

Financially Distressed Consumers' Information Search for Retirement Plans

Using data from the Mature Market Survey (MMS) from an educational foundation, this study examined financially distressed consumers' information search behavior for retirement plans. Findings showed that financially distressed consumers sought financial information from media and professional services when making a retirement plan. Age, income, and gender were found to be positively related to the extent of the information search for retirement planning. Implications for consumer education and efficient financial information delivery are discussed.

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Justification

The financial health of pre-retirees is very important for future retirement success. However, soaring living costs increased individuals' debt. More people are using credit cards to pay their basic bills, and the average household credit card balance has risen to \$9,312 in 2004 (Stat bank, 2005). Furthermore, families near retirement are increasingly borrowing to make ends meet and getting more in debt (Employee Benefit Research Institute, 2006; McGhee & Draut, 2004).

Financially distressed consumers' retirement creates a serious concern due to the lack of preparation. They are less likely to participate in employer-provided retirement plans and have individual savings for retirement due to the limited resources and over-indebtedness. In addition, they would find the potential changes of Social Security benefits more challenging. One large group of consumers who exhibit financial distress is credit-counseling clients. However, little is known about their retirement planning behavior. This study investigates financially distressed consumers' information search behaviors in retirement planning and factors of behaviors. Results will provide insights into retirement planning of financially distressed consumers.

Method and Data

This study employed the theory of imperfect market information (Stigler, 1961) as the guidance of the conceptual model development. When applied to retirement planning, this theory implies that the benefits of search include purchasing pension plans with a higher return, low risk, satisfaction with the decision, and more pension knowledge. The costs of information search for retirement plans include both time and monetary costs. In this study, different sources of information (personal, media, bank, Internet, and professional service) and the extent of information search were examined. Factors related to retirement information search were age, risk tolerance, income, education, gender, marital status, race, health, financial attitude, and expected retirement income source. Financial attitude and expected retirement income source were used as proxies of previously accumulated knowledge.

For empirical analyses, binary logistic regressions and an ordered logistic regression were employed. A set of binary logistic regression was conducted to examine the factors affecting each information source, namely personal information, media, bank, Internet, or professional services. Ordered logit analysis was employed to investigate the extent of financial information searched when designing a retirement plan.

Data were drawn from the Mature Market Survey (MMS), which was sponsored by InCharge Education Foundation. The MMS was collected between October 6, 2003 and December 15, 2003. For retirement information search, only respondents who were interested in obtaining help for designing a retirement plan or managing IRA and 401 (k) plans were selected (n=353).

Results

Financially distressed consumers obtained retirement information from a variety of sources such as media, Internet, friend or family, banks, financial planners/ counselors, lectures, lawyers, and accountants. From binary logit analyses, age, income, gender, marital status, and current financial situation were found to impact retirement information search. Compared to younger consumers, older financially distressed consumers were less likely to seek retirement information from personal source. Financially distressed consumers with annual income more than \$50,000 were more likely to search media or Internet for obtaining information for retirement planning. Younger consumers tended to seek retirement information through the Internet. Male consumers sought more information from banks when designing a retirement plan. Married couples obtained more professional service for retirement planning. Those who were satisfied with current financial situation did not seek retirement information through the Internet.

The results of the ordered logit analysis showed that age, gender and income had significant effects on the extent of information search. Younger financially distressed consumers searched more information sources when making a retirement plan. Male consumers were found to engage in more information search activities. Those with higher income also extensively searched retirement information.

Conclusions and Implications

Financially distressed consumers were found to actively search for information when making a retirement plan. On average, financially distressed consumers consulted two sources of information for a retirement plan. Media and professional services were common information sources.

Compared to previous research on information search behavior, financially distressed consumers are more likely to consult with professional services for retirement plans. This might be caused by their unique situation; they are over-indebted and seeking professional solution. Financially distressed consumers with professional debt consolidation program could get general consultation of their personal finance from credit counseling agency including saving, investment, and retirement planning with relatively ease. Also, it is possible that they have lower financial expertise than other consumers. This result gives an insight for retirement plan marketers and financial service providers. Targeting younger financially distressed consumers have a potential for private retirement plan market. Financially distressed consumers could become financially thriving consumers after they improve their financial situation with professional debt services and appropriate retirement planning.

The finding that older financially distressed consumers were less likely to seek retirement information showed the problematic economic reality for the retirees. Older consumers might have accumulated knowledge and experience of retirement plans or pension benefits over time and therefore reduce needs for information search. Or, older consumers might overestimate their knowledge and tend to seek less information. However, older financially distressed consumers are more vulnerable population to upcoming retirement than younger consumers. They will face their retirement with the decreased income, high debt service costs, deteriorated health, and high health insurance costs. Consumer educators need to tailor the retirement planning to meet needs from different age groups and teach various information search skills to increase cognitive abilities of assessing the information. It is also vital to emphasize the importance of retirement planning and recommend a reliable and useful source of information to consumers.

Results of this study also provide some recommendation for the deliveries of financial services and consumer education. Financial information providers might want to use the results to craft their services. For example, the Internet would be the least effective way to deliver information for older consumers. Professional services need to understand and be tailored to the demand of married couples.

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Endnotes

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