

VIDEO

April 26, 2019

Focus on Funds: How Funds Are Serving Retirement Savers Young and Old

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Funds' capital market investment helps savers of all ages and backgrounds accumulate assets for use in retirement. In the April 26, 2019, edition of *Focus on Funds*, Steve Utkus, director and principal of the Vanguard Center for Investor Research, and William Allport, Vanguard senior strategist, offer insights on the latest global retirement accumulation and decumulation strategies and challenges.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: Behind today's global capital markets stand millions of retirement savers who are using funds in the capital markets to meet their savings goals. What do we know about them and their needs, both at the end of their career and at the beginning? I gained some insight at ICI's recent collaborative discussion at Chatham House.

Steve Utkus, Vanguard Center for Investor Research director and principal:

Probably 80 percent of global financial assets are going to be used in some way for household retirement security in the end. So it is really at the core of—at the heart of—the capital markets. I would say that there's been this 20-year evolution we're very familiar with of defined contributions systems around the world, in a variety of countries, including the United Kingdom, where we are today. And now, there's this focus on the decumulation phase—how people are behaving, what makes it unique and different, and some of the interesting challenges of thinking about simultaneously your money and your health.

Ortbals-Tibbs: Interesting. And, so—William, from your perspective, you look after things in the UK, look at a lot of the data that's coming out of pension savings in the UK, and you're following the impact of some of the various tweaks and reforms that have been made here in this system over the past few years. What do you see?

William Allport, Vanguard senior strategist: So auto-enrollment was introduced here in 2012, and it would be fair to say that it's been staggeringly successful. The opt-out rates

of individuals who have never saved before—never saved for retirement—is extremely low, and actually settled down to an ongoing figure of around about 6 percent.

The challenge, however, for us as an industry is to recognize that these are individuals that have never saved before. So we now have individuals accumulating invested wealth that the industry has never interacted with, and it raises a challenge for us to think about how we best help those individuals plan for retirement when they have now accumulated DC [defined contribution] assets alongside other pension assets potentially, or certainly alongside social security benefits.

Ortbals-Tibbs: One of the other surprises that you shared with people about the UK research you've done so far—and this is again perhaps backing up to that younger saver, the younger investor—is that not only does auto-enrollment work, but then returning to that question of auto-enrollment three years later works again in capturing people who even did proactively opt out the first time.

Allport: Absolutely right. So the legislation created a framework to take individuals who did opt out and reenroll them again three years later. And when we looked again at the data—bearing in mind that 100 percent of that group of individuals had opted out the first time—when they were then reenrolled again, only 13 percent opted out a second time. So the power of automated features is really being emphasized by the UK experience.

Ortbals-Tibbs: And Steve, your global data [have] looked after investors who have been in a pool like this a long, long time and can see what they're doing. What are some of the things that Vanguard's suggesting in term of behavioral economics for the older saver—the pensioner?

Utkus: On the post-retirement phase, it's interestingly enough going to be a challenge to get people to spend their money because the real fear for a lot of individuals is not simply, say, running out of money, but needing money for aged care costs or long-term care costs. And so helping people better spend down wisely and more optimally to undertake that spending is really a challenge that faces the industry in the years ahead.

Additional Resources

- [ICI Retirement Resource Center](#)
- [Focus on Funds: Funds' Focus on Investors Powers the Capital Markets](#)
- [Focus on Funds: Technology, with Human Touch, Is Best Formula for Investor Engagement](#)
- [Focus on Funds: When Fund Investment Is Strong, Capital Markets Get Stronger](#)

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