

Financial Literacy and Financial Fragility among Millennials
38th NAAE Professional Development Conference

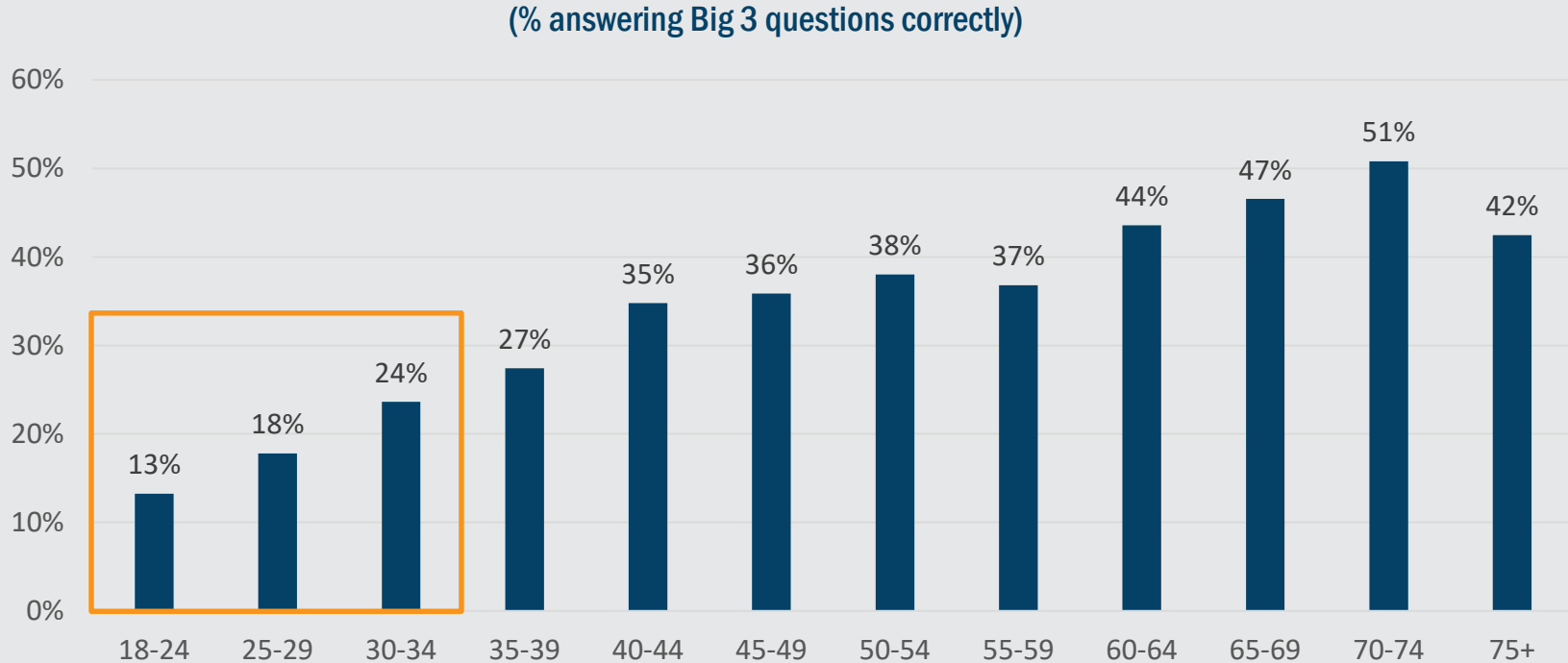
March 1, 2018

Dr. Andrea Hasler
Assistant Research Professor in Financial Literacy
Global Financial Literacy Excellence Center (GFLEC)
at the George Washington School of Business

Financial Literacy and Financial Fragility

The Current Situation for Millennials

Financial Literacy Across Age

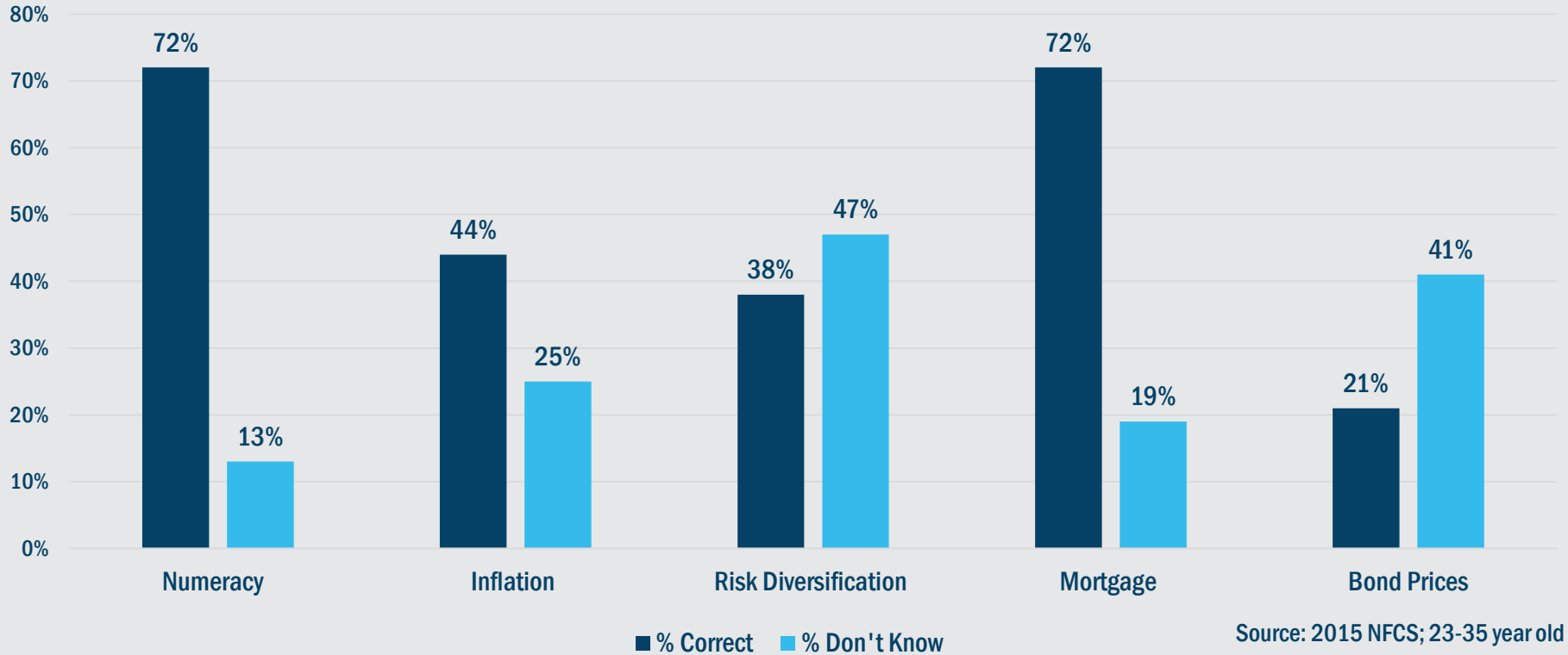


Source: 2015 NFCS

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

Financial Literacy among Millennials

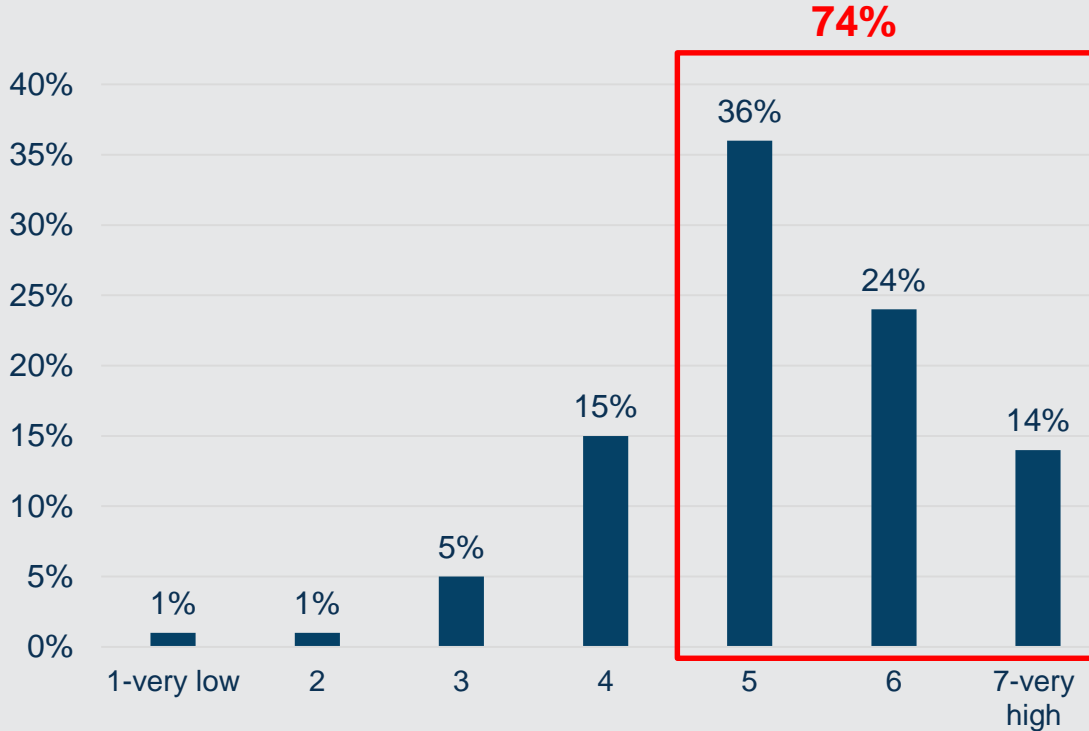
Answers to 5 financial literacy questions



Only 23% answered the Big 3 questions correctly (numeracy, inflation and risk diversification)

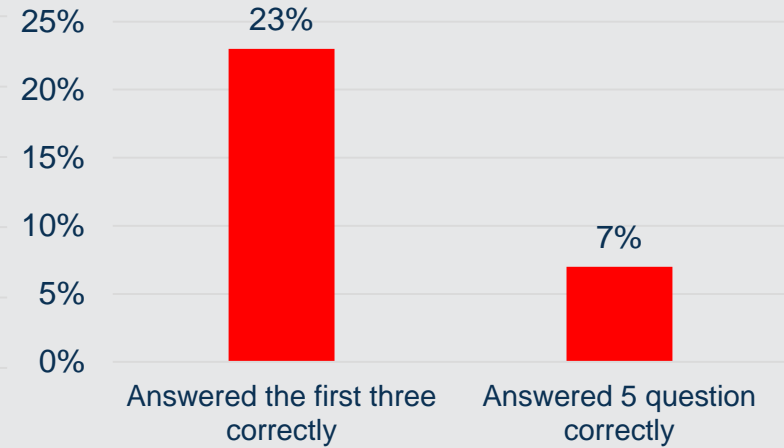
Perceived versus Actual Financial Knowledge

Perceived Financial Knowledge



How would you assess your overall financial knowledge?

Actual Financial Knowledge



Answers to 5 financial literacy questions

Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

Source: 2015 NFCS; 23-35 year old

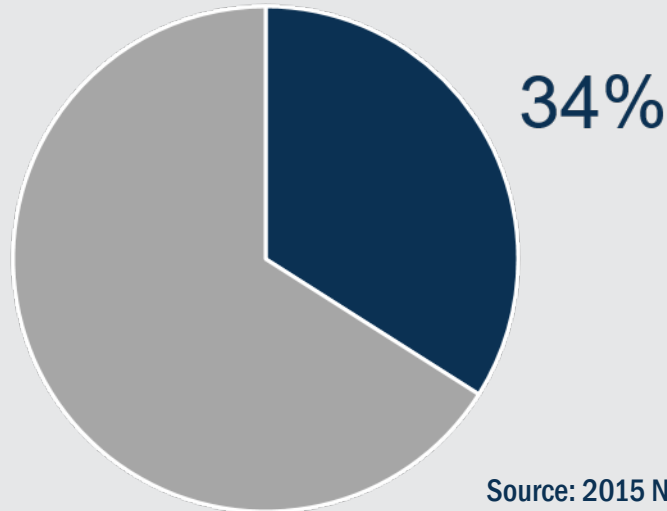
Millennials Borrowing on their Assets and Investments (conditional on having the assets & investments)

Have a checking account	90%
<i>Overdrew from their checking account</i>	<i>25%</i>
Own a home	45%
<i>Have a mortgage on their home</i>	<i>70%</i>
Have a self-directed retirement account	44%
<i>Took a loan from their retirement account (in the 12 months prior to the survey)</i>	<i>19%</i>
<i>Made a hardship withdrawal from their retirement account (in the 12 months prior to the survey)</i>	<i>16%</i>
<i>Either took a loan or made a hardship withdrawal</i>	<i>23%</i>
Have a college degree	44%
<i>Have an outstanding student loan</i>	<i>59%</i>

Source: 2015 NFCS; 23–35 year old

Short-Term Liabilities: Use of Alternative Financial Services

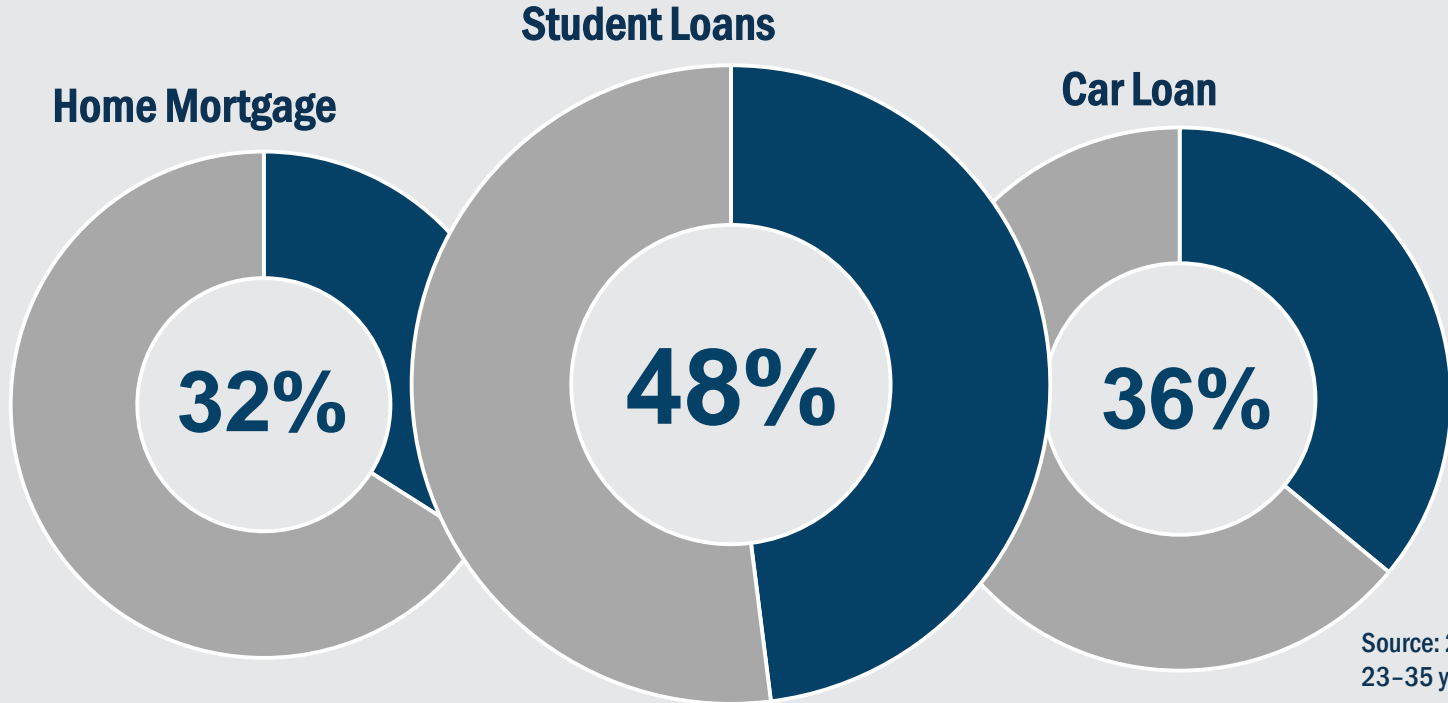
Millennials show high usage of Alternative Financial Services (AFS), such as payday loans, pawnshops, auto title loans, and rent-to-own products.



Source: 2015 NFCS; 23–35 year old

**% of Millennials who used an AFS product in the last five years
prior to the survey**

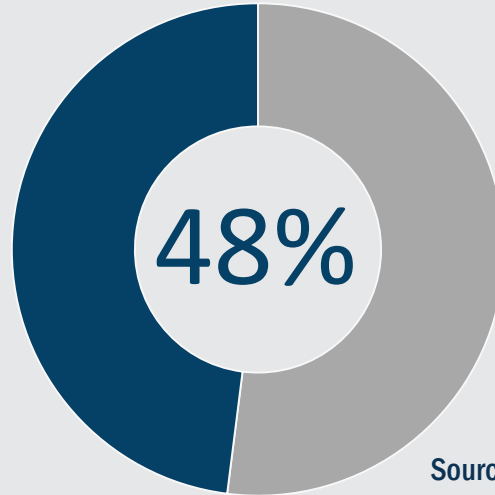
Long-term Debt Among Millennials



All Millennials are heavily leveraged with long-term debt, but a college education is associated with even higher levels of debt across all categories.

Concerns for Student Debt Repayment

**Almost half of all Millennials have a student loan.
Among those, almost half are concerned about repayment.**

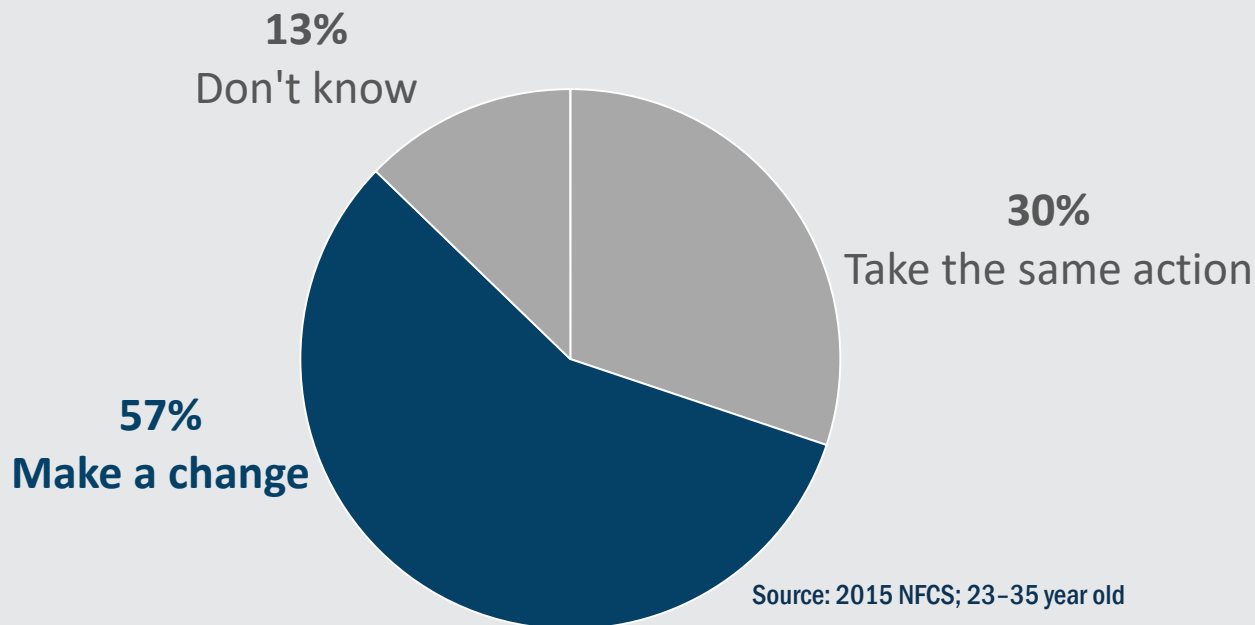


Source: 2015 NFCS; 23–35 year old

**% of Millennials with a student loan and concerned about
repayment**

Student Loans and Actions Taken

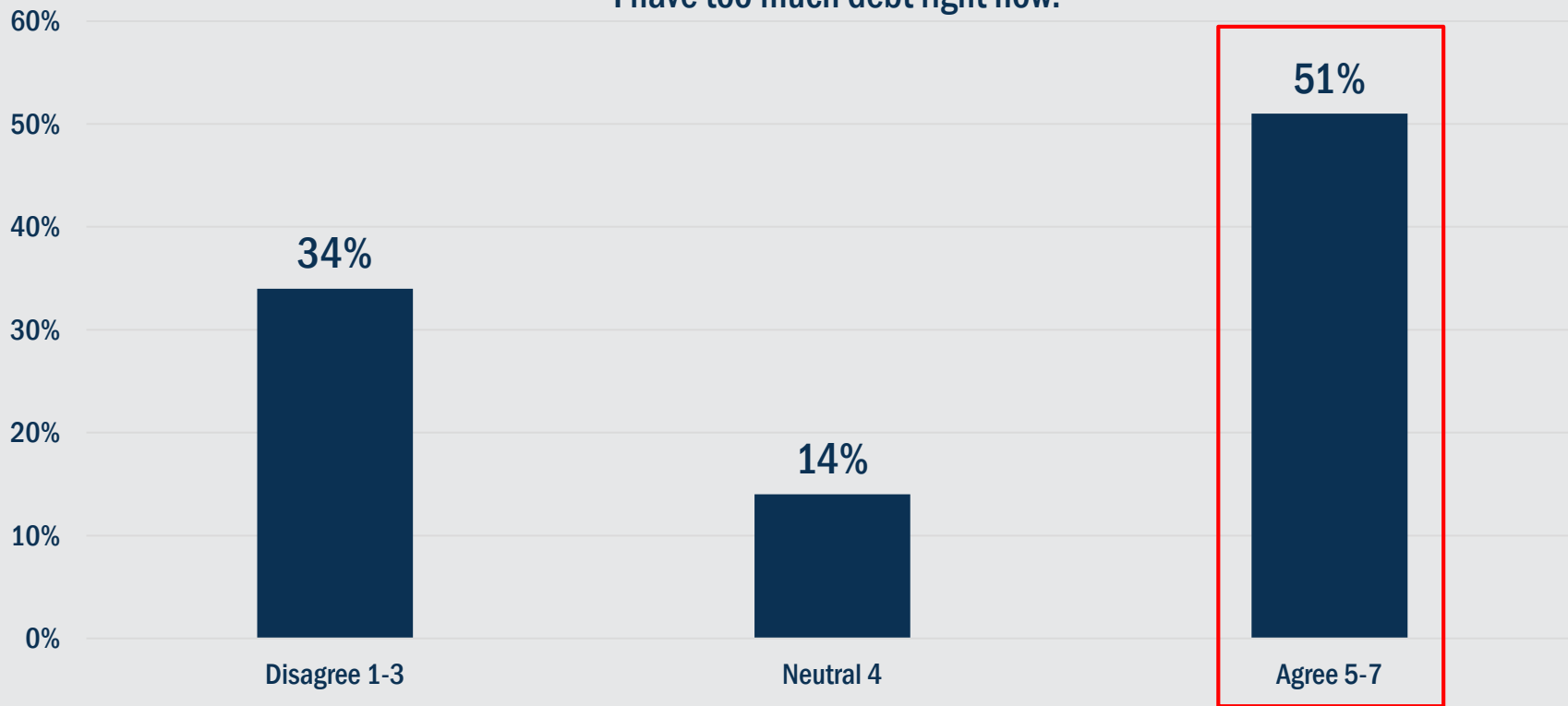
The majority of those with students loans would make a change in their decision.



If you could go through the process of taking out loans to pay for your education all over again, would you take the same actions or make a change?

Perceived over-indebtedness

How strongly do you agree or disagree with the following statement?
"I have too much debt right now."

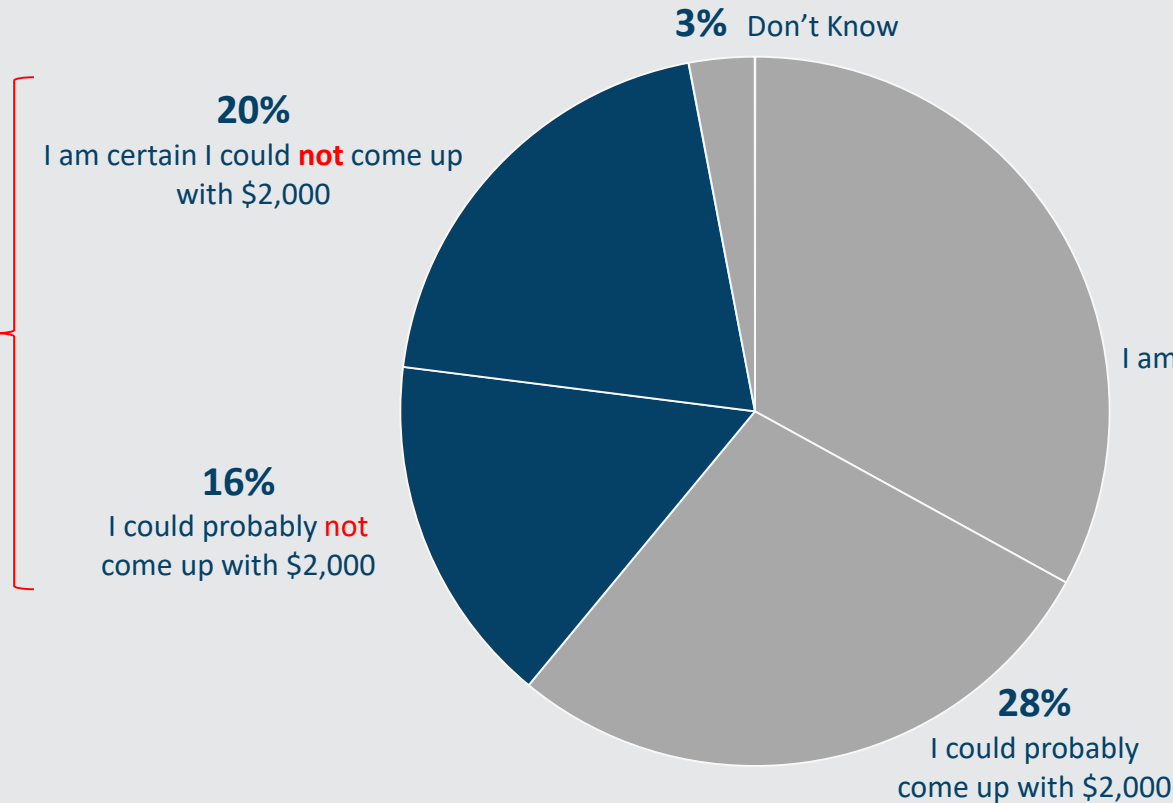


Source: 2015 NFCS

Note: Percentages do not add up to 100% because "don't know" and "prefer not to say" answers are excluded.

Financial fragility among Millennials

36% are financially fragile



How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?

33%
I am certain I could come up with \$2,000

28%
I could probably come up with \$2,000

20%
I am certain I could **not** come up with \$2,000

16%
I could probably **not** come up with \$2,000

3% Don't Know

Source: 2015 NFCS;
23-35 year old

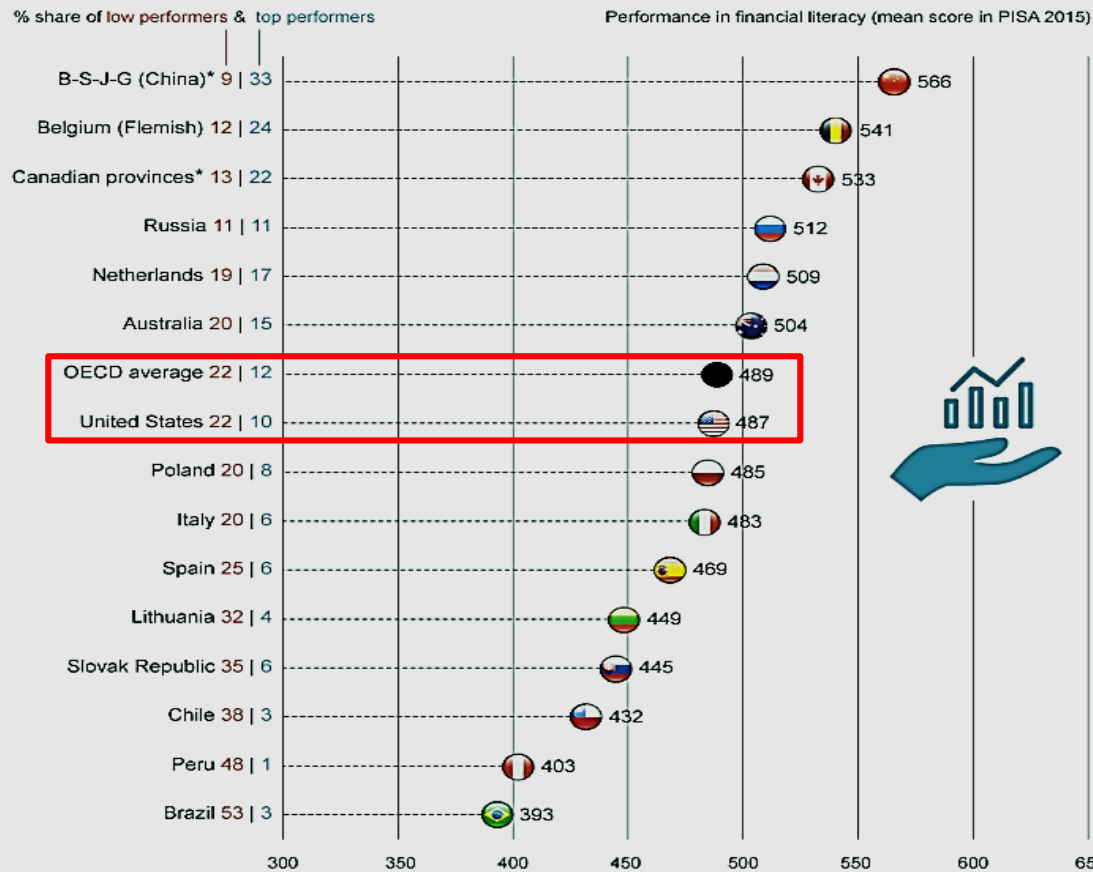
PISA - Measuring Financial Literacy Among the Young

- **OECD's Programme for International Student Assessment (PISA)**
- **PISA is the first large-scale international study to assess the financial literacy of 15-year-old students**
- **15 countries participated in the 2015 Financial Literacy Assessment**



- **Are students well prepared for future challenges?**
- **Are young people financially knowledgeable even though financial literacy is (often) not taught in school?**
- **Is financial literacy simply knowledge of math?**
- **Do they have the capacity to continue learning throughout life?**

Mean Financial Literacy Score of Fifteen Year Olds (2015)

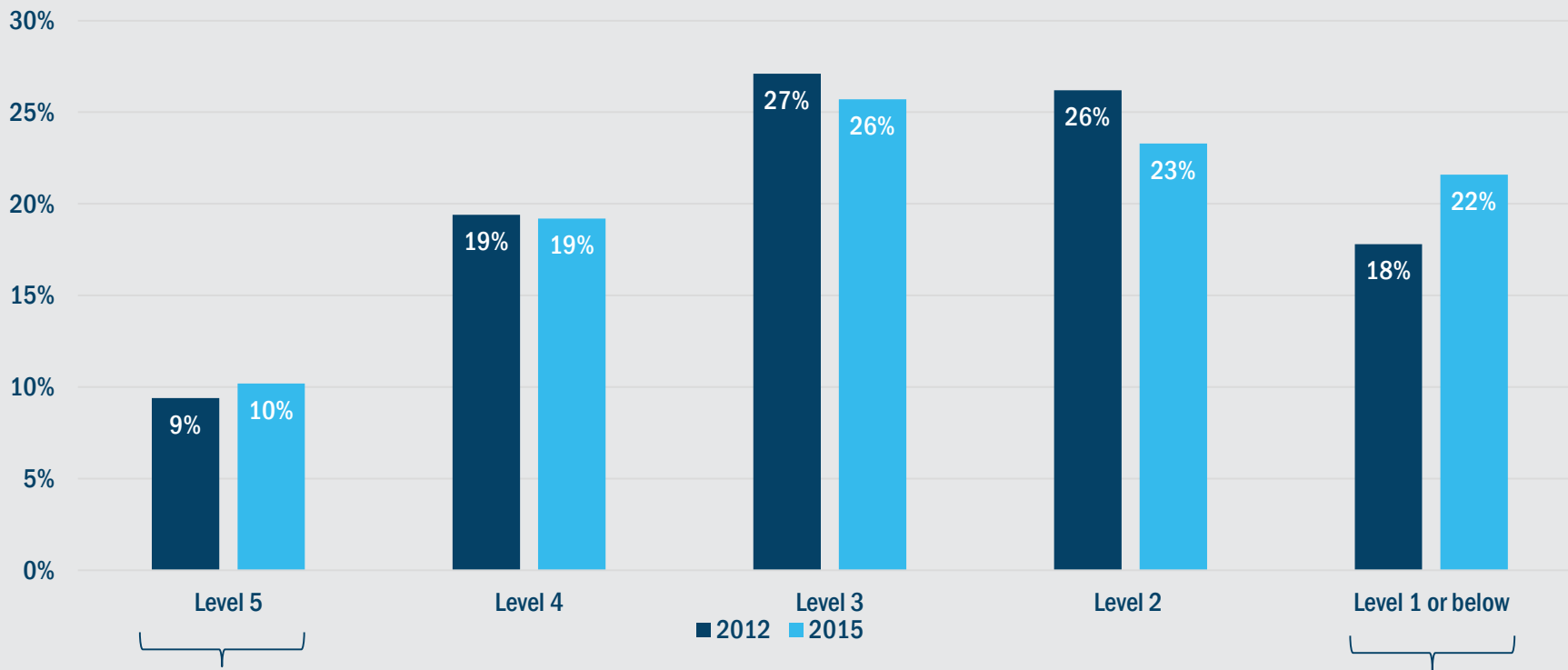


Source: PISA 2015

Changes in student performance in the U.S.

Results from PISA 2012 & 2015

Percentage of Students

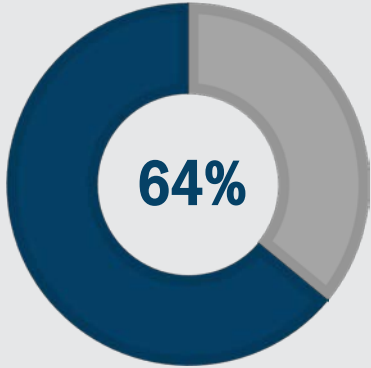


Top Performers

Below Baseline

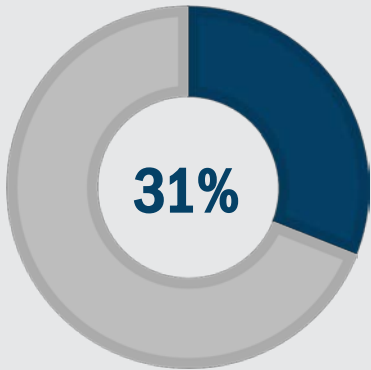
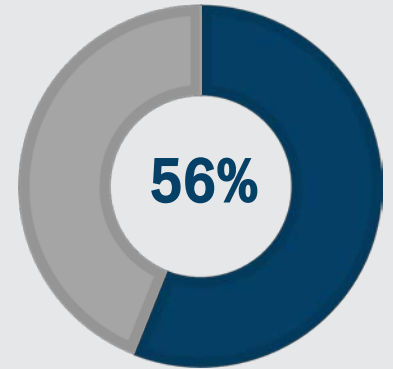
Source: PISA 2015

Young People as Consumers of Financial Products



Some 64% earn money from some type of work activity

Some 56% of 15-year-olds in participating OECD countries and economies have a bank account, 19% have a prepaid debit card



But fewer than one in three students have the skills to manage a bank account

Source: PISA 2015

Making The Case for Financial Education

- PISA data reveal that **38%** of the variation in financial literacy is not explained by mathematics and reading skills
- On average, **84%** of students discuss money matters with their **parents** at least once a month. Students who do so tend to perform better in financial literacy
- A lot of the variation in financial literacy is explained by **socio-economic background** (parents' income and education)
- We start unequal when it comes to financial literacy and inequality will only grow
- How to provide equality of opportunities early in life?

Education Programs and Initiatives

at the Global Financial Literacy Excellence Center

Principles of Effective Financial Education Programs

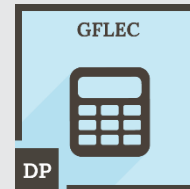
- **Tailored to audience**
 - One size does not fit all
 - Need for more targeted programs, particularly for vulnerable groups
- **Teacher training**
 - Start in school, widespread financial illiteracy requires robust interventions
- **Standalone and mandatory courses**
 - Need of large and scalable programs
 - Rigorous personal finance curricula



Overview of Our Education Programs and Initiatives

Besides research, GFLEC develops personal finance education material for schools and the workplace, and builds initiatives to advance financial literacy

- Financial Literacy Micro-Credentials
- College Personal Finance Course
- Financial Literacy Curriculum for Girl Rising
- International Federation of Finance Museums (IFFM)
- Workplace financial wellness programs



Concluding Remarks

Financial literacy is like reading and writing

- It is an essential skill for the 21st century
- As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today's society without being financially literate
- Everyone deals with finance, and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself

It is very important to be financially literate as early as possible

What is the future we want to build?

Thank you!

Questions?

GFLEC

GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

(202) 994-7148 | gfilec@gwu.edu | www.gfilec.org