

Improving Financial Literacy and Capability: What Works?

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Improving Immigrant's Access to Financial Services

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Motivation

- One out of every nine individuals living in the U.S. was born abroad
- When compared to those born in the U.S., immigrants are
 - More likely to be unbanked
 - Less likely to have savings accounts, credit cards and to invest in stocks, bonds and mutual funds
 - Less likely to be homeowners
 - Less likely to participate in formal retirement savings programs

Questions

- Why are immigrants less likely to use financial services?
- Can financial education interventions targeted at immigrants help increase participation?
 - Do they improve financial knowledge?
 - Do they affect financial behavior?
- Are the effects of such interventions persistent?

RAND American Life Panel

- Internet panel of respondents 18 and over
- As of 2010: approximately 3,000 participants
- Wealth of information on financial decision making and literacy
- Easy to do experiments, conduct randomized evaluations.

Immigrant barriers?

- Socio-economic differences: no
- Among immigrants, those who are Hispanics, have limited English ability and don't have a work visa are less likely to participate in the financial market
- Participation increases with time spent in the US
- Trust in financial institutions and knowledge seem to play a role

Hispanic Immigrants are different

	% Confident about financial matters	% Able to access financial products	% Confident in ability to meet unexpected short-term expenses	% Report thinking/planning for retirement	% Confident in ability to meet long-term needs
Native, white	84	60	65	65	32
Native, black	76	51	44	56	22
Immigrant, Hispanic	78	61	49	57	34
Immigrant, non Hispanic	88	66	73	72	41
Observations	3,058	3,056	3,057	3,057	3,056

Notes: Authors' calculations using wave 189 of the American Life Panel. Summary statistics are population-weighted.

Trust in Financial Institutions

Panel A: All respondents, trust financial institutions in the United States

	% trust the stock market	% trust banks	% trust insurance companies	% trust stock brokers	% trust investment advisers
Native, white	9	47	19	6	17
Native, black	9	35	23	8	21
Immigrant, Hispanic	5	39	17	3	13
Immigrant, non-Hispanic	9	44	22	5	18
Observations	2,992	2,991	2,991	2,989	2,989

Panel B: Immigrants only, trust financial institutions in country of origin

	% trust the stock market	% trust banks	% trust insurance companies	% trust stock brokers	% trust investment advisers
Immigrant	6	15	10	2	3
Observations	538	540	538	538	537

Notes: Authors' calculations using wave 189 of the American Life Panel. Summary statistics are population-weighted.

Knowledge?

	Employer offers any plan	Employer offers DC plan	If offered DC plan			
			Enrolled	Contributed	Made withdrawal	Borrowed against
			If enrolled in DC plan (N=837) in 2010			
Native, white	61	87	80	83	5	3
Native, black	51	89	75	76	5	4
Immigrant, Hispanic	60	88	85	82	25	9
Immigrant, non-Hispanic	61	88	83	80	4	4
Observations	1,829	1,140	1,005	835	834	834

Notes: Authors' calculations using wave 189 of the American Life Panel. Summary statistics are population-weighted.

Intervention: Financial Education Material

- Starting Point: FDIC's Money Smart Curriculum
 - “Bank on it” and “Pay yourself first”
- Two versions of the material :
 - General (information on financial institutions, savings and investment products, interest rate calculation “rules”)
 - Immigrant-specific Information (documents to open bank account, FDIC insurance information, retirement plan rules that apply to non-citizens)
 - Control group did not get any information.

Format: easy to navigate website, short messages, pictures

Randomized evaluation of the materials in the ALP



Banks, credit unions, and thrifts are businesses that offer you a safe place to keep your money and use your deposits to make loans. Banks, credit unions, and thrifts are also called *financial institutions*, since they offer many financial services.

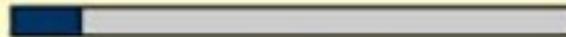
Reasons to Keep Money in a Bank

Reasons why you should keep your money in a bank include:

Safety. Your money is safe from theft, loss, and fire.

Convenience. You can get money quickly and easily. Using direct deposit, for example, allows you quicker access to your money because funds that are electronically deposited are available sooner than if you deposited a check. We will talk more about direct deposit later.

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Results

- Intervention had large effects on financial knowledge.
- Individuals who received the education intervention were more likely to:
 - Correctly answer questions on investment and savings strategies
 - Know IRA and 401(k) rules
 - Perform simple interest rate calculations
 - When questions involved specific immigrant information, the effect was larger for the group who received immigrant-specific information.

Results

- Effects were larger for:
 - Hispanic Immigrants
 - Those with better English language skills
 - Those who “paid more attention”
- Effect on knowledge was short lived
 - Differences across groups after 6 months are much smaller
- Find limited effect on intended behavior change
 - Self-reported probability to enroll in 401(k) if offered, want to learn more about IRA, to open an IRA

Open questions

- What are the most effective designs?
 - Present work pointed to importance of translation, focus on specific barriers encountered by the group you want to target, and interesting and entertaining materials that catch reader's attention.
- How to transform short-term learning into long-term learning and behavioral change?

Questions?



LABOR AND POPULATION



AHEAD OF THE CURVE

Project goals or questions

- Investigate barriers to the use of financial services faced by immigrants
 - limited English proficiency
 - lack of U.S. experience
 - return migration expectations
- Design and evaluate new financial education materials that will help immigrants overcome the barriers identified

Knowledge?

- Table 7: Hispanic immigrants are as likely to be offered employer sponsored retirement plan, to be enrolled in this plan to contribute to the plan but are much more likely to make a pre-retirement withdrawal and to borrow against the plan.
- Say these relations hold even after control for age, gender, citizenship, income and education.

Conclusions

- We developed and evaluated new financial education materials targeted at immigrants.
- We used as a benchmark FDIC's Money Smart Curriculum
- The treatment group was more likely to answer financial knowledge questions correctly
- Large and significant effects
- When questions involved immigrant-specific information, the effect was larger for the second treatment group

Effects of the treatment on knowledge

	Knowledge questions									
	Differentiate between saving and investment	Knows interest rate calculation (rule of 72)	Diversification	Knows 401(K)	IRA taxation	IRA withdrawal	IRA loan	IRA Immigrant	Immigrant IRA taxation	Employer retirement account match
	Without Controls									
Treatment 1	0.08 [0.026]***	0.425 [0.042]***	0.014 [0.039]	0.139 [0.045]***	0.01 [0.040]	0.127 [0.036]***	-0.002 [0.045]	0.089 [0.037]**	-0.028 [0.044]	0.096 [0.034]***
Treatment 2	0.046 [0.027]*	0.291 [0.043]***	-0.012 [0.039]	0.084 [0.045]*	-0.008 [0.041]	0.08 [0.037]**	0.05 [0.046]	0.241 [0.038]***	0.176 [0.045]***	0.063 [0.035]*
	With Controls									
Treatment 1	0.076 [0.025]***	0.435 [0.040]***	-0.005 [0.037]	0.122 [0.044]***	0.012 [0.040]	0.119 [0.035]***	-0.001 [0.045]	0.077 [0.037]**	-0.015 [0.045]	0.079 [0.032]**
Treatment 2	0.036 [0.025]	0.315 [0.041]***	-0.01 [0.037]	0.071 [0.045]	-0.001 [0.040]	0.053 [0.035]	0.054 [0.046]	0.238 [0.037]***	0.181 [0.046]***	0.059 [0.033]*
Observations	730	712	727	728	727	728	727	724	724	727
Mean Y	0.904	0.447	0.761	0.571	0.728	0.793	0.444	0.768	0.546	0.823

Notes: Authors' calculations using wave 215 of the American Life Panel as of January 2012. Controls include age, gender, citizenship, education, income, employment, ethnicity, immigrant generation, English ability, time in the US, and migration expectations.

Effects of the treatment on Intended behavior change

	Probability Expectations			Choice Tact (\$1,000)			
	How likely to enroll in 401K?	How likely learn about IRA ?	How likely open IRA?	Save or Invest	Spend	Give to friend or relative	Other
	Without Controls						
Treatment 1	-0.018 [0.056]	-4.48 [3.015]	-1.048 [3.684]	73.648 [41.701]*	-4.528 [28.836]	-8.081 [21.902]	-35.308 [37.610]
Treatment 2	0.038 [0.055]	-7.15 [3.061]**	-3.738 [3.678]	16.822 [42.534]	-9.846 [29.016]	30.866 [23.227]	26.163 [38.864]
	With Controls						
Treatment 1	0.005 [0.058]	-3.045 [2.835]	0.944 [3.500]	70.63 [41.830]*	-18.472 [29.031]	-3.008 [22.764]	-45.227 [39.298]
Treatment 2	0.038 [0.056]	-5.364 [2.885]*	-2.081 [3.510]	-2.533 [42.686]	-5.337 [29.671]	26.005 [24.679]	47.698 [40.646]
Observations	384	724	428	660	492	302	320
Mean Y	0.729	48.73	42.48	737.7	308.2	106.3	193.7

Notes: Authors' calculations using wave 215 of the American Life Panel as of January 2012. Controls include age, gender, citizenship, education, income, employment, ethnicity, immigrant generation, English ability, time in the US, and migration expectations.

Conclusions (2)

- Effects where larger for:
 - Hispanic Immigrants
 - Those with better English language skills
 - Those who “paid more attention”
- Effect on knowledge is short lived
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