



SUMMER 2015 NEWSLETTER

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### Message from Academic Director Annamaria Lusardi

Dear Friends and Colleagues,

At GFLEC we strive not only to conduct excellent research but also to have our research make a difference and strengthen efforts to promote greater financial literacy.

In the months since our last newsletter, we have finalized several research projects; two papers are described in detail here. The dissemination of our research to policy makers, academics, and others working in the field has included events such as the 3<sup>rd</sup> OECD/GFLEC Global Policy Research Symposium to Advance Financial Literacy, the inaugural Cherry Blossom Financial Education Institute, and the Financial Literacy Seminar Series; presentations at various institutions; and my testimony to the U.S. Department of Labor.

In the coming months, we will be traveling to Beijing, China, for the 3<sup>rd</sup> annual meeting of the International Federation of Finance Museums and to Kuala Lumpur, Malaysia, for the OECD Symposium on Financial Well-Being.

We hope you enjoy reading about GFLEC's activities. Have a wonderful rest of your summer!

Warm regards,  
Anna



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### 3rd OECD/GFLEC Symposium Focuses on Entrepreneurship

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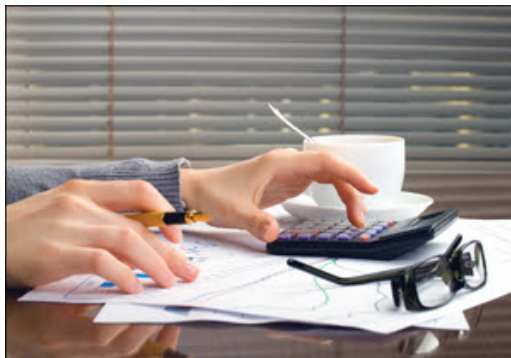
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## GFLEC Happenings

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### Forthcoming Publication: Debt Literacy, Financial Experiences, and Overindebtedness

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## Financial Literacy Seminar Series Concludes 8<sup>th</sup> Semester



On May 28, 2015, the Financial Literacy Seminar Series (FLSS), a joint initiative of GFLEC and the Federal Reserve Board, concluded its spring seminar series with a presentation by Ben Keys of the University of Chicago titled "Minimum Payments and Debt Paydown in Consumer Credit Cards."

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## Lusardi Gives Keynote at ICI Retirement Summit

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## Lusardi Delivers Colston Warne Lecture

Director Annamaria Lusardi gave the Colston Warne Lecture at the American Council on Consumers Interests (ACCI) Annual Conference on May 22, 2015. This lectureship recognizes a person who has significantly contributed to the consumer movement. In her commemorative lecture, Director Lusardi focused on the importance of financial literacy for...

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## Netspar Appoints Lusardi to Scientific Council

Director Annamaria Lusardi has been appointed to serve on the Scientific Council of the Network for Studies on Pensions,



Aging and Retirement (Netspar). The Council consists of renowned international scholars who have expertise in Netspar's research areas. As a council member, she will advise the Netspar board of directors on the composition of the education and research programs as well as on procedures for selection of Netspar's Large Vision projects. Learn more [here](#).



## Blogging for The Wall Street Journal and Forbes

This past spring, Director Annamaria Lusardi began blogging for *The Wall Street Journal* and *Forbes*.

To read her four posts thus far for the *WSJ* blog, "The Experts: Wealth Management," and to follow it, click [here](#).

The Pension Research Council is hosting the *Forbes* blog and Director Lusardi has contributed two posts since this spring. You may read them and follow the blog [here](#).



## GFLEC in the News

As dissemination of our research is an important part of our mission to impact policy and financial education, GFLEC aims to have its work covered in the mass media. This year the Center has already been featured in over 60 media stories, including television and newspaper articles. You may follow our media coverage [here](#).

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## **Featured Published Research: Bankruptcy Rates Among NFL Players**

Director Annamaria Lusardi co-authored “Bankruptcy Rates Among NFL Players with Short-Lived Income Spikes” with Colin Camerer, MacArthur Fellow and Professor at the California Institute of Technology; Kyle Carlson, from the California Institute of Technology and Twitter; and Joshua Kim, from the University of Washington. This paper was published in the May issue of the American Economic Review.

Using data collected on all NFL players drafted from 1996 to 2003, this team of researchers finds that bankruptcy filings begin soon after retirement and continue at a substantial rate through the first 12 years of retirement for which data is available. As many as one in six players go bankrupt within 12 years of retiring. Annual bankruptcy rates are unaffected by a player’s total earnings or career length; having played for a long time and having been a successful and well-paid player does not provide much protection against the risk of going bankrupt.

The research team is planning their future work to focus on which types of players have higher bankruptcy risk, perhaps indicating behavioral biases, correlates of predictably poor financial decision making, and social variables. This evidence should also help inform interventions, both for these athletes and others with similarly unusual income profiles.

Read the paper [here](#).

Read GFLEC’s other publications [here](#).





### **3rd OECD/GFLEC Symposium Focuses on Entrepreneurship**

On May 7, 2015, in Paris, the Organisation for Economic Co-operation and Development (OECD) and GFLEC brought together Central Bank Governors—Christian Noyer of France, Ignazio Visco of Italy, and Carlos da Silva Costa of Portugal—as well as researchers and entrepreneurs from around the globe to present at the 3rd OECD/GFLEC Global Policy Research Symposium to Advance Financial Literacy. This year’s symposium was titled “Harnessing Financial Education to Spur Entrepreneurship and Innovation.” Queen Máxima of the Netherlands also spoke (via video) of the importance of financial literacy for the general population as well as for entrepreneurs.

The symposium looked at available evidence to address cutting-edge policy issues and identify key research directions, as well as practical solutions, with a view to advancing financial literacy among those involved with micro, small, and medium enterprises (MSMEs).

Director Annamaria Lusardi, E. J. Reedy of the Kauffman Foundation, and other researchers presented their findings on entrepreneurship and the connection between financial literacy and successful MSMEs. Rushia Brown, president and founder of the Women’s Professional Basketball Alumni Association, was one of several entrepreneurs who shared their perspective on the critical need for entrepreneurs to be financially literate as well as the best ways to provide financial education to them.

By having regulators, researchers, and entrepreneurs together with 200 delegates from 50 countries in attendance, the symposium facilitated a discussion of ideas and programs to promote financial education aimed at entrepreneurs.

To learn more about this annual event and to view the program and presentations, please click [here](#).



## **Lusardi Testifies to U.S. Department of Labor’s ERISA Advisory Council**

The transfer of risk from defined benefit (DB) plan sponsors to plan participants when offering lump sum distributions of pensions was the topic of Director Annamaria Lusardi’s testimony on May 28, 2015, to the Employee Retirement Income Security Act (ERISA) Advisory Council of the U.S. Department of Labor.

Even in traditional DB pensions, pension providers are offering participants the choice to take their pensions as a lump sum, thus shifting the responsibility for managing pension wealth to pension participants. In her testimony, Director Lusardi pointed out that participants are ill-equipped to deal with this new responsibility, in particular when it comes to understanding and managing risk. She noted that two groups are most vulnerable in this new pension landscape because they demonstrate particularly low levels of financial literacy: women and older adults.

Director Lusardi’s research has shown that short videos that elucidate concepts such as interest compounding and risk diversification are effective in increasing financial knowledge and self-efficacy. Her recommendation to the Council was that information presented to participants be readily available, easily accessible, and provided in simple ways and in plain English. Tools must also be made available so that people can do calculations or make comparisons. She discussed a visual tool that explains and conceptualizes risk diversification, which she helped to design and test. Risk diversification is one of the most difficult financial concepts for people to understand, but preliminary results with this tool suggest that it is effective in helping people understand financial concepts and applying that newfound understanding to financial decision making. These results can help guide future communication with pension plan participants.

In conclusion, Director Lusardi stated, “We need to do a better job equipping people to make these decisions. It is going to be hard to even provide information when financial illiteracy is so widespread. Building a robust pension system starts with adding financial literacy in school, so that individuals have at least basic financial knowledge. Without such a knowledge base, it is going to be very hard (and expensive) to help people make financial decisions. The workplace is another ideal place for providing financial education. In a world in which individuals are asked to take on the responsibility and risks connected with their own financial security, it is imperative that we find ways to equip them with the skills and the knowledge needed to make these important decisions.”

Read her full testimony [here](#).



**Forthcoming Publication:  
Debt Literacy, Financial Experiences, and Overindebtedness**

The Journal of Pension Economics and Finance will soon publish the paper “Debt Literacy, Financial Experiences, and Overindebtedness,” co-authored by Director Annamaria Lusardi and Saïd Business School Dean Peter Tufano.

In their analysis of a nationally representative sample of Americans, Lusardi and Tufano found that Americans have low levels of debt literacy. Moreover, they found a relationship between debt literacy and both financial experiences and debt loads. Specifically, individuals with lower levels of debt literacy tend to engage in high-cost debt behaviors. Less knowledgeable individuals also report that their debt loads are excessive and that they are unable to judge their debt position.

This paper speaks of the importance of increasing financial literacy and, in particular, knowledge of concepts related to debt and debt management.

Read the paper [here](#).





## **Inaugural Cherry Blossom Financial Education Institute a Resounding Success**

In partnership with the University of Arizona's Take Charge America Institute, GFLEC hosted the inaugural Cherry Blossom Financial Education Spring Institute on April 10, 2015. The Institute was organized by Michael Staten of the University of Arizona, William Walstad of the University of Nebraska-Lincoln, and Director Annamaria Lusardi. The Institute created a forum for junior and senior researchers from around the world to present their ongoing research on financial education and discuss methodology, findings, and areas for further research.

Over 60 submissions were received following the call for papers, and 13 papers were selected for presentation. These papers covered all types of financial education programs, such as those offered in schools, colleges and universities, workplaces, and other venues. Planning is underway for the next Cherry Blossom Financial Education Spring Institute.

View the papers, abstracts, and presentations [here](#).



## **Financial Literacy Seminar Series Concludes 8th Semester**

On May 28, 2015, the Financial Literacy Seminar Series (FLSS), a joint initiative of GFLEC and the Federal Reserve Board, concluded its spring seminar series with a presentation by Ben Keys of the University of Chicago titled “Minimum Payments and Debt Paydown in Consumer Credit Cards.”

Punam Keller, a world-renowned marketing professor from Dartmouth College, was the Distinguished Financial Literacy Speaker for the spring semester and brought an interdisciplinary perspective to the series. Her presentation on “enhanced active choice” discussed a new and innovative way to influence choices. Watch a short video from our *What's the Big Idea in Financial Literacy?* series in which she presents the key points of her research by clicking [here](#).

Other seminar series presenters were Brian Melzer of Northwestern University, “Loan Contracting in the Presence of Usury Limits: Evidence from Auto Lending”; Dimitris Christelis of the University of Naples Federico II in Italy, “The Impact of Bank Account Ownership on Adolescents’ Financial Literacy”; John Turner of the Pension Policy Center, “Financial Illiteracy Meets Conflicted Advice: The Case of Thrift Savings Plan Rollovers”; and Max Schmeiser of the Federal Reserve Board, “State Mandated Financial Education and the Credit Behavior of Young Adults.”

Planning is underway for the fall 2015 series and a save-the-date message will be emailed soon.

The papers, abstracts, FinLit Talks short videos, and seminar videos for the spring seminars are available [here](#).



## **Lusardi Gives Keynote at ICI Retirement Summit**

During her keynote speech at the Investment Company Institute (ICI) Retirement Summit on April 8, 2015, Director Annamaria Lusardi discussed the ways in which financial literacy can help improve retirement planning. She noted that her research has found that most Americans lack the knowledge necessary to make sound financial decisions, demonstrating a lack of understanding of interest compounding, inflation, and risk. In the current environment, in which Americans are expected to manage their own finances and plan for retirement, these three concepts are critical for the decision-making process. Women, older adults, and young people display particularly low levels of financial literacy. Much of the population also demonstrates overconfidence in their personal financial knowledge. Women are the exception to this finding.

Given these research findings, Director Lusardi recommends that targeted programs be created because one size does *not* fit all when it comes to financial education programs. She also notes that women are an ideal group for financial education since they are more likely to recognize that they do not know the topic well.

Lusardi strongly recommended that financial education be provided in schools and the workplace. Community organizations, such as libraries and museums, are another good venue for financial education.

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



## **Lusardi Delivers Colston Warne Lecture**

Director Annamaria Lusardi gave the Colston Warne Lecture at the American Council on Consumers Interests (ACCI) Annual Conference on May 22, 2015. This lectureship recognizes a person who has significantly contributed to the consumer movement. In her commemorative lecture, Director Lusardi focused on the importance of financial literacy for the young and the evidence from the 2012 Financial Literacy Assessment, which was part of the Organisation for Economic Co-operation and Development (OECD)'s Programme for International Student Assessment (PISA). This is the first large-scale international survey conducted to assess the financial literacy of 15-year-old students. The data illustrate that American youth are ill-equipped to make the complex financial decisions they will soon be expected to make. Director Lusardi emphasized the need for rigorous financial education programs in schools.

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