Short-Term Goals vs. Retirement Savings

Too many focus on immediate needs versus saving for retirement

American workers find it difficult to save for retirement because their distant financial needs tend to take a backseat to more immediate economic concerns, even if they have their day-to-day finances under control or are financially literate, according to a study by the Center for Retirement Research at Boston College.

In the issue titled: "Are Americans of All Ages and Income Levels Shortsighted About Their Finances?" researchers Steven A. Sass and Jorge D. Ramos-Mercado analyzed the results of a FINRA Investor Education Foundation survey to determine how Americans balance the need for long-term saving with their current financial concerns. The survey sample included 9,473 households in which the main respondent was between the ages of 25 and 60.

The Study

To examine the question of whether the financial assessments of workers at all income levels are shortsighted, the study created three age groups (25-34, 35-50, and 50-60) and divided each age group into terciles (three groups) based on household income, adjusted for household size.

The study looked at the respondents' answers to questions about how satisfied they are with their personal financial condition, and about the extent to which they are able to meet specific day-to-day and distant financial needs.

The indicators used for day-to-day problems were "difficulty covering expenses," "heavy debt burdens," "unemployment," and "inability to access $2,000;" while the indicators used for distant problems were "no retirement plan," "no life insurance," "no medical insurance," "mortgage underwater," "not saving for college," and "concern about repaying student loans."

Financial Problems Varied More by Income

Not surprisingly, the analysis showed that the incidence of financial problems varied much more by income than it did by age, as deficiencies were much more prevalent in lower- than in higher-income households.

For example, the findings indicated that 80% of households in the bottom income tercile, but only 33% of households in the top income tercile, reported that they were have difficulties covering expenses.

However, the results also showed that among respondents of all income levels and age groups, having problems with day-to-day expenses was associated with large statistically significant reductions in financial satisfaction, whereas the relationship between financial satisfaction and distant problems was much more muted. Among the distant problems, only not saving for college and not having medical insurance were associated with statistically significant reductions in satisfaction in all three age groups.

The findings further indicated that the relationships between financial assessments and specific deficiencies varied much less by income than they did by age, with people of different ages having different concerns.

For example, the inability to access $2,000 and the inability to repay college loans were associated with much larger reductions in satisfaction at younger ages, whereas having heavy debt burdens and an underwater mortgage were associated with greater reductions in satisfaction at middle and older ages.

Financial Planning Matters

The major exception to this pattern was in the area of retirement planning: the results indicated that there was no relationship between having no retirement plan and financial satisfaction among workers in any age group, and that having no retirement plan was associated with a statistically significant reduction in financial satisfaction among respondents in the top income tercile only.

Sass and Ramos-Mercado concluded that Americans of all ages and income levels appear to be shortsighted about their finances. The authors therefore recommended that steps be taken to make it easy and automatic for households to save enough to secure a basic level of financial well-being in retirement.