

The Maldives Finance Forum 2013

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Financial Literacy for Good Governance

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Why is financial literacy important?

A new economic landscape

Major changes that increase individuals' responsibility for their financial well-being

- **Changes in the pension landscape**
 - More individual accounts
- **Changes in the labor markets**
 - Flexibility, pensions have to be portable
- **Changes in the financial markets**
 - More complexity
 - More opportunities to borrow and large amounts

Financial literacy and pensions

A new pension landscape

Many changes in pensions across countries

- **Individuals have to decide how much to save for retirement**
 - Financial planning for the long run
- **Individuals have to decide how to invest retir. wealth**
 - Risk preferences matter
- **Individuals have to decide how to decumulate**
 - Annuities and other financial instruments
 - Mistakes late in life can be dire

Financial literacy is a life skill

Financial literacy is needed throughout life

➤ Investment in education

- One of the most important decisions individuals have to take when young

➤ Participation in financial markets

- Understand existing and new financial products

➤ Citizenship and democracy

- Citizens are asked to vote on different economic policies, such as economic reforms

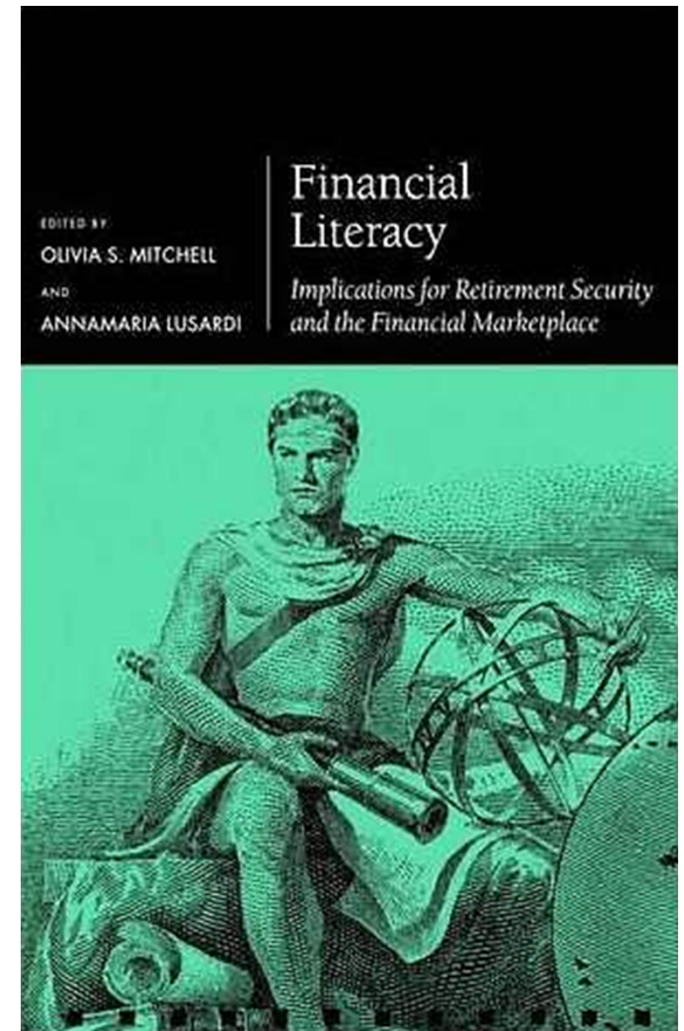
What is the evidence?

Financial literacy and retirement planning around the world

- **We designed a module on financial literacy and retirement planning which has been used in many countries**
 - **International comparison is still continuing**
- **The importance of data and rigorous research**
 - **Identify vulnerable groups**
- **Bring a global perspective**
 - **Financial literacy and pension changes cut across countries**

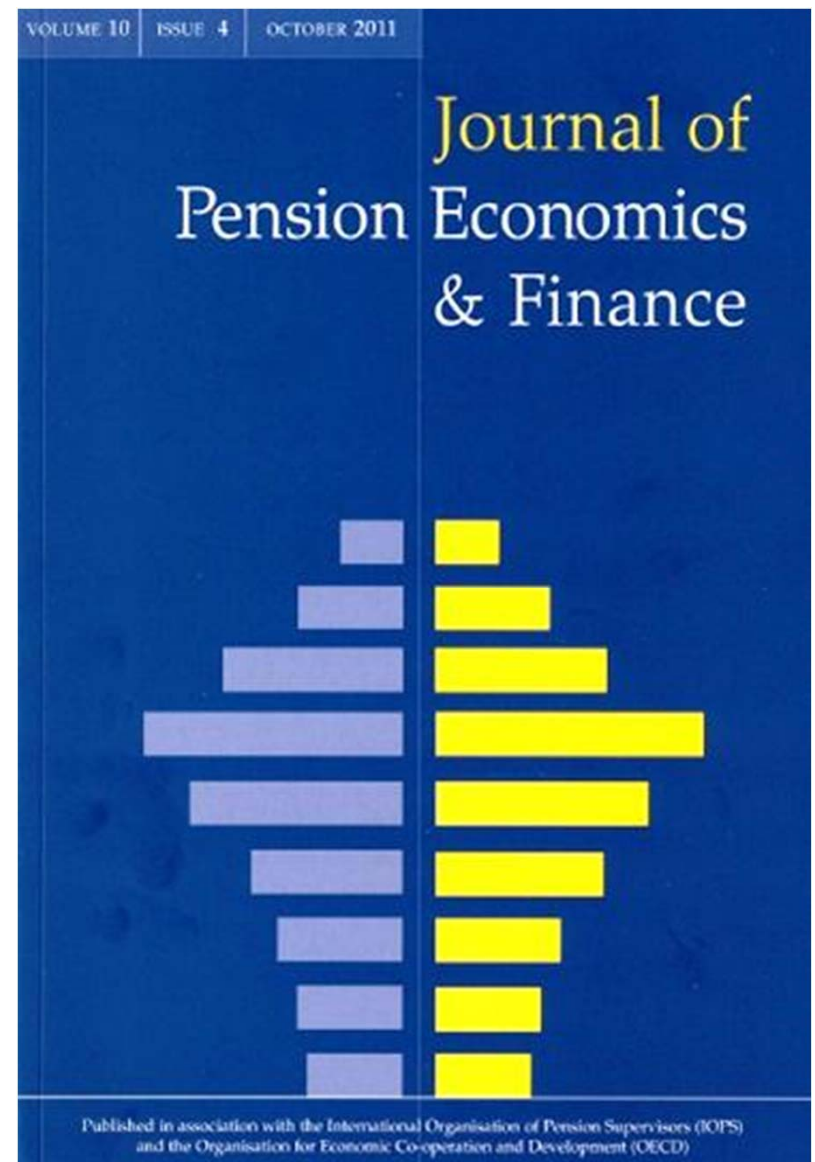
Multi-year research project

- ***Financial Literacy: Implications for Retirement Security and the Financial Marketplace***
- The book covers the experiences of several countries



Special Issue of JPEF, October 2011

- ***Financial Literacy around the World (FLat World)***
- **We published a paper for each participating country**



Financial Literacy around the World (FLat World)

We examine data from national surveys in 8 countries

- ❖ The Netherlands
- ❖ Germany
- ❖ Italy
- ❖ Russia
- ❖ Sweden
- ❖ New Zealand
- ❖ Japan
- ❖ USA



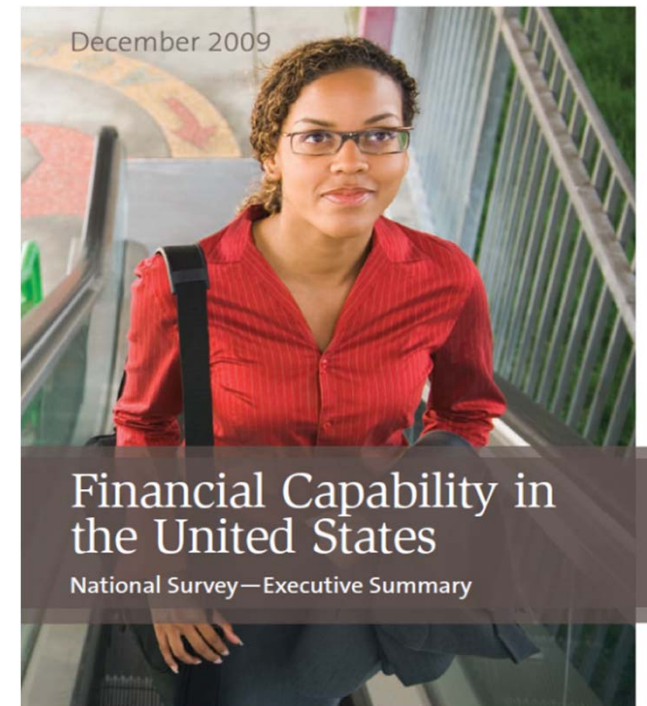
Participated in the design of the US survey

The 2009 National Financial Capability Study

It includes 3 surveys:

1. **National Survey**: Nationally projectable telephone survey of 1,488 American adults
2. **State-by-State Survey**: Online survey of approximately 28,000 respondents (roughly 500 per state + DC)
3. **Military Survey**: Online survey of 800 military personnel and spouses

New wave went into the field in Summer 2012



Findings: The world is *flat*

Similar patterns across countries

- Financial illiteracy is widespread in the population
 - Little knowledge of interest compounding, inflation and risk diversification
- Financial literacy is lowest among
 - Young, old, low-education and low- income groups, women
- Financial literacy is a strong determinant of retirement planning/pension plan participation
 - Many people do not plan for retirement
 - Knowledge of risk is particularly important for retirement planning

Gender differences in financial literacy

Women and financial literacy

- **Large gender differences in financial literacy**
 - **Similar pattern across countries**
- **Women answer in the same way**
 - **They frequently state they “do not know” the answer**
- **Women report low levels of self-assessed knowledge**
 - **A group to target**



Where can financial literacy be successful?

Ideal venues for financial education

➤ In schools

- Easier to reach the young
- Need a base on which to build



➤ In the workplace

- Easier to reach the adults
- Growing importance of private pensions



➤ In libraries, local communities, museums

- Where people go to learn



Financial education in schools

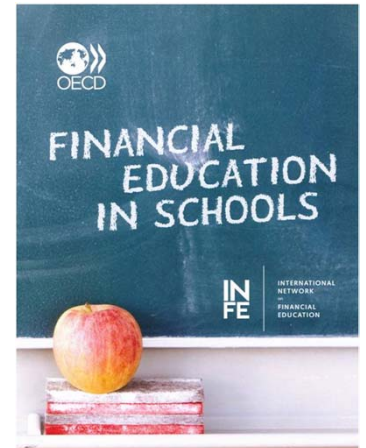
Need to prepare the new generations

Financial education in school is critically important:

- Investment in higher education is one of the most important decisions the young face
 - Young people need to understand the weight of this decision
- Need to be financially literate *before* engaging in financial transactions
 - It is much cheaper to educate the young
- Provide an equal opportunity to learn
 - Without fin educ, the young enter adult life on unequal footing

OECD's 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?**



**PISA 2012 Assessment
and Analytical Framework**
MATHEMATICS, READING, SCIENCE,
PROBLEM SOLVING AND FINANCIAL LITERACY



**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*.**

Workplace education

Recommendations from research

- **Importance of “teachable” moments**
 - When hiring, promotion, tax times, changes in family, etc.
- **Used easy methods of communication**
 - Videos, visual tools
- **Keep communication free of economic/financial jargon**
 - Very important for women
- **Cover risk and risk diversification**
 - Risk is most difficult concept to grasp



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Workplace Financial Fitness Toolkit



ABOUT THE PROGRAM

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EMPLOYER RESOURCES

Reduce Costs

Improving your employees' financial fitness can reduce your company's costs via:

- Reduced absenteeism
- Reduced HR administrative costs
- Reduced pressure to increase salaries and wages
- Reduced Social Security payroll taxes
- Reduced turnover and increased productivity

FOR YOUR EMPLOYEES

Enhance Lives

Financial fitness can enhance employees' lives through:

- Increased savings plan participation
- Increased awareness of employer benefits
- Increased morale and work satisfaction
- Reduced health care premiums
- Reduced stress

ABOUT THE FINANCIAL LITERACY CENTER



The FLC's mission is to develop and test innovative programs to improve financial literacy and promote informed financial decision making.

With support from the Social Security Administration, the Center was established in October 2009 by the RAND Corporation, Dartmouth College, and the Wharton School of the University of Pennsylvania in order to develop educational tools and programs that help individuals prepare for their long term financial stability.

THE EXPERTS

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Annamaria Lusardi and Punam Anand Keller can help boost your team's financial fitness.

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Building long-term financial security

Best practices

How employers can help new hires save for retirement:
Best practices that build long-term financial security

A newly published report: best practices for improving financial decision making in the workplace.

- **Based on studies of many employer-provided financial education programs**
- **Goal of the report is to help employers improve retirement saving choices of newly hired workers**

Insights: American Financial Capability

September 2012

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School of Business

THE GEORGE WASHINGTON UNIVERSITY

How Employers Can Help New Hires Save for Retirement: Best Practices that Build Long-Term Financial Security

Top Ten Best Practices

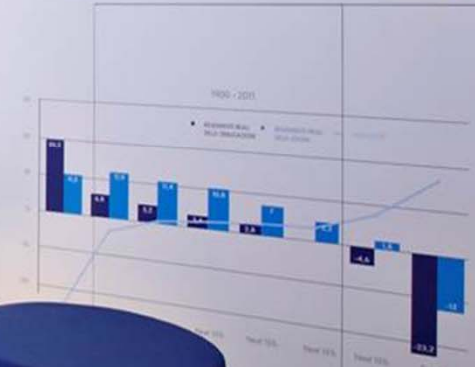
Not all employer-sponsored defined contribution retirement savings plans are created equal—some employer practices and plan designs are more successful than others in helping new hires accumulate a robust retirement nest egg. We reviewed numerous studies conducted by researchers affiliated with the Financial Literacy Center, and have identified ten powerful—and often relatively easy—ways to increase financial literacy among newly hired employees, enhance their ability and willingness to participate in and contribute to retirement plan accounts, and improve their overall financial well-being. The guidance offered in this report is based on information derived from studies of real people in real situations and examination of how their behavior is affected by workplace policies and practices.¹

A museum of savings in Turin, Italy





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The international reserves glut.

Ripartiamo
si cresce.
Savings and growth





An International Federation of Finance Museums

GCFI

**GLOBAL CENTER
FOR FINANCIAL LITERACY**

MU\$EUM
OF AMERICAN
FINANCE



中國金融博物館 李貴鮮
CHINESE MUSEUM OF FINANCE

MdR
MUSEO DEL RISPARMIO



You are invited to attend the

INAUGURAL CONFERENCE AND MEETING OF THE
INTERNATIONAL FEDERATION OF FINANCE MUSEUMS

WEDNESDAY, JUNE 19, 2013

Museum of American Finance
48 Wall Street, New York City

On behalf of the Global Center for Financial Literacy, the Chinese Museum of Finance, the Museo del Risparmio and the Museum of American Finance, please join us as we come together for this one-day event in New York City. Meet and share dialogue with fellow museums on best practices, financial literacy and the establishment of this new global consortium.

For additional details and to RSVP, please contact:

John Wall • Executive Director

Concluding remarks

The importance of financial literacy

- **Financial literacy is like *reading and writing***
 - It is an essential skill for the 21st century
 - Imagine what a world with no education would look like
- **It is essential for *full participation in society***
 - Citizens are asked to vote on economic reforms
- **It is a global issue**
 - Countries can learn from each other

Financial illiteracy is a complex but solvable problem

“If we can really see a problem, which is the first step, we come to the second step: cutting through the complexity to find a solution.”

Bill Gates, Harvard 2007

Thank you

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