



Important New Research Talking to Seniors About Risk and Market Volatility

By Dan Richards
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New research shows how to talk to seniors about their investments.

Titled “*Behavioral finance and the post-retirement crisis*,” sponsored by Allianz Insurance, and released in May, this report compiles findings on how older investors perceive risk and make financial decisions.

Ten top psychologists, consumer behavior experts and behavioral economists contributed to this report.



Here are some of their suggestions on how to frame conversations with seniors around risk and investing.

Focus on income

Anyone dealing with seniors recognizes their focus on regular income.

As a result, how you present an investment can have a big impact on how it's received.

When presented as providing income, 70% of investors over 50 chose an annuity.

By contrast, only 21% chose the exact same annuity when positioned as an investment solution with monthly returns for life.

Hyper-aversion to loss

Investors experience the pain of a loss twice as strongly as the benefit of a gain.

For retirees, however, the pain of a loss is **five times** stronger than the equivalent gain.

That means that when talking to seniors, you need to be very conscious of the sensitivity to loss.



Desire for control

Given their fear, you'd expect retirees to opt for protection and guarantees.

However, studies show the reverse is true.

The reason – many retirees shy away from products with guarantees because they don't want to give up control.

So when talking to retirees, you need to address concerns that they'll be locked in and lose access to their savings.

The impact of inflation

Advisors know the devastating impact of even modest levels of inflation in eroding retirement spending power.

However, unless you help them think this through, many seniors tend to focus on the nominal amounts they'll be receiving and to ignore the impact of inflation. This is one way that advisors can add value to client conversations.

Understanding financial concepts

Advisors need to be sure that conversations with seniors are at a level they can understand.

Math ability starts declining at age 53; by 80, almost half of seniors have difficulty making sound financial decisions.

That has broad implications for the kinds of conversations you can have – and also the need in some cases to get adult children involved.

Here's a [link](#) to the full research report

And here's a checklist from the report on having effective conversations around retirement income planning:

| Checklist | Inspired by the work of Professor... |
|--|--------------------------------------|
| Is the retirement income strategy framed in terms of the monthly income a retiree will receive? | Brown on <i>Framing</i> |
| Are the implications of today's financial decisions vividly presented so employees see how their lives will be affected? | Goldstein on <i>Vividness</i> |



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| Is the strategy appropriate for retirees who are hyper-sensitive to losses? | Johnson on <i>Hyper Loss Aversion</i> |
| Can retirement income decisions be made before the onset of cognitive impairment? Are the number and complexity of choices manageable for older individuals? | Laibson on <i>Cognitive Impairment</i> ₂ |
| Does the retirement income strategy offer multiple accounts to facilitate different goals, such as paying the rent or spending money on vacations? | Loewenstein on <i>Tangible Mental Accounts</i> |
| Are employees, carried by inertia, assigned to a customized default that is appropriate to their situation? | Madrian on <i>Inertia</i> |
| Does the language used to describe the retirement income strategy make it easy to evaluate its features? | Payne on <i>Evaluability</i> |
| Does it encourage individuals to make active choices? | Previtero on <i>Active Decision-Making</i> |
| Does the retirement income strategy provide some inflation protection? | Shafir on the <i>Money Illusion</i> |
| Will it be perceived as fair by most retirees? | Shu on <i>Fairness</i> |

Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.clientinsights.ca.

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