

Financial Education: Young People in the Digital Age

Annamaria Lusardi

(The George Washington University School of Business and GFLEC)

Banco de Portugal, Lisbon, 25 September, 2018

Some Questions about the Young People in the Digital Age

1. How well-equipped are young people to deal with this new digital finance environment?
2. How financially literate are young people?
3. Does fin-tech help the younger generations improve their financial decisions?

The PISA Financial Literacy Assessment

Measuring Financial Literacy Among the Young

- PISA is the first large-scale international study to assess the financial literacy of 15-year-old students
- 18 countries participated in the 2012 Financial Literacy Assessment
- 15 countries participated in the 2015 Financial Literacy Assessment
- Portugal will participate in the 2021 Financial Literacy Assessment

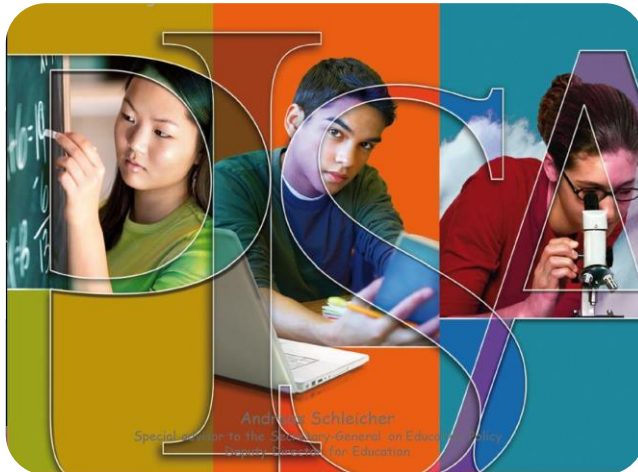
The countries/economies are:

2012: Australia, Belgium (Flemish Community), Shanghai-China, Colombia, Croatia, Czech Republic, Estonia, France, Israel, Italy, Latvia, New Zealand, Poland, Russia, Slovak Republic, Slovenia, Spain, and the United States

2015: Australia, Belgium (Flemish Community), Brazil, B-S-J-G (China), Chile, Canadian provinces, Italy, Lithuania, Netherlands, Peru, Poland, Russia, Slovak Republic, Spain, and the United States

What PISA Measures

- *Are students well prepared for future challenges? Can they analyze, reason and communicate effectively? Do they have the capacity to continue learning throughout life?*



Andrea Schleicher
Special Advisor to the Secretary-General on Education Policy
Organisation for Economic Co-operation and Development



Since 2000, every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. **It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.**



Too Many Students Lack Basic Financial Skills (2015 Data)

22%

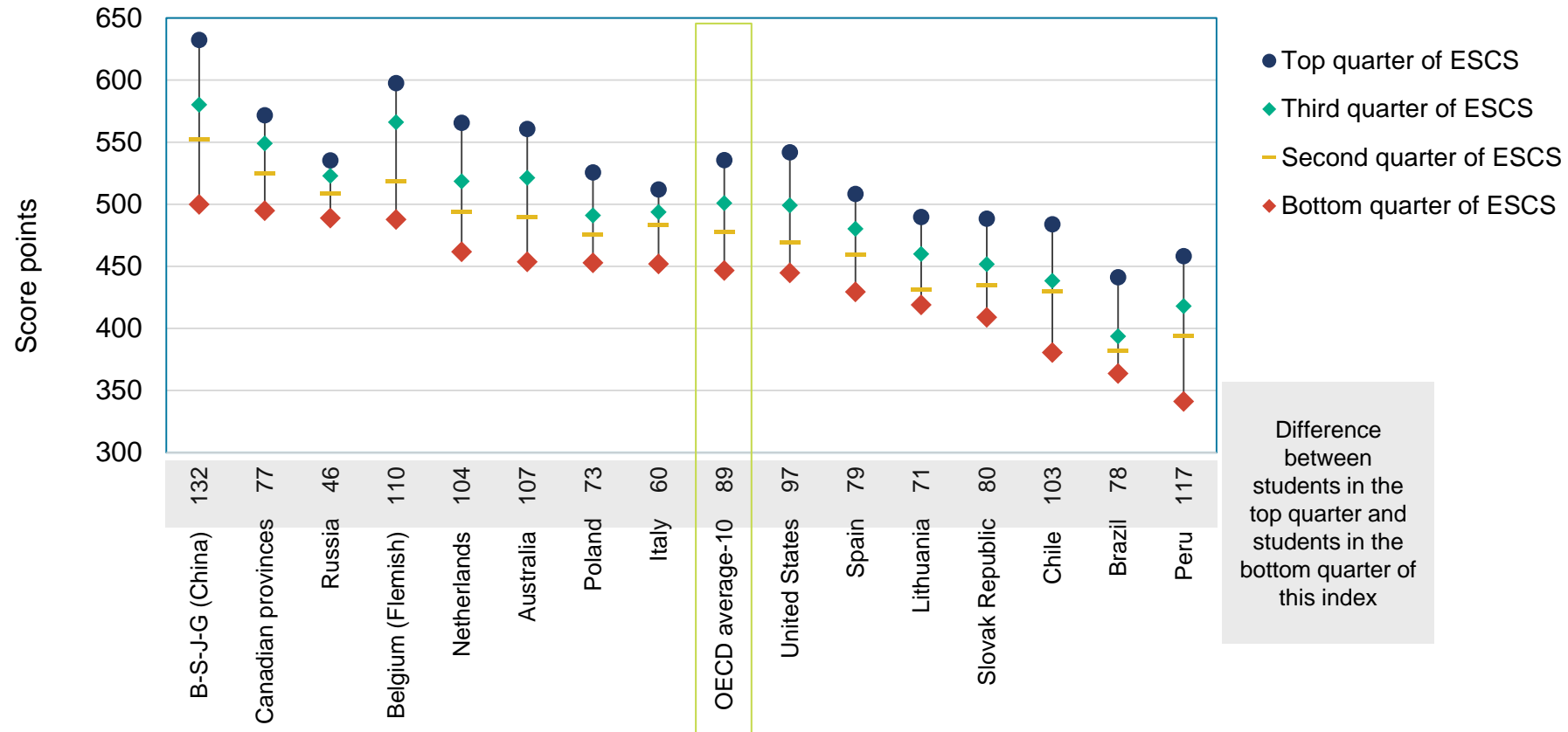
- On average across OECD countries and economies, 22% of students do not have basic financial skills

- Only about 12% of students across participating OECD countries and economies are top performers, as they can tackle the most difficult tasks

12%

The Role of Socioeconomic Status (2015)

Mean score, by quarters of the PISA index of economic, social and cultural status (ESCS)



Socioeconomically advantaged students score 89 points higher than disadvantaged students, on average across OECD, this is equivalent to more than one PISA proficiency level.

A Simple Measure of Financial Literacy: The Big Three

1. “Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”

- ☐ More than \$102
- ☐ Exactly \$102
- ☐ Less than \$102
- ☐ Don't know
- ☐ Refuse to answer

2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”

- ☐ More than \$102
- ☐ Exactly \$102
- ☐ Less than \$102
- ☐ Don't know
- ☐ Refuse to answer

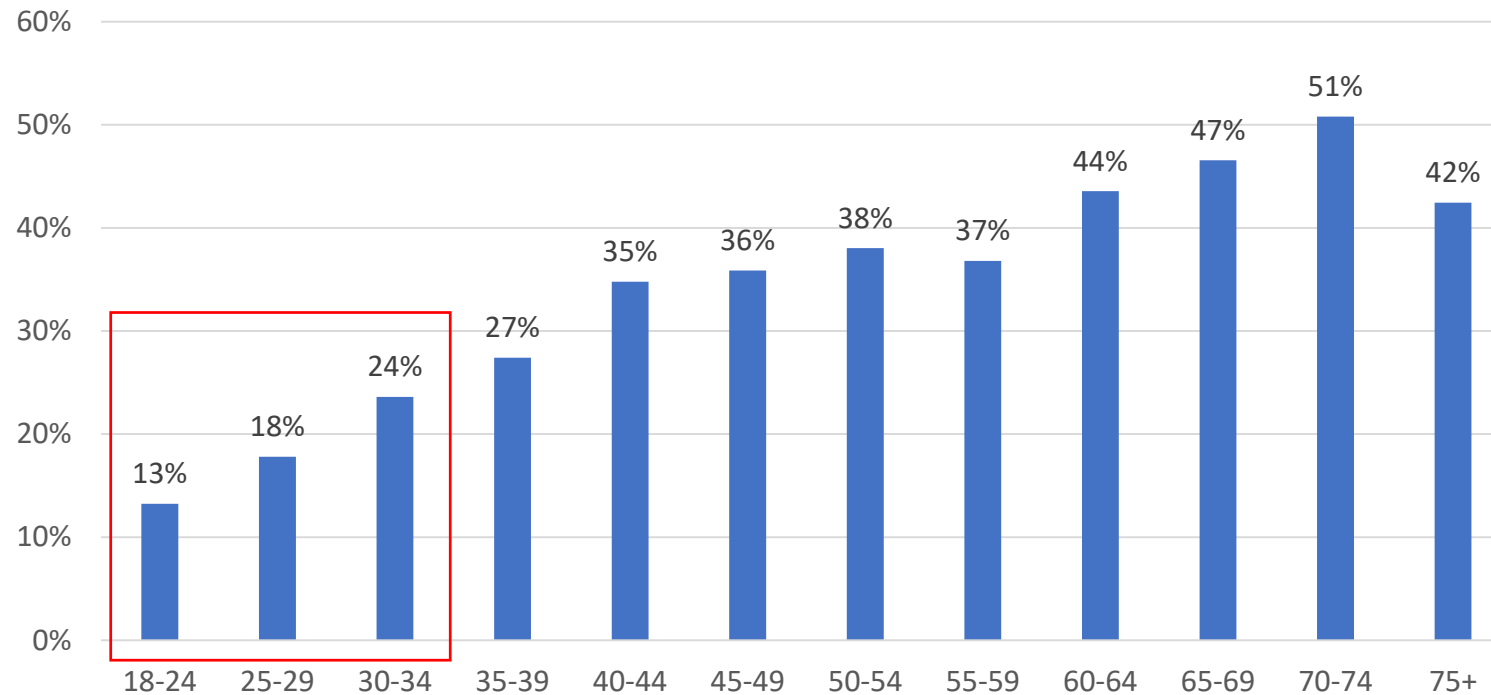
3. “Do you think the following statement is true or false? *Buying a single company stock usually provides a safer return than a stock mutual fund.*”

- ☐ True
- ☐ False
- ☐ Don't know
- ☐ Refuse to answer

Financial Literacy Across Age

2015 US National Financial Capability Study

(% answering Big 3 questions correctly)



- Financial knowledge increases very slowly with age/cohort
- Less than 25% know 3 basic concept by age 35 even though many important decisions are made before that age

Two New Reports on Millennials' Financial Literacy in the Digital Age

GFLEC Insights Report

GFLEC
GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

**Millennial Mobile Payment Users:
A Look into their Personal Finances and Financial Behaviors**

Authors:
Annamaria Lusardi
Carlo de Bassa Scheresberg
Melissa Avery
Global Financial Literacy
Excellence Center,
The George Washington
University School of Business

Abstract:
The financial technology (fintech) sector is revolutionizing traditional financial practices, yet little information exists on users of these services. In this study, we examine untapped information from the 2015 National Financial Capability Study and the 2016 GFLEC Mobile Payment Survey to provide insights on the financial capability of American Millennials who use mobile payments. Using data from both surveys, we find striking differences in financial capability between users and non-users. Particularly, we find that users of mobile payments are more likely to overdraw their checking accounts, use credit cards expensively, borrow through alternative financial services, and withdraw from their retirement accounts. Even after we control for socio-demographic factors, results continue to show that mobile payment users are more likely to engage in behaviors that do not seem to follow good financial management practices.

 Business

www.gflec.org

Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era

New Insights from the 2018 *P-Fin Index*

Paul J. Yakoboski, TIAA Institute
Annamaria Lusardi, The George Washington University School of Business
and Global Financial Literacy Excellence Center (GFLEC)
Andrea Hasler, The George Washington University School of Business
and Global Financial Literacy Excellence Center (GFLEC)

 TIAA Institute

GFLEC
GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

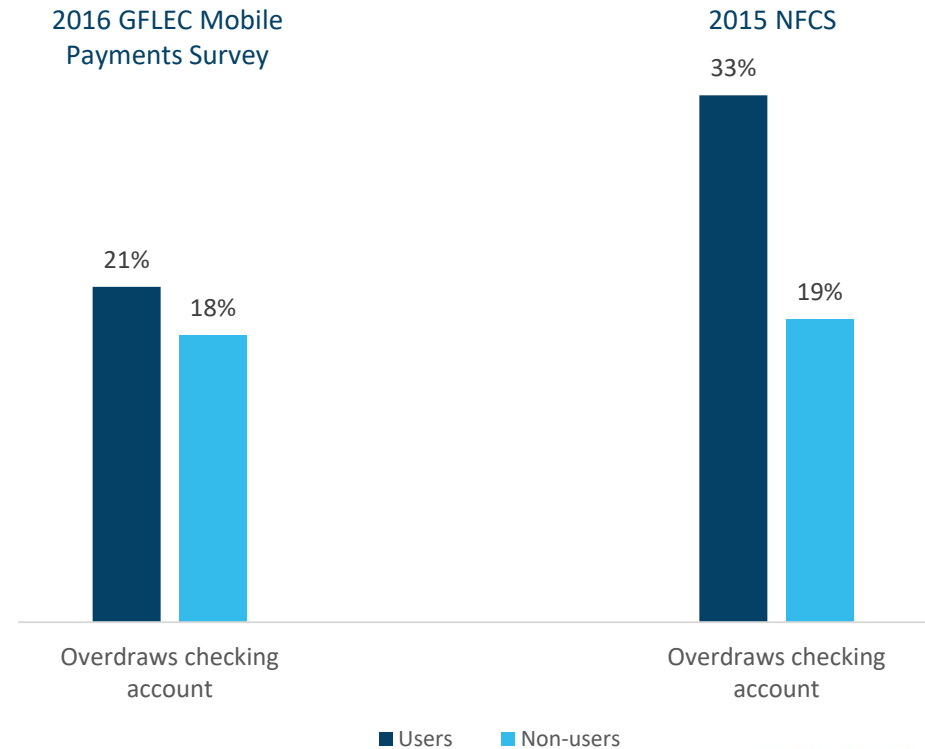
GFLEC
GLOBAL FINANCIAL LITERACY
EXCELLENCE CENTER

1st Report - Millennial Mobile Payment Users: A Look into their Personal Finances and Financial Behaviors

Compared to non-users, Millennials who use mobile payments are more likely to:

- occasionally overdraw their checking account (33% vs. 19%). This is an especially concerning practice because it often incurs in high penalty fees.
- pay fees on their credit cards in the past 12 months (58% vs. 45%)
- make withdrawals from their retirement account (37% vs. 9%)
- use alternative financial services such as pawnshops or payday loans (50% vs. 23%)

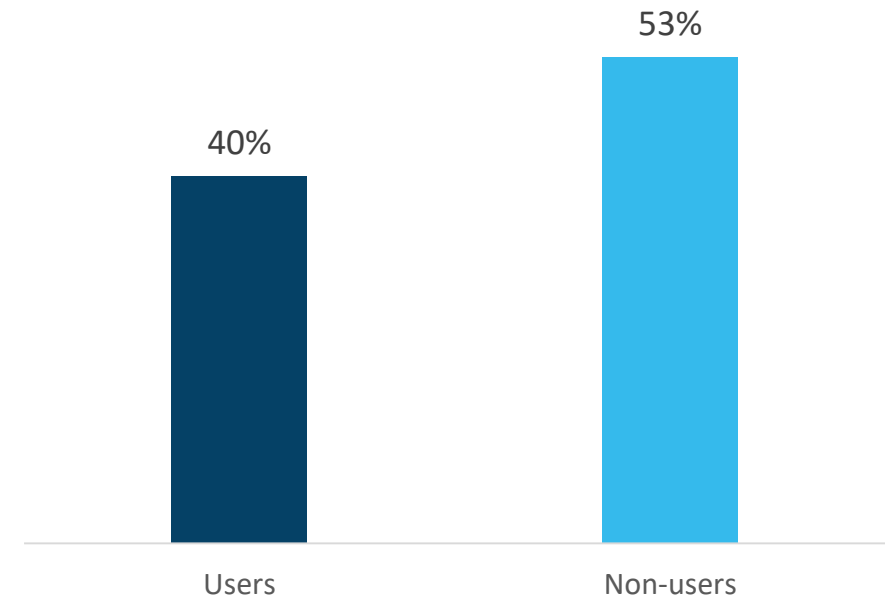
Checking account management (in the past 12 months)



1st Report - Millennial Mobile Payment Users: A Look into their Personal Finances and Financial Behaviors

- Only 40% of Millennial mobile payments users are able to answer the big three financial literacy questions correctly
- Those who use mobile payments are less likely to be financially literate.
- Respondents who use mobile payments and are financially literate are much less likely to engage in poor financial behaviors.
- Financial literacy and fintech are good complements, not substitutes

Financial literacy of mobile payment users



Source: 2016 GFLEC
Mobile Payments Survey

2nd Report - Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era



The new insights from the 2018 *P-Fin* Index demonstrate that:

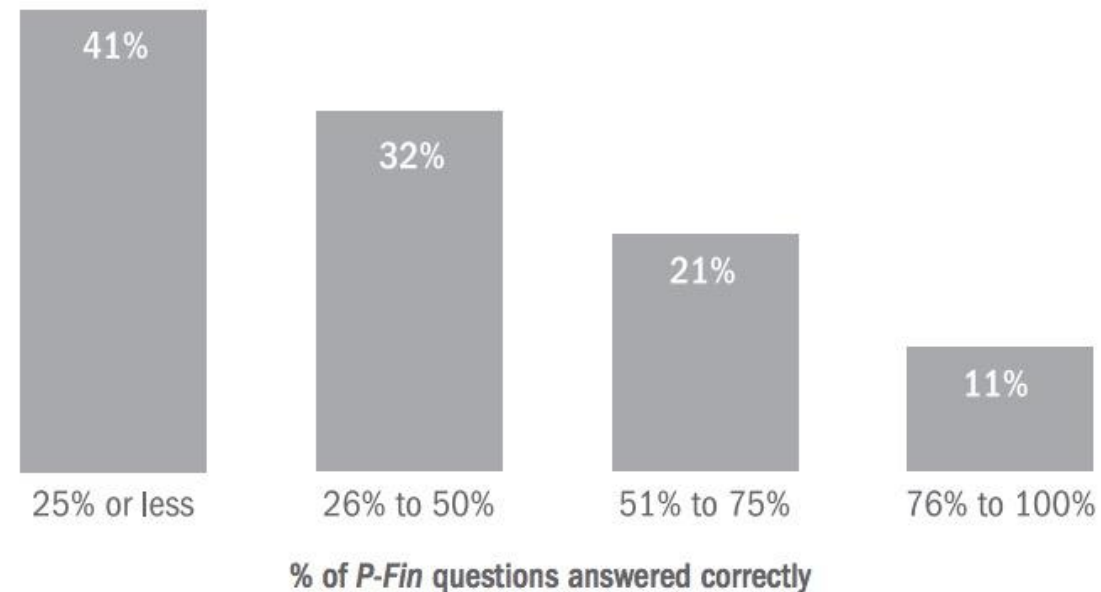
- Millennials answered 44 percent of P-Fin Index questions correctly, compared to 50 percent of the US adult population.
- Financial literacy is lowest in the areas of comprehending risk and insuring
- 80 percent of millennials use their smartphone for transactional purposes like paying bills and depositing checks.
- Almost 30 percent of millennials who use their smartphone to make mobile payments report overdrawing their checking account.

2nd Report - Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era

- Those who use mobile payments are more likely to overdraw their checking account
- Fin-tech users with higher financial literacy are less likely to overdraw their checking account

Higher financial literacy lessens negative effects of using smartphone for mobile payments.

% of mobile payment users overdrawing their checking account



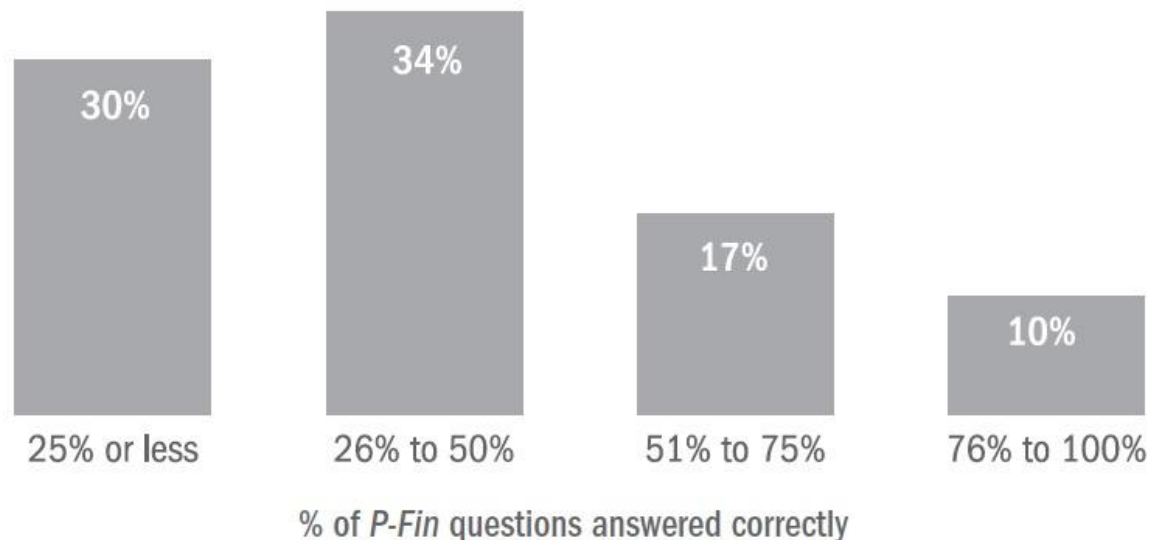
Source: The TIAA Institute-GFLEC Personal Finance Index (2018).

2nd Report - Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era

- Those who use their smartphone to track spending are no less likely to overdraw their checking account
- Fin-tech users with higher financial literacy are less likely to overdraw their checking account

Higher financial literacy lessens any negative effect of using smartphone to track spending.

% overdrawing their checking account among those who use smartphone to track spending



Source: The TIAA Institute-GFLEC Personal Finance Index (2018).

Final Thoughts

➤ Financial literacy is like reading and writing

- As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today's digital economy without being financially literate

➤ Building human capital for the 21st century

- Everyone deals with finance and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself