The Behaviour of Individuals Towards Retirement Planning and Defined Contribution Pension Plan Options in Trinidad and Tobago and the Implications for Effective Retirement Planning

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Pensions

- Pensions are intended to provide some degree of financial security during retirement and are an important contributor to the quality of life during this period.
- In Defined Contribution (DC) plans, the financial contribution to the pension fund is specified rather than the benefit, as in the case of a defined benefit plan.
- Contributions to be paid by the employer or other plan sponsor is the extent of the responsibility for funding the retirement of the employee /member
- The actual pension benefit that will be received at retirement is uncertain.
- The investment risk is mostly or entirely borne by the plans' members (Cannon and Tonks 2013; Papke 2004; Hibbert and Mowbray 2002).

Research Objective

To examine the engagement of individuals in Trinidad and Tobago with their pension plans and with retirement planning in general and how this may impact their retirement status.

The objective will be pursued through the following research questions:

- What are the actions and expectations of individuals in Trinidad and Tobago regarding their financial position in retirement?
- What knowledge do defined contribution plan members have concerning their pension account and do they actively monitor the financial progress?
- What knowledge do those that have purchased an annuity or a savings plan have concerning their account and do they actively monitor the financial progress?
- What are some of the personal attributes that may be associated with retirement planning behaviour in Trinidad and Tobago?

Significance of the Research

- ✓ Pensions that are inadequate affect retirees' quality of life and increase their reliance on national social services for supplementary support.
- ✓ DC pension arrangements place greater responsibility on the members for retirement planning; they may be called upon to make decisions on the pension investments.
- ✓ The options which individuals are asked to consider can involve selection of risk profiles and alternative investment portfolios and providers.
- ✓ There has been an observed trend Trinidad and Tobago towards defined contribution plans (CBTT 2013) which is likely to magnify the effects of any deficiencies in DC plan members' involvement.
- ✓ The output of this research identifies weaknesses in members' behaviour towards their DC plan and in retirement planning generally.
- ✓ These results serve to assist in directing targeted efforts to improve the scope and depth of engagement with DC plan options
- ✓ Empirical support is provided for a wider attention to retirement planning across the society in Trinidad and Tobago
- ✓ The long-term interests of the entire country may be served

The Literature

- Pensions are the single most relied upon source of retirement income (Johnson 2008; Byrne 2007) but there is evidence of little attention paid to pension income until members are close to the retirement age (Johnson 2008).
- DC plan members were found to generally expect to retire around 60-65 and receive over 50% of their current employment earnings at retirement. (Byrne 2007; Clark 2000).
- Receipt of financial advice, age, gender and income levels were some personal attributes found to be associated with the attitudes and knowledge of DC pension plan members (Gallery et al., 2011; Clark and Strauss 2008; Jamaludin 2012).
- Generally members do not know enough to make informed pension investment decisions (Choi et al., 2002; Clark 2000).
- Most may not monitor the investments in their DC plan (Cocco and Lopez 2011).

Methodology

Three main constructs examined:

- General expectations and actions on retirement planning
- Behaviour towards defined contribution pension plans
- Behaviour towards personal pension products such as annuities and savings plans

Table 1- Measurement of Constructs

Construct	Variables	Measurement Scale
General Retirement Planning	Expected retirement age Calculated retirement financial needs Sources of retirement income Main source of retirement income Expected proportion of working income Receipt of investment advice Have an annuity Perception of saving adequacy How secure respondents feel about retirement	Ordinal Ordinal Nominal Nominal Ordinal Binary Binary Ordinal Ordinal

Behaviour Towards DC Plans	**Knowledge of the type of plan in which the participant is a member**	**Nominal**
	Knowledge of the type of investments in the plan	**Nominal**
	Knowledge of the current value of the DC account	**Binary**
	How often plan investments have been reviewed	**Ordinal**
	Whether statements were read.	**Ordinal**
	Whether questions have been asked.	**Ordinal**
	Knowledge of whether the value of the pension account can decrease	**Nominal**
	Knowledge of whether members can make changes to their pension account investments	**Nominal**
Behaviour Towards Annuities / Savings Plans	Knowledge of the type of investments in the annuity / savings plan	Nominal
	Expected proportion of working income from annuity/ savings plan	Ordinal
	Knowledge of the current value of the annuity / savings plan account	Binary
	Whether statements were read	Ordinal
	Whether questions have been asked	Ordinal
	Knowledge of whether the value of the account can decrease	Nominal

Statistical Analysis

- Chi-square of cross tabulations to examine the statistical significance of differences in the proportions of responses across categories of employment / pension status and occupation level
- Regression analysis to identify any impact of selected personal attributes on retirement planning behaviour
- Logistic regression is applied to the dependent variables which are measured on a binary scale, while ordinal regression is applied to those measured on an ordinal scale.
- Response variables- 10 indicators covering the 3 constructs
- Explanatory variables – received financial advice, age, gender, level of occupation

Data

- Survey of 398 individuals in Trinidad; the survey instrument was adapted from Byrne (2007) in his study of the pension knowledge and attitudes of defined contribution plan members in the UK.
- The survey was conducted in part by direct interviews or oversight by the researcher and research assistant (48%) and completion of the questionnaires which were distributed by the employer within the organization (52%).
- Two versions of the questionnaire was administered- one for DC plan members and another which excluded questions on DC plan were used for all other respondents. Both versions covered general retirement planning.

Data

The Sample

- Three broad groups of individuals according to their pension status
- The economic sectors represented in the sample included financial services, education, the public service, distribution, manufacturing and energy.
- 7 defined contribution plans were represented in the sample. These included 3 of the large defined contribution plans in Trinidad and Tobago in terms of number of members
- Employees who are members of 4 defined benefit plans were included
- Persons with no pension plan were drawn from among 'contract' employees, the casually employed and the self employed.
- A pilot was conducted on a convenience sample of 20 individuals which reflected the three broad groups of individuals in the study sample.
- Data on the operation of the plans in terms of options offered to employees was obtained for 5 of the 6 defined contribution plans represented in the study.
- Other data sources: the published annual reports of publicly listed companies and data disseminated by the Central Bank of Trinidad and Tobago

Table 2. Selected Sample Characteristics

Variable	Response Categories	% of Applicable Respondents
Gender	Female	60
Age	0-34	36
	35-50	38
	Over 50	26
Occupation	1 (Clerical level, etc.)	13
	2 (Senior clerical, technician, etc.)	36
	3 (Professional, junior/ middle management, etc.))	34
	4 (Senior Management, higher)	15
DC Plan	Yes	61
DB Plan	Yes	21
No Pension plan	Yes	18

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Results

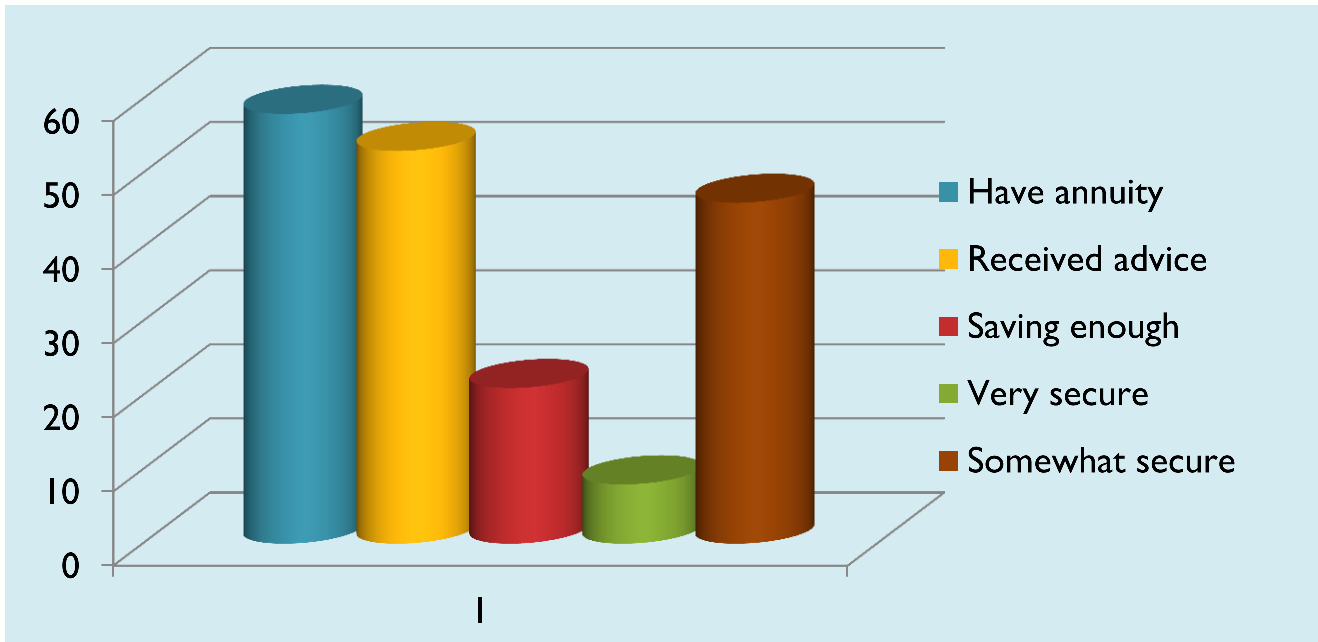

Figure 1 - Selected Retirement Planning Indicators

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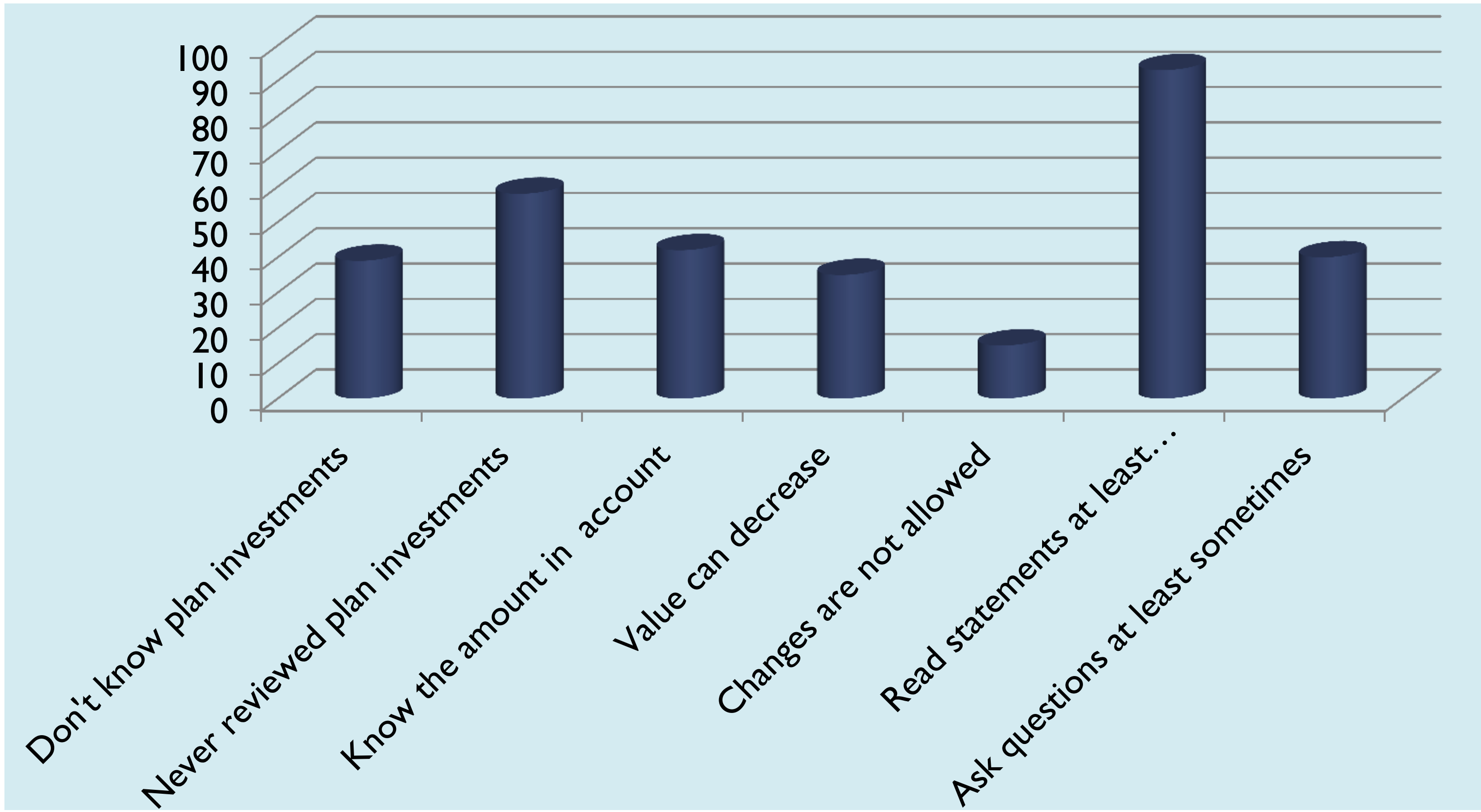

- **Figure 2 Knowledge and Engagement- Defined Contribution Plans**

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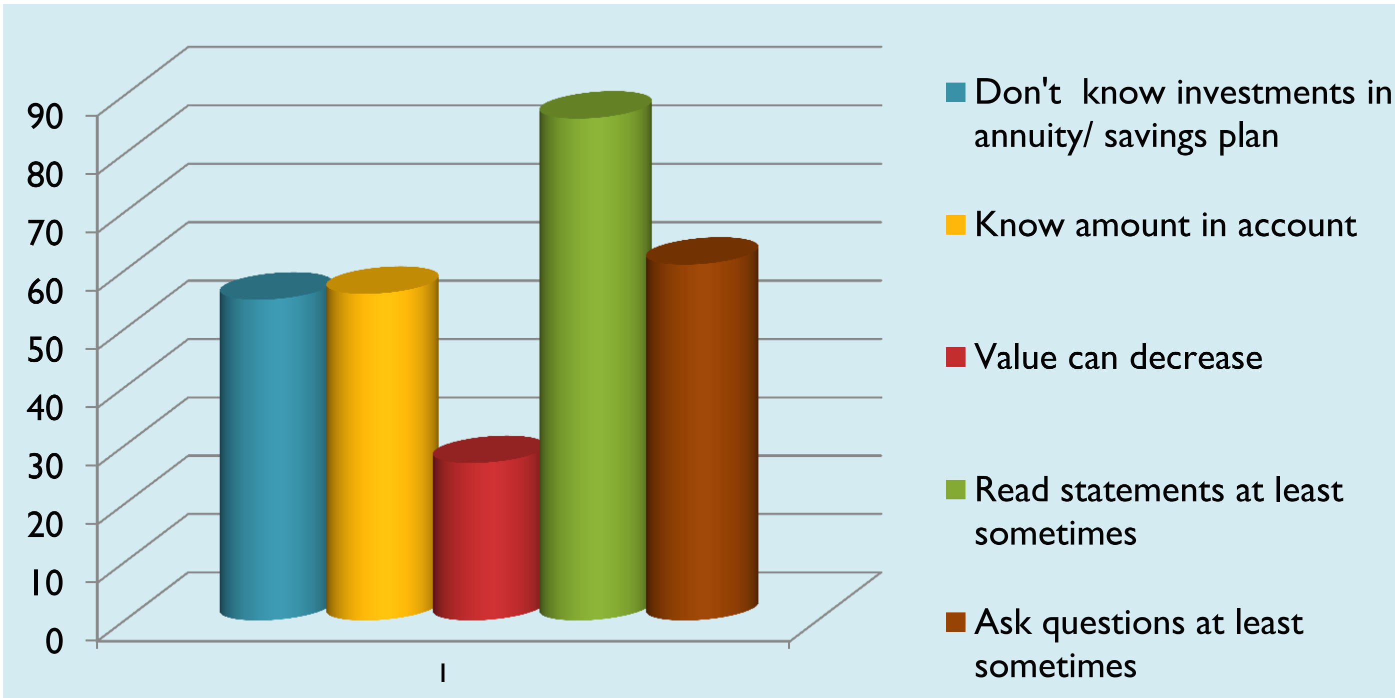

Figure 3 : Knowledge and Engagement- - Annuities / Savings Plans

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Table 2

Personal Attributes- Statistically Significant Regression Coefficients (5%)*

Dependent Variable	Financial Advice	Occupation	Age	Gender
General Retirement Planning				
Calculate Retirement Amount	-1.433			
Proportion of Income		.790		
Savings Adequacy	-.346			.530
Have an Annuity/ Savings Plan	.952	1: .746 (10%) 3: -1.152	-.286 (10%)	
Secure about retirement	-.482			
DC Pension Plan				
Know amount in Plan		-.682	-.687	
Read Plan statements		-1.176		
Review Plan Investments	-1.053		.588	
Ask Questions - Plan	-.921			
Know Investments	-.474		.932	
Annuities				
Read Annuity Statements		-.587		
Ask Questions- Annuity		-.644		

Regression Results

Financial Advice

Respondents who indicated that they had received financial advice were more likely to:

- calculate their retirement needs
- indicate a better level of savings adequacy
- have an annuity
- indicate a higher level of security about their retirement
- review the investments of their pension plan
- state that their plan is invested in equities or bonds
- ask questions about their plan
- believe that their annuity is invested in equities or bonds

Occupational Level

Occupational level was also identified as a factor that is likely to affect behaviour on retirement planning.

- Higher occupational level was associated with a lower expected proportion of income in retirement.
- Those at occupation level 1 were less likely to have an annuity while those at level 3 were more likely to have one.
- Reading of both DC plan and annuity statements as well as knowing the amount in the annuity account were all likely to be at a higher level for those with a higher occupational position.
- Persons at a higher occupational level were also more likely to read their annuity statements and ask questions about the annuity account.

Age and Gender

Age was associated with the results in respect of several indicators.

- Older persons were more likely to have an annuity (10% significance), know the amount in their pension plan and read the statements for their plan.

- Persons under the age of 35 were more likely to indicate their level of savings as inadequate rather than adequate and less likely to identify equities and bonds as investments in their DC pension plan. This younger age group were also more likely to not review their pension plan investments or do so infrequently.

- From among the indicators used as dependent variables, gender was found to be statistically significant for only savings adequacy. Women were more likely to be satisfied with their savings level.

Summary of Results

Retirement Planning

- Overall 60% of respondents indicated they did not try to calculate their retirement income; among the self-employed /casually employed this was 69%. 24% of this sub-group reported having an annuity and 35 % indicated NIS as their main source of income.
- DC plan members and those on contract, who are less certain about their retirement income amount, reported a lower expected proportion of their working income to be received in retirement.
- For those in a pension plan, the pension was the most frequently selected main source of retirement income.
- Contract workers who currently have no pension had the highest incidence of annuities as the main source of retirement income. This may suggest that contract employees, who were mostly under 35 years old, do not envisage becoming a member of a plan in the future.
- Across the groups, respondents generally believed they were not saving enough, however the high percentage of DC and contract respondents who reported having an annuity suggests that most of them have taken steps that may enhance their retirement position.

Summary of Results

Behaviour towards annuities

- The level of engagement by non- DC respondents in relation to their annuities had some positive constituent elements.
- Among those with annuities, more than half said they did not know the investments included in their portfolio and did not indicate that the value of their annuity fund may decrease.
- In a departure from the position with DC plan members, more than half of those with annuities, reported that they knew the amount in the account, asked questions at least sometimes and read the statements.
- Receipt of financial advice, occupational level, gender and age appeared to be factors that differentiate between retirement planning engagement including behaviour concerning DC plans and annuities/ savings plans.

Summary of Results

Behaviour towards DC plans

- Given the responsibility that rests on DC plan members in bearing the investment risk of their pension account, the engagement of DC members may be regarded as low.
- Most of them have never asked a question about their pension account or reviewed the investments which will ultimately determine their pension. The most popular response on the investments included in their pension fund was that they did not know.
- Most did not know the amount in their account, whether changes are allowed or if the value can decrease.
- Among those that said they got statements, a large majority indicated reading them at least sometimes.

Conclusions

- There is some measure of engagement in retirement planning by individuals who are contracted employees and members of a pension plan, particularly those at the middle and higher levels of occupation. This includes active consideration of retirement and the purchase of supplementary retirement products. The impact of the immediate tax benefit versus consideration of retirement on actual annuity purchases is a subject that could be researched. Among the casually employed and self-employed there is less indication of knowledge and active consideration of retirement planning.

- The findings indicate that most defined contribution plan members may not understand the risks and responsibilities they hold in respect of their retirement income and the factors that can impair their final pension. Limited monitoring of the performance of the pension account and information gaps concerning the characteristics of their DC plans are also suggested by the results.

- Among those who purchased annuities, there are apparent knowledge gaps on the operation and risk characteristics of annuities, however most individuals appear to monitor by generally reading statements and asking questions.

Pertinent Considerations

Demographic

- The population of Trinidad ad Tobago is ageing (UNDP 2016; IMF 2014; CSO; 2012; an increasing proportion of retirees relative to active employees in productive efforts
- People in Trinidad are living longer; increased longevity results in a longer period of financial support in retirement
- The long-term sustainability of social assistance programmes may be questionable

Pertinent Considerations

Cultural

- The traditional circumstance of children providing support for parents in their later years is likely to be unreliable in the future as persons are having fewer children. The birth rate in Trinidad and Tobago is reported to have declined from 3.24 per woman in 1975-1980 to 1.80 per woman in the period 2010- 2015 (UN 2015).
- Pursuit of a lifetime career at one institution as a permanent employee in a 'pensionable' job may decline if younger persons exhibit more mobility across jobs and companies.
- The future- A more occupationally mobile workforce that is more likely to be in a 'contract' positon than their parents, expected to live longer and have greater retirement needs and are unlikely to be in an occupational pension plan; if they are in a pension plan it will most likely be a DC plan.
- Persons in contract employment may receive gratuity payments in lieu of a pension benefit which, in Trinidad and Tobago, are generally paid in cash after deduction of taxes. There is no forced savings from remuneration as in the case of a pension plan.

Recommendations

- The scope and coverage of financial advice on the DC pensions should be increased with a focus on the gaps identified. It is suggested that the lower levels of occupation receive targeted advice and motivation for engagement.

- The financial advice to DC members should include education on :
  - the nature and operations of the DC plan
  - the assumption of risk and the responsibility for ongoing monitoring
  - the potential for decline in values.

- Such training should be incorporated into an ongoing retirement planning and education programme by the employer.
- The self- employed were indicated as the least active in retirement planning but are likely to be more exposed to the risk of financial constraints during retirement. An education effort should be specially directed to capturing the attention of such individuals, possibly through any trade association to which they may belong.

Limitations of the Study

- The lack of publicly published data on the structure, operations and investments of pensions in Trinidad and Tobago limited the information available to support the research.

- For the 40% of the defined contribution sample where the questionnaires were circulated within the company and completion was not supervised by the survey team, there may have been bias introduced regarding the questions on knowledge of the plan e.g. investments in the plan and whether statements were received.

Future Research

- Future research is suggested on the retirement planning of self- employed and casually employed using a larger sample of these individuals with the aim of confirming the indication in these results and allowing for some generalisation of the findings.

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Thank You

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