



Financial Literacy in Times of Turmoil and Retirement Insecurity

Conference Proceedings

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Financial Literacy in Times of Turmoil and Retirement Insecurity

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The University of Michigan Retirement Research Center

P.O. Box 1248 Ann Arbor, MI 48104

ph: 734 615-0422 fax: 734 615-2180

mrrc@isr.umich.edu www.mrrc.isr.umich.edu

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
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Olivia S. 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 S. 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
Nicholas Maynard, Doorways to Dreams (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, FINRA Investor Educations Foundation
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
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 from defined benefit to defined contribution pensions was placing more responsibility on individuals' shoulders. General unease was exacerbated by low and often negative personal saving rates, too-high credit card debt, and steep mortgage commitments. Increasingly complex financial products have offered many new ways to borrow and spend, making saving even harder.

If Americans are to thrive in the new financial order, what is needed is a concerted and creative set of efforts to help individuals become more sophisticated in making financial decisions. Part of the process will require policymakers to rectify serious problems in the financial services industry, rebuilding trust and enhancing transparency. Yet policymakers must also direct their attention to helping the average consumer – to boost Americans' financial literacy so that individuals can take command of their financial futures.

The financial crisis has highlighted the critical importance of personal financial knowledge and skills for the young and old alike, and it has heightened awareness of strikingly low levels of financial literacy across the board. Our conference on financial literacy and retirement security was convened to inform the policy community about research findings and best practice in the fields of financial literacy, retirement planning, and retirement well-being. Topics covered ranged from the influence of framing on financial and retirement security to lessons learned from the mortgage crisis.

All speeches 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 more effective and how to integrate financial literacy provision efforts with robust evaluation monitoring.

In good times, people tend to defer efforts to build skills needed to achieve retirement security. But, we have a “teachable moment,” as SSA Commissioner Astrue stated. Americans today have more access to financial products than at any time in the past. This offers benefits but also imposes new burdens. There is an opportunity to make real progress in building personal skills needed to enhance saving and retirement security, but this will require new dedication. We are delighted to have assembled such an illustrious group of presenters, from government, academia, and the private sector, to trace the path before us.

The conference was organized and cofunded by the Pension Research Council and Boettner Center of the Wharton School; the Brookings Institution; the Michigan Retirement Research Center; and the Retirement Security Project. We thank the sponsors of this conference, the Social Security Administration, in particular, for their generosity. Olivia S. Mitchell, Annamaria Lusardi, and Mark Iwry organized the conference. We thank Amanda Sonnega for her expert assistance in constructing this write-up. To view videos or download presentations from the conference, visit:

www.brookings.edu/events/2009/0320_insecurity.aspx.

Annamaria Lusardi
Olivia S. Mitchell
June 2009

Proceedings

Financial Literacy in Times of Turmoil and Retirement Insecurity

On March 20, the MRRC co-hosted the conference Financial Literacy in Times of Turmoil and Retirement Insecurity with the Brookings Institution, Wharton's Pension Research Council and Boettner Center, and the Retirement Security Project. The Social Security Administration provided financial 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 remain financially secure during retirement. Participants presented current research and identified 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 Americans 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 S. 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

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

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.

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

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

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

Michael Hurd discussed his research with Susann Rohwedder examining the role of wealth in financing consumption during retirement and the potential role of misperceptions that could have an influence. Hurd and Rohwedder model lifetime paths of wealth accumulation and decumulation in retirement and do separate analyses for couples and singles. For singles, wealth declines steadily at about 3 percent per year after retirement, so that if a single survives to age 95, she will only have 20 percent of her wealth holdings left. The pattern for couples is quite different because of the desire to provide for a surviving spouse. Couples maintain their wealth until about age 80 when they start to decumulate. Hurd noted that people tend to overestimate their survival chances at older ages, which causes them to spend somewhat more cautiously in retirement.

Although they find that, in general, Americans are well prepared for retirement in the sense that they are not likely to outlive their ability to spend

down their resources, they do find that about 20 percent are not prepared and could run out of assets before they die. He called attention to the problem of under-annuitization.

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

Individuals' Understanding of Social Security Benefits

Erzo Luttmer presented 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 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 will 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

Nicholas 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. 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 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.

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 institutions the opportunity to describe financial literacy initiatives underway.

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

The office was established in 2002 to provide the public technical assistance and perform public outreach. The office was mandated by congress to create a centralized website for federal financial education resources (mymoney.gov, previously mentioned). They were also mandated to have a toll-free number for the public to contact them (1-888-MYMONEY). Lastly, the office was also mandated to launch a public service announcement campaign. Recent PSAs have targeted 18-24 year-olds focused on credit literacy. They recently implemented the National Financial Literacy Challenge, a voluntary online test for high school students aimed at increasing levels of financial literacy.

Debra Golding represented the U.S. Department of Labor’s Employee Benefits Security Administration. This agency administers and enforces the Employee Retirement Income Security Act or ERISA, which is the federal law that governs private sector employment-based retirement and health plans. Their efforts focus on utilizing social marketing techniques to increase financial literacy. She underscored the importance of partnerships with the private sector and other government agencies and of using multi-media for outreach.

Jeanne Hogarth represented the Federal Reserve Board, Division of Consumer Education and Research, which is responsible for ensuring consumer protection regulations. The Division is focused especially on increasing consumer protection regarding credit cards. She discussed on-going research at the Division, as well as products available.

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Kristi Kaepplein presented from the Securities and Exchange Commission's Office of Investor Education and Advocacy. The Office administers a Call Center to answer questions and concerns of the public. She discussed an initiative in which the Office inserted material about the benefits of saving and investing in IRS mailings to individuals.

John Gannon represented FINRA (Financial Industry Regulatory Authority), the largest private sector regulator in the financial services industry. FINRA's primary mission is to protect investors, but it also supports and funds research and educational programs. For example, they are sponsoring a grant program called Smat Investing@Your Library, run in conjunction with the American Library Association. He described some of the research projects FINRA has sponsored as well.

Ted Beck presented as a member of the President's Advisory Council on Financial Literacy and also as President of the National Endowment for Financial Education (NEFE). The President's Council was formed in January 2008 by executive order. The Council has been successful in bringing various groups together in determining the needs of the country regarding financial education. The end of the year report of the Council is available at www.treasury.gov/OFE. NEFE focuses its efforts on funding research to understand financial behavior. They have recently launched a website (decumulation.org), which focuses on questions relevant to those near retirement age.

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 have not used 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 found 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, raise their contribution, 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 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

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

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. 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 greater 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 reduces 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, 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 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.

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

Gale suggested marching orders that include 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 presenters and congratulated the organizers. He noted several aspects of the conference that he found especially useful. First, while the topic was coherent, there were many points of view. Second, there was a great deal of useful discussion of data needs, particularly data that will be necessary to evaluate financial literacy programs. Third, Laitner suggested there may be a degree of asymmetry in research effort to date, with more attention to the accumulation phase of household life cycles than to the decumulation phase of retirement. He posited that the decumulation stage is not only equally important, but it has complications from health status, for example, that deserve special attention.

Lastly, he suggested that there remains room for theory-building in this area. For example, an

issue 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 providing the 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 Jump\$tart 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.

David Certner is Legislative Counsel and Director, Legislative Policy Government Relations and Advocacy at AARP. He has been with AARP since 1982, and serves as counsel for the Association's legislative, regulatory, and policy efforts at the federal and state level, as well as for litigation opportunities before the courts. Prior to assuming his current role in 2007, Mr. Certner had served as Director of AARP's 25 person Federal Affairs shop, where he headed up all federal legislative and regulatory activity. Mr. Certner also served as chairman of the 1994 ERISA Advisory Council of the Department of Labor, and was appointed as a

delegate to the 1998, 2002, and 2006 National Summits on Retirement Savings. He is currently a member of BNA's Pension and Benefits reporter advisory board.

Robert Clark is Professor of Management, Innovation, and Entrepreneurship, and Professor of Economics, North Carolina State University. Professor Clark has conducted research examining retirement decisions, the choice between defined benefit and defined contribution plans, the impact of pension conversions to defined contribution and cash balance plans, the role of information and communications on 401(k) contributions, government regulation of pensions, and Social Security. He is a Fellow of the Employee Benefit Research Institute, Fellow of the TIAA-CREF Institute, and a member of the American Economic Association, the Gerontological Society of America, International Union for the Scientific Study of Population, and the National Academy of Social Insurance. He also is a Governor of the Foundation for International Studies on Social Security.

Shawn Cole is an assistant professor in the Finance Unit at Harvard Business School, where he teaches the second half of the required finance course in the MBA program. His research examines corporate and household finance in emerging markets, with a focus on banking, microfinance, insurance, and the relationship between financial development and economic growth. Before joining the Harvard Business School, Professor Cole worked as an assistant economist at the Federal Reserve Bank of New York. He has also served as chair of the endowment management committee of the Telluride Association, a non-profit educational organization.

Dubis Correal is the Director of the Treasury's Office of Financial Education. In this capacity, she is responsible for developing and implementing financial education policy and programs and for coordinating outreach strategies

in support of the Office's mission. Prior to joining the Office of Financial Education, Ms. Correal worked for the Bureau of the Public Debt in New York City as an area manager promoting the Treasury securities in the tri-state area and Puerto Rico.

The Honorable Jason J. Fichtner is Acting Deputy Commissioner of Social Security and Associate Commissioner for Retirement Policy at the Social Security Administration (SSA). As Acting Deputy Commissioner, Dr. Fichtner serves as the Principal Deputy for the Agency. As Associate Commissioner, he is responsible for executive leadership in the development and execution of economic policy for SSA. Additionally, Dr. Fichtner manages a research staff responsible for conducting analyses of social insurance policies based on major social initiatives and economic trends. Previously, Dr. Fichtner was a Senior Economist with the Joint Economic Committee (JEC) of the United States Congress. Dr. Fichtner's primary research interests are Social Security, federal tax policy, budget issues, as well as policy proposals to increase saving and investment.

William Gale is vice president and director of the Economic Studies Program at the Brookings Institution and the Arjay and Frances Miller Chair in Federal Economic Policy. He conducts research on a variety of economic issues, focusing particularly on tax policy, fiscal policy, pensions and saving behavior. He is co-director of the Tax Policy Center, a joint venture of the Brookings Institution and the Urban Institute. He is also director of the Retirement Security Project, an initiative supported by the Pew Charitable Trusts, in partnership with Georgetown University's Public Policy Institute and Brookings. Prior to joining Brookings in 1992, he was an assistant professor in the Department of Economics at the University of California, Los Angeles, and a senior staff economist for the Council of Economic Advisers under President George H.W. Bush.

John Gannon is Senior Vice President for Investor Education at FINRA. In this capacity, he is responsible for the development and operations of FINRA's investor education program. He also serves as President of the FINRA Investor Education Foundation, where he manages the Foundation's grant making and programmatic efforts to educate and protect investors, especially traditionally underinvested groups of Americans, including young adults, women, Native Americans, and members of U.S. military. He has been with FINRA since September 2001. Before assuming his present duties, Mr. Gannon was Deputy Director of the Securities and Exchange Commission's (SEC) Office of Investor Education & Assistance. Mr. Gannon also served for seven years as Senior Counsel in the SEC's Division of Enforcement where he brought cases and investigated violations of federal securities laws.

Sheryl Garrett is founder of the Garrett Planning Network, an international organization of hourly based, fee-only financial advisors. Our mission it is to help make competent, objective financial advice accessible to all people. Due to her work in this area she has been recognized by Investment Advisor magazine as "One of the Top 25 Most Influential People in Financial Planning" four consecutive years and received the Distinguished Service Award from the National Association of Personal Financial Advisors (NAPFA).

Debra Golding is the Deputy Director for Education and Outreach for the Department of Labor's Employee Benefits Security Administration. She is responsible for the Agency's nationwide education and outreach programs including the development and operation of national retirement savings and health benefits and fiduciary responsibility education campaigns targeted to employees and employers, the development, publication and distribution of educational materials (including printed brochures, print and broadcast public

service announcements, and video/DVDs), the development and management of the Agency Web sites and interactive sites, and program evaluation. She coordinates numerous partnership projects with other public and private organizations, including fostering partnerships locally for the Agency's regional offices. She actively participated in the development of the *Taking the Mystery Out of Retirement Planning* publication and online interactive worksheets as well as the Fiduciary Education Campaign.

Jeanne M. Hogarth is the manager for the Consumer Education and Research Section of the Division of Consumer and Community Affairs at the Federal Reserve Board. She is responsible for research and outreach initiatives related to consumer financial services. Her recent projects include initiatives on consumers' use of banking services, consumer protection strategies, and consumer testing for comprehension and usability of disclosure notices. Jeanne is responsible for the Board's consumer information materials on financial services, both in print and on the web. She is the author of numerous scholarly research articles as well as consumer education resources on financial management

Angela Hung is an Economist at RAND. She directs the Center on Financial Decision Making at RAND. Her research includes analysis of survey data from the Health and Retirement Study and RAND's American Life Panel to study financial literacy and how it relates to investment decision making. In one recent project funded by the Social Security Administration, she compared the performance of retirement investment strategies derived from typical investment advice given by financial advisors, from optimal portfolio choice theory, and from behavioral rules-of-thumb. Another project funded by the Social Security Administration examined workers' decisions on when to begin claiming Social Security benefits.

Michael Hurd is Director of the Center for the Study of Aging and Senior Economist at RAND. He served on the Technical Panel of Experts (1990) and the Panel of Experts (1991) to the Social Security Advisory Council, on the Advisory Committee for the World Bank Old-Age Security Study, on the Panel on Retirement Income Modeling, Committee on National Statistics, National Research Council, 1995-1996, on the Workshop on Priorities for Data on the Aging Population, Committee on National Statistics, National Research Council, 1996 and on the Panel on Access to Research Data, Committee on National Statistics, National Research Council, 2003-2005. He is a Co-PI and a member of the executive committee of the Health and Retirement Study, and he has overall responsibility for the economic content of the HRS.

Mark Iwry is a Nonresident Senior Fellow at the Brookings Institution, one of the three principals of the Retirement Security Project, Research Professor at Georgetown University, and Of Counsel to the law firm of Sullivan & Cromwell LLP. He was Benefits Tax Counsel at the U.S. Treasury Department from 1995 to 2001, serving as the principal Executive Branch official directly responsible for tax policy and regulation relating to the Nation's qualified pension and 401(k) plans, employer-sponsored health plans, deferred compensation, and other employee benefits. Recently named one of the 100 Most Influential People in Finance (*Treasury and Risk Magazine*) (one of 5 so recognized in the field of Retirement and Benefits) and one of the 100 Most Influential People in the 401(k) Industry (*401(k) Wire, 2009*), Mr. Iwry often testifies before congressional committees – formerly representing the Treasury and Executive Branch and, since leaving government, testifying as an independent expert -- and State legislatures. The automatic IRA proposal he has co-authored through the Retirement Security Project has been introduced as a bipartisan bill in Congress and endorsed by President-Elect Obama and Senator

McCain, and the proposals he has co-authored to leverage State resources to expand pension coverage have been introduced as bills in several States.

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.

Kristin J. Kaepplein is Director of the Office of Investor Education and Advocacy. Ms. Kaepplein has extensive experience in the financial services industry and has worked with many of the industry's largest broker-dealers and investment managers as a management consultant. Her consulting career began at PricewaterhouseCoopers in the Capital Markets Consulting group in 1994. Later, Ms. Kaepplein was an internal consultant at TIAA-CREF, and most recently was Vice-President, Global Compliance Operations at Goldman Sachs. Her consulting work focused on driving improvements in efficiency and effectiveness for customer-facing, investing, compliance and operational functions. Earlier in her career, she managed a sales support group at Prudential Mutual Funds, helped Bankers Trust develop a lump-sum rollover product, and worked on merging Shearson and Lehman's back offices.

John P. Laitner is Director of the Life-Cycle Economics Program and Professor of Economics at the University of Michigan. He is Director of the University of Michigan Retirement Research Center. His research falls primarily in the area of economic theory, in particular, factors influencing long-run growth and the distribution of wealth.

Annamaria Lusardi is Professor of Economics at Dartmouth College and a Research Associate at the National Bureau of Economic Research. She has taught at Dartmouth College, Princeton University, the University of Chicago Public Policy School and the University Of Chicago Graduate School of Business. She was a visiting scholar at Harvard Business School from January to June, 2008. She has advised the U.S. Treasury, the U.S. Social Security Administration, the Dutch Central Bank, and the Dartmouth Hitchcock Medical Center on issues related to financial literacy and saving. Dr. Lusardi has won numerous research awards. Among them is a research fellowship from the Irving B. Harris Graduate School of Public Policy Studies at the University of Chicago, a faculty fellowship from the John. M. Olin Foundation and junior and senior faculty fellowships from Dartmouth College. She is the recipient of the Fidelity Pyramid Prize, awarded to authors of published applied research that best helps address the goal of improving lifelong financial well-being for Americans.

Erzo F.P. Luttmer is an associate professor at the Harvard Kennedy School. His research interests include public economics, labor economics, and applied econometrics. Within these fields, his research focuses on income redistribution programs and the role of social effects on economic outcomes. In recent research, he has conducted a randomized experiment to examine the effect of the race and income of Katrina victims on Americans' generosity towards them, explored the efficiency gains of giving people a choice of tax schedules, and investigated whether

individuals respond to the link between their current payment of Social Security taxes and their expected future Social Security benefits.

Brigitte Madrian is Professor of Public Policy and Corporate Management in the Aetna Chair at Harvard University's Kennedy School of Government. Madrian's research focuses on employee benefits and social insurance programs, particularly retirement savings plans and health insurance. Her current research focuses on the relationship between 401(k) plan design and employee saving outcomes. She has also examined the impact of health insurance on the job choice and retirement decisions of employees and the hiring decisions of firms. She is the recipient of the National Academy of Social Insurance Dissertation Prize (first place, 1994) and the TIAA-CREF Paul A. Samuelson Award for Scholarly Research on Lifelong Financial Security (2002).

Nicholas Maynard is the Director of Innovation and New Product Development for D2D Fund. Since joining D2D, Nick has led initiatives improving marketing to LMI families, piloting prize-based savings in the credit union industry, and offering US Savings Bonds at tax time. In addition, he directs the financial literacy video game initiative. Prior to joining D2D, Nick spent almost a decade providing customer, market, and operational strategy consulting to Fortune 1000 executives while at Deloitte Consulting and Braxton Associates.

Olivia S. Mitchell is the International Foundation of Employee Benefit Plans Professor of Insurance and Risk Management, and the Executive Director of the Pension Research Council, at the Wharton School of the University of Pennsylvania. She also directs the Boettner Center on Pensions and Retirement Research; is a Fellow of the Wharton Financial Institutions Center and the Leonard Davis Institute; and sits on the Board of the Penn Aging Research Center. Concurrently Dr. Mitchell is a Research

Associate at the National Bureau of Economic Research and a Co-Investigator for the Health and Retirement Study at the University of Michigan. Dr. Mitchell's main areas of research and teaching are international private and public insurance, risk management, public finance, and compensation and pensions. Her extensive publications (18 books and more than 140 articles) analyze pensions and healthcare systems, wealth, health, work, wellbeing, and retirement. Her coauthored study on Social Security reform won the Paul Samuelson Award for "Outstanding Writing on Lifelong Financial Security" from TIAA-CREF. She served on President Bush's Commission to Strengthen Social Security (www.csss.gov), the US Department of Labor's ERISA Advisory Council and the Advisory Committee to the Central Provident Fund of Singapore.

John W. R. Phillips is a labor economist who serves as the Chief of the Population and Social Processes Branch (PSP) in the National Institute on Aging Division of Behavioral and Social Research. PSP supports a large grant research portfolio covering the economics, demography, and epidemiology of aging. John's area of specialization is retirement and he has published research on topics that include early retirement, retirement income differentials among men and women, disability insurance, retirement savings, and within family resource allocation. Prior to joining NIA, he spent several years at the Social Security Administration as an economist and federal project officer. He also completed a two-year National Institute on Aging postdoctoral research fellowship at the University of Pennsylvania.

Michael Staten holds the Take Charge America Endowed Chair in the Norton School of Family and Consumer Sciences at the University of Arizona. He is also director of the Take Charge America Institute for personal financial education and research. Staten is recognized nationally as an expert on retail credit market policy issues and

has testified often before Congress and various state legislatures. Over the past 20 years Dr. Staten has designed and conducted research projects on a wide range of policy-oriented issues involving consumer and mortgage credit markets, initially as director of the Credit Research Center at Purdue University (1988 – 1997), and later as Distinguished Professor and Executive Director of the re-located Credit Research Center at Georgetown University (1997 - 2006), and the George Washington University School of Business (2006-2007). He has published numerous articles on retail financial services in academic journals and edited volumes.

Robert Willis is Professor of Economics, joined the University of Michigan in 1995 and holds joint appointments with the Survey Research Center and the Population Studies Center at the Institute for Social Research. Professor Willis is Director of the Health and Retirement Study, a large-scale nationally representative longitudinal survey of Americans over the age of 50. His research interests include labor economics, economic demography, economic development and the economics of aging. He has done research relating to economic behavior over the entire lifecycle including theoretical and empirical research on fertility; marriage, divorce and out-of-wedlock childbearing, education and earnings, intergenerational transfers and determinants of poverty among elderly widows. Recently, he has begun a new area of research dealing with the relationship between probabilistic thinking and savings and wealth accumulation and other aspects of cognition.