NOVEMBER 2024
CORPORATE-ADVISER.COM

corporate adviser

ROUNDTABLE

THE MENTAL CHALLENGES OF THE SECOND 50

– FINDING A HUMAN-CENTRIC APPROACH TO FINANCIAL PLANNING

– THINKING BEYOND PENSIONS

IN ASSOCIATION WITH

aegon

aegon

For financial advisers only

Helping people live their best lives

Supporting you and your clients with the evolving needs of modern life.

People are living longer and we're excited by the opportunities this brings.

We're here to support your clients' members as they go through the Second 50, find out more

WP400342 10/24

aegon.co.uk

PUTTING THE PERSONAL INTO FINANCE

Many people may have a mountain to climb to achieve a comfortable retirement. Rather than scare them, we need to help them start the journey

John Greenwood
john.greenwood@definitearticlemedia.com

People aren't computers, which is why we don't always make logical decisions. Sometimes it is down to confused, muddy thinking. But on other occasions it is down to the fact that we are asking ourselves to engage in behaviour we are simply not designed for.

Our brains have been shaped by dealing with a certain set of challenges for thousands of years. Planning for events decades into the future is not one of these challenges.

They say that childhood was invented by the Victorians, and before the nineteenth century there was no retirement either. It was Bismark who first came up with anything approaching the concept back in 1881, when he launched the first state-sponsored pension system.

In the pensions industry we have been talking about hyperbolic discounting – the tendency to favour immediate rewards over future ones – for years. Yet pensions professionals still often reveal bemusement that anyone under 40 might not be interested in what we do. When I meet such a (usually) middle-aged person, I ask whether they have sorted their funeral plan yet? The answer is always of course not, it's too far into the future.

But that doesn't mean it is not worth attempting to engage people with their future self, to help them understand how to make the most of what could be decades of retirement. A behavioural approach to engagement with employees at every stage of our interactions with them can help here.

This involves understanding what pension scheme members are hoping to achieve when they interact with their provider, scheme, adviser or employer, understanding that communications should focus on 'doers', not 'readers'. They don't want to read everything we create – they generally want to do something, and we should make sure that this is made as clear and easy to achieve as possible.

We also run the risk of turning people off by talking down to them, telling them off, and making them feel ashamed of what they have or haven't done with their finances. And while we need people to stop underestimating how long they are going to live, terrifying them about the length of time they could be in poverty in retirement is not conducive to moving people to act.

Worry and panic tend to lead to poor decision-making, or in some cases no decision-making at all. The reality is that for many people, their retirement is going to be nowhere near as well resourced as their working age lifestyle. This is a message that is going to be broadcast loud and clear at some point in the next couple of years when millions of people finally get access to the pensions dashboard. For many who have by then been in auto-enrolment for 15 years, the income they are projected to enjoy may come as a big shock.

Yet we need to position this less as a challenge and more as an opportunity to make the future better, pointing people towards the steps they can take to start addressing their own retirement shortfall.

As an industry we need to have in place user journeys that are positive, simple and engaging, that allow individuals to take actions that are in their best interests, and that help them connect with their future selves.

INSIDE

THE MENTAL CHALLENGES OF THE SECOND 50

FINDING A 'HUMAN-CENTRIC' APPROACH TO FINANCIAL PLANNING

Can the industry draw on anthropology and psychology to offer better support to members when it comes to preparing for a longer old age? **Emma Simon** listens in to the discussion

The pensions industry needs to take a different approach to financial wellbeing if it is to help people better understand the challenges they'll face as they age.

This was one of the key messages from a recent roundtable event run by Corporate Adviser, which concluded that consultants, advisers and providers should take a more 'human-centric' approach when it comes to developing the products and services that will help savers prepare for their 'second 50'.

Gallagher's head of wellbeing, Andreas Hunter, said the industry needs to adopt a more empathetic and forgiving approach.

"As an industry, we spend a lot of time effectively telling people off for not doing the things we have told them to do — and we've been doing this for 20 to 30 years. Albert Einstein said you cannot change a problem with the same thinking that got you there in the first place. Perhaps it's time for the financial services industry to acknowledge this, and look at other solutions, rather than just keep telling people they need to save more into pensions."

Many attending the debate agreed that a better understanding of human psychology was key, when looking at the challenges people face due to increased longevity.

Benefex's head of workplace savings, Andrew Barradell, said that when it comes to better engagement with pensions, one major issue is the "present bias" that appears to be hardwired into many of us. "Most people's focus is very much on the present, dealing with the financial concerns of the here and now, not looking 30 years further down the line."

Aegon's insight manager, Dr Thomas Mathar, who works at its Centre for Behavioural Research, said it could be helpful at times to take an even wider view. "Present bias is a classic behavioural term and can be a useful lens to apply. But this terminology also implies there is something wrong or irrational in this behaviour, something that needs to be overcome."

(Left to right) Andrew Barradell, Dr Thomas Mathar, Sebastian Merritt and James Smith

He explained that with his background in anthropology, he wanted to understand where such behaviour originates from. "As humans, we've been walking around for about 300,000 years, but it was only 12,000 years ago we settled into communities, with money appearing just 4,000 years ago. Retirement meanwhile is a new phenomenon, as it's only been around in the UK for about 150 years.

"This is obviously a very academic perspective, but this angle shows us this behaviour isn't flawed or stupid or irrational. Our emotional and cognitive make-up hasn't changed: we are not

hardwired to think about longer-term planning, as for most of human history we haven't had to."

He said he hoped such insights would encourage a more empathetic approach from the industry to the financial challenges people now have to grapple with.

Longevity challenge

Secondsight managing director of employee benefits consulting, Gavin Zaprzala-Banks, said taking this longer-term view highlights other challenges people face today. "The concept of retirement was created around 150 years ago, but we've seen huge advances in medical technology since then, which is very much a factor in longevity." He pointed out that this hasn't been matched with advances in social and economic structures.

"We're very much playing catch-up when it comes to recognising what the 'second 50', or 'final 20', years of life might require."

Consultants at the event agreed that many people found it difficult to engage properly with these issues. Hymans Robertson client director of personal wealth, James Smith, pointed to research from Club Vita which found women tend to underestimate their life expectancy by eight years, men by four. "They coined the phrase 'longevity pessimism' to reflect this."

Meanwhile, Marie Blood, a DC consultant with Barnett Waddingham, said that when people are asked what they expect to be doing in retirement, surveys show that 'travel' is the most popular answer. "Their thinking isn't just conditioned by thousands of years; it's also influenced by what they've seen from their parents' generation, many of whom would have had DB pensions, which are not widely available to those in the workforce, at least in the private sector. They want to ▶

travel but they may not know how they will finance this."

She adds that there is a focus on these more positive aspects. When people talk about retirement, they general don't refer to health or mobility issues, declining mental capacity or the potential need for longer-term care, all of which are likely to be a factor in the later years of retirement, due to increased longevity.

Smith agrees many in the workforce struggle to think about the realities of retirement, and this impacts financial planning. "Recent research shows people are entering care earlier than they have ever done before, and we're going to see a greater number of individuals in care by 2040.

"The majority will be women who haven't saved enough. But it's hard getting people to think about this. Most will say 'I don't think I will live that long' and simply hit a metaphorical snooze button when it comes to talking about pensions or planning for retirement."

Mathar says this very much reflects the fact that longer-term planning is a mental challenge as much as a financial one. "It is important to recognise the softer side of financial planning. It isn't all about conveying information about how pensions work and why you need to budget.

Hunter said it was important to acknowledge people can feel anxious and overwhelmed when thinking about finances. "They often feel shame or regret and a host of emotions that can have very negative connotations. This should be reflected in how we talk to consumers. At the moment there is a mismatch."

Mather pointed to research by Aegon that found people who felt empowered by


James Smith

their finances were twice as likely to download and utilise its pension app compared to those who felt anxious. The app is designed to be used by everyone he said, but using these emotional insights in communications strategies can help promote such services."This is clearly a multifaceted issue," he added. "There is the socio-economic lens, which recognises people from different backgrounds may have different needs and attitudes towards long-term saving. But it's also important we recognise the emotional landscape that underpins this too."

Regulation

Those attending the event discussed whether a changing regulatory framework could help facilitate a more 'human-centric' approach, with the majority supporting new Consumer Duty rules which prioritise delivering good outcomes.

"It is good to see there is a focus on real-world outcomes, not just hypothetical


Heidi Allan


(Left to right) Andreas Hunter and Martin Trenchard

ones," said Zaprzala-Banks. "And one of the key things that sits at the heart of this is that it's about the whole person, not one transaction or a single exchange."

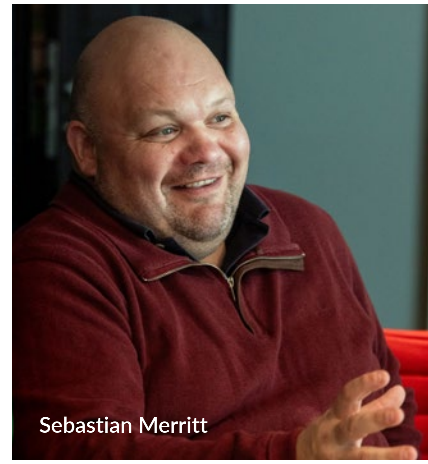
Mathar said this differs from the previous 'Treating Customers Fairly' regime. This may have put the consumer at the centre of regulation, but he said the regulation still had a transactional focus. "It was about what the provider was delivering for the customer. The emphasis was on being compliant, not necessarily delivering good outcomes."

But there were some concerns expressed about this new Consumer Duty regulation.

"One of the most important questions we can ask is why these regulations came about," said Hunter. He pointed out that the stakeholder regime of the early 2000s was a response to the "rip-off pension charges" endemic in the 1990s, while the TCF rules

Gavin Zaprzala-Banks

Andrew Barradell



Sebastian Merritt

recognised that many people were buying inappropriate products, even if these met the 'product-focused' regulations of the time.

He said that while regulators and policymakers are looking to improve outcomes with Consumer Duty rules, it may not have the desired effect. "There may be unintended consequences when it comes to the corporate market. Consumer Duty covers regulated firms but overlooks the fact that employers are the largest distributors of pension schemes in the UK. But employers are not regulated entities, and many are already worried about giving advice and crossing into regulated territory.

"If Consumer Duty moves down the scale of what you might need to do, or take into consideration when offering a financial product — be it through 'targeted guidance' or whatever they call it — it could cast a long shadow into what employers are comfortable about doing." This may potentially result in less information or guidance given to the employees who need it most he said.

Advice, guidance and coaching

Hunter said, in his view, most people would ideally like financial advice, with personal recommendations on where they should be saving or investing their money. But the high cost of this, partly due to high professional indemnity costs, meant it was not remotely viable for the vast majority of people.

But not all on the panel shared this view. LCP head of financial wellbeing Heidi Allan said: "If we can improve financial literacy, most people would benefit from guidance or more targeted support, with only a relatively small number needing full financial advice."

Smith agreed, saying he would like to see more of a focus on financial coaching. "This is a good way of creating a degree of accountability. That's why we have personal trainers for the gym, for example: they offer support, but it's also about checking in each fortnight, measuring progress towards your goals."

Financial coaches take a more holistic 'whole-of-life' approach, he said, pointing out his own personal experience of this, where his main takeaway from one session was the need to have a more honest conversation with his partner about where they wanted to buy before running calculations on mortgage affordability.

Allan said that coaching can also help people appreciate the value of full advice — and they may be more willing to pay and better placed to source this help should they need it at a later stage. "I'd like to see more mid-life financial coaching, perhaps delivered through the workplace. We have mid-life health check-ups; this is just as important, and often related."

Many on the panel were optimistic that the current advice/guidance boundary review would enable more targeted guidance services, which could help deliver such services cost-effectively and at scale — aided by the rapid development of new technology and AI services. Aegon pointed out it already offers a range of services through its workplace proposition, including financial education through its Pensions Geeks webinars, its telephony-based Aegon Assist guidance service and full advice through Origen.

Overall the panel agrees that improved regulation, better tech, and a broader understanding of how psychology drives a range of behaviours can should help facilitate more meaningful financial planning that supports people as they negotiate today's longer, multi-career and multi-phase lives. ■

aegon

For financial advisers only

Helping people live their best lives

Supporting you and your clients with the evolving needs of modern life.

People are living longer and we're excited by the opportunities this brings.

> **We're here to support your clients' members as they go through the Second 50, find out more**

WP400342 10/24

THE MENTAL CHALLENGES OF THE SECOND 50

THINKING BEYOND PENSIONS

Pension providers need to evolve their proposition if they are to successfully engage a diverse workforce and get them planning for the future. **Muna Abdi** hears about potential solutions

The industry needs to look beyond traditional pension products and offer more personalised solutions that can adapt to the diverse needs of today's workforce.

This was one of the main conclusions at a recent round table event, looking at the financial planning challenges facing an ageing population as they approach their 'second 50'. Consultants attending the event highlighted the importance of using a broad range of financial tools suited to different life stages and circumstances. This can help address socioeconomic disparities, and ensure support for individuals with neurodiverse or accessibility needs, while utilising the latest technology to boost engagement.

Holistic approach

Hymans Robertson personal wealth client director James Smith said employees need more than just a pension, with sidecar savings and support towards housing costs being a valuable addition. He said this is crucial if employers are looking to support different generations and socio-economic groups, who may have different approaches to saving and financial stability.

Smith said incorporating sidecar savings with solutions like wage streaming can boost engagement. For lower earners wage streaming provides more immediate financial help, driving higher engagement, making it easier to introduce pensions into the broader financial strategy.


Marie Blood

But those at the event said that the pension industry also needs to think about its messaging, alongside product innovation.

Gallagher head of wellbeing Andreas Hunter said there was a need for more compassionate financial guidance, noting that 'telling people off' does not foster either engagement or trust.

"We spend so much time telling people what they should have done, without helping them understand how to move forward, or giving the tools to address these issues." He argued that it's time to rethink long-standing financial practices. "We've been doing the same thing for

decades, but it hasn't worked — maybe it's time to try something new."

Hunter said that there is often a mismatch between the pensions industry's messaging and how people feel when they think about their retirement savings. The pension industry might like to promote positive messages that talk of 'empowerment' but he pointed out that many people feel overwhelmed or regretful when it comes to saving for the future. This mismatch makes it difficult for many to engage he said.

Hunter also highlighted the importance of making financial messages relevant to people's experiences, especially when dealing with complex issues, stressing it was important to talk about more than just pensions when looking at wider issues of financial wellbeing and saving for the future.

"When you're a hammer, everything's a nail. We look at things from a retirement point of view, and our health colleagues look at things from a health point of view. But this is not how people's lives run. That is not taking a human-centric approach to these issues, when we are talking about multi-faceted, complex issues. Without acknowledging that, we're never going to untie this Gordian knot."

Secondsight managing director - employee benefits consulting Gavin Zaprzala-Banks said that while there are a range of very effective financial wellbeing tools and resources, a more holistic approach is needed from providers. "There needs to be innovation," he said, "but this needs to be a lot broader than product solutions."

Smith pointed out that a narrow focus on pensions is "blinkered." Instead, financial planning and retirement solutions needs a more holistic approach, integrating elements such as financial literacy, long-term savings for housing, and care needs. ▶

Smith and Hunter both emphasised that people often juggle various financial priorities, making engagement more difficult.

Andrew Barradell, head of workplace savings at Benefex, pointed out that many people believe that auto-enrolment contributions will be sufficient, so they don't see the need to engage with pension planning. However, further pension savings may be required and this can present challenge, as people often prioritise other expenses instead, rather than increasing AE contributions beyond minimum levels.

This issue is further complicated by the fact that there are often significant differences in longevity across socio-economic groups said Heidi Allan, LCP principal head of employee and financial wellbeing. She said there can be a 27-year gap in life expectancy between these upper and lower groups.

"Communicating about retirement becomes complex when some affluent, healthy individuals might spend as much time in retirement as they did working, while others face drastically different realities. Balancing the need for instant gratification with long-term planning is tough. It's easy to make decisions about today particularly as you feel the impact of those decisions now, versus the uncertainty of what lies ahead."

The theme of diverse needs was further echoed by Mathar. He suggested that financial advisers should adopt a holistic approach, addressing not just finances but also health and wellbeing to help individuals take control of their future.

He also emphasised the importance of accountability in motivating people to seek personalised financial support, stating, "Accountability is why people start to seek out more 1-to-1 level of support outcomes."

According to Aegon's insight manager, Dr Thomas Mathar, personalisation remains key. He said AI should contribute to the effectiveness of this, helping firms tailor their communications, making pension information more relevant to the individual and boosting engagement. This might include using video messages for example which can directly relate to an individual's own savings pot and goals.

He said it is becoming more widely accepted that developing tailored, compassionate communication is key to encouraging engagement, particularly with groups that may feel excluded.

Mathar said that this is a trend in retail advising, with advisers moving away from giving financial advice centred around pension, and towards a more life-centred strategy that includes financial elements. This change is also beginning to occur in corporate advisory, with a new emphasis on life-planning and coaching helping people match their financial resources to their objectives.

Dr Thomas Mathar

He noted: "Helping people identify what gives them gratification and purpose, then weaving financial discussions into that, creates a more meaningful and productive engagement."

Communication

Allan underscored the importance of tailoring communication to engage with people from diverse backgrounds, noting that many individuals face difficulties accessing information. This includes neurodiverse individuals and those with visual impairments, mental health issues, dyslexia, and other learning difficulties.

She acknowledges that it can be challenging for some people to properly understand written financial communications. "We need to think about how we build knowledge and confidence, factoring in these complexities, to help people understand the financial challenges they face, both today and tomorrow."

Allan said more people will be able to

(Left to right) Heidi Allan, Andrew Barradell and Dr Thomas Mathar

(Left to right) Andreas Hunter, Martin Trenchard and Gavin Zaprzala-Banks

take charge of their financial futures if information is made clear and available in a variety of formats.

Verlingue head of employee benefits Sebastian Merritt also noted the challenges these groups face in terms of financial confidence and engagement.

"One in three of the 10,000 people we surveyed self-identified as having some kind of additional complexity when it comes to taking in, and receiving information."

Smith mentioned the value of engaging with young people as well. He said: "We need to rethink our messaging to make it impactful. Many parents haven't been able to pass on this knowledge because it's new to them, too."

He also emphasised the potential of using storytelling to emotionally engage people and the ability to make abstract ideas come to life via relatable testimonials, again making pensions more relevant to individuals.

Merritt agreed, and said there was value in using real-life case studies and personal stories when engaging individuals and corporate audiences, noting that sharing experiences, particularly from senior figures, can help foster a sense of permission for others when it comes to acknowledging their own financial uncertainties.

According to Mathar using relatable role models can have long-lasting effects in shaping behaviours. He cited a study conducted in rural Ethiopia, where one group received traditional classroom education on practices like sending children to school and using fertilisers, while another group was shown documentaries featuring relatable individuals. The study found that the documentary group was more likely to adopt these behaviours, while the classroom group showed little change.

Disparities

Merritt highlighted the financial strain on the 40-60 age group, who are balancing retirement planning with supporting ageing parents. He emphasised that increasing pension contributions alone isn't the solution, particularly for low earners, and called for greater state and employer involvement.

Smith also noted how changing generational expectations and attitudes towards care responsibilities can affect savers today. "Fifty years ago, inheritance and care looked completely different; now, people are balancing work and elder care in ways that previous generations didn't face."

According to Barnett Waddingham DC consultant Marie Blood, many people in the modern workforce believe they will receive similar benefits to their parents many of whom were able to take early retirement thanks to generous defined benefit pensions - and often lower life expectancies.

But this is unlikely to be the case for today's generations of workers. She highlighted that as well as underestimating life expectancy, many do not think about their likely healthcare needs as they age.

She said: "There's a difference between life expectancy and health expectancy, and while many envision active retirements, fewer than a fifth plan for potential long-term illness and care needs."

Hunter added that these are seismic social problems. While he said the pension industry can do more to encourage people to plan for their 'second 50' he said this is an issue that also needs to be supported by state action.

Hunter added: "Our fertility rate in the UK is at an all-time low. These problems aren't going anywhere. It's getting even worse, and this point around 'we should just increase pension contributions', is not the answer.

"For us to just say you must save more, is not the answer. It needs greater state support or redistribution of state support. It needs greater state intervention with employers. We need to just be real." ■

Q&A

RETHINKING THE MONEY MINDSET

» **Andy Manson** chief marketing officer, Aegon UK

Aegon UK's chief marketing officer Andy Manson explains how pension providers are evolving their approach to encompass the psychological aspects of financial wellbeing.

Why is financial wellbeing important when looking at pension saving?

'Financial wellbeing' is a widely used term, but often with subtly different meanings. Banks, for example, may use this term in relation to managing debt and monthly bills.

At Aegon, we take a more holistic approach to financial wellbeing. It's about helping members manage their money more effectively, both during their working lives and throughout what could be an extended transition into retirement. This becomes increasingly important as people live longer and need to plan for their 'second 50'.

Financial wellbeing, however, goes beyond the technicalities of pensions, financial planning, and understanding balanced portfolios, default pathways, or risk-return profiles.

Historically, our industry has focused on creating products and processes for the logical mind, rather than the emotional one. We want to understand the emotions driving financial decision-making so we can better support members, ultimately leading to improved outcomes.

How can this approach encourage members to save more?

One of the most effective ways to encourage saving is through future visualisation. Research shows that individuals who can vividly picture where they want to be in the future are eight times more likely to save than those without this vision.

Most of us know, at some level, that we should be saving more, but making this emotional connection with the future helps us overcome 'present bias' and encourages us to save.

Providers need to offer a range of tools and services that support this mindset shift to help people connect emotionally with their future selves, fostering healthier saving habits.

What steps do providers need to take to support better financial wellbeing?

Rather than solely focusing on product innovation, providers should aim to build more connected savings systems, incorporating:

> Research shows that individuals who can vividly picture where they want to be in the future are eight times more likely to save

- **Engagement:** The industry needs tools that use emotional connections to genuinely engage members, helping them visualise their future life goals. They also need engage with customers around big money moments to help them understand what actions they need to take to achieve their goals.
- **Execution:** It must be straightforward for members to follow through on these plans otherwise, engagement won't lead to action.
- **Right help at the right time:** Members will require different types of support at various stages of their savings journey—whether education, guidance, or advice. The key is ensuring members can access the support they need when they need it.
- **Ongoing support:** This is critical to helping members stay on track.

How can technology help improve financial wellbeing?

Technology has a significant role to play. Pension Dashboards will be part of the solution, enabling people to see all their pension information in one place. We're excited about developing a commercial dashboard, but this is only one piece of the puzzle. It needs to be complemented by tailored guidance and advice options to help members answer real-world questions, like whether to consolidate savings or how best to draw income from their assets.

With this in mind, Aegon is developing its MYLO platform, creating a data-driven engagement model that offers personalised support around key life milestones.

Personalisation will advance further with more sophisticated AI and data analytics, helping providers to tailor messages and refine products and services. This will ensure the member experience aligns and adapts to their specific financial goals. The industry is moving towards a 'digital-first' approach, but this does not mean 'digital-only'. We expect that most members will start online, but many will want to speak to an expert before they commit to the biggest decisions.

Is financial wellbeing about saving more, or is there a broader goal?

Financial wellbeing isn't just about saving. It's about feeling secure and content when you think about your financial future. We want to shift people's attitudes towards money, helping them feel less overwhelmed or anxious about financial decisions and fostering a more positive mindset around money. This we think will ultimately help them to save more. And it isn't just about the future; when people take ownership of their finances, it also brings greater satisfaction in the present day too. ■

corporate adviser

ROUNDTABLE

IN ASSOCIATION WITH

aegon