Brief Report

Socioeconomic, psychological and demographic determinants of Australian baby boomers' financial planning for retirement

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Aim: Research from around the Western World has shown that psychological, socioeconomic and demographic factors can influence levels of financial planning. This study aims to determine how these factors interrelate to predict planning outcomes.

Method: Data from the Ageing Baby Boomers in Australia Study were used to examine the effects of multiple factors on financial planning for 709 employed Australians nearing retirement.

Results: The results showed that higher income, future time perspective (FTP) and financial knowledge independently predicted levels of retirement planning. The effects of FTP and financial knowledge on financial planning were consistent across levels of socioeconomic status.

Conclusions: While similar issues in financial planning appeared across socioeconomic status, a 'one size fits all' approach to retirement policy may not be effective. Instead, policy should be targeted towards the diverse needs of different groups. Raising public awareness of FTP and financial knowledge may provide a useful starting point.

Key words: future time perspective, retirement planning, socioeconomic status.

Introduction

The advancement of the post-World War II baby boomers towards retirement age has raised concerns for their financial security in later life. These concerns have led to a growing emphasis on the individual and their employer to be accountable for retirement finances while governmental responsibility remains focused on the poorest in our communities [1]. Changes in the balance of responsibility have coincided with research identifying the benefits of financial planning for well-being in retirement, independently of socioeconomic status [2]. With the benefits of financial planning assumed, research continues to examine the socioeconomic, psychological and demographic determinants of financial planning in order to better understand and promote planning outcomes [3]. But, despite the growing political and scholarly interest in financial planning, only limited research has

examined how the determinants of financial planning interact and combine to affect planning outcomes [4,5]. These interrelationships are the focus of the current study.

Socioeconomic status (SES) is widely known to influence levels of retirement investments, the likelihood of seeking professional financial advice, and even the act of thinking about retirement [6]. However, financial planning outcomes can also be influenced by psychological factors such as future time perspective (FTP) or the tendency to look to the future rather than focusing on the present or past [4,7]. According to Hershey and colleagues [4], those with higher levels of FTP undertake more financial planning for retirement as they find it easier to clarify their financial goals. Financial planning is also more evident in those with greater financial knowledge [8], those in relatively good health [9], men [10], those with a partner [6] and older workers [11]. Research has also shown that FTP, financial knowledge and demographic factors can predict levels of financial planning, even when socioeconomic status is accounted for [4].

Understanding the determinants of financial planning is complicated by the interrelationships between them. For example, lower socioeconomic groups tend to have less knowledge about retirement finances [12], lower levels of FTP [13] and poorer health [14]. Women also report having lower incomes, occupational prestige and educational qualifications than men. Thus, the effects of SES on financial planning may be partly explained by one's psychology, financial knowledge and personal circumstances (termed 'non-economic'). However, the weak to moderate relationships between SES and the non-economic determinants suggest that lower socioeconomic groups may still have the psychological resources and financial knowledge needed to plan for retirement. Those with fewer socioeconomic resources may not be able to plan to the same extent as their wealthier counterparts, but their other resources may still facilitate financial planning. Based on the research presented thus far we predict that:

Hypothesis 1: The effects of socioeconomic status on financial planning will be partly explained by the non-economic factors.

Hypothesis 2: Non-economic factors will predict financial planning for retirement independently of socioeconomic status.

Hypothesis 3: Non-economic factors will predict financial planning across different levels of socioeconomic status.

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Methods

Participants

This research draws on data from the Ageing Baby Boomers in Australia (ABBA) study. This study aims to better understand the diverse pathways into retirement, expectations for later life, and key factors in retirement preparedness for the front end of the baby boom generation. The participants comprise a randomly selected national sample of 1009 baby boomers aged 50–64. The participants were surveyed by telephone interview (random digit dialling) in 2009 (response rate = 67%) and those who self-identified as working for pay ($n = 705$) formed the basis for this analysis. This research was approved by the University of Sydney Human Research Ethics Committee.

Measures

The survey collected data on a number of issues including levels of financial planning, FTP, financial knowledge pertaining to Australian Superannuation, and a range of demographic and personal variables. *Financial planning* was measured with a single item: 'How much have you planned financially for retirement?' This variable has been used as an indicator of financial planning in a number of large-scale studies including the American Health and Retirement Study and the New Zealand Health, Work and Retirement Study. Responses were scored on a 4-point scale ranging from 'very little' financial planning to 'a lot' (mean = 2.6, standard deviation (SD) = 1.03). A single variable was also used to assess *future time perspective*. In this instance, the participants used a 5-point scale to indicate if they disagreed or agreed with the statement: 'When you think about retirement, you have the attitude that the future will take care of itself' (mean = 3.3, SD = 1.3). For *financial knowledge*, participants indicated if they knew about tax-free bonuses for deferring the old age pension, tax-free exemptions on superannuation, and the right to access superannuation while still in the workforce. The more policies the participant was aware of, the higher they scored on the financial knowledge variable (mean = 1.7, SD = 1.0). In addition, participants were asked to rate their *subjective health* on a 5-point scale ranging from 'poor' to 'excellent' and their *household income*, *occupation* and highest level of *education* were also assessed. For analytical purposes, occupations (as measured

by the Australian and New Zealand Standard Classification of Occupation) were combined to form two broad socioeconomic status categories referred to as non-manual, 'white collar' workers (i.e. professionals and managers (45%)) and manual, 'blue collar' workers (i.e. community and personal service workers, clerical and administrative workers, sales workers, technicians and trade workers, and machinery drivers (55%)).

Analysis

Hierarchical regression was used to test the hypotheses. Financial planning was firstly regressed on the socioeconomic variables (step one) and on FTP, financial knowledge and demographic variables (non-economic) at step two. Significant beta coefficients for the non-economic variables at step two were considered supportive of hypothesis one. A significant reduction in variance explained by the socioeconomic variables from step one to step two was considered supportive of hypothesis two. To test hypothesis three, interaction terms were created between each of the socioeconomic variables and FTP and financial knowledge. Non-significant interactions indicate that FTP and financial knowledge have the same effect (slope) on financial planning regardless of socioeconomic circumstances, therefore providing support for hypothesis three.

Results

Financial planning was significantly correlated with all of the independent variables except age and sex, and the majority of the independent variables were significantly correlated as expected (Table 1).

Hypothesis one

Household income and occupation remained as significant predictors of financial planning when the other study variables were controlled for (Table 2). However, the effects of household income on financial planning were reduced from $\beta = 0.3$ to $\beta = 0.2$ when the other variables were entered into the equation.

Hypotheses two and three

Future time perspective, financial knowledge and health predicted financial planning independently of household

Table 1: Correlations between the study variables

	Financial planning	Income	Education	Occupation	FTP	Financial Knowledge	Health	Marital status	Age
Income	0.34								
Education	0.09	0.24							
Occupation	-0.19	-0.37	-0.38						
FTP	0.21	0.15	0.10	-0.06					
Financial Knowledge	0.29	0.21	0.10	-0.07	0.11				
Health	0.15	0.16	0.14	-0.11	0.05	0.06			
Marital status	0.21	0.48	0.04	-0.10	0.10	0.08	0.05		
Age	-0.03	-0.25	-0.08	0.06	-0.07	0.14	0.01	-0.02	
Sex	-0.05	-0.11	0.01	0.07	0.05	-0.08	0.12	-0.10	-0.01

Correlations greater than 0.08 are significant at $P = 0.05$ and correlations greater than 0.1 are significant at $P < 0.01$. FTP, future time perspective.

Table 2: Hierarchical regression of financial planning on the study variables

	Step 1 β	Step 2 β	Step 3 β
Income	0.3*	0.2*	NS
Education	NS	NS	NS
Occupation	0.09***	0.1***	NS
FTP		0.1**	NS
Knowledge		0.2*	NS
Health		0.07***	NS
Marital status		NS	NS
Income $\times$ FTP			NS
Income $\times$ knowledge			NS
Education $\times$ FTP			NS
Education $\times$ knowledge			NS
Occupation $\times$ FTP			NS
Occupation $\times$ knowledge			NS
Adjusted R^2	0.1	0.2	0.2
ΔR^2		0.08*	0.00

* $P < 0.001$, ** $P < 0.01$, *** $P < 0.05$. FTP, future time perspective; NS, not significant.

income. None of the interaction terms were statistically significant (see Table 2).

Discussion

Socioeconomic and psychological resources, financial knowledge and demographics each play an important role in predicting levels of financial planning for retirement. Higher income was independently related to financial planning, but a significant proportion of this relationship was explained by the non-economic factors. Conversely, the tendency to look to the future and financial knowledge predicted aspects of financial planning that could not be explained by differences in socioeconomic status. Finally, the relationships between FTP, financial knowledge and financial planning remained consistent across levels of SES.

These findings suggest that financial planning for retirement is not only about wealth [5–8]; it also requires knowledge of financial systems [15] and psychological resources to plan and build financial assets for retirement. Those with fewer socioeconomic resources were planning less than their wealthier counterparts, but a tendency to look to the future, knowledge of Australia's superannuation system and support from a partner may still assist disadvantaged groups maintain their pre-retirement standard of living into later life. Indeed, the maintenance of living standards has been shown to be a better predictor of retirement satisfaction than absolute levels of household income [16].

Retirement policy and planning initiatives may be most effective if they are tailored towards specific socioeconomic groups. For example, those with fewer resources tend not to utilise professional planning services [17]. Therefore, calls for more education are unlikely to benefit the most at-risk groups. Instead, public campaigns, such as those addressing women's relatively low superannuation balances, could raise awareness of the financial incentives for superannuation and to encourage future thinking. The consumption of this material may be particularly beneficial for lower socioeconomic

groups as even a small amount of financial planning can lead to positive outcomes in retirement [15].

In order to better understand the determinants of financial planning for retirement, research with more detailed measures of financial planning [5,18] and with additional correlates is required. For example, measures of perceived control and attitudes towards retirement may explain some of the remaining 80% of the variance in financial planning [6,19]. Future research may also benefit from the focused study of lower socioeconomic groups. Although those with limited resources and Culturally and Linguistically Diverse groups are under-represented in research, they signify those most at risk for extreme poverty and therefore warrant further attention, particularly in terms of their non-financial resources. Finally, the null findings for sex and age were contrary to expectations, but this may be due to a selection effect. For example, there were no, or only small sex differences in income, occupational and marital status despite national population estimates to the contrary [20]. Therefore, research with larger, more representative samples is also required.

As the number of retirees will rapidly increase over the following two decades, it is unlikely that individual responsibility for retirement finances will abate. Those with limited resources will likely remain at risk for negative outcomes unless policy is tailored to meet the specific needs of these groups. Our results suggest that the benefits of future thinking and financial knowledge prevail across social economic status. These determinants of financial planning represent two important areas to improve planning outcomes and the future well-being of the baby boom generation.

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Key Points

- Socioeconomic status, FTP and financial knowledge were independent predictors of financial planning for retirement.
- FTP and financial knowledge predicted financial planning across all levels of socioeconomic status.
- Different socioeconomic groups face similar issues in retirement planning.

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