



# Behavioural Finance and The Post Retirement Crisis

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*Investment Specialist*



- + COGNITIVE BIASES
- + BEHAVIOURAL FINANCE
- + THE POST RETIREMENT CRISIS



# LEARNING OUTCOMES

- Identify the key behavioural risks facing investors in the post-retirement phase
- The ability to evaluate a retirement strategy, taking into account behavioural risk factors
- The tools to enhance your specialised retirement offering



An aerial photograph of a man and a woman floating on yellow inflatable rings in clear blue water. The man is on the left, wearing sunglasses and striped swim trunks. The woman is on the right, wearing a dark swimsuit and sunglasses. The water is very clear, showing ripples and reflections. A large teal circle is overlaid on the right side of the image, containing the text 'Cognitive Biases' in white.

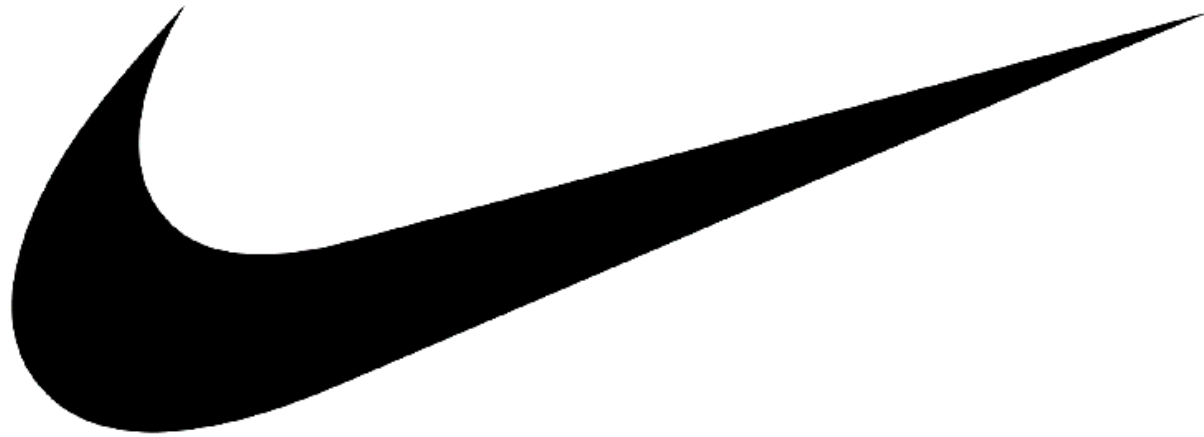
# Cognitive Biases

# Polling Question 1

Think about a sports brand...

# Availability Heuristic

Overweight Easy





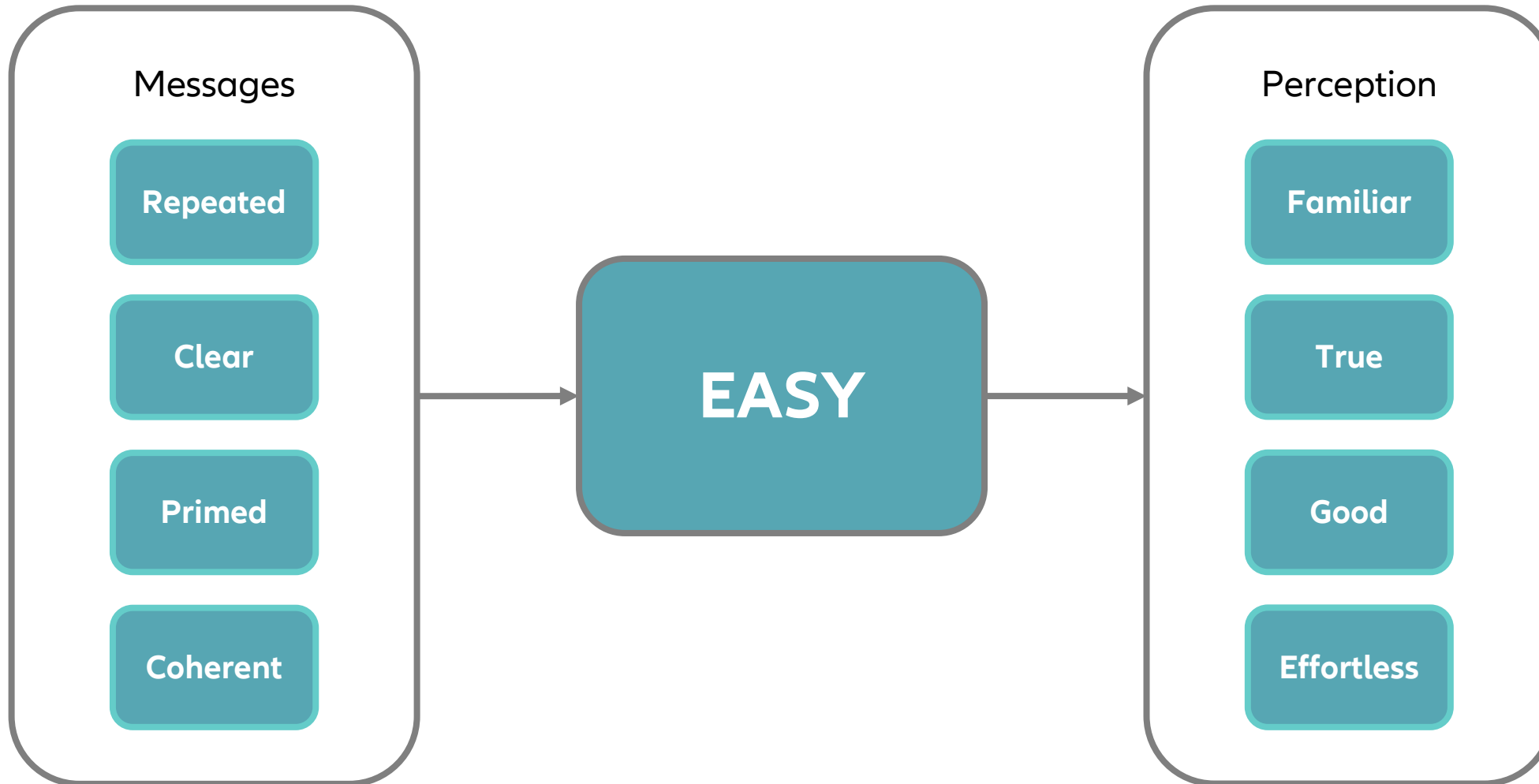
# Availability Heuristic

Overweight Easy



# Availability Heuristic

Overweight Easy



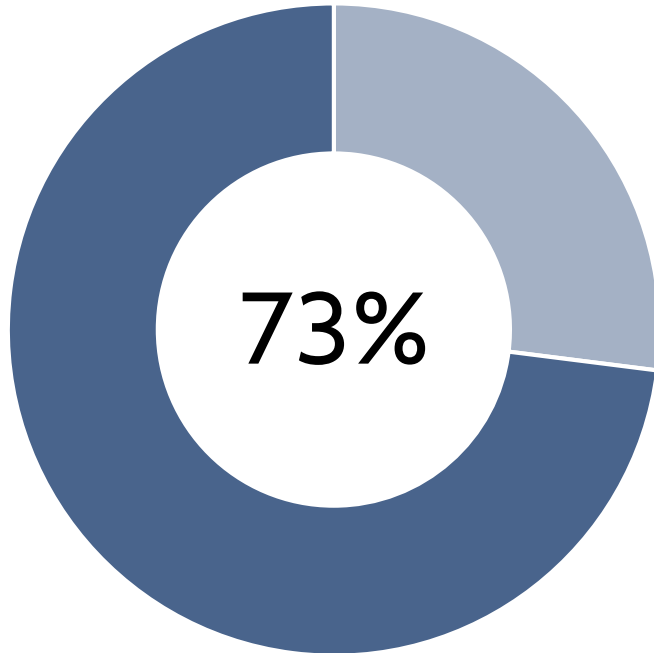


# Polling Question 2

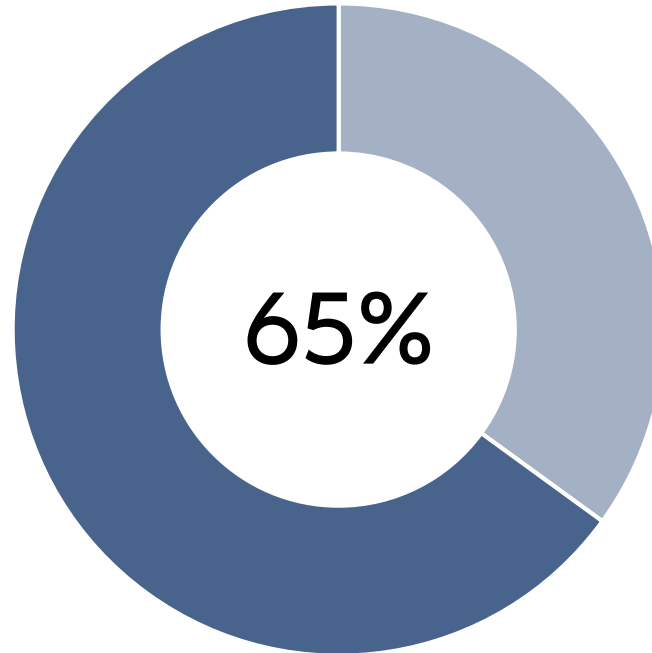
Rate yourself on a scale of 1-5 compared to other drivers

# Overconfidence Bias

All Better Than Average



73% of people think they're better than average drivers<sup>1</sup>



65% of people think they have above average intelligence<sup>2</sup>

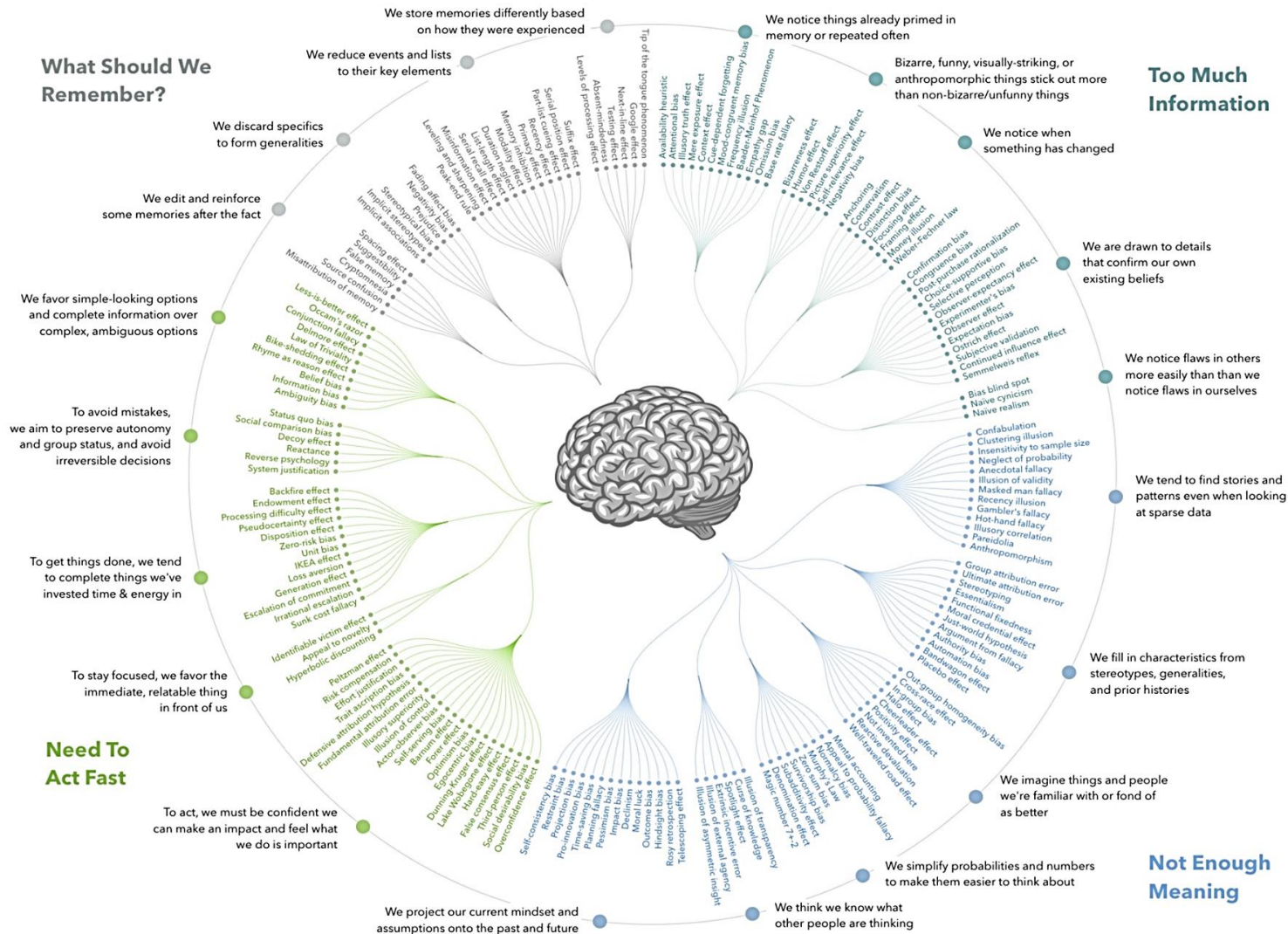
## Overcome Overconfidence

1. Focus on Process
2. Prepare, Plan and Pre-Commit

1. American Automobile Association (2018)

2. Heck PR, Simons DJ, Chabris CF. 65% of Americans believe they are above average in intelligence: Results of two nationally representative surveys (2018)

# Cognitive Bias Codex



Source: [https://upload.wikimedia.org/wikipedia/commons/6/65/Cognitive\\_bias\\_codex\\_en.svg](https://upload.wikimedia.org/wikipedia/commons/6/65/Cognitive_bias_codex_en.svg)

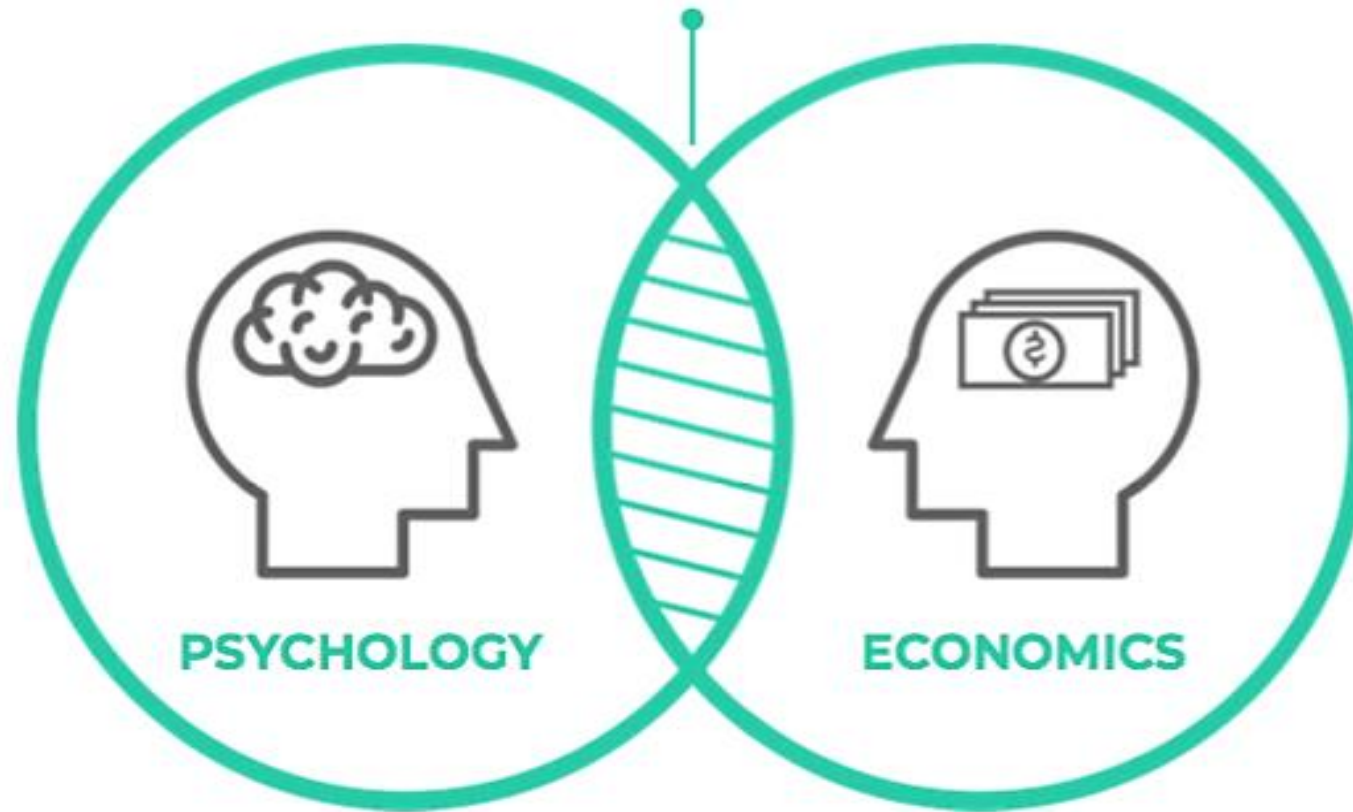


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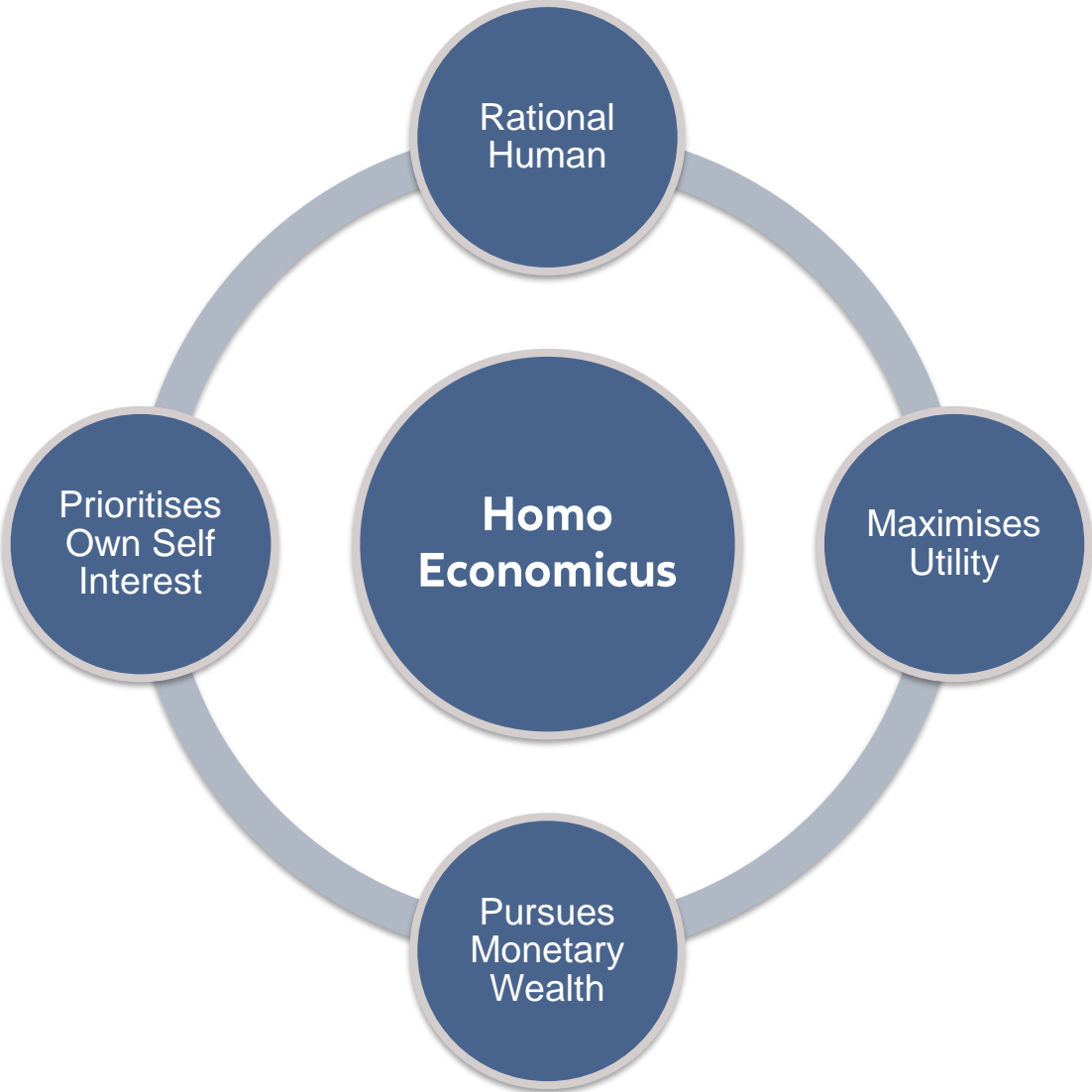
# Behavioural Finance



# Behavioural Finance



# Reality of Rationality



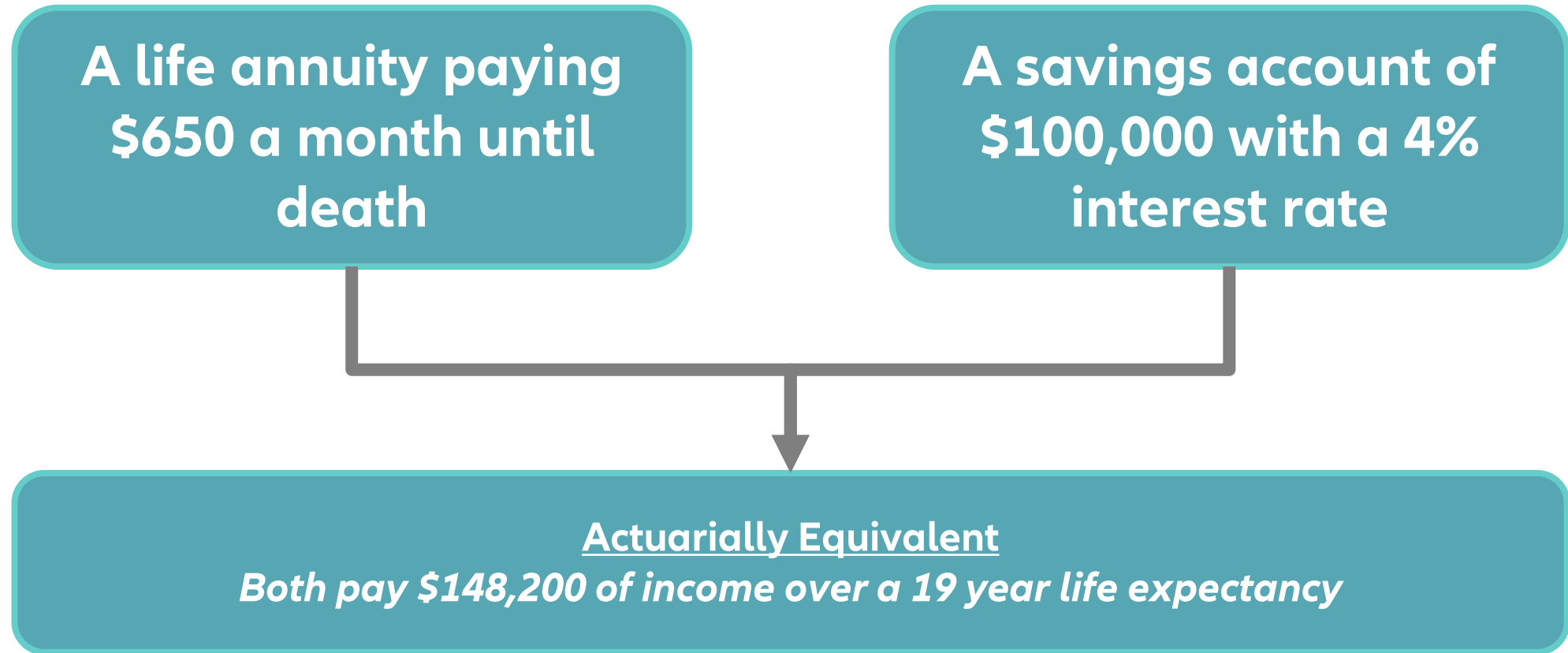


An aerial photograph of a man and a woman floating on yellow inflatable rings in clear blue water. The man is wearing sunglasses and striped swim trunks, while the woman is wearing a dark swimsuit and sunglasses. They are both lying on their backs, relaxed. The water is crystal clear, showing the sandy bottom and the ripples of the water. A large teal circle is overlaid on the right side of the image, containing the title text.

# The Post Retirement Crisis

# Framing

Professor Jeffrey Brown – University of Illinois





# Framing

Professor Jeffrey Brown – University of Illinois

	Life Annuity Paying \$650 a Month Until Death	
Framing	Investment Framing	Income Framing
Description	The annuity described as an investment with a return of \$650 per month for life.	The annuity described as providing monthly income of \$650
Outcome	21% chose annuity	70% chose the annuity

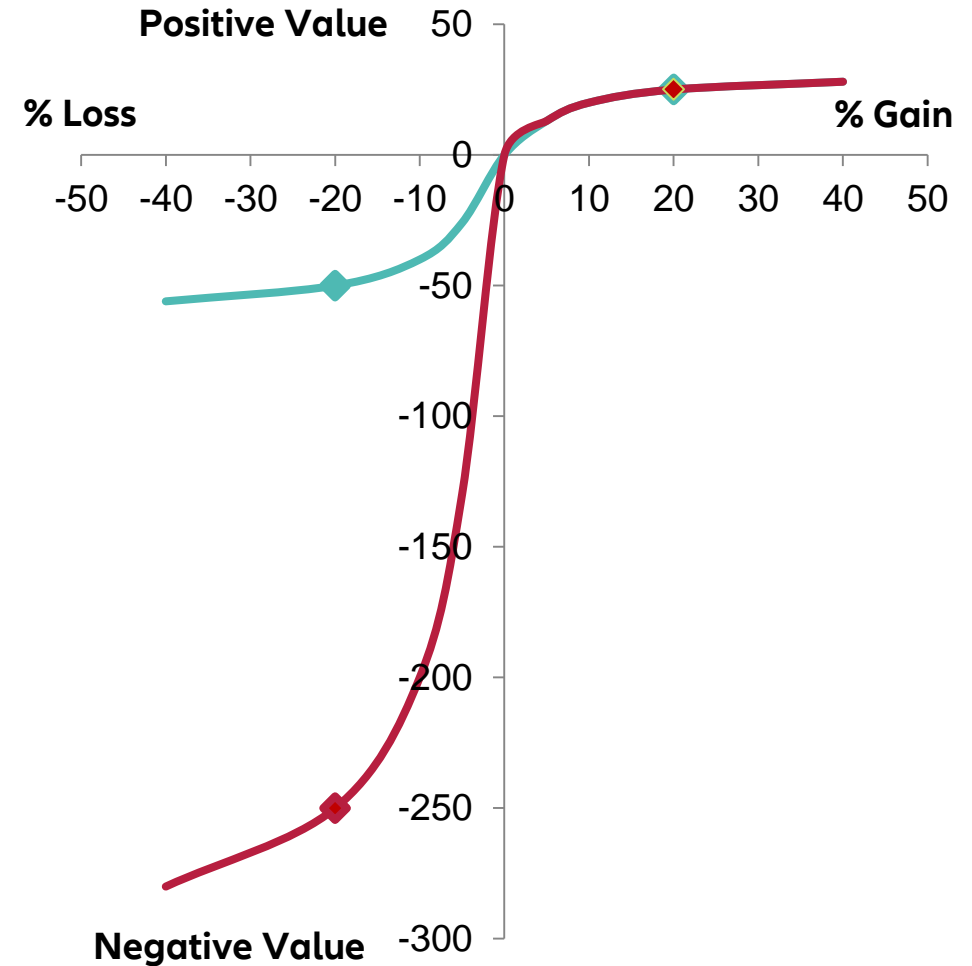
*Popularity of lifetime income solutions tripled when monthly spending was emphasized rather than investment returns*

# Hyper Loss-Aversion

Professor Eric Johnson – Columbia University

**Individuals** feel the pain of a loss 2x as much as they feel the joy of a gain.<sup>1</sup>

**Retirees** feel the pain of a loss 10x as much as they feel the joy of a gain.<sup>1</sup>



<sup>1</sup>AARP and the American Council of Life Insurers – How Retirees Manage Money to Make it Last Through Retirement (2007)

# Hyper Loss-Aversion – Case Study

Managing Loss-Aversion Through Behaviour

## Accumulation

Ratio 2:1

Required Probability = 66.6%

## Accumulation

Once every 70 Days

Approx. 2 Months

## Retirement

Ratio 10:1

Required Probability = 90.9%

## Retirement

Once every 1,300 Days

Approx. 3.5 Years

Source: Bloomberg. Index is ASX200 Total Return Index 29/05/1992 – 15/09/2020. Number of days is average number of days required in order for probability to be equal to required probability over the stated time period.

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# Vividness

Professor Daniel G. Goldstein – Yahoo Research and London Business School

2021



2061



People have  
doubled their savings  
rates after seeing  
age adjusted  
images of themselves  
compared to  
peers<sup>1</sup>

<sup>1</sup> London Business School, Pr Daniel Goldstein (2010)



# Vividness – Case Study

CBUS CEPAR – Retirement Income Estimator



**ARC Centre of Excellence in Population Ageing Research**

**Sent 20,000 members a Retirement Income Estimate (RIE)**

## Results

- ↑ *Contributed additional savings*
- ↑ *Increased their growth allocations*
- ↑ *Engaged with CBUS more*

# Polling Question 3

Which of the following numbers represents the biggest risk of getting a disease?

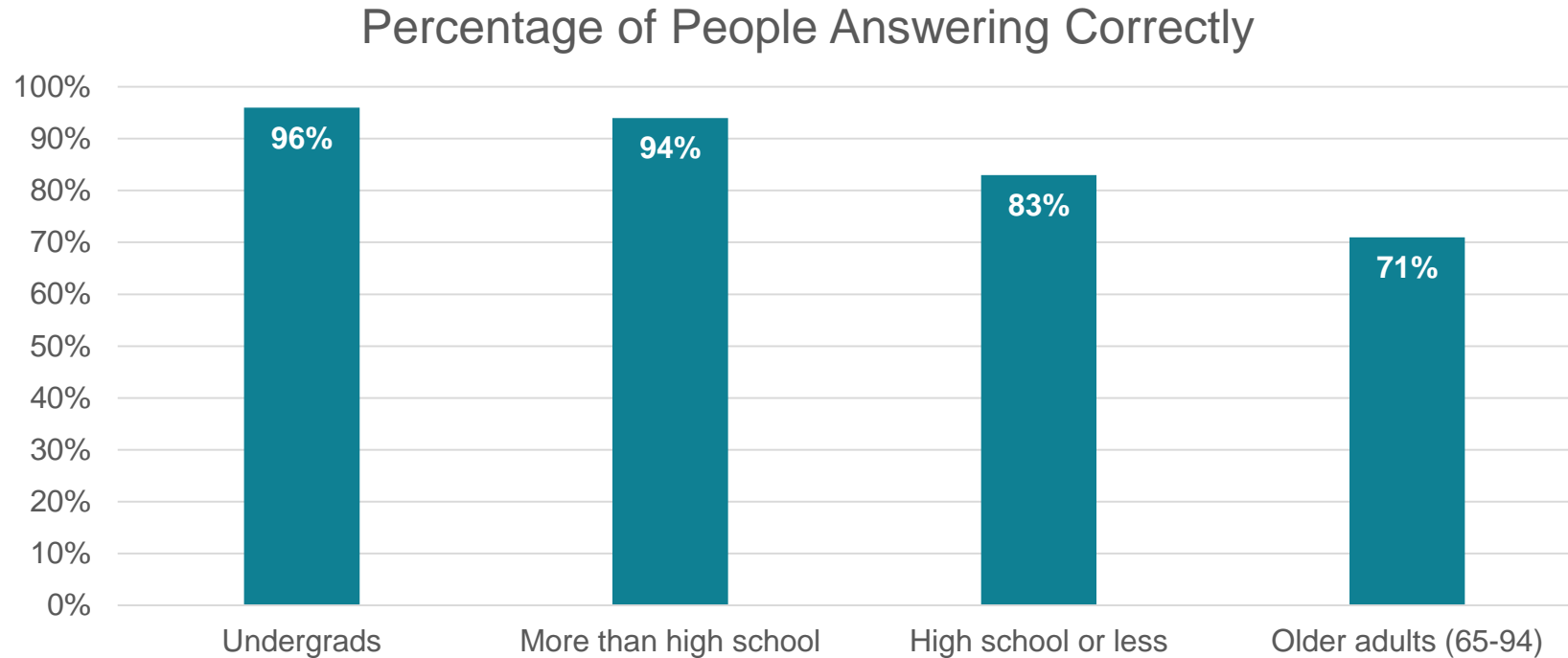
1 in 100

1 in 1,000

1 in 10

# Cognitive Impairment

Professor David Laibson – Harvard University



*After age 60 the prevalence of dementia roughly doubles every five years*



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# Summary





# KEY LEARNINGS

- Cognitive blind spots are dangerous!
- Humans are irrational
- Behavioural techniques can enhance your retirement strategies

# Behavioural Finance

Understanding Why We Make Decisions



“Las Vegas is busy every day, so we know that not everyone is rational.”

Charles Ellis, Founder Greenwich Associates



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