

### Summary

- Changes such as the freedom and choice reforms have made past research less relevant. Shocks to what were previously considered established trends have also required the need to re-examine data.
- Consistent methodology, clear terminology and an adequately-sized data sample can help provide meaningful research results.
- Analysing data can be problematic, due to unexpected factors influencing the findings. Comparing findings can help determine the reasons for trends found.
- It is almost impossible to make accurate predictions on trends from data due to the many variables that may affect the potential trend.
- Examining data for trends can help note behavioural patterns, which can subsequently be used to influence future policy or product development. It can also enable people to be aware of what their peers are doing.

## Playing the game

Looking at data to note trends or make predictions is a tricky game to play, especially when the nature of the pensions industry keeps changing, potentially rendering previous findings irrelevant. Laura Blows looks into the process of obtaining meaningful information through data analysis

The end is sight; you're one move away from winning. But then an unlucky roll of the dice or a shock move from an opponent sends you back tumbling down to the beginning. Do not pass go, do not collect \$200.

The frustration this creates must be akin to those trying to collate meaningful data on trends. They may be so close to determining patterns, but then a monumental tilt of the board knocks the research back several squares.

### Changing the rules

For the pensions industry, this shift occurred a couple of years ago, with the commencement of the freedom and choice reforms.

"Freedom and choice changed the playing field," Aon partner Matthew Arends says, "so all your findings from

before this change may no longer be relevant. You don't ignore everything, but you do have to re-evaluate the information you have obtained and look at it anew."

The freedom and choice reforms in 2015 changed the game for both the decumulation and accumulation stages of retirement saving. Two years later, we are starting to see initial data coming through as to how it has affected savers' behaviour.

But the industry moves slow. As Wealth at Work director Jonathan Watts Lay says, two years on and the industry is still in an "embryonic stage" with regards to product development. "So even though we have got a two-year history, it's only the really early adopters making decisions right now. Therefore forward-looking data is very difficult as we [*the pensions industry*] moves slowly."



However, even having reams of data going back decades may still be inadequate to confidently predict future trends.

Take longevity data for example. The impact of its analysis is significant. Pension products and annuity rates are tailored to longevity trends. Governments justify rises to state pension ages by stating that people are living longer, making the current system unsustainable.

Despite the importance placed on longevity data, analysing the findings 'correctly' and using past data to predict future longevity trends is easier said than done.

This problem is nothing new though. For instance, Society of Pensions Professionals president and Spence & Partners director, Hugh Nolan, notes that back in the 1990s, the emergence of AIDS led to some "scary projections about substantial reductions in longevity as the models struggled to incorporate a completely new factor".

Now the common thought is that medical advancements, healthier living



and the decline of smoking results in longevity ever-rising, often faster than actuaries predicted.

But just as pension funds were acting upon this information, removing this risk through longevity swaps, buyouts etc, so comes new findings that actually, maybe longevity isn't increasing so fast after all.

Longevity rises have slowed between 2010 and 2014, Pensions Policy Institute head of policy research Daniela Silcock says, with the decline greater in 2012-2014 than it was in 2010-2012.

### Tactics

Determining whether information such as longevity's recent slowdown is the beginning of a trend, or just a blip, is the heart of the matter – the fundamental point of the game if you will. However, determining this may be difficult, so game strategies are required to help increase the ability to draw confident conclusions from data findings.

KGC Associates director Kim Gubler recommends adopting a consistent methodology for both the collection

and interpretation of data. This is “so that anyone coming along can pick up and carry on”, providing confidence that past and present data are consistent for comparison.

Also, when conducting surveys, the quality of the results rests upon the questions asked.

Ideally you would want questions that would stand the test of time, so that past and present answers can be compared and changes/trends identified, but this is not always possible.

Watts Lay gives the example of questions surrounding transfers, which, post-freedoms, require more complex analysis than previously, such as determining whether a person transferring out but still working can then re-join their company pension scheme.

Glidepaths too were a common question in surveys pre-freedom reforms, he adds, but now require additional questioning, such as what the default glidepath now ‘defaults’ to – annuities or drawdown.

“*[When answering questions]* people will give you what they think you want unless you are really clear. We seek to be as clear as possible in what we want and how we want the responses to be inputted,” Gubler says.

Terminology also plays a factor here, as it is necessary to ensure that the interviewer and interviewee are speaking the same language.

“The same thing can get called different names over time,” Arends says. “For instance, what we now call flexible retirement option, FRO, was previously known as total PIE. So you have to be careful when looking back at long-term trends that you are comparing apples with apples, even though the name of apples has changed over time.”

Silcock notes a problem she has experienced with Office for National Statistics (ONS) data, which uses “old fashioned” models. For instance, ONS results may say ‘x million in occupational pensions’ but this may include the

millions of people in master trusts, which are not employer run, she explains.

Another difficulty is being comfortable that the people answering the questions are themselves consistent over time, Mercer partner Deborah Cooper says.

“For example, if I send a questionnaire out to trustees, and only some answer, if one year it’s all trustees of large schemes and another it’s trustees of small schemes, and I don’t know that’s the case, I might misunderstand what differences in answers are telling me,” she explains.

To help obtain meaningful data, Arends recommends interviewing different groups of people, such as employers and employees, on the same subjects to help establish overall trends.

Despite these efforts, having enough data to start with can be a challenge in itself. For example, DC as a scheme design is decades old, but obtaining adequate DC data can still be difficult, Silcock states. She says it sometimes requires a return to the raw dataset to dig the DC data out, “which can have data protection issues”.

In addition, Silcock says another difficulty is with the range of data available. Finding out averages can be easy, but not the distribution range of responses, such as the experience of people from different income levels or ethnic backgrounds, for example.

### Results

The next stage, having managed to secure enough comparable data, is to look for trends. This can also be fraught with difficulties. Some unintentionally self-inflicted.

“Sadly no matter how disciplined your data analysis is, there will be a subjective element in the interpretation – i.e. the one who analyses the data is the one who decides if they are identifying a trend. We need to take care we don’t use this data indiscriminately simply to prove what we want it to,” Gubler says.

The pensions industry can also be

very “fashion led”, she adds. “Sometimes we witness an issue debated at length one year, to completely drop off the radar by the next.”

Scottish Widows retirement planning expert Ian Naismith suggests segmenting data to maximise the ability to understand the findings.

For instance, one year a Scottish Widows survey saw a rise in the percentage of employees who expected their main retirement income to come from DB schemes, Naismith says, “which was unusual as the percentage of people in DB is in steady decline”.

Segmenting the data enabled the company to identify that the rise in people relying on DB schemes came from public-sector respondents. “We concluded that it was very likely caused by the publicity generated by the Hutton report on public-sector pensions....it reminded them of their membership in a DB scheme.”

Another example he cites was a “significant rise” one year in the average amount as a percentage being saved for retirement.

“From the data, we were able to identify that the increase was largely due to increased savings by those in the retail sector, which was itself the result of large supermarket chains being among the first to go through auto-enrolment,” he explains.

Drilling down into the data is one way to establish trends and determine why they occur. Another approach is to look wider.

An example may be examining what the medical community is saying about longevity data, Arends says, whether it

thinks the longevity slowdown is a trend, or whether it can explain a ‘blip’ – due to an ineffective flu vaccine for example.

Silcock prefers to look to other countries with similar pension systems, such as the USA and Australia, to see what the UK may expect to grapple with based on the other countries’ experiences.

### Winning?

But even when data has been thoroughly explored, making future claims can still be tricky.

“It is impossible for anyone to predict the future well enough to cover all eventualities in advance,” Nolan says. “The key is to recognise that things will change and to keep enough flexibility to allow products and advice to react to those changes.”

The further ahead the prediction goes, the less likely it is to be correct. As Cooper says, “in areas subject to the whims of politicians, financial markets and individual choices, it is not possible to say reliably that you have identified a trend that will continue into the medium or long-term future in some predictable way”.

Making predictions with confidence clearly requires a brave – or foolish – player, as any findings require warnings of change and uncertainty.

This problem has led to the industry working to shorter time horizons, Arends says, as a one- to five-year time horizon is somewhat more predictable. “But you still get shocks like the Lifetime ISA being announced and coming on board in a fairly short order,” he warns.

### Why play?

A game needs to be challenging to be any fun. But compiling and analysing data to confidently make predictions seems an almost impossible task, particularly when searching for future long-term trends (and ‘long term’ is a key factor in pensions saving). So, what’s the point in playing?

While industry shocks and upheavals

may reduce the relevance of past research, it often does not negate the findings completely.

For instance, Watts Lay states that “pre-freedom and choice, we knew that around 60 per cent of people bought the wrong, or sub-optimal, annuity product. So we knew when people had limited choice the majority still got it wrong.

“Now we are in a world where we have lots of choices and we know people are overpaying tax on retirement choices and getting scammed. If we knew people were getting it wrong with limited choice, is it surprising that it looks like they are getting it wrong now they have more choice?”

Aviva head of saving and retirement Alistair McQueen echoes this view. He says people’s options may have changed, but their circumstances haven’t, “so it is still possible to see some trends based on people’s ages, careers, fund sizes, etc”.

Examining data can also provide greater benefits than just attempting to predict trends.

Collating and processing data has a cost attached to it, but the industry does so because “we need to make some decisions,” Arends says. “To completely disregard the information we can collect leaves us worse off than at least attempting to form a view of trends.

“Trends can tell us a great deal and actually give us comfort that what we are doing is at least compatible with what others are doing. We often get asked by clients what everyone else is doing. That’s where trend information can help, even though you have to overlay that with interpretation.”

That’s why so much time and effort goes into attempting to identify trends. It’s almost impossible to always make accurate predictions – to definitely ‘win’ at correctly noting trends every time – but maybe that’s not the point. Instead, scrutinising data helps write the rulebook for the much bigger game of adequate pensions saving.

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