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


