# Behavioural approaches to retirement income

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# Legal information

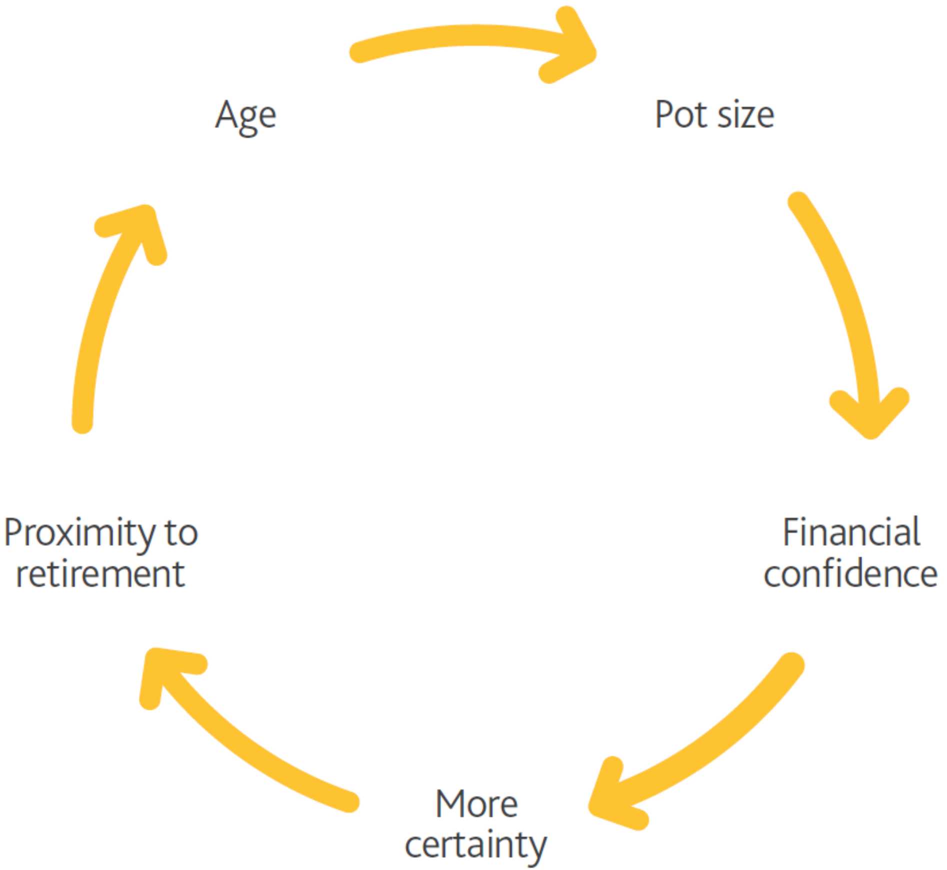
# Ideal and actual journeys

| Ideal journey | | Actual journey |
|---|---|---|
| Join in mid-20s | Participation | Most never save |
| Consistent contributions that increase over time | Contributions | Broken records and most not saving enough |
| Actively engaged | Engagement | Don't think about it |
| Start planning their retirement before consolidation | Consolidation | Think about retirement planning but don't act |

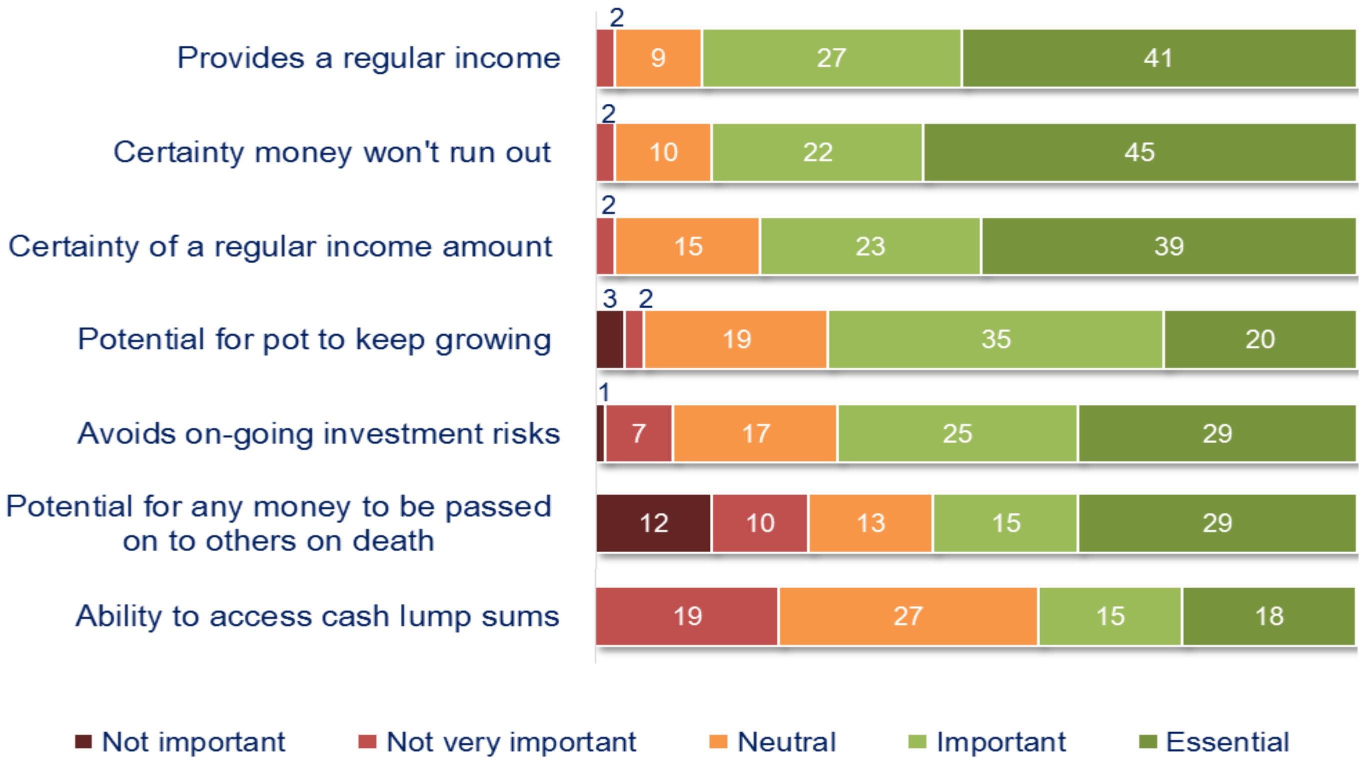
# Behavioural insights in accumulation

| “Traditional” approach | Behavioural insights | AE/NEST approach |
|---|---|---|
| The solution to low participation is better communication | Myopia and status quo bias lead to default behaviour | Automatic enrolment |
| Education before participation | Engagement and education do not drive behaviour | Enrolment is the start of the engagement journey |
| Active member choice is required | Bounded rationality | Design defaults that work for members |
| The more choice the better | The paradox of choice | Limited choices that meet members’ needs |
| Contribution rates based on retirement plans | Save More Tomorrow | Phased contributions |
| Higher risk investments for younger members | Young people have an aversion to loss | Minimise volatility for younger members |

# Are things different at retirement?



# What people say they want

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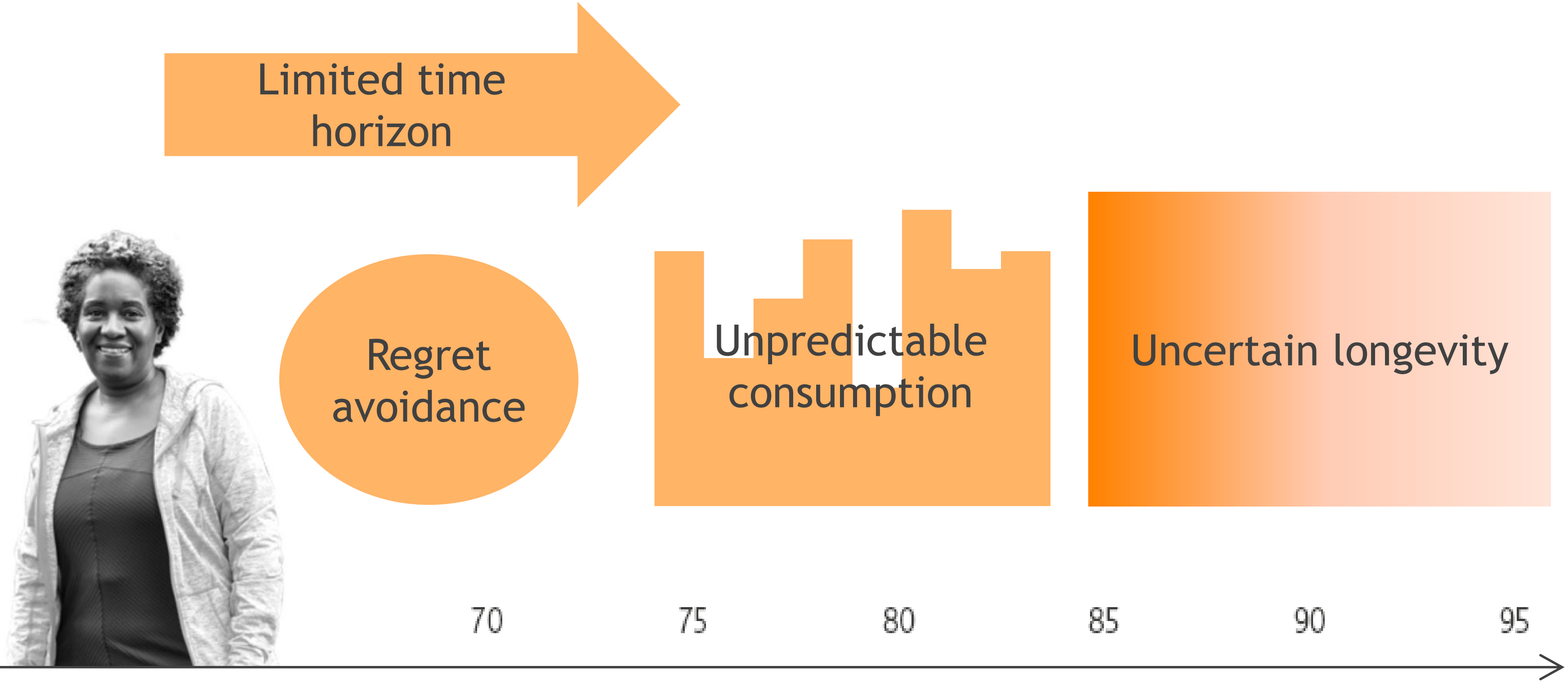
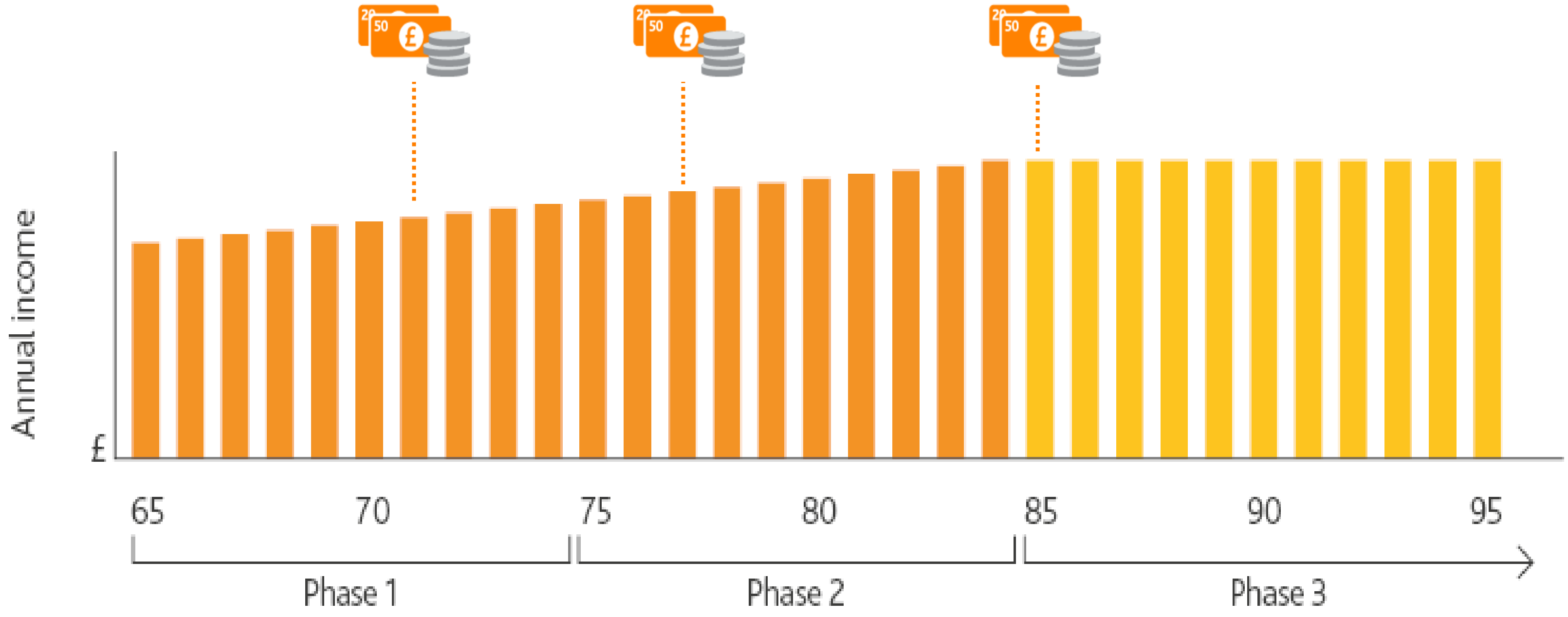
# So why don’t people choose annuities?



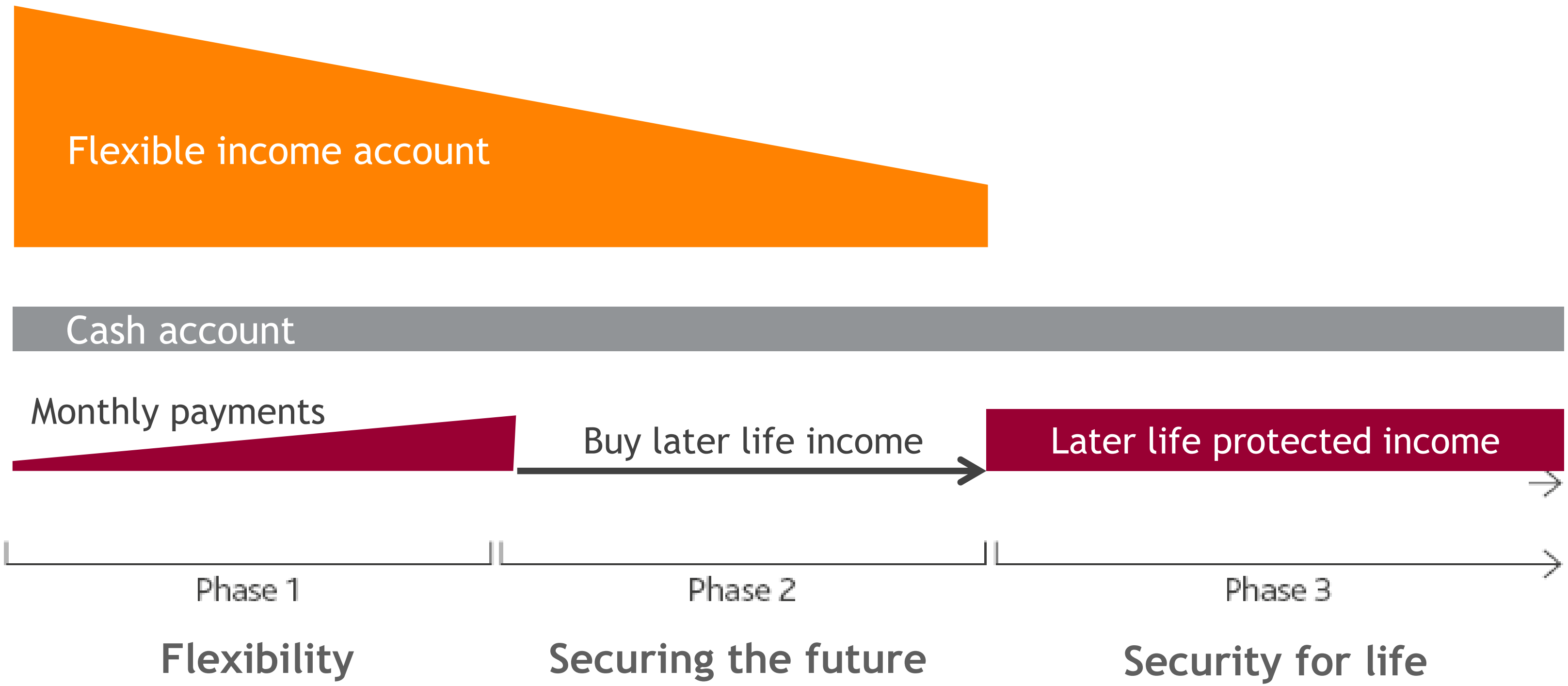
# What drives choice?

- Behavioural biases still apply
  - status quo bias
  - present bias
  - loss aversion
  - difficulties in probabilistic thinking
  - mental accounting
- People value flexibility *and* certainty
- So can we design products that meet their stated preferences, whilst recognising their behavioural and emotional biases?

# A steady, flexible income for life



# A retirement income blueprint



# At retirement: choice versus defaults

- Broadly speaking, people fall in to three distinct categories

| High financial capability and experience | Less financial experience | Very little financial experience and low levels of engagement |
| --- | --- | --- |
| Engaged with their pension saving and have a clear plan for retirement.<br><br>Likely to seek financial advice and be prepared to pay | May well want to engage but likely to find financial decision making daunting – worrying about making poor decisions<br><br>Less likely to want to pay for professional financial advice | These members will need a lot of support from providers, probably in the form of default strategies. |

- People value a 'central' option, but with control over how it's configured

# Thank you

## Any questions?