

# Finances & the Under 40's:

A Research report on Generation X and their views on Superannuation



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## executive summary

### In summary:

1. Generation Xers were happy to have the opportunity to discuss their views on superannuation.
2. They recognise superannuation as a necessary and valued part of their life.
3. They feel it is a system in change and not without fault. They have some frustrations based on their experiences, and in various areas of the industry.
4. They are self aware of their financial weaknesses and expressed clear priorities.
5. Three financial motivations were apparent above others and flow from their outlook on life.
6. They feel that organisations in general market to a Gen X stereotype rather than to the real individuals. They have clear ideas on how communication from superannuation companies can be improved.



## 2 background

### 2.1 The Brief

Mark McCrindle was commissioned to conduct research into the attitudes and behaviours of young people regarding superannuation. It was recognised that both superannuation, and the demographics of those with superannuation funds, have undergone much change over the last decade. However there is very little information of the attitudes, frustrations, priorities and motivations of young people in regard to finances, and superannuation. Therefore this qualitative research project was undertaken.

### 2.2 Who comprise the new generations?

Generation X are those from their late 20's to their early 40's. Generation Y are the generation moving into and through their 20's. This study focussed on the working age younger adults and so covers both these generations.

description	born	Age	Pop'n (mill)	(% of Pop'n)
Builders	Before 1946	61+	3.5m	17%
Boomers	1946 –1964	42 – 60	5.3m	26%
Generation X	1965 –1979	27 – 41	4.4m	21.5%
<b>Generation Y</b>	<b>1980 –1994</b>	<b>12 - 26</b>	<b>4.2m</b>	<b>20.5%</b>
Generation Z	1995 – 2009	Under 12	3.1m	15%

ABS Population Pyramid 2006 & McCrindle Research Study 2006

### 2.3 What makes the new generations so important?

#### Enormous:

While it is clear that the Baby Boomers were the largest generation ever this is changing as they age and the population table above shows that the combined generations X & Y are a massive cohort. In addition they have a longer life expectancy than previous generations: today "boys are expected to live to 77.4 years, and girls to 82.6 years. A century ago it was 55.2 years and 58.8 years respectively" (The Age, 23/6/2004 p8). In 2042 it is projected to be 82.5 and 87.5 (Intergenerational Report, 2003). As a result, our median age has been rising, from 32 in the 1991 Census, to 35 in the 2001 census (www.abs.gov.au).

#### Earnings:

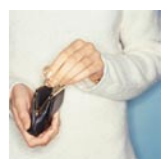
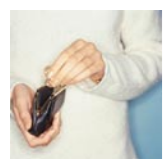
Generation X because of their life stage has the highest labour force participation rate of any cohort in society.

Over the last decade this generation has moved out of school and tertiary education and into the labour force. While Gen Xers have not yet reached their peak income earning years, they are still earning salaries and thus contributing to superannuation.

The superannuation industry is undergoing massive growth however the growth over subsequent decades is expected to accelerate even more due to the Gen X and Y factor. For the first time we have a generation with superannuation from their first day of working life, and so with 9% (with many forecasting a rise beyond 15% over the next few decades) of their salary being invested, for the next 40 to 50 years, this generation is now a priority for the industry.

#### Education:

With the highest ever school retention rate to Year 12 approaching 80% (ABS 2005 Schools Australia 4221.0) and with a significant number completing some form of post-secondary study, we now have the most educated generation ever. However of more relevance to business is the consumer education and empowerment this generation possesses. They are streetwise, and savvy consumers with high expectations and little brand or company loyalty. Therefore hype won't cut it with the informed youth of today. A deeper level of understanding of their needs and values, and greater sophistication in engaging them must be utilised if they are to be reached.



# 3 findings

## 1.1 How are they different from other generations?

Summary table:

	Builders Generation	Baby Boomers	Generations X & Y
	Born before WWII Aged 60's & 70's	Born 1946-1964 Aged 40's & 50's	Born since 1965 20's & 30's
Financial Values	Absolutes Security Work ethic	Some absolutes Variety Freedom	Few absolutes Variety Fun
Motivations	Country Advancement Responsible	Individuality Achievement Relatable	Own-community Self-discovery Relational
Decision Making	Authorities Reputations Brand-loyal	Experts Information Brand-switchers	Friends Anecdotes Little brand loyalty
Earning & Spending	Conservative-savers Long-term needs Pay up front	Confident- investors Medium-term goals Credit-savvy	Uncertain-spenders Short-term wants Credit-dependent
Learning Styles	Auditory Content-driven Monologue	Auditory/Visual Analysis-focussed Dialogue	Visual/Kinaesthetic Narrative/ Metaphors Multi-sensory
Marketing & Communication	Prescriptive Mass Above the line	Descriptive Direct Below the line	Participative Viral Through their friends
Training environment	Classroom style Formal Quiet atmosphere	Round-table style Planned Relaxed ambience	Unstructured Spontaneous Interactive
Management & Leadership	Control Authority Analysers	Cooperation Competency Doers	Consensus Creativity Feelers

## 1.2 Overall impressions of the superannuation industry

This generation have only known superannuation as part of their working life. They don't question its existence, and are in fact supportive and pleased with its existence in their lives. It acts as imposed self-discipline and financial conservatism that they are surprisingly relaxed about. They know their weaknesses of living too much for the now, and so they like the imposed support that superannuation is. However they rely on it and expect that in its current form it will look after them, just as they rely unquestioningly on workers' compensation, seat belts, and guardrails in this protective society. Therefore they take little ownership of their financial future, and are aware of some of the weaknesses with superannuation, but because of its low priority in their lives they are not overly provoked by them.

## 3.3 What are their attitudes to superannuation funds?

As expected, participants thought very little about their retirement and so placed a low priority on superannuation.

**Participant P3** **“\$100 today means a lot more to me than the promise of \$100 years from now.”**

**Participant P5** **“ Do the maths, retirement for me is 2 lifetimes away.”**

### Preference:

There was a strong acknowledgement that saving was important. It was something that they needed to do. They realised that to be financially secure later in life and upon retirement they should put money away now. They also saw the benefit of compounding interest. However there was a big gap between this realisation, and the motivation to take action.

**Participant P1** **“Saving, and super and stuff is what you should do but you don't really see the benefit of it now. It's like eating healthy and that- there's heaps of things you are supposed to do but who does. Other things are more important right now”**

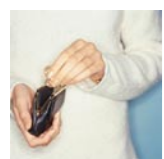
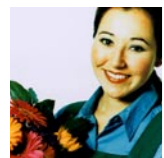
Most of the participants also held these same conflicting ideas: that saving now for retirement is important, but they don't want to do it. For young people today decisions are not made on the basis of facts and truth, but preference.

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**Participant P9**

**“Retirement is a long way off. I’m not going to add any extra. I’ll find a way to be OK by then.”**

They have grown up in a world where their parents’ generation have constantly thrown out advice as slogans: “Click clack front and back...Don’t drink and drive...Slip, slop, slap... Swim between the flags...” They know these mantras are for their own good. They know there is truth to them. However with Xers, what is preferred is done. While every participant knew the benefits of superannuation, and the wisdom of voluntary contributions, not one was, or would do it because while it was true in their head, it was not in their heart. The arguments they have heard have not been convincing enough for them to take action. And the battle is not won with more data, but by altering their preference- to change it from a “should do” to a “want to”.

**Pragmatism:**

Their attitude was very pragmatic. They had no idealism regarding their financial future.

**Participant P5**

**“Things will get tough for us financially, I know that. But we will get by. We’ll do what we have to get by.”**

There was a feeling that if finances are tight in their future, they will then take the necessary action. However they don’t want to take immediate financial pain for the promise of long-term gain. This pragmatic attitude to finances and life is added to by the fact that money is not the primary driving force in their lives.

**Participant P18**

**“Money is important sure, but it is a means to an end... you’ve got to have it because it is how our world works.”**

**Community:**

A third attitude that came through strongly was the focus on their own cohort’s experiences. Regularly participants would tell of their friends’ experiences. These experiences shared by friends strongly shaped the participants own perceptions and decisions.

**Participant P9**

**“It was my workmate who answered my questions about how I wanted the money invested. I had no real idea”**

While being well educated through the formal education system, and pretty savvy as customers in the marketplace, their financial education was lacking, and they knew it. They didn’t feel knowledgeable enough to make independent decisions and they felt no stigma asking friends. Community is very strong amongst this generation and even traditionally private issues like personal finances are up for discussion amongst Xers. The participants were remarkably well informed about some of their friends’ superannuation issues.

**3.4 What most frustrates them with superannuation?**

This area of the interviews invariably got strong responses. Superannuation rarely made it onto the radar screen of their lives, illustrated by the finding that only 1 participant had endeavoured to check out his fund’s website. However there were many frustrations regarding super – most of them directed at the system rather than their particular fund.

In analysing the interview transcripts we found their frustrations could be categorised into 9 areas. Here we look at the top 5:

## 1. Practicality:

The young people interviewed wanted practical benefits from contributing to superannuation and they felt they got none. They understand its entire purpose is for retirement however they still wanted practical outcomes in their current situations.

**Participant P15**

**“I’m buying a house soon and I need money now. I know I’ll need money when I’m old but I need it now too – why is then more important than now?”**

**Participant P4**

**“40 years is a long time to stay with the one company. They’ll need to make it worth my while.”**

When asked what practical benefits could be provided by funds there were various ideas from discounts on other financial products, more financial education whether it be in the form of easily followed booklets or seminars, even the suggestion of movie tickets. This generation live an economy where loyalty to a company is rewarded by discounts or loyalty programs of numerous forms. They are not altruistic and will take their business to where they are best understood, and provided for.

## 2. Accessibility:

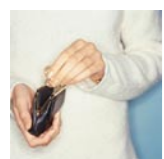
The general consensus was that information on their account and their fund was infrequent, hard to understand, and difficult to access. Every participant had internet access although only 1 had accessed their fund’s website. Web access to their account details was an essential but it had to be kept at the front of their mind.

**Participant P1**

**“I definitely would suss it out if I knew their web address. Maybe I have it already but it’s never been promoted.”**

However online access was not the only form mentioned. Being able to email questions, phone support (“I like 1800 numbers”), seminars, and printed material were all mentioned. It is not just access to information they want, but access to relevant and understandable information.



**Participant P22**

**“They send me statements and brochures but it doesn't mean much to me.”**

**3. Flexibility**

This is the generation that does not expect and will not have long term jobs in the one industry. It is a time and a generation of contracting, short-term jobs, and work across different industries. Employment structures have changed: today 30% of Australia's workforce are employed on a casual basis (ATO Environmental Tax Scan 2006) and the industries highly represented here (hospitality, travel, tourism, clerical, call centres etc) have a high representation of Under 30's. Therefore flexibility in being able to transfer superannuation across jobs, and industries is essential- and the ease of transfer is critical.

**Participant P7**

**“I have a few superannuation accounts and I can't even tell you exactly who with and how many. I looked into combining them but there was lots of paperwork involved.”**

It is an entrepreneurial generation and Gen Xers, and even more Gen Y's are the most likely of any cohort in history to start their own business. Therefore the flexibility needs to exist for ease of transfer between funds, and the ability to pay into their current fund if they self employ.

**4. Transparency**

As noted earlier there exists amongst this generation a mistrust of the system. They feel ill informed about the rules and policies, which govern superannuation. They expressed a lack of understanding of their employer's role in making contributions, and a (correct) perception that there were constant changes to the system, although they generally couldn't name specific changes.

**Participant P8**

**“ I have to say I don't understand how it all works, and it seems to be changing a lot.”**

They wanted more transparency in the reporting of performance results and especially comparisons between funds managers on their results. Gen Xers understandably compared superannuation to the other prominent financial product on their radar: home loans. They appreciated the constant reporting of home loan rates and comparisons but found superannuation compared poorly.

**Participant P21**

**“I see home loan charts in every paper I look at but never know how my super is going compared to others.”**

To what extent young people will actually read comparisons of fund managers' performance remains to be seen, however it is clear that they perceive there is a lack of transparency in the industry at both a policy level, and a company level.

**5. Security**

Those surveyed were (with a few exceptions) unaware of the investment choice they had selected. Discussions showed they were certainly not risk averse and so financial security was not a great concern to them. After all, many hardly even considered the money to be their own.

**Participant P15**

**“ I know it gets paid in and it is mine but I can't get it for decades and can't even imagine the day I will get it so it's doesn't seem (mine).”**

However they were insecure about the system. Comments about the “goal posts being moved”, the age at which their funds could be accessed, changes about whether they could receive a lump sum were common. They have grown up in an age with constant legislative and rule changes such as what is required to get a driver's licence, admission to university, even how tax is paid. They believe that superannuation will be no different.

**Participant P25**

**“ I've heard about lots of changes and I'm sure there are many more to come.”**

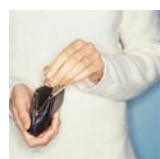
The other categories of frustrations had to do with:

**Procedural issues** (job ads and employers not distinguishing between salary and package including super, having to fill in forms and contracts on the first day of a job without adequate information etc).

**Numerous accounts** (they had lost track of previous superannuation accounts, difficulty in combining accounts etc).

**Choice constraints** (wanting to choose their own superannuation rather than have it set by the employer or industry).

**Legislation complaints** (various issues regarding the government's motives in superannuation, as an income earner and pension saver rather than to help retirees).



### 3.5 What are their top priorities with financial products?

#### Immediate Needs:

All of the financial discussions with Xers focussed on immediate or medium term needs. Saving was a part of their daily reality but only to achieve a real outcome (buying a car, moving out of home etc). Saving for “the future” or “retirement” while acknowledging the wisdom of it, was not actualised because they were so far off they lacked realism.

**Participant P17** “ It is a case of step by step- I’ll get there (long term financial security) but there are other needs before then.”

Any financial products that can meet immediate needs and goals while having long-term savings benefits will succeed. Some immediate needs like financial education, financial security, and achieving financial goals can be well met through superannuation contributions. However those interviewed saw no connection between superannuation and their current life.

**Participant P12** “ Being an old retiree seems like another life, another person. I know logically it will be me but I can’t imagine it.”

While there is only cognitive recognition of the need to plan for the future, little action will be taken to prepare for it. The fact is that by saving now they are doing themselves a massive favour- that it is one linear life, one journey, and they will be no exception to the rules of aging, and retirement. So this is a message that needs to be communicated to them, and at a much deeper level.

#### Identity:

Being able to identify with the superannuation product, and the company providing it is important. This demographic is buying products that suit their lifestyle, attitude, and outlook, and they are buying from companies who understand them. The language, image, and approach used by the financial industry have little in common with today’s youth. If given the choice young people will do business with those who resonate with what they are about.

**Participant P1** “ I’m not into the stuff they send me. It’s pretty irrelevant to me.”

**Participant P16** “ It is boring stuff. Some mail you look forward to getting, and some stuff like bank statements and this (superannuation fund communications) is boring. Even junk mail is interesting...”

No surprises here however statements from mobile phone companies were not met with the same degree of disinterest. Also a number of those interviewed mentioned that they are “into junk mail” which is totally unsolicited but deemed interesting thus to some extent they can identify with it.

#### Framework:

Thirdly the Gen Xers wanted, in their pragmatic style, a financial organisation that sets a framework for them to accomplish their financial goals. They want to be effectively guided by professionals towards a positive outcome. They don’t want unguided freedom, or unlimited choices. Too many choices for them are as bad as too few. They want to be in a system that works to their advantage and helps them achieve their goals. This is one benefit expressed by many in home loans- it would force them to save. Home loans provided a framework whereby they were forced in the short term to make payments that would bring about a long-term beneficial financial outcome. This framework is provided by the superannuation industry too.

**Participant P19** “ I think it is good that I’m forced to have some of my earnings go into super.”

### 3.6 What motivates them financially?

#### Authenticity:

The overall response to this question is that they are turned off and tuned out to hype. This isn’t soft drink or fashion but a product on which their future financial position depends. They’ve heard all the lines, and they easily detect marketing-ese. With finances they want to stay clear of fads instead searching for stability and most importantly authenticity.

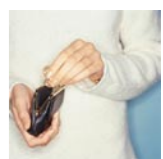
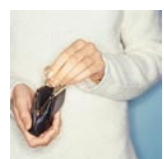
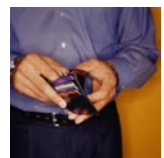
The big names don’t attract them. Sticking to the big names or relying on authority figures served their grandparents well- but not Xers. What counts more is candour and perceived reliability. Loyalty can be shown by this generation but not to a brand or a company- but to a person who represents the company well. Such trust is earned.

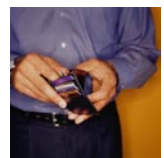
**Participant P11** “ I need to know that they are true to what they are on about. I’ll stick with them (the superannuation fund) for sure but they have to be real. I like straight answers and simple explanations.”

#### Outcomes:

As found in previous questions, they are motivated by outcomes. They want to know what the results of their inputs will be. They want to see a compelling case of the benefit of extra contributions in terms of outcomes. Most stated they knew the benefits of saving early, and compounding interest, but had not seen a case study or simple presentation of it. This generation have a practical perspective and want to see with their own eyes what their own situation will turn out like- or could turn out like based on their choices now.

**Participant P2** “ ...I’m a little in the dark about how I’ll end up financially on my current plan. ...actually I have no idea...”





### Life Balance:

Nearly all of their decisions are based on what will work for them now. What motivates them in choices is life balance- they want it all. Finances simply provide the means to live with independence, style, adventure, or whatever they are chasing. Their net worth is not an amount they know or care about in its own right. Their money funds their lifestyle.

To this end they will choose jobs that pay less but give a better quality of life. Indeed a Manpower Inc study of call centre workers, 80% of whom are Gen Xers found that "salary ranks sixth in the factors considered important when deciding to accept a job...Training, management style, work schedule, employee activities, and benefits all come before wages for Australian call centre staff"

The same motivations guide their investment decisions.

### 3.7 How can superannuation funds best communicate with them?

When talking to Xers about marketing, or other communication materials they receive, their focus is more on the presentation, style, and tone, than on its content. Participants could recall little of the information they had ever received, but could give an overall response to the feel, and their perception of it. Obviously the format they use predominantly in their own communication to peers is electronic. Whether it is via email, ICQ, online chat, or SMS messaging from their mobile, instant electronic messaging is the lifeblood of their relationships. However this is not its sum total. They want phone access, face-to-face explanations via seminars, and printed material. Peers influence most of their decisions, and peer feedback spreads virally – from one Xer to another. This word-of-mouth communication is very effective amongst this generation of connected friends.

#### Real:

Other key features of ideal communication from companies were that it had to be real. As discussed earlier, it is a hype averse generation. It had to be real or true in its content, but also in its style. If it was in a format or tone they couldn't relate too, it would little impact.

#### Raw:

They wanted raw information. Over-manufactured marketing, and slick, glossy brochures got the thumbs down. They want material that is fresh, for them, and very now.

#### Relational:

As a very relationally focussed cohort, they want communications to be relational also. They don't want to be told what to do as much as have it demonstrated – ideally through anecdotes, or examples from their own cohort. They can relate to the story of another 20-something, and this motivates them.

#### Responsive:

Their communication style is not one way but responsive so this is key in any company material. They want to be engaged, and to be able to respond, or to have their specific issues addressed.

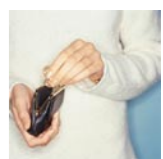
#### Participant P1

**" I have a few superannuation accounts and I can't even tell you exactly who with and how many. I looked into combining them but there was lots of paperwork involved."**

## 4 conclusions and future studies

In summary it is suggested that:

1. The concerns raised by this generation who enjoy enacting their consumer sovereignty by changing brands/businesses be further studied and addressed.
2. Projections be worked out regarding the likely financial state of this generation based on current contributions, bearing in mind they are averse to voluntary contributions and this behaviour is unlikely to voluntarily change.
3. Existing products and principles be fine tuned to meet the felt needs rather than the real needs of Gen X.
4. Communications be road tested by the end users themselves. Rather than design materials for them, design it with them.
5. Generation X, who over the next 2 or 3 decades will hold the majority of superannuation funds, be consulted at fund, industry, and government levels to allow ownership and involvement in what is their financial future.
6. Studies be conducted to find differing behaviours and financial attitudes with non-urban young people, and younger, school age Generation Y.



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## about the author

### **Mark McCrindle, Social Researcher** MA, BSc. (Psychology), QPMR



Mark McCrindle was trained as a Psychologist and his research into the different generations is recognised internationally. Mark is a Qualified Practising Market Researcher (QPMR), and so has his finger on the pulse of today's generations. Organisations commission Mark to conduct research and then speak or consult with them to help them better understand and engage with the ever-changing market and employment segments.

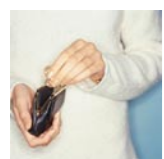
Mark graduated from the University of NSW with a BSc (Psychology), and he has completed a Masters degree majoring in Social Trends. He is the Director of the social research agency McCrindle Research Pty Ltd, which specialises in social and generational research across the Asia Pacific.

Some of his recent clients include: Toshiba, Westpac, AMP, Commonwealth Bank, David Jones, Alcan, Cadbury Schweppes, Mercedes Benz, Toyota, Red Rooster, American Express, State Street, Flight Centre, Scania, AXA, Mirvac, Wesfarmers, LG, St George Bank, Fairfax, ANZ, Accor, MLC, Esanda, Komatsu, Woodside, ExxonMobil, Tyco, BlueScope Steel, Hudson, Telstra, Optus and NAB.

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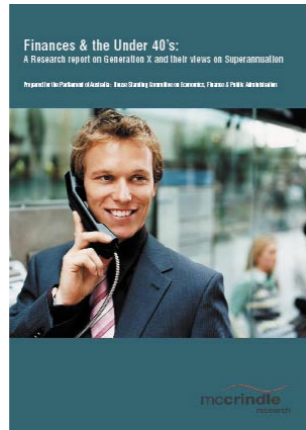


## more resources

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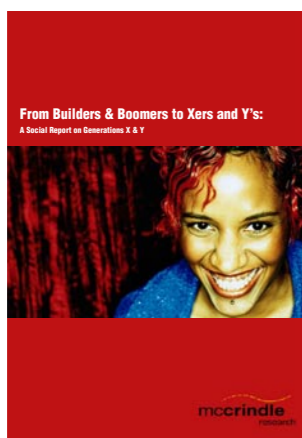
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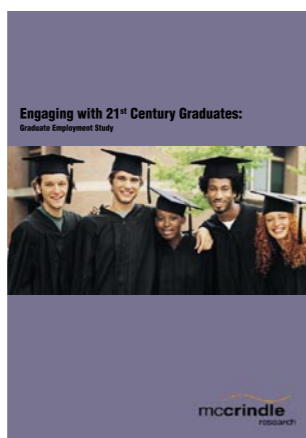
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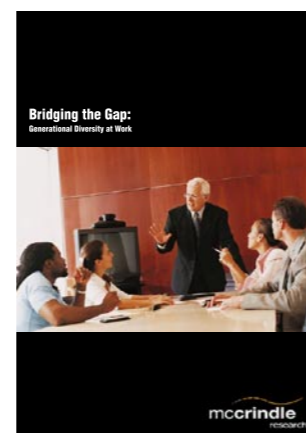
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6



- 1 Seriously Cool: Marketing & Communicating with the Diverse Generations
- 2 Finances for the Under 40s
- 3 New Generations At Work - Recruiting & Training Gen Y
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