



Financial Literacy for the Greater Good

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The George Washington University School of Business and
GFLEC Italian Financial Education Committee

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Three topics

1 > **Financial literacy**

2 > **Personal finance**

3 > **How to use these findings to improve policy and programs**

Changing landscape for financial security/consumer choice

Changes in pension systems

- More individual and private accounts

Changes in financial markets

- Greater complexity
- More opportunities to borrow & in large amounts

Changes in labor markets

- Workers change job often
- Wage differential according to skills/education

Changes in education

- Higher cost of education
- Other reasons to plan and save for the future

Changes in technology (fintech)

- Money is invisible
- Apps for decision-making

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

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...



There is a lot at stake

Many financial decisions

- Financial decisions are interrelated

Building our future

- Looking ahead

Our financial well-being

- Not a single behavior, such as saving or borrowing

Building an ecosystem

We need many components

- Financial literacy is an essential one
- It is the foundation (like water)
- That is my focus today



To get started

Some numbers:

1/3

To get started

Some numbers:

1/3

- People who know the ABC of personal finance
- People who answer “do not know” to the question on risk diversification
- How many people in the US know the basics before age 50

Changing the statistics

These numbers are not our destiny

- Changing the statistics
- Building our future
- A new ecosystem

Topic 1

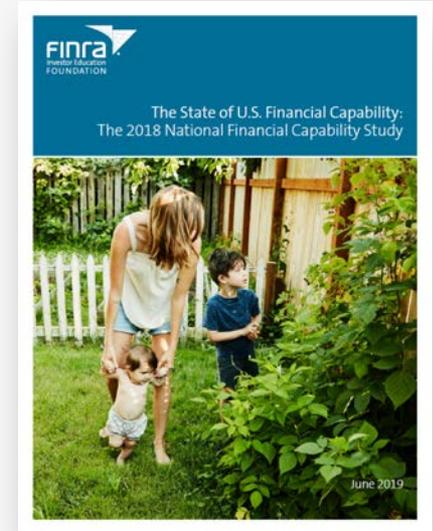
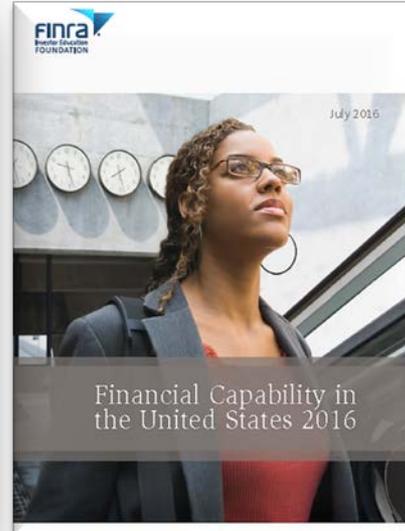
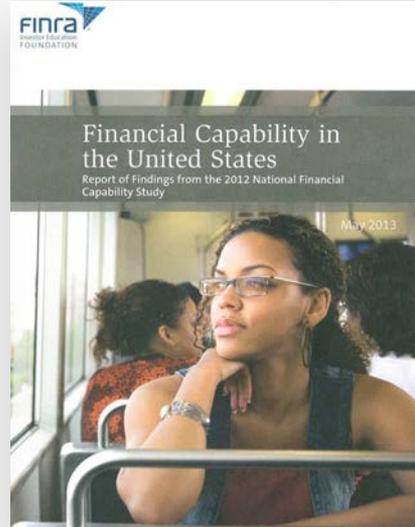
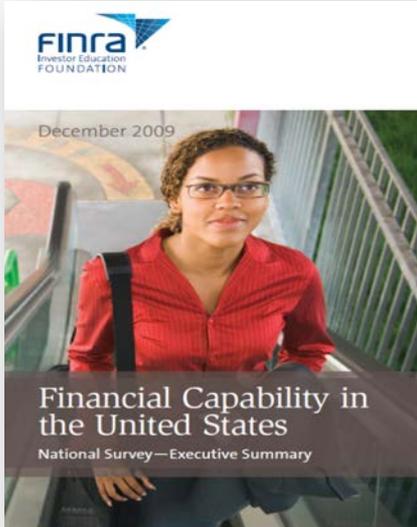
Financial literacy

Financial literacy: the ABC of personal finance

The Big Three

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**

Collecting data: The US National Financial Capability Study (NFCS), from 2009 to 2018



Financial Literacy around the World (FLat World)

Evidence from 15 countries:

- ❖ USA
- ❖ The Netherlands
- ❖ Germany
- ❖ Italy
- ❖ Russia
- ❖ Sweden
- ❖ New Zealand
- ❖ Japan
- ❖ Australia
- ❖ France
- ❖ Switzerland
- ❖ Romania
- ❖ Chile
- ❖ Canada
- ❖ Finland



How much do Americans know?

Distribution of responses across the U.S. population
(2009 National Financial Capability Study)

	Responses			
	<i>Correct</i>	<i>Incorrect</i>	<i>DK</i>	<i>Refuse</i>
Interest rate	65%	21%	13%	1%
Inflation	64%	20%	14%	2%
Risk diversif.	52%	13%	34%	1%

NB: Only **about 1/3** correctly answer all 3 questions. **About 1/3** does not know about risk.

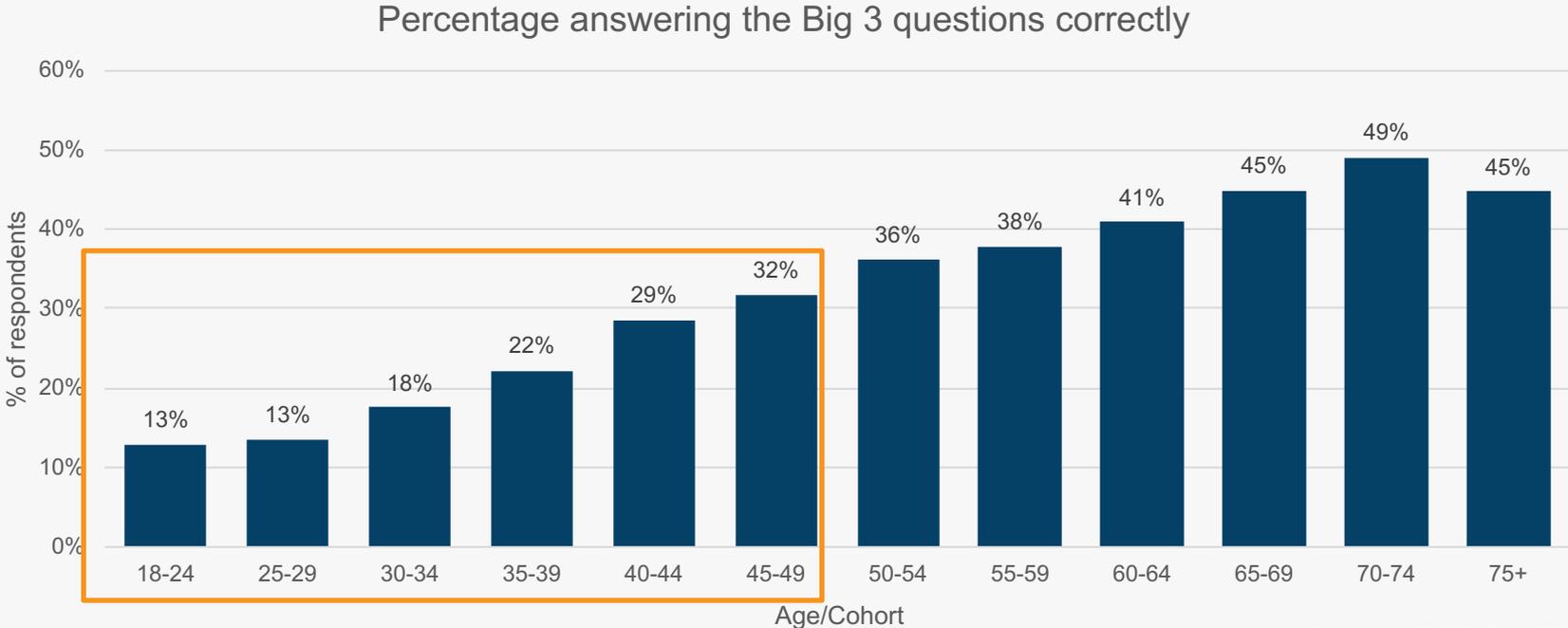
How much do Germans know?

Distribution of responses across the German population
(2009 SAVE)

	Responses		
	<i>Correct</i>	<i>Incorrect</i>	<i>DK</i>
Interest rate	82%	7%	11%
Inflation	78%	5%	17%
Risk diversif.	62%	6%	32%

NB: About half (53%) correctly answer all 3 questions; 72% got the first two questions right. **About 1/3** does not know about risk.

Financial literacy increases slowly with age/cohort



Source: US 2018 NFCS

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

About financial literacy

Some initial findings:

- The world is *flat*
- Only a minority knows the ABC
- This is true even in countries with well-developed financial markets

The S&P Global FinLit Survey

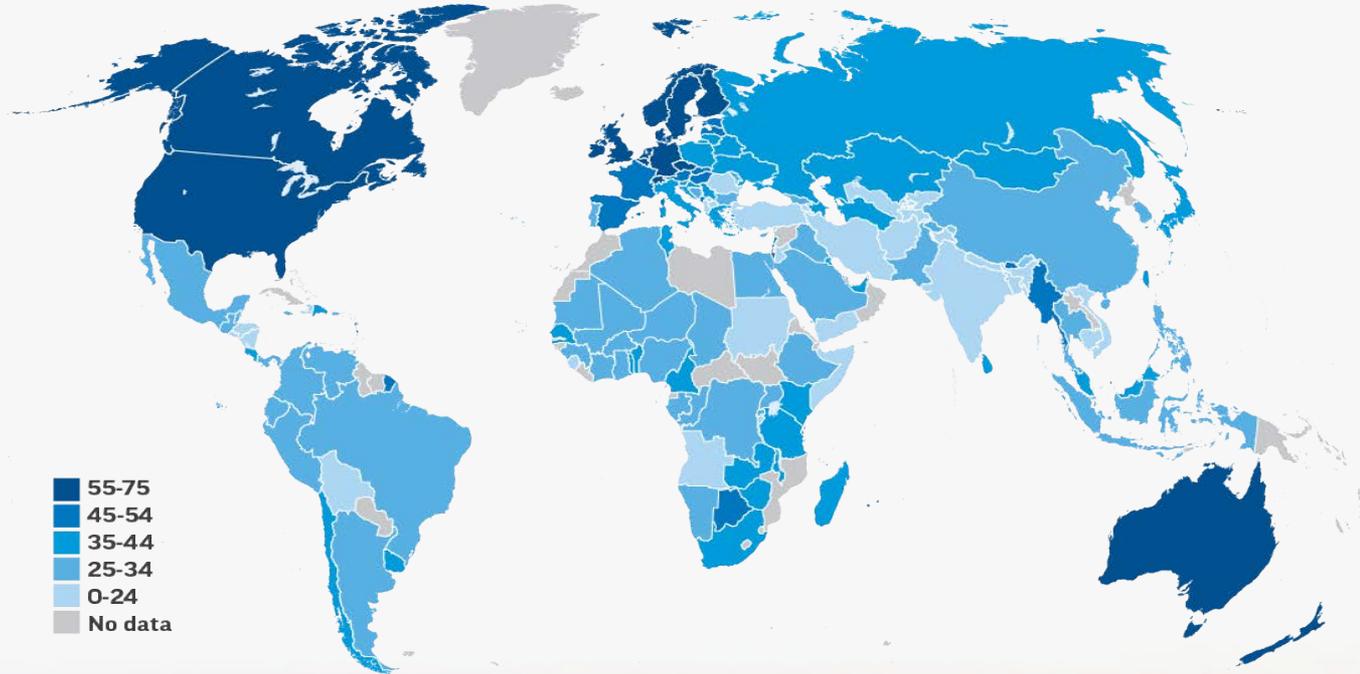
- The largest, most comprehensive, global measure of financial literacy
- Interviewed more than 150,000 adults age 15+ in more than 140 countries
- The measure has to be applicable to every country, irrespective of economic structure and financial market development
- The survey covers four topics:
 - Numeracy
 - Interest compounding
 - Inflation
 - Risk diversification



Being financially literate:
Able to answer 3 out of these
4 topics correctly

Financial Literacy Across the Globe

% of financially literate adults

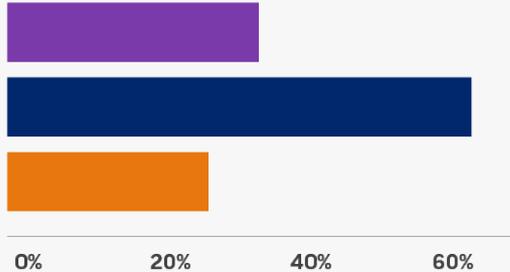


Only 1 in 3 adults worldwide responded correctly to three out of four topics

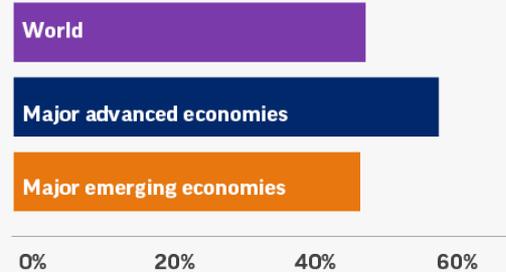
Financial literacy by topic

% of adults answering correctly

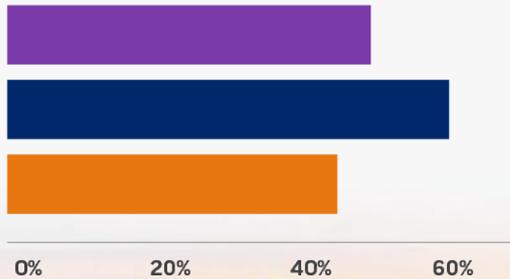
RISK DIVERSIFICATION



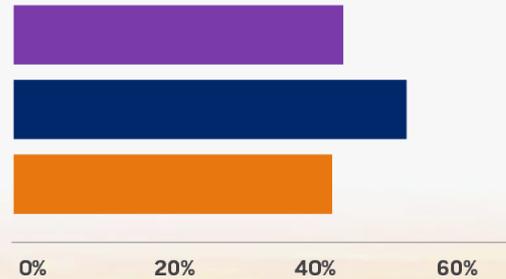
NUMERACY (INTEREST)



INFLATION



COMPOUND INTEREST



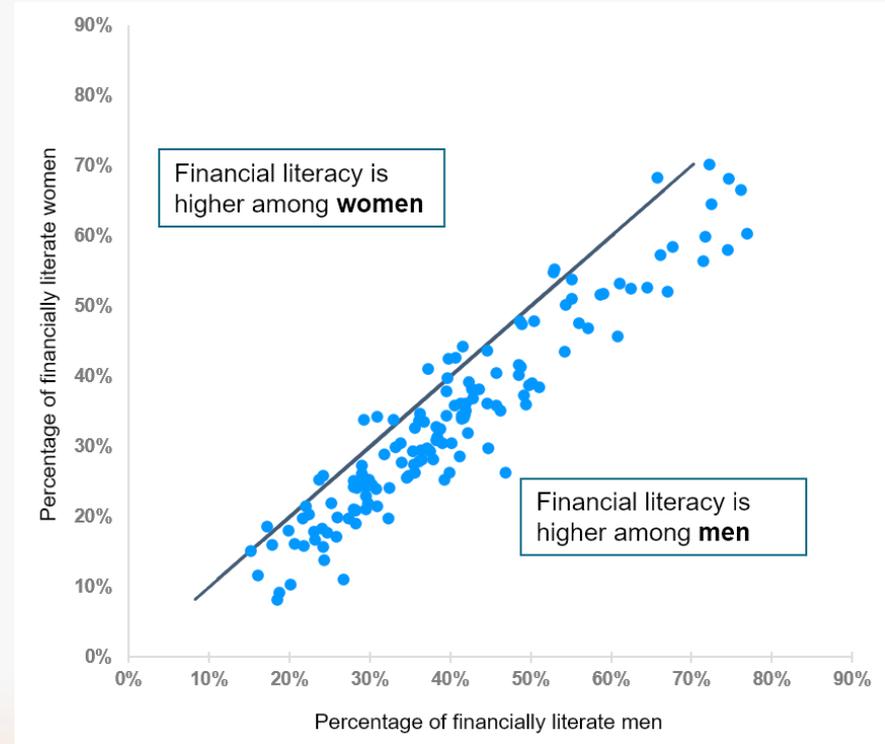
Inflation and simple interest/numeracy is what people know most across countries.

Risk diversification is what people know the least.

Source: S&P Global Finlit

Gender gap in financial literacy around the world

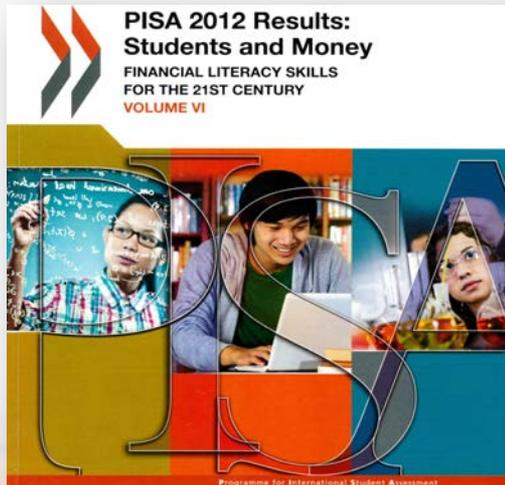
In most economies around the world, men have a better understanding of basic financial concepts than women



Source: Global FinLit Survey

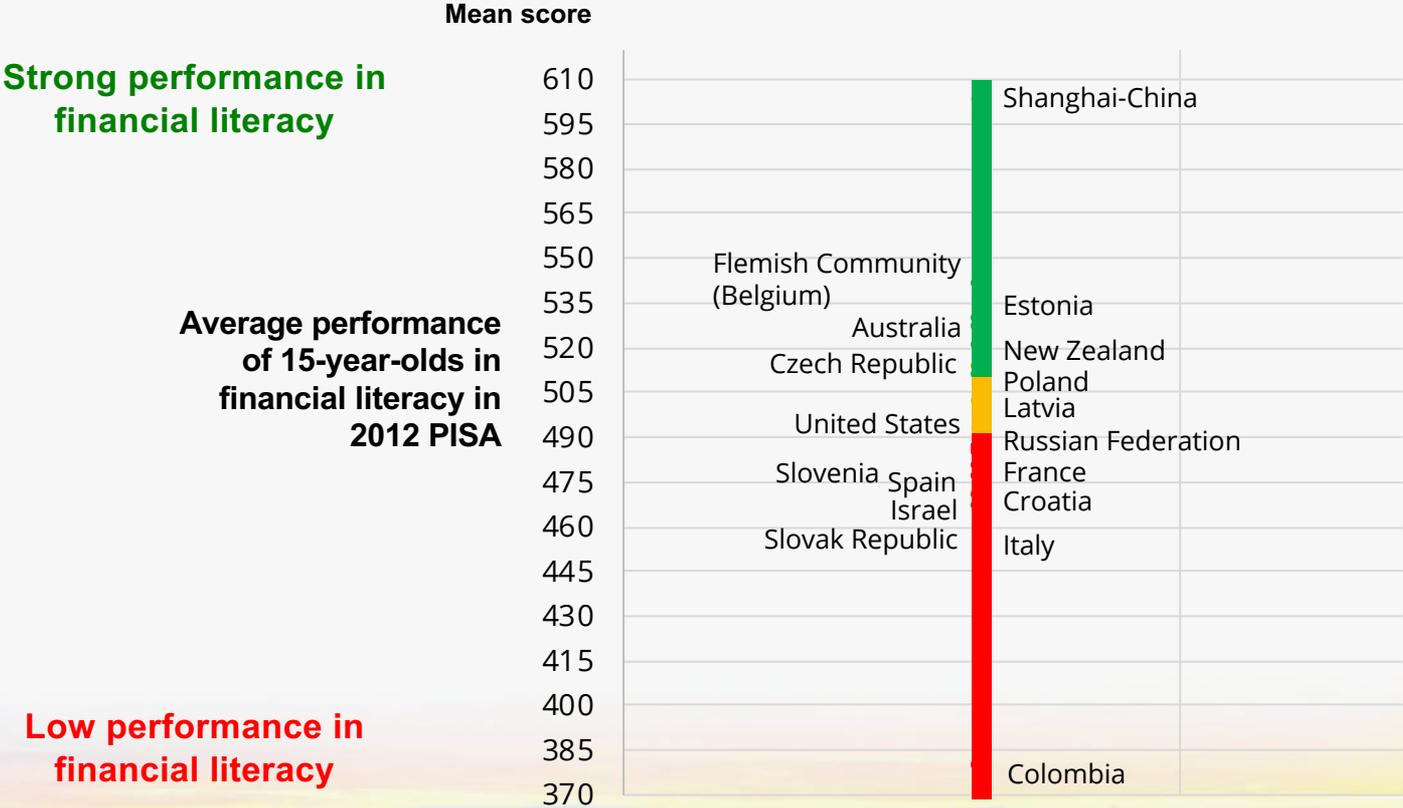
Turning to the young: OECD Programme for International Student Assessment (PISA)

Are students well prepared for future challenges?
Can they analyze, reason and communicate effectively? Do they have the capacity to continue learning throughout life?



Since 2000, every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. **It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.**

Average performance of 15-year-olds in financial literacy (2012 PISA)



Looking deeper into financial literacy

20%

One in five students are at level 1, they have no/insufficient financial knowledge

- Financial knowledge strongly related to the socio-economic background of their family
- Gender differences start early in life, e.g. Italy

Large diff.
among
students

What have we learned

Large differences in financial literacy

- Differences start early in the life cycle
- Present in all countries
- Basic knowledge cannot be taken for granted even in advanced economies

Vulnerable groups

- Women
- Young

Topic 2

Personal finance or does financial literacy matter?

Financial literacy and wealth inequality



- Consider a life cycle model of saving with financial literacy
- Financial literacy affects the return on savings
- Financial literacy is an important determinant of wealth and wealth inequality
- Important finding: **30-40%** of U.S. retirement wealth inequality can be attributed to difference in financial knowledge

A financial check-up

A (simplified) check-up to understand if people are doing well

Moving toward financial well-being



Short term money management

How **confident** are you that you could come up with **\$2,000** if an unexpected need arose **within the next month**?

- I am certain I could come up with the full \$2,000.
- I could probably come up with \$2,000.
- I could probably not come up with \$2,000.
- I am certain I could not come up with \$2,000.
- Don't know.
- Prefer not to say.

From Lusardi and Tufano, BPEA, 2011

Measure of financial fragility

How **confident** are you that you could come up with **\$2,000** if an unexpected need arose **within the next month**?

- I am certain I could come up with the full \$2,000.
- I could probably come up with \$2,000.
- I could probably not come up with \$2,000.
- I am certain I could not come up with \$2,000.
- Don't know.
- Prefer not to say.



People with these responses are classified as financially fragile

From Lusardi and Tufano, BPEA, 2011

Financial fragility: What this measure does

**Is a
symptom of
lack of
assets**

**Indicates lack
of borrowing
capacity of highly
leveraged
households**

Many Americans are financially fragile (2018 NFCS data)

Millennials (age 18-34)

- 35% of Millennials are financially fragile



Women

- 36% of American women are financially fragile vs. 25% of men

Retirement planning

Have you ever tried to figure out how much you need to save for retirement?

- Yes
- No
- Don't know
- Prefer not to say

Retirement planning (cont.)

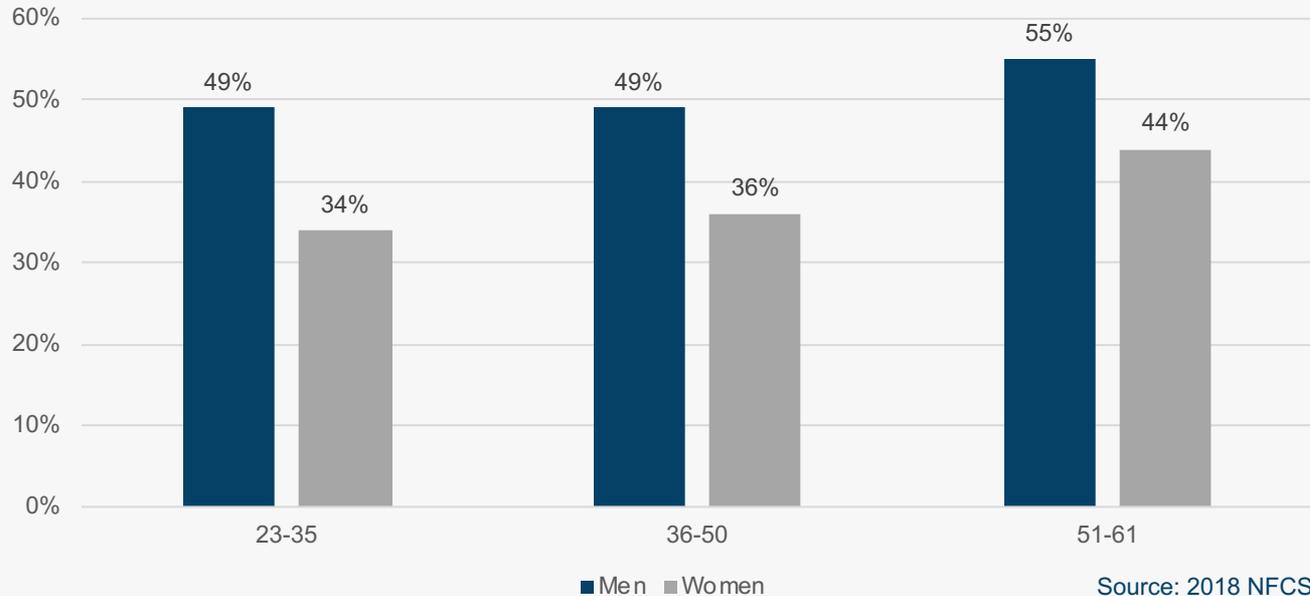
Have you ever tried to figure out how much you need to save for retirement?*

- Yes
- No
- Don't know
- Prefer not to say



People with this response are classified as planners

Retirement planning by age and gender (2018 NFCS data)

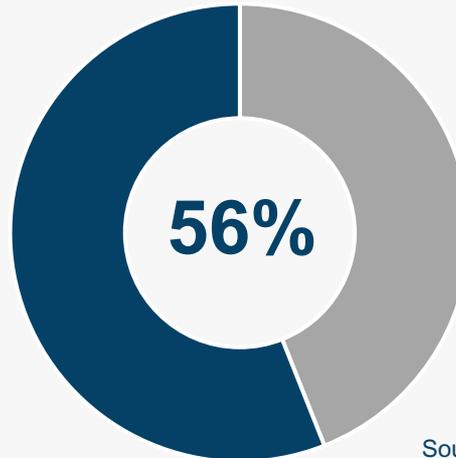


- Retirement planning slightly increases over the life-cycle
- Women are less likely to plan than men

Concerns for student debt repayment

Almost half (45%) of Millennials have a student loan.

Among those, 56% are concerned about repayment



Source: 2018 NFCS

% of Millennials (age 23-35) with a student loan and concerned about repayment

Indebtedness

How strongly do you agree or disagree with the following statement: I have too much debt right now.

- 1 = "Strongly Disagree"
- 2
- 3
- 4 = "Neither Agree or Disagree"
- 5
- 6
- 7 = "Strongly Agree"
- Don't know
- Prefer not to say

Indebtedness

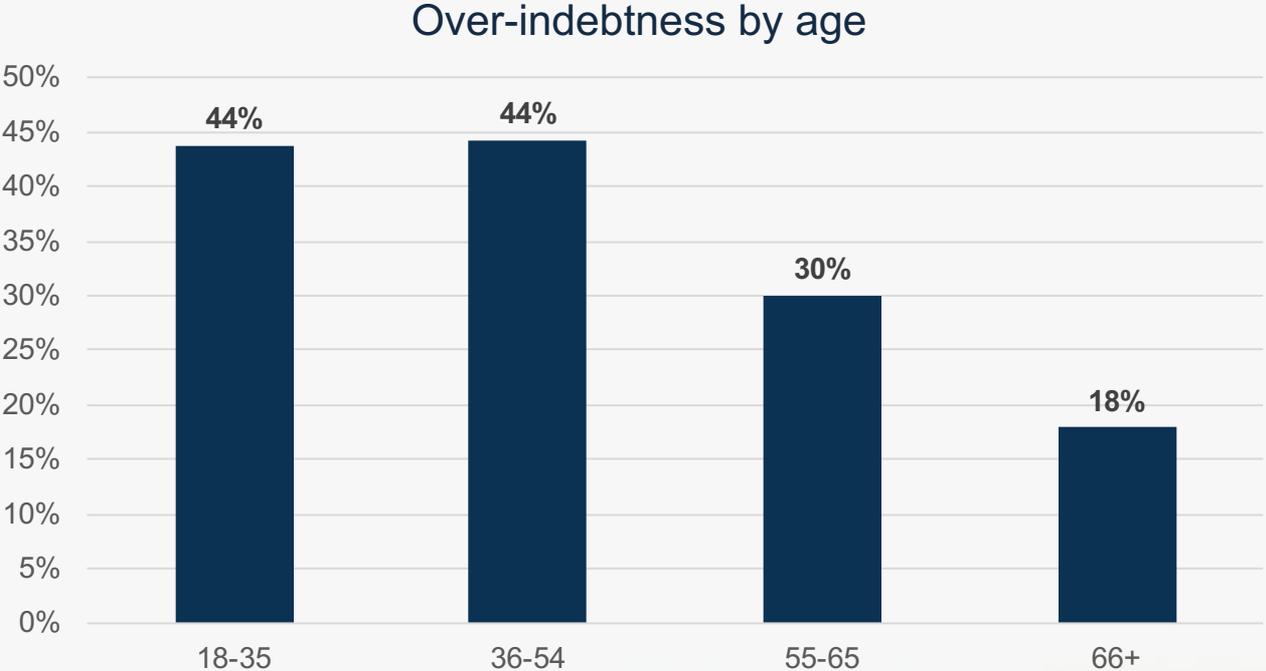
How strongly do you agree or disagree with the following statement: I have too much debt right now.

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- 2
- 3
- 4 = "Neither Agree or Disagree"
- 5
- 6
- 7 = "Strongly Agree"
- Don't know
- Prefer not to say



People with these responses are classified as over-indebted

Who are the most over-indebted?



Source: 2018 NFCS

The link with financial literacy



Who is able to answer the “Big 3” questions:

- is less likely to be financially fragile
- more likely to plan
- less likely to have too much debt

Topic 3

A way forward: Using evidence to build programs and advise policy

Building the pump to spread the water (finlit)

This research has inspired our current work: Add financial literacy to any programs

- Financial literacy levels are low
 - Need to improve knowledge of the ABCs of personal finance
- People do not plan for the future
 - Financial education programs that help people make financial decisions
- The young are an important target and can use time in their favor
 - Start in school and also programs in the workplace, in particular for Millennials

Given widespread financial illiteracy

Need for large and scalable programs

- Financial education in school
- Financial education in the workplace
- Financial education in the community (libraries, museums, other places where people go to learn)

The time is now

Girl Rising financial literacy curriculum

- Financial literacy curriculum to promote economic empowerment for young girls
- Curriculum includes lesson plans for children in upper-elementary, middle school, and high school



Fast Lane Initiative: Promote financial education 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
- Making sure young people are on the fast lane to financial prosperity



Personal finance course at the George Washington University

- Personal Finance courses for undergraduate and graduate students
- Extensive coverage of risk and risk management
- Paying attention to gender differences in financial literacy
- Paying attention to behavioral biases
- Material available for free on our website



Our (STAR) students

Special program for athletes: STAR EMBA



- Our research (AER, 2015) shows that professional football players go bankrupt as soon as they stop playing
- Designed a program for professional football players
- Personal finance course targeted to these players

Financial education in the workplace

Set-up:

- Design of a low-cost, easily-replicable financial education program called «Five Steps to Planning Success»
- Covering five basic financial planning concepts that relate to retirement
- Delivery models: written narratives and online videos
- Evaluation: control and treated groups using online survey (Rand ALP)

Program:

- Targeted to young workers
- Covered concepts that people know the least, for example risk, in a simple story



Short video about risk: don't put all your eggs in one basket



Assessed effectiveness of different methods of teaching using
Rand American Life Panel (ALP)

Results from program

- After being exposed to videos, the performance on finlit improved
- While young were targeted, the videos affected all age groups
- 25-33% of the knowledge gain is still observable 8 months after program
- Simple program has effects both in the short and medium run

More scalable: A program for the New York Stock Exchange (NYSE)

We built a toolkit for NYSE to promote financial wellness 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.
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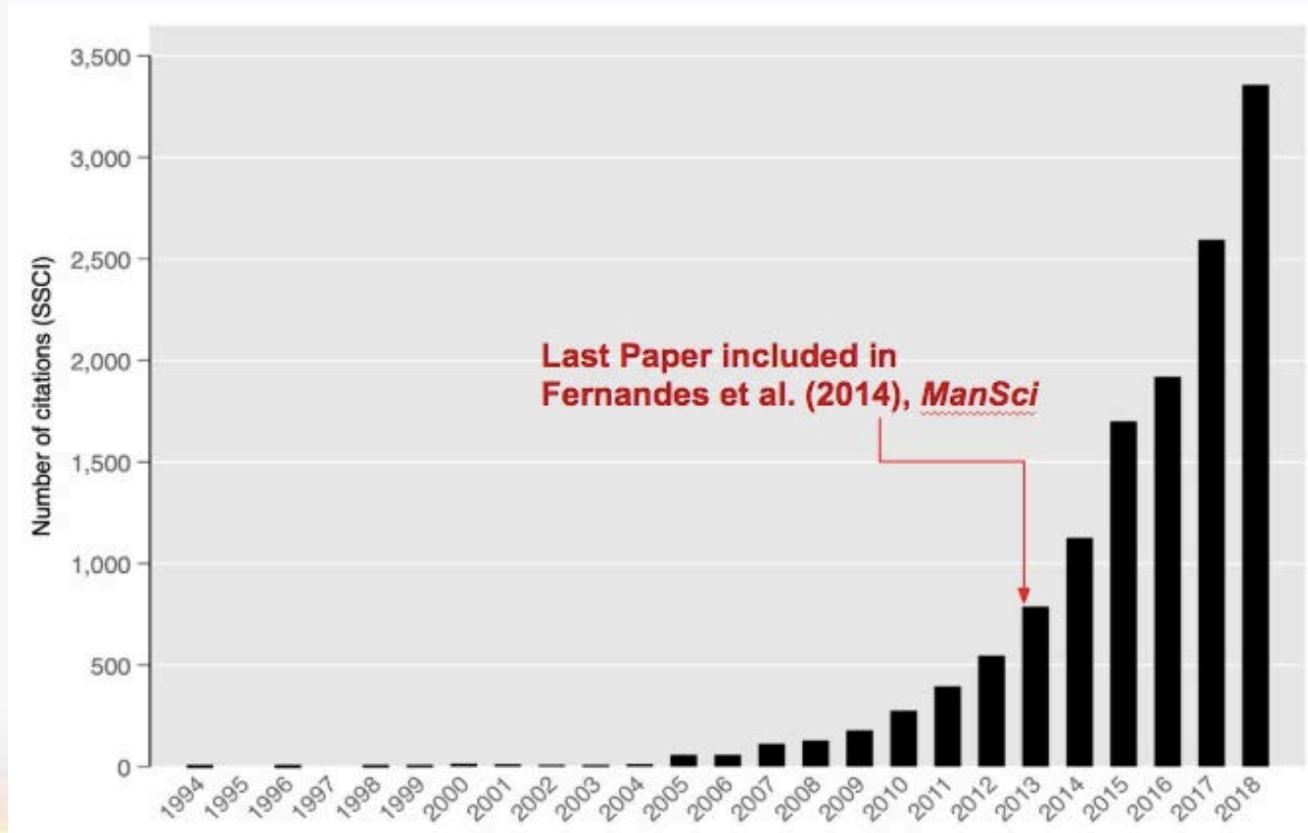
Did You Know?

 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](#)



Citations to the term “financial literacy” over time



Financial literacy museums

Il gioco della Formica

MdR
MUSEO DEL RISPARMIO

Regole del gioco

Regolamento del concorso

MdR
MUSEO DEL RISPARMIO

Ciao!

Giochiamo insieme? Metti alla prova le tue conoscenze sul risparmio e l'economia con il trivial quiz e non perderti le caselle bonus per incrementare il punteggio.

Occhio alle formiche da collezione: raccogliline 3 e partecipa al concorso!

Buon divertimento!

Premi per iniziare



Le persone che
adumentano il
in occasione di
mondo.

La media non è elevata,
la nostra capacità
vicine alla pensione
tutto pensionistico.

training
to your wealth

It's my life

An International Federation of Finance Museums (IFFM)

EXECUTIVE COMMITTEE

Chinese Museum of Finance (CMF)
Tianjin, China | Dr. Wang Wei



Global Financial Literacy Excellence Center (GFLEC)
Washington, DC, USA | Dr. Annamaria Lusardi



Interactive Museum of Economics (MIDE)
Mexico City, Mexico | Silvia Singer



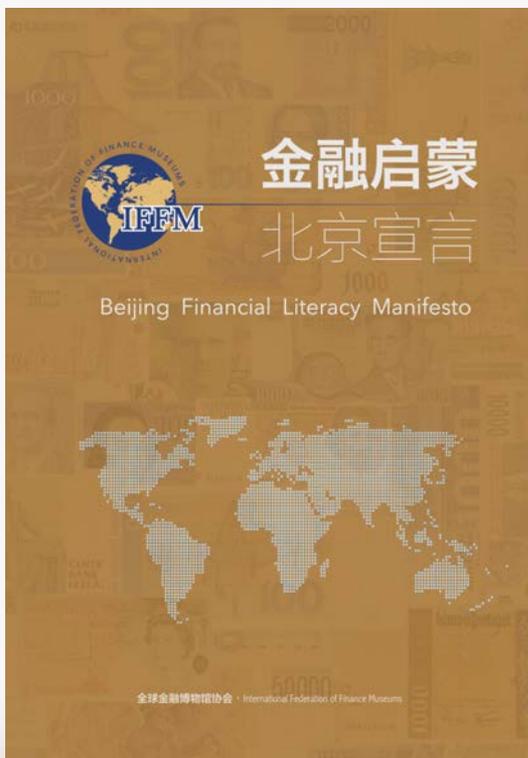
Museum of American Finance (MoAF)
New York City, USA | Dr. David Cowen



Museum of Saving (MOS)
Turin, Italy | Dr. Giovanna Paladino



Financial Literacy Manifesto



“... the International Federation of Finance Museums (IFFM) is committed to promoting financial literacy globally, raising awareness that every individual in every country is in need of financial literacy.”

Advice for public policy : toward a new ecosystem

Building a financial resilient society

- Policy makers should focus on well-being
- Add financial knowledge among indicators of well-being
- Toward a more inclusive society



The importance of financial education

- With financial education, we can form the next generation of customers, workers, and citizens
- Need to change the financial literacy statistics we have seen so far and it can be done
- We can shape the future

Policy work



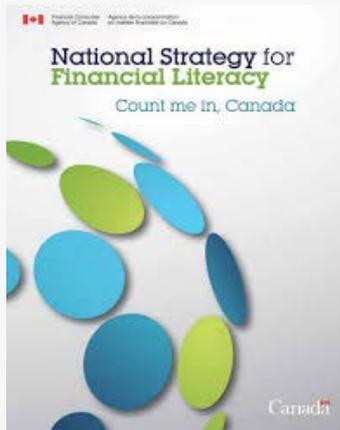
In July 2017, I was appointed by Italy's Minister of Economy and Finance as director of the new Financial Education Committee

The Committee is in charge of designing a national strategy for financial literacy

Follow our work on www.Quellocheconta.gov.it

Policy work

About 70 countries have done or are doing a national strategy for financial literacy



Olympics of Economics and Finance

Together with the Department of Education, we instituted the Olympics of Economics and Finance

- Junior high school students
- Schools across the country participated
- Winners: female and male students from different regions

Meeting Italy's President: Sergio Mattarella

The Committee met the Italian President during Financial Literacy Month



Public policy: A quote from the first President of the U.S

“Knowledge is in every country the surest basis of public happiness.”

President George Washington

Concluding remarks

Financial literacy is like **reading** and **writing: it is an essential skill to thrive in the 21st century**

- Everyone deals with finance, and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself
- It is very important to be financially literate as early as possible
- Financial literacy is a stepping stone for financial security

Looking ahead

Short definition of financial literacy: A vision for the future

The question is: which future do we want to build?



Thank you!