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Financial Confidence Among Retirees: The Role of Financial Advice and Planning Duration

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Abstract

This paper examines the factors contributing to the financial confidence of retirees using the 2008 wave of a new nationally representative proprietary dataset of retirees. The results indicate that income, risk tolerance, duration of pre-retirement financial planning, and the utilization of professional financial advice are positive predictors of retirement confidence. The results also indicate that retirees with defined benefit plans are more likely to be confident about their retirement and conversely, retirees with defined contribution plans are less likely to be confident about their retirement. This paper provides useful discussion for financial planning practitioners, economists, and policy makers.

1. Introduction

Saving adequately for retirement is essential for the financial sustainability of individuals in retirement. Previous studies have found that individuals who are confident they have saved sufficiently for retirement are more likely to have an easier transition into their post-retirement life (Beehr, 1986; Taylor & Doverspike, 2003). Extant research, however, has suggested that many retirees do not have sufficient savings for retirement and will likely not be able to sustain their post-retirement capital needs with their pre-retirement savings (Gist, Wu, & Verma, 2004; Yuh, Montalto, & Hanna, 1998). In a related study, the authors found that retirement confidence is higher among respondents who have calculated their capital needs for retirement, have higher income levels, and have received workplace financial education (Kim, Kwon, & Anderson, 2005). Therefore, as financial services professionals, economists, and policy makers brace for the coming wave of retiring baby boomers over the next two decades (Paul, 2001), it is important to investigate the factors that lead to retirement confidence and to discuss ways to improve financial sustainability among retirees.

Past studies have found that preparation and planning for retirement is a predictor of positive attitude in retirement (Atchley, 1991; Helman & Paladino, 2004). Previous research also has shown that educational attainment, marital status, net worth, and participation in retirement plans are significantly associated with the retirement planning and investment decisions of individuals (Chatterjee, Finke, & Harness, 2009; Evans et al., 1985; Joo & Pauwels, 2002; Taylor & Doverspike, 2003).

Most previous studies have been designed to research retirement preparedness and confidence of respondents approaching retirement; however, there is very little research into retirement confidence and post-retirement experiences of retirees. This study extends the current literature in several ways. We examine the predictors of retirement confidence among retirees. We focus specifically on the effect of risk tolerance, pre-retirement financial planning duration, and use of professional financial advice on retirement confidence of retirees, using a new proprietary dataset.

2. Data Description

We used a proprietary dataset managed jointly by the Society of Actuaries (SOA), Life Insurance Marketing and Research Association (LIMRA), and International Foundation for Retirement Education (InFRE) for this research. The 2008 wave is a national dataset of 1,524 respondents; it contains information related to a number of socioeconomic, demographic, and retirement-related factors. The survey participants were restricted to individuals who have been retired for longer than one year, are between 55 and 75 years of age, and have $100,000 or more in investable financial assets. The unique nature of this dataset makes it immensely informative, as its respondents represent a segment of the affluent retirement market that is of interest to financial practitioners and frequently targeted by the financial services industry (Bryck, Meredith, & Siegel, 2010).

3. Methodology

The dependent variable of interest was whether the respondents are confident that they have saved enough money to last through their retirement, after controlling for various

socioeconomic, demographic, and behavioral characteristics. Confidence was measured using a question from the dataset:

> *"How confident are you that you that your retirement assets and investments are being managed in the best possible way?"*

The responses were recorded on a scale of 1 (highest level of confidence) through 4 (lowest level of confidence). For the purpose of this study, approximately half of the respondents who expressed the highest level of confidence were coded as 1 and the rest were coded as 0.

The control variables were drawn from findings of previous research. A number of the available variables in the dataset were categorical. As a result, we have used a number of dichotomous variables in our models. Age, gender, marital status, income, amount of investable assets, participation in qualified retirement accounts (defined contribution, defined benefit, and Individual Retirement Account), and educational attainment comprise the demographic and socioeconomic variables included in the empirical model. In addition, the model controls for several retirement planning and behavioral characteristics, including risk tolerance, pre-retirement planning duration, whether the respondents have calculated their retirement needs, and whether the respondents have used the services of a financial advisor. The risk tolerance variable was a self-reported measure, where respondents reported their risk tolerance on a 5-point scale ranging from extremely conservative (most risk averse) to extremely aggressive (most risk tolerant). In this study, the risk tolerance variables were coded to include very risk averse as the reference group, and the other categories of risk tolerance were compared to this reference group.

To empirically test our hypothesis, we first studied the descriptive statistics of the sample. Next, we empirically tested the determinants of individuals who were confident. This was a binary-coded dependent variable and, hence, we used a logit estimation model for this analysis. Three separate models were run. The first model specified the probability of confidence (C_A) as a function of demographic (X_1) and socioeconomic (X_2) factors, along with risk tolerance (X_3) and retirement planning (X_4)-related characteristics:

$$C_A = f(X_1, X_2, X_3, X_4) + \epsilon_i \qquad (1)$$

The second model specified the probability of confidence (C_A) as function of the above variables for respondents with household income of less than \$50,000. Similarly, a third model specified the probability of confidence (C_A) as a function of the demographic, socioeconomic, risk tolerance and retirement planning related characteristics for respondents with household income of greater than \$50,000.

4. Results

The descriptive statistics (Table I) indicated that significantly higher numbers of divorced or separated respondents, younger retirees (55-59 years), and respondents with investmentable assets of less than \$250,000 reported not feeling confident about their retirement savings and investments. Conversely, a significantly higher frequency of respondents with investable assets worth \$250,000 or more, and respondents who had financial advisors reported being confident.

Table I: Descriptive statistics

Variable	Confident	Not confident	Total Sample
	Frequency	Frequency	Frequency
N	760	764	1524
Male	431	468	901
Female	322	301	623
Married	552	536	1088
Widowed	79	59	138
Divorced or Separated	84	113**	197
Single	45	56	101
Age			
55 to 59	101	150***	251
60 to 64	229	216	445
65 to 69	283	267	550
70 to 75	147	131	278
Education			
High School or lower	124	117	241
Some College	233	249	482
College or up	403	398	801
Income			
<$34.9	201	206	407
$35 to $49.9	201	194	395
$50 to $74.9	171	164	335
>=$75,000	259	253	512
Investable Assets			
< $250	216	284***	500
$250 to $499	233**	219	452
$500 to $999	196***	155	351
>=$1M	115**	106	221
Financial Advisor	506***	336	842

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The results, as shown in Table II, indicate that when compared to those in the lowest category of investment asset holdings, those who have investable assets worth $250,000 or more are significantly more likely to have retirement confidence. Similarly, respondents with defined benefit plans, those who had a college degree and respondents in the top two categories of risk tolerance were significantly more confident about their retirement. Interestingly, the respondents who had retired within the last four years and those who had never calculated their retirement were less likely to be confident when compared with their control groups. Compared to those respondents who had not planned for their retirement, those who had started planning their

finances three or more years before their retirement were likely to be confident about their post-retirement expectations. Respondents who used the services of a financial advisor were significantly more likely to be confident about their retirement wealth than those who did not have a financial advisor.

Table II: Logit for Retirement Confidence

Variables	Coef.	Std. Err.	Odds
Demographic Factors			
Male	-0.218	0.430	-0.20
Ref: Age>70			
55-59	-0.153	0.565	-0.01
60-64	-0.070	0.499	-0.11
65-70	-0.121	0.472	-0.25
Ref: Single			
Married	1.15	0.811	1.57
Widowed	1.15	0.704	1.63
Divorced or Separated	1.05	0.668	0.72
Ref: IA <$250 (in thousands)			
>$2M	2.665**	1.030	10.11
$1M to $1.99M	1.889***	0.418	4.90
$500 to $999	1.519***	0.209	4.75
$250 to $499	0.889***	0.117	1.21
College or up	0.425**	0.118	0.53
Ref: Income<$35 (in thousands)			
$75 or more	0.465	0.428	0.71
$50 to $74.9	0.046	0.379	0.07
$35 to $49.9	0.088	0.361	0.17
Defined Benefit	0.803***	0.306	1.31
Defined Contribution	-0.001	0.305	0
IRA	0.133	0.313	0.12
Ref: Retired>10 plus years			
1 to 4 years	-0.798*	0.406	-0.56
5 to 9 years	-0.544	0.375	-0.44
Currently employed	-0.445	0.365	-0.34
Homeowner	0.245	0.666	0.40
Risk Tolerance (Ref: Risk averse)			
Somewhat risk averse	0.356	1.607	0.43
Risk neutral	0.676	0.446	0.96
Somewhat risk taking	0.195**	0.085	2.30
Risk taking	0.632***	0.037	3.42
Planning (Ref: Not planned)			

	Coef.	Std. Err.	Odds
Planned <1 year before retiring	0.489	0.515	0.92
Planned 1 to 2 years before	0.581	0.581	1.11
Planned 3 to 4 years before	0.814*	0.355	1.51
Planned 5 plus years before	0.665***	0.146	1.17
Have financial planner	0.728**	0.314	1.16
Never calculated retirement	-0.586*	0.299	-0.47
Intercept	20.774***		

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The table III provides the likelihood of being confident for respondents with household income of less than $50,000 (columns 1, 2 and 3) and for respondents with household income of $50,000 or more (columns 4,5, and 6), after controlling for a number of socioeconomic, demographic, retirement planning, and risk tolerance-related factors. The results, indicate that in the lower income group (Columns 1 to 3), the married and widowed respondents were more likely to be confident about their retirement assets than the single respondents. When compared to the respondents in the lowest category of investment asset holdings, those who had investable assets worth $1 million or more were significantly more likely to have retirement confidence in the higher income group. Additionally, the higher income respondents who had retired within the last 4 years were less likely to be confident than the respondents who had been retired for 10 years or more. Risk tolerance was positively associated with retirement confidence in the higher income population. Compared to those respondents who had not planned for their retirement, those who had started planning their finances five or more years before their retirement were likely to be confident about their post-retirement wealth in both higher and lower income groups. Additionally, the lower income respondents who had planned for their retirement between 1 to 5 years before retirement were also more likely to be confident than the control group of non planners. In both groups, the respondents who used the services of a financial advisor were significantly more likely to be confident about their retirement wealth than those who did not have a financial advisor. Conversely, respondents who had never calculated their retirement were less likely to be confident about their retirement assets and investments in both higher and lower income populations.

Table III: Logit for Low Income (<$50,000) and High Income (>$50,000) Respondents

	(1)	(2)	(3)	(4)	(5)	(6)
		Std.			Std.	
Variables	Coef.	Err.	Odds	Coef.	Err.	Odds
Demographic Factors						
Male	-0.008	0.163	0	-0.463	0.426	-0.36
Ref: Age>70						
55-59	-0.168	0.282	-0.17	-0.477	0.303	-0.39
60-64	-0.172	0.239	-0.18	-0.274	0.277	-0.12
65-70	-0.016	0.213	-0.03	-0.125	0.256	-0.08
Ref: Single						
Married	0.498*	0.214	0.56	0.387	0.370	0.42
Widowed	0.683*	0.341	0.84	0.099	0.516	0.11
Divorced or Separated	0.291	0.344	0.28	-0.042	0.459	-0.04

Ref: IA <$250,000						
>$2M	1.195	0.839	0.84	0.938**	0.375	1.53
$1M to $1.99M	0.574	0.404	0.75	0.406*	0.201	0.51
$500 to $999	0.553	0.422	0.67	0.361	0.238	0.43
$250 to $499	0.234	0.178	0.21	0.185	0.266	0.20
College or up	0.073	0.158	0.03	0.035	0.182	0.04
Defined Benefit	-0.123	0.177	-0.10	0.058	0.185	0.06
Defined Contribution	-0.217	0.158	-0.21	-0.075	0.162	-0.08
IRA	0.021	0.159	0.02	0.242	0.192	0.26
Ref: Retired>10 plus years						
1 to 4 years	-0.258	0.209	-0.25	-0.483**	0.230	-0.39
5 to 9 years	-0.058	0.187	-0.04	-0.258	0.216	-0.21
Currently employed	0.244	0.211	0.28	-0.069	0.207	-0.05
Homeowner	0.304	0.352	0.33	0.274	0.586	0.33
Risk Tolerance (Ref: Risk averse)						
Somewhat risk averse	-0.126	0.145	-0.12	0.009	0.253	0
Risk neutral	-0.389	0.254	-0.34	0.048	0.255	0.04
Somewhat risk taking	0.248	0.253	0.29	0.271*	0.129	0.31
Risk taking	0.609	0.698	0.82	0.478*	0.245	0.57
Planning (Ref: Not planned)						
Planned <1 year before	0.235	0.292	0.18	0.008	0.312	0
Planned 1 to 2 years before	0.441**	0.191	0.44	0.101	0.351	0.14
Planned 3 to 4 years before	0.718**	0.325	0.99	0.379	0.332	0.46
Planned 5 plus years before	0.866***	0.306	1.27	0.486***	0.132	0.63
Have financial planner	0.878***	0.115	1.36	0.451***	0.166	0.56
Never calculated retirement	-0.376**	0.149	-0.33	-0.539***	0.177	-0.42
Intercept	0.995***			0.315***		

*** p < 0.01, ** p< 0.05, * p< 0.10

5. Conclusion

This study examined the enabling characteristics of retirees who are confident about their retirement savings and investments. Perhaps the most interesting finding of this study is that the duration of retirement planning prior to retirement is a positive predictor of retirement confidence, as is use of the services of a financial advisor. Additionally, risk tolerance is positively associated with retirement confidence. Individuals with higher investable assets are also more confident about their retirement. This may be because individuals who have planned for their retirement early, or have sought the services of a financial advisor, are likely to perceive themselves as being more secure and, hence, feel confident about their retirement assets. Similarly, more risk tolerant retirees with higher amounts of investable assets also feel more secure about their retirement. Respondents with defined benefit plans have a guaranteed annuitized income. This is perhaps the reason why the retirees with defined benefit plans were likely to be more confident, whereas retirees with defined contribution plans, who are exposed to the volatility of financial markets to a much greater

extent, were less likely to feel confident about their retirement. Taylor and Doverspike (2003) found that financial planning is more important for lower income groups. We see from the findings of this study that having a financial planner increased the odds of retirement confidence by 136% among the lower income respondents, whereas accessing the services of a financial planner increased the odds of retirement confidence in the higher income population by 56%. This study underscores the need to reinforce the importance of financial planning and savings for individuals who have lower levels of education and lower amounts of investable assets, as well as those who have not calculated their retirement needs. It is important for policy makers, researchers, and financial services professionals to recognize this problem and develop methods to provide access to financial education for these less informed groups. Departing from the current strategy of focusing only on increasing financial literacy among consumers, public policy makers and the financial services professionals perhaps need to direct more effort to developing a streamlined environment for increasing access to and growing the use of financial planning services among those who currently cannot access such services but need them the most.

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