

How harnessing behavioural economics can boost retirement savings

Chris Wagstaff

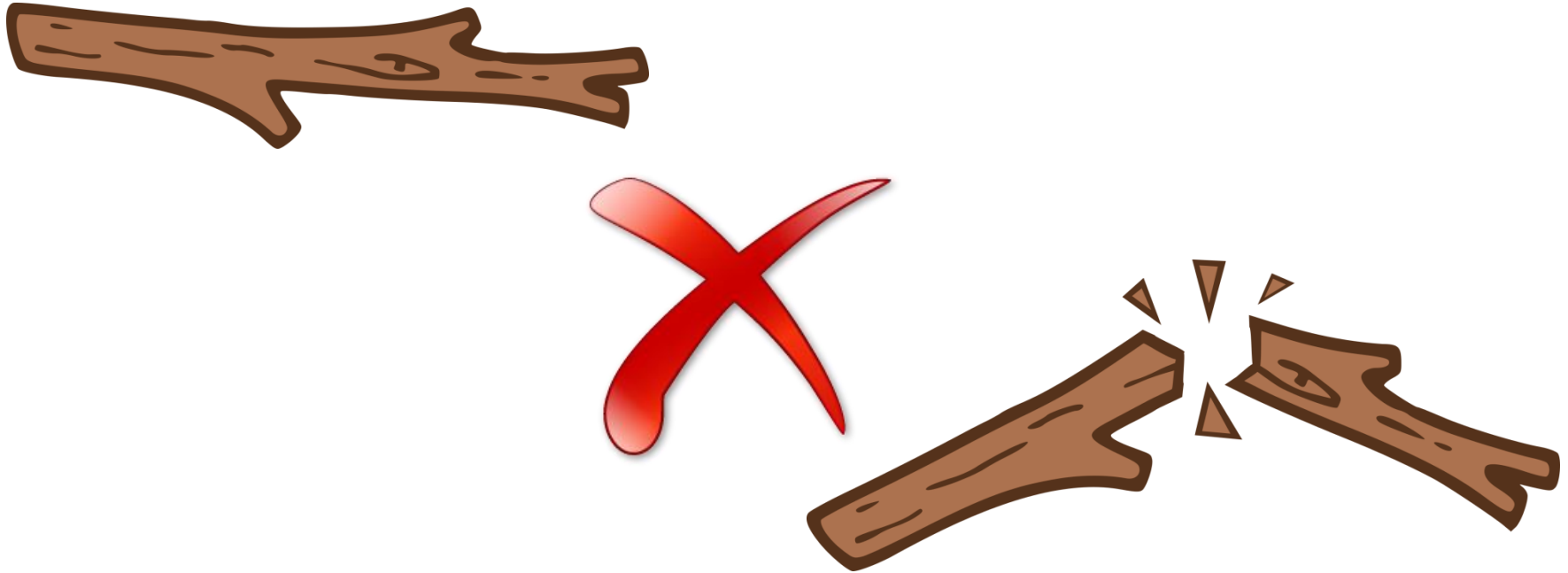
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A bag costs 5p, but that's not the point!



Stick doesn't work...



... but a gentle nudge often does!



Everyday behavioural interventions

Makeover one brush at a time

A police initiative bringing a splash of colour to an intimidating subway has helped to give youngsters some "ownership" of their community. Eight schools were invited to take part in the Upminster Community Art Project, which has transformed the underpass running from St Mary's Lane to Denmour Gardens. Armed with a handful of paintbrushes, pupils were asked to create designs around the theme "what

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Upminster - Library, Gaynes Parkway, school creche and Upminster station are just some of the areas immortalised in the mural.

► Turn to page three for the full story.



► Hall Mead School students with PC Sarah Morris and PCSO Julie Wade.



Lick of paint transforms subway

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From a dark, dingy underpass to a vibrant, colourful haven, help has been given to transform underpasses into places people want to visit.

The Upminster Community Art Project is a police initiative which has invited eight schools to take part in the project. The project is a joint venture between the police and the community, aiming to bring the area to life and make it a safer place.

It is the first of a series of projects in the area, with the aim of making the area a safer place for everyone.

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Parkway, school creche and Upminster station are just some of the areas immortalised in the mural.

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The challenge...

“Addressing the inadequacy of retirement provision in the UK has arguably become the nation’s number one socio economic challenge.”

Source: Chris Wagstaff, Columbia Threadneedle Investments, July 2016.
Publication: *Mind the gap: Overcoming the cognitive barriers to saving for retirement.*

...is becoming more challenging against the backdrop of five secular trends

- Increasing time spent in retirement
- State pension paid ever later
- DB benefits disappearing
- Individuals forced to assume more responsibility for their financial futures
- Continuing prospect of more modest investment returns and yields

The impediments to achieving a good retirement outcome are many and various...

- Complexity and multiplicity of decisions
- Low level of basic numeracy and financial literacy
- Lack of frames of reference
- Paucity of guidance
- Unwillingness and/or inability to pay for financial advice
- Inertia
- Lack of trust

“The result is a deep-seated reluctance to engage with pensions”

...and also arise from behavioural biases

“The mind is a cognitive miser. It doesn’t like to expend mental energy.”

David Brooks, The Social Animal, p.218¹

- *Present bias* and *anchoring* result in sub optimal levels of saving
- Present bias
 - Spend today rather than save for tomorrow
- Anchoring
 - Minimum contribution levels used as decision making reference points

¹David Brooks. The Social Animal. Random House. 2012. ISBN 978-1-78072-037-1.

Overcoming present bias

- Overcome *present bias* by
 - Visualising our future selves
 - Visualising activities will continue to enjoy
 - Auto escalation of contributions²
 - Issuing lottery tickets



Visualising our future selves¹

A: Actual Photo of First Author



B: Nonaged Digital Avatar



C: Aged Digital Avatar



¹ Hal E. Herschfield, Daniel G. Goldstein, William F. Sharpe, Jesse Fox, Leo Yeykelis, Laura L. Carstensen, Jeremy N. Bailenson. Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self. *Journal of Marketing Research* Vol. XLVIII (November 2011), S23–S37. <http://vhil.stanford.edu/mm/2011/herschfield-jmr-saving-behavior.pdf>.

² Richard H. Thaler, University of Chicago and Shlomo Benartzi, University of California, Los Angeles. *Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving*. *Journal of Political Economy*, 2004, vol. 112, no. 1, pt. 2.

Overcoming anchoring

■ Overcome *anchoring* to the minimum contribution by

- Issuing lottery tickets
- Using simple frames of reference
- Reframing tax relief
- Reframing employer contributions
- Reinforcing positive social norms



PUBLICISE FAVOURABLE CONTRIBUTION AND COVERAGE STATISTICS THAT SHOW POSITIVE SOCIAL GROUP BEHAVIOUR TO ENCOURAGE OTHERS TO CONFORM TO SOCIAL NORMS

The conclusion?

“Although behavioural economics doesn’t have all the answers, applying simple behavioural interventions could not only generate more optimal individual savings decisions but could ultimately lead to a retirement to be enjoyed rather than endured.”

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