Super funds are using 'nudges' to help Australians make financial decisions. How do they work?

June 6 2024, by Fernanda Mata, Breanna Wright and Liam Smith

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Late last year the federal government announced measures to make it easier for Australians to access financial advice.

As part of this, the government wants super funds to use "nudges" to get members to engage more with their retirement investments and superannuation, especially when they're starting work and approaching retirement.

While the legislation containing the changes is still in the consultation phase, super funds are upskilling staff and making other changes to improve customer service or risk a government crackdown.

Telling funds to use nudge theory to advise on super comes as more than five million Australians are heading towards retirement.

What is nudge theory?

Nudging is used to encourage people to pick the "better" option, without taking away their freedom to choose differently.

For example, sending regular reminders to members about the benefits of voluntary contributions can get them to increase the amount they put in. This nudge makes it easier for them to contribute more—the better option—while still allowing them to choose not to.

Assistant Treasurer Stephen Jones explained the government's changes were needed because so-called "fin-fluencers" were providing unregulated financial advice on social media platforms to Australians unable to pay an adviser.

Helping people protect their interests

There are three ways, supported by research, nudges can help Australians engage with their super.

1. Future self visualization

This involves getting young people to think about their future selves and visualize their life in retirement. This can help them to recognize the long-term benefits of getting actively involved with their super.

Showing fund members how they might look when older by using an aging filter software, for example, can make this visualization more real for them and enhance understanding of their future selves, leading to higher engagement.

2. Simplification

We all know financial products and superannuation can be complicated. The information and choices presented can lead to decision paralysis, causing people to delay or opt out of making a decision. By simplifying the process, funds can motivate people to get more engaged with their super.

To get people to make voluntary contributions, for example, it might be more effective for funds to recommend a specific percentage of their salary rather than offering several options. Deciding whether to boost contributions by an extra 3%, 4% or 5% can be overwhelming, especially for people with poor financial literacy.

3. Language and framing

The way options are framed and the language super funds use can significantly impact member engagement.

Australians may be more likely to make higher voluntary contributions if they are asked how much they want to "invest" in their super instead of how much they want to "contribute" or "add."

The word "invest" encourages people to think about future benefits, motivating them to make higher contributions.

How options are labeled can also have an impact on member engagement and decision making.

For example, highlighting concrete benefits of different voluntary payments, such as "a 4% contribution keeps you above the poverty line," and "a 10% contribution allows for a comfortable retirement according to Australian standards" can increase how much people are willing to contribute.

Ethical use of nudges

The Financial Services Council backs the government on getting super funds to nudge members about contributions and investments but says there are limits.

"Parameters around nudging should be set […] to ensure that the language is appropriate and does not ultimately amount to defaulting. For example, letting a customer know that as they approach retirement, they need to make a decision about what retirement product they wish to utilize would be an acceptable nudge, while contacting a customer to let them know that they will be placed in a product when they retire, would not necessarily be acceptable."

The council emphasizes the importance of super funds recognizing people's autonomy when delivering a "soft" or "hard" nudge.

Soft nudges are gentle prompts and reminders designed to guide people to make good choices without pressuring them, such as sending an email reminder to review their investment options. Hard nudges are more direct in their guidance. These might include recommending specific investment options.

Despite these differences, ethical use of nudges should encourage engagement while respecting people's autonomy by making it easy for them to opt out.

The use of nudges presents a valuable opportunity to increase superannuation fund members' engagement.

Whether through future self visualization, simplification or language framing, ethical nudges can motivate members to take action, leading to greater confidence in navigating the retirement transition and achieving retirement goals.

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