The Power of Financial Literacy: Global Evidence

Annamaria Lusardi
University Professor, The George Washington University
Academic Director, GFLEC
Director, Italian Financial Education Committee

March 10, 2023
Topics I will cover

1. Financial literacy levels are low across the globe and inequality is growing

2. Financial literacy is linked to financial resilience and well-being

3. Financial literacy and the ecosystem
Global financial illiteracy: The world is flat

Source: GFLS 2014
S&P Global partnered with Gallup, GFLEC, and the World Bank to measure financial literacy in more than 140 countries.

We found that:

**Low financial literacy is widespread.**

Even in countries with well-developed financial markets and high GDP, financial literacy levels are low.
In most economies around the world, men have a better understanding of basic financial concepts than women.

Source: GFLS 2014
Vulnerable groups are the same across countries

Financial literacy is particularly low among
- young adults
- the elderly

and those with
- lower income
- lower education
The U.S. as an example

The TIAA Institute-GFLEC Personal Finance Index (P-Fin Index) is an annual barometer of knowledge and understanding which enables sound financial decision-making and effective management of personal finances.

Data collection started in 2017 and is collected every year.

The index is based on 28 questions.

On average, only 50% of these 28 questions are answered correctly, a failing grade!
Financial (il)literacy is holding steady: 2017-2022

% of P-Fin Index questions answered correctly

49% 50% 51% 52% 50% 50%
2017 2018 2019 2020 2021 2022

Even though financial news are consistently on the front page of newspapers, knowledge of basic financial concepts has not improved over time.

No learning overtime.

Little learning across age/cohorts

% of P-Fin questions answered correctly

<table>
<thead>
<tr>
<th>Age</th>
<th>% of P-Fin questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-27</td>
<td>43%</td>
</tr>
<tr>
<td>28-37</td>
<td>46%</td>
</tr>
<tr>
<td>38-47</td>
<td>48%</td>
</tr>
<tr>
<td>48-57</td>
<td>53%</td>
</tr>
<tr>
<td>58-67</td>
<td>53%</td>
</tr>
<tr>
<td>68-77</td>
<td>57%</td>
</tr>
<tr>
<td>78+</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: TIAA Institute-GFLEC Personal Finance Index (2022).
Growing inequality in financial literacy

% point change in P-Fin questions answered correctly, 2017 to 2022

- Males: +4
- Females: -3

- HH income:
  - <$25k: -4
  - $25k-$49k: -7
  - $50k-$99k: 0
  - $100k-plus: +1

- Employment:
  - Employed: +2
  - Retired: +2
  - Unemployed/disabled: -1

But some changes are promising

% point change in P-Fin questions answered correctly, 2017 to 2022

Age
- 18-29: +4
- 30-44: +5
- 45-59: -1
- 60-plus: -3

No financial education: -1
Financial education: +5

Who is financially literate:

- is more likely to make ends meet
- is more likely to cope with financial shocks
- is less likely to be debt-constrained
- is more likely to save and plan for retirement

These are indicators of financial resilience and ultimately well-being.
These are the issues we face

• Very low levels of financial literacy
  - Financial literacy should not be taken for granted, not even in advanced economies

• Financial illiteracy is widespread
  - Increasing knowledge and changing behavior requires more than small interventions

• Financial literacy increases only slowly with age/cohort
  - Learning by doing is not enough

• Large heterogeneity across demographic subpopulations
  - One size does not fit all
Financial literacy is like water in the ecosystem

- Financial literacy is an essential component
- It is the foundation (like water)
- Without financial literacy, the ecosystem does not flourish
A national strategy for financial literacy

• We need intervention at the aggregate level

• Financial education should be everywhere (where people are)

• A need to engage and coordinate all stakeholders

• Invest and pool resources: financial illiteracy is expensive
Some wide-reaching interventions

Large and scalable programs are needed to change the statistics

1. Financial education in school and college
2. Financial education in the workplace
3. Financial education in the local community (libraries, museums, theaters); e.g., a financial education office in city hall

A case for making financial education mandatory
Financial education affects financial knowledge and downstream behaviors

Tim Kaiser *, Annamaria Lusardi *, A., Lukas Menkhoff *, Carly Urban *

Abstract

We study the rapidly growing literature on the causal effects of financial education programs in a meta-analysis of 76 randomized experiments with a total sample size of over 160,000 individuals. Many of these experiments are published in top economics and finance journals. The evidence shows that financial education programs have, on average, positive causal treatment effects on financial knowledge and downstream financial behaviors. Treatment effects are economically meaningful in size, similar to those realized by educational interventions in other domains, and robust to accounting for publication bias in the literature. We also discuss the cost-effectiveness of financial education interventions.

https://gflec.org/metaanalysis/
Our study includes 76 randomized controlled trials from 33 countries with over 160,000 individuals across the lifespan.

New meta-analysis

Financial education works and it is also cost-effective.
The national strategy in Italy

• Our policy work is based on data and research

• In our second term, we have been focusing on vulnerable groups. A good way to recover from the pandemic

• This year, the focus is on small and medium-size firms

• Leapfrog using experience from other countries
Some of our initiatives

- A financial education portal (www.quellocheconta.gov.it), which provides rigorous and unbiased sources of information

- Yearly data collection

- Guidelines for financial education for young and adults

- Collaboration with national TV, radio, and newspapers

- Financial Literacy Month

- Financial education national campaigns
Some bold initiatives: Re-imagine the future

- Finland launched a challenge: they want to be the most financially literate country by 2030.

- In the US, many states are making financial education mandatory in school. Other countries (e.g., Portugal in 2018) have already done so.

How about

- Adding financial literacy to **national statistics**, such as reporting GDP or inflation.

- A financial literacy **target**? **Keep inflation low and financial literacy high!**
To summarize

• Very low levels of financial literacy
  - The world is changing fast, we need to catch up

• Vulnerable groups are the same all over the world
  - Promote equality
  - Re-image the future after the pandemic

• National strategies can help build an ecosystem for a more resilient society by promoting large and scalable interventions.
Looking ahead

Short definition of financial literacy:

A vision for the future

The question is:

Which future do we want to build?
Thank you!

For more info visit www.gflec.org.

Follow us on social media and stay informed.

If you have any questions, please send them to alusardi@gwu.edu.