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# Financial Literacy: Implications for Retirement Security and Financial Marketplace

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# **Improving Financial Literacy: The Role of Nonprofit Providers**

J. Michael Collins

## **Financial Literacy and 401(k) Loans**

Steve Utkus and Jean Young

## **Annuities, Financial Literacy and Information Overload**

Julie Agnew and Lisa Szykman

## **Financial Counseling, Financial Literacy, and Household Decision Making**

Sumit Agarwal, Douglas Evanoff and Gene Amromin

# #1 Nonprofit Study: Highlights

- Nonprofits are primary channel to deliver financial literacy to lower-income adults (2,100 providers yet small/weak)
- People trust nonprofits for perceived objectivity (lack of financial incentive)
- Lack of extensive study on impact of these providers. Modest impact shown by some studies. More studies needed.

# Nonprofit Study: Questions

1. Do the nonprofits deserve the trust? Are there others who would be more trusted and better able to deliver (e.g., employers or the government)?
2. What training and standards are followed by those providing the financial programs?
3. Is there a way to evaluate “crisis” specific needs counseling relative to broader education? Curriculum list and note on focus toward budgeting, credit and savings was helpful.

# Nonprofit Study: Observations

- Agree that additional study of effectiveness and trustworthiness is needed
- Analysis of breadth, impact, quality and consistency would help
- Focus on the cost of these programs in total as well as government subsidy to determine whether centralization via government may be cost neutral
- Consider age of those seeking help and how to teach key knowledge earlier in life

# #2 401(k) Loans Study: Highlights

- Taking loans relate to impatience in financial decision making, which also impacts contribution rates, credit repayment, other wealth
- Education about benefits and risks of taking a loan may need to be more comprehensive in scope
- Loans may increase participation in DC plans and offer low-cost liquidity, yet risk of not repaying with job change/loss or retirement

# 401(k) Loans Study: Questions

1. Are loans still necessary to increase DC plan participation (i.e., auto enrollment brings participation up)?
2. Can an outside program support continuation of the loan until new job is found (like COBRA)?
3. Can use of proceeds for consumption be studied further to show impatient versus necessary (e.g., car to drive to work)?
4. Where might people go for a loan if not their DC plan? Could an alternative be created (like small business loans...more of get started or first home loans)?

# 401(k) Loans Study: Observations

- Education efforts may be costly and have low impact for lending
- Eliminating loans or finding another way for people to fund early or life critical expenses that can be paid back may be superior
- Auto enrollment may reduce the need for loans to attract DC plan participation

# #3 Annuities and Overload Study: Highlights

- Financial literacy and information overload may impact decision to purchase an annuity as well as subsequent confidence and satisfaction with decision
- Information overload decreases as financial literacy increases
- To increase confidence and satisfaction with choices: simplify decision environment and improve financial literacy

# Annuities and Overload Study : Questions

1. What is meant by simplification of choices?
2. How can choice be simplified, yet risks managed appropriately?
3. How do advisors impact the choice made, i.e., more literate tend not to buy annuities, yet they also have more money?
4. How are annuities presented in practice and are they the “simple” or more complex choice?

# Annuities and Overload Study :

## Observations

- Simplicity message can be misunderstood by plan sponsors resulting in taking away of diversifying assets, active management and risk management
- Choice architecture may be simple, yet sophistication may appear behind the scenes
- Simple may lead to misleading heuristics such as 100 minus one's age to determine equity asset allocation
- Less financially literate may not understand the default risk of an insurance company or other concerns more literate may have

# #4 Financial Counseling : Highlights

- Financial counseling is an important tool in educating consumers, especially those with the least knowledge, income and savings
- It's not clear which programs are best, yet one-on-one counseling most effective
- Education in groups may be most effective given the “peer impact”
- Financially illiterate: borrow more, save less, make financial mistakes, less prepared for retirement
- Need for more study

# Financial Counseling: Questions

1. What are the costs to deliver education and how do they break down by topic taught?
2. Is there a way to deliver one-on-one counseling at critical life points?
3. Can the value of mandatory versus voluntary programs be better supported?
4. Are tests effective in increasing literacy? Can they be required at different financial life points?

# Financial Counseling: Observations

- Implementing more automatic programs (e.g., higher default savings level) may be more efficient
- Taking away temptations (e.g., rid of loans, disallow cash outs) may be more impactful
- More mandates and institutionally run programs may improve outcome

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