# Yes, we know!The relationship between (under-)confidence in pension knowledge and retirement savings decisions.

Inka Eberhardt  Rob Bauer
Adam E. Greenberg  Paul Smeets

Discussion by
Mariacristina Rossi

University of Turin and CeRP - CCA
MOPACT Final Conference

September 8, 2016

# Summary

- Under Saving is considered to be one of the main weak aspects of retirement age
- Policies aimed at increasing savings should have a different focus if perceived knowledge, rather than actual knowledge, drives savings behavior
- The authors use a survey among Dutch employees in retail sector. Data are relevant as a lack of retirement savings is a problem in the Netherlands: every third Dutchman saves too little for retirement (de Bresser and Knoef, 2015).
- Interviewed employees are on average lower educated and most are female, which is the group with the lowest pension savings (Knoef et al., 2016)

- The survey allows to determine an indicator of pension knowledge, both ojective and perceived.
- Authors determine whether each survey participant is in the upper or bottom half of the score distribution and compare this objective measure with the participants own estimation
- Focus on FL/specific knowledge versus self confidence of being knowledgable
- As stated by the Authors, causality is not studied, instead correlation is proven
- Adding risk preferences and time preferences does not change the results

# Literature and New Results

- Is it Financial Literacy/pensions knowledge, or *confidence* in pension knowledge that is driving retirement decisions?
- Different policies will depend on the answer
- Moderately optimists seem to have higher expected returns from their savings (Puri and Robisnon 2007). Over optimistic people tend to perform worse as they underestimate the risk
- Hadar et al (2013) show that increasing knowledge might lead people to realize how little they know, this channel pointing at a reduction in their confidence
- Authors' Findings show that:
  - "Expected Half: Best" always significant and positive, while actual ranking and interactions are not
  - Financial literacy is not significant

# Key Variables

- Dependent Variables
  - *Have you saved additionally for your retirement in the last three months? (0/1)*
  - *How likely are you to save additionally for your pension in the coming 12 months?*
    Scale 1 (extremely unlikely) to 10 (extremely likely).
- Big 3 financial literacy questions: they test participants' knowledge of interest rates, inflation and the benefit of diversification in investing, see Lusardi and Mitchell (2008, 2007a, 2011a)
- The authors are able to assess employees' knowledge of their pension plan by asking five questions on topics such as:
  - the employees' and employers' contribution rate
  - mobility of accrued pension rights and replacement ratios.

# Perceptions

- Based on your points, do you think you will belong to the best or the worst half of all participants? **45.1%** answered that they think they belong to the best half. For **62%** of the sample objective and subjective evaluation coincides. **18.3%** are over confident and **20%** over -confident
- In order to determine whether participants are overconfident or underconfident, they compared the participants belief to their actual score
- Men are more confident as in line with the literature
- Results show that confidence, rather than actual knowledge, matters more

# Comments (1)

- Dependent variable: any saving in the last three months and intensity of savings (intention). Adding age squared could help. Relationship should be hump shaped, thus non linear in age
- Could self confidence be capturing an age and/or wealth effect (older people become more confident)
  - Could better proxy for wealth drive to different results? How is wealth measured?
- More explanation needed to elaborate the confidence channel. Could it be that over confident people over emphasize their ability to save?
- Is saving for retirement considered cool? Can it depend on the saving question framing?
  - More confident people could over estimate their being cool without necessarily acting in a cool way (saving).
  - Does the intention to save proxy well the retirement preparedness?

# Comments. (2)

- Why should more financial literacy lead to higher savings? this channel should be at work only for those who have to optimally save. It would be useful to try to indentify the different subsets, for example with age brackets. The effect should be different according to the stage of the life cycle
- What if interacting the age effect with actual knowledge as the realtionship being non linear could be "known" only by the knowledgable ones. Is it the case?

# Comments (3)

- Financial literacy has a negative impact on the intensity of saving
- This could reflect, as said by the authors, less need of savings as they have already enough wealth
- how is wealth proxied?
- is home onwerhsip considered?