

KNOWING YOUR CUSTOMER BEHAVIOURAL INSIGHTS & THE PENSIONS JOURNEY

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 @B_I_Tweets @Lis_Costa_



“Scheme members are not always as **engaged** as our industry would hope. What are some of the **fundamental idiosyncrasies of consumer behaviour**, and **how can our industry use them to our members’ benefit?**”

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LACK OF ENGAGEMENT IS NOT EXCLUSIVE TO THE PENSIONS INDUSTRY

- ▶ Part of a broader problem recently highlighted by CitizensAdvice - e.g. “loyalty penalty”
- ▶ Auto-enrolment is a double-edged sword:
 - ▶ An opt out system allowed for a huge increase in proportion of employees saving for a pension
 - ▶ But inertia also means these members are unlikely to increase contributions or take other actions

News > Business > Business News

Citizens Advice files super complaint over utility customers' £4bn 'loyalty penalty'

Mobile, broadband, home insurance, mortgage and savings customers who stay with their provider pay an extra £877 per year

Cristian Angeloni | Friday 28 September 2018 08:15 |



Source: The Independent (2018)

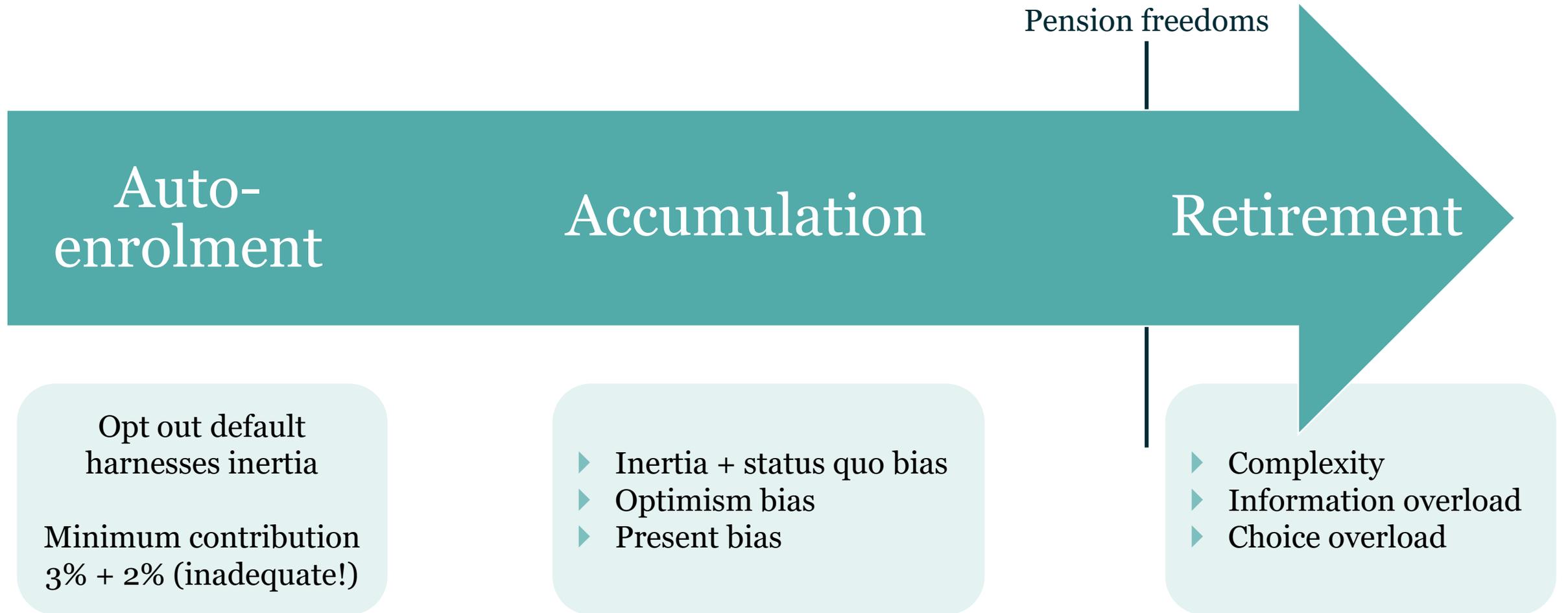
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THE BEHAVIOURAL INSIGHTS TEAM



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BIASES ACROSS THE PENSION JOURNEY





HOW BEHAVIOURAL INSIGHTS CAN HELP: PERSONALISED, TIMELY PROMPTS

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EXAMPLE 1: CAN A “PENSION PASSPORT” INCREASE ENGAGEMENT



Personalised: addressed to an individual and with tailored information about their fund and options



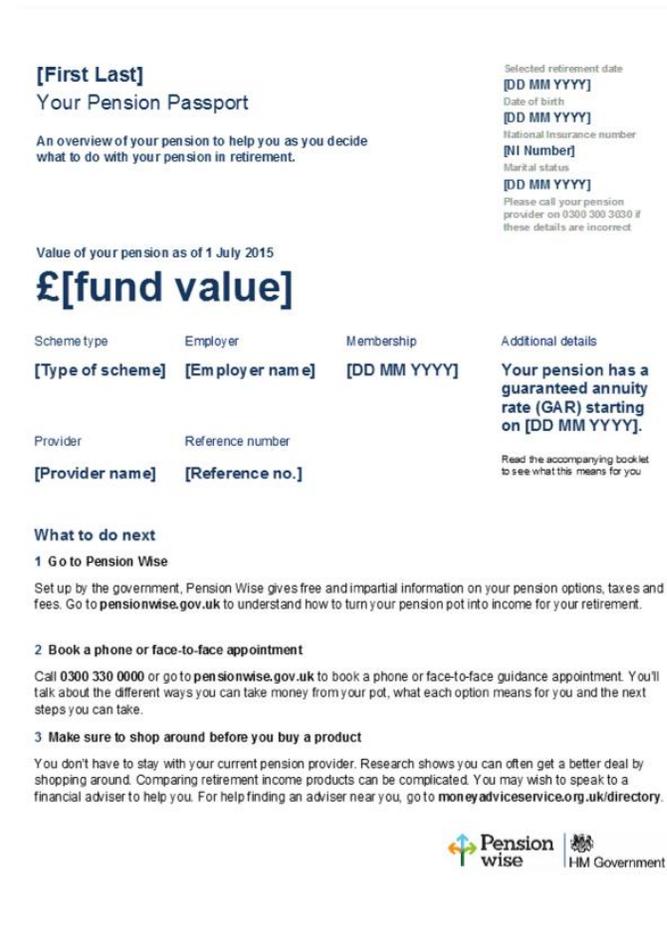
Simple: all the essential information a customer needs (e.g. to access open market options) presented on one page



Salient: the most important information is highlighted (e.g. the value of their pension, type of scheme)



Call to action: explicit next steps (e.g. to seek guidance and shop around)



[First Last]
Your Pension Passport

An overview of your pension to help you as you decide what to do with your pension in retirement.

Selected retirement date [DD MM YYYY]
Date of birth [DD MM YYYY]
National Insurance number [NI Number]
Marital status [DD MM YYYY]
Please call your pension provider on 0300 300 3000 if these details are incorrect.

Value of your pension as of 1 July 2015
£[fund value]

Scheme type	Employer	Membership	Additional details
[Type of scheme]	[Employer name]	[DD MM YYYY]	Your pension has a guaranteed annuity rate (GAR) starting on [DD MM YYYY].

Provider [Provider name] Reference number [Reference no.]

Read the accompanying booklet to see what this means for you.

What to do next

- 1 Go to Pension Wise**
Set up by the government, Pension Wise gives free and impartial information on your pension options, taxes and fees. Go to pensionwise.gov.uk to understand how to turn your pension pot into income for your retirement.
- 2 Book a phone or face-to-face appointment**
Call 0300 330 0000 or go to pensionwise.gov.uk to book a phone or face-to-face guidance appointment. You'll talk about the different ways you can take money from your pot, what each option means for you and the next steps you can take.
- 3 Make sure to shop around before you buy a product**
You don't have to stay with your current pension provider. Research shows you can often get a better deal by shopping around. Comparing retirement income products can be complicated. You may wish to speak to a financial adviser to help you. For help finding an adviser near you, go to moneyadvice.service.gov.uk/directory.

 Pensionwise |  HM Government

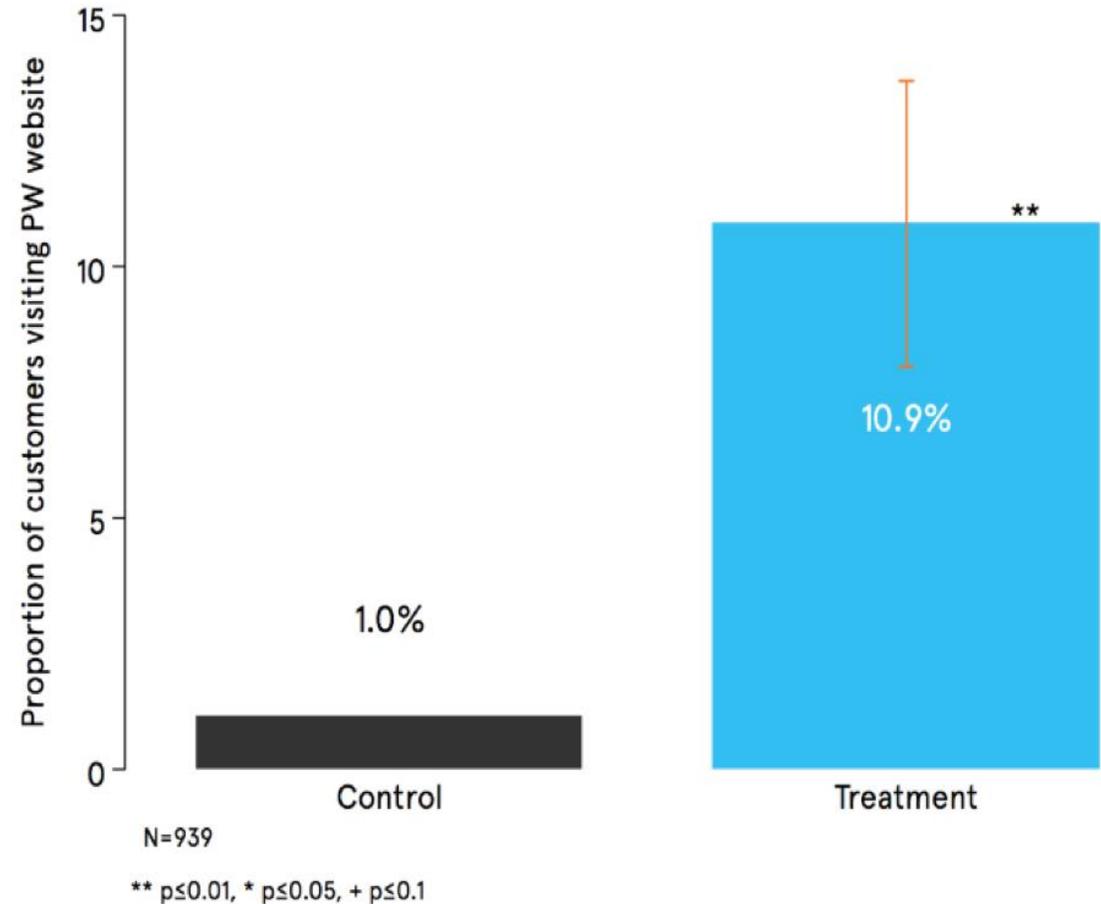
EXAMPLE 1: CAN A “PENSION PASSPORT” INCREASE ENGAGEMENT

The Pension Passport increased engagement ten-fold

Consumers were more likely to:

- ▶ Visit the website
- ▶ Contact the Pension Wise helpline
- ▶ Say the information they were sent prompted them to think about/take action
- ▶ Find knowing who to speak to about their decision ‘easy’ as opposed to ‘hard’

Figure 1: Effect of Pension Passport on website visits



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EXAMPLE 1: CAN A “PENSION PASSPORT” INCREASE ENGAGEMENT



Search

Talking about pension choices earlier

The FCA is proposing that 'wake-up' packs should be sent to customers from the age of 50 and then every five years until the customer has fully accessed their pension pot. The new 'wake-up' packs will have to include a single page summary, sometimes called a 'pensions passport' and firms will also have to include specific retirement risk warnings at the same time as the new packs.

The new communications will be designed to address this lack of consumer engagement and help consumers engage with the risks and choices they face and prompt them to access the support and guidance they need.

measures designed to protect consumers, improve engagement and promote competition in the retirement income market.

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EXAMPLE 2: ENCOURAGING CONSUMER SWITCHING –

LEARNING FROM OTHER MARKETS

- ▶ In the UK, 9.5 million households can save over £300 a year by switching energy supplier
- ▶ Status quo bias: People tend to stick with what they know and avoid the uncertainty of switching

You could save £996.29 by switching your energy supplier

Ofgem is the energy regulator and works to protect energy consumers. We are writing to you because you could save money by switching suppliers.¹

██████████ has estimated that your energy costs for the next 12 months will be: £3734.92. This is based on your current gas and electricity tariffs and how much energy you have used over the past year. Using this information, we've found that you could save £996.29 by switching to another energy supplier. The tariffs below match how you pay for your energy and if you get paper bills or manage your account online.

It's very easy and safe to switch suppliers. Your energy supply will not be cut off. Once you switch you have 14 days to change your mind if you're not happy with your decision.

Cheaper tariffs you could switch to:

Energy supplier	Bulb 0300 30 30635	Together Energy 03331 501 699	Extra Energy 0800 9534774
Estimated annual savings	£996.29	£993.18	£984.63
Estimated annual cost	£2738.63	£2741.74	£2750.29
Tariff name	Vari-Fair	Together Variable	Variable Price v1
Tariff end date	No end date	No end date	No end date

Source: ██████████

¹All personalised information in this letter has been generated by your supplier on behalf of Ofgem.

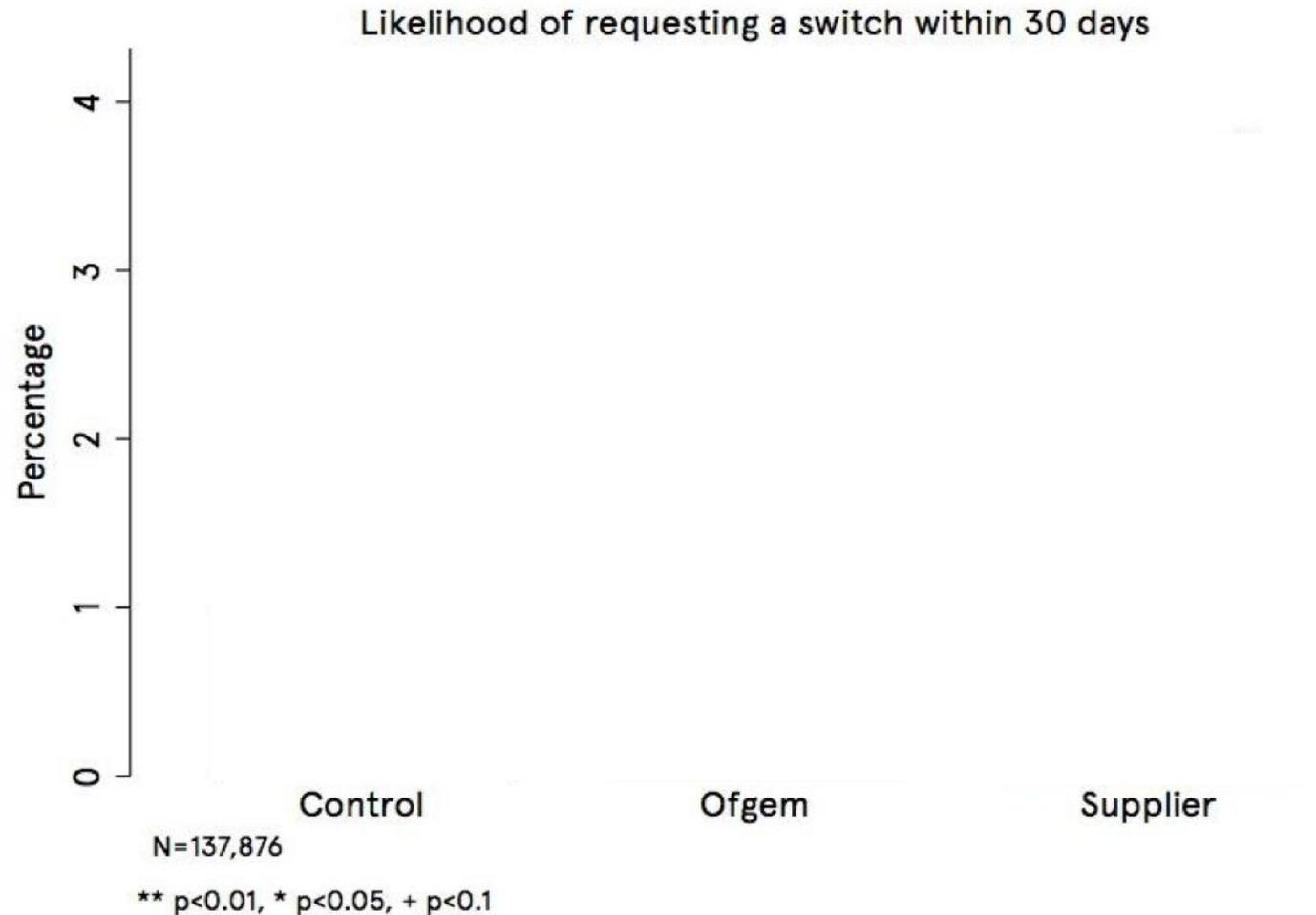
The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 www.ofgem.gov.uk
OFFICIAL

00980 / Arm3_1to3Years_Ofgemletter

EXAMPLE 2: ENCOURAGING CONSUMER SWITCHING – ofgem

Was a letter from a supplier more effective than a letter from the regulator?

Ofgem's Behavioural Insights Unit tested the 'Cheaper Market Offers Letter'



ARE PERSONALISED, TIMELY PROMPTS ENOUGH?

- ▶ Overall impact of prompts is modest
- ▶ This is because baseline for engagement is very low
- ▶ How else to use our understanding of consumer behaviour?

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HOW BEHAVIOURAL INSIGHTS CAN HELP: SMART DEFAULTS ACROSS THE PENSIONS JOURNEY

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DEFAULTS CAN POWERFULLY SHAPE CONSUMERS' PENSION JOURNEY

Pension freedoms

Auto-enrolment

Accumulation

Retirement

- ▶ **Opt-out workplace pensions** are extremely effective (UK: <10% opt-out)
- ▶ Defaults work better than incentives ([Chetty et al., 2014](#))

- ▶ Savers stick with the **default contribution rates** (up to 11% of pay in [Beshears et al., 2017](#))
- ▶ Savers follow **default asset allocations** (review in [Beshears et al., 2009](#))

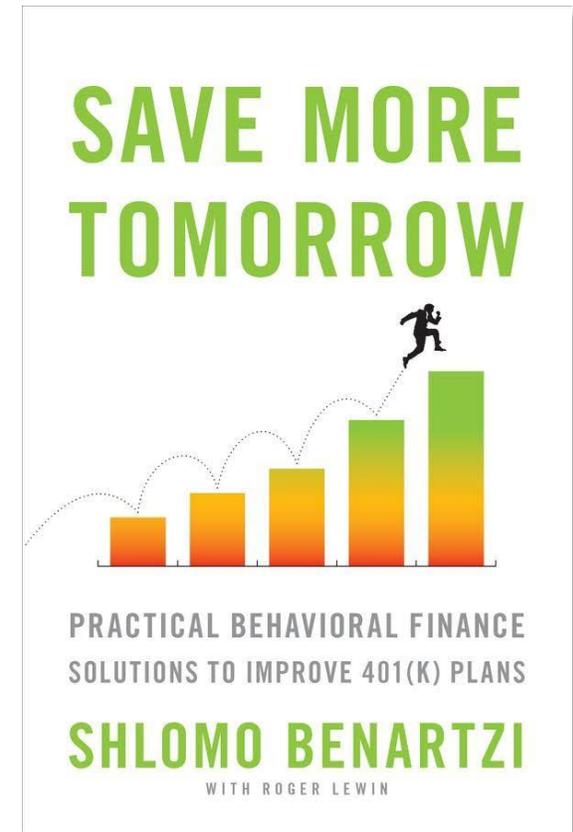
- ▶ **Default post-retirement distribution options** are powerful (review in [Beshears et al., 2009](#))

EXAMPLE 3: BUILDING IN AUTO-ESCALATION

- ▶ When offered the default rate many passively accept it
- ▶ But had they been forced to make a choice on their own, some would have selected a higher rate (Madrian & Shea, 2001)
- ▶ Auto-escalation can increase savings and align customer preferences with their behaviour

Application: Save More Tomorrow (Thaler & Benartzi, 2004)

- 1 - Employees commit now to increase their saving rate later (leverage present bias and future inertia)
- 2 - Planned increases in the saving rate are linked to pay raises (diminish loss aversion)
- 3 - Once employees sign up they remain in it until they reach a preset limit or choose to opt out (leverage inertia)



WRAPPING UP

- ▶ Auto-enrolment helps to get people saving
- ▶ Now we need to broaden the scope and apply insights on consumer behaviour to the entire pension journey
- ▶ E.g.: **NEST** research on using savers' interest in responsible investment to increase their engagement
 - ▶ **44%** agree that info on responsible investment makes them **more interested** in their pension

