



FinLit news

SUMMER 2014 NEWSLETTER

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## Message from Academic Director Annamaria Lusardi

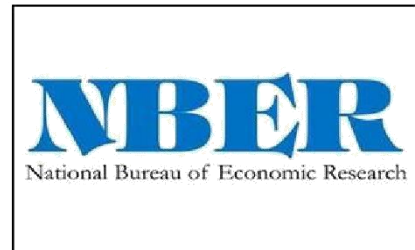
Dear Friends and Colleagues,

GFLEC continues to be involved in multiple initiatives to promote financial literacy and financial literacy research in the United States and around the world. I am pleased to update you on the Center's most recent activities.

We are delighted and honored to have hosted the U.S. release of the Programme for International Student Assessment (PISA) Financial Literacy Data in collaboration with the U.S. Department of Education, the U.S. Department of the Treasury, and the Consumer Financial Protection Bureau. This first-ever assessment of the financial knowledge of 15-year-olds covered 18 countries and economies, including the United States. As chair of the Financial Literacy Expert Group that designed the questions, it was very gratifying to see the fruits of that work and such important findings. We now have a solid baseline from which to measure the success of future efforts to improve financial literacy among the young.

We have already begun investigating the new data from PISA and look forward to examining the detailed findings and encouraging the use of that information to inform policy and programs.

I hope you enjoy reading our newsletter.



## GFLEC Hosts U.S. Release of the PISA Financial Literacy Assessment

U.S. government officials, international experts, scholars, business leaders, and other high-profile participants came together last July for the presentation of the findings of the first financial literacy assessment of 15-year-olds around the world. The event....

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## Lusardi Chairs OECD/INFE Research Committee

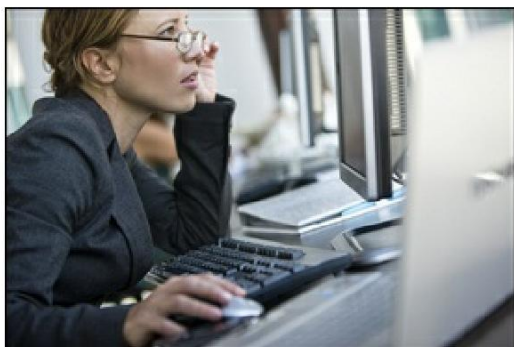
This past spring, Director Lusardi was elected chair of the Organisation for Economic Co-operation and Development (OECD) [International Network on Financial Education](#) (INFE) Research Committee. This committee counsels OECD/INFE and its advisory board on research, analytical work, and strategy.

## Featured Research: Financial Knowledge and 401(k) Investment Performance

Financial knowledge helps people invest more profitably, according to an NBER working paper by GFLEC Director Annamaria Lusardi, Robert Clark of the Poole College of Management at North Carolina State University, and Olivia S. Mitchell of the....

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## GFLEC Happenings



### GFLEC Researches Working Women's Financial Capability

Only 53 percent of late-career women attempt to figure out how much they need to save for retirement. This is just one of the important findings of GFLEC's research into working women's financial capability. The study, which documents how financial behaviors vary by family status and career....

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### Lusardi Offers Keynote at RAND BeFi Forum

The RAND Behavioral Finance (BeFi) Forum 2014 included a keynote address by GFLEC Director Annamaria Lusardi who discussed the economic importance of financial literacy. The daylong forum, held in Washington, D.C., in May aimed to increase policymakers' and industry leaders' understanding of retirement security, financial inclusion....

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### Financial Literacy Seminar Series Enters 4th Year

The fourth year of the Financial Literacy Seminar Series, sponsored by GFLEC and the Federal Reserve Board, begins on September 25 with a presentation by Professor John Shoven from Stanford University. He will deliver the Distinguished Lecture, titled "Trying the Impossible...."

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## Invited Session on Financial Literacy at the EEA Meeting in Toulouse

Director Lusardi presented GFLEC's work on gender differences in financial literacy in the invited session on financial literacy at the European Economic Association (EEA) Meeting in Toulouse, France. The project is joint work with Rob Alessie, University of Groningen, Tabea Bucher....

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## SSRN Financial Literacy eJournal

You can read the most recent papers on financial literacy in the Financial Literacy eJournal sponsored by GFLEC.

The eJournal is available [here](#).

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## GFLEC Hosts U.S. Release of the PISA Financial Literacy Assessment

U.S. government officials, international experts, scholars, business leaders, and other high-profile participants came together last July for the presentation of the findings of the first financial literacy assessment of 15-year-olds around the world. The event, held at the George Washington University in Washington, D.C., marked the U.S. release of financial literacy data from the Organisation for Economic Co-operation and Development's (OECD's) Programme for International Student Assessment (PISA).

GFLEC hosted the release in collaboration with the U.S. Department of Education, the U.S. Department of the Treasury, and the Consumer Financial Protection Bureau (CFPB).

Andreas Schleicher, who leads the OECD's Directorate for Education and Skills, highlighted some of the main findings, which include the following:

- On average, 15 percent of students in the countries and economies surveyed do not meet the baseline level for financial literacy. At best, they can only solve simple tasks.
- Some 17 percent of the variation in U.S. student performance in financial literacy is associated with socio-economic status, about the same as the OECD average.
- In 17 out of the 18 participating countries and economies, there are no gender differences in average financial literacy scores.

U.S. policymakers, including Secretary of Education Arne Duncan, Treasury Under Secretary for Domestic Finance Mary John Miller, and CFPB Director Richard Cordray, said the PISA findings can be used to improve financial knowledge among the young. Calling it sobering but “not very surprising” that U.S. youth scored only average when compared with the 17 other countries and economies assessed, Secretary Duncan said the U.S. should aspire to be better than average—that average was not good enough. Financial education as early as pre-K would allow individuals to grow up better prepared to address their own financial needs. The secretary of education also noted that the U.S. involvement in the assessment was valuable because it provides a baseline for gauging young Americans' financial knowledge.

John Rogers Jr., who chairs the President's Advisory Council on Financial Capability for Young Americans, emphasized that schools offer the best opportunity to reach everyone—and at an early age, when education is most effective. Chairman Rogers also shared what the Ariel Academy is doing to promote financial literacy, providing examples and suggestions on what can be done to make financial education in school more effective.

### Faces Behind the Numbers

*“I was the statistic that has been talked about today. I was one of the youth that grew up in a household where ‘check-to-check’ was the way we lived. My mother and father worked very hard, but... weren’t exposed to nor educated on financial literacy. So as I transitioned from Furman University with an opportunity to play professional basketball, I went from ‘Wow, they are going to pay me to do the thing that I love’ to ‘Wow, how do I not end up on ESPN’s 30 for 30 as one of those people who spent all their money and was broke?’”*

— *Rushia Brown, Star EMBA, George Washington School of Business graduate and president and CEO of the Women’s Professional Basketball Alumni Association*

CFPB Director Cordray told event participants that “It is never too early to begin teaching our children the economic and financial concepts that will help them make well-informed decisions throughout their lives... Today’s results from the Programme for International Student Assessment show that much work needs to be done and can be done when it comes to financial literacy for young people... Youth in Shanghai, Australia, and New Zealand did better than we did in demonstrating strong financial education skills... What this means is that we have an opportunity to learn from others... What are they doing differently?” He added that “a free market economy like ours is only as strong as its consumers,” pointing to the important link between an individual’s financial knowledge and the overall health of the national economy.

#### **Faces Behind the Numbers**

*“I learned that leaving college with significant amounts of debt could have far-reaching consequences... Being in debt was something I wanted to drastically avoid. With this in mind I took time to research schools’ financial aid and scholarship programs... Ultimately, the GI Bill and GW’s generous veteran benefits are allowing me to attend GW over the next four years loan free.”*

— *Andrew Bent, Poolesville High School graduate and freshman at the George Washington University*

Under Secretary of the U.S. Treasury Miller opened her remarks by commenting on the development of 401(k) plans, IRAs, and target date retirement plans, all of which were part of the evolution of putting individuals in charge of making their own financial decisions. She emphasized that financial literacy underpins all of these decisions, so has become critical. She expressed concern that the PISA Financial Literacy Assessment results show that nearly 1 in 5 American students do not exceed a baseline of proficiency in applying their financial knowledge to everyday situations. These students are ill-equipped to understand complex documents and transactions and will likely face significant challenges if they do not gain these skills before finishing high school.

Members of the OECD Financial Literacy Expert Group (FEG) explained the methodology behind the assessment. Andreas Schleicher joined FEG Chair Annamaria Lusardi, OECD Policy Analyst Adele Atkinson, former New Zealand Retirement Commissioner Diana Crossan, and Center for

Financial Services Innovation Vice President of Policy Jeanne Hogarth in detailing how the financial literacy questions were developed. They also discussed their efforts to ensure the assessment was not biased in favor of countries or economies with certain types of financial products or experiences.

Shannon Schuyler, the corporate responsibility leader at PwC, joined California State University Sacramento President Alexander Gonzalez and American Academy of Arts & Sciences Fellow Gerald Rosenfeld to discuss their work in promoting financial education in secondary schools, colleges, and universities. In separate remarks, Carrie Schwab-Pomerantz, president of the Charles Schwab Foundation, said she hoped the PISA Financial Literacy Assessment would spark a nationwide conversation about financial literacy. She called for the federal and local governments, employers, schools, nonprofits, families, and individuals to come together to promote financial literacy.

David Cowen, president and CEO of the Museum of American Finance, moderated a lively panel focused on teaching financial literacy skills. Panel participants were Ted Beck, president and CEO of the National Endowment for Financial Education and member of the President’s Council on Financial Capability for Young Americans; Lisa Krueger, former teacher and now a consultant on financial literacy and mathematics assessments; and Alan Krueger,

#### **Faces Behind the Numbers**

*“Taking [Prof. Lusardi’s personal finance course at GW]... completely changed my perspective regarding my personal finances. This course opened my eyes to so many opportunities I hadn’t considered before and will be really important to me as I transition from college to the workplace.”*

— *Mary Benman, student at the George Washington University*

former chairman of the President's Council of Economic Advisers and Bendheim Professor of Economics and Public Affairs at Princeton University.

GFLEC is proud to have been involved in the release event, as these findings can help guide financial literacy programs and policy that will benefit young people.

We are grateful to PwC, McGraw-Hill Financial, and the Council for Economic Education for making this event possible.

We also want to congratulate Kristen Burnell for her great work on organizing and coordinating the event.

Videos and presentations from the event can be found [here](#).



## **Featured Paper: *Financial Knowledge and 401(k) Investment Performance***

*Financial knowledge helps people invest more profitably, according to an NBER working paper by GFLEC Director Annamaria Lusardi, Robert Clark of the Poole College of Management at North Carolina State University, and Olivia S. Mitchell of the Wharton School at the University of Pennsylvania.*

*In this study, which received extensive media coverage, including articles in [The Economist](#) and [Barron's](#), the authors use a unique new data set that links administrative data on investment performance with financial knowledge. They used these data to examine whether investors who are more financially knowledgeable earn more on their retirement plan investments than do their less-sophisticated counterparts. Financial literacy does pay! The authors find that risk-adjusted annual expected returns are 130 basis points higher for the most financially knowledgeable investors.*

*The paper is available [here](#).*



## **GFLEC Researches Working Women's Financial Capability**

Only 53 percent of late-career women attempt to figure out how much they need to save for retirement. This is just one of the important findings of GFLEC's research into working women's financial capability. The study, which documents how financial behaviors vary by family status and career stage, broadens understanding of the special financial needs of working women. Women are contributing more to the U.S. economy than ever before and outpace men at every level of educational attainment, making research into their financial knowledge and behavior increasingly important. This study concludes with a list of recommendations, among them the need for (1) financial education programs and initiatives that take into account the career stages and marital status of working women and (2) debt counseling that helps working women with their immediate financial challenges and improves their ability to save.

The research is based on data from the 2012 National Financial Capability Study and is supported by the TIAA-CREF Institute.

The paper is available [here](#).





## **Lusardi Offers Keynote at RAND BeFi Forum**

The RAND Behavioral Finance (BeFi) Forum 2014 included a keynote address by GFLEC Director Annamaria Lusardi who discussed the economic importance of financial literacy. The daylong forum, held in Washington, D.C., in May aimed to increase policymakers' and industry leaders' understanding of retirement security, financial inclusion, consumer financial protection, financial advice, and other topics. Director Lusardi's presentation summarizes the findings from the existing research on financial literacy and shows how these findings can be used to improve the effectiveness of financial education programs.

Director Lusardi's PowerPoint presentation is available [here](#).

The video of Director Lusardi's presentation is available [here](#).



## **Financial Literacy Seminar Series Enters 4<sup>th</sup> Year**

The fourth year of the Financial Literacy Seminar Series, sponsored by GFLEC and the Federal Reserve Board, begins on September 25 with a presentation by Professor John Shoven from Stanford University. He will deliver the Distinguished Lecture, titled "Trying the Impossible – Financing 30-Year Retirements with 40-Year Careers: A Discussion of Social Security and Retirement Policy."

The spring 2014 Financial Literacy Seminar Series addressed a wide range of subjects: the mortgage market, financial education for elementary students, the receptivity of graduate students to financial education programs, default risk in the Home Equity Conversion Mortgage (HECM) program, and Social Security claiming considering husbands' and wives' benefits separately.

Information on upcoming seminars as well as papers, videos, and other resources from the 2014 spring and fall seminars are available [here](#).



## **Invited Session on Financial Literacy at the EEA Meeting in Toulouse**

Director Lusardi presented GFLEC's work on gender differences in financial literacy in the invited session on financial literacy at the European Economic Association (EEA) Meeting in Toulouse, France. The project is joint work with Rob Alessie, University of Groningen, Tabea Bucher-Koenen, Max Planck Institute for Social Law and Social Policy, and Maarten van Rooij, Dutch Central Bank. It is part of the Financial Literacy Programme, a multi-year research collaboration among teams in nine countries, supported by the European Investment Bank Institute.

Director Lusardi's presentation is available [here](#).