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TEMPORAL DISTANCE TO RETIREMENT AND COMMUNICATION FRAMING: ENHANCING RETIREMENT FINANCIAL DECISION MAKING

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Executive Summary

Unfortunately, while most young adults should understand that the key to financial security in retirement is to plan and invest early in their working career, there is mounting evidence that many young people do not take the steps to ensure that they are financially prepared. In this paper, we hypothesize that the length of time until retirement affects the type of information a person will react most favorably to when making savings decisions. This would suggest that, in order to convince younger workers to save, a different communication strategy than is used for older workers might be needed. In our study, we develop a framework using temporal construal theory to understand how individuals make retirement decisions and what drives their actions. Specifically, we examine the effectiveness of three communication tactics - abstract versus concrete saving guidelines, immediate versus distant goals, and negative versus positive frames.

We base our hypotheses in this paper on temporal construal theory. This theory predicts that individuals farther away from an event prefer to think about the event in general terms rather than the specific, concrete details of the event (Trope and Liberman 2003). To date, there has been little research relating construal theory to communications for retirement planning. However, construal theory has been studied in a variety of other contexts including adoption of new products (Alexander, Lynch, and Wang 2008), product preference and task/job preference (Trope and Liberman 2000), social plans (Eyal et al. 2004), and healthy eating (Eyal et al. 2004). In relation to savings, this theory predicts that younger workers, for whom retirement is in the distant future, will focus more on the outcome of having saved enough for retirement rather than the specific steps required to attain such an outcome. They view retirement savings in an abstract manner. Conversely, older workers, for whom retirement is in the near future, prefer to think about the specific (concrete) steps required to retire. Therefore, a younger worker might think "I need to save for retirement," while an older worker might think "I need to increase my contribution to my 401(k) by $100." Additionally, prior research suggests younger workers will display more confidence in their ability to financially prepare because retirement is distant. Unfortunately, a false sense of confidence could have negative consequences if they overestimate how well they are saving for retirement and become less inclined to take the immediate steps needed to ensure their future financial security.

Emerging from this literature are many testable hypotheses related to retirement savings. For one, we expect that information presented in a manner that is consistent with how the group

views retirement will be most effective. That is, we anticipate that younger workers will react better to abstract communications, while older workers will respond to concrete information. We also expect that proven communication techniques, positive and negative message framing and varying goal time frames, will produce better savings outcomes if they are also presented in a manner consistent with the retirement view. Specifically, we predict that younger (older) individuals will be more likely to express an interest in savings if the information is presented in an abstract (concrete) format with a negative message frame. In addition, we expect that if we reduce the timeframe (i.e.; provide a milestone), younger workers may focus more on the concrete steps necessary to actively save for retirement.

To test these predictions, we conducted two studies. For both studies, we used survey responses gathered from participants after they viewed one of several different ads that varied by communication tactics but not by the savings-related information provided. . Study 1 utilized positive ads generated from pretests to investigate how distance to retirement influences the effectiveness of abstract versus concrete advertisements containing savings goals that varied in their timeframe (short-term vs. long-term). Respondents in each age group were randomly assigned to evaluate one of the four positively-framed versions of the ad: (1) abstract ad with long-term goals, (2) abstract ad with short-term goals, (3) concrete ad with long-term goals, and (4) concrete ad with short-term goals. Study 2 examined how distance to retirement impacts the effectiveness of negative versus positive frames, while simultaneously considering the abstractness/concreteness of the ad. Respondents were randomly assigned one of these ads: (1) abstract ad with negative message framing, (2) abstract ad with positive message framing, (3) concrete ad with negative message framing, and (4) concrete ad with positive message framing. For each study, we surveyed approximately 750 adults. After viewing the ads, respondents were asked to report the extent to which they believed the ad impacted their saving behavior and the actual amount they intended to save in the future, as well as other questions.

Our preliminary results confirm our hypothesis that different communication techniques may be more effective with younger workers than older workers. In addition, we find the effectiveness of negative message framing increases when presented in a manner (either abstract or concrete) that is consistent with the way the individual views retirement. Finally, by reducing the goal time frame for younger workers, we find evidence that we may be able to encourage this age group to think more concretely about savings and express stronger intentions to save. Our paper concludes with an outline of our future research plans for these data. We expect our final results will be helpful when designing communications for targeted age groups.