REFEREED PAPERS SESSION
FINANCIAL MANAGEMENT ISSUES

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The three papers in this session addressed particular financial products available to the consumer. The particular products examined were flexible spending accounts, life insurance, and adjustable rate mortgages. The research designs vary from survey research to economic models.

Consumers must deal with a multitude of financial products and options. The products available to them change as the market changes. Individual assessment becomes difficult. Therefore, it is important that consumer researchers examine these financial products to better target related educational concerns. It is a privilege to have been asked to discuss papers presented by the researchers who have reported. The bases for the following comments are the papers received prior to the conference.

THE HAMPTON, KITT, AND GRENINGER PAPER

The "newness" of flexible spending accounts (FSA), the growth in their availability over the last few years, and the limited academic reference to them creates an area for research opportunity. Such is the case of the topic of the Texas contribution to this session's agenda.

The literature review presented information regarding changes in the family and employment that paved the way for the creation of FSAs. Information on the creation of and conditions for FSAs by the Internal Revenue Service were included.

Family composition categories not mentioned in the paper were married persons with dependents and married persons without dependents. These distinctions are particularly important as we look toward the 1990s when "married persons without dependents" is expected to be the predominant married person category.

The hypotheses were appropriate to the objective of the study which was to investigate the economic and non-economic factors effecting the decision of an employee to participate in an FSA.

One concern for this reviewer was the description of the population in regard to the proposed hypothesis. The sampling frame was described as a non-profit organization. More description was needed. A guess was that this sample may have consisted of employees at a major university. If so, this should have been noted. An initial reaction was that the overall education and income level for this sample would, of course, be high. (This was stated in the revised copy I received this week.) Some sort of cluster sampling might have assisted in controlling for the idiosyncrasies of this sample. Such a sampling frame would probably then have required a sample larger than 655.

More care needed to be given the result section when it was written up. Simple writing errors such as identifying questions as statistically significant rather than statistically significant variables could have been cleaned up. Giving numbers instead of percentages would have made it easier to follow the discussion since the tables were expressed this way. For instance, the text of the paper states that one-fourth of the respondents had education levels of Bachelor's degree or above and two-fifths held higher degrees. This represents 144 of the 320 respondents as described. If these descriptions are accurate, the reviewer would have expected to see the reported years of education to be closer to 16 plus rather than a mean of 13 years of completed education. Another general concern was the repeated use of only male pronouns in the research design and findings sections of the paper. In 1990, more attention to gender neutral writing would have appreciated.

Non-participants tended to be singles. It follows that these families or household sizes would be small. Therefore, to improve the results, control for household size or family size within the study is needed.

In asking respondents about their past expenses, I question the accuracy of answers provided. How accurate can recall be when requesting information over the last three years? If the ideal consumer exists with excellent records, the possibility for accuracy exists.

Questions whose answers I feel would have strengthened the findings were:

*Who controls the money in the family or has primary decision-making responsibility for budgetary matters? The study approaches this question by using the amount of time spent in making the FSA decision. Answers to the control question may have provided more insight into the time involved in the decision making.

*Who has the background for making financial decisions? Again a reference to the individual(s) making the financial decisions. Making tax-related financial decisions takes more knowledge/consideration than preparing a budget. Studies of consumer education knowledge have shown that age or its proxi is usually a factor in level of knowledge.

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*Are persons who had this option handling these expenses elsewhere, such as through a spouse's employment, that may have kept them from selecting this option with their own employer?

This duplication of sources option may have been available for participants in this study. However, in fairness to the researchers, my reading says that such source duplication may not be available in the future as corporations look at ways to keep benefit costs down.

*How clear was the description of FSAs and the corresponding reimbursement process in the materials provided to assist in selecting an FSA? Would this have effected the selection/ nonselection decision? Could the persons reading the materials understand the benefit?

THE WALDEN PAPER

With an aging American population, risk protection of assets and income is a more visible concern. Life insurance is certainly a vehicle option in the scheme of asset protection for purposes of paying taxes and other expenses. Some forms have investment characteristics as well.

This paper did not have a bibliography attached. Was it lost in the system of reviewing papers? If one as not developed, what background information could have been gained?

Most information in financial management education regarding the determination of life insurance needs takes the view that inflation does effect need. Educators teach that inflation changes and that needs change. Assuming salaries go up with inflation, the impact of inflation on the face value is built into the purchase of life insurance when purchases are determined based on a multiplier of income. Therefore, a basic question arises as to why the approach of the author over what is commonly used.

The article points out the importance of considering the effect of time on the face value of the policy, using an appropriate level of inflation in determining insurance needs, and conducting a periodical review of this process. In reading the paper a first question became, how is the premise of the paper different from an application of the time value of money? My decision was that it was not.

The Walden paper does an excellent job of defining terminology and laying the groundwork for calculations presented. As a person whose primary responsibility it is to interpret data to the lay public, the writing style and easy readability was appreciated.

Of note is that the definition of the term effect fails to recognize changing needs of the policy holder over the life of the policy. By definition within the paper, those needs are reduced. Maybe the author was implicitly referring to this when he indicated the need for periodic review. A more definite recognition of this point would have been commendable. Background addressing for changing needs could be found in Dr. Marily Moon's presentation made at the opening session of this conference.

An accolade is due Dr. Whalen for departing from the theoretical to provide implications from the research for the consumer. Often this aspect is lacking in research reports of this type.

A question for which the answer may have strengthened this paper is:

*If life insurance needs were superimposed over the curves in figures one and two , what would the new figure look like (when compared to the life insurance requirements illustrated)?

THE ZORN PAPER

The Zorn paper provides a preliminary assessment of relevant default risk of adjustable rate mortgages. Because it was a simulation, the data, assumptions and model are important to the outcome. I chose to concentrate comments on the assumptions, data, and other aspects of the study.

The paper did a excellent job of reviewing and discussing previous research and the direction of research regarding default risk and prepayment studies. One of the motivations for this particular exercise was to determine the extent to which existing models agreed on their predictions of default risk. The researcher discovered that the predictions were inconsistent. A discussion about the differences in the assumptions with each paper and how these may have effected the inconsistencies in predictions might have followed and would have been appropriate given this conclusion.

The description of the Campbell sample used in the analysis was more complete than others used in the study. I would like to have seen an improved description of the sample data used by Lea and Zorn.

The Zorn paper was a challenge to assess for this discussant. The discussant's orientation is toward practical application. I would like to have seen explicit implications for the consumer in the conclusion section of the paper. After all, this is the American Council on <u>Consumer</u> Interests. Questions whose answers would have been of interest to consumer educators and researchers are:

*What does this research say for providing guidance in selecting a fixed rate mortgage vs. an adjustable rate mortgage?

*What does this research say in relation to the balance of fixed rate mortgages and adjustable rate mortgages for the economy? Knowing that ARMs have higher default levels, should these be held at lower levels?

SUMMARY

The research presented today should provide more background for consumer educators as they assist consumers in selecting from the many "new and improved" financial products. It is important that consumer researchers continue to examine these financial products to better target educational concerns.