TIAA INSTITUTE
FELLOWS SYMPOSIUM

Planning and experiencing a secure retirement

SUMMARY

TIAA Institute

Wharton
University of Pennsylvania
Pension Research Council

Inside the summary

Foreword

Surya P. Kolluri, Head of TIAA Institute
Olivia S. Mitchell, Executive Director, Pension Research Council, University of Pennsylvania, TIAA Institute Fellow

Surya P. Kolluri, TIAA Institute and Olivia S. Mitchell, University of Pennsylvania

Just 52% of Americans met their savings goal in 2023, and those with a financial strategy were far more likely to meet their goal than those without. Financial strategies backed by financial and longevity literacy are key to achieving long-term financial security. But the need to improve that literacy is clear: In terms of increased longevity and what that may mean for retirees, for example, 45% of Americans aged 65 and older believe that Medicare covers long-term nursing care—which it does not. And as for financial strategies for older individuals, on average, each year Americans leave $5.5 billion on the table in permissible itemized medical deductions they could have claimed on their tax returns.

This TIAA Institute Fellows Symposium explored how to enhance long-term financial security from economic and behavioral research approaches. The symposium was co-hosted by the Institute and the Pension Research Council (PRC) of the Wharton School at the University of Pennsylvania, as part of a long-term and fruitful partnership of these two organizations. The partnership's goal is to enhance retirement security and help all Americans retire with dignity. We believe the key to achieving that goal is to provide actionable insights from our research to help financial firms design better products, financial advisors provide better guidance, and individuals achieve better financial outcomes in retirement.

On the pages that follow, you'll find summaries of five rigorous research projects and a fascinating conversation about how we make decisions—including how older people might make wise decisions in the absence of certainty.

The Institute is deeply grateful for the contributions of the scholars whose work is presented in this report, and for all its Fellows—a team of 60 scholars and practitioners whose expertise allow the Institute to punch far above its weight. We welcome your input on the research summarized herein and encourage you to contact us with any research ideas this report may spark.

Please feel free to contact us at surya.kolluri@tiaa.org and mitchelo@wharton.upenn.edu, and join the conversation on X at @TIAAInstitute and @PensionResearch.

Addressing longevity risk: The Immediate Needs Annuity (INA) and long-term care insurance

Leora Friedberg, University of Virginia, TIAA Institute Fellow, presenter
Wei Sun, Renmin University of China, co-author
Anthony Webb, New School for Social Research, co-author

Long-term care insurance policies in the United States don't significantly reduce financial risk and might even increase it, given current lapsation rates, while low up-take of such policies leaves the government bearing high costs. This study explores how medically-underwritten income annuities can provide an alternative market for individuals seeking to insure consumption or bequests very late in life.

Leora Friedberg and her colleagues' research on the United Kingdom's Immediate Needs Annuity (INA) grew out of an interest in helping people address the financial risks they face late in life, namely:

Severe financial risks faced late in life

- Outliving one's wealth
- High late-life health care costs

Leora Friedberg, University of Virginia

Two key products might help people protect themselves against these risks: traditional income annuities—which guarantee monthly payments for as long as the recipient lives—and long-term care insurance. But take-up of these products is quite low.

45% of Americans age 65 and older wrongly believe that Medicare will cover long-term nursing home care if they need it.

Source: KFF Survey on Affordability of Long-Term Care and Support Service (May 2022)

3% of Americans age 50 and older pay for a private long-term care insurance policy.

Source: LIMRA (Nov. 2022)

The INA helps to fill gaps left since the last long-term care insurance provided exited the UK market in 2010 and since mandatory annuitization of defined contribution plans ended in 2015.

WHAT IS AN INA (IMMEDIATE NEEDS ANNUITY)?

- Available in the United Kingdom
- Purchased upon onset of care needs
- Detailed medical underwriting done for insurer (facilitated by the U.K. National Health Service)
- Monthly payments until death
- Payments to health care providers are non-taxable
- Reduces longevity and care-cost risk

Comparison of long-term care insurance (LTCI), income annuity, and INA products

Feature	LTCI	Income Annuity	INA
Medically underwritten?	Yes	No	Yes
Denials	Yes	No	No
Purchase age limit	75 to 80 years	85 years	No
Premium structure	Recurring	Lump sum	Lump sum
Risk of lapse?	Yes	No	No
Benefits limits?	Yes	Depends	No
Benefits taxable?	No	Yes	Depends

Note that the UK and the United States are quite similar on many relevant dimensions, including their wealth distribution, morbidity (illness rates) and mortality (death rates), having means-tested public long-term care options, and—importantly—their very low take-up of these products.

Money's worth for insured of long-term care insurance, income annuity, and INA products

"Money's worth" for insurance products is defined as the expected present value of lifetime benefits paid out as a percentage of the premiums paid for the product. Abstracting from risk protection, if individuals spend $10,000 on premiums and receives $8,000 in benefits, on average, then the money's worth figure is 80%.

Money's worth

LCTI

- Brown & Finkelstein (2009): 66% (with lapses), 85% (without lapses)
- Financial Planning Study (2023): 31% (with lapses), 40% (without lapses)

Note that calculations are very sensitive to assumptions (e.g., lapse rates and premium increases)

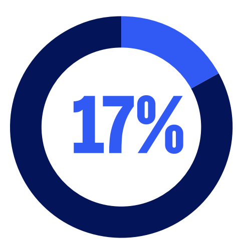
INCOME ANNUITIES

- Mitchell et al. (1999): 80% to 90%
- Poterba & Solomon (2021): 92% (as offered to 65-year-old men and women)

INAs

- Friedberg et al. preliminary investigations (ongoing): 80% to 85%, similar or bit lower than income annuities

Long-term care insurance money's worth appears to be getting lower and lower, likely due to increasing premiums and lower benefit limits. In short, it's a product that's not doing much to help individuals address longevity risk. Unlike long-term care insurance, INAs are paid for at the start in one lump sum (avoiding the lapsation problem) and have no benefit limits.



of lapsing may be explained by low cognitive scores. Unfortunately, low cognitive scores lead to higher use of nursing homes.

Source: Friedberg et al. (2023)

The money's worth of the UK's INA appears similar to that of income annuities, perhaps helped by the fact that financial advice before purchase is required, and the INA market, with many offerings, appears competitive. In contrast, traditional income annuities without medical underwriting would be an extremely unattractive product to individuals in need of care and not in very old age.

Implications

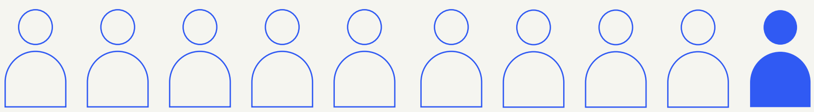
INA's may fill in a market now missing in the United States: Leora and her colleagues investigated the potential demand for INAs via a model to predict willingness to pay (WTP) for the product. They found that the WTP for INAs was quite high in the absence of a well-functioning market for long-term care insurance, further supporting the potential of INAs to help address long-term care needs and longevity risk.

Subsidizing medical spending through the tax code: Take-up, targeting, and the cost of claiming

Gopi Shah Goda, Brookings Institution, TIAA Institute Fellow

Gopi's research took another tack to help address the financial risks posed by high health care costs for older Americans. She focused on subsidies in the U.S. tax code for certain out-of-pocket medical expenses, and investigated take-up of medical tax savings and the causes of incomplete take-up.

50% of Medicare enrollees spend at least 16% of their income on health insurance premiums, cost-sharing, and non-Medicare-covered health care services.



1 in 10 spend at least 52% of their income on these health care expenses.

Source: Noel-Miller, C. (2023). Beneficiaries in traditional Medicare: Out-of-pocket spending for health care. AARP Public Policy Institute.

Gopi Shah Goda, Brookings Institution

Households that file Schedule A to itemize on their tax returns can deduct eligible medical and dental expenses that exceed 7.5% of their adjusted gross income (AGI). In 2020, U.S. taxpayers deducted nearly $80 billion in medical expenses, two-thirds of which was deducted by households with a primary taxpayer 65 years or older.

Methodology

Gopi used data from the Health and Retirement Study, or HRS, (1996-2012) to construct actual and potential itemized medical deductions (IMDs). The HRS is a longitudinal panel study that surveys approximately 20,000 Americans every two years. After 2012, the HRS stopped asking certain detailed questions about tax returns, and so this study's data ends then.

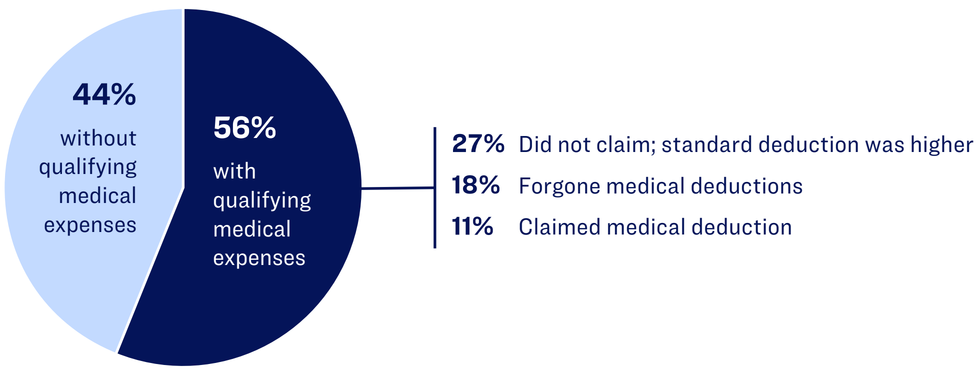
Findings

56% of households age 50 and older have qualifying medical expenses **≥7.5%** of their AGI.

But **18%** of households are leaving tax savings on the table by either not claiming the IMD or failing to maximize it.

The right side of Figure 1 below breaks down the 56% of households that qualify for the IMD.

FIGURE 1. ITEMIZED MEDICAL DEDUCTION TAKE-UP



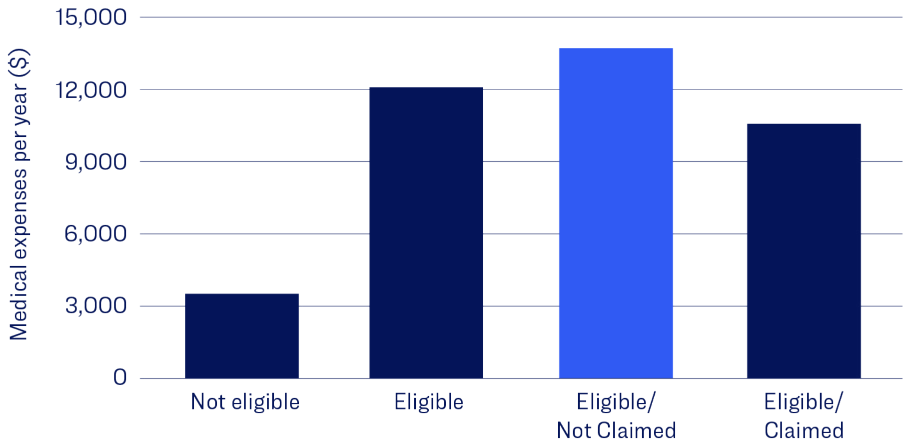
Eighteen percent of those who qualified for the IMD didn't claim it, representing nearly a third of all households 50 years and older that qualified for it. Surprisingly, the majority of this non-claiming group actually did itemize other expenses on their return.

MEDICAL DEDUCTIONS AND TAX SAVINGS: BILLIONS LEFT ON THE TABLE

Source: Goda's calculations using Health and Retirement Study, Waves 3-11, 1995-2012. Dollar figures reported in 2023 dollars. Tax savings include federal and state tax values.

Gopi analyzed HRS data to build a picture of selection into claiming (or not):

FIGURE 2. ITEMIZED MEDICAL DEDUCTION TAKE-UP BASED ON MEDICAL EXPENSES



Source: Goda's calculations using Health and Retirement Study, Waves 3-11, 1995-2012. Dollar figures reported in 2023 dollars. Tax savings include federal and state tax values.

As Figure 2 illustrates, households with the highest medical expenses are the ones who didn't claim the deduction. It appears that frictions in take-up cause these tax code benefits to be diverted away from high-need populations. Gopi theorizes that information frictions and hassle costs play important roles in explaining incomplete take-up. That stands to reason, as people dealing with medical issues and high medical bills may be in the worst position for tracking those expenses and itemizing them on their tax return.

People dealing with medical issues and high medical bills may be in the worst position for tracking those expenses and itemizing them on their tax return.

Concerning information frictions, the data show that people who are eligible repeatedly are much more likely to claim the itemized medical deduction. The results suggest that if every household were as familiar with the itemized medical deduction as those eligible at least 6 times prior, 79% of eligible households would claim it (instead of the 50% that do). The effect of hassle costs is clear, too, as households who stand to gain more from the IMD because they live in a state with high tax rates claim the IMD at higher rates: for every percent increase in the subsidy rate, take-up of the IMD increases about 3%.

Gopi concludes that the implied economic burden of claiming IMDs is high and alters the allocation of tax savings across policy alternatives. She considers policy options and trade-offs to better direct tax savings to those who experience high medical spending relative to their income.

Implications for financial advisors

Financial advisors have an important role to play in educating clients about the IMD and overcoming the informational frictions that prevent take-up of the tax savings. Drawdown strategies for retirees, too, could be affected by what they stand to gain from claiming an IMD, which would vary depending on households' state income tax rate and other factors.

How longevity and health information shapes retirement advice

Abigail Hurwitz, Hebrew University of Jerusalem, presenter
Olivia S. Mitchell, University of Pennsylvania, TIAA Institute Fellow

Abigail and Olivia's research dovetails with Gopi's findings about the positive impact of being well informed, as they delved into the effects of longevity and health information on helping people achieve long-term financial security. Their findings underscored the need for improved longevity literacy among the general population, and for further research into how professional financial advisors can best align their advice with clients' needs.

The research was motivated by earlier work showing that subjective survival probabilities shape financial decisions—but that such subjective beliefs are often biased. The aim was to address two key questions:

1. Do financial advisors base their recommendations more on their own health and longevity expectations, or on what they know about their advisees' health and longevity?
2. How do the recommendations of professional advisors differ from those of amateur advisors, particularly when they receive health and longevity information about their advisees?

Methodology

Briefly, two online experiments were conducted, one with a sample of professional financial advisors, the other with amateur advisors (e.g., family and friends). All participants were asked about their own subjective life expectancy and longevity, risk attitudes, financial literacy levels, and more. Both groups were asked to consider two financial advice situations (presented via vignettes), one on an investment choice and the other on whether to annuitize. The annuitization vignette is shown here:

BASELINE ANNUITIZATION VIGNETTE

Mr. Smith is a single, 60-year-old risk averse man with no children. He will retire and claim his Social Security benefits at 65. When he retires, he will have $100,000 saved for his retirement, and he will receive $1,400 in monthly Social Security benefits. Imagine that Mr. Smith asks you about how to manage his $100,000 retirement savings.

If you had to choose between the following two options, which one would you recommend?

1. Keep the entire $100,000 in his account and use it as he needs it
2. Receive a regular monthly sum of $500 (equal to $6,000 yearly) for the rest of his life

Abigail Hurwitz, Hebrew University of Jerusalem

Groups within each sample were provided with five different information treatments about the individual's health status beyond the baseline vignette to test how that information might change their recommendations:

T1: Mr. Smith is in poor health and is aware of having a 21% chance of survival until the age of 90 or beyond.

T2: He is in average health and is aware of a 34% chance of surviving until the age of 90 or beyond.

T3: He has recently been diagnosed with stomach cancer and is aware of having a 72% chance of surviving for five more years.

T4: His father passed away from cancer at age 60.

T5: He was recently diagnosed with early-stage prostate cancer and is aware of having a 21% chance of surviving until the age of 90 or beyond.

Findings

Overall, subjective information about the advisor's health and longevity had little or no effect on their recommendations. Moreover, the information treatments had little effect compared to the baseline investment vignette. On the other hand, the treatments had significant effects compared to the baseline *annuitization vignette* (shown on the previous page), a not unexpected result.

The findings reported here all pertain to the annuitization question.

First, both amateur and professional advisors tended to overestimate their survival probabilities relative to actuarial life tables. Abigail was pleased to report, though, that the financial advisors' self-assessed health and longevity (however optimistic) had little or no effect on the advice they provided.

The financial advisors' self-assessed health and longevity (however optimistic) had little or no effect on the advice they provided.

Second, analysis of the advice given across the treatment scenarios revealed that advisors do respond to advisees' health and longevity information. Not surprisingly, the professionals were more responsive than amateurs regarding annuitization advice—another encouraging result.

Overall, though, the findings reveal a lack of longevity literacy among the general population, as shown in the results below:

PRIMARY EFFECT OF INFORMATION TREATMENTS

Information on average health	Information on severe cancer diagnosis	Information on poor health and mild cancer diagnosis	Information about a parent's early death from cancer
Amateurs: increase annuitization recommendation by ~56%	**Amateurs:** decrease annuitization by ~63%	**Amateurs:** no effect	**Amateurs:** no effect
Professionals: decrease annuitization recommendation by ~25%	**Professionals:** decrease annuitization by ~91%	**Professionals:** decrease annuitization by ~30%	**Professionals:** decrease annuitization by ~30%

Note that the amateur advisors responded to just two types of information—average health and a severe cancer diagnosis—whereas the professionals responded to all types of information provided. The difference in responses, particularly to the information on average health, imply that the amateurs were surprised to learn about survival and longevity, a finding that supports earlier longevity literacy research.

Implications

Many people rely on informal financial advice from friends and family, but amateur advisors don't accurately analyze and use key information to provide appropriate advice. Clearly, enhancing longevity literacy in the general population would help improve financial decision-making and, likewise, long-term financial security. Professional advisors—shown to be responsive to advisees' health and longevity information—could further minimize longevity risks by helping to increase their clients' longevity literacy.

KEYNOTE CONVERSATION

Facilitating wise decisions in later life

Elke Weber, Princeton University
Surya Kolluri, TIAA Institute

Americans in later life face important decisions about the right time to retire, when to collect Social Security, and whether to spend down their savings. They need to make such decisions despite a crucial uncertain variable: their life expectancy. Elke Weber, the Gerhard R. Andlinger Professor in Energy and the Environment and Professor of Psychology and Public Affairs at Princeton University, and Surya Kolluri, Head of the TIAA Institute, engaged in a thought-provoking conversation about how older people might make wise decisions in the absence of certainty. Understanding how people make decisions generally helps inform ways to help older people navigate decision-making when the stakes are high.


Surya Kolluri, TIAA Institute

THE CONVERSATION

SK: I'll start with a simple question, although I'm sure the answer isn't so simple: How do we make decisions?

EW: Nobel Prize winner Daniel Kahneman's most important book, *Thinking Fast and Slow*, describes two modes of decision making. The first is fast thinking, basically the automatic way we make decisions. I and others have distinguished between two of those automatic ways: one involves emotions, where basically, if something is attractive, we approach, and it's scary, we back off. Friend or foe is something we encode within microseconds. Another mode of fast thinking is based on rules of conduct. At a personal level, the rules are like morals, or proverbs such as "good things come to those who wait." Those rules are elicited by our social roles—and, interestingly, are often designed to discourage calculations of utility.

Which brings us to the second mode of decision making, that is, slow and deliberate calculation-based decisions, designed to weigh costs and benefits. The slow mode is effortful and needs to be taught.

SK: Decision making involves inherent uncertainty. One could intuit that one choice is better than the other or do economic modeling—but still there's uncertainty. How should we to think about that element of uncertainty?

EW: Uncertainty is a fact of life, but it's something we don't particularly like. So how do we deal with it? One way is to observe or follow the advice of trusted others. That could be our spouse, our rabbi, scientists, and so on. The upside is that we trust them and just copy what they're doing. And that can work well. But, as we know, different segments of the population trust different people, and so this approach can be polarizing.

The other way to deal with uncertainty is rely on our own personal experiences. The point is, seeing is believing, and we trust ourselves. This mechanism plays out, for example, in that people are more willing to donate to NGOs working on climate change when it's hotter than usual on the day they're asked to give. To capture that behavior, my husband and collaborator, Eric Johnson, coined the term "local warming" as opposed to "global warming." If people see or feel with their own senses (as in feeling a high temperature) they tell themselves it's worth paying attention to. What's nice is that this mode can help override polarization. But the bad news is it's reactive.

> “Personal experiences are islands of tranquility in a sea of uncertainty.
>
> –Hannah Arendt, Historian and Philosopher

SK: Let's get to the topic of wisdom and its role in decision making. Is a wise decision necessarily a good decision?

EW: Great question. We often have three voices in our heads when we're making decisions: one is focused on costs and benefits, another is emotional, and the third is thinking about norms and what's the appropriate decision given the circumstances. When the voices line up, we have high confidence in our decision.

But when the voices cross, it's hard. Then it's a matter of using the right set of tools. For example, a financial decision would be more calculation based, whereas a decision about who to marry—in this country at least—would be based more on emotions.

One way to think about whether a decision is wise is to ask whether it will minimize the sense of regret you might experience after the fact. Often people regret decisions based on the outcomes—but people's time horizons change as they age. Younger people tend to have more regret about actions they took that led to bad outcomes, whereas when older people look back on their lives, they more often regret actions they didn't take. Interestingly, that means that assessment of a wise decision, defined as minimizing regret, shifts over the life course.

Elke Weber, Princeton University

SK: How about our decision-making skills? Do we make better or worse decisions as we age?

EW: Let's start with calculation-based decisions. For those, we need to be able to manipulate numbers and consider abstract principles—skills that come from what's called fluid intelligence. I'm sorry to say that basically, after age 18, fluid intelligence starts to decline—and quite drastically, in fact, in middle age. It's biologically based; parts of our brain work less well as we age.

On the other hand, decision making based on feelings and social rules improves with experience. This is called crystallized intelligence, which increases with age. Crystallized intelligence generally compensates for the loss of fluid intelligence—to a point. The sweet spot is in our 50s, when the two lines cross.

SK: Research shows that the first cognitive skills to decline are financial. But of course, key financial decisions need to be made later in life. What does your expertise tell us about those decisions?

EW: One key decision is about when to start claiming Social Security. That timing has important implications because it pays to wait until you're 70 if you can. But what's the crucial variable on when to start claiming? Life expectancy. Talk about decisions under uncertainty! It's very hard to make a good judgement on that. My husband and I built a theory about judgement construction called query theory, which explains that the order in which questions are asked makes a huge difference in how people come to conclusions.

One study applying the theory to life expectancy asked subjects "To what age will you live?" and "At what age will you die?" in the opposite order. The first question raises thoughts about all the reasons you may live longer, like I don't smoke or I run every day. The second question has the opposite effect, raising age-decreasing thoughts and problems. The life expectancy estimate of the randomly-assigned group that was asked first about living rather than dying was eight years longer than the other group!

The theory points toward the need for interventions that would help people with their decision making, particularly as they age.

> Crystallized intelligence generally compensates for the loss of fluid intelligence—to a point. The sweet spot is in our 50s, when the two lines cross.
>
> –Elke Weber,
> Princeton University

SK: It can be hard to help older people with their decision making because so often they want to maintain their sense of agency beyond the point when they need help. How can we set them—and ourselves—up for better decision making in later life?

EW: It's important to be aware of the different modes of decision making, and which mode may predominate for us under different circumstances. For example, as we age our emotional reactions may not be as well calibrated, and so while we may think we're perfectly in control, we may not be. That could make us more vulnerable to fraud.

We could recognize our diminished abilities by intentionally trying to shift to being more rational and making more rules-based decisions. And we could allow ourselves to depend more on trusted others. We need to play our own devil's advocate, questioning ourselves and asking first all the reasons we *shouldn't* do something rather than starting with why we *should* do it. When older people take that approach, they may feel less like they're losing autonomy if, in fact, they've self-diagnosed and are making adjustments on their own.

SK: Thank you, Elke, for a fascinating conversation! You've shared a wealth of information about how older people can be helped—or help themselves—with the important financial decisions they face.

The intergenerational transmission of future-orientedness

John Knowles, Simon Fraser University, presenter
Andrew Postlewaite, University of Pennsylvania

Future-orientedness—defined as a collective of personality traits that influence variations in savings behavior across households—is a key determinant of wealth accumulation. This study looks at how the future-orientedness of married people in the 1970s helps to explain the wealth inequality among their adult children and grandchildren today.

John and Andrew's research analyzed the effects of parental attitudes on planning and saving, and how these attitudes are passed down to children and grandchildren. They focused on heterogeneity among individuals and showed how the differences help to explain why some people save more and accumulate more wealth over their lifetimes compared to others.

Methodology

The Panel Study of Income Dynamics (PSID) is a nationally representative longitudinal study that tracks key characteristics of American households. Since its inception in 1968, the PSID has collected detailed information on income, wealth, family structure, and other variables. In the early 1970s, the PSID included questions designed to measure attitudes toward the future. The authors used responses to these attitude questions to create an index of future-orientedness and examined how these attitudes correlate with wealth accumulation in later years, long after the attitudes were elicited.

The index of "future-orientedness" is based on responses to questions such as:

- Would you rather save more for the future or spend your money and enjoy life today?
- Are you the kind of person who plans their life ahead all the time, or do you live more from day to day?

John Knowles, Simon Fraser University

Additionally, since PSID includes the children and grandchildren of the original respondents in the analysis, the authors were able to explore the intergenerational transmission of future-orientedness. Notably, the PSID conducted a Child Development Survey (CDS) of a sample of children in PSID households, and later also carried out genetic analyses of a sample of children to produce polygenic scores (PGS) that identify genetic variants associated with specific traits or outcomes.

The aim was to predict long-term financial behaviors based on attitudes, rather than traditional financial indicators. The authors controlled for factors such as income, education and family structure to isolate the effect of future-orientedness on wealth accumulation and its transmission to future generations. They also used the genetic-based scores to explore links to various wealth-related outcomes.

Findings

John and Andrew's earlier research found that parents' attitudes toward saving and planning significantly affect their children's financial behaviors as adults. Among other things, the children accumulate greater wealth, controlling for demographics.

Their current study went beyond effects on children to measure effects of future-orientedness of grandparents on the wealth of their grandchildren. Note that since the grandchildren are still relatively young (25-40 years), their wealth in middle age was predicted using data from earlier PSID cohorts.

Parents' attitudes toward saving and planning significantly affect their children's financial behaviors as adults.

Findings include:

$135K increase in grandchildren's predicted wealth for each standard deviation increase in a grandparent's future-orientedness index

70%
of the increase is explained by education: High grandparent future-orientedness indices are associated with higher rates of grandchildren's college graduation

=
Grandparents' effects are virtually equal all through grandsons, but there is little effect for granddaughters

=
Effects of maternal and paternal grandparents on their grandchildren

John and Andrew also found that only a small part of this wealth effect could be fully explained by standard psychological scales:

- $65K could be explained by higher scores on the Cognitive Stimulation Scale (Library Visits, Educational Outings, Visits to Museums, etc.)
- $57K could be explained by higher scores on the Positive Behavior Scale (Cooperation, Social Competence, Persistence, etc.)
- $22K could be explained by *lower* scores on the Behavioral Problems Scale (Aggression, Rule-Breaking, Anxiety/Depression, Social Withdrawal, etc.)

The authors also investigated various parenting-related behaviors and found that none of those explained away the effect of grandparents' future-orientedness either.

Finally, the researchers asked whether transmission of future-orientedness was more likely to be genetic or cultural. They found that the effect of future-orientedness on wealth was the same for maternal and paternal grandparents, consistent with a simple genetic model. However, a more direct approach using genetic predictors of education (i.e., polygenic scores or PGS, gleaned from genetic analyses of a sample of children in the PSID) did not reveal any strong connection between the PGS and future-orientedness. Further research is needed to illuminate why future-orientedness has such strong effects on wealth across several generations.

PARENTING EFFECT: SPORTS

Grandchildren who played team sports in school or summer leagues were predicted to be $86K wealthier in middle age.

Implications

The effects of grandparents' future-orientedness are very strong for their grandsons, but that doesn't explain all the differences in the grandchildren's wealth accumulation. Importantly, future-orientedness is not simply genetically driven. Many other factors come into play—and can be influenced through behavior, advice and education to improve long-term financial security prospects across generations.

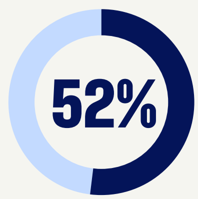
The life you save for: Experiences dominate goods in motivating savings

Siyuan Yin, University of Pennsylvania, presenter
Grant E. Donnelly, The Ohio State University
Cait Lamberton, University of Pennsylvania
Michael I. Norton, Harvard University

Saving is undoubtedly related to long-term financial well-being. But because savings goals relate to future consumption, consumers face uncertainty about the degree to which a given savings goal will be desirable when it is reached. As a result, goals that are seen as more versatile—satisfying a wider range of future preferences—are more likely to motivate savings that those that are less versatile.

Siyuan describes her current research, which builds on the versatility premise to investigate the differences between experiential goals (e.g., a beach vacation) and material goals (e.g., a luxury watch) in motivating saving.

A versatile savings goal can be adapted to satisfy a wide range of future needs or accommodate a wide variety of future preferences.



Only 52% of Americans met their savings goal in 2023.

Source: New York Life Wealth Watch 2024

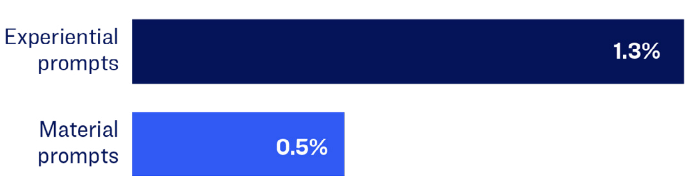
Methodology and findings

Siyuan and her colleagues conducted two field studies and six experiments to test their hypothesis.

Study 1, a field study, was done in partnership with HelloWallet, an application that provides financial guidance and uses behavioral economics to motivate people. Consumers were prompted via email to create an account to save for either a bucket list of experiences or a wish list of material goods. Of the 18,505 people who opened the email, customers with experiential prompts within the message were more likely to set up a savings goal (1.3%) than those with material prompts (0.5%).

HELLOWALLET: SAVINGS ACCOUNT EMAIL PROMPTS

% creating savings account within 3 days



Siyuan Yin, University of Pennsylvania

The six experiments tested a range of scenarios, including, for example:

Studies 2A, 2B and 2C investigated the causal link between savings goals and savings intentions. Consistent with Study 1, Study 2A found that participants reported higher savings intentions for self-generated experiential goals than for material goals. Study 2B found that participants were less likely to be tempted by a smaller purchase now instead of continuing to save toward their experiential goal (a weekend trip) versus a material goal (a luxury watch). Study 2c found that experiential savers were less likely to tap their savings for emergencies than the material savers.

Study 4 took a different approach. The savings goal—a guitar—was the same across groups, but was framed as either experiential (e.g., playing music for friends) or as material (i.e., owning the item). Again, the experiential group reported higher savings intentions than those in the material group. This effect was fueled by the perceived versatility of the experiential goal: the more ways participants listed they would benefit from buying the guitar, the higher the savings intention.

STUDY 4. GUITAR FRAMED AS EXPERIENTIAL OR MATERIAL

Experiential

Intentional savings:

$122

VS.

Material

Intentional savings:

$103

Study 6, another field study, was based on a dataset of more than 38,000 customers of an Australian bank who set up savings accounts for goals identified as either experiential (e.g., a vacation) or material (e.g., a new car). Experiential goals were more likely to be achieved (45%) than material goals (38%). Moreover, customers with experiential goals were more persistent and contributed toward their saving goals for longer consecutive periods. The same effect remained when controlling for goal amount, goal length, age, gender, customer tenure with the bank, annual income, and geographic regions.

AUSTRALIAN BANK CUSTOMERS: SUCCESSFUL GOAL ATTAINMENT

Experiential goal		Material goal
45%	**VS.**	**38%**

Notably, across the studies, the value from goal versatility appears to offer better explanatory power for successful goal pursuit than do experiential versus material differences related to the need for excitement, uniqueness or perceived importance of the timing of the goal.

Experiential goals allow consumers to build memories, feel a variety of emotions, and create a sense of achievement. As such, they can be redesigned to meet preferences at the time of goal attainment.

Implications

People are more motivated to initiate, invest in, and complete savings goals that are framed in experiential terms than for material goals, an effect that Siyuan and her colleagues' experiments show flows from the versatility of experiential goals.

For financial advisors and others aiming to encourage retirement savings, this means that framing saving for retirement as experiential (e.g., saving for pursuing hobbies, travel, free time to volunteer, etc.) rather than material (e.g., saving for housing and health care costs) likely will enhance goal versatility and, likewise, motivation to save for the future.

Individuals, too, can focus on the different possibilities that a savings goal presents by framing it for themselves in experiential terms. This shift can help motivate potential savers to exert the self-control and advance planning that saving for the future requires.

Resources

The immediate needs annuity and long-term care insurance
Leora Friedberg, University of Virginia; Wei Sun, Renmin University of China; Anthony Webb, New School for Social Research

Subsidizing medical spending through the tax code: Take-up and targeting
Gopi Shah Goda, Brookings Institution

How longevity and health information shapes financial advice
Abigail Hurwitz, Hebrew University of Jerusalem and Olivia S. Mitchell, University of Pennsylvania

The intergenerational transmission of future-orientedness
John Knowles, Simon Fraser University and Andrew Postlewaite, University of Pennsylvania

The life you save (for): Experiences dominate goods in motivating savings
Siyuan Yin, University of Pennsylvania; Grant E. Donnelly, Ohio State University; Cait Lamberton, University of Pennsylvania; Michael I. Norton, Harvard University

Does financial education in high school affect retirement savings in adulthood?
Melody Harvey, University of Wisconsin–Madison; Carly Urban, Montana State University

Overpaying and undersaving: Correlated mistakes in retirement saving and health insurance choices
Leora Friedberg, University of Virginia; Adam Leive, University of Virginia

Financial literacy and well-being in a five generation America
Andrea Hasler, GFLEC, The George Washington University; Annamaria Lusardi, GFLEC, The George Washington University; Paul Yakoboski, TIAA Institute

Connecting mental and financial wellbeing: Insights for employers
TIAA Institute; High Lantern Group

Longevity literacy: Preparing for 100-year lives?
Benny Goodman, TIAA Institute

Fixed and variable longevity annuities in defined contribution plans: Optimal retirement portfolios taking Social Security into account
Vanya Horneff, Goethe University; Raimond Maurer, Goethe University; Olivia S. Mitchell, University of Pennsylvania

What matters for annuity demand: Objective life expectancy or subjective survival pessimism?
Karolos Arapakis, Boston College; Gal Wettstein, Boston College

Saving and attitudes to the future
John Knowles, Simon Fraser University; Andrew Postlewaite, University of Pennsylvania

TIAA Institute Behavioral Finance reports

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