3

These index figures are calculated by taking the difference between percentage positive ratings for each factor, e.g. 'good' or 'agree', and the average mid-point, i.e. 50%, and then summing that with the 100 index figure. For example, a positive rating of 64% would yield an indexed rating of 114.

The headline index figure is then a simple mean average of these individual indexes, and is an overall measure of opinion of the superannuation system. From this point on these findings use the percentage rating scores on which this index is based (amongst others) to investigate more detailed trends and findings.

This research confirms that headline support for Australia's superannuation system is high and fairly stable in 2014 (86%, down only 3 points), yet a detailed understanding of the system or an involvement with it is still lacking (only 53% feel informed enough to make decisions). It is also seen to be something 'essential in providing a comfortable retirement' (83%, down only 1 point).

However, this overall stability in support and outcome masks some significant movements in other metrics, with an increase in perceived performance, trust, confidence and stability being offset by increased concerns around fees, transparency and change (actual and proposed).

Australia's super system is perceived to be quite differentiated from (and superior to) the rest of the world, through a distinguished level of financial stability and regulation. This is 'something to be proud of' (up 6 points to 61%) and hold a favourable view of (57%, also up 6 points). Against this background we find an increased level of 'trust' and 'confidence' in the system (56% and 57% respectively), compared to 2013 (50% and 49% respectively).

But whilst superannuation is seen to provide 'stability and certainty' (64%, up 9 points), a 'lack of transparency' (71%, up 5 points) and actual or proposed continuous 'change' (65%, up 6 points) are also having an effect.

Consistent with last year, a majority (76%) only hold one super fund, with industry funds still remaining the most prevalent type of fund used by Australians (64%). The spread of different types of funds between retail, self-managed, and other types, is very similar to 2013 also. The decision making process on choice of

funds is still not very involved or detailed, with a majority defaulting to their employer's fund (68%).

Importantly, 27% of people reported that they would be likely to change their super fund in the future, up from 19% last year. Our focus group research suggests a growing feeling of freedom and comfort with changing due to the post-GFC climate, a more competitive sector and a growing feeling that many are paying too high a fee at with their current providers (discussed below).

Most (68%) are still able to recall their current super balance, though we still find evidence of disengagement. Intriguingly, less people now think their super will be 'inadequate for their retirement' (52%, down 10 points) and the amount they think they need has also dropped, e.g. those believing under $500,000 is adequate has risen 5 points to 31%.

This may reflect expected changes to the retirement age, i.e. less is needed for a shorter retirement, but Australians are also still diversifying their assets into other investments, which may reflect a decreased reliance on super. These alternative assets are now moving to the more tangible, such as cash and property over shareholdings.

A majority of working Australians (59%) have never made an additional voluntary contribution to their super, whilst those who have tend to do so more regularly now. The barriers to these contributions have decreased, with a significantly higher number of people (20%, up 12 points) claiming 'nothing' is stopping them. This reflects more a diversification and a lower balance needed.

Awareness of the ability to specify investment options (70%) is stable, and the utilisation of this feature has increased slightly (39% compared to 33% in 2013) and may correlate with the desire for more control over super funds. Indeed, a majority of Australians (66%) want more control over their super, though the lack of current engagement suggests that this may not be taken up in reality.

The vast majority of working Australians know their super fund provider (89%) and are still checking their super balance. People are increasingly moving to digital means to engage with their fund through emails and via funds websites (now 32% and 25% respectively), but noting that the postal statement is still the main contact with their fund. Amongst those who have contacted their super fund within the last year, a significant proportion (90%) still rate this experience as positive.

Where super funds are judged, our focus groups confirm that it is still primarily a balance of returns versus fees. That is, factors like service, convenience and options do not figure as highly in the decision-making process.

Encouragingly, the perceived performance of super funds is trending upward, with 71% now rating the returns as good (up from 64% last year). Indeed, 52% rated their return this year as better than the last year's, with this a repeat of the result in 2013. The perception is that this is a natural consequence of the post-GFC climate, not super fund provider performance.

Consistent with 2013, only half (49%) are aware of the fees they are paying, with only 15% definitely aware. Despite higher returns, there is a trend towards these fees being perceived as 'too high' for the service (35%, up 4 points). This is the downside to the performance-fees judgement, and helps to explain the increase in the number of people saying they may change funds (27% this year).

Awareness of the zero fee funds is still relatively low (32% in both 2013 and 2014), and a similar number to last year reported that they might change to this type of fund (48%).

However, a lack of detailed awareness means that they are viewed with some measure of cynicism and suspicion (overcome by association with a strong provider brand).

Support is still strong for both the current super system, including the current level of compulsory contribution, is still high (86%), as are plans to incrementally increase compulsory contributions to 12% (80%). Nevertheless, half (49%) also agreed with the Federal Government's current plan to freeze the increase until the economy recovers.

People are less supportive of most other tested super changes, though there is some support for actions that would affect only those on higher incomes (44-59%). Other changes relating to taxation and access ages, i.e. those that would affect all or more superannuants, received majority opposition instead (51-73%).

DETAILED FINDINGS

The Current Superannuation System

SUPPORT FOR Australia's current superannuation system is stable in 2014, with 86% confirming that they supported this system compared to 89% in 2013 (stable with margins of error). However, 'strong' support has decreased slightly (55%) compared to 2013 (65%).

Despite some misgivings about the ability of their superannuation fund to afford them a comfortable retirement (discussed below), super is still seen as a worthwhile system that helps to plan for retirement. The fundamental nature of super for providing, or in some cases contributing to, people's retirement is steady from 2013 (84%) to 2014 (83%). Affording a comfortable retirement drove this issue to the forefront in our focus groups, especially in the context of stagnant incomes, the rising cost of living, and concerns about the state / lack of pension for when they retire, i.e. the economic and financial context is important.

"It's necessary to protect my future and it (super) forces you to save and invest your money."

"Who else is going to look after us when we're old? With all the changes to the pension there may not even be a pension when I retire so I have to do it."

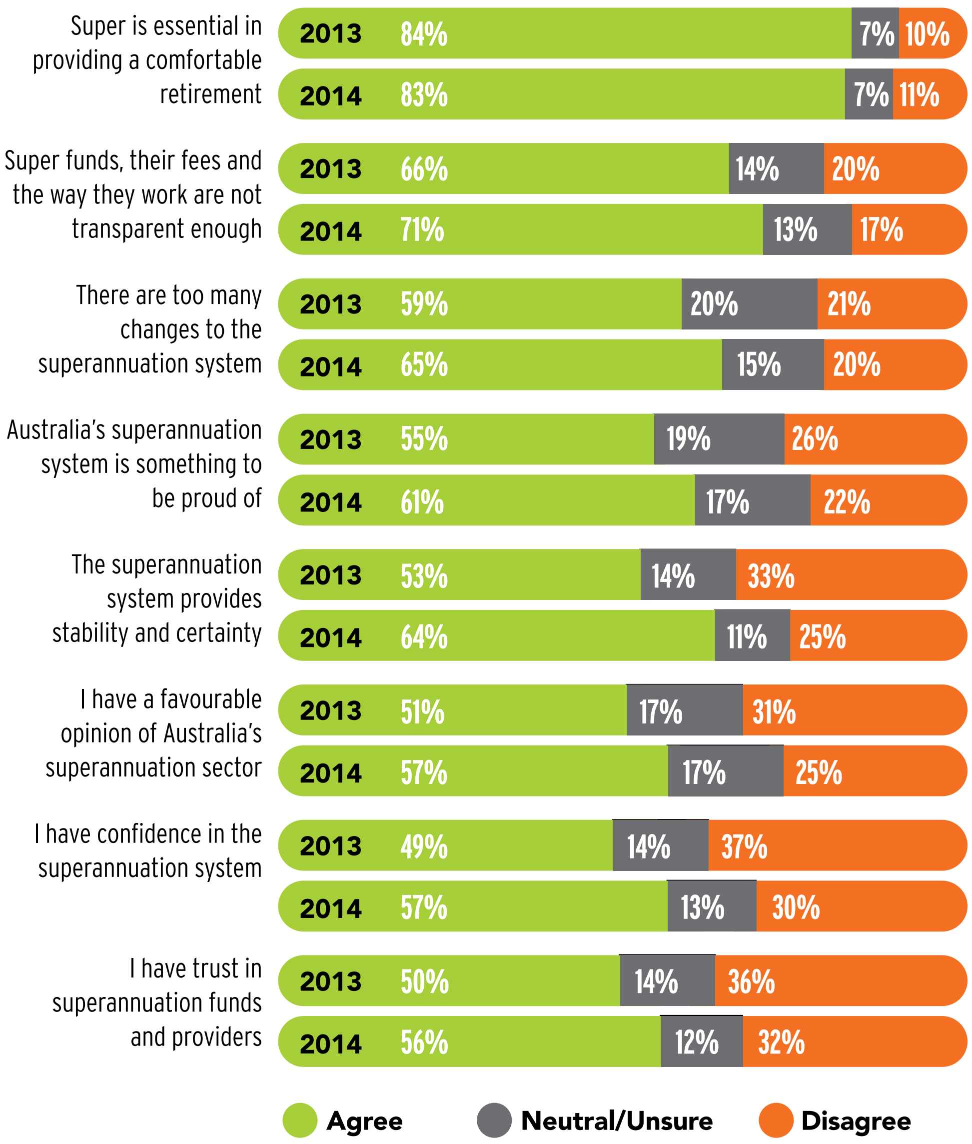
"When the Government backed the system and froze everything it decreased the panic in Australia and saved us during the GFC."

Understanding of the super system as a whole, the way it works, and the different funds available was quite low (53% feel informed enough to make decisions, 11% very informed). This unfamiliarity results in a disconnect with the system and a passive approach to super, and instead trust in it stems from decent regulation and stability (as evidenced by Australia's performance during the GFC).

The following chart also shows that more than half agree that Australia's superannuation system is something to be proud of (61%), that it provides stability and certainty (64%), and that they have trust and confidence in the system (56% and 57% respectively). This increased confidence from 2013 (proud 55%, trust 50%, confidence 49%)

"We're at least not like Greece. The fact that the Government has forced everyone to save gives me confidence that we won't end up like them."

was reflected within our focus groups. Confidence was drawn from government backing, regulation and the fact that the system is compulsory.



Eroding this support we find that around two-thirds (71%) agree that super funds are not transparent enough, up slightly from 2013 (66%). Transparency was raised in our focus groups as a concern, particularly surrounding fees, because they were not well-informed as to how their funds operated or because of a feeling of lack of disclosure or control. This lack of control is a source of this disengagement and results in complacency, lack of priority, and laziness.

"I just have to trust that they're doing the right thing. I'm too lazy to try and do anything about it."

"It's not something that seems to change that often, and I can't do anything to change it - it's just the way it is."

Of particular note is that 65% think that there are too many changes to the system, which is up from 59% in 2013. In light of the proposed changes to the super system, concerns were raised in the focus groups that these short term changes affected an issue that required long term assurance.

"There are too many changes happening. Governments are all about repealing and changing what the previous government brought in rather than planning for the long-term. How am I meant to plan ahead for my retirement when the government keep changing their plans?"

- ***Support for Australia's superannuation system is high and stable in 2014, yet understanding is still lacking.***
- ***Australia's super system is quite differentiated through a perceived higher level of regulation, highlighted through Australia's survival of the GFC.***
- ***Superannuation increasingly provides stability and certainty, but lack of transparency and changes are barriers to confidence in the system.***

SUPERANNUATION USE & FUNDS

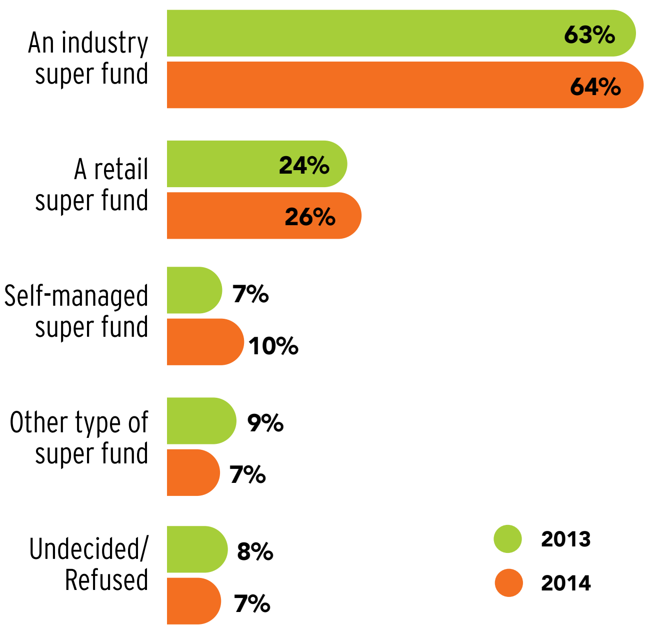
MOST AUSTRALIANS (76%) have a single fund, a similar level to 2013 (72%). A quarter (24%) hold multiple funds, or are at least aware that they do.

Those with multiple funds in our focus groups had usually not acquired them intentionally, only because they had changed jobs. Many had considered combining them into one fund, but felt they did not have enough time or energy to do so. There was a relatively high awareness about the current super funds ability and ease to consolidate previous funds. Amongst those who had chosen to keep multiple funds, multiplicity was a key reason cited for this decision.

"I'll get around to it one day (consolidation) I just haven't been bothered yet."

"I like to play around with my different funds. I think you get the advantage of diversity and not putting all your eggs in one basket."

The following chart shows the type of fund(s) held by the survey sample, highlighting a very similar spread to the 2013 figures. Industry funds still account for the majority (64% of all funds). Around a quarter (26%) reported holding a retail fund, with self-managed funds and 'other' fund types held by under a tenth each (10% and 7% respectively).



In our focus groups disengagement correlated with lower levels of control, with awareness and understanding more apparent amongst self-managed and retail fund holders, than the more removed industry super fund users.

"When you get closer (to retirement) you need to start to have a plan in place. It will reach a point where I will salary sacrifice straight into my super so we can have enough to retire on."

"It's something so far away when you're young you don't really have to think about it yet. I'm not worried about it now. I can consolidate them all later."

Apathy is not only linked to fund type, but also life cycle stage; those closer to retirement were, similar to last year, more conversant and interested in their superannuation compared to those at the other end of the spectrum at earlier stages of life who were rather detached and indifferent towards their superannuation, with a range of levels of engagement in between.

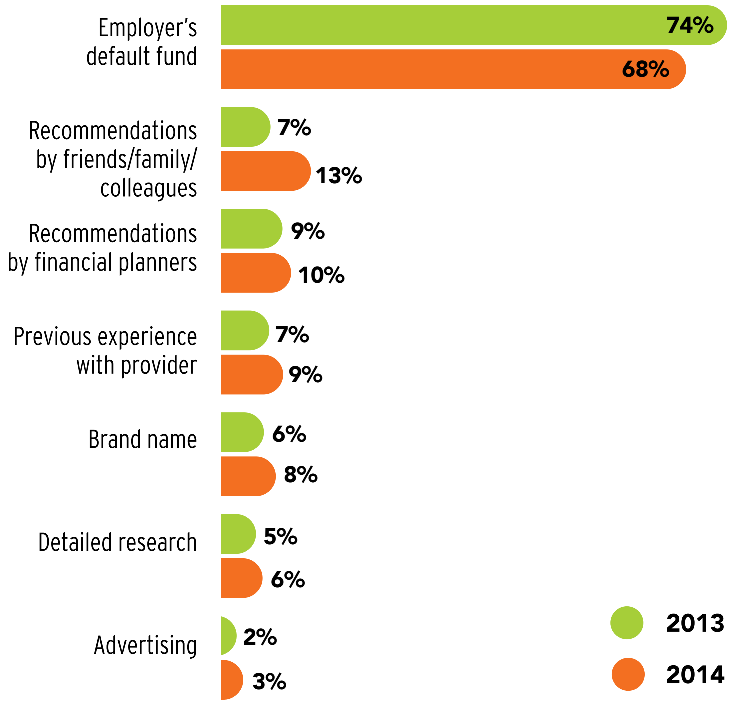
The decision making process for choosing a super fund was quite uninvolved for approximately two-thirds (68%), where they reported using their employer's default fund or recommendation. This is a slight decrease from 2013 (74%), but many of the 'default' group still reported signing up to such a fund and taking the attitude of 'set and forget'.

"I'm a member of that industry so I think I'll get benefits from that. They look for growth in the relevant areas."

"I just used my employer's default fund. It is too hard and too much paperwork to pick another fund."

"I only look at what I've contributed to the fund in the last six months on my statement – that's it."

The chart below illustrates that recommendations by friends, family or colleagues is up slightly (13%) from 2013 (7%), and is now ahead of financial planners (10%) – who are often used by those with retail or self-managed funds.



Fewer still relied on previous experiences with the provider (9%), the brand name (8%), detailed research (6%) or advertising (3%). Our groups found that these sources are not fully trusted, and all but the most savvy of investors find the choice and nature of their funds rather confusing. So for many the decision-making process for super is still not an involved one.

"I went to my accountant to see who the best fund was for me and just went with his recommendation because I trust him."

Dissatisfaction with current fund providers has seemingly increased in 2014, with 27% saying they would be likely to change their fund provider in the future, versus just 19% in 2013. With the perception of increased competition in the market highlighted in our focus groups, respondents feel the choice of funds gives them more control.

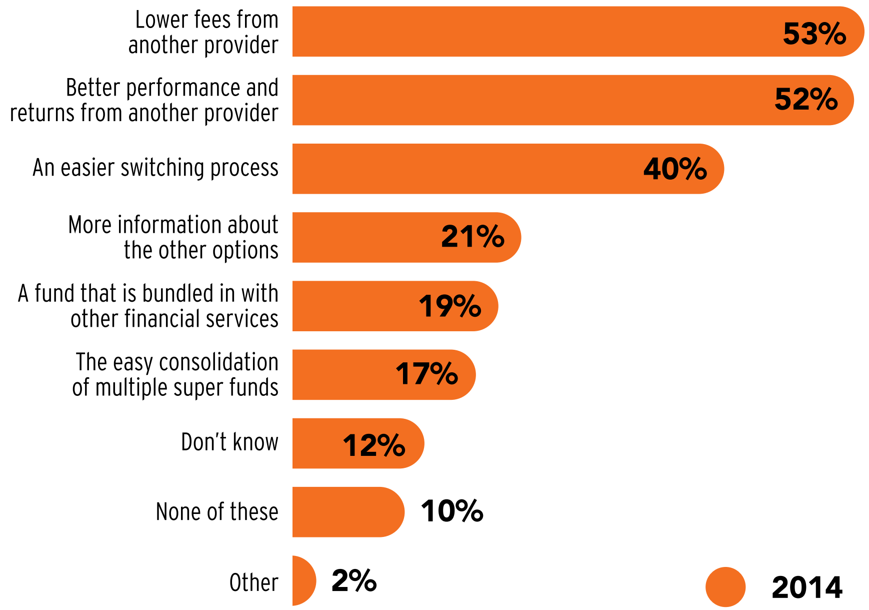
Nevertheless, those who are seemingly satisfied with their funds are prominent and are increasingly loyal, with 35% 'very' unlikely to switch funds compared to 27% in 2013. Within our focus groups, those who were not considering changing funds either commented on satisfaction with their current fund or linked it to a lack of prevalence for the need to change. Notably, easy consolidation of multiple super funds (17%) was not particularly persuasive for consideration to switch super funds.

"There's definitely more competition out there. There are so many ads on TV and I'm constantly getting flyers in the mail. I then have a choice about who I want to go with."

"My current fund said they can consolidate all my other funds for me and they did."

"I will combine all my funds eventually, I just haven't had time or looked into it yet."

When asked which factors may encourage consideration to switch superannuation providers or funds, lower fees from another provider (53%) was the top reason, closely followed by better performance and returns from another provider. An easier switching process (40%) was also quite convincing. The chart below depicts the possibilities for considering to switch providers; notably easy consolidation of multiple funds (17%) was the bottom of the list.



- ***Consistent with last year, a majority hold only one super fund, with industry super funds still the most common fund type.***
- ***The decision making process is still not very involved or detailed, with a majority defaulting to their employer's fund.***
- ***Dissatisfaction and lack of control has increased the propensity to consider changing funds (as has the market and economic context), but loyalty amongst those who are satisfied has increased.***
- ***Key reasons to change funds relate to lower fees and better performance of other funds.***

RETIREMENT FUNDS

THE MAJORITY of superannuation fund holders (68%) said that they know, approximately, how much is in their super fund right now, i.e. their current balance, however this is down slightly from 2013 (72%). Older people, nearer to planning their retirement, tend to have a better idea of this. Nevertheless, with an ageing population and increased changes to the pension, this decreased engagement with super funds is somewhat concerning.

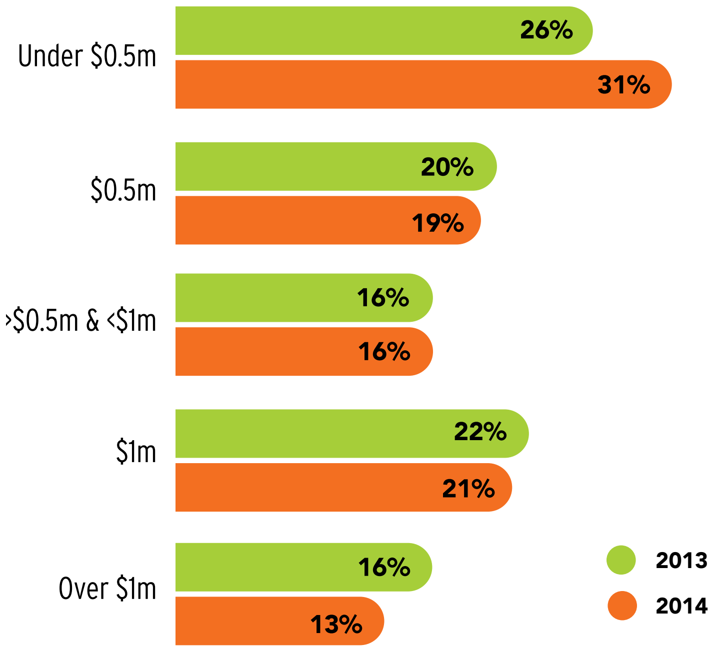
"I'm not sure. I know it's on my statement but it's not going to affect me for a long time and there's nothing I can do about it now."

"I check mine about once a week. I'm trading gold, minerals, currencies, etc., and those things change really often."

Even so, people's confidence in super to provide them with a comfortable retirement has increased. In 2013, 62% stated that their super would be inadequate to provide for them, whereas in 2014 only 52% believe it will be inadequate. Whilst this is still a majority who do not believe they can rely on their superannuation alone, in this context of increased confidence and trust in the superannuation system, reliance on super has increased. The proposed raising of the retirement age may also be having an impact here.

The following chart shows the shifts from 2013 to 2014 of adequate fund balances that Australian workers believe is necessary to ensure a comfortable retirement. 31% believe that under half a million dollars will be adequate, which is the main shift since 2013 (26%). 19% opted for around half a million dollars, 16% for over half a million and under one million dollars, 21% for around one million dollars, and 13% for over one million.

Interestingly, this means that Australian workers believe they will actually need less overall in their superannuation funds than previously thought. Again, we note the proposed rise in retirement age being topical at this time.



In our focus group fund holders often struggled to decide on a 'guestimate' of what was adequate. However, generally a weighing up of projected cost of living and time the money is needed for was the main equation discussed. People were also quite pragmatic about not just relying on their superannuation purely, but rather diversifying investments to have a range of incomes when it was time to retire.

Despite this changing context, the numbers reporting holding other investments is stable in 2014 at 55%. This highlights that people are not now feeling an increased need to diversify assets, but rather this has stabilised in the past year as the confidence in super seemingly trends positively. The following chart. depicts the changes from 2013 in the most commonly held alternative assets.

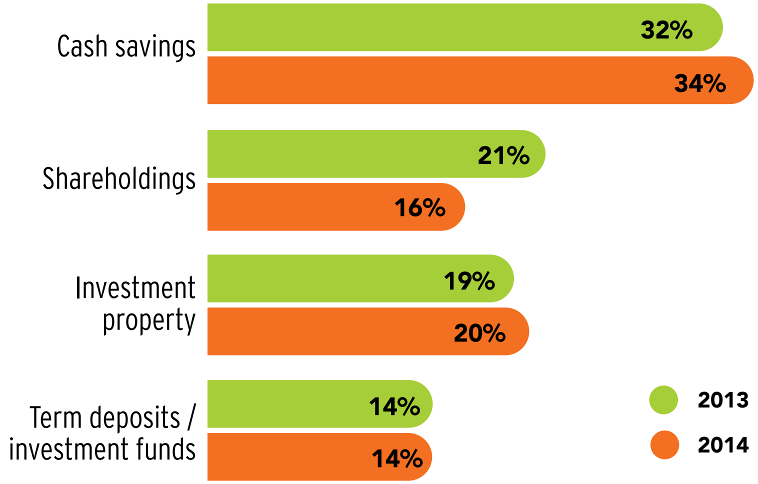
Here we see a small movement away from shares to cash and property. This 'safe as houses' attitude was echoed in our focus groups and potentially reflects the below sentiment around tangible assets.

"If the cost of living keeps rising along with inflation, we will need more than what is just in our super."

"I think I'll need about 75% of my salary the year before I retire. That's dependent on me paying off the house and everything going smoothly."

"I've invested our money into property, as its tangible and the property market seems to be so strong that I feel safer investing in that."

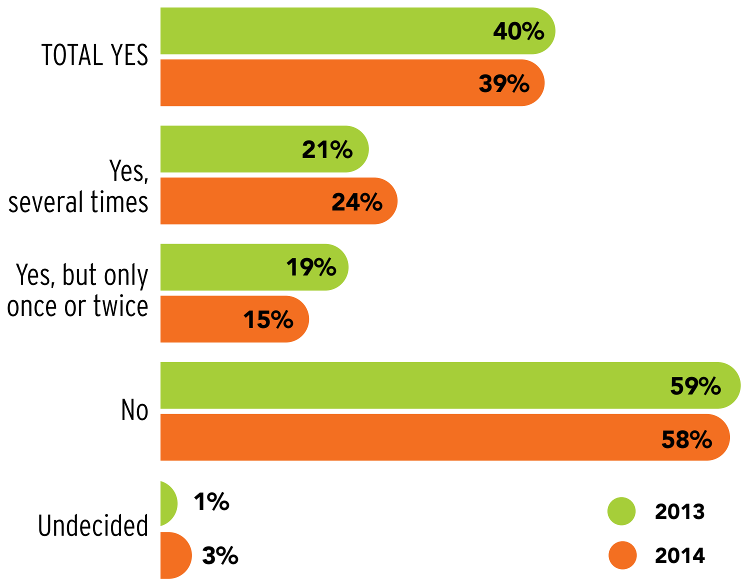
"Super is going to be the bare minimum – you can't live comfortably off that. It's susceptible to market crashes, whereas you have a greater sense of control over other investments."



- ***Most people are still able to recall their current super balance, but this familiarity has decreased slightly highlighting a disengagement.***
- ***Sentiment around the inadequacy of super has decreased in 2014, which may be explained by an expected increase in the retirement age.***
- ***People are still diversifying their assets into other investments, more so into tangible possessions such as cash and property rather than shareholdings.***

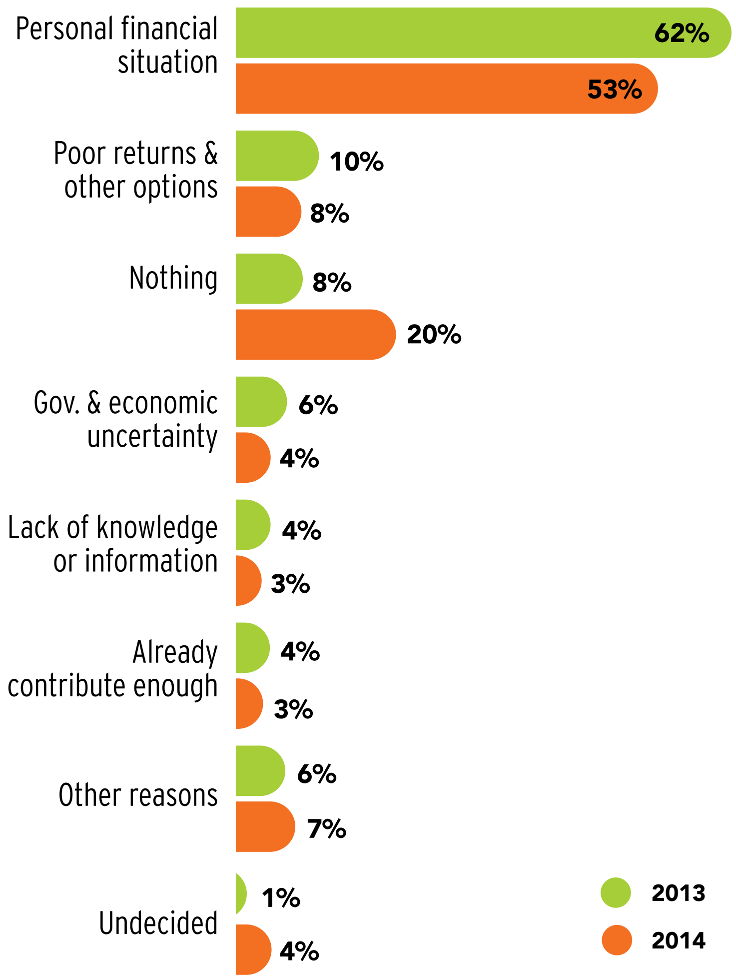
VOLUNTARY CONTRIBUTIONS, OPTIONS & EXTRAS

THE PROPORTION of people ever making voluntary contributions has not increased since last year, with a majority (58%) still claiming to have never made any voluntary contributions. Amongst those who have (39%) there seems to be an increasing move towards habitual contributions. Our focus groups highlighted that voluntary contributions were correlated with the proximity to retirement, and salary sacrificing became more common place in order to attain a sufficient balance for retirement.



"As I get closer to retirement I look at my balance and realise it's not enough so I have started salary sacrificing to get the tax breaks and try to boost my balance."

There was a considerable jump from 2013 on the number who stated there was 'nothing' holding them back from making voluntary contributions (20% now, up 12 points). This may be reflective of the sentiment around diversifying assets, and using money that was previously put towards voluntary contributions to invest elsewhere. The previous track showed that people's own financial situation was the primary reason for not making voluntary contributions, and whilst this is still the case, this number has dropped significantly in 2014 to only 53%.



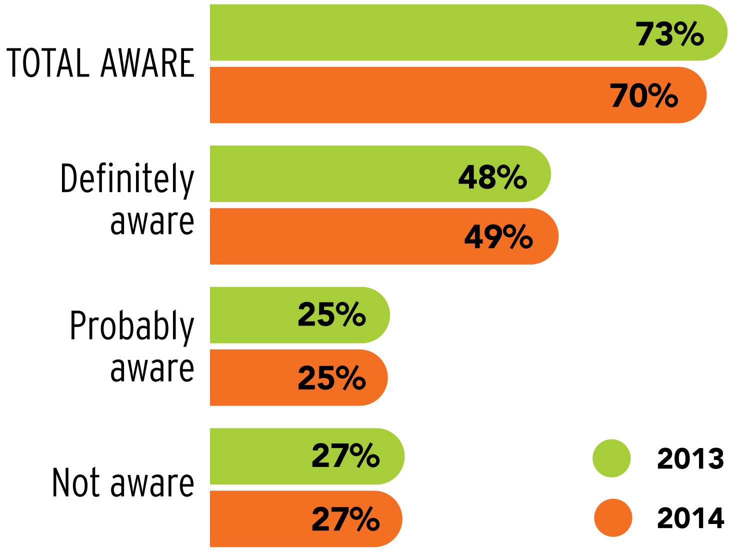
"I think it depends on what stage of the life cycle you are at. At this point, I have higher priorities, like paying off my mortgage rather than contributing extra to my super."

"There are other areas to invest your money and diversify so you're not dependent on one source."

Consistent with our 2013 survey results, just over half (53%) said their fund included a life insurance policy. Unawareness of this feature is still an issue, with almost a quarter (24%) still not knowing whether their fund offered this. Those in our focus group reported that this insurance often came as default, and the convenience of having both super and life insurance in the one place was the main bonus of the consolidation.

"It's just easier to have everything together for if something goes wrong."

Over two thirds (70%) are aware that they have the ability to specify investment options. Of those aware of this 39% have used such options (up 6 points from 2013), indicating that even such one-off involvement in their superannuation planning is in the minority. This relates the notion of control over funds and is discussed at length in the following section.



- ***A majority of working Australians have still never made an additional voluntary contribution. Those who have are now doing so more consistently.***
- ***There are decreased barriers to these voluntary contributions, with a significantly higher number of people claiming that 'nothing' is stopping them from doing so. This may relate to diversification into other assets.***
- ***Awareness of the ability to specify investment options is stable and in the majority. However the uptake of this feature remains relatively low.***

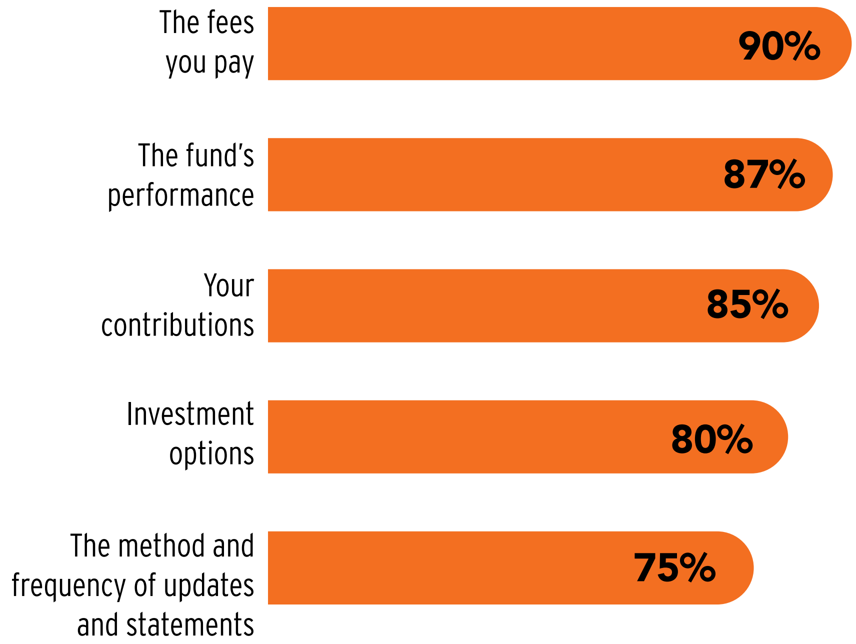
SUPERANNUATION CONTROL

MORE THAN half (66%) in our survey said they wanted a greater say in the way their fund works, despite over half (56%) also saying that they already feel in control of their super (11% strongly). A third (35%) of respondents felt that they were not in control of their super currently. This lack of control was reflected within our focus groups, with a confusion and an attitude of disconnection and indifference often helping to explain it.

"It's just something that I put on the back burner. I feel like when I use my employer's default fund they become the middle party so I don't really have any say over it anyway."

"There's too many options. It's too much effort and too much paperwork so I just get lazy and don't make any decisions."

In relation to certain aspects that respondents wanted control over, the following chart depicts that control over the fees paid (90%) is of utmost importance, closely followed by the fund's performance (87%), individual contributions (85%), investment options (80%), and the method and frequency of updates and statements (75%). In short, the choice of these controls is important to a majority, though they may not practically invoke that control.



The prevalence of the desire to control fees was reflected in our focus groups. When asked to explain this sentiment, respondents were not necessarily concerned about the level of the fees but more about the transparency and accountability for what they were for. Regulation and clarity around these fees were desirable.

"The fees should be capped at a certain limit or better yet regulated. We have no idea where they are going!"

"The fees are fair if you make a really good return and it shows that they're actually doing their job that they get paid for."

- ***A majority of Australians want more control over their super.***
- ***Lack of control results in an attitude of disconnect and disengagement with super.***
- ***Transparency and accountability over fees and performance are the most common requests, but contributions, options and communications are also important.***

ENGAGEMENT WITH FUNDS

FAMILIARITY WITH super fund(s) is stable from 2013, with the vast majority of people still able to name their fund (89%). The same proportion also reported checking their fund balance, i.e. just 11% (unchanged) reported that they never check their balance.

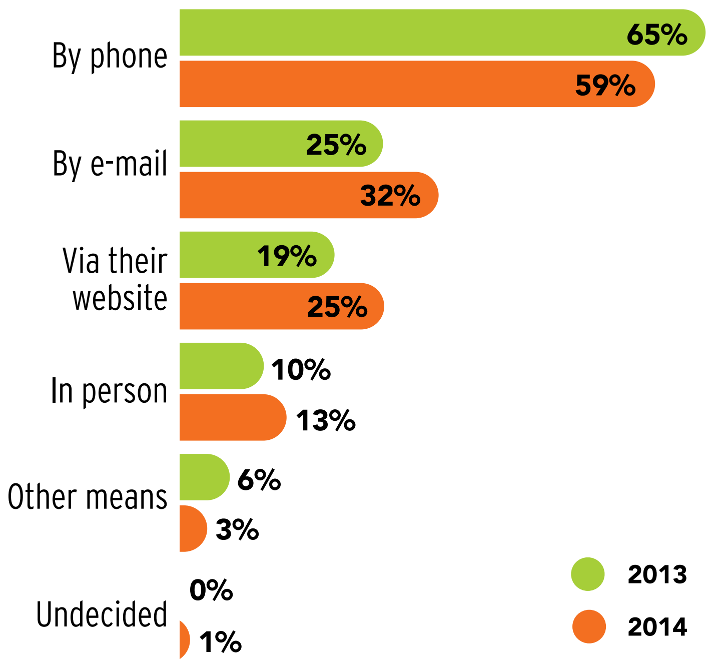
The most common means of doing so is via postal statements still (65%, down only 1 point). These statements were found useful in our focus groups; this being their main point of contact with their retirement savings for many. They reported checking their balance (and sometimes fees), but usually disregard any of the other ‘marketing material’ that comes with their statement.

However, an increasing number are now checking via digital media, including on-line (30%) and via apps (4%). The number of people who speak to their super fund for the purpose of checking their balance now sits at 7%, i.e. is not common.

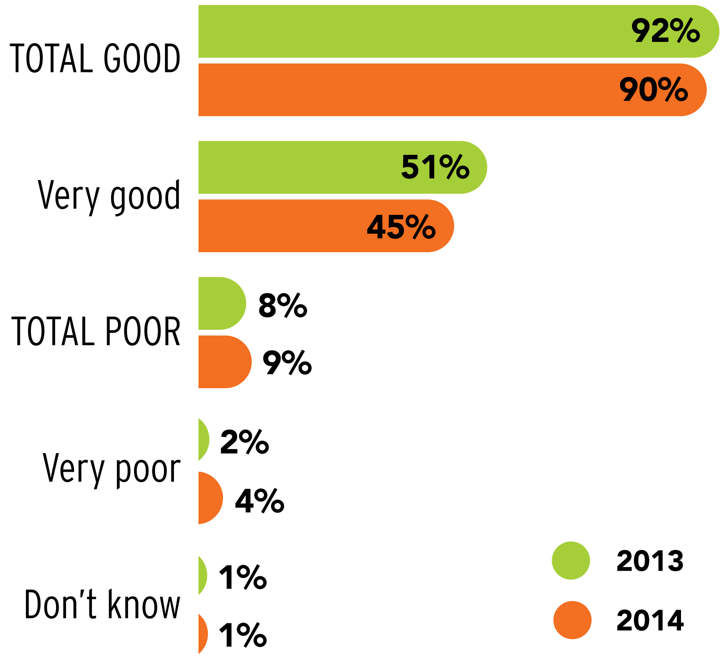
"I don't even understand all the other stuff. I just want to see my balance and now how my fund is going."

"It's really easy and convenient that I can now check it through my online banking. I really like that."

Engagement with providers has also remained constant, with just over one quarter (27%) reportedly making personal contact with their provider in the last year. The chart below shows the changes from 2013 for the method of communication, with phone contact decreasing slightly and increasingly traded for digital avenues such as email (32%) and the website (25%).



Encouragingly, 90% (down only 2 points) rated their engagement with providers to be positive, with slightly less than half (45%) saying it was a 'very' good experience. The chart below illustrates the changes in experience from 2013.



"I think that's (over the phone) the only way you can contact them? I would have no idea where their shop front would be!"

"They were really helpful – I actually felt like they wanted to help me over the phone."

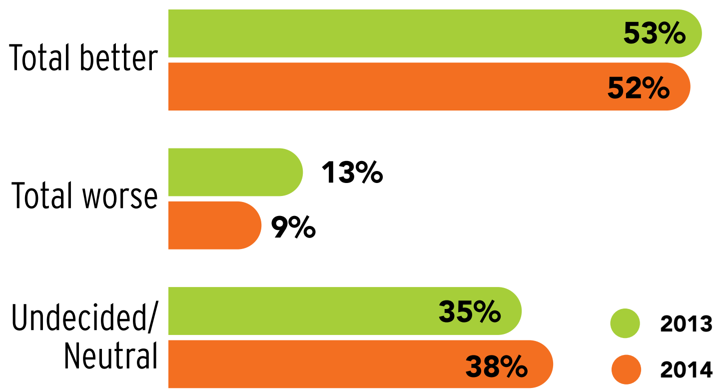
In relation to what respondents want from their interaction with their super funds, the number one request is for clear advice from their provider (83%). Respondents in our survey also demanded easier access to their fund balance and other information on-line (71%), closely followed by more information from their super provider generally (66%). A majority (53%) also wanted more contact with their super provider (39% disagreed).

- ***A majority of working Australians still know their super fund provider and are still commonly checking their super balance.***
- ***People are increasingly moving to digital means to engage with their fund through emails, websites and apps, but checking a postal statement is usually the extent of most people's engagement.***
- ***For those who have contacted their super fund, the experience is still predominantly a positive one.***

SUPERANNUATION PERFORMANCE

PEOPLE'S PERCEPTION of their superannuation fund's performance in the last year is up from 2013, with over two thirds (71%, up 5 points) rating the financial returns as 'good'. However, only 16% reported it to be 'very 'good. This is compared to decreased numbers to 2013 (16%) who thought it was poor (12%) and those who were undecided (20% and 16% respectively).

The following chart shows that this year's returns are seen as better than the previous year by most (52%), with only 9% saying that they thought the performance of their superannuation fund has worsened over the last year. This indicates positive and improving results year-on-year post-GFC.



In our focus groups the majority perceived better returns on their super than previous years. The poorer returns over the past few years were blamed squarely on the state of financial markets during and after the GFC. The temptation here was also to assign more positive returns lately to a brightening investment market and not the performance of fund providers themselves.

> *"It seems to be recovering after the GFC, but the graphs they show me with increased performance are obviously going to be better when compared to the GFC."*

> *"The GFC showed me that you have to diversify and not just rely on your super."*

- *Perceptions of performance of people's super funds is trending upward, with evidence to suggest that recovery from the GFC has resulted in positive views on financial returns.*
- *The GFC has, however, left a lasting impression on many, with some diversifying investments in response to it.*
- *There is still a positive trust and confidence in the system regardless.*

SUPERANNUATION FEES

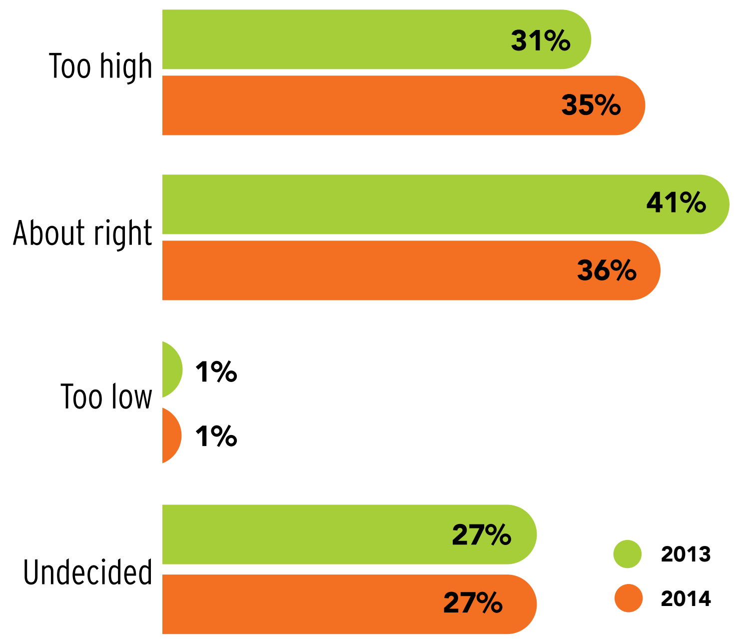
AWARENESS OF the amount of fees paid to funds is stable, with approximately half (51%) still unaware approximately of the fees they are charged. Even amongst those who aware, only 15% reported that they were 'definitely aware' which is down slightly on 2013 figures (20%).

This again correlated with both age and type of fund, with those younger working people with more 'traditional' super funds unaware of their fees, compared to those nearing retirement with self-managed funds who were much more conscious. When asked to explain this lack of awareness, a lack of control – as alluded to above – was cited for this disengagement with their funds. Only some reported taking the fees into account when first choosing their fund.

"I'm not sure how much my fees are but they seem high. I don't understand how they could keep changing my fees when they lost me money – isn't that their job?"

"I looked into fees, setup costs, and the performance of the funds when choosing which one to go with."

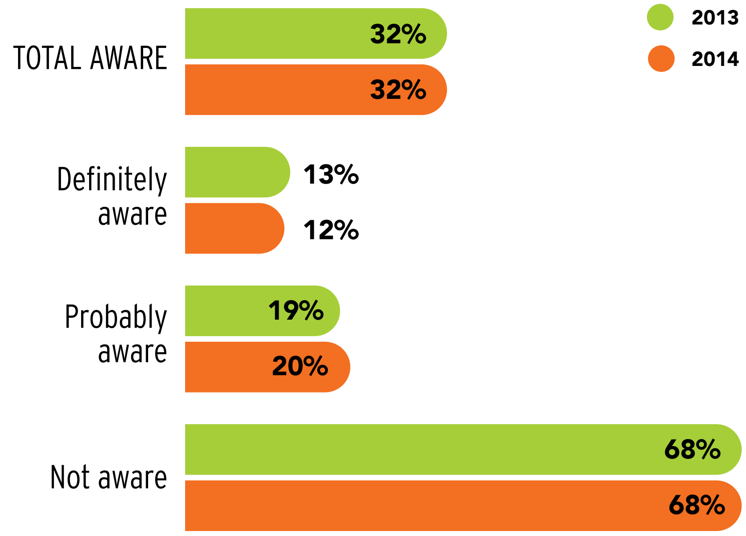
As shown in the next chart, still very few super fund holders indeed (just 1%) consider that their provider's fees are too low for the service and benefits they receive. Changes from 2013 are highlighted below which shows a slight trend towards the sentiment that fees are too high, and this was a considerable gripe within our focus groups.



Those that are aware of the fee amount are still more likely to believe it to be too high or (particularly) about right than too low, whereas those without such knowledge are understandably less likely to be decided on this question. Noting as well, lower fees from another provider (53%) was the number one reason people would consider switching superannuation providers.

Respondents felt that fees were not always reflective of the service, but when asked to explain this sentiment, more wanted to know what the fees were for and increased transparency. Further to this attitude, respondents were aware that the fees highlighted that the funds were doing something unlike the banks.

Awareness around 'zero fee' funds is still relatively low (32%), with only 12% 'definitely' aware. Perhaps echoing the above trend towards the perception that fees are increasingly too high, after introducing this concept around half (48%, up 1 point) reported they would be likely to change to such a fund. 16% said they would be 'very' likely to change funds based on this concept.



However, whilst there was initial support in the focus groups for these 'zero fees' funds, there was increased cynicism for such a fund upon consideration. Respondents were unclear as to how that would work with suggestions that these fees would be built into the original costs or would mean a lower risk investment like a bank. There was suspicion and a

perception that it would result in decreased transparency and accountability. The notion of reputable companies, e.g. ING, offering this concept quelled many of their concerns.

"What's the catch though? They've got to make their money from somewhere so it must just be calculated into the original costs or only invest into low risk investments like banks?"

"It seems suspicious. I feel safer if there are fees because it means the fund is accountable for the job they are doing and I want to know what my fees are going towards."

- ***Awareness of fees paid is stable, with around half of working Australians aware of the fees they are paying. This is low when we consider this makes up half of the typical judgement (performance being the other half of the equation).***
- ***There is a slight trend towards these fees being too high for the service received.***
- ***Awareness of the 'zero fee' funds is still relatively low, though they are of interest.***
- ***Cynicism about these funds is somewhat overcome with the association of a trusted brand.***

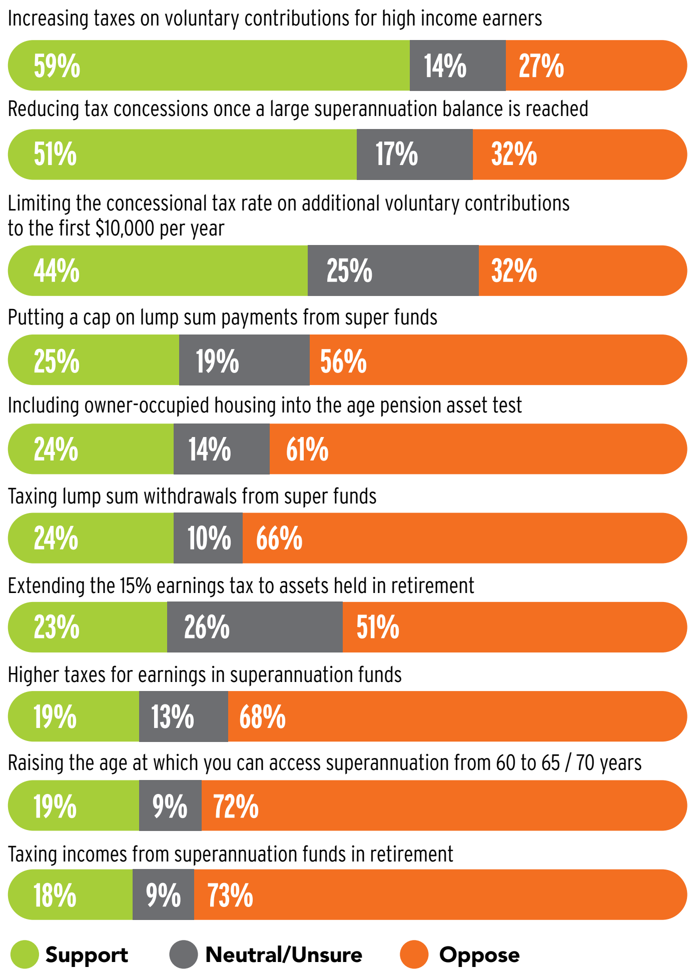
SUPERANNUATION SYSTEM CHANGES

WORKING AUSTRALIANS are broadly supportive of proposals to expand and enhance the super system. However, plans to introduce further taxation were felt to be counter-productive, and met with considerable criticism in our focus groups. Furthermore, the continuous changes to the system erodes people's confidence and impacts on their own plans for retirement.

"How are we meant to plan for our own retirement when they keep moving the goalposts further and further away?"

"There's just too many changes happening whenever there's a new government. It seems like super is something every government wants to put their own stamp on."

Support for the current level of compulsory contribution is stable, with the majority (86%) supporting the current 9.5% compulsory contribution to superannuation (just 7% oppose it). Similarly, support for the Federal Government's plan to incrementally increase the contribution from 9.5% to 12% over the next decade is constant from 2013 (83%) with the majority still (80%) supporting this increase. However, half (49%) also agreed with the Federal Government's freezing at this level until the economy improves.



There is majority support (59%) for increasing taxes on voluntary contributions for high income earners, and when forced to choose their preferred tax increase, almost half (45%) rated this to be the top one. Significant proportions also agreed with the other two changes that focused on high-income earners; reducing tax concessions once a large superannuation balance is reached (51%), and limiting the concessional tax rate on additional voluntary contributions to the first $10,000 each year (44%).

A majority in each case opposed the other changes tested herein; putting a cap on lump sum payments (56% opposed), including owner-occupied housing into the age pension asset test (61%), taxing lump sum withdrawals (66%), extending the 15% earnings tax to assets (51%), higher taxes for earnings in super funds (68%), raising the age at which you can access super (72%), and taxing incomes from superannuation funds in retirement (73%).

These taxation changes resulted in quite a debate within our focus groups, with respondents able to see both sides of the argument of the proposals as attempts to limit 'richer' people doing the wrong thing, but also being morally opposed to perceived double taxation and people being able to do as they please with their money. In short, the greater the personal impact on them personally, the lower the level of support.

"I can see what they're trying to do. They don't want people to be avoiding tax, or blowing all their money early in retirement and then having to depend on a pension. It's only going to affect the big earners so I think some of these initiatives are the right thing to do."

"It just seems like the government is trying to get a piece of everything. It is double taxation and it's not fair for people who are trying to do the right thing and set themselves up for their retirement."

"The equation is all out of whack. The government wants us to fund our retirement but then they also want to put all these limits on super."

As discussed previously, most do not consider that their super will be enough to retire comfortably on, and hence there is a prejudice to want the 9.5% to increase. Some even think that 12% is too little.

"With the increasing cost of living we're going to need more than 9% contributions and we need to decrease the reliance on the pension. Sometimes you just need to force people to save."

"We are living longer, and it will be too hard to rely on the pension, so it's good to ensure that everyone will be prepared."

However, there were several concerns raised about the increase and the impact it would have. When the compulsory contribution is made by small businesses they foresaw that such an increase might drive up unemployment (including sending jobs offshore), increase prices, reduce competition, potentially hamper wage increases and impact on the economy as a result.

"I don't think the industry can handle it. Something has to give and it will impacting on everyone."

Accordingly, in this light, the majority (49%) supported the freeze of contributions at 9.5% until the economy improved (with 38% opposing). This sentiment was supported in our focus groups, with justifications around the idea allowing stability and some breathing space for the economy to recover. However, questions were raised as to who would determine and what the standard was set to classify the economy as instead of 'improved'. There were even concerns that this could stagnate the economy itself.

"It's good that it's giving time for small businesses to afford it and allow the economy to get back on track before we put further pressure on."

"The increase in superannuation rates is meant to be a long-term strategy for our future. Our economy is not that bad at the moment and this freeze just feels like a knee jerk reaction. We have a conservative government come in and put a cap on things then we'll get Labour back in and they'll just uncap it."

- ***Australians are still broadly supportive of the current superannuation system, particularly in the context of increased confidence and trust.***
- ***Support is still strong for plans to incrementally increase compulsory contributions to 12%, though freezing this change whilst the economy recovers is also acceptable to many.***
- ***People are less supportive of changes that restrict their ability to freely control their money at will, and in particular changes that affect all superannuants (rather than the high-income earners who can afford it).***
- ***Continuous changes to the system erodes people's confidence and impacts on their own aptitude to plan for the future.***

SUMMARY METHODOLOGY

The project was conducted in two stages; qualitative focus groups to understand opinion and behaviours, followed by a large national quantitative survey to back up our findings with 'hard numbers' and to help provide further background and insight.

PHASE 1: FOCUS GROUPS

- Four (4) focus groups held in Brisbane and Sydney on 10th July 2014.
- Each group comprised 8-10 working people with superannuation (mixed funds).
- An ability to talk about such subjects intelligently.
- Otherwise each group was broadly representative of the local population, with a good mixture of sexes, occupations, etc.
- No employees in financial services, marketing, media, PR or politics.

PHASE 2: SURVEY

- A national survey of n=1,000 working Australians with superannuation.
- Conducted 14th – 20th July 2014.
- Accurate to within a maximum margin of error of +/-3.1% (at the 95% confidence level).
- When comparing the two years' polls a maximum difference of 6 points is significant.
- Quotas and data weighted used to ensure representation by state, area, sex and age.

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FINANCIAL SERVICES COUNCIL LIMITED
Level 24, 44 Market Street
Sydney NSW 2000
T +612 9299 3022
F +61 2 9299 3198
E info@fsc.org.au
W fsc.org.au
T @FinServCouncil

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ING DIRECT
140 Sussex St
Sydney NSW 2000

GPO Box 4049
Sydney NSW 2001

T +61 2 9028 4000
E media@ingdirect.com.au
W ingdirect.com.au
T @CEO_INGDIRECTAU