Getting Australian workers to save more in order to become more self-reliant in retirement is a policy idea most people understand.

Over time there is increasing pressure on government funding of the age pension. In 2013-14, around 70% of Age Pension eligible Australians were receiving the pension, with 60% receiving the full-rate pension. At the same time, age pension costs are projected to increase from 2.9% of GDP in 2014-15 to 3.6% of GDP in 2054-55. This is significant cost to the Australian economy.

The problem is governments can't easily ensure people save more, and legislating to make it happen is not the right approach. Different incentives to change behaviour may be a better starting point.

## Problems with the forced approach

One way to force people to save more is by increasing the Superannuation Guarantee. The guarantee was scheduled to increase to 12% of salary in 2022, although this has been delayed by the current Coalition government for a further three years.

While policies and incentives are important to get people to save more, there is a concern that people take advantage of such policies, using the superannuation system as a vehicle for wealth creation. Where do we draw the line between helping average workers save more and deterring people from abusing the system?

Rather than more legislation , we could turn to behavioural nudges to help increase household savings. This could potentially help encourage people to save more without resorting to more legislation in an already extremely legislated sector.

## Use plain English and stop tinkering with superannuation

To start with, the various aspects of superannuation need to be communicated in plain simple English.

Many of us are not clear on what is meant by concessional contributions, salary sacrifice, employer compulsory contributions and the like. As columnist Sally Patten argues , someone visiting Australia might be forgiven for thinking they were in a non-English speaking country when asking questions about our super system.

"If you want to encourage someone to do something, make it easy", was the sage advice of Richard Thaler, one of the founding fathers of behavioural economics.

Instead our superannuation regime seeks to encourage savings within a complicated retirement savings system. Given people are putting away money they may not have access to for decades, less tinkering with superannuation policies would help build greater trust in the system.

Constant uncertainty regarding superannuation taxation, negative gearing, concessional contributions, purchasing a first home with superannuation funds, etc. undermines trust in the system. Why sacrifice today into a system where you have little certainty regarding your entitlements in the future?

## Income is the goal

If retirement income is the goal of superannuation (which is yet to be defined and enshrined into legislation), then rather than talk about a pot of wealth, let's talk about incomes.

It is great to send out statements informing people of their superannuation balances; it makes everyone feel good especially if their balances are high enough. But showing the annual income that could be derived from this balance, is likely to be a stronger motivator.

This is not rocket science; it's easier to compare current income with future income than figure that out from a wealth balance. If my superannuation balance today yields an average return of 6% per year for the next 10 years, my projected income will be A$30,000 per year (with all the assumptions in place). Is my future self happy with a A$30,000 pa income? If the answer is no, then I might take proactive steps to save more, work longer, or take a different investment strategy. A simple image of our future self is enough to motivate savings for many people.

## Keeping up with the Joneses

Research shows we compare ourselves to our neighbours as a benchmark for social or economic status. As humans, we are preoccupied with our position relative to others around us. In today's world, this may come in the form of houses, cars and material possessions. Psychologists refer to these items as "wealth signals" and these are hard to avoid.

Knowing we are outperforming another person positively affects reward related brain areas, according to research by German economists.

Humans get some form of gratification by keeping up with the herd or doing better. This may not necessarily be in line with traditional economics models where one's satisfaction or preferences are unaffected by others people's preferences.

While our human instinct to keep up with others may be flawed in some ways, there are several ways to influence behaviour with this phenomenon. For example, when I receive my energy bill every quarter, I'm told how much energy I have used relative to other homes in my area. This simple benchmark provides a nudge to consume less, if I am using more than the average household of a similar size. I begin to think of ways to reduce consumption.

On the other hand, it's always a good feeling to know I'm spending less than the average household of similar size; a smart user, saving the planet. If only my superannuation statement gave me an idea of where I stood relative to the "average" person in my industry, my postcode or age group, I bet I wouldn't need legislation to make a decision to save more to keep up.

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*Osei will be on hand for an Author Q&A between 2 and 3pm AEST on Thursday, April 7, 2016. Post your questions in the comments section below.*

*Osei K. Wiafe does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations* *beyond the academic appointment above.*

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