

Financial Literacy and Financial Education Can Change Lives

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Why the Focus on Financial Literacy

Changes in pension systems

- More individual and private accounts

Changes in labor markets

- Workers change job more often
- Divergence in wages – skills are critical

Changes in financial markets

- Greater complexity
- More opportunities to borrow & in large amounts



Why essential

1. Individuals are in charge of many decisions more than in the past
2. Decisions are made starting at a young age, ex: investment in education
3. There are many differences in preferences & economic circumstances
4. The final objective is well-being, not a single behavior



Financial Literacy Around the World

Findings from Various Surveys and Studies

The S&P Global FinLit Survey (GFLS)

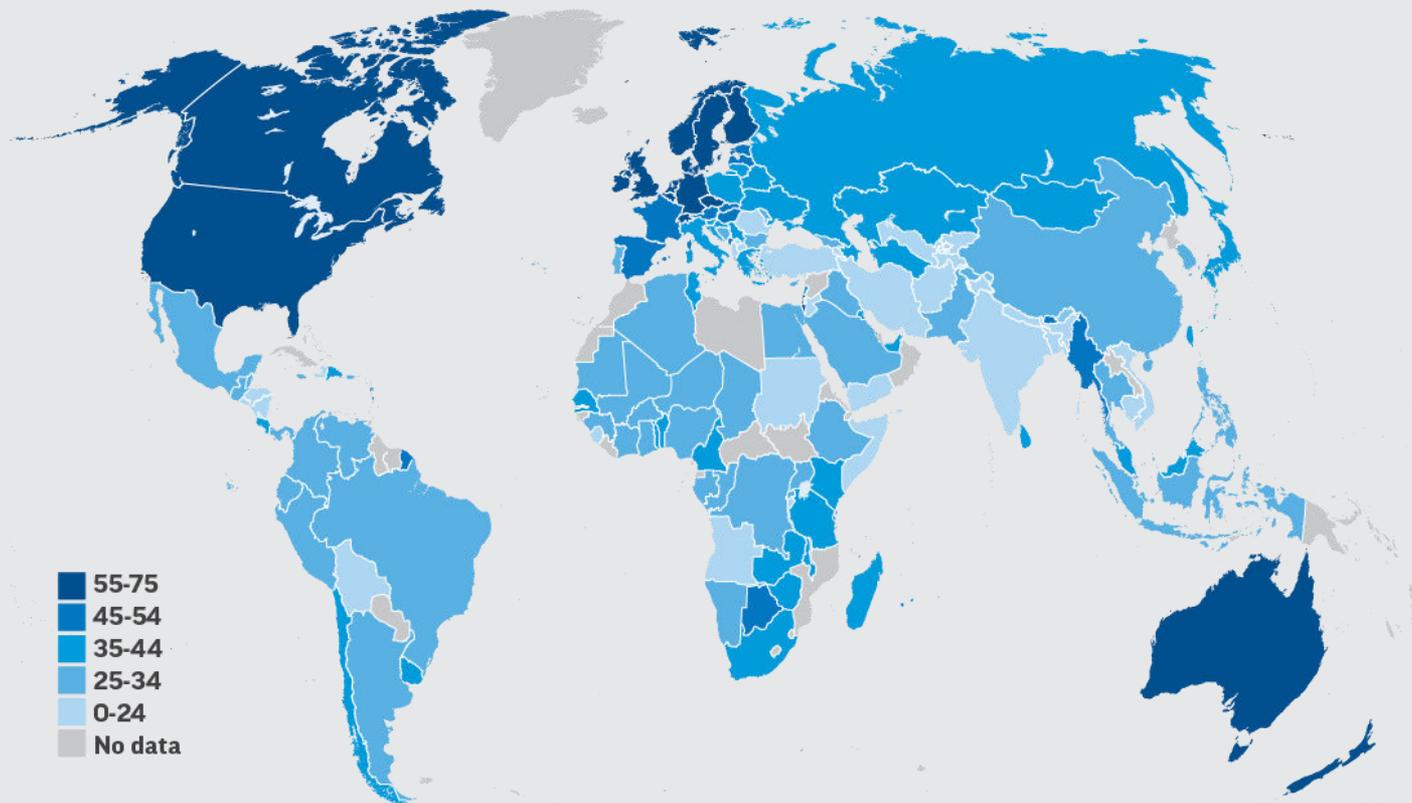
- The largest, most comprehensive, global measure of financial literacy
- Interviewed more than 150,000 adults age 15+ in 148 countries
- S&P Global partnered with Gallup, GFLEC, and the World Bank
- The measure has to be applicable to every country, irrespective of economic structure and financial market development
- The survey covers four topics:
 - Numeracy
 - Interest compounding
 - Inflation
 - Risk diversification

Being financially literate:
Able to answer 3 out of these 4 topics correctly



Financial Literacy Across the Globe

% of financially literate adults



Source: S&P GFLS

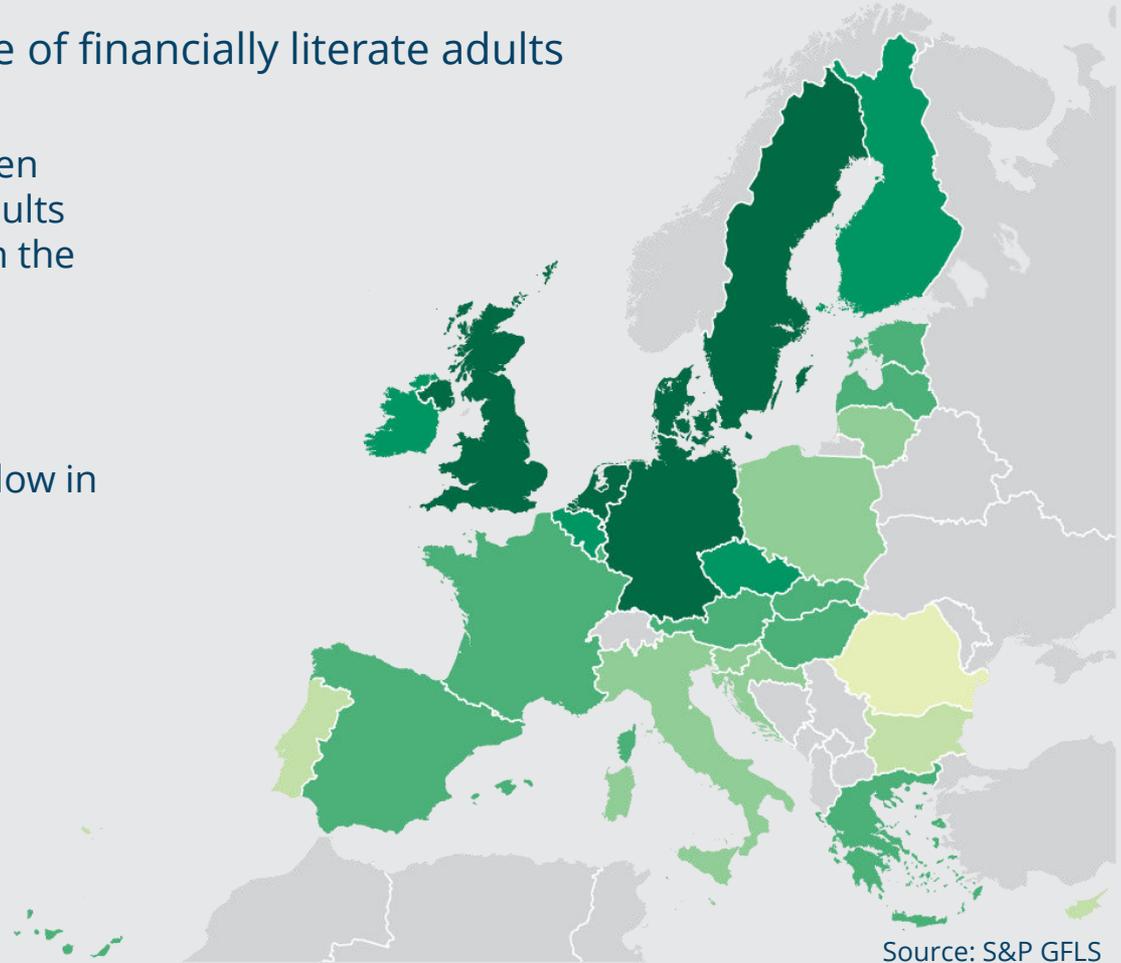
Only 1 in 3 adults worldwide responded correctly to three out of four topics

Financial Literacy in Northern and Southern Europe

Percentage of financially literate adults

In each of Denmark, Germany, Sweden and the Netherlands, at least 65% adults are financially literate—the highest in the European Union

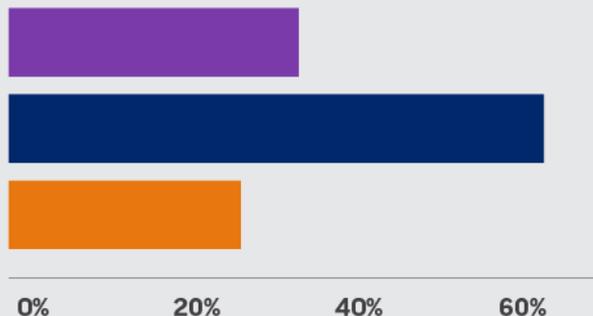
Across Central and Eastern Europe, financial literacy is very low, and it is low in countries in Southern Europe as well



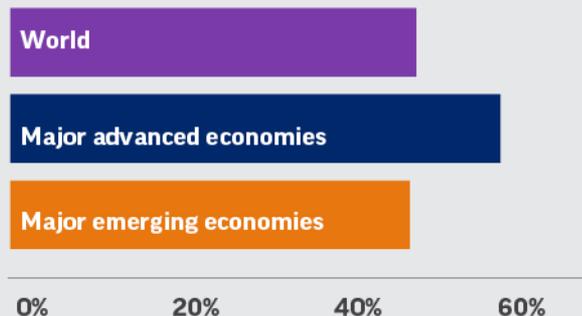
Financial Literacy by Topic

% of adults answering correctly

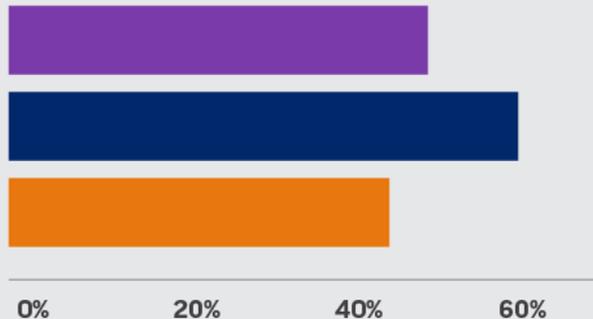
RISK DIVERSIFICATION



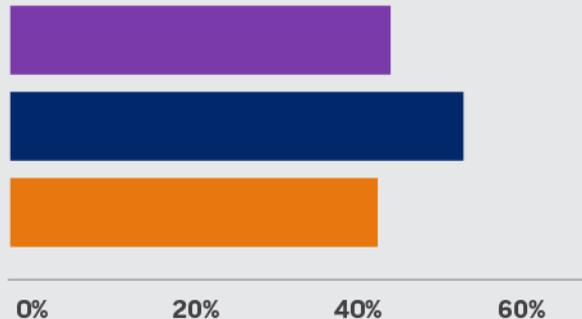
NUMERACY (INTEREST)



INFLATION



COMPOUND INTEREST



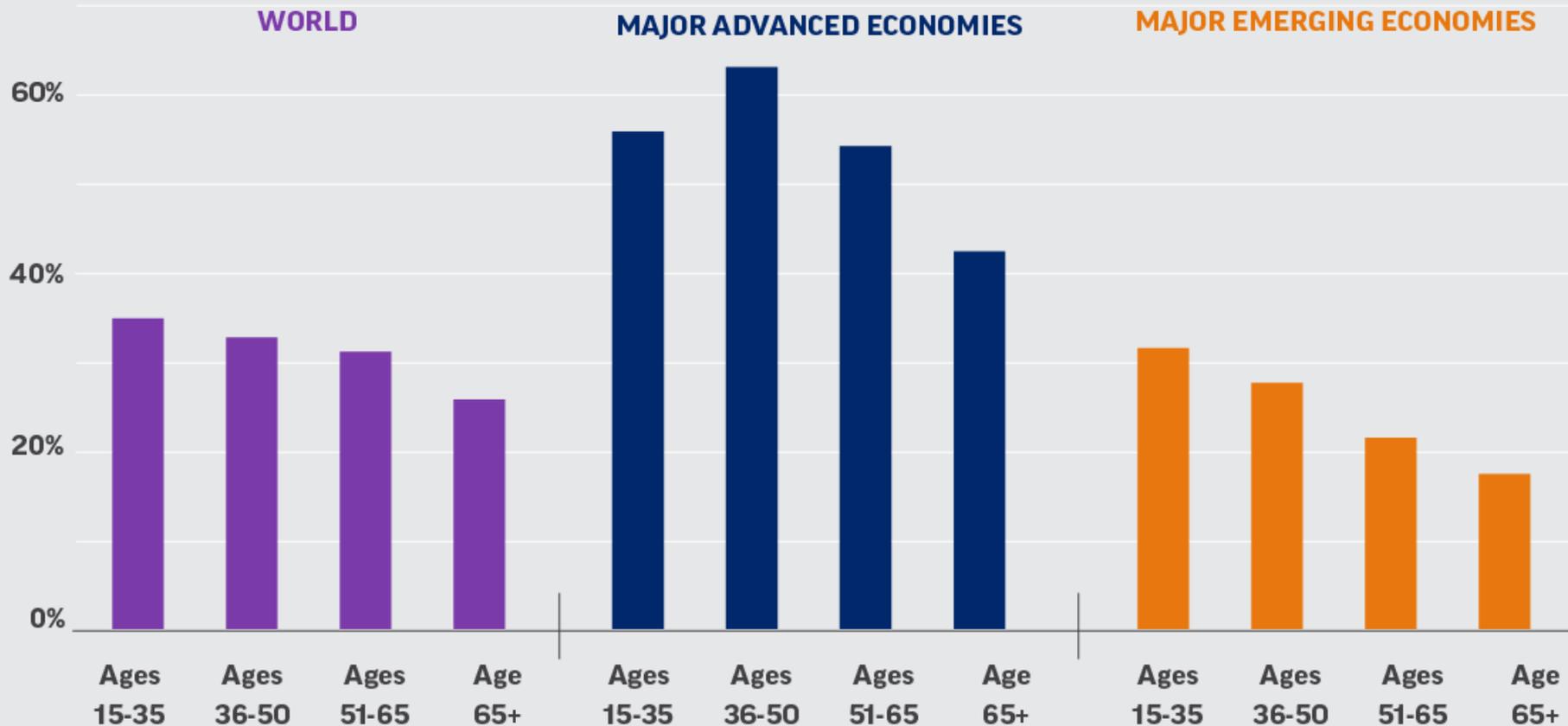
Inflation and simple interest/numeracy is what people know most across countries.

Risk diversification is what people know the least.

Findings are similar in other surveys

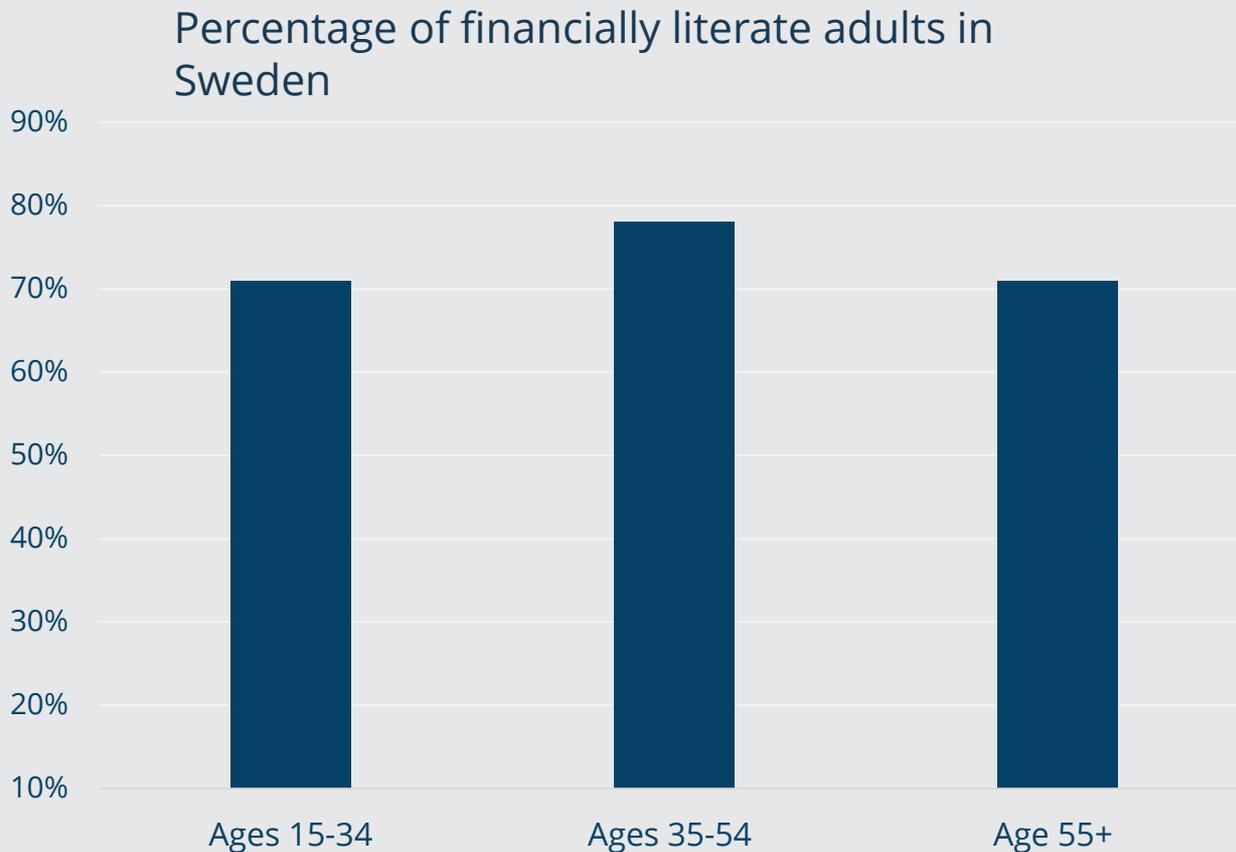
Financial Literacy Over the Life Cycle

Percentage of financially literate adults



Source: S&P GFLS

Financial Literacy Over the Life Cycle in Sweden



Source: S&P GFLS

Financial Literacy Among Vulnerable Groups

Findings among Women, the Young and Millennials

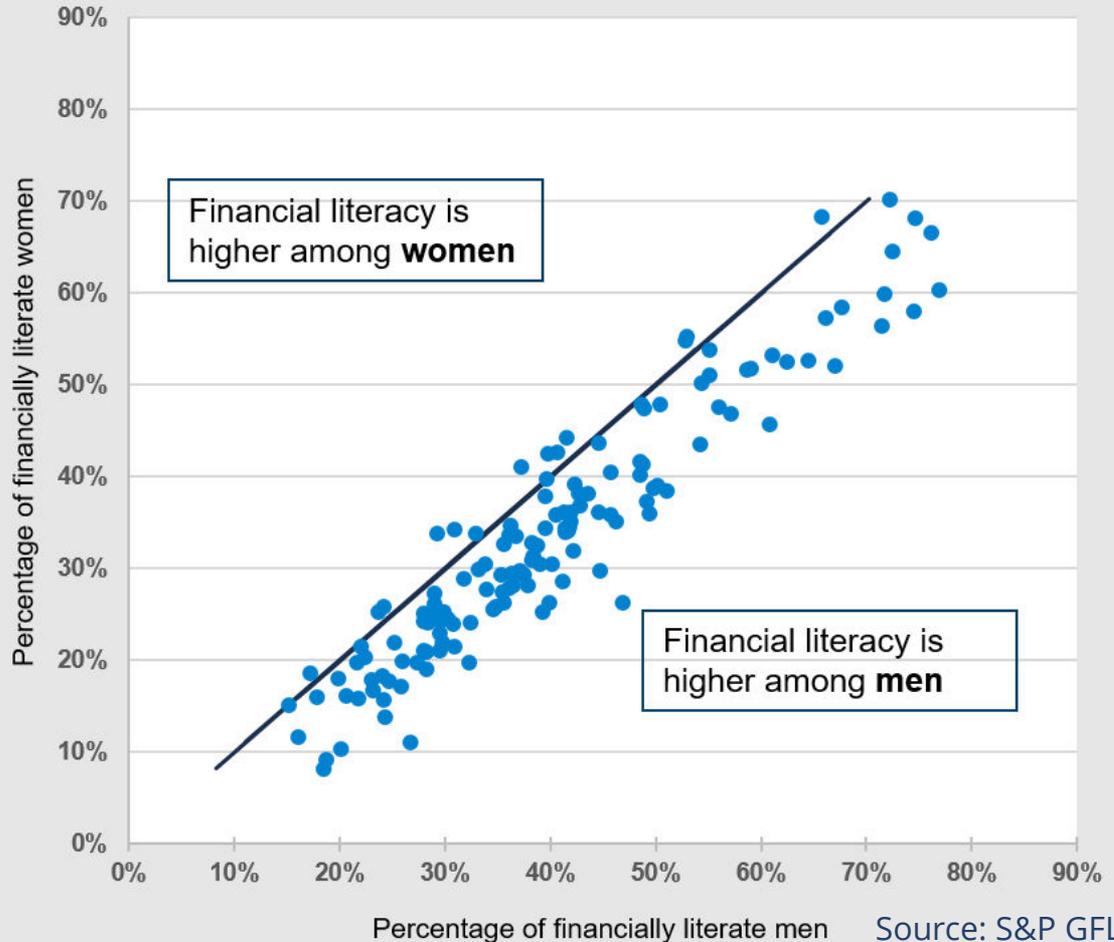
Significance and Prevalence of the Gender Gap

- Unique challenges for women relative to men
 - Longer life expectancies
 - Lower lifetime income
 - Career interruptions due to child rearing
- Consequences
 - Greater need to plan for old age
 - Different savings needs
 - Financial security during retirement is at risk



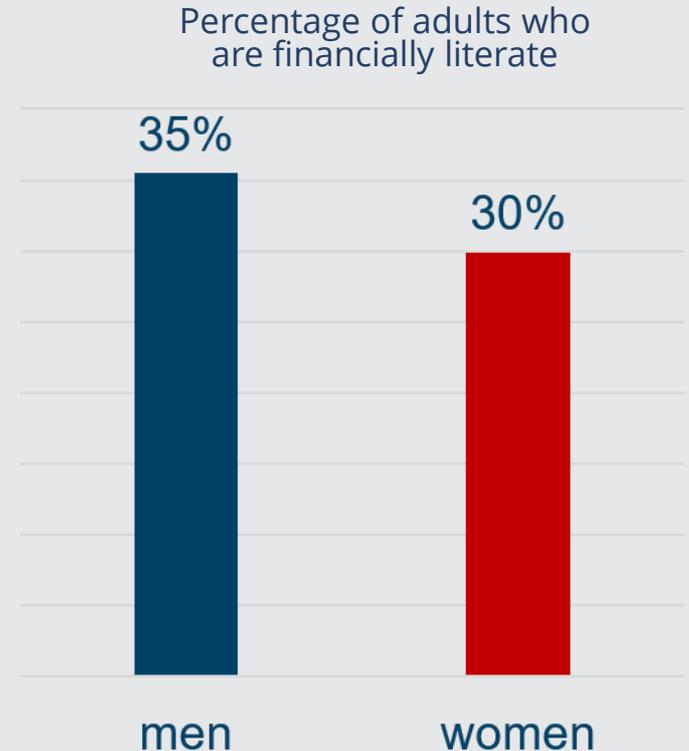
Gender Gap in Financial Literacy Around the World

In most economies around the world, men have a better understanding of basic financial concepts than women



Worldwide Financial Literacy Gender Gap

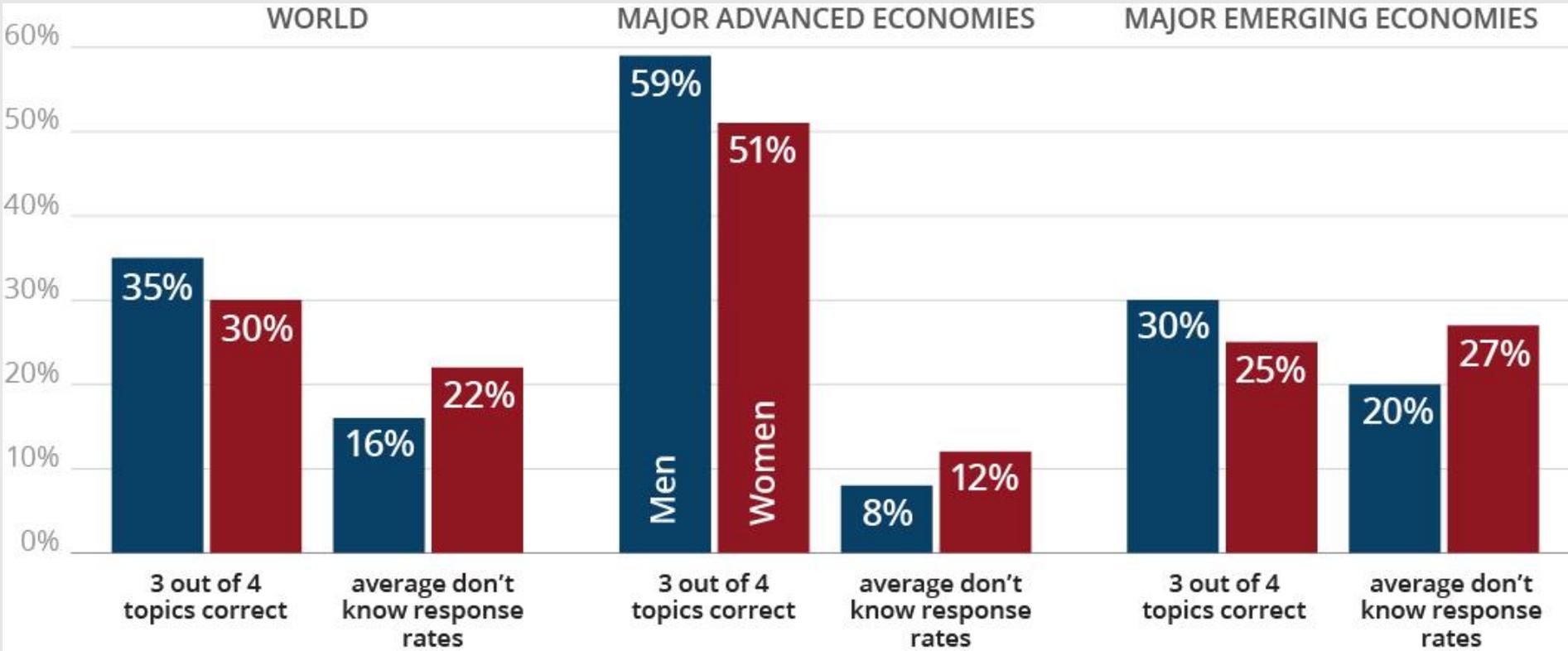
- Lower financial literacy rates among women for the great majority of countries
- Worldwide, 35% of men are financially literate, compared with 30% of women
- Gender gap is found in both advanced economies as well as emerging economies
- The gap is, on average, around 5% across the BRICS nations, and 8% for the G7 countries



Source: S&P GFLS

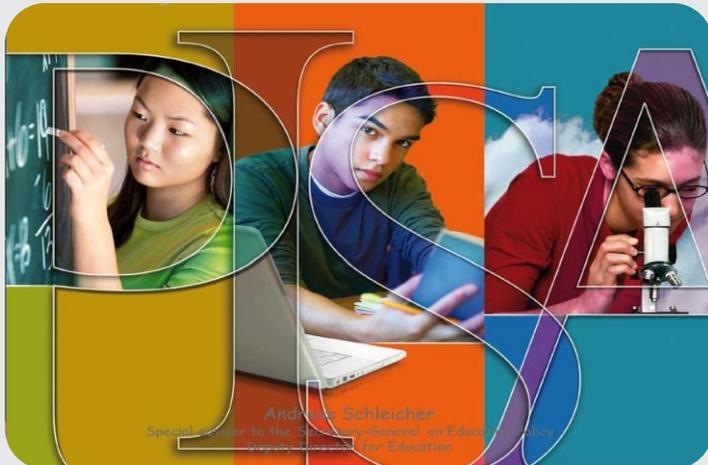
Gender Gap in Financial Skills

Women are disproportionately more likely than men to respond to a question with “do not know”



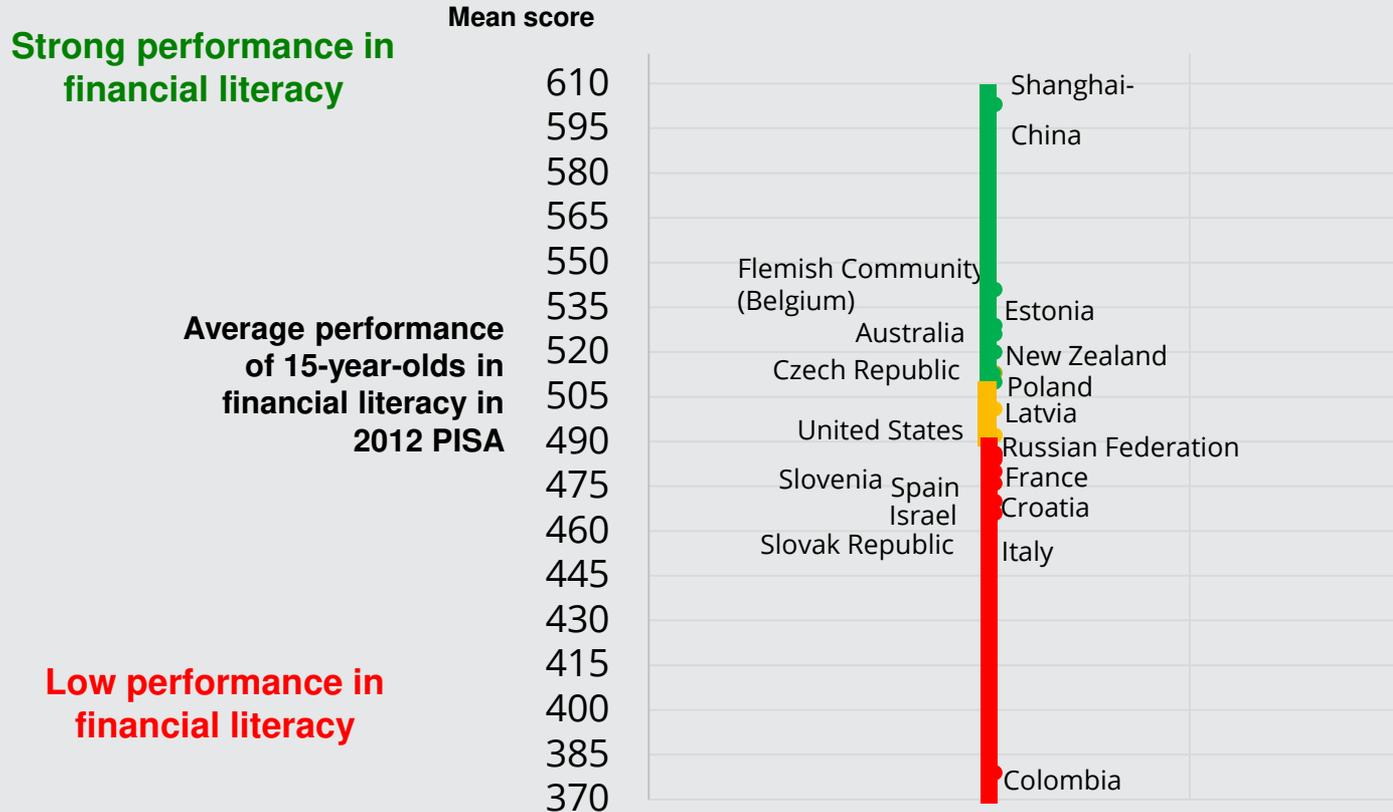
OECD's Programme for International Student Assessment (PISA)

Are students well prepared for future challenges? Can they analyze, reason and communicate effectively? Do they have the capacity to continue learning throughout life?



Since 2000, every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.

Average Performance of 15-year-olds in Financial Literacy (2012 PISA)



Average performance of 15-year-olds in financial literacy (2015 PISA)

Strong performance in financial literacy

Mean score

Average performance of 15-year-olds in financial literacy in 2015 PISA



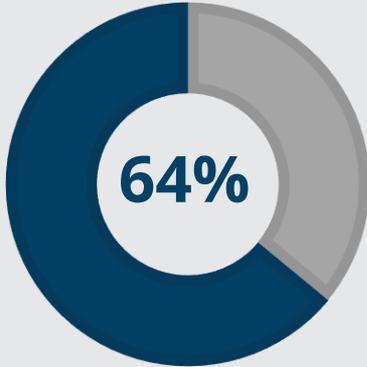
Low performance in financial literacy

Too Many Students Lack Basic Financial Skills

22%

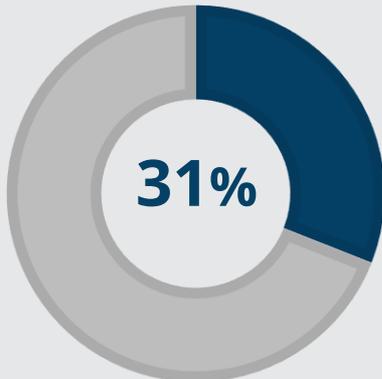
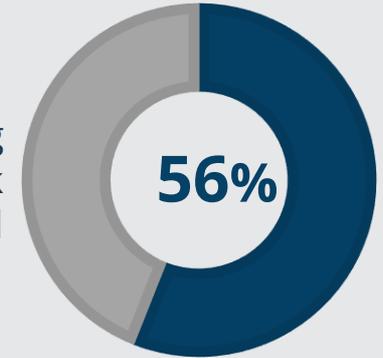
- On average, across OECD countries and economies, 22% of students do not have basic financial skills
- Only about 12% of students across participating OECD countries and economies are top performers, who can tackle the most difficult tasks

Young People as Consumers of Financial Products



Some 64% earn money from some type of work activity

Some 56% of 15-year-olds in participating OECD countries and economies have a bank account, 19% have a prepaid debit card



But fewer than one in three students have the skills to manage a bank account

Source: PISA 2015

Sources of Financial Literacy

84%

- On average, 84% of students discuss money matters with their parents at least once a month
- Students who do so tend to perform better in financial literacy

- But financial skills are strongly related to the socio-economic background of their family
- Advantaged students score 89 points higher in financial literacy than disadvantaged students

89 score
points

Financial Literacy Among Millennials

Evidence from the US

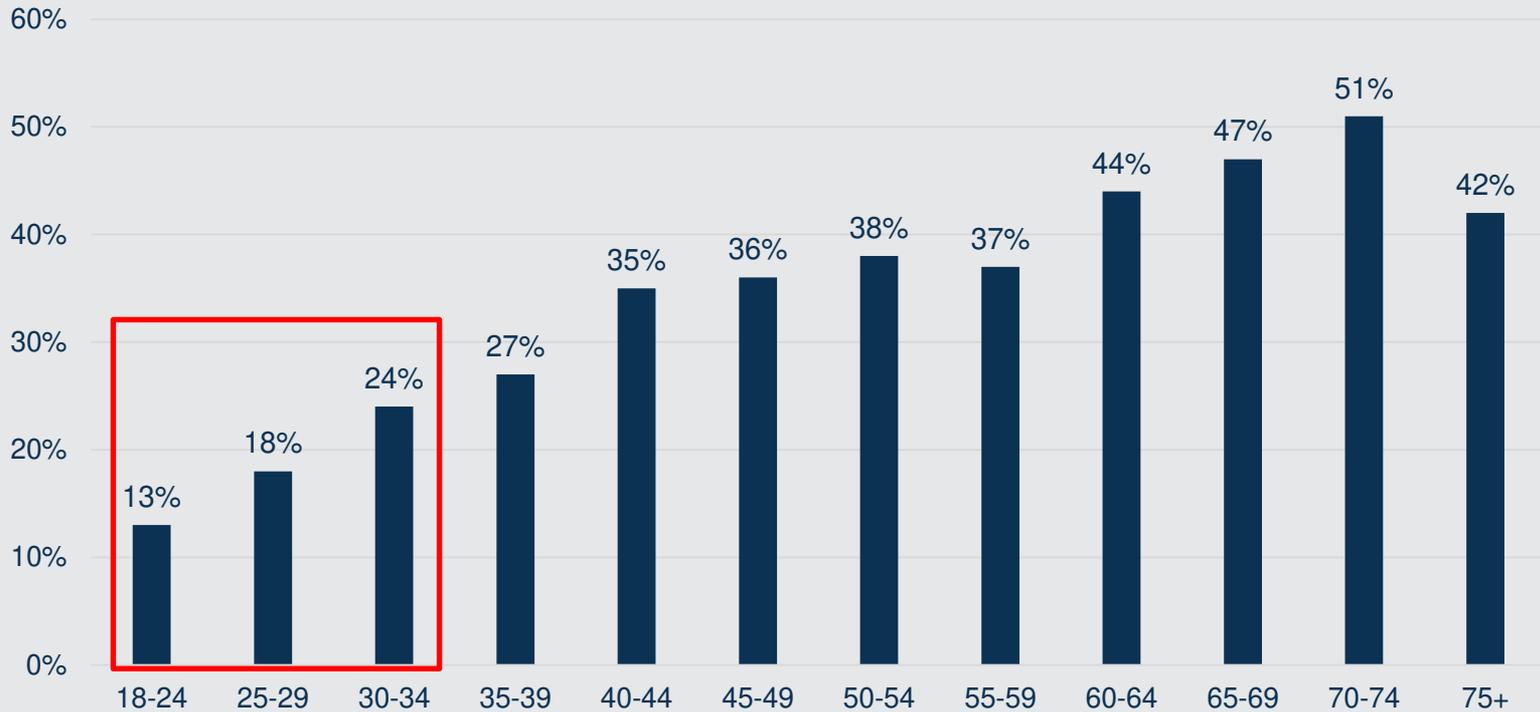
A Simple Measure of Financial Literacy

The Big Three

1. “Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”
 - More than \$102
 - Exactly \$102
 - Less than \$102
 - Don't know
 - Refuse to answer
2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”
 - More than today
 - Exactly the same as today
 - Less than today
 - Don't know
 - Refuse to answer
3. “Do you think the following statement is true or false?
Buying a single company stock usually provides a safer return than a stock mutual fund.”
 - True
 - False
 - Don't know
 - Refuse to answer

Financial Literacy Across Age – 2015 US NFCS

% answering Big 3 questions correctly



Financial knowledge increases slowly with age/cohort

Overview of Millennials

- This analysis is focused on 23–34 year old individuals
- Most diverse generation (US)
 - Minorities are broadly represented (38%)
 - 11% of all Millennials have at least one immigrant parent
- Millennials are highly educated (US)
 - 44% have at least a bachelor's degree
- Will soon make up the largest share of the labor market
 - By 2025, 3 out of 4 workers globally will be Millennials
- Financially, they have faced the Great Recession early in their lives and careers, and struggled with large increases in the cost of education.



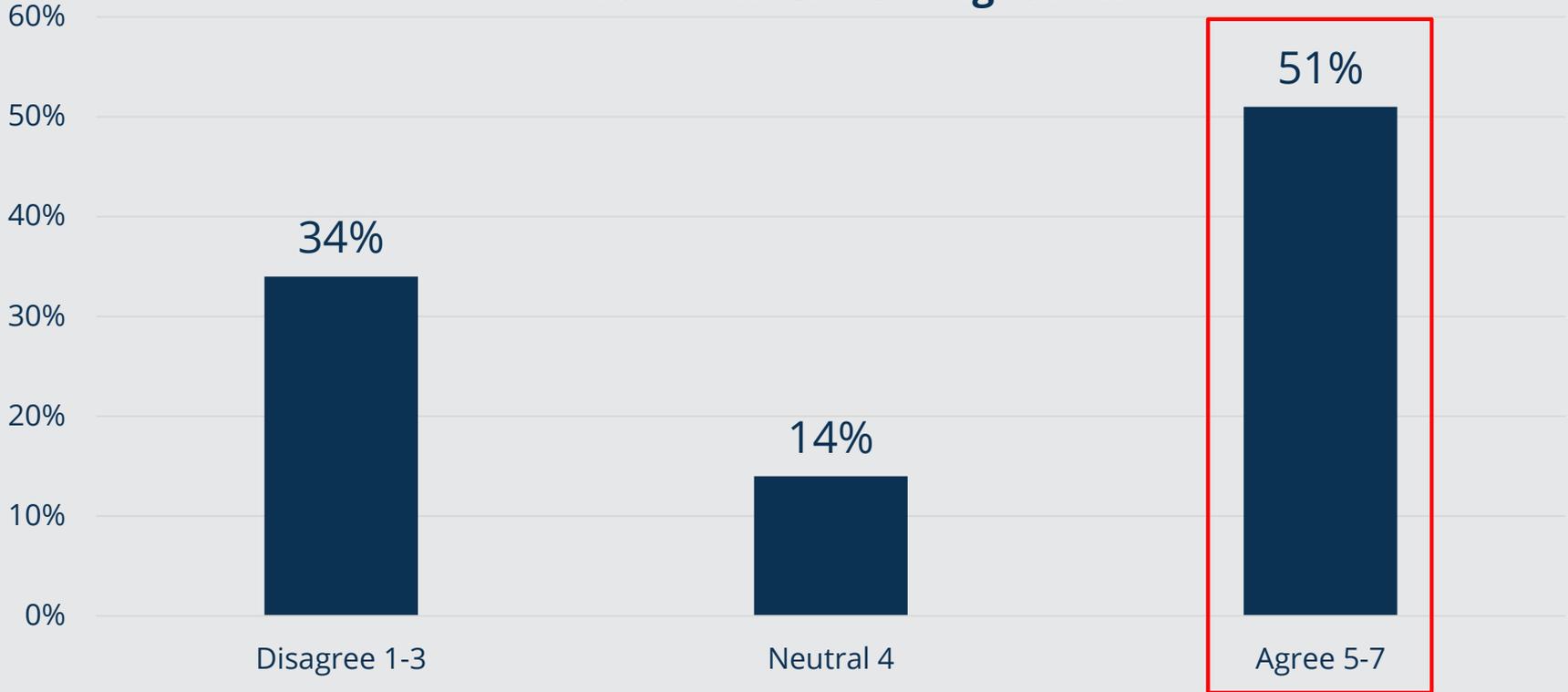
Borrowing on their Assets and Investments (conditional on having the assets & investments)

Have a checking account	90%
<i>Overdrew from their checking account</i>	<i>25%</i>
Own a home	45%
<i>Have a mortgage on their home</i>	<i>70%</i>
Have a self-directed retirement account	44%
<i>Took a loan from their retirement account (in the 12 months prior to the survey)</i>	<i>19%</i>
<i>Made a hardship withdrawal from their retirement account (in the 12 months prior to the survey)</i>	<i>16%</i>
<i>Either took a loan or made a hardship withdrawal</i>	<i>23%</i>
Have a college degree	44%
<i>Have an outstanding student loan</i>	<i>59%</i>

Source: 2015 NFCS; 23–35 year old

Too Much Debt

How strongly do you agree or disagree with the following statement?
"I have too much debt right now."



Source: 2015 NFCS

Note: Percentages do not add up to 100% because "don't know" and "prefer not to say" answers are excluded.

Financial Literacy Can Be Linked to Financial Behaviors

Debt and debt management



Investments



Planning and wealth accumulation

Financial illiteracy is expensive

- Borrowing behavior
Defaults and inability to pay
- Saving behavior
Not saving enough for the short and long term
- Poor investment
In financial assets, education, entrepreneurship

How do we want to pay for the cost of ignorance?

Financial Behavior: Debt and Debt Management

- Low levels of financial literacy are correlated with higher use of Alternative Financial Services (AFS)
 - 26% of Americans have used at least one of these methods within the past 5 years: Pay-day loan, pawn shop, auto title loan, rent-to-own store (2015 NFCS)
 - Highest use among Millennials (18-34 year olds), those with low income, and individuals with high school or less than high school education
 - Financial literacy can account for almost 20% of the reduction in the use of high-cost borrowing
- Individuals with lower financial literacy also report that their debt loads are excessive or that they are unable to judge their debt position
- Those who are more financially literate are less likely to make financial choices that incur high fees and charges
 - Such as paying only the minimum balance on credit cards, having to pay late payment charges, incurring over-the-limit fees, or using cards for cash advances

Financial literacy helps to avoid higher fees and high-cost borrowing methods

What the Data and Research Indicate

Need to improve levels of financial literacy

- Research shows levels of knowledge are generally low
- Financial literacy is particularly low in some demographic groups
- Financial literacy matters; it can be linked to financial behavior

Need for more targeted programs

- One size does not fit all
- Some groups are particularly vulnerable (young, Millennials, women)

Widespread financial illiteracy requires robust interventions

How to Improve Financial Decision-Making

Need for large and scalable programs

- Financial education in school
- Financial education in the workplace
- Financial education in the community (libraries, museums, other places where people go to learn)



Initiatives and Effectiveness

From Research to Education Programs: Changing Lives

Overview of Our Education Programs and Initiatives

Besides research, GFLEC develops personal finance education material for schools and the workplace, and builds initiatives to advance financial literacy

School	Workplace	Community
<ul style="list-style-type: none"> Financial Literacy Micro-Credentials College Personal Finance Course Financial Literacy Curriculum for Girl Rising 	<ul style="list-style-type: none"> Federal Reserve Case Study New Ways to Make People Save: The Dartmouth Project Five Steps to Planning Success: Experimental Evidence from US Households 	<ul style="list-style-type: none"> International Federation of Finance Museums (IFFM)



Micro-Credentials for High School Teachers

- A pilot program to train high school educators teaching financial education
- Development of twenty micro-credentials based on research and the Council for Economic Education's National Standards for Financial Literacy
- Includes methodologies and resources to help teachers cover content that secondary school students can apply directly to their own lives
- Eligible for continuing education credits in many states



Calculating Compound Interest: I Do, We Do, You Do



Discussing Risk and Return



Credit Cards: Analyzing Pros and Cons



Buying or Leasing: RAFT Writing



Girl Rising Financial Literacy Curriculum

- Financial literacy curriculum to promote economic empowerment for Girl Rising
- This helps provide young boys and girls the financial skills necessary to properly manage their money therefore becoming empowered individuals
- Curriculum includes lesson plans and fact sheets relating to financial topics for children in upper-elementary, middle school, and high school



Personal Finance Course at the George Washington University

- GFLEC designed the curriculum joint with a mathematician
- Using a rigorous quantitative approach
- Extensive coverage of risk and risk management
- Paying attention to gender differences in financial literacy
- Material available for free on our website



Federal Reserve System Case Study

- Higher levels of financial literacy levels are linked to greater retirement readiness.

New Ways to Make People Save: The Dartmouth Project

- Development of a comprehensive, cost-effective planning aid that enhanced enrollment in supplementary pensions.

Evidence that employer-provided educational programs do have positive effects on employees' behavior

Five Steps to Planning Success: Experimental Evidence from US Households

- Short videos and narratives teaching basic financial concepts have sizeable short-run effects on financial knowledge.
- After being exposed to videos, the performance on financial literacy questions improved.
- We further designed a visual tool to teach about risk and risk diversification

An International Federation of Finance Museums (IFFM)

EXECUTIVE COMMITTEE

Chinese Museum of Finance (CMF)
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Interactive Museum of Economics (MIDE)
Mexico City, Mexico | Silvia Singer



Museum of American Finance (MoAF)
New York City, USA | Dr. David Cowen



Museum of Saving (MOS)
Turin, Italy | Dr. Giovanna Paladino



Beijing Financial Literacy Manifesto



“... the International Federation of Finance Museums (IFFM) is committed to promoting financial literacy globally, raising awareness that every individual in every country is in need of financial literacy.”

The importance of financial education

- With financial education, we can form the next generation of customers, workers, and citizens
- Need to change the financial literacy statistics we have seen so far
- We can shape the future

Concluding Remarks

Financial literacy is like reading and writing

- It is an essential skill for the 21st century
- As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today's society without being financially literate
- Everyone deals with finance, and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself

What is the future we want to build?

Thank you!

Questions? Contact us at gfilec@gwu.edu

GFLEC

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