Financial Literacy and Financial Fragility among Millennials
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Financial Literacy and Financial Fragility

The Current Situation for Millennials
Financial Literacy Across Age

(% answering Big 3 questions correctly)

- 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

Source: 2015 NFCS
Financial Literacy among Millennials

Answers to 5 financial literacy questions

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

Source: 2015 NFCS; 23-35 year old
**Perceived versus Actual Financial Knowledge**

**Perceived Financial Knowledge**

How would you assess your overall financial knowledge?

- 1-very low: 1%
- 2: 1%
- 3: 5%
- 4: 15%
- 5: 36%
- 6: 24%
- 7-very high: 14%

**Actual Financial Knowledge**

Answers to 5 financial literacy questions

- Answered the first three correctly: 23%
- Answered 5 questions correctly: 7%

**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)

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

Source: 2015 NFCS; 23–35 year old
Millennials show high usage of Alternative Financial Services (AFS), such as payday loans, pawnshops, auto title loans, and rent-to-own products.

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

Source: 2015 NFCS; 23–35 year old
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.

Source: 2015 NFCS; 23–35 year old
Almost half of all Millennials have a student loan. Among those, almost half are concerned about repayment.

48%

Source: 2015 NFCS; 23–35 year old

% of Millennials with a student loan and concerned about repayment
The majority of those with students loans would make a change in their decision.

- 13% Don't know
- 30% Take the same action
- 57% Make a change

Source: 2015 NFCS; 23–35 year old
How strongly do you agree or disagree with the following statement?
"I have too much debt right now."

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree 5-7</td>
<td>51%</td>
</tr>
<tr>
<td>Neutral 4</td>
<td>14%</td>
</tr>
<tr>
<td>Disagree 1-3</td>
<td>34%</td>
</tr>
</tbody>
</table>

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

- 20% I am certain I could **not** come up with $2,000
- 16% I could probably **not** come up with $2,000
- 28% I could probably come up with $2,000
- 33% I am certain I could come up with $2,000
- 3% Don’t Know

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

Source: 2015 NFCS; 23–35 year old
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

% share of low performers & top performers

- B-S-J-G (China)*: 9 | 33
- Belgium (Flemish): 12 | 24
- Canadian provinces*: 13 | 22
- Russia: 11 | 11
- Netherlands: 19 | 17
- Australia: 20 | 15

Performance in financial literacy (mean score in PISA 2015)

- OECD average: 22 | 12
- United States: 22 | 10
- Poland: 20 | 8
- Italy: 20 | 6
- Spain: 25 | 6
- Lithuania: 32 | 4
- Slovak Republic: 35 | 6
- Chile: 38 | 3
- Peru: 48 | 1
- Brazil: 53 | 3

Source: OECD, PISA 2015 Database
Changes in student performance in the U.S.

Results from PISA 2012 & 2015

Percentage of Students

- **Level 5**: 9% (2012), 10% (2015)
- **Level 4**: 19% (2012), 19% (2015)
- **Level 3**: 27% (2012), 26% (2015)
- **Level 2**: 26% (2012), 23% (2015)
- **Level 1 or below**: 18% (2012), 22% (2015)

Source: PISA 2015
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
• 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
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?