

Increasing the effectiveness of financial education: Evidence from research

Annamaria Lusardi

The George Washington University

Academic Director, GFLEC

Harvard University, November 8, 2022

Topics I will cover

- 1** ▶ **Data tells a story: the *P-Fin Index***
- 2** ▶ **Financial education in high school**
- 3** ▶ **Fast track to financial education in the workplace**
- 4** ▶ **About us: Personal finance in colleges/universities**



Let's start with a video of a former undergraduate from Harvard



Data tells a story



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

2. Saving

3. Consuming

4. Investing

5. Borrowing

6. Insuring

7. Comprehending risk

8. Go-to information sources



An example question

Anna saves \$500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a \$5,000 gift which he decides to save. If both Anna and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

- Anna
- Charlie
- Anna and Charlie will have the same amount
- Don't know
- Refuse to answer

Results:

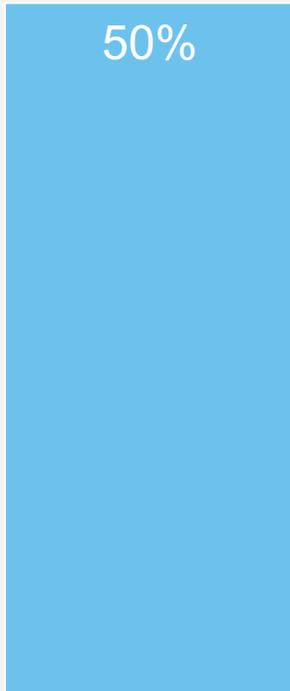
Correct	52%
Incorrect	26%
Don't Know	22%
No Answer	0%

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

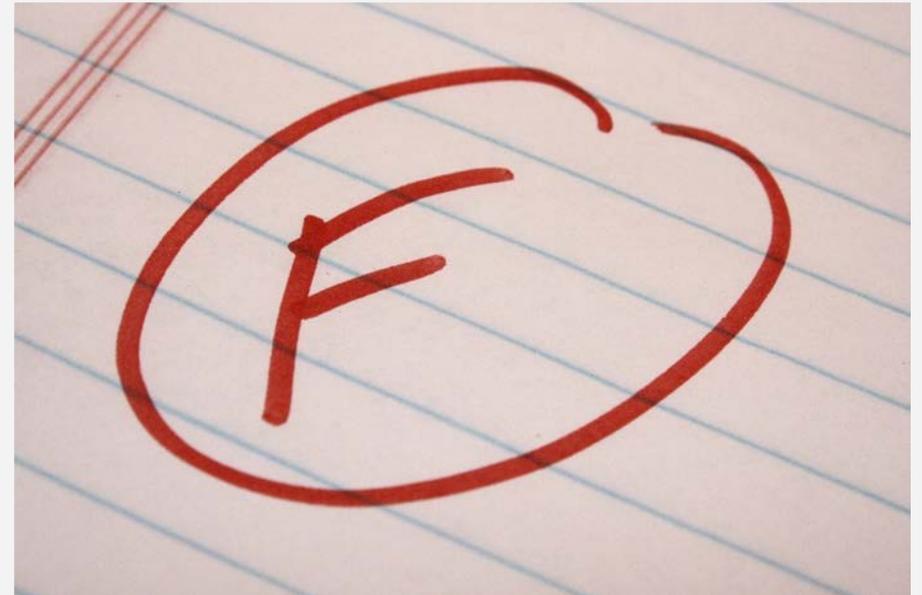
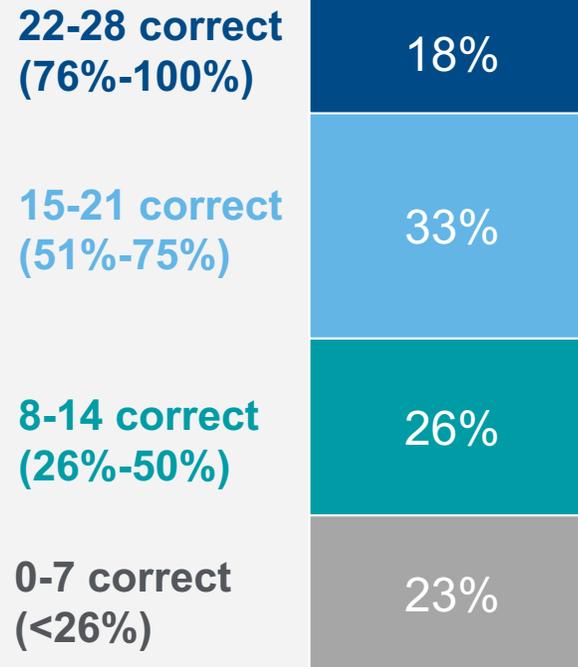


Financial literacy: A failing grade

% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin Index questions

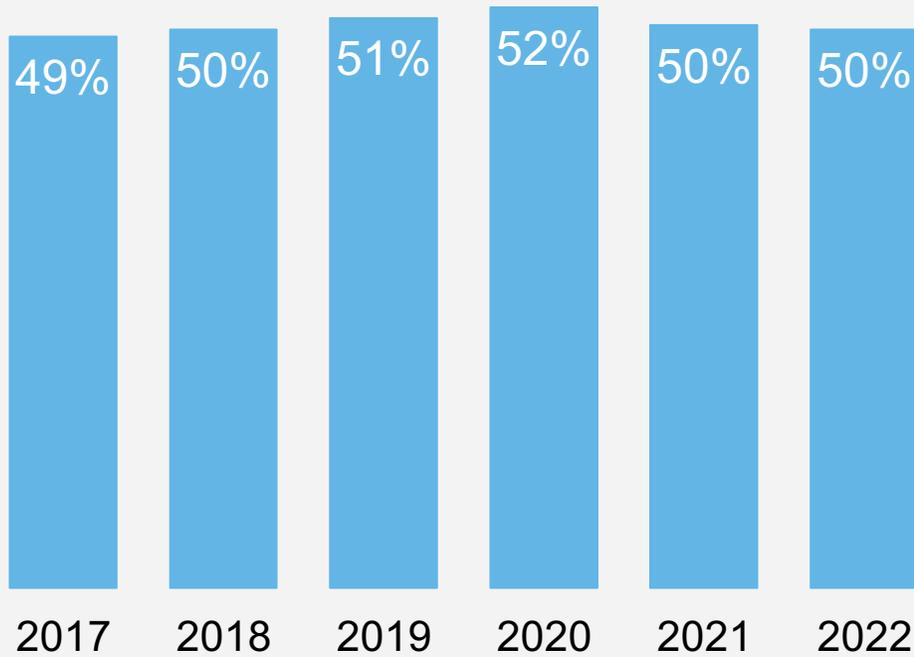


Source: TIAA Institute-GFLEC Personal Finance Index (2022).

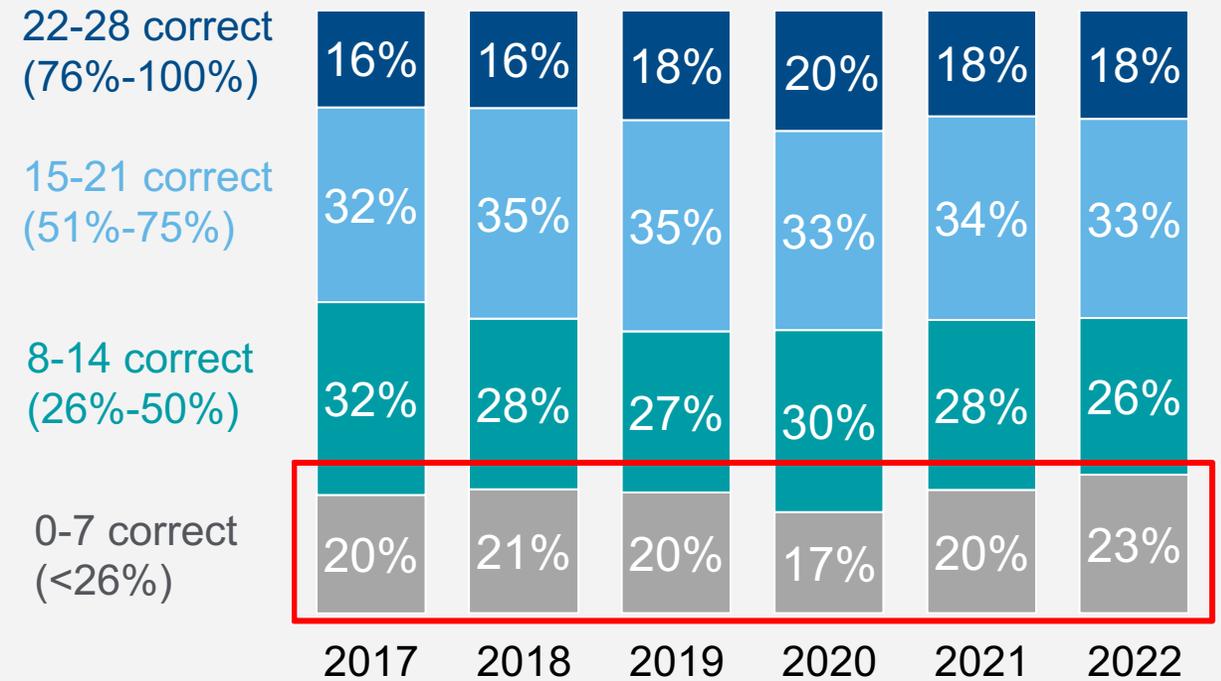


Financial (il)literacy is holding steady: 2017-2022

% of P-Fin Index questions answered correctly



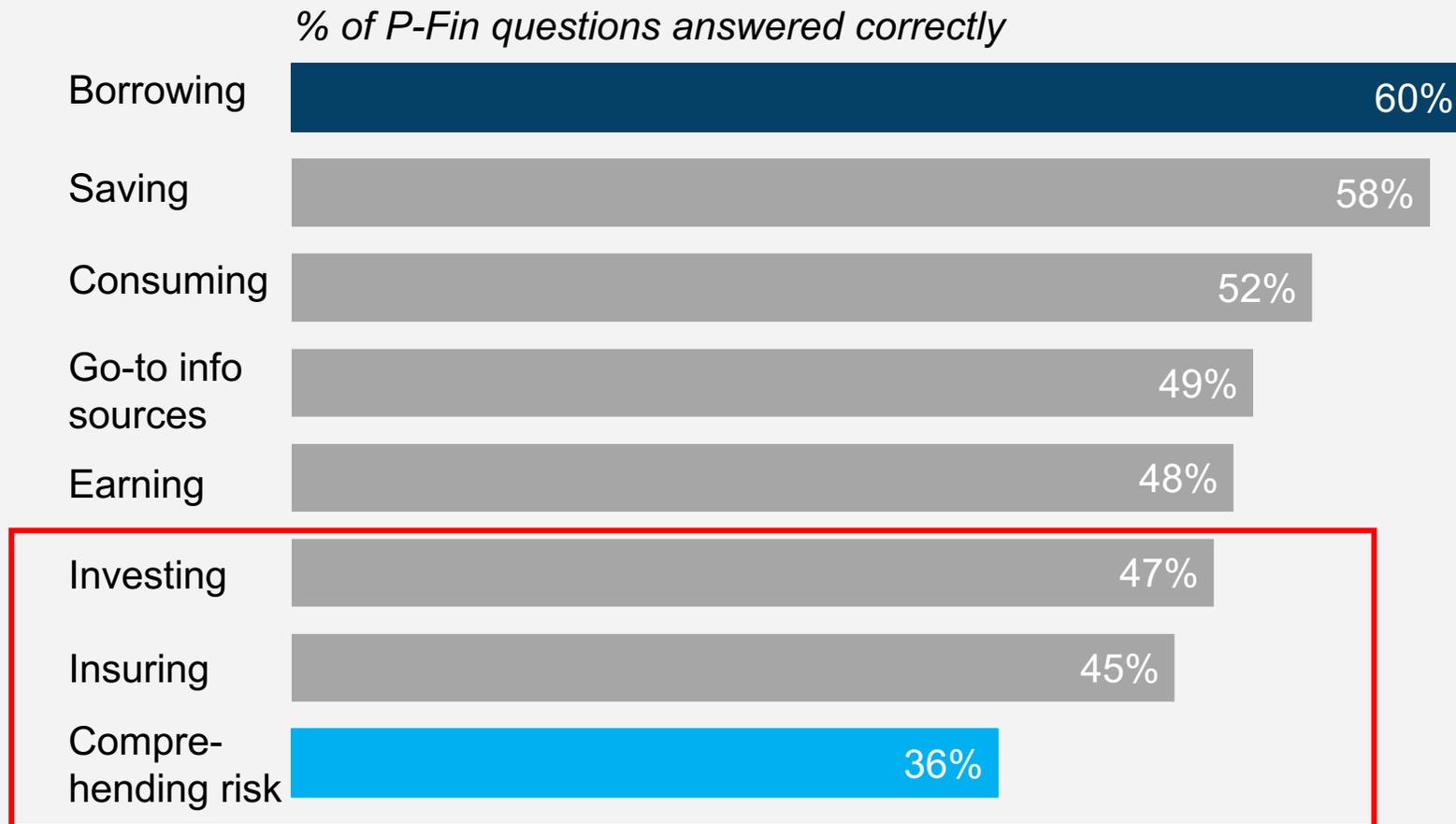
Distribution of correct answers to P-Fin questions



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



What do people know the most and the least



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



“Calculated risk” ?

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

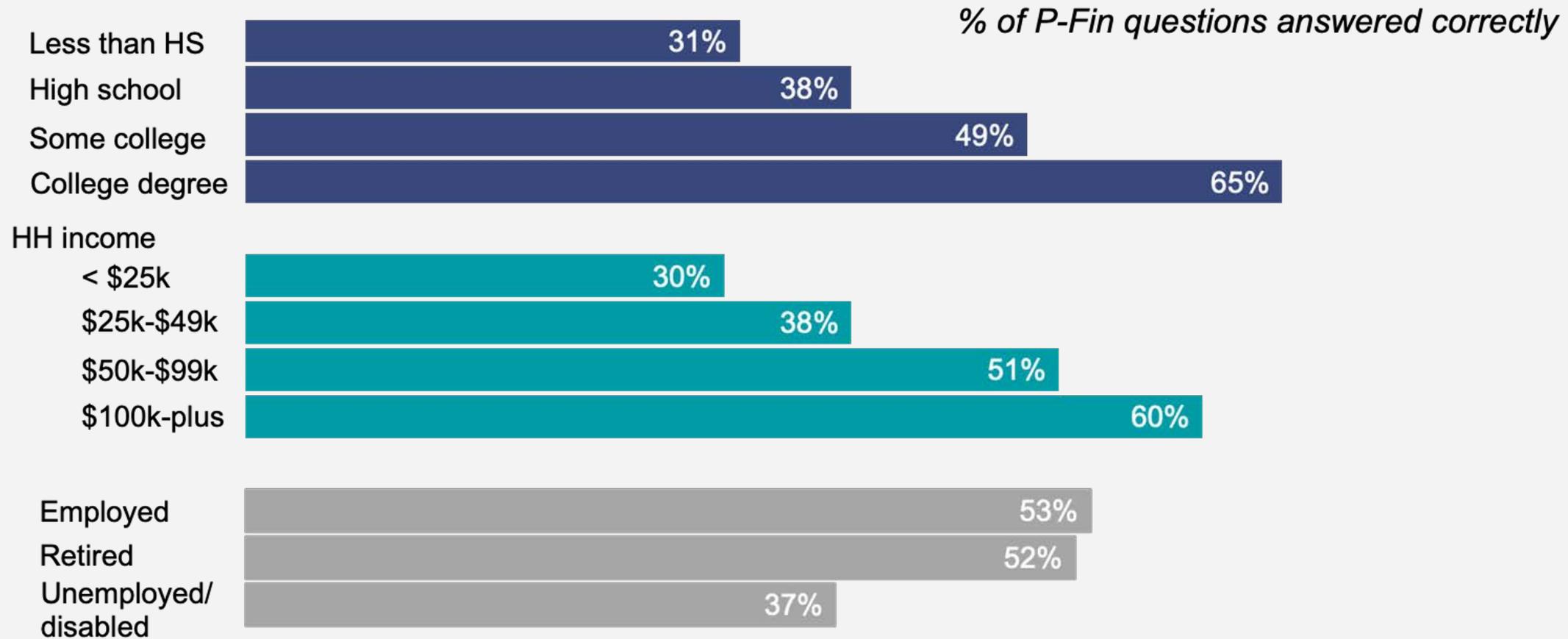
- There is a one-in-twenty chance of getting the disease
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don't know
- Refuse to answer

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

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



Large variation in financial literacy across demographics

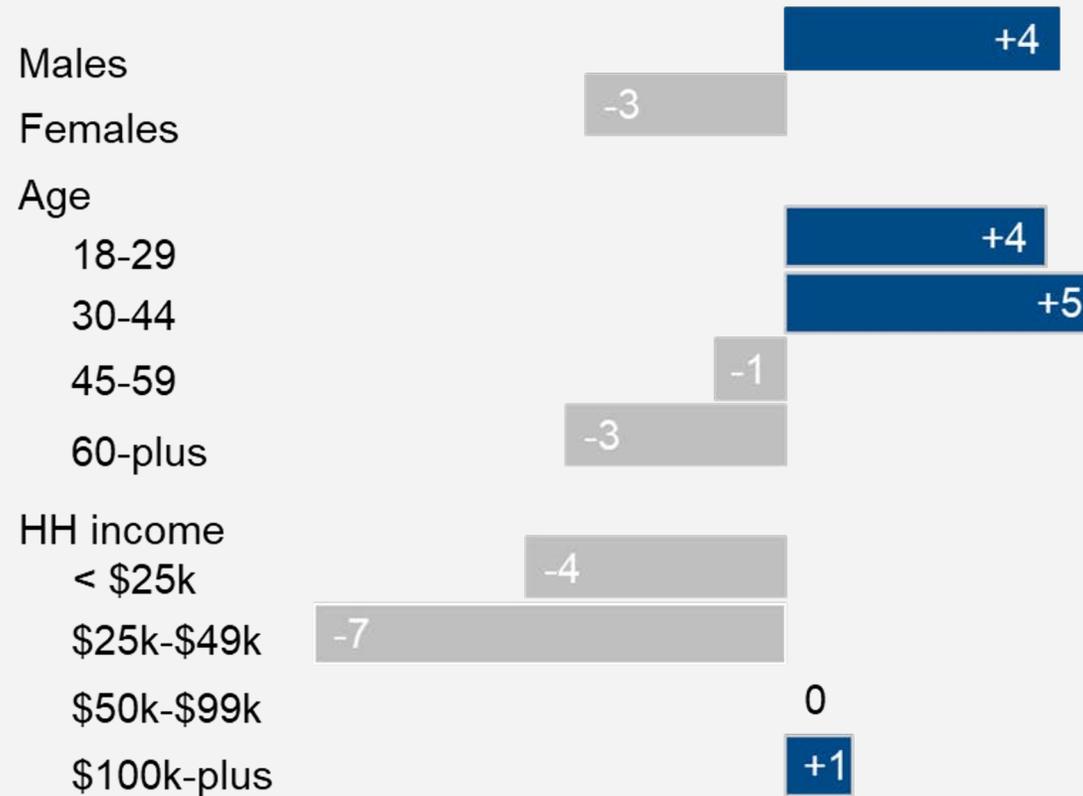


Source: TIAA Institute-GFLEC Personal Finance Index (2022).



Where changes happened over time: Toward an unequal path

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



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



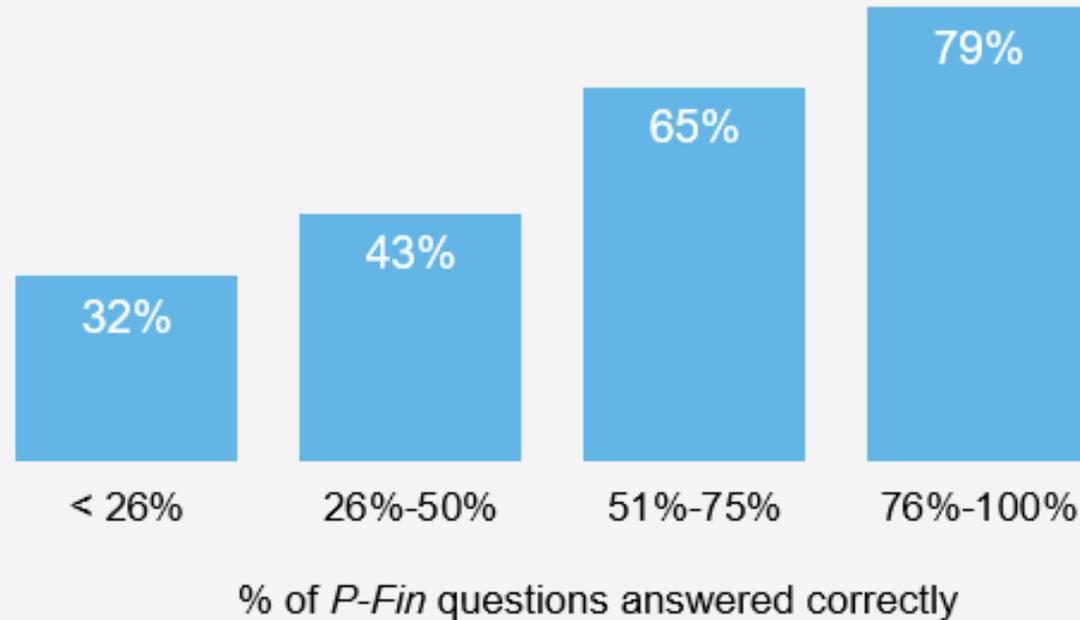
Financial literacy matters: It affects behavior



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 (2022).



What we learn from data and research

- Very low levels of financial literacy
 - Do not take financial literacy for granted
 - We need to improve basic knowledge, the ABC of personal finance
- Financial illiteracy is widespread
 - Need interventions that can be scaled up to see changes at the aggregate level
 - Changing behavior requires more than small interventions
- Large heterogeneity across demographic subpopulations
 - One size does not fit all



Making financial education effective

We need large and scalable programs

1. Financial education in school (for the young)
2. Financial education in the workplace (for the adults)
3. Financial education where people go to learn (libraries, museums, theaters, and online)



Research says that financial education works



Journal of Financial Economics

Available online 3 October 2021

In Press, Corrected Proof



Financial education affects financial knowledge and downstream behaviors

Tim Kaiser ^a, Annamaria Lusardi ^b, Lukas Menkhoff ^c, Carly Urban ^d

Show more

Share Cite

<https://doi.org/10.1016/j.jfineco.2021.09.022>

Get rights and content

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.

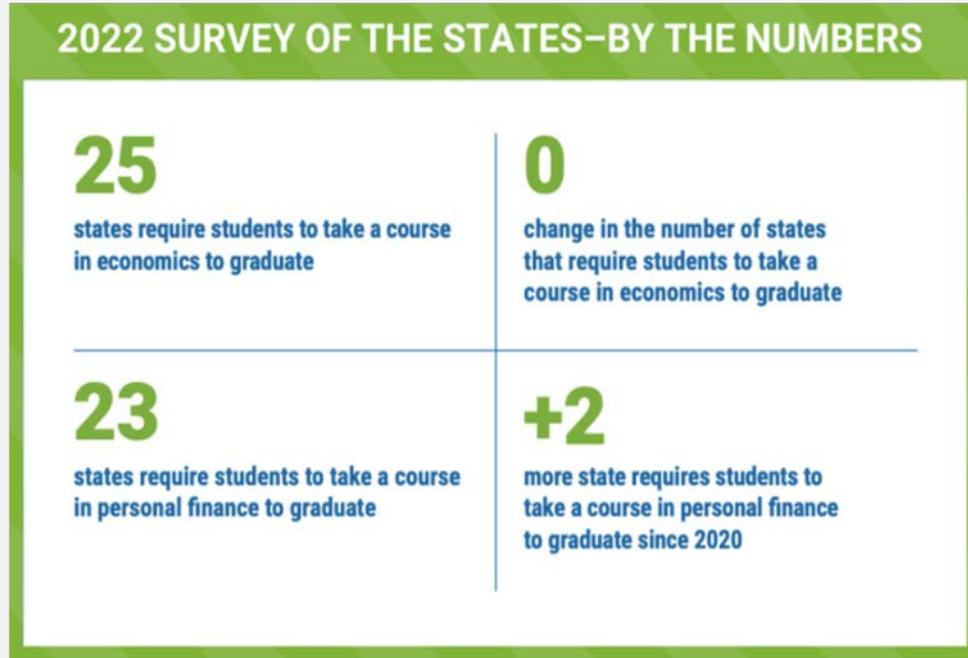


Financial education in school



Financial education in high school

Many states are increasingly mandating financial education in high school



As of 2022, **23 states** require high school students to take a course in personal finance, an increase of 2 states since 2020, but more is underway.



The effects of financial education in high school

- A study investigates the effects of mandatory financial education in high school in two states: Georgia and Texas.
- Using data from the Federal Reserve Bank of New York/ Equifax Consumer Credit Panel (CCP) they track young people (age 18-21).
- Financial education exposure is associated with
 - fewer defaults
 - higher credit scores

“The Effects of High School Personal Finance Education Policies on Financial Behaviors”, Urban et al., Economics of Education Review, October 2020, vol. 78.



How to make it more effective

- *Have a one-semester course*
- *Rigorous curriculum*
- *Train the teachers*
- *Standardized evaluation*

“The Effects of High School Personal Finance Education Policies on Financial Behaviors”, Urban et al., Economics of Education Review, 2020, Vol. 78: 101786.



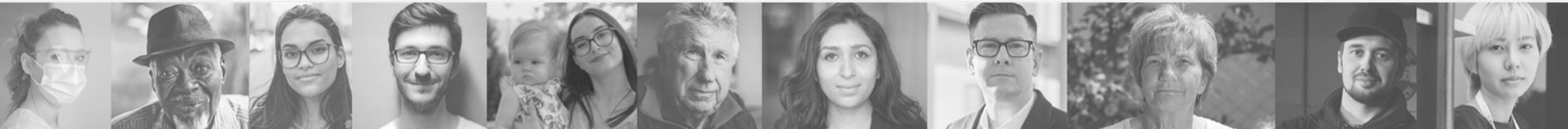
Fast Lane: Promote financial education in high school

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

Let's work together to get financial education in our high schools.

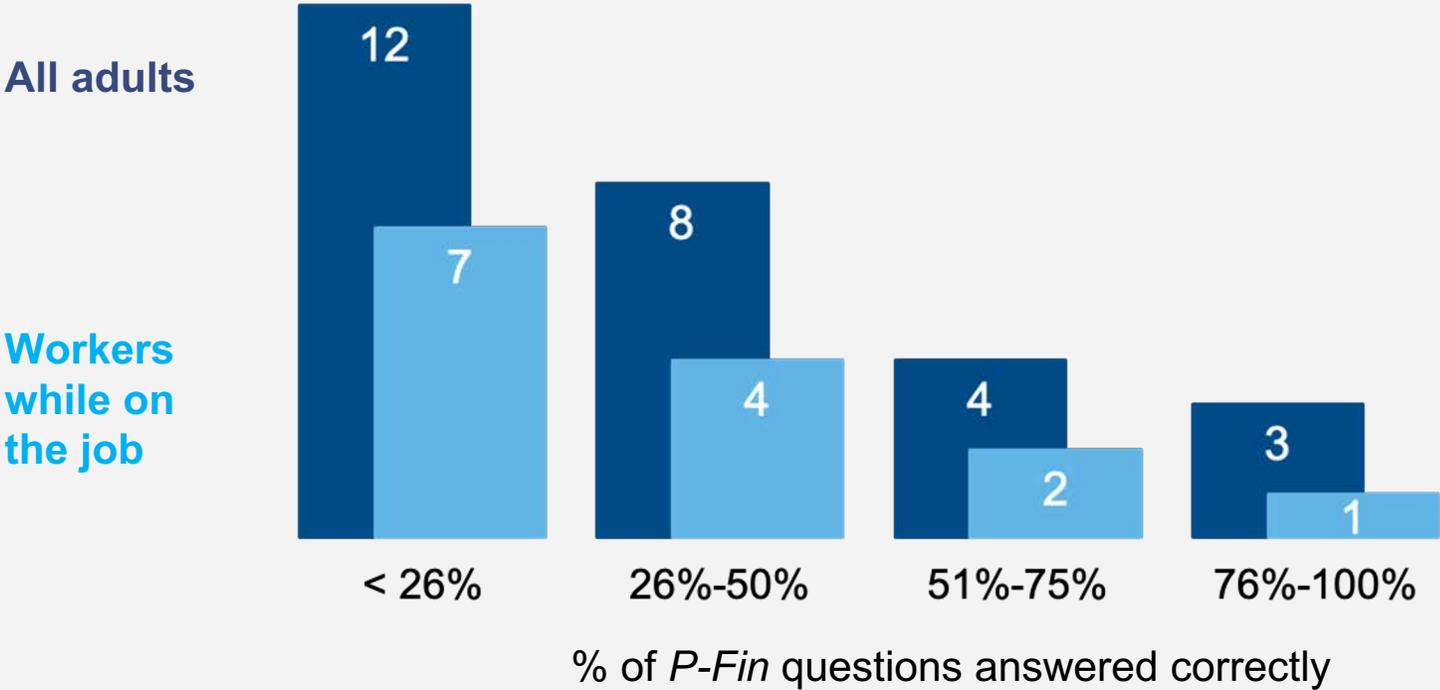


Fast track to financial education in the workplace



A simple measure of the cost of financial illiteracy

Average hours per week spent thinking about and dealing with issues and problems related to personal finances



People spend an average of 7h per week thinking about and dealing with financial issues and problems. An average of 3h per week occur at work.

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



What we have learned from our projects



Online program - SSA



FINRA Investor
Education Foundation



European Investment
Bank Institute



Dartmouth College



Federal Reserve Office of
Employee Benefits



New York Stock Exchange



Five steps to planning success

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



Five steps to financial success: topics

The five topics

- ***Compound interest***
 - How to grow your wealth
- ***Inflation***
 - The erosion of purchasing power over time
- ***Risk diversification***
 - Do not put all your eggs in one basket
- ***Tax treatment of retirement savings vehicles***
 - Taxes advantages; 401(K) and IRAs
- ***Employer matches in defined contribution saving plans***
 - Don't leave money on the table



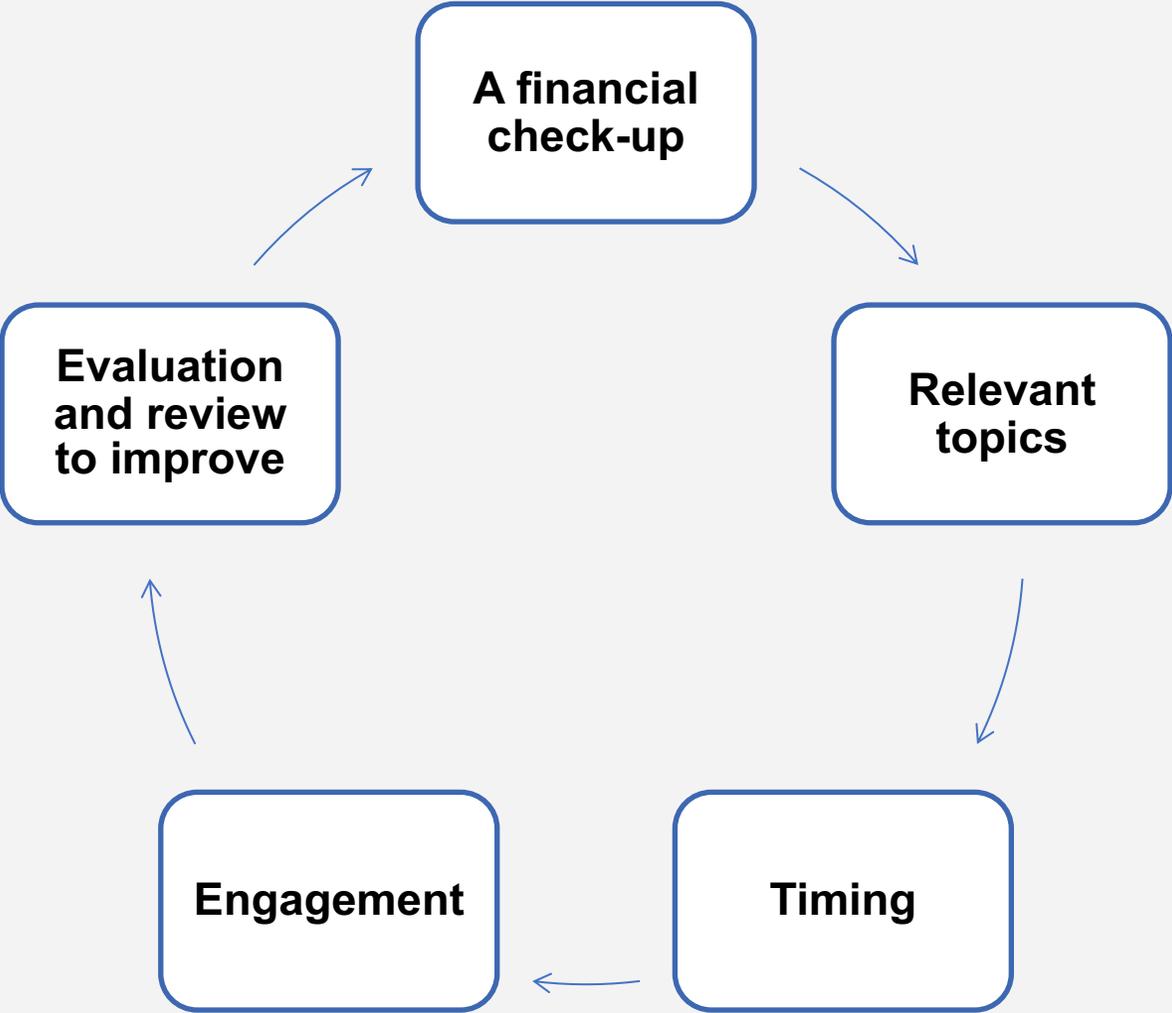
Five steps to financial success: effectiveness

- After being exposed to videos, financial literacy improved among participants
- While young were targeted, the videos affected all age groups
- 25-33% of the knowledge gain is still observable after 8 months
- People learned even difficult topics, such as risk diversification

Even short interventions can affect knowledge



Financial education in the workplace: main components



1. A financial check-up

As going to the doctor for a regular check-up, a financial check-up can help assess financial health

- It should look at several indicators (not just one variable, such as retirement savings)
- It provides a way to then segment and better target employees' needs
- It allows to track progress over time if measured on a regular basis



2. Relevant topics

The building blocks of financial security

- Cover beyond retirement savings (below are some topics)
- Most effective if tailored to the specific needs and financial circumstances of the participants.



3. Timing is important

- Make it timely
- Programs can use critical moments when financial decisions are made: orientation, end of the year, tax time, birth of children, etc.
- The current crisis is a “teachable moment”



4. Boost engagement

- Simplify financial decisions (step-by-step action plan)
- Make it easy to understand and participate
- Provide incentives to participate
- Personalize as much as possible and make it relevant



5. Evaluation

Evaluate to show impact and adjust to increase effectiveness

- Repeat on a regular basis
- Continually evaluate and assess impact
- Adjust programs to increase effectiveness



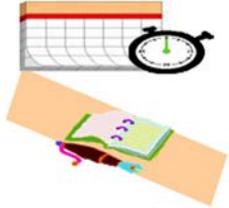
An example: the Dartmouth Project

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.

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: \$1,866.67/ 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



Impacting business: our research reaches the New York Stock Exchange

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.
[LEARN MORE](#)

Follow Us
Facebook Twitter LinkedIn

Curiosity
Register Your Classrooms Today for an Engaging Student Challenge
[Learn More](#)

Discovery
NYSE Euronext.

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](#)

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.
[MORE](#)

[Ask Our Experts a Question](#)

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.



Research-based workplace financial education programs

Our workplace financial wellness webpage describes the financial wellness programs we have designed based on our research



Museum of saving in Italy



A national strategy for financial literacy



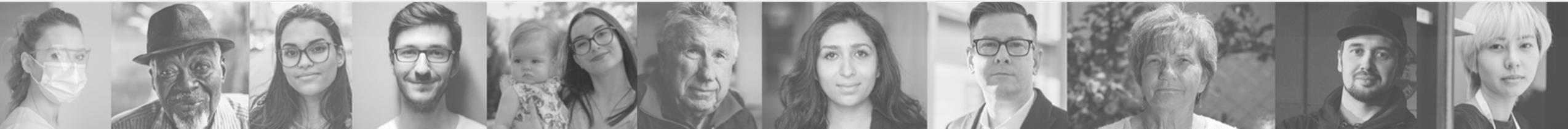
I chair the Italian Committee for Financial Education in charge of designing a national strategy for financial literacy

We built a website to provide financial education to the Italian population

We are evaluating our national campaign



How about us?



Personal finance course at Harvard



Personal finance course at GW since 2013



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



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

Stanford | Institute for Economic Policy Research (SIEPR) | Stanford | Department of Economics | SCHOOL OF HUMANITIES AND SCIENCES | STANFORD BUSINESS | GRADUATE SCHOOL OF BUSINESS | GFLEC 10 | GLOBAL FINANCIAL LITERACY EXCELLENCE CENTER | GW | Business

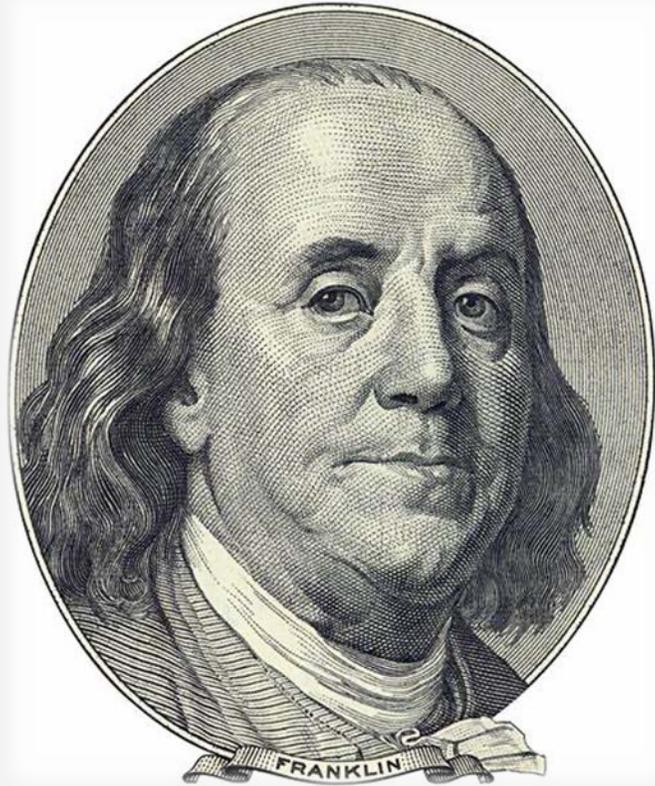
Teaching Personal Finance Conference

Stanford University | September 29, 2022

[HOME](#) | [ABOUT](#) | [AGENDA](#) | [PEOPLE](#) | [LOGISTICS](#) | [TEACHING MATERIALS](#)



From one of the Founding Fathers



“An investment in knowledge pays the best interest”

- Benjamin Franklin





Thank you!

More info at www.gflec.org or send me questions at alusardi@gwu.edu.

GFLEC 10 YEARS
GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

A Decade of Connecting Research, Policy, and Solutions

