

Discussion of
Robert L. Clark, Melinda Sandler Morrill, Steven G. Allen
**The Role of Financial Literacy and Knowledge in
Determining Retirement Plans**

Tetyana Dubovyk

CeRP - Collegio Carlo Alberto

September 25, 2009

Financial Literacy and Retirement Plans _____

- The paper determines literacy regarding
 - ▶ Financial knowledge
 - ▶ Government-run programs: Social Security and Medicare
 - ▶ Company-provided retirement benefits
- Authors examine effect of knowledge on planned retirement age

Survey of employees

Survey

- was conducted in three large companies
- covers full-time employees ages 49 to 65

Company	Employees	Surveys		Response rate
		sent	completed	
BB&T Corporation financial holding	>30,000	2,475	605	24 %
WakeMed health-care system	>7,000	2,088	237	11 %
Williams gas company		1,592	952	60 %

Findings

- Survey participants exhibit higher accuracy on general financial questions as compared to ones on employer-provided and government retirement programs
- People with higher level of financial literacy intend to retire and start their Social Security benefits at earlier ages.
Is there intuition for this result?
- Inaccurate or incomplete knowledge is not symmetric in its effect on retirement decisions

Main Contribution

Inaccurate or incomplete knowledge is not symmetric in its effect on retirement decisions

Table 8. Retirement Plan Regressions

Variable	Retirement Age	SS Receipt Age
Early SS age		
less than 62	0.135	-0.204
greater than 62	0.741***	1.163***
no response	1.646***	0.423
Normal SS ret age		
less than actual	-0.56**	-0.409**
greater than actual	0.625***	0.706***
no response	-1.299**	-0.489

Suggestions

- Suggestions for retirement planning and financial literacy programs
- Income flow during retirement
 - ▶ Tools for calculating income from Social Security and occupation pensions
 - ▶ Income from financial assets including 401(k)
 - ▶ Annuitization versus lump-sum withdrawal
- Expenditures during retirement
 - ▶ General consumption expenditures decrease due to job-related and travel expenses
 - ▶ Planning for medical expenditures