Financial Education: Young People in the Digital Age

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Some Questions about the Young People in the Digital Age

1. How well-equipped are young people to deal with this new digital finance environment?

2. How financially literate are young people?

3. Does fin-tech help the younger generations improve their financial decisions?
The PISA Financial Literacy Assessment

Measuring Financial Literacy Among the Young

• PISA is the first large-scale international study to assess the financial literacy of 15-year-old students
• 18 countries participated in the 2012 Financial Literacy Assessment
• 15 countries participated in the 2015 Financial Literacy Assessment
• Russia participated in both the 2021 and 2015 Finlit Assessment

The countries/economies are:

2012: Australia, Belgium (Flemish Community), Shanghai-China, Colombia, Croatia, Czech Republic, Estonia, France, Israel, Italy, Latvia, New Zealand, Poland, Russia, Slovak Republic, Slovenia, Spain, and the United States

2015: Australia, Belgium (Flemish Community), Brazil, B-S-J-G (China), Chile, Canadian provinces, Italy, Lithuania, Netherlands, Peru, Poland, Russia, Slovak Republic, Spain, and the United States
• On average across OECD countries and economies, 22% of students do not have basic financial skills

• Only about 12% of students across participating OECD countries and economies are top performers, as they can tackle the most difficult tasks
Changes in financial literacy scores between 2012 and 2015 in percentage terms

PERCENTAGE CHANGE BETWEEN 2012 AND 2015 IN MEAN FINANCIAL LITERACY PERFORMANCE ADJUSTED FOR DEMOGRAPHIC CHANGES

- POLAND: -5.09%
- SLOVAK REPUBLIC: -4.71%
- AUSTRALIA: -4.55%
- SPAIN: -3.30%
- OECD AVERAGE-7: -2.20%
- BELGIUM: -0.92%
- UNITED STATES: -0.81%
- ITALY: 3.87%
- RUSSIA: 5.13%
**A Simple Measure of Financial Literacy: The Big Three**

1. “Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”
   - More than $102
   - Exactly $102
   - Less than $102
   - Don’t know
   - Refuse to answer

2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy…”
   - More than $102
   - Exactly $102
   - Less than $102
   - Don’t know
   - Refuse to answer

3. “Do you think the following statement is true or false? *Buying a single company stock usually provides a safer return than a stock mutual fund.*”
   - True
   - False
   - Don’t know
   - Refuse to answer
Financial Literacy Across Age
2015 US National Financial Capability Study

(% answering Big 3 questions correctly)

- Financial knowledge increases very slowly with age/cohort
- Less than 25% know 3 basic concept by age 35 even though many important decisions are made before that age
Two New Reports on Millennials’ Financial Literacy in the Digital Age

Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era
New Insights from the 2018 P-Fin Index

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Abstract:
The financial technology (fintech) sector is revolutionizing traditional financial practices, yet little information exists on users of these services. In this study, we examine, updated information from the 2015 National Financial Capability Study and the 2016 GFLEC Mobile Payment Survey to provide insights on the financial capability of American Millennials who use mobile payments. Using data from both surveys, we find key differences in financial capability between users and nonusers. Furthermore, we find that users of mobile payments are more likely to overdraw their checking accounts, use credit cards expensively, borrow through informal financial services, and withdraw from their retirement accounts. Even after we control for sociodemographic factors, results continue to show that mobile payment users are more likely to engage in behaviors that do not seem to fowl good financial management practices.
Compared to non-users, Millennials who use mobile payments are more likely to:

- occasionally overdraw their checking account (33% vs. 19%). This is an especially concerning practice because it often incurs in high penalty fees.
- pay fees on their credit cards in the past 12 months (58% vs. 45%)
- make withdrawals from their retirement account (37% vs. 9%)
- use alternative financial services such as pawnshops or payday loans (50% vs. 23%)

### Checking account management (in the past 12 months)

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<th>Users</th>
<th>Non-users</th>
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<tbody>
<tr>
<td>Overdraws checking account</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Overdraws checking account</td>
<td>33%</td>
<td>19%</td>
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*2016 GFLEC Mobile Payments Survey*

*2015 NFCS*
1st Report - Millennial Mobile Payment Users: A Look into their Personal Finances and Financial Behaviors

• Only 40% of Millennial mobile payments users are able to answer the big three financial literacy questions correctly.

• Those who use mobile payments are less likely to be financially literate.

• Respondents who use mobile payments and are financially literate are much less likely to engage in poor financial behaviors.

• Financial literacy and fintech are good complements, not substitutes.

![Bar chart showing financial literacy of mobile payment users](Source: 2016 GFLEC Mobile Payments Survey)
The new insights from the 2018 P-Fin Index demonstrate that:

- Millennials answered 44 percent of P-Fin Index questions correctly, compared to 50 percent of the US adult population.

- Financial literacy is lowest in the areas of comprehending risk and insuring.

- 80 percent of millennials use their smartphone for transactional purposes like paying bills and depositing checks.

- Almost 30 percent of millennials who use their smartphone to make mobile payments report overdrawing their checking account.
Those who use mobile payments are more likely to overdraw their checking account.

Fin-tech users with higher financial literacy are less likely to overdraw their checking account.

Final Thoughts

Financial literacy is like reading and writing

- 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 digital economy without being financially literate

Building human capital for the 21st century

- Everyone deals with finance and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself