

## NEWS RELEASE

**For Release: October 10, 2019**

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### New Research: Many U.S. Investors With Low Financial Literacy Levels Are Ill Equipped to Manage Personal Finances, Especially Investments

WASHINGTON – Many U.S. investors with “alarmingly low” levels of financial knowledge lack confidence in their ability to meet their financial goals, according to new research conducted by the FINRA Investor Education Foundation (FINRA Foundation) and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business.

“Investors are seeing a rapid evolution of the financial landscape, from the introduction of more complex financial products and instruments to a fundamental shift in the retirement system that places responsibility for saving and investing squarely on the shoulders of individual Americans,” said Gerri Walsh, President of the FINRA Foundation. “Fewer workers today have defined benefit pension plans and the rise of defined contribution plans, like 401Ks, require an understanding of financial markets and basic personal finance that many investors lack.”

The study titled, [New Evidence on the Financial Knowledge and Characteristics of Investors](#), examined nearly 15,000 Americans, aged 25 to 65, who were not retired or in school. Investors were categorized into two segments, *workplace-only investors* and *active investors*, though the study also included non-investors for comparison purposes.

Workplace-only investors had retirement accounts only through their employers, and did not have any other type of retirement accounts or any other financial investments in stocks, bonds, mutual funds or other securities. Active investors had private retirement accounts they had set up themselves and/or financial investments in stocks, bonds, mutual funds or other securities, though most also had accounts through their employer, as well.

Survey findings show significant differences between workplace-only investors and active investors that include:

- Workplace-only investors were more likely to include individuals who were divorced or separated, had lower incomes and less education, and were less likely to be self-employed. Women comprised 53% of workplace-only investor group compared to 38% of women among active investors.

- Knowledge of basic financial concepts across investor groups was alarmingly low, but workplace-only investors knew much less than active investors. When presented with financial literacy questions that measured understanding of interest rates, inflation and risk diversification—known as the Big Three rudimentary financial concepts—only 32% of workplace-only investors could answer the questions correctly, compared to 44% of active investors.
- Investors had significant difficulty answering questions connected to two areas of investment decision-making—asset pricing and risk diversification. Asset pricing measures the understanding of the relationship between interest rates and bond prices. Risk diversification measures whether investors understand that a single company stock is riskier than a stock mutual fund. Only 25% of workplace-only investors could correctly answer the asset pricing question, while 35% of active investors correctly answered this question. Moreover, the same pattern held for the risk diversification question, which was correctly answered by 46% of workplace-only investors and around 60% of active investors.
- The ability to make ends meet, debt, perceptions of financial well-being and the ability to withstand financial shocks are related to an investor's decision to invest in financial markets and to save for the long-term. Workplace-only investors were much more likely (49%) to have difficulties covering expenses and paying bills in a typical month compared to around one-third among active investors (38%). Further, the percentage of investors who spent more than their income in the year prior to the survey was 23% among workplace-only investors and 18% among active investors.
- Financial knowledge matters. Higher levels of financial knowledge was associated with participation in private retirement savings accounts and financial markets, even when controlled for risk preferences or confidence in one's ability to reach financial goals.
- Among workplace-only investors, 28% were offered financial education by a school or college or a workplace where the investor was employed. By contrast, 42% of active investors were offered financial education.

"Many investors, and especially those who are exposed to investment decisions solely through participation in an employer-sponsored retirement plan, lack financial literacy," says Annamaria Lusardi, Academic Director of GFLEC. "This is a problem that cannot be overlooked. Our findings signal a great need for targeted financial education programs that raise financial knowledge, particularly in the workplace. Workplace education could help prepare employees for the sort of financial decision making that they are required to make."

As the expansion of defined contribution retirement plans continues, researchers cited an increasing need for financial education, particularly through the workplace.

### **Global Financial Literacy Excellence Center**

The Global Financial Literacy Excellence Center (GFLEC) is dedicated to advancing research and solutions that open the door to universal financial literacy. In working toward that mission, GFLEC has positioned itself as the world's leading incubator for financial literacy research,

policy, and solutions. GFLEC launched in 2011 at the George Washington University School of Business in Washington, D.C. Since then, it has pioneered breakthrough tools to measure financial literacy, developed and advised on educational programs, and crafted policy guidelines aimed at advancing financial knowledge in the United States and around the world. For more information on GFLEC, visit [www.gflec.org](http://www.gflec.org).

### **FINRA Investor Education Foundation**

The FINRA Investor Education Foundation supports innovative research and educational projects that give underserved Americans the knowledge, skills and tools to make sound financial decisions throughout life. For more information about FINRA Foundation initiatives, visit [www.finrafoundation.org](http://www.finrafoundation.org).

### **About FINRA**

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit [www.finra.org](http://www.finra.org).

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