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CENTER FOR RETIREMENT RESEARCH at BOSTON COLLEGE

HOW CAN CUSTOMIZED INFORMATION CHANGE FINANCIAL PLANS?

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Introduction

Many workers nearing retirement experienced a dramatic decrease in their retirement assets when the stock market crashed in 2008. In order to maintain their expected standard of living in retirement, workers needed to work longer, save more, or do both. To measure the response of older workers to this downturn, the Center for Retirement Research at Boston College (CRR) fielded the *CRR 2009 Retirement Survey* on a nationally representative sample of 45-59-year-old labor force participants with relatively high pre-downturn assets.[1]

This *brief* is the final in a series of four based on the *CRR 2009 Retirement Survey*. The first *brief* described the *Survey* and highlighted the inclusion of numerous financial, employment, and behavioral factors that are omitted from other surveys.[2] The second *brief* explored the relationship between these factors and worker responses to the downturn.[3] The third *brief* examined how worker responses were affected when their options were made explicit – work longer, save more, or live on less in retirement.[4] This *brief* explores how respondents reacted once they received information tailored to their specific situation.

This *brief* is organized as follows. The first section provides an overview of the workers' initial responses – work more, save more, both, or neither. The second section describes how these stated responses changed after respondents received "expert advice" that quantified the trade-off based on their specific circumstances. The third section looks at the characteristics of responders who remained committed to taking no action even after the expert advice. The fourth section assesses whether the expert advice led certain respondents to better calibrate their plans. The final section concludes that providing tailored financial advice may help some individuals improve their response to an adverse financial development.

How Did Respondents React Initially?

This analysis is for a sub-sample of the full survey: those individuals who had accumulated at least $50,000 in retirement savings before the downturn and had lost at least 10 percent of retirement

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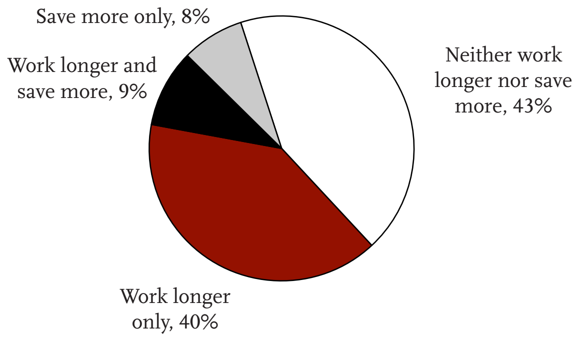
assets at the time of the interview.[5] Figure 1 shows the distribution of initial responses for this group. The initial responses to the downturn of these respondents are similar to those of the full sample, with a substantial 43 percent intending to neither work longer nor save more.

Figure 1. Responses Before Advice



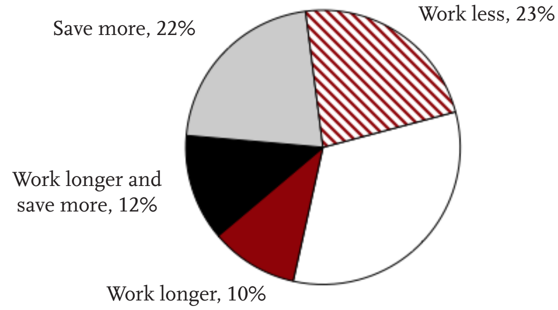
Source: Authors' calculations from Center for Retirement Research at Boston College, *CRR 2009 Retirement Survey*.

Intended Actions After Receiving Customized Advice

One of the unique features of the *2009 CRR Retirement Survey* is the administration of two distinct information "treatments." In the first treatment, the trade-off between working, saving, and decreased retirement consumption was made explicit, and how this information impacted one's stated intentions was explored in Coe and Haverstick (2010b). Later, the questionnaire introduced a "finance professor" to quantify the trade-off for each respondent. For example, for a respondent who anticipated 25 to 40 percent dependence on assets for retirement income, had adequate pre-downturn assets, and was at least 12 years from retirement, the set of responses provided was: "save an additional 5 percent of earnings"; "retire about one year later"; or "have about 7 percent less income in retirement."

After receiving the quantified trade-off information, respondents then indicated whether they intended to change their saving, work, or retirement income plans relative to their initial response. The distribution of the change in saving and working responses for this sample is shown in Figure 2. Interestingly,

Figure 2. Change in Responses after Advice[6]



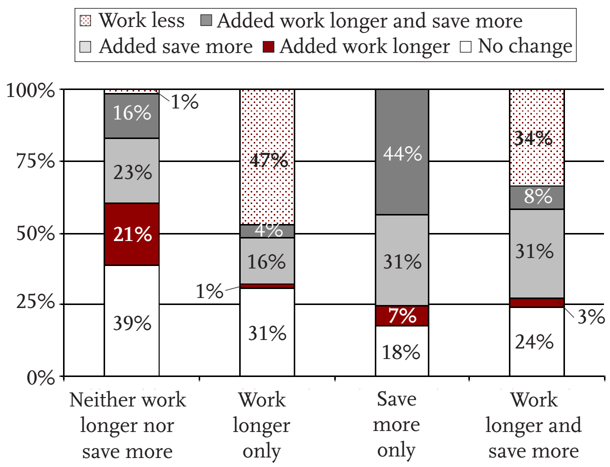
Source: Authors' calculations from *CRR 2009 Retirement Survey*.

one-third of the sample indicated that the professor's advice led to no change from their initial response. Second, another third stated that they now would save more to counteract the effects of the downturn, while over one-fifth of the respondents stated that they would work longer after receiving the professor's advice. Finally, almost one-quarter of the respondents said that they now intended to work less than before.

It is important to assess whether the professor's advice led to appropriate changes to the respondents' initial plans. Who are the respondents who are not influenced by the professor's advice? Who is planning to work even longer or save even more than their initial inclination? And who intends to work fewer years? Figure 3 on the next page shows how the professor's advice changed individuals' responses by the four categories of initial reactions. The hope is that respondents who did not react to the professor's advice are generally those who initially *planned to take some action* to counteract the downturn and, thus, are comfortable that their initial plan will be sufficient. However, it turns out that the respondents mostly likely to ignore the professor's advice are those who initially *planned no action* – nearly 40 percent of this group did not change their plans after the advice. Possible explanations for this unwavering attitude are explored in the following section.

Another interesting finding is the substantial proportion of those individuals initially planning to either "work longer only" or "work longer and save more" who were induced to decrease the number of additional years of work (47 and 34 percent, respectively). The pertinent question is whether these decreases are appropriate responses. This topic is explored in a later section.

Figure 3. Planned Responses After Advice, by Initial Response



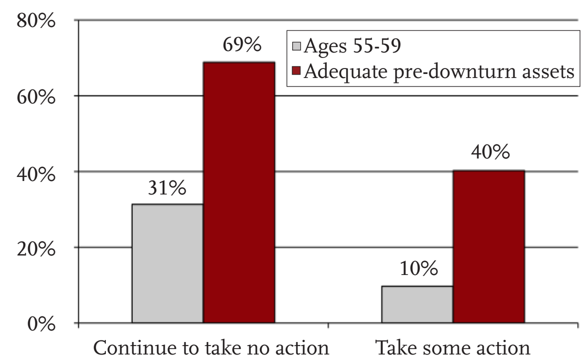
Source: Authors' calculations from *CRR 2009 Retirement Survey*.

Can We Explain Committed Non-Responders?

This section explores what characteristics are associated with being a "committed non-responder" – those individuals who persistently expressed no plans to work longer or save more. These individuals may be less dependent on their retirement assets or have high expectations of future stock returns, so they feel no need to increase their savings or extend their work lives. However, most of these characteristics are not statistically significantly different between the "initial non-responders" who reacted to the professor's advice and those who did not. In fact, these two groups differ in only two ways (see Figure 4). First, the "committed non-responders" are older: 31 percent are ages 55-59, while only 10 percent of those individuals changing their plans to include some action are in this age range. For these older respondents, the shorter time horizon until retirement makes the magnitude of the recommended actions that much greater. For example, the average recommended saving rate increase is about 31 percent for the 55-59 age group but only about 9 percent for the younger respondents. Such a dramatic increase in saving may be simply infeasible for the older age group. Working longer may also not seem feasible for someone close to retirement whose retirement plans are firmly in place.

Another characteristic that differs between these two groups is the adequacy of pre-downturn expected retirement income. Almost 70 percent of "committed non-responders" had adequate retirement assets before the downturn, compared to only 40 percent of those who changed their plans in response to the professor's advice. This finding suggests that the "committed non-responders" were more likely to be on-track prior to the downturn and thus may feel more confident in their decision-making ability.

Figure 4. Selected Characteristics of "Initial Non-Responders," by Reaction to Advice

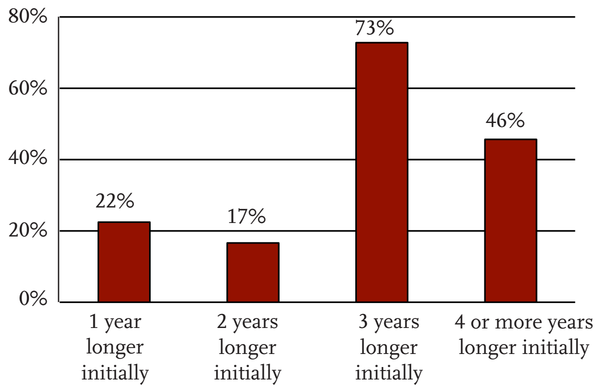


Note: All mean proportions are statistically significantly different between the two groups.
Source: Authors' calculations from *CRR 2009 Retirement Survey*.

Did the Advice Help Curb Overreaction?

Respondents who overreact to the financial downturn are also of concern, as they could wind up with less than optimal retirement outcomes. According to the CRR calculations underlying the "professor's advice," respondents only had to work between six months and a year-and-a-half longer.[7] However, many respondents initially stated that they planned to work considerably longer. Figure 5 on the next page shows that most of the respondents who initially planned to work three or more years longer decreased their work plans to be more in line with the financial advice.[8] For those who initially planned only one additional year of work and then lowered their retirement age based on the professor's advice, most of them admitted that they expect to live on less in retirement because of this decrease. Thus, this evidence suggests that the financial advice helped some respondents adjust their work responses to a more appropriate level.

Figure 5. Respondents Who Planned to Work Less after Advice, by Initial Work Response



Source: Authors' calculations from *CRR 2009 Retirement Survey*.

Conclusion

This *brief* explores the reactions of respondents who received tailored information about the trade-off between working longer, saving more, and decreased retirement income. One-third of respondents did not change their initial plans while almost one-quarter reduced the number of additional years they planned to work. In order to test how constructive the financial advice was, we examine how their responses changed relative to their initial response.

Those who initially planned no response to the downturn were the least likely to change their mind after receiving the professor's advice. Further investigation shows that these "committed non-responders" are older and more likely to have been on-track before the downturn. Perhaps these individuals already have their plans in place, are close to retirement, and feel that they've made good prior decisions in preparing for retirement, so they are not swayed by additional advice.

Almost all respondents who lowered their retirement age after receiving the customized trade-off information had initially planned to work longer in response to the downturn. Importantly, the advice seems to have decreased the planned working life for those who were overestimating the number of additional years of work needed to counteract their financial losses. Thus, it seems that tailored financial information may help respondents make more reasonable plans.

Endnotes

1 Information about the sample design and survey methodology is available in Munnell et al. (2010).

2 Sass, Monk, and Haverstick (2010).

3 Coe and Haverstick (2010a).

4 Coe and Haverstick (2010b).

5 This sample consists of 349 respondents with valid responses to the work longer and save more questions initially (q37_1, q31, and q32) and after receiving the quantified trade-off information (q3, q1, and q2). For more information on the entire sample, see Coe and Haverstick (2010a).

6 The saving decision is based on the response to both saving questions – what they have done since the downturn and what they plan to do over the next 12 months. Respondents who answered "save more" for one question and "save less" for the other saving question were counted as not changing their saving. One percent of the sample planned to save less, but these respondents are included in the "work less" and "work longer" categories.

7 An extra year of work means three things: (1) an extra year of contributions and the associated investment returns; (2) an extra year of returns on existing assets; and (3) one less year of consumption out of retirement assets. Combined, these factors make the number of additional years of work needed to recoup a financial loss relatively small. See Sass, Monk, and Haverstick (2010) for more information.

8 The proportion of respondents initially planning to work at least four years longer who decreased their work plans is likely underestimated. The initial work response is top-coded at four years, so we can only measure a decrease if a respondent changed to working three years longer or less.

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About the Center

The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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