

**IOSCO – Rio 2014**  
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# **Investor Protection and Education Going Forward- What does it take to change behavior?**

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# The growing importance of financial literacy

## A new economic landscape

Major changes that increase individuals' responsibility for their financial well-being

➤ **Changes in the pension landscape**

- More individual accounts and DC pensions

➤ **Changes in labor markets**

- Divergence in wages – skills are critical
- More flexibility – workers change job often

➤ **Changes in financial markets**

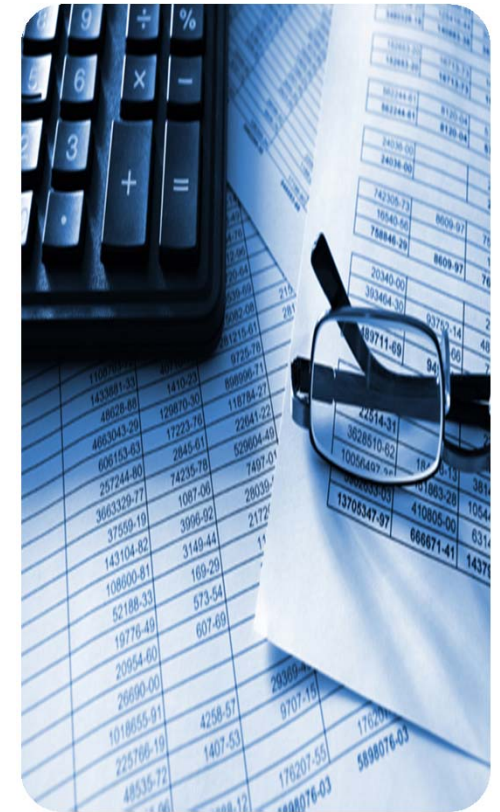
- More opportunities to borrow & in large amounts
- Greater complexity



# Increase in individual responsibility

## Being our own CFO

- **In many countries individuals are now in charge of deciding**
  - How much to contribute to retirement accounts
  - How to invest retirement wealth
  - How to decumulate retirement wealth
- **Not enough to look at asset side; liability side is equally important**
  - Increase in household debt
  - Debt normally incurs higher interest rates than what is earned on assets
- **Financial decisions are complex**
  - Many more financial products than in the past



# The importance of financial literacy

## **Financial literacy is like reading and writing**

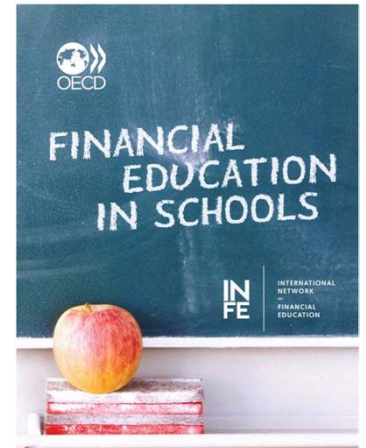
As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today's society without being financially literate

### ➤ **Building human capital for the 21<sup>st</sup> century**

- Everyone deals with finance and finance is sufficiently complex that we cannot leave it to the individual to learn it (or to grandma!)

# OECD's Programme for International Student Assessment (PISA). Financial literacy added in 2012

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



**PISA 2012 Assessment  
and Analytical Framework**  
MATHEMATICS, READING, SCIENCE,  
PROBLEM SOLVING AND FINANCIAL LITERACY



**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*.**





# PISA 2012 Results: Students and Money

FINANCIAL LITERACY SKILLS  
FOR THE 21ST CENTURY

**VOLUME VI**



Mean score

605  
595  
585  
575  
565  
555  
545  
535  
525  
515  
505  
495  
485  
475  
465  
455  
445  
435  
425  
415  
405  
395  
385  
375



Average performance  
of 15-year-olds in  
financial literacy

# How are younger generations doing?

## Findings from the 2012 PISA financial literacy data

- Large differences across countries
- A sizeable proportion of students in many countries scored below the proficiency level
- There are large differences across demographic groups.
- Most of the variation in financial literacy is explained by socio-economic status



# The importance of research

## **Research can inform policy makers, regulators and practitioners**

1. New Research Committee at the OECD/International Network on Financial Education
2. Informing new data collection
  - National Financial Capability Study supported by FINRA Investor Education Foundation in the USA
3. Effectiveness
  - Assessing rigorously what works

# A large amount of research in past 15 years

## What we have learned

1. Scalability
  - How to reach large segments of the population
2. Differences across individuals
  - One size does not fit all
3. Behavior changes
  - How to affect behavior

Reference: The Economic Importance of Financial Literacy: Theory and Practice, *Journal of Economic Literature*, March 2014.

# Scalability: Reaching the population

## Venues for financial education

- **In schools**
  - Easier to reach the young
  
- **In the workplace**
  - Easier to reach the adults
  
- **In libraries, local communities, museums**
  - Where people go to learn



# Financial education in schools

## Need to prepare the new generations

### Financial education in school is critically important:

- Investment in higher education is one of the most important decisions the young face
  - In some countries, young people start their economic life in debt
- Need to be financially literate *before* engaging in financial transactions
- Provide a basis on which to build
  - It will be cheaper to do adult financial education



# How to make fin education work in school

## Learning from the experience of several countries

1. Start early
2. Make it rigorous (like every other course); need a solid curriculum
3. Train the teachers

# Reaching adults

## The importance of workplace education

### Reaching the young at school and the adults at work

- **Most of the adult population is at work**
  - A potentially effective way to do financial education
- **Workers have to make financial decisions at work**
  - Financial and health benefits
- **Financial fitness**
  - Financial fitness in addition to health and physical fitness.

# Affecting behavior

## Translating knowledge into behavior

### What we have learned from research

- **It is incorrect to expect changes in 100% of the population**
  - Individuals are different
- **Teachable moments**
  - Promotion, tax time, life events (marriage, new child)
- **Triggers when people are close to making decisions**
  - Tools, make it easy

# **NYSE Workplace Financial Fitness Toolkit**

## **A program for any company**

- **Ten steps divided into 3 stages: Basic, Intermediate, and Advanced**
- **Customize the program for employees  
One size does not fit all**
- **The Employee Checklist  
Ten guidelines with implementation tips to improve employees' financial fitness**





 **NYSE**





## The Employer Checklist

Ten key steps to financial fitness, divided into three stages and designed to help employees meet their financial goals.

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The success of employee benefit programs depends on employee participation rates! Nearly four in five employees claim they would benefit from financial advice and answers to everyday questions. Improve employee participation rates, employee welfare and your company's bottom line by using our customizable employer and employee financial fitness toolkits.



### THE BASICS

#### Automatic Enrollment

Participation soars when employees are automatically enrolled.

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#### Automatic Escalation

Scheduled increases make the most of automatic enrollment.

[MORE](#)

#### Lifecycle Asset Allocation

Give employees the chance to grow their retirement savings.

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### Did You Know?



Bells were introduced on the NYSE when continuous trading was instituted in the 1870s. Originally a Chinese Gong was

used, but brass bells have been used since the Exchange moved to its current location in 1903. Visit our history page to learn more fascinating facts. [MORE](#)



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## INTERMEDIATE



### Employee Toolkit

Increase participation rates by empowering employees to customize programs. [MORE](#)



### Direct Deposit

Increase safety and lower administrative costs at the same time. [MORE](#)



### Financial Planning and Tax Preparation

Employee satisfaction is as a competitive advantage. Create a culture of caring for employees. [MORE](#)



### Credit Scores

Improved employee credit scores have direct and indirect benefits to employers. [MORE](#)

## ADVANCED

### Debt Management

Help with debt management can prevent an employee's loss of focus and performance.

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### Health and Financial Fitness Assessment

Data enables employers to design an evidence-based benefit plan.

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### Financial Planning Seminars

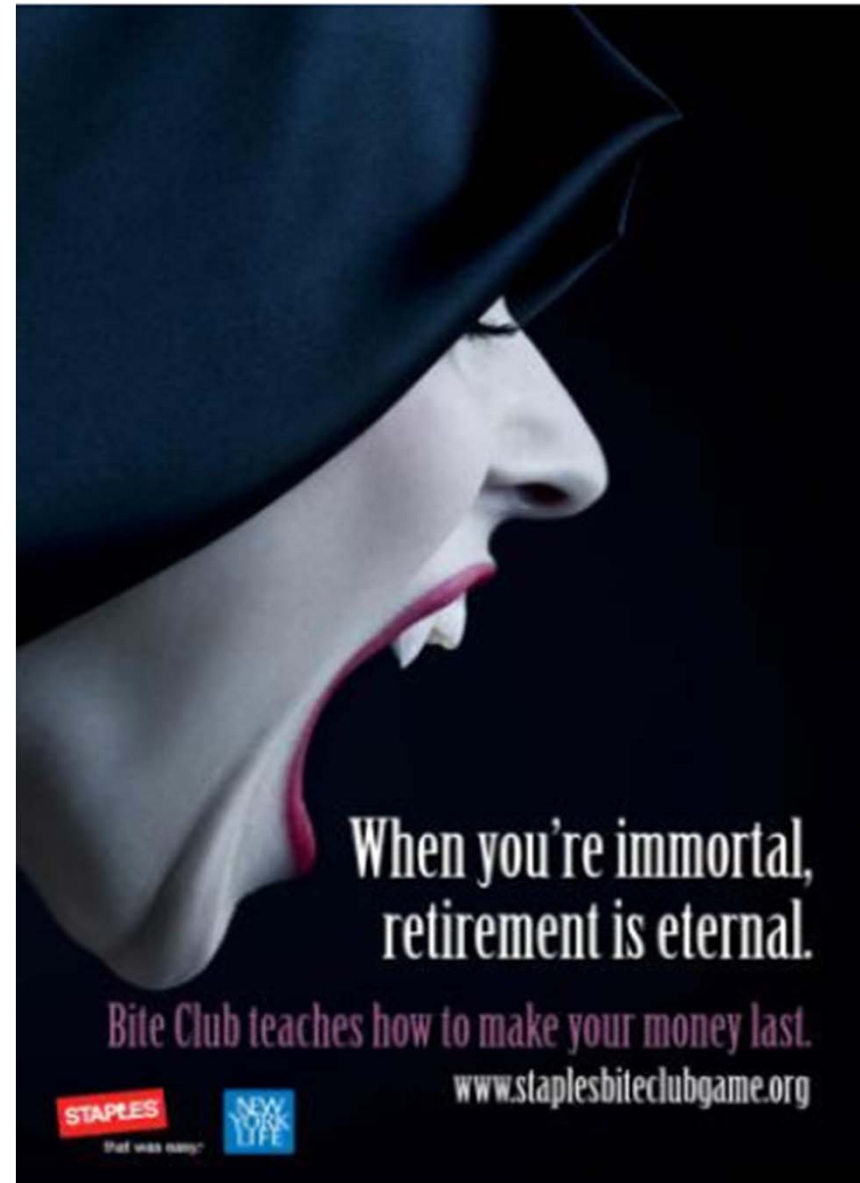
Educate your employees about the customized financial plans available to them.

[MORE](#)





# Thinking outside the box: Financial literacy games





# Thinking outside the box: A saving museum



# Concluding remarks

## Shifting paradigm

- **Equipping people to make financial decisions**
  - Financial literacy is an essential skill for the 21<sup>st</sup> century
- **Need to start early**
  - The importance of financial literacy in school. Regulators should work with Department of Education
- **Need targeted approach**
  - Individuals are very different
- **Cannot focus on one behavior only**
  - Most financial decisions are interrelated

# **Financial Literacy: The best line of defense**

**"Well-informed consumers, who can serve as their own advocates, are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive."**

***Ben Bernanke, Former Chairman of the Fed***

# Contact and sources of information

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