

***REPORT CARD – FEBRUARY 2016 MONTHLY MEET***  
***"Behavioral Finance- Focus on Retirement Planning"***

The February monthly meet took place at Iris Hotel, 70, Brigade Road, Shanthala Nagar, Ashok Nagar, Bengaluru. A networking and tea session preceded the session.



At the very outset Mr. Suresh from the Knowledge Management team (KM team) welcomed the gathering and the speakers. He introduced the speaker Dr. Sriram.



Below is his brief introduction.

Dr. K.Sriram is a Consulting Actuary Engaged in Employee Benefits Consulting Practice. He is also an Actuarial Consultant to Genpact, India. Before setting up his practice, Dr.Sriram was the Chief Actuary & Appointed Actuary of MetLife India Insurance Company at Bangalore. Overall he has about 15 years of experience in actuarial engagements related to life insurance and pensions. Dr.Sriram is a Fellow Member of the Institute of Actuaries of India and an Associate Member of the Institute of Cost & Works Accountants of India.



He has a Masters Degree in Management from the Indian Institute of Management, Bangalore [IIMB] and has a Doctorate Degree in Management from the Bharathidasan University. Dr.K.Sriram is a member of the Pensions & Social Security Advisory Group and a member of the Enterprise Risk Management Group of the Institute of Actuaries of India (IAI). He is also a Guest Faculty Member at IIM, Bangalore. He has published a number of papers in the areas of Life Insurance, Employee Benefits & Investments. He has authored a book on “Leasing, Hire Purchase & Factoring”.

Mr. Suresh set the context for the session on "Behavioral Finance- Focus on Retirement Planning" by providing some statistics on Retirement. The overall population in India is expected to grow by 40% between 2006 and 2050, while the population of those aged 60 and above are expected to increase by 270%. The oldest segment (age>80), which is most vulnerable on account of suffering from disabilities, diseases, terminal illness and dementia, is also the largest growing segment of the elderly population at the rate of 500%.

Dr.Sriram was welcomed by Dr. Ravindran with a bouquet.



Dr.Sriram started his talk on "Behavioral Finance –Focus on Retirement Planning". Initially, he illustrated a simple pension calculator using excel spread sheet. He discussed in detail how much monthly pension one would need after retirement taking into consideration the inflation, interest (annuity) rates, life expectancy using an income replacement ratio methodology.



Dr. Sriram spoke about DB (Defined Benefit) and DC (Defined Contribution) plans. He spoke on various entities in DB plan. On the similar lines he also spoke on DC plan. He spoke on key risks in a DC plan like Inflation risk (accumulation and decumulation phase), capital risk, pension conversion risk, longevity risk.

The key decisions in a DC plan are the decision to save, the investment decision, and the decumulation decision.

Then he spoke on economic decisions in a real world context which gave the context to the behavioral aspect of Retirement planning. Economics and Finance theories assume that the plan participant is a well informed economic agent who acts rationally to maximize his/ her self interest. Social scientists provide a different perspective on how “real” people make economic decisions. While this perspective is consistent with the fundamental economic proposition that people try to maximize self-interest, such decisions are often made with less- than perfect outcomes. These decisions are also subject to “bounded self-control” which means that individuals have the right intention or belief, but they lack the willpower to carry out the appropriate changes in behavior.

Also, individuals display “bounded self-interest” or “bounded selfishness” which means that while individuals seek to maximize their personal welfare, they prove to be far more altruistic and co-operative than economic theory predicts they will be earnings, asset returns ,tax rates, family and health status and longevity. Hence, relatively few people feel that they are able to plan effectively for retirement. Lack of retirement preparation is also related to the phenomenon of “bounded self-control”. This is partly due to the fact that most individuals are “hyperbolic discounters” rather than being “exponential discounters. Retirement risks tend to rank low on the dimensions of “dread risk” and “uncertainty risk”.



Then he spoke in detail about the various decisions in the context of behavioral finance. Many individuals deviate from economic theory in an important way. They can be easily influenced by decision framing. Then he spoke about the irrational behavior of the investors with respect to their investments and with reference to MPT (Modern Portfolio Theory). He spoke about some of the key reasons that justify the irrational behavior of the investors like Lack of Firm Preferences, Framing Effects, Anchoring Effects, Prospect Theory and Overconfidence. He spoke of the Decumulation Decision. He discussed on some elements in a decumulation decision like interest rate factors, loads levied by annuity providers and loss aversion of the retirees.



Then he summarized few take away as below.

1. Tenets of Behavioral Finance challenge some of the most central assumptions of decision making
2. Plan design drives participant decisions often in unanticipated ways.
3. Simplified menu design in retirement plans can be very useful –core menu and additional options
4. A reversal in the causality of investment education – a shift from investment education driving behavioral change to initial behavioral change preceding education
5. A large emerging market for implementing these takeaways in the Indian context – for example, targeting the trustees and sponsors of the new pension plans implemented by public sector banks



The discussion was very engaging with the participants. Throughout the session, Dr.Sriram answered/clarified questions raised by the participants.



The council expressed thanks and deep sense of gratitude to Dr.Sriram for sharing his valuable and thoughtful insights.



Mr. Yuvaraja introduced Mrs. Shalini Vijay, the first employee at COFP to the council.



New members of the council introduced themselves to the council.



This was followed by "In the Spotlight" program.

Mr. Suresh introduced the speaker for the "In the Spotlight" program Mr. P Srinivasan.

Introduction: P Srinivasan is the founder of Ace Financial Advisories and a Certified Financial Planner (CFP). He is a SEBI registered investment adviser. Srinivasan has over 25 years of experience in Banking and Financial Services. He has worked in senior assignments with leading Indian and MNC banks. He worked as a domain expert in Banking and Financial Services with leading companies in IT. He is committed to providing unbiased investment advice. He is passionate about financial planning and wealth management and his motto is to create qualitative change in the financial planning and investment advisory space.

Mr. Srinivasan spoke on "Financial Planning Practice, Learning from my experience". He shared his observations, challenges, opportunities which he has seen in his experience as a financial planner. He spoke about the perceptions, myths and misunderstanding of people about financial planning. Then he highlighted some of the challenges like Robot advisors, Do it yourself (DIY), low awareness of financial planning among the consumers. Then he spoke about the opportunities in the financial planning space like providing quality service through constant learning, adding value to the clients by helping them with budgeting, goal setting etc., and deeper understanding of the individual, fiduciary responsibility.





Towards the end, he spoke a little bit about the philosophy of Money and how it can be used for our good.

*Mahatma Gandhi:* Earth provides enough to satisfy every man's need, but not every man's greed

*Socrates:* If a man is proud of his wealth, he should not be praised until it is known how he employs it

*Benjamin Franklin:* If you would know the value of money, go and try to borrow some. It does not matter how much money you have. What matters most is how you plan to use it.

*Bill Gates:* Money has no utility to me beyond a certain point. Its utility is entirely in building an organization and getting the resources out to the poorest in the world

CoFP thanked Mr. Srinivasan for sharing his experiences in the spotlight program.



Thus came to an end yet another insightful and thought provoking session. The session gave many take away's.



The KM teams thank the Management committee for reposing faith in the Knowledge Management team to conduct the February 2016 monthly meet.

Report card prepared by : Srinivas Bolisetty



Disclaimer: The views expressed by the presenters in the monthly meeting is of their personal views and COFP just provides an opportunity to the speakers with good faith.