

Why I Teach Personal Finance

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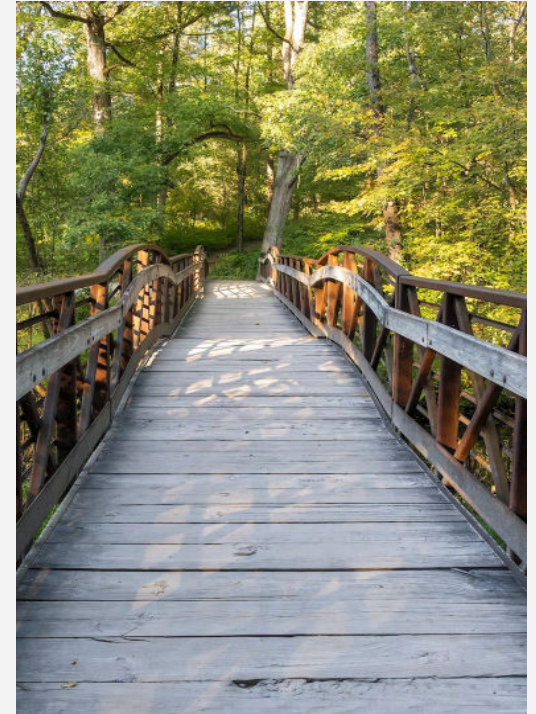
Director, Italian Financial Education Committee

April 28th, 2023

A journey in financial literacy

I spent twenty years doing research in the field of financial literacy.

Describing the journey



What we will discuss today

- Research in financial literacy
- Using research to design programs and influence policy
- Teaching Personal Finance
- Personal Finance for all

Why financial literacy?

- Changes in the pension system: people are now in charge of their pension
- Student loans: large increase over time
- Complexity of financial instruments, including new ones (crypto assets)
- Easy access to credit, buy now pay later
- Fintech, buy with a click
- Increase in risk

A number to get started

1/3

A number to get started

1/3

- How many people in the US know the ABCs of personal finance before age 50
- The proportion of “do not know” responses to many financial literacy questions
- How many people were financially fragile before the pandemic started

Financial literacy: The ABCs of personal finance

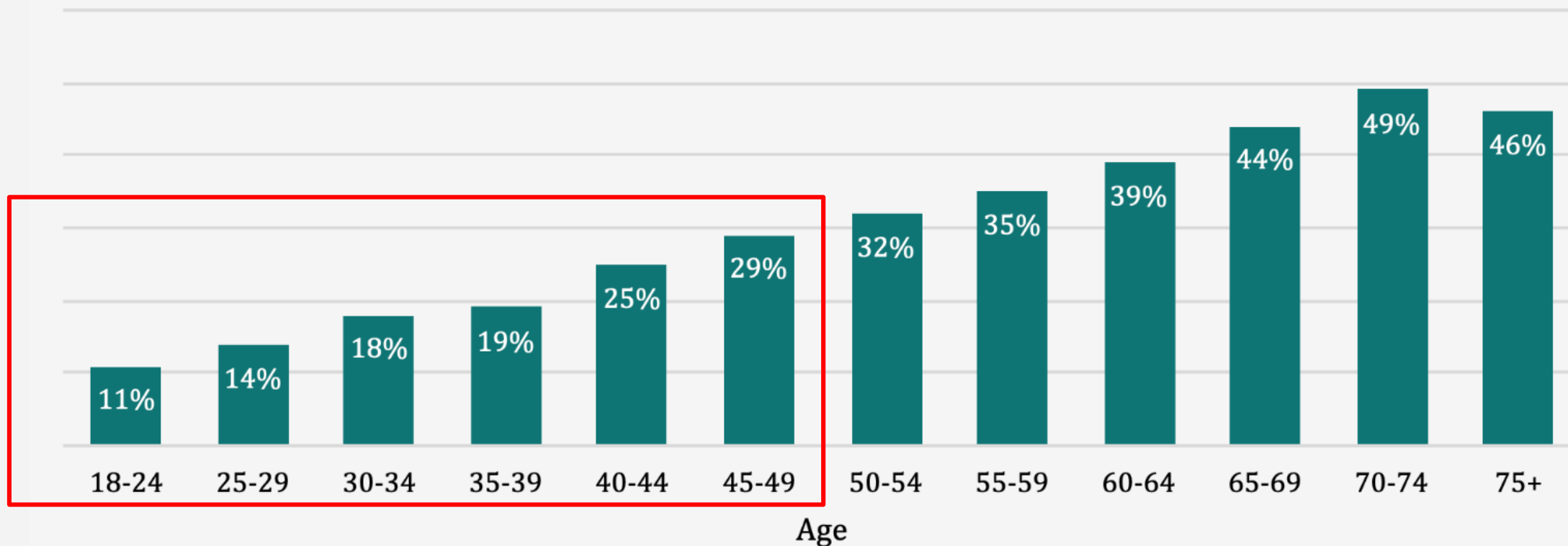
These are the questions I designed jointly with Olivia Mitchell, known as the “Big Three”.

The Big 3

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 today
 - ☐ Exactly the same as today
 - ☒ Less than today
 - ☐ 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 in America, by age

Percentage answering the Big 3 questions correctly



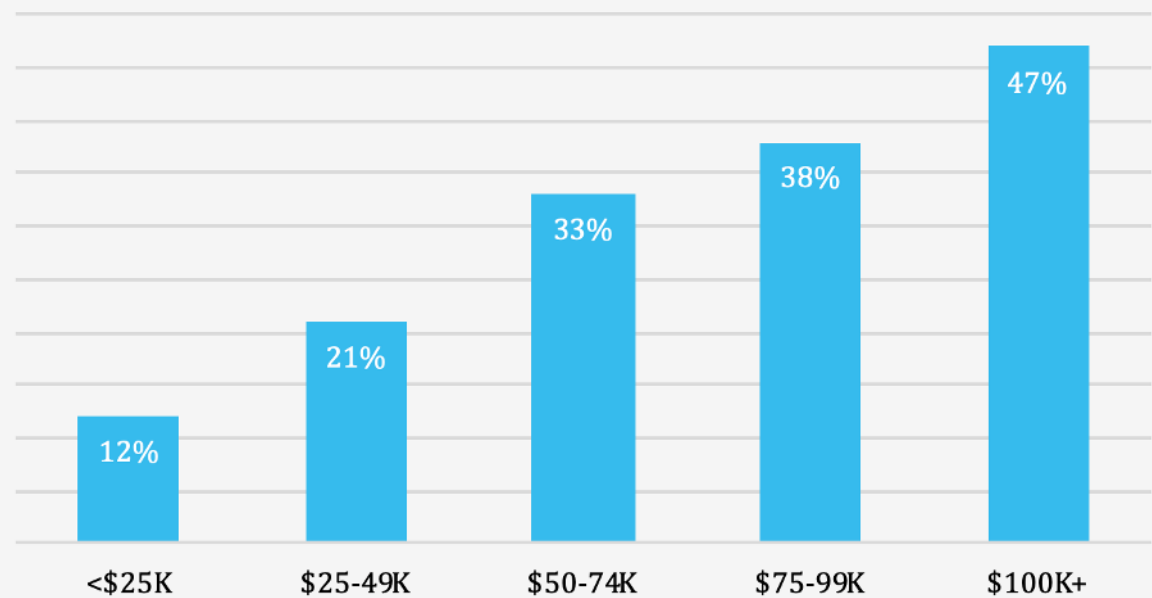
1/3 of Americans know these 3 basic concepts by age 50, even though many financial decisions are made well before that age.

Source: 2021 NFCS

Financial literacy by income and education

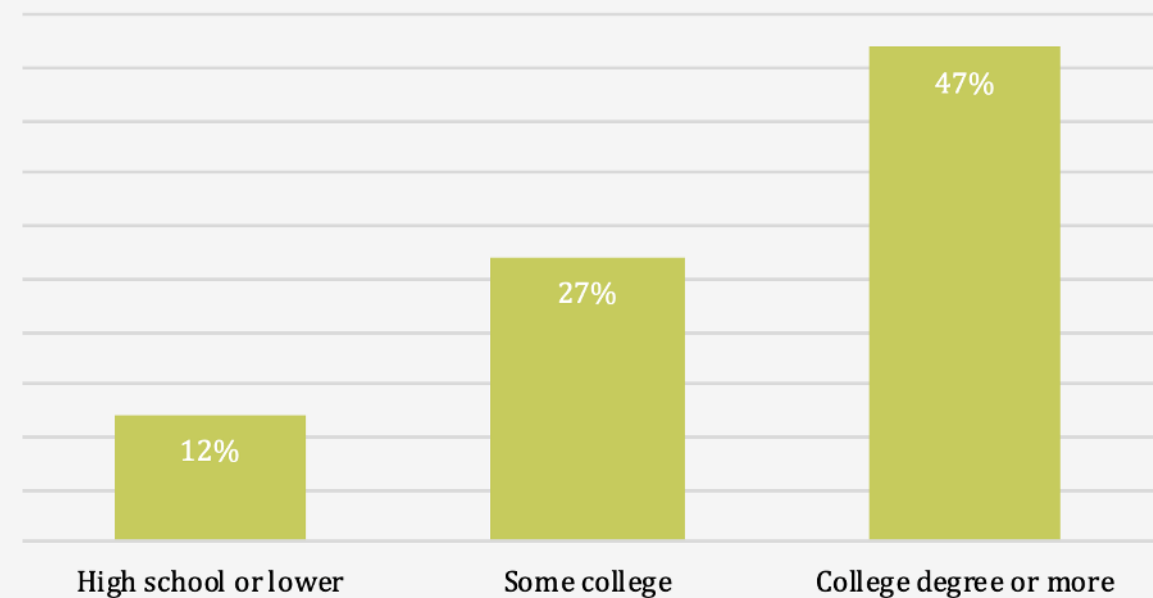
Financial literacy and income ...

Income



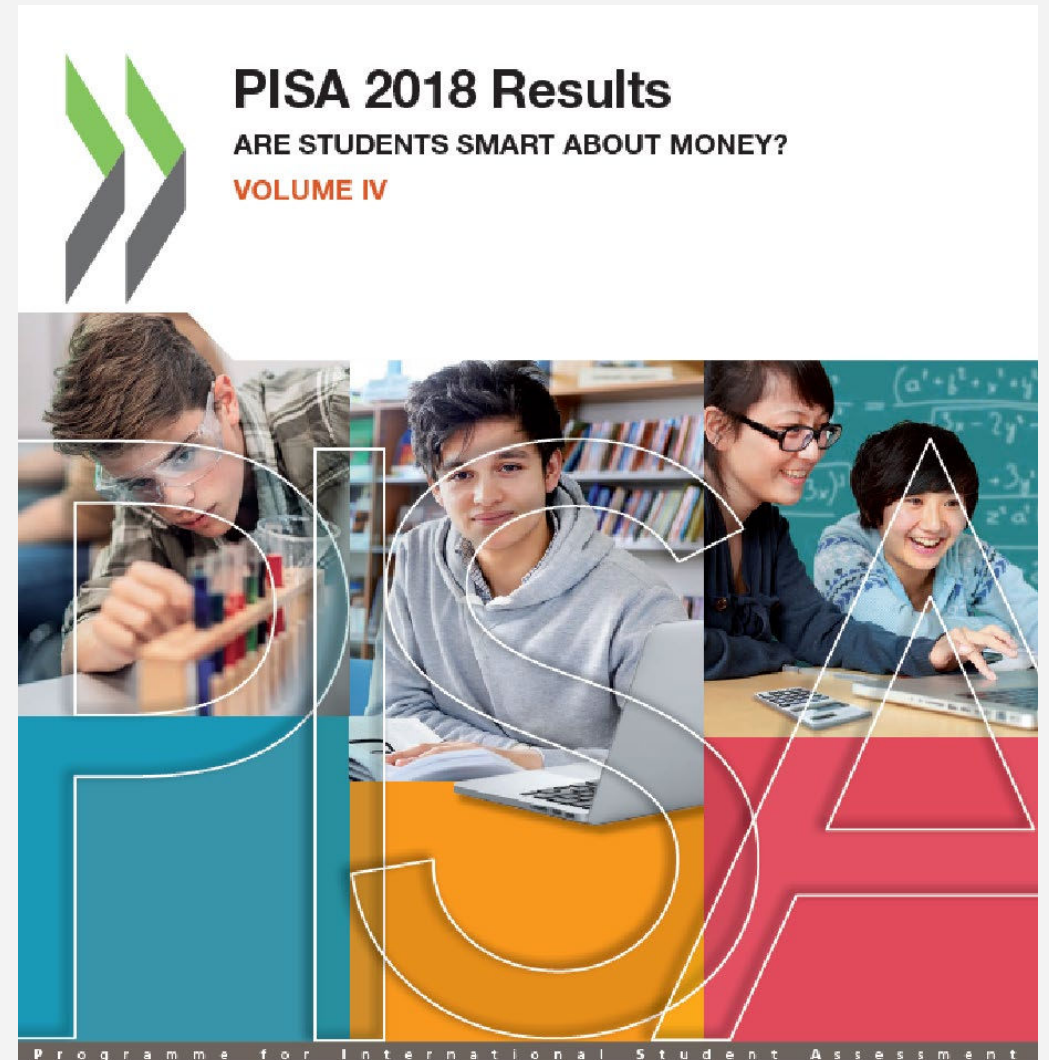
... and education .

Education









Financial literacy among 15-year-old students











Since 2000, every three years the **OECD Programme for International Student Assessment (PISA)** assesses to what extent students near the end of their compulsory education have acquired the knowledge and skills needed to fully participate in society.





2018 PISA Financial Literacy Scale

Average scores of 15-year-old students on the PISA financial literacy scale, by education system: 2018

Education system	Average score
OECD average	505
Estonia	547 
Finland	537 
Canada	532 
Poland	520 
Australia	511
 United States	506
Portugal	505
Latvia	501
Lithuania	498
<i>Russian Federation</i>	495 

Education system	Average score
Spain	492 
Slovak Republic	481 
Italy	476 
Chile	451 
<i>Serbia</i>	444 
<i>Bulgaria</i> ¹	432 
<i>Brazil</i> ¹	420 
<i>Peru</i> ¹	411 
<i>Georgia</i>	403 
<i>Indonesia</i>	388 

-  Average score is higher than U.S. average score at the .05 level of statistical significance.
-  Average score is lower than U.S. average score at the .05 level of statistical significance.

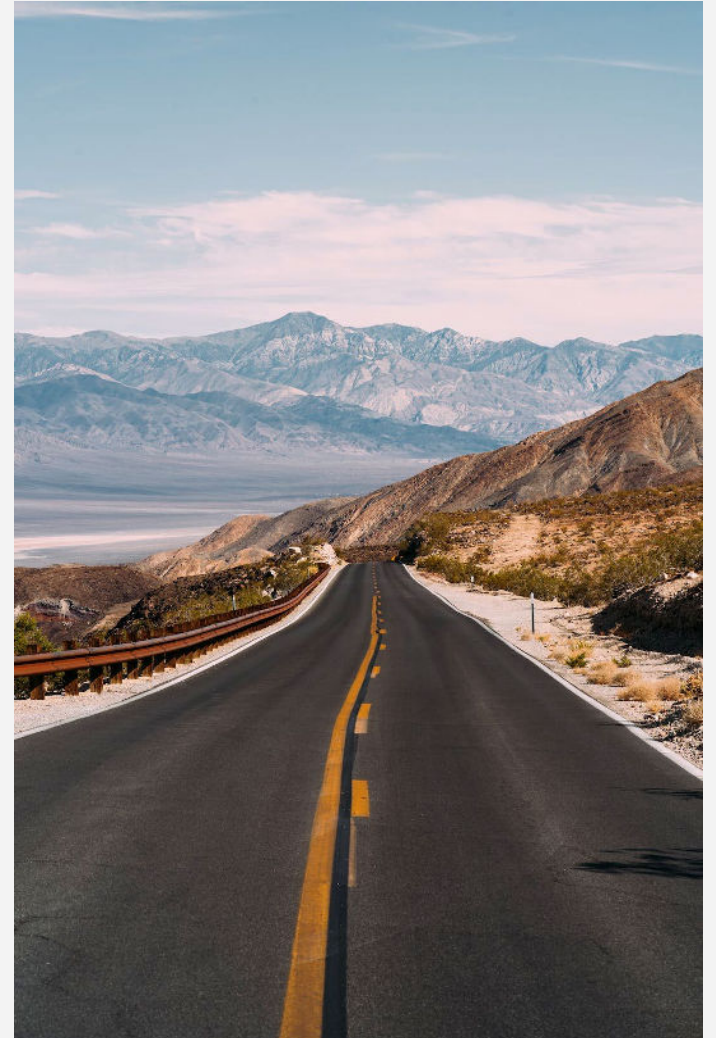
Who is less financially literate?

- Students from families with low income and educational attainment
- Those who do not have books at home
- Minorities

Differences in financial literacy start early.

Started a big project to focus on finlit and its effects

- Design an index of financial literacy and collected our own data
- Repeat over time
- Focus on areas of need
- Assess impact on financial wellbeing



Measuring personal finance knowledge

- The **TIAA Institute-GFLEC Personal Finance Index (*P-Fin Index*)** is an annual barometer of knowledge and understanding which enable sound financial decision-making and effective management of personal finances.
- The *P-Fin Index* relates to common financial situations that individuals encounter and can be viewed as a gauge of “working knowledge.”
- In addition to personal finance knowledge, it provides information on financial well-being indicators.
- Data is collected since 2016 on a representative sample of Americans (age 18+).



What is unique: 8 functional areas of personal finance

The index is based on responses to 28 questions, with three or four questions for each of the eight functional areas (from National Standards for Finlit).

The *P-Fin Index's* 28 questions cover eight functional areas:

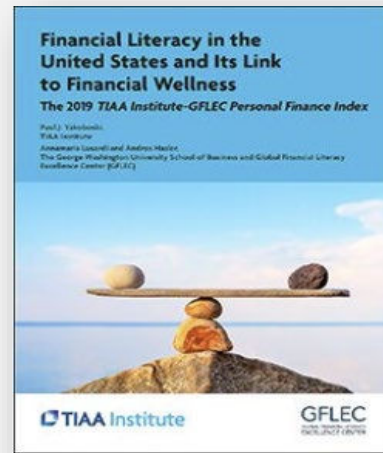
- | | |
|--------------|------------------------------|
| 1. Earning | 5. Borrowing |
| 2. Saving | 6. Insuring |
| 3. Consuming | 7. Comprehending risk |
| 4. Investing | 8. Go-to information sources |

Measuring personal finance knowledge with 28 questions: P-Fin Index

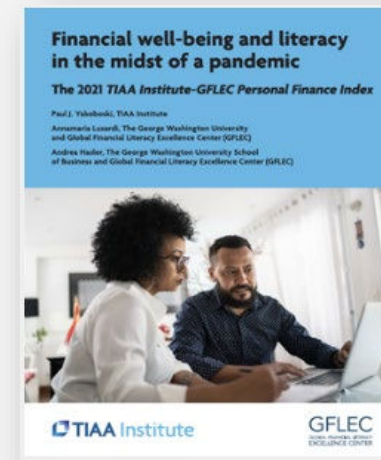
2017



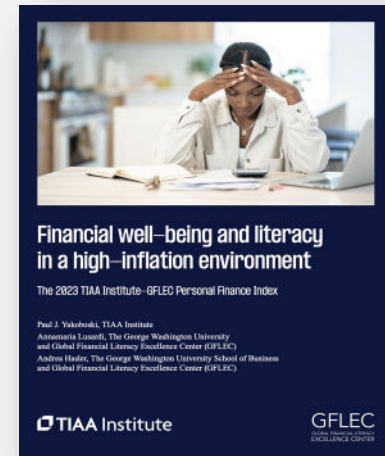
2019



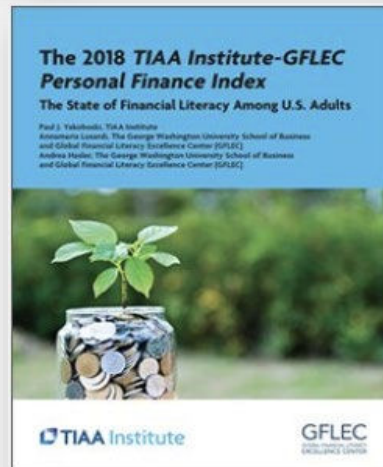
2021



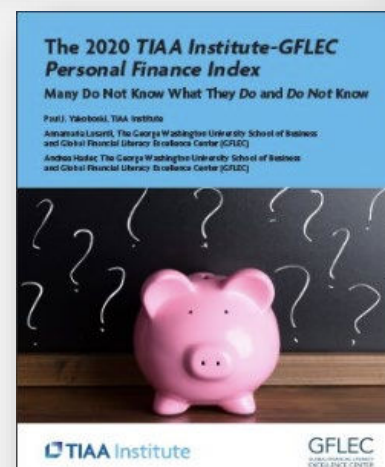
2023



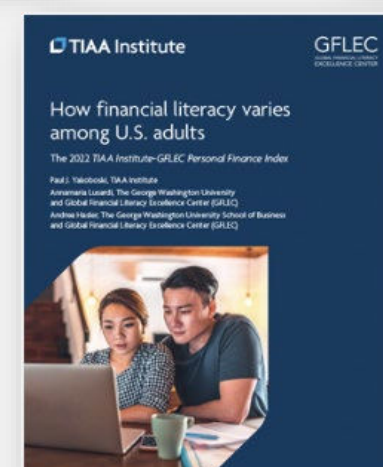
2018



2020



2022



Financial literacy in America: A failing grade

% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin Index questions

22-28 correct
(76%-100%)

16%

15-21 correct
(51%-75%)

33%

8-14 correct
(26%-50%)

26%

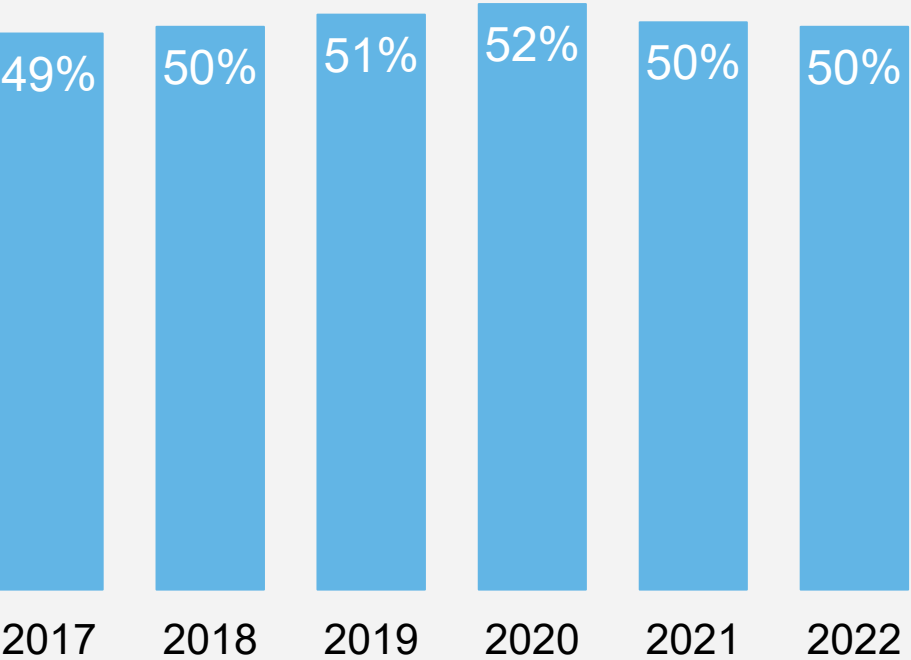
0-7 correct
(<26%)

25%

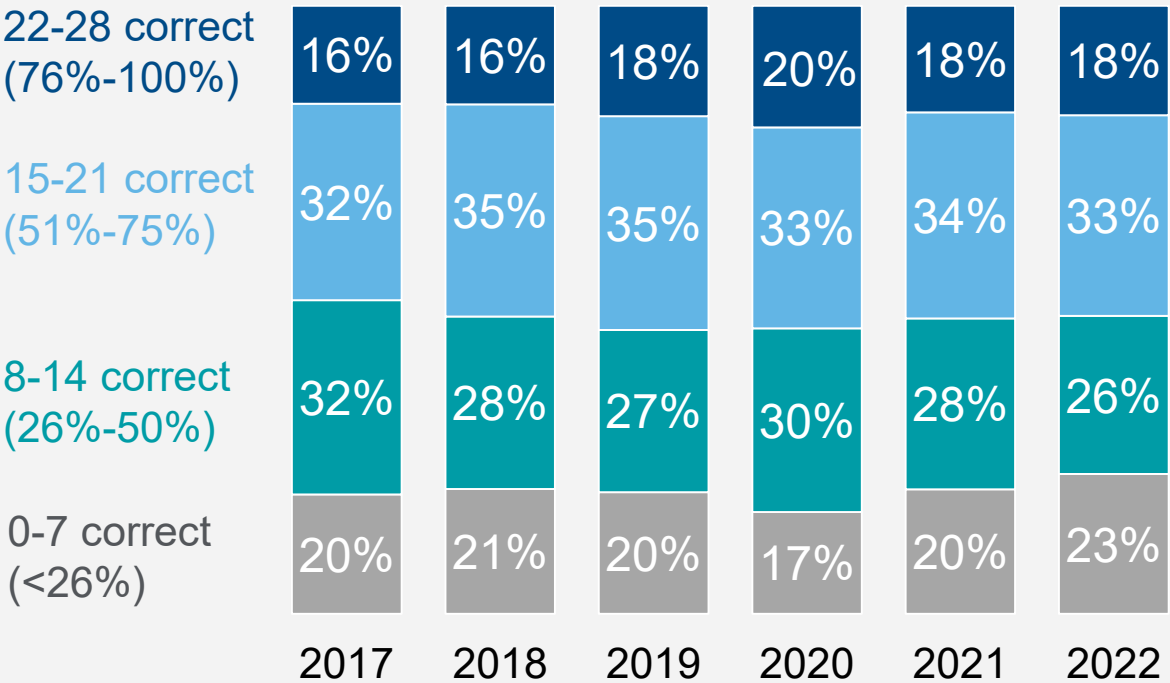


Financial (il)literacy is holding steady

% of P-Fin Index questions answered correctly



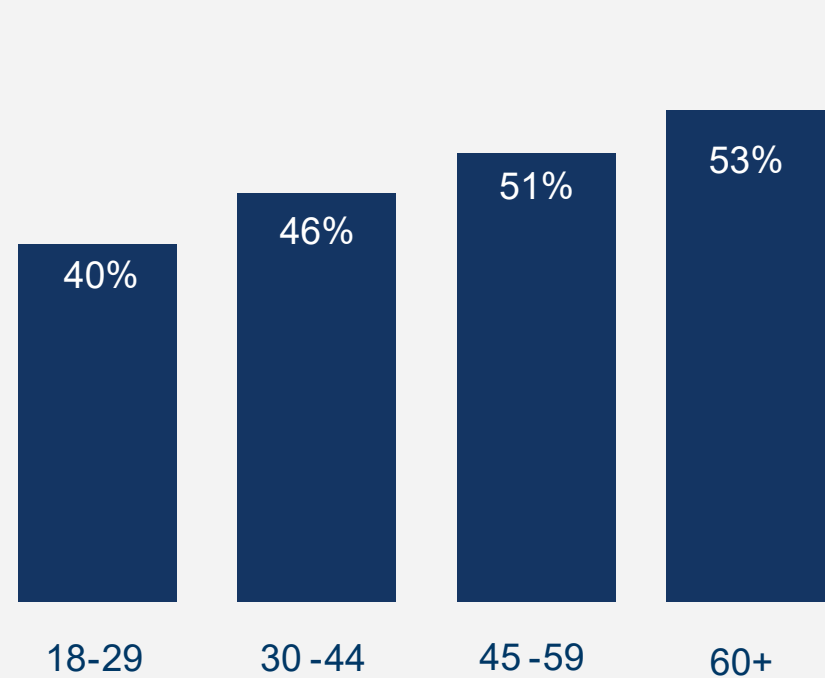
Distribution of correct answers to P-Fin questions



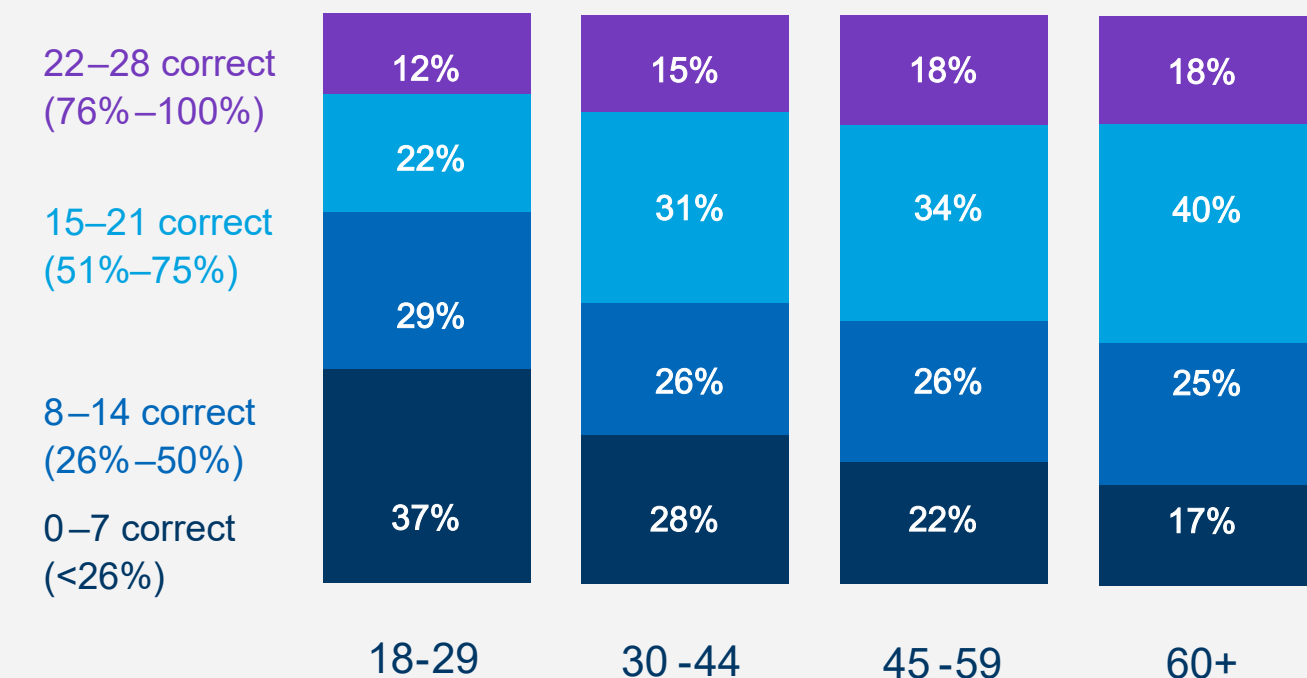
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2022).

Demographic variation: Age

% of P-Fin Index questions answered correctly



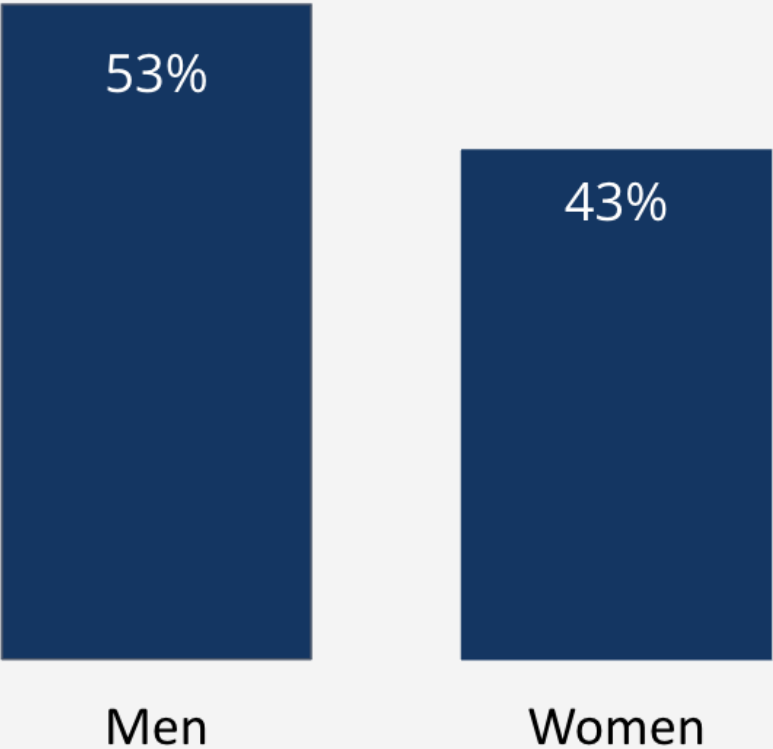
Distribution of correct answers to P-Fin Index questions



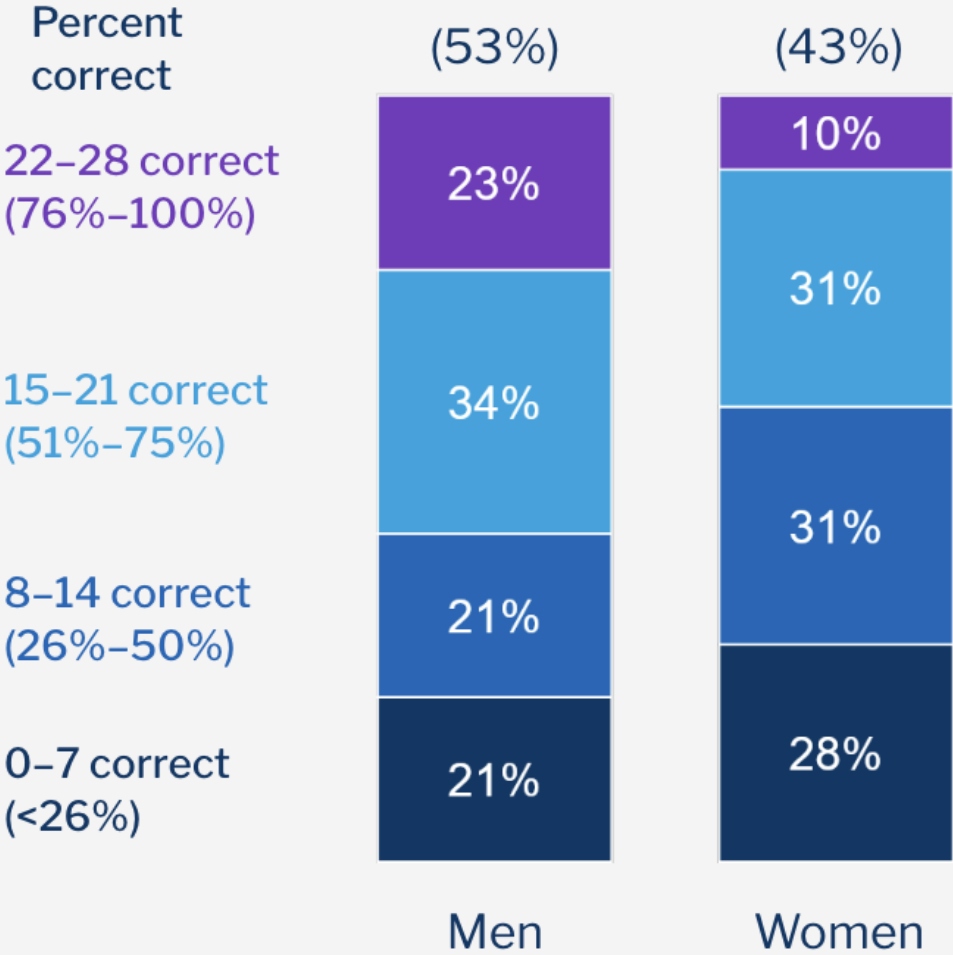
Source: TIAA Institute -GFLEC Personal Finance Index (2023).

Demographic variation: Women and knowledge

% of P-Fin Index questions answered correctly



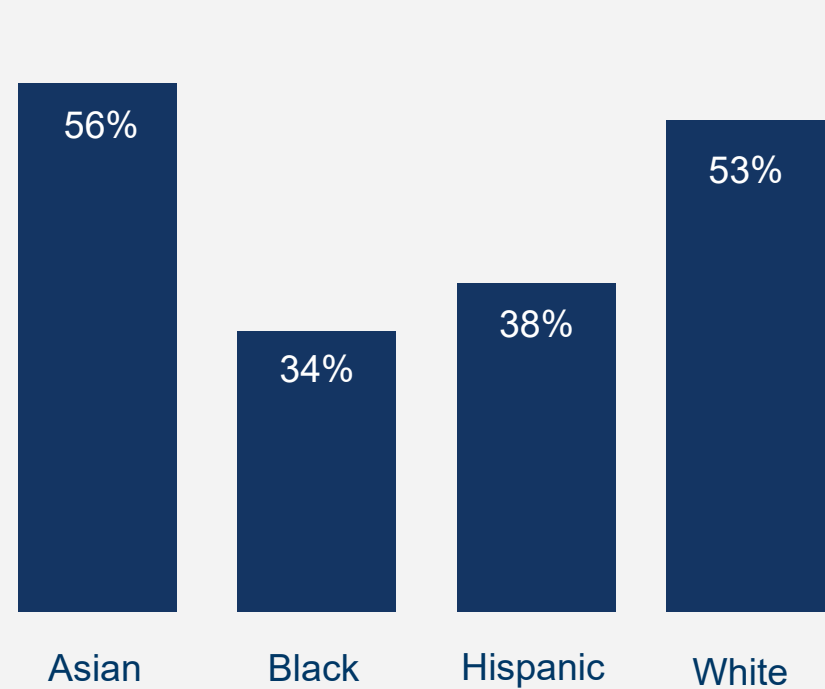
Distribution of correct answers to P-Fin questions



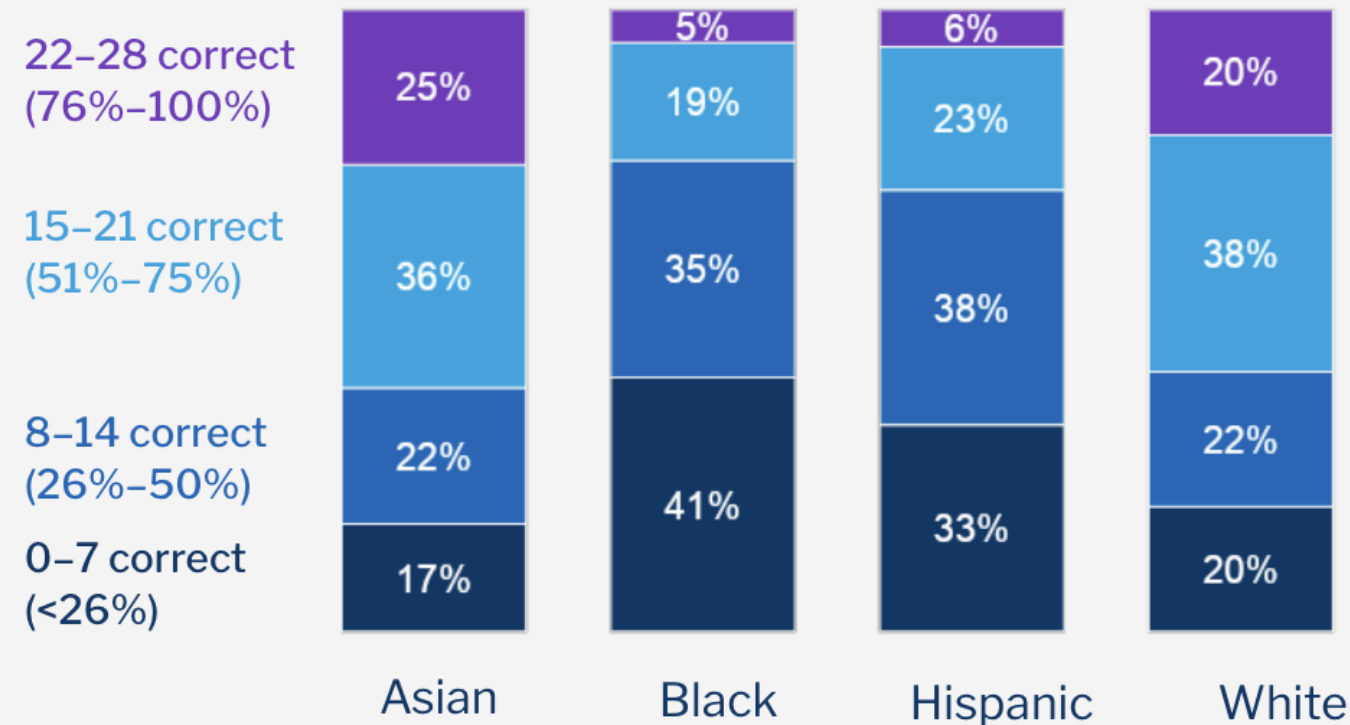
Source: TIAA Institute-GFLEC Personal Finance Index (2023).

Demographic variation: Racial/Ethnic groups

% of P-Fin Index questions answered correctly

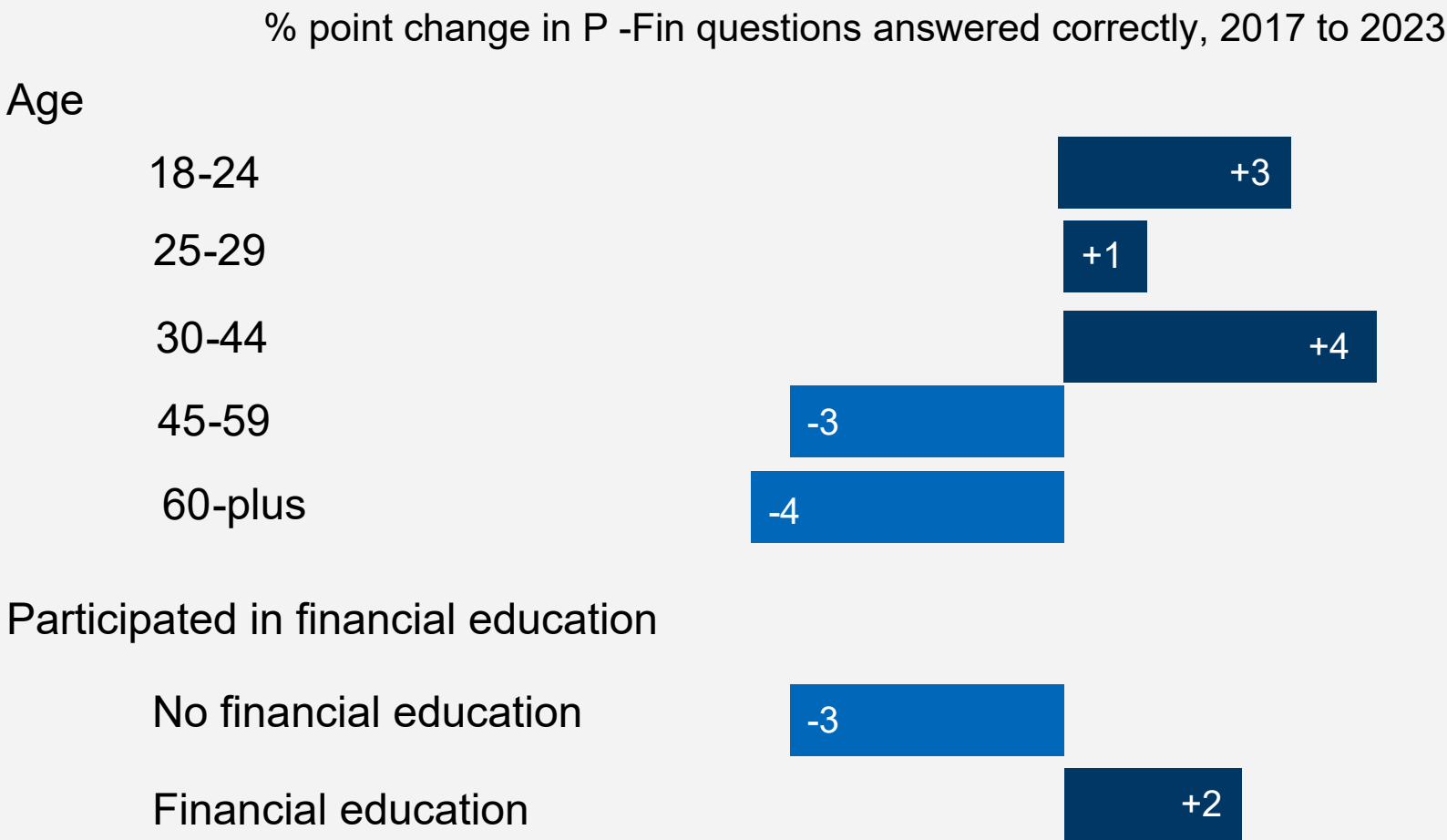


Distribution of correct answers to P-Fin Index questions



Source: TIAA Institute-GFLEC Personal Finance Index (2023).

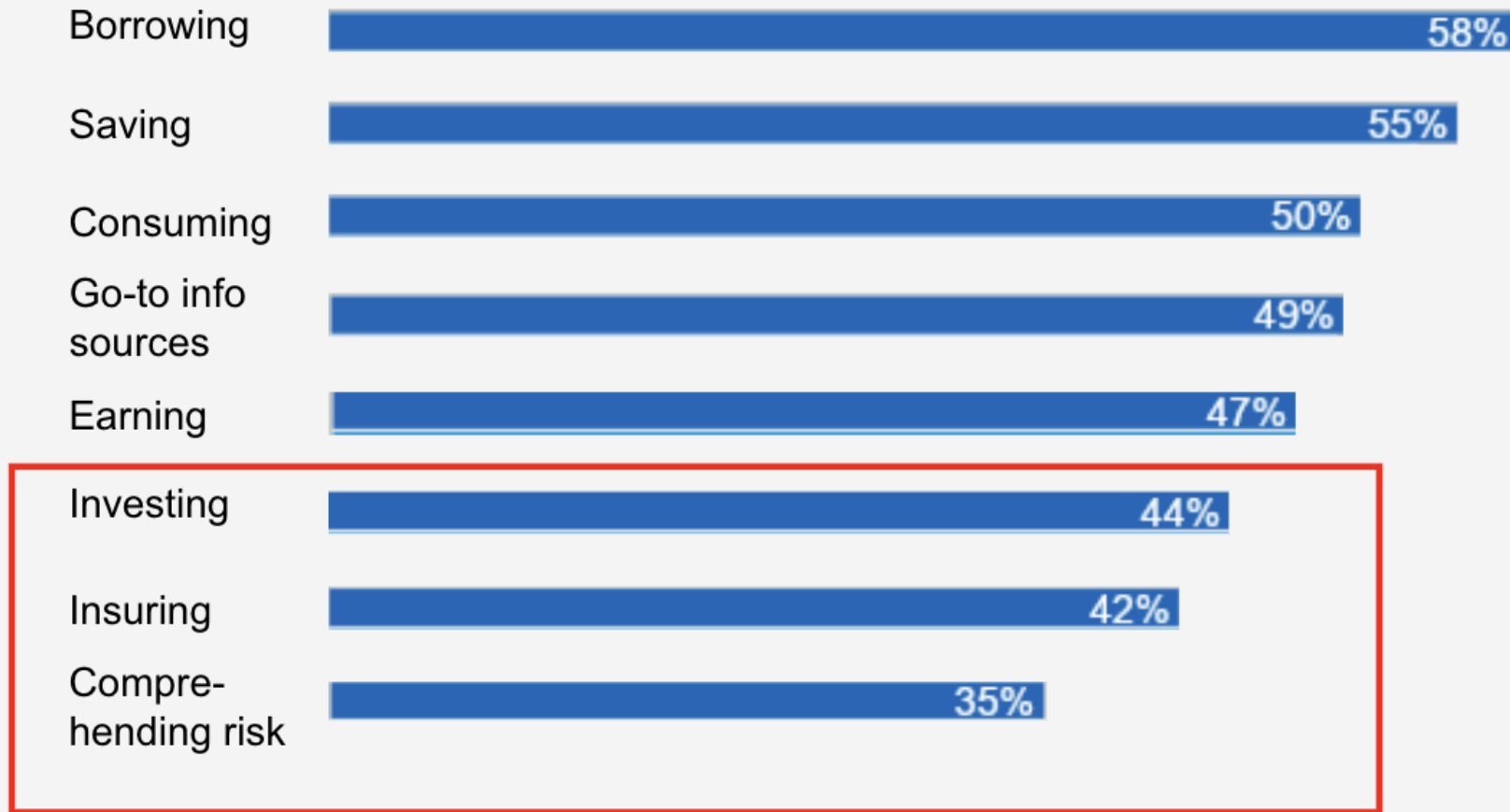
But some changes over time are promising



Source: TIAA Institute -GFLEOPersonal Finance Index (2017, 2023).

What do people know the most and the least

% of P-Fin questions answered correctly



“Calculated risk”?

Which of the following indicates the highest probability of getting a particular disease?

- There is a one-in-twenty chance of getting the disease
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don't know
- Refuse to answer

Results:	
Correct	28%
Incorrect	19%
Don't Know	53%
No Answer	0%

Source: TIAA Institute -GFLEC Personal Finance Index (2021).

The costs of financial illiteracy



Financial fragility in America

Long lines at the food banks at the start of the pandemic!

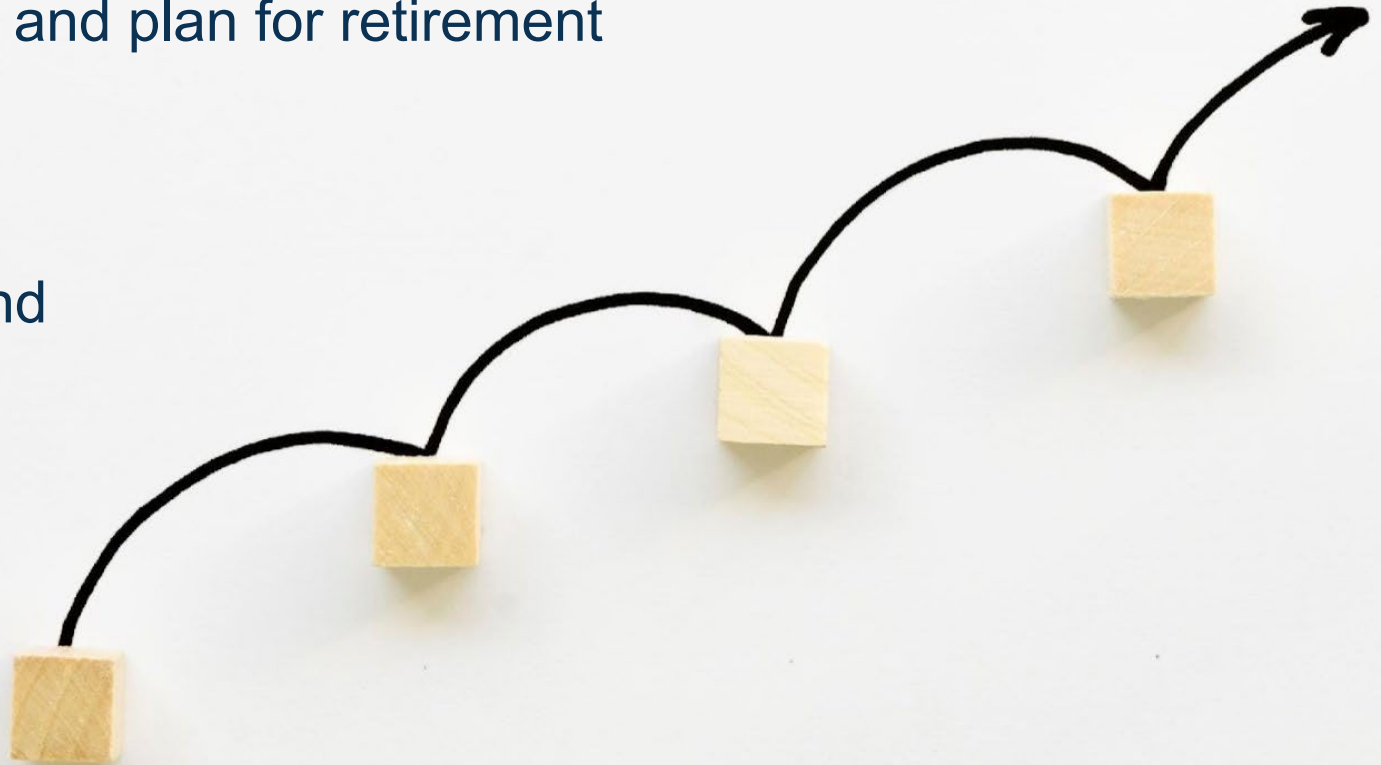


Financial literacy matters

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

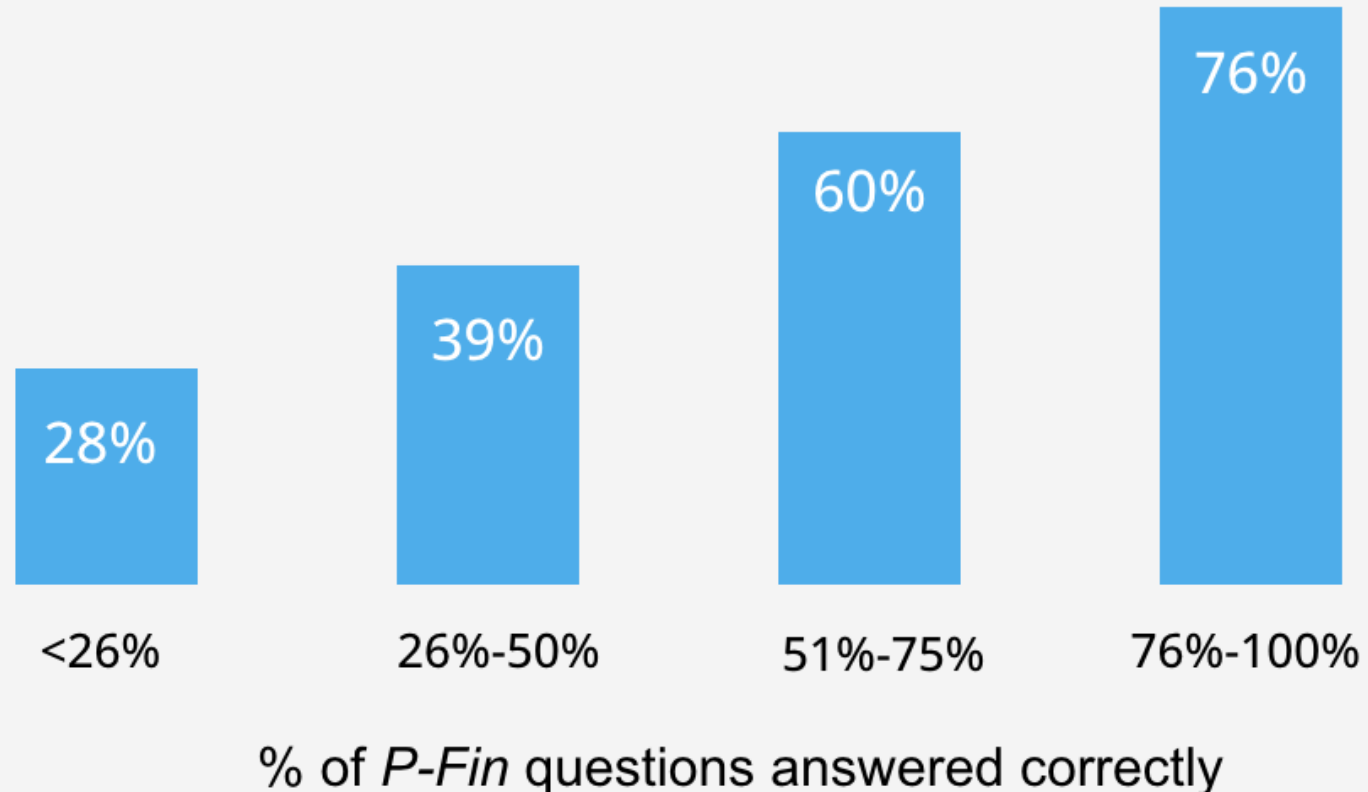
These are indicators of **financial resilience** and ultimately **well-being** .



Financial literacy and financial fragility

% who could certainly come up with \$2,000 if an unexpected need arose within the next month

Those with greater financial literacy are less likely to be financially fragile.

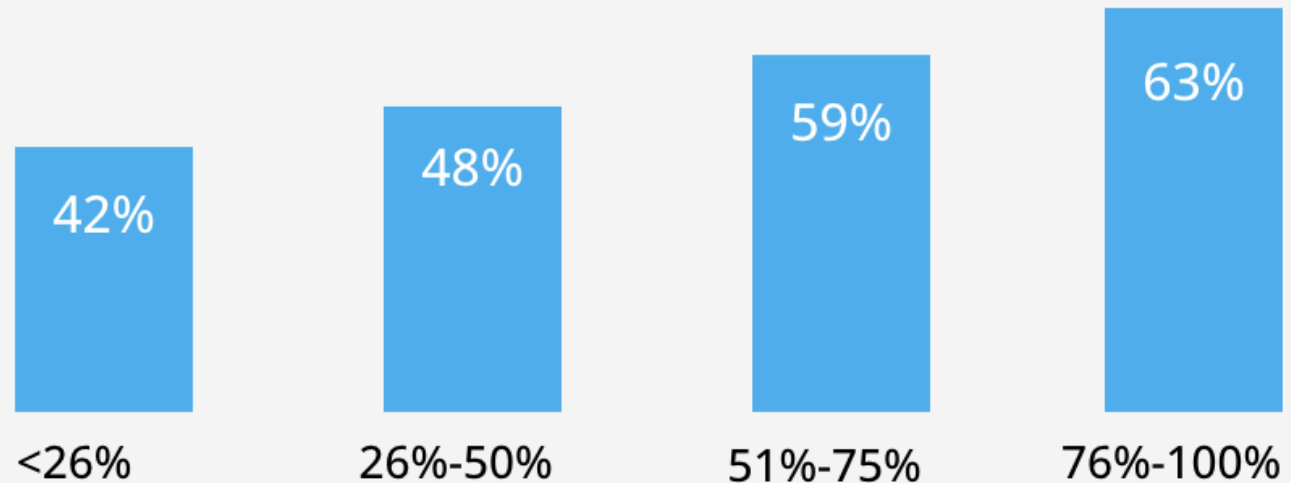


Source: TIAA
Institute -GFLEC
Personal Finance
Index (2023).

Financial literacy and being constrained by debt

% for whom debt and debt payments do not prevent adequately addressing other financial priorities

Those with greater financial literacy are less likely to be debt constrained.



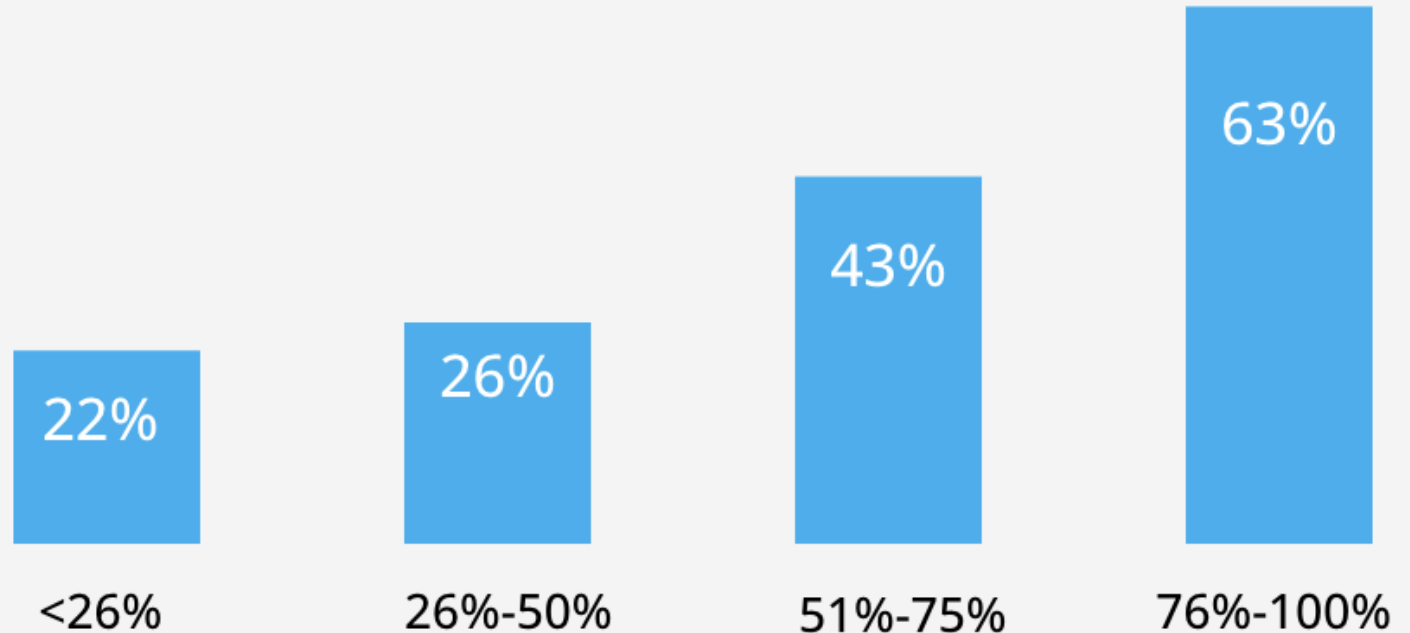
% of *P-Fin* questions answered correctly

Source: TIAA Institute -
GFLEC Personal
Finance Index (2023).

Financial literacy and planning for retirement

% who have planned for retirement

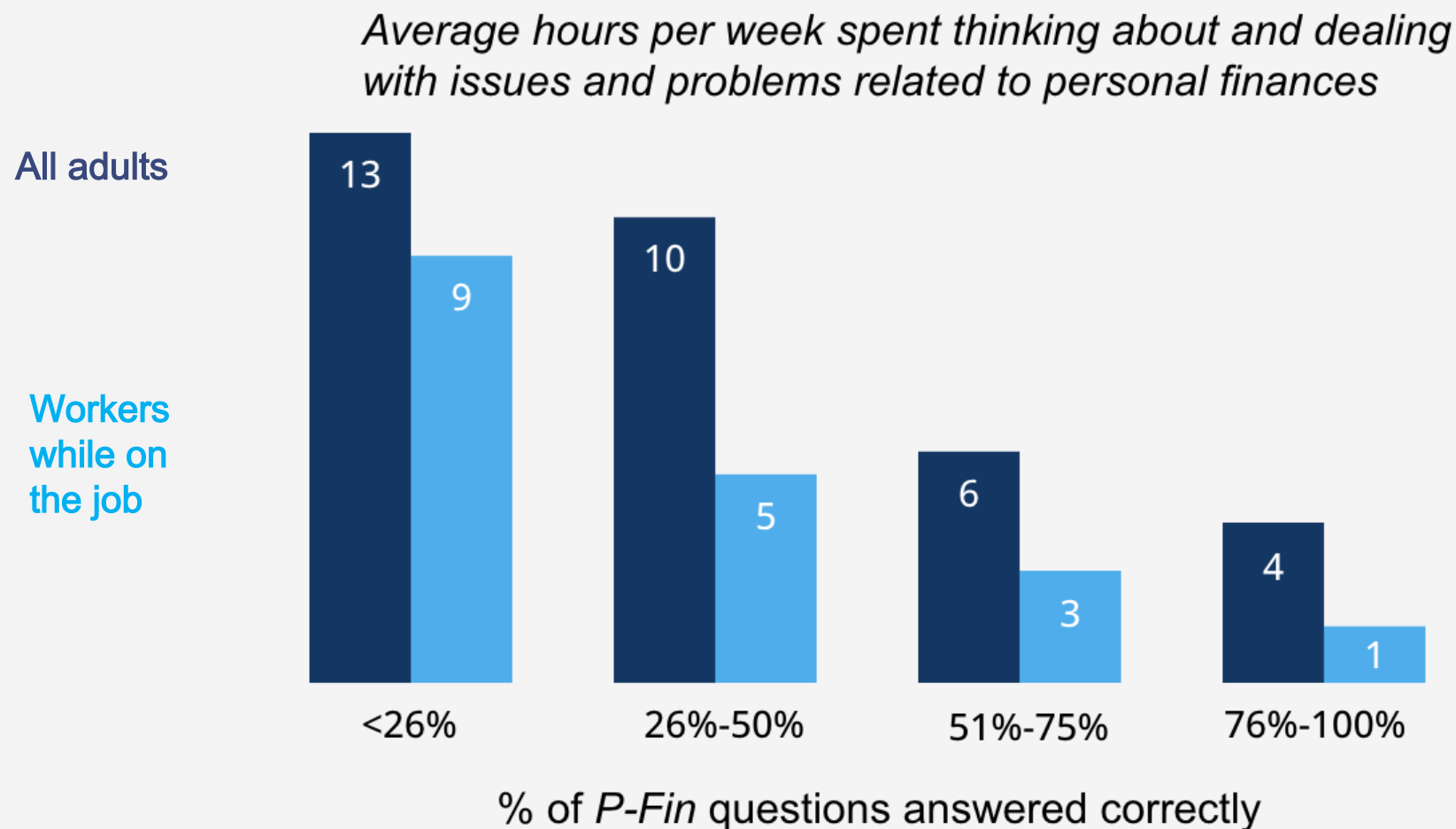
Those with greater financial literacy are more likely to save for retirement.



% of P-Fin questions answered correctly

Source: TIAA Institute -
GFLEC Personal Finance
Index (2023).

A simple measure of the cost of financial illiteracy



People spend an average of 8h per week thinking about and dealing with financial issues and problems. An average of 4h per week occur at work.

What we learn from data and research

- Very low levels of financial literacy
 - But the world is changing fast, we need to catch up
- Vulnerable groups
 - Promote equality
 - Re-image the future after the pandemic
- Large heterogeneity across demographic subpopulations
 - One size does not fit all

Interventions need to be far-reaching

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., financial education office in the city hall

A case for making financial education mandatory ?



GFLEC : another step in the journey



Putting research at work

GFLEC initiative: Fast Lane for fin edu in high school

- Provides research -based guidance and support for (1) students, (2) teachers, (3) school administrators, (4) parents/guardians, (5) policy makers, and (6) community members
- A resource center with tailored toolkits
- Making sure young people are on the fast lane to financial prosperity

[fastlane -education.org](https://fastlane-education.org)



Fin edu for college employees: the Dartmouth Project

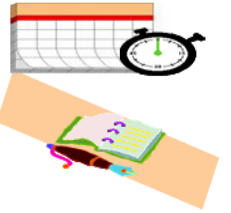
Dartmouth project:

- We designed a program that targeted individuals who wanted to save but were limited by a lack of knowledge.
- Development of a comprehensive, cost - effective plan to improve participation in and contribution to Supplementary Retirement Accounts (SRAs).
- Step-by-step planning aid. Reducing enrollment process into small manageable steps.

Published the results in a book (Lusardi, 2008)

We have outlined 7 simple steps to help you complete the application.

1. **Select a 30 minute time slot** right now to complete the online contribution to your Supplemental Retirement Account (SRA) during the next week.
2. **3 minutes. Check to see if you have the following materials:** a) worksheet in your benefits packet ☒, and b) the name and social security number of a beneficiary ☒.
3. **Select the amount you want to invest for 2006** (minimum: \$16/month, maximum: \$1,666.67/ month), even if you don't know your take-home pay in your first month. If you want, you can change this amount at a later date. This voluntary contribution is tax-deferred, you will not pay taxes on it until you withdraw the funds.
4. **5 minutes. Select a carrier.** if you do not select a carrier, Dartmouth will invest the non-voluntary portion of your college funds in a Fidelity Freedom Fund, a fund that automatically changes asset allocation as people age.
5. **5 minutes.** Now you are **ready to complete your worksheet.** Complete the worksheet even though you may be unsure of some options. You can change the options in the future.
6. **Take your completed worksheet to a computer** that is available for 20 minutes. If you like, you can use the one in the Human Resources office at 7 Lebanon Street, Suite 203.
7. **15-20 minutes. Log on to Flex Online and complete your online SRA registration** within the 20 assigned minutes. Be sure to click on the investment company (TIAA-CREF, Fidelity, or Calvert) to complete the application. You need to set up your account – otherwise your savings will not reach the carrier.



Fidelity.com

TIAA CREF Calvert



FlexOnline
With Smart Simple Fundamentals

Financial education for Millennials

Program :

- Covered 5 basic concepts for financial planning
 - Targeted to young workers
 - It is a story (narrative or video)
-
- We put together a team of researchers from different fields : Economics, psychology, and linguistics
 - We evaluated its effectiveness




“Five Steps to Planning Success. Experimental Evidence from U.S. Households”, Lusardi et al., Oxford Review of Economic Policy, Vol. 30, 4, 2014, pp 697–724

Fin edu for big firms: our research reaches the New York Stock Exchange

We built a toolkit for NYSE to promote financial education in the workplace



Workplace Financial Fitness Toolkit




The Employer Checklist

Ten key steps to financial fitness, divided into three stages and designed to help employees meet their financial goals.

[LEARN MORE](#)

The success of employee benefit programs depends on employee participation rates! Nearly four in five employees claim they would benefit from financial advice and answers to everyday questions. Improve employee participation rates, employee welfare and your company's bottom line by using our customizable employer and employee financial fitness toolkits.



THE BASICS

Automatic Enrollment

Participation soars when employees are automatically enrolled.

[MORE](#)

Automatic Escalation

Scheduled increases make the most of automatic enrollment.

[MORE](#)

Lifecycle Asset Allocation

Give employees the chance to grow their retirement savings.

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Curiosity

Register Your Classrooms Today for an Engaging Student Challenge

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Did You Know?



Bells were introduced on the NYSE when continuous trading was instituted in the 1870s. Originally a Chinese Gong was used, but brass bells have been used since the Exchange moved to its current location in 1903. Visit our history page to learn more fascinating facts. [MORE](#)

[Ask Our Experts a Question](#)



Museum of saving in Italy



A museum where to learn about money

A national strategy for financial literacy in Italy



I chair the Italian Committee for Financial Education in charge of designing a national strategy for financial literacy .

We built a financial education portal (www.quellocheconta.gov.it), which provides rigorous and unbiased sources of information .

We provide guidelines for financial education for young and adults .

We are evaluating our national campaign .

Mandatory financial education in school



- Italy just passed a law mandating financial education in school
- Mandatory financial education in schools could help alleviate inequality and the costs of mistakes.

By democratizing knowledge, we ensure that no one is left behind .

My best project: Personal Finance courses at GW!

- Started a Personal Finance course at GW in 2012
- I now teach both undergraduate and graduate students
- Based on data and research
- Take into consideration the large differences across students



Personal Finance courses at GW, cont.

- We start each class with a statistics from the P -Fin Index
- Encourage female students to participate in class
- Relevant case studies
- Require a project
- Discuss policy implications



The Minister of finance of Chile taught a class



Students have benefitted from the course

GW Alumna: 'I Paid My Student Loans off in Four Years'

A GWSB course in personal finance that helped graduate student Charlinda Sims figure out how to repay her student loans will be open to undergraduate students for the first time in the spring.

🕒 December 12, 2018



It's time to teach personal finance in every college/ university!



Personal Finance for all

Ten steps to financial freedom

1. Take care of your finances
2. Aim for an excellent credit score (your GPA for personal finance)
3. Build and keep a buffer stock of savings
4. Make good use of time
5. Invest in education
6. Invest in financial markets
7. Take advantage of your employer's benefits
8. Maximize tax benefits
9. Deal with inflation and plan accordingly
10. Manage risk

Take care of your finances

How:

- Dedicate time each week to your personal finances, even 10 -15 min will do
- Keep track of expenses
- Read about this topic, improve your financial literacy



Aim for an excellent credit score

Build a credit history and keep track of your score, it will save you a lot



Build and keep a buffer stock of savings

It is very important to have emergency savings

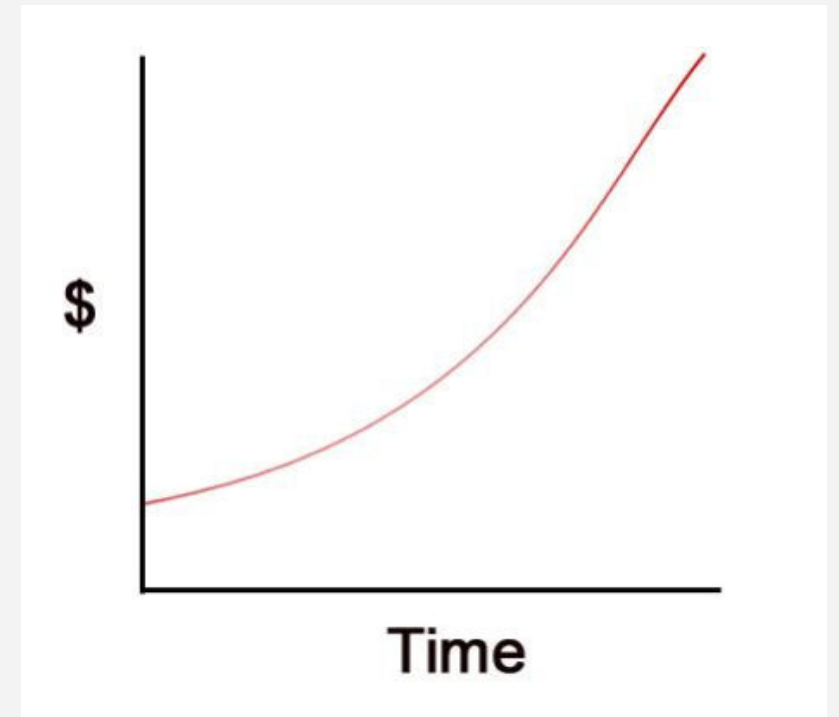
- Save small amounts regularly
- Rebuild the stock if you spend it out
- Avoid using debt or credit cards to deal with shocks
- Having \$2000 can go a long way to prevent financial stress



Make good use of time

All young people have a great resource: time

- Start saving as soon as possible
- Interest rates compound over time
- Time is money!



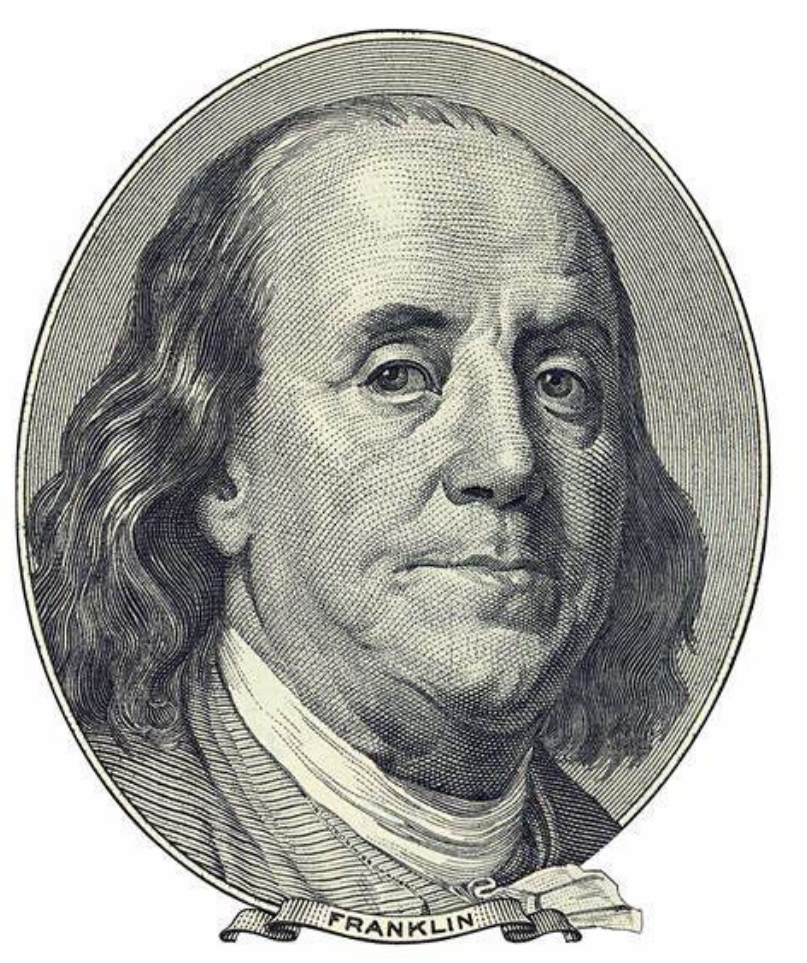
Invest in education

Invest in your talents and in financial knowledge

- Education has a good return, in particular in certain fields
- Many jobs of the future have not been invented yet, invest in skills that make you adaptable to changes



From one of the Founding Fathers



“An investment in knowledge pays the best interest”

- Benjamin Franklin

Invest in financial markets

Learn to invest

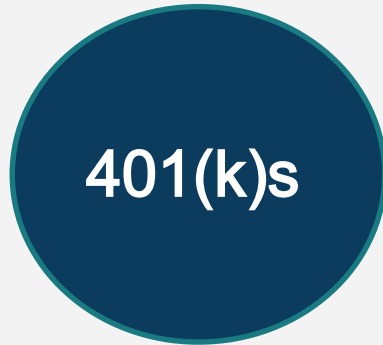
- Grow your wealth by investing in financial markets
- Diversified index funds are what academics recommend
 - Do not put all of your eggs in one basket
 - Pay attention to fees
 - There is no free lunch, higher return – higher risk



Take advantage of employer's and tax benefits

The government and employers can help you save

Employer -sponsored



Not employer -sponsored



These types of tax -advantaged retirement accounts can be:

Tax-deferred until withdrawal (**pre -tax Traditional contribution**)

Tax-exempt (after tax “Roth” contribution) retirement accounts grow tax-free.

More on employer's benefits

- An employer -sponsored retirement account, like a 401(k), can help you save more through the employer's match.
- Imagine that you are a single person earning \$50,000 a year and that your employer matches your contribution 100% up to 4% of your salary:

$$\text{\$50,000} \times .04 = \text{\$2,000}$$

Do not leave money on the table!



Deal with inflation and plan accordingly



- When prices go up, your wealth buys fewer goods
- It is important to grow your wealth faster than inflation, or you become poorer
- Keep track of your budget

Manage risk

- There are many events that can derail our journey
- Protect yourselves for rainy days and more
- Learn about insurance products



Main objective of personal finance

What is the objective of a Personal Finance course?



It is a happiness project!

The journey continues



But aim high!

Financial literacy is like the water in an ecosystem

Financial literacy is like water in an ecosystem

- One of many ingredients needed for one's financial life to flourish
- It is an essential component (i.e., the foundation), but people do not have enough of it



Living well

- Just as we ensure access to clean water to protect quality of life, we must provide people with the resources and skills needed to be more financially resilient, more financially secure, and less worried about their future .



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.