Pensions & Investments East Coast Defined Contribution Conference
“The Demand for Advice”

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Acknowledgements

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Let’s Begin

- DC pensions require participants to be planning ‘agents’
  - Make plans for future income
  - Reconcile the short-term with the long-term
  - Deal with issues such as contribution rates investments, and drawdowns
  - Many people need advice to realise their aspirations
Introduction I

- Here, the focus is on the demand for advice in DC pensions
  - The categories of advice-seeking
  - The timing of advice-seeking
  - The correlates of advice-seeking
  - And, the supply of advice
Introduction II

• Based upon our research program
  - Aimed at understanding the determinates of advice-seeking
  - The consequences of advice-seeking
  - The scope of participant behavior
Introduction III

- Large data-base of Australian pension participants
  - With socio-demographic characteristics
  - An inventory of decisions taken over the period 2002-2013
  - Involving approximately 560K people
  - Low income to high income participants
Human Behavior I

• DC pensions challenge “agent” rationality
  
  - Forward-looking or short-term?
  
  - Adaptive learners or event-driven?
  
  - Comprehensive or selective in focus?
Human Behavior II

• Behavioral approaches are valuable
  - Take seriously behavioral biases and anomalies
  - Inform the design of choice, options etc.
  - With implications for government policy
Human Behavior III

- Even so, we should acknowledge
  - The ‘average’ participant hides considerable diversity
  - Inertia and status quo bias may be situation-specific
  - Evidence suggests that engagement can make a difference
Provision of Advice I

• Advice is widely available but problematic
  - Kin, neighbours and friends can be helpful (or not)
  - Commercial vendors are often compromised
  - Government advice is too often generic and ineffective
Provision of Advice II

- Australian industry funds provide advice
  - On a cost-free basis
  - From informed and neutral advisors
  - With no incentives to prompt action
Provision of Advice III

• The Australian pension system is distinctive
  - Mandatory participation, contributions etc.
  - Government regulation of default products
  - Industry funds are dominant and trusted
Basic Findings on Advice-Seeking

• On average, the volume of advice-seeking
  - Dominated by the Monday and Tuesday effect
  - Little traffic over the summer months
  - Policy changes can prompt enormous volumes of advice-seeking
Basic Findings II

- Three categories of advice-seeking: administrative matters, investment matters and retirement planning
  - From over 140 ‘topics’ coded by advisors
  - Using a technique that produced three optimal clusters
  - Justified by interviews with staff and economic theory
Basic Findings III

• Advice-seeking by category varies over time

  - Change in employment (economic growth) drives change in the volume of administrative and investment advice-seeking

  - But this relationship does not hold for advice-seeking on retirement planning

  - The effect of the GFC on advice-seeking was modest (as was the significance of the GFC in Australia)
Basic Findings IV

• Evidence suggests that ‘once-set’ participants don’t change their savings plan (until they have to)

- Consistent with arguments about status-quo bias

- Consistent with the primacy of the default option

- Consistent with participants being ‘disengaged’ from retirement planning
Key Findings on Advice-Seeking I

• Significance of each category varies by age
  - Administrative matters dominate other categories to 35 years
  - Investment matters dominate retirement planning after 40 years
  - Retirement planning dominates investment matters after 55 years
Key Findings II

• “Trigger” dates can drive advice-seeking for retirement
  - ‘Encountering’ the preservation age (55 years of age) when participants can get access to their assets
  - ‘Encountering’ the median age of retirement for workers (about 62 years of age for men)
  - ‘Encountering’ the age of entitlement for the national Aged Pension (65 years of age)
Key Findings III

• Gender effects on advice-seeking

- Women tend to call for advice less than men viz retirement planning after 60 years (early retirement, reliance on others etc.)

- Men call more than women on investment matters for each age cohort post-40 years (matching findings in the literature)

- At higher account balances and salaries, men and women call on retirement matters at much the same rate
Key Findings IV

• More on ‘gender’ effects
  - Women are more likely to seek advice (in this way)
  - Trust is important, as is being able to access the same advisor
  - Repeated calling can result in engagement on a range of issues
Implications I

• Different categories of advice-seeking

  - Reveal age-related stages in participants’ interests and attention

  - Provide insights for the design of advice-systems

  - Indicates how/why advice on investment matters could/should be distinguished from other categories
Implications II

• Advice-seeking comes ‘late’ for many participants
  - Reflecting a set-and-forget strategy on retirement planning, revisited when salient
  - Reflecting early uncertainty as regards long-term entitlements and career prospects
  - Reflecting a lack of engagement on the issue and/or trust in the default mode until it matters
Implications III

• A ‘passive’ engagement strategy is NOT the best strategy
  - There are ways to encourage advice-seeking
  - “Trigger ages” are important, given gender
  - Frequent changes in status may be moments for intervention
  - We should test whether advice on one category or topic can lead to engagement with other categories
Implications IV

• Trust is crucial in the demand and supply of advice
  - Not just an issue of disclosure
  - Understanding participants’ circumstances is important
  - As is managing the advice process itself
Conclusions I

• Categories of advice-seeking often overlap
  - First-response is the key to building confidence
  - Participants often begin with ‘simple’ issues
  - Allowing participants to reveal their ignorance
Conclusions II

• Regulation of advice-seeking

  - Participants are often unaware of the legal niceties

  - Switching to ‘qualified’ advisors within the advice facility often results in loosing participants

  - Providing comprehensive advice requires face-to-face engagement.
Conclusions III

• In-house and out-of-house walk-in centres can be effective
  - Dampens administrative matters
  - Brings forward retirement planning
  - Thereby, distinguishing investment matters from other matters.
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