An Analysis of Young Adults' Retirement Preparation

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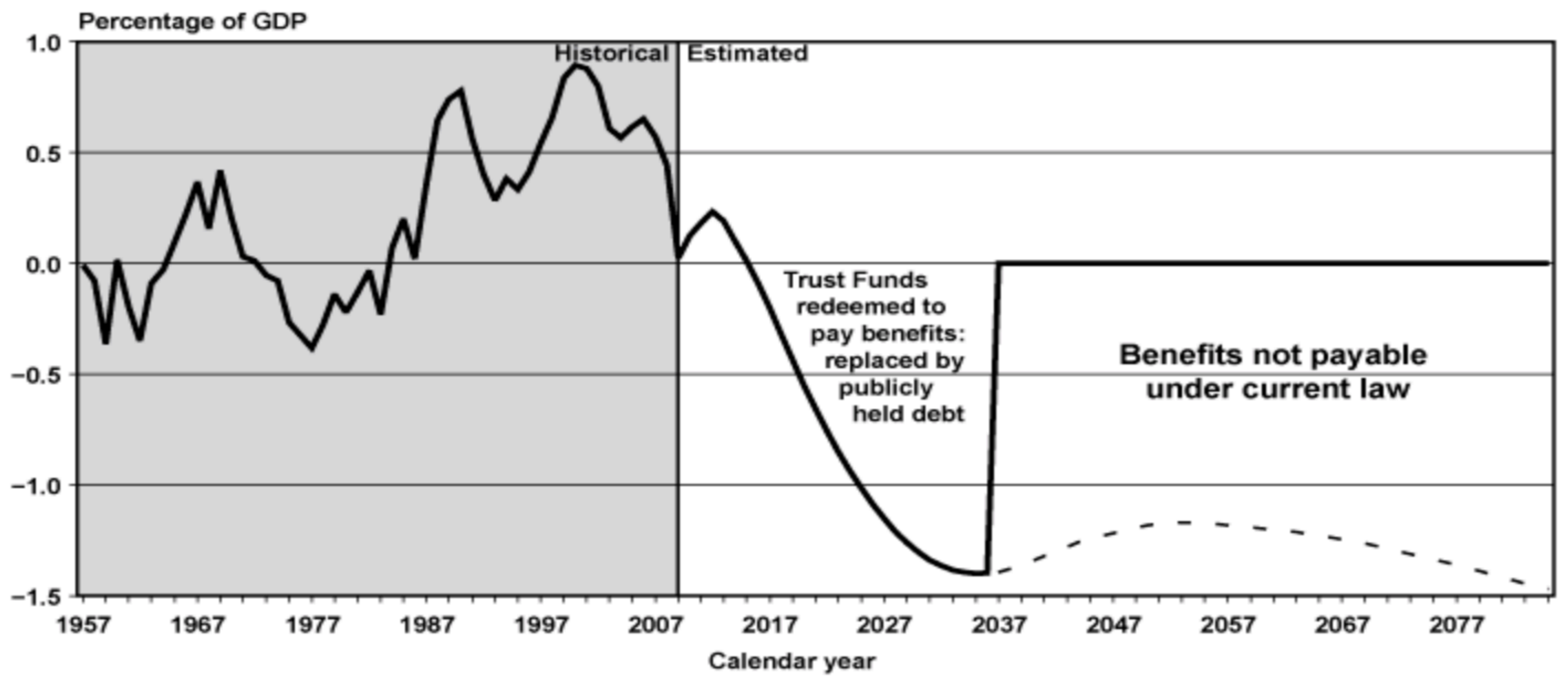
Abstract

According to the Rational Expectations Theory, individuals hold expectations and use their abilities and all available information to make decisions. Based on this theory, in the analysis of the retirement planning behaviors, we use the expectation toward retirement (financial worries about retirement) as a determinant to explain relationships between the determinates and young adults' retirement preparation. The financial worries about retirement is associated with subjective financial knowledge, self confidence in goal reaching ability, perceived financial capability, financial anxious and stress, and some socio-demographic factors, and can influence the retirement preparation.

Introduction

- Financial retirement preparedness is to cover expenditures during retirement by establishing personal funds. Financially preparing for retirement becomes increasingly important to the U.S. population, because of many social changes including a shortfall of social security funds and commonly longer life expectancy. Therefore, being more financially prepared for retirement is necessary and urgent.
- The Social Security Board of Trustees projects program cost to rise by 2035 so that taxes will be enough to pay for only 75% of scheduled benefits (Goss, 2010). Under current law, the benefits will not payable from trust fund assets (see Chart 1).
- According to the 2007 Retirement Confidence Survey (Helman, VanDerhei, & Copeland, 2007), 66% of workers reported that they and/or their spouse had saved for their retirement and only 60% reported that they were saving currently.
- This study is to investigate the determinates of young adults' retirement expectations and preparation behaviors.



SOURCE: Social Security Administration, Office of the Chief Actuary.

Chart 1. OASDI net cash flows as a percentage of GDP, 1957–2009, projected under the intermediate assumptions, 2010–2085.

Methods and Materials

- The 2018 state-by-state National Financial Capability Study (NFCS) was used for the analysis. This dataset was funded by FINRA Investor Education Foundation. The total sample consisted of 27,091 US adults in NFCS.
- This study used a restricted sample of young adults who were aged 18-34 at the time of survey, giving us a total sample size of 7,481.
- Ordinal probit regression was used to assess the determinants of the financial worries about retirement variable, and Probit regression was used to test the relationship between the key determinates and the retirement preparation.

- Outcome Variables:
  - Financial Worries about Retirement
  - Retirement Preparation
- Independent Variables:
  - Objective Financial Knowledge, Subjective Financial Knowledge, Self-Confidence in Goal Reaching Ability, Perceived Financial Capability, Financial Anxious and Stress, Socio-Demographic Factors (including gender, race, marriage status, existence of dependent children, income level, and working status).

Results

- The results showed that subjective financial knowledge and perceived financial capability were positively associated with being worried about running out of money in retirement.
- Both financial anxious and stress had positive relationships with worry about retirement while self confidence in goal reaching ability was negatively associated with worry about retirement.
- For socio-demographic factors, being a male, having dependent children and being working were positively associated with of being worried about retirement. However, objective knowledge didn't show a significant effect on financial worries about retirement.
- An important finding is that being worried about running out of money was positively associated with trying to figure out retirement needs, meanwhile objective and subjective financial knowledge, goal reaching confidence, and perceive financial capability were all positively associated with this retirement preparation behavior.
- Being a male, having dependent children and being working were more likely to have the intentions to get prepared financially for retirement. (See Table 1)

Table 1. Results of regressions

Determinants	Financial Worries About Retirement	Retirement Preparation
Objective Knowledge		+
Subjective Knowledge	+	+
Self Confidence in Goal Reaching Ability	−	+
Perceived Financial Capability	+	+
Financial Anxious and Stress	+	+
Being a Male	+	+
Being Working	+	+
Having dependent children	+	+
Financial Worries About Retirement		+

Discussion and Conclusions

- The results showed that the determinates of retirement preparation include objective and subjective knowledge, self confidence in goal reaching ability, perceived financial capability, financial anxious and stress, some socio-demographic factors, and having a worrying expectation about retirement.
- Except objective knowledge and self confidence in goal reaching ability, all the above determinates are positively related to the worry about retirement and retirement preparation.
- From the analysis, the financial worries about retirement can be a significant determinant of retirement preparation. Further analyses are needed to study the relationship between self-confidence in goal achieving ability and retirement behaviors.
- To encourage clients to save for retirement, financial planners and counselors need to focus more on young people's subjective financial knowledge and perceived financial capability, while educating their clients about financial knowledge.
- To encourage young adults' retirement preparation, the government and related organizations can provide education on negative consequences of not saving enough for retirement and help young adults build reasonable future expectations. The policy makers will also want to put more effort on helping females build sufficient retirement funds.

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