

How Gender and Personality Count in the Age of Who-Pays-Wins Retirement

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How to pay for retirement and old age is in high focus in the wake of the newly released Productivity Commission report, [Caring for Older Australians](#), which recommends a complete overhaul of the nation's aged-care system. Central to the aged-care revolution looks likely to be a user-pays model in which individuals with more means will be able to tailor their care to their budget and tastes. This applies greater pressure to save for retirement, something some people are better at than others, according to [Olivia Mitchell](#), a professor at the Wharton School at the University of Pennsylvania. New research shows that financial literacy, and the presentation of financial information, critically impact savings' ability, and so do personality traits, such as impatience. Gender may also impinge on financial outcomes. While studies across the world have shown women to be less informed on financial matters, at least they know what they don't know, Mitchell tells Julian Lorkin of Knowledge@Australian School of Business, whereas uninformed men are quite another matter.



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An edited transcript of the interview follows.

Knowledge@Australian School of Business: You are in Australia to deliver a seminar on how financial literacy and impatience shape retirement wealth and investment behaviours. Can I ask what you mean by being impatient?

Olivia Mitchell: Impatient in the context of retirement saving means that people don't focus on tomorrow, they're overly interested in gratifying their needs and desires today. And, even though they know they should save for tomorrow, they don't. That's the problem with impatience.

Knowledge@Australian School of Business: So do we need to separate financial literacy from being impatient or is there a connection between the two?

Olivia Mitchell: Both financial literacy and impatience have implications for retirement saving. We've shown in a number of other studies that people who are financially illiterate tend to not understand the value of compounding [interest], they don't understand the impact of inflation, and they don't really think about the future very effectively, so therefore they don't save. The issue with impatience is that people might well know what they should be doing but they fail to execute. And so we can identify two different factors in successful retirement saving.

Knowledge@Australian School of Business: How did you test this?

Olivia Mitchell: First of all we queried a nationally representative sample of people about their financial literacy. This happened to be in Chile, and we learned a great deal of things there. In addition, we designed a short experiment in which we asked people to fill out a three-page shopping questionnaire. If they did it on the spot they would get a gift card worth about \$5 and could take it to the grocery store. To those who said, "No I don't want to do it now, I want to do it later," we offered more money – \$10 – on the gift card, but only after they'd sent it in, in a post paid self-addressed envelope. So those who delayed gratification would get twice as much as those who wanted the gift card now. What we were interested in was who insisted on it now, who was willing to defer for a very high rate of return, and what that implied about their behaviours.

Knowledge@Australian School of Business: Could you initially tell as soon as you were talking to people that there were certain stereotypes of people who would go for instant gratification or the more literate people would want the better rate of return?

Olivia Mitchell: Unfortunately, people don't seem to wear an impatience scale on their chests, which would make it easier for us to figure out who needs help. But what we did find was that about half of the sample, even though they knew they could make double the money by waiting, said: "I want the gift card now." Maybe they knew they were busy, they had other things on their minds, maybe they needed the money now. So all those factors would contribute to irrationally deciding to take the gift card now. The other half of the sample said: "No, I want more later." The interesting thing was only about two thirds of those who deferred actually sent back the gift card. The others, who said they were going to be rational and defer gratification, never got around to it. And it's that intermediate group, the people who were not effective in executing their best-laid plans, those are the ones we found most interesting.

Knowledge@Australian School of Business: That's fascinating because they are obviously people who know what they should be doing, but just don't seem to be bothered.

Olivia Mitchell: I think that speaks to the reality that many of us have best-laid plans, but it takes a fair amount of initiative to get over inertia, to actually implement those plans. The other thing we found is that the people who were deferrers, but then couldn't carry through, had a number of other characteristics. For example, among the women, they were less likely to get annual checkups and mammograms, they were less likely to exercise, to invest in their health for the future. So there were a number of characteristics that suggested people who are impatient don't invest across a number of dimensions, which could be very important.

Knowledge@Australian School of Business: I understand you were testing financial literacy as well, what did you discover?

Olivia Mitchell: The strategy around financial literacy is to examine whether illiteracy makes people make bad decisions. Chile actually has a pension system that's quite similar to the Australian one – a superannuation scheme. They have to contribute 10% of their pay annually, but they're also allowed to top it up if they wish with voluntary savings, and they have some choice over the investments. The interesting thing is that in Chile there are five different investment managers, licensed managers, and they charge different fees because the fees aren't regulated.

The question was whether people were able to understand the fee structure and select the fund manager that would be best for them. To see whether financial literacy affected this choice, we presented them with information in two ways. Firstly we gave them five choices with fees expressed in terms of the commissions per year – the money they would not be investing due to the charges associated with each manager. In the alternative, we showed them how much money they would have when the fees and charges were taken out. We found that presenting these fees and charges in terms of the impact on the ultimate retirement account was much more effective. People really saw the gains and they selected the least cost fund manager. So how you frame the investment decision is very critical to retirement accumulation.

Knowledge@Australian School of Business: The debate over super fund fees and how they are presented is raging in Australia at the moment. Does it simply come down to saying you'll save this much? Do you need more information for people who are literate and can then try to work it out themselves?

Olivia Mitchell: We found the people who are most susceptible to different ways of framing the fees and commissions are the least financially literate, whereas people who are quite well-versed in financial matters are less sensitive to whether it's presented this way or that. Most of us are very concerned at getting people in the bottom half of the wage distribution to save more, so I think that's where it really pays to offer alternative ways to interpret the impact of saving for a retirement and the fees thereof.

Knowledge@Australian School of Business: Earlier you mentioned that you noticed some gender differences for people who are impatient, were there other differences in terms of age or gender?

Olivia Mitchell: We had expected that younger people would perhaps be more financially literate. And

there is some evidence in Chile that, after they reformed the school system, the next generation has been doing better than the prior generation. But, in a number of studies around the world, typically we find that women tend to be less financially literate than men. On the one hand, they're less versed in things like compound interest and inflation and so forth. On the other hand, they know they don't know, whereas men who don't know are very confident that they know the truth. So there's a very interesting gender difference in whether people perceive what they know and how confident they are about it.

Knowledge@Australian School of Business: That then provokes a question of how you address those people who assume that they know everything, but actually they know nothing at all.

Olivia Mitchell: It's always difficult to expose people to their own ignorance. There are a number of simple questions that we've devised that will help explore how much people know about risk diversification and compound interest and so on. Based on those questions, then one can target specific groups that are most in need of financial literacy.

Knowledge@Australian School of Business: It's quite clear that there seems to be a very direct connection between how financially literate people are and how much wealth they're going to have when they retire.

Olivia Mitchell: It's absolutely true that financial literacy is critical for planning for retirement and then planning in turn leads to more successful retirement accumulation. In the US, we've seen several states mandate financial literacy training in high school for students. And what we can show is that young people who grew up and were exposed to this training in those states do better planning and saving for retirement, and end up with more wealth than the kids who weren't. So you have to start young, don't give up on the middle aged or the old, but definitely invest in financial literacy.

Knowledge@Australian School of Business: And that financial literacy can be at a fairly basic level, so it only takes a few hours to educate people?

Olivia Mitchell: It can. It's always the case that the financial market place will think of more complex products, more elegant mortgages with more bells and whistles. So simple financial literacy certainly won't make you an investment banker, but for most of the decisions that consumers make – auto loans, credit card loans, mortgages and so forth – a little bit of knowledge can go a long way.

Knowledge@Australian School of Business: Olivia Mitchell, thank you very much.

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