

Measuring financial preparation for retirement: a new scale using Australian evidence

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Abstract

This paper presents a new scale to measure financial preparation for retirement (FPR) that permits researchers to more easily compare their results across populations of interest. The paper first develops the new scale, drawing on FPR indicators commonly used in the financial planning literature. The paper then describes Australians in terms of the individual constituent indicators of FPR. Finally, the application of the scale to a representative sample of the Australian population shows that higher levels of FPR are better explained by income, years left to retirement, and education than the more commonly accepted factors of age and gender. © 2009 Academy of Financial Services. All rights reserved.

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1. Introduction

Researchers around the world have independently measured a wide range of factors related to a person's financial preparation for retirement (FPR). These factors include the seeking of relevant information (Hershey, Mowen, and Jacobs-Lawsen, 2003), going to retirement seminars (Clarke-Murphy and Gerrans, 2001), giving thought to retirement (Ameriks et al., 2003), talking to others about retirement (Employment Benefit Research

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Institute, 2005), and considering when to retire (HSBC, 2005), the length of retirement (Robinson, 2005), and how much money will be needed (FINSIA, 2006).

Unfortunately, the use of different factors and approaches to assess patterns of behavior causes problems comparing outcomes. It is difficult to determine whether researchers have measured the same or different behaviors. It is difficult to determine if the results are merely reflective of the question asked or the different ways the answers are recorded. Development of a common scale for FPR that incorporates many questions currently being asked will permit researchers to apply the measure across different studies to more easily gauge a wider range of FPR activities and compare FPR behavior among different populations of interest.

This paper reports on the development of such a scale and its measurement of the FPR of 1,000 members of a large Australian pension fund. First, we discuss the dimensions of FPR and detail the development and testing of our FPR Scale, including results regarding its reliability and validity. Second, the FPR of Australians is considered relative to their gender, age, education, income, number of dependents, planned retirement age, and years to retirement, and the FPR behavior of Australians is considered in terms of the constituent dimensions of the FPR Scale. We conclude with this work's key contributions to FPR research and an assessment of the FPR of Australians.

2. FPR behavior

It is a considerable challenge for members of a household to determine how much they need to retire comfortably and how to invest to achieve that goal (Fore, 2003). Adequate planning for retirement requires extensive information, and an understanding of the elaborate rules governing social security and private pensions (Lusardi, 1999). Hershey et al. (2003) find that clear and strong retirement goals, particularly in relation to finances, are closely associated with better retirement preparation.

There are many reasons why people do not prepare adequately for retirement. Fore (2003) finds a significant lack of financial knowledge among employees of many firms, and Lusardi (2002b) suggests that some people are poorly informed because for them gaining information is too costly. Aaron (1999) finds that some people are incapable of solving the complex problems associated with rational retirement and saving behavior. Some may simply be denying the problem or overestimating the value of their future pension benefits and, as a result, have an overly optimistic view of their lifestyle in retirement (Elder and Rudolph, 2000). When asked why they have not attempted to assess how much money they will need in retirement, a significant proportion of people say they cannot find the time or that they are afraid of the answer (Yakoboski and Dickemper, 1997).

Many studies show the positive benefits of FPR. Ameriks, Caplin and Leahy (2003) find a strong correlation between the amount of time people spend thinking about, and developing a financial plan for, their retirement, and the accuracy of their estimates of spending needs in retirement. Lusardi (2000b) reports a significant correlation between thinking about retirement and retirement satisfaction.

FPR involves a number of well established activities. Lusardi (2000a) advises that households have a wide variety of information sources available, such as magazines,

newspapers, materials provided by their pension fund company, family, friends, professional advisors, and FPR seminars. In addition to passively receiving information, FPR requires action. Hershey et al. (2003) investigate the impact of various interventions, such as meetings and seminars, that cause participants to think about their retirement and find the strongest impact where the intervention is focused on relevant financial information and goal setting.

3. Developing a scale to measure FPR

When looking at FPR, most researchers have used the indicators of retirement planning activities set out in the Health and Retirement Study database. In this database, answers are mostly limited to one of four responses: “a lot,” “some,” “a little,” and “hardly at all.” While questions measuring FPR have previously been developed and tested, this is the first time such questions have been assembled as a scale to measure levels of FPR. Other approaches to measuring FPR are prominent in the literature.

Hershey et al. (2003) consider several retirement preparation measures including seeking relevant information and advice, collecting information about retirement, establishing how much money will be needed in retirement, and discussing retirement plans with others. Clarke-Murphy and Gerrans (2001) consider the use of seminars, and the collection and use of information, as well as the consultation of others when making decisions regarding financial preparation. Lord (2002) reports on a number of studies that relate to an individual’s propensity to plan and prepare for their retirement.

The questions used by the FPR Scale are based on those used in previous studies, and, where practical, the wording of question and answer has been unaltered. The answers “a lot” “some,” “a little,” and “not at all” are from Lusardi’s correlational studies on financial preparation which used information from the Health and Retirement Survey.

The 10 questions that comprise the FPR Scale are shown in Appendix 1. These questions are factually based but responses are rated on a four-point ordinal scale. As the responses differ in relative magnitude, they can be ordered from smaller to larger (Herzog, 1996). A four-point scale is used to force a response as no neutral or indifferent position logically exists (Peterson, 2000). The questions provide broad categories for those who have given the issues some thought and a simple response for those who have not.

The questions are scored consistently with previous studies (Lusardi, 1999, 2000b, 2001, 2002a, 2002b, 2003a, 2003b). Each of the answers are translated into a score with four points for the highest level of preparation and one point for the lowest. The answers to several questions lead directly to the following question when a positive answer is given. Respondents that answer negatively are directed to skip the following question. In such instances, the default score of 1 point is applied to the missed question as this corresponds with the answer of taking no action. As a result, the maximum score that can be gained in the FPR Scale is 40 points and the minimum score is 10 points.

To make the questionnaire as clear and simple as possible, the wording of the answers is kept constant in a number of instances. Five questions have the same response options, three share a different set of response options, and two questions have unique response options. For four of the questions, the rating scale is reversed with the lowest scoring option on the left of the answer set.

4. Testing the FPR Scale

The survey is a common method used to study the characteristics and interrelations of sociological and psychological variables (Roberts, 1999). Questionnaires can be structured to enable data collection in a form that is quantifiably analyzable; they are easily replicated and therefore reliable (Gill and Johnson, 2002). A self-administered mailed questionnaire is used to obtain a relatively large dispersed sample and keep sampling error to acceptable levels. The questionnaire also facilitates the collection of large amounts of information relating to the activities of people who have time to consider their answers, while retaining their anonymity (Fowler, 2002; Roberts, 1999). A pilot study was developed to test the material and was conducted in four stages.

First, three subjects were provided with all the introductory material, letters, and follow-up cards to be used in the study. They were then asked their opinion on the material in terms of whether they considered that it explained the purpose of the study and if it would lead people to take part. No adverse comments were received and the subjects all reported that the information was easy to understand and felt that it was likely to encourage participation.

Second, the subjects were given the questionnaire and asked to complete it without guidance. After completing the survey the subjects were asked whether they considered the instructions clear or whether they had any difficulty in answering the questions. All three subjects reported that the instructions were clear and easy to follow and stated they had no difficulty in answering any of the questions.

Third, 24 new subjects were provided with the questionnaire and asked to complete it. None of the subjects reported any difficulty with the questionnaire; all finding that it only required a few minutes to complete. Finally, the information from all 27 subjects was used to refine the data entry process and critical testing on the analysis model before the main survey.

4.1. *Sample analysis*

Employer contributions to an approved pension (superannuation) fund are mandatory in Australia¹ and a wide variety of industry and retail funds are available. The respondents' fund is an open offer pension fund; membership is gained automatically through an employer, or by opting to direct mandatory contributions to it.

The fund has an extensive database of over one million members comprising a wide range of social and educational backgrounds, occupations, and ages. The size of the fund also helped to establish credibility when requesting participation in the study. One thousand subjects were randomly selected from the database.

Considerable effort was made to develop a survey that encourages participation. In accordance with guidelines developed by Gendell (1998), short, structured, closed questions are used where answers are predetermined. To facilitate easy return of the completed questionnaire, the survey material included reply paid envelopes.

The introductory letter uses an egoistic appeal and the follow-up letter uses an altruistic appeal (Groves, Cialdini, and Couper, 1992) as a result, in part, of Nevin's argument (cited in Gendall, Hoek, and Esslemont, 1995) that the nature of appeals can have a significant impact on response rate.

Table 1 Categorization of respondents

Respondents		Frequency	Percent	Cumulative percent
Age	16–29	108	23.8	23.8
	30–49	233	49.9	73.7
	50+	122	26.3	100.0
Years left to retirement	0–9	105	22.7	22.7
	10–19	124	26.8	49.5
	20–29	112	24.2	73.7
	30–39	82	17.7	91.4
	40+	40	8.6	100.0
Highest level of education	High school	303	65.4	65.4
	Community college	43	9.3	74.7
	University	117	25.3	100.0
No. of dependants	0	245	52.9	52.9
	1	67	14.5	67.4
	2	84	18.1	85.5
	3	45	9.7	95.2
	4+	22	4.8	100.0

This approach continues in the reminder cards that were sent to subjects who had not completed the questionnaire. Finally, remaining non-responders received another letter using the social utility approach and received a second copy of the questionnaire.

To further encourage participation, the anonymity of the survey was stressed to the respondents and so the mailing contained both the questionnaire and a post card with a coded identifier (Fowler, 2002). The questionnaire is also professionally designed using features that are consistent with those regularly used by the pension fund to make it 'look and feel' familiar to the potential respondents. Once incorrect addresses, and so forth have been accounted for, the overall response rate achieved is 53.4%, with 53.1% of the responses providing a completed and usable FPR Scale.

The sample of respondents is compared to Australian population statistics as provided by the Australian Bureau of Statistics (2000). The total pension fund database has a spread of ages indicating a mean age slightly lower than the Australian population. Given that the pension fund does not have as many people in the older age groups as the broader Australian population, this is expected.

The respondents are weighted towards the older end of the age range. Given that the questionnaire is focused on preparing for retirement this is expected. Nevertheless, the sample demonstrates a broad spread of ages with approximately a quarter younger than 30, almost half aged between 30 and 49, and the remainder 50 or older.

While the total fund membership has a lower mean age than the Australian population, the sample of respondents has a slightly older mean age. The sample age distribution is similar to that of the general Australian population and this is confirmed by Kruskal–Wallis analysis ($p < 0.05$) (Table 1).

In terms of the amount of time subjects had until retirement, almost 23% of the sample have less than 10 years, slightly less than 27% are between 10 and 19 years away, just over 24% are between 20 and 29 years away, almost 18% are between 30 and 39 years away, and almost 9% are more than 40 years away from retirement.

There were 55% of the respondents that are women, which is slightly more the general population. In terms of the level of education completed, just over a quarter have university qualifications, just over 9% have completed community college, and over 65% finished their education at high school. Over half the sample report they have no dependants, a little over 30% report one or two, and nearly 10% report three. The income ranges of the sample were compared to the Australian population using the statistics from the Australian Taxation Office (2004). There is a significant correlation between the income distribution of the sample and the general Australian population. A Kruskal–Wallis test indicates no significant difference between the two groups ($p < 0.05$).

4.2. Reliability analysis

Cronbach α scores are used to assess the reliability of the FPR Scale measure. Nunnally (1978) and Garson (2006) suggest that the reliability coefficient must be above 0.7 for a set of items to be considered a scale, while Dijkers et al. (2002) argue that it must be above 0.8. The reliability coefficient for the FPR Scale is 0.92, and the removal of any of the items making up the FPR Scale will not enhance this score, as shown in Table 2. These results show that the FPR Scale is a reliable measure.

4.3. Age, planned retirement age, and years to retirement

In Australia, members of the workforce are able to contribute to a retirement-savings fund, irrespective of their age. A sense of getting older and an awareness of old age may cause people to take action as saving tends to increase as people get older (Glass and Kilpatrick, 1998) particularly when a ‘benchmark’ age is reached, such as 30, 40, or 50 (FSA, 2002). Age can also be a factor in the determination of retirement goals and, in particular, desired retirement age; younger people are less likely to be more specific about a retirement age or date (Clark and d’Ambrosio, 2003). Determination of a set age for retirement identifies the amount of time left before reaching that desired age and therefore can lead to a modification of financial preparation. This is supported by findings that a primary decision making issue with regard to saving for retirement is the expected time horizon (Waggle and Englis, 2000). The younger the individual, the longer the expected time until retirement is likely to be. While older people generally have fewer years left before retirement, a younger person can have less time available. For example, a 40 year old who desires to retire at 50 has 10 years left while a 50 year old who aims to retire at 65 has 15 years left.

4.4. Income and number of dependents

The ability of a retiree to maintain his preretirement standard of living depends on his ability to replace preretirement income with Social Security, private retirement benefits and investments. While income from some form of social benefit is usually the main source of retirement income, for most, especially higher income individuals, such benefits do not provide sufficient income to maintain the preretirement standard of living. Many people fail to perceive the need to save more, expecting benefits to ‘fill the gap’ (Elder and Rudolph, 2000).

Table 2 FPR Scale Reliability Analysis Scale (ALPHA)

FPRS items	Mean	Standard deviation	Cases	Scale mean if item deleted	Scale variance if item deleted	Corrected item total correlation	Squared multiple correlation	Alpha if item deleted
1 Thought about retirement	2.8294	0.9040	463	op	57.9221	0.6813	0.5425	0.9117
2 Collected information	1.9784	1.0084	463	18.9978	54.9026	0.8161	0.7362	0.9040
3 Taken action as a result	2.0821	1.2681	463	18.8942	51.8178	0.8046	0.7724	0.9037
4 Attended seminars/meetings	1.4017	0.8695	463	19.5745	58.9852	0.6269	0.7740	0.9143
5 Taken action as a result	1.4924	1.0483	463	19.4838	56.9040	0.6393	0.7886	0.9134
6 Discussed retirement preparation	2.3434	1.1755	463	18.6328	53.6484	0.7598	0.6709	0.9065
7 Taken action as a result	2.1058	1.2706	463	18.8704	52.7797	0.7432	0.7083	0.9079
8 Thought about retirement age	2.2678	1.0719	463	18.7084	56.7958	0.6295	0.5523	0.9140
9 Thought about length of retirement	2.1361	1.0654	463	18.8402	57.1086	0.6130	0.5360	0.9149
10 Thought about money for retirement	2.3391	1.0660	463	18.6371	55.8507	0.6674	0.5153	0.9119
No. variables	Mean	Variance	Standard deviation					
10	20.9762	68.1142	8.2531					

Item-total statistics for FPR Scale reliability analysis: Reliability coefficients.

No. of cases = 463.0; No. of items = 10; $\alpha = 0.9186$; Standardized item $\alpha = 0.9194$.

Research that considers current income with respect to the adequacy of retirement saving has produced mixed results. Engen, Gale and Uccello (2001) argue that some findings indicate that households with higher current earnings are less likely to be saving adequately for retirement while others present evidence that high earning households save a greater share of their incomes. Regardless, a positive relationship has been found to exist between the value of savings, employment status, and income in relation to the level of savings for retirement (Glass and Kilpatrick, 1998).

Income and tax also affect the decision to save for retirement. The relative appeal of the available tax concession for retirement savings depends upon income, being more favorable for low-income workers in Australia than those on higher salaries. Low income workers are also more likely to be liquidity constrained, encounter relatively higher replacement rates from safety net systems, and therefore have less apparent need for additional retirement income (Munnell, Sunden, and Taylor, 2001). Households whose head has suffered periods of unemployment are also found to have significantly lower wealth accumulation for retirement (Lusardi, 1998).

In the United States, income, age, and education are important determinants of participation in and contribution to a pension scheme (Munnell and Sunden, 2003). One study finds that, irrespective of income or wealth, the majority of respondents, including one third with significant assets and high levels of income, display low levels of knowledge about FPR (Metlife Mature Market Institute, 2003). Income levels are found to be a factor in the determination of expected retirement age, the degree to which a retirement plan will provide expected income in retirement, the amount of full or part time employment that the individual anticipates they will need to undertake to provide an adequate income once retired, and the likelihood that the individual has attempted to establish how much money they will need to live on in retirement (Tucker et al., 2001).

Having financial dependants focuses financial attention on short-term activities and needs rather than longer term goals. This view is supported by research showing that having dependent children is significant with regard to the setting of retirement goals (Clark et al., 2003). Single women reduce the proportion of risky assets they hold as the number of children in their household increase (Jianakoplos and Bernasek, 1998). Households with children have the lowest success rate with regard to FPR (Warshawsky and Ameriks, 2001). Families with dependent children are found to be more likely to have accumulated little financial and total net worth (Lusardi et al., 2001b). Commonly, their major asset is the family home, with many having no other financial assets.

4.5. Gender

Previously it was argued that, despite the increased emphasis on ageing in society, the issue of women and retirement has been neglected (Johnson and Price-Bonham, 1980). There is now a growing body of evidence emerging that gender is an important macroeconomic variable in terms of saving (Employment Benefit Research Institute, 2005, 2006; Seguino and Floro, 2003). Glass and Kilpatrick (1998) find that the lowest level of retirement savings for males, regardless of marital status, is higher than the highest level of savings for females. Gender can also have an influence on the setting of retirement goals with women more likely

to aim to retire before reaching 65 than men (Clark and d'Ambrosio, 2003). Men are more likely to save than women (Glass and Kilpatrick, 1998), and are more likely to overestimate their pension (Elder and Rudolph, 2002), but do a better job at estimating their pension benefits (Gustman and Steinmeier, 2001).

When women save for retirement they display characteristics that are conducive to low savings (Lusardi, 2003b). They are more likely to make investment choices that have lower risk and lower return than men's choices (Bajtelsmit, Bernasek, and Jianakoplos, 1999; Bernasek and Shwiff, 2001; Graham et al., 2002; Sunden and Surette, 1998; TIAA-CREFF Institute, 2003). Single women also exhibit relatively more risk aversion in financial decision making than single men do (Jianakoplos and Bernasek, 1998). A survey of US pre-retirees finds that women are typically less knowledgeable about retirement issues. Women are also less likely to identify whether they belong to a DC or DB retirement savings plan (Gustman and Steinmeier, 2001); less likely to consider longevity a significant financial risk (Metlife Mature Market Institute, 2003); less confident about having enough money; and less knowledgeable, in their own opinion, than men about saving for retirement (Employment Benefit Research Institute, 2003). This evidence is supported by research that finds women are less likely to plan for retirement (Lusardi, 2003b) and are less likely to have attended a retirement seminar (Lusardi, 2003a). Indeed women are identified as being at risk of facing a vulnerable financial situation in retirement (Tucker et al., 2001).

Comparatively little research has been conducted into individual retirement savings decisions in the mandatory system in Australia, particularly in relation to gender. An opportunity arose in 2001 as a number of funds converted from the traditional DB structure to a DC structure, The decisions of members asked to choose between the two types of structure is examined (Clarke-Murphy and Gerrans, 2001; Gerrans and Clark-Murphy, 2004). The researchers explore differences between the sexes in knowledge of the retirement savings system as well as who was consulted in the decision making process. They find that women are significantly more likely to consider themselves to have a lower level of knowledge of the retirement savings system and are most likely not to consult others. This finding is supported by Ginn (2003) who argues that the need for financial advice to avoid the pensions poverty trap is greater for women than men, and by industry research that reports that less than 30% of women are 'very confident' about their level of financial preparation compared to 43% of men (Citibank, 2005).

4.6. Education

Less educated people are most likely not to think about retirement (Lusardi, 2003b); be less prepared for retirement (Warshawsky and Ameriks, 2000); and be less likely to have basic financial knowledge (Lusardi, 2002a). Even when investments have been made, evidence indicates that the level of education is a significant factor in the type of investments made. People without degrees are more likely to invest the major proportion of their retirement savings in cash; better educated people are more likely to use growth assets (Waggle and Englis, 2000).

The effects on personal saving of financial education by employers are researched in various studies (Bernheim and Garret, 1996; Bernheim et al., 2001) with some evidence supporting the view that financial education can produce significant changes in how individuals think about and plan for retirement (Clark and d'Ambrosio, 2003), and that it can

Table 3 Factors explaining the FPR of Australians

Factor	β	t	Significance
Gender	-.063	1.480	.140
Age	-.346	-1.788	.074
Education	.084	2.044	.042*
Income	.171	3.804	.000**
Dependents	.026	.659	.510
Retirement age	.116	.977	.329
Years left	-.787	-4.144	.000**

$N = 462$; $R^2 = 0.320$; $F = 30.615$; Significance = 0.000.

**Significant at 0.01; *Significant at 0.05.

increase retirement saving (Madrian and Shea, 2001). Improved financial education appears to be a primary avenue for improving retirement preparation (Lord, 2002) as financial literacy is more conducive to financial planning (Lusardi, 2003c). Further, an improved understanding of retirement income needs and the savings process encourages many workers to increase their savings rate to achieve their modified retirement goals (Clark and d'Ambrosio, 2003). The findings of research on financial education, however, are mixed (Braunstein and Welch, 2002). The type of financial education and educational methods used are suggested as factors in its effectiveness (Bernheim and Garret, 1996).

5. Factors explaining the level of FPR of Australians

This study examines the influence of gender, age, level of education, income, number of dependents, planned retirement age, and years to retirement on the financial preparation of Australians for retirement. It finds that age and gender are not significantly related to the FPR Scale when considered with the other variables. Instead, in Australia, the FPR Scale score is best explained by years left to retirement, income, and—to a lesser extent—education (see Table 3).

Although older Australians have higher FPR Scale scores, years left to retirement (which are fewer, in general, for older Australians) is actually a more important determinant of FPR than is age. This suggests an increased focus on financial preparation when a person gets closer to retirement and is consistent with Waggle and Englis (2000) in that a shorter expected time until to retirement is likely to increase retirement saving.

There is a positive relationship between education and FPR Scale score. This finding is consistent with the literature on the role of education in retirement preparation.

6. Examining constituent behaviors of the FPR Scale

Each question for the FPR Scale asks the subject to report on certain activities. Using a list of questions that are common across studies enables individual behaviors to be investigated and compared. This section looks at the constituent behaviors of the FPR Scale of the Australian respondents and discusses the results of the study sample (Table 4).

Table 4 Constituent behaviors of the FPR Scale

Respondents		Frequency	Percent	Cumulative percent
Thought about retirement	Not at all	31	6.7	6.7
	A little	141	30.5	37.2
	Some	165	35.7	72.9
	A lot	125	27.1	100.0
Collected information	None	203	43.9	43.9
	A little	104	22.6	66.5
	Some	118	25.5	92.0
Acting on information	A lot	37	8.0	100.0
	Not taken any action	233	50.4	50.4
	Thought about it	77	16.7	67.1
	Know what to do but not yet done it	32	6.9	74.0
Attending seminars	Taken action	120	26.0	100.0
	None	362	78.4	78.4
	One	47	10.2	88.6
	Two	20	4.3	92.9
Acted on seminars	More than two	33	7.1	100.0
	Not taken any action	371	80.3	80.3
	Thought about it	13	2.8	83.1
	Know what to do but not yet done it	19	4.1	87.2
Discussed FPR	Taken action	59	12.8	100.0
	Not at all	157	34.0	34.0
	Only in passing	97	21.0	55.0
	Family/friends	99	21.4	76.4
Acted on discussions	Financial planner/accountant	109	23.6	100.0
	Not taken any action	234	50.6	50.6
	Thought about it	60	13.0	63.6
	Know what to do but not yet done it	52	11.3	74.9
Thought about retirement age	Taken action	116	25.1	100.0
	Not at all	143	31.0	31.0
	A little	127	27.5	58.5
	Some	116	25.1	83.6
Desired retirement age	A lot	76	16.4	100.0
	30–50	51	11.1	11.1
	51–60	168	36.4	47.5
	61–70	238	51.6	99.1
Length of retirement	71+	4	0.9	100.0
	Not at all	174	37.7	37.7
	A little	110	23.8	61.5
	Some	118	25.5	87.0
Thought about retirement money	A lot	60	13.0	100.0
	Hardly at all	144	31.2	31.2
	A little	105	22.7	53.9
	Some	126	27.3	81.2
	A lot	87	18.8	100.0

6.1. Thinking about retirement

Just over 37% of our respondents have given their retirement little or no thought at all and 27% have given it “a lot” of thought. Thinking about retirement has profound implications (Ameriks, 2000; Chan and Stevens, 2004; Lusardi, 2000b, 2002a). Earlier research shows a significant, positive, correlation between thinking about retirement and

satisfaction in retirement (Elder and Rudolph, 1999). A lack of financial preparation can result in unrealistic expectations regarding the affordability of retirement lifestyles (Devaney and Su, 1997). The majority of people who think “a lot” about retirement indicate that their retirement is better than the years just before retirement (Elder and Rudolph, 2000), and individuals who give at least “some” thought to retirement have significantly more net worth than those who think “hardly at all” about retirement (Elder and Rudolph, 2002).

6.2. Collecting and acting on information

There were 66% of our respondents that have collected little or no information about preparing financially for retirement. Of those who have collected information, 26% have taken action as a result.

Financial planners, accountants, funds management organizations, and governments produce large amounts of information about preparing financially for retirement and there is evidence that this information improves FPR (Employment Benefit Research Institute, 2003). Significant sums are expended to promote relevant products and appropriate strategies relating to FPR, with over A\$70 million spent in Australia in 2005 alone (Nielsen Media Research, 2006), but there is a lack of research into how households collect relevant information to make decisions concerning their FPR (Lusardi, 2000b, 2002a). Our findings are consistent with Bernartzi and Thaler (1999), however, who report that many people do not read this information.

6.3. Attending seminars and taking action as a result

There were 79% of our respondents that have not attended a retirement seminar, 11% have been to more than one such meeting. Of those that have attended such meetings, 13% have taken action as a result but 80% have not even considered taking action. A retirement seminar is a common method used by financial planners and fund managers to explain retirement issues, relevant financial products and strategies to prepare financially for retirement. Such seminars can have a significant impact on a person’s life in retirement (Elder and Rudolph, 1999; Lusardi, 2001, 2003a; Madrian and Shea, 2001).

6.4. Discussing FPR with others and taking action

There were 24% of our respondents that have discussed FPR with either a financial planner or an accountant; 55%, however, have not discussed the issue at all or have only done so in passing. Of those who have discussed the issue, only 25% have taken action as a result. Again, our findings are consistent with previous research that finds that some people discuss their financial preparation with others (Lusardi, 2000b, 2002b) but that many do not (Bernartzi and Thaler, 1999; Prudential Assurance Company Ltd, 2004).

6.5. *Considering when to retire*

HSBC global research reported that the age of 58 was a very common target age for retirement (HSBC, 2005a, 2005b). Using the FPR Scale it was found that when asked if they had given consideration to when they wished to retire, 58% of the respondents stated they had given it little or no thought. Of those who indicated they had given the issue some thought and were therefore also asked to provide a specific age at which they wished to retire, just over 11% indicated they wished to be retired by the time they reached the age of 50, and 47.5% indicated that they wished to be retired by the time they had reached 60.

6.6. *Thinking about life in retirement*

There were 62% of our respondents that have given little or no thought at all to the length of their retirement, 54% have given little or no consideration to how much money they need to live comfortably in retirement, 19% had thought about it in detail. These results are consistent with other findings in this area (FINSIA, 2006; HSBC, 2005b; Prudential Assurance Company Ltd, 2004; Wills, 2001). Previous research also notes that many do not adequately consider how long their retirement might last (Banks, 2005; Hudson Highland Group, 2005; Metlife Mature Market Institute, 2003; Robinson, 2005).

7. **Conclusions**

This paper's key contribution is the development of an FPR Scale that considers various dimensions of financial preparation behavior; which uses questions that are commonly employed in the financial planning literature; and which produces high Cronbach α scores. Difficulties in the comparison of overlapping and sometimes conflicting findings reported by researchers using different measures of FPR are mitigated by this reliable FPR Scale.

This study also shows that income, years left to retirement, and education are important factors in explaining the level of FPR of Australians. These findings advance the general literature beyond a simple focus on age and gender to obtain a clearer picture of factors driving FPR behavior.

In terms of the constituent behaviors of the FPR Scale, there remains a clear problem for many in terms of FPR awareness and a clear disconnect between information search and action. About a third of the Australians surveyed have given retirement 'little' or 'no thought' and two-thirds have not collected any information about retirement. Of those that have collected information, three quarters of them have not acted on it. Even FPR seminars—a preferred marketing channel for the financial planning industry—lack effectiveness with most respondents having never attended a seminar and almost all of those who have attended taking no action.

Most of our respondents have given 'little' or 'no thought' to when they shall retire, or to how long their retirement might last. More than half have not thought, or have thought little, about how much money they will require to live comfortably in retirement. For researchers and public policy makers alike, these findings point to important new areas for research.

Notes

1. See Wills and Ross (2007) for reasons why FPR is still a significant issue in Australia, despite mandatory retirement saving.

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SURVEY QUESTIONNAIRE**Preparing Financially for Retirement**

The purpose of this study is to measure your actions in preparing financially for your retirement. To take this measure, we need you to answer various questions and choose the answer that best describes how YOU have prepared financially for your retirement.

All the questions are factual but there are no wrong answers.

If you feel you have thought about retirement a lot, you should mark the box for that answer

a lot	some	a little	not at all
X			

If however you feel that you have spent some time thinking about retirement but would not class it as a lot, mark the box for that answer

a lot	some	a little	not at all
	X		

Alternatively, if you feel you have only thought about retirement a little, mark that box

a lot	some	a little	not at all
		X	

Naturally, if you feel you have not thought about retirement at all, mark that box

a lot	some	a little	not at all
			X

Important

Please be sure to answer all the questions unless you are instructed to skip ahead. Work at fairly high speed through these questions. Do not worry or puzzle over individual items. It is your first impressions, the immediate feelings about the item that we want. On the other hand, please do not be careless, because we want your true impressions.

Now turn the page and please start answering the questions. ➡



Q1. How much have you thought about retirement?

a lot	some	a little	not at all

Q2. Have you collected any information about preparing financially for retirement?

a lot	some	a little	none – go to Q4

Q3. If you have collected information about preparing financially for retirement, have you taken any action as a result?

no I have not taken any action	I have thought about it	I know what to do but I have not done it yet	yes I have taken action

Q4. Have you attended any seminars or gone to any meetings on preparing financially for retirement?

more than two	two	one	none – go to Q6

Q5. If you have been to any seminars or meetings on preparing financially for retirement, have you taken any action as a result?

no I have not taken any action	I have thought about it	I know what to do but I have not done it yet	yes I have taken action

go to Q6



Q6. Have you discussed preparing financially for retirement with anyone?

not at all – go to Q8	only passing, not in detail	yes with my family and/or friends	yes with a Financial Planner or Accountant

Q7. If you have discussed preparing financially for retirement, have you taken any action as a result?

no I have not taken any action	I have thought about it	I know what to do but I have not done it yet	yes I have taken action

Q8. Have you thought about a date or the age at which you wish to retire?

a lot	some	a little	not at all

↓
↓
↓

If so, please provide the age you wish to retire at: _____

Q9. Have you thought about how long you expect to be retired for?

a lot	some	a little	not at all

Q10. Have you thought about how much you will need to have saved by the time you retire so you can live comfortably in retirement?

a lot	some	a little	hardly at all