



“We all have to make, on a daily basis, calculated decisions,” says Stamford Associates principal behavioural psychologist, Professor Adrian Furnham. “They concern our own and others wealth and welfare; health and happiness; fun and pleasure... For some, that is the very nature of their job, which is to take calculated risks that can have very significant outcomes.”

Pension trustees and providers fall into this group, making decisions with varying risks. But when the members themselves have to make decisions about pension saving, they do so with their own viewpoint as to the level of financial risk to take, which could have a significant impact on their eventual outcome. So, are schemes genuinely considering differing attitudes to financial risk when communicating to their members?

“It is very difficult for individuals to understand what their real risk level is,” points out Redington head of DC and financial wellbeing, Lydia Fearn, emphasising that members often need help to gauge their own attitudes to financial risk, with many savers “nervous of going too far”.

“No one likes the feeling they may

#### ▣ Summary

- Attitudes to risk can be a hard thing for schemes to measure, but there are common trends that can be used to broadly segment members.
- Tailoring communications to suit different member attitudes to risk can be beneficial.
- Knowledge of differing attitudes can enable the scheme to assist its members in achieving their retirement outcome goals, within their own risk parameters.

## Talking risk

▣ **While those in the industry benefit from an awareness that there are differing member attitudes to financial risk, savers themselves are often unaware of their own attitudes. So how can schemes appropriately communicate financial risk to different segments of their membership?**

lose their money,” she explains, “so the middle or low risk options are often the most popular for those who self-select.”

Equally, while risk attitude questionnaires are used by many DC schemes to help members make informed decisions, the majority will still remain in their scheme’s default fund,

highlights Dalriada Trustees professional trustee, Judith Fish.

#### **Making an assumption**

Measuring individual attitudes to risk can have obstacles, but there are broader trends that trustees can make use of, to further break up their membership and

better tailor communications to help members make informed decisions.

“Attitudes to risk are clearly related to those classic three variables: age, sex, and class,” says Furnham. “Young people, particularly adolescents, tend to take more risks than older people. Males are always more risky than females. By and large, better-educated middle class people take fewer risks, at least with their health... There are good evolutionary theories to explain this.”

However, Ferrier Pearce client relationship director, Laura MacPhee, emphasises that whilst academic research may be able to indicate broader trends, trustees should approach these with caution and avoid making assumptions across broad groups, such as gender.

Agreeing, Furnham notes that “personality factors play a bigger part”. He explains that although situational, social and cultural elements can impact an individual’s “taste for risk”, their personality impacts how much of an influence this has on their actions.

### Putting it into practice

A happy balance can be achieved though, as MacPhee explains: “When we work with our clients we encourage them to segment based on demographic factors (such as age and income), as well as behavioural and attitudinal factors, which can be gleaned through both research and analysis of the actions members take.”

LEBC director of public policy, Kay Ingram, echoes Furnham’s warning, explaining that while segmenting may “seem attractive from an efficiency point of view” there are risks associated with overdoing it.

“Every individual is different and targeting solutions based on age or gender could lead to a mismatch of the individual’s needs and their investment risk profile,” she explains. “A more useful indicator is life events, which influence savings patterns and priorities in the member’s lives and when they are most receptive to targeted help.”

### Work with what you know

Struggling to access information on individual attitudes to risk is not a reason for trustees and providers to ignore member attitudes altogether though; they simply need to work with what they already know.

Where this information is not available, MacPhee explains, schemes and providers can build it by creating content that members can ‘self-select’, and then using that data to inform ongoing communications.

“For example,” she adds, “if a member logs onto a scheme/provider website and frequently views content that is relevant to family life (eg leaving an inheritance to children), the scheme/provider can deliver more content that is relevant to that lifestyle.”

Trustees and communication providers “need to get better at understanding their membership”, agrees Fish, stressing that member communications are “a good example of poor process”, with too many schemes continuing to use a “one-size-fits-all approach”.

Citing an EIOPA report on good practices on communication tools and channels, Fish explains that segmentation can be crucial tool for trustees, as it ensures that key messages resonate with members.

### Knowing your goal

Ensuring communications genuinely resonate with members is a crucial goal for trustees. But tools such as PLSA’s Retirement Living Standards and modellers, which place more focus on the desired outcomes rather than the risks faced on the journey, are increasingly popular. So where should trustees place their focus when engaging members?

“Outcome for members is absolutely key to their later life. However investment risk is an important factor that needs to be considered as part of a members’ journey,” emphasises Fearn.

“Risk profiling,” explains Ingram, “needs to measure the risk the individual needs to take in order to meet their desired income level and to compare this to the risk level they are comfortable with. Where there is a mismatch between the two, the member needs to be given guidance or advice about how they can resolve this.”

Furnham agrees, emphasising that savers are “psycho-logical rather than logical”, meaning that “they are persuaded, not only by the logic of any argument but how information is presented to them”.

### Sharing the message

This is where communications can play a crucial role, clarifies MacPhee, emphasising that pension communications have to “explain risk very clearly, in a way that encourages people towards behaviour that is likely to lead to better outcomes”.

“It is important the communications to members make it clear what the risk level of the different funds are,” agrees Fearn, “which includes the different components of the default. Members can then make more informed personal fund choices should they wish to do so.”

Member communications and member attitudes to risk go hand in hand then, with both benefiting from an awareness of the other. And as further segmentation of member communications evolves, likely prompted by advances in technology, schemes will have to consider the role of behavioural psychology, such as attitudes to risk, more proactively.

Tailoring communications to match member attitudes will allow trustees to help members genuinely understand the decisions they are making, ensuring that members are able to benefit from the same knowledge and context that those within the industry enjoy.

 **Written by Sophie Smith**