

# Mexican Pension Funds Association

## Mexico City, August 24, 2016



## Financial Literacy: A Vision for the Future

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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 system**
  - Traditional welfare system is weakening
- **Changes in labor markets**
  - More flexibility – workers change jobs often
  - Divergence in wages – skills are critical
- **Changes in financial markets**
  - Greater complexity of financial products
  - More opportunities to invest and to borrow



# Changes in the pension landscape

## Individuals make many decisions

- **How much to save for retirement**
  - Incentivized by employer or the government
- **How to invest retirement wealth**
  - Returns and fees matter a great deal over a long horizon
- **How to transfer pensions from job to job**
  - Labor mobility; people change jobs often
- **How and when to withdraw retirement wealth**
- **How to meet other needs**
  - Saving for emergencies, children, buying a house..



# Financial literacy: A vision for the future

## Looking ahead

1. Like pension, financial literacy is about the future
2. We need a *vision for the future*



3. Long-term issues cannot be solved with short-term solutions
4. Need to make the changes required by a changing world

# The approach of financial literacy

## Three elements

- Put the individual at the center (this is how the world is changing)
  - Empowerment, of which knowledge is a crucial component
  - Happiness of the individual
- Focus not just on the present but also the future
  - Most financial decisions are about the future
- Study the consequences
  - How much does financial literacy matter?

# The approach of financial literacy

## The building blocks

- Measuring financial literacy
  - Where are we?
- Assessing its effects
  - How are we doing?
- Preparing for the future
  - How to move forward



# Financial literacy: A global perspective

## A journey

1. Data across a set of countries
2. New international data on the young
  - 2012 PISA Financial Literacy Assessment
3. 2014 S&P Global Financial Literacy Survey

# Financial Literacy around the World (FLAT World)

Evidence from national surveys in 15 countries:

- ❖ USA
- ❖ The Netherlands
- ❖ Germany
- ❖ Italy
- ❖ Russia
- ❖ Sweden
- ❖ New Zealand
- ❖ Japan
- ❖ Australia
- ❖ France
- ❖ Switzerland
- ❖ Chile
- ❖ Romania
- ❖ Canada
- ❖ Finland





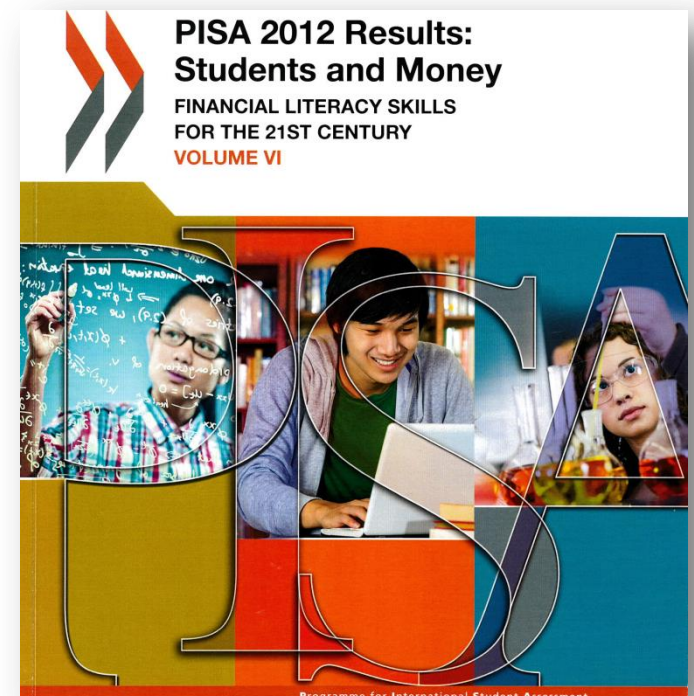
# Programme for International Student Assessment (PISA)

## Measuring financial literacy among the young

- This is the first large-scale international study to assess the financial literacy of 15-year-old students
- 18 countries-economies participated in the 2012 Financial Literacy Assessment

### The countries-economies are:

Australia, Belgium (Flemish Community), Shanghai-China, Colombia, Croatia, Czech Republic, Estonia, France, Israel, Italy, Latvia, New Zealand, Poland, Russia, Slovak Republic, Slovenia, Spain, and the United States



# Data on financial literacy around the world

- *The S&P Global FinLit Survey* is the largest, most comprehensive measure of financial literacy, interviewing more than 150,000 adults in over 140 countries.



GALLUP



# Measuring financial literacy (FLAT World)

## The approach of financial literacy

- Long term view (life-cycle) of saving
- Portfolio choice

### *Concepts:*

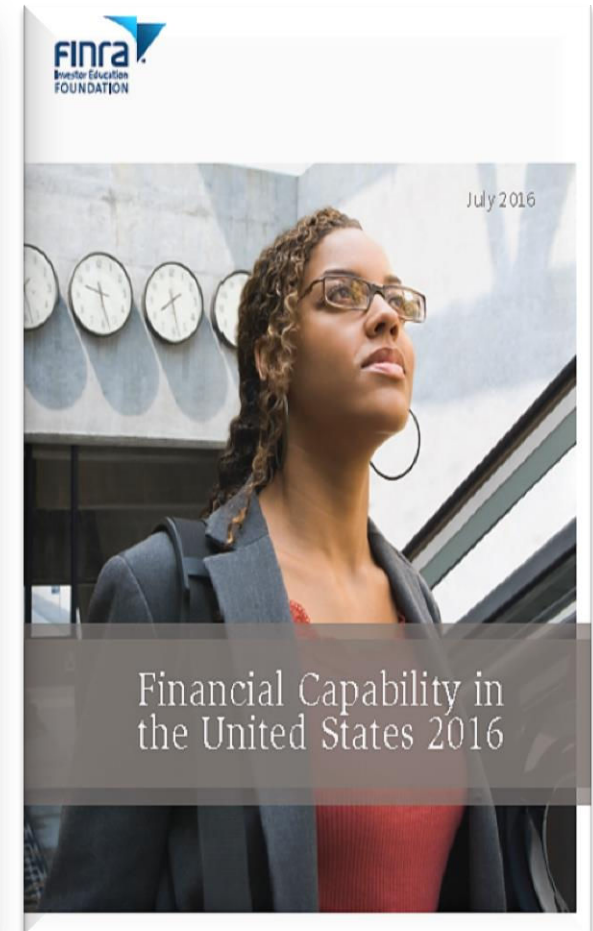
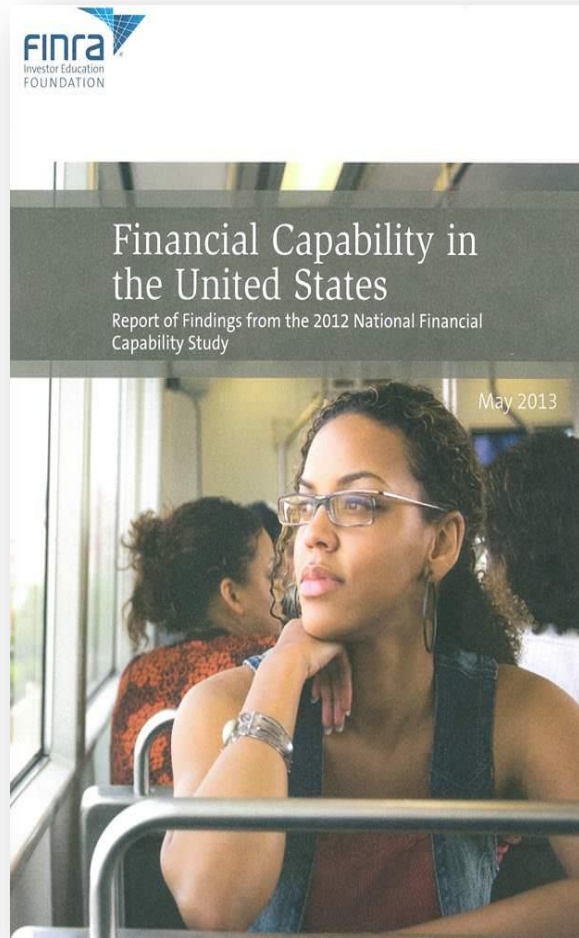
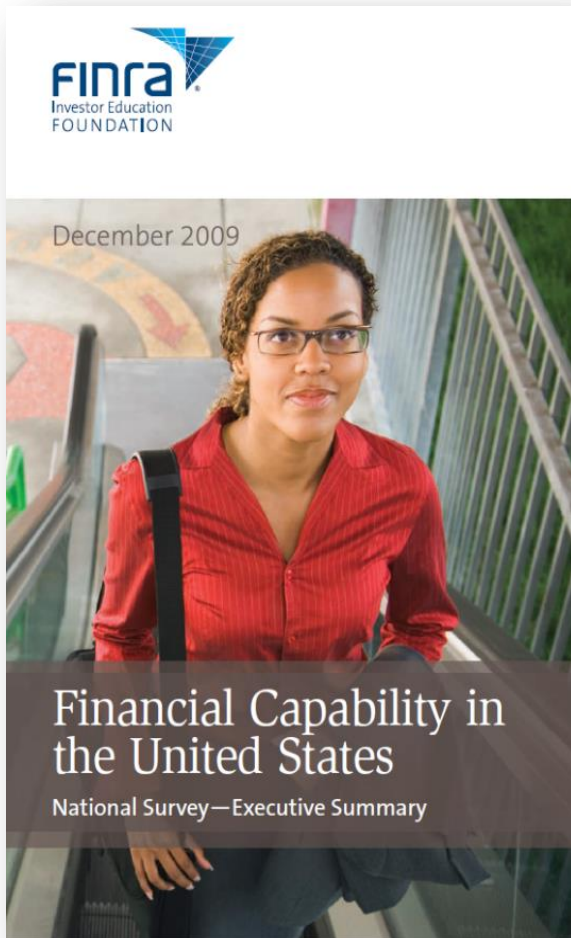
- *Interest compounding*
- *Inflation*
- *Risk diversification*

*These theories/concepts apply everywhere, see work of Nobel Prize economists Franco Modigliani and Angus Deaton*

# Measuring financial literacy: 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?”
  - ☐ Exactly \$102
  - ☐ Less than \$102
  - ☐ Don't know
  - ☐ Refuse
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

# Collecting data : The 2009 & 2012 National Financial Capability Study. The 2015 was released on July 12, 2016 at GFLEC





# Similar findings across 15 countries: The World is *Flat*

- **Financial illiteracy is widespread in the population**
  - ◆ Less than half of the population can answer three basic questions
- **Risk diversification is most difficult concept**
  - ◆ Similar pattern of response across countries
  - ◆ Prevalence of “do not know” answers
- **Some groups are more vulnerable**
  - ◆ The young, the old, women, those with low income and education



# The S&P Global FinLit Survey



**The survey covers four topics:**

- **Numeracy**
- **Interest compounding**
- **Inflation**
- **Risk diversification**

***Being financially literate:***

**How many can answer 3 out of these 4 topics correctly**

# Report describing major findings

## Financial Literacy Around the World:

**INSIGHTS FROM THE STANDARD & POOR'S  
RATINGS SERVICES GLOBAL FINANCIAL  
LITERACY SURVEY**

Leora Klapper,  
*World Bank Development Research Group*

Annamaria Lusardi,  
*The George Washington University School of Business*

Peter van Oudheusden,  
*World Bank Development Research Group*



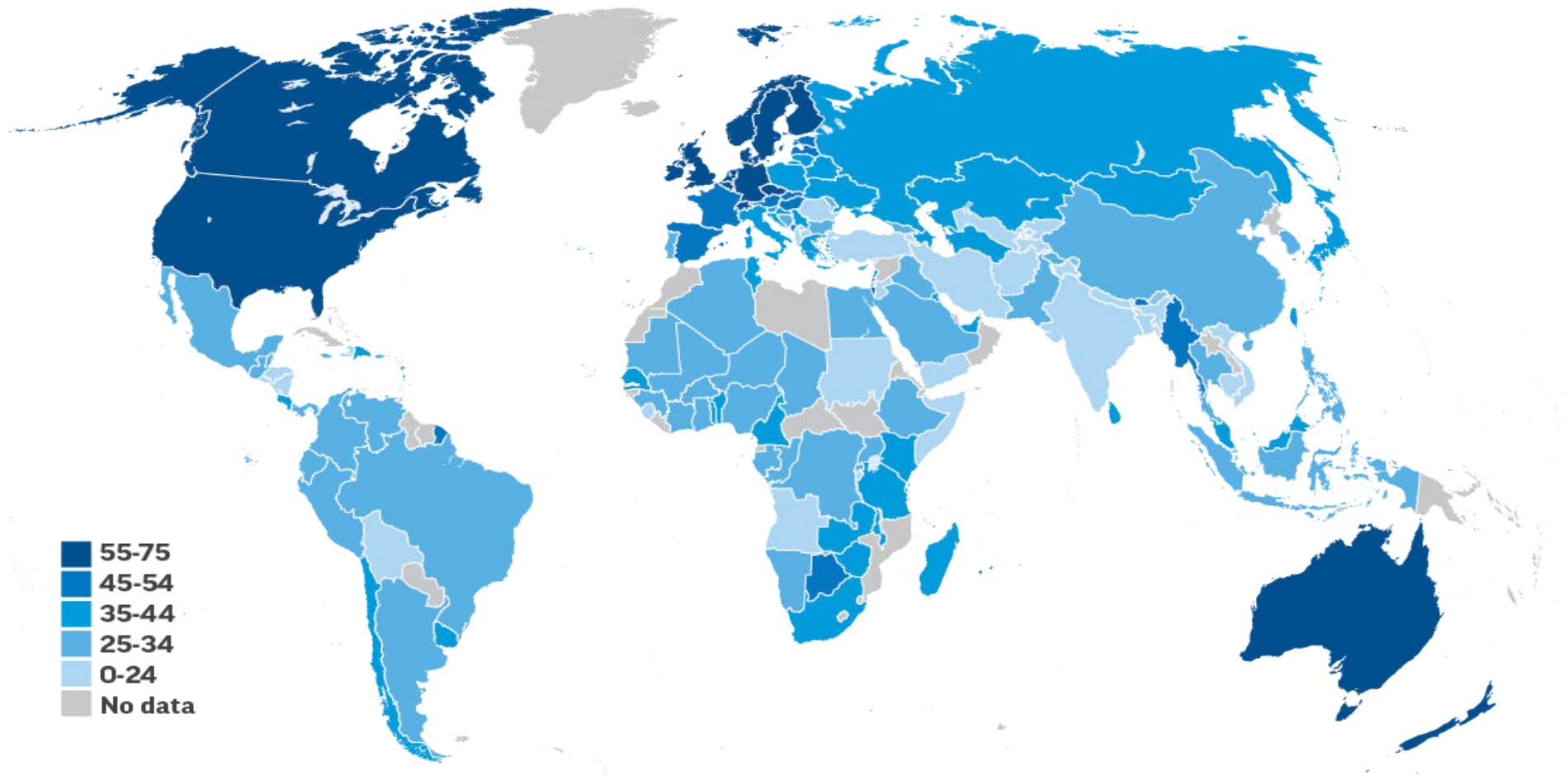
**The report describes both  
financial literacy and  
measures of financial  
inclusion**

**We did several country  
reports as well**

# Financial literacy globally

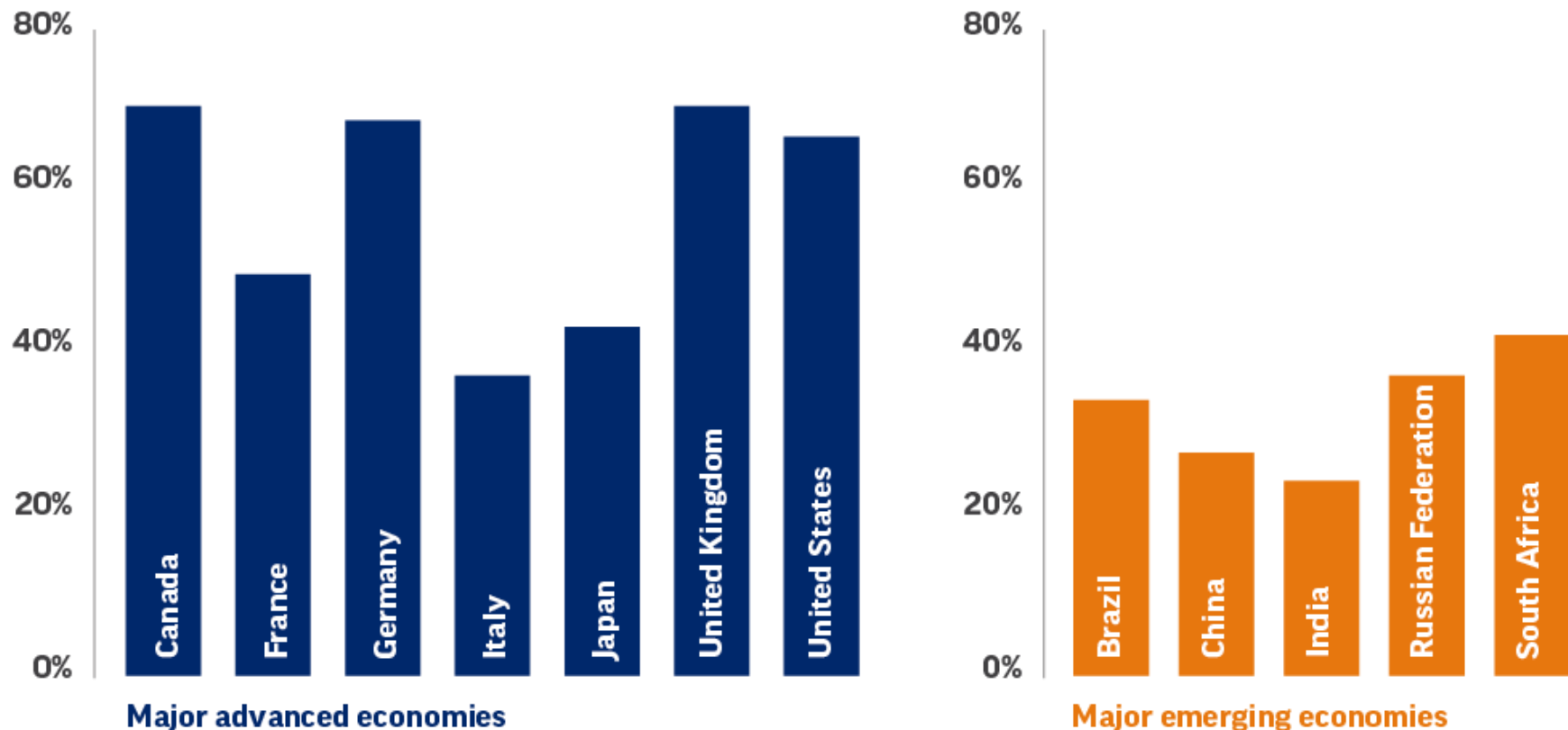
(Data: S&P Global Finlit Survey)

## Percentage of adults who are financially literate



Only 1 in 3 adults worldwide are financially literate  
(correctly answered 3 out of 4 topics)

# Financial literacy in major advanced (G7) and emerging (BRICS) economies



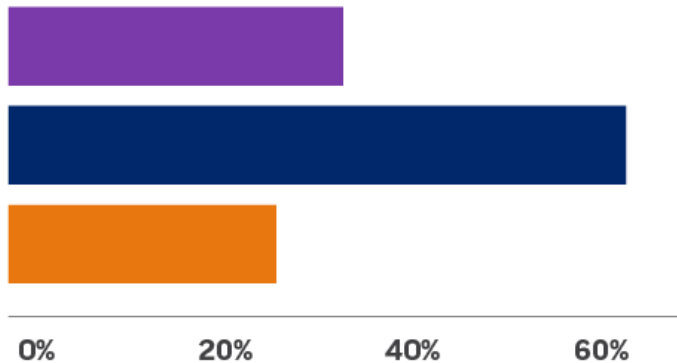
Source: S&P Global FinLit Survey

- 32% of Mexicans are financially literate
- This percentage is below those of the G7 but higher than in some BRICS countries

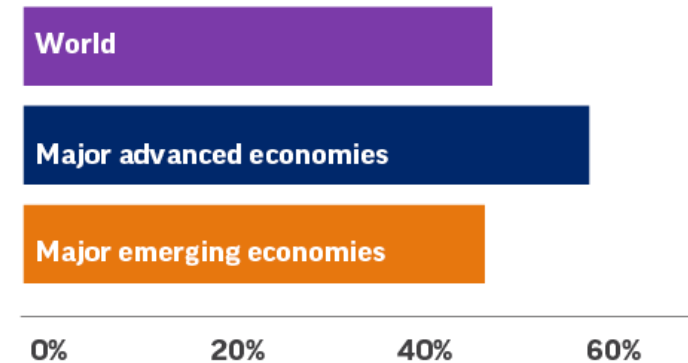
# Financial literacy around the world: Which topics do people know?

## % of adults who are financially literate

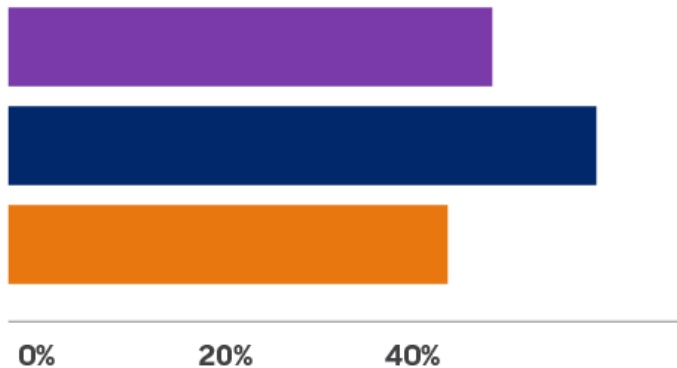
### RISK DIVERSIFICATION



### NUMERACY (INTEREST)



### INFLATION

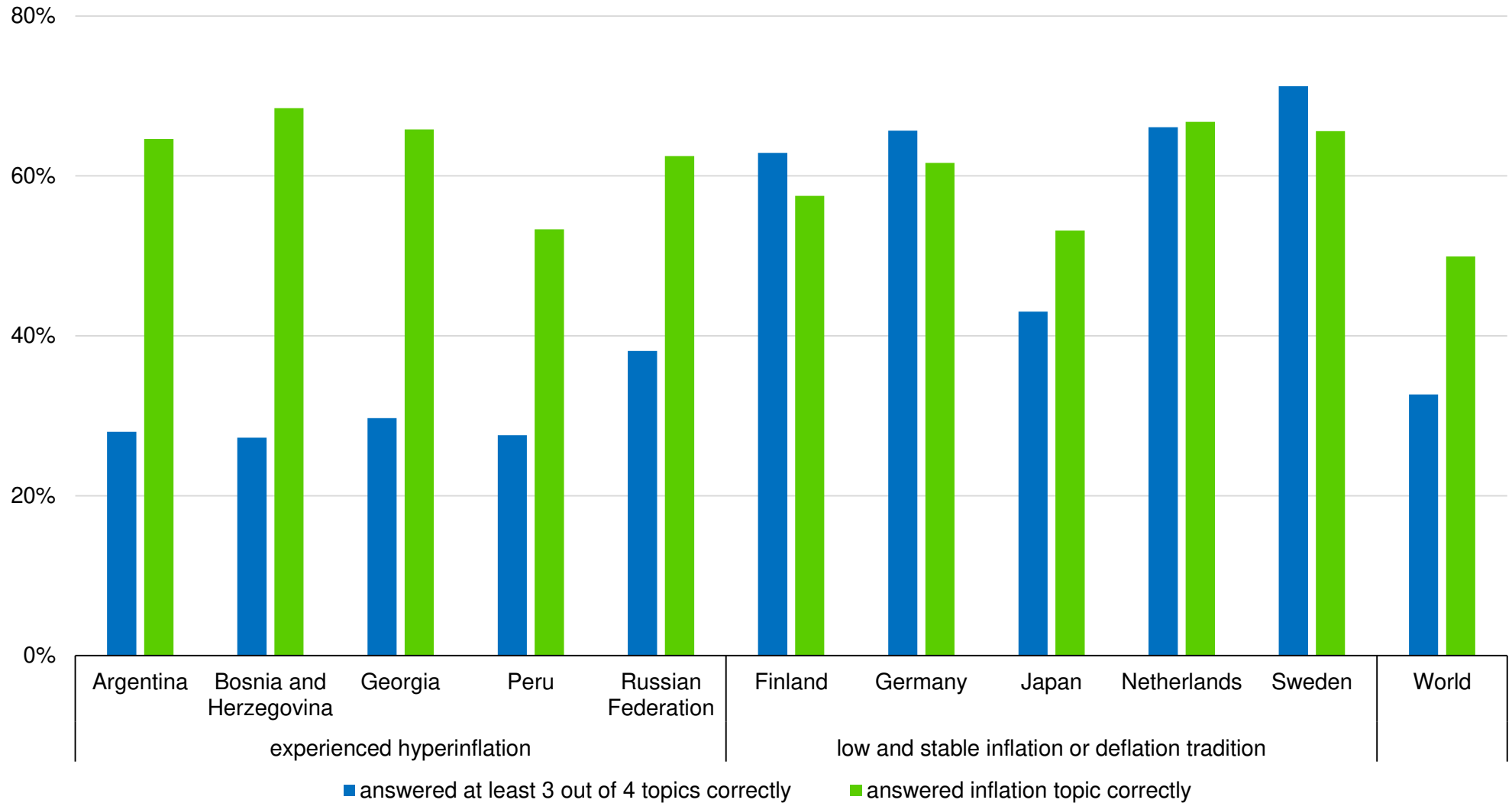


### COMPOUND INTEREST



# Financial literacy globally: knowledge of inflation

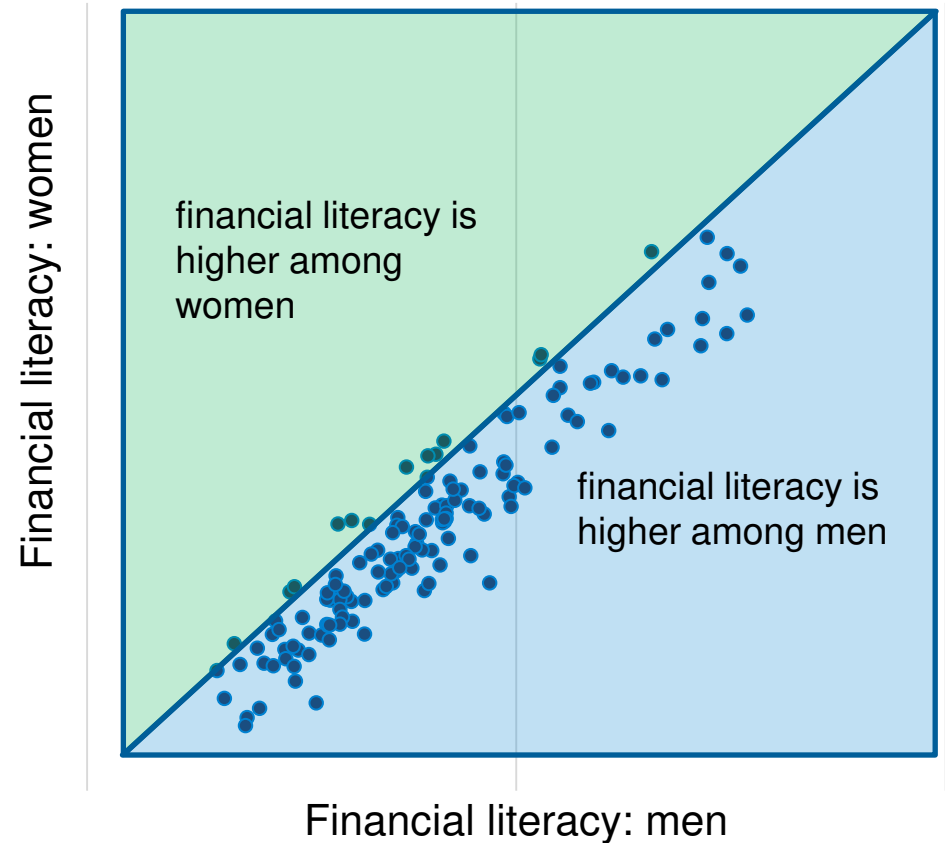
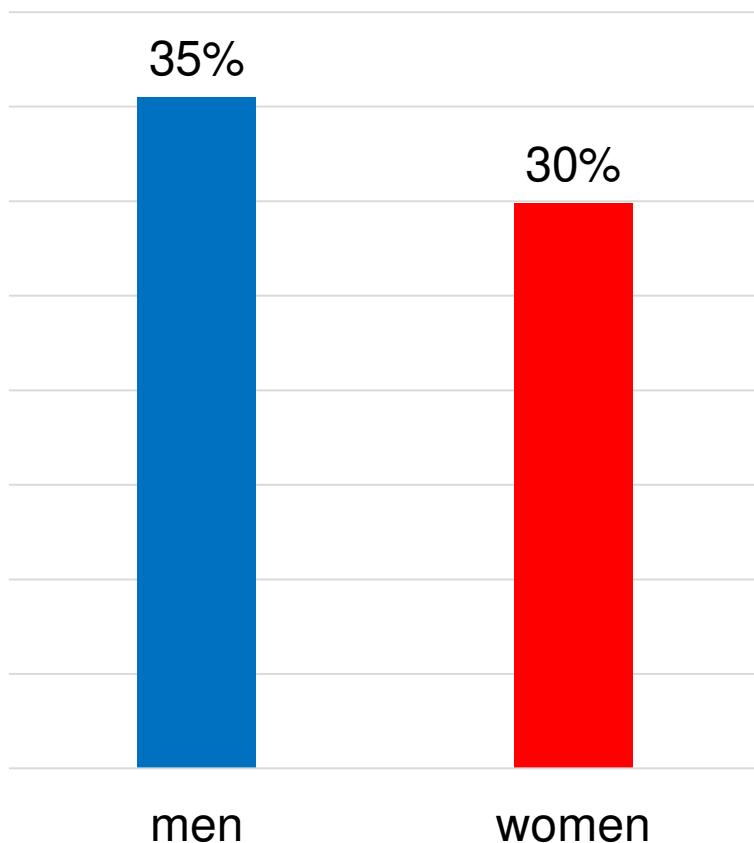
% of adults who answer the financial literacy questions correctly





# Gender gap in financial literacy

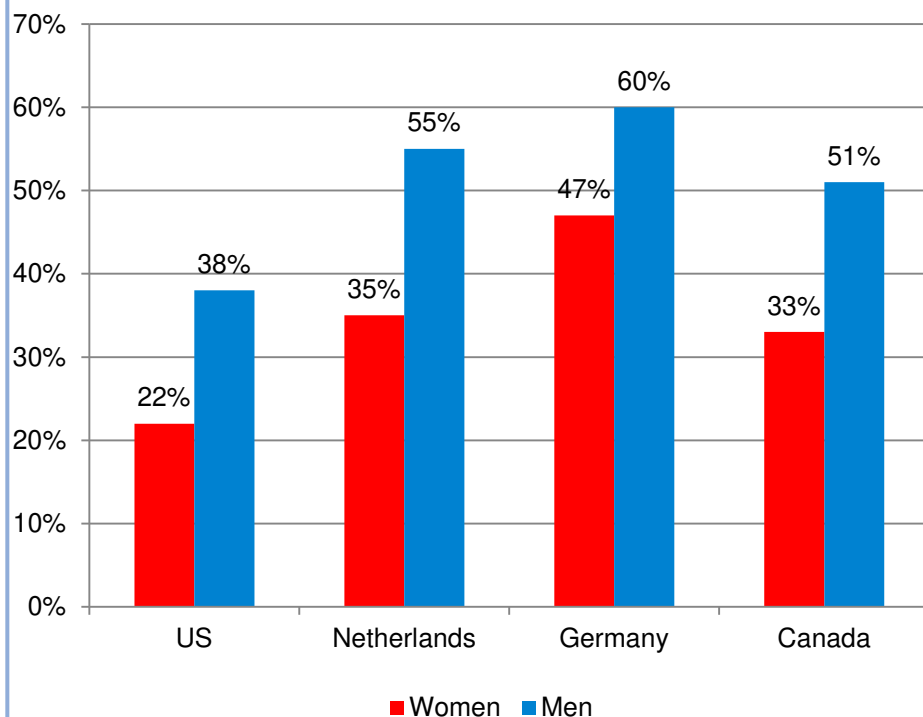
**Percentage of adults who are financially literate**



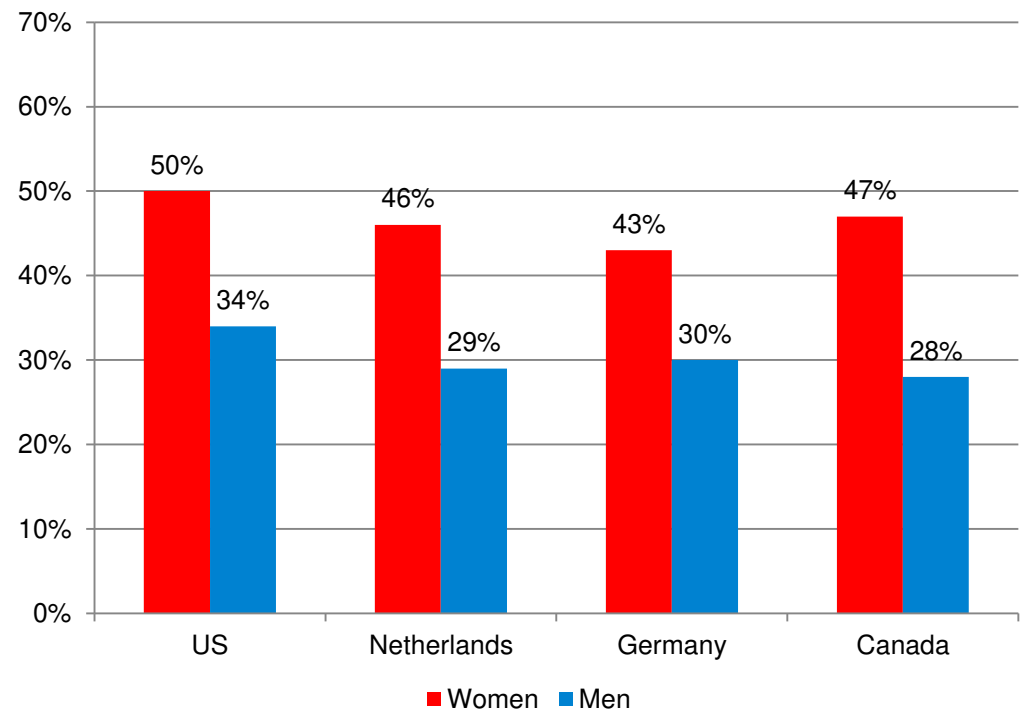
Source: S&P Global FinLit Survey

# Financial literacy among women (FLAT World)

**Financial knowledge by gender  
(% answering 3 Qs correctly)**

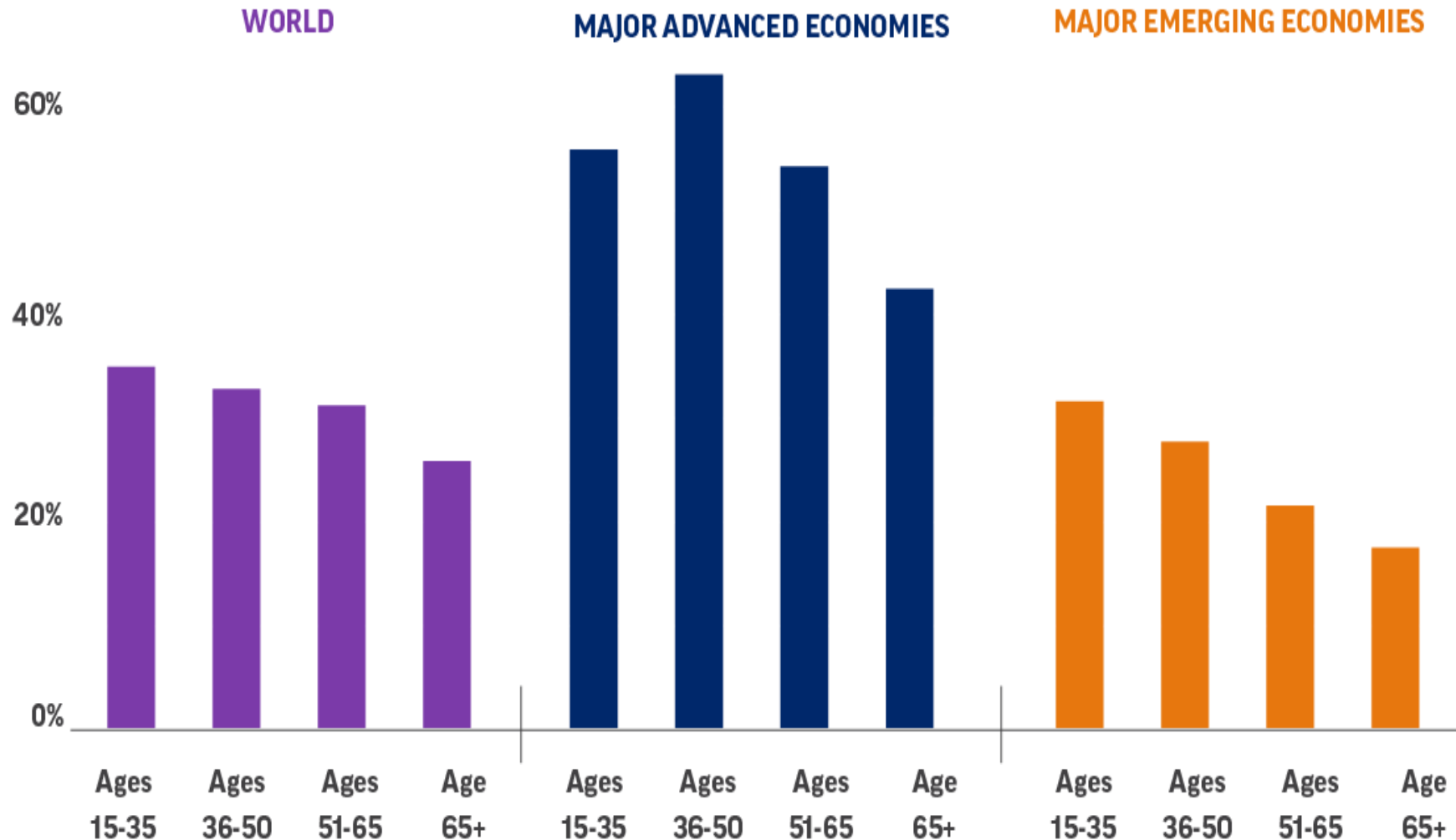


**At least one "don't know" answer,  
by gender**



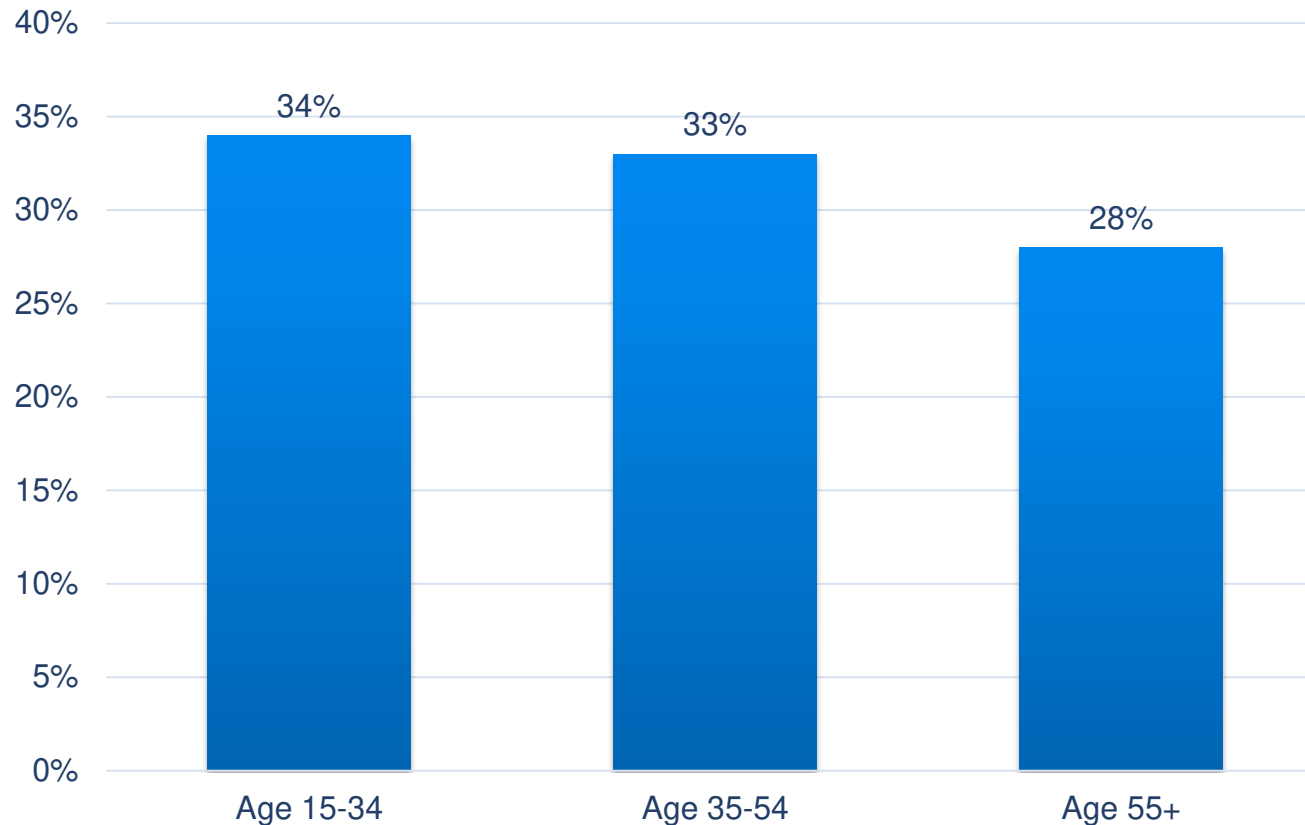
- Very robust findings of large gender differences in financial knowledge
- Women are much more likely to say "I do not know"

# Financial literacy over the life cycle



Source: S&P Global FinLit Survey

# Life-cycle and financial knowledge in Mexico

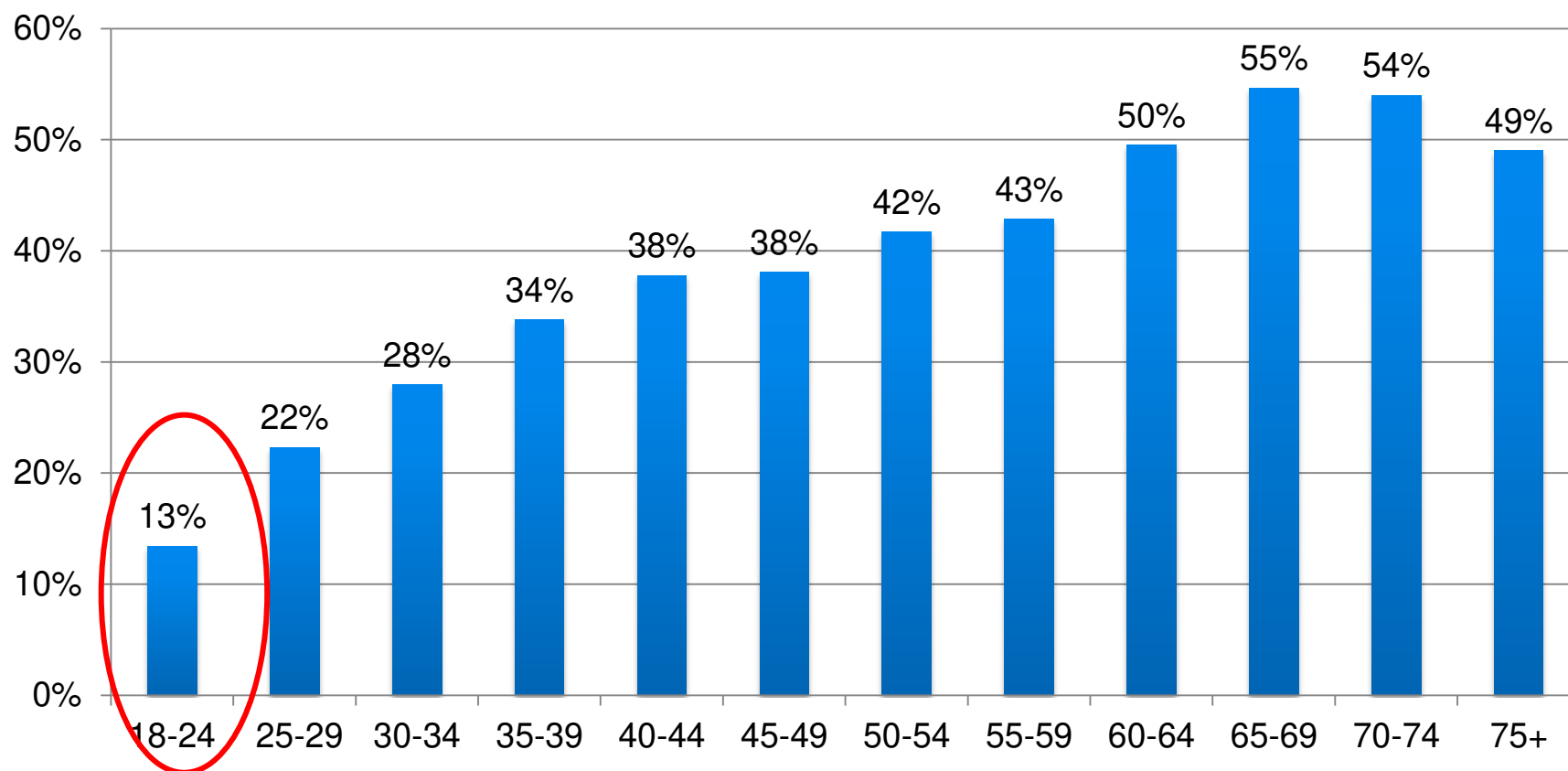


Source: S&P Global FinLit Survey

- Young people in Mexico are the ones that know the most
- But financial knowledge overall is low

# Financial literacy across age groups

**Financial literacy by age in the United States –  
2012 US National Financial Capability Study  
(% answering 3 questions correctly)**



# 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?***



***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.***

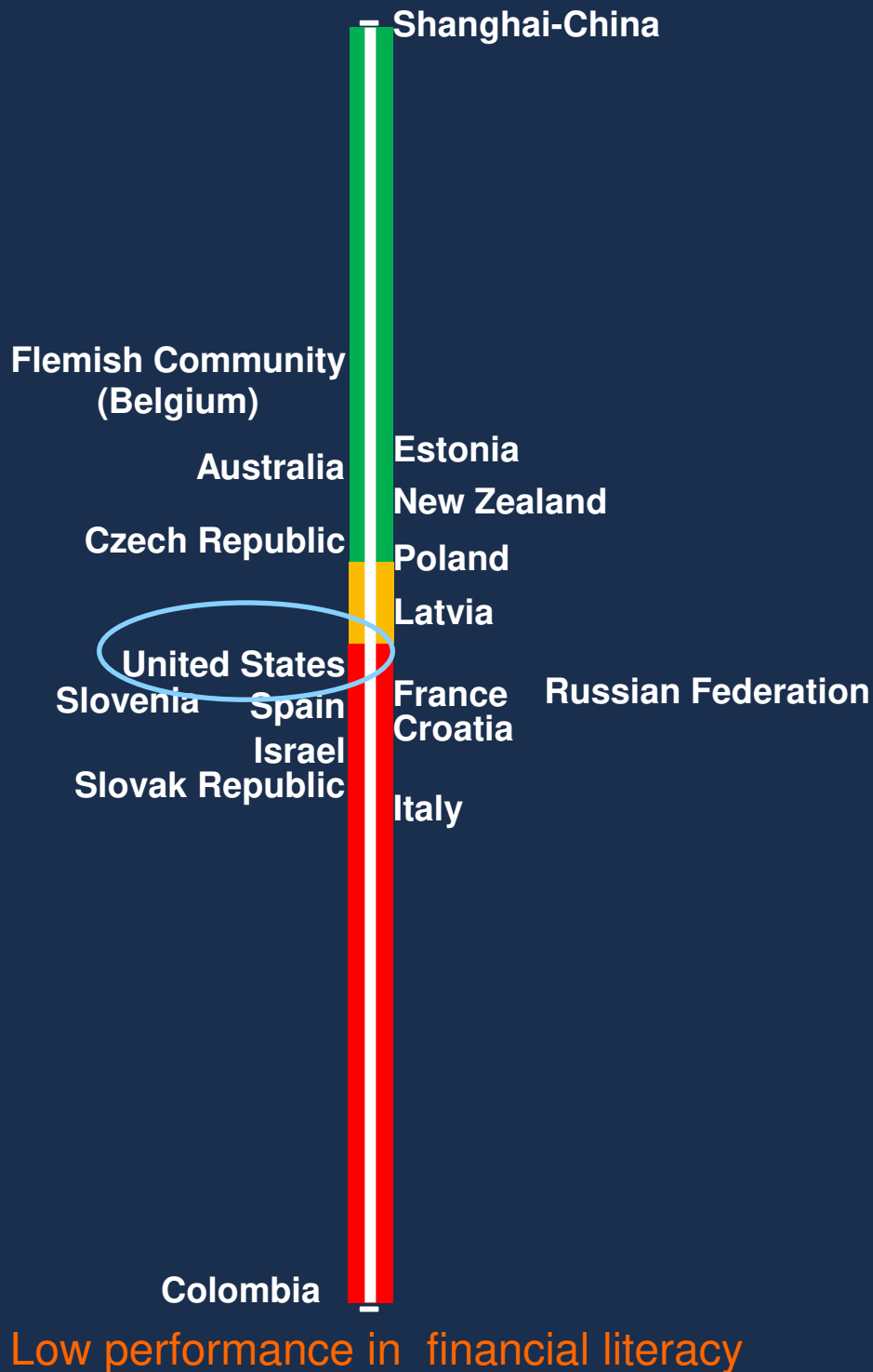


Mean score

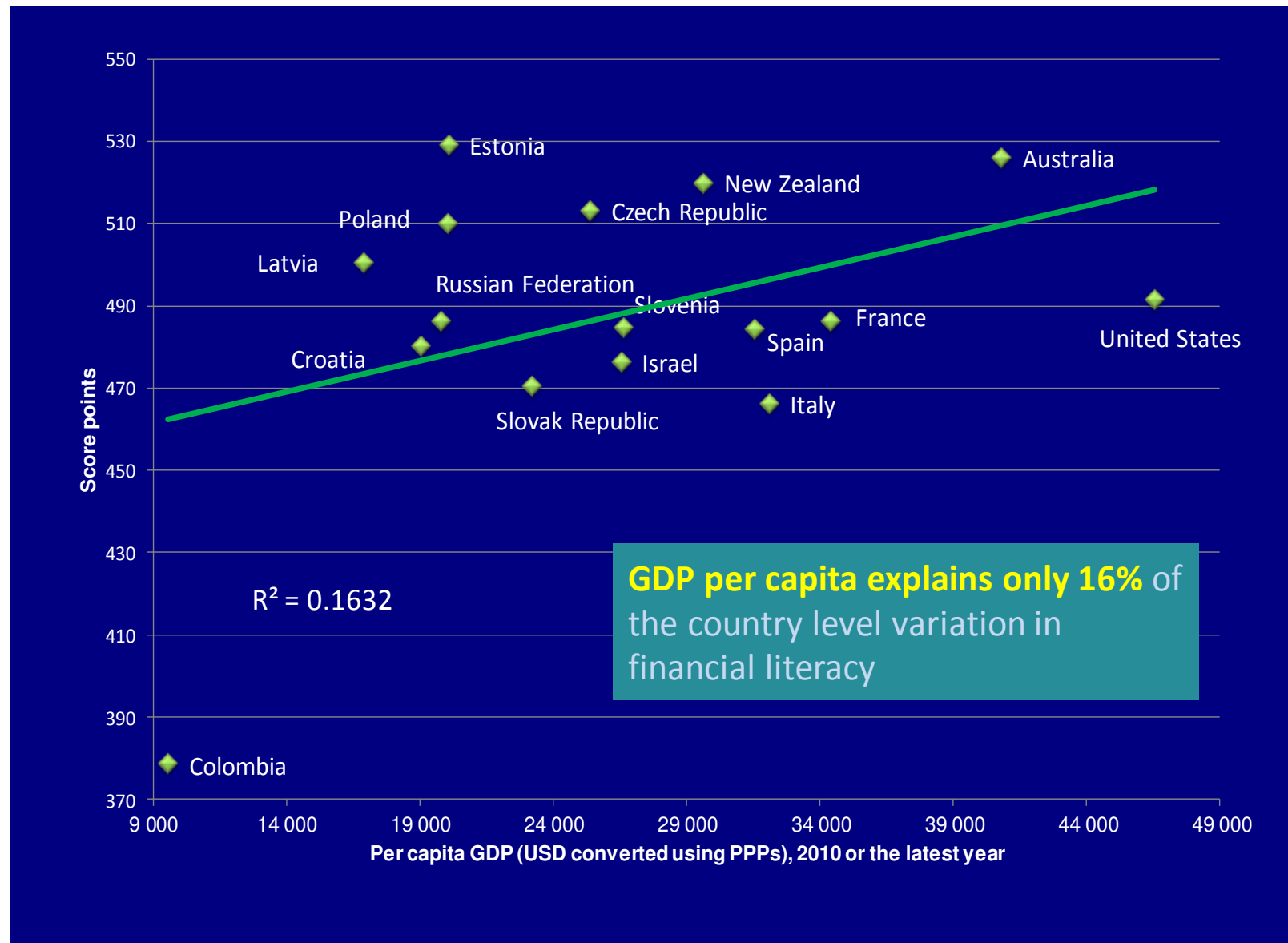
Strong performance in  
financial literacy

Average performance  
of 15-year-olds in  
financial literacy

605  
595  
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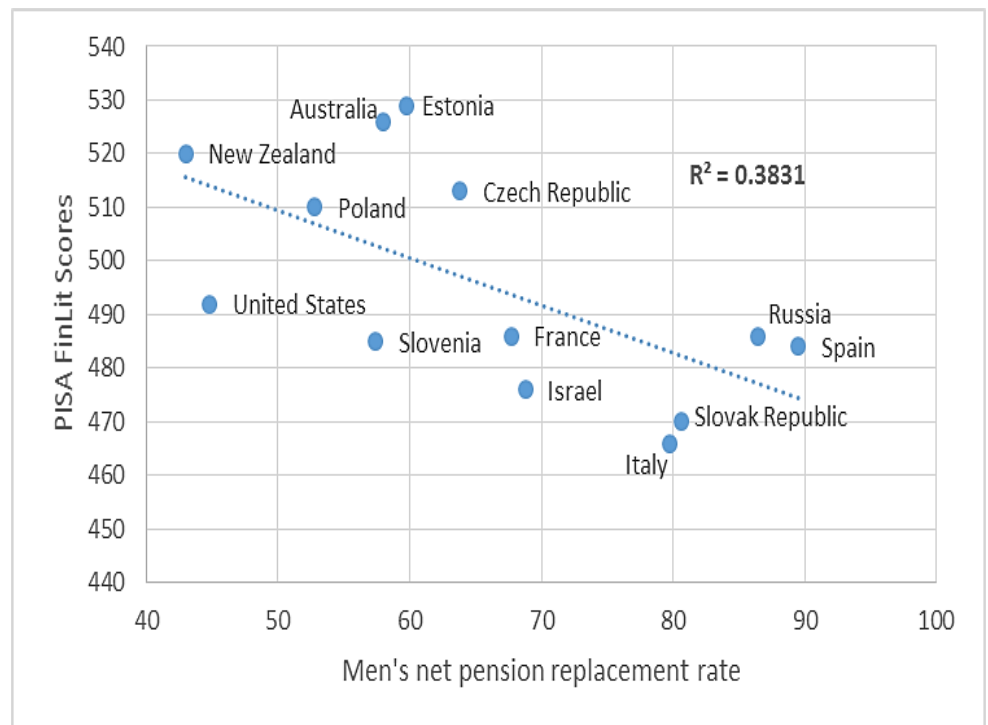
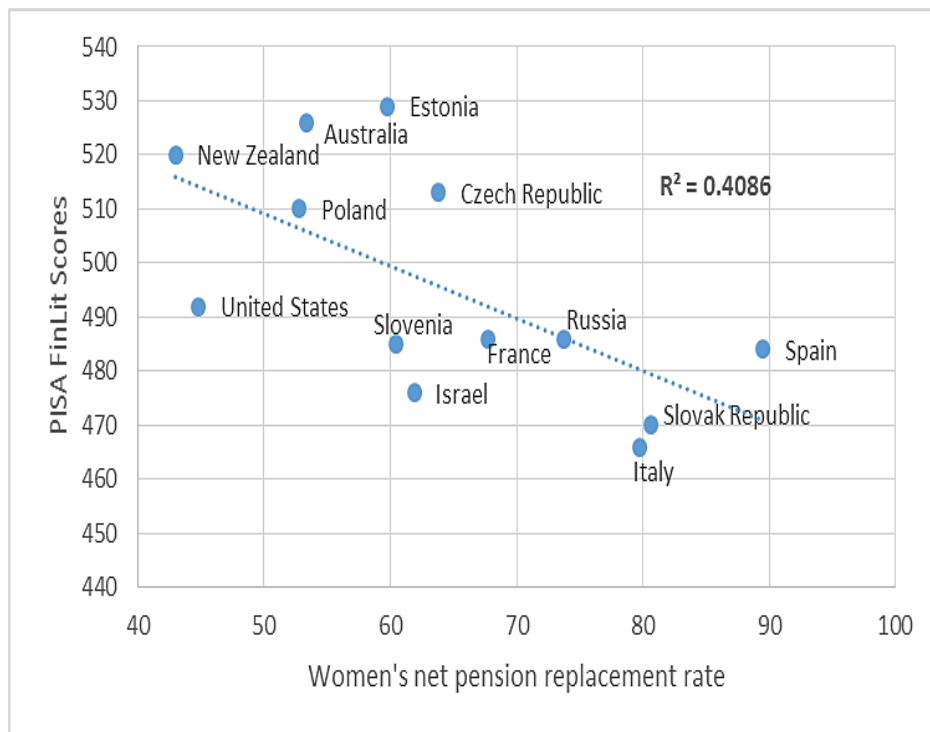


# Financial literacy and GDP per capita in PISA

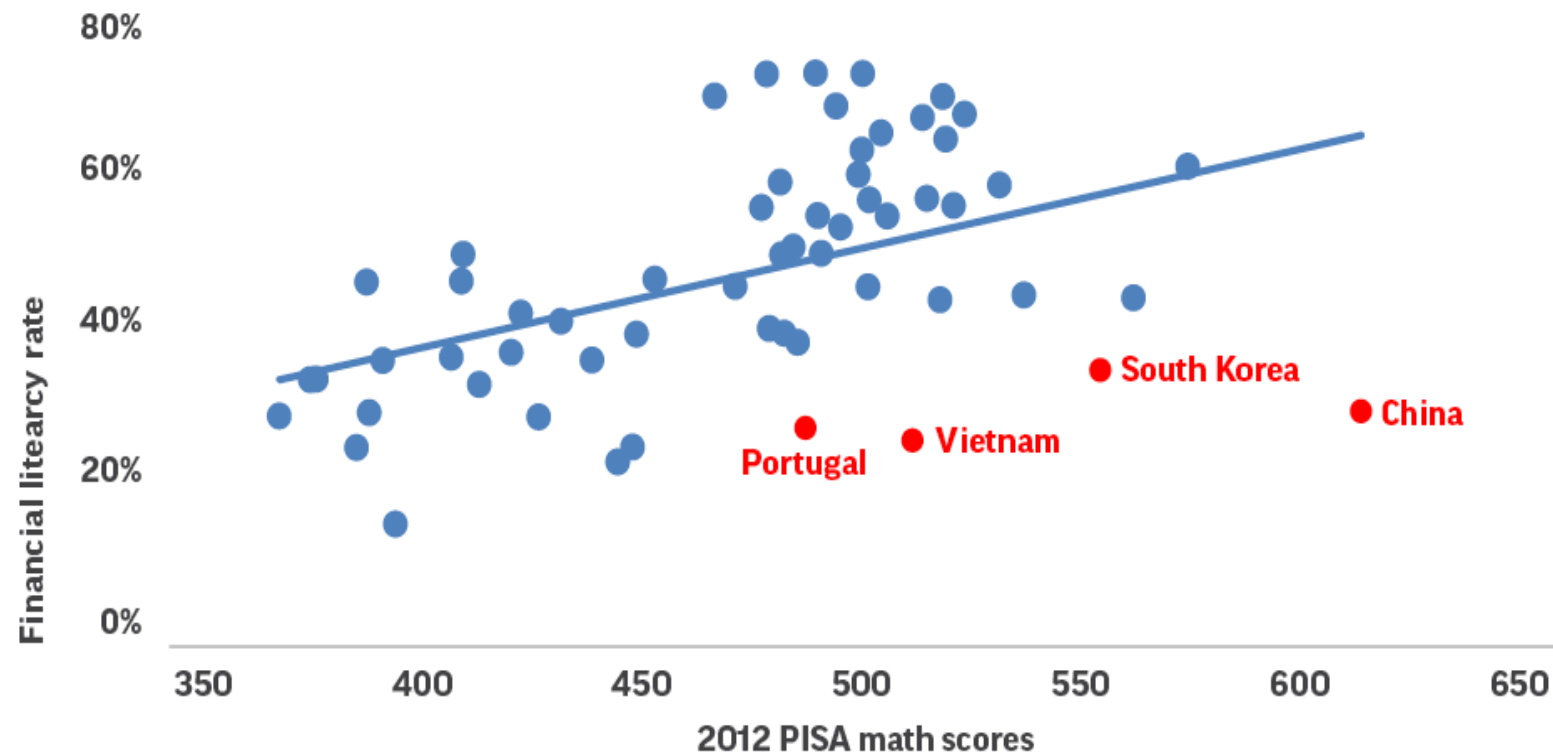


# Financial literacy and pension system generosity

- Pension system generosity is correlated with students' PISA financial literacy assessment scores for both women and men



# Combining data from PISA (math) and Global Survey



- **Positive relationship between knowledge of the young and the general population**
- **The young are doing well in some countries**

# What the global data tell us

## **Urgent need to improve levels of financial literacy**

### **1. Financial illiteracy is everywhere**

- We are at a crisis level

### **2. Regulation is important but is not enough**

- Levels of financial literacy are too low

### **3. One size does not fit all**

- We need more targeted programs, particularly for vulnerable groups

# The consequences of financial literacy

## Debt and debt management



## Investments

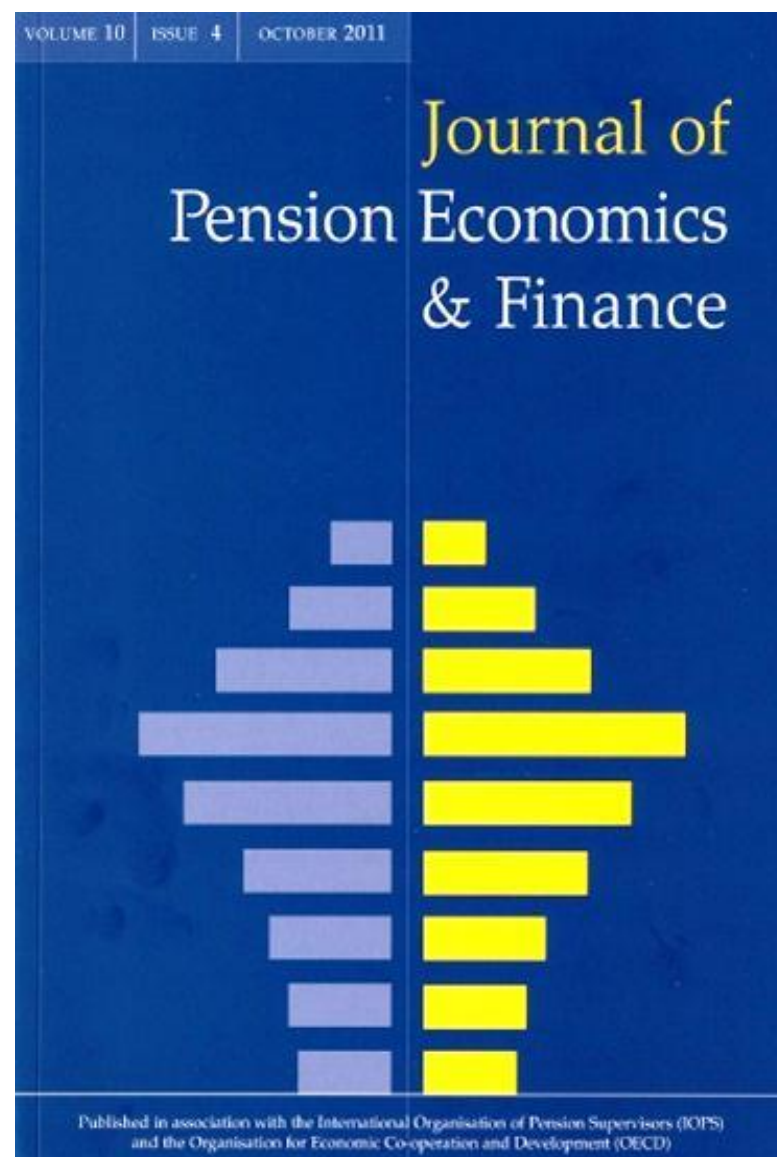


## Planning and wealth accumulation



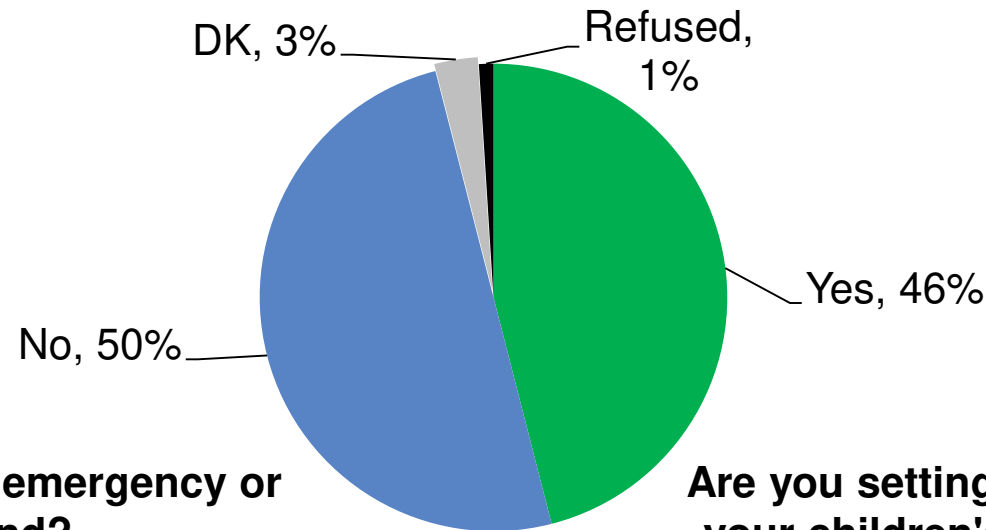
# Special Issue of JPEF, October 2011

- *FLAT World*
- **We published a paper for each participating country**
- **In this special issue, 8 countries are covered**

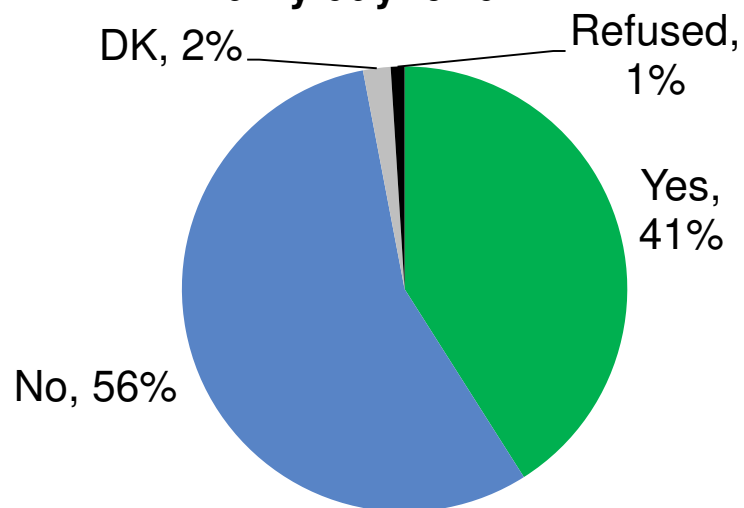


# Planning ahead: Most workers don't

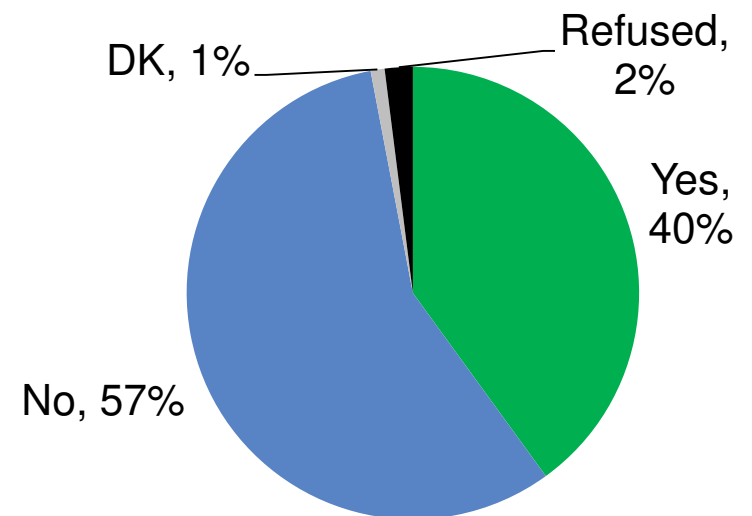
**Have you ever tried to figure out how much you need to save for retirement?**



**Have you set aside an emergency or rainy day fund?**

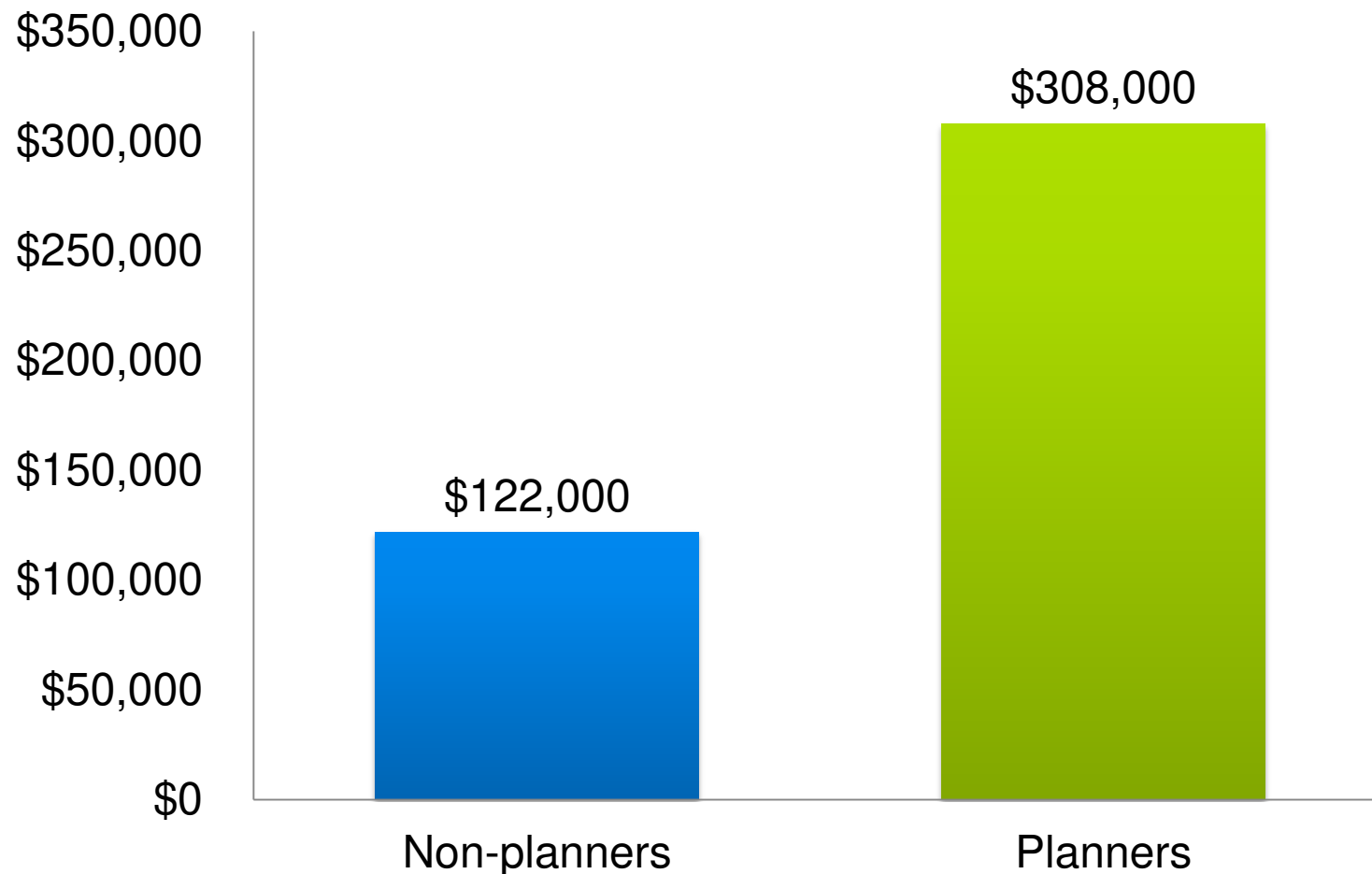


**Are you setting aside any money for your children's college education?**



Note: Respondents age 23 to 61 and employed at the time of the survey. 2012 NFCS

# Retirement planning and wealth holdings



**Median Net Worth, 2004 US data, age 51-56**

# The effects of financial literacy

## Looking at financial behaviors

1. Financial literacy affects retirement planning, participation in pension plans, and retirement expectations (FLAT World)
2. Financial literacy affects wealth inequality
  - Newest research using US data



# What can be done? A simple analogy



# OECD/International Network on Financial Education (INFE)

## Trilogy

- Financial literacy
- Consumer protection
- Financial inclusion



# What can be done to improve fin. literacy

## How these data can inform policy and programs

- **We need 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)





# Our programs for schools

## 1. A pilot program to train high-school educators teaching financial education

- Program in the US in collaboration with Digital Promise
- Goal: enable educators to strengthen their pedagogy



## 2. Our new personal finance course at the George Washington University

- Using a rigorous quantitative approach
- Paying attention to gender differences in financial literacy



# Everybody needs financial literacy

Those who could afford an “early retirement” go bankrupt as soon as their career ends



- Professional football players have short careers and high earnings
- Our research shows many go bankrupt as soon as they retire from playing
- Designed a program for professional football players

# ***Building a More Robust Pension System Starting with School-Based Financial Education***

## ***Financing a 30 year retirement with a 40 year career?***

- Young people need to start contributing right away
- Important to use time to build retirement savings
- Financial education in school has a wide reach
- Preparing the next generation of workers/savers



# Targeting Millennials

## *Five steps to planning success*

- Program targeted to young workers
- Used new methods of communication
- Kept the message free of economic/finance jargon
- Covered concepts that people know the least, such as risk diversification, in a simple story



# Short video about risk: don't put all your eggs in one basket



- After being exposed to videos, the performance on financial literacy questions improved
- While young were targeted, the videos affected all age groups



# Impacting business: Our research reaches the New York Stock Exchange

We built a toolkit for  
**NYSE** to promote  
financial wellness in  
the workplace



## Workplace Financial Fitness Toolkit



### The Employer Checklist

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

[LEARN MORE](#)

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.

[MORE](#)

#### 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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Register Your Classrooms Today for an Engaging Student Challenge

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### Did You Know?



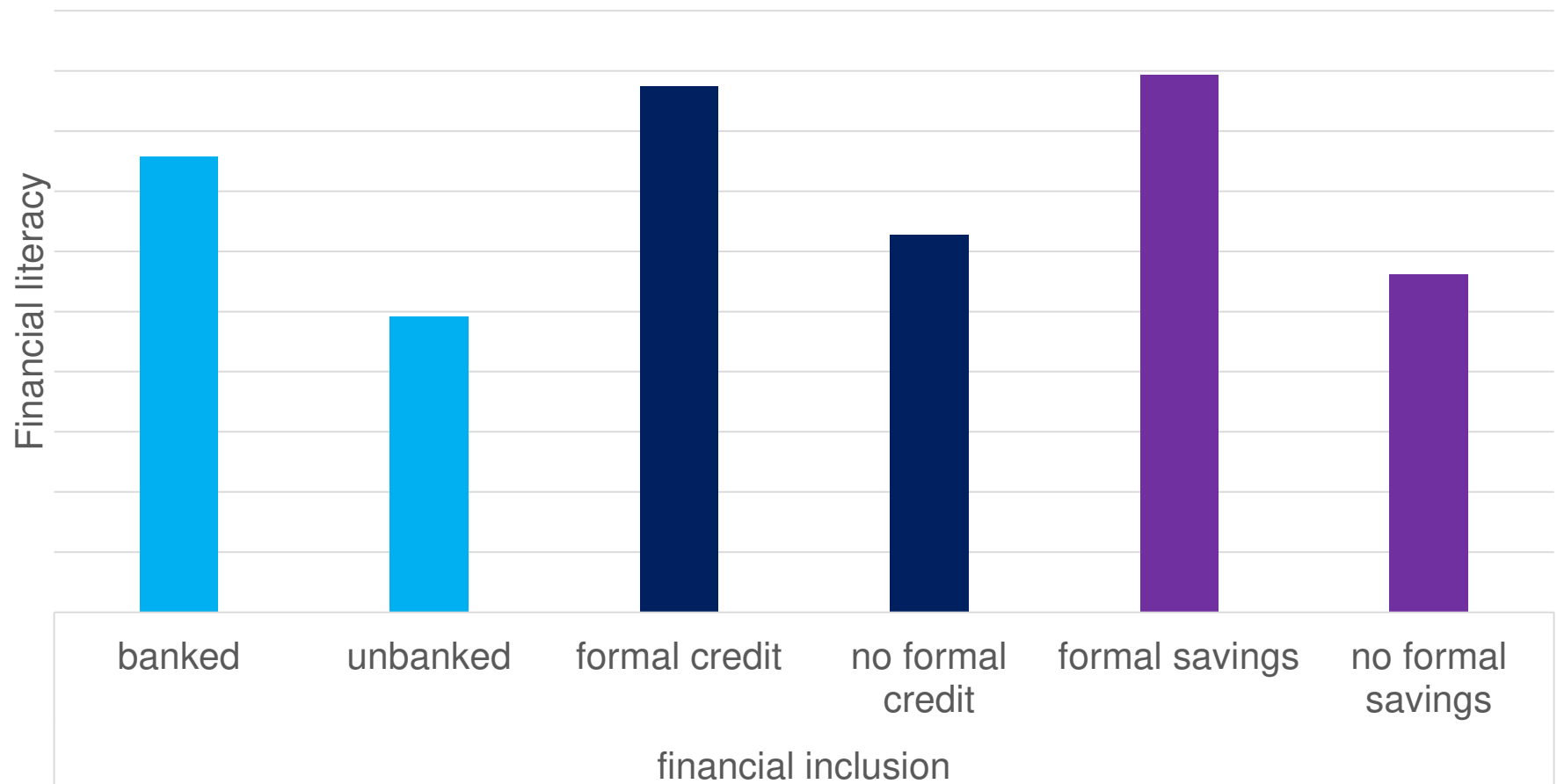
Bells were introduced on the NYSE when continuous trading was instituted in the 1870s. Originally a Chinese Gong was used, but brass bells have been used since the Exchange moved to its current location in 1903. Visit our history page to learn more fascinating facts. [MORE](#)

[?](#) Ask Our Experts a Question



*Ring the bell at the NYSE*

# Financial Literacy and Financial Inclusion (Global FinLit Survey)





# Il Museo del Risparmio







# An International Federation of Finance Museums (IFFM)

## EXECUTIVE COMMITTEE

**Chinese Museum of Finance (CMF)**  
Tianjin, China | Dr. Wang Wei



**Global Financial Literacy Excellence Center (GFLEC)**  
Washington, DC, USA | Dr. Annamaria Lusardi



**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



INTERNATIONAL FEDERATION  
*of* FINANCE MUSEUMS

# 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.”***

# Financial literacy manifesto

Join the financial literacy revolution...

...and make this revolution happen

...for a better and more secure future

# Call to action

## **Improving financial literacy overall**

- Engage the Ministry of Education
- We need ambassadors of financial literacy
- Learn from data and research, continue to experiment

# Concluding comments

- **Financial literacy is an essential skill for the 21st century**
- **There are many initiatives and programs that can be implemented**
- **What is the future we want to build?**



# 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 Federal Reserve*

# Ignorance is expensive

**“If you think education is expensive, try ignorance”**

*Derek Bok, Former President  
of Harvard (1971-1991)*

# Happiness is the ultimate goal

**“Knowledge is in every country  
the surest basis of public  
happiness.”**

***George Washington, First President  
of the United States (1789–97)***

# Happiness is the ultimate goal

**“(Financial) knowledge is in every country the surest basis of public happiness.”**

*George Washington, First President  
of the United States (1789–97)*

# Contact and further information

## **Annamaria Lusardi**

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Find out more about our research at:

[www.gflec.org](http://www.gflec.org)