Overconfidence in Financial Knowledge and Hardship Withdrawals from Retirement Account

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Hardship withdrawals from retirement accounts can be utilized to deal with unexpected financial difficulties, but they can be misused, leading to detrimental impacts on retirement asset accumulation. The objective of this study is to examine the decision to take a hardship withdrawal, focusing on the relationship to financial knowledge. Using the 2018 National Financial Capability Study dataset, we conducted logistic analyses to test how subjective and objective financial knowledge are related to hardship withdrawal decisions. We also created categorical variables based on the combination of subjective and objective financial knowledge measures and tested the relationship of overconfidence to withdrawals. We found that subjective financial knowledge was positively related to the likelihood of taking a hardship withdrawal while objective financial knowledge was negatively related. Compared to the Appropriate Low confidence category (low subjective/low objective), Overconfident (high subjective/low objective) respondents were more likely to take a withdrawal than those in the Appropriate Low category. Financial planners should guide proper withdrawal strategies with the relationship to subjective and objective financial knowledge in mind. Financial educators should design financial knowledge education programs taking discrepancies between subjective and objective knowledge into account, especially in terms of overconfidence.

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