

Social Security Administration: Financial Literacy

Financial literacy in the older than 50 population is lacking. Most respondents are able to calculate a percentage, but only 55 percent can divide and less than 20 percent can compute compound interest. Solutions to remedy this situation and encourage retirement planning are still needed.

Lead Agency:

Social Security Administration

Agency Mission:

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

Principal Investigator:

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General Description:

Using survey data from the Health and Retirement Study, the authors find that financial literacy in the older than 50 population is lacking. Their results are based on several simple questions that ask respondents to calculate a percentage, divide two numbers, and compute compound interest. Most respondents are able to correctly calculate a percentage, while about 55 percent can divide, and less than 20 percent can compute compound interest correctly. These findings are consistent with other financial literacy surveys, both in the U.S. and in other developed countries, that find that many people do not understand interest rates or the terms of their investments. These results are not promising, since this age group should have financial experience and retirement planning is relevant for this group. Respondents who are financially literate are more likely to have planned for retirement. Furthermore, it is unclear how to remedy this situation. Other researchers have found that the effectiveness of financial education seminars is low and since they are voluntary, may not reach those who are most in need of retirement planning.

This project studies workers' levels of financial literacy and finds that strikingly many respondents display particularly low levels of financial knowledge. Moreover, people who plan for retirement and execute their plans successfully are those who are more financially literate. Other countries have undertaken initiatives to enhance financial literacy, with the goal of enhancing retirement security. The information that this research produces on the level of financial literacy in different subgroups in the population will be useful for efforts aimed at providing financial education and improving financial literacy.

Annamaria Lusardi and Olivia Mitchell were awarded the 2007 Fidelity Research Institute Pyramid Prize for their work on advancing understanding of the importance of financial literacy and planning in helping Americans reach their financial goals. The prize is presented to authors of published applied research that the Institute believes best helps address the goal of improving lifelong financial well-being for Americans. The award-winning paper “Baby Boomer retirement security: The roles of planning, financial literacy, and housing wealth” first appeared as a working paper and was subsequently published in the Journal of Monetary Economics.

- Excellence:*** What makes this project exceptional?
- Significance:*** How is this research relevant to older persons, populations and/or an aging society?
- Effectiveness:*** What is the impact and/or application of this research to older persons?
- Innovativeness:*** Why is this research exciting or newsworthy?

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