

Retirement: Why Delay? Insights into the Consumer Decision-making Process

**C.M. Rickwood, L. White, University of Sydney
K. Hughes, Macquarie University**

Abstract

This study brings together both consumer behaviour and economic psychology literature to gain insights and understanding of the consumer decision-making process in the context of saving for retirement. Three research questions concerning the reasons that consumers delay saving for retirement; use a financial planner; and save but do not use a financial planner, directed the research. A factor analysis of 194 usable questionnaires led to a typology of 10 components divided between three groups correlating directly with the research questions. A key component that emerged in the factor analysis is the role of risk in delaying decision-making when financially planning for retirement. This exploratory research suggests that there are at least 11 factors associated with pre-purchase decision-making that cause consumers to delay decision-making or to take action with regard to saving for retirement.

Introduction

Of issue to governments globally is the ageing of the population because of the broad range of economic and social implications including: economic growth; savings; investment and consumption; health and health care; housing; and, family composition and living arrangements (UN 2001). To address the economic consequences of an ageing population the Australian government has developed a three pillars approach to preparing Australians financially for retirement – the Age Pension, Superannuation Guarantee Charge (SGC) and personal savings (Kelly and Toohey, 2002). Yet, in the same report it was found that “in 2001 less than half of all households reported they were currently saving” (Kelly and Toohey, 2002 p.iii).

The focus of this study was to gain insights into both the general behaviour associated with saving for retirement, and more specifically, the reasons consumers may or may not choose to purchase the professional services of a financial planner. Thus, three research questions formed the basis of the survey: (1) Why don't consumers save for retirement?; (2) Why doesn't a consumer seek professional advice from a financial planner to assist them in preparing financially for retirement?; and (3) What causes a consumer to seek professional advice from a financial planner to assist them in preparing financially for retirement?

Literature Review

The complex interdisciplinary nature of consumer behaviour (CB) drawing on the fields of psychology, sociology and economics (Schiffman *et al.*, 2001) leads to challenges in understanding cause and effect relationships, and providing explanations for consumer purchasing decisions. The models designed to explain CB such as those of Ajzen (1991), Engel (1986) and Fisk (1981) do however provide consumer behaviour researchers with a useful framework with which to examine the factors that influence buyer behaviour. In this

study the researchers have chosen a 'positivist' information processing approach and aim to expand existing knowledge and gain greater understanding of the precursors to a consumer making the decision to purchase - the pre-purchase decision-making process according to Kurtz and Clow's (1998) model. That is, the circumstances most likely to influence whether or not a consumer will adjust their existing behaviour, and utilise or buy services that will provide long term benefits - a financially comfortable retirement lifestyle. Within this pre-purchase stage of decision-making, the study has focused on the causes of delay and the triggers that end procrastination.

The subject of retirement is topical, particularly regarding the inequities of superannuation balances amongst men and women (Anthes and Most, 2000; Clare, 2004; Ginn, 2003; Power, 2004). However, whilst it has only gained political and public attention in recent years, the study of consumer attitudes and behaviour regarding money and saving has been occurring for over 20 years within the field of economic psychology (Canova, Rattazzi, and Webley, 2005; East, 1993; Lindqvist, 1981; Livingstone and Lunt, 1992; Lunt and Livingstone, 1991; Prince, 1993; Sakalaki, Richardson, and Bastotnis, 2005; Tokunaga, 1993; van Raaij, 1981; van Veldhoven and Groenland, 1993; Webley and Nyhus, 2006). Consequently, this study draws on both the information processing approach to consumer behaviour as well as learnings from the economic psychology literature to investigate the factors which affect decision making delays.

Methodology

A survey was conducted in Sydney, Australia and a factor analysis undertaken in order to address the research questions. The Questionnaire was distributed to 452 individuals aged between 20 and 70 years old with a total of 225 surveys returned (50% response rate). After review there were 194 usable questionnaires (43% effective response rate) for statistical analysis. The survey was based on the work of Greenleaf and Lehmann (1995) with amendments made to ensure relevance to the subject of saving for retirement and also to incorporate findings and understandings gained from previous research (Rickwood and White, 2006). The questionnaire enabled respondents to self-select the section they answered based on their current stage in the decision making process for preparing financially for retirement. The three groups captured responses from different decision making stages.

- *Group One:* individuals who are currently not making any financial plans related to retirement (76 respondents; males = 33%)
- *Group Two:* individuals who are planning financially for retirement and are not using a financial planner (68 respondents; males = 41%)
- *Group Three:* individuals who are planning financially for retirement and using a financial planner (50 respondents; males = 48%)

Results

The items in each of the three stages of the decision making process for retirement were subject to Principle Components Analysis (PCA) using SPSS 15.0. Prior to performing the PCA the suitability of each of the sets of the data for factor analysis was confirmed through examination of the correlation matrixes, the Kaiser-Meyer-Okin (KMO) Measures of Sampling Adequacy and Bartlett's Test of Sphericity. Results are summarised in Table 1.

Table 1: Confirmation of Data Suitability for Factor Analysis

	<i>Group One</i>	<i>Group Two</i>	<i>Group Three</i>
Number of Respondents	76	68	50
Number of Items	11	29	18
Correlation Matrix	Range 0.3 to 0.7	Range 0.3 to 0.7	Range 0.3 to 0.7
KMO	.512	.615	.539
Bartlett's Test	0.000	0.000	0.000

Principle Components Analysis has a recommended minimum ratio of five responses to each item (Tabachnick, 2001) and it is recommended that only loadings above 0.3 are selected. The results revealed the presence of between five to nine eigenvalues exceeding the value of 1 for the groups that explained between 65 to 75% of the total variance in the responses. A smaller number of components were selected for further analysis within each group after inspection of the relevant Catell scree plots. Interpretation of the components for each group was completed using Varimax rotation in order to minimise the number of variables that have high loadings on each component. The results of the rotated solutions revealed the presence of one to three complex loadings for each group, as some variables loaded significantly on more than one component.

Using the same approach as Greenleaf and Lehmann (1995), the interpretation of the rotated factors focused on the ones that loaded at least +/- .5 on the selected factors and did not load higher than +/- .4 on any other factor. The final solutions had three or four components explaining between 43% (Group Three) to 64% (Group One) of the total variance for each group. Refer to Tables 2 to 4

Table 2: Group One (Not Saving for Retirement) Rotated Component Matrix

	Component			
	Live for Today	Psychological Risk	Financial and Functional Risk	Age and Social Group
Want ready access to money	.803			
Don't want to compromise today's lifestyle	.791			
Ad or tv show would prompt to do something	-.580			.354
Don't want to think or talk about getting old	.325			
Concerned will find out how little I know		.895		
Concerned will find out not enough money to live retirement life envisaged		.863		
Concerned company could go broke			.853	
Desire to better understand govt rules	-.424		.670	
Government keeps changing rules		.338	.611	.374
Social group doesn't discuss -> not a priority				.809
Too young				.780

Table 3: Group Two (Not Using a Financial Planner) Rotated Component Matrix

	Component			
	Information gathering and temporal risk	Functional risk	Psychological and social risk	Other financial priorities
Get a better idea of services offered by diff't co's.	.759			
Want more information	.709		.334	
Time consuming	.709			
Want to avoid regrets over wrong decision	.695			
Want to gather information for price comparison	.671			
Difficult to know how to select a fp*	.617		.321	
Difficult to select because alternatives so similar	.572			
Other things have a higher priority	.536			
Effort still required after choosing a fp	.490	.360	-.341	
Concerned fp not satisfactory		.795		
Concerned fp doesn't provide accurate information		.768		
Concerned fp doesn't provide accurate advice		.762		
Concerned things could go wrong with fp		.622		
Shopping for a fp is unpleasant		.611		.304
Reluctant to spend money on fp		.585		
Found an alternative to a fp		.533		
FP info'n too complex and lacks meaning for me	.386	.477		
Need time to make big decisions involving money	.342	-.352		
Choosing a fp that makes others think highly of me			.714	
Made a poor choice of fp in the past			.707	
Don't know where to go for information			.695	
Don't like dealing with money matters			.679	
Need a spouse/external party to agree on choice			.629	.537
Already investing in something as substitute for financial advice		.461	-.476	
Decision dependent on another unmade decision	.382		.398	
Unsure whether will use a fp to justify time and effort to find a fp.				.778
Prefer to spend money on holidays/school fees				.555
Not enough money to invest		-.421		.511
Need a spouse/external party to help with decision			.456	.485

* fp – financial planner

Table 4: Group Three (Using a Financial Planner) Rotated Component Matrix

	Component		
	External advice or internal motivation	Internal motivation	Max current and future financial circumstances
Obtained consent from someone who needed to agree	.720		
Procrastinating excessively	.718		
Parents recommended I seek advice	.658		
Someone agreed to help me make the decision	.647		
Making a decision ended the search	.567		

Had time to make the decision	.467		
Need for a financial planner (fp) about to increase	-.466		
Saw an ad/tv show about retirement planning	.401		
Found a fp who was particularly nice		.814	
Had children and wanted to plan		-.595	
Want to avoid poverty state of elderly relatives	.427	-.517	
A fp was recommended		.496	
Wanted to benefit from/understand govt rules			.648
Decided which fp I wanted to use			.593
Received an inheritance/lump sum		.519	.557
Married and wanted to plan for the future		-.432	.513
Budget/funds increased		.315	.446
Could justify spending the money	-.335		.431

Whilst the authors acknowledge that there are complex loadings for some of the components and the KMO values are in the lower acceptable range, this exploratory research provides evidence that distinct components can be identified for each of the three groups.

Discussion

A key finding of these results is the extent to which risk influences decision-making, thereby causing a delay. Tables 2 and 3 address the research questions associated with why consumers either do not save for retirement at all, or choose not to use a financial planner to assist with planning for retirement. That is, there is a delay in the decision-making process. In both groups, functional and psychological risks appear as components with strong loadings of +.5 to +.8. Whilst there are only three factors in these components in Table 2, the loadings are robust, suggesting a strong contribution to the behaviour. In Table 2 financial risk is another factor that appears to contribute to delay, whilst in Table 3 temporal and social risks also emerge as potential reasons for inaction. Conversely, Table 4, which provides an analysis of results from respondents who are both saving for retirement and using a financial planner, reveals external advice, internal motivation, and a desire to maximise current and future financial circumstances as the key components, with no suggestion of perceived risk associated with the decision-making process. These results suggest risk is a variable that may significantly contribute to decision delay in financially planning for retirement and is therefore worthy of further investigation.

Conclusion

This research makes a valuable contribution to the field of economic psychology, which combines the fields of economics and psychology to better understand consumer motives around savings and debt, by bringing together the theory and knowledge of consumer behaviour and the study of savings. A larger scale survey replicating the current study is suggested in order for results to be generalised to the broader population. Additionally, multiple regression analysis or structured equation modelling could be conducted and would enhance the results.

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