

Financial Plans for the Y-Generation

Kevin Roland

Faculty Sponsor: Donna Anderson, Department of Economics

ABSTRACT

Despite the media attention on the topic of retirement in light of concern over retiring baby boomers, there has not been much research on college students' knowledge of retirement plans and whether they are currently saving for retirement. The research objective is to estimate the extent UW-L students are starting to prepare for retirement and their knowledge of retirement plans. It was found that some students are saving for retirement because of their understanding of compounding interest and the effectiveness of FIN 207. Overall, a personal finance class is an effective means to give students the tools for success and should be made a requirement.

INTRODUCTION

As baby boomers begin retiring, the question is whether they are ready. For many, retirement will not be easy. Many current retirees are retiring in the red: 93% of retirees carry some debt, 30 % describe their debt as a problem, 27% of retirees still have not paid off their mortgages and 14% of 64 year-olds face retirement with a negative net worth (Moos, 2007). Many of the baby boomers will have to work after age 65 in order to build up assets to support their liabilities in later years. How can future generations prevent having the same problems? The key to financial success is starting a retirement plan sooner.

Since the second quarter of 2005 the United States has had a negative personal savings rate. This negative savings rate means that Americans are spending all of their after-tax income as well as dipping into previous years' savings or even borrowing money. The last time the United States had a negative savings rate was during the Great Depression in 1932 and 1933. The difference between then and now is that in the Great Depression Americans didn't have much money or lost it in the stock market crash; now, many Americans feel they have more money to spend because of the recent housing boom. This boom resulted in home prices rising at higher than normal rates. This made many feel wealthier and created what economists call the "wealth effect". The wealth effect caused many people to feel confident spending and dipping into savings since they felt more wealthy (Feldstein, 2006).

RESEARCH PURPOSE

It is important to study financial decisions of the Y-generation, which is individuals between the ages of 17 to 37, in the United States because the research will guide financial advisors and investment firms in their work to ensure that clients have proper knowledge of retirement plans. If I find that students don't have any knowledge of retirement plans, then financial advisors can be prepared to answer questions for future clients. In addition, by studying the retirement plans of the Y-generation, financial advisors and investment firms can better identify which future services clients will need. Studying knowledge of retirement plans will be important to improving retirement satisfaction and helping people improve their understanding of retirement plans.

With the retirement of baby boomers threatening the long-term viability of Social Security, retirement is an important topic for younger generations as they attempt to reduce reliance on Social Security in their own retirement years. Further, in the future, younger generations will play an increasingly greater role in the investing world, so it is paramount to assess their understanding.

I test several hypotheses surrounding the question of how many UW-L students are starting to prepare for retirement. In addition, I wanted to determine whether students were willing to take a class to find out more information about retirement options and other financial information. The hypotheses tested are as follows.

1. I hypothesize that the amount saved is dependent upon students' major.
2. I hypothesize that the amount saved is dependent upon students' year in school.
3. I hypothesize that the amount saved is dependent upon students' level of current debt.
4. I hypothesize that the amount saved is dependent upon students' having taken a personal finance course

METHODS

The target population was UW-La Crosse undergraduate students from all majors, both on and off campus. Paper surveys were passed out to students in March 2006 at different locations around campus, including: Whitney, Cartwright, Cowley, Carl Wimberly. The students were asked randomly as they walked by if they were willing to fill out a survey. Thus, the sample of 144 undergraduate students is a non-random, convenience sample. It was decided that a paper survey was the best method to use to collect data on the type of research questions that were asked. Since I assumed that many students would not know much about retirement plans, I was concerned that they would not finish an online survey. Therefore, a paper survey completed in the presence of the researcher would reduce the rate of incomplete surveys.¹

The information that was collected included participants' year in school, major, current income, current expenses, current debt, current retirement savings, interest in taking a personal finance class and a series of questions dealing with knowledge of retirement plans. Descriptive statistics are given in Table 1. Depending upon the characteristics of the data, I used either a one-sample *t*-test or a χ^2 test to test the hypotheses.

The large percentage of respondents, 43.4%, were science and health majors, which reflected their percentage in the university population, 42.8%. However, larger differences existed between the percentage of the other majors and the actual population percentages at the university: Business, sample (38.5%), university (19.89%); Liberal Studies, sample (12.1%), university (20.69%); Liberal Studies Education, sample (3.5%), university (11.40%); and Liberal Studies Art and Communication, sample (2.1%), university (5.22%). The difference between the sample and the target population is also apparent in the year in school variable. For the sample, 7.7% were freshmen, 16.9% sophomores, 44.4% juniors, and 31% seniors. The actual percentages per class are 28% freshmen, 22.2% sophomores, 21.3% juniors, and 28.6% seniors. The results show that 1.4% of the respondents felt very knowledgeable about retirement plans, 14.2% felt somewhat knowledgeable, 36.2% felt neutral, 29.1% felt not very knowledgeable, 19.1% had no knowledge. Two questions on the survey, #9 & #10, allowed me to assess respondents' knowledge of compounding interest. I discovered that 55% understood the concept. Finally, surprisingly enough, approximately 30% of students in the sample are saving for retirement.

Table 1. Descriptive Statistics

Variable	Response	Valid Percent
Major	Business	38.5
	Liberal Studies	12.6
	Liberal Studies, Art and Communication	2.1
	Liberal Studies, Education	3.5
	Science and Health	43.4
Year in School	Freshman	7.7
	Sophomore	16.9
	Junior	44.4
	Senior	31.0
Current Loan Debt	Yes	78.5
	No	21.5
Interest in taking FIN 207, Personal Finance	Yes	45
	No	55
Understanding of Compounding Interest	Yes	55
	No	45
Student's Self-Reported Knowledge of Retirement Plans	Very Knowledgeable	1.4
	Somewhat Knowledgeable	14.2
	Neutral	36.2
	Not Very Knowledgeable	29.1
	No Knowledge	19.1
Current Retirement Savings per Month	\$0	68.8
	\$1-\$200	23.6
	\$201-\$400	3.5
	\$401-800	4.2

¹ Survey provided in the appendix.

RESULTS & DISCUSSION

Hypothesis 1

A χ^2 test of relationship between major and amount of current retirement savings resulted in a p -value of .209, which is greater than the .05 significance level. Thus, no relationship exists between students' major and amount of current retirement savings.

Hypothesis 2

A χ^2 test was used to test the relationship between year in school and amount of current retirement savings. The p -value of .269, which is greater than the .05 significance level, means no relationship exists between year in school and the amount of current retirement savings.

Hypothesis 3

A χ^2 test of relationship between current debt and amount of current retirement savings revealed a p -value equaling .514, meaning no relationship between current debt and amount of current retirement savings.

Hypothesis 4

A χ^2 test of relationship between having taken FIN207 and amount of current retirement savings resulted in a p -value of .000, meaning a significant positive relationship between FIN 207 and amount of current retirement savings. These results indicate that in the case for financial retirement plans for the Y- generation FIN 207 would be very beneficial.

CONCLUSION AND RECOMMENDATIONS

Although limited by a non-probability sample of students from one Midwestern university, the results point to curriculum recommendations as well as implications for future researchers. A surprising and encouraging result is that higher than expected UW-L undergraduates are saving for retirement, although many feel they lack good knowledge about retirement plans. Despite this lack of awareness, the fact that approximately 30% of sampled students are saving something, as well as a high percent (55%) displaying knowledge of compounding interest indicates they do understand the importance of starting to save early. However, this saving is not linked to students' major, year in school, or amount of current debt, although it is related to having taken FIN 207, a personal finance course. In addition, slightly less than a majority of students (45%) are interested in taking FIN207. The study indicates that students do have some understanding of retirement plans and a willingness to learn even more.

Based on this research, I have three curriculum recommendations. First, UW-L should make a personal finance course a requirement for all students. Second, ensure there are enough resources to offer more sections of FIN 207. Third, give students more opportunities to learn personal financial issues by having presentations by local experts. UW-L students need to understand that retirement, although a long way off, is expected to be an increasing concern given the diminishing prospect of Social Security as a safety net. Future researchers should continue to study undergraduates savings for retirement, as well as their knowledge of specific retirement programs such as Roth IRAs, IRAs, 401(k)s, and 403(B)s.

ACKNOWLEDGMENTS

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LITERATURE CITED

Feldstein, Martin. (May/June 2006) "The Return of Saving". *Foreign Affairs*.
Moos, Bob. (2007) "Golden years in the red", *The Dallas Morning News*.

APPENDIX

College Student Retirement Survey
February 2007

A research study is being conducted to determine how knowledgeable and prepared the current college student population is about retirement. Your participation in this study is greatly appreciated. Do not place your name on the survey to ensure your responses are completely confidential. There are no known risks involved with participating in this survey and your participation is completely voluntary. If you have any questions please contact: Kevin Roland at: roland.kevi@students.uwlax.edu. or Dr. Donna Anderson: anderson.donn@uwlax.edu.

Instructions: Please place an X on the *one response* that best represents your situation unless directed otherwise.

1. Current School loan level?

- \$0
- \$1 - \$5,000
- \$5,001 - \$10,000
- \$10,001 - \$15,000
- \$15,001 - \$20,000
- \$20,001 - \$25,000
- \$25,001 - \$30,000
- Other Amount (please be specific
_____)

2. Current Credit Card Debt?

- \$0
- \$1 - \$1,000
- \$1,001 - \$2,000
- \$2,001 - \$3,000
- \$3,001 - \$4,000
- \$4,001 - \$5,000
- Other Amount (please be specific
_____)

3. Current loans and other debt (including car loans and mortgages)? (excluding school loans)

- \$0
- \$1 - \$2,000
- \$2,001 - \$4,000
- \$4,001 - \$6,000
- \$6,001 - \$8,000
- \$8,001 - \$10,000
- Other Amount (please be specific
_____)

4. Current Income per month (From all sources, including money from parents.)

- \$0 - \$200
- \$201 - \$400
- \$401 - \$600
- \$601 - \$800

- \$801 - \$1,000
- \$1,001 - \$1,200
- \$1,201 - \$1,400
- \$1,401 - \$1,600
- Other Amount (please be specific
_____)

5. Current Expenses per month?

- \$0 - \$150
- \$151 - \$350
- \$351 - \$550
- \$551 - \$750
- \$751 - \$950
- \$951 - \$1,150
- Other Amount (please be specific
_____)

6. Current Retirement Savings per month?

- \$0
- \$1 - \$200
- \$201 - \$400
- \$401 - \$600
- \$601 - \$800

7. How well do you feel you know retirement plans? (circle one, 1 - very knowledgeable and 5 - no idea.)

- 1 2 3 4 5

8. Did/Do you talk about money with your parents?

- Yes No

9. Which plan do you think will let you retire with more money? (Plan 1 or Plan 2)

___ Plan 1: Starting at age 19 contributing \$3,000 annually for 9 years, at an interest rate of 8%. Retiring at age 65.

___ Plan 2 : Starting at age 28 contributing \$3,000 annually for 37 years, at an interest rate of 8%. Retiring at 65.

___ I don't know.

10. Which of the following do you believe would be a better financial decision? (Plan 1 or Plan 2)

___ Plan 1: Pay the minimum payment on your student loans with an interest rate of 5% and fund a retirement account with an interest rate of 10%.

___ Plan 2: Pay off your student loans with an interest rate of 5% first using money that could have funded a retirement account and start saving for retirement with an interest rate or 10 % after your student loans are paid off.

___ I don't know.

11. Who is eligible for a 403(B)?

- ___ for profit company employees
- ___ non-profit company employees
- ___ state and local government employees
- ___ everyone
- ___ I don't know.

12. Who is eligible for a 401(K)?

- ___ for profit company employees
- ___ non-profit company employees
- ___ state and local government employees
- ___ everyone
- ___ I don't know.

13. Who is eligible for a Roth IRA?

- ___ for profit company employees
- ___ non-profit company employees
- ___ state and local government employees
- ___ individuals earning less then 95,000 or 150,000 filled jointly.
- ___ everyone
- ___ I don't know.

14. Which plan/plans would you most likely have in addition to employee sponsored retirement accounts? Check all that apply.

- ___ 401 (K)
- ___ 403 (B)

___ 457

- ___ Roth IRA
- ___ Traditional IRA
- ___ I don't know.

15. Which retirement plan/plans can you use pre-tax earnings to contribute to a retirement plan? Check all that apply.

- ___ 401(K)
- ___ 403 (B)
- ___ Roth IRA
- ___ Traditional IRA
- ___ I don't know.

16. Which retirement plan/plans has a maximum contribution of \$4,000 in 2007 which will increase to \$5,000 in 2008? Check all that apply.

- ___ 401 (K)
- ___ 403 (B)
- ___ 457
- ___ Roth IRA
- ___ Traditional IRA
- ___ I don't know.

17. Which retirement plan has a maximum before tax dollar contribution of \$15,000 and a catch up amount of \$5,000 allowed for employee over the age of 50? Check all that apply.

- ___ 401 (K)
- ___ 403 (B)
- ___ 457
- ___ Roth IRA
- ___ Traditional IRA
- ___ I don't know.

18. Major (please write below)?

19. Year in School?

- ___ Freshman
- ___ Sophomore
- ___ Junior
- ___ Senior
- ___ Graduate student

20. Age (please write below)?

21. Did you know that a 3-credit general education personal finance class, FIN 207, is now available to all majors?

Yes (go to question 22)
 No (go to question 23)

22. Have you taken FIN 207?

Yes (go to question 24)
 No (go to question 23)

23. Are you interested in taking FIN 207?

Yes No

24. If you are not saving for retirement now, why not?