

The Financial Literacy Initiative

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Research to Date

My research to date has focused on financial literacy and financial education programs. Over the last six years, I have designed and implemented survey questions to measure financial literacy. The first set of literacy questions I designed (together with Olivia Mitchell) was used in the 2004 U.S. Health and Retirement Study (HRS), a national survey covering respondents age 50 and older. I have extended the set of questions to the 2006 HRS, and I have again included financial literacy questions in the 2008 HRS. I intend to continue to work with the HRS to evaluate what older Americans do and do not know about economics and finance and the impact of that knowledge on saving and retirement preparedness.

In my published papers and working papers listed below, I have documented an alarmingly low level of financial literacy among older people in the United States. For instance, financial illiteracy is particularly severe among certain demographic groups, such as women, the elderly, and those with low educational attainment and income. In the HRS sample of older respondents, over half cannot undertake a simple calculation regarding interest rates over a five-year period and do not know the difference between nominal and real interest rates. An even larger percentage of respondents do not know that holding a single company stock is riskier than holding a stock mutual fund. I have also shown that financial illiteracy is related to the inability to devise and implement financial plans. That is, one reason people fail to plan is that they are financially unsophisticated. My work demonstrates that planning behavior can explain differences in savings and why some people arrive close to retirement with very little or no wealth. This is only one of the disturbing consequences of financial illiteracy. Consumers with low literacy are also less likely to participate in the stock market, and they are more likely to have problems paying off debt.

My work has also evaluated the role and effects of financial education programs. Most large firms, particularly those offering Defined Contribution pensions, offer some form of education program. The evidence to date on the effectiveness of these programs is very mixed (Lusardi and Mitchell 2007). Using HRS data, I find that seminars do affect wealth holdings. Estimated effects are sizable for the least wealthy, for whom attending seminars appears to increase financial wealth (a measure of retirement savings that excludes housing and business equity). Furthermore, seminars affect not only private wealth but also measures that include pensions and Social Security wealth, perhaps because seminars provide information about pensions and encourage workers to participate and contribute (Lusardi, 2004). Moreover, I have argued that it is not surprising that one retirement seminar may change behavior only modestly. The few available studies of the topic indicate how many seminars were offered or how many participants attended; in general, participants appear to attend only once or a handful of times. It is unlikely that widespread financial illiteracy will be “cured” by a one-time benefit fair or a single seminar on financial economics. This is not because financial education is ineffective, but because these programs are too small with respect to the size of the problem they are trying to address. This is important since financial advice provision has been made more feasible by the Pension

Protection Act of 2006. Some have contended that such programs cannot boost retirement savings, but my analysis indicates that planning can actually jump-start the retirement saving process. A one-size-fits-all approach is unlikely to do much to build retirement wealth: education programs must be targeted specifically to particular subgroups. Nevertheless, differences in planning behavior do help explain why household retirement assets differ and why some people cross the retirement threshold with very little (or no) wealth.

My efforts to examine the causes and consequences of financial illiteracy have been extended to datasets beyond the HRS, permitting me to assess financial literacy and financial sophistication for many different groups of U.S. respondents. For instance, with my assistance, questions on financial literacy have been incorporated into the National Longitudinal Survey of Youth and the Rand American Life Panel. I have also been successful in getting several European institutions to add similar questions to household surveys in their own countries. For example, a recent Italian Survey on Household Income and Wealth included some of these questions, and I worked with the Dutch Central Bank to design questions to measure both financial literacy and financial sophistication in the Netherlands.¹

Financial Education Initiatives

I have not only studied financial education programs but also designed and implemented a major program at my institutions. With financial support of the National Endowment for Financial Education and in collaboration with the Vice President for Finance and Administration at Dartmouth College and a marketing professor from the Tuck School of Business, I led a project to promote saving and contributions to supplementary pensions among Dartmouth employees. The focus of the program has been on women and low-income employees. I used my expertise in saving, retirement planning, and financial literacy to design a plan that simplifies saving decisions and provides both information and advice to employees. The program, which resulted in more than doubling the participation in supplementary pensions, is described in the paper “New Ways to Make People Save: A Social Marketing Approach,” to appear in my forthcoming book. The success of this project has allowed me to expand the program to the Dartmouth-Hitchcock Medical Center, where I was hired as a consultant to promote saving and pension participation among hospital workers. I was asked to write about this project for publications that circulate among employers, and I described the program in the July/August 2007 issue of *Defined Contribution Insights*, a publication of the Profit Sharing/401(k) Council of America, and in the June 2008 issue of TIAA-CREF Institute’s *Trends and Issues*.

Public Policy Impact

My work has influenced a number of key policymakers. In 2007, I was one of four experts on financial literacy (with Lewis Mandell, Sarapage McCorkle, and William Walstad) engaged by the U.S. Department of the Treasury to design a test to measure financial literacy among high school students. The test was completed in December 2007 and distributed to many high schools

¹ The questions I have designed for the HRS have become the gold standard of questions to measure literacy and have been added to other surveys, including a survey of participants to the state employees plan in the state of Nebraska, a 2007 pilot survey of participants in Mexico’s privatized Social Security plan, and a survey on entrepreneurs in Sri Lanka.

across the United States. Most recently, the U.S. Department of the Treasury has put me in charge of designing a survey on financial capability for the U.S. population. Following the lead of the UK Financial Services Authority, many countries have designed surveys aiming to assess how well people make ends meet, keep track of their finances, plan ahead, choose financial products, and stay informed about financial matters. With support from the U.S. Financial Industry Regulatory Authority, I am leading a research group whose mission is to design such a survey for the United States. The goal is to finalize the survey and be ready to collect the data in the fall of 2008. I also testified before the Working Group on Financial Literacy of Plan Participants for the 2007 U.S. Department of Labor Advisory Council on Pension and Welfare Benefit Plans to highlight the need to improve financial literacy among workers.

Key Publications

The complete list of my publications and working papers appears at the end of this document. Some of the publications that have been most influential include the following:

- My paper “Saving and the Effectiveness of Financial Education” was published in the book *Pension Design and Structure: New Lessons from Behavioral Finance*, eds. Olivia Mitchell and Stephen Utkus (Oxford University Press, 2004). It has been widely cited and was later reprinted in the *Journal of Financial Transformation*, vol. 15, December 2005.
- My study “Baby Boomer Retirement Security: The Role of Planning, Financial Literacy, and Housing Wealth” appeared in the *Journal of Monetary Economics* in January 2007. This paper was awarded the Fidelity Pyramid Prize, a \$50,000 award given to authors of research that best helps address the goal of improving lifelong financial well-being for Americans.
- The paper “Planning and Financial Literacy: How Do Women Fare?” appeared in the *American Economic Review* in May 2008. It documents the very low level of financial literacy among older women in the United States.
- The paper “Debt Literacy, Financial Experience, and Overindebtedness” (joint with Peter Tufano) has been widely cited in the press because it documents a strong relationship between financial illiteracy and debt problems.

To circulate the results of my research, I have also prepared several white papers directed at the business community, policymakers, and central bankers. Specifically, I wrote the paper “Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education,” which was presented at the 2006 annual meeting of the National Association for Business Economics; it appeared in *Business Economics* in January 2007. Moreover, I wrote “How Much Do People Know about Economics and Finance? Financial Illiteracy and the Importance of Financial Education,” which appeared in the Michigan Retirement Research Center’s *Policy Brief* in March 2008. I also wrote a paper entitled “Increasing the Effectiveness of Financial Education in the Work-Place,” commissioned by the OECD and the U.S. Treasury for an international conference on financial education held in Washington, D.C., in May 2008. That paper will be published in the conference proceedings. I was also asked to prepare a paper for the Federal Reserve Bank of Boston; that work—“Household Saving Behavior: The Role of Financial Literacy, Information and Financial Education Programs”—is forthcoming in a book entitled *Implications of Behavioral Economics for Economic Policy*.

Presentations and Conferences

I have organized and continue to design new conferences that explore ways to increase the effectiveness of financial education programs. One very influential conference was held at Dartmouth College in October 2005 (www.dartmouth.edu/~lusardiworkshop/) and a second at the National Bureau of Economic Research in Cambridge, Massachusetts, in May 2007 (www.dartmouth.edu/~conference2007/index.htm). These two conferences brought together practitioners, policymakers, and academics from economics, psychology, and marketing. By examining data from newly available surveys and combining knowledge and experience from different fields, the conferences sought to develop new methods and strategies to improve employer-provided financial education programs. Information and insights from these conferences are described in the book that I am publishing in 2009, which compiles contributions of some of the most highly regarded experts in the fields of financial education, savings, pensions, insurance, and portfolio choice. This book, entitled *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*, examines not only the experience of the United States but also the experiences of other countries, such as Sweden, Chile, and OECD nations. It is forthcoming from the University of Chicago Press in January 2009.

Given my expertise on financial literacy and financial education programs, I have been invited to speak at many national and international conferences on these topics. Some of the most important ones at which I spoke include the November 2006 G8 International Conference on Improving Financial Literacy organized by the Russian Ministry of Finance and the OECD and held in Moscow. I also was the keynote speaker at the Italian Congress of Econometrics and Empirical Economics in January 2007, where I discussed the methodological issues of measuring financial literacy. Furthermore, I spoke at the International Conference on Financial Education organized by the U.S. Department of the Treasury and the OECD and held in Washington, D.C., in May 2008. I presented at the conference Consumer Information and the Mortgage Market organized by the Federal Trade Commission and held in Washington, D.C., in May 2008, and at a meeting of central bankers and members of national monetary authorities titled Enhancing Financial Education and Consumer Awareness organized by Central Banking Publications and held at Kings College in Cambridge, UK, in September 2008.

Publication List from the Project on Financial Literacy and Financial Education

- **Refereed Publications**

Lusardi, A. "Preparing for Retirement: The Importance of Planning Costs," *National Tax Association Proceedings*, 2002, pp. 148-154.

Lusardi, A. "Saving and the Effectiveness of Financial Education." In *Pension Design and Structure: New Lessons from Behavioral Finance*. Eds. S. Mitchell and S. Utkus, Oxford University Press: Oxford, 2004, pp. 157-184. Reprinted in the *Journal of Financial Transformation*, issue on Wealth, vol. 15, December 2005.

Lusardi, A. and O.S. Mitchell. "Financial Literacy and Retirement Preparedness. Evidence and Implications for Financial Education," *Business Economics*, January 2007, pp. 35-44.

Lusardi, A. and O.S. Mitchell. "Baby Boomer Retirement Security: The Role of Planning, Financial Literacy, and Housing Wealth." *Journal of Monetary Economics*, January 2007, 54, pp.205-224.

Lusardi, A. and O.S. Mitchell. "Planning and Financial Literacy: How Do Women Fare?" *American Economic Review*, May 2008, 98 (2), pp. 413-417.

Lusardi, A.. "Household Saving Behavior: The Role of Financial Literacy, Information and Financial Education Programs," *Implications of Behavioral Economics for Economic Policy*. Forthcoming.

Lusardi, A., P. Keller and A. Keller. "New Ways to Make People Save: A Social Marketing Approach." In *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*. Ed. A. Lusardi, University of Chicago Press. Forthcoming.

Lusardi, A. "Increasing the Effectiveness of Financial Education in the Work-Place," *Financial Education: Taking Financial Literacy to the Next Level*. The U.S. Department of the Treasury and the OECD. Forthcoming.

- **Working Papers**

Lusardi, A. and O.S. Mitchell. "Financial Literacy and Planning: Implications for Retirement Wellbeing," Pension Research Council Working Paper, 2006.

Lusardi, A., M. van van Rooij and A. Alessie. "Financial Literacy and Stock Market Participation," NBER Working Paper n. 13565. October 2007.

Lusardi, A. and O.S. Mitchell. "Financial Literacy and Retirement Planning: New Evidence from the Rand American Life Panel," MRRC Working Paper 2007-157.

Lusardi, A. "Financial Literacy: An Essential Tool for Informed Consumer Choice?" Working Paper, Joint Center for Housing Studies, Harvard University, 2008.

Lusardi A. and P. Tufano. "Debt Literacy, Finance Experience, and Overindebttness," Working Paper, Harvard Business School, 2008.

Lusardi A, O. Mitchell and V. Curto. "Financial Literacy among the Young," Working Paper, 2008.

- **Other Publications**

Lusardi, A. "Increasing Saving among the Poor: The Role of Financial Literacy," *Poverty Research News*, Northwestern/University of Chicago Joint Center for Poverty Research, January-February 2002, vol. 6(1).

Lusardi, A. "401(k) Pension Plans and Financial Advice: Should Companies Follow IBM's Initiative?" *Employee Benefit Plan Review*, July 2007, vol. 62 (1), pp. 16-17.

Lusardi, A. "How to Foster Saving and Participation to Pensions: A New Approach," *Defined Benefit Insights*, Profit Sharing/401(k) Council of America, July/August 2007, pp. 14-16.

Lusardi, A. and O.S. Mitchell. "How Much Do People Know About Economics and Finance? Financial Illiteracy and the Importance of Financial Education," *Policy Brief*, Michigan Center for Retirement Research, March 2008.

Lusardi, A, P. Keller and A. Keller. "New Ways to Make People Save. The Dartmouth Project," *Trends and Issues*, TIAA-CREF Institute, June 2008.