

Individual Choice and Financial Education in OECD Countries

Jonathan Gardner and
Mike Orszag

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Key Issues

- **Criteria of success for pension system:** people save what they need for retirement at adequate cost and at a level of risk they understand
- **Measuring success**
- **Ensuring success:** What preconditions are there in terms of financial regulation for successful DC pension systems?



Criteria of Success

- Understanding of benefits they will receive
- Understanding of risks
- Adequacy of saving



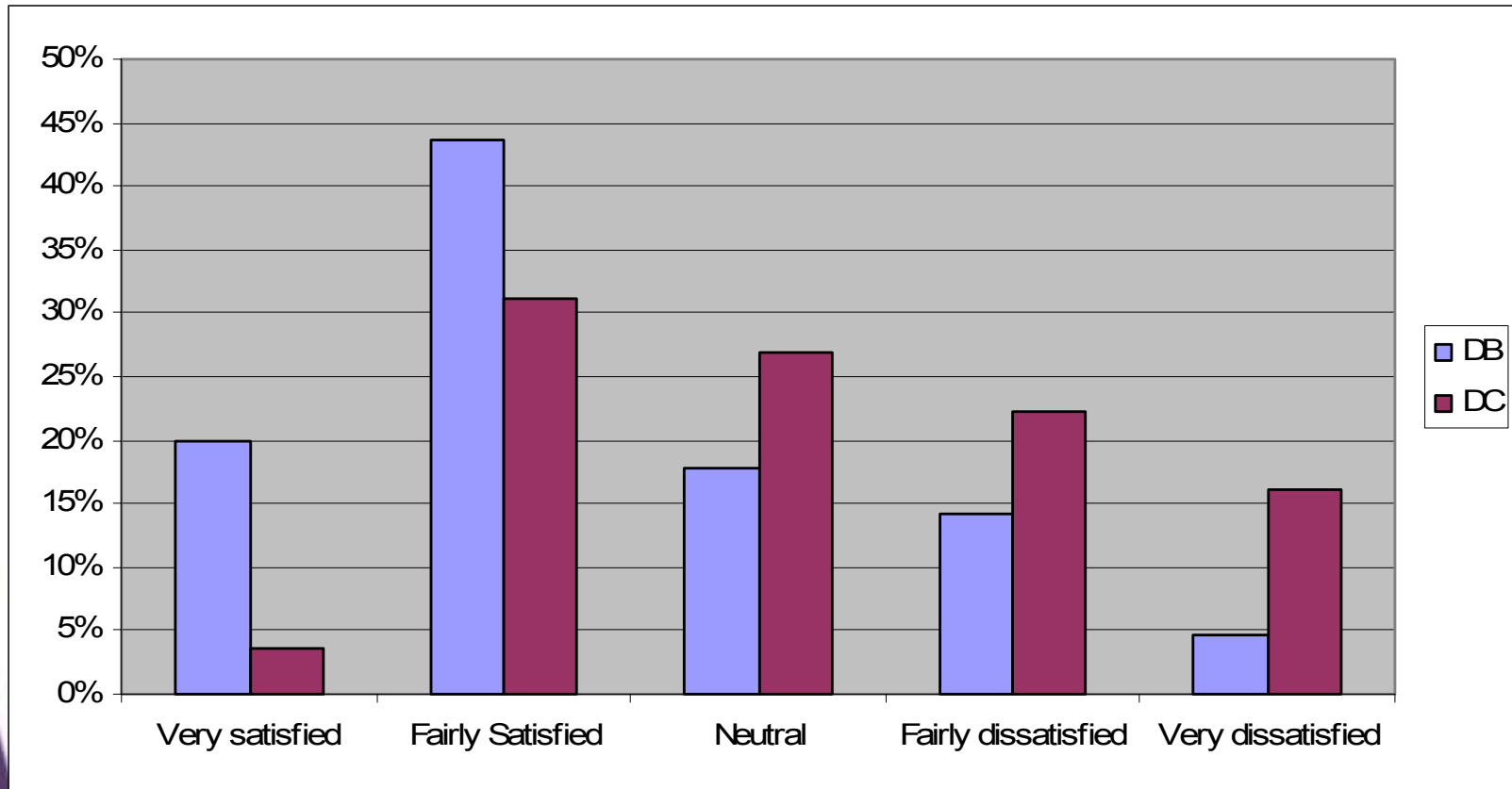
Measuring Success

Financial Education

- Do individuals understand their own benefits?
- Do individuals appreciate risks they are taking?
- Do individuals feel comfortable making decisions?

Understanding Pensions

Satisfied with quality of information



Trust

Trust in employer pension – By Main Pension (August 2003)

Main Pension	Trust a great deal	I tend to trust	Tend to distrust	Do not trust at all	Don't know
Employer DB	26.8	50.9	14.3	5.3	2.8
Employer DC	16.7	51.8	17.9	9.7	3.9

* Greater trust of people with DB not robust to controls

Other results

- 1.No real patterns in trust by education or occupation
- 2.High income households are more trusting
- 3.The public sector exhibits more trust than the private sector

Discount Rates

Interval regression

Number of obs = 2872

LR chi2(4) = 139.25

Log likelihood = -5379.4801

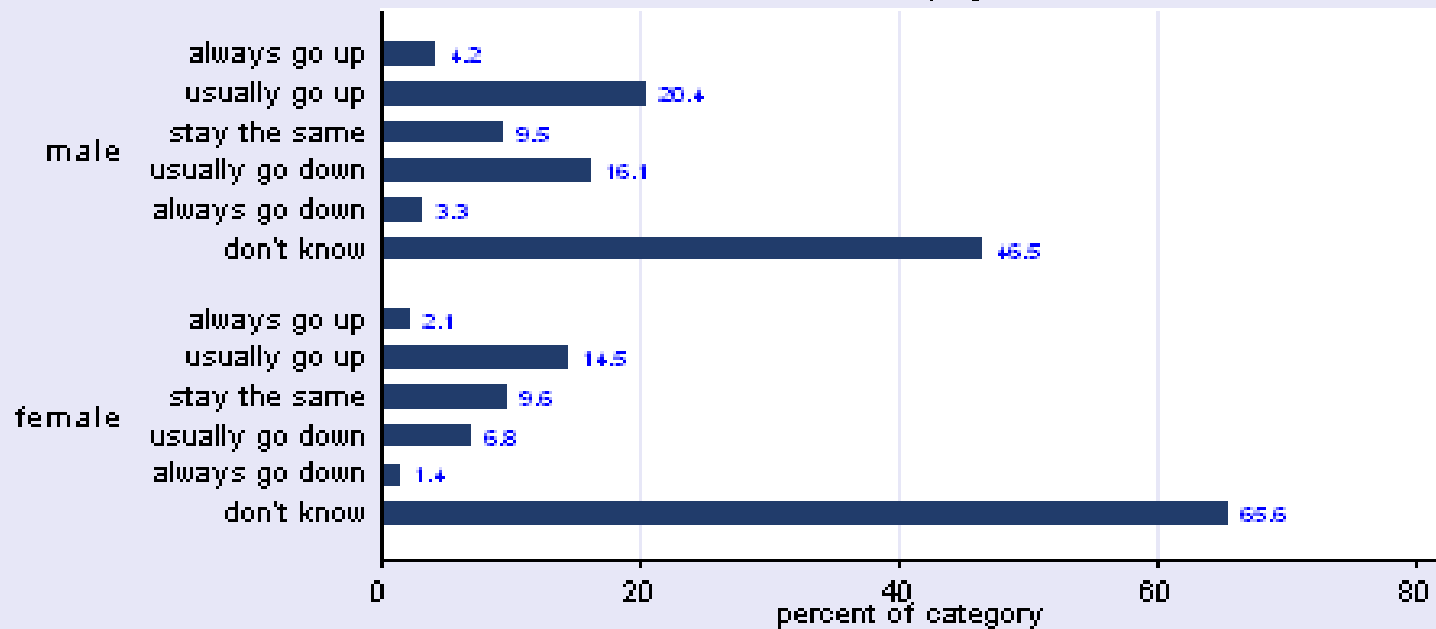
Prob > chi2 = 0.0000

	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
age	-.2688209	.0773498	-3.48	0.001	-.4204238	-.117218
dcpen	1.009323	.7109619	1.42	0.156	-.3841364	2.402783
none	6.416556	.8698021	7.38	0.000	4.711775	8.121337
lninc	-2.741822	.4199888	-6.53	0.000	-3.564985	-1.918659
_cons	60.59782	6.679148	9.07	0.000	47.50693	73.68871

Financial Literacy

What happens to Bond Prices when Interest Rates Rise

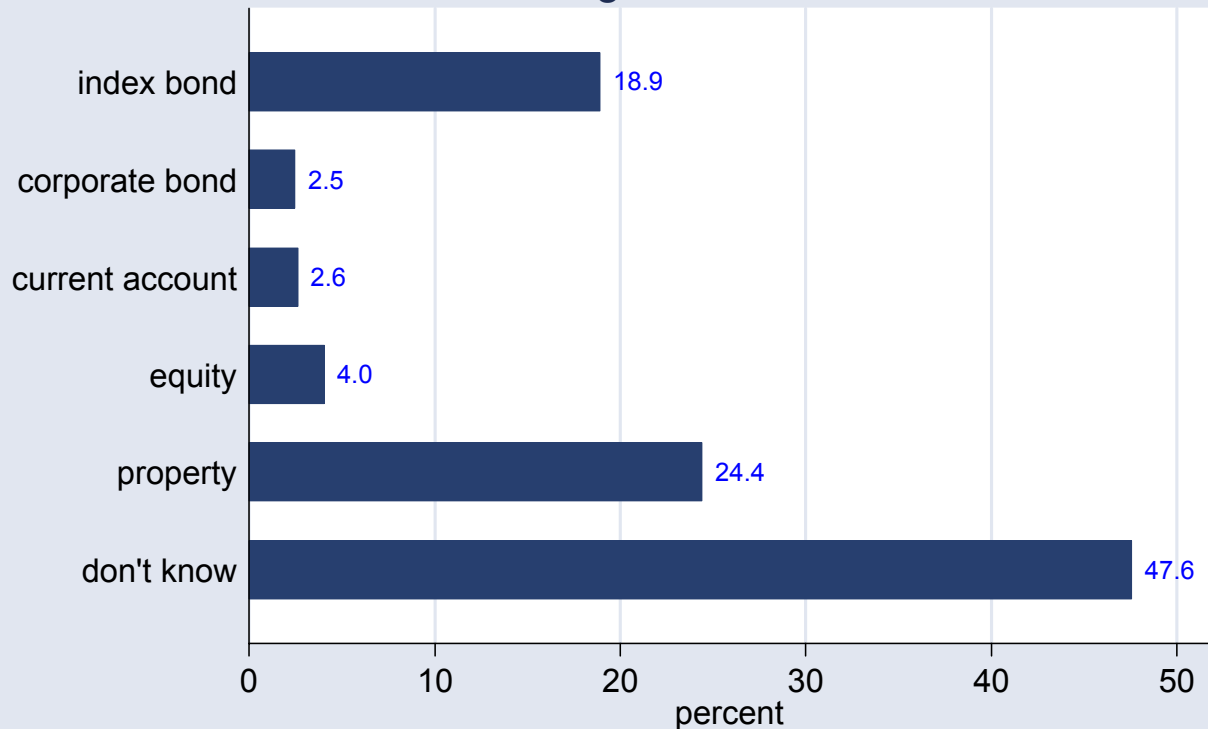
Answer: always go down



Source: 2003 Work Retirement and Pensions Index Survey (YouGov)

Financial Understanding

Which Investment offers the best protection against Inflation



Source: 2003 Work Retirement and Pensions Index Survey (YouGov)

Financial Understanding

What do you think the current value of the basic state pension is for a single person?

<i>Amount</i>	<i>Percentage of Population (1)</i>	<i>Percentage of Population (2)</i>
£0 to £29 per week	1.7%	0.7%
£30 to £59	16.2%	12.4%
£60 to £99	60.3%	69.2%
£100 to £129	7.9%	9.5%
£130 to £159	1.1%	1.8%
£160 to £199	0.1%	0.5%
More than £200 p.w.	0.2%	0%
Don't know	12.4%	6.0%

Source: Watson Wyatt/YouGov Work Retirement and Pension Index Survey, April 2003.

Note: (1) denotes all individuals.

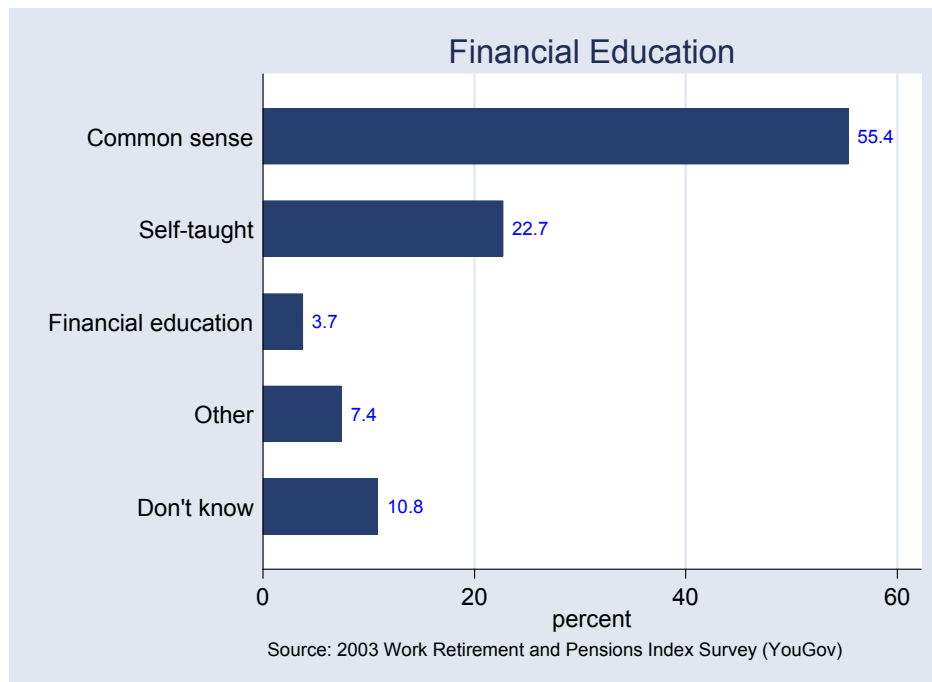
Note (2): Individuals who expect to receive at least 50% of their retirement income from the state.

Comfort with Decisions

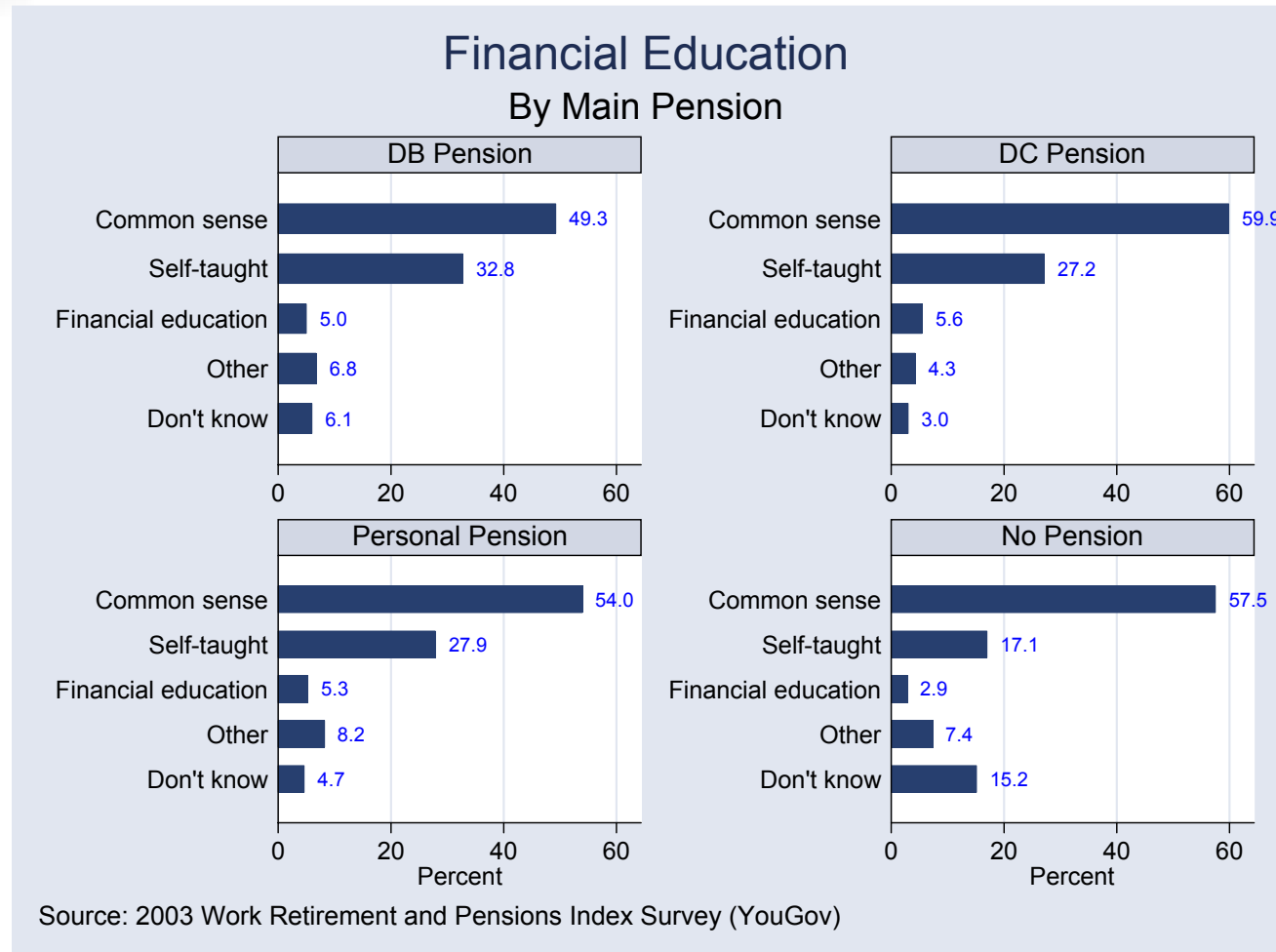
	Percentage
I have a very clear idea of how much I need to save	8.5
I have a fairly clear idea of how much I need to save	32.3
I am fairly unclear about how much I need to save	34.4
I am very unclear about how much I need to save	24.8

How Decisions Get Made

"Thinking about your personal financial planning (i.e. planning your finances for the future), which of the following best applies to you..."



How Decisions Get Made

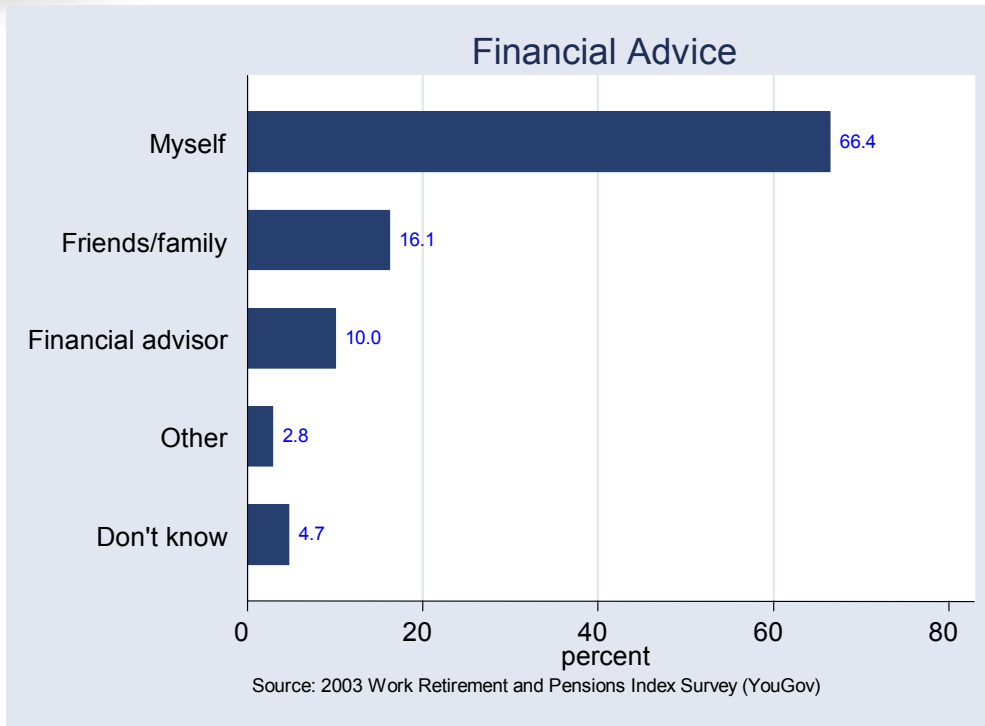


Financial Decisionmaking

Financial Planning by Education level

<i>Education</i>	<i>Financial Planning</i>				
	<i>Common Sense</i>	<i>Self-Taught</i>	<i>Financial Education</i>	<i>Other</i>	<i>Don't Know</i>
None/vocational	65.1	12.1	1.7	7.4	13.7
GCSE or equivalent	61.0	12.3	2.2	7.4	17.0
A-level or other HE qualification	57.3	23.2	3.3	6.8	9.5
Other professional qualification	47.8	28.8	6.2	7.7	9.5
Degree	45.5	36.6	6.0	8.0	4.0

Financial Decisions

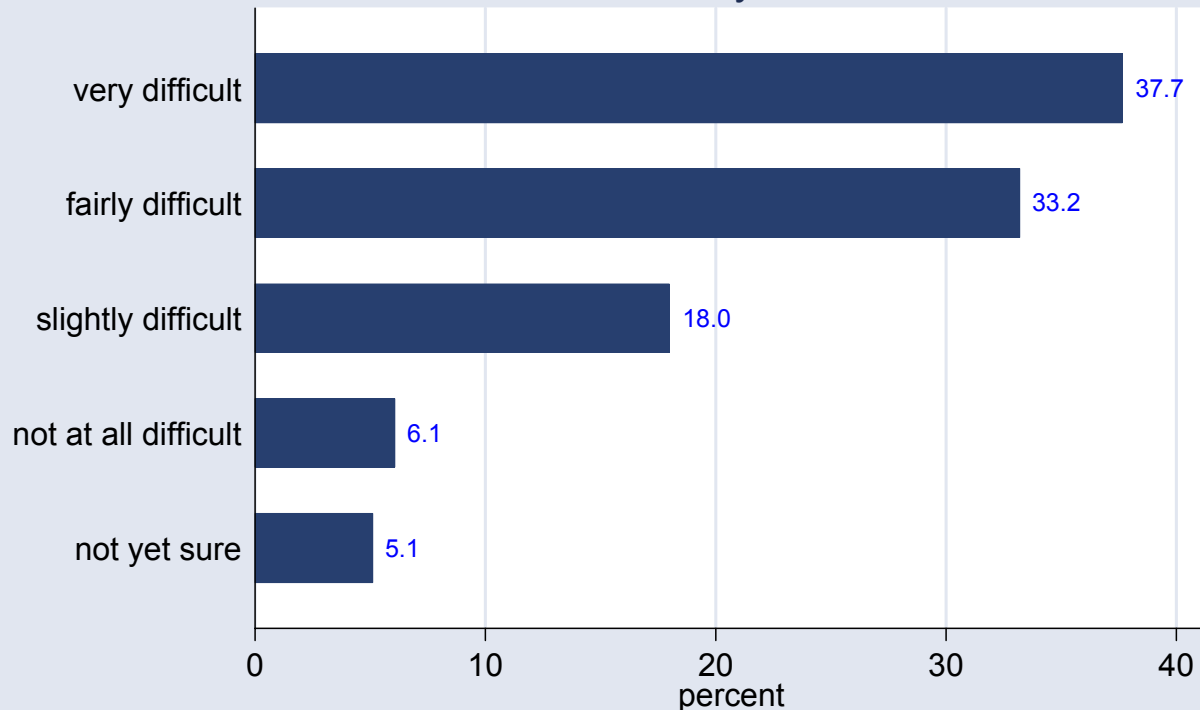


Whether has seen Financial Advisor in last 2 years

	<i>Number</i>	<i>Percentage</i>
No	1,773	71.5
Yes - once	469	18.9
Yes - more than once	238	9.6
Total	2,480	100.0

Difficult to Save for Retirement

How difficult do you think it will be to save enough to live comfortably in retirement



Source: 2003 Work Retirement and Pensions Index Survey (YouGov)

Target Replacement Rates

Regressions control for age, education, marital status

<i>Regressor</i>	(1)	(2)	(3)
Ln(Household Income)	-6.462	-5.575	-5.868
	(0.924)*	(0.938)*	(0.940)*
Very clear idea of what to save		-2.243	
		(2.034)	
Fairly clear idea of what to save		-3.037	
		(1.316)*	
Very unclear idea of what to save		4.244	
		(1.481)*	
Very confident with financial planning			-0.843
			(2.487)
Not particularly confident			4.364
			(1.208)*
Not at all confident			8.380
			(2.054)*

Market Understanding

Understanding Pensions – percentages

	Understand Pensions Market	Understand Personal Pensions	Understand Employer Pensions
1 – I don't understand at all	18.91	19.46	18.00
2	31.34	31.84	25.42
3	33.08	30.35	29.80
4	12.89	14.14	19.38
5 – I understand completely	3.79	4.22	7.41



Measuring Success

- Do individuals understand their own benefits?
- Do individuals appreciate risks they are taking
- Do individuals feel comfortable making decisions?

Mixed



Measuring Success: Caveats

- Engstrom and Westerberg (2003) - lesson: US results do not necessarily apply to other countries
- Choi et. al. (2002) – lesson: actually measure outcomes
- Weisbenner (2002) – lesson: success may be indirect -- more decisions in pension will mean more decisions actively taken overall.



Ensuring Success

- **Suitable products**
- Good disclosure and well-regulated providers
- Well-trained and regulated intermediaries
- **Clear system of measurement how well the system is doing in meeting needs (constant monitoring)**