

# Improving Financial Literacy and Capability: What Works?

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## Introduction

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A joint center of the RAND Corporation, Dartmouth College,

# FLC: Our Infrastructure

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- Top-notch academics:
  - Center of excellence
  - Multidisciplinary approach: Academics in economics, finance, psychology, marketing, law, health, and linguistic
- Innovative not-for-profit and for-profit groups:
  - Doorways to Dreams, ideas42, Financial Literacy Group, AEI, NBER
  - Applied Research and Consulting, Mathew Greenwald and Associates
- Collaborate with thought leaders and institutions in financial literacy:
  - FINRA Investor Education Foundation, NEFE, NYSE Foundation, FRB, OECD, World Bank, TIAA-CREF Institute, Filene Research Institute
- Collaborate with our other centers:
  - Pension Research Council (Wharton), BeFi and RAND's centers

# FLC: What we have done so far

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- Twenty-nine projects in two years
  - All supported by Social Security
- Several of these projects are multi-year ones and were expanded further
- We have pursued other **big** projects in financial literacy connected to these projects
  - Financial Literacy Around The World (8-country comparison)
  - Contribute to National Financial Capability Study and Programme for International Student Assessment (PISA)
  - Financial Literacy Seminar Series, joint with FRB, and FinLit Talks
  - Collaborate with a new museum of saving to promote fin education

# Some of our projects

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- Financial education at **school and in the workplace**
- Financial literacy **over the life-cycle**
  - Young, middle age, close retirement, after retirement
- Focus not only on **asset building** but also on debt and **debt management**
- Focus on **vulnerable groups**:
  - Women, low income, immigrants , disable children
- **Innovative** ways to promote and deliver financial literacy:
  - Videos, stories, visual tools
  - Financial literacy games
  - Financial check-up

# The importance of data and measurement

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Very important tool we have: **RAND American Life Panel (ALP)**

- One of the first surveys to provide a comprehensive measure of financial literacy
- Because it is an internet panel we can get timely data on topics of interest
- We can use it to do evaluation on representative samples

**We have a passion for data:**

- Health and Retirement Study: Several modules on fin literacy
- National Financial Capability Study
- OECD's PISA 2012 module on financial literacy

# A framework for financial literacy

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How to interpret the data?

- Need a framework
- The framework guided the data collection
- Important to study policy implications

## **Theoretical model for financial literacy**

- Financial literacy is a choice variable

# FLC: Multi-pronged Strategy

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## Educate

- Eradicate *financial illiteracy*: One cannot do well in the modern world without being able to *read and write financially*

## Simplify

- Saving and investing are complex decisions

## Implement

- Implementation crucial to change behavior

## Evaluate

- **What works? Focus on cost-effective programs.**  
**Today we will discuss what works**

# Example: Project for college and high school students

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- Designing financial literacy modules
- Building financial literacy content in college courses



# Financial literacy games

## Celebrity calamity Bite Nightclub



# Extensions

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- Use modules for a new program at The George Washington University School of Business
- D2D has modified their financial literacy games for a workplace financial education program with Staples
- Deliver financial education via a museum

# A Museum of Saving in Italy



L'incantabile fame di riserve internazionali.  
The international reserve glut



Risparmiarsi cresce.  
Savings and growth



downhill!



Quando i tassi di interesse si sono ridotti, le azioni hanno perso valore. Quando i tassi di interesse si sono alzati, le azioni hanno guadagnato valore. Ma cosa succede quando i tassi di interesse si sono ridotti e le azioni hanno guadagnato valore?



Aiuto!!!  
Si allargò  
Hel  
The



Fai attenzione  
Watch out!

Ciò che conta per fare le tue scelte di investimento sono i rendimenti reali (il rendimento nominale al netto dell'inflazione). Quando l'inflazione è molto alta, le azioni hanno perso in media il 20% e le obbligazioni l'11%.







# A Museum of Saving in Italy, a FinLit Game



## Il gioco della **Formica**

**MdR**  
MUSEO DEL RISPARMIO

Regole del gioco

Regolamento del concorso

A colorful, stylized illustration of a city street scene with buildings, trees, and a winding path. The path is marked with various icons like a star, a hand, and a coin. In the center, there is a large, light-colored banner with the MdR logo and the text 'MUSEO DEL RISPARMIO'. Below the banner, a cartoon ant character is standing and talking. A speech bubble contains text in Italian, and a button below it says 'Premi per iniziare'.

**MdR**  
MUSEO DEL RISPARMIO

Ciao!

Giochiamo insieme? Metti alla prova le tue conoscenze sul risparmio e l'economia con il trivial quiz e non perderti le caselle bonus per incrementare il punteggio.

Occhio alle formiche da collezione: raccogliline 3 e partecipa al concorso!

Buon divertimento!

**Premi per iniziare**

# What have we learned?

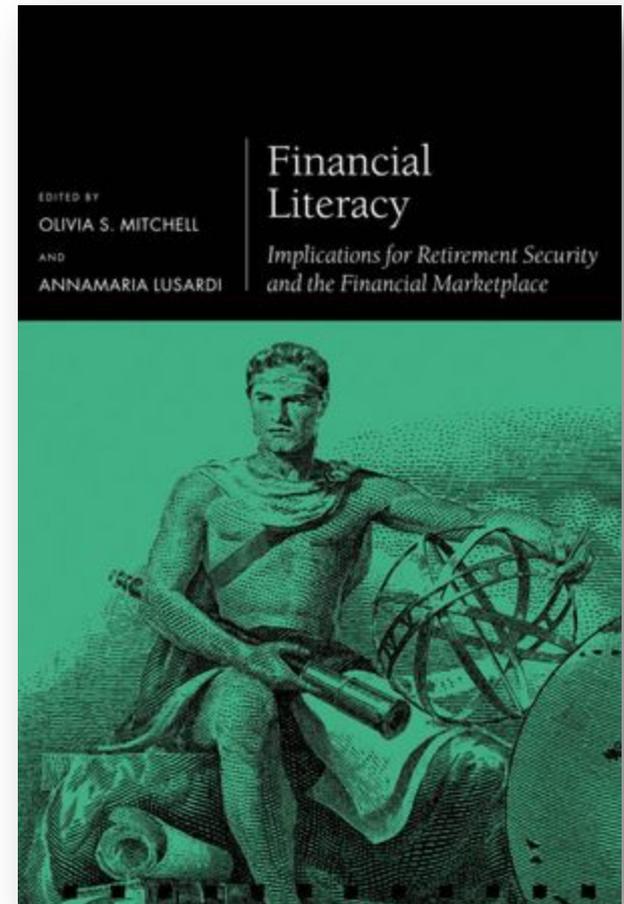
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- Financial illiteracy is widespread
  - Take into account in the design and evaluation of programs
- Very large differences in the population
  - One size does not fit all; importance of targeting
- Focus on important decisions and teachable moments
  - Start of job, retirement
- Many unexploited delivery channels
  - Need for originality and creativity
- Critical importance of evaluation: **What works?**
  - Also for fine-tuning
- Importance of theory to understand the effects of programs and policy

# We have written a lot: Books, Insights, Reports

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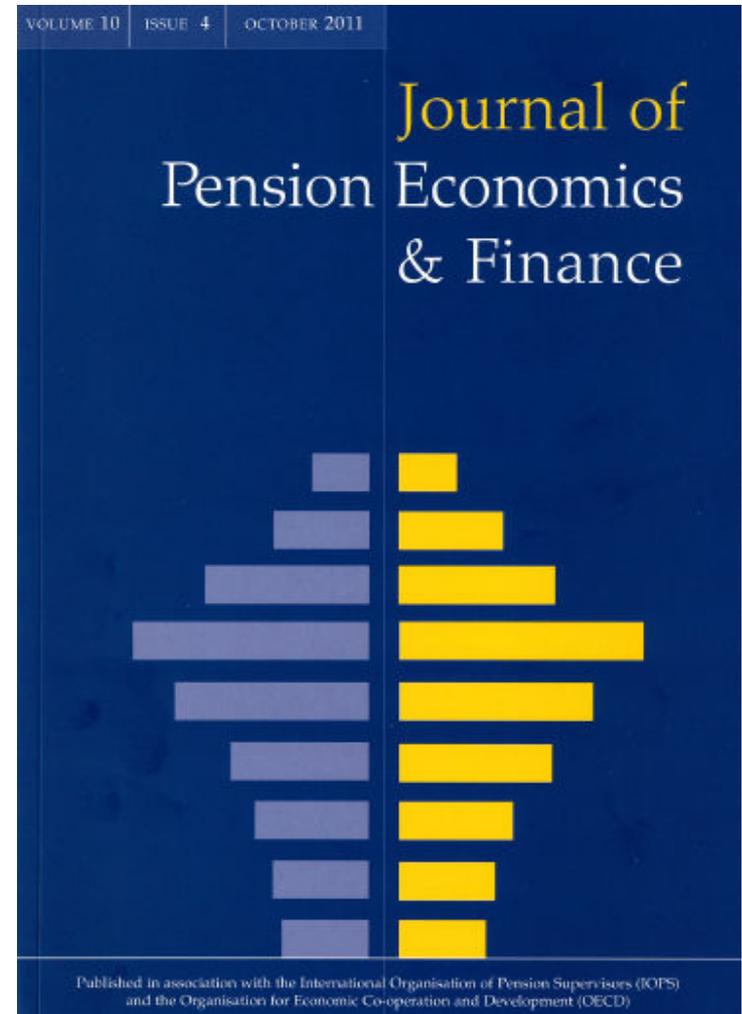
- *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*
- Financial Literacy *Insights*
- All projects and reports posted on:  
<http://www.rand.org/labor/centers/financial-literacy.html>



# Special Issue of JPEF, October 2011

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- *Financial Literacy Around the World (FLAT World)*
- Planning a special issue of *Numeracy*
- *American Academy of Arts & Sciences* has become interested in fin literacy



# What made our work and success possible?

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- Passion, originality, and ingenuity of our teams
  - Human capital matters
- Capacity to deliver on time
- Focus on important questions

# Final thoughts

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

*D. Bok (Former President of Harvard)*

*“Simplicity is the ultimate sophistication”*

*Leonardo da Vinci (1452-1519)*