

Public Abstract

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Title: Participation in Tax Deferred Retirement Programs in a Defined Benefit Environment

The purpose of this study is to examine the major factors that influence employees' decisions regarding their levels of participation in employer sponsored tax-deferred retirement savings accounts (TDAs).

The current participation rate in the University's TDAs is low, at about 26 percent, in comparison to programs of other universities and other employers, which also maintain a defined-benefit retirement program as their primary retirement program. The low rate is of concern for two reasons: 1) If the Social Security system moves toward becoming a system that allows for some personal direction of contributions, individuals not familiar with investing will be at a disadvantage. 2) If it were desirable to convert the University's defined-benefit plan to a defined contribution or hybrid plan, the transition would be eased with a greater number of TDA-savvy employees.

At the broadest level of interest, this study, in keeping with other research, would suggest that consumers are in need of aid to get the best use of TDA programs. Many experts believe that the industry has erred on the side of providing too much information on financial investments, perhaps to the point that it discourages some individuals from taking action to invest. One way to begin to understand how provision of information may be impacting participation in these programs is to see how employees' educational levels and financial sophistication relate to their decisions to participate in TDAs. This study examines factors of that nature for one employer to set the stage for continued research in this area.