

# Behavioural Economics and Pensions: Some Experimental Investigations

Prof. Pete Lunn, ESRI



# What I'm going to do...

1. The “Curse of Knowledge”
2. One slide overview (!) of BE and pensions
3. Pension Benefit Statement (PBS) Study
4. Money Growth Study
5. Annuities Study



# The Curse of Knowledge

If you know or understand something,  
it is hard to put yourself in the  
position of someone who doesn't

Behavioural economics in a slogan:

**“Don't Assume, Test”**



# Behavioural Economics of Pensions

- Default effects
  - Not just membership... contribution rates, investments
  - Not just inertia... social signal, reference point
- Complexity and choice are aversive
- Decisions are “time inconsistent”
- Product comprehension is poor



# Pensions Benefit Statement (PBS) Study

- Experiment tested impact of graphics on comprehension and willingness to increase contributions
  - Comprehension poor
  - Marginal if any improvement
  - But willingness to contribute increased
  - Matched by decision rationale

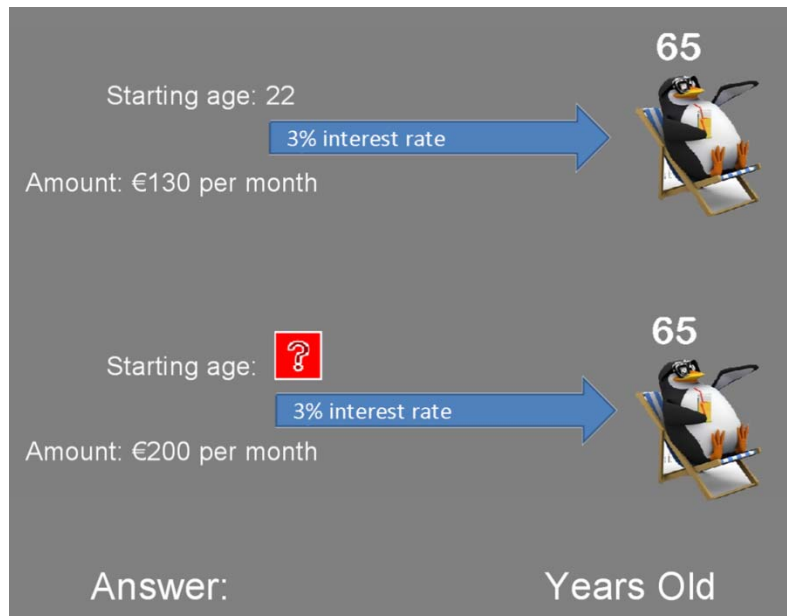


The table below shows the contributions to your retirement savings during 2016

You paid	Your employer paid	You transferred in	Total paid in	Estimated net cost to you after tax relief*
€2,454	€2,454	€0	€4,908	€1,472

\*How does tax relief work? For every €3 from take-home pay you contribute, the government match it with €2 in the form of tax relief. Then your employer will double your contribution.

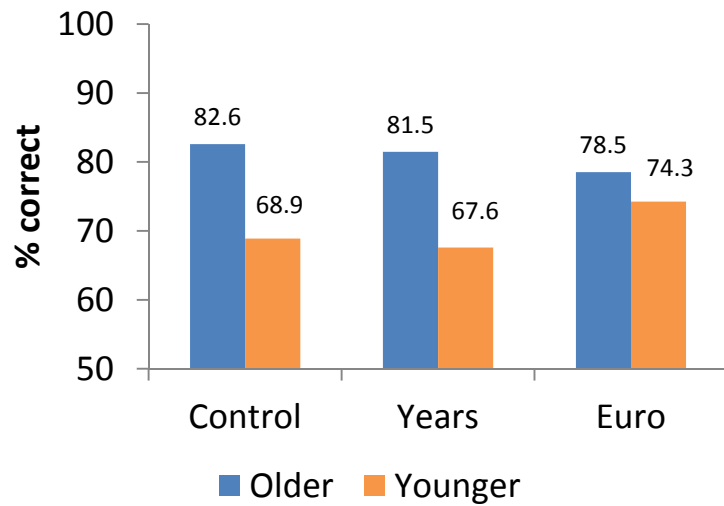
# Understanding money growth study



- How long can I wait?
- What will it cost me to wait?
- Most participants displayed “exponential growth bias” (EGB), especially when:
  - higher interest rate
  - regular saving (v. lump sum)
- Follow up: Can we design simple tools to improve understanding of money growth?



# Tested calculators



Who will have more money saved at 65?

John	Charlie
Starts saving at age: 32	Starts saving at age: 44
Saves per month: €280	Saves per month: €560
<b>More at 65</b>	<b>More at 65</b>



# Framing of Annuities Study

As a result of saving up for retirement you have a guaranteed monthly payment for life of €888 from the pension company. In other words, they will pay you this amount every month until you die.

The company offers you a once-off lump sum payment of €344,000 instead. This would be yours to save or spend as you please.

Keep your guaranteed monthly payment for life from the pensions company of €888.

Take lump sum payment from the pensions company of €344,000 instead.

Please click the option you would prefer, then click "Confirm".  
Feel free to use the calculator.

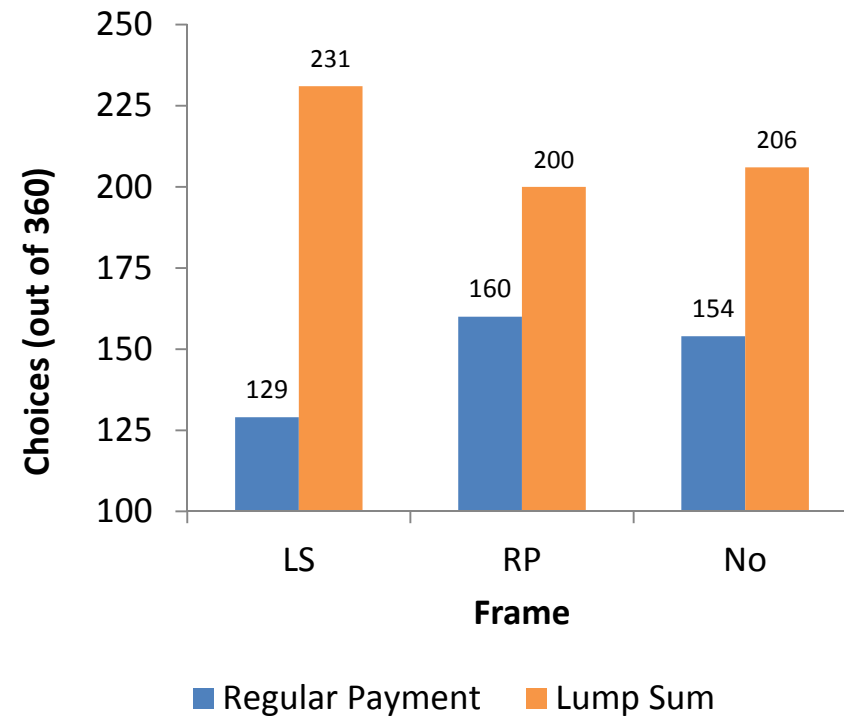
Confirm





# Results

- Choices altered by frame
- Frame worth 1-2 %-pts
- Would more than double proportion taking an annuity



# Summary

- People REALLY don't understand pensions
  - Even if they try...
- It's easy to influence decisions
  - Powerful default effects
  - Strong framing effects
- Need to experiment to find ways to improve decisions
- That's what behavioural economics is really all about

