Comments on: As Easy as Pie

How Retirement Savers use Prescribed Investment Disclosures

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NETSPAR INTERNATIONAL PENSION WORKSHOP 2014

January 2014

Road map

- Importance of savers' decisions.
- The experiment.
- Main comments.

Life in a DC scheme

1. How much should I save?
2. Whom should I save with?
3. *How should I invest my savings?*
4. When should I retire?
5. How should I retire?

About investment decisions...

- Available evidence suggests low involvement (see e.g. Madrian and Shea, 2001, Agnew, et al, 2003, and Mitchell, et al ,2006, among others).
- Support for default investment options $\longrightarrow$ Design?
- Moreover, when investors do get involved, they don't do too well (see e.g. Odean, 1998-1999, and Barber and Odean, 2001, for the US; Calvet et al, 2007 for Sweden).

Experiment design & conclusions

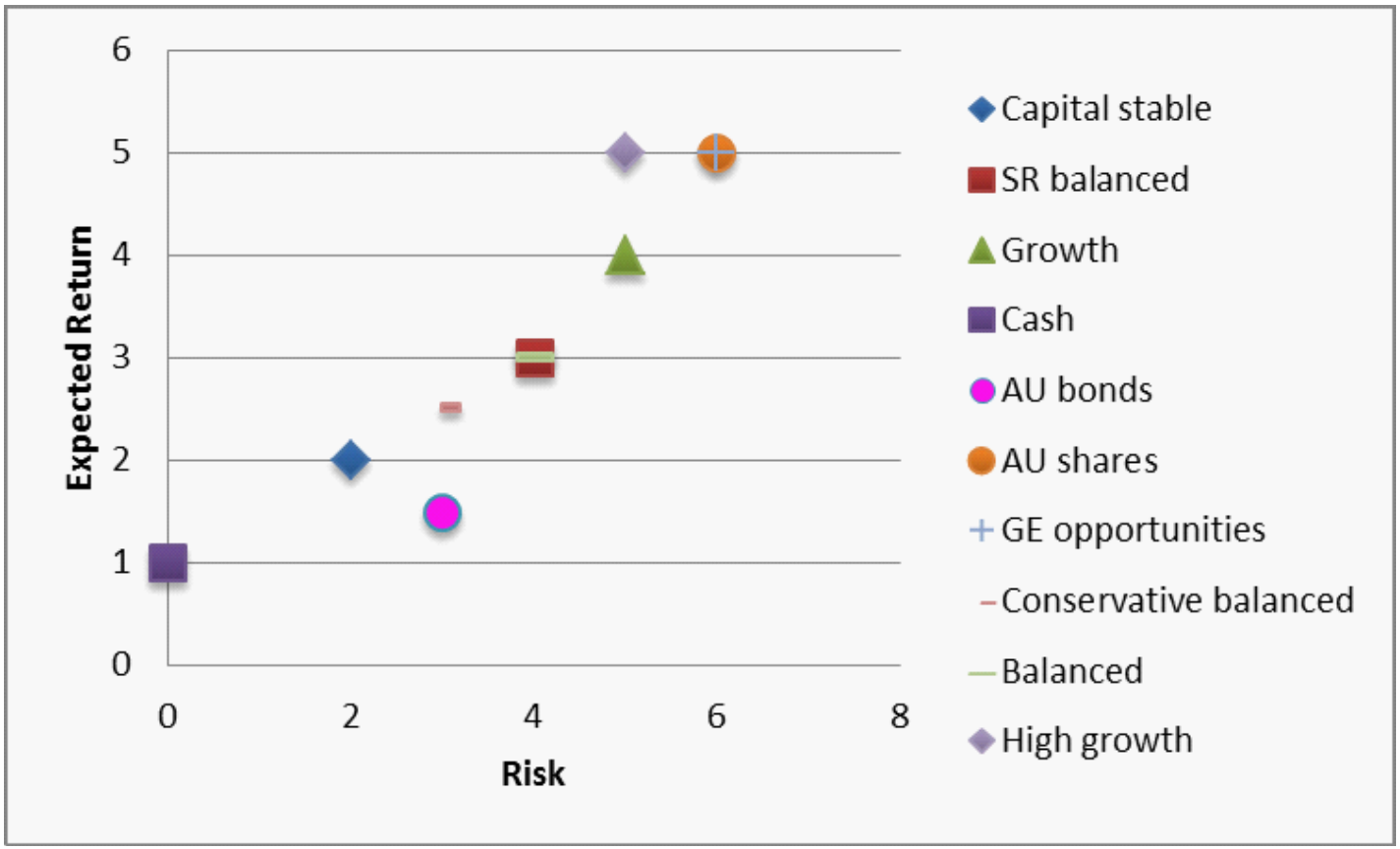
- Test subjects: University students and staff members (60 to 70 subjects)→Representativeness?
- Aimed at evaluating simplified investment information provided to savers on:
  1. return & risk;
  2. portfolio composition; and
  3. minimum suggested investment horizon.
- Main conclusions: the most relevant variable is portfolio composition and it's important to understand how savers use and interpret info.
- Very relevant for policy design.

Main comments...

- The use of statistic evidence is an interesting complement to focus group studies, which tend to be qualitative.
- Are results reasonable?
- Transitivity of preferences is a nice result (45 pairwise rankings!).
- However, the results regarding return & risk seem hard to understand.
    - Artificial setup? Amount of information? Set of options' design?

Main comments...

- Some options are redundant and others appear to be dominated: Conservative balanced and CS dominate AU Bonds; and High Growth dominates Growth, AU Shares and GE opportunities.



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- Nevertheless, if the balanced portfolio invests in, say, 100 shares with decreasing weights then $HHI_B = 0.0476$.
- Now assume that the SR portfolio invests in 100 different fixed income instruments, but there are only 25% out of 100 shares (intl and AU) that qualify as SR $\rightarrow$ $HHI_{SR} = 0.0544$.

Additional comments

- Obtaining robust results regarding personal characteristics (e.g. attitude towards risk & background risk is highly relevant)
  - Relation to low significance of independent variables in individual models?
- Graphic information seems highly relevant to individuals
  - This could be extended to other variables, such as risk and return
  - It's not obvious how to measure risk: standard deviation of annual returns? number of years with negative return? final cumulative return? value of pension? replacement rate?

Example of graphic (pension) risk information

- Pension risk information given to Chilean DC plan members.