



TIAA-CREF INSTITUTE: TRENDS AND ISSUES

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NEW WAYS TO MAKE PEOPLE SAVE: THE DARTMOUTH PROJECT¹

Annamaria Lusardi
Dartmouth College
Harvard Business School
TIAA-CREF Institute

Punam Keller
Professor of Marketing
Tuck School of Business
Dartmouth College

Adam Keller
Executive Vice President for Finance and Administration
Dartmouth College

¹ This paper provides a summary of the project that Annamaria Lusardi, Punam Keller, and Adam Keller implemented at Dartmouth College. The full report is provided in the paper: “New Ways to Make People Save: A Social Marketing Approach,” forthcoming in Annamaria Lusardi (ed.), “Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs,” University of Chicago Press. The authors would like to thank Dartmouth College and the National Endowment for Financial Education for financial support.

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EXECUTIVE SUMMARY

Many studies have examined barriers to saving; however, little effort has been devoted to helping people who want to save but who are limited by a severe lack of knowledge. Lusardi, Keller, and Keller found that a social marketing approach can be successful in helping these people. Several methods were employed to “listen” to employees at Dartmouth College to determine their needs and their difficulties with saving decisions. Findings enabled the researchers to identify the employee groups that were less likely to save and to develop a cost-effective program to help overcome procrastination, to improve employee decision-making processes, and ultimately, to improve saving rates. While this program was implemented at a single institution, its success offers lessons that could be valuable to anyone trying to increase saving and pension participation.

INTRODUCTION

There are several factors that prevent employees from taking advantage of employer-provided pension plans. In this project, a social marketing approach was used to develop a comprehensive, cost-effective plan to improve participation in and contribution to Supplementary Retirement Accounts (SRAs). Researchers “listened” to employees’ needs via focus groups, surveys, and in-depth interviews in order to determine the specific needs of each employee subgroup. There is significant heterogeneity among employees.² By specifically targeting subgroups, the project was able to help identify and overcome key obstacles to savings.

The data that was gathered led to the creation of a planning aid, the purpose of which was to enable higher saving rates and to help employees enroll in plans that best matched their needs. The planning aid outlined the steps an employee needed to take to enroll in an SRA; as such, the planning aid was designed to help employees overcome critical obstacles to saving.

PROJECT IMPLEMENTATION: THE IMPORTANCE OF “LISTENING”

A first step toward identifying employee segments at risk due to inadequate saving was to meet with top administrators and the head of the human resources (HR) department at Dartmouth College. All administrators voiced concerns about how to best serve the needs of employees. For example, while the institution hosts financial education and information sessions, which include an option of one-to-one counseling, offered by three pension providers, only a handful of employees attend sessions or take advantage of individual counseling. Administrators identified three groups in the employee population that are disproportionately less likely to contribute to supplementary pensions: employees with low income (less than \$35,000), young employees, and employees with short tenures. Data sets covering other institutions and samples more representative of the U.S. population confirm that these characteristics (income, age, and tenure) are clearly correlated with saving and contributions to pensions.³

² For a discussion of heterogeneity in retirement saving behavior, see Samwick (2006).

³ See Madrian and Shea (2001).

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Lusardi, Keller, and Keller selected new employees as their target market. New employees at Dartmouth are asked to attend an orientation meeting where their medical and pension benefits are described. Both medical and retirement benefits require action on the part of new employees; they have to select the level of medical benefits desired as well as decide on a financial carrier for their retirement assets and how they want to allocate those assets. Thus, new hires are potentially more motivated and more willing to take action than existing employees. Moreover, new hires are disproportionately young, have low income, and have low tenure.

Lusardi, Keller, and Keller used several methods to understand the barriers that prevent new employees from opening SRAs. Because few existing surveys offer detailed information about the many barriers to saving, particularly among specific segments of the population, the researchers devised their own survey and collected a host of information about employees. In addition to administering surveys, they conducted focus groups, in-depth interviews, and ethnographic studies to gain additional insights into barriers to saving and to better target the groups of employees least likely to contribute to supplementary pensions (a copy of these materials is provided at the end of the paper). They identified three key reasons Dartmouth employees do not save that they could work with: lack of information, lack of income, and lack of self-control.

The role of information and knowing where to start

Surveyed employees reported that they did not save because they did not have enough information. The fraction of respondents pointing to lack of information increases when looking at subgroups of employees, such as those with low income and the young: close to a quarter of low-income and young employees cite lack of information as a barrier to saving.⁴ Lack of adequate information can have many meanings. In fact, a third of those who chose this response also indicated that, when considering their saving decision, they do not know where to start. These findings provided initial evidence that employees can be helped with some practical tools that facilitate the decision to enroll in supplementary pensions.

Moreover, Lusardi, Keller, and Keller found significant differences among employees according to age and income level. While they did not find major differences between men and women, they found an interaction between gender and age: women younger than age 35 were significantly more likely than men in the same age range to state that they did not have enough information to make saving decisions. By contrast, older men (older than 35) were more likely than older women to state that they did not have enough information. This pattern might occur because older women may have given some thought to their retirement earlier than men of a similar age. By contrast, as men age, they may begin to realize they don't have the information or ability to start saving. Focus group results support this premise.⁵

⁴ See the discussion in Lusardi and Mitchell (2007b).

⁵ For brevity, only three testimonials are provided.

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I guess so. I have always been aware that I have to prepare for something. . . . My sources of income now that I am retired come from several different sources—one thing goes in jeopardy it isn't all in one basket ...so it's a combination of little bit here and little bit there—from this employer, then Social Security, and then I had arranged to have a new lease ...everything together, then I had investments and then I had put some of it into the new lease ...so a combination of things worked out for me. I have always disliked being in debt.... I never buy anything that I don't have money in the bank for—I avoid running up any credit card debts. One time my husband and I did get into a little difficulty that way but we paid it off as quickly as we could. [Focus group: retired female employee]

Being not quite 50 yet, it still seems a long way away and so I still have in my mind a sort of model ...age 65 and for some people a little earlier...somewhere in your 60s you stop working and you have confidence that you have income to make choices...And the duration seems to get longer as people live longer so imagine for 20 years you are going to have a somewhat active, somewhat secure life in this last quarter of your living. [Focus group: elderly male]

This phone call is useful because it reminds me that I should be thinking about the future and saving for retirement. Really, anything that brings it to people's attention. [In-depth interview: young, low-income male]

The role of income

Low income was reported as a key reason for not saving. The survey group contained a sizable proportion of low-income employees, and those employees tended to be disproportionately women. However, both women and men stated that lack of income is a major barrier to saving. Moreover, even higher income employees had indicated lack of income as a major barrier to saving. Focus groups and in-depth interviews also showed that employees feel they cannot save because they do not have enough income.

We do not save as much as we should. Expenses are so that by the time we pay for all the things we need, there isn't much left to save. I guess you could say that our monthly expenses hinder our saving yes. [In-depth interview: low-income female]

No we do not save. We are a typical family and spend within our means but don't really keep money aside since we use all our income for daily/weekly expenses. [In-depth interview: low-income male]

If I made enough money, I would set some aside. But there were times in my life when I didn't have enough money and sometimes no money...so I think the biggest one is the perception that I don't make enough money, which might not be true because I think you can always set something aside every week. But I think that's an obstacle because it's a perception. [Focus group: female employee]

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The role of self-control

Another key barrier to saving is lack of self-control, and several studies have identified it as a critical determinant of saving.⁶ Rather than asking employees about their self-control, Lusardi, Keller, and Keller devised a series of hypothetical saving plans. A sample plan was as follows:

We would like you to imagine that you are interested in increasing your personal wealth. Your employer tells you about a hypothetical program that recommends you contribute \$20/month. You will need to put your money in an envelope with your name and deposit it in the central administration office once a month on any day of the month.

You have the choice of contributing immediately or after one year. Which would you prefer?

_____ Now _____ One year later

Several scenarios, with varying temptations and degrees of flexibility, were tested to examine how lack of self-control may be responsible for decisions to delay saving. The evidence shows that employees are less likely to procrastinate if they are given a plan rather than left to their own devices.

DESIGN OF THE PLANNING AID

The barriers identified in the listening stage were used to develop a planning aid for new employees. The planning aid is a simple step-by-step guide on how to open an SRA. First, to address the commonly cited “not enough information” barrier, it provides general information on what needs to be done to open an account. The planning aid helps simplify the complexities that new hires may have faced during the enrollment process. The planning aid explains to employees that they have to access a provider website(s) to make their investment allocation, *and* they have to be able to complete the enrollment process in twenty minutes. (For security reasons, the enrollment process automatically restarts if more than twenty minutes elapse.) To be able to complete the enrollment in the allocated time, employees need to have prepared in advance, and the planning aid focuses on breaking the task into small, manageable steps.⁷

In regards to overcoming the “not enough income” barrier, the planning aid provides information on the minimum and maximum contribution amounts for SRAs. Note that the minimum is very low: \$16 per month, which is roughly the cost of one dinner in the local area. The maximum is specified as well, since many employees were relatively uninformed of the rules governing pensions, as confirmed by preliminary research and discussions with Dartmouth’s HR department.⁸ The income issue also determined when to test the effectiveness of the planning aid. Project researchers had to wait until employees had received their second paycheck (after the medical expenses and other costs were deducted) and therefore adequate information about their income to make saving decisions. For this reason,

⁶ See Laibson (1997), Ashraf, Karlan and Yin (2006), and Thaler and Benartzi (2004).

⁷ See also Gollwitzer (1996), Gollwitzer and Brandstatter (1997), and Lusardi and Mitchell (2007a).

⁸ See also Tabatabai, Gustman, and Steinmeier (2008).

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researchers looked at enrollment in SRAs 30 days after employees attended the orientation, which also was the deadline for selection of health benefits, and 60 days after attending the orientation, to allow for the fact that employees had to know their net income to determine how much they could afford to contribute. Ultimately, the emphasis on the low minimum deposit for the SRA was directed toward subgroups who felt that they lacked “significant income” to save for retirement.

Finally, to address the “lack of self-control” barrier, variations of the plan were considered; different plans were designed in order to guide employees when making saving decisions. Several variations, including reduced flexibility, were tested to examine how lack of self-control contributes to decisions to delay saving. The evidence demonstrated that the provision of a structured plan is a critical component: employees were less likely to procrastinate if they were given a clear guide rather than left to their own devices.

PRETEST OF THE PLANNING AID

The effectiveness of the original eight-step planning aid was pretested by comparing the group that received the planning aid to a control group of new employees who attended employee orientation and received just the standard information packet. The control period was selected as January 1, 2006, to July 30, 2006.⁹ One hundred eighty-three new employees were eligible for the control condition. The treatment group was selected from August 1 through October 23, 2006 and included a total of 166 employees. The two groups had comparable demographic characteristics. For example, the average age in the control group was 37.4, the proportion of low-income employees was 0.428, and the proportion of women was 0.427. The corresponding figures in the treatment group were 36.42, 0.48 and 0.57 respectively.

Table 1 contains the effect of the modified planning aid on enrollment at 30 days and 60 days. With respect to the control group, in which 7.3 percent of employees enrolled in an SRA after 30 days, the percentage of employees exposed to the intervention who opened an SRA in 30 days tripled (21.7 percent). A much higher fraction, 44.7 percent, opened an SRA in 60 days, versus an enrollment of 28.9 percent in the control group after 60 days.

⁹ Because online registration started for the first time in the Fall 2005, the period January until June was chosen to allow for some adjustment to a new system.

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TABLE 1. PERCENTAGE OF NEW EMPLOYEES ELECTING SUPPLEMENTARY RETIREMENT SAVINGS BEFORE AND AFTER THE INITIAL PLANNING AID

	30 Days After Hiring Date	60 Days After Hiring Date	Number of Observations
Control groups: 2006 (no planning aid)			
January	9.52%	26.19%	42
February	8.33%	30.56%	36
March	4.35%	26.09%	23
April	7.41%	33.33%	27
May	7.69%	26.92%	26
June	3.45%	31.03%	29
July	10.7%	28.6%	27
Intervention Period 1: 2006 (with planning aid)			
August			
8/7 and 8/14	21.8%	43.7%	32
8/21 and 8/28	15.8%	52.6%	19
September			
9/5 and 9/11	20%	46.6%	30
9/18 and 9/25	28.6%	39.3%	28
October			
10/2 and 10/9	28.1%	50%	32
10/16 and 10/23	16%	36%	25

Source: Authors' calculations.

MODIFICATION OF THE PLANNING AID

Following the pretest, the planning aid was redesigned based on employee feedback. It was simplified by adding pictures depicting each step. The format was changed from a flat, single sheet to a folded brochure that was more convenient to carry. More specific time guidelines were provided for each step in order to prevent the online registration from “blowing up” because it was not completed within the allotted 20-minute time frame. The descriptions of the steps were further simplified, and the steps were reduced from eight to seven. Finally, a picture of an elderly man and a younger woman exchanging gifts with their family was added. The picture choice was motivated by the saving challenges faced by these two sub-segments of the target population. Exhibit 1 shows the revised planning aid.

Table 2 contrasts the employees electing SRAs under the control condition with those exposed to the eight-step planning aid and those who saw the redesigned planning aid (in brochure format) for enrollment at 30 and 60 days. There was an increase in participation following the modification of the brochure (27.6 percent versus 21.7 percent) but, as expected, the added pictures were helpful in grabbing attention in the immediate run (30 days) but not for the 60-day period.

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EXHIBIT 1

Don't give up! Contact the Benefits Office (6-3588) if for any reason you could not complete the online application.



It takes no time to prepare for your lifetime!

Most people plan on electing a supplemental retirement account, but feel they don't have the time or information right now. We have outlined 7 simple steps to help you complete the election process. It will take between 15 – 30 minutes, from start to finish. It will take less time for you to start to insure your future than it takes you to unload your dishwasher.

We have outlined 7 simple steps to help you complete the application.

1. **Select a 30 minute time slot** right now to complete the online contribution to your Supplemental Retirement Account (SRA) during the next week.
2. **3 minutes. Check to see if you have the following materials:** a) worksheet in your benefits packet, and b) the name and social security number of a beneficiary.
3. **Select the amount you want to invest for 2006** (minimum: \$16/month, maximum: \$1,708.33/month), even if you don't know your take-home pay in your first month. If you want, you can change this amount at a later date. This voluntary contribution is tax-deferred, you will not pay taxes on it until you withdraw the funds.
4. **5 minutes. Select a carrier.** If you do not select a carrier, the non-voluntary portion of your funds will be invested in a Fidelity Freedom Fund, a fund that automatically changes asset allocation as people age.
5. **5 minutes.** Now you are ready to complete your worksheet. Complete the worksheet even though you may be unsure of some options. You can change the options in the future.
6. **Take your completed worksheet to a computer** that is available for 20 minutes. If you like, you can use the one in the Human Resources office.
7. **15-20 minutes. Log on to Flex Online and complete your online SRA registration** within the 20 assigned minutes. Be sure to click on the investment company (TIAA-CREF, Fidelity, or Calvert) to complete the application. You need to set up your account – otherwise your savings will not reach the carrier.



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TABLE 2. PERCENTAGE EMPLOYEES ELECTING SUPPLEMENTARY RETIREMENT SAVINGS BEFORE AND AFTER THE ORIGINAL AND MODIFIED PLANNING AIDS

	30 Days After Hiring Date	60 Days After Hiring Dates	Number of Observations
Control group (no planning aid)	7.3%	28.9%	210
8-step Intervention (1) (with planning aid)	21.7%	44.7%	166
7-step/Brochure Intervention (2) (with revised planning aid)	27.6%	41.13%	83

Source: Authors' calculations.

CONCLUSION: GUIDING PRINCIPLES FOR BEST PRACTICES

The planning aid greatly enhanced enrollment in supplementary pensions. Compared to a control group that was not exposed to a planning aid, Lusardi, Keller, and Keller observed a sharp increase in SRA election for the first intervention: the election rate more than tripled in the 30-day period and doubled in the 60-day period. The second intervention further improved SRA election (from 21.7 percent to 27.6 percent) in the 30-day period and sustained the lift obtained with the first intervention in the 60-day period.

Project researchers developed valuable insights that may prove useful in designing future saving programs. The social marketing approach that was employed was atypical compared to previous saving programs but is well-suited to accommodate and adapt to the wide range of saving behaviors that are normally observed among employees. Ultimately, the program used a more individualized approach by motivating employees to overcome barriers to saving. While employees were still required to make the decision to enroll in an SRA, the planning aid complemented outreach efforts well, as it helped employees overcome key barriers to saving.

The project's success built on critical elements that may indicate a set of guiding principles for "best practices."

■ Simplification

Simplification is critical. Reducing the SRA enrollment process into small, manageable steps makes participants much more likely to complete the enrollment process. Many employees lack knowledge about saving and investing principles. As such, a planning aid may help facilitate increased saving rates.

■ Exploiting "teachable moments"

Orientation sessions offer ideal "teachable moments" in which to foster participation in supplementary retirement accounts. In other words, it may be beneficial to target initiatives to employees who are newly hired, as this is the group that is the most open to making changes since they are already in the process of making decisions regarding saving and retirement planning.

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- Targeting specific subgroups

Savings initiatives are more effective when tailored specifically to targeted subgroups; a “one-size-fits-all” approach cannot address the many differences that are observed even among employees at the same institution. Gender differences in saving can be particularly important.

- Planning aids to complement other saving programs

A planning aid can work in conjunction with other saving mechanisms, such as automatic enrollment. In other words, a planning aid can supplement existing (or new) initiatives to promote saving. Combined with other initiatives, planning aids can significantly enhance retirement security for an organization’s employees. While this program was implemented at one institution, it is a cost-effective, simple approach that can be applied to enhance retirement savings of employees at other institutions of higher education.

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APPENDIX

Sample Survey

This survey aims to collect information about saving and investment decisions of employees.

1) Have you ever been to benefits orientations at this or other Institutions?

- Yes No

2) Were you previously contributing to a SRA/403(b) plan?

- Yes No I do not know

3) What represents the MOST difficult part of your saving decision? Please pick ONE below. If the list does not mention it, please explain in the last line.

- a) I feel I do not have enough information.
- b) I feel there is too much information to process.
- c) I do not have enough knowledge about finance/investing.
- d) I do not know where to start.
- e) I do not have enough income.
- f) It is hard to think far away into the future.
- g) Other, please explain _____

4) Which source of information do you use the MOST when making saving or investment decisions? Pick the most relevant ONE below or explain in the last line.

- a) family and relatives
- b) colleagues and friends
- c) magazines and newspapers
- d) internet
- e) financial advisor/banker/CPA/other professional help
- f) planning books
- g) I do not need to collect information to make saving and investment decisions
- h) Other, please explain _____

5) How would you classify yourself, which type of investor are you?

- a) Sophisticated investor, I know a lot about bonds and stocks
- b) Average investor, I know about bonds and stocks
- c) Simple investor, I know a little about bonds and stocks
- d) I know very little or nothing about bonds and stocks
- e) Other, please explain _____

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6) What kind of saver do you perceive yourself to be?

- Low Saver Average saver High saver

7. How important are the following features of your retirement saving plan:

	Not at all			Extremely	
1. Flexibility (e.g., can withdraw money)	1	2	3	4	5
2. Structure (e.g., same amount/same time)	1	2	3	4	5
3. Guidance (e.g. how to invest)	1	2	3	4	5
4. Commitment (e.g., a contract to invest)	1	2	3	4	5
5. Control (e.g., choice on whether to save or not)	1	2	3	4	5
6. Certainty (e.g., value of future savings)	1	2	3	4	5
7. Ease of Implementation (e.g., scheduled payments)	1	2	3	4	5

Some information about you:

1. How old are you?

- 20-29 30-39 40-49 50-59 60-69 Older than 69

2. What sex are you?

- Male Female

3. Marital Status?

- Single Married/No Children Married/Children < 21
 Married/Children > 21 Divorced/No Children
 Divorced/Children < 21 Divorced/Children > 21

4. Are you: Level I Level II Other (please explain)

5. How many years have you had full-time employment?

- < 1 yr. 1-3 yrs. 3-6 yrs. 6-10 yrs. > 10 yrs.

6. Are you a returning employee?

- Yes No

7. Are you a part-time or full-time employee?

- Full-time Part-time

We would like you to imagine that you are interested in increasing your personal wealth. Your employer tells you about a hypothetical program that recommends you contribute \$20/month. You will need to put your money in an envelope with your name and deposit it in the central administration office once a month on any day of the month.

You have the choice of contributing immediately or after one year. Which would you prefer?

- Now One year later

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How do you feel about your choice:

	Disagree				Agree		
1. I feel confident.	1	2	3	4	5	6	7
2. I feel committed.	1	2	3	4	5	6	7
3. I will need to plan.	1	2	3	4	5	6	7
4. I will lose the opportunity to increase my wealth.	1	2	3	4	5	6	7
5. I don't want to waste time.	1	2	3	4	5	6	7
6. I like this program.	1	2	3	4	5	6	7
7. This program is important.	1	2	3	4	5	6	7
8. The program design is simple.	1	2	3	4	5	6	7
9. I want to get this decision over with.	1	2	3	4	5	6	7
10. I will need self-control to implement this.	1	2	3	4	5	6	7

Thank you.

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Focus Group Questions

1. What would you like to do after you retire?
2. Do you think you should plan for the future (in general) or accept things as they happen?
3. What kind of things should you plan for? Why?
4. What kind of things are difficult to plan for? Why?
5. Do you think you should plan for retirement saving or accept things as they happen?
6. What obstacles prevent you from planning for retirement?
7. What do you do if you don't know how to plan for retirement?
8. Having a plan does not mean one sticks to it. What type of things make you stick to the plan or not?
9. Where do you get information to help you with retirement saving planning?
10. Does knowledge about investing play a role in your retirement planning decision?
11. How much control over retirement saving do you feel you have?
12. When you think about your retirement savings, how do you feel?
13. Do you think your savings will determine when you retire?
14. Does anyone have a story about someone who did a good job in planning for their retirement? Bad job?
15. If you were interested in designing communications to help people to save for retirement, who else would you speak to?
16. Are there any questions we should have asked, but did not?

Thank you

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In-depth Interviews

1. What would you like to do after you retire?
2. Do you like to think about retirement?
3. Tell me about your parents. Are your father and mother retired? (If both dead, then ask if they retired before dying.)
4. Let's discuss retirement planning.

Which of the following apply to you? Please listen to all four:

- a) I am not doing any planning for retirement.
 - b) I have thought about it but I have not done anything yet.
 - c) I have taken some initial steps.
 - d) I have been doing retirement planning for the last couple of years or longer.
5. Do you know anyone who has done a really good job or a really bad job in planning for retirement? Can you describe his/her/their story to me?
 6. Have you thought at all about medical expenses after retirement?
 7. Which sources of information do you use in making your financial decisions?
 8. Let's turn now to saving. Does your household save/ put money aside?
 9. Have you ever tried to change your saving behavior, i.e. How much you save?
 10. Let's talk about your family situation
 - a) Are you married, what is your current marital status?
 - b) Do you have children (and yes, how many and of which age)
 - c) Do you have aging parents/parents-in-law you have to take care of?
 - d) How much control do you feel you have in your family spending patterns?
 - e) Would you like to have information say on things like how to budget, how to speak to kids about expenses, how to be a role model?
 11. If you could pick two things that can help you in your financial decision-making, what would you say?

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ABOUT THE AUTHORS

Annamaria Lusardi is Professor of Economics at Dartmouth College and a Research Associate at the National Bureau of Economic Research. She has taught at Dartmouth College, Princeton University, the University of Chicago Public Policy School and the University Of Chicago Graduate School of Business. She is currently a visiting scholar at Harvard Business School. She has advised the U.S. Treasury, the U.S. Social Security Administration, the Dutch Central Bank, and the Dartmouth Hitchcock Medical Center on issues related to financial literacy and saving. Dr. Lusardi has won numerous research awards. Among them is a research fellowship from the Irving B. Harris Graduate School of Public Policy Studies at the University of Chicago, a faculty fellowship from the John. M. Olin Foundation and junior and senior faculty fellowships from Dartmouth College. She is also a TIAA-CREF Institute Fellow. Dr. Lusardi holds a Ph.D. degree in Economics from Princeton University and a B.A. in Economics from Bocconi University, Milan, Italy.

Punam Anand Keller is the Charles Henry Jones Third Century Professor of Management at the Tuck School of Business at Dartmouth College. She joined Tuck in 1998 as a full professor in the marketing area. Professor Keller is an expert in consumer information processing and choice behavior. Her current research focus is on designing and implementing communications programs. She is also researching how theories of consumer information processing can improve the effectiveness of advertising, with special emphasis on public service campaigns. She has received the National Cancer Institute and Marketing Science Institute award for effective health-related communications. Professor Keller currently teaches the core Marketing course at Tuck. She has also taught a number of second-year courses such as: Marketing Management, Marketing Strategy, Marketing Planning, Marketing Research, Consumer Behavior, and Public Policy Marketing. Dr. Keller holds a Ph.D. degree in Marketing from Northwestern University, an MBA in Marketing from the Bajaj Institute of Management, Bombay University, India, and a B.A. in Economics and Statistics from Elphinstone College, Bombay University, India.

Adam Keller has served as Executive Vice President for Finance and Administration at Dartmouth College since July 1, 2003. The Executive Vice President is the chief financial officer of the College. Keller has been a member of the Dartmouth administration since 1978. He served as a Financial Administrator in the Department of Community and Family Medicine before becoming the Chief Financial Officer of Dartmouth Medical School in 1991. In 1995 he became Associate Dean and Chief Operations Officer at the Medical School and, since 2002, has also served as Acting Vice President for Finance and Administration of the College. At Dartmouth Medical School Keller participated in the development of the Department of Community and Family Medicine into one of the preeminent departments in the country. He helped to support the evolution of the Center for the Evaluative Clinical Sciences and to expand the infrastructure for research at Dartmouth Medical School that has served to support the growth of research and the success of the faculty. Keller graduated from Harvard in 1973 and received a masters' of public health degree from the University of Minnesota in 1981. He serves as an instructor in Community and Family Medicine, a position he has held since 1979. He is the author of numerous papers in the field of Public Health.