

Retirement Planning and Financial Literacy

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Influences on Retirement Planning Behaviors

- ▶ Attitudes
- ▶ Knowledge
- ▶ Information



Attitudes

- ▶ Financial responsibility
- ▶ Future time perspective
- ▶ Financial risk tolerance
 - ▶ Individuals who believe they should take responsibility for their own financial futures and are more future oriented are more likely to engage in retirement planning
 - ▶ Those with lower risk tolerance may be more likely to plan but they may inappropriately choose safer investments

Information Needed for Retirement Planning

- ▶ Lifetime path of annual earnings and retirement income needed
- ▶ Rates of return on various types of investments and how compounding works
- ▶ Risk and return characteristics of various assets
- ▶ Age plan to retire
- ▶ Current and future tax rates

Knowledge

- ▶ Economic literacy
- ▶ Numeracy
- ▶ Financial literacy
- ▶ Details about employer-sponsored retirement plans and Social Security
 - ▶ Greater knowledge of each associated with greater likelihood of retirement planning

Retirement Planning Among Newly-Employed Professionals

- ▶ Greater uncertainty about all information needed to plan for retirement
 - ▶ They're just starting their first career and don't know if they ever plan to retire
- ▶ More likely to be present- rather than future-oriented
- ▶ Communication from HR Departments is a website
- ▶ Characteristics of limits on tax-advantaged retirement planning options seem arbitrary
- ▶ Experience with the Great Recession

Selected References

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