“Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved.”

THE PATH TO CERTAINTY

AN IRISH PERSPECTIVE

State Street Global Advisors
Summer Member Survey
Our third annual global Defined Contribution (DC) member survey was conducted over the summer and is the second year to include Irish results. The full report is available on our website – and provides an interesting snapshot of DC member experiences and confidence levels across Ireland, the UK, the US and Australia. While DC members around the world want similar results from their pension plans, our survey illustrates how thinking and planning can differ from region to region, between age groups and genders, and also illustrates some lessons that can be learned from markets where DC pension schemes have been in place longer.

In this paper, we look at some of the highlights from the global results with a focus on how Irish participants feel about their retirement planning, and how that compares to a year ago.

Deciding when to decide

In last year’s survey we looked at member intentions and concerns about their retirement decision-making options as they approach retirement. This study told us that many Irish people didn’t necessarily know when they will retire, but that they thought it would probably be a gradual process rather than one that they arrived at abruptly – that is, many felt they are likely to continue to work in some capacity beyond the traditional retirement age. Of those more certain about when they will retire, the majority (82%) believed they would retire within an age range of 60-69. Generally younger people tended to see retirement as too far away to be confident about predicting a retirement age, while older people, perhaps conscious of impending income requirements in retirement, may delay their “expected” retirement age.

Separate research sponsored by SSGA in the UK in March this year provided useful insights into the range of preferences and trade-offs likely to be made by people within the ‘approaching retirement’ cohort. The quantitative study appeared to confirm that most UK DC members only commit to firm decisions in the few years leading up to retirement. A similar result was found when this question was asked of Irish group pension scheme members (working people aged 50+) in our summer survey. Sixty one percent believe they will only know how to exercise their retirement choices when they get within five years of their expected retirement date, with just 12% thinking they would know 10 or more years in advance.

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It comes as no surprise that many scheme members will only increase their engagement with the decision-making process as proximity to retirement draws nearer. Therefore the necessity for well-constructed, well-governed default strategies for Irish defined contribution schemes is of paramount importance. Given that engagement comes quite late in the retirement glidepath, the default strategy can at least help to ensure members are invested in appropriate funds to get them as close as possible to their retirement goals.

“well-constructed, well-governed default strategies... are of paramount importance.”

When will I know how I’ll access my funds at retirement?

**TIMELINE TO DECISION MAKING**

- **More than 10 years before retirement**: 14%
- **5 to 10 years before retirement**: 28%
- **2 to 5 years before retirement**: 14%
- **Within 2 years of retirement**: 14%
- **Don’t know**: 33%

Source: SSGA Global Retirement Monitor 2015

Exercising choice — intention vs action

Of course, how members actually decide to allocate their retirement fund has been the subject of much speculation since greater choice became available at retirement. Our own global research into DC markets suggest that relatively few members, assuming they have a choice, would buy annuities at retirement.

Our latest survey results indicate that approximately 21% of Irish group pension scheme members (in age category 50+) responded that they are likely to buy an annuity with most of their pension fund.

This compares with 30% who indicate they would more than likely keep their pension fund invested and draw down an income directly. Similar results were found amongst holders of personal pensions, although those using a financial advisor were more heavily weighted toward the direct income drawdown route at retirement. Interestingly, according to the latest 2014 Irish Association of Pension Funds DC Investment Survey a large majority (c.72%) of DC pension schemes still prefer bonds as the asset class of choice at retirement. This would appear to indicate an assumption is being made that an annuity will be purchased at normal retirement age. Our findings however would indicate that this may need to be revisited in future scheme strategies.
How do you expect to use your savings at retirement?

**RETIREMENT INCOME CHOICE**

- Buy an annuity with most of my pension fund
- Take all or most of fund as a cash lump sum when retire
- Withdraw pension fund as cash over the first few years of retirement
- Keep pension fund invested and withdraw an income directly
- Don’t know

**Age 50–90**

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Lessons from abroad...

Further lessons can be learned from the UK, where considerable focus has been on member behaviours since the launch of the ‘Freedom and Choice’ retirement reforms in April 2015. Our global DC member survey results from UK participants suggest that, on average, just 15% of members are likely to purchase annuities. However, this rises to 26% for those aged 60+. As maligned as annuities are in terms of their cost and inflexibility, the rise in demand among this older age group may in fact be more indicative of a stronger desire to guarantee an element of income as the proximity and reality of retirement approaches. In more mature DC markets like the US and Australia, only 7% and 2% respectively of DC scheme members voluntarily buy an annuity at or around retirement.²

- **Members purchasing annuities**
  - **USA**: 7%
  - **Australia**: 2–10%
  - **UK AVERAGE**: 15%
  - **UK AGE 60+**: 26%

Outside of the survey results, our observation would be that, regardless of age, the amount members have in their individual pension pots typically appears to have a greater influence on how they intend to exercise their pension options. Members with small pots are more likely to want to take their savings in a cash lump sum at retirement to maximise available tax benefits, while those with larger balances are more likely to withdraw over a few years (with a view perhaps to reducing tax liabilities), or use a drawdown strategy such as an Approved Retirement Fund (‘ARF’) in retirement.

Source: Pensions Policy Institute, Freedom and Choice in Pensions Consultation, June 2014

Source: SSGA Global Retirement Monitor 2015
Confidence trends higher... but...

In Ireland, retirement confidence has risen since our survey in 2014, but remains behind the United States and United Kingdom. Research amongst all Irish participants surveyed shows that 27% (versus 17% in 2014) felt confident or very confident that they will meet retirement goals. This compares to 51% and 43% in the US and UK respectively. This lag behind our overseas counterparts could be attributed to a slower economic recovery in Ireland, and regulatory uncertainty as we await recommendations from the government task force (Universal Retirement Savings Group) charged with increasing retirement savings.

The stand-out reason for a general lack of retirement confidence in all countries surveyed was concern at simply not having saved enough as opposed to not investing appropriately or not understanding how to plan/set goals.

Impact of receiving financial advice?

Further analysis of the survey results, shows us that pension members who work with a financial advisor and have personal savings outside an employer-sponsored retirement plan, reported the highest levels of retirement confidence. This was consistent around the globe. However, it is also worth noting that this group was the most affluent among our survey respondents, therefore, it could be argued that the higher confidence may be a result of higher income and asset levels. Recognising that most employees are not working with an advisor, companies may consider looking at opportunities to engage workers with pension tools or calculators that provide elements of tailored guidance. These tools can be used at “inflection points” – such as starting a new job, receiving a pay increase or approaching retirement – for making financial decisions. If used appropriately they can help members gauge expected retirement income versus current contributions and address any imbalance.

Implications for investment design

The idea that people can choose a specific glide path ten or so years from retirement, based on how they expect to use their assets (cash, an annuity or drawdown), seems somewhat disconnected with reality for members. While it’s possible to work to build engagement, our research suggests that at the end of the day many people simply won’t know the answer to how they will use their retirement fund until the final few years before their expected retirement date.

This means that default strategies in the savings phase need to be cognisant of this uncertainty rather than optimised for any single scenario. The default should no longer be a strategy that targets cash, or targets an annuity on a particular date, but rather one that provides a broadly appropriate level of risk for the member based on their stage of life and which is not overly sensitive to the precise timing and manner of drawing on the assets. Flexibility and adaptability are key to enabling members to keep their options open at retirement.

Investment options also need to be in place for members choosing to remain invested beyond retirement and who want to maintain capital market exposure. Members want to feel confident that their DC investments are on the right track, not just today, but right through to retirement and beyond.

8.3%
Average contribution by group pension scheme members globally to retirement savings.

13.3%
Average contribution by self-directed pension plans globally with financial advice.
Source: SSGA, Global Retirement Monitor 2015.

The global monitor – building the picture

Our global monitor, now in its third year, continues to build a picture of DC member confidence and attitudes across major DC markets. As mentioned earlier, retirement confidence globally has trended higher since our inaugural survey. Improvement in the year-on-year figure may reflect the general improvement of financial markets. Improvements in wider economic conditions and consumer sentiment tends to ease financial worries somewhat.

However, improving economic conditions won’t improve retirement readiness if people simply haven’t made the appropriate levels of savings – for those members expressing less confidence about being on track to meet their retirement goals, the primary reason continues to be the belief they have not saved enough.

Our data suggests that Irish members are setting aside about 8% of their gross income per year to allocate to their pension scheme, a figure that rises to 15% after seeking financial advice. It would appear therefore that savers in corporate plans may have accepted default contribution rates without considering whether they are sufficient. Those in self-directed or advised plans may have thought more carefully about how much they need to save and are contributing considerably more of their income towards their retirement goals.

Full details of the global retirement monitor are available on our website www.ssga.com/irelanddc
CONTRIBUTE

Visit us online at ssga.com/irelanddc

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All facts and opinions are from the 2015 Global Retirement Survey unless otherwise noted.

SURVEY METHODOLOGY

This survey was conducted in partnership with TRC Market Research and Rice Warner. Data were collected in May 2015 through a 12-minute Internet survey using a panel of 3,652 retirement savers, aged 22 to 81, who were working at least part-time and participated in retirement savings plans. All data is at a 95% confidence level. For Australia, the maximum sampling error is +/-5.90 percentage points for In-Plan and self-directed advised (note that Australian self-directed unadvised is +/-8.50 percentage points). For Ireland, the maximum sampling error is +/-8.45 percentage points. For the United Kingdom, the maximum sampling error is +/-5.59 percentage points. For the United States, the maximum sampling error is +/-5.40 percentage points.

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