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
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.
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
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

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

Source: S&P Global FinLit Survey
Financial literacy around the world: Which topics do people know?

% of adults who are financially literate

**RISK DIVERSIFICATION**

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<th>World</th>
<th>Major advanced economies</th>
<th>Major emerging economies</th>
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<td>0%</td>
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**NUMERACY (INTEREST)**

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**INFLATION**

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**COMPOUND INTEREST**

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Financial literacy globally: knowledge of inflation

% of adults who answer the financial literacy questions correctly

Argentina, Bosnia, Georgia, Peru, Russia, Finland, Germany, Japan, Netherlands, Sweden, World

- Experienced hyperinflation
- Low and stable inflation or deflation tradition

- Answered at least 3 out of 4 topics correctly
- Answered inflation topic 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)

- 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

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

Source: S&P Global FinLit Survey

- Young people in Mexico are the ones that knows the most
- But financial knowledge overall is low
Financial literacy across age groups

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.
Strong performance in financial literacy

Average performance of 15-year-olds in financial literacy

Mean score

Shanghai-China
Flemish Community (Belgium)
Australia
Czech Republic
Poland
Estonia
New Zealand
Latvia
United States
Slovenia
Spain
France
Croatia
Russian Federation
Italy
Colombia
Slovak Republic
Italy

Low performance in financial literacy
Financial literacy and GDP per capita in PISA

GDP per capita explains only 16% of the country level variation in financial literacy.
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?
- Yes, 46%
- No, 50%
- DK, 3%
- Refused, 1%

Have you set aside an emergency or rainy day fund?
- Yes, 41%
- No, 56%
- DK, 2%
- Refused, 1%

Are you setting aside any money for your children’s college education?
- Yes, 40%
- No, 57%
- DK, 1%
- Refused, 2%

Note: Respondents age 23 to 61 and employed at the time of the survey. 2012 NFCS
Median Net Worth, 2004 US data, age 51-56

Retirement planning and wealth holdings

Non-planners: $122,000

Planners: $308,000
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 Employe Checklist
Ten key steps to financial fitness, divided into three stages and designed to help employees meet their financial goals.

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 wellness, and your company's bottom line by using our customizable employer and employee financial fitness toolkits.

Did You Know?

Debits were introduced on the NYSE when continuous trading was instituted in the 1870s. Origami is a Chinese folding art used, but these belts have been used since the Exchange moved to its current location in 1890. Visit our blog pages to learn more facts.

Ringing the bell at the NYSE
Financial Literacy and Financial Inclusion (Global FinLit Survey)

- Potential to link data at the individual level with other datasets
- Well-being measures (Gallup World Poll)
- Food security measures (Voices of the Hungry)
- Financial inclusion measures (Global Findex)

Financial literacy

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<th>banked</th>
<th>unbanked</th>
<th>formal credit</th>
<th>no formal credit</th>
<th>formal savings</th>
<th>no formal savings</th>
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Source: GFLS & Global Findex database
Ciao!
Giochiamo insieme? Metti alla prova le tue conoscenze sul risparmio e l'economia con il trivial quiz e non perderò le caselle bonus per incrementare il punteggio.
Occhio alle formiche da collezione: raccogline 3 e partecipa al concorso!
Buon divertimento!

Premi per iniziare
A Museum of Saving in Italy
An International Federation of Finance Museums (IFFM)

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

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

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Find out more about our research at:
www.gflec.org