

A man with dark, curly hair is holding a transparent sheet of material over his face. The sheet is held up by his hands, and it reveals his eyes and the wrinkles on his forehead, while the lower part of his face is obscured. The background is a solid teal color.

CRUCIAL CONVERSATIONS | WEBINAR 2

WHAT ARE CLIENTS THINKING? EXPLORING BAD FINANCIAL DECISIONS

Caitriona Wortley
and
Tim Dowling
Allianz Retire+

Allianz Retire+
POWERED BY PIMCO

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 the sandy bottom and ripples. A large teal circle is on the right side of the image, containing the text 'What are clients thinking?'.

What are clients thinking?

The opinions expressed in this video are solely those of the people filmed, and do not represent the views of Allianz Retire Plus.

VIDEO 1

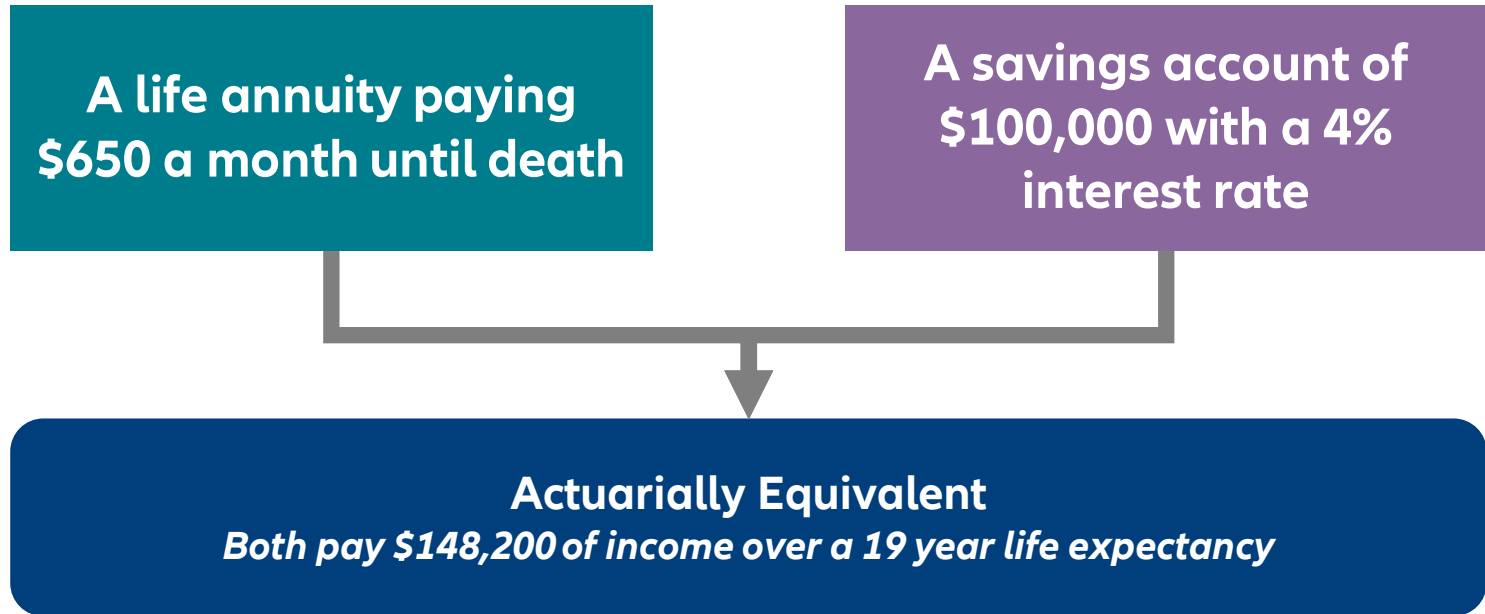
VIDEO 2 & 3

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 striped swim trunks and sunglasses, with his arms outstretched. The woman is on the right, wearing a dark swimsuit and sunglasses, also with her arms outstretched. The water is crystal clear, showing the sandy bottom and ripples. A large teal circle is overlaid on the right side of the image, containing the title text.

Making Better Financial Decisions

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

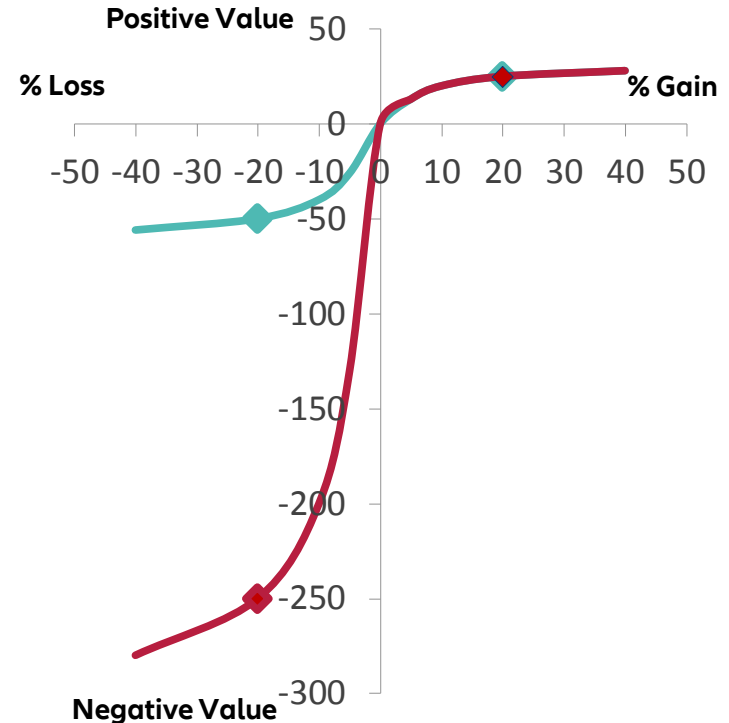
Popularity of lifetime income solutions tripled when monthly spending was emphasized rather than investment returns

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.¹

Retirees feel the pain of a loss 10x as much as they feel the joy of a gain.¹



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

POLLING QUESTION

**How do you currently address
the behavioural risk of loss aversion
for your clients?**

**A)
Education**

**B)
Asset Allocation**

**C)
Cash Buffer**

**D)
Protection Product**

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.

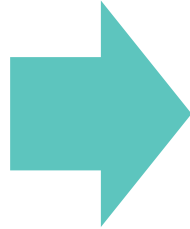
VIVIDNESS

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

2021



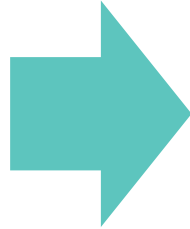
2061



VIVIDNESS

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2021



2061



People have
doubled their savings
rates after seeing
age adjusted
images of themselves
compared to
peers¹

1. London Business School, Pr Daniel Goldstein (2010)

VIVIDNESS – CASE STUDY

CBUS CEPAR – Retirement Income Estimator



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

Results

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

POLLING QUESTION

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

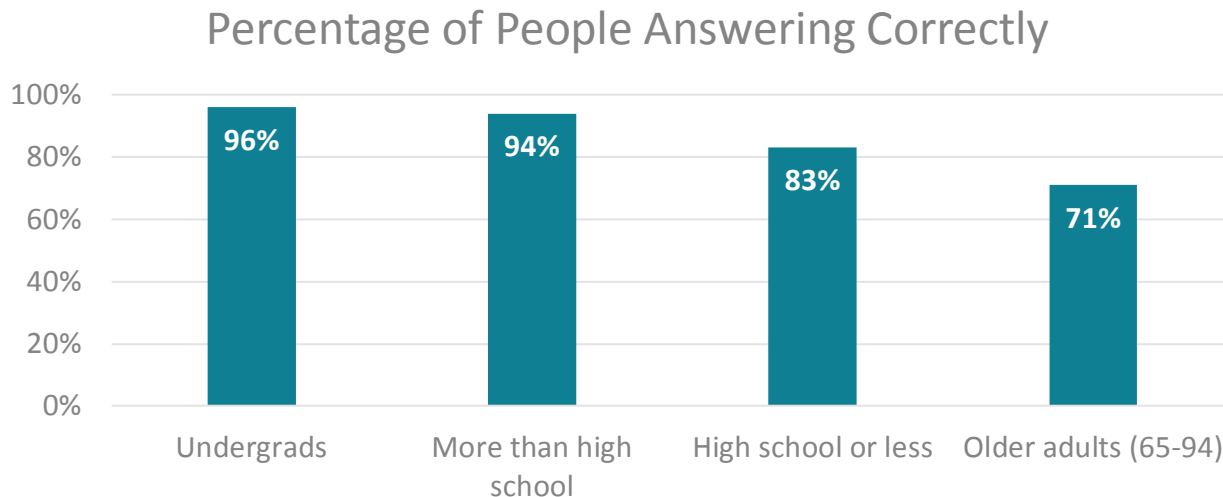
1 in 100

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

BEHAVIOURAL FINANCE CHECKLIST

Action Items for Advisers

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CHECKLIST

BEHAVIOURAL FINANCE FOR RETIREMENT INCOME STRATEGIES

	Behavioural Risk	Action Item	Research Reference
<input type="checkbox"/>	<u>Framing</u> People decide on options based on whether they are presented with positive or negative connotations; e.g. as a loss or as a gain.	To ensure adoption, frame up the retirement income strategy to reflect the regular income a retiree will receive.	Prof. Jeffrey Brown
<input type="checkbox"/>	<u>Vividness</u> People remember things that are vivid through a hard to forget visual.	Use modelling tools, mobile phone apps and role playing to bring hypothetical scenarios to life.	Prof. Daniel G. Goldstein
<input type="checkbox"/>	<u>Hyper Loss-Aversion</u> Losses loom larger than gains. The tendency to prefer avoiding losses to acquiring equivalent gains.	Utilise products and strategies that provide protection against capital losses rather than simply relying on investor behaviour.	Prof. Eric Johnson
	<u>Cognitive Impairment</u> People experience a significant decrease in	Simplify options and front-load investment decisions as early as possible in the clients'	Prof. David Laibson

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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