

## Financial Preparedness for Life Events: Looking Beyond Superannuation

*Abacus, the industry body for the Australian mutual financial services sector, and the Australian Centre for Financial Studies (ACFS) have released the research report, "Private Saving: The Role of Life Event Products" on behalf of the Friendly Societies of Australia.*

Households often have inadequate savings and insurance to cover even the most common and predictable of possible life events such as education, health, housing, and retirement each of which may have a major financial impact and for which they have not adequately provisioned. The ACFS report notes that this lack of financial preparedness is not merely income-based but reflects inadequate information and behavioural biases which are sometimes reinforced by well-meaning Government regulation.

"In recent times we in Australia have had a laudable focus on superannuation, which is a great way to save for retirement, but there are other life cycle events which we also need to prepare for, such as ill health and the education of children" said ACFS Director and report co-author Professor Deborah Ralston.

"A mix of other products - some of which do not currently enjoy the same sort of tax incentives as superannuation - are worthy inclusions in a robust and sustainable portfolio" said Professor Ralston.

The report notes that "the tax incentives given for superannuation may have impeded the development and growth of other financial products well suited for non-retirement life event preparation." Long-established life cycle savings products offered by Australian Friendly Societies do not enjoy the same tax-incentives as superannuation. According to the report, these existing "products have the potential to raise private savings levels and assist individuals to prepare for life cycle events without the need for complex and on-going financial advice."

Louise Petschler, CEO of Abacus Australian Mutuals, commended the research and encouraged individuals and their financial advisors to look at the various forms of friendly society insurance bonds as a straight-forward way of saving for expected future events such as children's education, aged-care accommodation and funerals as well as for supplementing other savings.

"Friendly society bonds are a great tool to help secure your financial future," said Ms Petschler.

"Encouraging short to medium-term savings is the good way to build a savings culture in Australia, and will have positive flow on effects to longer term financial goals.

"Friendly society products can help households save for the practical life challenges of most Australians - educating your kids, safeguarding your family's health and boosting housing affordability for first home buyers," said Ms Petschler.

The report authors encourage Government to strengthen incentives to use insurance bonds for delivery of targeted social benefits and to encourage financial literacy and personal financial responsibility. "Australian policy makers have failed to appreciate the opportunity that life event savings schemes offer, ... as a consequence, such products receive far less favourable tax treatment in Australia", than in other leading markets, said the report.

Report co-author and ACFS Research Director Prof Kevin Davis stated that "with insurance bonds tax concessions, or government co-contributions, can be provided effectively and without complexity". He noted that the sector was prudentially supervised by the Australian Prudential Regulatory Authority (APRA) and that the long-term nature of the modern insurance bond contract enables risk reduction benefits from "time diversification".

Copies of the report are available from the ACFS website [www.australiancentre.com.au](http://www.australiancentre.com.au) and the Abacus website: [www.abacus.org.au](http://www.abacus.org.au).

#### **About Abacus – Australian Mutuals**

Abacus - Australian Mutuals is the industry body for the Australian mutual financial services sector, a strong alliance of mutual building societies, credit unions and friendly societies.

The mutual sector has combined assets of some \$83 billion, offering Australians a competitive alternative to banks and access to a range of savings, investment, loan and insurance products. Unlike banks, profits are not paid to external shareholders, but put back into better products and services for the over 5.5 million members (customers) and their communities.

As the official industry body, Abacus delivers a strong, united and clear voice for the mutual financial services sector as it brings together the strength and professionalism of its 128 member institutions. All are united in that they are all mutual organisations and have closely aligned values, including: cooperation, trust, integrity, care for members, professionalism and ethical practice.

Abacus is owned by its member institutions: 108 credit unions and mutual building societies and represents 18 friendly societies through the Friendly Societies of Australia.

#### **About ACFS**

The Australian Centre for Financial Studies (ACFS) facilitates industry-relevant and rigorous research and consulting, thought leadership and independent commentary. Drawing on expertise from academia, industry and government, the Centre promotes excellence in financial services. The Centre specialises in leading edge finance and investment research, aiming to boost the global credentials of Australia's finance industry; bridging the gap between research and industry and supporting Australia and Melbourne as an international centre for finance practice, research and education.

The Centre provides access to and links between academics, finance practitioners and government and draws on expertise and experience from across these groups, to facilitate knowledge creation and transfer. ACFS (previously known as the Melbourne Centre for Financial Studies) is a not-for-profit consortium of Monash University, the University of Melbourne, RMIT University and Finsia having commenced in 2005 with seed funding from the Victorian Government. Across the consortium partners ACFS has links with over 100 finance academics and over 200 postgraduate students engaged in finance research.

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