



# Financial Literacy in Times of Turmoil and Retirement Insecurity

## Conference Proceedings

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# Financial Literacy in Times of Turmoil and Retirement Insecurity

Friday, March 20, 2009, 8:30 am - 4:30 pm

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# Agenda

- 8:50**            **Welcome**  
The Honorable Jason Fichtner, Acting Deputy Commissioner, Social Security Administration
- Session I**        **Financial Literacy, Planning, and Retirement Saving**  
Chair: Mark Iwry, The Brookings Institution
- 9:00**            Financial Literacy, Retirement Planning, and Retirement Wellbeing: Lessons and Research Gaps  
Annamaria Lusardi, Dartmouth College and Olivia Mitchell, The Wharton School
- Retirement Savings, Framing and Financial Literacy  
Julie Agnew, College of William and Mary
- Disentangling Cognitive Function and Financial Literacy: Implications for Financial Retirement Security Research  
Robert Willis, University of Michigan
- Discussant: David Certner, AARP
- Session II**        **Financial Illiteracy and Retirement Expectations: Prospects for Longevity, Decumulation, and Health**  
Chair: Olivia Mitchell, The Wharton School
- 10:30**            Life-cycle Spending after Retirement and Adequacy of Economic Preparation for Retirement  
Michael Hurd, Rand Corporation
- Individuals' Understanding of Social Security Benefit  
Erzo Luttmer, Kennedy School of Government, Harvard University,
- Financial Entertainment  
Nick Maynard, Financial Entertainment D2D Fund
- Discussant: Andrew Biggs, American Enterprise Institute
- 11:45**            **Keynote Address**  
The Honorable Michael Astrue, Commissioner, Social Security Administration
- 12:15**            **Lunch and Roundtable Discussion of Agency Initiatives**  
Chair: Jason Fichtner, Social Security Administration
- Panelists**  
John Gannon, Financial Industry Regulatory Authority  
Jeanne Hogarth, Federal Reserve Board  
Kristi Kaepplein, Securities and Exchange Commission  
Debra Golding, US Department of Labor  
Ted Beck, National Endowment for Financial Education  
Dubis Correal, Office of Financial Education, US Department of the Treasury

**Session III**      **Alternative Approaches to Financial Literacy**  
Chair: Robert Clark, North Carolina State University

**1:45**              Strategies for Promoting Lifetime Income  
Shawn Cole, Harvard Business School

Defaults and Saving Outcomes: Lessons, Research Gaps, and  
Implications for Saving Policy  
Brigitte Madrian, Kennedy School of Government, Harvard University

National Plan for Automatic IRAs

Mark Iwry, Retirement Security Project and Brookings Institution and David John,  
Retirement Security Project and Heritage Foundation

Discussant: John Phillips, National Institute on Aging

**Session IV**      **Marching Orders for Research and Policy**  
Chair: Annamaria Lusardi, Dartmouth College

**3:00**              Providing Low-Cost Advice for Middle-Income Households  
Sheryl Garrett, Garrett Planning Network

Can Financial Literacy Helps Debtors Recover from Bankruptcy?  
Michael Staten, University of Arizona

Internet Survey on Financial Literacy and how SSA Might Access and Potentially Use this  
On-line Survey  
Angela Hung, Rand Corporation

Discussant: William Gale, Retirement Security Project and Brookings Institution

**4:15**              **Closing Remarks**  
John Laitner, University of Michigan

# Foreword

Even prior to the current financial crisis, retirement in America had begun to seem less secure. The long-term shift away from defined benefit to defined contribution pensions was exacerbated by low and often negative personal saving rates, too-high credit card debt, and steep mortgage commitments. And increasingly complex financial products have offered many new ways to spend money, making saving even harder.

If Americans are to survive and thrive in the new financial order, what is needed is a concerted and creative set of efforts to become savvier about making financial decisions. Part of the process will require policymakers to rectify serious problems in the financial services industry, rebuilding trust with enhanced transparency. Yet they must also direct their attention to helping the average consumer, so as to boost Americans' financial literacy so that they may take better command of their own financial futures.

The financial crisis has highlighted the critical importance of personal financial knowledge and skills for young and old alike, and it has also heightened awareness of strikingly low levels of financial literacy across the board. Our conference on financial literacy and retirement security was convened to inform about research findings and best practice in the fields of

financial literacy, retirement planning, and retirement well-being. Topics covered included the influence of framing on financial and retirement security, to lessons learned from the mortgage crisis. All paid special attention to policy implications for fiduciaries, financial and service providers, and advisers. The goal was to begin a dialogue on how to make financial education and advice most effective, and how to integrate financial literacy with robust evaluation efforts.

In good times, people tend to defer what they should do to build their skills needed to achieve retirement security. But we have a “teachable moment”, as SSA Commissioner Astrue has stated. Americans today have more access to financial products than at any time in the past, which offers benefits but also imposes new burdens. There is an opportunity to make real progress in building financial information and skills needed to enhance saving and retirement security. We are delighted to have assembled such an illustrious group to trace the path before us.

Annamaria Lusardi  
Olivia Mitchell  
Mark Iwry  
June 2009

# Proceedings

## Financial Literacy in Times of Turmoil and Retirement Insecurity

**O**n March 20, the MRRC co-hosted the conference Financial Literacy in Times of Turmoil and Retirement Insecurity along with the Brookings Institution, Wharton's Pension Research Council and Boettner Center, and the Retirement Security Project. The Social Security Administration provided support for the conference. Held at the Brookings Institution, the conference focused on how workers and retirees can better manage saving for retirement and how they can stay secure during retirement. Participants identified research and policy directions for the future.

### Welcome

Jason Fichtner, Acting Deputy Commissioner of Social Security, offered welcoming remarks, noting that the current economic crisis has hit private retirement accounts hard, decreasing their value by about two trillion dollars. Inadequate retirement planning puts many Americans at risk of having too little retirement income. He observed that the new administration discussed this issue recently in the budget blueprint. Seventy-five million working Americans, almost half the workforce, currently lack access to employer-sponsored retirement plans.

The blueprint also notes that incentives to save for retirement are weak for most middle and low-income households. To address this, President Obama's 2010 budget offers policy options for retirement, including automatic workplace pensions and making the saver's credit refundable.

Fichtner suggested that research is a very important part of understanding saving and retirement behavior and behavioral responses to policy changes. He pointed out that the Social Security Administration (SSA) has a strong commitment to research and has funded basic research on financial literacy and education as part of the Retirement Research Consortium. To augment these efforts, the SSA is planning to fund a new research center for financial literacy. Part of the new center's focus will be to transform research findings into a variety of products that can be tested for their efficacy in helping American's learn about their finances and the importance of saving.

## Session I: Financial Literacy, Planning, and Retirement Saving

### Financial Literacy, Retirement Planning, and Retirement Wellbeing: Lessons and Research Gaps

**Annamaria Lusardi** discussed aspects of her research conducted with **Olivia Mitchell** and others over the years on the topic of financial literacy. She noted that we are living in a rapidly changing and complex financial landscape in which it is ever more critical for individuals to be equipped with the tools they need to make good financial decisions. Overall, their research has shown that Americans have low levels of financial literacy and that there are particular subgroups within the population who are especially vulnerable, such as women, the elderly, those with low education, and minorities.

They also find support for the impact of financial literacy on behavior and finances. They show that people who plan for retirement arrive at retirement with much higher wealth than those who do not plan. Critically, those who plan for retirement have higher levels of financial literacy. Lusardi highlighted several implications of their research for potential new avenues of research and for national retirement policy:

- Programs for improving financial literacy must begin to move away from the limited scope we have seen so far;
- Resources should focus on those we know have limited knowledge;
- We must find ways to simplify and communicate complex financial information more effectively, using methods and strategies informed by other disciplines.
- We need to think of financial literacy as an essential life skill in the same way that we

think about literacy as a necessary tool for living in our modern world;

- Programs need to be rigorously evaluated to determine what works to improve literacy and to motivate people to save and invest.

### Retirement Savings, Framing and Financial Literacy

**Julie Agnew** provided a review of her research examining the impact of framing on financial outcomes. Framing refers to the information provided to individuals when making a decision that can influence how they think about the choices available to them. Agnew described a common framing in the retirement saving literature, that of automatic enrollment, which frames the participation decision as a positive one. She warned against the risk of minimizing the importance of financial education in the context of automated plan designs. In fact, some people opt out of plans in which they have been automatically enrolled.

Agnew's research shows that financial literacy makes a difference not just in voluntary enrollment plans, which require participants to sign up, but also for automatic enrollment plans. Even after taking account of demographic variables, they found that those with low literacy were 10 percent more likely to opt out of automatic enrollment plans. Those who opted out had less understanding of the plan features. They also found that those with low levels of trust in financial institutions were 12 percent less likely to participate. Interestingly, ten percent of individuals in the highest income quartile had low trust in financial institutions, suggesting the need to consider the full sociodemographic spectrum in targeting financial education.

Underscoring her point that automatic enrollment doesn't obviate the need for financial education,

Agnew found that even participants in automatic enrollment plans have limited information about those plans. Even worse, 26 percent of those who opted out of the automatic enrollment plan thought they were still in the plan.

Framing is also important at the decumulation stage, where households are deciding how to manage retirement wealth. In the behavioral financial area, there has been a lot of attention paid to the question of annuitization. Agnew's research again shows that framing matters, that people's choices can be swayed depending on how the choice is presented. Emphasizing potential losses in the stock market can lead individuals to have a more favorable attitude toward annuities.

Agnew also described research she has undertaken looking at information overload. She found that the more complex the decisions facing people, the more likely they were to just fall back on simple rules of thumb. Simplifying investment choices helped people make more informed choices but only if they already had some degree of financial literacy. Individuals who were low on financial literacy were overwhelmed no matter how they presented the information. Agnew suggested that efforts going forward need to focus on simplifying the information set as much as possible. Offering the nutritional labeling model as an example, she suggested that we need some standardization across products and programs that would allow sensible comparisons that even individuals with low literacy could make. Finally, she emphasized the need for interdisciplinary research, laboratory experiments, field studies, and more survey evidence tied to the SSA administrative data.

Efforts going forward need to focus on simplifying information as much as possible.

## **Disentangling Cognitive Function and Financial Literacy: Implications for Financial Retirement Security Research**

**Robert Willis** presented his research investigating the impact of cognitive ability on wealth using the data from the Cognitive Economic Survey, which have been recently collected. Using these data, Willis and colleagues find wealth increases from nearly nothing in the lowest end of cognitive ability to about \$1.4 million at the highest end. Likewise, the fraction of people who hold stock increases from almost nothing at the lowest level of ability up to about 70 percent at the highest level of ability. Willis argued that financial knowledge is one component of human capital that influences many aspects of financial decision-making including the ability to distinguish good advice from bad advice and good financial products from bad ones.

However, there are differences in individuals' motivation to acquire financial knowledge. The cost of acquiring knowledge tends to be lower for people with more education and higher cognitive ability. Willis explained that this relates to what the founder of human capital theory, T. W. Schultz, termed allocative ability, which is a person's capacity to perceive and interpret correctly and undertake action that will appropriately reallocate their resources. Under normal conditions, people can rely on received wisdom and rules of thumb.

Schultz argued that in times of rapid, technological change or times of disruption, such as we now face, people who have a better ability to reason their way through new circumstances will do better.

In the context of the current financial turmoil, and its impact on older Americans, it is important to know whether the kinds of financial

knowledge that people have will enable them to appropriately reallocate their resources and otherwise cope with economic crisis.

Willis cited a number of datasets that will allow us to study such post-crash outcomes. The Cognitive Economic Survey was administered to a national sample of people between March and August of 2008. They will administer a post-crash survey of these respondents that will be fielded in May and June, 2009. The questionnaire has 25 questions on financial sophistication, detailed measures of income, wealth, and portfolio allocation, plus measures of risk tolerance, self-assessed financial knowledge, use of records, and other sources of information. The data from this survey will inform not only on how powerfully financial knowledge and cognition are correlated with wealth, stock holding, and other forms of behavior, but will also allow us to look at how people are coping with the change and the challenges presented by the crash. Early results show a powerful impact of financial literacy on wealth. The question for policymakers is exactly what we can do to improve financial literacy.

### **Discussant**

**David Certner** underscored the observation by Lusardi that it is of critical importance that we work to simplify and clearly communicate financial information. More importantly, just providing information may not be enough to actually change behavior. People really need help over time with taking the steps involved in financial planning. Methods such as focus groups help us determine barriers to successful plan implementation. Certner also highlighted a finding from Lusardi's work which showed that even a small amount of planning can make a difference for wealth

accumulation.

Commenting on Agnew's research, Certner noted that framing can certainly work against consumers in an unscrupulous financial marketplace. He agreed with Agnew's call for standardization of financial products and services that would allow consumers to make reasonable comparisons. Certner also noted that Willis' paper points to an irony in the recent financial system crisis: those who had followed investment advice and had money in the stock market have lost a lot of their investment value. It is hard to say what impact this will have on future risk tolerance.

## **Session II: Financial Illiteracy and Retirement Expectations: Prospects for Longevity, Decumulation, and Health**

### **Life-cycle Spending after Retirement and Adequacy of Economic Preparation for Retirement**

#### **Individuals' Understanding of Social Security Benefits**

**Erzo Luttmer** presented on his research examining how well individuals understand Social Security benefits. A good understanding of Social Security benefits is important for optimal retirement planning. It is also important for policymakers to know what information people have about their benefits in order to better target informational campaigns. He noted that, on average, people have a good understanding of their expected benefits and cited recent research showing that mailing of Social Security statements has improved

**Even a small amount of planning can make a difference for wealth accumulation**

Americans' knowledge of their expected benefit.

Despite the complexity of Social Security rules and incentives, people have moderately accurate perceptions of some of them. Overall, individuals seem to understand how the timing of when to start claiming benefits affects their level of benefits. Most people know that if they work longer and work an extra year, their benefits will go up. And they also have some sense that if they earn more, they'll get higher benefits. Other rules, however, are very poorly understood. For example, there is poor information concerning the earnings test. Only 40 percent of respondents in Luttmer's survey were aware that if their earnings were high enough to be subject to the earnings test, their benefits would be reduced. Of these 40 percent who even knew that their benefits would be cut, only about one-third knew that their future benefits would rise as a result.

Luttmer and his colleagues are very interested in understanding more about who believes what and how perceptions develop. He suggested that his findings point to the desirability of information dissemination about rules and incentives. An open question pertains to the best ways to present the information. He also suggested that a long-term goal might be to simplify Social Security rules and increase transparency.

### **Financial Entertainment**

**Nick Maynard**, of the D2D (Doorways to Dreams) Fund, reported on the production and value of financial entertainment. D2D was founded by Peter Tufano of the Harvard Business School. The organization works on a number of innovations to help people save. Maynard demonstrated one of their innovations, a video game, called Celebrity Calamity, which allows players to help a celebrity manage personal finances. The game gives the player a debit and a credit card to illustrate the importance of carefully managing credit. The game offers

opportunities to gain experience in making judicious spending and saving decisions. It also builds in a lot of positive reinforcement (e.g., applause) and has 45 levels with increasing difficulty. Early evaluation shows success in increasing confidence and knowledge. They are working on partnerships with employers to distribute the video game.

### **Discussant**

**Andrew Biggs** underscored Hurd's call for policy action to address low rates of annuitization. He called for increasing tax incentives for annuitization and educating Americans as to the insurance value of annuitization. Noting that, although many people have a good understanding of Social Security benefits, Biggs suggested that information is far from perfect and that simplification of Social Security benefits could help those who do not have good understanding. Finally, Biggs endorsed the value of video games that could even help with very basic knowledge improvements.

### **Keynote Address**

The Honorable Michael Astrue, Commissioner of the Social Security Administration, delivered the keynote address. He began by explaining that a large part of his job has been the day-to-day operations of the agency especially focused on addressing the disability case back-log. Nonetheless, the Commissioner noted that it had been suggested to him that he was in a good position to advocate for personal saving in the US. He noted that we are now in what is undeniably a "teachable moment." Astrue indicated that he has challenged personnel within

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the agency to think creatively of ways to communicate with the public. As an example of an innovation, he cited the example that was implemented two years ago to add a paragraph to the Social Security statement about the consortium of government agencies that have a financial literacy website, [www.mymoney.gov](http://www.mymoney.gov).

The SSA on-line estimator that links to actual earnings records is another innovation that can help people plan for retirement. There has also been a significant push to increase the numbers of Americans applying on-line for Social Security retirement benefits. Use of the on-line application is strongly correlated with use of the estimator, which is good news. Lastly, he underscored other initiatives within the agency aimed at improving communication with the public, for example, Podcasts.

### **Lunch and Roundtable Discussion of Agency Initiatives**

**Jason Fichtner** served as Chair of a roundtable which gave members of a variety of federal government agencies the opportunity to describe financial literacy initiatives at their agency.

Dubis Correal spoke from the U.S. Department of Treasury's Office of Financial Education.

Debra Golding represented the U.S. Department of Labor.

Jeanne Hogarth represented the Federal Reserve Board.

Kristi Kaepplein presented from the Securities and Exchange Commission

John Gannon represented FINRA (Financial Industry Regulatory Authority)

Ted Beck presented as a member of the President's Advisory Council on Financial Literacy and also the National Endowment for Financial Education.

## **Session III: Alternative Approaches to Financial Literacy**

### **Strategies for Promoting Lifetime Income**

**Shawn Cole** posited that rigorous evaluation of financial education programs is critical to the cost effective allocation of scarce resources. He argued that we have a poor understanding of exactly which programs are effective and even less idea of which are cost effective. He discussed some of the pitfalls of evaluations that do not use randomization. Cole highlighted high school financial literacy programs as being of high interest and potential. Again, however, without randomized design, it is difficult to evaluate their effectiveness.

He cited a study that attempted an evaluation of the effectiveness of high school financial literacy education by comparing states that had mandated high school financial literacy with those that had not. The study found that students in states with the high school financial education programs saved at higher rates. Cole and his colleagues were able to replicate these findings in another study using US Census data; however, they determined that the differences were actually attributable to overall GDP growth in the state.

Using a similar strategy they did find a large effect of general education. Those with a high school education were much more likely to participate in financial markets. Cole suggested that research should attempt to address people's biases directly. If we know that people procrastinate, and this hurts their chances of making good financial plans, practitioners could

explicitly target the problem of procrastinating. He has some research underway to see if this approach is effective.

Lastly, he underscored the value of independent financial advice and better, and potentially more interactive, decision support.

### **Defaults and Saving Outcomes: Lessons, Research Gaps, and Implications for Saving Policy**

**Brigitte Madrian** discussed lessons learned from default enrollment savings programs and implications for savings policy. Defaults refer to programs that automatically enroll employees in savings programs. Madrian cited research showing that defaults show large effects on savings rates. She suggested that defaults make such a large difference because of the complexity of financial decision making. Financial decision making is difficult and easy to put off. In

addition, defaults are implicitly endorsed by those offering them, a judgment which is perceived in general as trustworthy. An important question is whether or not the increased savings in the default plans is actually new savings or just displacing other parts of the household balance sheet, either reducing savings in other accounts, or offset by higher credit card and mortgage debt. Much work needs to be done regarding setting optimal defaults. Since they have such a large impact, it is particularly important that those offering defaults are able to determine optimal settings.

Citing implications of this research for savings policy, Madrian recommended simplification of savings options. In general, public policy has been moving in exactly the opposite direction, making the savings landscape even more complicated with a proliferation of savings options. She also suggested that we need to expand access to employer-sponsored savings plans or suitable substitutes with payroll deduction, which simplifies the act of saving. Lastly, she noted that we need to consider the role of defaults in the decumulation phase, when individuals reach retirement.

### **National Plan for Automatic IRAs**

**Mark Iwry** and **David John** described their work on a specific proposal called the automatic IRA that would provide the suitable alternative, mentioned above, to employer-sponsored saving plans. They noted that the plan has wide support in the Congress and is in the Obama budget proposal. The proposal includes payroll deposits through the workplace, default enrollment in the plan, and IRAs, which are the most portable tax-favored retirement vehicle in our system. The plan would give 78 million American workers, half of the population not covered by employer plans, the opportunity to save and build wealth. Contributions would be three percent of pay, and enrollees could opt out at any time. The employee could opt out, could raise their contribution, could lower their contribution, or could invest in another option.

To accomplish this, Iwry and John would require employers that are not now sponsoring a plan, and that have more than ten employees, to simply act as a forwarding agent for their employee's contributions to the IRA's. They suggested a trial annuity at the decumulation, or payout, phase. Another option would be to begin purchasing a deferred annuity during the accumulation phase. They suggested ways of embedding the annuity

The plan would give 78 million American workers, half of the population not covered by employer plans, the opportunity to save and build wealth.

in the savings plan, for example, in the lifecycle fund.

### **Discussant**

**John Phillips** noted that defaults seem very promising, particularly in the near term, as researchers try to find the best ways to improve financial literacy. One of the reasons they are successful is they overcome many obstacles to savings, especially the difficulty of making complex financial decisions. However, they are not the panacea, since defaults are not designed to meet the specific needs of individuals. Another danger is that they continue to reinforce passive behavior.

The challenge, then, is to make the best possible use of defaults while still working to encourage active and intelligent financial decision making. Phillips made an analogy to health risk assessments and subsequent tailored health promotions involving individualized mailings, e-mails, phone calls, and call centers. A similar strategy could be utilized in financial literacy programs. He underscored the importance of having good data sources as we examine these questions and noted the value of the Health and Retirement Study (HRS) in this regard.

## **Session IV: Marching Orders for Research and Policy**

### **Providing Low-Cost Advice for Middle-Income Households**

**Sheryl Garrett** argued for improved quality standards for financial advisors and for moving

to a fee-for-service model in the field. It is important for consumers to be able to seek competent financial advice that they can trust. Although we expect that people will take care of their health, we do not expect them to hold all of the expertise of a physician. Likewise, although we want people to have the highest degree of personal financial literacy possible, we do not expect them to hold the same level of expertise as a professional financial advisor.

Most people can benefit from the services of a competent and scrupulous financial advisor.

**One of the reasons defaults are successful is they overcome many obstacles to savings, especially the difficulty of making complex financial decisions.**

However, because the incentives for financial advisors do not always serve the best interests of the consumer, there is cause for mistrust on the part of the consumer. Garret emphasized the lifecycle nature of financial consulting; consumers have different needs at different points in their lives. Ideally, they would consult a planner from time to time as needed. In that case, a fee for service model makes good sense. She reviewed options for

providing accessible financial advice that better serves the interests of those seeking the advice: for example, internet services, telephone hotlines, and podcasts.

### **Can Financial Literacy Help Debtors Recover from Bankruptcy?**

**Michael Staten** described the problem of growing numbers of Americans experiencing serious financial crises. Home foreclosures counted 2.3 million in 2008, up 81 percent from 2007 numbers, Home equity is declining as well, leading to a higher percentage of homeowners who are “under water” (with a mortgage higher

than the home's value). As of December 2008, 22 percent of American homeowners held mortgages that were under water. Personal bankruptcy is on the rise as well. More than 10 percent of the U.S. population has filed for bankruptcy in just the last 10 years.

Bankruptcy does reduce the debt burden, but it does not seem to offer the financial reset or fresh start that the law intends. One study showed that 1 year after filing, 25 percent of Chapter 7 debtors considered themselves no better off or worse off than prior to filing. Three years after filing (as of 2004), about two-thirds of the debtors were having difficulty paying one or more household bills such as household expenses, utility bills, health care costs, and insurance payments. For this group, paying their credit card bill was actually well down the list of

financial difficulties and priorities. This does not bode well for resumption of savings for retirement coming out of bankruptcy. Staten noted that there is very little research on post-bankruptcy experience.

He suggested that longitudinal studies of bankrupt debtors are needed to determine whether recurring financial problems are caused by continued deficiency in their financial management or low income or lack of full debt relief in bankruptcy. For those who lack financial management skills, we may be missing a great opportunity to investigate the impact of financial education as part of mandatory credit counseling.

## **Internet Survey on Financial Literacy and how SSA Might Access and Potentially Use this On-line Survey**

**Angela Hung** addressed recommendations for specific data needs. She called for validation and standardization of measures of financial literacy. She noted that the President's Advisory Council on Financial Literacy defined financial literacy as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Financial education was defined as the process by which people improve their understanding of financial products, services and concepts. Despite this, there is no standard definition that is widely used in research and practice.

Hung reviewed various definitions that exist in the literature to demonstrate their diversity. It is important to have a standard definition and measure of financial literacy to make valid comparisons across studies. It is possible the conflicting findings are partly explained by differences in definition and measurement of financial literacy. Hung then described the rich data on financial literacy available in the RAND American Life Panel.

## **Discussant**

**William Gale** directed his comments to themes that emerged throughout the conference. First, he argued that financial literacy is an undeniably good thing. But it is not enough. We need evidence that it leads to the outcomes we hope for, like higher personal savings rates. And we also need to know which methods of increasing financial literacy work best. This evidence base would give policymakers the information they need to build support for programs. Gale posited four ways in which the government can increase savings: 1) it can mandate saving; 2) it can give incentives to save (e.g., 401(k)s and IRAs); 3) it can educate people; and 4) it can change the architecture of the choices people face. We need

**We need to know which methods of increasing financial literacy work best.**

cost benefit analyses of each of these approaches. Gale underscored the critical importance of evaluation studies to determine the effectiveness of financial education in generating better outcomes. He also urged caution, reminding us that it is not always clear what is the optimal course in financial matters. He also cited research which shows that, on average, current retirees are doing quite well financially in retirement, so there may be a case for more targeted education for those who are not.

Gale suggested marching orders that include massive increases in funding for research to evaluate a range of issues related to financial literacy and personal saving, a need to examine whether we care about financial literacy as an end in itself, and whether to target changing people, outcomes, or both and determining best ways to do that.

### **Closing**

**John Laitner** thanked all the presenters and congratulated the organizers. He noted several aspects of the conference that he found especially useful. First, the topic was coherent but there were many points of view. Second, there was a lot of useful discussion of data needs, particularly data which will be needed to evaluate financial literacy programs. In addition, Laitner suggested that there was some attention to the asymmetry of the research on the accumulation phase of preparing for retirement and the decumulation phase after retirement. He posited that the decumulation stage is not only equally important, but it has other complications from health status, for example, that deserve special attention.

Lastly, he suggested that there is a lot of room for theory-building in this area. For example, an issue that was mentioned several times throughout the day was the discrepancy between private incentives to save and public interest in how much people save, and the nature of that

difference. He thanked the Social Security Administration for principal financial support for the conference.

# Biographies

**The Honorable Michael J. Astrue** was sworn in as Commissioner of Social Security on February 12, 2007 for a six-year term that expires on January 19, 2013. Commissioner Astrue reports directly to President Obama. He served as Acting Deputy Assistant Secretary for Human Services legislation at the U.S. Department of Health and Human Services (HHS), Counselor to the Commissioner of Social Security, Associate Counsel to Presidents Reagan and Bush, and General Counsel of the U.S. Department of Health and Human Services. While General Counsel of HHS, he had a concurrent appointment to the U.S. Architectural and Transportation Barriers Compliance Board during the period when the Board issued many of the first regulations under the American with Disabilities Act. Also while General Counsel of HHS, he successfully tried the first federal HIV discrimination enforcement case and successfully argued the first federal patient dumping enforcement case. As Commissioner of Social Security, he has focused his efforts on reducing the disability backlog and improving service to the public, particularly through electronic services. He has spearheaded highly successful new systems for fast-tracking disability claims, created National Hearing Centers to reduce local backlogs with video hearings, and both expanded and overhauled the agency's suite of electronic services to make them simpler, faster and far more user-friendly.

**Julie Agnew** is Assistant Professor of Finance and Economics at the William and Mary School of Business. She is a TIAA-CREF Institute Fellow, an elected member of the Defined Contribution Plans Advisory Committee (DCPAC) for the Virginia Retirement System, and a Research Associate for the Center for Retirement Research at Boston College. Her research focuses on behavioral finance and its

relationship to financial decisions made by individuals in their defined contribution plans. She uses both large administrative 401(k) plan data and laboratory experiments.

**Ted Beck** joined the National Endowment for Financial Education (NEFE) as president and chief executive officer effective October 1, 2005. In January 2008, he was appointed to the President's Advisory Council on Financial Literacy, a panel established by President George W. Bush to promote and enhance financial literacy among the American people. Beck also serves on the Federal Deposit Insurance Corporation (FDIC) Advisory Committee on Economic Inclusion, and the board of the national JumpStart Coalition for Personal Financial Literacy.

**Andrew Biggs** is a Resident Scholar at the American Enterprise Institute. Previously, he was the principal deputy commissioner of the Social Security Administration (SSA), where he oversaw SSA's policy research efforts and led the agency's participation in the Social Security Trustees working group. Andrew Biggs has investigated the trade-offs involved in meeting Social Security's projected budgetary shortfalls. In 2005 he worked on Social Security reform at the White House National Economic Council and in 2001 was on the staff of the President's Commission to Strengthen Social Security.

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**David C. John** is Principal to The Retirement Security Project and a Senior Research Fellow at The Heritage Foundation. Mr. John serves as Heritage's lead analyst on issues relating to pensions, financial institutions, asset building, and Social Security reform. Since coming to Heritage, Mr. John has written and lectured extensively on a number of topics. In 2003, he testified before the Senate Select Committee on Aging and the House Education and the Workforce Committee on the need to better fund defined benefit pension plans. Since then, he has analyzed pension legislation and advised many Members of Congress on both defined benefit and defined contribution pension plans. Mr. John has been a senior advisor to four Members of Congress. He was also a Vice President at The Chase Manhattan Bank, and held senior positions with a credit union trade association and a Washington law firm.

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