

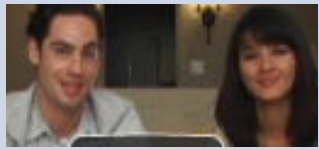
# Five Steps to Planning Success

Developing and Testing New Strategies for  
Reaching Young Adults

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June, 2012

# Core Content for Intervention: Five Key Concepts for Planning Success



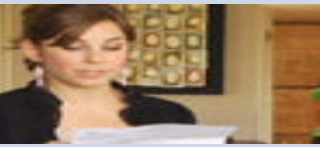
Harness the power of interest compounding



Account for the effects of inflation



Diversify investment portfolio



Take advantage of tax-favored assets



If have a 401(k) plan, take advantage of any employer matches

# Elements of the Delivery Model for 5 Steps

*Goal is to overcome the mix of disinterest, anxiety, and non-comprehension associated with financial issues*

*Personal narratives with age-appropriate role models*

- Vicarious experience (behavioral modeling) has been shown to increase self-efficacy, create cognitive involvement, and generate a desire to change course

*Emphasize teachable moments where possible*

- Focus on specific events : marriage, inheritance, new job

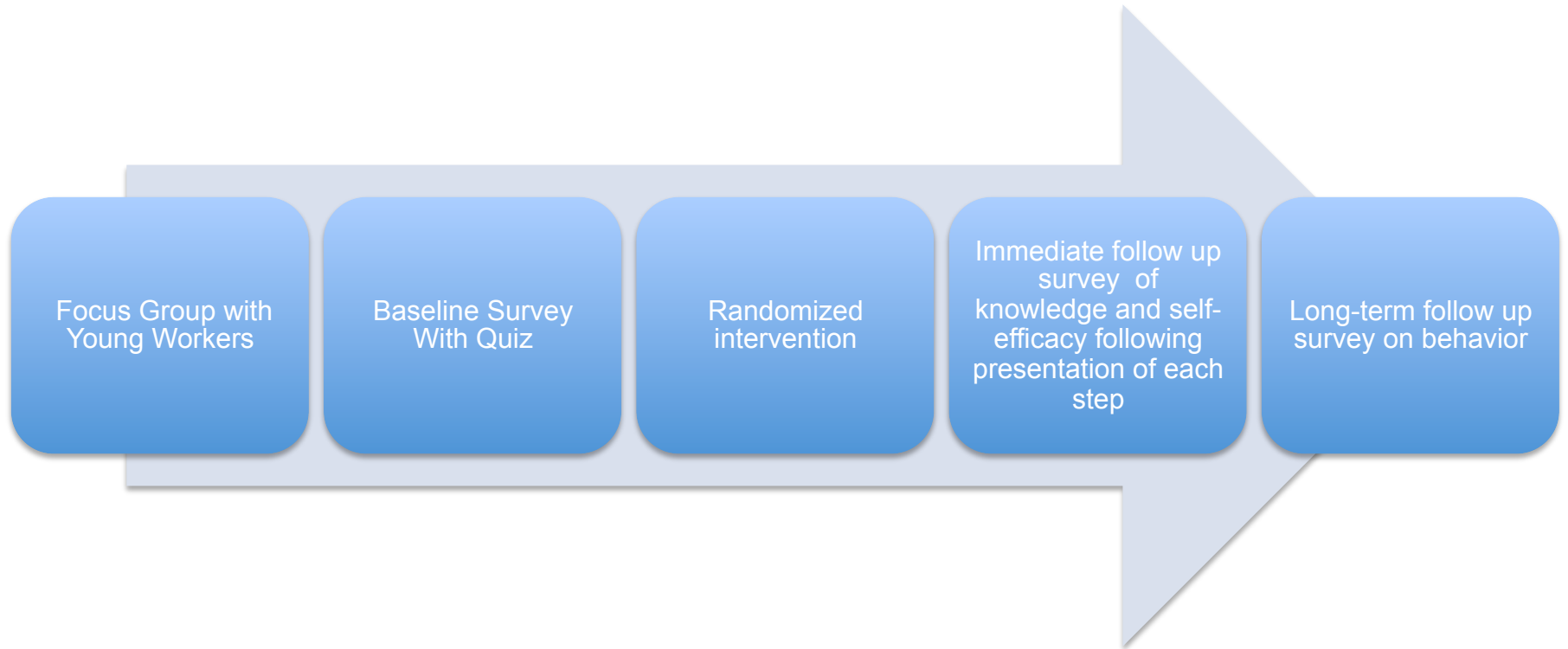
*Experiment with mode delivery*

- Online video vs. narrative

*Experiment with visual support: interactive visual tools and visual brochures*

- Finvis 1.0 – value proven in laboratory experiments; developed new stand-alone module
- Static brochure with same visuals as comparison treatment

# Evaluation Process for Five Steps Qualitative Research + Online Experiment



- *Year 1:* Videos and narratives for all 5 steps. Long-term follow-up survey in progress.
- *Year 2:* Deeper investigation: new videos and narratives for risk diversification and inflation; new visual analytic tool and static brochure for risk diversification. Randomized intervention in progress.

# The RAND American Life Panel

## Population

A nationally representative Internet panel of about 5000 respondents.

Not recruited via Internet

## Research environment

Internet mode offers visualization, experiments etc

Many hours worth of background information (e.g. HRS, cognitive tests)

## Timeliness

Approximately two surveys/ experiments per month (about 250 since 2006)

Rapid turnaround

## Access and Usability

Data available for download for free

Custom interface allows ability to combine waves, get data in analysis-ready format

# **Year 1: Conceptualization and Pilot Test Videos and Narratives**

# Year 1 Video Sample



Search

Browse

Upload

Create Account | Sign In

## financial diversification

zamzena 0 videos Subscribe



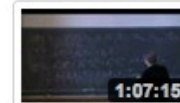
This video is unlisted. [Learn more](#)

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### Suggestions



**Investment Advice : How Much Money Do You Need ...**  
by ehowfinance  
1,134 views Featured Video



**4. Portfolio Diversification and Supporting Fin...**  
by YaleCourses  
24,077 views



**Stock Diversification**  
by MrMoneyChannel  
177 views



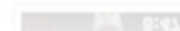
**Inflation, diversification and market volatilit...**  
by Ameriprise  
259 views



**Tax Planning & Diversification of Personal Weal...**  
by CertWealthStrategist  
279 views

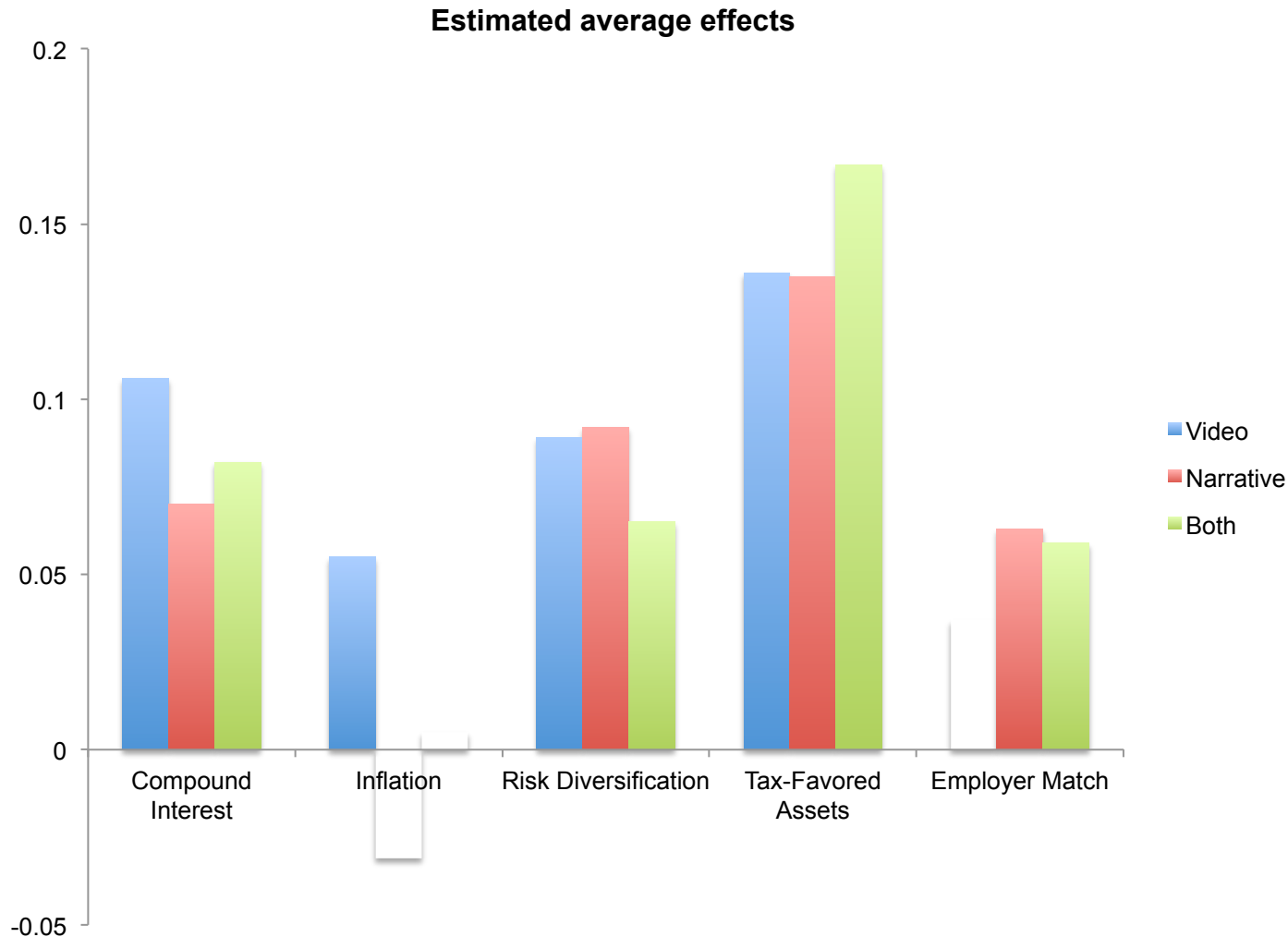


**Tax Planning & Diversification of Personal Weal...**  
by CertWealthStrategist  
328 views



**Tax Planning & Diversification of Personal Weal...**  
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# Five Steps Increased Knowledge But Format Differences Were Inconsistent

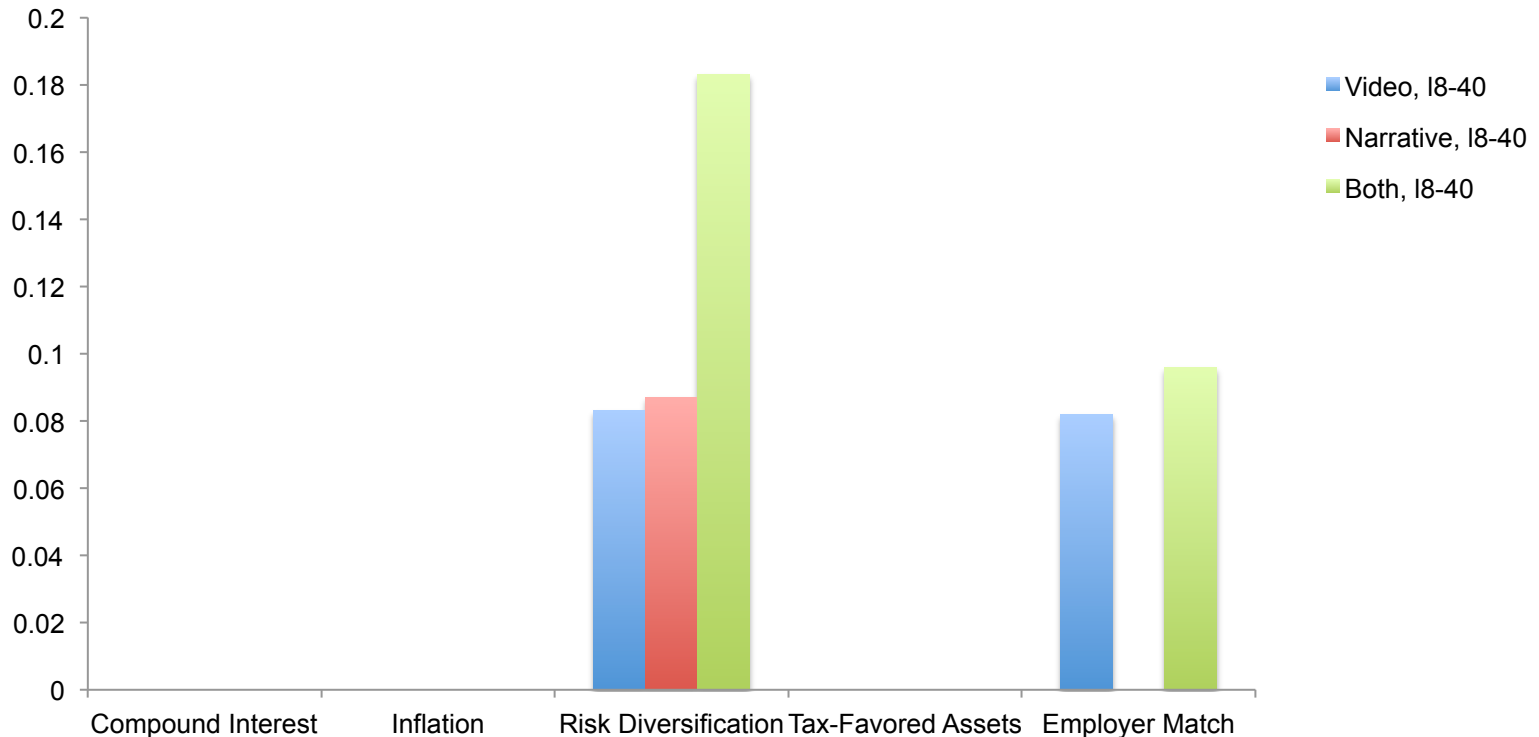


Normalized effect sizes. Only statistically significant effects shown. Controls included.



# ...But Has More Impact on the Young

Incremental effects compared to baseline group (40-65)



Normalized effect sizes. Only statistically significant effects shown. No significant incremental effects found for ages 65+. Controls included.

**Year 2:**  
**Development and Expansion**  
**Videos, Narratives, and FinVis Tools**

# Year 2 Developments

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- Based on results from Year 1, focused on concepts of risk and inflation
  - Inflation
    - Revised video script to increase relevance
  - Risk
    - Linguistics expert updated and simplified selected scripts and narratives
    - Added FinVis visualization tool
- Used focus groups to gather qualitative feedback on proposed new enhancements

# Background

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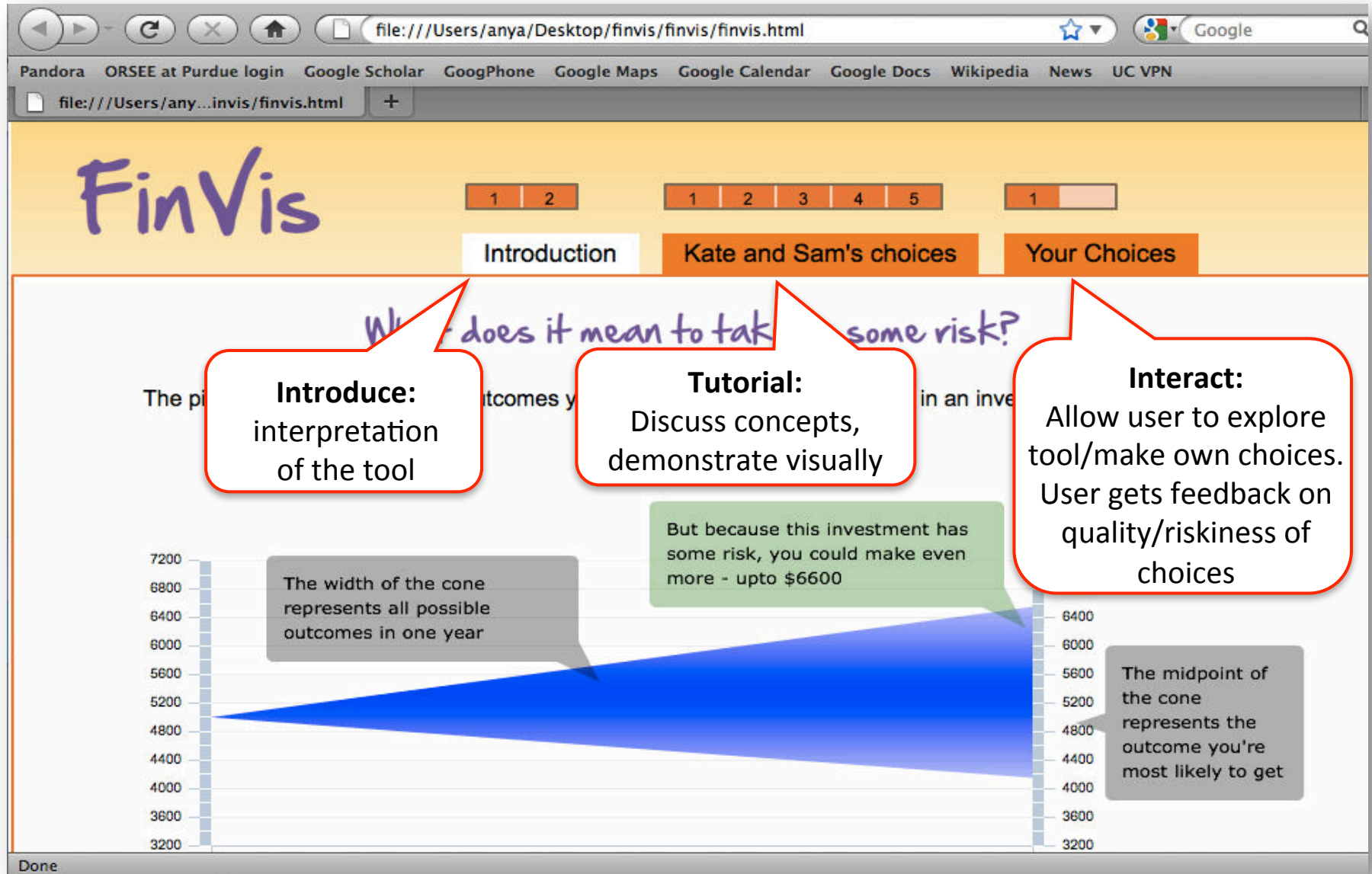
- Financial planning -> overload of information
- Visualization: research shows use of computer supported representation of data amplifies cognition
  - Increases cognitive resources and expands working memory
  - Reduces search effort and time costs – represents large amount of data in small space
  - Enhances recognition of trends
  - Encourages exploration of the decision space
  - Increases confidence

# Goals of FinVis

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- Help the user understand risk profiles of different types of stocks
- Help the user understand the impact of different rates of return, different standard deviations and correlations of assets
- Help the user learn about why it is important to diversify *across stocks*
- Help the user learn about why it is important to diversify *across asset classes*
- **Lab Experiment:** FinVis 1.0 improves data exploration and confidence

# Self-contained educational module



# FinVis Tutorial – visualizing risk

FinVis

1

2

3

1

Introduction

Kate and Sam's choices

Your Choices

What can we expect from different investments?



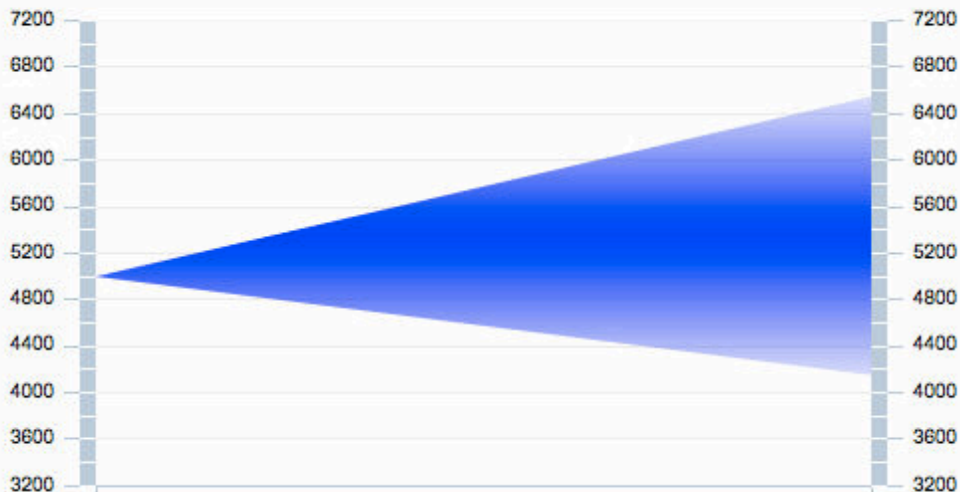
Invest in R

I decided to put my \$5000 in the investment with some risk, the "Riskier Fund".

I decided to put my \$5000 in the investment with less risk, the "Less Risky Fund".



Invest in L



Back

# FinVis Tutorial – Expected return

FinVis

1

2

3

1

2

Introduction

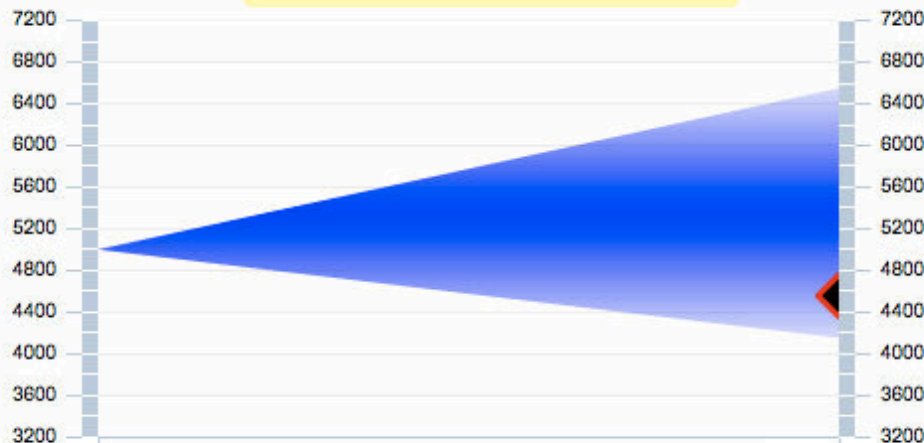
Kate and Sam's choices

Your Choices

Keeping money invested for a long time

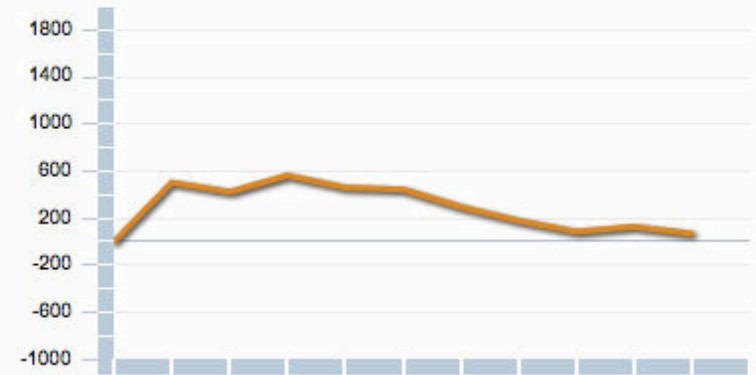


Kate's investment may gain or lose a lot of money over a short period of time, like days or months. But over a longer period of time, her gains and losses will even out.



Back

See an Outcome



Average outcome of investment over 10 year(s)

Continue



# FinVis Tutorial – Diversification

FinVis

1

2

3

1

2

3

4

Introduction

Kate and Sam's choices

Your Choices

*Spreading your investments widely.*



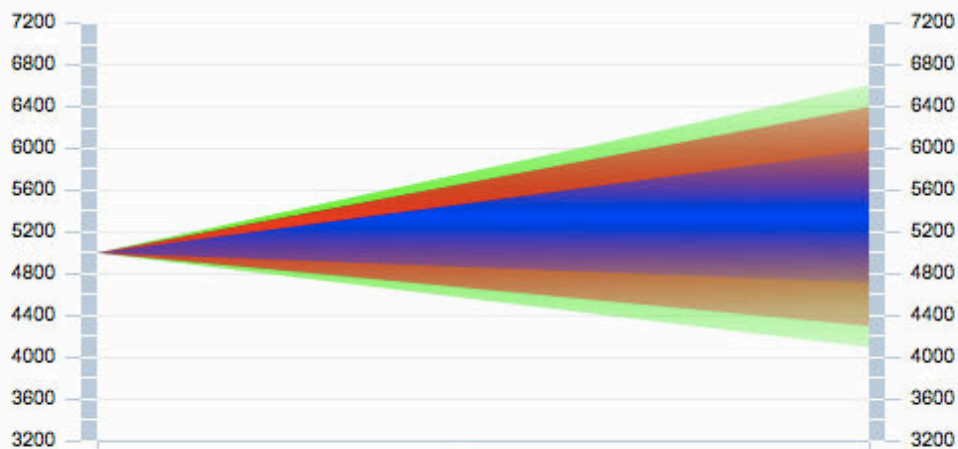
I also want to spread my risk, so I'll invest in three different companies - ComputerStars, iComputer, and Laptop Times

But all of these are companies that depend on the year's sale of computers. See what happens if Sam splits his money between these three companies

Invest in ComputerStars

Invest in iComputers

Invest in Laptop Times



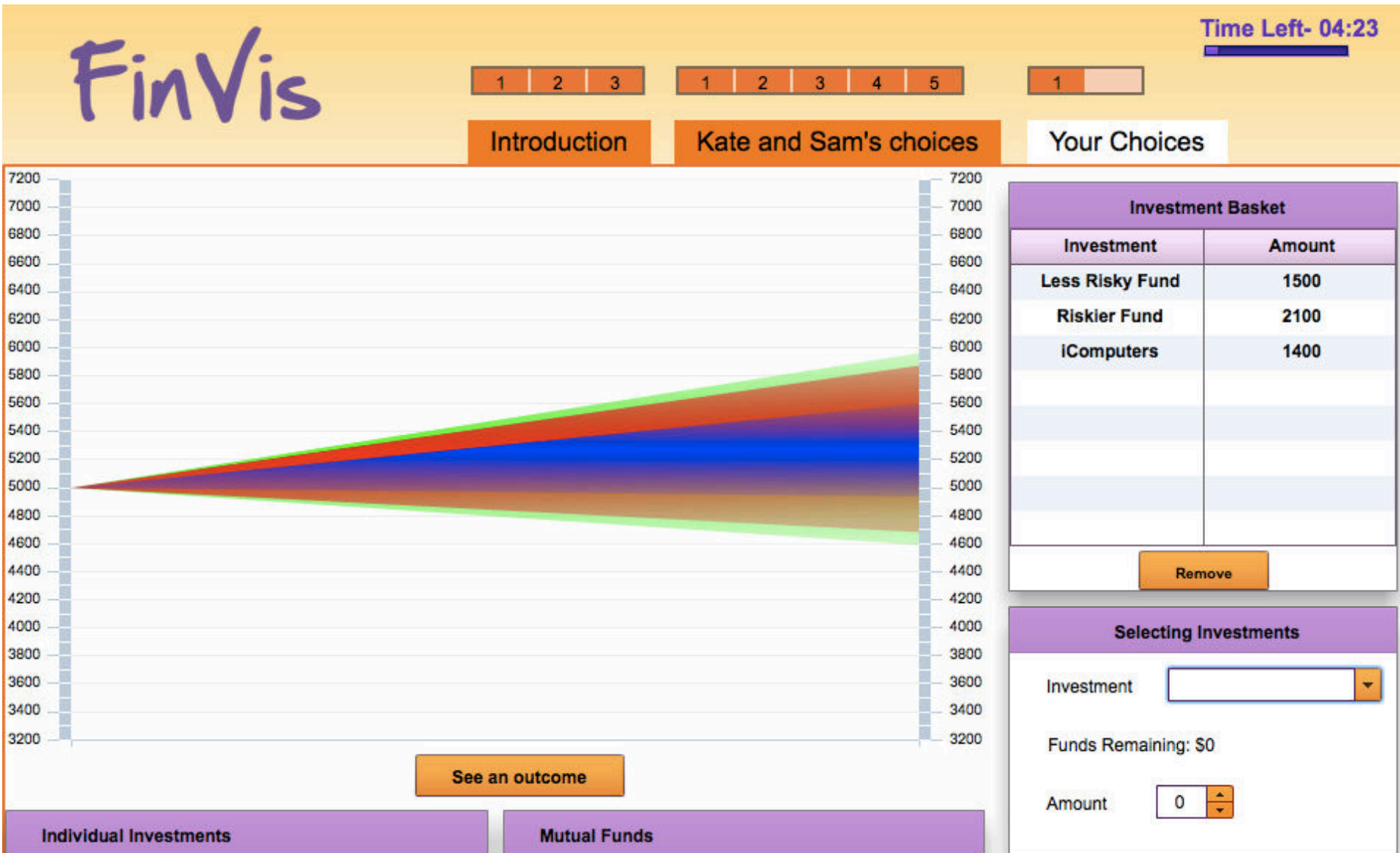
Spreading your investments across similar companies doesn't lower your risk much.

Back

See an outcome in a bad year

See an outcome in a good year

# FinVis: Interactive Component



<http://home.uchicago.edu/~savikhin/finvis/finvis.html>

# FinVis: Outcome Screen

How did you invest?

->Good job – you spread your money out across different investments and minimized your risk.

->You took on quite a bit of risk – with this total investment, in one year you can expect your \$5,000 to turn into \$5276, but you could also end up with \$4591 or \$5960. Think about taking on risk: is this amount of risk too much, too little, or just right for you? Remember, investments with the highest expected return often have the highest risk, and investments with the lowest expected return often have the lowest risk.

->Good job - you invested some of your money in funds. Investing in funds gave you the opportunity to spread your money more widely.

Investment	Amount
Less Risky Fund	1500
Riskier Fund	2100
iComputers	1400

Back

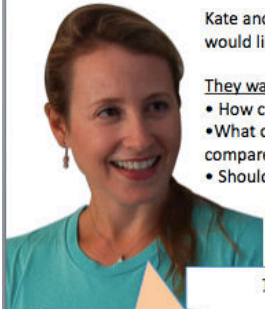
Try again

Done

# Brochure

- Designed to be simple and stationary but contain all information of the tool

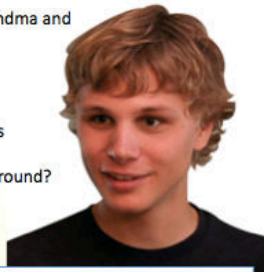
*Don't put all your eggs in one basket!*



Kate and Sam have both inherited \$5,000 from their grandma and would like to invest it but they don't know how.

They want to know:

- How can I get the most out of my money?
- What can I expect from an investment with more risk as compared to an investment with less risk?
- Should I invest in one company, or spread my money around?



This picture shows an example of the possible outcomes you can expect from putting \$5,000 in an investment with some risk



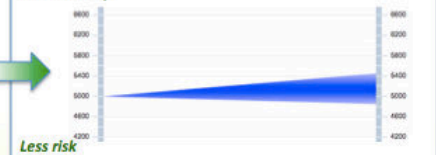
When you invest money, we say that *risk* is involved. When most people think of risk, they think that risk means only LOSING money. But risk has an upside: you could also GAIN money.

*What can we expect from different investments?*

This picture shows an investment with some risk. Investing in funds that have more risk means that you could **gain or lose a larger amount of money.**



This picture shows an investment with less risk. Investing in funds with less risk means that you **won't gain or lose as much money.**



An investment may gain or lose a lot of money over a short period of time, like days or months, but over a longer period of time, the gains and losses will even out and one can expect the most likely outcome, represented by the midpoint of the cone.

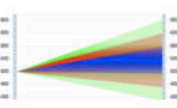
It's like flipping a coin – you expect it to land on "heads" half the time, but if you flip it only 3 times, it could land on "heads" all three times. But if you flip it 300 times, you are **much** more likely to get "heads" about half the time.

How can you avoid losing everything from year to year?

✓ Spreading your investments out, like investing in many very **different** companies, will lower the overall risk you take on...



✗ ...but spreading your investments across **similar** companies **doesn't** lower your risk much.



It's hard to know all the companies that exist, so investing in "Funds", is a good way to spread investments widely – they're already made up of lots of different companies.

But funds can also consist of many of the same companies, so make sure you invest in different types of funds too, like a U.S. fund and an international fund.

# Evaluation in Progress

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- Year 2 ALP intervention survey in progress
  - ✓ Evaluate improvements to videos/narratives
  - ✓ Learn the effect of new interactive visual tools and their static counterparts
    - ✓ Financial Literacy Questions
    - ✓ Confidence and Self-Efficacy
    - ✓ Tool-generated user input data
- Practical application
  - All interventions scale easily at low-cost

# Future Work

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- Develop and refine new videos and interactive visual components for all concepts
  - E.g., interest compounding & credit card debt
- Develop and evaluate for different subgroups
  - For use by older adults
  - For use in financial literacy education
- Refine prototypes for Five Steps into a rollout-ready package for partners
- Analyze behavior change over long horizon