KEATING'S SUPER MEETS THE DIGITAL NATIVES

THE NEXT GENERATION OF SUPER

CONTENTS

FOREWORD

Australians intuitively know that the workplace, the workforce, and indeed the very nature of work, is changing. Gone or going are old-style manufacturing jobs and factories and in some cases blue-collar workers because the work has been relocated to Guangzhou or has been more or less fully automated.

It's tough for those losing their jobs but in an ideal world, displaced workers learn new skills and find new positions.

Even the composition of the workforce is on the move with Millennials (aged 20-36) replacing Baby Boomers (aged 55-71), and Generation Xers (aged 37-54) now in management positions doing their utmost to accommodate the demands of a more fluid workforce.

More women, more ethnicities and a greater overall demand for working from home and for job-sharing arrangements are just some social and demographic forces shaping the modern workplace.

And most Australians would say "and rightly so" since diversity and inclusivity are known to strengthen any community, including those participating in the workplace. But this also means that many of the structures set in place a generation ago, including superannuation arrangements, need to be re-evaluated and reimagined so as to align with modern work practices and lifestyle preferences of workers.

The Millennial generation for example is far less inclined to see longevity in one job or even at one employer in a positive light. They see some level of workplace movement as evidence of a willingness to take on new challenges, to meet new people and to learn new skills. In such a world, worker superannuation arrangements need to be as flexible and as agile as the workforce.

And so, it is for this reason that I welcome this study and report by Mercer tackling the issue of the way in which employers view the future of work. Some of the insights confirm what is already known, others help place important issues with a broader context.

Other findings are important if for no other reason than to prompt industry players and politicians to think carefully and constructively about how we might better match our requirement for superannuation with the way that Australians now want to work.

This study is an important first step in what I regard as a long and hopefully fruitful journey to deliver a better and perhaps a more nuanced superannuation system, that is both fit for purpose and that collaborates with workers navigating the future of work. We all need to work and hopefully we all want to enjoy a retirement with the means to pursue our interests.

This report hopefully will help us get to where we want to go.

Bernard Salt AM

TIME FOR CHANGE

AS WE PREPARE TO MARK THE FIRST FULL GENERATION OF SUPERANNUANTS AND WELCOME THE NEXT GENERATION INTO THE WORKFORCE, IT IS TIMELY THAT WE STOP AND REFLECT ON WHERE WE HAVE COME FROM, AND WHERE WE ARE GOING.

It's hard to imagine that the architect of the Superannuation Guarantee Levy, Paul Keating, could have foreseen the behemoth his government signed into being in 1992. Today, our $2.7 trillion retirement savings system is viewed with envy by the developed world, and shows no signs of slowing.

But can a system designed a generation ago still be fit for purpose for the modern workplace and our ageing population?

It was a question we thought timely to ask 80 business executives across a wide range of industries. The resulting snapshot of the current labour force, the future workforce and our attitudes towards superannuation provides some compelling insights.

The results indicate a seismic shift from the workplace of 1992, when full-time jobs were predominantly filled by men with few job changes. Contrast that with Generation Z, digital natives who will not only have multiple jobs, but multiple careers.

How do we as an industry cater to this newer, more mobile workforce, characterised by part-time roles and shorter-term tenures and contracts, and a generation demanding real-time personalised customer service and transparency from governments and financial institutions.

I commend this report to you and encourage all industry stakeholders to consider how we can make super better for the next generation of superannuants and more "fit for purpose" for a modern workforce.

Ben Walsh
CEO, Australia, Mercer

EXECUTIVE SUMMARY

THE TIMES ARE A CHANGING

Employers across all industries predict big changes in the workforce composition in the next 30 years.

53% expect an increase in female employees

41% expect a decrease in male employees

54% expect to employ more contractors at the expense of permanent staff

61% predict an increase in female part-time employees

64% predict an increase in male part-time employees

SHIFTING NEEDS

Employers predict working arrangements will continue to evolve away from traditional job expectations, particularly among those under 30 years old.

83% expect job changes will increase with a greater number of employees becoming entrepreneurs or starting their own business (70%)

88% increase off-site working arrangements such as working from home

76% believe length of tenure with any single company will decrease

89% seeking greater flexibility in hours worked

SUPER, NOT SO SUPER

Employers perceive a lack of engagement with superannuation among employees, and question whether the system continues to be fit for purpose for the modern workplace.

89% of employers think employees aged 60 years and over regard super as important, compared with 8% of employees under 30 years.

51% of employers believe investment performance will be most important to the next generation, with just 10% citing governance as a value priority.

expect to see an increase in employees seeking non-financial job bonuses, such as career development opportunities

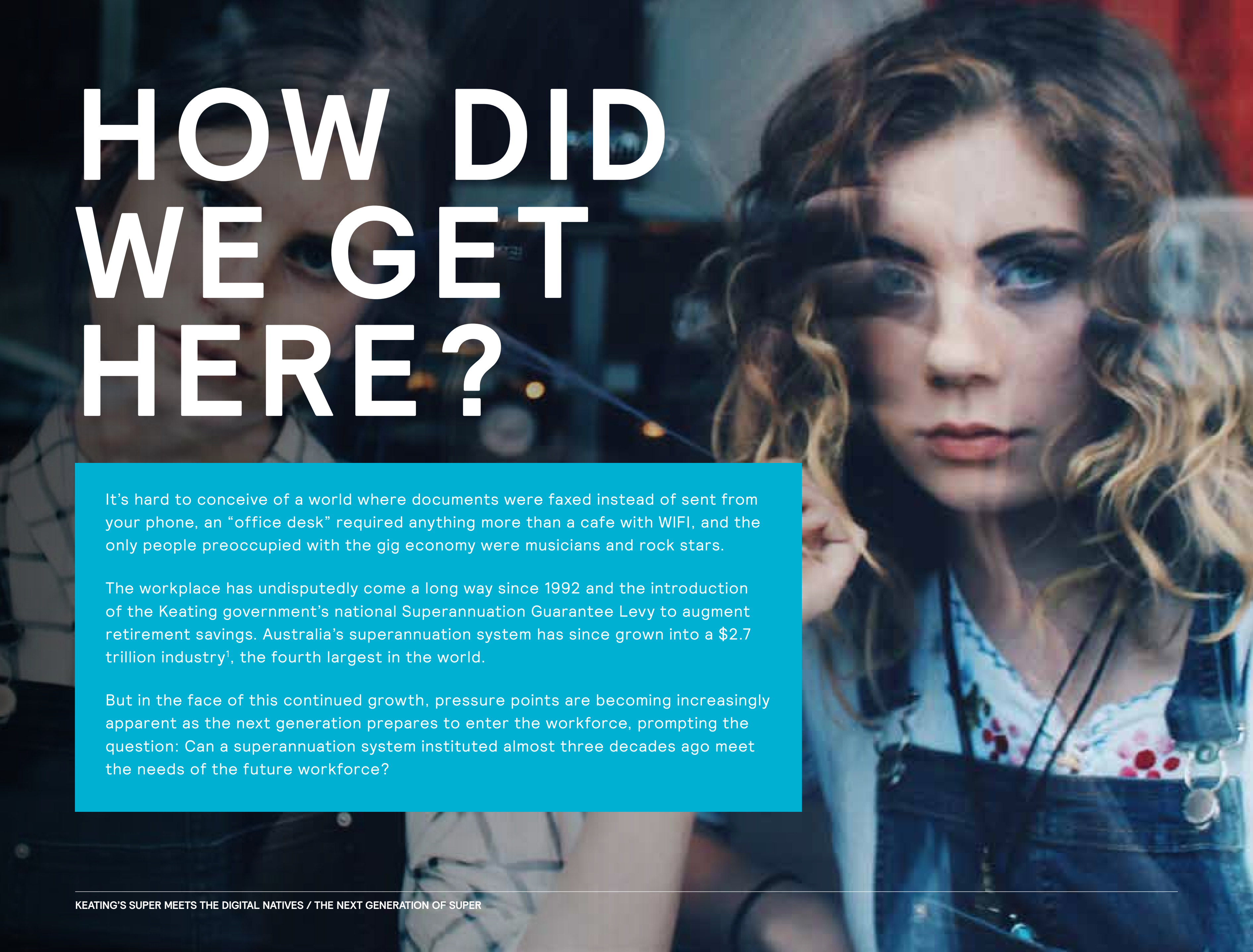
GREAT EXPECTATIONS

Employees will also be driving change in the workplace, looking to employers to provide a more holistic work experience.

64% predict an increase in employees seeking more contemporary work arrangements, with provision for child care, further education or global study tours.

Employees will increasingly look to employers to assist them to save money for retirement, according to 55% of employers.

of employers do not believe the current super system is suitably structured for the future workforce



HOW DID WE GET HERE?

It's hard to conceive of a world where documents were faxed instead of sent from your phone, an "office desk" required anything more than a cafe with WIFI, and the only people preoccupied with the gig economy were musicians and rock stars.

The workplace has undisputedly come a long way since 1992 and the introduction of the Keating government's national Superannuation Guarantee Levy to augment retirement savings. Australia's superannuation system has since grown into a $2.7 trillion industry[1], the fourth largest in the world.

But in the face of this continued growth, pressure points are becoming increasingly apparent as the next generation prepares to enter the workforce, prompting the question: Can a superannuation system instituted almost three decades ago meet the needs of the future workforce?

THEN AND NOW

While the general structure of the superannuation system has remained largely untouched, Australia's economy and demography has undergone rapid change.

Population and workforce trends

According to the *1991 Census of Population and Housing*[2], 54 per cent of Australians were aged less than 35 years, and only 11 per cent 65 years or more.

Eighty-eight per cent of the labour force was employed, 73 per cent of these workers were employed full-time and 27 per cent part-time. The vast majority (67 per cent) of full-time jobs were held by men.

Contrast that with 2016 Census figures[3] showing 16 per cent of the population is now aged 65 years or more, with women emerging as a major presence in the workforce, almost doubling in numbers (up 89 per cent) to just over 5 million in paid employment. Most of this growth can be attributed to part-time workers, with 2.5 million women now filling part-time roles, a jump of 129 per cent from 1991.

Along with changes in workforce composition, the past two decades has marked a shift in attitudes to work, with people now working for longer.

In the 20 years since the ABS started collecting data recording the retirement and retirement intentions of those aged 45 years and older, the average age of retirement has risen from 50 years to 55 years by June 2017.[4]

Of the workers surveyed in 2017[5], the average age of intended retirement was 65 years old, with 70 per cent surveyed intending to retire beyond the age of 65 years (with one in five retiring after the age of 70 years). Financial security was cited as the major factor influencing the age of retirement.

[1]APRA Quarterly Superannuation Performance, June 2018 (reissued 31 August 2018). [2]1991 Census of Population and Housing, 2170.0
[3]2016 Census of Population and Housing, 2710.0,.id. [4]ABS 6238.0, Retirement and Retirement Intentions, Australia November 1997
[5]ABS 6238.0, Retirement and Retirement Intentions, Australia June 2017. [6]2015 Intergenerational Report, Australia in 2055, Treasury

FUTURE TRENDS

Like many countries, Australia has developed a middle-aged spread, with the number of children and teenagers shrinking as a proportion of the population, while the proportion of people aged 50 years and older continues to grow, hand-in-hand with the nation's increased life expectancy – rising to 96.6 years for women born in 2055 and 91.5 years for men.

According to government figures, by 2055 the number of people aged over 65 years will balloon to nine million, or 23 per cent of the population. As a consequence, the tax burden will fall to fewer working Australians, shrinking to just 2.7 workers for every retiree over 65 years, compared with 4.5 today and 7.3 in 1975.

In keeping with existing trends, government forecasts suggest Australians will be working for longer and women's workforce participation will also continue to increase, reaching 70 per cent by 2055.[6]

WORKFORCE EVOLUTION

As workforce trends continue to evolve further from the traditional workplace of 1992, the question remains: Will our current super system continue to meet the needs Gen Z and beyond?

According to 80 leading business executives surveyed across a wide range of industries, the answer is "no". Further, the executives we spoke with believe their labour force is disengaged with a system they relate to as a "distant cousin" – they recognise a vague connection, but are not in frequent communication.

Eighty-eight per cent of organisations expect their workplaces to look very or extremely different in 30 years' time, forecasting a rise in women employees, mature-age employees, flexible work arrangements, and part-time, contract and short-term contracts.

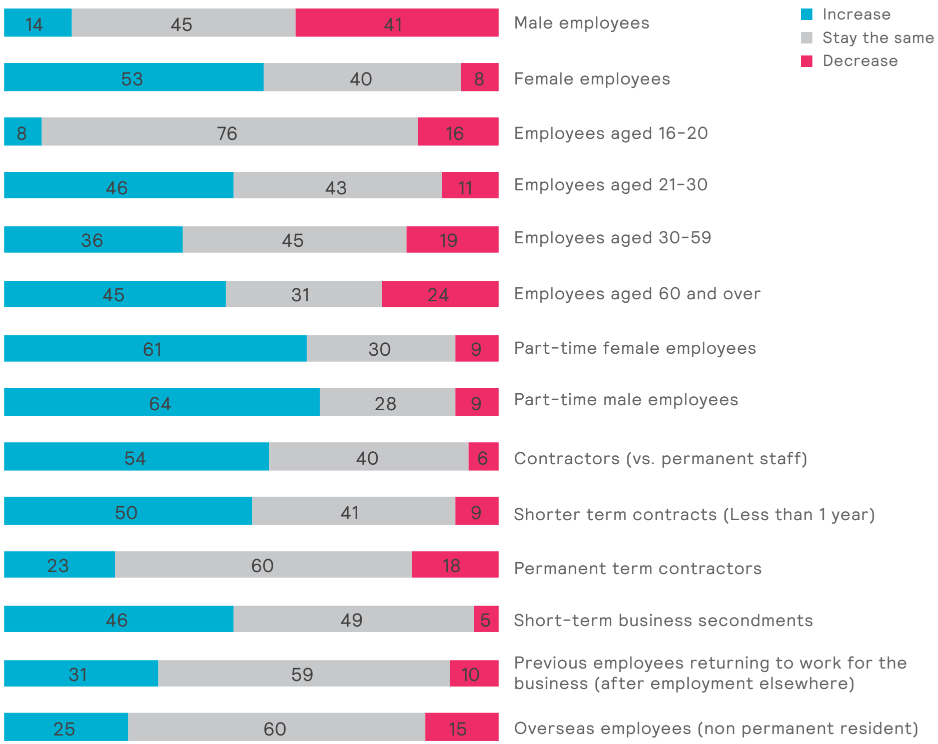
Technology and AI were identified as the biggest drivers of transformation, changing employment roles, resulting in more "gig" or short-term and project-based contracts, with increased values on skills not able to be automated. The rise of the "gig economy" presents an obvious issue for individuals who contract work this way, falling outside of current super regulations. As more people go down the self-employed route, the less super they're likely to contribute, and so, the smaller their super account will be when they retire.

Survey findings reaffirmed another super shortcoming – the retirement gender pay gap. Current estimates show the average woman retiring with 40 per cent less super than a man, primarily due to the gender pay gap, career breaks to care for family and their eventual return to work in a part-time capacity.

With more than half of the surveyed employers predicting a jump in women employees in the next 30 years – and 61 per cent predicting an increase in women working part time – the retirement differential looks set to continue.

Contractors, largely responsible for their own super contributions, will increasingly be employed at a cost to permanent staff, with 54 per cent of employers predicting a jump in this type of working arrangement.

DIFFERENCE IN WORKFORCE IN 30 YEARS…



Base: 2018 survey, n=80, showing % unless otherwise stated.

MEET THE GEN Zs

- First generation to grow up in a digital world
- Think global, not national
- Characterised by increased mobility
- Most educated generation, with academic degrees the norm
- Driven by purpose, but more pragmatic in choices than Gen Y parents
- More likely to rent than own property

Source: The Demographics Group

SUPER MODEL FOR THE NEW AGE

As the workplace transforms, so too must super, say nine in 10 of the organisations surveyed.

"Whilst the system served its purpose very well in the early years, it is not fit-for-purpose for current and future workforces. There are some obvious issues." **Nick Vamakas, CEO, Equip Super**

Identified issues were manifold, and suggested solutions wide-ranging.

36% said super was not suitably structured for the future workforce

56% agreed it needed adjustment

THE ENGAGEMENT'S OFF

Despite super now having served a generation of workers, there is broad agreement that the system has failed to engage employees.

According to those surveyed, employees don't view super contribution as "their money", with many unable to identify their fund or what it invests in. Not surprisingly, they fail to undertake any forward planning or consider super as part of their broader investment approach to retirement.

This trend will worsen in time, with younger workers in particular found to have little interest or engagement with the super system. Engagement only appears to occur closer to retirement, when it can be too late to optimise super savings.

Competing financial priorities, a sense of a lack of empowerment in dealing with finances and financial institutions, and difficulty in navigating a "complex" system are among the main reasons cited for people's disengagement with super.

of employees under 30 years didn't think super was important

of employees over 60 years view super as very important

"I honestly do not know much about what super companies actually do with our money regarding investments. It isn't something I have ever been interested in… I know my login details and my approximate balance, but I really only checked to see that it was going into the right account. I have never really thought about investment strategies, or putting more into super. It's just one of those things that is easier to ignore. And it seems more important to have the money now than in 50-plus years."
Stephanie, 21, midwife

FAILURE – AN OPPORTUNITY IN DISGUISE

While failure to engage super fund members is acknowledged to be a major issue, so too is it an opportunity for vast – and fast – improvement.

Survey participants think super is an underutilised lever when it comes to staff recruitment and retention, with the majority of employers not recognising its value when negotiating staff contracts, such as offering higher contributions or paying administration fees. Integrating super into staff entitlements can also serve to better educate and empower staff to actively manage their financial assets.

Communications to members are also viewed as opportunities to better engage members, particularly young workers, with current interactions criticised for being text heavy and lacking dynamism. While other industries had successfully used video, social media and humour to interact with their target audiences, the super industry, in large part, is seen to be lagging in this respect.

While the bulk of members' interactions with super funds shifts to online platforms, it is thought that technology can further enhance member experiences through more widespread adoption of AI to anticipate and meet member needs, such as matching callers to customer service staff by age. AI is also seen as a way to trigger discussion about investment needs based on members' life stages.

Linking super accounts to online bank accounts was considered another opportunity to keep super front of mind and incentivise saving and contribution targets.

However, more traditional forms of communication still have their place. One suggested solution included employee workshops to demystify super and encourage members be more active participants in their future saving strategy. Some also suggested financial literacy should start earlier than the workplace, with widespread agreement that the government should update school curriculums to include "financial health" alongside health and fitness, and sex education.

> "Most of the people we talk to about financial issues recognise that there should be a subject in school on financial literacy. In fact, why isn't there? We get taught health education in school, and even sex education - but not financial education! But it's fundamental! Why aren't we?" **Jessica Ellerm, CEO & Co-Founder, Zuper**

"I get an email, which I don't read. I can't even remember my login. I have no idea how much is in my account … Maybe I would be (more interested) if they told me what I could do to grow my money, which they probably do in the emails that I don't read. I'm not really interested because it seems so far away."

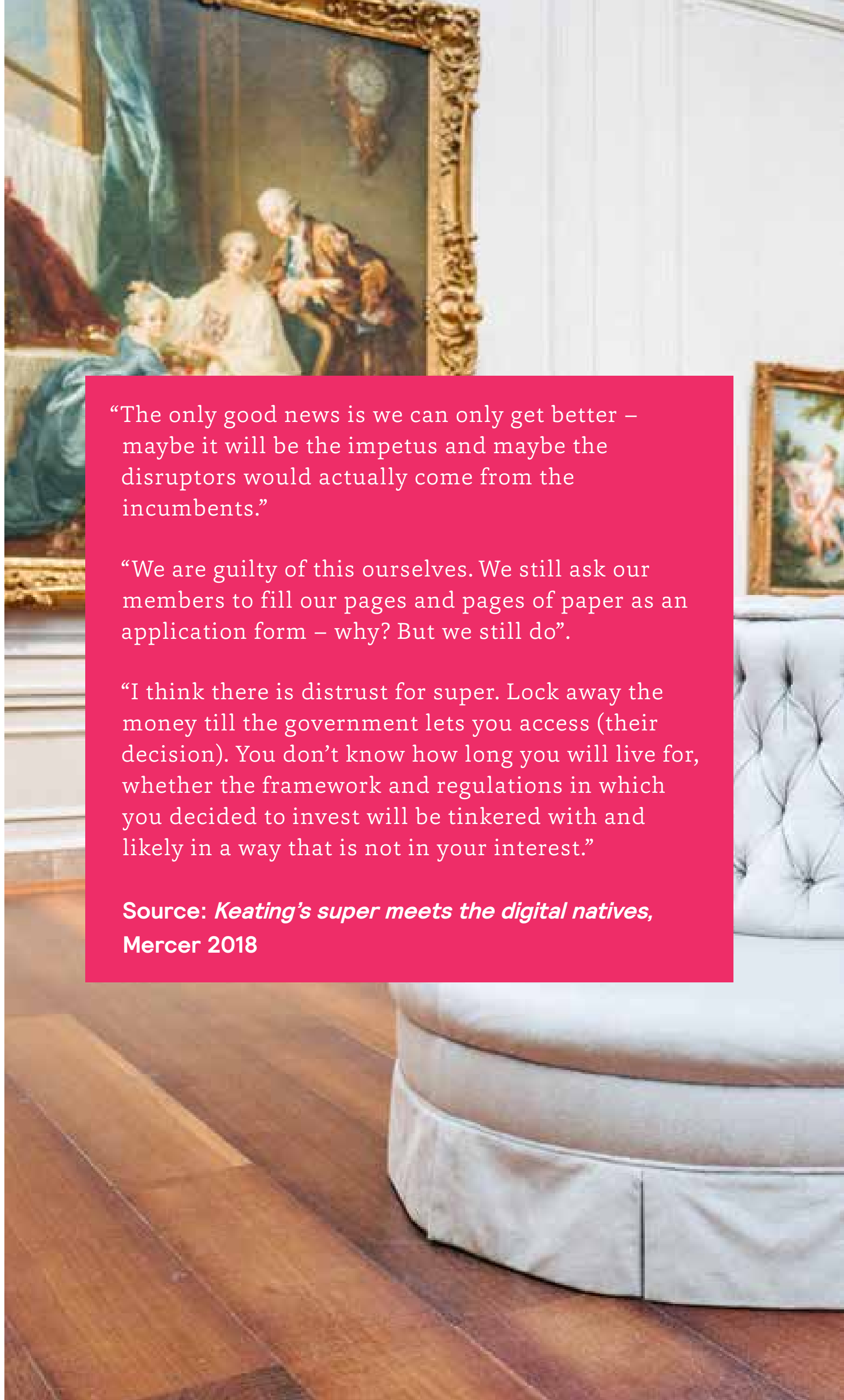
Taylah, 25, market researcher.

DISTRUST AND DISRUPTION

Employers and finance industry experts interviewed acknowledge that recent scrutiny of the financial services sector could further embed a sense of skepticism and detachment among fund members already feeling overwhelmed by a multi-faceted and regulated system.

Those in financial services in particular accept that current industry practices are partly responsible for contributing to wide-scale disengagement and apathy when it comes to super. They note that in the face of an ever-changing workforce, their own organisations, and the industry as a whole, in large part continue to maintain the status quo.

They argue that the future workforce profile – while large and different – will not be a big enough impetus to trigger change in the system on its own. They also doubt recent "disruptors" targeting millennial members through social channels and simpler product options can reshape an essentially government-controlled system, and that it would likely take the big-name funds to have large-scale impact and force significant change.



"The only good news is we can only get better – maybe it will be the impetus and maybe the disruptors would actually come from the incumbents."

"We are guilty of this ourselves. We still ask our members to fill our pages and pages of paper as an application form – why? But we still do".

"I think there is distrust for super. Lock away the money till the government lets you access (their decision). You don't know how long you will live for, whether the framework and regulations in which you decided to invest will be tinkered with and likely in a way that is not in your interest."

Source: *Keating's super meets the digital natives,* Mercer 2018

CONCLUSION

Through this report, it's clear that businesses want to build secure futures for employees and members. In fact, they see the growing need for a new superannuation system to cater for the next generation.

As one of Australia's largest superannuation providers, Mercer sees this change as the opportunity to break away from an outdated system. Using analysis and insights as a catalyst for change, Mercer is proactively working with industry and clients to be the vanguard for change and help shape the future of superannuation.

We believe this report is an important first step in building a new superannuation system to benefit generations to come.

Go to **mercer.com.au/NextGenSuper** to learn more.

ABOUT MERCER

In a competitive landscape that is subject to ongoing reform, superannuation funds need to continually evolve to meet the expectations of a data-driven workforce becoming increasingly reliant on technology, and be able to engage, grow and retain their membership better than those around them.

We take a partnership approach to doing business, designing solutions that are tailored to a fund's specific needs, including:

- Products to help small and midsize super funds reduce costs, increase efficiency and deliver member outcomes, growth and fund sustainability
- A total administration and investment outsourcing solution that helps funds take charge of their member services without having to manage the infrastructure
- Fund-branded total outsourcing solutions that allow funds to maintain their identity and actively communicate with their members
- Simplification strategies that can improve cashflow, increase retention and improve business performance

At Mercer, we're the global independent that specialises in creating highly personalised retirement journeys that maximise financial outcomes for individual members.

For funds, this means outsourcing as much or as little as they need to create cost efficiencies, more product and advice options, more investment options, less cost, less hassle and less compliance headache, and experienced support from one of Australia's longest-serving superannuation specialist.

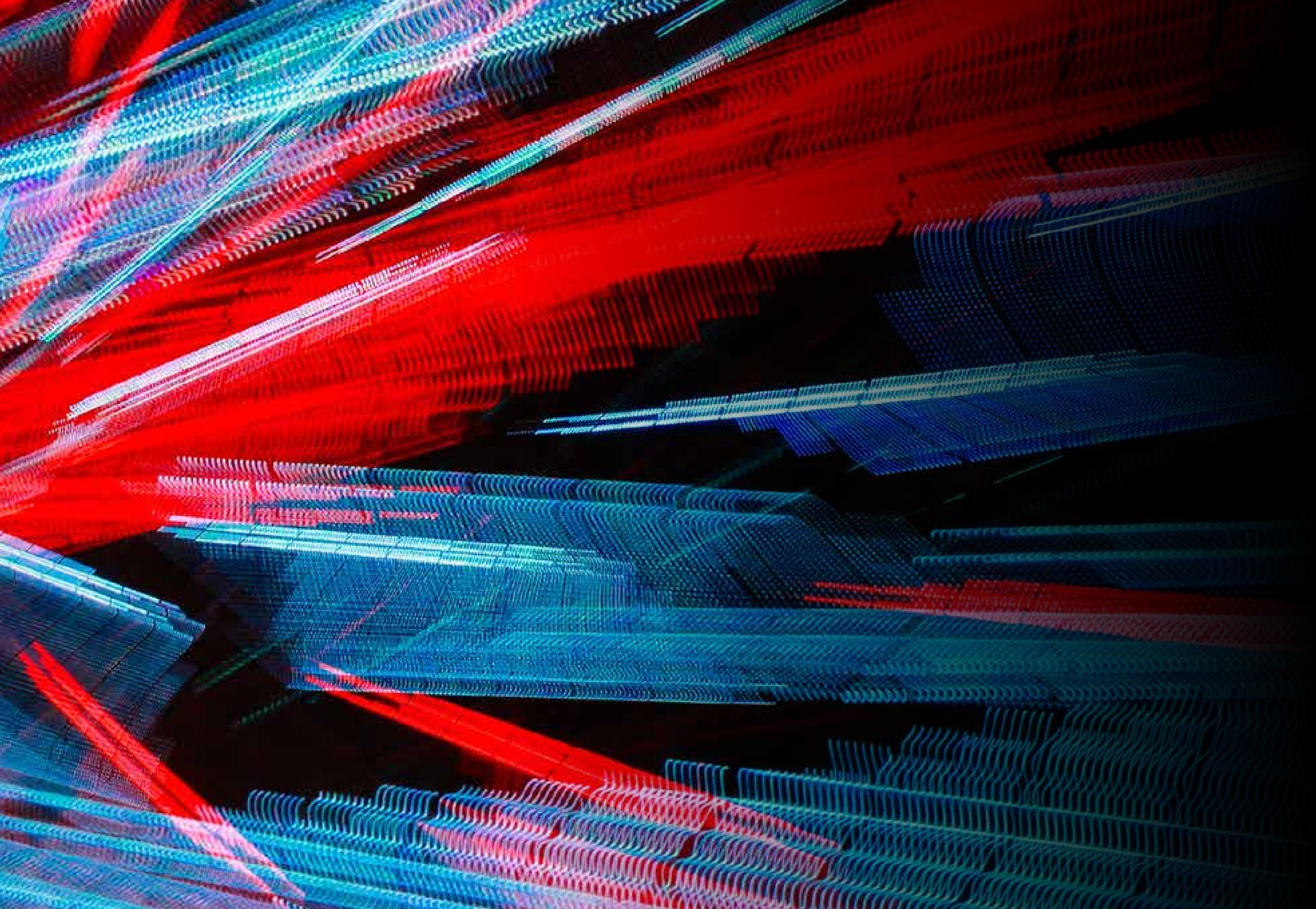
We are proud to provide people-focused administration, investment and customer experiences for many of Australia's largest super funds and stand ready to work with the industry to provide the right solutions for tomorrow.

SURVEY METHODOLOGY

This survey comprised both an online survey of 80 executives across a range of industries, as well as in-depth interviews with seven business leaders. Participating organisations included a mix of privately and publicly-owned businesses, government agencies, and non-profit and NGOs, with labour forces ranging from several employees to more than 10,000 staff.

To better gauge the evolution of workforce trends, participants were asked to consider labour force configurations across the past 30 years to the present, and forecast continued areas of change in their businesses, as well as reflect on employee attitudes to superannuation and retirement planning. The one-on-one interviews comprised in-depth analysis of business leaders' opinions on the structure of the compulsory superannuation system, possible pressure points and considerations as to if and how the system could be restructured to better reflect the needs of their current and future labour force.

The quantitative and qualitative responses form the basis of this report, drawing on a wide range of expertise and experience to provide valuable insights to help shape the next generation of super. Qualitative interviews provide a deeper understanding of issues and allows for exploration of the key areas of interest, while also enabling new issues to be uncovered. However, given the number of participants can be limited, a quantitative survey provides the opportunity to provide more robust coverage to test and validate hypothesis with more rigour, which can be (within reason) generalised to the market.



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