



Society of Actuaries in Ireland

What Do People Know about
their Pensions?

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2012

Structure of the talk

- Some headlines on the costs of population ageing and the implications
- One international study on knowledge of pensions
- What is TILDA?
- What have we discovered about knowledge of pensions in Ireland?

(Note: joint work with colleagues Irene Mosca and Brendan Whelan)

Some headlines

- Public spending on pensions is projected to grow by over 4 percent of GDP between 2010 and 2060 (European Commission)
- Deficit of the Social Insurance Fund is projected to be 5% of GDP in 2050 (KPMG)

Implications of the cost trends

- A growing tendency for governments to look to containing the future growth of public pensions
- An example from Ireland: raising the state pension age to 66 in 2014, to 67 in 2021 and to 68 in 2028

Implications continued

- If the state is to ease back from providing pensions, then individuals must increasingly make provision privately
- But in order to make “good” decisions, people need to be well-informed

A study from the US

- Gustman and Steinmeier (2005)
- In the US Health and Retirement Survey, people are asked about expected retirement income
- Only a half were able to provide an answer
- Of the remaining 50%, only a half came within 25% of the correct figure

Other findings in G and S (2005)

- Those who are least likely to be informed are women, the less educated and African Americans
- Those most likely to know include people who talk to friends about retirement and people who are in poor health

What is TILDA?

- TILDA is the Irish Longitudinal Study on Ageing, led by TCD
- About 8,500 people aged 50 and over were interviewed between late 2009 and early 2011, with questions covering economics, health and social circumstances
- Respondents also underwent a health assessment
- Funding is provided by the Dept of Health, the Atlantic Philanthropies and Irish Life

What is TILDA?

- All participants are now being interviewed again for Wave 2 and will be re-interviewed every two years until at least 5 waves of data exist
- This will allow us to build up a dataset where the process of ageing is captured at the level of the individual

The questions on pensions

- . If people have not yet retired, we ask if they are covered by an occupational pension or a private pension
 - If they answer “yes”, we ask a series of questions about the amount they expect to receive and the form (lump-sum or monthly payment)
 - “Don’t know” is one of the categories

What did we find? (1)

- Here I focus on employees and the question on amounts
- **Across all respondents (almost 2,000) 56% said they did not know how much they expect to receive**
- This was not confined to people in DC schemes
- For people in DB schemes, 51% opted for the “don’t know” response (70% for DC)

What did we find? (2)

- Women are more likely to say “don’t know” – 63% versus 51% for men
- This did not seem to be related to marital status
- Private sector employees are more likely to say “don’t know” – 62% v. 52% for public (cause and effect interesting here)
- There’s an education gradient – 72%, 58%, 49% by primary, second and third levels

What did we find? (3)

- No apparent relationship with health status
- If you have health insurance, you are less likely to answer “don’t know”, even controlling for education and occupation
 - Some evidence that likelihood of knowing increased if both your parents worked when you were a child
 - We did not find a relationship between cognitive skills and knowledge of pensions

What are the implications?

- First point: might it be that people look at their retired colleagues and say “they seem to be doing ok so I’m not worried?”
- Maybe, but this is hardly a good basis for decision-making on one of the bigger purchases in life
- Hence, one possible implication is that people are not well-placed to make good decisions on pensions
- This might imply that an active role for government is needed
- However, an economist will usually point out that governments may not be good decision-makers either

Final thought

- This presentation has been about people aged 50 and over who are covered by occupational pensions
- What would the numbers look like if we looked at younger people and those not covered?