"Approaching retirement: the categories, timing, and correlates of advice-seeking"

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Acknowledgements

Introduction I

- Defined contribution (DC) pension systems require individuals to be planning 'agents'
  - Making plans for future income at retirement
  - Integrating the short-term with the long-term
    - Contributions, investments, and drawdowns.

Introduction II

- At issue in this paper is degree to which agents seek 'advice' in planning for the future
  - Distinguishing between the categories of advice-seeking
  - The timing of advice-seeking viz. work and retirement
  - And the correlates of such advice-seeking.

Assumptions-Suppositions I

- Hypothesis: If DC participants are planning agents, advice-seeking is likely to be a <u>flow</u>
  - Underwritten by Friedman's permanent income hypothesis
  - Punctuated, perhaps, by life-cycle factors (Legros 2006)
  - Integrating the short-term (contributions, investments) with the long-term (retirement income).

Assumptions-Suppositions II

- Hypothesis: Alternatively, DC participants seek advice when confronting changing (unexpected) circumstances.
  - For example, the May 2006 federal government tax reforms on pension contributions
  - Or, the global financial crisis 2008-2010
 - Or the prospect (immediate) of retirement.

Data Base

- Based upon a large data-base of Australian superannuation participants, 2004-2013
  - Over 560,000 people
  - Over 800,000 calls
  - With socio-demographic characteristics
  - And a full inventory of decisions taken in this space over this period.
  - Roughly 2,000,000 topic raised
  - Over 140 'topic categories' coded by call receivers

Empirical strategy II

- ## Clustering

  – Calinski-Harabasz criterion for optimal clustering

- ## Cointegration (mothly/quarterly)

  – Johansen procedure
    - Augmented Dickey-Fuller Unit Root Test
    - Estimation of the co-integrating rank of a VECM

- ## Regression analysis: OLS and System Tobit

  – Correlates: Stock market index (ASX 200), GDP, Full time employed, Expectation of financial situation in the next 12 months, Expectation of economic conds in the next 12 months, Expectation of economic conditions in the next 5 years, Unemployment expectations

  – Seasonality considered when necessary

Basic findings I
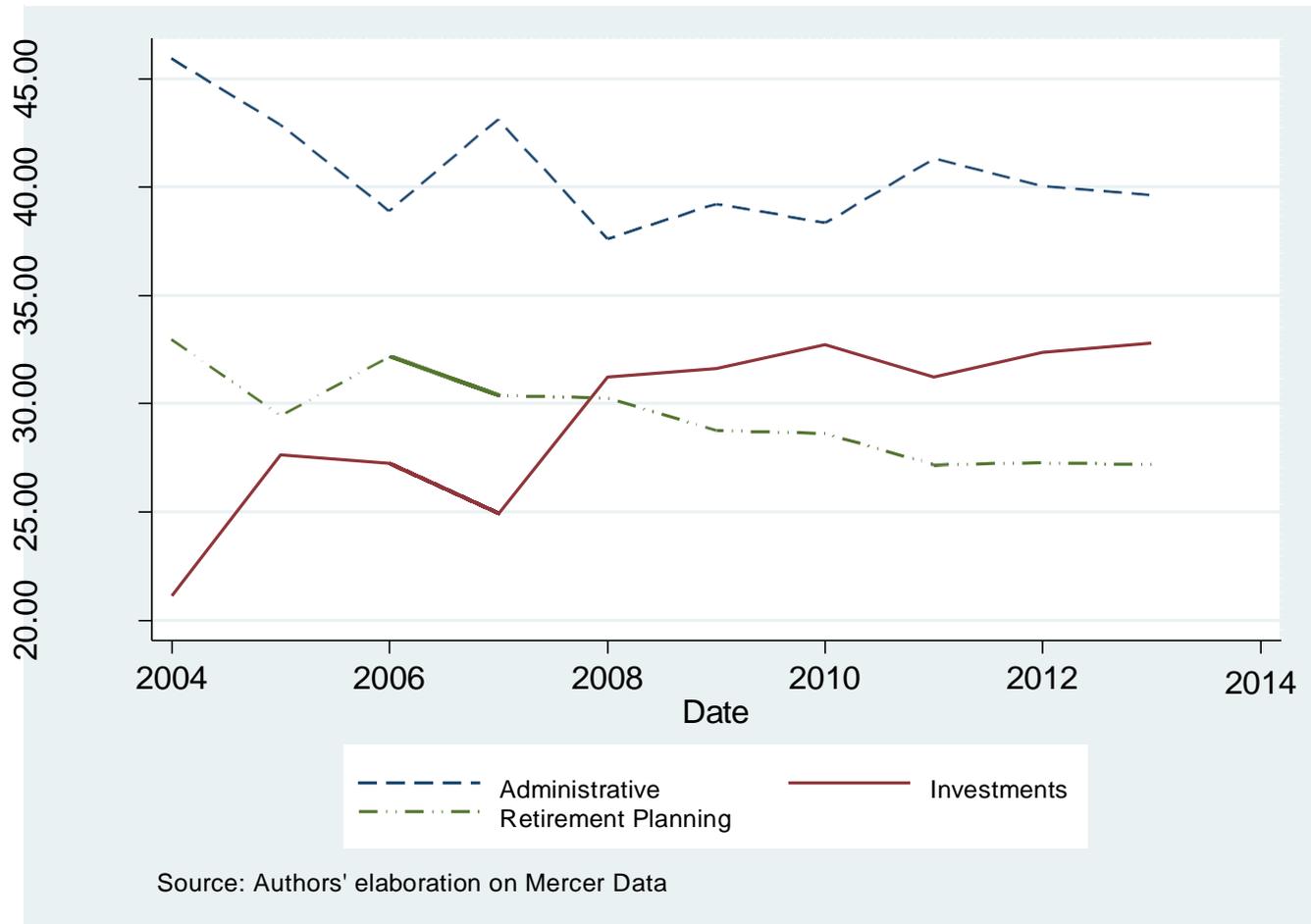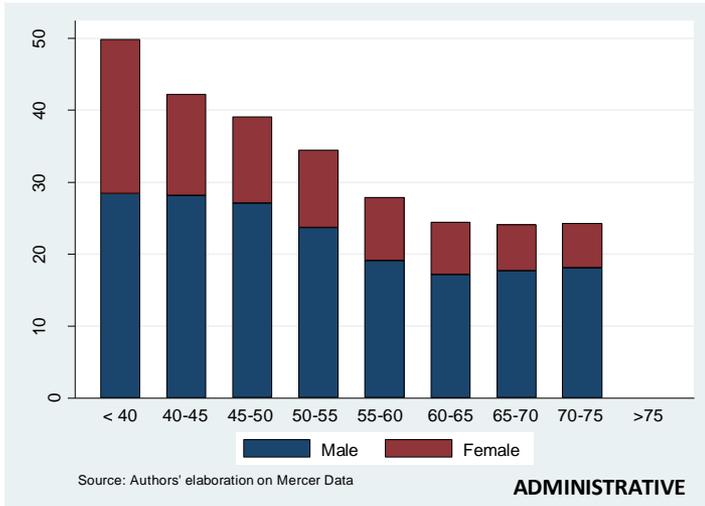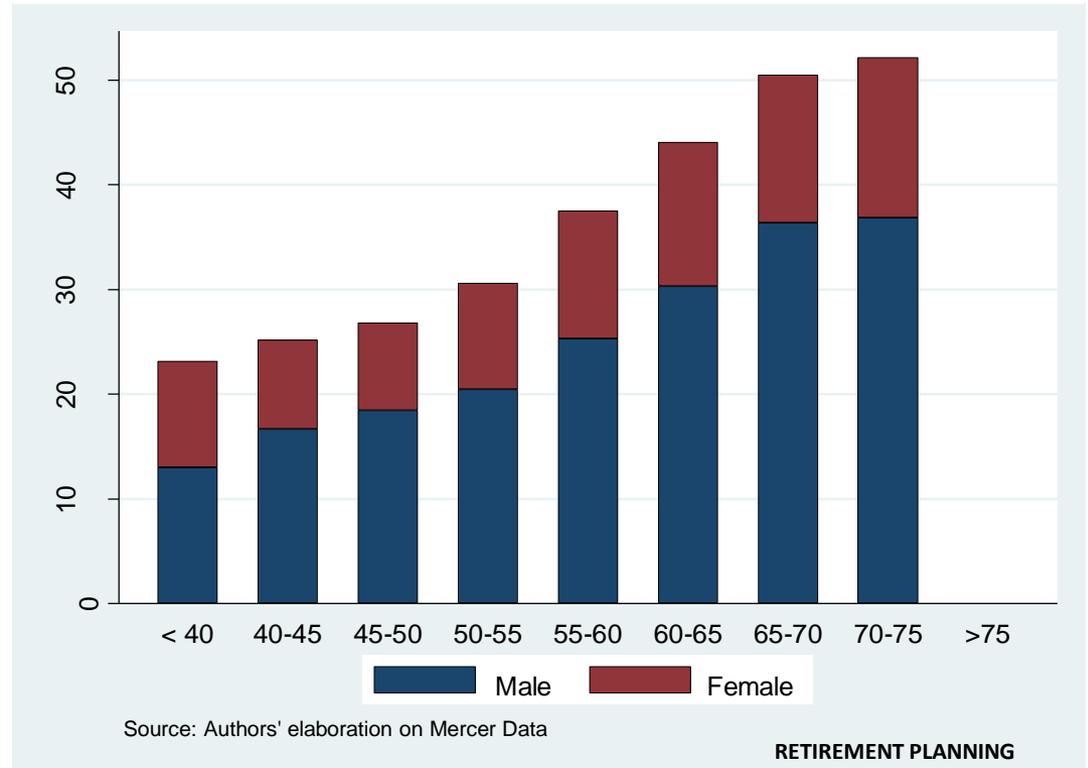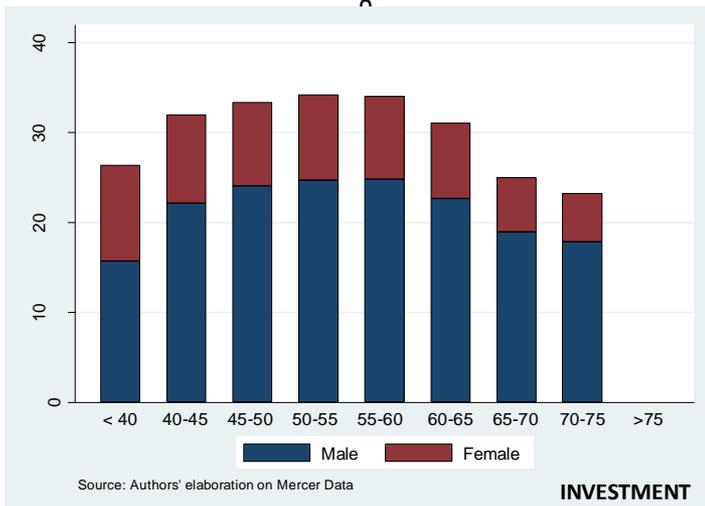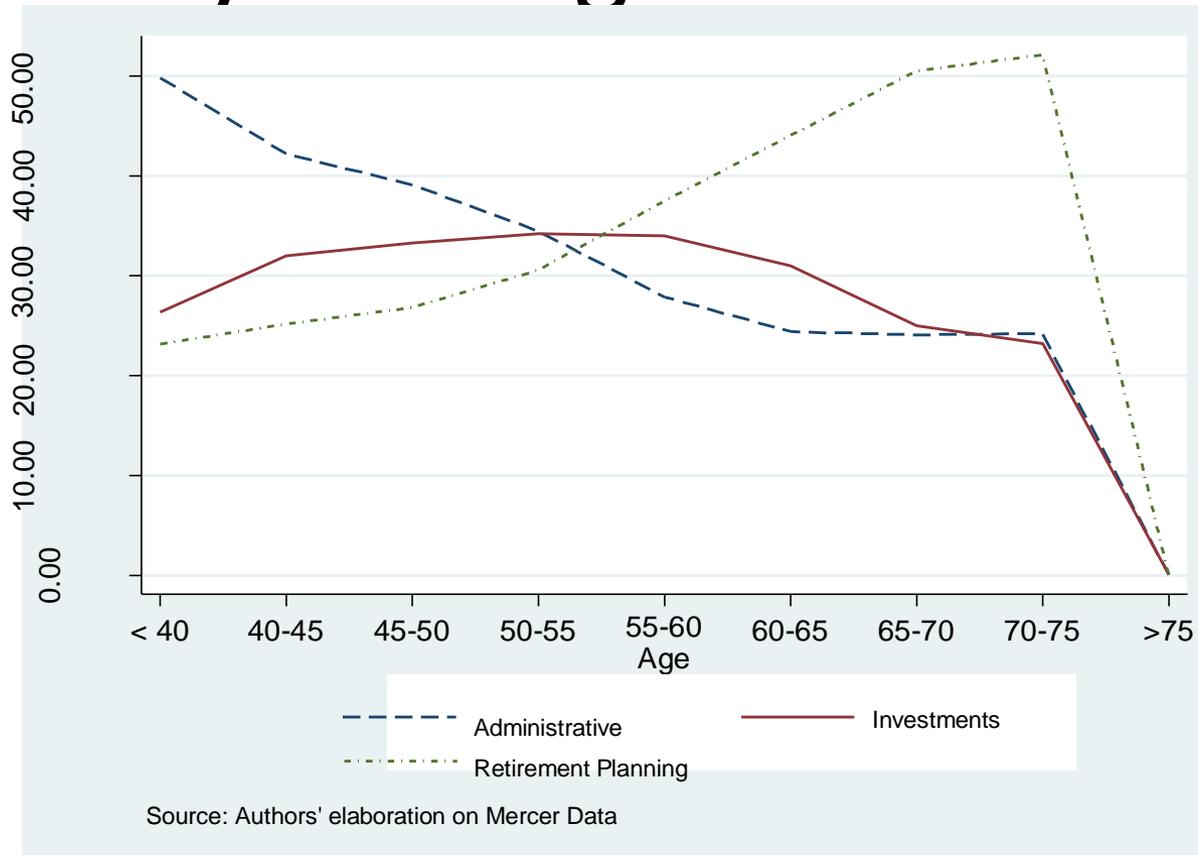
Source: Authors' elaboration on Mercer Data

Basic Findings II

Source: Authors' elaboration on Mercer Data

ADMINISTRATIVE

Source: Authors' elaboration on Mercer Data

INVESTMENT

Source: Authors' elaboration on Mercer Data

RETIREMENT PLANNING

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Key Findings on Advice-Seeking I

Source: Authors' elaboration on Mercer Data

- After 40 years, the importance of investment versus retirement advice-seeking changes:

  – Initially privileging investment matters over retirement planning

  – Then privileging retirement

Planning over investment matters (which comes to dominate advice-seeking after 55 years of age)

– Punctuated by 'events' that significantly alter the terms and conditions underpinning retirement saving.

Key Findings on Advice-Seeking II
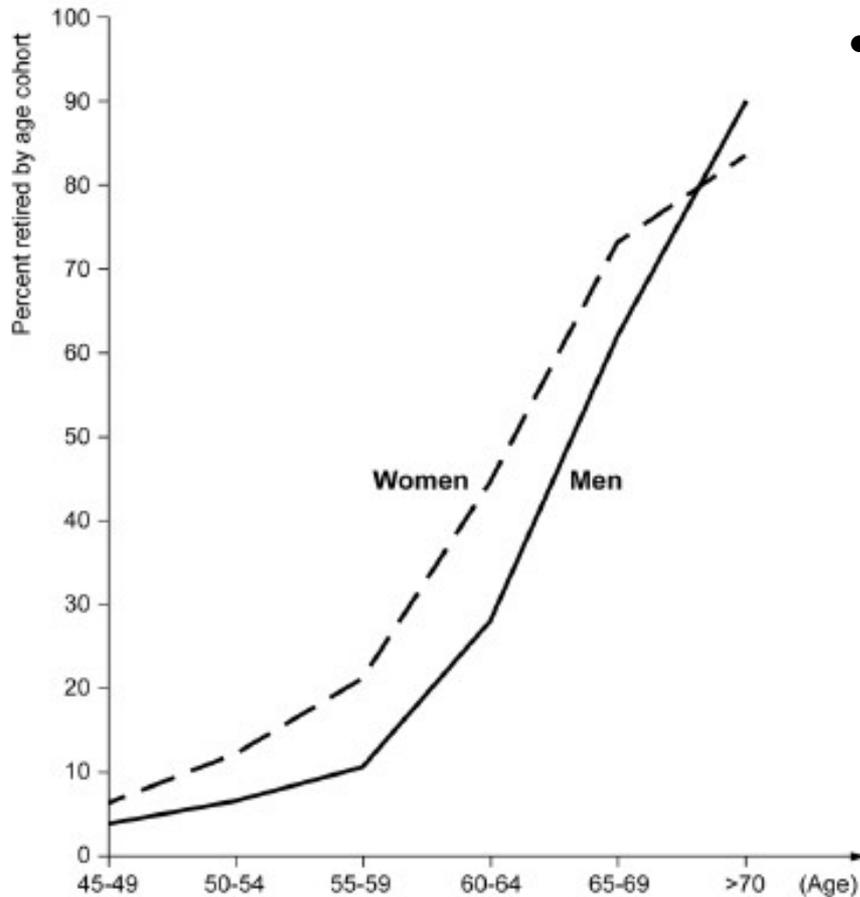
Source: Australian Bureau of Statistics. 2011. Retirement and Retirement Intentions. Report 6238.0. Canberra ACT: Commonwealth of Australia.

- Three 'trigger' ages driving the surge in advice-seeking on retirement planning
  - 'encountering' the preservation age (55 years) when partipants can get access to their assets
  - 'encountering' the median age of retirement for Australian workers (men in particular)
  - 'encountering' the age of entitlement for the Australian Aged Pension (65 years).

Key Findings on Advice-Seeking III

- Obvious gender effects regarding the propensity to call on investment matters and retirement planning
  - Women tend to call less than men viz retirement planning after 55 years (early retirement, reliance on others etc)
  - Men call more than women on investment matters for each age cohort post-40 years (matching the literature)
  - When participants' account balances and salaries are taken into account men and women seem to call on retirement matters at much the same rate (at the highest $$$).

Implications and Conclusions I

- Categories of advice-seeking are a viable way of understanding participant behavior
  - Also reveals 'stages' in participants' interests and attention through to retirement
  - Provides insight for designing service-systems with reference to age, gender, income etc
  - Indicates how/why 'investment matters' should be distinguished from other categories.

Implications and Conclusions II

- Is a 'passive' engagement strategy the best strategy for providers? Is it in the interests of participants?
  - Are there ways to prompt engagement?
  - What about drop-in centres?
  - How robust are the patterns as observed if other ways were found to prompt engagement?

# Thank you!

Supplementary material

Regression results (System Tobit)

	Administrative Topic	Investment Topic	Retirement planning Topic
% change stock mkt	1.625	1.282	1.576
	(1.163)	(0.803)	(0.823)
% change gdp	2.519	1.528	-7.139
	(10.629)	(7.489)	(7.652)
% change full_time_employed	28.769*	21.321*	17.607
	(13.930)	(9.699)	(9.834)
% change expectation of financial situation in the next 12 months	-1.804	-1.398	-1.087
	(1.258)	(0.850)	(0.848)
% change expectation of economic conditions in the next 12 months	-0.055	0.542	0.233
	(0.760)	(0.545)	(0.556)
% change expectation of economic conditions in the next 5 years	2.263	-0.247	0.055
	(1.316)	(0.934)	(0.944)
% change unemployment expectation s	1.569	1.453	1.046
	(1.194)	(0.824)	(0.820)
_cons	-0.151	-0.085	-0.033
	(0.125)	(0.087)	(0.088)
sigma	0.264***	0.185***	0.184***
_cons	(0.044)	(0.030)	(0.033)

Regression results (OLS)

	Administrative Topic	Investment Topic	Retirement planning Topic
% change stock mkt	1.289	1.011	1.279
	(0.878)	(0.881)	(0.669)
% change gdp	0.342	-0.447	-5.343
	(6.722)	(5.679)	(6.050)
% change full_time_employed	28.072*	22.459	15.789
	(10.962)	(11.775)	(9.696)
% change expectation of financial situation in the next 12 months	-1.420	-0.987	-0.886
	(0.901)	(0.527)	(0.528)
% change expectation of economic conditions in the next 12 months	0.065	0.486	0.276
	(0.626)	(0.591)	(0.533)
% change expectation of economic conditions in the next 5 years	2.190	-0.046	-0.036
	(1.600)	(1.075)	(1.055)
% change unemployment expectation s	1.868	1.741	1.117
	(0.959)	(0.947)	(0.707)
_cons	-0.130	-0.083	-0.029
	(0.076)	(0.082)	(0.073)

Topic by account balance

Source: Authors' elaboration on Mercer Data

ADMINISTRATIVE

Source: Authors' elaboration on Mercer Data

INVESTMENT

Source: Authors' elaboration on Mercer Data

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Topic by salary

Source: Authors' elaboration on Mercer Data

ADMINISTRATIVE

Source: Authors' elaboration on Mercer Data

INVESTMENT

Source: Authors' elaboration on Mercer Data

RETIREMENT PLANNING

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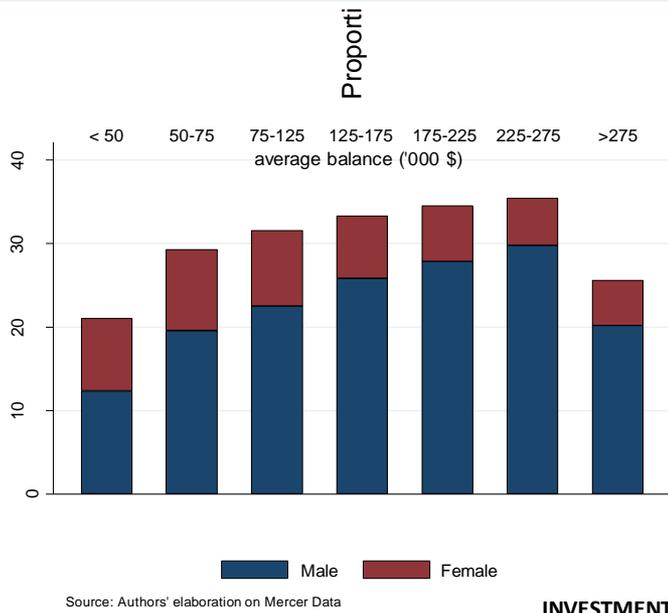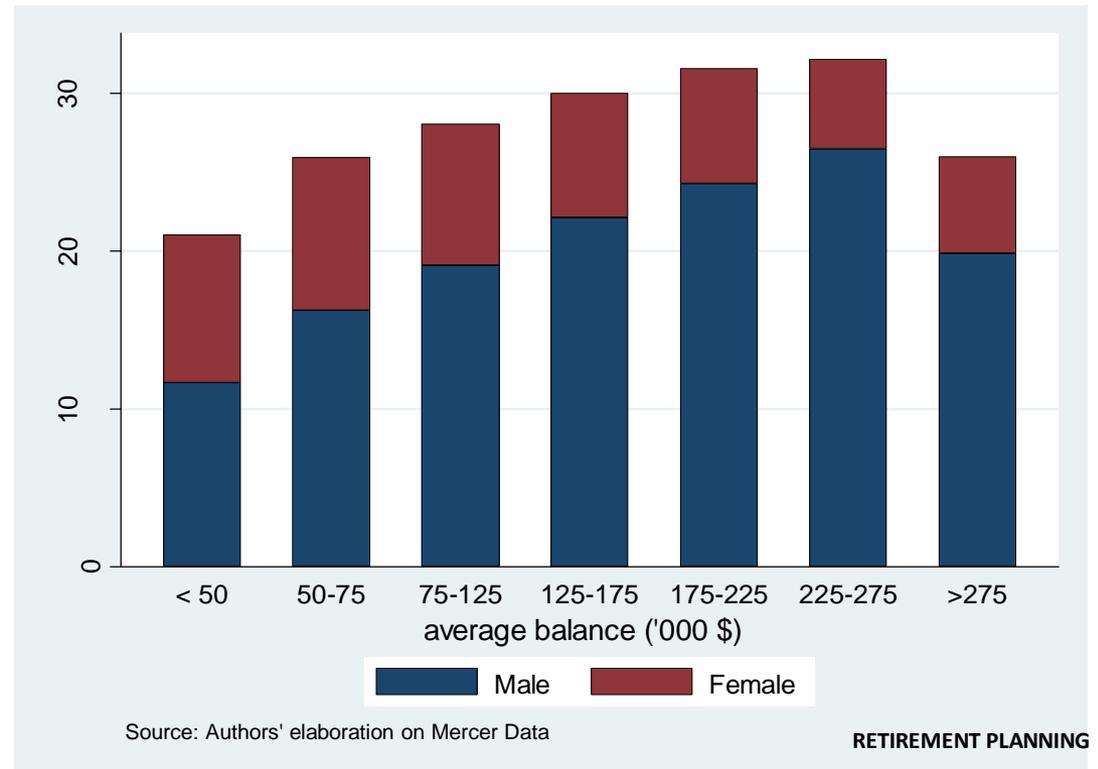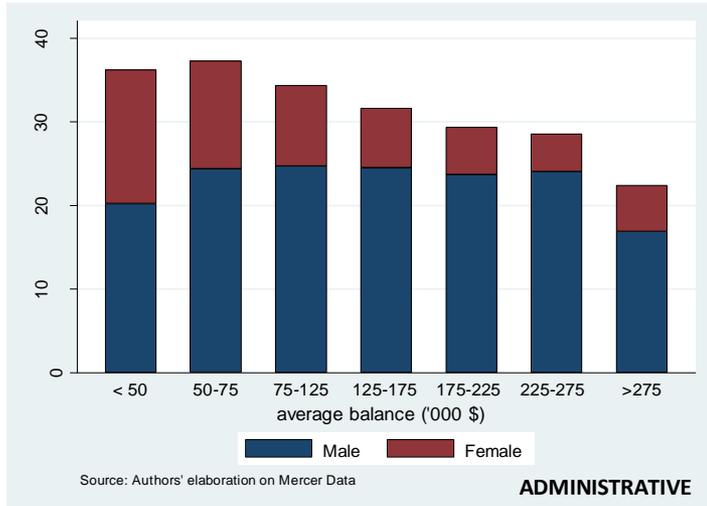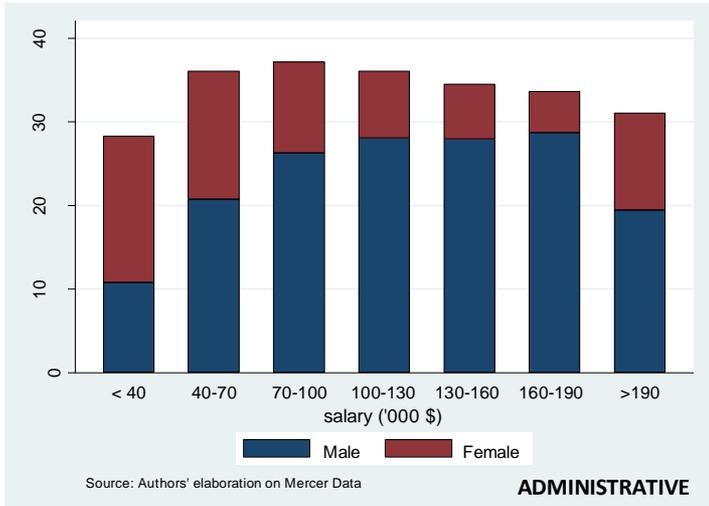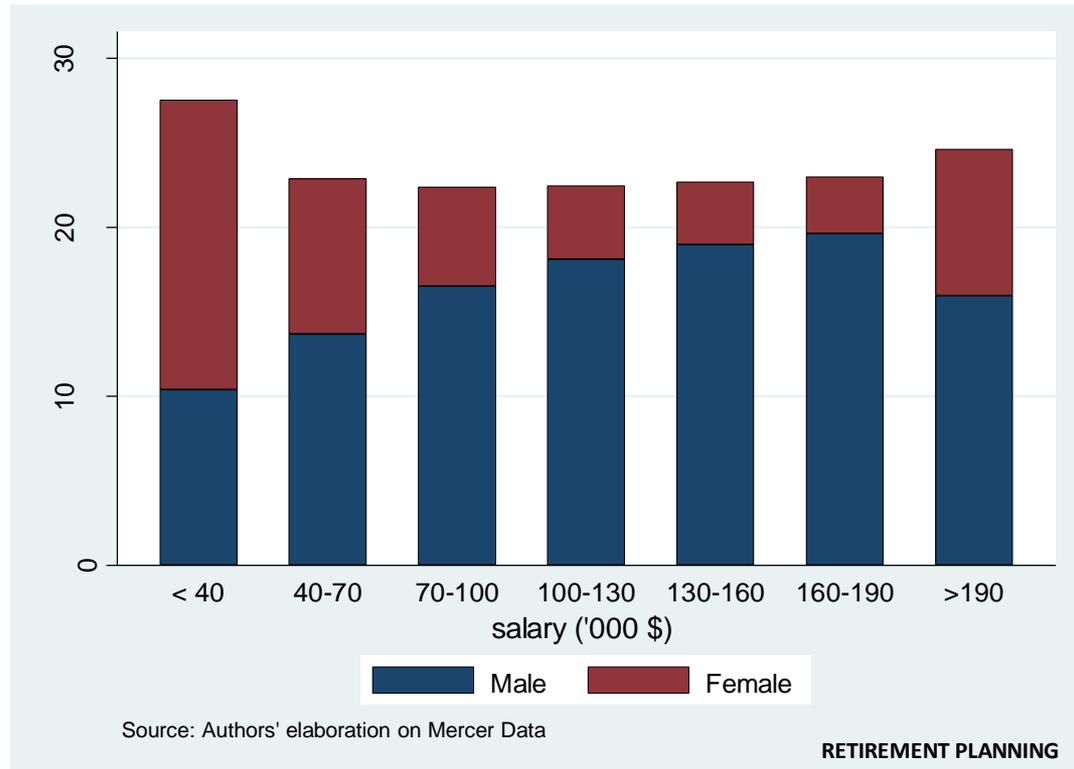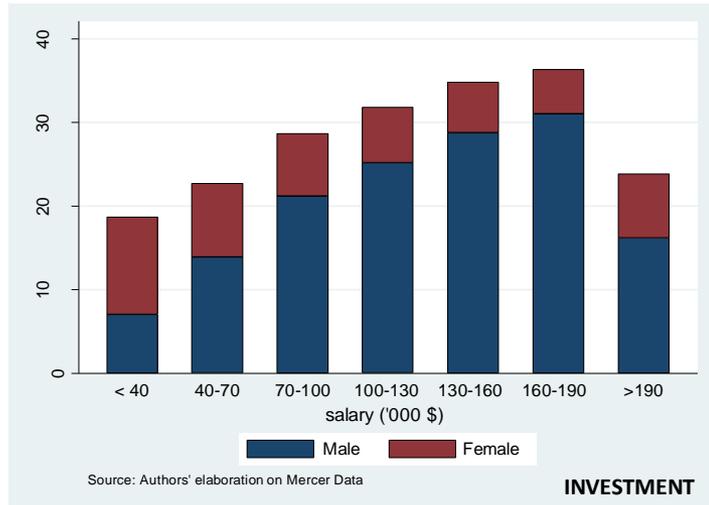
Four Ws

1. Timing (WHEN)
2. Advice-seeking in general VS advice-seeking relevant to retirement planning (WHAT)
3. Responsiveness to events and macroeconomic trends? (WHY)
4. Patterns of advice-seeking (WHO)

(5. WHERE was not at issue even though...)

Provision of Advice I

- In many jurisdictions, advice is widely available but problematic
  - Kin, neighbours and friends can be inept
  - Commercial vendors are often compromised (shrouded interests and intentions)
  - 'public' advice via government is typically generic and ineffective (viz individual circumstances).

Provision of Advice II

- Australian situation is unusual for the availability of advice from industry funds etc.
  - For low, medium and high income people
  - Through calling, consultations, and the web
  - Notionally 'free' for enrolled participants.

Provision of Advice I

- In many jurisdictions, advice is widely available but problematic
  - Kin, neighbours and friends can be inept
  - Commercial vendors are often compromised (shrouded interests and intentions)
  - 'public' advice via government is typically generic and ineffective (viz individual circumstances).

Basic Findings on Advice-Seeking I

- Patterns of advice-seeking over time are similar
  - See Figure 1, by category
  - Econometric evidence indicates change in employment drives change in the volume of administrative and investment related calls
  - But, this relationship does not hold for advice-seeking on retirement planning.

Basic Findings on Advice-Seeking II

- The volume of calls is dominated by administrative matters to 40 years of age
  - In fact, more than investment and retirement planning combined
  - Reflecting, perhaps, changing employment circumstances
  - Also changing household circumstances involving residence, partners etc.

Basic Findings on Advice-Seeking III

- Perhaps confirming the hypothesis that once-set retirement plans don't change (until they can, or have to)
  - This is consistent with arguments about status-quo bias, salience etc
  - Also consistent with the primacy of the default option in most plans
  - Reinforces the presumption of 'disengagement' from retirement planning.

Key Findings on Advice-Seeking I

- After 40 years, the importance of investment versus retirement advice-seeking changes
  - Initially privileging investment matters over retirement planning
  - Then privileging retirement planning over investment matters (which comes to dominate advice-seeking after 55 years of age)
  - Punctuated by 'events' that significantly alter the terms and conditions underpinning retirement saving.

Implications and Conclusions II

- That retirement planning advice-seeking comes 'late' for many participants requires further analysis
  - It could reflect a set-and-forget strategy, revisited when it is salient
  - It could reflect the realisation of any ambiguity as regards entitlements and prospects
  - It could also reflect a lack of engagement in the issue and/or trust in the default mode.