Retirement Decisions, Eligibility and Financial Literacy

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Introduction

- The literature connecting financial unawareness and saving behavior has expanded rapidly: for a survey see Lusardi and Mitchell, 2013.
- Some socio-demographic groups -typically older people and women- are more at risk of bad financial choices;
- financial literacy is indeed associated with a wide range of wealth strategies, such as:
  - planning for retirement (Lusardi and Mitchell, 2007b, Van Rooij et al., 2007);
  - stock market participation (Guiso and Jappelli 2008);
  - portfolio diversification (Kimball and Shumway 2007);
  - life insurance coverage (Luciano et al 2015);
  - lower likelihood of being over-indebted (Lusardi and Tufano, 2009)
- Various institutions are promoting initiatives to enhance financial literacy and support a better understanding of financial matters by citizens (OECD and PACFL, 2008).

Research Question

- This paper is centered on the relationship between financial (il)literacy and retirement decisions.
- Saving for retirement: choice is complex and it is upon current workers (future retireees)
- In parallel a transfer of responsibility towards the individual workers has taken place. While people are called to make essential choices that will affect their future wellbeing, it is not clear whether they have the minimum conceptual background to avoid important mistakes.
- The papers specific research question, addressed to Italian workers, is whether, and to what extent, financial literacy affects the retirement decisions of eligible people to postpone their retirement.

Country studied: Italy

- Italy represents a good case to study for three main reasons: i) because of its unfortunate position in the financial literacy ranking among rich countries (Lusardi and Mitchell, 2011); ii) because the Countrys significant gender and geographical heterogeneity allows us to investigate different types of behavior; iii) because its pension system (mainly public and PayGo) is undergoing a difficult transition from a rather generous Defined Benefit (DB) formula towards a much less favorable Defined Contribution (DC) one.

Data

- We use the SHIW -Survey of Household Income and Wealth, Bank of Italy -dataset
- years: 2006 2008 2010
- Retirement Choices, Expected Retirement Age
- All Workers are asked their expected retirement age (and replacement rate)
    - Retirement choice: we select workers below age 75 for retirement status
    - Retirement expectations: sample of workers
    - Methodology: Linear Probability Model with Fixed Effects

Financial Literacy

- Inflation rate: Imagine having 1,000 euros in a current account that pays 1 per cent interest and has no charges. Imagine also that inflation is running at 2 per cent. Do you think that if you withdraw the money in a years time, you will be able to buy the same amount of goods as if you spent the 1,000 euros today? Yes / No, I will be able to buy less / No, I will be able to buy more / Dont know / No answer
- Interest rate: Imagine leaving 1,000 euros in a current account that pays 2 per cent annual interest and has no charges. What sum do you think will be available at the end of the second year? Less than 1,020 euros / Exactly 1,020 euros / More than 1,020 euros / Dont know / No answer
- Mortgage: With which of the following types of mortgage do you think you are able to establish from the beginning the maximum amount and number of instalments that you will have to pay before you can pay off your debt? Variable rate mortgage / Fixed rate mortgage / Variable rate mortgage and fixed instalments / Dont know / No answer
- Risk: Which of the following investment strategies do you think entails the greatest risk of losing your capital? Investing in the shares of a single company / Investing in the shares of more than one company / Dont know / No answer

Descripitives

	Male	Female	Total
	Male	Female	Total
All correct	38.01	30.76	34.91
	62.27	37.73	100.00
All Dont know	4.59	7.71	5.93
	44.30	55.70	100.00
Still Working	11.26	11.83	11.45
	64.63	35.37	100.00
Retired	88.74	88.17	88.55
	65.90	34.10	100.00

note: wave 2010. Sample of eligibles only

Summary Statistics

2010		
	Mean	Std. Dev.
Replacement rate	73.26695	16.60983
Retirement age	58.85829	5.257304
Expected replacement rate	64.23372	15.28891
Retirement income	1071.435	546.818
Retirement age	58.85829	5.257304
Expected retirement age	63.85259	4.206946
Wealth	264426.7	440119.1

Actual Retirement Decisions

Retired	(1)	(2)	(3)	(4)	(5)	(6)
Log of financial wealth	0.024***	0.023**	0.023**	0.023***	0.024***	0.023**
Log of real wealth	0.000	0.011	0.011	0.011	0.010	0.011
Replacement rate	0.001	0.001*	0.001*	0.001*	0.001*	0.001*
FL		0.038**	-0.022	-0.016	0.037	0.09

FL stands for (2) All correct, (3)one correct, (4)two correct, (5)all "dont know", (6)none correct

Retirement Decision by Gender

Retired	(Female)	(Male)
Self-employed	0.009	-0.216***
Offspring	0.081***	0.019
Divorced	0.042	-0.426***
Replacement rate	0.000	0.002***
Log of real wealth	0.031***	-0.001
Log of financial wealth	0.016	0.028***
Log of individual income	0.004	-0.148***

FL looses significance for both gender

Expected Retirement Decisions

Retired	All	Male	Female	North	Center	South
All correct Answers	1.233**	0.820	1.510	1.162	0.765	1.891**

Sample of workers who will be on the contribution system only

Results. Retirement Decision

- FL works in opposite direction for the young (DC system) and the older ones (majority in DB system). For those who are in DB, FL seems to affect, if anything, earlier retirement
- more financially sophisticated DC workers would instead postpone retirement
  - The female sample differs from the male one in that having offspring is statistically associated with a higher probability of women retiring.
  - As for men, being self-employed is significantly associated with a lower probability of retiring
  - Being divorced increases the likelihood of remaining in the labor market.
  - asymmetric effect of financial wealth between genders. Real assets favors retirement for women only; while male retirement decisions are (positively) affected by financial wealth

Concluding Remarks

- Asymmetric Reaction of Defined Benefit versus Defined Contribution future retirees
- Defined Contribution future retirees are those positively affected by the level of financial literacy suggesting that they give more value to the monetary gain of postponing retirement, or less disutility associated to work

Thank you!