

Optimal versus Actual Retirement Savings Behavior

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*The 2003 UniCredit - Bank of Italy
Survey*

Milan
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The survey shows sub-optimality both for Products & Savings and Wealth

- **Saving and wealth:**

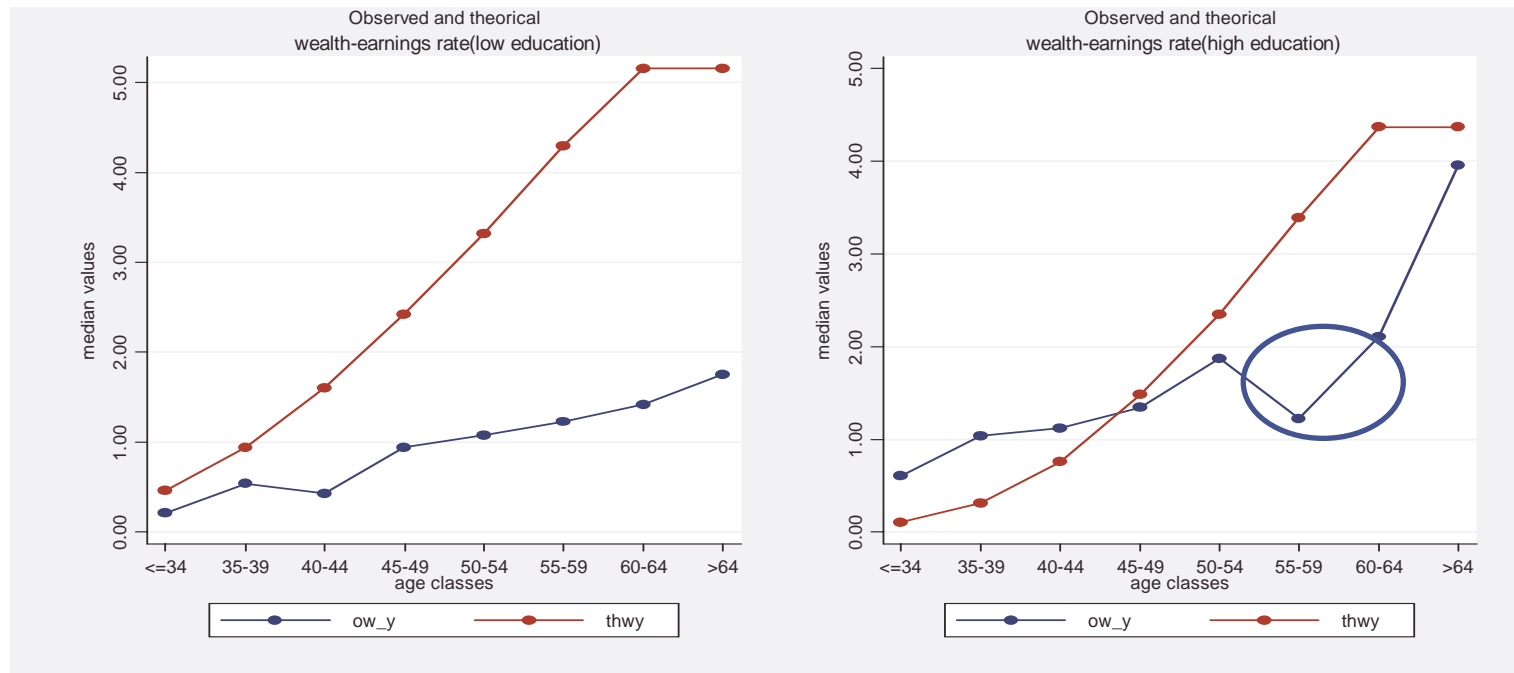
- The **gap** between the present value of retirement needs and wealth as a possible indicator of adequacy of saving for retirement

- **Pension Products:**

- In the presence of uncertain lifetime:
 - **some annuities** should be in households' portfolios, depending on individual's characteristics and on public pension provision
 - together with other financial instruments that can be easily **"cashed"** for **unforeseen contingencies** and for **broader motives**

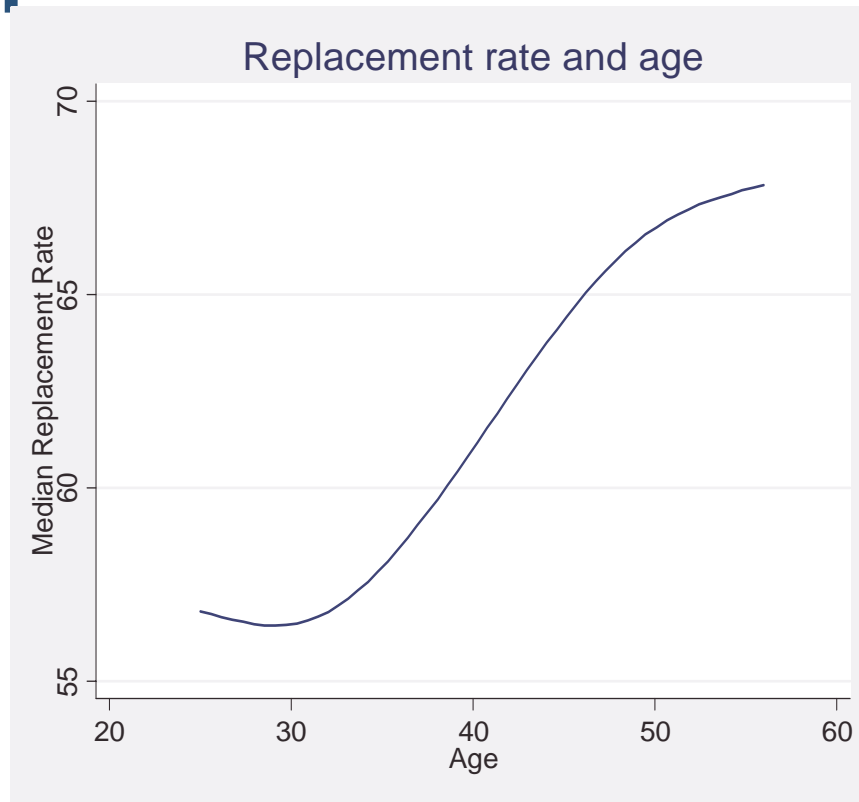
The saving gap emerges for both low education and high education respondents

Actual wealth-to- income ratio - taken as a measure of adequacy of wealth for retirement- compared to a simulated Theoretical wealth-to- income ratio



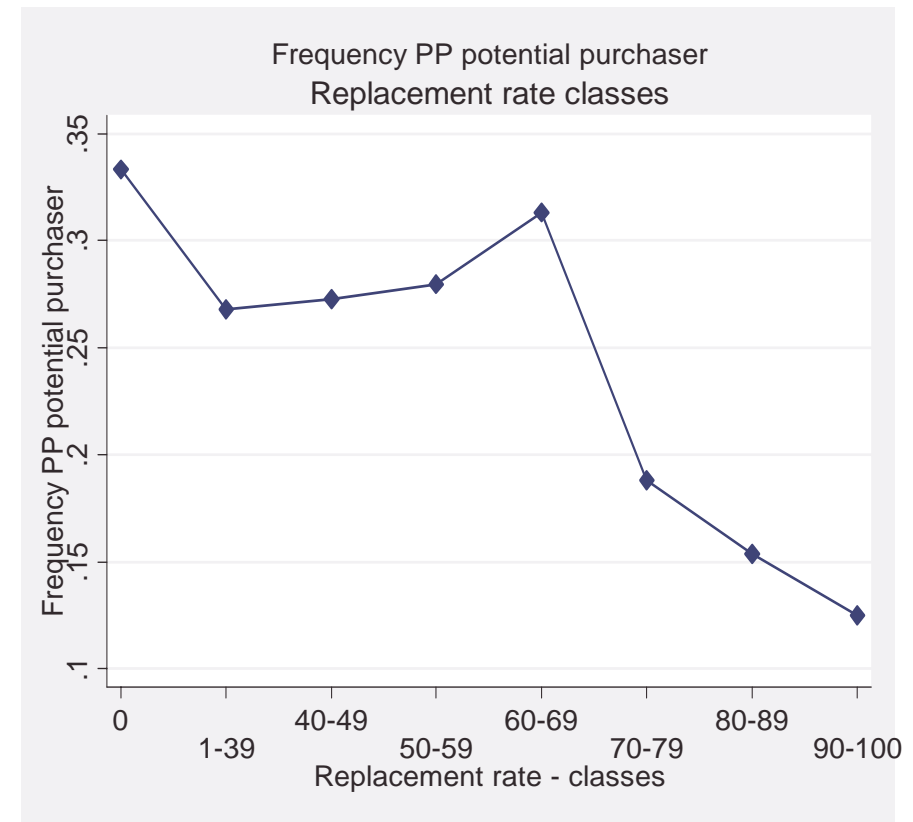
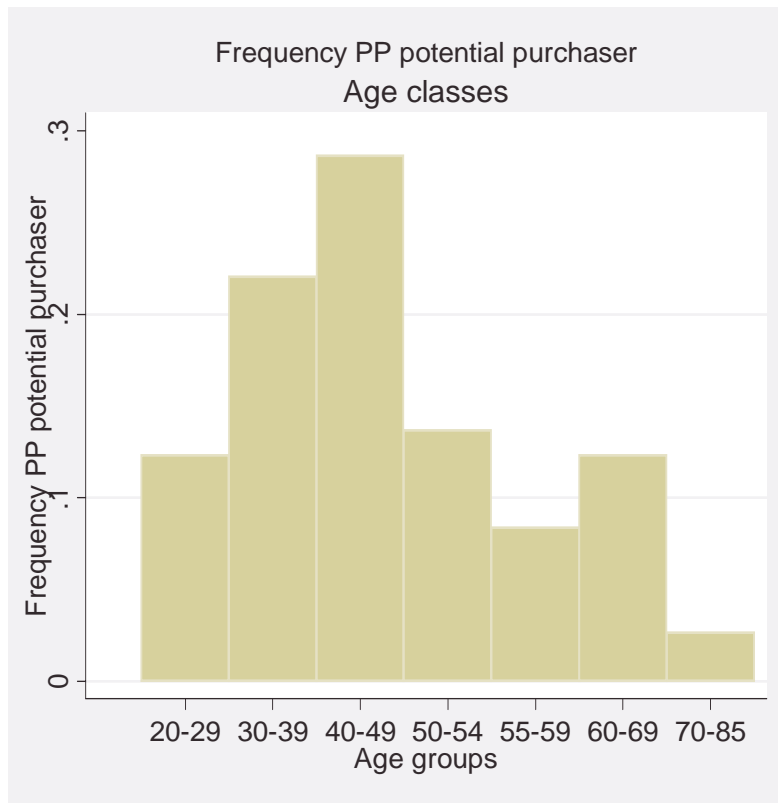
- A saving gap exists for all generations if these have low education levels
- Even for high-education respondents a saving-gap emerges for middle-age households

The good news: many respondents have incorporated the recent pension reforms in their scenarios



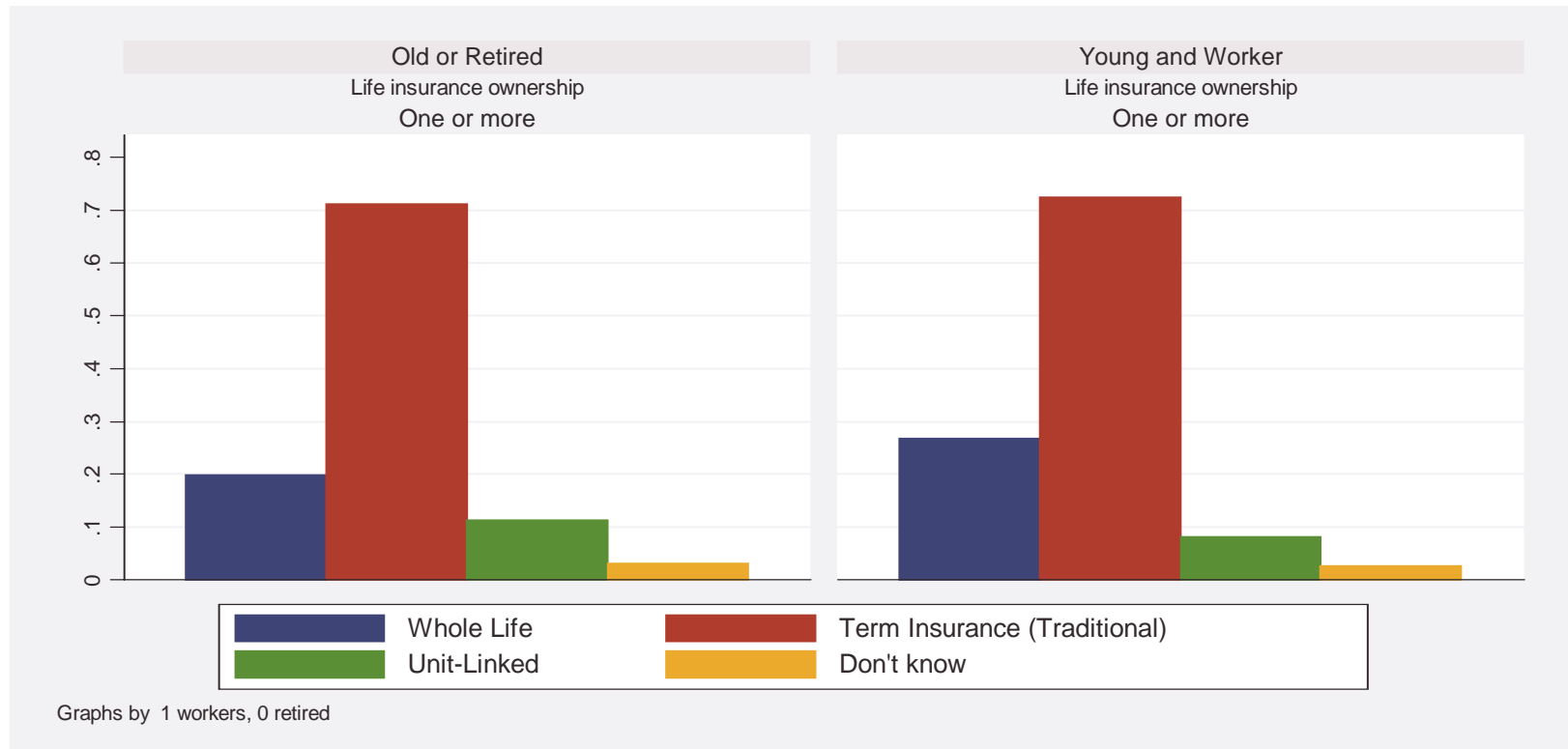
- Expected replacement rates increase with age
- For younger individuals this estimate is also self-reported as “not accurate”, i.e. younger individuals may expect further changes
- The tendency is to over-estimate the replacement rate, but younger people often make the opposite mistake
- These results are encouraging with respect to previous surveys

Potential demand for Pension-Products



The chart on the right is referred to clients aged under 60

Life Insurance Purchases



- Even for young people there is prevalence of products which have little "annuity" content

Summing up: all wealth segments are affected - Knowledge is key

- Even amongst the wealthy and educated there might be a savings gap
- There is, in the UCI sample, strong evidence of the desire to save for retirement, expectations about the level future pension benefits play an important key role
- The lack of knowledge or a too short planning horizon might largely work against actual ownership of appropriate pension products
- The actual purchase of old age insurance, particular pension funds or individual pension contracts (PIP), is determined by the expected replacement rate (negative relationship), by the knowledge of these instruments and by gender (women tend to buy more than men)