



Media release

28 March 2007

Plum applauds ASFA submission as Escalator Program gets underway

Plum Financial Services (Plum) has welcomed an ASFA submission encouraging Australians to contribute more to super, following Plum's survey results indicating most Australians know they need to save more for a comfortable retirement... but are not taking action!

The Association of Superannuation Funds of Australia (ASFA) is calling on the Federal Government to compel employers to adopt an 'opt out' style of program that automatically increases voluntary contributions for employees – a similar initiative to Plum's Escalator Program launched for the first time in Australia in August 2006.

Plum's Managing Director Mike Fitzsimons said he is pleased ASFA has made the submission, as Plum's pilot Escalator Program results, and the US experience of a similar program, have shown is a very effective way for members to increase their savings – something Plum's 2006 Super Fitness Survey indicated Australians felt they needed

'According to the results of Plum's 2006 Super Fitness Survey, 80% of Australians think the Super Guarantee (SG) alone is not enough to retire on and although they understand they need to put more in to super they just never get around to doing it,' Mr Fitzsimons said.

'By introducing the Escalator Program, we taking action for our members to help them get what they want.'

'I think this is a great recommendation from ASFA and I would be delighted if the whole industry went this way.'

The ASFA submission suggests it should be compulsory for all employers to automatically increase an employee's own voluntary super contributions by a small percentage whenever they receive a pay rise – only giving employees the opportunity to 'opt out' of the arrangements rather than 'opt in'.

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‘Plum’s pilot Escalator Program looked at an opt in arrangement, which had a response rate of six per cent of members taking up the program. The experience in the US under an opt out arrangement showed only 17% actually opted out – that means 83% of members ended up saving more. As a result over the long term they will have more retirement savings and therefore be less likely to be short of their retirement goals,’ Mr Fitzsimons said.

The Escalator Program and ASFA’s submission are based on behavioural finance theory – both Plum and ASFA’s research indicates employees are less likely to make a choice to increase contributions but when it is automatic, they are quite happy to continue with it.

‘By automatically increasing an employee’s contribution in-line with remuneration reviews we can help overcome the member’s inertia to savings without them seeing a reduction in take home pay,’ Mr Fitzsimons said.

‘That means they are more likely to keep the contributions at that higher level and therefore have more savings for retirement.’

As a result of the successful trials the Escalator Program is now being offered to all Plum clients and the first full rollout will occur in April.

A copy of ASFA’s submission can be found on its website at <http://www.superannuation.asn.au/Submissions/default.aspx> under its January 2007 submissions and is titled “Pre-Budget Submission for the 2007-08 Federal Budget”.

Plum’s November media releases with further details of the Escalator Program can be found on the Plum website at https://www.plumfs.com.au/plum_news_stepupsuper.asp.

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Further information:

For more information, photos or an interview with Mike Fitzsimons please contact:

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About Plum

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Plum Financial Services Limited ABN 35 081 812 731 AFSL 243356, a wholly owned subsidiary of MLC Limited, provides integrated superannuation solutions for medium to large Australian corporations. Purpose-built for the era of member investment choice, Plum's philosophy is about providing members with a meaningful education experience to help build their knowledge and understanding of superannuation so that they are empowered to manage their financial future.

One of Australia's fastest growing corporate superannuation providers, Plum now administers more than \$8 billion of committed assets for 82 clients and approximately 125,000 members. More information about Plum is available at www.plum.com.au.

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Escalator Program quick facts

- The Program is based on a proven initiative called SmarT (Save More for Tomorrow) designed in the US by behavioural finance researchers Professor Shlomo Benartzi from UCLA and Professor Richard Thaler from the University of Chicago. The Program is also offered by Vanguard in the US and is called 'One Step Save'.
- Employers can choose an 'opt in' arrangement – where employees must request to sign up to the program, or an 'opt out' arrangement, where all employees are automatically signed up to the program but can withdraw or 'opt out' from the program.
- Plum trials used an 'opt in' arrangement, however US trials have shown an 'opt out' arrangement are typically more successful in encouraging increased contributions through overcoming the inertia of the employees.
- Under both arrangements, Plum works with employers to develop the program's details such as the date contributions will be increased each year, the most appropriate communication strategy and how the payroll data will be updated.
- Employee contributions are usually increased annually in-line with each employer's remuneration review.
- Employees can choose to increase their contributions in increments of 1%, 2% or 3% of salary each year.
- Contribution increases will continue until they reach 15% of the employees' wage, including the Super Guarantee. That means depending on the employer contribution levels an employee will only ever contribute an additional 6% under the program.
- If an employer offers the 'opt out' facility, Plum will work with the employer to design a communications program that provides regular contact with all employees. This would ensure that the range of communication mediums is able to reach all employees and that members are in no doubt that participation in the Program is not mandatory and they can cancel their participation at any time.

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Further information about behavioural finance

Further information about behavioural finance and the principles upon which The Escalator Program is based, can be accessed from Professor Shlomo Benartzi's page on the UCLA website. This provides access to a number of papers published by Professor Benartzi. The address is www.anderson.ucla.edu/x5515.xml

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