Beyond The Disciplinary Boundaries Of Superannuation Choice:  
A Consumer Behaviour Perspective

Debra Grace, Griffith University, Gold Coast
Sharlene Anderson, Bond University, Gold Coast

Abstract

The debate over the introduction of “superannuation choice” in Australia has resided within two opposing economic theories – free market theory and public interest theory. However, consumer behaviour theory has been overlooked in the argument, and given that consumer choice is the focal issue being debated, this is a significant oversight. This paper addresses this oversight by empirically examining constructs such as consumer involvement, subjective and objective knowledge, consideration of future consequences, age and education in the context of superannuation. The findings have significant implications for future marketing in this area.

Background

In the 1996 Australian Federal election campaign, the Government first proposed to introduce freedom of choice of Superannuation funds. Under the pre-existing system employers and work-place agreements dictate the super fund for the compulsory superannuation contributions of most employees. Under the “choice of fund” policy, a large number of employees (the consumers) are able to select the fund of their choice and switch to other funds on an annual basis if desired. However, fuelling the debate over superannuation choice is historical evidence in both the United Kingdom and Chile whereby the introduction of member choice in superannuation funds resulted in “considerable financial detriment” to members (consumers) (SSCS 1998, para 11.4). This occurred when “many employees were lured away from sound company pension plans by unrealistic promises made by insurance companies and independent financial advisors” (Gallery, 2002). While the debate regarding superannuation choice is fuelled by two opposing economic theories, that being free market theory and public interest theory, there has been no attempt to integrate the consumer decision-making model into the argument. It would seem that this represents a significant oversight given that consumer choice is the focal issue being debated.

Theoretical Frameworks

Support for the Government’s “choice of fund” policy largely resides within free market theory and the inherent underlying capitalist ideology. Within this ideology, freedom promotes competition and efficiency and it is alleged that there is little need for government intervention (Jackson et al., 1996). Free market theory argues that demand and supply forces should be allowed to operate and equilibrium will emerge. On the other hand, opposition to the “super choice” legislation adopted a public interest theory perspective. Within this framework, regulation is intended to “protect consumer interests by securing improved economic performance…. compared with unregulated situations” (Fels, 1982). Public interest theory is applied to the superannuation freedom of choice debate through the argument that equilibrium will not be achieved in the free market, rather the majority of members will be disadvantaged due to information asymmetry and profiteering tactics of superannuation funds (Jackson et al, 1996). Under this perspective, it is argued that the implementation of the
Government’s “choice of fund” policy will result in consumers being the losers, whereas free market theorists argue to the contrary.

However, in arguing the economic theories of market efficiency, the debate has overlooked important issues relating to the idiosyncratic nature of superannuation in Australia and how this impacts on consumer decision-making. For example, under free market theory, the consumer ultimately reigns sovereign as businesses must produce goods and services that the consumer desires, thus promoting competition and efficiency (Jackson et al., 1996). However, in the case of superannuation in Australia, whereby contributions by consumers are mandatory, it would seem that demand is stimulated not so much by consumer desires, but rather by Government regulation. This significantly impacts on the consumer decision-making process, as Government intervention denies the consumer the experience, and consequential learning, related to need recognition, the first stage of the decision-making process (Dewey, 1910). For example, the motivation for consumers to engage in search and evaluation activities (i.e. information gathering and processing) may be severely diminished due to need recognition, in relation to superannuation, having occurred more at the societal level (i.e. recognised by the government), rather than at the individual level (i.e. recognised by the consumer).

Need recognition occurs when there becomes an apparent difference between actual and desired states, enough to motivate action in order to rectify the disparity (Hill, 2001). In the case of superannuation, need recognition is complex because, at the individual level, the need develops over time and, in many cases, it is not until the individual gets closer to retirement age that the realization of the discrepancy between their actual and desired states becomes apparent. At this point it is often too late to rectify any such discrepancies. However, under the new legislation, choice of super funds, previously dictated by employers, will be an option for many consumers, thus exposing consumers to the information search and evaluation stages of consumer decision-making, regardless of whether need recognition has occurred or not. At this point, those people who find superannuation personally relevant to them (recognised the need), may engage in extensive information search and be inclined to effectively exercise their right to super fund choice. On the other hand, it could be expected that those people who do not see superannuation as particularly relevant to them may not be motivated to seek information and may, in some cases, make financially detrimental decisions based solely on the persuasive tactics of superannuation profiteers. This study, therefore, examines this issue of relevance (i.e. consumer involvement) in relation to superannuation in order to gain an understanding of what characterises high-involvement and low-involvement consumers, prior to the introduction of “super fund choice”. In doing so, we gain valuable insight into the initial stages of the consumer decision-making process, in the context of superannuation, and we establish a benchmark for future research after the introduction of the “super choice” legislation.

Hypotheses Development

Central to the issue of information processing in the initial stages of consumer decision-making is that of involvement, which has been described as being an individual difference variable that has direct consequences on consumption-related behaviours (Gabbott and Hogg, 1999). Involvement theory denotes that the degree to which consumers will engage in information-processing activity is dependent upon the relevance of the purchase (Bruner and Pomazal, 1988). For example, when involvement is high there is a higher level of information search and processing (Brucks, 1985). This often generates more negative
evaluations of product information and the likelihood of rejection is greater because the consumer is more discerning (Schiffman et al., 2005). On the other hand, when involvement is low there is limited information search and, as a result, consumers are more susceptible to persuasion than highly involved consumers (Bruner and Pomazal, 1988).

The nature of involvement dictates its close relationship with the amount of knowledge consumers have in relation to a particular product category (i.e., high involvement equates to higher knowledge). For example, those who are involved will engage in more information search activities and, as a result, gain more knowledge. Research suggests that consumer knowledge is comprised of two main components, that being subjective and objective product knowledge. Subjective knowledge is what the consumer thinks they know, whereas objective knowledge is what the consumer actually knows, measured via a test (Flynn and Goldsmith, 1999). It has been suggested that subjective and objective knowledge influence information processing in different ways, with objective knowledge being more likely to influence the amount of information sought, whereas subjective knowledge being more closely related to purchase-related behaviours and decision-making (Flynn and Goldsmith, 1999). However, regardless of influence on behaviour, it would be expected that an individual who is more involved with superannuation would be more likely to have greater knowledge (both subjective and objective) regarding superannuation. On this basis, the following hypotheses are proposed:

H1: Subjective knowledge will be a significant discriminating factor between high-involvement consumers and low-involvement consumers of superannuation.

H2: Objective knowledge will be a significant discriminating factor between high-involvement consumers and low-involvement consumers of superannuation.

Although past researchers have argued that experience is another category of consumer knowledge, more contemporary thought sways toward the notion that experience is a determinant of both subjective and objective knowledge (Flynn and Goldsmith, 1999). This is confirmed by the argument of Lin and Lee (2004) who advocate that, in relation to investment decisions, older consumers who have more experience have more accumulated knowledge. On this basis, and considering that as consumers get older they are more likely to realize how important their superannuation plan is to their retirement lifestyle preferences (i.e. more involved), it is hypothesised that:

H3: Age will be a significant discriminating factor between high-involvement consumers and low-involvement consumers of superannuation.

Furthermore, it has also been argued that better-educated consumers have a more extensive knowledge structure, tend to gather more information and are capable of assimilating complex information (Schmidt and Spreng, 1996). Given that individuals who are highly involved also engage in more information search, it may be that those individuals who are highly involved with superannuation will also tend to have a higher level of education. In fact, this could most definitely be the case given that superannuation is a complex product, which requires the assimilation of complex information. On this basis, it is hypothesised that:

H4: Education will be a significant discriminating factor between high-involvement consumers and low-involvement consumers of superannuation.

Finally, given that superannuation is characterized by the future-orientation of the product’s benefits, it would be expected that those consumers who are highly involved in superannuation would have an appreciation of the way in which their immediate behaviour will influence future consequences. Defined as “a stable individual difference that reflects the
extent to which distant versus immediate consequences of behaviour are considered” (Sirois, 2003, p. 117), consideration of future consequences (CFC) has been shown to predict health behaviours associated with alcohol use, cigarette use and environmental issues (Sirois, 2003). Given that health-related behaviours influence future health outcomes just as superannuation contributions influence future financial outcomes, it would be expected that CFC may also play an important role in predicting involvement in relation to superannuation. As such, it is hypothesised that:

**H5:** Consideration of future consequences (CFC) will be a significant discriminating factor between high-involvement consumers and low-involvement consumers of superannuation.

**Method**

Data were collected from superannuation consumers in South East Queensland via a stratified sampling method using a self-report survey (distributed via mail box drop) prior to the release of mass advertising regarding introduction of ‘super choice’. Of the 1000 surveys distributed 137 were returned representing a response rate of 13.7%. The sample comprised of 46% males and 54% females with ages ranging from 18 to 84 (mean age of 41 years). The survey included scale items to measure involvement (Beatty and Talpade, 1994), consideration of future consequences (Petrocelli, 2003) and subjective knowledge (Flynn and Goldsmith, 1999). In relation to objective knowledge, four items relating to superannuation in general were developed specifically for this study. Demographic information regarding age and education was also collected.

**Results**

Preliminary analysis confirmed the reliability and factor structures of the scales prior to the computation of composite measures. Respondents were then classified as high involvement and low involvement consumers based in their involvement scores. Low-involvement consumers were classified as those cases that fell below the 33.33 percentile, while high-involvement consumers were those cases higher than the 66.66 percentile, with the middle cases being removed from the analysis. This resulted in an analysis sample totalling 100. The data were initially assessed via multivariate analysis of variance (MANOVA) to determine significant group differences of predictor variables. The MANOVA produced significant results evidenced by Wilks Lambda = .73 (F= 7.01, p<.001), thus indicating that the mean vectors of the predictor variables were different between high-involvement consumers and low-involvement consumers. Individual F-ratios of the predictor variables were examined and all were significant except for education, thus excluding it from further analysis. The remaining predictor variables (CFC, subjective knowledge, objective knowledge, age) were entered for simultaneous estimation into the discriminant model in order to determine if the predictors variables discriminated the two groups – high-involvement consumers and low-involvement consumers. The discriminant function was significant with the canonical correlation being .52, Wilks Lambda = .73, Chi-Square (df=4) = 30.16, p < .001 and the group centroids were .58 (high-involvement consumers) and -.63 (low-involvement consumers). The predictive accuracy of the discriminant function was assessed via examining the hit-ratio in comparison with the proportional chance criterion (C_pro). As the C_pro was calculated at .46, then the hit ratio needed to be greater than .58 (25% greater, as recommended by Hair et al, 1998). As the hit-ratio was 73%, evidence of substantive predictive validity was provided. Furthermore, the relative importance of the predictors variables were assessed by their discriminant loadings, and all were greater than the recommended level of .30 (Hair et al., ANZMAC 2005 Conference: Consumer Behaviour 103
1988) i.e., subjective knowledge (.86), age (.77), objective knowledge (.40) and CFC (.40). The results, therefore, indicate that H1, H2, H3 and H5 are supported, whereas H4 is not.

Limitations

Limitations of this study include issues relating to non-response bias and generalizability. Non-response bias was not tested, however, the variability of responses and demographic spread of the sample suggests that any such bias may have been minimal. Furthermore, the data were collected from one geographic area in Queensland therefore the results should be generalised with caution.

Discussion

The results clearly indicate that subjective and objective knowledge, age and CFC are discriminating factors between low-involvement and high-involvement consumers of superannuation. However, what is important here is the knowledge gained particularly in relation to low-involvement superannuation consumers. These are the consumers who need to be targeted in order for attitude and behavioural change, in relation to superannuation, to occur. The findings indicate that low-involvement consumers have little knowledge of superannuation (both in what they actually know and what they think they know), are younger and have little regard for future consequences. Furthermore, education was found not to be a discriminating factor in relation to superannuation involvement. This supports historical evidence from the UK whereby similar changes to retirement fund policy resulted in losses that were not confined to less-educated consumers, but included many consumers with higher levels of education (eg. trained professionals, teachers and academics) who had made poor pension plan choices (Kennedy, 1998).

The findings of this study suggest that youth, and the attitude of “let’s only worry about the here and now” that goes along with it, largely impedes the recognition of need in relation to superannuation. Given the potential for economic detriment to individuals in the long run, not to mention the burden that non self-funded retirees will place on society, this is an important issue that needs to be addressed. This being the case, marketing efforts should be concentrated, not only on the provision of information in relation to superannuation, but, more importantly, on attitude change with the objective of stimulating need recognition in younger superannuation consumers. Just as advertising campaigns, combined with Government policy, have instigated change in relation to consumer attitudes and behaviour regarding social issues, such as smoking, recycling, drink driving etc., these same strategies should be utilised in the context of superannuation. In learning by our marketing successes regarding attitudinal and behavioural change in the past, we can enhance the effectiveness of our marketing efforts in relation to superannuation in the future.

Conclusion

While the importance of appropriate education and information dissemination regarding “super choice” has been highlighted by the Wallis Committee (commissioned to investigate superannuation choice in Australia in 1996), the issue of attitude change has been overlooked. No amount of education or information dissemination will be enough if consumers are not internally motivated to seek out and evaluate this information for application in their decision-making. This oversight is the result of policy decisions, regarding superannuation, being contained solely within economic theory, while overlooking the theories of human behaviour.
associated with consumption. Thus it is highlighted that, when addressing complex issues such as those relating to superannuation, where multiple stakeholders have a vested interest, it is vital that a multi-disciplinary approach to problem-solving is adopted.
References


Kennedy, R., 1998. Focus will be on understanding choice. Superfunds April, 13.


