Financial Capability Assessment for Church Pension Group Members

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The Global Financial Literacy Excellence Center at the George Washington University School of Business

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The Global Financial Literacy Excellence Center (GFLEC)

- Founded in 2011 at The George Washington University School of Business by Prof. Annamaria Lusardi
- GFLEC is one of the leading research centers in financial literacy globally.

Core Activities

- We focus on groundbreaking research to advance financial literacy, with particular emphasis on financial education in schools, in the workplace, and in the community.
- Through our research and expertise, we seek to inform policy as well as develop and promote financial literacy programs around the world.
Some questions we all ask

How can I best prepare for emergency situations?
  • Precautionary savings

What will my work be tomorrow?
  • Investing in skills and education

Will my pension be enough?
  • Saving for the future

How can I grow my saving?
  • Investing and portfolio choice

How can I help others?
  • Children and parents
  • Caring for others and the environment

And much more…
Some questions we all ask

What will my work be tomorrow?
  • Investing in skills and education

Will my pension be enough?
  • Saving for the future

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How can I help others?
  • Children and parents
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And much more…

Are we prepared to make these decisions?
Data Methodology

When was the data collected?
- Between November and December 2018

What was the size of the sample?
- The sample included 1,053 individuals

What was asked in the survey?
- 38 questions:
  - Financial Literacy
  - Financial Situation
  - Money-Management Behavior

Who was the comparison group?
- 2015 and 2018 National Financial Capability Study (NFCS)
- Comparison group characteristics: Those who are at least 25 years old, hold bachelor or post graduate degrees, and are employed full-time or part-time.

What do we do with these findings?
- Inform program direction
- Update CPG curriculum
- Research findings can help raise awareness
Part 1

Measuring Financial Literacy
What are the Big Three?

Three financial literacy question that test the knowledge of fundamental financial concepts.
- Interest Rate
- Inflation
- Risk Diversification

What are the main findings?

- Financial illiteracy is widespread in the population
- Basic knowledge cannot be taken for granted, even in advanced economies
- Risk diversification is most difficult concept to grasp
- Vulnerable groups are less likely to answer correctly
- Similar patterns across countries
…of Americans could correctly answer the Big 3 in 2018

30%
Financial literacy across age

Percentage answering the Big 3 questions correctly

<table>
<thead>
<tr>
<th>Age/Cohort</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>13%</td>
</tr>
<tr>
<td>25-29</td>
<td>13%</td>
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<tr>
<td>30-34</td>
<td>18%</td>
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<tr>
<td>35-39</td>
<td>22%</td>
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<tr>
<td>40-44</td>
<td>29%</td>
</tr>
<tr>
<td>45-49</td>
<td>32%</td>
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<td>50-54</td>
<td>36%</td>
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<tr>
<td>55-59</td>
<td>38%</td>
</tr>
<tr>
<td>60-64</td>
<td>41%</td>
</tr>
<tr>
<td>65-69</td>
<td>45%</td>
</tr>
<tr>
<td>70-74</td>
<td>49%</td>
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<tr>
<td>75+</td>
<td>45%</td>
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</tbody>
</table>

Source: 2018 NFCS
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
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

87%
68% of the CPG members assess their overall financial knowledge as high or very high.
Big 3 correct: Younger vs. Older Clergy

- CPG:
  - Age 25-50: 73%
  - Age 50+: 77%

- NFCS:
  - Age 25-50: 43%
  - Age 50+: 63%
Big 3 correct: Women versus Men

- CPG: 77% (Men) vs. 74% (Women)
- NFCS: 58% (Men) vs. 37% (Women)
Single financial literacy questions answered correctly

<table>
<thead>
<tr>
<th>Topic</th>
<th>CPG</th>
<th>NFCS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>87%</td>
<td>82%</td>
</tr>
<tr>
<td>Inflation</td>
<td>85%</td>
<td>69%</td>
</tr>
<tr>
<td>Risk Diversification</td>
<td>82%</td>
<td>63%</td>
</tr>
<tr>
<td>Bond Pricing</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>Compound Interest Rate</td>
<td>54%</td>
<td>42%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>85%</td>
<td>83%</td>
</tr>
</tbody>
</table>
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 today
- Exactly the same as today
- Less than today
- Don’t know
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 today
- Exactly the same as today
- Less than today
- Don’t know

85%
Part 2

Financial Situation and Money Management
Financial fragility before the pandemic – 2020 P-Fin Index

33% Having difficulty making ends meet

31% Debt and debt payments prevent respondents from adequately addressing other financial priorities

27% Could not come up with $2,000 if an unexpected need arose within the next month

61% Never tried to figure out how much they need to save for retirement
Financial fragility over time

Averages hide large differences in the population

Source: 2009 TNS; 2012, 2015, & 2018 NFCS, 2019 P-Fin Index
Financial situation – Assets and Liabilities

85% Have savings account  Have credit card debt  38%
60% Owning a home  Have a mortgage  85%
53% Financial investments  Have student loans  21%
Satisfaction of clergy with current personal financial condition

“Overall, thinking of assets, debt and savings, how satisfied are you with your current personal financial condition?”
Overburdened with debt

20% feel to have too much debt right now

30% neither agree nor disagree to have too much debt right now

50% do not feel they have too much debt
Clergy members are more prepared for emergencies and display better savings practices. However, there is still room for improvement.
Expensive Short-Term Money Management

- Expensive credit card behavior: 37%
- Overdrawing checking account: 19%
- Use of alternative financial services: 20%

CPG vs. NFCS
Long-Term Money Management – Retirement Preparedness

“I worry about running out of money in retirement”

Agree, 25%

Disagree, 31%

Neither disagree nor agree, 44%
The link with financial literacy

Who is financially literate:

- is more likely to have precautionary savings
- is less likely to have too much debt
- is less likely to engage in expensive money management behavior
- Is more likely to plan and save for retirement
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
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

82%
Part 3

Financial Education
Among the CPG members, 85% reported being offered financial education through various providers.
Financial Education offered by CPG

- PFT/PFW: 69%
- CREDO: 17%
- CREDO and PFT/PFW: 8%
- Seminary Visit: 3%
- CREDO and Seminary Visit: 3%
- CREDO, PFT/PFW & Seminary Visit: 0%
Thank you!