

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

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# 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

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### Survey

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

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

## Findings

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- 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

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

Table 8. Retirement Plan Regressions

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

# Suggestions

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- 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