

Financial Education and Consumer Behavior

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Overview of Discussion

- **Background of TIAA-CREF**
- **Need for saving; importance of financial education**
- **Discussion of research that examines the impact of educational seminars on employee behavior**

Background of TIAA-CREF

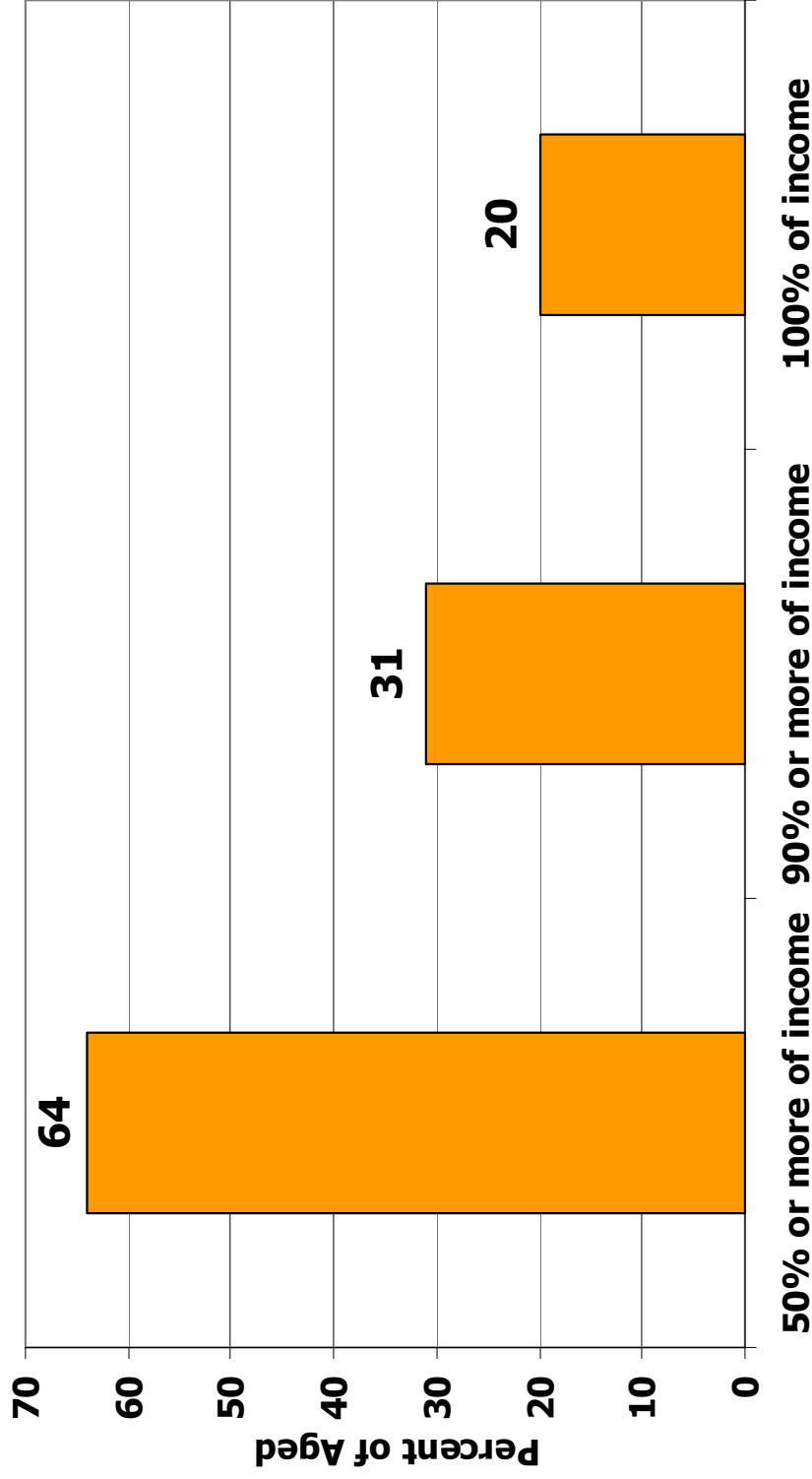
- **Largest higher ed pension provider**
 - **15,000 institutions**
 - **2.9 million participants**
 - **\$280 billion in assets**

U.S. Retirees' Financial Condition

- **Most pre-retirees are not financially prepared: median net worth of families nearing retirement is \$181,500 including the value of their homes**
- **77 million baby boomers nearing retirement**
- **Dependence on Social Security**

Reliance on Social Security in U.S.

Reliance on Social Security: Percent of the Aged Receiving Social Security, by Relative Importance of Benefits to Total Income 2000



Retirement Planning Pays Off

- **Research shows that:**
 - Employees of companies who provide financial education programs have higher participation rates and contribution rates
 - Financial planning corresponds to higher net worth
 - Seminars are most effective method of financial education

TIAA-CREF's Financial Ed Seminars

- **> 20 seminars on different topics**
- **Delivered 4,500 seminars in 2002**
- **Attracted approximately 122,000 people in 2002**

Purpose of Study

To find out more about how financial education affects individuals':

--Goals for age of retirement

--Goals for level of income in retirement

--Saving rates

--Investment allocations

Description of Study

- **Surveys of individuals about their retirement goals and saving behavior both before and after attending a financial education seminar**
- **633 responses from 60 seminars**
- **Another survey 3 months later to find out if any actions had been taken**

Survey Participants

- **Avg. age: 54 years**
- **Gender: 54% female; 46% male**
- **Avg. household income: \$103,000**
- **Avg. DC account balance: \$358,000**
- **50% also have supplemental accts**
- **Avg. supplemental plan balance: \$109, 330**

Results of Survey 1

- **Avg. goal for retirement age: 64**
- **Avg. goal for retirement income: 80% of pre-retirement income**
- **Women planned to retire earlier than men**
- **Less-educated employees planned to retire earlier than more-educated employees**

Results of Survey 2

Immediately after the seminar:

- **Very few changed retirement age goal**
- **>25% changed retirement income goal**
- **91% indicated they would change their savings plans, such as raising contributions or changing investment allocations**

Other Results of Survey 2

- **41% without supplemental plan intended to open one**
- **37% with supplemental plan intended to increase contributions**
- **29% intended to open an IRA or increase contributions**

Other Results of Survey 2

- **Younger workers more likely to increase saving than older workers**
- **Workers in secretarial and maintenance positions were more responsive to the information than higher-level employees**

Gender Differences in Responses

Survey 2 Results:

- **Women more likely to increase expected retirement age than men**
- **Women more likely to alter their retirement income goal than men**
- **Women more likely to increase their saving than men**

Survey 3: *Three months later*

- **Only 25% of those who intended to start a supplemental plan had done so**
- **42% who said they intended to increase contributions to supplemental plans had done so**
- **40% who said they intended to monitor their accounts via the Internet or automated phone services had done so**

Overall Findings of Study

- **Financial education helps employees set realistic retirement goals and to understand the required savings levels to reach goals.**
- **There's substantial disconnect between participants' intentions and their actions.**
- **Education seminars might be more effective if easy implementation were available immediately on-site.**

Conclusion

Policy implications worldwide:

- National social security plans
- Private employer plans
- **Workers will assume more responsibility for saving and investing decisions.**
- **Growing need for financial education.**

For More Information...

- TIAA-CREF Web Center – www.tiaa-cref.org
- TIAA-CREF Institute web site – www.tiaa-crefinstitute.org