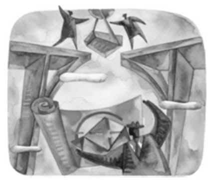
Financial Literacy and Retirement Security



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1

Questions:

- How do we measure financial literacy? Does financial literacy influence retirement preparedness and financial vulnerability?
- What do we know about heterogeneity in FinLit?
- What are the implications of FinLit gaps for work at older ages?
- For lower-income workers, is working longer more important than increasing retirement saving?
- What gaps in our knowledge or important questions that have not been answered, and if so, what are obstacles researchers face in trying to address these questions?

2

The “Big Three” FinLit Q’s *(Lusardi/Mitchell)*

Interest Rate: Let’s say you have $100 in a saving account paying 2% interest/year. How much would you have in the account at the end of 5 years?

<$102; =$102, >$102; DK; refuse

Inflation: 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*: > today, = today; < today*

Risk Diversification: True or false? Buying a single company stock usually provides a safer return than a stock mutual fund.

3

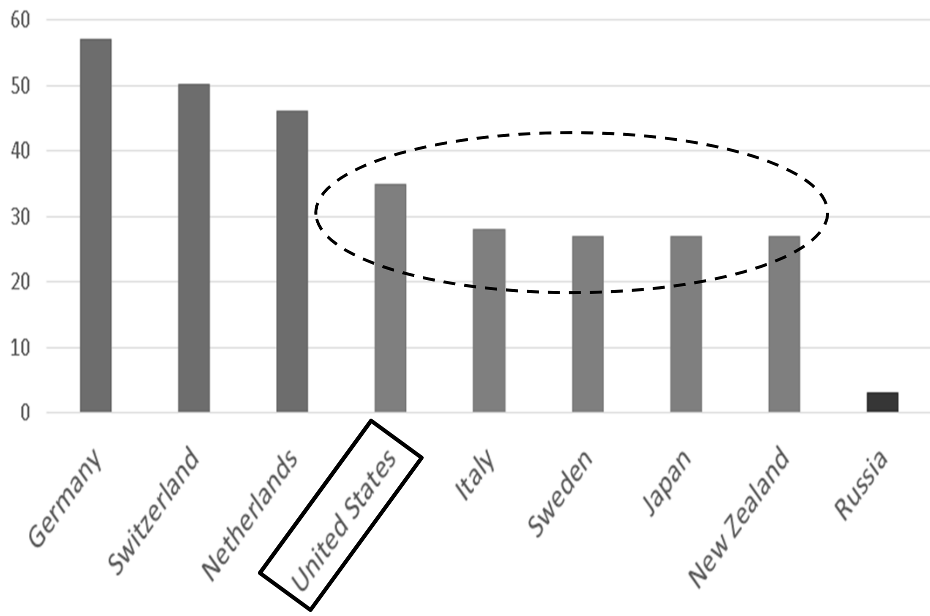
How much do Americans know? *(2009 FINRA, all ages)*

	Correct	*Incorrect*	*DK*	*Refuse*
Interest rate	65%	21%	13%	1%
Inflation	64%	20%	14%	2%
Risk diversif.	52%	13%	34%	1%

➔ Only 30% got all 3 questions right; < half (46%) got first two right.

➔ Older women (50+) scored worse on Q1+3: 62%, 71, 48

International Comparisons *(% correct)*



3 questions on Retirement Planning

Trying to plan

“Have you ever tried to figure out how much your household would need to save for retirement?”

Yes: 31%

Developing a plan

“Have you developed a plan for retirement saving?”

Yes: 20%

Sticking to the plan

“How often have you been able to stick to this plan? Would you say:”

Always/Mostly: 17%

What we learned:

- Those who plan for retirement accumulate ~20% more total net worth.
- Many fail to plan because they are financially illiterate.
- Financial literacy is lower among African Americans, Hispanics, women, and the least educated.
- The financially illiterate have more debt & fail to pay off credit cards more.
- They also don't understand longevity risk, so they claim Social Security benefits too young (end up with low benefits).

7

Who is Financially Vulnerable?

Two indicators in NFCS, women age 56-61:

- How confident are you that you could come up with $2,000 if an unexpected need arose within the next month? Vulnerable if probably/certainly not (33% in 2015)
- How strongly do you agree or disagree with the following statement: 'I have too much debt right now'? Too much debt if agree/strongly agree (36% in 2015)

➢ Controls:
  - Financial literacy
  - Age, marital status, gender, children, race and ethnicity, education, household income

  ➔ Financially less literate more vulnerable/more likely to say too much debt.
  ➔ More likely to be in debt.
  ➔ More likely to say must work past 65.

Causality: Does FinLit cause wealth or vice versa?

- We use econometric techniques to control on factors *affecting* financial literacy but are otherwise exogenous to wealth.
  - US : Exposure to FinLit at home, high school, and in the workplace; also changes in real estate values over time.
  - Chile: Exposure to school vouchers, pension marketing shifts.
- RCT field experiments have also been conducted.

Findings:

- Instrumenting *increases* positive impact of financial literacy on planning, wealth, and pension contributions.
- Many experiments show important positive impacts of financial education on financial literacy.
- Some evidence FinLit boosts returns on saving.

Remaining questions:

- Need careful cost-benefit analysis of FinLit programs tailored to specific audiences.
- Evaluate when advice can/cannot substitute for FinLit.
- Broaden the set of financial behaviors studied: student loans, investment in health, reverse mortgages, etc.

Thank you!

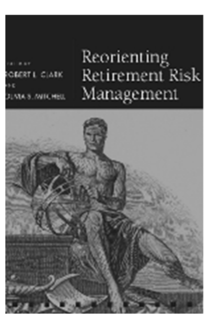
- *For more information:*

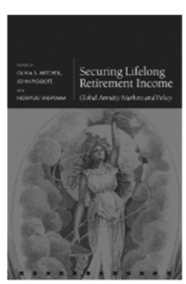
Wharton's Pension Research Council:

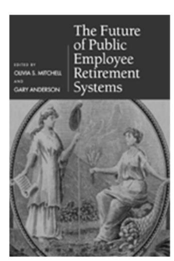
- http://www.pensionresearchcouncil.org/

Books and working papers:

- http://www.pensionresearchcouncil.org/publications/books.php







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