



NEST Insight

Life events and pension engagement



Vanguard

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NEST Corporation, London. Based upon the full research paper:
Blakstad, M., Bruggen, E., Post, T. (2017) *Life Events and Participant Engagement in Pension Plans*. Netspar, The Netherlands.

With thanks to our research partners, Maastricht University and Netspar.



About NEST Insight

NEST Insight is a research unit set up by NEST Corporation to help understand and address the challenges facing NEST members and the new generation of defined contribution (DC) savers.



About NEST Corporation

NEST Corporation is the Trustee of NEST. It was established by legislation to run the NEST pension scheme. As a non-departmental public body, NEST Corporation is accountable to Parliament through the Department for Work and Pensions but is generally independent of government in its day-to-day decisions.



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Life events and pension engagement

Lots of savers around the world don't engage with pension communications. The letters they receive tend to remain unopened, newsletters aren't read and many have never logged into their online accounts.¹

This is especially true for savers who have been automatically enrolled into a pension scheme. Whilst this approach has been very successful, the use of inertia means that these savers tend to have lower levels of awareness and engagement compared to those who decided to start saving and signed up to a scheme.²

In the UK, where over 8 million people have now been enrolled, this situation is particularly noticeable. As savers' pension pots continue to grow, overcoming this lack of engagement is becoming increasingly important and remains a key challenge for the UK pensions industry.

Could the timing of pension communications around important life events make them more effective?

Why is engagement important?

Engagement and the use of default pathways both play an important role in pension saving. Default pathways work well for many people, but some savers could benefit from becoming engaged and taking action in certain situations. For example, if a saver's estimated pension pot value is lower than the amount they'll need in later life, being engaged and aware of this means they can act before it's too late. Equally some people could be concerned³ that they won't have enough money to support themselves when they retire, but in reality they may be saving enough.⁴ Being engaged with their pension savings could relieve these worries.

¹Gustman and Steinmeier (2004), Chan and Stevens (2008), Visser, Oosterveld, and Kloosterboer (2012), Barrett, Mosca, and Whelan (2013), EIOPA (2013), HSBC (2015).

²Madrian and Shea (2001).

³Eberhardt et al. (2016).

⁴Knoef et al. (2016).

Ideas and interventions to increase engagement

Researchers have become focused on the challenge of how to engage savers, and in recent years substantial progress has been made. Ideas include:

- interventions to make people think more about the future⁵
- improving information and the way it's presented⁶
- giving people information about what others like them typically do, to teach them that a certain behaviour is more common than they thought and motivate them to behave in the same way⁷
- grouping savers by their beliefs and preferences, and mass customising communications⁸
- adapting the wording of a communication's content to help shape the behaviour of individuals in a particular way.⁹

Another approach is to time pension communications more effectively so the message reaches the saver during important 'life events' when they're believed to be more receptive.¹⁰

Life events

Many things happen in a person's life, and indeed on a daily basis, so what exactly is a 'life event'? In this context, we defined life events as 'time-discrete transitions that mark the beginning or the end of a specific status'.¹¹ Examples include getting married or divorced, starting a new job or becoming unemployed, having a child, buying a new home, the death of a family member or close friend, and approaching retirement. It's also been suggested that round-number birthdays could be classed as a life event. The definition doesn't include events that have a minor impact, such as daily hassles, and changes that take place slowly over many years, like going through puberty.¹²

Life events are 'time-discrete transitions that mark the beginning or the end of a specific status'

⁵ Hershfield et al (2011), Brügger et al (2013)

⁶ Nell et al (2016), Brügger et al (2017)

⁷ Beshears et al (2015)

⁸ Eberhardt et al (2016)

⁹ Eberhardt et al (2017)

¹⁰ BMC (2014)

¹¹ Luhmann et al (2012)

¹² Luhmann et al (2012)



Experiencing a life event can have a significant impact on an individual. Its effects can be divided into two categories:

- **Economic impacts:** include measurable changes to the amount of money someone has, as well as an actual or perceived change in the riskiness of their finances.
- **Non-economic impacts:** include changes in a person's wellbeing and life satisfaction, stress and health, as well as emotions, moods and mental health.

Life events may trigger a number of financial reasons to take a closer look at savings, including pensions, and they can also make us think more about the future. This suggests that they could create a 'teachable moment', an event that: '(1) increases perceptions of personal risk and outcome expectancies, (2) prompts strong affective or emotional responses, and (3) re-defines self-concept or social role.'¹³

On the other hand, life events can disrupt our daily routines and increase stress levels. Having so many new things to take care of can leave people with less time for financial planning. This means that the precise timing of a communication may be an important issue for a pension scheme to consider. And, if life events do cause people to think more about their finances and the future, the content and wording of communications will also need to be adapted accordingly.

A teachable moment is an event that:

'(1) increases perceptions of personal risk and outcome expectancies, (2) prompts strong affective or emotional responses, and (3) re-defines self-concept or social role.'

¹³McBride et al (2003)

Challenges and questions

- › Do life events create teachable moments?
- › Which types of life events are likely to coincide with a teachable moment?
- › Can pension schemes pinpoint life events with enough accuracy to use them for communication purposes?
- › A teachable moment may be very short-lived.¹⁴ How wide is the 'window of opportunity'?
- › Will savers appreciate communications targeted to life events, given privacy concerns?
- › Could it create the perception that the pension scheme is surveilling them, like 'Big Brother'?

Insights from in-depth interviews

NEST Insight, Maastricht University and Netspar conducted a series of interviews with pension experts and pension savers. In the interviews, all participants were asked a set of pre-determined, open-ended questions that allowed the interviewer the opportunity to explore the responses further.

As is usually the case with this type of interview, the small sample size means that the results cannot be interpreted as representative findings but they do provide inspiration for further research.

Sample

- › Six pension industry experts from the Netherlands and the UK
- › Ten pension savers from the Netherlands, selected to cover a broad variation across life stage and age range, gender, having children or not, marital status, and employment status.

The results

Overall, the interviews with savers confirmed the results from the expert interviews. All of the life events and issues mentioned by the experts were also mentioned in at least one interview with a saver. However, there were variations between savers and experts:

- › mentioning the identified life events at all within a single interview
- › evaluating the importance of particular events
- › judging the way an event has an impact and its use for pension communication.

¹⁴Williams et al. (2005)

Life events mentioned	Reason to favour using the life event	Potential issue with using the life event
Marriage/living together	<p>Experts thought this event could trigger feelings of long-term responsibility for partners. This could include an interest in the benefits and pension their partner would receive if they die.</p> <p>A few savers mentioned that these life events made them think about a future life with their partner.</p>	<p>None of the savers linked the event to thinking about future finances.</p>
Becoming a parent	<p>Experts said this event could trigger feelings of long-term responsibility for children, including an interest in the benefits and pension they might leave behind for them.</p> <p>Five savers who had experienced the birth of a child agreed that it was a major life event. Most of them mentioned that it triggered a feeling of responsibility and, for some, it made them think more about the future. In fact, one saver started to build up additional retirement savings.</p>	<p>Experts warned however that this life event could increase people's cognitive and emotional load. Having lots of new things to take care of in a short amount of time could lead to people focussing more on short-term urgent needs rather than pensions.</p> <p>Savers confirmed this, frequently stating that after childbirth they were overwhelmed by new day-to-day duties and routines. Their focus changed to dealing with present issues rather than long-term financial planning and pensions.</p>
Divorce	<p>Because pensions and other finances often need to be divided when a couple separates, experts said this life event is likely to bring future finances to people's attention.</p>	<p>Again experts warned that this life event could increase people's cognitive and emotional load and, with lots of decisions to make in a short space of time, people's attention may shift to more short-term needs.</p>
Starting working life/changing jobs	<p>Experts pointed out that receiving a benefit package is part of starting a new job.</p> <p>Savers mentioned this life event for multiple reasons. Some became aware of pension benefits as part of the labour contract. For others it triggered long-term financial planning, an increase in the amount they contribute or the transfer of pensions between funds.</p>	

Life events mentioned	Reason to favour using the life event	Potential issue with using the life event
Buying a house	<p>Experts said that savers, and their bank, will need to assess whether they will be able to afford a property over the next 30 years. This prompts a moment of long-term planning.</p> <p>Savers mentioned this as the major event that made them think about their future finances.</p>	
Round number birthdays	Experts thought this event might make people more aware of their mortality and prompt long-term planning.	In contrast to the experts' opinion, none of the savers attached any significant importance to round-number birthdays.

Note: no further commentary was given for the events 'approaching retirement' and 'death of a spouse'

Important issues

During the interview, experts mentioned the following issues:

- No matter how suited a life event may be for pension communication, a pension scheme needs to be able to detect a life event in a timely way.
- Would savers appreciate receiving communications around life events, revealing that the pension scheme knows a substantial amount about their 'private' matters?

When asked whether pension schemes should use life events for communication, the opinions of savers revealed mixed feelings:

- All interviewees said they would appreciate more personalised communication that's been adapted to their own individual situation. They would value communications that help them to either answer new questions, which have arisen because of the life event, or to be warned about an event's potential impact on future finances.
- Almost everyone agreed that a scheme should be able to use administrative data that they have because of a regulatory or legal requirement.
- When asked about the use of 'big data' and predictive modelling, the savers' reactions varied significantly. Some were enthusiastic, others were disinterested, believing that everybody knows everything anyway, and others were completely opposed.

Data and privacy

The regulatory environment in which a pension scheme operates impacts its access to life event information. In the UK, schemes often don't know much more than a saver's date of birth, address and income, whereas schemes in the Netherlands for example have information about marriage, divorce and childbirth. However, some life events, such as buying a property, are generally harder to identify.

As well as issues of data access, pension experts also expressed concern that some events may be detected too late for schemes to time communications effectively. The birth of a child for example is likely to be detected when new parents are busy looking after their new baby. Instead it could be more effective to deliver communications during pregnancy, but at that point the scheme is not yet aware of the event.

It's been suggested that 'big data' could be used as an alternative method of gathering data on life events and predicting them. The activity patterns of an individual's bank or savings account for example may indicate that information is needed for a mortgage application.

However, during the interviews, the discussion on using big data identified privacy concerns. According to some experts, using life events for communication will be only accepted by savers and positively received if they think the scheme should know about the event, for example a Dutch scheme knowing about a marriage. However, if the scheme uses big data and predictive modelling, savers may view the communication as a breach of their privacy rights and respond negatively. The results from the savers' interviews suggest this could indeed be the case.

Insights from life events survey

NEST Insight, Maastricht University and Netspar developed an online questionnaire to gain a deeper understanding of:

- NEST members' current levels of engagement
- NEST members' attitudes toward finance, pension planning, and perceptions of NEST
- NEST members' motivations for becoming engaged
- the occurrence of life events and their potential relationship to becoming engaged.

'Attitude to pensions' was used as the measure of engagement. This measures whether respondents are engaged in that they say they know:

- where to find their pension information
- how much they have saved
- the estimated value of their pension pot at retirement
- how much they and their employer contribute.

Sample

- › 2,155 NEST members who are engaged with their pension, of which 77 per cent had registered online and 41 per cent had increased their contributions
- › a control group of unengaged members
- › average age of respondents was 43 years
- › 48 per cent of respondents were female.

The results

75 per cent of respondents had experienced at least one life event in the past three years



The most commonly experienced life events were:



Starting a new job:
49 per cent

- › Respondents said that the life event of starting a new job had the most impact.
- › Around **50 per cent** said it had triggered some type of behaviour.
- › **1 in 4** respondents claimed that the event had the most impact on them thinking about their pension, and at the time led to them registering with NEST or increasing contributions.



Death of a family member or close friend: **22 per cent**



Losing a job:
13 per cent

The evidence seems to indicate that life events, particularly starting a new job, triggered more engagement with pensions. However, a comparison of the incidence of life events between groups that had engaged with their pension, and those that hadn't, questions this conclusion. Life events occurred in the passive groups at similar and sometimes higher frequencies.

There are a range of possible reasons for these results:

- Because the engaged and passive groups differed by age and gender, it could be that the impact of life events is linked to these characteristics.
- It could be that the participants post-rationalised the decisions they made when they saw the survey item on life events.
- Because the survey covered three years of the participants' lives, the data captured may not be precise enough to capture the effects of the life events. Multiple life events may have taken place during that time which could have had opposing effects on peoples' behaviour.
- Currently, NEST's communications are not adapted to life events. The life events participants experienced could have created teachable moments, but the impact may have been small because the individual didn't receive a communications trigger.

Conclusions

In theory, life events appear to be good points at which to send pension communications to help improve their effectiveness. However, the evidence from the interviews and questionnaire showed mixed results, and to use life events successfully several major challenges need to be addressed.

- The teachable moments created by life events are not long lived. A pension scheme would need to be able to identify events at or very close to their occurrence and immediately send out communications. There may also be legal, privacy, and ethical issues that prevent or limit a pension scheme in using all of the life event information that's available.
- Based on the results of the questionnaire, it seems that life events on their own aren't a strong enough trigger to behavioural change. No major effects can be expected without additional communications around the life event. However, as survey respondents did claim that life events are important, it's worthwhile conducting more research on their impact, especially in connection with adapted and timed communication.
- Life events create a variety of responses, such as emotions and stress, which may have the opposite impact on a saver's openness to communications.

Overall the literature outside of the pension domain is well developed, especially on the impact of life events on subjective wellbeing, stress, health, and life satisfaction. However, the evidence for using life events for pension and financial decision making is limited. To make the next step towards successfully using life events for pension communication, more research is required. In particular, further exploration is needed to assess precisely, at the moment of a life event occurring, what economic and non-economic impacts are triggered and what their relation is to pension and long-term planning behaviours.

Further reading

The full research paper, *Life Events and Participant Engagement in Pension Plans*, is available on the [SSRN website](#).

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