Approaching Retirement: The Categories, Timing, and Correlates of Advice-Seeking

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Abstract

This paper is concerned with advice-seeking by DC plan participants as they approach retirement, focusing upon the categories, correlates and timing of advice-seeking. Our empirical analysis utilizes a large Australian data base, identifies the drivers of advice-seeking behavior and, most importantly, pinpoints age-specific reference points that appear to prompt participants to seek advice about retirement planning from the plan administrator. We analyze the patterns of advice-seeking by older participants, focusing upon the topics-raised and determinants of advice-seeking discriminating between the effects of age, gender and account balances on retirement planning. An important aspect of the paper concerns whether there is evidence of an increasing focus on retirement as participants go from 45-49 years to 65 years or more. Implications are drawn for the design of pension plans as regards their engagement with older participants.

Keywords. Advice, pensions, retirement planning, age, gender
JEL Codes. G23,

As working men and women approach retirement, many issues make claims on their attention. For some, the prospect of retirement is a once-and-for-all break with employment. For others, it is a transition accompanied by adjustments in their responsibilities, hours worked and sources of income. Participants in defined benefit (DB) pension plans commonly have few options as they near retirement: the value of a DB pension is normally set by a combination of age and years worked. Furthermore, there is often a fixed benefit. The connection between the decision to remain employed or retire or some combination of both and the benefits accruing to someone who chooses to retire is not so clear-cut in defined contribution (DC) pension systems (Gerrans and Clark 2013). This decision carries with it a complex set of choices which the participants must deal with (Choi et al. 2002; Schick 1997).

As a result, DC plan participants are often encouraged to take advice so as to fashion saving strategies that take into account their goals and objectives, expected income, and risk tolerance over the short- and long-terms (North 2015). To the extent that DC plan participants seek advice on these issues, it is widely believed that they begin with friends and relatives, perhaps augmented by the internet and websites (depending on age and gender; see Clark et al. 2016). These sources may not be nearly as and helpful as need be; indeed, what peers say and do could drive participants in a different direction (Beshears et al. 2015). In many OECD countries, the gap between participants' need for advice is often filled by governments and commercial vendors. In a number of countries, governments distribute information for retirement planning, maintain interactive websites, and encourage awareness of the issues. Few commentators suggest these efforts have been particularly effective (Thoresen 2008).

Financial advisors have access to a range of market information and an extensive set of options and providers that few individuals can match. Whether financial advisers can be trusted to act on behalf of their clients and whether financial advisers are able and/or willing to assume responsibility for their advice are key academic and policy issues (Campbell et al. 2011; Gabaix and Laibson 2006). At the same time, it is apparent that little is known of the nature and scope of the demand for advice by the full range of DC plan participants. In part, this is because many DC plans, especially those in the private sector, have low rates of participation by low-paid employees. As well, in many jurisdictions, DC plan participants tend to search for and select their own advisors. Where advisors are not trusted and/or come at a price, it appears participants are often reluctant to seek advice. In this paper, we are concerned with the provision of retirement advice where the provider acts in the interests of participants.

We focus on four issues: First, the timing of advice-seeking by DC plan participants as they approach the median age of retirement. Second, we distinguish between advice-seeking in general and advice-seeking relevant to retirement planning, assessing whether participants' advice-seeking on this issue is a distinctive class of advice-seeking. Third, we test whether advice-seeking is responsive to events and macroeconomic trends. Fourth, we assess the patterns of advice-seeking as participants approach the median retirement age by reference to participants' age, gender, account balance, and salary. We rely upon a large database of Australian DC pension plan participants involving approximately 560,000 participants over 10 years.[i] The administrator provides advice without requiring the payment of a fee by the participant in circumstances where the advisor is incentivized to help the participant without regard to the sponsor or other service providers.

One branch of microeconomics presumes that individuals anticipate retirement through a changing mix of consumption and saving spread over their working lives (Legros 2006). Beyond the permanent income hypothesis, it is possible to frame the planning process by reference to stages of one's life-cycle such that it is assumed retirement planning is more salient to older cohorts than to younger cohorts. Therefore, we would expect to observe a greater frequency of advice-seeking relevant to retirement planning in latter-aged cohorts (e.g. 50–60 years of age) in anticipation of retirement in the near future (Clark et al. 2012). Behavioral theorists have a slightly different view of the matter. Recognizing that many people procrastinate rather than plan and take action for the future (O'Donoghue and Rabin 1999), it can be hypothesized that approaching the (jurisdiction-specific) average age of retirement is a trigger-point for those affected, prompting advice-seeking relevant to retirement planning (Bordalo et al. 2012).

In this paper, we review models of behavior emphasizing recent behavioral research that suggests the context in which planning takes place is important for advice-seeking (Clark 2014). Thereafter, we introduce the data on advice-seeking, noting the distinctive attributes of the Australian system of mandatory (DC) pension saving, which owes its origins to the early 1990s. This is followed by an account of the topics raised by pension plan participants when seeking advice from their multi-employer pension plan administrator. Tests of robustness are used to justify categorical distinctions between advice sought on administrative matters, investment, and retirement planning. It is shown that advice-seeking in relation to retirement planning comes to dominate other forms of advice-seeking as plan participants approach the Australian median age of retirement. In

the concluding section of this paper, we draw implications for the design of DC pension schemes and public policy.

Saving for Retirement

The classic statement on lifetime patterns of consumption and saving is owed to Friedman (1957). Based upon Samuelson's (1947) model of utility-maximising behavior, Friedman supposed that an individual's preferences are given and thus time invariant. It was also assumed that individuals are ends-means rational: given their preferences, individuals make the best possible decisions and take actions consistent with realising their long-term preferences. By necessity, individuals consume and save in relation to their expected lifetime incomes. One implication, therefore, is that at any point in time consumption is forward-looking; to the extent that earned income is higher-than-expected any surplus is held as saving. Likewise, to the extent that earned income is lower-than-expected, any deficit against expected income is funded by accumulated savings. By this logic, saving for retirement is led by relationship between consumption and expected lifetime income.

This model makes, however, certain assumptions about the capacity of individuals to look to the future and make, and also vary where needed, their plans to realise long-term objectives. Like many cognitive scientists and decision-theorists, we accept that human beings look to the future and/or recognize the virtues of planning for the future – planning for the future is a human trait (Bratman 1996). Whether the average person is, however, an effective planner is more problematic; the issue is one of competence in relation to the environment in which they must make decisions and take actions (Clark et al 2006). For instance, some environments may be benign or reward planning for the future whereas other environments may be so unstable that

making plans and acting on behalf of long-term expectations is self-defeating. In a related vein, Herbert Simon (1982) argued that whereas most people are intendedly rational, their best intentions may be confounded by unexpected changes in the environment (see also Gabaix et al. 2006).

The behavioral revolution led by Kahneman and Tversky (1979) has been preoccupied with decision-making under risk and uncertainty. The extent to which people value the future, how they deal with possible losses as opposed to possible gains in welfare, and how they adapt to new information are just three topics amongst many that represent the focus of the behavioral research program (see Ainslie 2002; Baron 2008). In the context of risk and uncertainty, it has been shown that people, on average, either heavily discount the future, or discount the immediate future but attribute value in the long-term (Laibson 2005). Likewise, it has been shown that people, on average, are more concerned with a possible loss in welfare than they are willing to assume risk so as to achieve a higher level of welfare. At one level, it has been shown that many people procrastinate, leaving to the last minute decisions that they must or should take. Equally, some people more than others overreact to new information and may arbitrarily change their plans for the future (see Kahneman 2011).

In this respect, Lusardi and Mitchell (2007, 2011) suggested that saving for the future requires more than being an effective decision-maker, it also requires knowledge and understanding of the principles underpinning financial planning. They identified a set of skills and knowledge relevant to long-term financial decision-making and tested respondents at home and abroad in terms of their competence. Lusardi and Mitchell suggested that financial literacy varies by age, gender, education, and income (amongst other factors that vary by jurisdiction). Identified patterns in financial literacy cut against the plausibility of representing individual

retirement planning as simply the expression of well-founded intention and commitment (or lack thereof). At issue is whether high levels of financial literacy can reinforce saving for the future and reasoned adaptation to changing circumstances and/or whether low levels of financial literacy discourages those concerned from making plans for the future.

Saving for retirement is an especially demanding problem (Zeckhauser 2010). At one level, it involves making forward estimates of one's job tenure, value of human capital, and health and welfare. It also involves making forward estimates of the risk-adjusted rate of return on contributions to a pension saving plan which, in turn, involves making forward estimates of the relative value of plausible long-term investment strategies. For younger workers, facing considerable uncertainty as to their long-term job prospects, the rate of return on their education, and longevity can give rise to a variety of responses including procrastination and status quo bias (Samuelson and Zeckhauser 1988). Older workers face far less uncertainty on these factors and may be more effective at planning for the future because the planning horizon is better defined. And yet, it is obvious that saving for retirement would be far more effective if younger workers could imagine themselves as older workers with all the benefits of hindsight.

For these reasons, the average person may be ill-equipped to make plans for the future. Younger workers may need guidance in framing long-term expectations, and older workers may not have the skills and expertise to take advantage of their accumulated savings and make investments that can realise a sustainable income. Further, the findings from behavioral research as regards the pervasiveness of decision-making biases and anomalies suggest that leaving responsibility for retirement saving to individuals is likely to result in lower social welfare. Nonetheless, some commentators and governments attribute to the average person a level of sophistication on these issues not justified by the evidence or, indeed, the skills and expertise

needed to be effective in this particular domain (Lusardi and Mitchell 2011). Benartzi and Thaler (2001), amongst others, argue that the average person deserves support and guidance in making these types of decisions

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Demand and Supply of Advice

Given their lack of the skills and expertise, pension plan participants may, on their own account, reach-out for advice. It is widely assumed that the average participant begins with family and friends, work colleagues, and/or third parties who are known to them. It is reasonable to suppose that the advice provided by family and friends may do little more than reinforce expectations. Whether colleagues and the work environment is a useful medium through which to learn about saving for the future appears to depend upon factors specific to the workplace such as the heterogeneity of fellow employees (negative) and the engagement of the employer (positive) in related issues (as indicated by fieldwork). In some jurisdictions, trusted third parties can include their employer and local bank employees (unpublished research based upon a survey of German Reister pension plan participants).

Researchers seeking evidence of a workplace effect on pension plan behavior typically use variables such as job tenure and seniority in an attempt to capture the effects of experience and seniority (Beshears et al 2015; Clark et al 2016). More generally, advice–seeking from third parties would seem to be confounded by two intersecting factors. Just as pension plan participants may lack the skills and expertise to be effective long-term planners, they may also lack the skills and expertise to search for and assess the relative merits of competing advice providers. The cognitive biases and anomalies that discount effective decision-making in the context of risk and uncertainty also apply when searching for providers and choosing amongst

service providers.[ii] In any event, those offering advice may do so by proclaiming their independence and trustworthiness while concealing their ties to vendors of financial services and the true cost of their services. In the vernacular of economic theory, asymmetric information confounds the search for and selection of advice providers (see Akerlof 1970; Spence 1977; Gabaix et al. 2007).

More generally, little is known about the demand for advice relevant to saving for retirement in circumstances where participants trust the provider of advice and are not subject to subtle, or not so subtle, pressures to agree with proffered advice and/or the purchase of related products. It would also be helpful to know more about the nature and scope of advice sought when the participant does not directly pay either the plan sponsor or the third-party provider of advice. Whereas academics, consultants and policymakers tend to treat advice relevant to saving for retirement as distinctive, it is not obvious that pension plan participants carry with them a robust classification system which distinguishes, for example, insurance products from retirement savings products. As such, it is important to understand better the nature and range of topics raised by participants and whether it is reasonable to suppose that seeking advice in this domain is distinctly different from those issues raised when seeking financial advice (in general).

Evidence from behavioral psychology and economics suggests that people are more likely to seek advice when their material circumstances and/or expectations change in unanticipated ways (Harvey 2012). In this respect, uncertainty as regards the future may result in participants being either unable to assess the impact of possible future events and/or to assign probabilistic estimates of their likelihood in ways that would inform savings behavior. This does not necessarily mean that <u>any</u> unexpected change in their material circumstances would prompt reconsideration of plans and, possibly, advice-seeking. Such events would have to be significant

in relation to competing claims on their attention – people have limited cognitive resources. This may have two related effects: people could seek advice to compensate for their previous lack of attention, and people could seek advice because changes in their material circumstances trigger attention to the planning process.

On a related issue, Sharpe (2007, 11) observed "investors differ in geographic location, homeownership, profession, and so forth. We term these aspects an individual's *position*. If two people have different positions they may wish to hold different portfolios. Similarly people may have different feelings about risk, present versus future gratification, and so on. We term these an individual's *preferences*." When the Australian Bureau of Statistics (2011) asked a representative sample of Australians about their retirement income, a significant minority of retired women indicated that the "main source of funds for meeting living costs" came from their partners' income (Table 6, p.27). Likewise, when women intending to retire were asked about sources of expected income, they indicated that they would rely (in part) upon their partners' income, especially if women were younger than older (Table 11, p.40). By contrast, retired men and men intending to retire indicated a much lower propensity to rely upon their partners' income.

In essence, an individual's age, gender, household situation and employment experience could systematically affect advice-seeking relevant to saving for retirement. The timing and volume of advice sought, the topics raised at any point in time and over time, and the relationship between the nature and scope of advice sought and the participants' expectations of retirement income are key issues in any comprehensive understanding of the demand for advice. If individual preferences are not constant over time, changing in response to life-cycle factors

and situational imperatives, including commitments and reliance upon others, then long-term plans may well be discarded and advice sought about how to adapt to new circumstances.

Advice, Retirement, and Events

In this paper, we focus upon the advice offered by Mercer (Australia), an administrator of more than 120 corporate pension plans. Mercer provides advice via call center and internet facility where those employed to advise participants have no incentive other than to 'help' the participant in a timely manner (Clark et al. 2016).[iii] Participants seeking advice about their pension accounts are dealt with immediately and directly. Should they also seek advice about financial planning involving other financial instruments, they are passed to more qualified financial advisors also employed by Mercer in the call-center. Industry super funds are not-for-profit organizations and widely advertise this as a virtue (Australian Superannuation Funds of Australia 2014). In this case, the plan administrator is a commercial entity, but mimics the service-ethic of industry superannuation funds. The provision of advice is subject to regulation by the Australian government and its agencies.[iv]

Advice facility

The Mercer database includes information on participants' age, gender, postcodes, account balances, and whether (and when) they have sought advice (amongst a variety of information). The call center was established in 2004, and is open five days a week, from 7 AM to 8 PM (Australian Eastern Standard Time). The web facility was established in 2008, and is accessible seven days a week. Mercer employs approximately 100 full-time and part-time advisers who handle calls and web-based enquiries. The variance in advice-seeking is dominated by the day-of-the-week effect, followed by a seasonal effect and then instances or events that

may prompt groups of participants to seek advice. The day-of-the-week effect is centered on Mondays and Tuesdays, and the seasonal effect is centered on the run-up to the end of the financial year (June 30th) with a significant fallow period over December and January of each year (Christmas holidays and vacation) (Clark et al. 2016).

Each call and web-based enquiry is logged and, where possible, the topic or topics raised by the participant are identified and recorded. Over the period 2004–2013, more than 140 topics were logged in the system. Some calls were single-topic, whereas other calls were multi-topic in nature. The topics raised fall into three broad categories: administrative matters, investment matters, and retirement planning. Over the period 2004-2013, administrative matters dominated the call center and web-based facility; calls related to investment matters and retirement planning together accounted for less than 50% of all calls. The Mercer system recorded more than 1.5 million calls over the period 2004–2013 and approximately 2 million web-based enquiries over the period 2008-2013. Early on, the length of calls averaged 3.5 minutes. More recently calls have averaged 4.5 minutes.

Age of Retirement

Passed in 2004, the federal Age Discrimination Act (ADA) prohibits all forms of direct and indirect discrimination based upon a person's age. In addition to federal legislation, Australian states and territories prohibit age discrimination. Federal legislation covers private employees including those working full-time, part-time, casually, and those employed on contract by agencies and external providers. The ADA does not proscribe compulsory retirement at a certain age, although this is addressed in most states' and territories' statutes. Federal statute treats compulsory retirement at a certain age as an instance of age discrimination rather than an

issue significant in its own right. Most public officials and employees are subject to compulsory retirement at a specific age.

Otherwise, there is no official age of retirement in Australia. Through the period 2004–2013, 65 years of age was the minimum age for a man or woman to claim the Age Pension. Legislation passed in 2014 provided for a graduated increase in the minimum age from 65 to 67 years of age. The federal government also regulates the "preservation age", or the age at which an individual can gain access to their superannuation assets. Recent legislation has also provided for a graduated increase in the age to claim access to superannuation assets from 55 to 60 years of age. As in many OECD countries, the Australian government has sought to encourage people to work longer, whether full-time or part-time.

Data on the retirement status and retirement intentions of the Australian civilian population was provided by the Australian Bureau of Statistics (ABS) (2011). Statistics were obtained from the federal government's Multipurpose Household Survey and are used by the ABS to provide estimates for Australia taking into account age (cohort), gender, work status, whether in the labor force, unemployed, or not in the workforce. Beginning with the 8.7 million civilian population 45 years and over, it was estimated that of the 4.9 million in the labor force, 4.7 million were employed and 150K were unemployed. Of the 3.8 million not in the labor force, it was estimated that 3.2 million were retired. The ABS provided estimates of those retired by gender and age cohort. In Figure 1, it is shown that women had higher rates of retirement in all but the oldest cohort of 70 years or more, being most obvious during their 50s and early 60s. When surveyed (Table 11), younger women indicated that they would rely upon their partners' income for meeting the living costs of retirement at a much higher rate than men who intended to retire at much the same age.

[Insert Figure 1 About Here]

The survey also asked men and women currently in the labor force to provide an estimate of their intended age of retirement (Table 10). Those not in the labor force included retirees, those not retired and intending to look for either full-time or part-time work, and those who had never worked. Comparing age (cohort) and gender with respect to the intended age of retirement, there was little difference between men and women in the average age of intended retirement reported by respondents. Middle-aged cohorts (e.g. 45–49 years and 50–54 years) tended to report a slightly lower average expected age of retirement (61–63 years) than older age cohorts (e.g. 55–59 years and 60–64 years) (63–65 years). As noted above, public policy provides incentives to work through to one's 60s. Nonetheless, a large proportion of the population is retired by the age 65 years.

Global financial crisis

Midway through the period 2004–2013, the global financial crisis erupted, drastically affecting the financial stability and economic performance of many OECD countries. The US and the UK were particularly adversely affected, prompting high rates of unemployment, high rates of household indebtedness, and a plunge in stock market performance not seen since the great depression of the 1930s. Economic recovery has been protracted and uneven. The response of individuals and households to the crisis has been a significant topic for academics and policymakers alike (Akerlof et al. 2014).

In the Australian case, however, the impact of the global financial crisis was "remarkably mild by the standards of previous Australian recessions" and other OECD countries (Edey 2009; Eslake 2009). Likewise, the downturn in the Australian stock market (2008–2009) was short-lived, with a rapid recovery to higher levels of performance. It can

be hypothesized that the global crisis affected short-term expectations and behavior especially by those who might otherwise have retired. Gerrans (2012) found that the stock market downturn had only a modest effect on the trading activity of superannuation plan participants. Those who did respond were older women with relatively large account balances, rather than men.

Advice-Seeking – Timing and Patterns

Our discussion provides a rationale for studying patterns of retirement planning over the short-term and the long-term and whether people are prompted to seek advice when they approach retirement either because their plans for retirement have not borne fruit, because changing circumstances have prompted reconsideration of past plans, or because they have not previously made plans for the future. Our discussion of the demand for advice also provides a set of testable hypotheses for who would seek advice for retirement planning, when they might seek advice, and under what conditions advice would be sought or not be sought. Current patterns of retirement indicates that gender may be important in either prompting or dampening advice-seeking, and suggest that women may seek advice earlier than men as they approach the preservation age and, possibly, the age of entitlement for the Age Pension.

A cluster analysis was used to collect together the topics identified by call-handlers at the Mercer call center over the period 2004–2013 into three categories: administrative, investment, and retirement planning. We were most concerned to discriminate calls related to retirement planning from other categories of calls. Many of the topics used to code calls were related to administrative matters. Calls related to investment matters and retirement planning were dominated by just 15-25 topics each. As such, the clustering routine was more focused on topics

at the margins of each category with low counts of enquiry than upon a broad array of topics with high counts of enquiry. Based upon the Calinski-Harabasz test, it was found that the optimal number of categories was 3 (thereby justifying the use of the three main categories as set-out above).

[Insert Figure 2 About Here]

Figure 2 displays the proportion of each category on the overall volume of calls over the period 2004–2013 on a monthly (a) and yearly (b) basis. As shown by the yearly representation (Fig. 2 - b) the contribution of the administrative matters category to the overall volume of calls dominates those of retirement planning and investments throughout the whole period. This is partly due to a composition effect, given the higher number of administrative issues potentially affecting the participants (e.g. change of contact details, info-kit follow up, magazine not received, etc.) with respect to a relatively smaller number of those regarding the other topics. After the initial setup-period of the call center in 2004 both the contribution of administrative and retirement planning calls decreased to surge again in mid-2007 (the former) and in 2006(the latter), thereafter declining and then again rising, just for the administrative issues, towards the end of the period.

Each category of calls followed much the same path over the entire period, although the volume of calls by category was different. Notable in this regard was a shift in the relative significance of calls related to retirement planning and calls related to investment matters after 2008. The peak in administrative calling frequency at mid-2007 was related to a change in federal government policy in relation to the tax treatment of superannuation (as shown in Fig. 2 – a). The change in policy was announced in May 2006 and implemented on July 1st 2007 (Clark et al 2016). This caused a peak in participants' interest in June 2007 given the natural tendency to

procrastinate until the change was about to be implemented. It is also notable that the increasing importance of calls related to investment matters relative to retirement planning takes place at the onset of the global financial crisis dominating the retirement planning issues for the rest of the sample period.

A test of co-integration over the period 2004–2013 indicated that the hypothesis that the categories of advice-calling were co-determined could not be accepted. We also sought to determine whether the categories of calling were co-determined by the path of the Australian economy using quarterly data to represent macroeconomic conditions including change in employment, unemployment, gross domestic product, expectations, and stock market performance. Change in employment was weakly but significantly related to change in the volume of calls related to administrative and investment matters. Change in the volume of calls related to retirement planning was not found to be significantly related to these variables suggesting either that participants recognized that the global financial crisis was of limited significance to Australia, or that retirement planning is a long-term matter not affected by short-term economic events (see Table 1).

[Insert Table 1 About Here]

To the extent that investment involves risk and uncertainty, it was hypothesized that changes in macroeconomic conditions would prompt reconsideration of investment strategies and their implementation. The positive sign on the coefficient (change in employment) suggests that as the rate of increase in employment slowed, so too did the volume of calls related to administrative matters and investment matters. Participants may have adopted a wait-and-see strategy rather than respond by calling immediately for advice on either administrative or investment matters (and thereafter, changing some aspect of their investment strategy). This is

consistent with Roy's (1950) notion of safety-first and could be allied with Kahneman and Tversky's (1979) findings on loss aversion. It is also possible that participants may have thought there was more danger in responding quickly than in a wait-and-see strategy (O'Donoghue and Rabin 1999).

Turning to the sensitivity of calling in anticipation of retirement, Figure 3 and Figure 4 displays the decomposition of the general volume of calls into each category of advice-seeking distinguishing by gender and age at the time of calling for those aged less than 40 years and those aged over 40 years. Our hypothesis was that the volume of calls for advice on retirement planning increases as participants near the median Australian age of retirement (represented in Figure 1). For those under 40 (Fig. 3 – a), there were as many calls devoted to administrative matters as there were calls devoted to investment and retirement planning matters combined. In terms of relative significance, the volume of calls on investment matters was significantly larger than the volume of calls on retirement planning. However, for each cohort over the age of 40, the volume of calls on administrative matters declined whereas the volume of calls for investment matters and retirement planning increased, peaking at the age cohort 55-59 for investment and at 70-75 for retirement planning matters with calls for the latter issues dominating those for the former from that age cohort onwards. A year-by-year decomposition for those aged 54 and more is represented in Fig. 3 – b to better focus on later cohort. By the age of 59 onward, retirement planning took over investments as main concern of participants.

[Insert Figure 3 About Here]

Fig. 4 focuses on the gender composition of each category of advice-calling. It shows how the 'female' component is significantly higher for the younger cohorts in administrative matters, whereas it is stable for the other categories and the difference less evident. Notably,

retirement planning shows a counter-tendency with female participants increasing their contribution to the overall volume of advice-calling in the later cohorts. On investment matters, the proportion of men calling for advice increased for each age cohort over the age of 40 years. This is to be expected, as previous academic and industry studies have found that men are more likely to be active investors than women within the defined contribution environment (Barber and Odean 2001).

[Insert Figure 4 About Here]

Figure 5 displays differences in calling by gender and average account balance over the past five years. Combining the information given by the three categories a clear size-of-the-bet effect emerges. Participants with higher account balances (though not the top ones) are those most interested in how their future wealth is managed and what they can expect from their retirement age. Conversely, they seem to be less interested in administrative matters which are a main concern for participants with lower account balances. It is likely that those in the top balance category also rely on tailored financial advisory services, such as private banking; this may explain why their contribution to the volume of calls drops for the three categories. The gender composition of calls shows a stable female component for investment and retirement planning matters, whereas there is an initial peak for women in administrative matters which decreases as account balances increase.[v]

[Insert Figure 5 About Here]

A different picture emerges when we consider the average number of calls by category, participants' average salaries over the past five years as displayed in Figure 6. As opposed to a similar dynamics for investment matter both in volume and gender composition, investment issues show some differences. There is a stable level of contribution throughout all the salary

categories (whereas the account balance accounted for a size-of-the-bet effect) except for a higher contribution of lower salary categories. The uncertainty brought about by a current lower salary, then, seems to drive the need to think about retirement. Administrative topics show also a different dynamics with respect to the account balance picture with a lower decrease for the higher categories.

[Insert Figure 6 About Here]

From a gender perspective, differences between men and women in their propensity to call on administrative matters declined as their salaries increased (with a marginal increase at the highest salary interval). This was also true for calling on investment topics, although the difference between men and women in calling propensity was more marked than in the case of administrative matters when taking into account average salaries over the previous five years. These results reinforce findings that men are more engaged in investment matters than women. As for retirement planning and average salaries, the proportion of women calling shows a further difference with the account balance. There is a major female component for lower salaries decreasing as the salary category increases to increase again for the top one reversing the previous finding where the proportion of women to men calling on retirement planning by average account balance increased at the highest salary interval.

Synthesis of Results

It was shown that changes in the volume of calls related to administrative matters and investment matters were weakly but significantly related to changes in macroeconomic conditions, notably change in full-time employment. This analysis was based on quarterly data for the Australian economy, suggesting that short-term factors can be important in driving

advice-seeking in these categories. These results are consistent with expectations in that as employment prospects change, participants may well want to confirm their arrangements (administrative matters) and review their investment strategies (investment matters). Notice, in the Australian market for superannuation services, there is considerable media coverage of short-term investment results in the light of the performance of the Australian economy.

It was also shown that changes in quarterly macroeconomic variables were not significant in driving changes in the volume of the advice-seeking related to retirement planning. These results were not entirely consistent with expectations in that we hypothesized that changes in participants' material circumstances or entitlements would prompt reconsideration of their retirement plans. It was suggested, however, that this result can be understood by focusing upon the differences between investment matters and retirement matters. It would appear that investment strategy is the most likely lever used by participants to respond to short-term macroeconomic events, whereas retirement planning is a longer term commitment more related to their anticipated retirement age than the ups and downs of the Australian economy. It is possible, of course, that some participants were drawn into investment strategy by market volatility, perhaps affected by 'irrational exuberance' (Shiller 2005).

This suggests that there are a group of participants willing to make bets on the timing of macroeconomic events and the path of the Australian economy, but do so <u>within</u> the context of a retirement plan for the future. On one hand, they may perceive short-term advantages by changing their investment strategy — perhaps evidence of overconfidence and/or a predilection to gamble (Daniel et al. 1997). On the other hand, they may recognize that their retirement plans are about long-term commitment and are unlikely to be affected by relatively short-term (and shallow) macroeconomic events – perhaps evidence of status quo bias and/or a degree of caution

appropriate to their planning horizon (Samuelson and Zeckhauser 1988). Notice, the single most important 'event' affecting the volume of calls over this time period was a significant change in the federal government's tax regime affecting superannuation saving (Clark et al 2016).

The relative significance of the three categories of advice-seeking changes with age, such that prior to the age of 40 years, administrative matters dominated investment matters and retirement planning. Thereafter, retirement planning came to be the most important advice-seeking category from the age of 55–59 years. This does not mean that calls for advice on retirement planning were unimportant under 40 years of age. Rather, the issue is of relative significance compared to the other categories of advice seeking and relative significance in relation to age. The significance of calling for advice on retirement planning for older age groups reflects the salience of the issue but, in all likelihood, comes too late to make an appreciable difference to long-term retirement income prospects. Advice-seeking on retirement planning peaks at the age when Australians become eligible to take a portion of their superannuation saving, as much as 10 years prior to their eligibility for the Australian Age Pension.

We have observed that Australian women retire earlier and often indicate that when they retire they will rely, in part, upon their partners' income to supplement their retirement income. We have also observed in a study of UK retirement planning that household decision-making is as important as individual decision-making when considering patterns of retirement planning, short-term and long-term consumption, and investment decision-making (Clark et al 2012). Some studies suggest that in a minority of older-aged households men rather than women are the planning 'agent' (where households share but divide responsibility for consumption and saving). It is apparent that men, rather than women, are more likely to call on investment matters, especially as their account balance increases in value. However, on retirement matters, the

evidence suggests that both men and women are planning agents taking into account balances and salaries.

Implications and Conclusions

Call centers, web access, and mail are the means by which Australian pension providers communicate with participants. These funds and similar types of organizations in the for-profit financial services sector stand in place of individual employers (and the workplace). Whereas efforts are made to contact participants on a regular basis with information regarding the performance and services available from superannuation funds and service providers, more often than not the information provided is generic, rather than tailor-made for participants by virtue of their socio-demographic attributes and specific circumstances. There are, nonetheless, attempts to engage certain types of participants especially those approaching retirement and those with significant account balances.

Notwithstanding the media attention devoted to the performance of the Australian superannuation system, anecdotal evidence suggests that participants tend to trust their superannuation funds above other commercial and non-commercial entities to provide needed information and advice. Once enrolled in an industry fund or related commercial organization, participants rarely switch between providers; to the extent that switching takes place, more often than not it is the result of switching employers (who may be in a different industry with a different service provider) rather than making a choice in favor of a preferred provider. Whether trust is important or not, participant inertia is reinforced by the time and opportunity costs involved in switching between providers and the upfront costs of learning about other providers

and their respective virtues. Arguably, in these circumstances service providers owe their participants a duty of care in terms of the nature and quality of services provided.

Of those participants that do contact their funds, a large majority of younger participants call about administrative matters rather than investment matters or retirement planning. It would seem desirable that younger participants engage in some form of retirement planning before the age of 40 years, so as to amend current and future contributions and take advantage of related products offered by their superfund (Benartzi and Thaler 2005). Otherwise, they are wholly reliant upon their fund's default settings and, ultimately, the future value of the Aged Pension. Our results suggest that advice-seeking with respect to retirement planning comes late in participants' working careers – perhaps too late to make an appreciable difference to their account balances and pension benefits. One way forward could be to channel participants' advice-seeking on administrative matters to briefings on retirement planning. This would be consistent with liberal paternalism (Thaler and Sunstein 2008).

Calls seeking advice on administrative matters tend to be brief and focused upon relatively simple issues, including change of address, the correction of details on account statements, and amendments to contributions and related savings instruments. For younger people, these issues are related to changes in participants' employment, household status, residence and income. Our results suggest that those seeking advice on investment matters are younger on average than those seeking advice on retirement matters and would also benefit from advice on retirement planning. These participants are often active in their 40s and 50s, are often more knowledgeable of the superannuation system and the services offered by funds, and may be able to conceptualize the link between short-term investment considerations and long-term pension benefits. Advice on investment matters requires a higher level of knowledge and

understanding of the issues by call handlers; they are also subject to higher standards of certification by Australian authorities.

Making the link between advice on investment matters and advice on retirement planning could require service providers to integrate the provision of advice across the three categories of advice-seeking. This could also mean upgrading the skills of call handlers and, perhaps, hiring different kinds of call handlers than those that handle routine administrative matters. Switching participants between call handlers according to the issues presented and the skills required to handle those issues are likely to incur moments of frustration and repetition by those seeking advice. In many cases, super funds charge a fee for those seeking advice on investment matters on the assumption that these matters are more complex, require higher levels of skill and expertise, and often incur follow-up calling and material provision. The fee-for-service model may be antithetical to engaging those active on investment issues with retirement planning.

Call centers, web access, and mail are crude mechanisms for engaging participants in retirement planning. Recognising this fact, some employers have brought to the workplace independent financial advisers to counsel those interested in investment matters and retirement planning. While there is little in the way of published research on the value of this type of facility, experience suggests that the take-up of this type of service depends upon the fee charged for the service, the degree to which an independent financial adviser is actually ‘independent’, and the age, gender, and incomes of employees. Also important, though less recognized as such, is the provision of expert advice by suitably qualified advisers without incurring (explicitly or by implication) long-term commitment by the employer. Whereas many Australian employers have, in effect, given-up responsibility for the retirement prospects of their employees, this type of

untaxed ‘benefit’ may well facilitate the engagement of employees with their superannuation fund.

In the Australian market, older fund participants with relatively high salaries and account balances are the targets of independent financial advisers operating outside of superannuation funds and related service providers. By government policy, those participants with high account balances are able to leave their superannuation fund and take accumulated assets and place them into Self-Managed Super Funds (SMSFs). While these people may be small in number (perhaps 10% of the working population), their share of Australian superannuation assets is large (as much as 60%). By statute, superannuation funds treat all participants equally in the sense that services provided are available to all participants. Yet a small minority of older participants typically control a significant portion of a fund’s assets under management. Not surprisingly, superannuation funds have sought to engage these individuals on investment matters and retirement planning, rather than wait for them to call or engage through web facilities and take the risk of them being ‘captured’ by external agents.

In a couple of cases, superannuation funds have also established fund-specific drop-in centers in large retail parks and shopping malls especially in towns and cities that have high concentrations of participants. Local advertising, postcode leafleting, and sponsorship of local events have gone some way to establishing the presence of these organizations in specific communities. It is a very different strategy than simply waiting for a participant to call on some matter of immediate interest. However, this type of strategy of engagement is only effective if fund membership is geographically concentrated. Many of the largest funds are multi-employer, multi-jurisdictional, and multi-industry. In these settings, call centers, web access, and mail are the only ways of discounting the costs and consequences of dispersed membership. New ways

are being developed so as to engage participants with advice that is category specific, salient, and future-oriented, rather than simply servicing participant-initiated inquiries.

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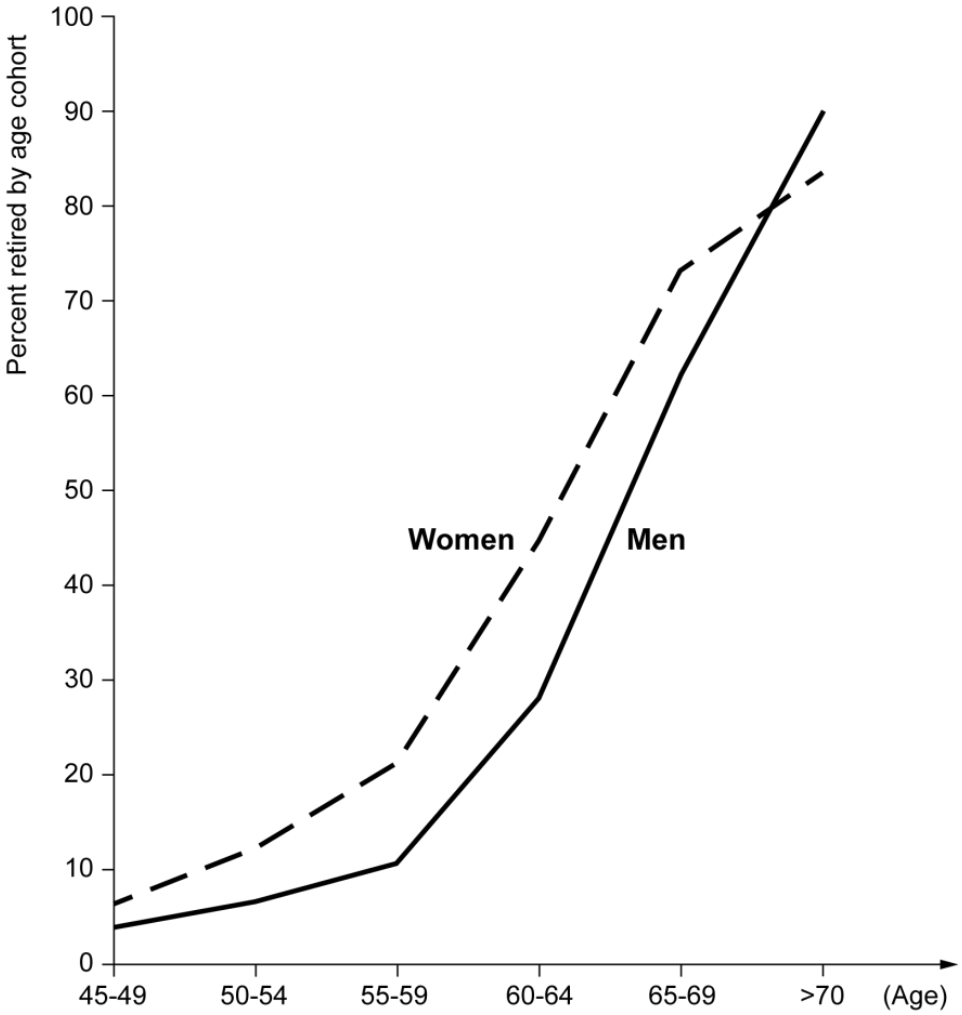
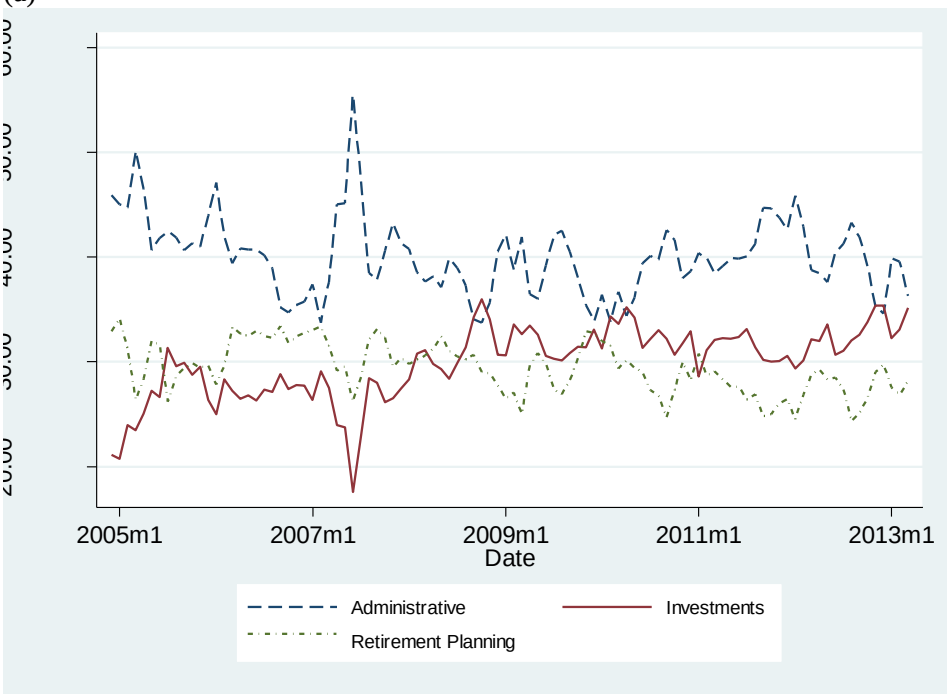
Figure 1. Australian rates of retirement



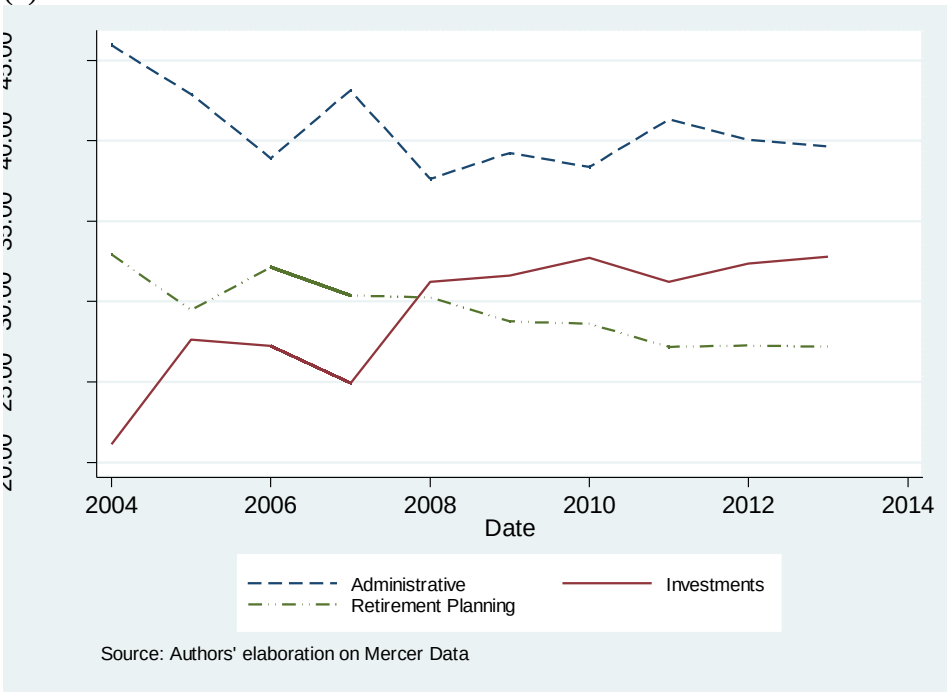
Source: Australian Bureau of Statistics. 2011. Retirement and Retirement Intentions. Report 6238.0. Canberra ACT: Commonwealth of Australia.

Figure 2. Proportion of topics by category: (a) monthly (b) yearly

(a)



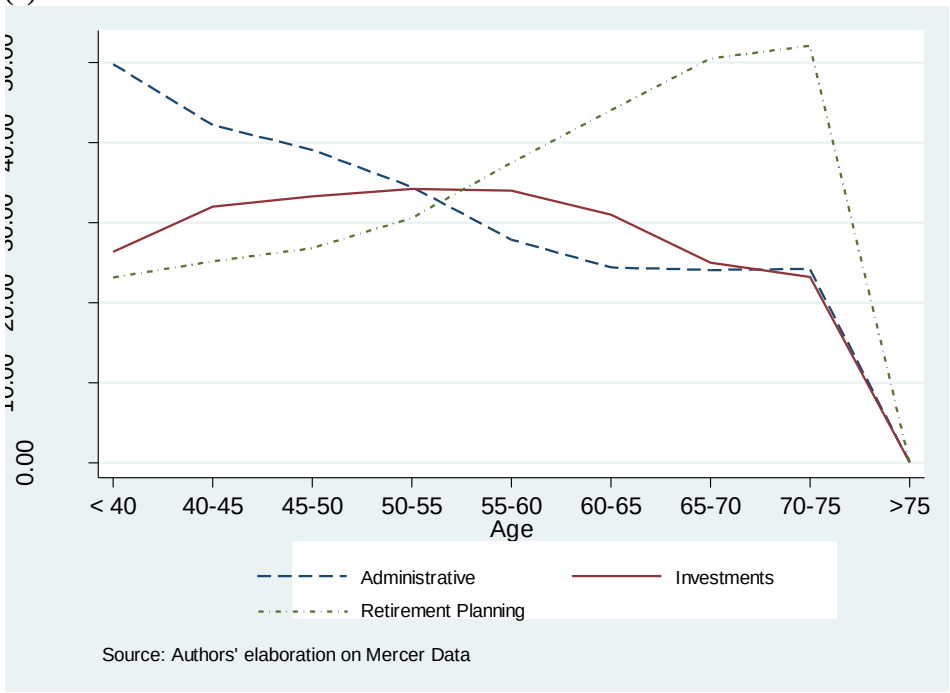
(b)



Source: Authors' elaboration on Mercer Data

Figure 3. Frequency of calls by category and age: (a) over 40s by cohort, (b) over 54 year-by-year

(a)



(b)

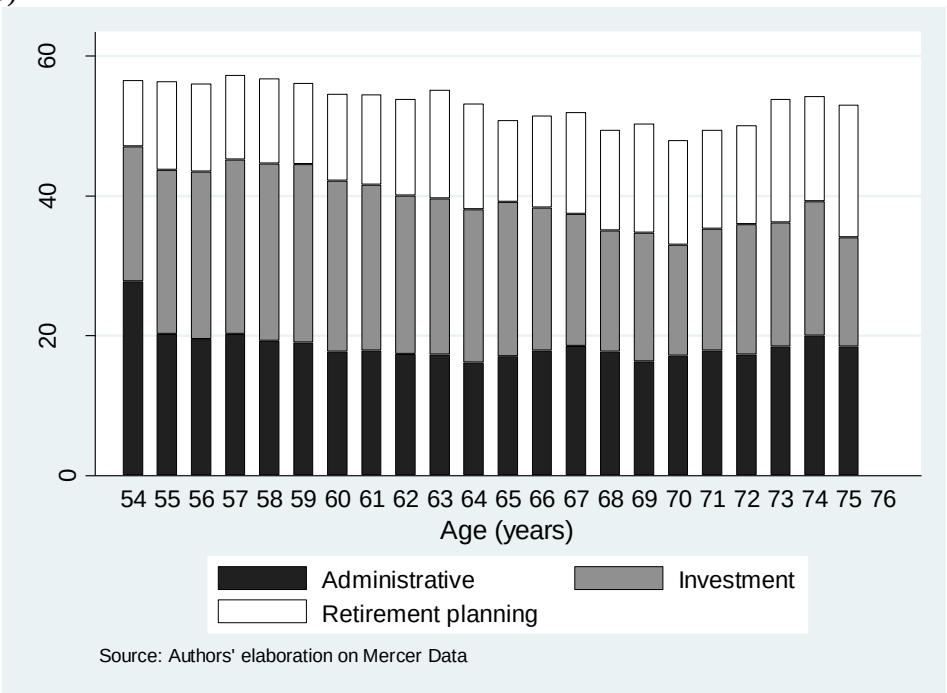
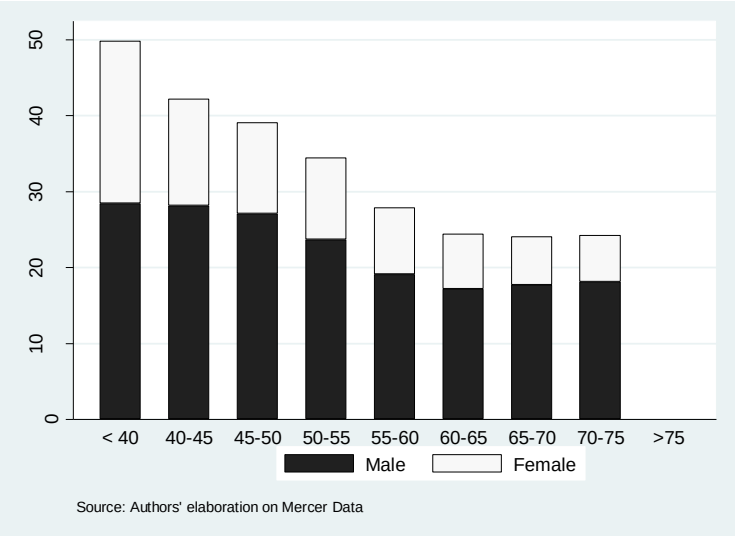
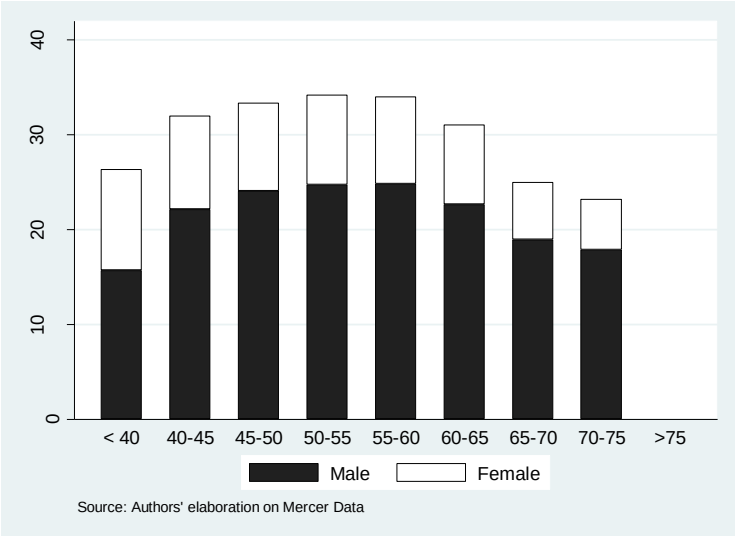


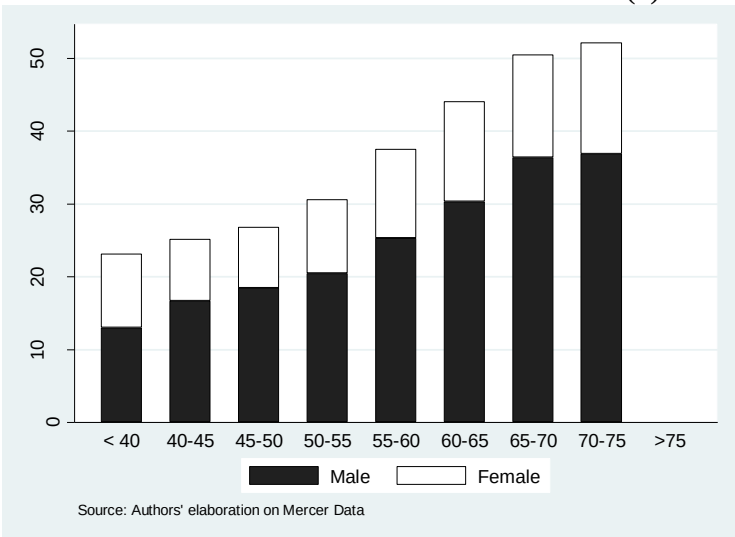
Figure 4. Frequency of topics raised by age, gender and category: (a) Administrative (b) Investments (c) Retirement planning



(a)

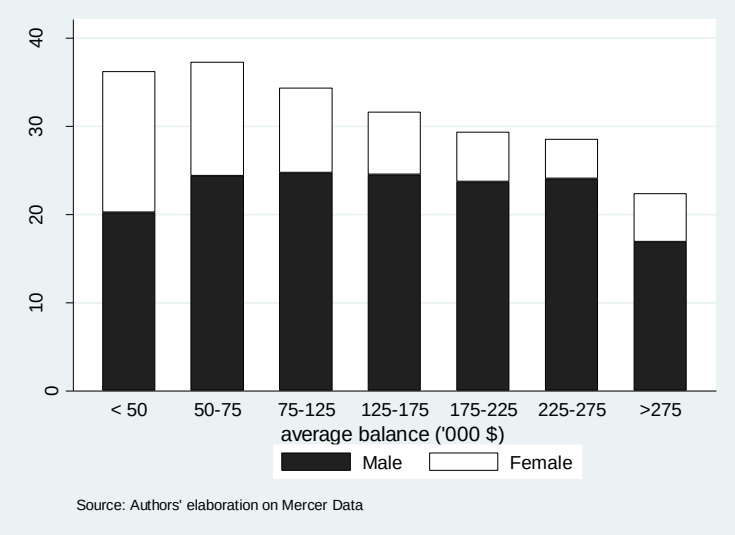


(b)



(c)

Figure 5. Frequency of calls by category, average account balance and gender: (a) Administrative (b) Investments (c) Retirement planning ($)



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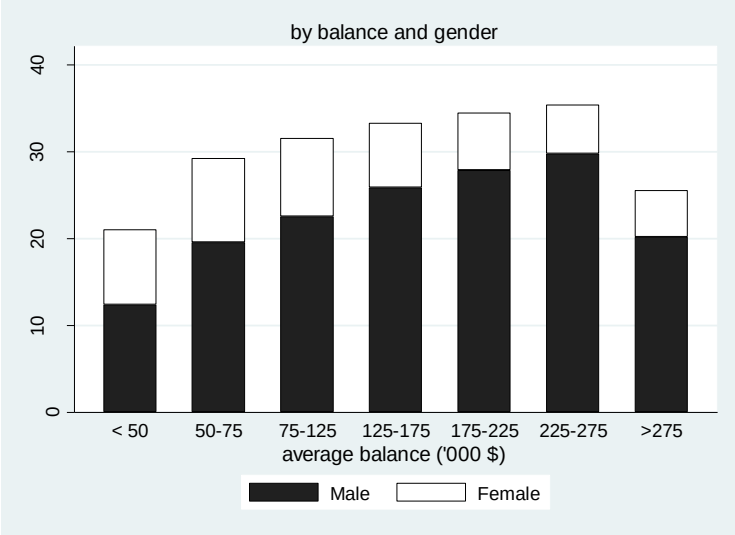

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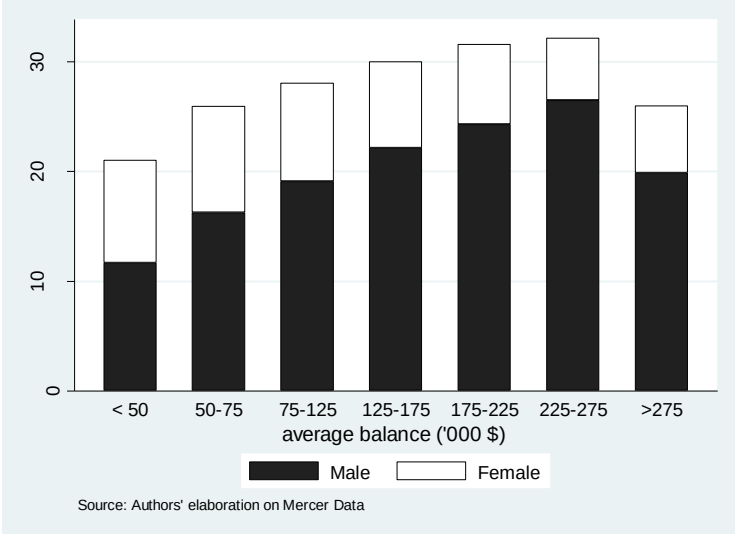
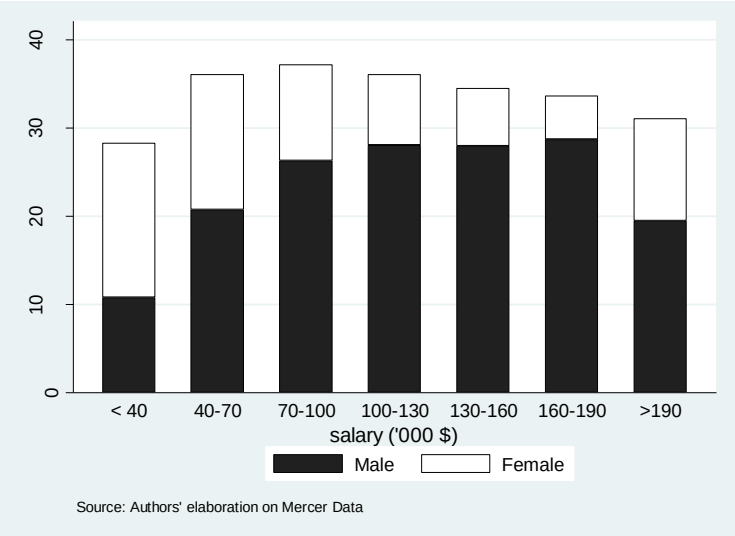
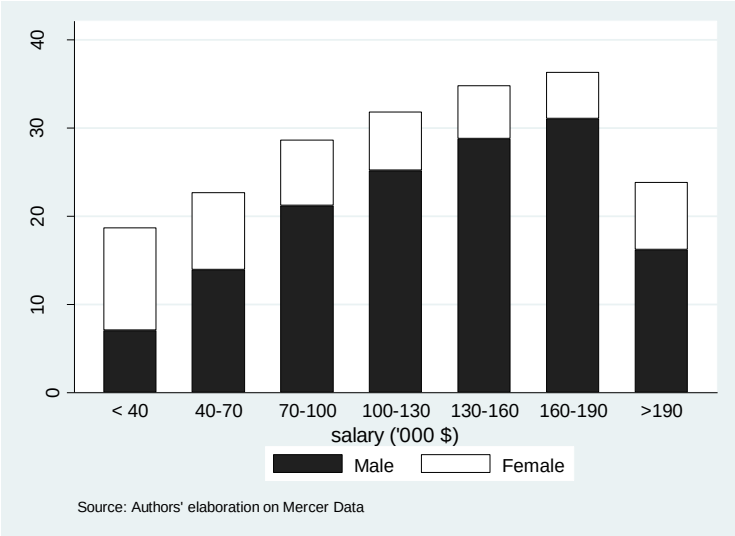


(c)

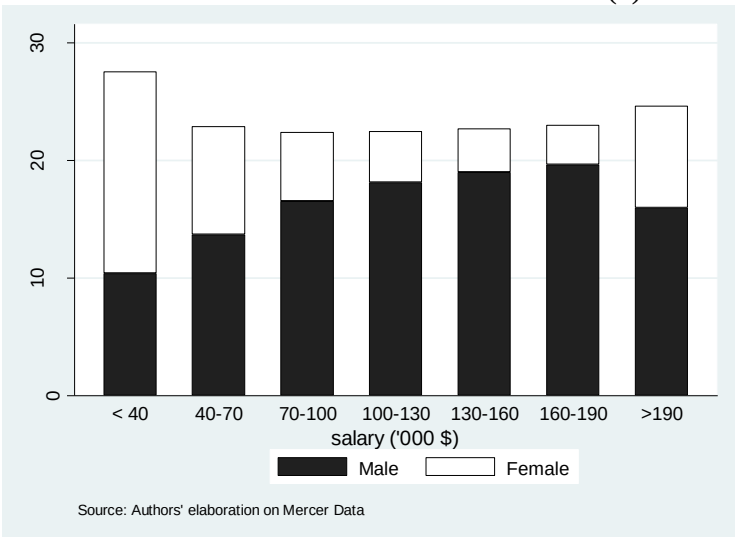
Figure 6. Frequency of calls by category, average salary and gender: (a) Administrative (b) Investments (c) Retirement planning ($)



(a)



(b)



(c)

Table 1 - Results of a tobit regression - Relationship between call volume by topics and macroeconomic factors (quarterly data)

Variables	Administrative	Investment	Retirement Planning
% change stock mkt	1.625	1.282	1.576
	(1.163)	(0.803)	(0.823)
% change gdp	2.519	1.528	-7.139
	(10.629)	(7.489)	(7.652)
% change full_time_employed	28.769*	21.321*	17.607
	(13.930)	(9.699)	(9.834)
% change expectation of financial situation in the next 12 months	-1.804	-1.398	-1.087
	(1.258)	(0.850)	(0.848)
% change expectation of economic conditions in the next 12 months	-0.055	0.542	0.233
	(0.760)	(0.545)	(0.556)
% change expectation of economic conditions in the next 5 years	2.263	-0.247	0.055
	(1.316)	(0.934)	(0.944)
% change unemployment expectations	1.569	1.453	1.046
	(1.194)	(0.824)	(0.820)
_cons	-0.151	-0.085	-0.033
	(0.125)	(0.087)	(0.088)
sigma	0.264***	0.185***	0.184***
_cons	(0.044)	(0.030)	(0.033)
N	32	32	32

Source: Authors' elaboration on Mercer's data and data from the Australian Bureau of Statistics and the Australian stock Exchange

[i]/. Elsewhere, we have explored this database so as to better understand the patterns of advice-seeking over time and in response to announced changes in pension policy and volatility in financial markets (see Clark et al 2016).

[ii]/. Caplin and Martin (2011, 2899) show that individuals typically satisfice rather than optimize when searching for information. As a consequence, decisions are made without full examination of all available options indicating 'the best available options may be missed'. In response, individuals may outsource this function to those with the requisite skills and expertise and/or seek the advice of those they trust.

[iii]/. Superannuation funds do have an interest in retaining fund participants (those that call and those that don't), especially those with large account balances. There are economies of scope and scale in the global funds' management industry.

[iv]/. The regulatory framework governing the provision of financial advice in Australia is complex, subject to overlapping and crosscutting legislation and regulations, and is politically contested (see Hanrahan 2013; Latimer 2014; Serpell 2012). Further, the debate often focuses on distinctions between types of advice that the average person finds difficult to understand (Lindgren 2013).

[v]/. We show for the UK that as a person's income rises and their retirement savings' account grows their dependence on workplace pensions as the main source of future income declines. Furthermore, we show that the nature and number of their savings instruments changes markedly. This is pronounced for higher income male participants (see Clark et al. 2012). Here, we were not able to observe the other types of savings instruments available (or not) to participants.