

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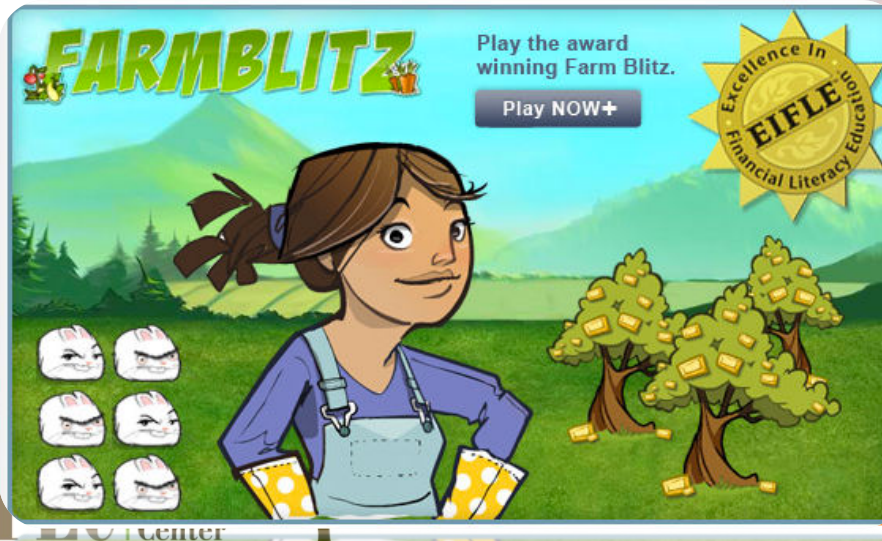
- Designing financial literacy modules
- Building financial literacy content in college courses





# Financial literacy games

## Celebrity calamity Bite Nightclub



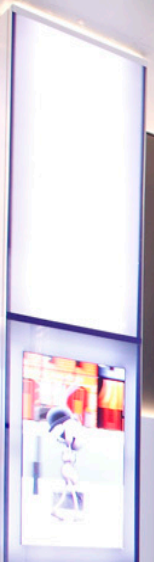
# Extensions

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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





Quando i mercati finanziari sono in crisi, la domanda di rifugio si sposta verso i titoli di Stato. In questo momento, la domanda di titoli di Stato è molto alta, il che ha portato a un aumento dei prezzi e a una diminuzione dei rendimenti.



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, i rendimenti nominali possono essere molto negativi. Quando l'inflazione è molto alta, le azioni hanno reso in media il 20%, le obbligazioni l'11%.





Le persone che si mantengono in buona salute, in media non è elevato la nostra capacità, vicine alla pensione, tutto il tuo futuro pensionistico.

trading to your wealth

The Cambridge Stock Investments Performance in Selected Markets, Source: Cambridge

La previdenza  
fondamento previdenziale  
con i aumenti salariali  
e la promessa

It's my life





- Cover that Lalique before you go.  
- Very well, sir.

# A Museum of Saving in Italy, a FinLit Game



MdR  
MUSEO DEL RISPARMIO

Regole del gioco

Regolamento del concorso





# What have we learned?

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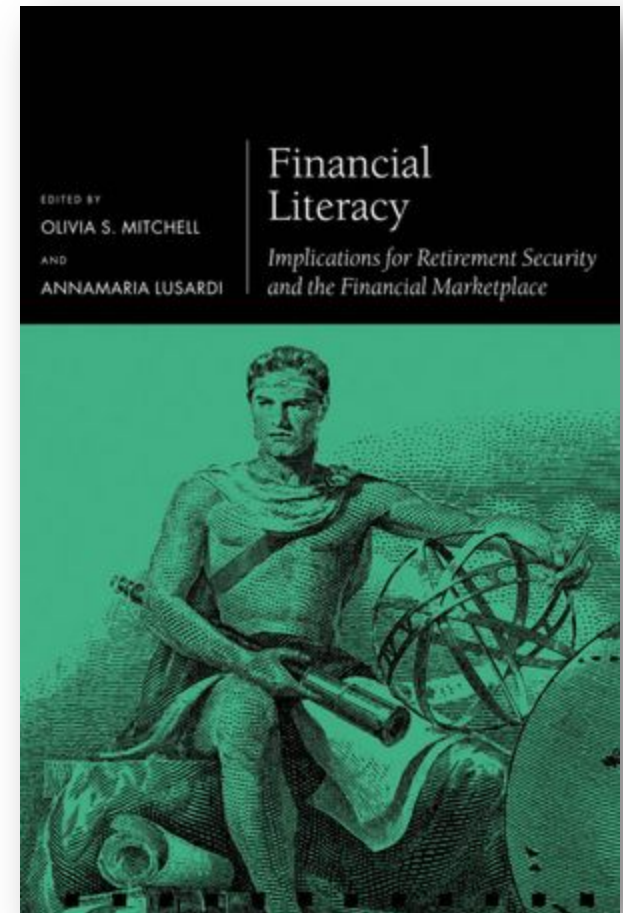
- Financial illiteracy is widespread
  - Take into account in the design and evaluation of programs
- Very large differences in the population
  - One size does not fit all; importance of targeting
- Focus on important decisions and teachable moments
  - Start of job, retirement
- Many unexploited delivery 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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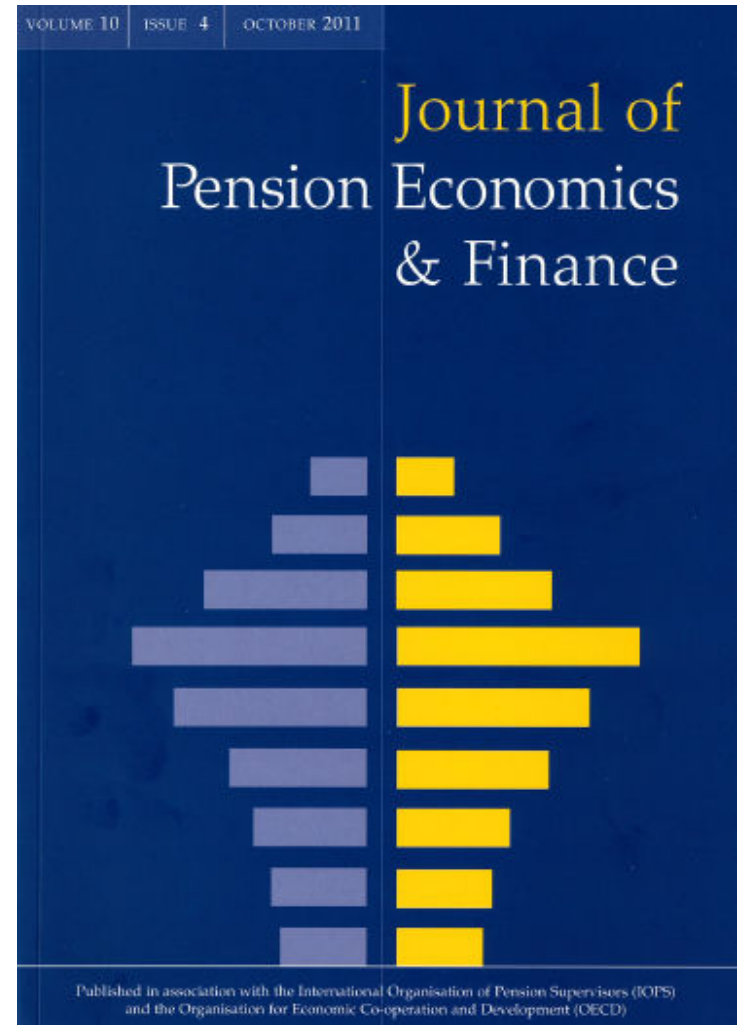
- *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*
- Financial Literacy *Insights*
- All projects and reports posted on:  
<http://www.rand.org/labor/centers/financial-literacy.html>



# 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)*