

1

Financial Literacy – Is It Really About Cognitive Functioning?

PAMELA HERD
UNIVERSITY OF WISCONSIN, MADISON

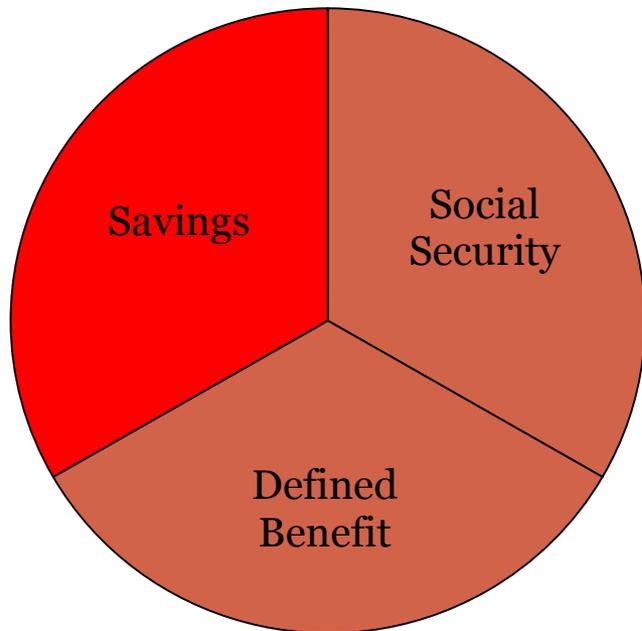
The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Financial Literacy Research Consortium.

The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA or any agency of the Federal Government or of the University of Wisconsin System, including the Center for Financial Security.

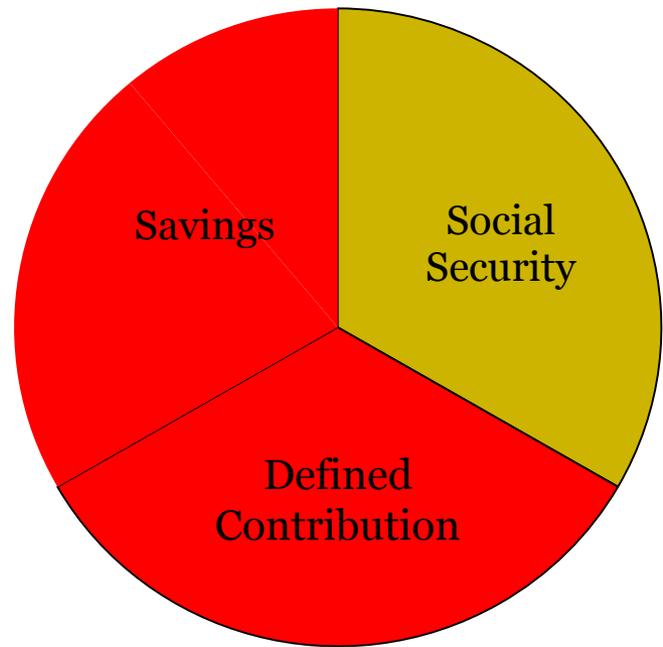
The Retirement Income Stool: More Choice!

3

The Old Stool



The New Stool



What We Don't Know

4

- We know a lot about short term interventions to improve financial literacy.

What We Don't Know

5

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

Financial Literacy

6

- *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

7

- **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

8

- 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

9

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

Data: Wisconsin Longitudinal Study

10

- **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.

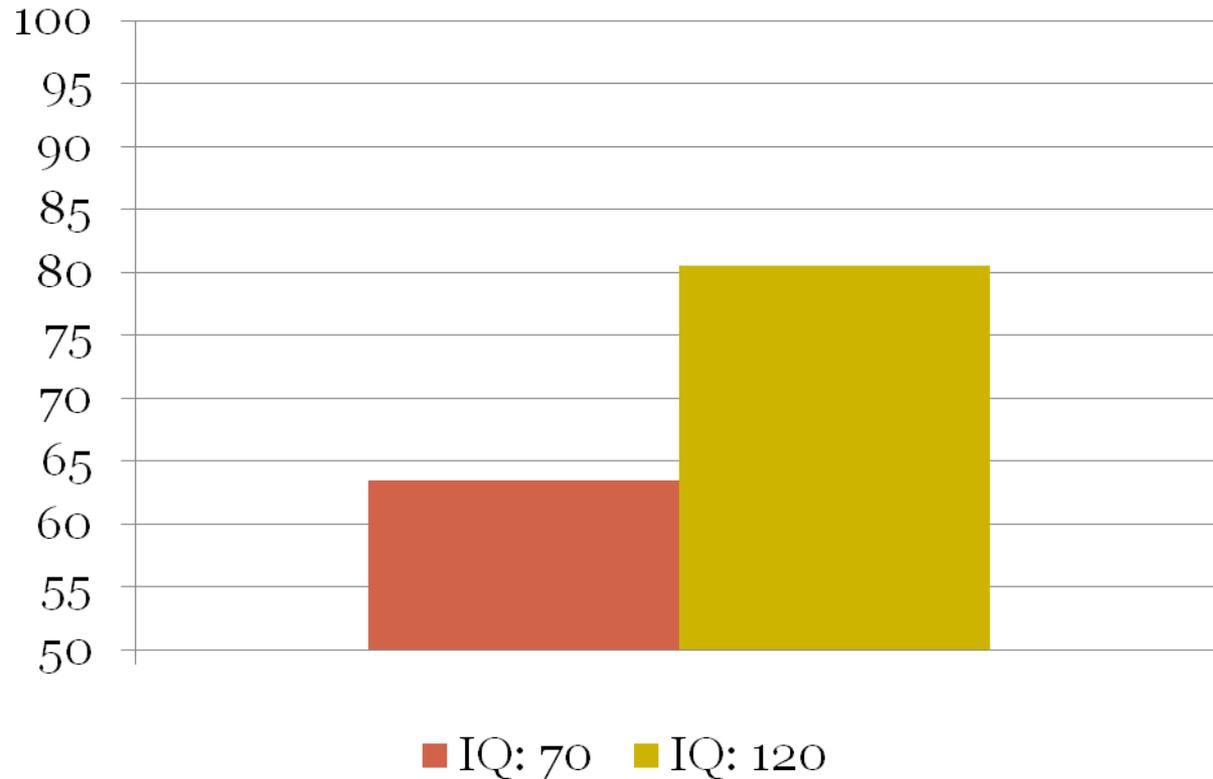
Findings

11

- Cognition Matters. But it mostly only matters for those without college degrees.

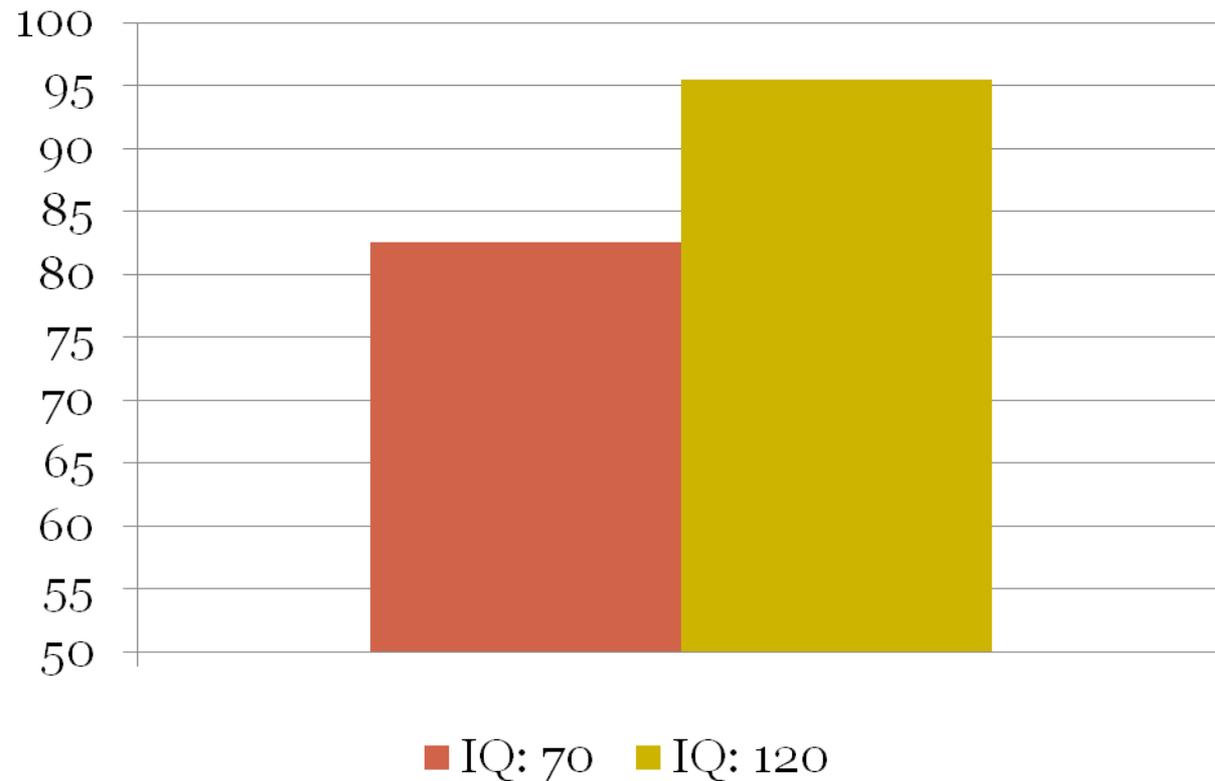
Percent Knowing Value of Private Pensions: By IQ Score

12



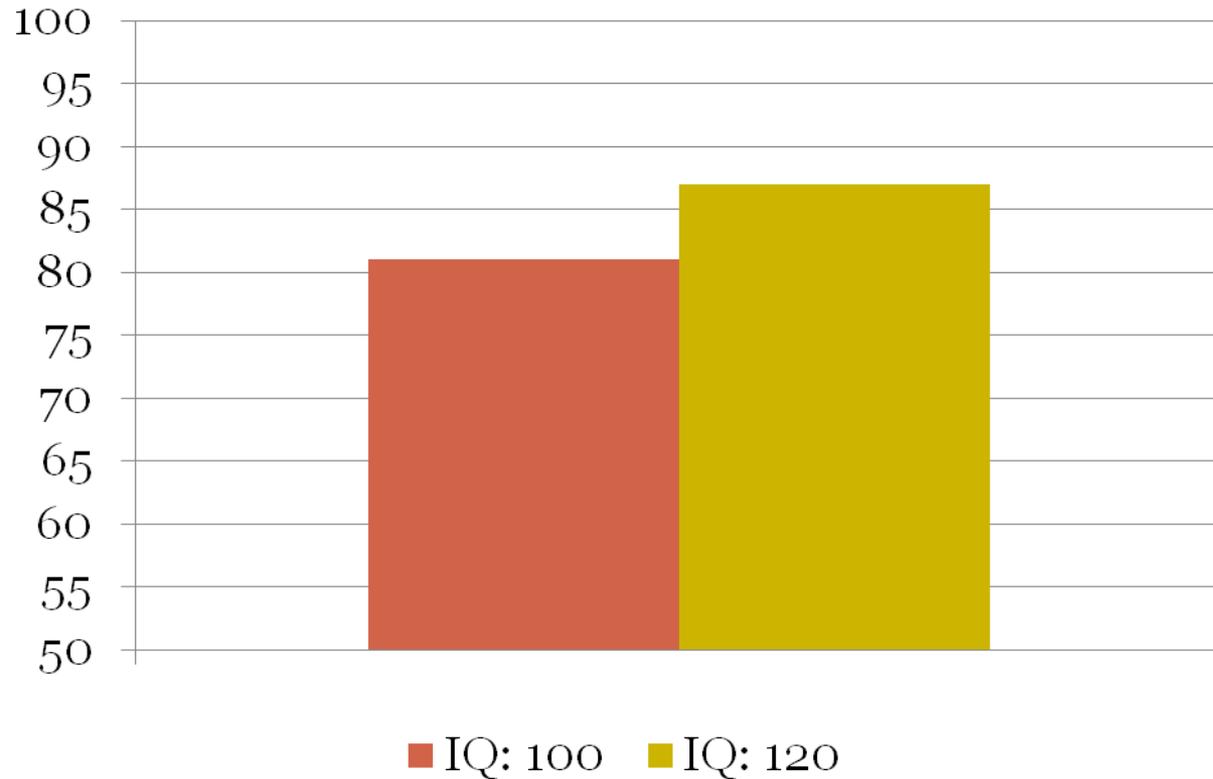
Knowledge of Assets by IQ Score

13



Knowledge of Checking Account Value by IQ Score

14



Math Class?

15

- Small and inconsistent relationships.

Discussion: Implications for Policy and Practice

16

- Policymakers and practitioners need to consider the differential consequences associated with ‘more choice’ for older Americans.



Full contact info:

Pamela Herd, 1080 Observatory Drive, Madison, WI 53706, email:
pherd@lafollette.wisc.edu.



<http://cfs.wisc.edu/>

Discussant: Jeanne M. Hogarth

18

Jeanne M. Hogarth

Program Manager

Consumer Education and Research Section

Division of Consumer and Community Affairs

Federal Reserve Board





Schooling, Cognition, and Financial Capability

**Jeanne M. Hogarth
Federal Reserve Board**

The analysis and conclusions set forth in this presentation represent the work of the authors and do not indicate concurrence of the Federal Reserve Board, the Federal Reserve Banks, or their staff. Mention or display of a trademark, proprietary product, or firm in the presentation by the authors does not constitute an endorsement or criticism by the Federal Reserve System and does not imply approval to the exclusion of other suitable products or firms.



Shameless commercial

Goals

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 take-aways?

- ▲ **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?



Thank you for participating
in the 2011 CFS Webinar
Series. For more
information, including
materials from today's
webinar, please visit The
Center for Financial
Security website:

www.cfs.wisc.edu

