Four Ways to Think About Retirement
• Retirement preparation in the domain of money and personal finances.
• Introduce the concept of financial vulnerability and how it can affect retirement preparation and readiness.
• Share four different perspectives on retirement – goal, lifestyle, mindset, and process – and how each one can help retirement preparation.
How the Dictionary Defines Retirement

“Withdrawal from one's position or occupation or from active working life.” – Merriam-Webster Dictionary

“The point at which someone stops working, esp. because of having reached a particular age or because of ill health, or the period in someone’s life after the person has stopped working.” – Cambridge Dictionary
Dictionary Definitions of Retirement

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TODAY’S RETIREMENT IS FAR MORE COMPLICATED
Retirement is a Western invention from days gone by that’s based on broken assumptions that we want – and can afford – to do nothing.

- Neil Pasricha

### Which Concepts Are Associated With Retirement?

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Conceptual Framework

- Traditional Retirement (Age 65)
- Involuntary Retirement
- FIRE (Financial Independence Retire Early)

Money
Identity
Health
Relationships
Work
Activity
Conceptual Framework

Retirement Preparation

Traditional Retirement (Age 65)

Involuntary Retirement

FIRE (Financial Independence Retire Early)

Money
Identity
Health
Relationships
Work
Activity
Across the demographic spectrum, adequate preparation for retirement is a common challenge. It arises from the fact that a significant number of Americans are financially vulnerable even as they get close to retirement.
Financial Vulnerability

Doris Westfall
Age 79

Source: Too poor to retire and too young to die, Los Angeles Times, 01/29/2016
Financial Vulnerability

Wrong queue, Mr. Grimley - this is pensions - you're only 83.
Debra Curry
Age 58

Source: When unpaid student loans mean you can no longer work, New York Times, 11/18/2017
Financial Vulnerability

Dr. Josh Roilland
Age 38

Source: Deep in debt, a professor aims to get his finances in order, Wall Street Journal, 11/6/2017
Financial Vulnerability

• Everyone is financially vulnerable to a lesser or greater extent. The individual’s financial vulnerability is a matter of degree.

• Definition

Financial vulnerability is a slow-changing psychological state indicating the degree of the person’s susceptibility to make bad financial decisions and experience negative financial outcomes.

Financial vulnerability can affect retirement preparedness adversely. Individuals become more financially vulnerable in retirement.

Source: Dholakia (2019a) Working Title: Conceptualization and Measurement of Consumer Financial Vulnerability and Retirement Readiness
Individuals are more financially vulnerable and unprepared for retirement when they:

• Have inadequate knowledge in the personal finance domain.
• Lack interest in managing their personal finances.
• Fail to set and pursue financial goals (e.g., to build an emergency fund or contribute to retirement savings).
• Lack control over spending.
• Are prone to compulsive or impulsive shopping.
• Do not cultivate supporting financial habits (e.g., making and following a budget every month).
• Experience a cluster of negative emotional responses to money and personal finances such as anxiety, frustration, fear, anger, and hopelessness.
• Tend to delegate financial decisions to others or to postpone making them.

Source: Dholakia (2019a) Working Title: Conceptualization and Measurement of Consumer Financial Vulnerability and Retirement Readiness
Source: Dholakia (2019a) Working Title: Conceptualization and Measurement of Consumer Financial Vulnerability and Retirement Readiness
Four Ways to Think About Retirement

- Lifestyle
- Goal
- Retirement
- Mindset
- Process
Retirement Preparation as a Goal
Preparation for old age should begin not later than one’s teens. A life which is empty of purpose until 65 will not suddenly become filled on retirement.

- Dwight Moody
Retirement Preparation as a Goal

I had to make some adjustments to your new retirement date is 2065.
Retirement Preparation as a Goal

Before Retirement

After Retirement

Retirement is the crossing of the Rubicon
A happy and stress-free retirement is a goal that the individual must set, pursue, and achieve over the decades of one’s working life.

Retirement is the point at which the individual has accumulated sufficient financial resources to sustain themselves for the rest of their lives.

This perspective of retirement is applicable to every one of us, regardless of whether we are 24 or 74.

Issues to consider:
- Are you saving regularly and enough money? (Personal saving orientation)
- Do you feel comfortable (vs. anxious) about your financial condition?
- Do you have good degree of self-control in spending and good habits?
Set a periodic saving goal that is a range and furnish it with appropriate implementation intentions and reasons.

- **What**: I will save $100-$150 from each paycheck. Goals with a range are more effective in keeping people motivated over time to continue saving money than single number goals.
- **How**: I will sign up for an automatic transfer from my checking account to my savings account each pay period.
- **Why**: I want to be able to enjoy life and live comfortably when I retire.
• Don’t set goals that are too easy. Saving one dollar per day may be achievable, but won’t help you to make sufficient progress towards retirement.

• Don’t set “stretch” goals that are too ambitious. In one study, those who had set a monthly saving goal were more likely to make significant unplanned purchases if they didn’t reach their goal.

• Set (and reach) progressively more difficult goals. Save up for a liquid emergency fund of $1,000 or $1,500; use that as the jumping-off point to save 6-8 months of living expenses; and finally start saving regularly for retirement.
Spending Self-Control

• Focus on saving money by self-regulating behavior.
• Making good buying and consumption decisions.
• Lots of interesting research findings in the literature
  • When consumers think about indulgence, then make decisions about their future, their choices are oriented towards prudence, and vice versa (Laran 2009)
  • Thinking about recent use of a favored possession reduces willingness-to-pay for new items (Jung, Chowdhry and Dholakia 2017)
  • Earmarking money for specific expense categories increases saving by low-income households (Soman and Cheema 2011).
Retirement Preparation as a Lifestyle
• Goals are not enough because they require effort and motivation, difficult to sustain over long-periods. We need a lifestyle that will support retirement preparation.

• “The individual difference supporting a constellation of activities to save money, some of which are habitual and routinized, while others are opportunistic and intentional, that the consumer performs consistently and incorporates into his or her lifestyle.”
Lifestyle Orientation Theory

Figure 1
Schematic of three ways in which habits interface with deliberate goal pursuit: through initial repetition and exposure to contexts during habit formation (illustrated by the arrows from goal system to context cues and habitual response), through activation or inhibition of the habitual response, and through inferences about the probable causes of habit responding (reflected by the double-headed arrow between habitual response and goal system).

Lifestyle Orientation Theory – Personal Saving Orientation

Source: Dholakia 2019b, work in progress
Day-to-day action:
1. I keep a careful watch over my spending on a daily basis.
2. I do not spend money thoughtlessly; I would rather save it for a rainy day.
3. Putting money into personal savings is a habit for me.
4. I actively consider the steps I need to take to achieve my personal savings goals.
5. I like to discuss the topic of saving money with my family and friends.

Saving lifestyle:
6. I usually save money without having a specific goal in mind.
7. The goal of saving money is always at the back of my mind.
8. Saving money on a regular basis should be an important part of one’s life.
9. Saving money is like a lifestyle, you have to keep at it.
Effects of Personal Saving Orientation

• High PSO Consumers
  • Have a higher savings rate
  • Have an emergency fund
  • Invest on a regular basis
  • Pay credit card off each month
  • Avoid installment loans
  • Budget regularly
  • Shop more deliberately

Source: Dholakia, Tam, Yoon and Wong 2016
PSO and Retirement Preparation

• Rather than thinking of saving money as a goal to be reached or as a task to be deferred to the future, it is useful to think of saving money as a lifestyle that covers a broad set of contributory activities that are undertaken regularly.

• Making saving money a part of one’s lifestyle has broad-based psychological and tangible benefits.

• In addition to retirement preparation as a goal, inculcating a PSO can contribute significantly to reaching an anxiety-free retirement.

Source: Dholakia, Tam, Yoon and Wong 2016
Retirement is a lifestyle that people adopt or fall into typically in their late adulthood.

Marked by changing habits as the person transitions away from a work-focused lifestyle and adopts a constellation of behaviors that help or hinder physical and mental well-being.

Habitual behaviors are uprooted, create a new set of behaviors to replace them.

- Positive outcomes: More likely to quit smoking, engage in physical activities, adopt a healthier diet, learn new skills.
- Negative outcomes: Increase alcohol consumption, drink more often, become more sedentary, watch more TV.

Retirement offers a once-in-the-lifetime opportunity to turn a fresh page, give up entrenched bad habits and take up new ones that will provide higher quality of life and increase happiness.
Retirement Preparation as a Mindset
Retirement may be looked upon either as a prolonged holiday or as a rejection, a being thrown on to the scrap-heap.

- Simone de Beauvoir
A mindset is a cognitive orientation that determines how people gather information, process it, make decisions, and evaluate the consequences of their actions.

Two opposing cognitive forces at work

- Optimistic and positive perspective: Retirement means greater sense of autonomy and control; no longer have to work for money
- Pessimistic and negative perspective: Retirement produces uncertainty and concern about the future, sense of disempowerment, loneliness, sense of alienation

Financial knowledge is the cornerstone of a positive empowering retirement mindset.
The First Quiz: Three Questions
1) Considering a long time period (for example 10 or 20 years), which asset described below normally gives the highest return?
1) Considering a long time period (for example 10 or 20 years), which asset described below normally gives the highest return?

- Savings accounts
- Stocks
- Bonds
- I have no clue
2) Suppose you had $100 in a savings account and the interest rate is 20% per year and you never withdraw money or interest payments. After 5 years, how much would you have on this account in total?
2) Suppose you had $100 in a savings account and the interest rate is 20% per year and you never withdraw money or interest payments. After 5 years, how much would you have on this account in total?

- More than $200
- Exactly $200
- Less than $200
- I have no clue
3) Do you think that the following statement is true or false? “After age 70 1/2, you have to withdraw at least some money from your 401(k) plan or IRA.”
3) Do you think that the following statement is true or false? “After age 70 1/2, you have to withdraw at least some money from your 401(k) plan or IRA.”

- True
- False
- It depends on type of IRA or 401(k) plan
- I have no clue
Financial Literacy

**Definition:** “The knowledge of basic concepts of personal finance with respect to borrowing, debt, saving and investments that leads to better lifetime financial decision-making.”

- Measured using a series of ‘quiz’ questions.
- Recent findings. Financial Literacy associated with:
  - Greater household investment diversification and better investment performance (Von Gaudecker, 2014).
  - Lower share of high cost credit like payday loans (Disney & Gathergood, 2013).
  - Lower loan aversion for education (Boatman & Evans, 2017).
  - Likelihood of consulting a financial professional for advice (Gerrans & Hershey, 2017), but less likely to take the advice (Stolper, 2018).
Financial literacy is a necessary but not sufficient condition for a good financial condition or positive financial outcomes.

The Second Quiz: Three Questions
1) Do you know your household’s current *net worth*?
1) Do you know your household’s current *net worth*?

- Yes, precisely (exact dollar amount)
- Yes, roughly (within 10% of actual value)
- Only a ballpark figure (within 25% of actual value)
- I have no clue (not within 25% of actual value)
2) Do you know how much your household current owes in total (secured + unsecured debt)?
2) Do you know how much your household current owes in total (secured + unsecured debt)?

- Yes, precisely (exact dollar amount)
- Yes, roughly (within 10% of actual value)
- Only a ballpark figure (within 25% of actual value)
- I have no clue (not within 25% of actual value)
3) Do you know how much your household spent on groceries last month?
3) Do you know how much your household spent on groceries last month?

- Yes, precisely (exact dollar amount)
- Yes, roughly (within 10% of actual value)
- Only a ballpark figure (within 25% of actual value)
- I have no clue (not within 25% of actual value)
“What does it mean to be financially literate in the first place?”
– Benjamin Harris
“What does it mean to be financially literate in the first place?”
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“What does it mean to be financially knowledgeable in the first place?”
– Benjamin Harris
Knowing yourself is the beginning of all wisdom.

Aristotle
Financial Self-Awareness

• Domain-specific personal knowledge uniquely relevant to the challenges involved in making prudent financial decisions.
  • Financial condition = complex cluster of attributes
  • Assets (income, transaction accounts, savings accounts, CDs, retirement funds, investments, real estate, etc.)
  • Liabilities (mortgage, credit card debt, student loans, installment loans, home equity loans/lines)
  • Patterns of behavior (spending, donating)

• **Definition:** Knowledge about one’s own current financial assets, liabilities, and spending patterns.
Conceptual Framework

Financial Self-Awareness

Financial Self-Efficacy

Financial Literacy

Financial Outcomes

Financial Satisfaction

Spending

Saving, Credit, & Investment

Retirement Readiness

Retirement Well-being

Retirement Readiness

Well-being
The Power of Financial Self-Awareness

• Higher FSA is associated with:
  • Greater persistence in a Debt Management Plan and higher pay-off of debt more than a year later among financially distressed consumers.
  • Lower levels of financial anxiety and greater satisfaction with the condition of one’s finances.
  • Setting aside an emergency fund and investments beyond retirement accounts
  • Lower likelihood of making impulsive purchase, or treating product purchases as investments.
  • Greater likelihood of saving an unexpected windfall or putting it towards debt instead of spending it.
  • Greater effects of financial literacy on financial outcomes. (It makes knowledge about how personal finances work more effective).
# The FSA Measure

**Instructions:**
For each of the following, please indicate how well do you know the exact value (dollar amount, interest rate, etc.) involved? (Please select N/A for any item that does not apply to you)

1. Your total net worth
2. Your monthly income (before tax)
3. Your monthly income (after tax)
4. Your retirement fund
5. Your total credit card debt
6. Interest rate on your credit card(s)
7. Current balance on your auto/car loan
8. Interest rate on your auto/car loan
9. Your total student loan debt
10. Interest rate on your student loan(s)
11. Amount of your monthly mortgage or rent payment
12. Your mortgage balance
13. Total amount spent on groceries last month
14. Total money in your primary checking account
15. The amount of money in your savings account(s) (including CDs)
16. Interest rate on your savings account(s) (including CDs)
17. Total amount of your investments in the stock market
18. Death benefit on your life insurance policy (how much money your beneficiaries will receive)
19. Total donations to charity last year

**Note:** Responses to the items were coded as follows: (2 = I know the exact value; 1 = I know the approximate value; 0 = I have no idea or N/A); The sum of all items composed the FSA score.
Main Lessons from our Work

1. Take a couple of hours (at least) to fully understand your current financial situation.
   • How much income did you earn annually in the past three years?
   • What debt do you have and how much of each type.
   • How much liquid savings do you have?
   • How much investment/retirement savings do you have?

2. Take another couple of hours (at least) to fully understand your spending patterns.
   • Use YNAB or Mint, or track spending yourself over last six months.
   • Make a budget and track spending in the future.

3. Spend some time regularly every month to monitor both 1. and 2.

Without knowing your personal financial situation well (on an ongoing basis), you really cannot make good financial decision, feel financially secure or prepare for retirement.
Uncertainty and concern about the future, sense of disempowerment, loneliness, sense of alienation.

More likely to occur among older retirees and those who are involuntarily retired.

Can affect how retirees make decisions
  - Elderly consumers are the most susceptible to frauds and scams, often because of their need to alleviate loneliness and feel valued, and sometimes because of cognitive impairment.
The Positive Retirement Mindset

• Empowerment, freedom, learning new skills.
• More likely to occur among younger retirees and those who are voluntarily retired.
• One 2015 study of 2000+ retirees found that over 80% of retirees indicated being happy, enjoying life and having a strong sense of purpose.
Retirement Preparation as a Process
With increasing longevity, retirement is a process that now spans several decades for many people.

Three stages of the retirement process

- Early active stage (Age: 65-74 years).
- Middle exploratory stage (Age: 75-84 years).
- Later supported stage (Age: 85+ years).

Retirement preparation means different things in each stage.
The “doing” years

- Traveling, visiting family, active hobbies
- Fairly active lifestyle – The storied “golden years” of retirement.
- Often involve the most drastic lifestyle changes and requires psychological planning and preparation.
- May include part-time employment or pro bono/volunteer work.
- Expenses are at similar levels to pre-retirement and can be the highest during the retirement process (as are resources beyond a pension).
  - Higher expenses on travel, hobbies, assisting children & grandchildren
  - Lower expenses on vehicles, professional accessories, retirement savings.
The Exploratory Stage of Retirement (Age: 75-84 years)

- The “middle years” of retirement
  - Diminishment of active lifestyle
  - Curtailment of work for pay or volunteer work.
  - Consolidation and development of day-to-day routines (important in providing comfort and security, and supporting good health).
  - Reduction in social interactions with family and friends.
  - Beginning of cognitive impairment, other health issues for some individuals.
- Spending diminishes, changes in patterns of spending.
  - Higher medical expenses and physical accommodations
  - Lower expenses on travel, home (downsized), and supporting family.
The “supported” years of retirement

• The open-ended last stage of life, increasing in length.
• Deterioration in health, cognitive decline.
• More time spent in home, and eventually in assisted-care facility.
• Concern about finances, specifically outliving them => spike in financial vulnerability.
• Dramatic drop in cost of living expenses, spike in healthcare expenses.
  • Higher medical expenses, long-term care costs
  • Lower travel, hobbies, entertainment.

Main Takeaways from the Talk

• Preparation for retirement is a life-long endeavor. It involves virtually every life domain from self-identity and health, to work and money.

• Financial vulnerability can affect retirement readiness and well-being in retirement adversely.

• Each of the four perspectives on retirement we considered – goal, lifestyle, mindset and process – provides useful insights to prepare financially for retirement.
Four Ways to Think About Retirement

- Lifestyle
- Goal
- Mindset
- Process
- Retirement
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