

Retirement: Feast or Famine?: Factors Associated with Retirement Planning

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Abstract

With the percentage of people over 65 expected to double between 2001 and 2051, and with less than half of all households currently saving, understanding the triggers that cause an individual to adjust current spending or saving patterns and re-direct money towards saving for a post-working life is vital. Similarly determining if gender differences exist in pre-purchase decision-making for saving for retirement is invaluable for the development of marketing and communication campaigns to encourage consumers to save for retirement. Focus group research revealed that there are factors that do have a greater impact on consumer's savings behaviour for retirement, whilst other factors are of less significance; significant gender differences were not found. Contributions of the research and recommendations for future research are discussed.

Introduction

It is predicted that between 2001 and 2051 the percentage of people over 65 will have doubled from 12.4% of the population to 24.2% (ABS Catalogue No. 4109.0). This trend of Australia's ageing population is similar to that of other developed countries and is due to a fall in fertility rates and an increased life expectancy (ABS Catalogue No. 4109.0). As the ageing of Australia's population and the associated costs of retirement are increasingly important economic issues, gaining greater understanding and insights into consumer behaviour on this topic is crucial. This research explores the problem of pre-purchase decision-making in the context of saving for retirement. The purpose of this study is to explore what factors motivate consumers to save for retirement.

Given the importance of this issue the focus of the study was to gain insights into the triggers that cause consumers to save for their retirement. Thus the research problem was identified as, *What factors influence consumer decision-making in the financial preparation for retirement and are there gender differences?* To answer this question existing consumer behaviour literature was examined, both broadly then more narrowly in the field of services marketing and ultimately financial services marketing. Eight focus groups with a total of 55 participants were held in Sydney. Focus group transcripts were analysed enabling the researchers to develop a proposed model for saving for retirement. Finally, contributions to academic knowledge as well as suggestions for further research were developed. The results of this study are presented in this paper.

Existing Literature

Early consumer decision-making models tended to be based on the process associated with purchasing goods, so when Fisk (1981) adapted the Engel Kollat and Blackwell (EKB) model of consumer decision-making specifically for the consumption of services he recognised that the

process prior to a service encounter is not a linear one, but rather a composite of factors and activities that lead to the decision to purchase a service – an important and critical difference between goods and services pre-purchase decision-making. Understanding this pre-purchase phase, and the consumer thinking processes including motivations and expectations, is vital as it determines whether or not a consumer will progress through the decision-making process to actually buy the service, yet it is a relatively under-researched area (Betts, 1994; Bruner & Pomazal, 1988; Gabbott & Hogg, 1994; McKechnie & Harrison, 1995; Murray, 1991; Punj & Srinivasan, 1992).

Studies have found that consumer expertise/knowledge (Byrne, 2005; Howcroft, Hewer & Hamilton, 2003; Perry & Morris, 2005), gender, marital status, age, education (Gough & Sozou, 2005), and perceived risks (Diacon & Ennew, 2001) influence the behaviour of a consumer purchasing financial products or services. Similarly, the importance of personal sources of information in the pre-purchase decision-making process for consumers of services is established (Freiden & Goldsmith, 1989; Friedman & Smith, 1993). However, pre-purchase decision-making in services is not only characterized by the greater propensity of consumers to seek personal sources of information and a preference for experience to assist in the decision-making process (Murray, 1991), but also a higher level of risk (Hill & Neeley, 1988).

On the subject of risk, there is clear evidence to show that services have a higher degree of perceived risk when compared directly with goods (McColl-Kennedy & Fetter, 1999; Mitchell & Greatorex, 1993; Murray, 1991; Murray & Schlacter, 1990; Turley & LeBlanc, 1993; Zeithaml et al, 1985) which directly and positively correlates to information search and purchasing decision. That is, the greater the perceived risk, the greater the information search (McColl-Kennedy & Fetter, 1999; Turley & LeBlanc, 1993), and the subsequent delay in making a purchasing decision. When applied to a complex financial services environment significant delay in decision-making are likely as perceived risks would be great for products or services associated with saving for retirement.

With reference to gender, it has been shown that the way in which males and females process information is different (Meyers-Levey & Maheswaran, 1991; Meyers-Levy & Sternthal, 1991) and further that these differences do have implications in the pre-purchase decision-making process for financial services (Graham et al, 2002; Clark-Murphy & Gerrans, 2002). Moreover, research has shown single women are less prepared financially for their retirement (ANOP Survey, 2004) and are more risk averse (Bajtelsmit, Bernasek & Jianakoplos, 1999; Gerrans & Clark-Murphy, 2004; Jianakoplos & Bernasek, 1998). However, the issue of gender and risk-taking is complex. For example Bajtelsmit and Bernasek (1996) suggest that gender risk differences “have their root in discrimination and/or differences in individual preferences” (p.5), whilst Schubert et al’s (1999) findings strongly suggest that when researching gender and financial risk-taking, context also has an important influence. Similarly, the Gerrans and Clark-Murphy (2004) study found “the gender effect is not uniform and can be demonstrated as depending on marital status, whether the member considered themselves informed and age” (p.27).

Research Methodology

To examine the three research issues, qualitative research in the form of focus groups was used to explore the topic. This was considered the most appropriate research technique because of the exploratory nature of the study and the rich data that could be obtained from the interactions that occurred in the group discussions. In total, eight focus groups were conducted with a total of 55 participants. The main segmentation variable was gender. Consequently, four male and four female groups were held (M=29=53%) with respondents aged between 25-55 years old. Age and marital status were also used to segment groups in order to increase homogeneity within each group. The data from these discussions was transcribed, analysed, interpreted and grouped into themes broadly matching the internal, external and risk factors associated with pre-purchase decision-making theory in services (Punj & Srinivasan, 1992; Kurtz & Clow, 1998).

Research Results

The understanding and insights from this research builds upon findings from previous studies undertaken in the area of consumer behaviour and the purchase of financial services. Previous work tells us that lifecycle stage (Javalgi & Dion, 1999), type of financial product being purchased (Beckett, Hewer & Howcroft, 2000; Howcroft, Hewer & Hamilton, 2003), consumer expertise/knowledge (Byrne, 2005; Howcroft, Hewer & Hamilton, 2003; Perry & Morris, 2005), gender, marital status, age, education (Gough & Sozou, 2005), and perceived risks (Diacon & Ennew, 2001) influence the behaviour of a consumer purchasing financial products/services. This research was unique in that it was focused in its examination of pre-purchase decision-making, and as a result was able to identify causal factors that would influence a consumer to save for their retirement. These insights demonstrate that there is not necessarily a direct correlation between a consumer 'want' and positive buyer behaviour as conflicting needs and wants over-ride what could be perceived as sensible decision-making.

As the proposed new model reveals, there are a total of nine factors that influence a consumer's likelihood of saving for retirement. Importantly, three of these factors - financial, functional and psychological risk - negatively influence consumer behaviour causing consumers to either hesitate, undertake a more extensive information search, or simply to do nothing proactively to save for retirement. Furthermore, the study revealed that there are numerous competing options to saving for retirement, including children's education, overseas holidays, and simply, wanting to enjoy life today – the “here for a good time not a long time” mentality.

The importance of personal sources of information, particularly family members was evident in the focus group discussions and adds to knowledge from previous studies in this area (Freiden & Goldsmith, 1989; Friedman & Smith, 1993; Murray, 1991) where personal sources of information were identified as important for the purchase of financial services. Similarly, early work investigating services versus goods consumption (Murray, 1991) suggested consumers of services sought more information prior to purchase compared with consumers of goods. Whilst this was not a comparative study, findings do suggest that potential consumers of financial services do require information and education before comfortably and confidently making a decision to buy.

In terms of motivations to save, age, spare money, tax incentives and the government's co-contribution all had a positive impact on the behaviour to save for retirement. The implications of this are that until a person reaches a certain age, has what is perceived to be spare money to put into long-term savings or take advantage of the government co-contribution, or is provided with a tax incentive, there is not a motivation to save for retirement. It is also important to acknowledge and recognize the importance of marriage on the decision to save for retirement whilst also understanding that the males and females in this research appear to have very similar triggers to change their retirement saving behaviour.

Whilst this suggestion of gender uniformity confirms findings in Australian (Ferris, 2000; Gerrans and Clark-Murphy, 2004; Olsberg, 2004) and Swiss (Shubert, Brown, Gysler, Brachinger, 1999) studies whereby gender does not have a uniform effect on decision-making for the purchase of financial services, it also suggests there may be cultural differences as U.S. studies tend to show gender is a significant factor in allocation of wealth and asset contributions in defined contribution plans (Bajtelsmit, Bernasek, Jianakoplos, 1999; Sunden and Surette, 1997).

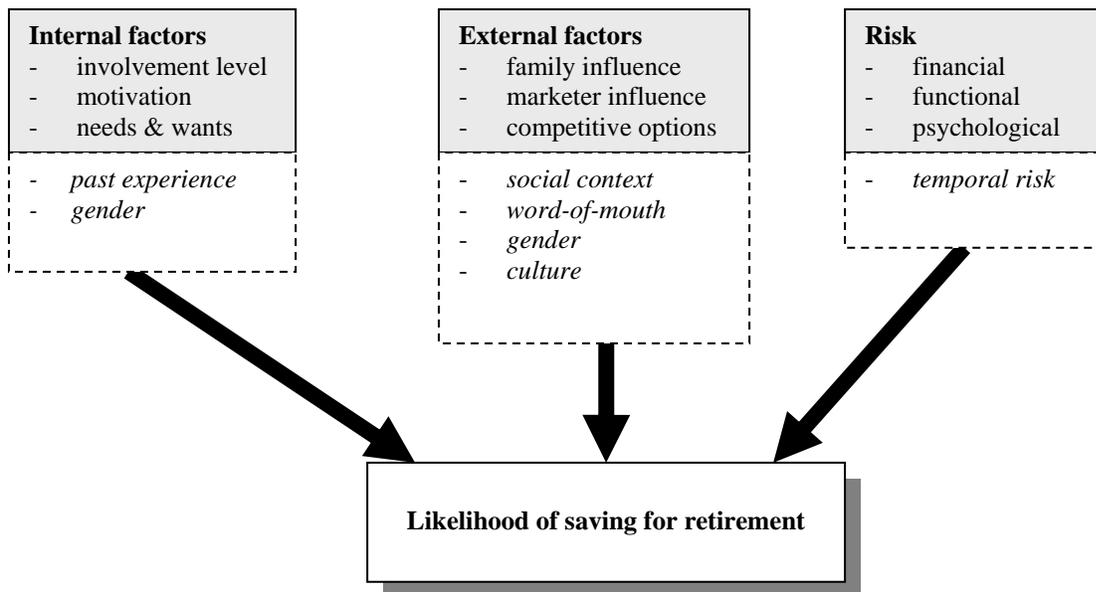
A Proposed Model for Saving for Retirement

This proposed model (Figure 1) identifies the internal, external and risk factors that have the greatest impact on whether or not a person will save money for their retirement (shaded boxes). At the same time, it recognizes that there are other factors which have an influence, albeit to a lesser degree. These less influential factors are contained within the unshaded, dashed boxes. An overall measurement of the behaviour associated with saving for retirement could be the number of investment-based products purchased, including superannuation, investment properties and shares.

Contribution

As this is exploratory research, generalising from 55 participants to population is problematic. Consequently, the research contribution is primarily to existing academic knowledge. Whilst services marketing is broadly recognized as a discipline per se (Gabbott and Hogg, 1994), there is limited literature available regarding consumer decision-making processes within services (Betts, 1994; Gabbott & Hogg, 1994; McKechnie & Harrison, 1995; Murray, 1991). The literature available on consumer decision-making in financial services, and in particular pre-purchase decision-making in financial services is also extremely scarce (Byrne, 2005; Harrison, 2003). Therefore, at a minimum, this research commences the discussion in these under-developed areas of theoretical knowledge. From a services marketing perspective, the study is useful for the insights it provides on consumer behaviour triggers for the purchase of complex services and for the purchase of products or services where the benefits of buying will not be realized for many years. Other services that could fall into this category include education and health or life insurance.

Figure 1 Proposed Decision-Making Model for Saving for Retirement



Research Limitations and Areas for Further Research

The research is limited in a number of ways. Firstly, the relatively small sample size (55 participants) of this study means that care must be taken in generalizing findings to the broader population. Secondly, this is an Australian study; therefore the participants discussed the topic in the context of the Australian social, cultural and political environment. Consequently, results may not be applicable or relevant in different social, cultural or political circumstances. Finally, whilst there were participants with a range of ethnic and cultural backgrounds, this was not a key consideration in the study. Once again this means extrapolating results to Australians with different ethnic origins is not recommended.

An outcome of the data analysis was the importance placed on marriage, life cycle stage and age in determining whether or not participants saved for their retirement years. Further research would be valuable to better understand the importance of these demographic factors on saving for retirement. Other possible areas for further research include: examining the impact of personality, social class or ethnicity on the decision-making process; gaining an understanding of saving purposes and priorities and the point at which saving for retirement is a consideration and priority; and finally it would be valuable to develop a survey instrument based on these findings and undertake a quantitative study to assess the proposed model.

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