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Full retirement? An examination of factors that influence the decision to return to work (pp. 1–19)

Karen Eilers Lahey, Doseong Kim, Melinda L. Newman

We examine a sample of retirees who either remain fully retired or return to work in some capacity. Surprisingly, we find that those who rejoin the labor force are no less financially prepared for retirement than are their counterparts who remain retired. Instead, the factors that significantly influence the decision to return to work are the availability of health insurance, whether the initial decision to retire is freely chosen, and the degree of satisfaction with retirement. However, the factors that significantly affect the decision to return to work differ between those who wanted to retire and those who were forced into retirement.

A workplace and gender-related perspective on financial planning information sources and knowledge outcomes (pp. 21–42)

Ca¨zilia Loibl, Tahira K. Hira

This paper examines financial learning in the workplace through employer provided, self-directed financial learning media, such as newsletters, print publications, software, and the Internet. Independent variables of interest also include an employee's use of family, friends, and co-workers as financial planning sources. The paper addresses whether the use of the personal sources relates to the use of the financial learning media, whether the media utilization affects an employee's financial knowledge, and whether genders influences these relationships. Results suggest that the social network influences utilization of employer-provided financial learning media which, in turn, increases actual retirement specific and self-reported financial knowledge. Differences by gender appear for a number of variables.

Personal financial planning education in Australian universities (pp. 43-57)

J. E Cowen, W. T. Blair, S. M Taylor

Personal financial planning in Australia is drawing interest from a wide range of groups including consumers, regulators, the financial services industry, accountants, and educators. This paper reflects on the development of the

Australian financial planning industry, focusing on its historical background and the relevant regulatory environment. This article then provides a descriptive analysis of the availability of dedicated financial planning courses currently available in Australian universities at both undergraduate and postgraduate levels. The Australian findings suggest the existence of considerable research opportunities to study professionalism in financial planning and the fundamental role that education plays in this process.

Predicting financial literacy in Australia (pp. 59-79)

Andrew C. Worthington

Logit models are used to predict financial literacy using the 2003 ANZ Survey of Adult Financial literacy in Australia. Financial literacy is defined in terms of mathematical ability and the understanding of financial terms. Factors examined include gender, age, ethnicity, occupation, education, income, savings, and debt. Financial literacy is found to be highest for persons aged between 50 and 60 years, professionals, business and farm owners, and university/college graduates. Literacy is lowest for the unemployed, females, and those from a non-English speaking background with a low level of education.

An analysis of the importance of personal finance topics and the level of knowledge possessed by working adults (pp. 81-98)

Ronald P. Volpe, Haiyang Chen, Sheen Liu

This study attempts to identify the important questions in personal financial literacy and the deficiencies in employees' knowledge in those areas. Surveying benefit administrators at 212 U.S.companies, we found that the participants rate retirement planning and personal finance basics as two important topics where there are deficiencies in employees' knowledge. We also observed deficiencies in other areas such as investments and estate planning. In contrast, employees are relatively well informed about company benefits. The results suggest that educational programs should focus on improving employees' knowledge in areas where deficiencies exist.

Volume 15 Number 2, 2006

Are retail S&P 500 index funds a financial commodity? Insights for investors (pp. 99-116)

John A. Haslem, H. Kent Baker, and David M. Smith

We examine whether retail S&P 500 Index funds are a financial commodity by comparing the expense-performance relation for index versus actively managed funds. The presumed commodity like nature of index funds suggests that price competition should be more evident than with actively managed funds. Thus, expenses should not vary widely among funds tracking the same benchmark. We find a high level of dispersion in expense ratios across retail S&P

500 Index funds. Funds with higher expenses generally underperform because of 12b-1 fees. We conclude that expenses are just as important to determining performance for index funds as they are for actively managed funds.

Dynamic retirement withdrawal planning (pp. 117-131)

R. Gene Stout and John B. Mitchell

This paper develops a dynamic model of retirement withdrawal planning that allows retirees and financial planners to improve the probability of retirement portfolio success while simultaneously increasing the average withdrawal rate. The key elements of the model are periodic adjustments of retirement withdrawal rates based on both portfolio performance and remaining life expectancy, and Monte Carlo simulation of both investment returns and mortality. The inclusion of mortality in fixed planning horizon models reduces the probability of retirement-portfolio ruin by almost 50%. When compared to fixed withdrawal rate models, dynamic withdrawal management incorporating mortality reduces the probability of ruin by another 35–40% while increasing average lifetime withdrawal rates by nearly 50%.

Financial education and asset allocation (pp. 133-149)

Steven D. Dolvin, C.F.A. and William K. Templeton

We conduct a clinical study on a firm that restructures its 401(k) plan and simultaneously offers financial education seminars to its employees. The restructuring requires each employee to restate allocation percentages, thus we are able to analyze the specific benefits of retirement planning seminars on the asset allocation decision. We find that seminar attendance is associated with increased portfolio diversification and improved risk management. When combined with changes in return, the overall result is that seminar attendees create more efficient portfolios, which implies a better understanding of the retirement planning process.

Tactical asset allocation and presidential elections (pp. 151-165)

James L. Grant, Ph.D. and Emery A. Trahan, Ph.D., C.P.A., C.F.A.

Over the past 75 years, common stocks performed better under Democrats, while U.S. government bonds and Treasury (T) bills performed better under Republicans. Using a mean-variance framework, we find that Democrats provide better risk-reward opportunities for portfolios weighted toward stocks, while Republicans provide better tradeoffs for portfolios weighted toward government bonds and T-bills. More recently, Republicans provide better portfolio opportunities than Democrats for a bond-stock allocation range typical of diversified investors. Moreover, when segmenting the value stock (style) premium by political party, we find that Republicans provide better risk-reward tradeoffs than Democrats for portfolios of value stocks, bonds, and bills.

A study of for-credit introductory personal financial planning courses (pp. 167-179)

Joel Gold, Charlotte Pryor, and Philip Jagolinzer

The purpose of this study is to ascertain the extent to which certain of the Certified Financial Planning Board of Standards (the Board) prescribed topics are covered in for-credit introductory Personal Financial Planning courses delivered by AACSB accredited business schools. Time value of money, financial planning process, personal financial statements, and mutual funds receive the most emphasis. While many prescribed topics receive significant course time, little coverage is given to many others, such as forms of business organizations and financial services industry regulations. The authors conclude that there is a disparity between the Personal Financial Planning course in the CFP Board Model Financial Planning curriculum and what is taught at surveyed schools.

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Is momentum investing a viable strategy for individual investors? (pp. 181-197)

Glenn N. Pettengilla,*, Susan M. Edwardsa, Dennis E. Schmittb

Momentum investing is the practice of investing in securities that have substantially outperformed the market in recent periods. This paper examines the stock selections of two groups of investors, professional analysts and individual investors, made in the well-researched dartboard contest conducted by the Wall Street Journal. We find that both groups exhibit a strong tendency to select momentum securities, with the individual investors concentrating on securities with extreme momentum. The professional analysts are successful with the momentum strategy but the individual investors are not. We conclude that momentum investing is not a viable strategy for individual investors.

Determining a mutual fund’s equity class (pp. 199-212)

F. Larry Detzel

Mutual fund investors who use an asset allocation model must be able to readily identify each fund’s equity class. Prior studies examine two approaches to classifying equity funds, factor loadings and portfolio characteristics. Their implementation is not feasible for many investors, however. I investigate a practicable alternative, Morningstar’s characteristics-based style box. I find that it does not predict mutual fund returns as well as a discrete factor-loadings-based alternative during 1994 to 2004 overall, but predicts better in 2003 to 2004 after Morningstar changed its methodology. I also find that fund classifications drift considerably over the years. Actively-managed-fund investors need to monitor their portfolios regularly.

There’s no time like the present: the cost of delaying retirement saving (pp. 213-231)

Alistair Byrne, David Blake, Andrew Cairns, and Kevin Dowd

Many people delay joining a pension plan until well into their working lives. We use a stochastic simulation model to show the cost of this delay in terms of the higher pension contributions that must eventually be paid to ensure an adequate retirement income. We find the levels of contributions required for individuals who start saving late are so high it is questionable whether they are affordable for anyone not on a high income. We also analyze the cost in terms of reduced pension of an interrupted labor market history, such as that experienced by someone who leaves work for a period to bring up a family.

Delaying Social Security payments: a bootstrap (pp. 233-245)

John J. Spitzer

This paper reconciles previous research outcomes and explains why prior studies offer conflicting recommendations regarding the decision to delay Social Security payments. Using a bootstrap, this paper determines the age at which a retiree is better off deferring Social Security payments when rates of return are not constant. The expected rate of return affects the breakeven age and the rate of return is a function of asset allocation. When life expectancy and realistic investment returns are incorporated into the analysis, there are few circumstances that warrant postponing Social Security payments for early retirees.

Should investors choose funds from focused families? (pp. 247-264)

Conrad S. Ciccotello, James A. Miles, and Lori S. Walsh

The purpose of this study is to ascertain the extent to which certain of the Certified Financial Planning Board of Standards (the Board) prescribed topics are covered in for-credit introductory Personal Financial Planning courses delivered by AACSB accredited business schools. Time value of money, financial planning process, personal financial statements, and mutual funds receive the most emphasis. While many prescribed topics receive significant course time, little coverage is given to many others, such as forms of business organizations and financial services industry regulations. The authors conclude that there is a disparity between the Personal Financial Planning course in the CFP Board Model Financial Planning curriculum and what is taught at surveyed schools.

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I Bonds versus TIPS: Should individual investors prefer one to the other? (pp. 265-280)

Marcelle Arak, Stuart Rosenstein

Both TIPS and Series I Bonds are adjusted for inflation, offering a real rate and an inflation adjustment. The inflation adjustment is the same on both securities, but the real portion of the interest rate on TIPS is generally much higher. Despite I Bonds' less attractive real rate, they have several features that add to their value. They may be redeemed before maturity, at par value plus accrued interest, eliminating price risk. In addition, taxes may be deferred until redemption. We estimate the value of these two features, and find that they are substantial and could potentially offset the lower real rate of I Bonds.

Will adoption and life events among older adults (pp. 281-295)

Lance Palmer, Ph.D., Vibha Bhargava, Gong-Soog Hong, Ph.D.

This study examines the relation between life events and the adoption of wills among older adults using the 1996 and 2000 surveys of the Heath and Retirement Study. The results suggest that the adoption of wills and trusts is associated with four life events (i.e., becoming a widow, being diagnosed with cancer, retiring, and having a positive change in assets). Older adults experiencing these events appear to be taking financial planning actions; therefore, appropriate educational and marketing efforts targeting these individuals may be more effective, readily accepted, and more cost efficient compared to general outreach and marketing campaigns.

Using predicted perceived emergency fund adequacy to segment prospective financial consulting clients (pp. 297-313)

So-Hyun Joo, Ph.D., John E. Grable, Ph.D., CFP

This research examines determinants of emergency fund adequacy using a classification tree methodology. A subjective evaluation of emergency fund adequacy was obtained from a survey with 404 respondents in two United States cities. The sample data showed financial behaviors, such as whether a respondent saves regularly, pays credit card bills in full each month, and has a written financial plan, and demographic characteristics such as household size and ethnicity, were major splitters of the classification tree. The findings suggest that a series of questions can be used when working with prospective clients to separate target profile clients from others in practice.

What drives sell-side recommendation announcement returns?
(pp. 315-333)

M. Mark Walker, Ph.D., C.F.A., C.B.A., Bjoern A. Claassen, Ph.D.

Before an individual investor follows a professional stock analyst's investment recommendation, the Securities and Exchange Commission (2005) urges the investor to consider carefully the potential conflicts of interest facing the analyst. Our study examines this issue in the context of Griffin and Tversky's (1992) model that explores how individuals weigh evidence and form beliefs. We find that although investors focus primarily on recommendation strength following upgrades, investors consider both recommendation strength and credence following downgrades. However, we find no evidence that stock price performance is affected by any underwriting relationship between the firm employing the analyst and the firm being recommended.

Optimizing the initiation of Social Security benefits (pp. 335-348)

Joseph P. McCormack, Grady Perdue

This research examines the decision couples and individuals face when determining the age at which to begin receiving their Social Security benefits. By comparing a personal required rate of return to the internal rate of return between various retirement ages and various life expectancies, a couple or an individual can better decide when to initiate receipt of Social Security benefits. Early initiation of benefits is the correct course of action for individuals with lower life expectancies. However, delayed initiation of benefits may often be the correct course of action for a single person with a long life expectancy or for a married male who is the higher income-earning spouse.