



# FINANCIAL LITERACY & PENSIONS RESEARCH

RESEARCH COMMISSIONED  
BY

IRISH ASSOCIATION OF PENSION FUNDS

presented by: Brian MacDonald – IAPF DC Committee



# Introduction

- Specific objective of IAPF DC Committee to conduct research on Financial Awareness.
- Research commissioned by the IAPF in April 2012. The research was managed by Weafer Research Associates and the fieldwork was conducted by Red C Research.
- 1,017 interviews were conducted by phone – half landline; half mobile phone sample.
- Fieldwork was conducted between 23<sup>rd</sup> – 25<sup>th</sup> April 2012.
- Some comparisons are made with international research quoted in a paper given by Annamaria Lusardi, Director of the Financial Literacy Centre, The George Washington School of Business (*'Saving and Pension: The importance of financial literacy'*, World Pension Summit, 3<sup>rd</sup> November, 2011).

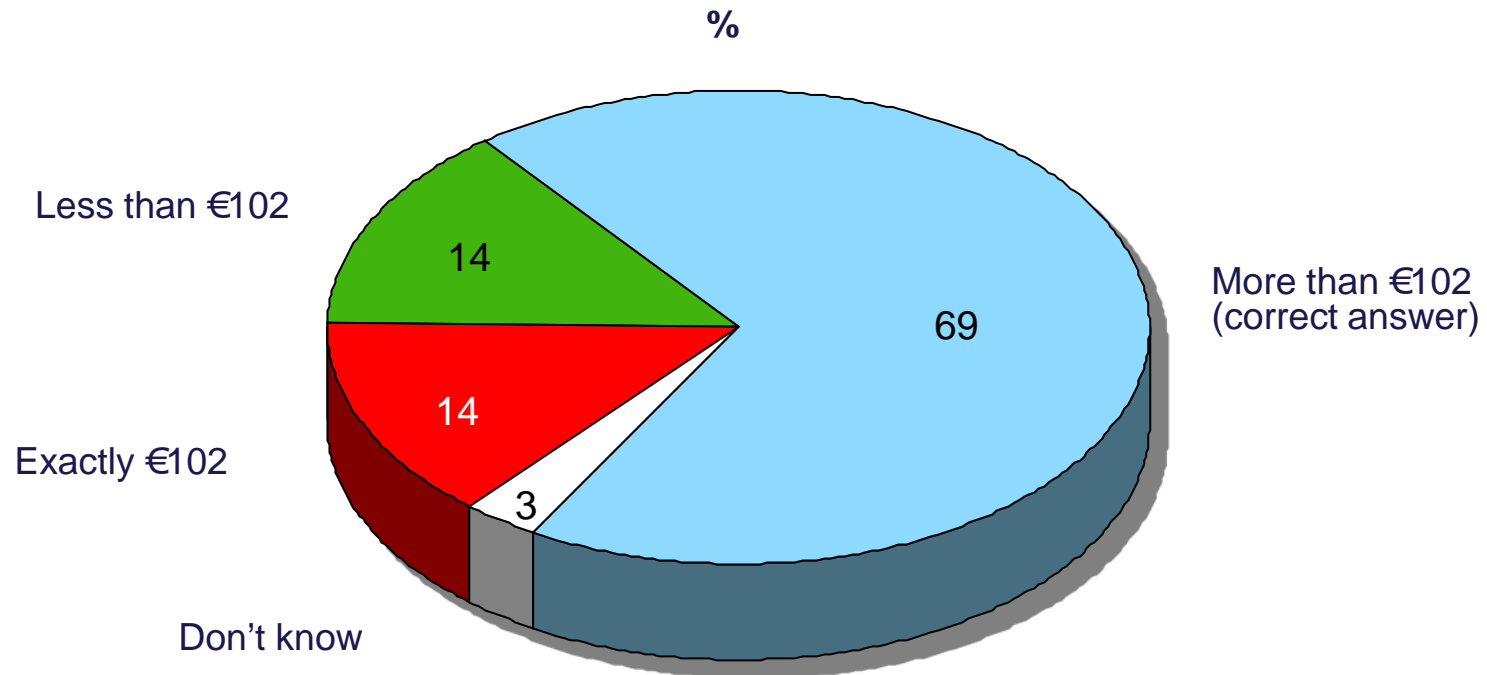


# SECTION A: FINANCIAL LITERACY

## VOTING QUESTION 1

# Testing Numeracy & Understanding of Interest Rates

Base: All Adults, N = 1,017

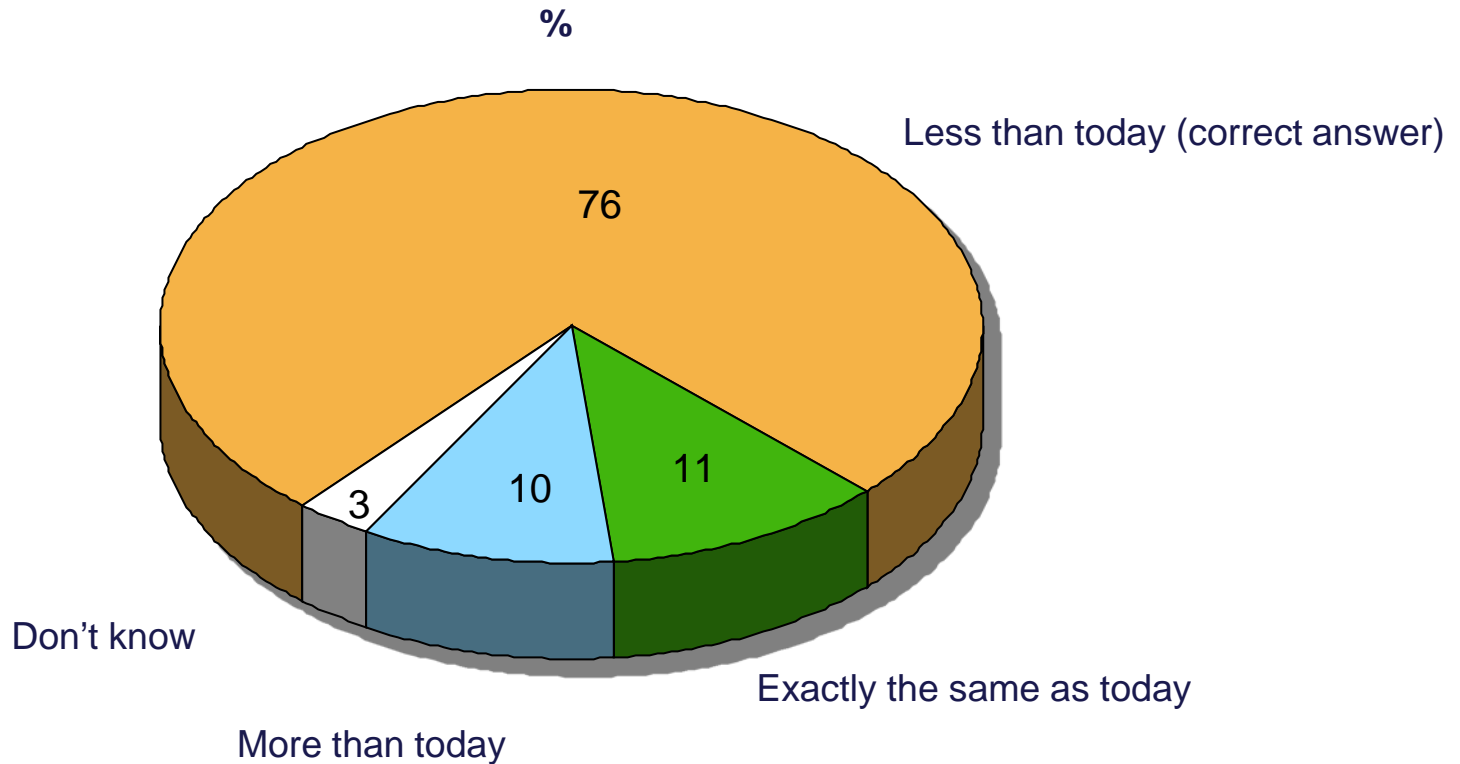


Q1 Suppose you had €100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think that you would have in your account if you left the money to grow? Would it be more than €102, less than €102, or exactly the same?

## VOTING QUESTION 2

# Testing Understanding of Inflation

Base: All Adults, N = 1,017

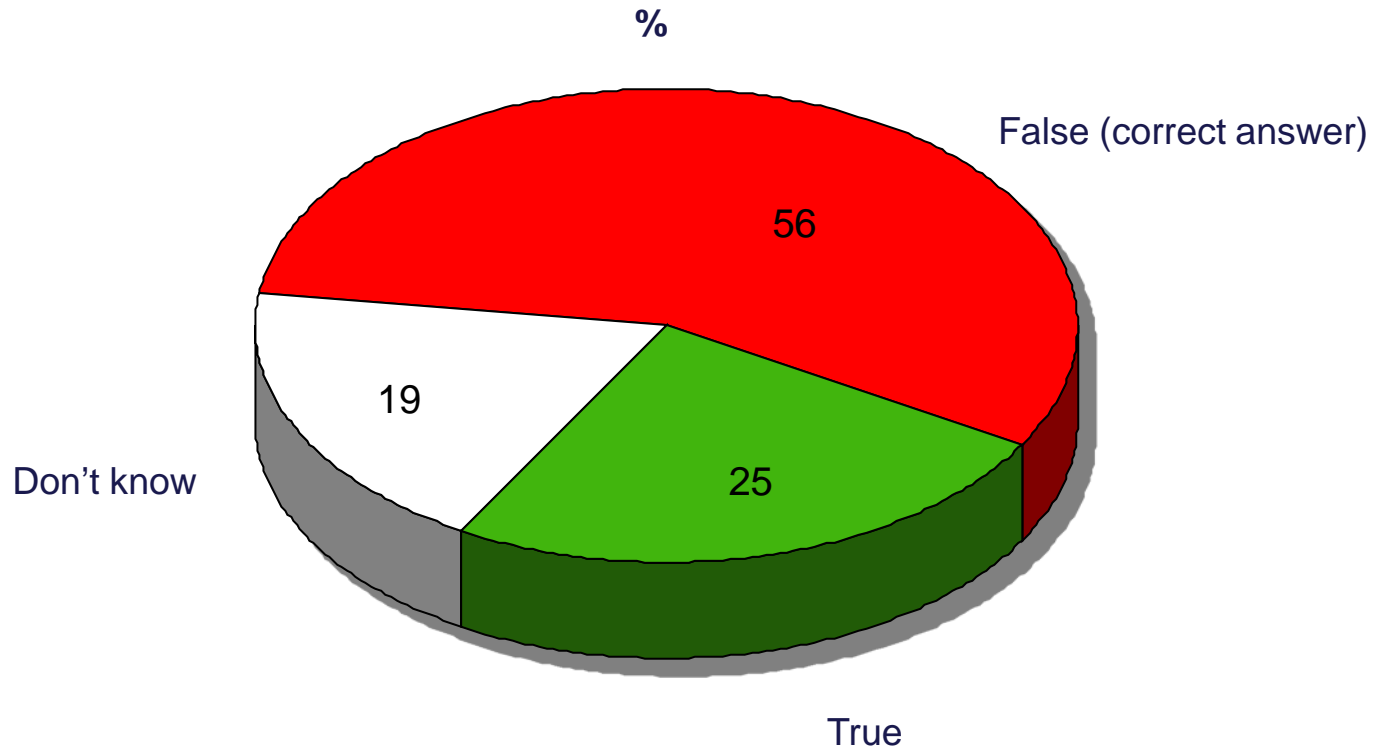


Q2 Imagine that the interest rate on your savings account was 1% per year and the inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy more than today, less than today, or exactly the same as today?."

## VOTING QUESTION 3

# Testing Understanding of Risk Diversification

Base: All Adults, N = 1,017



Q3 Do you think that the following statement is true or false?  
'Buying a single company stock usually provides a safer return than a unitised fund'?

\*Interviewers explained that a unitised fund is one which invests in a range of assets – equities, bonds etc. The contributions from various investors are all pooled into the one fund and the investor purchases units in the fund.

# Financial Literacy – International Comparisons

## % giving correct answers

	<b>Ireland</b>	<b>US</b>	<b>Japan</b>	<b>Netherlands</b>	<b>Germany</b>
Interest Rate	69%	65%	71%	85%	82%
Inflation	76%	64%	59%	77%	78%
Risk Diversification	56%	52%	40%	52%	62%

Source of international data: Annamaria Lusardi, 'Saving and Pension: The Importance of Financial Literacy; World Pension Summit, 2011.

# Financial Literacy – How Much Do Irish Adults Know By Gender, Age

Base: All Giving Correct Answers

	Total (n=1,017) %	Male (n=521) %	Female (n=496) %	18-24 (n=109) %	25-34 (n=178) %	35-44 (n=203) %	45-54 (n=210) %	55-64 (n=197) %	65+ (n=120) %
Q.1 Interest Rate	69	75	63	65	66	73	61	74	75
Q.2 Inflation	76	81	70	57	69	75	82	86	85
Q.3 Risk Diversification	56	59	52	55	55	65	57	55	43

Q1 Suppose you had €100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think that you would have in your account if you left the money to grow?

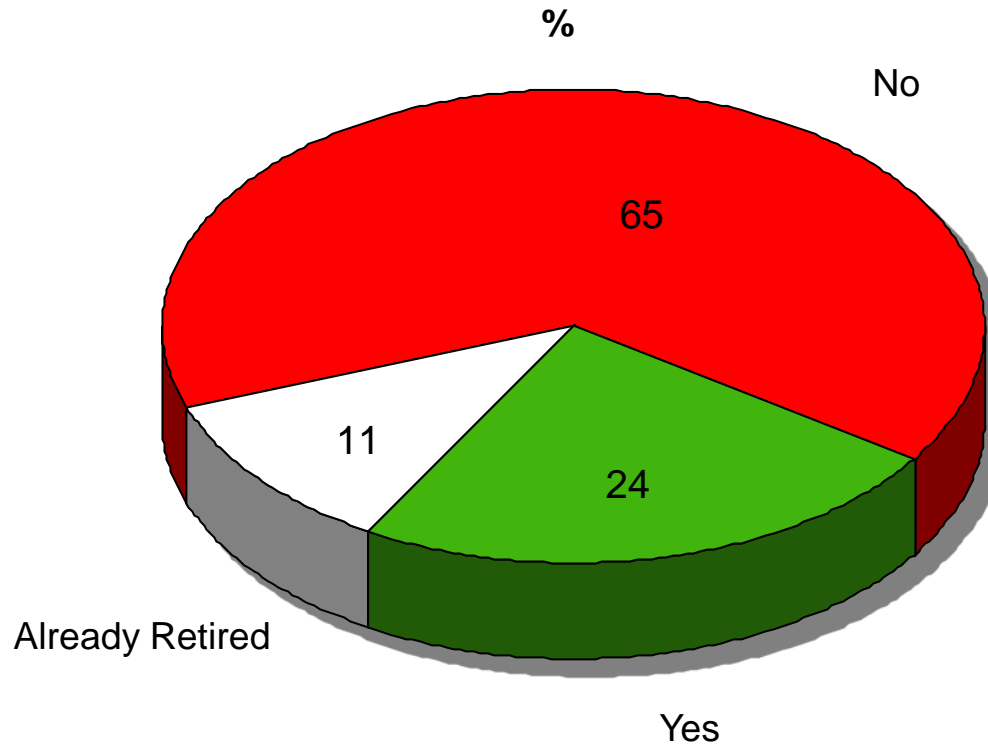
Q2 Imagine that the interest rate on your savings account was 1% per year and the inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...?”

Q3 Do you think that the following statement is true or false?  
‘Buying a single company stock usually provides a safer return than a unitised fund’

# SECTION B: PENSIONS

# PEOPLE WITH PENSIONS IN THE REPUBLIC OF IRELAND 2012

Base: All Adults, N = 1,017



Q4 Are you currently saving for retirement through a (private) pension or not?

# PEOPLE WITH PENSIONS BY GENDER, AGE

Base: All Adults, N = 1,017

	Total (n=1,017) %	Male (n=521) %	Female (n=496) %	18-24 (n=109) %	25-34 (n=178) %	35-44 (n=203) %	45-54 (n=210) %	55-64 (n=197) %	65+ (n=120) %
Yes	24	27	21	4	28	36	31	24	11
No	65	64	66	96	72	64	65	63	29
N/A (Retired)	11	9	13	-	-	-	3	14	61

Q4 Are you currently saving for retirement through a (private) pension or not?

# ANTICIPATED MAIN SOURCE OF INCOME

Base: All Adults, N = 1,017

<b>First Mention</b>	<b>Main Source of Income</b>	<b>Any Mention</b>
47%	State Pension	70%
27%	Private Pension	43%
15%	Savings	36%
4%	Rental Income	10%
8%	Don't know	5%

Q5 What is/do you anticipate will be your main source of income in retirement?

# ANTICIPATED MAIN SOURCE OF INCOME BY GENDER, AGE

Base: All Adults, First Mention

Anticipated Main Source of Income in Retirement	Total (n=1,017) %	Male (n=521) %	Female (n=496) %	18-24 (n=109) %	25-34 (n=178) %	35-44 (n=203) %	45-54 (n=210) %	55-64 (n=197) %	65+ (n=120) %
State Pension	47	40	53	25	34	37	54	62	75
Private Pension	27	28	26	32	32	31	27	22	16
Savings	15	17	14	30	23	19	8	8	2
Rental Income	4	7	2	3	5	5	3	4	2
Don't Know	8	8	7	10	9	8	7	4	5

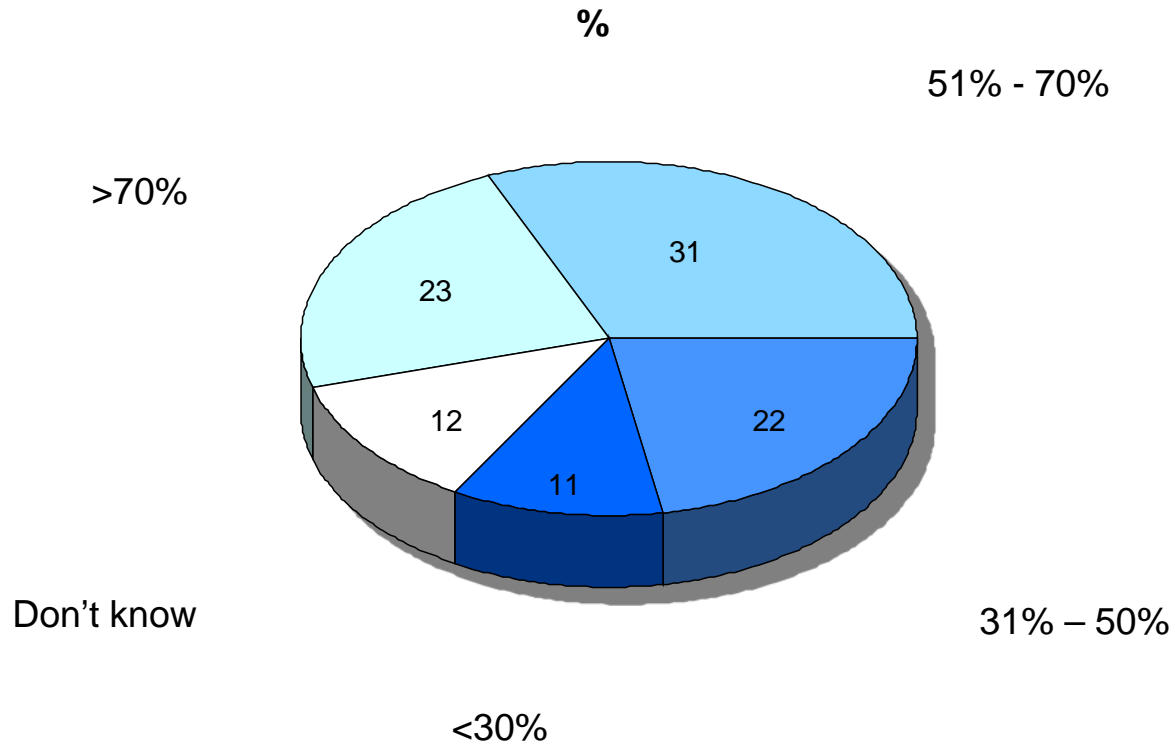
\*\*70% of retired adults said a state pension was their main source of income; 24% of retired adults are most dependent on a private pension.



Q5 What is/do you anticipate will be your main source of income in retirement?

# ANTICIPATED AMOUNT OF INCOME NEEDED IN RETIREMENT

Base: All Adults, excluding Retired, n = 894



Q6 How much of your current income do you think you will require in retirement?

# ANTICIPATED AMOUNT OF INCOME NEEDED IN RETIREMENT BY GENDER, AGE

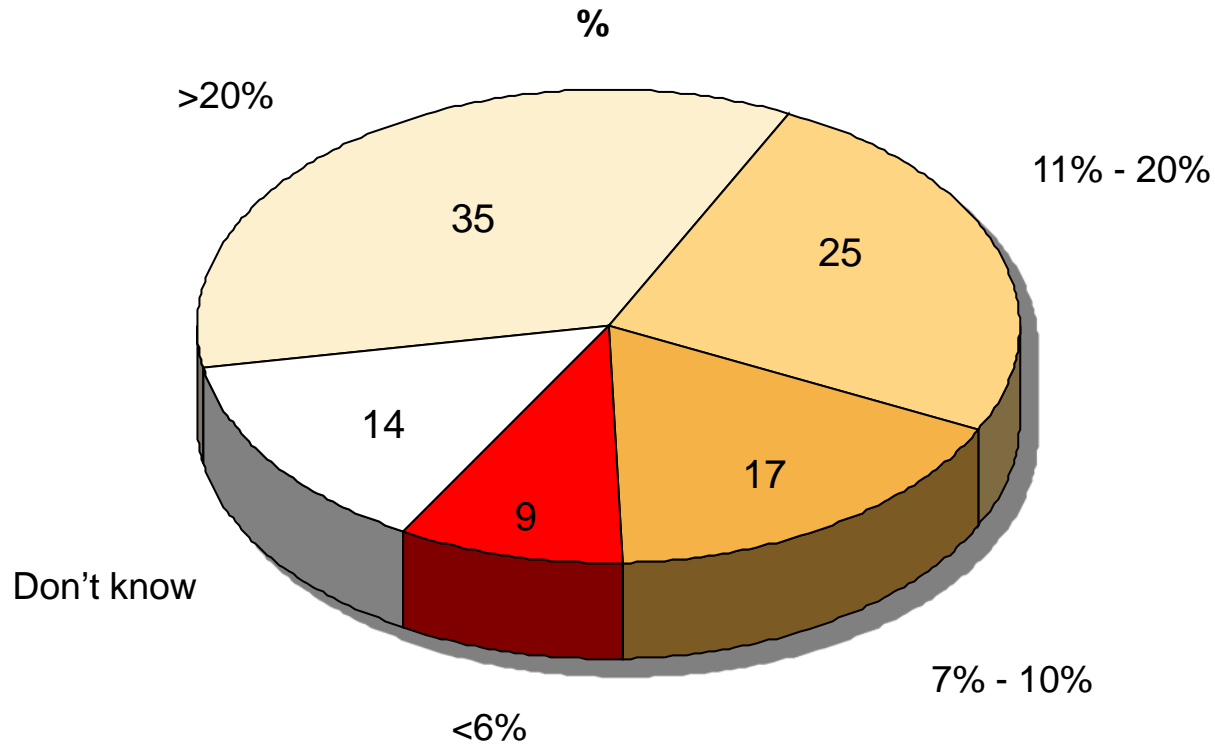
Base: All Adults, excluding Retired, n = 894

Anticipated Amount of Income needed in Retirement	Total (n=894) %	Male (n=462) %	Female (n=432) %	18-24 (n=109) %	25-34 (n=178) %	35-44 (n=203) %	45-54 (n=204) %	55-64 (n=160) %	65+ (n=40) %
<30%	11	14	9	11	15	12	10	8	5
31% – 50%	22	24	20	24	20	29	22	18	12
50% - 70%	31	32	31	35	33	27	32	30	34
>70%	23	21	24	16	22	21	25	27	30
Don't Know	12	9	16	14	10	11	12	17	18

Q6 How much of your current income do you think you will require in retirement?

# AMOUNT OF CURRENT INCOME THAT NEEDS TO BE PUT ASIDE ANNUALLY FOR RETIREMENT

Base: All Adults, excluding Retired, n = 894



Q7 How much of your income do you think needs to be put aside annually to reach that level of income in retirement?

# CONCLUSIONS

- Financial Literacy – needs to improve. Need more done at secondary school level.

## **I want to leave you with some questions to ponder over:**

- In relation to funding for retirement how do we turn recognition into action?
- Do we tend to give information in our communications which assumes a high level of financial literacy?
- Should we provide different information to different age groups?



# AUDIENCE Q&A



**ZURICH**<sup>®</sup>



Thank You  
Brian MacDonald  
IAPF DC Committee

