



Aiming High: The Power of Financial Education

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Italian Financial Education Committee

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Three topics

1 ➤ **Financial literacy**

2 ➤ **The impact of financial literacy**

3 ➤ **Financial education**

To get started

A number:

1/3

To get started

1/3

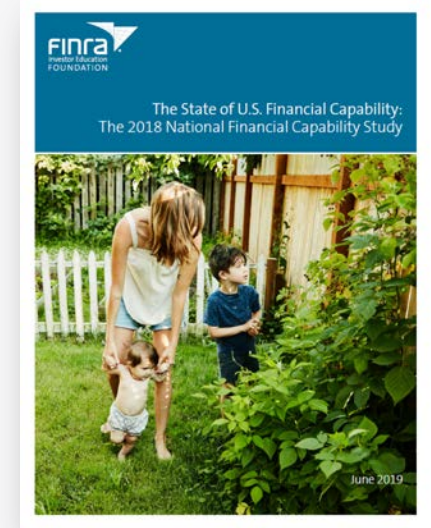
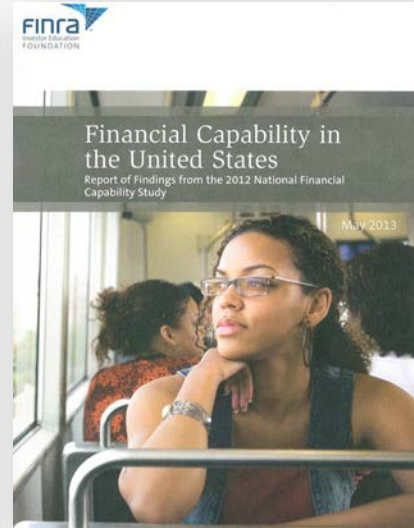
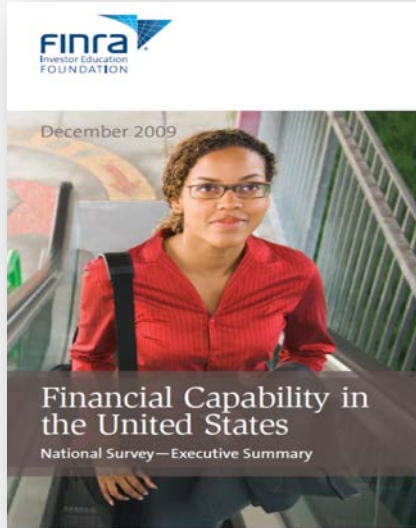
- People who know the ABC of personal finance, even in a country with well-developed financial markets.
- How many people know the basics, even after having made many financial decisions.

Financial literacy: the ABC of personal finance

The Big Three

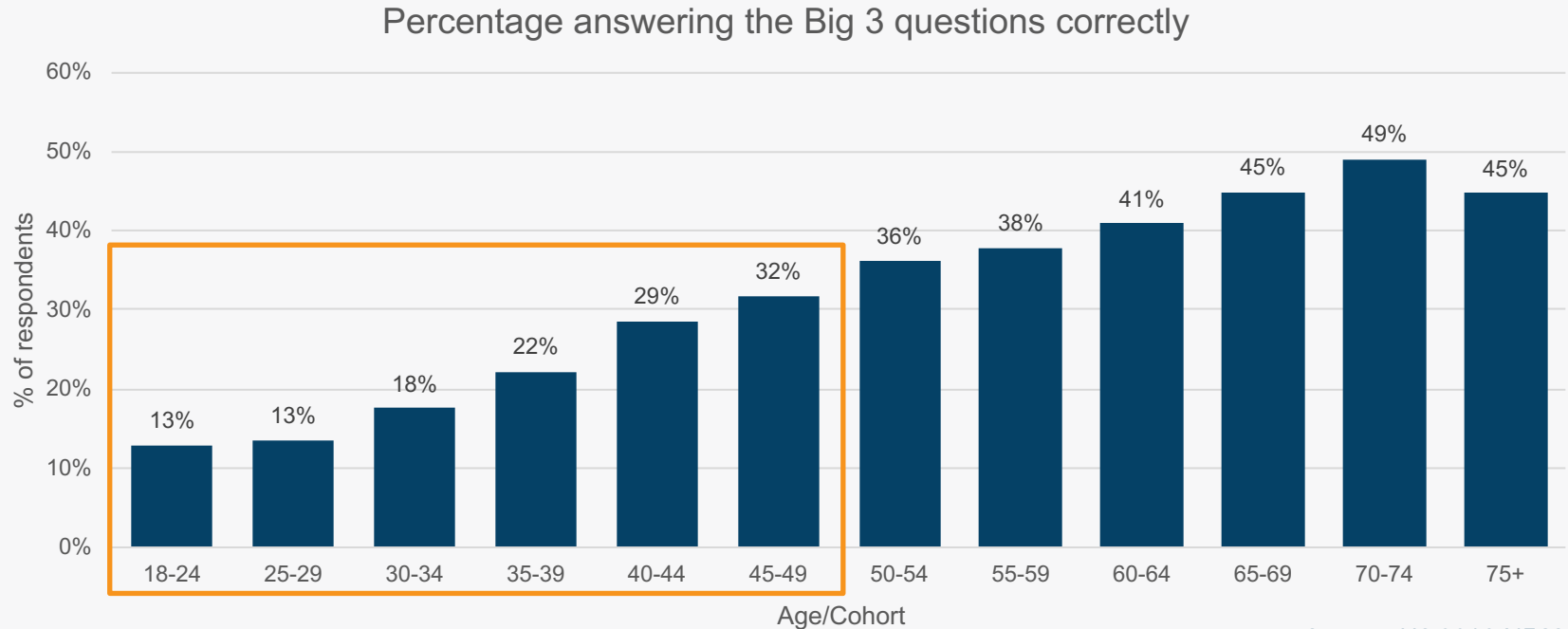
1. "Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?"
 - ☒ More than \$102
 - ☐ Exactly \$102
 - ☐ Less than \$102
 - ☐ Don't know
 - ☐ Refuse to answer
2. "Imagine that 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

The US National Financial Capability Study (NFCS), from 2009 to 2018.



We collaborated with FINRA Foundation to design survey questions and analyze the data.

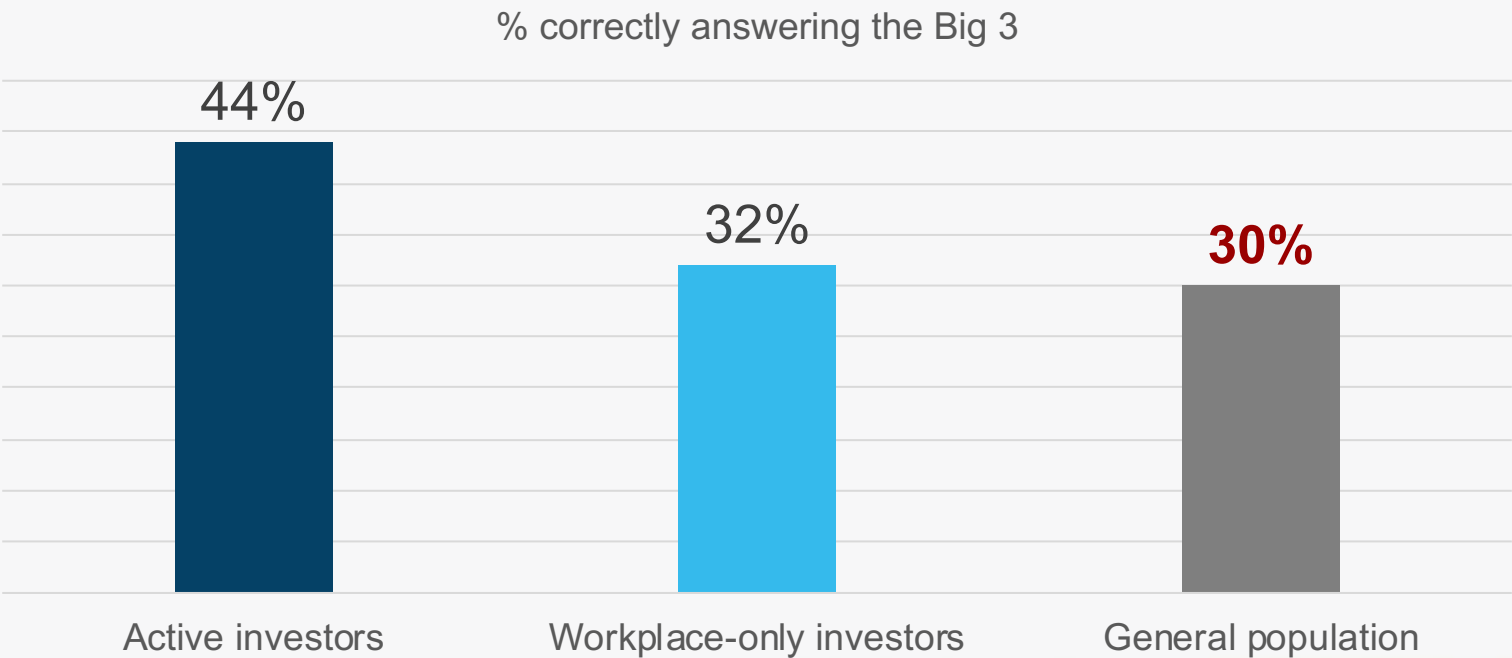
Low financial literacy over time and age (NFCS 2018)



Source: US 2018 NFCS

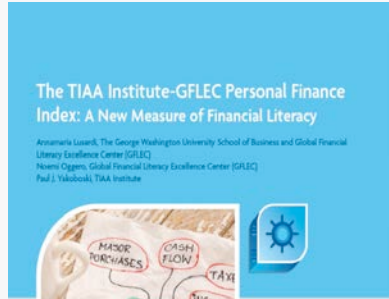
About 1/3 of Americans know these 3 basic concepts by age 50 even though many financial decisions are made well before that age

Financial literacy among investors - Our new report released today!

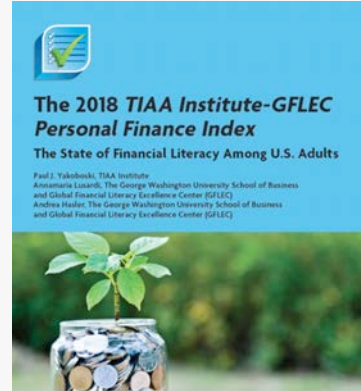


TIAA Institute – GFLEC Personal Finance Index (P-fin Index)

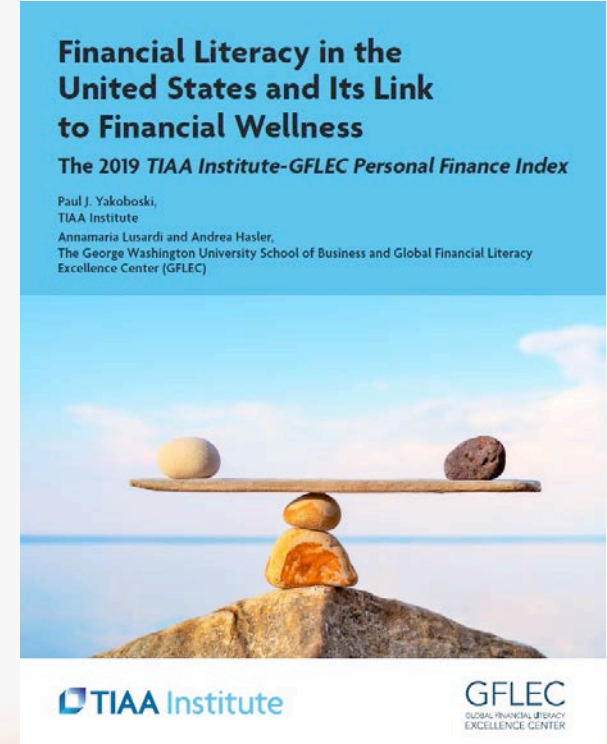
2017



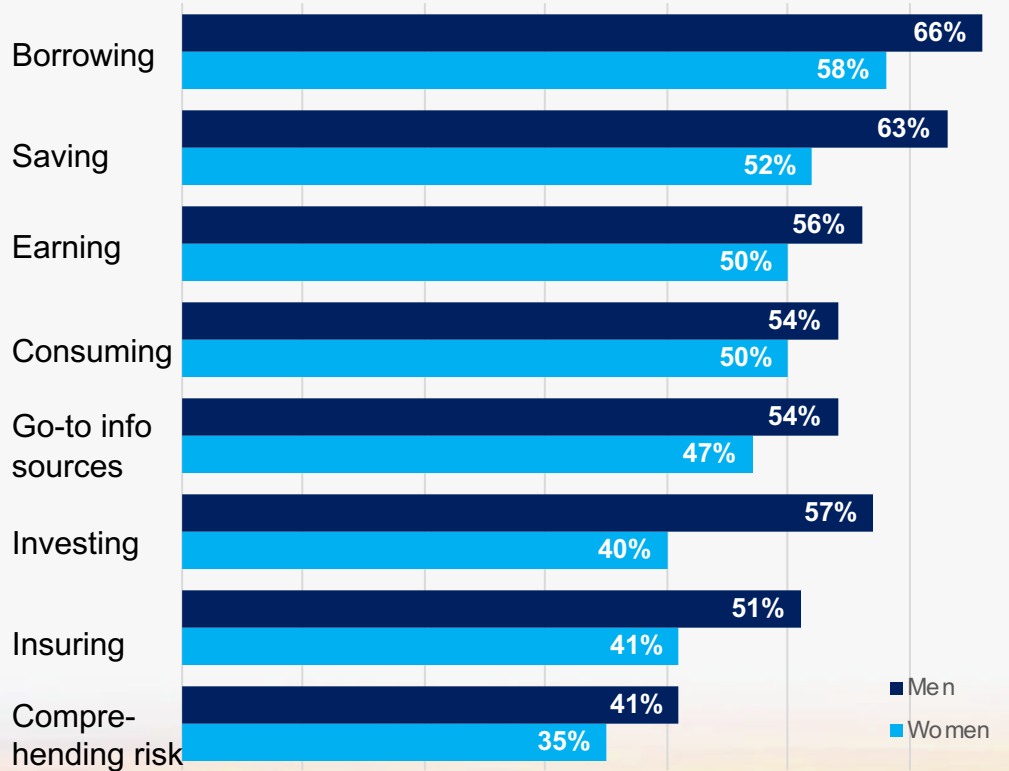
2018



2019



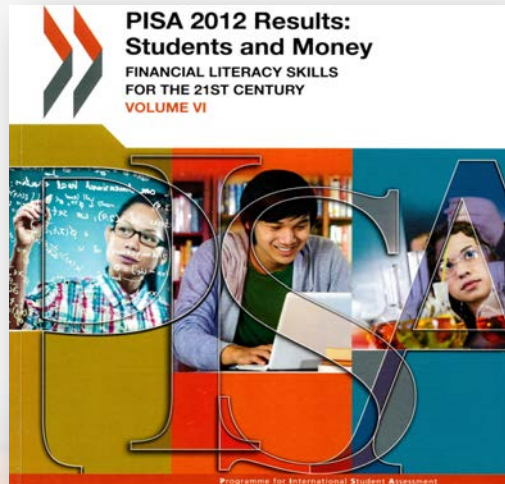
P-fin Index: 28 questions covering 8 topics



Source: P-Fin 2019

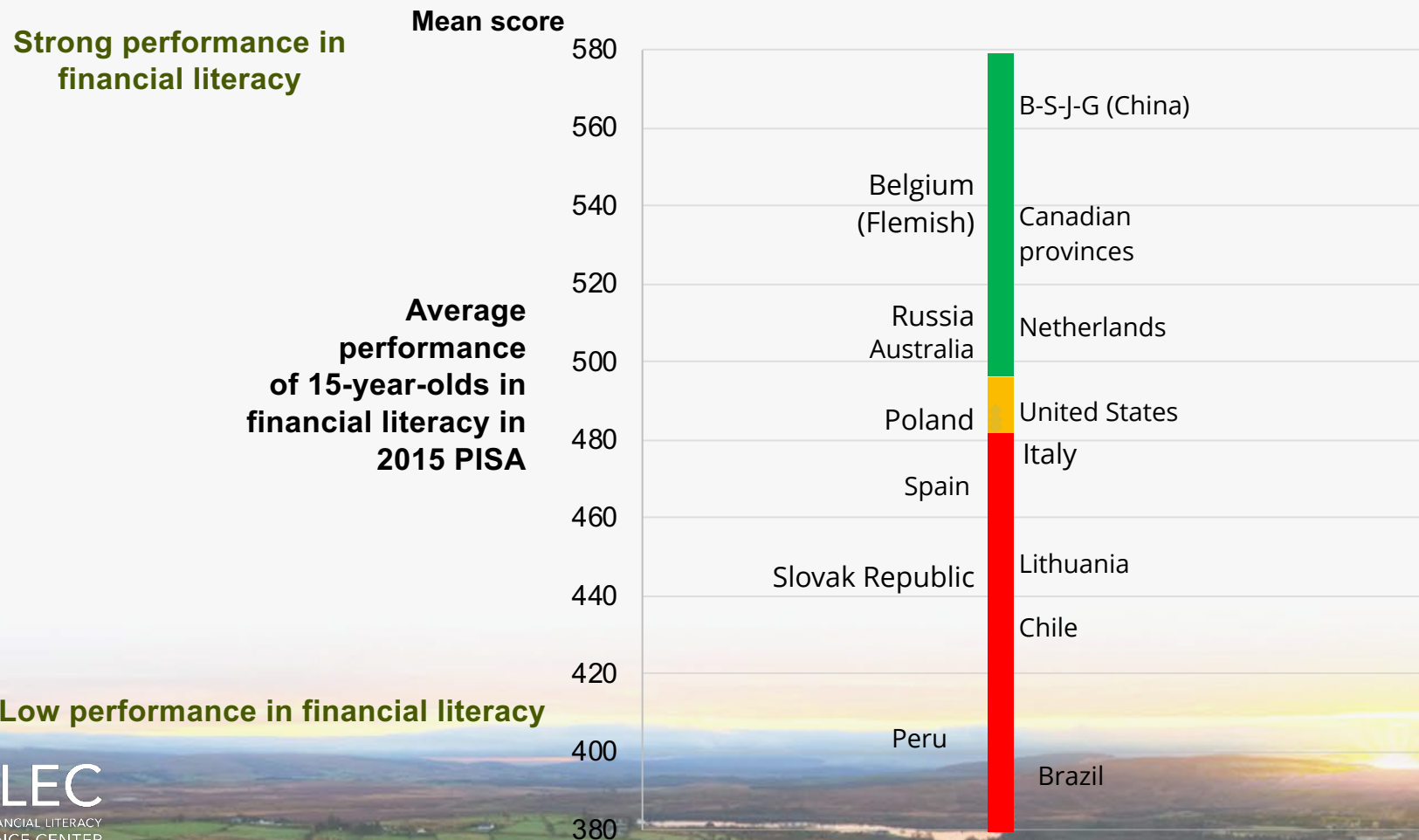
Turning to the young: OECD Programme for International Student Assessment (PISA)

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 (2015 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

Urgent need for financial education

These numbers are not our destiny

- Changing the statistics
- Building a better future
- The ecosystem

Building an ecosystem

We need many components

- Financial literacy is an essential one
- It is the foundation (like water)
- It matters



Topic 2

Where is the deepest impact?

Journal of
Political
Economy

Archives: Asha, Christine Chapman, and Ramon-Soto
 The Career Goals of Children
 Claudia Clark, Taly Chen, David Ying, Philip Yoshida,
 and Y. Janet Zhang
 Communities and Ideology
 Aronoff, Theodore and Oliver Wertz
 Economic Uncertainty, Parental Concerns, and Children's
 Educational Outcomes
 Annamaria Giammi, Peter Carl Michael, and Gloria B. Mitchell
 Optimal Parental Economic and Health Inequality
 Monika Gitterman, New Inequalities, and Health Inequalities from
 Inside the Family: Social Capital and the Place of the Head of the Family
 Brinkley Hall and George M. Hoff
 Onset of Opportunities, Contemporaneous and Long-Term
 Impacts of Parental Income on Income Capital
 Alan Kelly
 Credit Incomes and College Enrollment

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- GFLEC**
GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

A financial check-up

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



Measuring financial fragility (one component of the check up)

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

Who is financially fragile?

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

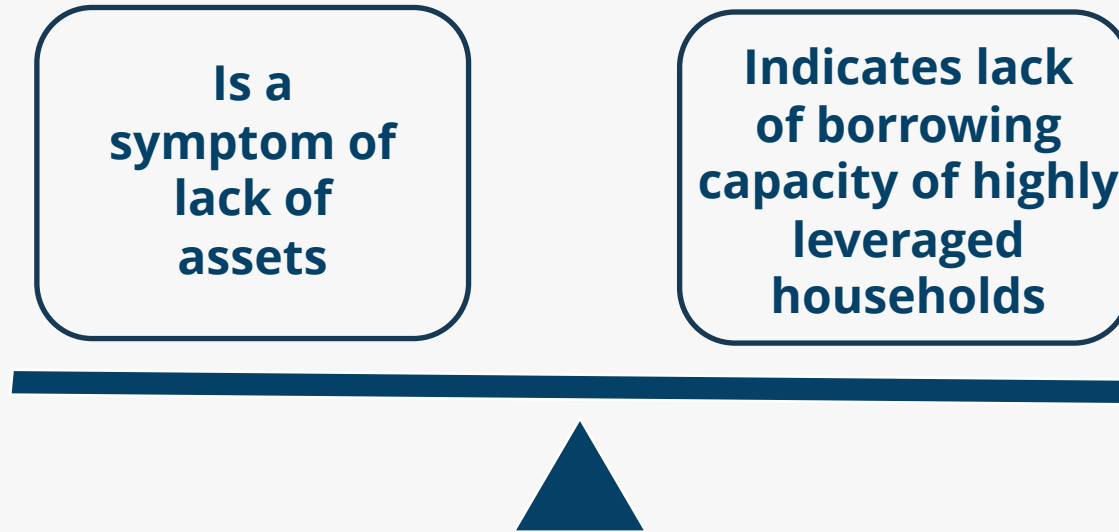
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People with these responses are classified as financially fragile

From Lusardi and Tufano, BPEA, 2011

Financial fragility: What this measure does



Many Americans are financially fragile: 31% in the US population in 2018 (2018 NFCS data)

Millennials (age 18-35)

- 35% of Millennials are financially fragile



Women

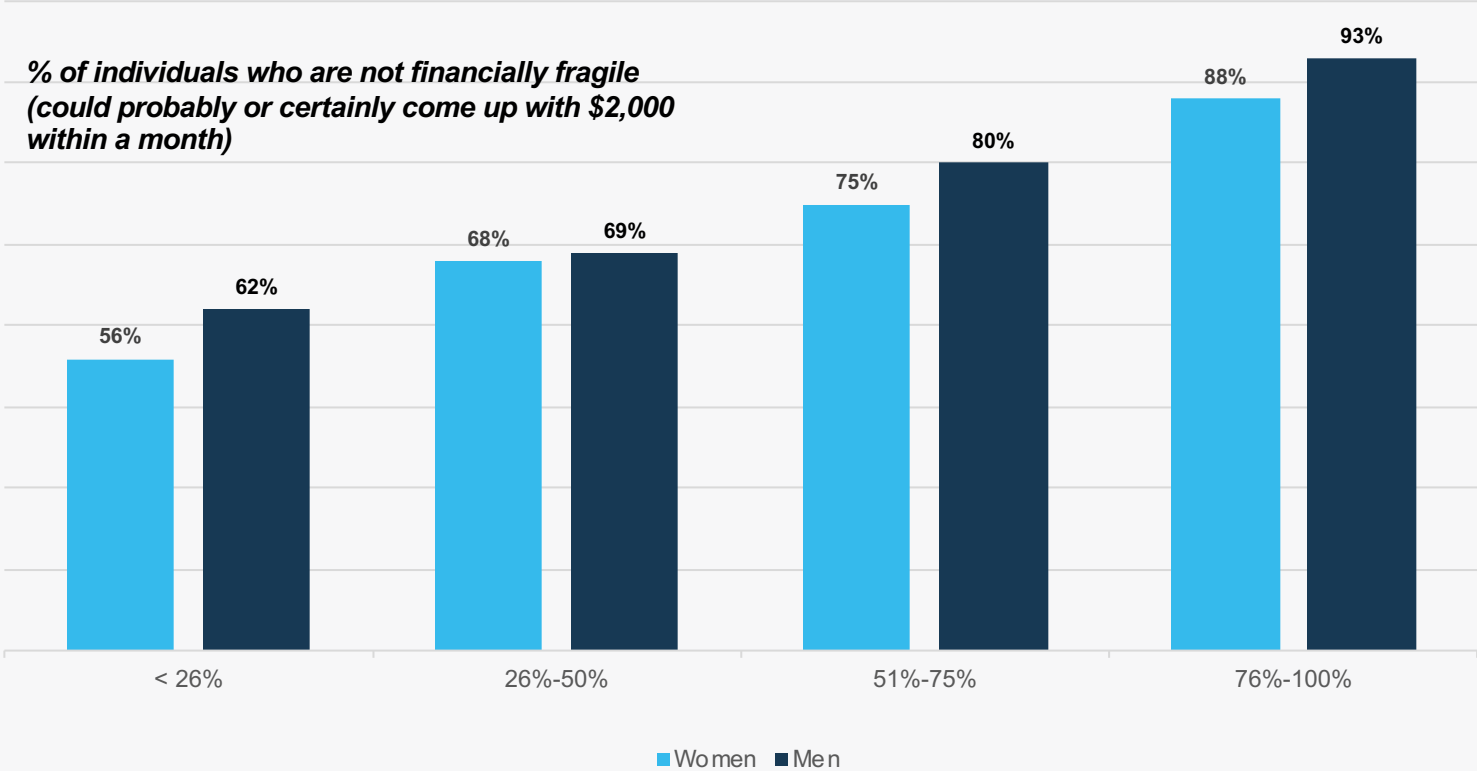
- 36% of American women are financially fragile vs. 25% of men

Financial literacy helps build financial resilience



Those who are able to answer the “Big 3” questions are less likely to be fragile

P-fin Index : Financial literacy is again linked to financial resilience.



% of *P-Fin* questions answered correctly

Topic 3

Finance education: aiming high

Building the pump to spread the water (finlit)

Using research to build effective programs

- Financial literacy levels are low
 - Need to improve knowledge of the ABCs of personal finance
- 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
- Programs targeted to women
 - Vulnerable groups but can have a «multiplier» effect

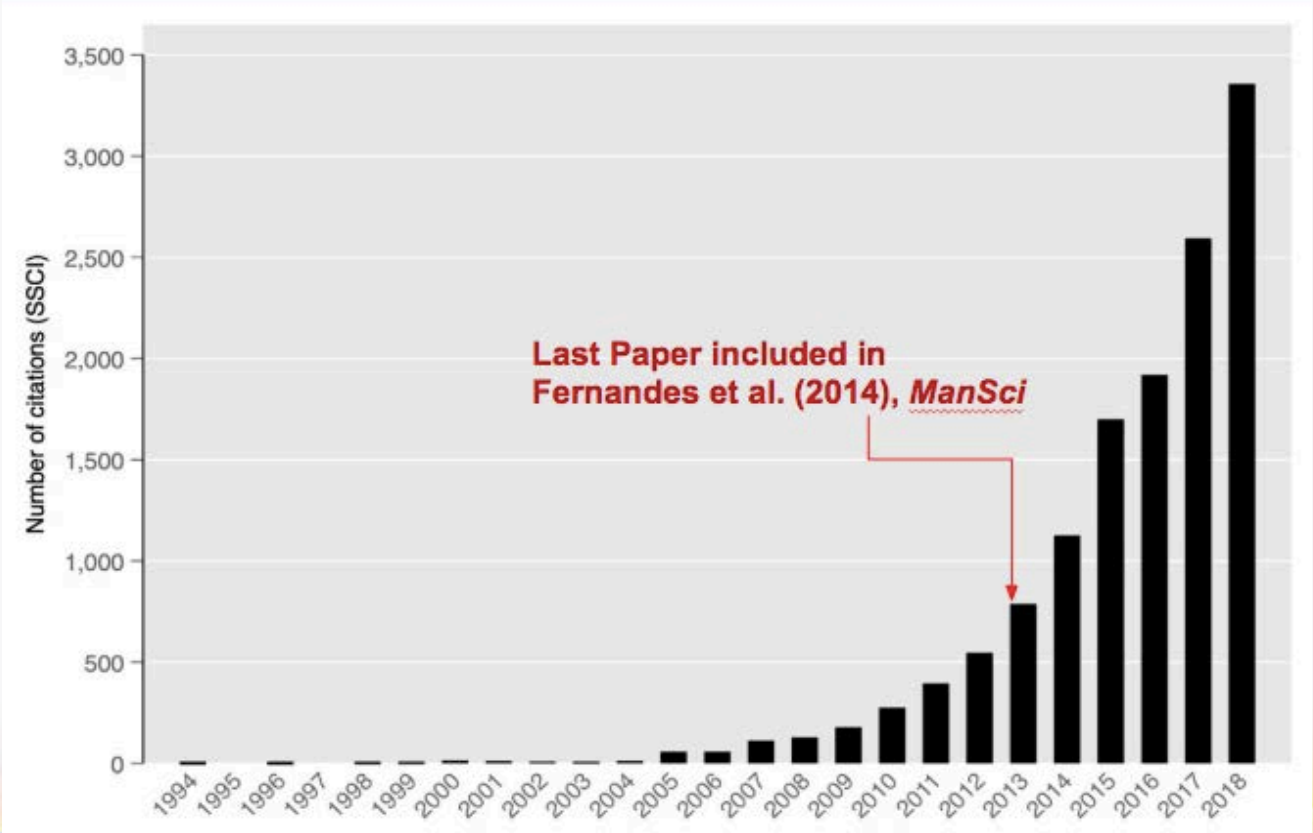
Given widespread financial illiteracy

Need for large and scalable programs

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

Need the entire ecosystem to be engaged

What does the evidence say? Citations to the term “financial literacy” over time

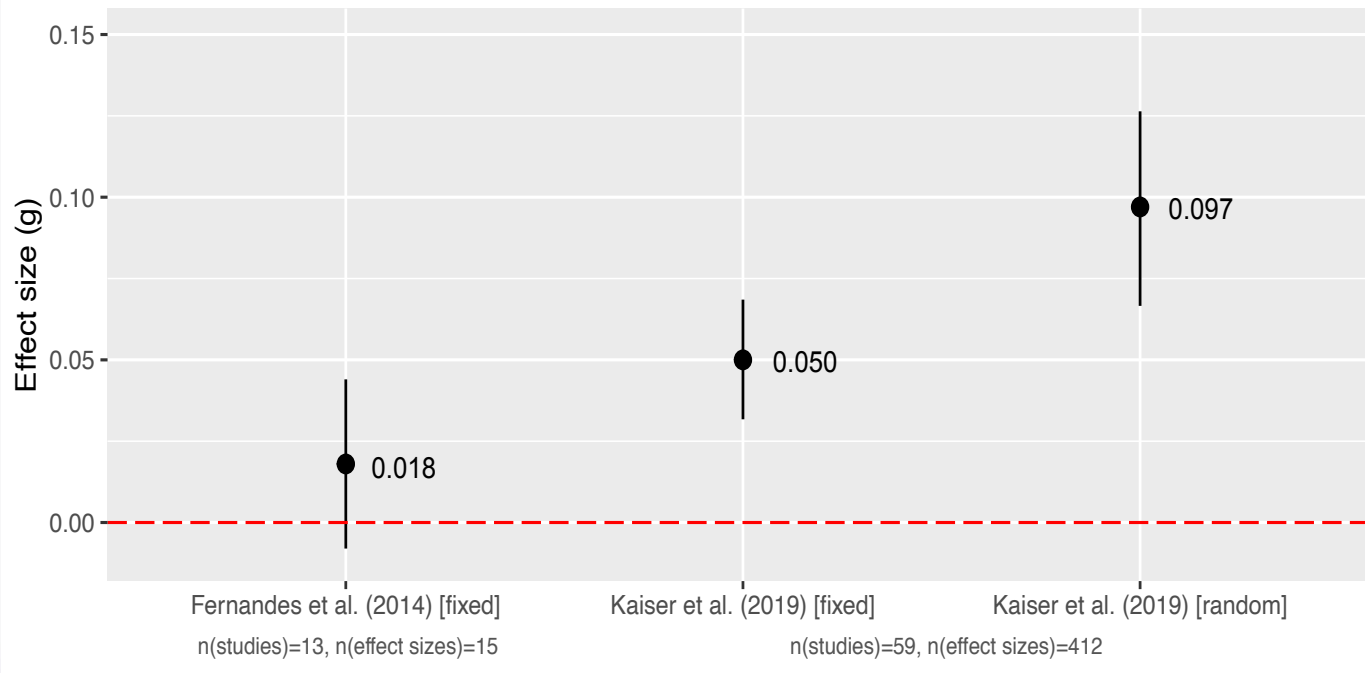


A new meta-analysis (Kaiser, Lusardi, Menkhoff, Urban (2019)

We have reviewed the financial education work that has been done so far

- We first reviewed the studies in Fernandes et al. (2014)
- We used the most rigorous evaluation only
- We have looked at the statements most quoted about the Fernandes et al. (2014) paper

Comparison the new evidence to the result in Fernandes et al. (2014). Recent papers show larger effects



A statement most quoted from the Fernandes et al (2014) paper

Fernandes et al. (2014): “Intervention to improve financial literacy explains only 0.1% of the variance in financial behavior studied”

- This measure creates the illusion of miniscule effects, when they can be economically significant. “Variance explained” is a misleading concept

Consider the following example:

Median effect of structured pedagogy interventions in developing countries = 0.13 SD units. (Evans et al. 2019)

In the Fernandes et al. (2014) metric: this intervention explains 0.36% of the variance in learning outcomes.

➤ Seems small?

Evans et al. (2019) report that this effect = ~0.6 years of “business as usual schooling” Economically, this effect appears to be large

Summary of take-aways from new meta-analysis

- 1) Recent work shows clear evidence of positive effects of financial education on financial behaviors (+knowledge)
 - Statistical effect size is at least twice as large as the effect in Fernandes et al. (2014)
 - It may be up to five times as large (when allowing for between-study heterogeneity in true effects)
 - Robust to a lot of different approaches to meta-analysis and even when accounting for publication selection for statistical significance
- 2) Policy recommendations should be based on economic effect sizes, not statistical effect sizes
- 3) No strong evidence of “rapid decay”

Given widespread financial illiteracy

Need the entire ecosystem to be engaged.

Everyone can contribute to improving financial literacy.

Small initiatives can scale up

Fast Lane initiative at GFLEC: 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



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



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
- Material available for free on our website



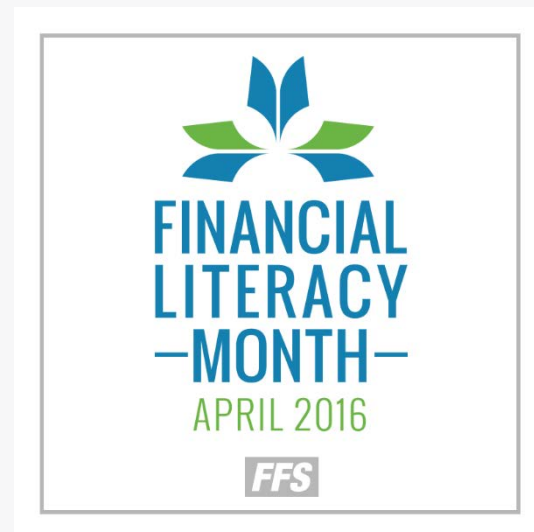
Olympics of Economics and Finance in Italy

Together with the Italian 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 also from poorer regions

We can change the statistics!

Financial literacy month: the ecosystem at work



Financial literacy month in Italy, 2nd edition (October 2019)

- We have about 600 events in the calendar
- Covering all regions of Italy and many cities
- Cover all groups of interest: young, women, old, small entrepreneurs, migrants..
- Grand opening this year in Milan with “finance in the theater”



Advice for public policy : Toward a new ecosystem

For policy-makers

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



Meeting Italy's President: Sergio Mattarella

Our “return” to the work on financial education in Italy



Public policy: A quote from one of the U.S. Founding Fathers

“An investment in knowledge pays the best interest.”

Benjamin Franklin

Aiming high

The question about financial education is:

Which future do we want to build?



Thank you!