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## Engaging the Millenials

Professor Liam Delaney  
Sandy Trust



1 June 2016



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**Liam Delaney**



**Sandy Trust**

Enterprise  
Sponsorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

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## Behavioural Economics and the Consumer

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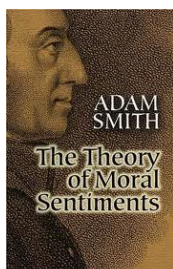
### Behavioural Economics

- Emotion matters for investing and consumption
- Herding Effects
- Default Effects
- Motivated Cognition
- Limited Consumer Understanding
- Heuristics
- Hyperbolic Discounting
- Affective Forecasting and Focusing Illusions
- Irrational Exuberance
- Market Instability

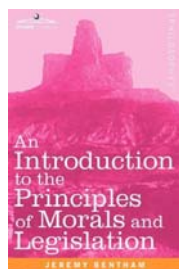


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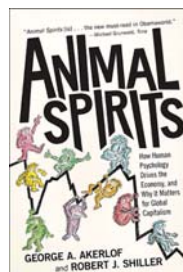
## Animal Spirits



1759



1789



Economics can't afford to overlook the role of **emotions** in decision making: pain, pleasure, arousal, hunger, thirst, anger, hatred, contempt, pity, etc...



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## Broken Financial Systems

- Robert Shiller
- Overconfidence
- Herding in Investment
- Consumer Biases
- Financial Advice Structures
- Poor Matching of Products to Risks



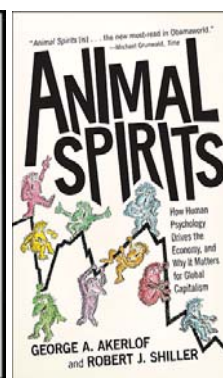
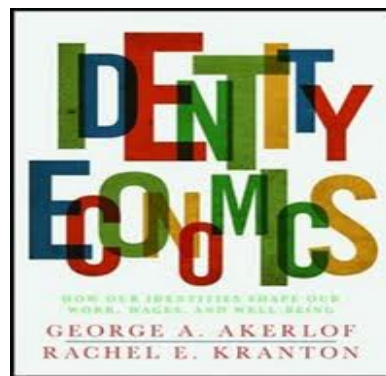
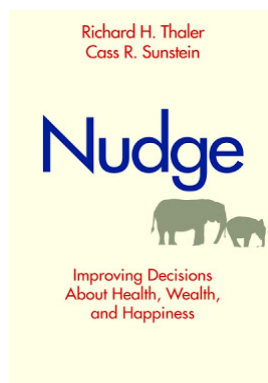
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## Animal Spirits

- *“To understand how economies work and how we can manage them and prosper, we must pay attention to the thought patterns that animate people’s feelings and ideas, their animal spirits”. We will never really understand important economic events unless we confront the fact that their causes are largely mental in nature”* Akerlof and Shiller



## Economics with People



## The Dragons of Inaction

1. S1 vs S2
2. Hyperbolic discounting and present bias
3. Inertia & procrastination
4. Loss aversion
5. Limited attention
6. Ambiguity aversion
7. Optimism bias
8. Self-efficacy
9. Social norms
10. Moral intuitions
11. Risk preferences
12. Habits
13. Ignorance
14. Ideologies
15. Discredence

"These dragons are not solitary creatures. They certainly interact. Indeed, their "DNA" undoubtedly is shared in some cases..." (Gifford, 2011).

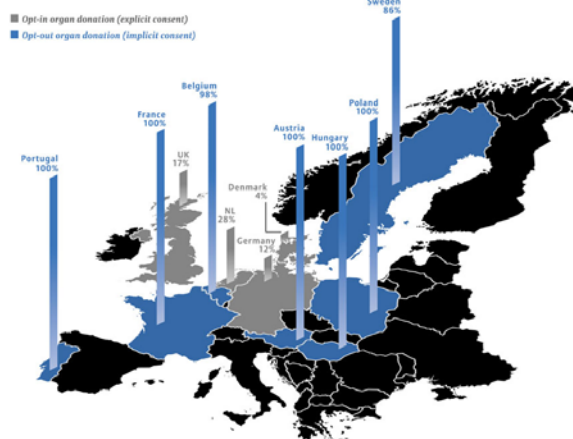


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## Example: Default Organ Donation



THE DEFAULT OPTION AND EFFECTIVE CONSENT RATES (FIGURE 1)



Source: Johnson and Goldstein, 2003.



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## Libertarian Paternalism

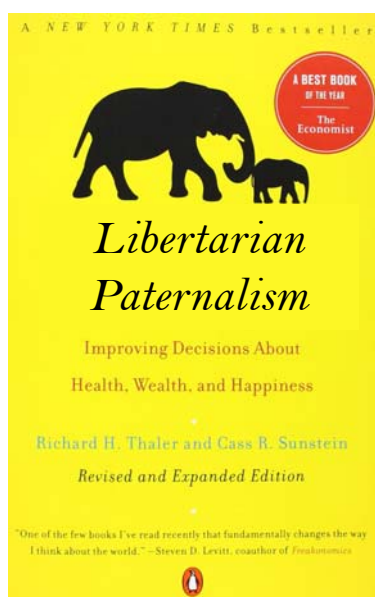
The **choice-architecture** is changed so that ...

... the individual **freedom of choice** is maintained and incentives are not changed significantly (**"Libertarian"**).

... choosers are made **better off**, as judged by themselves (**"Paternalism"**).



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(Thaler & Sunstein 2008)

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## Financial Regulation

- Greater emphasis on local knowledge
- Limits on Consumer Exploitation
- Pension Auto-enrolment
- Intervention directly in consumer markets
- Understanding better incentives of financial advisors
- Examining structure of household wealth holdings

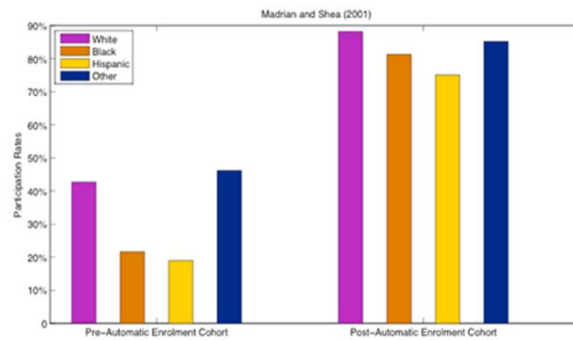
## The single most celebrated policy of BLE



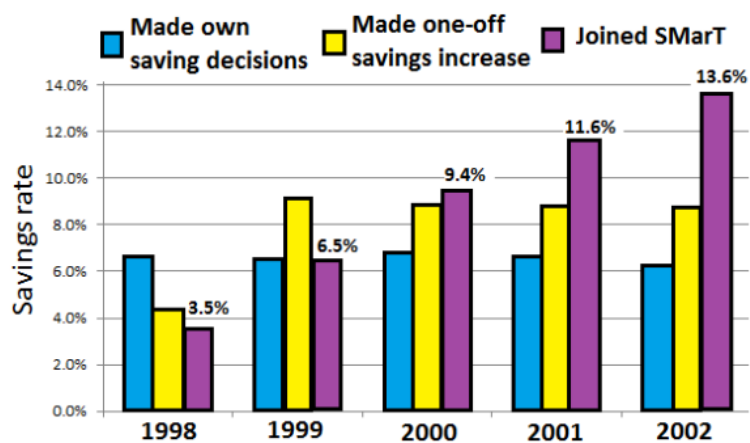
- **Automatic enrolment retirement savings plans**
- Broad appeal to both liberals and conservatives.
- “Automatic enrolment had become like apple pie on Capitol Hill — everyone was for it.”

(Orszag, see Bubb and Pildes 2014)

## Active Market Structuring



## Encouraging Pension Saving





## MINDSPACE

<b>Messenger</b>	We are heavily influenced by who communicates information
<b>Incentives</b>	Our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses
<b>Norms</b>	We are strongly influenced by what others do
<b>Defaults</b>	We 'go with the flow' of pre-set options
<b>Saliency</b>	Our attention is drawn to what is novel and seems relevant to us
<b>Priming</b>	Our acts are often influenced by subconscious cues
<b>Affect</b>	Our emotional associations can powerfully shape our actions
<b>Commitments</b>	We seek to be consistent with our public promises, and reciprocate acts
<b>Ego</b>	We act in ways that make us feel better about ourselves

## Implications for Business

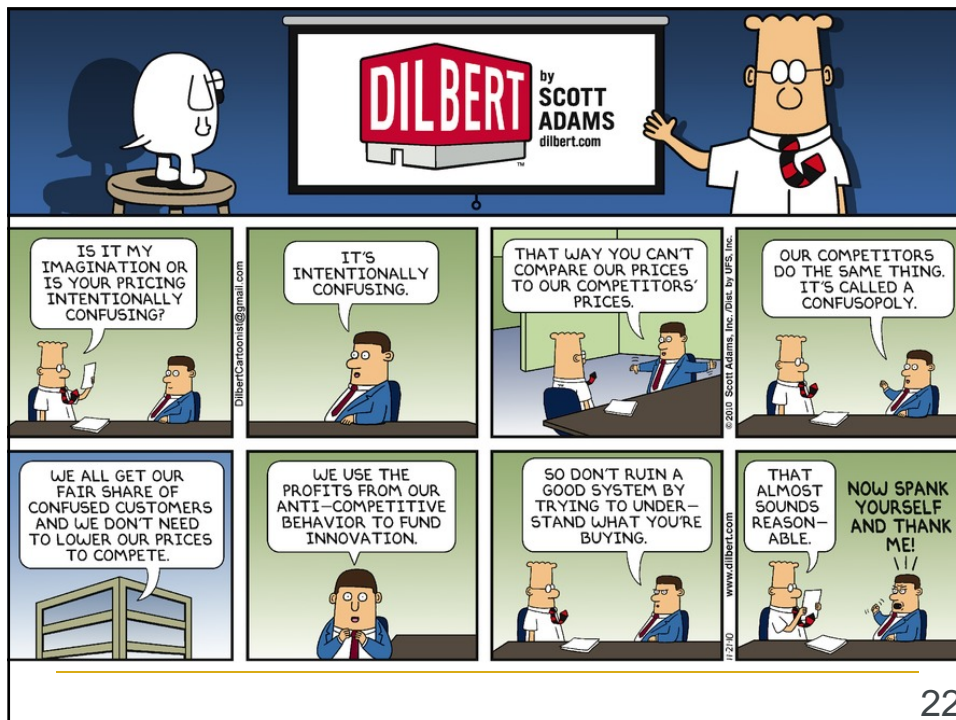
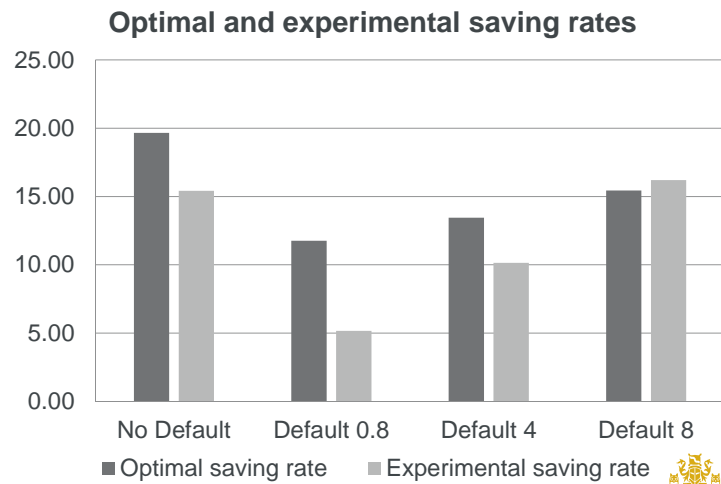
- New Product Development
- Regulatory Compliance
- Corporate Social Responsibility
- Consumer Exploitation?
- Different Models of Engagement with Regulators and Government



## Unintended Consequences

- Defaults acting as anchors
- Context matters
- Boomerang effects
- Public perception of manipulation
- Poorly designed attempts at Nudging Behaviour

## Defaults as Recommendations



## Business Regulation

Figure 5: Integrated analysis of market-wide problems

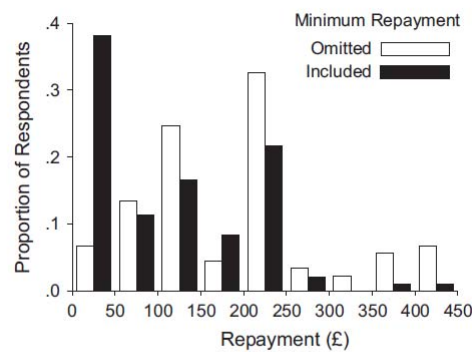
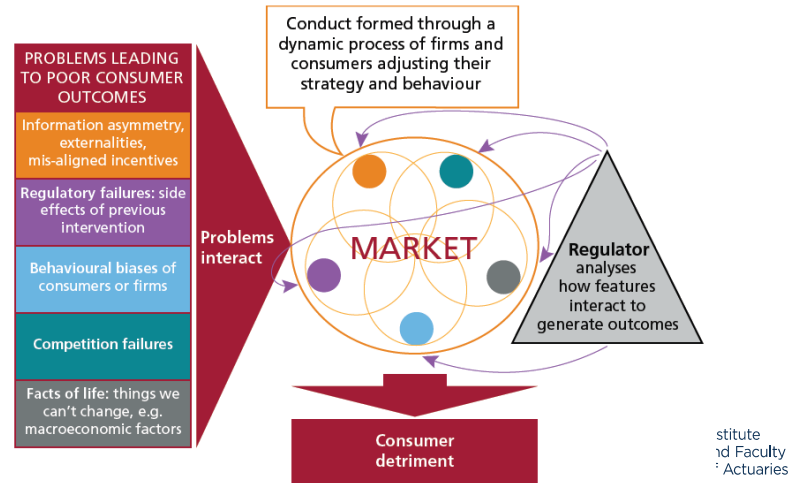


Fig. 1. Distribution of participants' repayment decisions in the credit-card experiment, in £50 bins. Results are shown separately for participants who responded to a bill that included minimum-repayment information and participants who responded to a bill that omitted this information.

<http://personal.stevens.edu/~ysakamot/175/assignment/anchoring.pdf>

## Economic Sustainability

- Sustainable household finances
- More active financial regulation
- Trust in Financial Institutions
- Insolvency Resolution
- Early Intervention
- Barriers to entrepreneurship
- Retail Investment Markets
- Pension Autoenrolment



## Practical Use for Companies

- Limitations of rules or “checklist” models of BE
- BE basically still an inductive science in many cases
- Limits of RCTs methodologically and in terms of innovation as an exclusive tool
- Angry Birds innovation (Deaton)
- Importance of monitoring unintended consequences



## Current Debate

- Nudge leads to too much intrusion
- Nudge leads to too little intrusion
- Need for wider concept of regulation
- Well-organised companies can side-step
- Autonomy is over-rated
- Sunstein's reply



## Conclusions

- Low Trust in Financial Institutions
- Confusing Markets
- Regulation Traditionally Dominated by Rational-Choice Economics
- Behaviourally-Informed Regulation
- Examine Behavioural Biases
- Personal Responsibility



## Readings and Resources

economicspsychologypolicy.blogspot.co.uk

### Stirling Behavioural Science Blog

StirlingEconPsy  
Behavioural Science  
University Manager  
@liamdelaneyeco

Thinking, fast and slow  
DANIEL KAHNEMAN  
Nobel Laureate in Economics

Nudge  
Improving Decisions About Health, Wealth, and Happiness  
Richard H. Thaler and Cass R. Sunstein  
Revised and Expanded Edition

decisions,  
The Making of  
Behavioural Economics  
MISBEHAVING  
Richard H. Thaler  
Bestselling co-author of Nudge

Google Scholar

Nudge Database  
Posted by Ma...  
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## Retirement Adequacy Pie

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Expertise  
Mentorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

## Ingredient 1: The Customer

Jenny Christie



### Vital statistics

- £1,390/month, c. £20k per annum
- 21
- Auto-enrolment – 3% of salary, plus matching contribution

**MILLENNIAL!**

Source: <http://www.educationscotland.gov.uk/resources/m/moneytalksfamilyfinances/introduction.asp?strReferringChannel=educationscotland&strReferringPageID=icm:4-615801-64>



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## The Customer is not stupid...



Source: <http://maryvezzetti.com/blog-mary-vezzetti/>



Source: <http://www.ageuk.org.uk/money-matters/income-and-tax/living-on-a-low-income-in-later-life/>



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## Ingredient 2 - Compulsion

THE DEFAULT OPTION AND EFFECTIVE CONSENT RATES (FIGURE 1)

Legend:

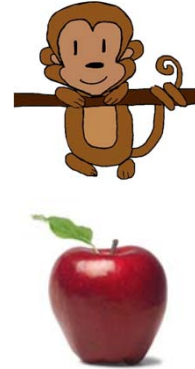
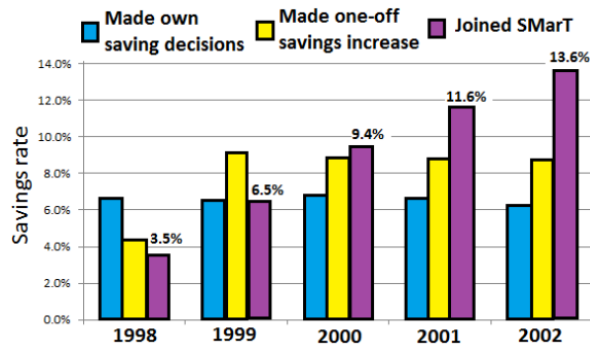
- Light blue: Opt in organ donation (implies consent)
- Dark blue: Opt out organ donation (implies consent)

Country	Effective Consent Rate (%)
Portugal	100%
France	100%
Spain	100%
Belgium	95%
Austria	100%
Hungary	100%
Ireland	100%
Denmark	90%
Germany	90%
Sweden	90%
Finland	90%
Poland	90%
Switzerland	90%
Netherlands	90%
Italy	90%
Greece	90%
Cyprus	90%
Malta	90%
United Kingdom	90%
Other countries	0%

Source: Johnson and Liddiman, 2005.

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## Ingredient 3 - Nudges



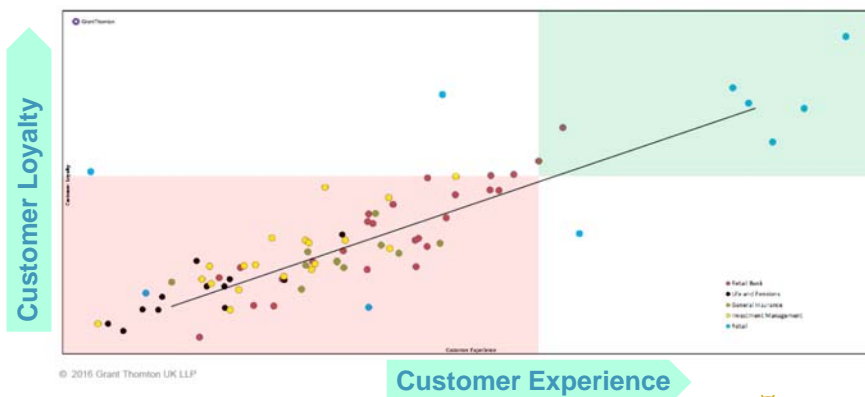
Benartzi & Thaler (2004), Save More Tomorrow, Journal of Political Economy



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## Ingredient 4 - Engagement



Customer Experience



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## Engagement (I) – product design

### ACCESSIBILITY



**63% of Millennials would save more if their pension account allowed multiple withdrawals**

### OWNERSHIP



**Contrast with bank account when you move job**

### MEANING

**95% of Millennials feel that pension funds/ insurers only provide limited, poor or no options for investing in Social Finance products**

Source: BNY Generation Lost "Engaging Millennials with Retirement"  
[https://www.bnymellon.com/\\_global-assets/pdf/four-thinking/generation-lost.pdf](https://www.bnymellon.com/_global-assets/pdf/four-thinking/generation-lost.pdf)



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## Engagement (II) – comms

A significant quantity of customer data is available

Data Item	Availability
Address	●
Sex	●
Age	●
Occupation	●
Pot size	●
Contribution	●
Marital Status	●
Dependents	●

Allowing personalised  
and engaging comms



- ✓ Personalised
- ✓ Engaging
- ✓ Empowering



Potential Customer Benefits

Multi-channel  
capability

Trusted Brand

Regular  
Contact

Ease of access

**And Outcomes!**

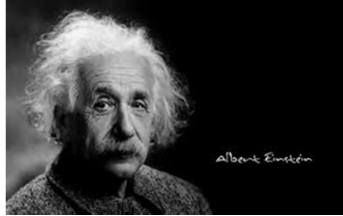


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## Ingredient 5 - #FinancialEducation



"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

"Compound interest is the most powerful force in the universe."

"Compound interest is the greatest mathematical discovery of all time."



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## #FinancialEducation (I)

So what if Jenny put the equivalent of one cup of coffee per day into her pension?



£2.50  
+



£2.50  
+



£2.50

1. Jenny triples her money, instantly

2. So this is quite a lot, per year

3. But a bit less in her pocket

Free money? Yes – her employer matches her contribution – ie – also puts in £2.50. And this is tax free, so Jenny gets another £2.50 from the government - £7.50 into her pension pot.

200 days at £7.50 per day – that's **£1,500** in the pension (before charges and investment returns)

Yup, she's given up £500 of pay (200 \* £2.50) ... but she's got £1,500 into her savings scheme

**is worth £1,500 a year!!!**



## #FinancialEducation (II)

So what if Jenny did this for 40 years?



**8,000  
coffees**



1. How much has she put in?

So coffee has got even more expensive (its now **£5.52**), so Jenny has put in a whopping **£31,305!**

2. And the rest

That's right – her employer has matched it – and she's got tax relief – so **£93,915** has gone in!

3. And some investment returns

Assuming a return of 5.92% and charges of 0.75% - Jenny has also had investment returns of **£180,061 – double what she has put in**



**is worth £273,976!!!**



## #FinancialEducation (III)

And how about one last 10 year period – working till 70 – when she decides to put her feet up



**10,000  
coffees**



1. How much has she put in?

Coffee is now £6.73! Jenny has put in an extra **£12,000** in her last decade at work – totalling £43, 635

2. And the rest

Yup – you're there already – so in total the money in is c. **£131,000** pounds

3. And some investment returns

In the last 10 years alone, investment returns are **£370,000** (nearly £200,000 more than in the previous 40!!!) – causing her pot to almost double



**is worth £501,232!!!**



## #FinancialEducation (IV) – So what?!

### 1. Your pension is part of your pay deal

If you choose not to contribute you are giving up on all those employer contributions and tax relief

Do you know anyone who would willingly give up a significant proportion of their pay?

### 2. Little and often – KEEP GOING

Paying in a small amount regularly over the long run makes a HUGE difference – be persistent – it's a waiting game

### 3. You need a very big pot to pay for your retirement...but its very achievable

At age 60 – you might only get **£3,000 to £4,800** pounds income per year for each £100,000 of savings (depending on which option you take). so at age 60 Jenny might get somewhere between **£8,000 and £13,000 pounds p.a.**

At age 70 this improves to between **£4,100 to £6,200** pounds income for each £100,000 of savings, so at age 70 Jenny might get somewhere between **£20,500 and £31,000** pounds p.a



**is worth a comfortable retirement**



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Source: annuity rates sourced from [http://www.sharingpensions.co.uk/annuity\\_rates.htm](http://www.sharingpensions.co.uk/annuity_rates.htm)

**Questions**

**Comments**

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