PRESS RELEASE
EMBARGOED UNTIL 00.01 Wednesday 19 JULY 2017

"Behavioural interventions are most effective when personalised and applied during teachable moments" says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing ***Consumer engagement: the role of policy through the lifecourse***, the final in a series of three reports on consumer engagement with pensions.

This report segments people by life stage, current level of engagement (and other characteristics) and sets out how behavioural interventions and other policy levers might be most helpful in achieving good pension outcomes.

Daniela Silcock, Head of Policy Research at the PPI said "Behavioural nudges are increasingly being viewed as a potential means of helping people to achieve better outcomes from long-term saving though alone they are not sufficient to help everyone to realise their full potential benefit."

"Interventions are most effective during teachable moments, for example, financial transitions, when they are relevant to people's current circumstances, relate to their goals and allow for simple, follow-up actions. It is also important for people to feel that their own needs and circumstances are addressed. Generally this requires personalised contact, for example via face-to-face, telephone, or web-chat interventions."

"The most appropriate interventions vary throughout the lifecourse. Those at younger ages benefit more from interventions aimed at increasing capability and are happier to access guidance digitally, while those at older ages might need more detailed information and interventions which accommodate declining financial capability and are likely to prefer face-to-face or telephone communications."

"People experiencing significant barriers to engagement or with low financial capability will be more dependent on other policy levers such as means tested benefits and saving defaults to avoid negative financial outcomes."

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For further information please contact -

Daniela Silcock, PPI: 020 7848 4404 or 07795438455, email: daniela@pensionspolicyinstitute.org.uk

Danielle Baker, PPI: 020 7848 4467 or 07714250910, email: press@pensionspolicyinstitute.org.uk

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Consumer engagement: the role of policy through the lifecourse is sponsored by the Association of British Insurers (ABI). This is report is the third and final in a series of reports exploring consumer engagement with pensions and financial products.

The research as a whole is being sponsored by the Association of British Insurers (ABI), the Institute and Faculty of Actuaries (IFoA), LV=, Pinsent Masons, State Street Global Advisors (SSGA), The Pensions Advisory Service (TPAS), The Pensions Regulator (TPR), The People's Pension, and the Universities Superannuation Scheme (USS).

Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. ***Consumer engagement: the role of policy through the lifecourse*** is the final in a series of three reports on engagement in pension provision.

3. Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

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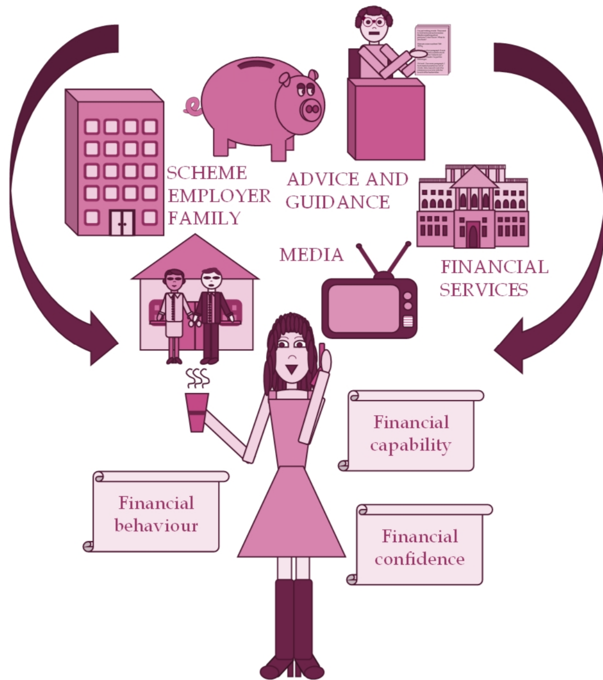
Consumer Engagement: the role of policy through the lifecourse

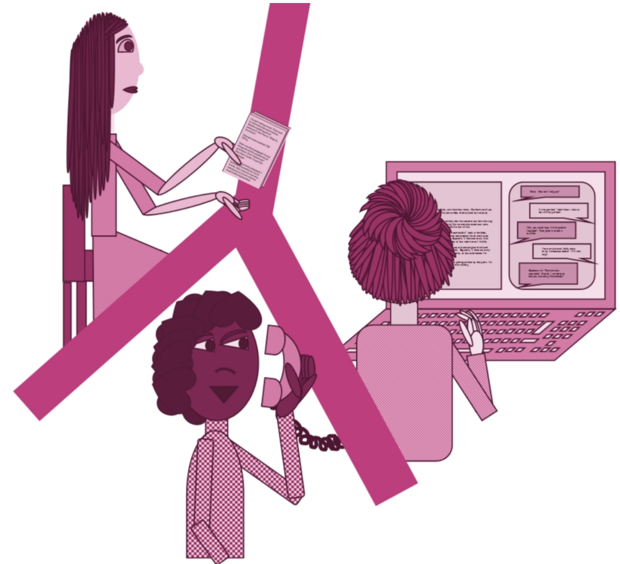
Behavioural interventions are most effective when….

…they take place during teachable moments, are relevant to goals and allow for simple, practical actions…



…needs, circumstances and goals are taken into account.

Generally these require human contact through face-to-face, telephone, or web-chat…

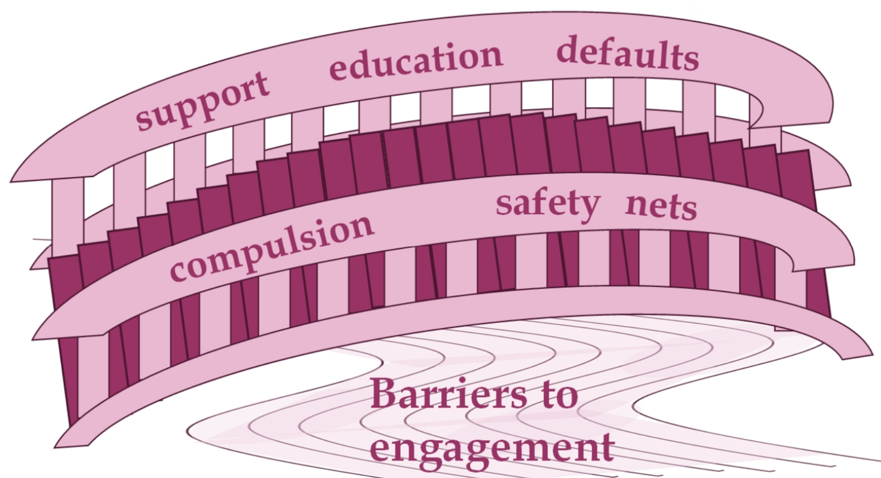


…and they take into account varying financial capability, personal circumstances, cultural attitudes, income levels, gender, and age.

Behavioural interventions are least effective when….

…directed at those in severe deprivation and/or struggling with immediate issues such as homelessness, domestic violence, or addiction …

…aimed at those with low levels of financial capability unless accompanied by support to make decisions or measures to build up financial capability.



For many marginalised people, safety-nets such as means-tested and disability benefits, are the main sources of income during working life and retirement. Defaults and compulsion can stop those with low financial capability losing out in the short term and education can help raise capability over the long term.

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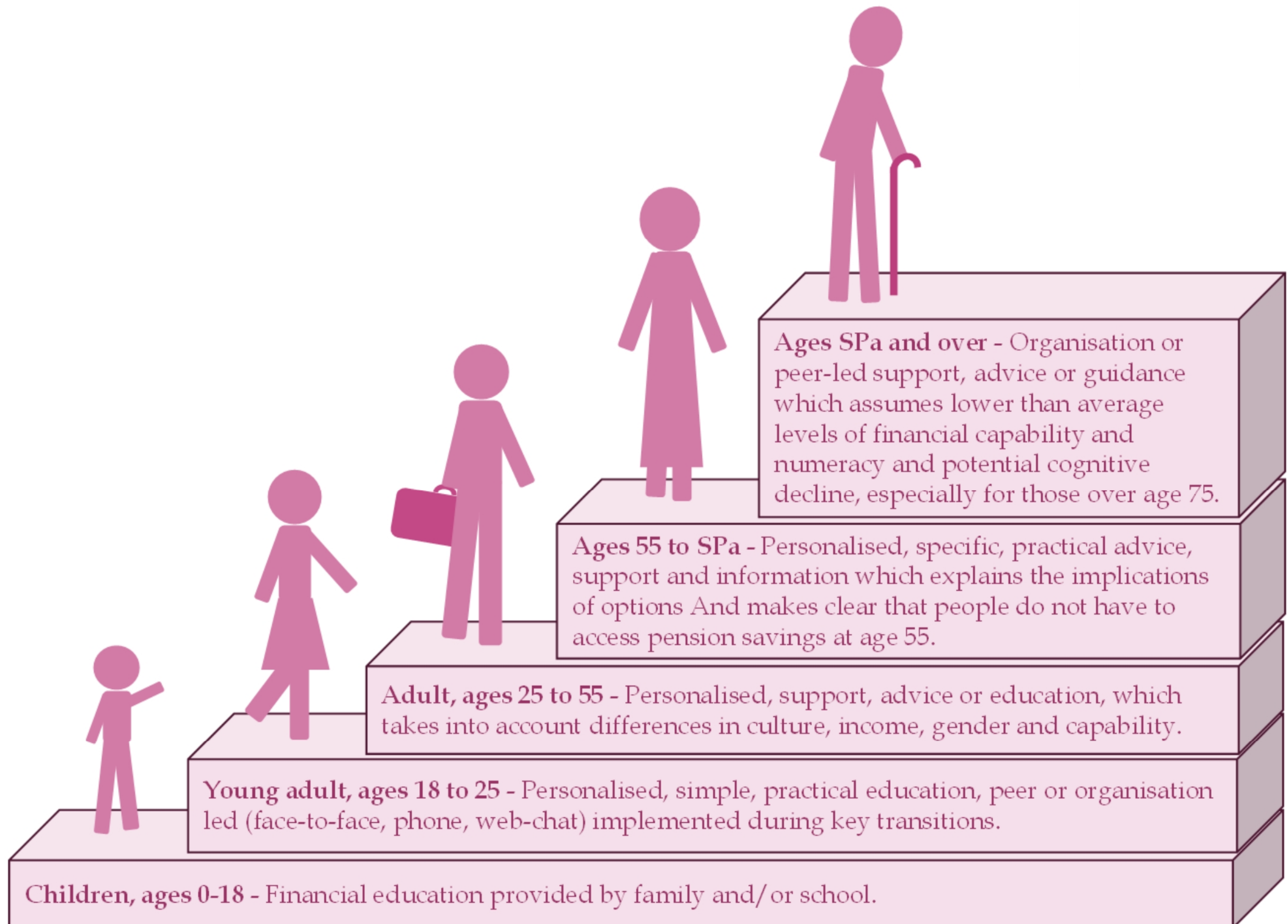
Consumer Engagement: the role of policy through the lifecourse

Optimal interventions vary throughout the life course…



For further information please contact:

Daniela Silcock Head of Policy Research (PPI): 020 7848 4404

Daniela@pensionspolicyinstitute.org.uk

Danielle Baker Head of Membership & External Engagement (PPI): 07714 250 910

danielle@pensionspolicyinstitute.org.uk

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PRESS RELEASE
EMBARGOED UNTIL 00.01 Wednesday 19 JULY 2017

Executive Summary

Behavioural nudges are increasingly being viewed as a means of helping people to achieve better outcomes from long-term saving. While effective if used appropriately, nudges are not alone sufficient to help everyone realise their full potential benefit from long-term saving.

This report explores the role that behavioural techniques play alongside other policy levers to help people achieve better long-term saving outcomes throughout the lifecourse (Box EX1).

Box EX1: Policy levers involved in promoting good pension outcomes

> This report explores pension outcomes within the framework of six policy levers:
>
> Compulsion - options that people must take whether they wish to make an active choice or not.
>
> Defaults - an option given to people who do not wish to or are unable to make an active choice.
>
> Safety nets - policy mechanisms designed to help those in financial hardship.
>
> Consumer protection - legal and regulatory measures which protect people from fraud or poor governance (including high charges).
>
> Behavioural interventions – policies aimed at encouraging people to make decisions (or not make decisions) which result in better financial outcomes.
>
> Freedoms - policies which extend freedom to individuals, such as the removal of tax regulations which previously prevented people from taking all of their Defined Contribution savings in cash.

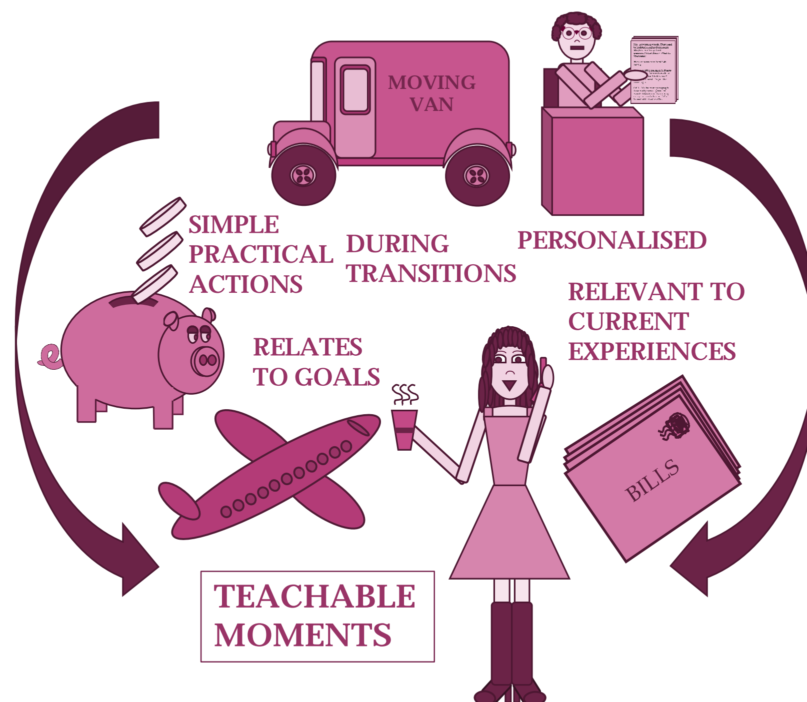
Government and industry alone will not be able to ensure better pension outcomes. Many poor outcomes arise from socio-economic inequalities. Tackling the barriers outlined in this report (such as low levels of financial capability), will require a joint effort from Government, industry, employers, education providers and consumer support organisations.

The rest of this executive summary looks at when the policies outlined above could best be used to help people to achieve positive outcomes from long-term saving.

When are behavioural interventions most effective?

The efficacy of behavioural interventions varies between people depending on the time that they are applied, the way that they are framed and the individual characteristics of the target group.

- **Behavioural interventions are most effective when they are applied during teachable moments.** For a moment to be "teachable", it must be a time when the intervention is relevant to people's current circumstances, relates specifically to their goals and allows for people to follow on with simple, practical actions. Teachable moments vary between people by age and circumstances but generally occur during key transitions, such as moving house, getting a job or starting a family, or during other times when people are making financial decisions such as buying other financial products.
- Behavioural interventions are most effective when they take into account:
  - Prior levels of knowledge and understanding
  - Personal circumstances
  - Cultural attitudes
  - Income levels
  - Gender
  - Age



What is the most effective format?

As with timing, the format or channel of the most effective behavioural interventions varies between people.

- Personalised interventions where people feel that their own needs, circumstances and goals are understood and addressed are most effective. Generally theses interventions require some human contact through face-to-face, telephone, web-chat or group education.
- 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, though may find these confusing and difficult to act on.
- Older adults, particularly those over age 75, generally have lower financial capability and will be less likely to have access to or understand how to use digital methods. For older adults, face-to-face interventions (group or individual) are more effective. Peer-led interventions can greatly assist communication with older, isolated people.
- As current generations age, it is expected that the levels of digital ability, financial capability and confidence will grow amongst older cohorts.
- Letters, posters and advertising can help build awareness, but are less effective than interactive, personalised interventions through face-to-face, via phone, web-chat or group education.
- People of all age groups are highly susceptible to media campaigns, particularly via TV and, for younger people, social media. However, media campaigns can motivate people to take actions without having sufficient financial capability to make the optimal decisions. This is because media campaigns offer the least opportunity for queries and clarification, of all intervention types.
- Older adults, those with higher capability and those with higher incomes respond better to individualised, high level or complex information from a finance professional.

When are behaviour interventions least effective?

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 levels of capability may experience negative outcomes from interventions aimed at promoting active decision-making unless educational support for the decisions are included in the intervention.

- Those who are experiencing periods of social exclusion are more likely to be struggling with immediate issues such as homelessness, domestic illness, and drug or alcohol addiction and therefore pension saving is unlikely to be an important, or even feasible, priority. Because of prevalent lack of income among these groups, and general lack of access to social support, even those who are inclined to save are likely to be constrained from doing so. For the majority of marginalised people, a lack of income or employment will provide the main barriers to financial engagement and long-term saving.
- **For many marginalised people, safety nets such as means-tested benefits and disability benefits will be their main sources of income during working life and retirement.** While pension compulsion or defaults could help, these tend to be accessed through traditional employment and those in marginalised groups are less likely to be traditionally employed.
- It can be risky to attempt to motivate people with low levels of financial capability to make active decisions before building up capability. In

particular, media-led engagement campaigns can motivate those with low capability to make sub-optimal financial decisions.

- Because of the importance of saving into a pension early and consistently in order to accrue sufficient pension savings, it is not generally in the best interests of non-engaged people to defer saving in a pension until they have achieved a higher level of financial capability.
- Therefore, defaults or compulsion to contribute a certain amount to a pension will particularly benefit the non-engaged.
- Alongside work around raising financial capability (and defaults or compulsion to save in a pension), it is vital for non-engaged people to have safety nets they can fall back on. Those who are non-engaged are more likely than engaged people to be unprepared for financial difficulties and are therefore more dependent on social safety nets such as means-tested benefits.

- Engaged people are the main consumers of financial products, and therefore benefit from regulation and consumer protection which governs overcharging, misconduct and fraud by financial services. The highly engaged benefit more from these policy levers than from defaults, compulsion or safety nets.
- However, all people who use financial services benefit from consumer protection and people on low incomes are most likely to fall prey to high rate services such as payday lenders.

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.

People in different age groups vary in:

- Financial capability level,
- What they might need to know in order to engage with long-term saving, and
- Which messages they will respond to.

Table EX1 sets out the differences between the age groups.

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Table EX1: Differences in financial capability, financial confidence, aptitude for learning, needs and optimal engagement styles

Life stage	Financial capability, confidence and aptitude	Support needs	Optimal engagement
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, peer or organisation led (face-to-face, phone, web-chat) implemented 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, advice or education, peer or organisation led (face-to-face, phone, web-chat) which takes into account differences in culture, income, gender and financial capability.
Pre-retirement – ages 55 to SPa	Capability – higher on average Confidence – highest of any age group (73% -very confident) Aptitude - decreasing with age	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.).	Personalised, specific, practical advice, support and information which takes into account varying capability, explains the implications of options and makes clear that people do not have to access pension savings at age 55.
Older age – ages SPa and over	Capability – decreasing with age, particularly over age 75 Confidence – high on average Aptitude - decreasing with age particularly low over age 75	Sustaining income through retirement, preparing for changes in need, avoiding scams and fraudsters.	Organisation or peer-led (face-to-face, phone, web-chat or group education) support, advice or guidance which assumes lower than average levels of financial capability and numeracy and potential cognitive decline, especially for those over age 75.