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Consumer engagement: the role of policy through the lifecourse

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Pensions Policy Institute

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The role of policy through the lifecourse

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- Policy levers and long-term saving
- Financial capability
- When are behavioural interventions most effective?
- What is the most effective format for behavioral interventions?
- When are behavioural interventions least effective?
- Conclusions

A range of policy levers contribute to positive outcomes

Policy levers which contribute to positive pension outcomes:

- **Compulsion** – mandatory options
- **Defaults** - for people who do not make an active choice
- **Safety nets** - to help those in danger of falling into poverty
- **Consumer protection** - to protect people from fraud, poor governance and high charges
- **Behavioural interventions** – policies aimed at encouraging people to make a decision (or not make a decision) which results in better financial outcomes for that individual
- **Freedoms** - allow greater freedom to individuals

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Financial capability plays a key role in engagement

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Those with high financial capability:

- Have higher levels of knowledge and understanding about financial services and products,
- Have attitudes and motivations that are in keeping with making rational financial decisions,
- Have the opportunity to enact decisions, and
- Are more likely to feel that they have control over their lives.

Financial capability differs from financial confidence

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- Financial capability is not the same as financial confidence; people may have capability without confidence or high confidence with little understanding of finances.
- There are correlations between the two: greater experience = higher confidence and capability
- Low levels of financial capability are associated with
  - ➢ difficulty managing finances,
  - ➢ increased psychological stress,
  - ➢ low confidence and,
  - ➢ poor decision-making.

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Behavioural interventions are more effective during "teachable moments"

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Teachable moments most often occur during transitions

- **Young adults:** starting university, moving out of parental home, starting work, starting a family, buying a house.
- **Adults:** leaving full time education, changing (or starting) employment, saving in a pension for the first time, moving home, starting a family, buying a house, job loss, divorce, onset of health problems, need to provide care, bereavement.
- **Below, at or above retirement ages:** ages of access to state and private pensions, leaving work, death of a partner, need to provide care, need for self or partner for long-term care.
- Every day financial transactions can also lead to teachable moments

Behavioural interventions are more effective when they are personalised

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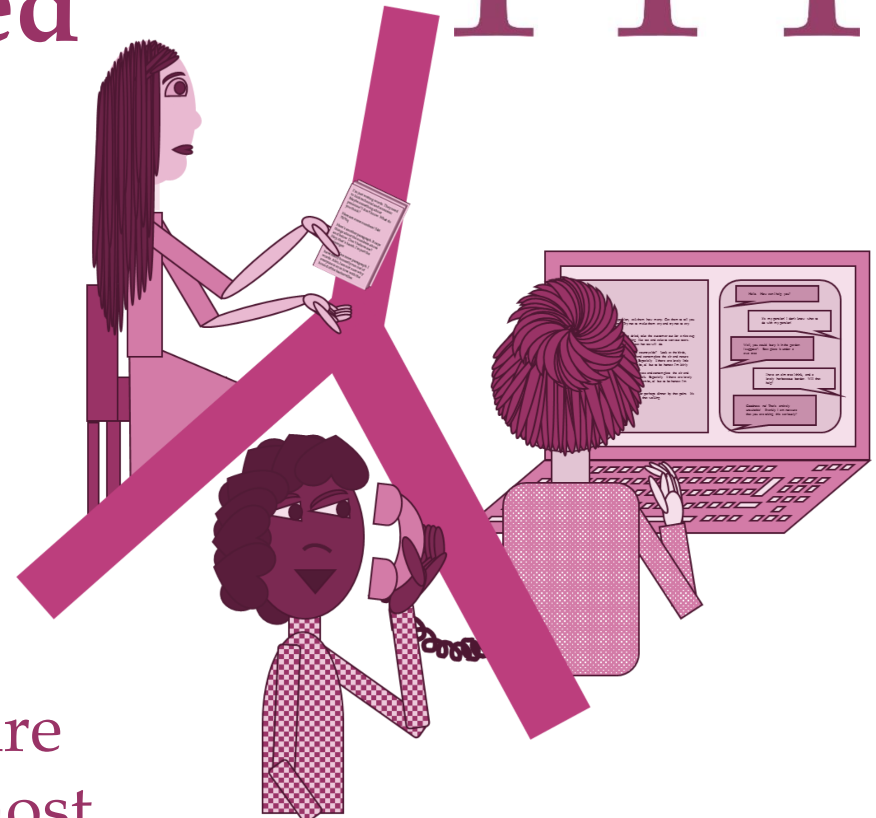
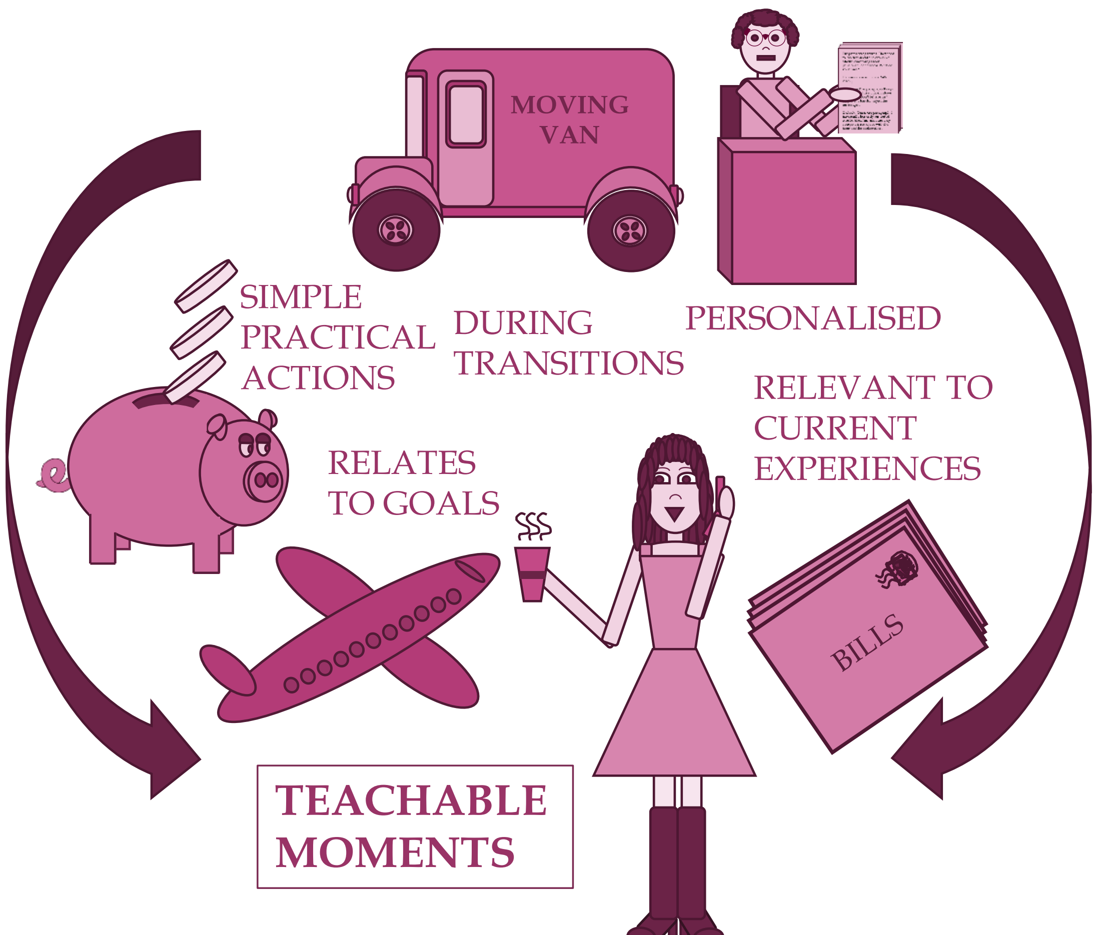


- As with timing, the format or channel of the most effective behavioural interventions varies between people.
- Personalised interventions where people feel that their needs, circumstances and goals are understood and addressed are most effective. Generally these interventions require some human contact through face-to-face, telephone, web-chat or group education.

Behavioural interventions are most effective when personalised and during "teachable moments"



Behavioural interventions should take personal characteristics into account

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- **Capability levels** – Personalised, simple, practical education vs. complex information and focus on flexibility and freedom.
- **Income and culture** - social norms, duty, family obligation, peer influences vs. protecting capital, highlighting national duties and responsibilities.
- **Gender** - Women struggle more with financial confidence and capability, particularly those over age 45, though differences in confidence appear in children as young as 13, and capability differences are already apparent within young adults.

Behavioural interventions should take lifestage into account

Childhood - ages 18 and younger	Capability – low Confidence – low Aptitude - high	Education laying groundwork for future capability, confidence and behaviour.	Financial education provided by family and/or school.
Young adulthood – ages 18 to 25	Capability – low, varying Confidence – low, varying Aptitude – med to high	Managing debt, competing financial priorities, whether/how much to save.	Personalised, simple, practical education during key transitions.
Adulthood – ages 25 to 55	Capability – low to high Confidence – low to high Aptitude -decreasing with age	Managing debt, competing financial priorities, financial planning for the future.	Personalised, support, taking into account differences in culture, income, gender, capability.
Pre-retirement – ages 55 to SPa	Capability – higher on average Confidence – highest of any age group (73% -very confident) Aptitude -decreasing	Ensuring saving goals are being met, decisions around leaving work, accessing and using savings, planning for uncertainties (e.g. future needs such as care etc.).	Takes into account varying capability, explains implications of options, makes clear that people do not have to access savings at age 55.
Older age – ages SPa and over	Capability – decreasing with age, particularly over age 75 Confidence – high on average Aptitude –decreasing, esp. over 75	Sustaining income through retirement, preparing for changes in need, avoiding scams and fraudsters.	Assumes lower than average levels of capability and numeracy and potential cognitive decline, esp. over 75

Messages about duty and family as motivation

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- Social norm messages are particularly salient for those on lower incomes or with family focussed cultural backgrounds
- Insurance providers are already harnessing family responsibility motivators to encourage investment in life insurance, by running ads showing babies and parents alongside urges to take out life insurance so that family members are not left in poverty if the main breadwinner dies.
- A similar campaign could be run for pension saving, for example using the message: "saving in a pension could help both myself and my family to avoid poverty in retirement".

Those with higher capability are more focused on maintaining capital

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- Those with higher capability generally feel a higher than average sense of control over their financial situation; this characteristic is not always correlated with income
- Those with higher capability and those with higher incomes respond better to individualised, high level or complex information from a finance professional
- Public messages are more likely to motivate if they highlight national duty

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Most efficient format varies by age

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- Younger people, those with low capability and those on lower incomes respond better to peer-led interventions.
- Younger people are most likely to turn to digital methods for advice, information and guidance.
- Older adults, particularly over age 75 are less likely to have access to or understand how to use digital methods.
- For older adults, face-to-face interventions (group or individual) are most effective.
- Postal and written campaigns help build awareness, but are less effective than interactive, personalised interventions.
- As generations age it is expected that the levels of digital ability and financial confidence will grow amongst older generations.
- Technological advances may introduce more interventions which provide personalisation.

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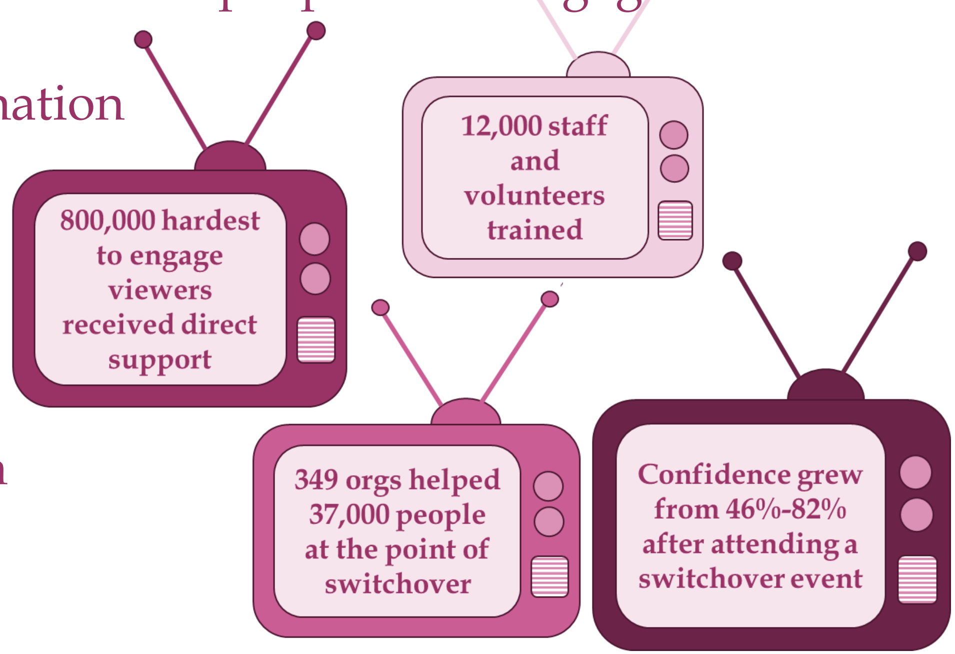
Case study: peer to peer and cascading

- Digital Switchover required some people with TV sets to make active decisions -widespread concern that vulnerable or hard-to-reach community members such as older people, who rely heavily on TV, might be difficult to access and motivate.
- Campaign consisted of cascading information and messages through community organisations. Campaign allowed for a high number of key people within communities to engage with their clients (and to use outreach methods to pass messages and information on to people not engaged with their organisation).
- Community members passed information between each other.
- When many people are taking a specific action, it becomes easier for others to find someone to turn to.
- The herding effect also dictates that people are more likely to take an action if the majority of their peers are also taking that action.



Media campaigns are effective but risky

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- People of all ages are highly susceptible to media campaigns.
- These are the most likely type of intervention to motivate people to take active decisions without having sufficient financial capability to ensure these are the optimal decisions.
- This is because media campaigns offer the least opportunity for queries and clarification of all interventions.

Case study: Swedish media-led engagement

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- 2000 - new range of private pension schemes
- Large scale advertising campaign encouraging people to make active pension investment decisions.
- Strong response: 67% actively chose to invest pension contributions in funds other than default fund.
- Unfortunately, many invested in funds that performed less well than the default fund:
  - Recent high performance of some was based on returns in a high-performing "bull" market
  - Many choices were not based on sound economic theory but a preference for funds invested locally in Sweden.
- A lot of the active-choosers, who disengaged as the media campaign was rolled back, remained in their poorly performing funds

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When are behavioural interventions least effective?

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- There are times during people's lives in which their circumstances render them less able to respond well to financial interventions.
- During these times, other policy levers may be the most effective way of ensuring that people have good financial outcomes.
- It is less effective to attempt to motivate people who are suffering severe deprivation or are unable to make active decisions.
- Those with low capability may experience negative outcomes from interventions aimed at promoting active decision-making unless educational support for the decisions are included in the intervention.

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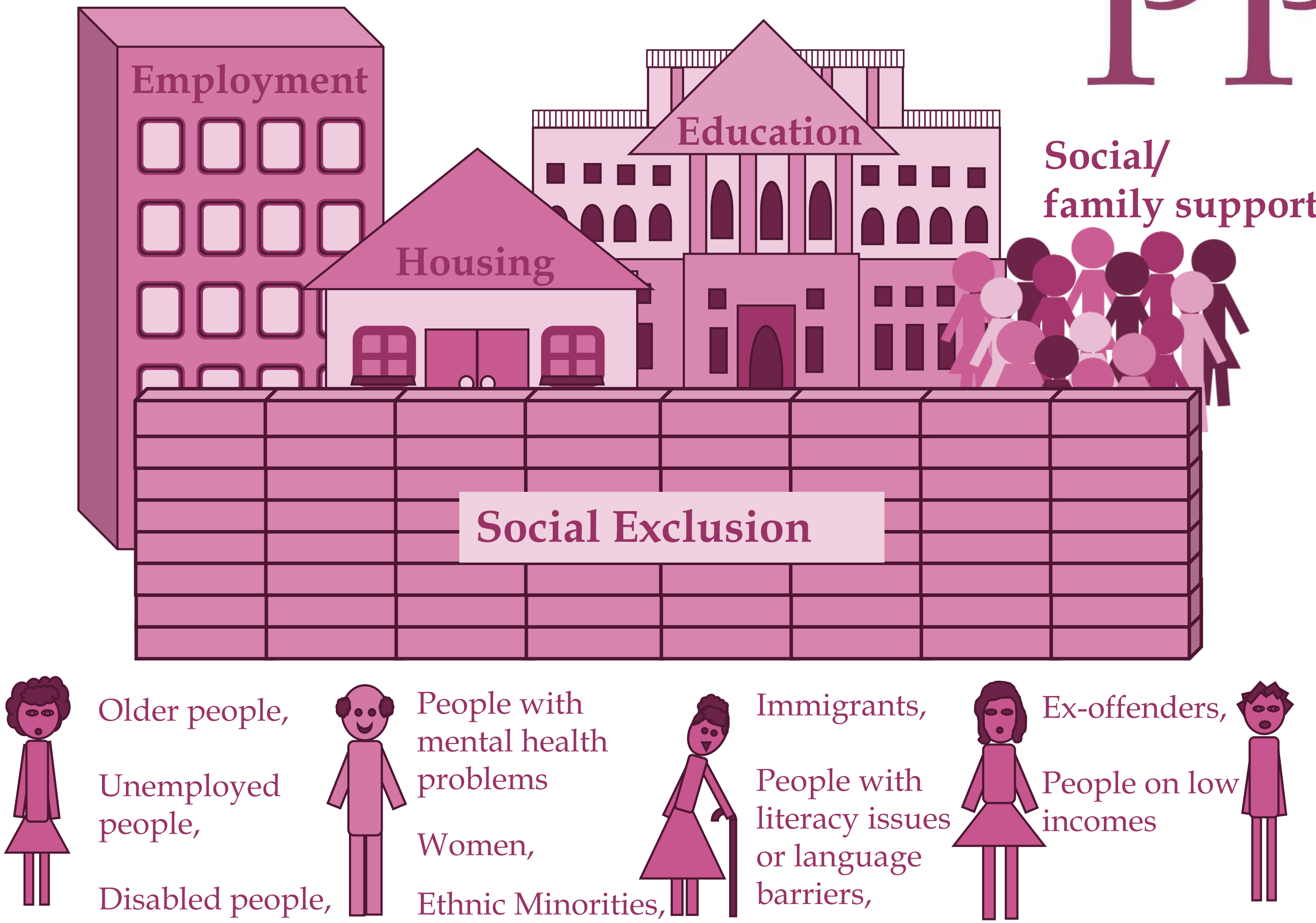

Marginalised people will be hard to engage with

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- Those struggling with immediate issues such as homelessness, domestic abuse, drug or alcohol addiction are unlikely to see long-term saving as an important or feasible priority.
- For the majority, a lack of income or employment will provide the main barrier to financial engagement and saving in a pension.
- Safety-nets could be main sources of income during working life and retirement.
- While pension compulsion or defaults could help, these tend to be accessed through traditional employment.
- Some people who are marginalised or socially excluded will transition to (or from) a more stable position during their lives.

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It can be risky to motivate active decision-making among those with low capability

- Because of the importance of saving early and consistently it is not generally in the best interests of non-engaged people to defer saving until they have achieved a higher level of financial capability.
- Defaults or compulsion to contribute to a pension will particularly benefit people in this group.
- Alongside work around financial capability and defaults or compulsion, it is vital for non-engaged people to have safety-nets they can fall back on.
- The non-engaged are more likely to be unprepared for financial difficulties and are therefore more dependent on social safety nets.

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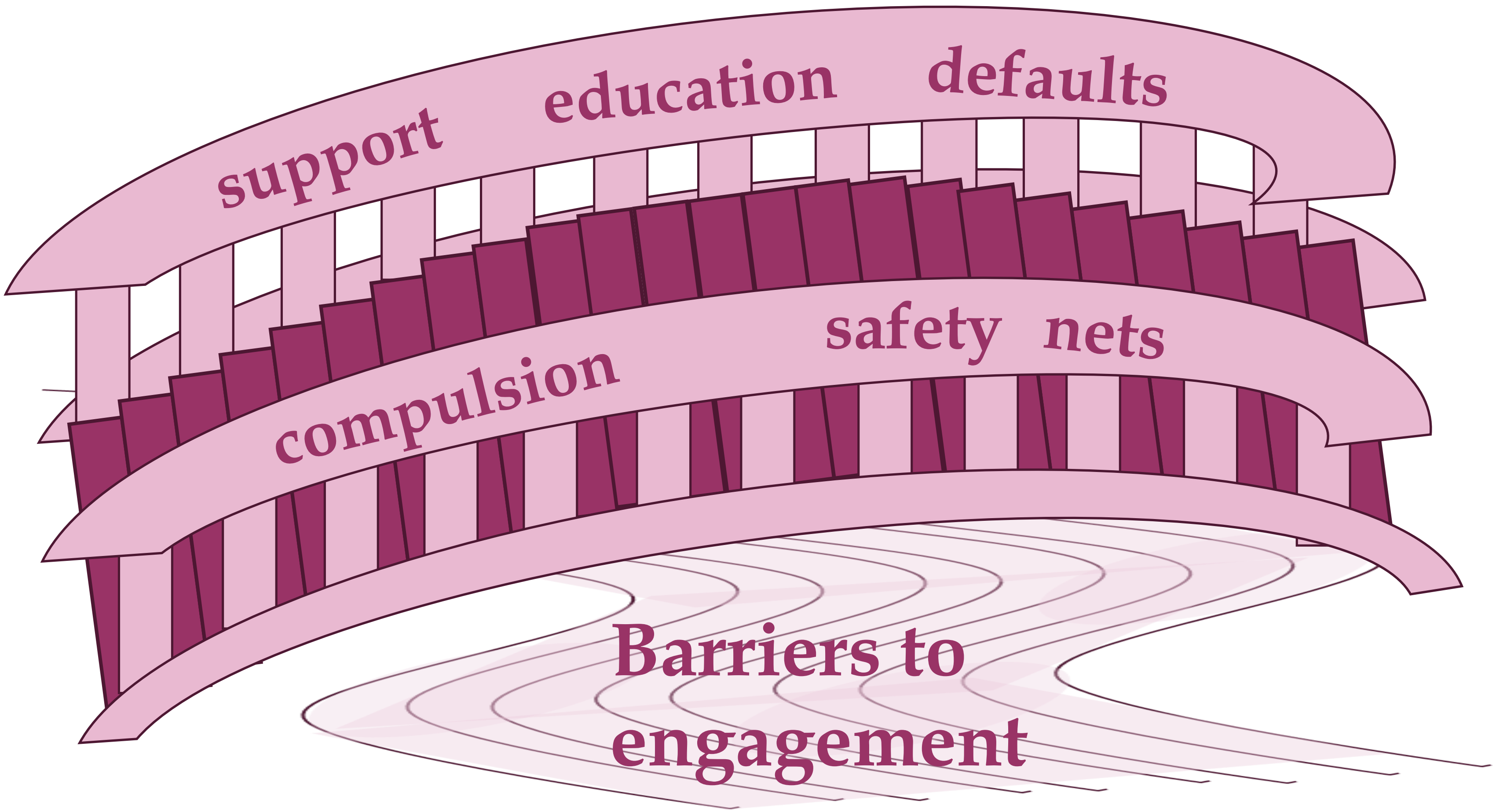

Engaged people benefit from consumer protection

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- Engaged people are the main consumers of financial products. While all consumers of these products will benefit from protection, the highly engaged will benefit more from these policy levers than from defaults, compulsion or safety nets.

- While behavioural interventions can be used to help people to achieve positive outcomes, people are also exposed to behavioural cues which can lead to making poor decisions. Reducing negative behavioural cues plays an important role, alongside positive cues, in helping to reduce harm and promote positive outcomes from long-term saving.

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- Behavioural interventions can help people to achieve better pension outcomes though other policy levers also play an essential role
- Behavioural interventions work best when applied during "teachable moments" and when they are personalised
- The design of behavioural interventions should take into account the age, capability, culture, income and gender of the target groups to be most effective
- Promoting active decision-making among those with low levels of capability can be risky
- For the socially excluded, those with low incomes and those with low levels of capability, safety-nets, defaults and compulsion will play a lead role in delivering better outcomes from pension saving

Discussion questions

- Can interventions be designed in a way which accounts for differences in capability, aptitude, income and attitudes towards finances?
- Is the current system of support, safety nets and consumer protection sufficient to help those who struggle to navigate their finances?
- How can this PPI research inform the evolution of support and engagement?
- How widespread is the use of negative behavioural nudges and do we need to do to combat these?