Yes, we know!

The relationship between (under-)confidence in pension knowledge and retirement savings decisions

Rob Bauer[*], Inka Eberhardt[*], Adam Eric Greenberg[†] and Paul Smeets[*]

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[*]Department of Finance, School of Business and Economics, Maastricht University, Maastricht, The Netherlands
[†]Department of Economics, University of California, San Diego

1 Summary

After the financial crisis, plans to reform the Dutch retirement system set out to shift the responsibility of investment risk from the employer and the pension fund to the employee. However, a third of the Dutch saves too little for retirement (de Bresser and Knoef, 2015). Van Rooij et al. (2012) have stated that financial literacy is positively correlated with household net worth and retirement planning, suggesting that confidence in financial literacy might play a role in savings decisions. However, Fernandes et al. (2014) found that financial literacy and financial education rarely influence financial decision-making. Therefore, we aim to assess whether pension knowledge (i.e. knowledge on their pension scheme) or confidence in such knowledge influence savings behavior.

This paper examines the relationship between knowledge (and confidence in knowledge) and choices related to retirement savings. We use a survey among Dutch employees in the retail sector to shed a light on this topic. Using "Big 3" financial literacy questions and survey questions that assess employees' knowledge of their pension schemes, we are able to distinguish between general and specific pension knowledge. Importantly, we also obtained a direct measure of confidence by asking whether the survey participant thinks that he or she belongs to the best- or to the worst-performing half of pension quiz respondents.

We find that 20% of our sample is underconfident: they think that they belong to the worst half while actually belonging to the best half. In accordance with the hypothesis and the findings of Van Rooij et al. (2012)), we find that low confidence in pension knowledge is negatively correlated with retirement savings decisions and intentions. Interestingly, in line with Fernandes et al. (2014)), the actual score on the pension quiz does not predict savings behavior or intentions. Our main finding is that confidence in knowledge matters for savings behavior, while actual knowledge is not correlated to savings behavior. This is robust when controlling for other factors such as goal clarity (measuring the degree to which participants have thought about their retirement life). The conclusive policy implication is not only to focus on educating people, but also to increase their confidence in their existing pension knowledge.

References

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