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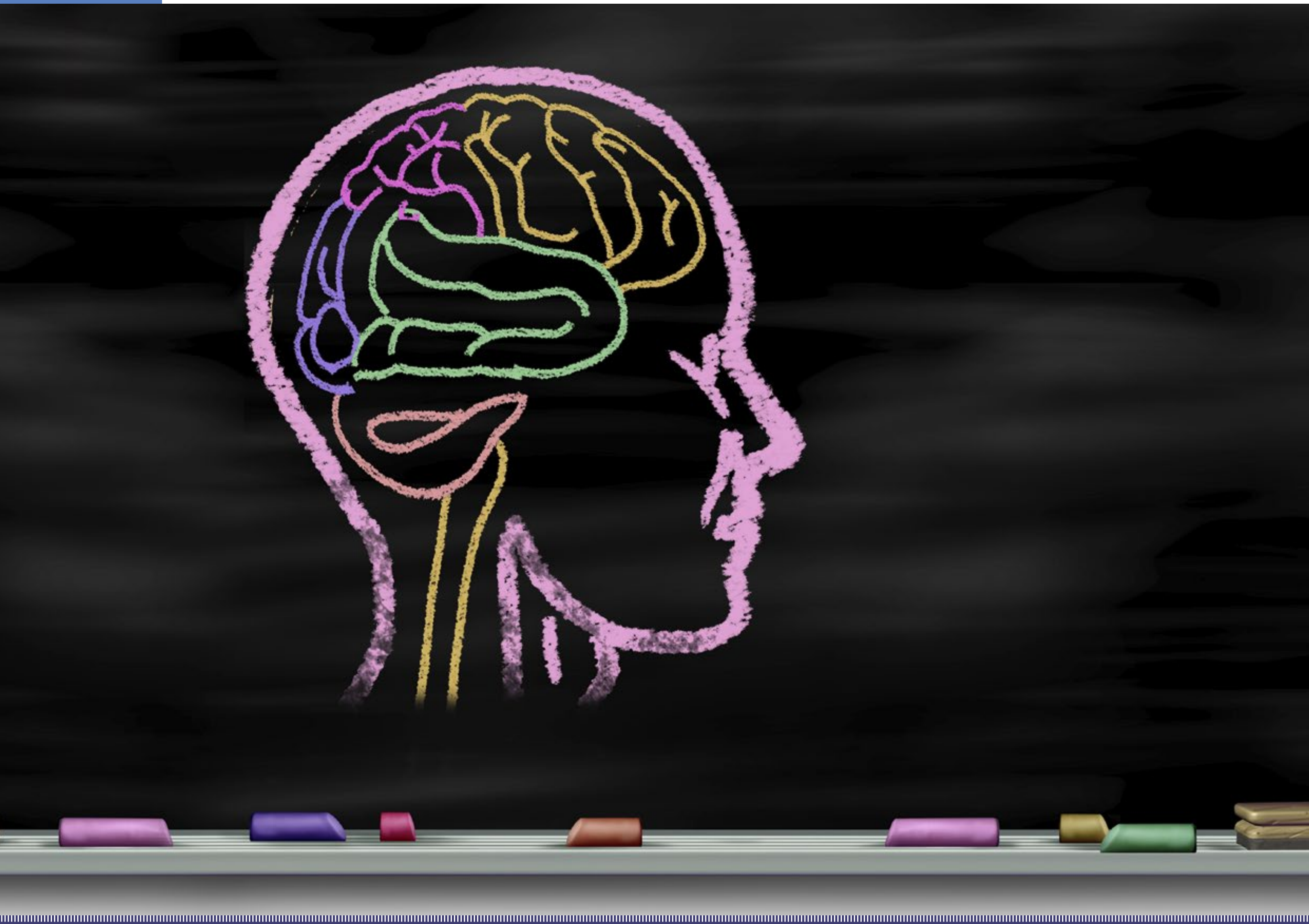
ROUNDTABLE



THE PSYCHOLOGY OF FINANCIAL WELLBEING

– MINDSET SHIFT TO BETTER FINANCIAL WELLBEING
– BEHAVIOURAL BENEFITS

IN ASSOCIATION WITH

AEGON


Have your clients and members mastered the balance of financial wellbeing?
Financial wellbeing is how people feel about the control they have over their financial future – and their relationship with money.
It's about focusing on the things that make their life enjoyable and meaningful – both now and in retirement.
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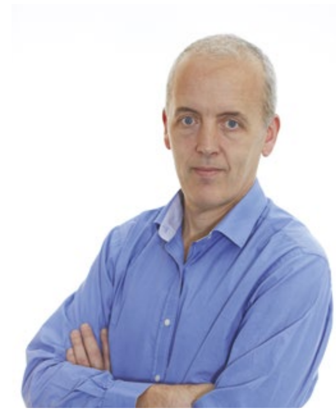
THE POWER OF PSYCHOLOGY



We can only hope to start to change employee behaviour if we connect with the things that really motivate them

John Greenwood
john.greenwood@definitearticlemedia.com

It is hard to overstate just how influential psychology is to pretty much every walk of life. From politics to shopping, it sometimes seems that psychologists rule the world.

Often psychology can be seen as malevolent – such as the psychological profiling, data harvesting and message targeting of the Cambridge Analytica scandal.

More widespread are the range of techniques used by the advertising industry to get us to want and buy things – generating emotions and reactions that ultimately drive us to consume.

Psychology's lessons for investors are well known – don't buy at the top and sell at the bottom; or the 'hot hand fallacy', where people who experience success with a random event think they have the Midas touch.

In the pensions sector, we have been hearing about behavioural economics for quite some time – the most notable example being Richard Thaler's nudge theory, which sits at the heart of the 'opt the member in, with the option to opt out' approach of auto-enrolment.

But while auto-enrolment has been massively successful in getting people to do nothing, getting them to do something is a different proposition.

Getting people to change their behaviour involves more than showing them the power of compound interest or a list of money-saving tips. It involves connecting with their inner selves, challenging them to understand their true motivations in life and asking them to visualise what their future self will be.

This is a conversation that goes way beyond personal finances into the holistic entirety of the individual's very reason for being. If financial and broader wellbeing programmes are to succeed, we need to broaden the conversation with employees – but crucially, we need to understand the psychological triggers that can help them towards taking actions and becoming the person they want to be.

INSIDE

THE PSYCHOLOGY OF FINANCIAL WELLBEING

MINDSET SHIFT TO BETTER FINANCIAL WELLBEING

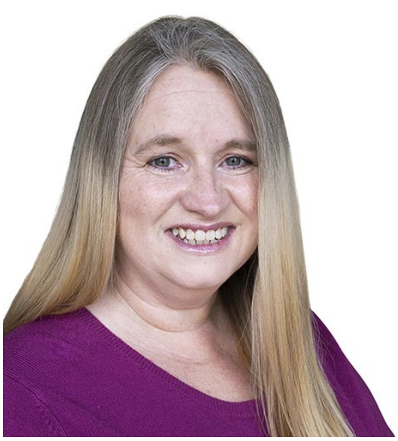
Today's solutions are only scratching the surface of employees' financial wellbeing. But by connecting individuals to a vision of their future self it is possible to change their money mindset. John Greenwood reports

Millions of employees are plagued by poor financial resilience and wellbeing, restricting their ability to get the most from their lives, impacting their physical and mental health, and often leaving them on course for a retirement short of their expectations. While traditional pension communication and education programmes can help explain where savers stand and what they need to do to improve their financial position, these techniques will rarely achieve the level of changes in behaviour needed to have a meaningful impact on individuals' financial wellbeing.

Financial wellbeing has been at the top of the agenda for providers, advisers and employers for some years now, and programmes have been in place for a considerable time. But, said delegates at a round table on The Psychology of Financial Wellbeing held by Corporate Adviser last month, while some progress has been made, current financial education programmes are yet to deliver the sort of step-change in behaviour that is needed.

Barnett Waddingham partner Andy Parker said: "In my many years in the industry the Holy Grail has always been about engaging people, around pensions predominantly, but in a broader way now. And we absolutely haven't cracked it - we've had lots of goes at trying to crack it but haven't got it right yet.

"We've got lots of tools and educational material. What we don't have is the

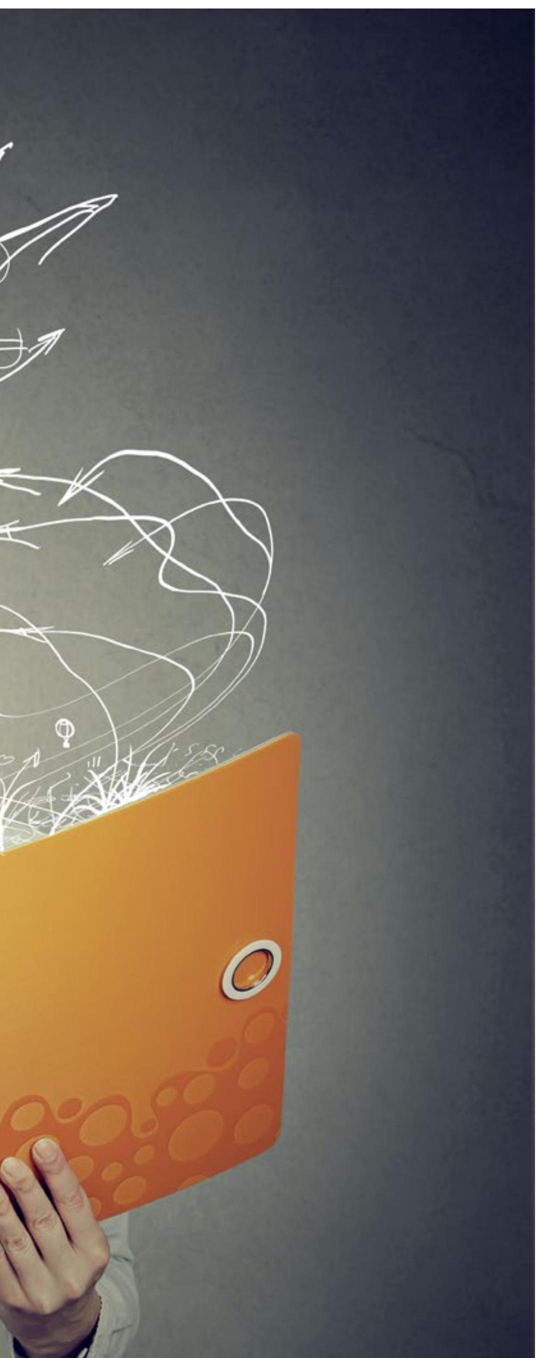


"It isn't as simple as putting some put some articles on a website and 'job done'"

LCP senior consultant Heidi Allan (left) willingness within the individuals that we're trying to get to take part in this - to actually take part."

The engagement challenge

LCP senior consultant Heidi Allan agreed that the industry is only at the start of the journey towards helping individuals to better financial wellbeing. While 'wellbeing' is a buzzword in the employee benefits sector, this has caused the proliferation of products and services that leverage the concept in ways that do not necessarily lead to tangible results.



Barnett Waddingham partner Andy Parker

"The Holy Grail has always been about engaging people, around pensions predominantly, but in a broader way now"

She said: "A lot of organisations have got products and services that form part of their employee benefits suite. And alongside that they get a bit of financial education thrown in. But it isn't as simple as putting some articles on a website and 'job done'. The organisations that have had the most success in terms of engagement are those that take it to a broader level, those that integrate into financial, physical and mental health, those that enable people to think about today, tomorrow and the future."

She added that there are so many wellbeing apps, services and other propositions bombarding employers and individuals that they can become swamped.

"Because there's so much noise and so much free stuff, and different benefit providers offering different sorts of financial education, it is difficult for organisations," she said.

Aon head of DC pensions, H&B EMEA Debbie Falvey said: "Financial education is good and people always really enjoy it and value it. And the more you can segment that into things that are relevant to the group that you're talking to, the more well received it is. But it doesn't immediately have an action impact unless you can link it to an immediate action, and that can be quite difficult."

Falvey pointed to two surveys her organisation had done recently – one which found that employers thought they offered a good range of benefits, and the other showing employees thought they didn't get a good range of benefits.

"There is a massive mismatch between what organisations are actually doing and how people appreciate them. So we need more education around why an employee might use those their benefits," she said. ▶

Punter Southall Aspire managing director Alan Morahan said: “I am concerned for our society, when I look at the level of financial understanding and financial literacy that actually exists – the understanding of basic interest rates and compounding, for example. Sometimes we go into financial education pieces with a level of assumption of understanding that isn’t the reality for many of the people in the room. Even the real basics that we would assume would be there are just not there.”

Beyond pension

Falvey argued pensions engagement is a particularly difficult nut to crack.

“I’m fed up of talking about engagement. I think it’s pointless, because nobody wakes up in the morning thinking I must engage in my pension. But there are points in their life where they might. So you should aim to touch those points and focus the energies around engagement at moments that matter to people.”

Isio principal consultant, DC, Simon Davidge agreed that the pensions industry’s desire to shoehorn pensions into financial wellbeing conversations risked disengaging people. He said: “We can all be guilty of taking a pensions-centric approach to financial education and not acknowledging that for the vast majority of people, pensions is probably third, fourth or fifth, if we’re lucky, on their list of financial pressures. There is a more fundamental question of whether we should even be encouraging people to pay into pensions if they’ve only got £50 left for emergency savings.

“Even the real basics that we would assume would be there are just not there at all”

“When you’re talking to employees at the moment, they’re getting bombarded with opportunities from financial education providers and pension providers. There’s a lot of conflicts of interest because some providers really just want to get assets under management and don’t want to put the employee at the heart of what they are doing. We need to be more aligned with their needs in order to be successful.”

Aegon Workplace Investing managing director Linda Whorlow said the challenges with engaging employees on wellbeing outlined by consultants showed that a different, deeper approach was needed. She said: “We aren’t just talking about the narrow world of budgeting and what we have in the bank, but more about our mental mindset and our fundamental relationship with money.”

Dr. Tom Mathar, who leads Aegon’s Centre for Behavioural Research, supported the view that financial education works really well when it is embedded in a wider discussion about what people truly value in their lives.

He said: “This is because it connects more meaningfully with people’s intrinsic motivations. Financial education programmes are typically offered on a voluntary basis. The chances are the people who are going to take these up are the ones who are interested in the subject in the first place. We regularly see this in our employer surveys. If we connect to people’s true, deeper, intrinsic motivations, then it becomes more clear to them why they should join financial education programmes in the first place.

“Financial education programmes are there, so why are people not paying attention to them? There’s all sorts of reasons. Present bias is one reason - we value costs and benefits in the present more than costs and benefits in the future. There are social norms - we are far less likely to do something if we see hardly anyone in our environment do the same thing. And there is optimism bias – ‘I’m sixty four years old and have £125,000 saved in my pension. Perhaps it’s too little, but I’ll be fine’.”

Future self

Mathar said the standout finding from a big behaviour and financial wellbeing study carried out by Aegon last year was that having a long term mental time horizon made a big difference to people’s ability to address their future finances.

“There is a massive mismatch between what organisations are actually doing and how people appreciate them and use them”

Aon head of DC pensions, H&B EMEA Debbie Falvey, and, Punter Southall Aspire managing director Alan Morahan (bottom left)

“We found that people who have a concrete picture of their future self are far more likely to conduct themselves financially in a way that we would consider advisable.

“They are far more likely to save for the future, they are far more likely to have emergency funds, rainy day funds, and they are less likely to have debt,” he said.

Whorlow agreed. She said: “It is about matching the right financial education with the individual, which means we have to reach members in different ways. Our wellbeing strategy at Aegon is very much focused around behaviours and that call to action - getting people to visualise their future self is one of the key cornerstones of what we do.”

Falvey recounted an experience from earlier in her career where she worked in a startup developing a product for funding future elder care costs.

“Getting people to think ‘that might be me’ was incredibly difficult. This might have been because care carries such a negative connotation in relation to one’s future self. But it’s the same with all these things that

look at our older self – it's not a terribly exciting thing to look at."

Mathar agreed that connecting with one's future self was not easy. "Uploading a picture of yourself on an app and picturing your future self with wrinkles is not necessarily cheery. But there is evidence that this helps, certainly in the short term. The data points show those who have seen this were more likely to think about their contribution levels, but as far as long lasting effects are concerned, it is less certain.

Connecting to the future

"What is important is this meaningful and concrete connection," said Mathar. "Neuroscientific research shows that there's a part of the brain that enables you to distinguish between yourself and a stranger - this is an important evolutionary ability. Some people, when they think about their future self, activate the part of the brain that thinks of a stranger and some people activate the part of the brain that thinks of themself. This illustrates that some people find it easy to connect meaningfully to their future while other people find it really difficult. So the solution is not just a tool, it's a wider campaign, something that lasts for a year or more and uses a wide variety of tools, including an ageing app potentially, but also, really questions people on what has given them pleasure and purpose in the past. But there is not a simple tool that can do this."

100-Year Life?

Delegates at the event debated the influence of presenting people with narratives to shape behavioural change, and reflected on the impact of Andrew J Scott and Lynda Gratton's book The 100-Year Life.

Morahan gave a personal view of how his own life plans at been shaped by The 100-Year Life.

He said: "It is a book that has had quite a significant influence on me. I have read it twice now and it is shaping how I am approaching my life.

"I realised that I was in real danger of completely burning out from a management perspective. So I took a sabbatical and I view that as an investment. It's definitely allowed me to stay in the workplace for longer."

He added that he was lucky to have an employer that would facilitate a sabbatical, and felt he was able to contribute more in the long term as a result of having taken it.

Morahan's personal story of how he had improved his overall wellbeing by stopping working highlighted the point that while some employers use wellbeing to drive productivity, in some situations the 'answer' to the employee's wellbeing woes could be to stop working for that employer.

Allan said: "It comes down to doing the right thing, and if an environment that you're in isn't conducive to your health and happiness, then the only logical answer is to change that environment. Though some people simply won't have the opportunity to be able to sustain themselves financially doing this."

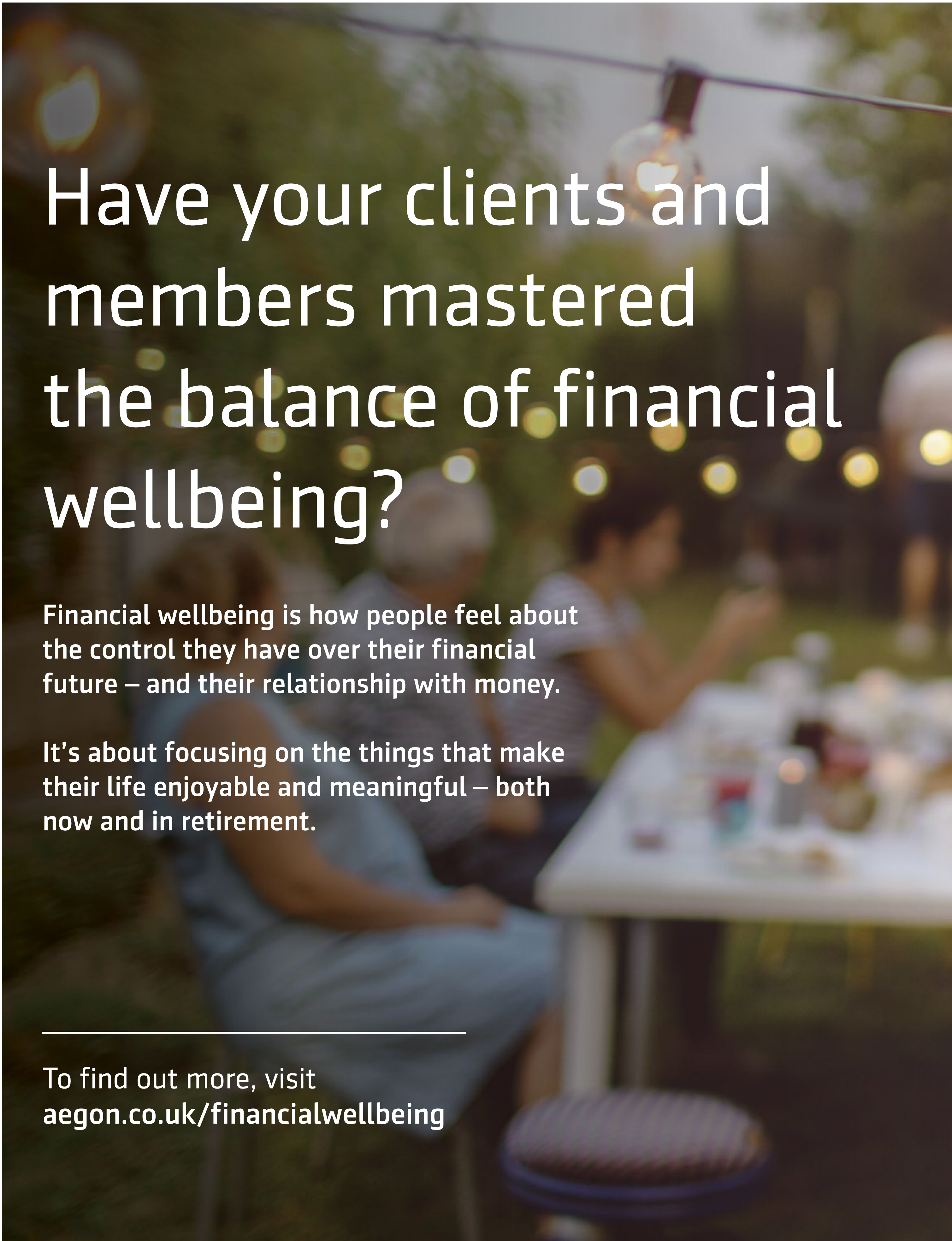
Parker said: "I like the idea of this 100 year life, except that there's a very big portion of that that many of us will have no idea about, which is probably the last 30.

"It feels like we're trying to go from a very low base to knowing everything in one go, and it would be more sensible to work out what the steps are that you need to take to get somebody from the very low base to that fully engaged or fully informed place.

"Engaging with your future self sounds fantastic. I don't really know what that means, but help me to engage with my future self for the next five minutes, then the next year, then the next five years. Rather than doing it all at once, have a plan that I can follow if I really do want to engage with my future self."

Dr Mathar said: "The 100-Year Life was hugely influential, but for many it may be too abstract a concept to actually change their behaviour. I have a friend who is 40, who's recently gone through a divorce and is absolutely shattered by all the emotional and financial implications of it. To then bring in the notion of a 100 Year Life, I'm not sure that's going to help.

"The future self, however, is about helping people building that meaningful and concrete connection, this is really important. It's got to resonate with what people are doing now and what gives them pleasure and purpose. It's not just about where they are financially in 10, 15, 20, 25 years' time. It's also about where they are socially, what they'll be doing, day in and day out. If they have a concrete and meaningful connection now to where they might be in the future, that will be really powerful in driving behaviour change." ■



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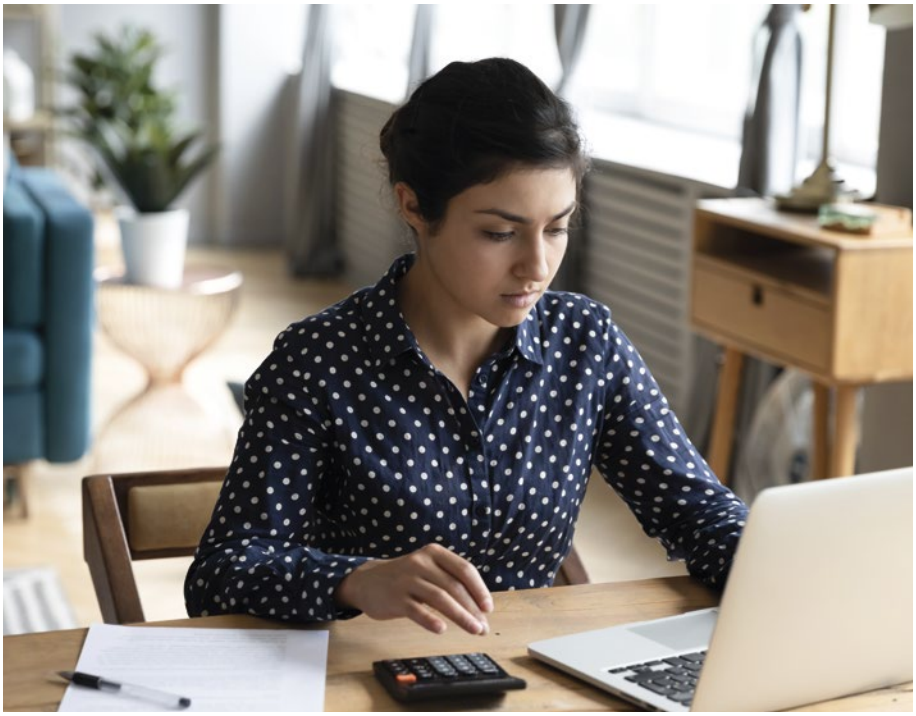


Aegon managing director Linda Whorlow

THE PSYCHOLOGY OF FINANCIAL WELLBEING

BEHAVIOURAL BENEFITS

Every employer and employee is different. That's why deeper segmentation is crucial to achieving the changes in behaviour needed to improve individuals' financial and broader wellbeing. John Greenwood reports

A deeper understanding of the specific behavioural characteristics of individual employees can support efforts to improve their financial wellbeing. That way, interventions have a better chance of connecting with individuals' intrinsic motivations in a way that can actually start to bring about a change of mindset.

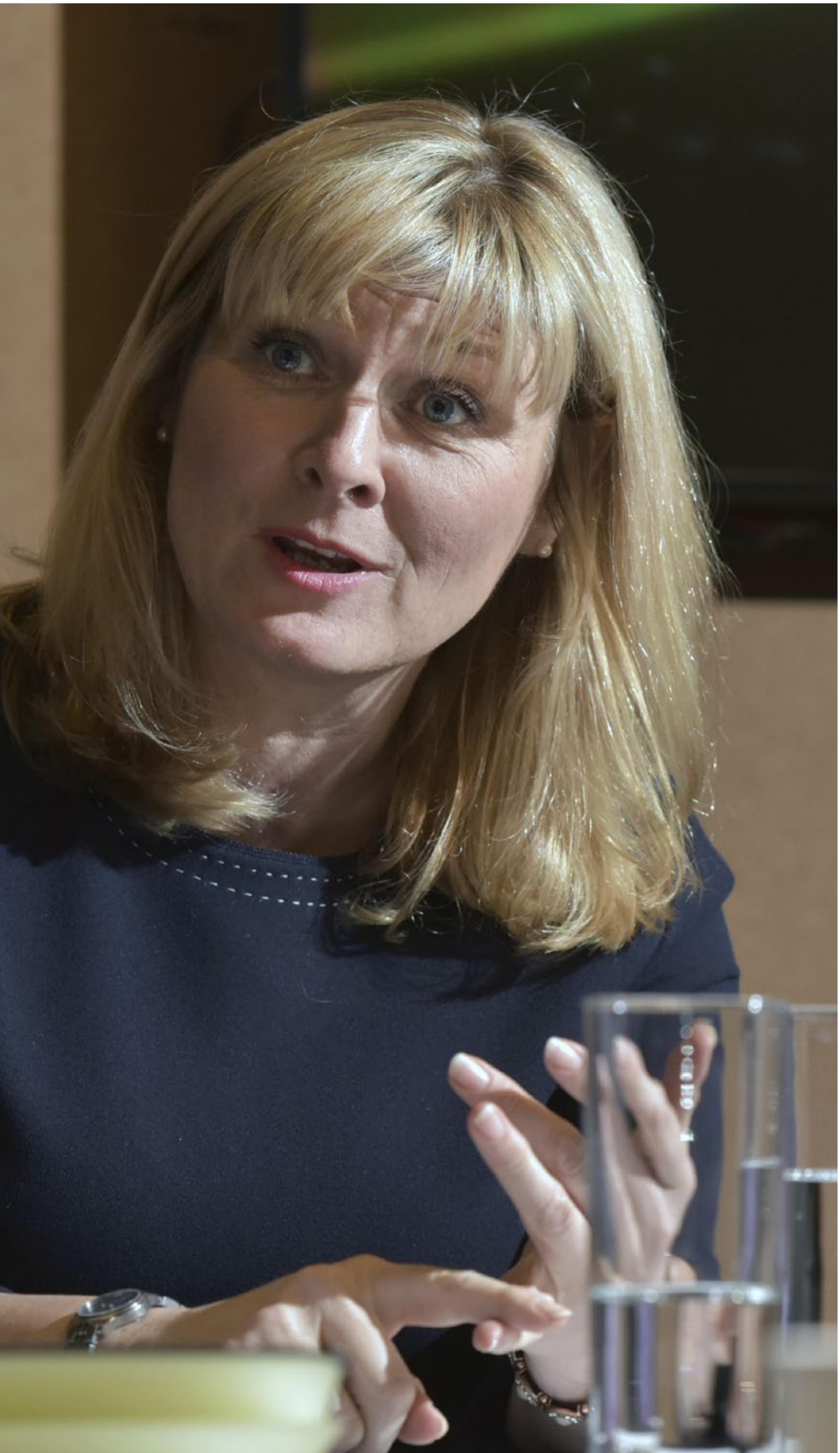
That was what Dr. Tom Mathar, who leads Aegon's Centre for Behavioural Research, told delegates at a round table on The Psychology of Financial Wellbeing held by Corporate Adviser last month.

Mathar pointed to the Number 10 Behavioural Insights Team's four principles for changing behaviour as a starting point for understanding how to achieve results.

"Make it easy, make it attractive, make it social and make it timely. Take auto-enrolment. That has made it easy to get involved in pensions and difficult to opt out. It has been made attractive, and that speaks to intrinsic motivations. The social dimension is that we are far more likely to do something if we know that others are doing it as well. So we communicate what we know others are doing. And the timely point is about understanding when to launch an intervention or put forward a nudge. Something we see in our data as well is that people whose age ends with a nine are far more likely to engage with pensions and savings than those with an age does that not end with a nine," he said.

Delegates agreed that data was the key to better insights and more effective change strategies, and that benchmarking a workforce's wellbeing before and after interventions are made was key to understanding success.

Isio principal consultant, DC, Simon Davidge said: "The real key to this from an employer's point of view, is the breadth of data they've got access to through a flex platform, and how that can give them more insight into basic issues such as someone



"A major study that we've carried out over the last 12 months has led us to create a financial wellbeing index"

who's paying higher contributions into their pension and childcare benefits, but who is really low on life assurance. Looking at those patterns of interconnection between benefit take-up, it's quite low at the minute. But you could quite easily track that to see where people are engaging, communicate to those and then see if their behaviour is changing. That will give real evidence of whether what you are doing is working or not working. The data holds all the secrets."

Barnett Waddingham partner Andy Parker raised the worry that individuals will face a lot of chopping and changing of benefits and financial wellbeing communication as they pass through their career. He said: "We've all naturally assumed that this is a workplace issue. So if I have 11 different workplaces during my lifetime and I have a period where I'm not in a workplace or I'm in my own self-employed workplace, how do I bring it altogether? How do I get consistency in the approach or am I going to have to deal with 11 different ways of doing things and none of them join up? I don't hear government saying we're going to take this by the horns and do something. It is all pushed back to the employer. Really, I need something that will go all the way through my lifetime, not something that's going to change every time I change my job."

Parker added that all employees are very different in their pension accrual history, with some have predominantly defined benefit benefits while others are more tilted towards DC, and others still with little at all.

"So we need to be clear that it definitely isn't a case of one size fits all," he added.

Aegon Workplace Investing managing director Linda Whorlow said her organisation has developed research that helped quantify not only the financial wellbeing of workforces within companies, but also the mindset of employees and their propensity to engage with their future self, and to monitor this over time. ▶

"It is also important to recognise that the way we behave varies with context as well. Some people are bad with money in some contexts but good in others"

Dr. Tom Mathar, who leads Aegon's Centre for Behavioural Research

Measuring mindset

Whorlow said: "A major study that we've carried out over the last 12 months has led us to create a financial wellbeing index. This looks at not just the budgetary side, but mindset measurement as well. We'll be developing that into a tool. We can create data at a corporate, client, industry and regional level and look at different sectors to help give the employer the insights to help them move that step forward towards what's going to actually work with advisers and employers, to really drive better outcomes."

Mathar added: "This work that we've done really sets out that financial wellbeing is about those two things. One is the money side. The other is the mindset side - what gives us joy and purpose, how far does our mental time horizon stretch? Are we intrinsically motivated or are we bogged down by social comparisons? And financial literacy is important, but so too is the behavioural side – how we conduct ourselves, for example, in times of crisis, be it crises in the markets or a personal crisis.

"And those two sides, the money side and the mindset side are brought together in this index. Originally it was a big piece of research, but that's now been distilled and made easy and very comprehensible so that employers can use a set of questions to understand the profile, both of the money side and the mindset side of the workforce, to help inform decisions on what sort of campaigns to carry out. This is something in the pipeline being launched in Q3 2021. It will offer a great opportunity for employers to really get closer to their staff and understand their specific needs and requirements, and how to address them."

Davidge said applying more science to financial wellbeing communications made sense. He said: "It seems like the answer at the moment is throw loads of stuff at the problem and see what sticks, with little thinking about why. Some rationale as to why we're doing what we are doing for employees is needed."

Financial couch to 5K

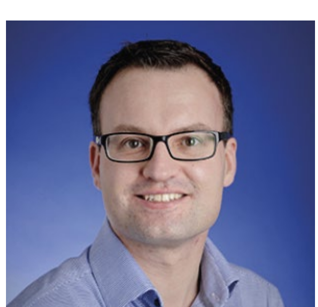
Davidge suggested a bite-sized approach to success helped with goal-setting. He said: "I like the idea of the financial equivalent of Couch to 5K - a concept that feels like a goal that can be reached with a bit of work. If we could crack that and get a concept of something that's easily relatable to give people goals and motivation along the way, that would be the key."

LCP senior consultant Heidi Allan agreed: "We always try and break goals down because we know how demotivating it can be if, for example, you're saving for a deposit on a house or for a wedding and you've got this big number that you're trying to reach, and it's really easy to fall off the wagon because it seems so far away. And that's one of the challenges with retirement for a lot of people. But actually, if we break that down into smaller, manageable chunks, and easier for them to see, it could work."

Falvey said: "We're working trying to identify different personality types. Because if we can do that then people might be able to see why they do the things they do. And giving give them little easy tricks and things to change may help them get to their goals."

Spender, slender or defender

Falvey said Aon's thinking in this area was coming from Australian colleagues, who divide people into three personality buckets.



"I like the idea of the financial equivalent of Couch to 5K - a concept that feels like a goal that can be reached with a bit of work"

"Either you're a spender, a defender, or a slender. We're all defenders in this session as we understand our benefits and know what to do. Slenders are the really hard ones because they oscillate between the two. The science behind this says that people are in this mindset by the time they're about seven years old. It's a bit genetics and it's a bit of what's happened in the family - and recognising it helps you to change," said Falvey.

Falvey added that family experiences of money shortage when growing up can shape attitudes to saving.

Mathar said: "We definitely need to segment people. Employers need to gain an understanding of their employees emotionally, socially and behaviourally, because that informs what they're likely to do. We already do that on a very basic level with communications. It's pointless to send out information on how to access pensions to a 25-year-old."

Behavioural segmentation

Mathar said that focusing on 'personality type' and 'psychological profiling' suggested deep ingrained personality types that could not be changed, whereas 'behavioural' segmentation was a more accurate description of how individuals could be communicated with.

"I don't hear government saying we're going to take this by the horns and do something. It is all pushed back to the employer"

"For me, it is more behavioural segmentation rather than personality segmentation," he said. "And it is also important to recognise that the way we behave varies with context as well. Some people are bad with money in some contexts but good in others."

So should individual pension scheme members be segmented on the basis of their behavioural characteristics and labelled as needing particular communications tailored to their behavioural type?

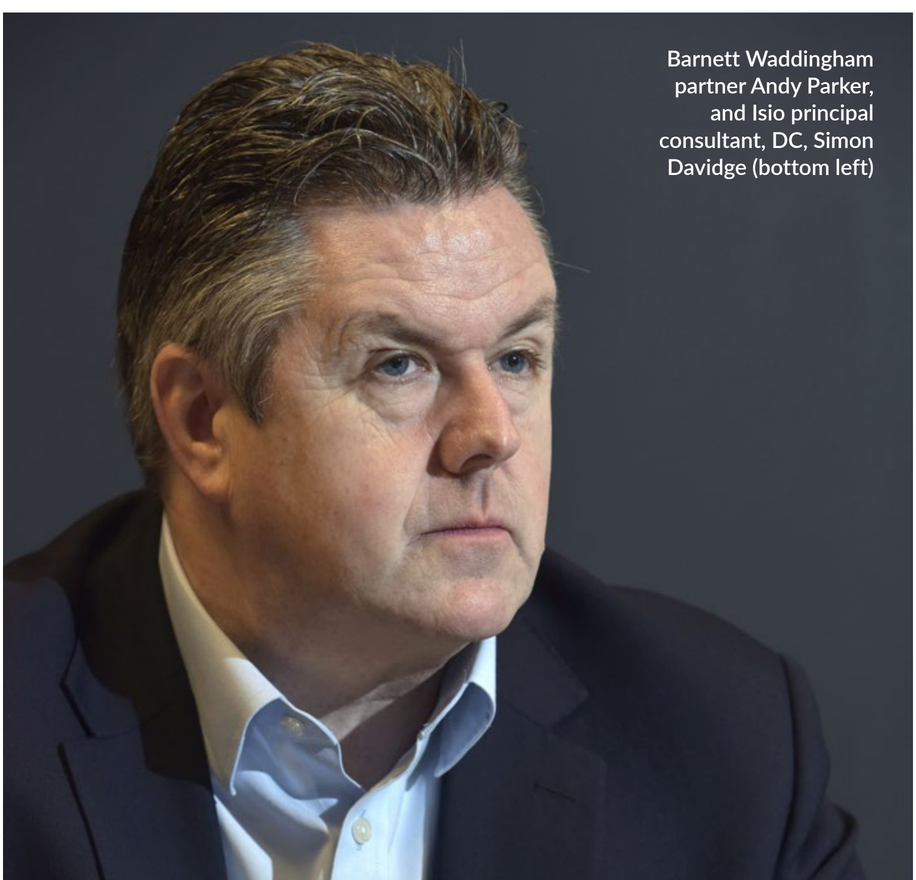
"We do that already with simple variables like age and wealth," said Mathar. "If we see someone aged 55 who has £300,000, we would implicitly assume there's another psychographic profile for someone who's 55 and has only £125,000, or someone who is 65 and only has £30,000. It's unfair to draw too many conclusions but it is a useful starting point. And we look at the hard data of how people behave - activation rates, contribution reviews, switch rates, et cetera, and that informs how we offer services.

"For example, Aegon Assist, our guidance service, uses psychographic, social demographic and behavioural assessments that inform the framing, anchoring, checklists and defaults. But I wouldn't call it psychological or psychographic segmentation - it's a variety of data points that I would more summarise as behavioural."

Allan gave an optimistic summary of where the current focus on financial wellbeing could take the nation. She said: "Hopefully if some of these interventions that people experience through the workplace are addressing behaviours, knowledge, understanding, attitudes, ethos, mindset, all of these things, hopefully as people move organisations, whatever support is in place in that new workplace will further cement that mindset, behaviour, motivation that is needed.

"I'm encouraged by how much mental health support and awareness has grown in the last five years. I'd really like to think we can achieve the same trajectory with financial health going forward."

Whorlow said: "We have a consensus that this isn't about budget planners and tools. I'm hopeful for us as an industry. It's good to hear from you, leading EBCs in the UK, that we're on to something here in terms of how we progressing, how we interact with clients and how we can get them to help change that behaviour." ■



Barnett Waddingham partner Andy Parker, and Isio principal consultant, DC, Simon Davidge (bottom left)


We understand that financial wellbeing is not only about the health of people's financial position, but also the critical role that mindset plays in influencing it.
That's why we've carried out extensive research and delivered our financial wellbeing index. You can find the index, along with content and practical tools to support members in achieving a lifetime of financial security, in our wellbeing hub.
To find out more, visit our hub at aegon.co.uk/financialwellbeing
Together
we can help people feel more in control of their future
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OPINION

IT'S TIME TO LOOK FORWARD AND FOCUS ON EMPLOYEE FINANCIAL WELLBEING

» **Linda Whorlow** managing director Aegon Workplace Investing

Many people and businesses have been in a pretty grim place for the last year and a half – be that physically, emotionally or financially. Employers have gone the extra mile to check-in on their employees and ensure that they were safe and well, while also ensuring they were able to do their jobs under the pressure of pandemic circumstances.

As a result, many employers have focused on health and wellbeing in the last year – and quite rightly so. There are numerous studies that show a correlation between employee wellbeing and performance. It seems one of the keys to not only attracting and retaining talented workers, but also having a more productive, engaged and pragmatic workforce is positive employee wellbeing and happiness.

But as we know the root cause of many health and wellbeing problems faced by employees is financial worry and stress. So as workplaces start to recover from the chaos, return to a slightly different way of working and appreciating the benefits of a vaccine, attention is likely to remain on wellbeing. But maybe it's time employers turn this attention to employee financial wellbeing.

The Aegon Financial Wellbeing Index set out to measure peoples' objective financial position, covering factors including household income, debt, savings levels and other assets. Crucially it also asked people about money mindset, including the extent to which they knew what gave them joy and purpose, whether they had considered their future self, the social comparisons they make regarding money and whether they have put in place financial plans.

The report found that 40% of the population have less than £100 left at the end of the month, around a third don't have any emergency savings and just one in ten people pay more than the auto-enrolment minimum of 8% of qualifying earnings into their workplace pension.

However, interestingly we also found that for all but the lowest earners, the area they could improve most on was mindset. Peoples' mindset scores increased relative to their income, but not to the extent you would expect.

For example, two fifths of people have only a vague idea of where they want to be financially in 10 years' time versus 29% with a specific idea. More than a quarter of us have not thought about what it is that gives us joy and purpose – which are essential ingredients to happiness and without a clear idea it's difficult to prioritise financial decisions. Similarly, almost nine in ten of us don't have a financial plan to achieve long-term goals and one in six of us frequently compare ourselves to those who are better off than us.

> Two fifths of people have only a vague idea of where they want to be financially in 10 years' time versus 29% with a specific idea

How can employers help improve employee financial wellbeing?

Products and tools are a common place to start but they are most effective when promoted through engaging events and supported by financial education and expertise in the form of financial advice and guidance.

To support the in-depth findings of the Aegon Financial Wellbeing report, Aegon has recently launched a Financial Wellbeing Tool that employers can share with their employees. It provides them with insight to their own financial wellbeing and tips on how to improve it. Notably, that's not just tips and techniques that address the money side; but also those that address the mindset side – which seems to be the key to facilitate behaviour change.

This research and tool extends Aegon's suite of engaging digital support which includes the Aegon UK app, video pension summaries, the digital hubs and Member Insights to make it easier for employers to engage their employees in saving for retirement.

And as employers have made remarkable efforts to help employees with their mental and physical wellbeing in the last year, it's only natural they would step in to help employees in the workplace to improve their financial wellbeing as well.

After all it makes sense, better financial wellbeing of employees will improve their engagement, which will in time convert to better results for their business. ■

To find out more, visit aegon.co.uk/financialwellbeing

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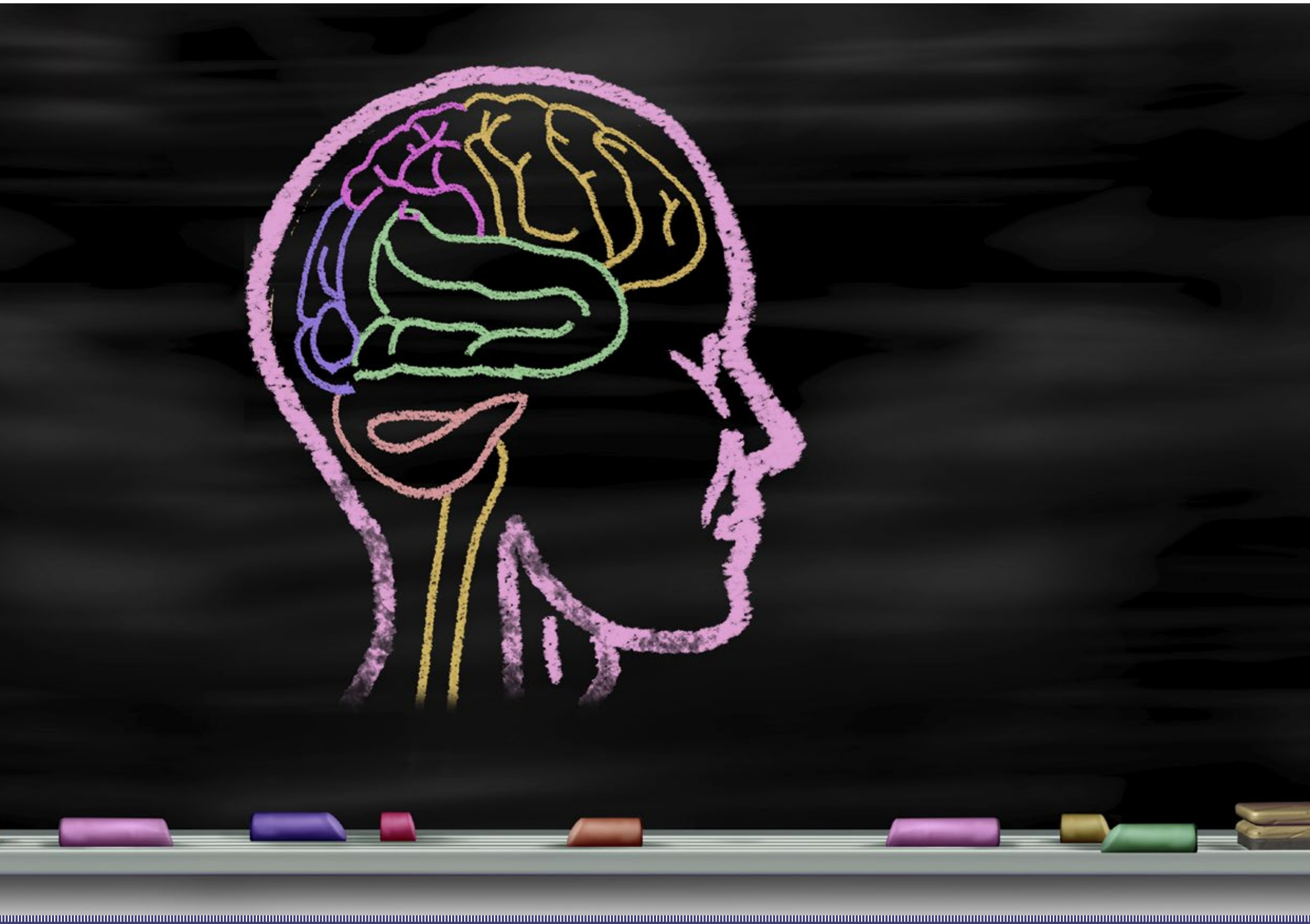

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