

TAKING A LONGER VIEW OF RETIREMENT PREPARATION:

SKILLS IN ADOLESCENCE AS A FOUNDATION FOR ECONOMIC WELL-BEING AT MIDLIFE

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The decline in defined benefit retirement plans coupled with longer life expectancy has made personal retirement savings a crucial component of a secure retirement. Though many retirees can look forward to receiving Social Security retirement benefits, these benefits were not designed to be retirees' sole income source and will only replace about 40-45 percent of career-average earnings for the average worker.¹ Considering the increasing significance of personal retirement savings, it is important to understand the factors that support financial retirement preparation in the crucial midlife years.

Psychological factors in adolescence and financial retirement preparation at midlife

As the responsibility of preparing for retirement has shifted to individuals, how well they navigate this financial landscape has likely become more individualized, as well. A wealth of research has shown that individual characteristics, such as cognitive skills and psychological dispositions, are related to financial outcomes in general and retirement preparation in the U.S., specifically. Retirement preparation is a life course process, and an individual's retirement preparedness at midlife is an accumulation of a lifetime of experiences and decisions. Thus, this study takes a longer view of retirement preparation by incorporating individuals' early-life characteristics that influence their financial experiences and decisions across the life course.

This study investigates the types of early skills and dispositions that help individuals build financial security in the long run through better retirement preparation. I use longitudinal data from the High School & Beyond study, which follows a nationally representative cohort of U.S. high school sophomores from about age 16 in 1980 to about age 50 in 2014. Specifically, I examine how adolescent psychological factors are associated with different aspects of financial retirement preparation at midlife. I focus on four measures of retirement preparation that relate

¹ Tamborini, Christopher R., and Patrick Purcell. 2016. "Women's Household Preparation for Retirement at Young and Mid-Adulthood: Differences by Children and Marital Status." *Journal of Family and Economic Issues* 37 (2): 226-41.

to planning or savings behaviors: calculating retirement needs; having a balance-accumulating plan; the age savings commenced; and retirement account balances. By examining multiple outcomes and predictors, this research can elucidate how early psychological factors may influence retirement preparedness, and how this process may vary across different aspects of retirement planning and savings behaviors.

Math skills and academic achievement in high school show the most consistent long-term relationship with retirement preparation

This study finds that individuals' academic-related skills and psychological dispositions are associated with multiple aspects of financial retirement preparation at midlife. These relationships operate partially through adult characteristics such as educational attainment and household income, but independent relationships exist regardless of midlife socioeconomic factors. However, math skills and academic achievement are the only predictors that show a consistent, significant long-term relationship to all four aspects of retirement preparation: calculating retirement needs, having a balance-accumulating plan, the age people start saving, and the balance of retirement accounts.

Psychological factors associated with long-term planning behaviors vary slightly from those associated with savings behaviors

Though at least some measures of adolescent academic-related skills and psychological dispositions are significantly related to all four outcomes, the types of skills or dispositions that have long-term associations with retirement preparation vary across different aspects of planning and savings behavior. The specific psychological factors associated with retirement preparation outcomes related to *planning* behaviors are slightly different than those associated with outcomes related to *savings* behaviors. The distinction suggests that more general or higher-order cognitive skills and a greater sense of personal control may be more associated with planning behaviors, whereas early approaches to financial decision-making are uniquely associated with later savings behaviors.

Implications

- The findings underscore high school as a site for policy intervention in preparing workers for secure retirements.
- The importance of early psychological characteristics suggests that educational policies and programs focused specifically on financial management may be more effective if they are tailored to students' skills and dispositions.
- A focus on strengthening foundational math skills and improving academic achievement may yield the most substantial long-term benefits for students' future retirement preparedness.