

# Survey Says ... - Poll Highlights What Participants Think They Know

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It's no secret that a large percentage of Americans don't fully comprehend basic financial topics. The results of the Retirement Income Literacy Survey conducted online last year for the American College weren't heartening.

## Key Results

According to the survey results, 80% of respondents couldn't answer more than six out of 10 questions correctly. Even more startling, nearly three-fourths (71%) failed to answer at least four out of 10 correctly.

The study also found that respondents had a high level of "false confidence" in their financial knowledge. This in turn created an obstacle to effective retirement planning. What can be done to narrow this knowledge gap? Plan sponsors may want to consider surveying plan participants about their retirement literacy.

## Areas of Deficiencies

The survey found three top areas of deficiency:

1. Steps to take before retirement to improve financial security in retirement. Mistakes before retirement can greatly affect decisions during retirement. For example, is it more effective to work two years longer than the normal retirement age, defer Social Security, or increase contributions by 3% for five years before retirement? Just 30% correctly answered that working longer or deferring Social Security was the better choice.
2. Investment products. As the study suggests, poor investment decisions affect the accumulation of retirement savings. And without correct knowledge, participants are more likely to make poor investment decisions. For example, just 39% correctly answered that increased interest rates decrease the value of bond funds. In addition, the survey found that 31% understood that fees will be lower in exchange-traded funds than in actively managed mutual funds.
3. How to preserve assets in retirement. To start, more than half of those responding underestimated the life expectancy of a 65-year-old man. If participants don't know how long they might live, it's hard to realistically predict how long their assets will need to last.

## Other Literacy Confusion

In addition to the three key areas of concern previously discussed, the survey found other areas that retirement plan participants may not fully understand. For example, while family members generally pay the bulk of long-term care costs, just 35% of those surveyed knew this.

Other survey areas covered Social Security benefits, tax strategies that maximize retirement savings and how to use annuities as part of a retirement income strategy. And in each area, again, participants felt confident about what they knew, yet survey results indicated this confidence was misplaced.

## Education is Key

As the study's authors conclude, financial literacy is urgent. Life expectancy has increased, and Social Security income will most definitely decrease. But armed with the survey results, plan sponsors can tailor educational efforts accordingly.