

SEC Investor Advisory Committee
Washington DC, March 9, 2017

Academic Research on Financial Literacy

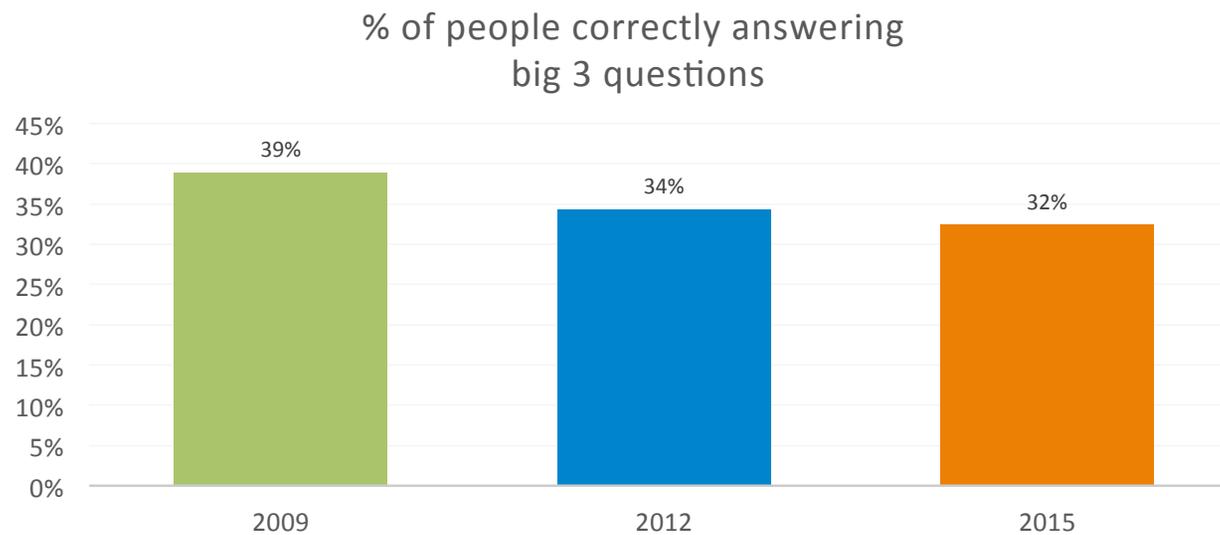
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Investors need basic financial knowledge

- Big 3 questions:
 - Numeracy/interest rate
 - Inflation
 - Risk diversification
- *Being financially literate*: How many can answer these 3 questions correctly?
- These 3 questions have been used in 15 countries: Financial Literacy around the World (FLAT World) project

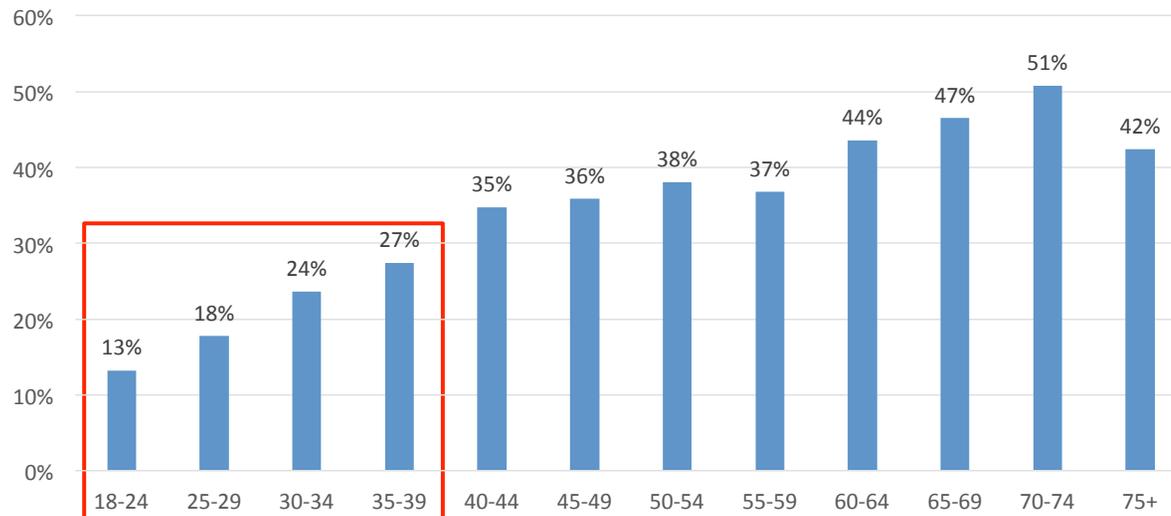
Financial literacy over time in the US



Source: 2009, 2012, 2015 NFCS data

- Financial knowledge did not increase since 2009

Financial literacy by age in the US (% answering Big 3 questions correctly)



Source: 2015 NFCS data

- Financial knowledge increases very slowly with age
- Less than 1/3 know 3 basic questions by age 40 even though most important decisions are made well before that age

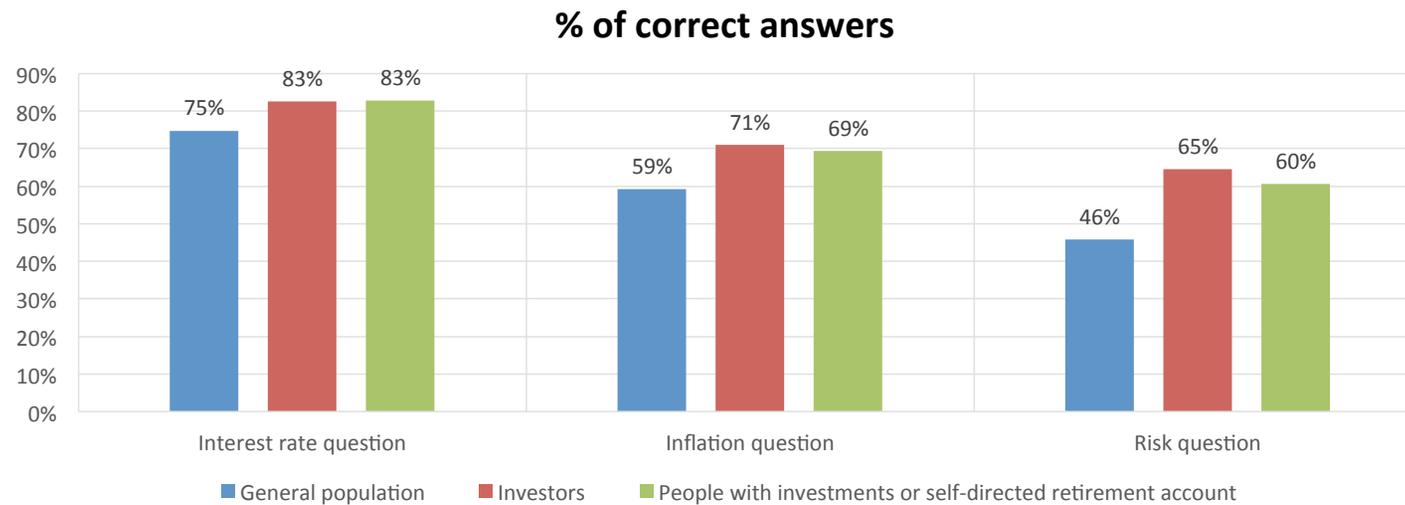
Risk is the most difficult concept to grasp

	Correct	Incorrect	Don't know
Interest rate question	75%	13%	12%
Inflation question	59%	20%	20%
Risk question	46%	10%	44%

Source: 2015 NFCS data

- “Do not know” responses to risk diversification question are dramatically high
- Our recent data from 10 European countries shows that risk-related concepts are the least understood

Financial literacy among investors



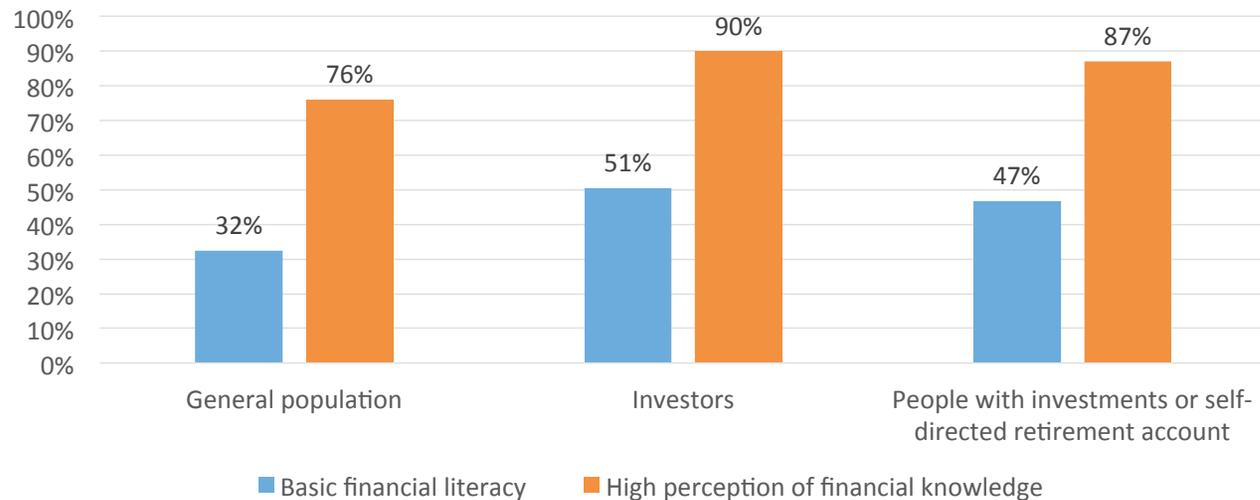
Source: 2015 NFCS data

- Financial knowledge is not much higher among investors
- Only 1 in 2 investors answer correctly 3 basic questions

Financial sophistication

- More complex questions were asked in other surveys, for example:
 - Assets pricing
- Knowledge of sophisticated concepts is lower
 - E.g., 43% of investors have assets pricing knowledge
- Economic/finance jargon is not understood
 - “Don’t know” responses increase when jargon is used
 - Especially important for women

Mismatch between actual and perceived financial knowledge



Source: 2015 NFCS data

- Despite low levels of financial literacy, Americans have high self-perceptions of their financial knowledge
- The mismatch is high among investors too

Implications from academic research

- Need to step up the effort on financial education
 - Important to prepare the next generation of investors
- Because risk is particularly difficult to grasp, visualization or other strategies may help
- Different strategies to communicate with investors
 - Keep the message free of complex terminology
 - More targeted messages to population subgroups

Contact and further information

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