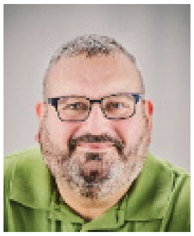
RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

Who Should Read This Insight:
Financial professionals, policy analysts

Institute Research Agenda Topic:
Consumer behavior



Definitions of **bolded key terms** are at the end of this article.

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Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Tim Kaiser, Annamaria Lusardi, Lukas Menkhoff, and Carly J. Urban. 2020. "Financial Education Affects Financial Knowledge and Downstream Behaviors." Working Paper 27057, National Bureau of Economic Research, Cambridge, MA. http://www.nber.org/papers/w27057; file:///C:/Users/Owner/Downloads/KLMU_Apr20.pdf.
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Insight:
FINANCIAL KNOWLEDGE AND BEHAVIOR IMPROVED THROUGH EDUCATION PROGRAMS

IDEAS IN THE INSIGHT YOU CAN PUT INTO ACTION

Financial education programs are designed to teach individuals how to make appropriate decisions about their finances. Tim Kaiser and colleagues' working paper synthesizes 76 studies that evaluate the successes of a variety of education programs offered around the world. The authors conclude that programs can be designed to improve decisions about budgeting and saving and, to a lesser extent, decisions about purchasing appropriate insurance products and limiting or reducing excessive debt. Policymakers could use the authors' paper to design education programs that will specifically improve decisions over retirement income planning. In addition, this paper could offer insight for scholars when they analyze the effectiveness of education programs as implemented.

PRINCIPAL INSIGHTS

Many of the largest economies, including China, India, and most OECD member countries, have implemented financial education programs. Each program is unique, although they all seek to promote **financial literacy.** One of the most important differences among these programs is the specific teaching method used, ranging from an informational brochure to classroom instruction. The specific goals of each financial education program can also be different, since some programs focus on budgeting or saving while others focus on limiting or reducing excessive debt or on purchasing appropriate insurance products. Additionally, the participants in the financial education programs vary in terms of their socioeconomic statuses, education levels, ages, life phases, and, more broadly, in terms of where they live—whether in a country with a developed or a developing economy.

Governments and scholars are understandably curious as to whether these education programs are effective. One way to answer this question is by analyzing statistics; these analyses can suggest whether any improvement in a participant's financial literacy, knowledge, and/or behavior is a direct result of the financial education program.

In each statistical analysis the researcher's modeling includes that program's content and method of delivery, audience, anticipated behavioral changes, and available data. Studies might have different time lags between the conclusion of the education program and the observance of any behavioral changes, or they might differ based on whether the data are obtained through self-reporting surveys or through more-reliable administrative data. Furthermore, some studies might attempt to account for individuals who, after receiving the financial education, did not take the expected actions because they had limited resources and could not afford it, were young and chose to postpone taking actions until later in their lives, or were already making appropriate decisions before participating in the education program and so did not need to change their behavior.

Tim Kaiser, Annamaria Lusardi, Lukas Menkhoff, and Carly J. Urban find that, through January 2019, there were 76 relevant studies that analyzed various financial education interventions from 33 countries. These studies were either published in peer-reviewed journals or are available as well-developed working papers. The authors examine the evidence and conclude with an updated, sophisticated single analysis for future scholars to use as a starting point.

This working paper uses a generally accepted economics-based analytical method, called meta-analysis, to study the literature. The authors' main conclusion is that financial education programs generally cause the desired improvements in knowledge and behavior for most individuals. They note that the effects of these programs on financial knowledge seem to be similar to the effects that unrelated educational interventions have on improvements in math or reading competencies.

The authors draw the following conclusions based on their analysis of prior studies:

- Financial education programs generally increase an individual's knowledge, but that increased knowledge does not necessarily lead to improved behavior.
- Financial education programs increase financial knowledge more for individuals living in developed economies, regardless of their individual socioeconomic circumstances, than for those living in developing economies.
- Regardless of the content and method of delivery, financial education programs generally improve knowledge and behavior over savings and budgeting more than they do over purchasing appropriate insurance products, or over limiting or reducing excessive debt.
- This study looked at the effects of financial education programs for up to 24 months. Although acquired knowledge might continue to influence an individual's behaviors beyond two years, there is not enough empirical data in the existing studies to confirm this theory. Since a series of unrelated studies not included in these 76 studies conclude that financial education programs specifically designed for high school students do produce a long-term effect, however, the authors propose that those methodologies be incorporated into future studies to test for the long-term effectiveness of financial education programs offered to adults.
- Only 20 of these 76 studies attempted to determine if financial education interventions are cost-effective. Since so few studies cannot lead to a statistically reliable conclusion, the authors suggest that future studies should include cost-benefit analyses for the benefit of policymakers.

Financial education programs are becoming more important and more common; they are designed to improve decisions about budgeting, saving, and other aspects of an individual's financial security and independence. Through 2019 at least 76 articles or working papers have looked at the effectiveness of these education interventions, with each of the 76 using different methods and drawing different conclusions. Kaiser et al.'s working paper, which harmonizes these prior studies, should help improve the design of the financial education programs as well as help analyze those programs' results. It is hoped that their paper will inspire financial education programs to be designed to specifically improve knowledge and behavior around the intricacies and nuances of retirement income planning.

KEY TERMS ARE INDICATED AT FIRST USE WITH BOLD FONT.

financial literacy: Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. The lack of these skills is called financial illiteracy.

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