80% of older workers financially illiterate: Survey

The results show retirement will be an uncertain time for many, according to The American College of Financial Services

 investmentnews.com

- September 15, 2020 BY EMILE HALLEZ

Only about one in five people age 50 to 75 with more than $100,000 in assets is financially literate, results of a survey published Tuesday show.

Over 80% of the 1,500 people “failed” the 38-question quiz that was part of a survey conducted between April and May by Greenwald & Associates for The American College of Financial Services.

The results reinforce something well-known to advisers: Financial literacy in the U.S. is severely lacking.

People mostly fell short in their understanding of retirement income, investing and long-term care, according to the report issued Tuesday. Some people also overestimated their financial acumen, as about a third said they consider themselves highly knowledgeable about retirement income planning, higher than the 19% pass rate for the financial literacy quiz.

The results roughly mirror those of similar surveys in 2014 and 2017, according to The American College of Financial Services.

The current economic environment and reality of forced retirement makes an understanding of income planning critical, adjust professor Steve Parrish said in the announcement.

“Financial advisors should take heed of this situation and embrace the opportunity it provides to help Americans prepare for a successful retirement,” Parrish said.

About a third of people surveyed said they have a written financial plan for retirement. Those who did were also more likely to say they felt prepared to deal with the economic fallout from the COVID-19 pandemic, according to the report.

On average, people answered 42% of questions in the survey correctly. Scores were particularly low regarding asset preservation and retirement income, according to the report.

More than half of respondents underestimated average life expectancy, and less than a third understood the 4% rule for annual retirement asset spending, the survey found. Just over a third understood the impact of a year of negative returns coinciding with the first year of retirement, “suggesting a fundamental lack of knowledge about investment risk in the pre-retirement and retirement period,” according to The American College of Financial Services.

The quiz also revealed fundamental misunderstandings about investing. For example, three quarters of people did not understand the relationship between interest rates and the value of mutual funds with long-term bonds — only 26% said the shares of the funds would significantly lose value if interest rates were to rise considerably. Eleven percent said the fund shares would increase in value, 7% said there would be no change, 25% said it would depend on the type of fund, and 31% admitted they did not know what the effect would be, according to the report.

Further, most had misconceptions about which types of funds have had the highest returns, historically. Seven percent were correct that small-cap stock funds had the highest returns, while 22% assumed it was large-cap stock funds, 24% saying it was dividend-paying stock funds and 12% citing high-yield bond funds. Thirty-six percent said they did not know.

People were also confused about investment fees, the survey found. Fifty-two percent said they didn’t know whether ETFs or actively managed mutual funds generally have higher fees, though 20% mistakenly said active funds tend to be cheaper.

A concerning finding, according to The American College of Financial Services, is that people underestimate how likely it is that they will require long-term care during retirement. About 50% of people said it is at least somewhat likely, though 70% will almost certainly require it, according to the school. Thirty-one percent of people said they have a plan for funding long-term care, and 23% of people said they have long-term care insurance.