

The Impact of Information Architecture on Retirement Savings Decumulation

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THE UNIVERSITY OF
SYDNEY
—
Business School



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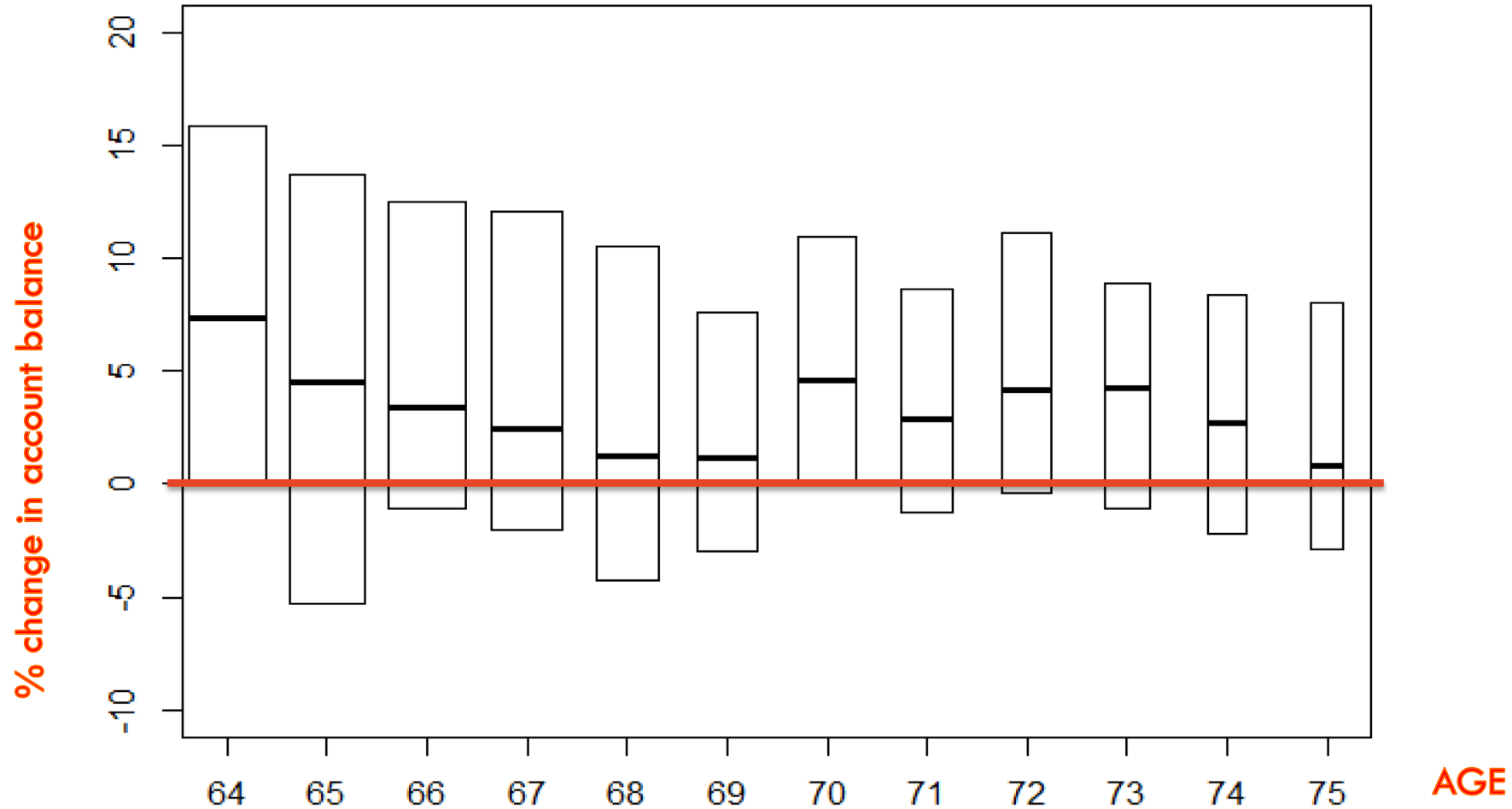
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The research is preliminary, has not been peer-reviewed and is not for circulation.

Australian retirees have incentives to over-spend. In fact, the median retiree adds to their pension savings.

Percentage change in retirement savings account balance over 11 years

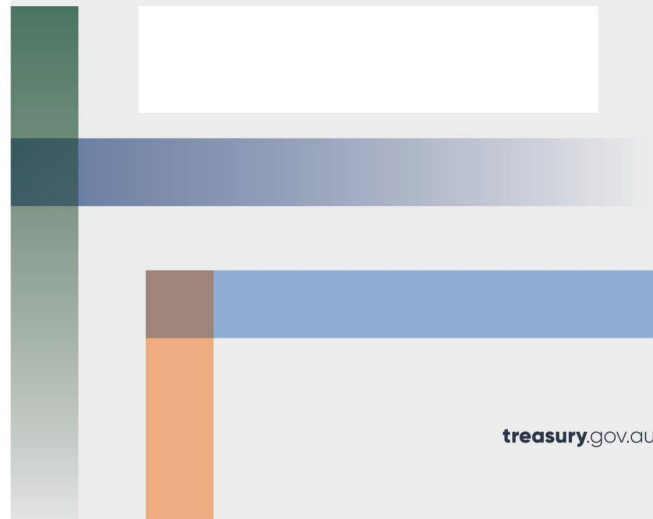


Source: Reeson et al. (2016) Tax data from regulated retirement plans, 2004-14

Retirement phase of superannuation

Discussion paper

December 2023



“Evidence suggests varied reasons for low drawdowns. Retirees often do not have access to the right tools to assess what drawdown amount is best for their circumstances. Retirees may default to the minimum amount as a rule of thumb when faced with choice overload, concerns about the cost of aged care and medical expenses, or concerns about the risk of running out of savings. Some retirees may have minimum drawdown rates effectively chosen for them by their fund and are unaware they can even vary the rate of their superannuation pension.”

Similar issues for many pension systems.



What?

- Slow or no decumulation (Börsch-Supan 2003; Love et al. 2009; Poterba et al. 2011; Ooijen et al. 2014; Asher et al. 2017)
- Post-work saving (Reeson et al. 2016; Olafsson and Pagel 2018)

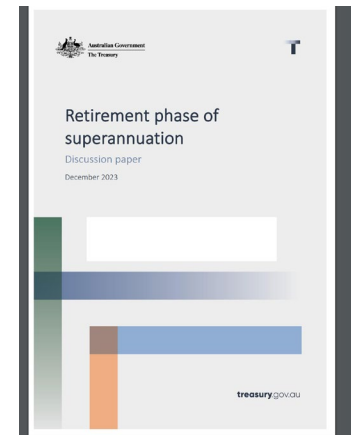
Why?

- Precaution; maintain lifestyle; longevity (Alonso-García et al. 2022)
- Bequests and gifts; medical expenses (De Nardi et al. 2015; De Nardi et al. 2021)
- Simplification strategies (Bateman et al. 2017; Balnozan et al. 2020)

Research Question:

How can we:

“enable members to make the mindset shift necessary to confidently draw down on their superannuation in retirement”?



Retirement Spending Projections

Lump Sum (Wealth) Projection



Estimated balance at
age 92: \$100,000

Income Stream Projection



Estimated average annual
payment from age 67 to
age 92: \$25,000

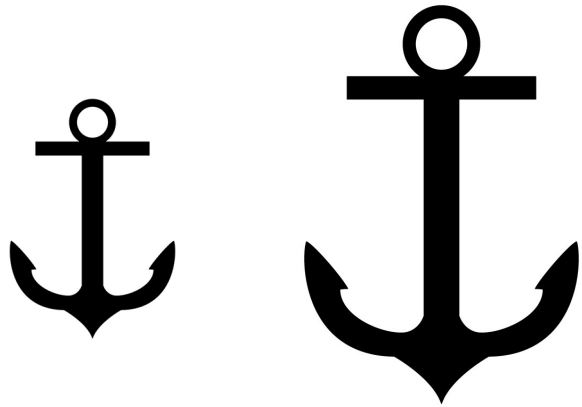
***“If you continue to
withdraw at this level
then..***

Hypothesis:

Receiving retirement projections
would prompt people to increase
their withdrawal amount and draw
down their superannuation faster

Spending “Anchors” and Retirement Projections

High and Low Value Anchors



The Association of Superannuation Funds of Australia (ASFA) recommends that the minimum annual cost of a comfortable retirement is \$45,239

Hypothesis:

The combination of high \$\$ anchors (recommendations) and income stream projections will lead people to draw down savings fastest

Income Stream Projection



Estimated average annual payment from age 67 to age 92: \$25,000

Three Experiments

- **N = 1600 participants (Age 55-67; super members)**
- **Experiment 1 (n = 400): Income Streams & Lump Sums**
- **Experiment 2 (n=800): Income Streams, Informative Anchors**
- **Experiment 3 (n=400): Income Streams, Numeric Anchors**

Participants see their current balance, investment return and mandatory minimum withdrawal amount.

Please review the information below carefully. Assume this is your current situation.

Information about you and your retirement account	
Age	67
Current retirement account balance	\$350,000
Annual rate of return	3% p.a.
Minimum withdrawal	\$17,500

No Projection
(Current
Balance)

* Ten choice sets from age 67 (choice 1) to age 91 (choice 10)

How much of your *retirement account* balance would you like to withdraw this year?

	Level of Withdrawal
<input checked="" type="radio"/>	Minimum
<input type="radio"/>	Minimum + \$5,000
<input type="radio"/>	Minimum + \$10,000
<input type="radio"/>	Minimum + \$15,000
<input type="radio"/>	Minimum + \$20,000

Minimum Option

You may also be eligible for up to \$24,550 per year of Age Pension from the government as your *balance* runs down

If you continue to select this withdrawal level, you will have:

Wealth Projection

Income Stream Projection

- \$122,695 left in your account at age 92

- \$16,063 per year to spend, on average, from your *retirement account* between the age of 67 and 92

How much of your *retirement account* balance would you like to withdraw this year?

	Level of Withdrawal
<input checked="" type="radio"/>	Minimum
<input type="radio"/>	Minimum + \$5,000
<input type="radio"/>	Minimum + \$10,000
<input type="radio"/>	Minimum + \$15,000
<input type="radio"/>	Minimum + \$20,000

Minimum Option

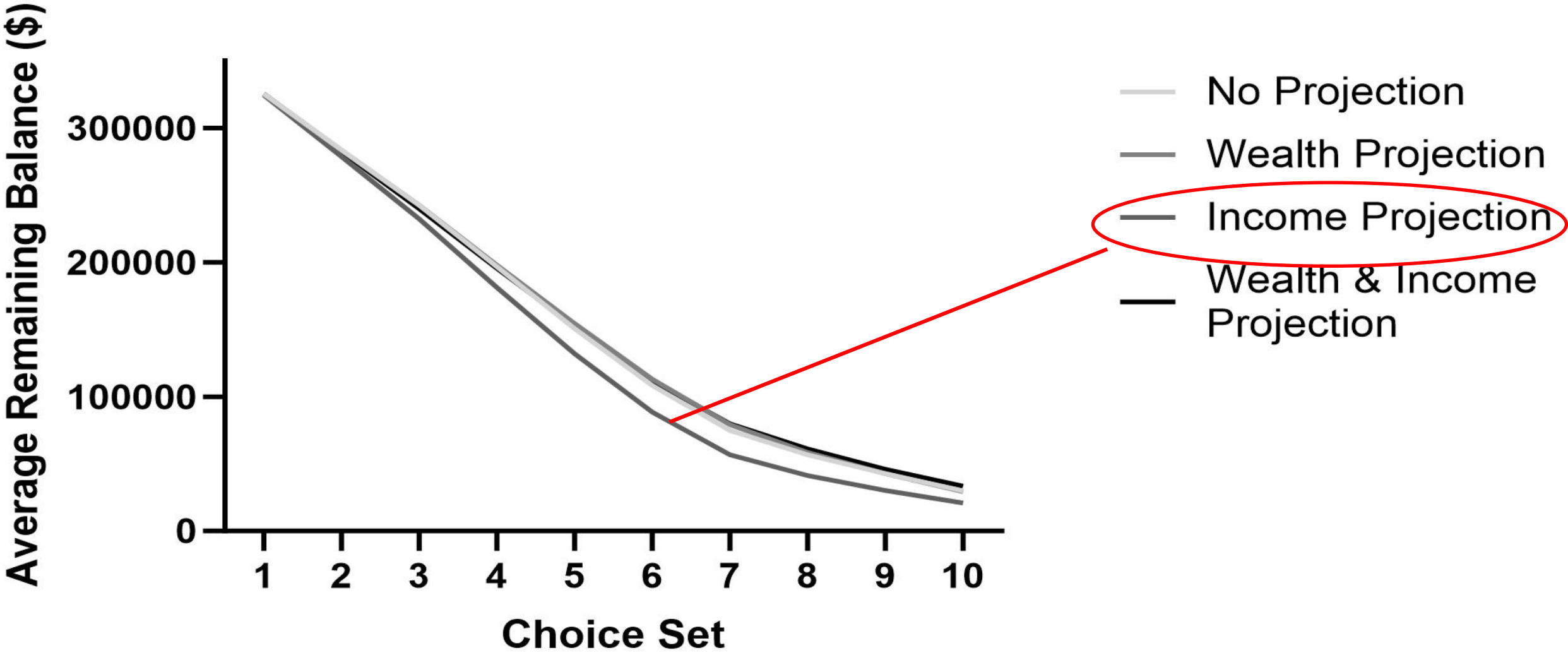
You may also be eligible for up to \$24,550 per year of Age Pension from the government as your *balance* runs down

If you continue to select this withdrawal level, you will have:

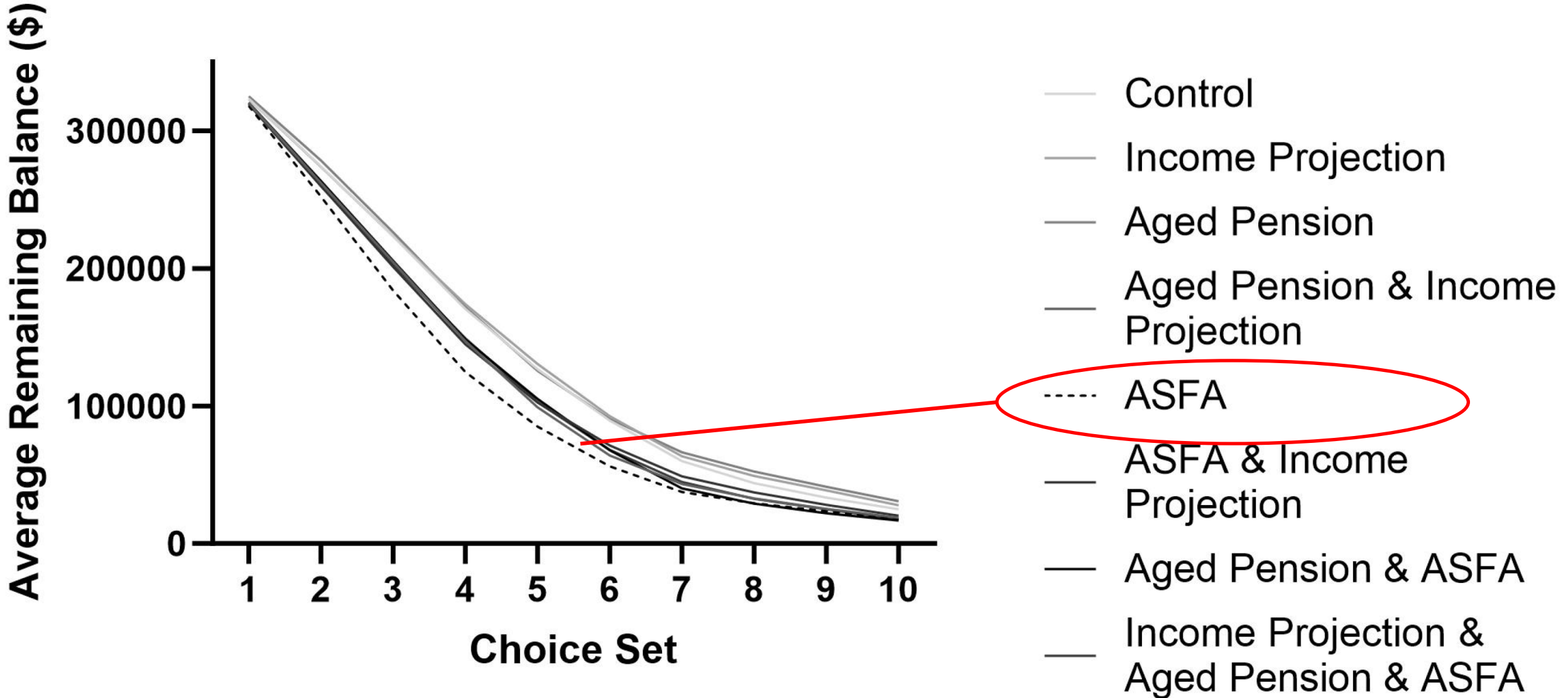
\$16,063 per year to spend, on average, from your *retirement account* between the age of 67 and 92

- You may also be eligible for up to \$24,550 per year of Age Pension from the government as your superannuation runs down
- The Association of Superannuation Funds of Australia (ASFA) recommends that the minimum annual cost of a comfortable retirement is \$45,239

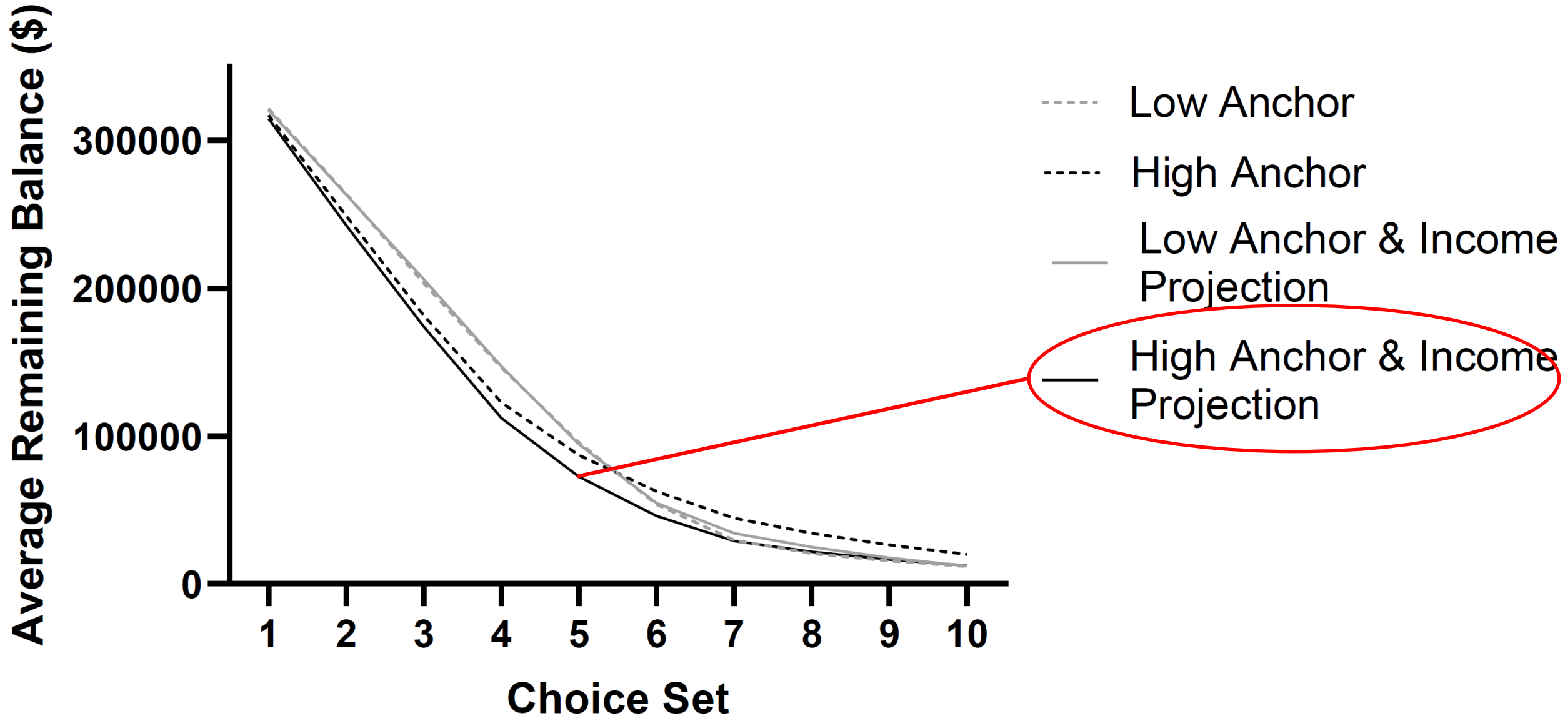
Experiment 1: Average withdrawal over time is faster for the income projection.



Experiment 2: High informative anchor induces faster withdrawals.



Experiment 3: A high numeric anchor induces faster withdrawals.



Conclusions

How can we:

“enable members to make the mindset shift necessary to confidently draw down on their superannuation in retirement”.



- **Providing annual spending targets influences rates of drawdown**
- Any kind of information moves people away from minimum level
- Income Streams raise spending
- Informative High Anchors (ASFA) raise spending
- Numeric High (\$45K) Anchors raise spending
- All effects are statistically small – but potentially scalable.

Thank you for your attention.

How can we:

“enable members to make the mindset shift necessary to confidently draw down on their superannuation in retirement”.



Participant Feedback:

“Because I come from humble beginnings and have centenarians in my immediate family...I fear I will always be cautious with my Super - but I take the point with your survey...it may not be as bad as I think.”

