Financial Literacy – Is It Really About Cognitive Functioning?

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The Retirement Income Stool: More Choice!

The Old Stool
- Savings
- Social Security
- Defined Benefit

The New Stool
- Savings
- Social Security
- Defined Contribution
What We Don’t Know

- We know a lot about short term interventions to improve financial literacy.
What We Don’t Know

- We know very little about the relationship between early life schooling, cognition and financial literacy.
Financial Literacy

- The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing.
  - President’s Advisory Council on Financial Literacy

- Area of growing research, in large part because of the growing complexity of the retirement landscape. But this literature has generally ignored the unique issues facing those in late life.
Financial Literacy

- **Existing measures include:**
  - Knowledge (ability to calculate compound interest)
  - Behavior based measures (i.e. debt levels, participation in retirement plans)

- **Knowledge of individual financial resources**
  - Captures both knowledge and behavior
  - Usefulness may vary based on age of respondents
Research Question

- How do cognition and high school course work (especially math classes) correlate with knowledge of individual financial resources in late life?
Data: Wisconsin Longitudinal Study

- 1 in 3 Wisconsin high school graduates from the class of 1957
- We employ the 1957 and 2004 data.
Data: Wisconsin Longitudinal Study

- **Outcome Measures (2004):**
  - Ability to answer values on all asset questions (percent of assets held for which amount was given).
  - Ability to provide value of retirement accounts that accumulate a balance including IRAs, 401-ks, etc.
Findings

- Cognition Matters. But it mostly only matters for those without college degrees.
Percent Knowing Value of Private Pensions: By IQ Score

IQ: 70  IQ: 120
Knowledge of Assets by IQ Score

IQ: 70
IQ: 120
Knowledge of Checking Account Value by IQ Score

IQ: 100
IQ: 120
Math Class?

- Small and inconsistent relationships.
Policymakers and practitioners need to consider the differential consequences associated with ‘more choice’ for older Americans.
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Schooling, Cognition, and Financial Capability

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Increase Awareness of and Access to Effective Financial Education
Ensure individuals and families are aware of the importance of financial literacy and have access to financial education resources.

Determine and Integrate Core Financial Competencies
Determine the personal finance knowledge and skills that individuals and families need to employ at various life stages and for particular life events to make informed financial decisions. Integrate these competencies into effective resources and programs.

Improve Financial Education Infrastructure
Develop guidelines on content, training, and delivery channels for financial literacy and education providers. Promote opportunities for partnerships and information sharing.

Identify, Enhance, and Share Effective Practices
Support research and evaluation to identify effective programs and practices. Encourage the implementation and reproduction of evidence-based programs and practices for individuals and organizations.
What are the takeaways?

- Basic intelligence matters
- Human capital matters
  - Education in general
  - Math in particular
- Gender matters
What else matters?

- Experience
- Income & household resources
  - Additional earners
- Access to financial services – convenience, barriers, motivation
  - Automation
- Attitudes & perceptions
  - Future-mindedness
  - Risk tolerance
What does this mean for policy & practice?

- **Basics**
  - Good prenatal nutrition and care
  - Parenting skills

- **Foundation/general skills**
  - Math, language arts, decision making
  - Critical thinking
What does this mean for policy & practice?

- Lifelong learning
  - Timely
  - Relevant
  - Actionable
  - Ongoing

- Changes across the life span

- Roles for advisors & coaches
What does this mean for future research?

- What is it about gender that matters?
  - Is this cohort specific?
  - Will we age out of this?
- What measures of financial capability do we need?
Questions and Answers?
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