SELF-EVALUATION WORKSHEETS ENHANCE ELDER FINANCIAL DECISION MAKING

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\textit{Introduction}

One’s ability to make sound financial decisions over the course of their lifetime is critical for interpersonal, economic, and psychological health and success. As with any large life decision, accurate understanding is a key element in choosing the option that will best fit the individual. However, in the realm of financial decisions, the options and information available may be both foreign and difficult to understand. This, alongside positively oriented sales pitches, not to mention predatory practices, often leads to uninformed and hazardous financial decisions.

Several legal reforms have been implemented in an effort to increase understanding of complex financial products and transactions. Disclosures are one such legal reform, implemented nationally in the case of home loans, and implemented in the state of California in the case of a reverse mortgage. However, we are now learning that disclosures, while important, may be of limited usefulness in aiding comprehension and reducing the incidence of predatory lending practices, and these supporting data are both anecdotal and empirical (e.g., Stark, Choplin, & LeBoeuf, 2013).

In the to-be-described study, we show that the active manipulation – imparting accurate and understandable information regarding a complex financial product – leads to: 1) changes in mood; 2) superior understanding of the financial product; and 3) reduced intention of purchasing the financial product. The financial product of interest in our study was a reverse mortgage. This financial option has grown in popularity in recent years, and is frequently seen as a substitute for an assisted living facility. It is predicted that reverse mortgage products will continue to popularize as the baby booming generation shifts into the reverse mortgage market demographic.

\textit{Aim of Study and Hypothesis}

The aim of this study was to test an implementable form of public policy. In particular, we tested whether a \textit{self-evaluation worksheet}, involving an active manipulation of financial content, would significantly improve consumers’ understanding of the reverse mortgage product. We hypothesized that participants who received the self-evaluation worksheet would display superior understanding of the financial product.

\textit{Methods}

Participants completed the following task of approximately 45 minutes duration.
1. Participants completed their first of two visual analogue scales to assess mood.
2. Participants completed the financial knowledge pre-test.
3. Participants were read a disclaimer and a small informational piece on reverse mortgages.
4. Participants were randomized into two conditions. The Control Condition consisted of participants who received only the current required legal disclosure documents for the State of California (Important Notice and Written Checklist), which was followed by a 15-minute, non-financial distractor task. The Manipulation Condition received both legal documents as well as a self-evaluation worksheet that required active manipulation of the content of a reverse mortgage (Reverse Mortgage Comprehensive Worksheet).
5. Participants completed their second of two visual analogue scales to assess mood.
6. Participants completed a final assessment to test their knowledge and understanding of a reverse mortgage (Reverse Mortgage Comprehensive Assessment).

Results

Forty healthy, community-dwelling older adults completed the current study. Twenty of the older adults were randomized to the Control Condition (mean age = 75.1 years; 50% female), while the remaining 20 were randomized to the Manipulation Condition (mean age = 76.9 years; 50% female). Participants in the two conditions were identical in terms of years of completed education (approximately 16 years) and current-day cognitive abilities (e.g., intellect, memory ability, numeracy skills).

In addition, participants in the Control Condition and participants in the Manipulation Condition were indistinguishable on the following study variables: baseline financial knowledge, baseline emotional state (self-ratings on happy, scared, calm, and irritated), number of financial products purchased over the last five years, self-report of being content with the financial decisions they have made to date, and self-reported interest in financial products.

By contrast, after completing the experiment, the two conditions differed in three important ways:

Mood. Relative to participants in the Control Condition, participants in the Manipulation Condition endorsed lower feelings of "happy", lower feelings of "calm", and higher feelings of "irritable" after completing the self-evaluation worksheet (experimental manipulation).

Understanding. Relative to participants in the Control Condition, participants in the Manipulation Condition displayed higher comprehension scores on the assessment administered at the conclusion of the study.

Purchase Intention. Relative to participants in the Control Condition, participants in the Manipulation Condition indicated that they were less likely to purchase a reverse mortgage in the future, when queried at the conclusion of the study.

Policy Position/Statement

In order for older adults to be well informed about reverse mortgages, policy must be put in place to ensure that adequate and accurate information has been not only provided but also actively processed by the individual. Our data demonstrate that accurate understanding of a reverse mortgage impacts mood, comprehension, and purchase intention, all of which are crucial for sound financial decision-making.