



Center for Financial and  
Economic Decision Making

A LABOR AND POPULATION PROGRAM

# ***Financial Literacy and Economic Security: RAND Research for the Gulf States***

**RAND Gulf States Policy Forum**

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**Financial literacy covers both skills and knowledge: managing household finances requires basic mathematics as well as understanding of financial providers, products, and services.**



# ***Financial Literacy Is a Pressing National Concern***

- **Poor financial choices lead to high welfare costs for all**
- **Financially literate households**
  - **Build long term well-being by planning and saving**
  - **Reduce short-term vulnerability by preparing and recovering quickly from shocks**
- **Financial literacy is low or falling, especially for older adults, women, and young people**
- **Low income households are particularly at risk**

# ***Financial Literacy Is Highly Relevant to the Economic Security of Gulf Coast Households***

- Large number of financially vulnerable households
- High density of non-mainstream financial providers such as payday lenders
- Increasing background economic stress
  - Effects of Katrina + mortgage / lending crisis
  - Shift towards individual responsibility for economic well-being
  - Increased complexity of financial decisions

# ***CFED Conducts Research on Financial Literacy Within RAND Labor and Population***

## **RAND Labor and Population**

Broad focus on socioeconomic well-being

## **Center for Financial and Economic Decisionmaking (CFED)**

Focus on individual financial decisions over a lifetime, drawing on economics, psychology, and decision science

- Do individuals understand their economic choices?
- How do they gather information and form preferences?
- Do they make decisions that are “right” for them?
- Can policymakers identify and correct systematic mistakes?

# ***Two Studies and One Proposed Project Illustrate RAND's Experience***

- **Past project: Financial literacy and common household investment choices (Department of Labor)**
- **Ongoing work: Financial literacy and the impact of the economic crisis on American households (National Institute on Aging)**
- **Proposed project: Financial literacy among “unbanked” or financially underserved households (households without a formal bank account)**

# *Department of Labor Study: Financial Literacy Affects Common Household Investment Choices*

|                          |  |
|--------------------------|--|
| <b>Context</b>           | Overlooking mutual fund fees can hurt long-term savings  |
| <b>Research question</b> | How does financial literacy affect household investment choices related to mutual funds?   |
| <b>Implications</b>      | <ul style="list-style-type: none"><li>• DOL: proposals to improve fee disclosure in retirement plans, ease plan provision of financial advice</li><li>• More general: Information needs to be paired with immediate decision support and long-term literacy building</li></ul> |

# ***NIA Roybal Center Study: Financial Literacy and the Impact of Financial Crisis***

|                          |   |
|--------------------------|---|
| <b>Context</b>           | <p>Current economic conditions reflect extreme volatility</p> <ul style="list-style-type: none"><li>• Home values down by about 25 percent</li><li>• Stock markets down by more than 35 percent</li><li>• Home foreclosures and unemployment on the rise</li></ul>  |
| <b>Research question</b> | <p>What effect (if any) does a household's financial literacy have on how it is impacted by the financial crisis?</p>   |
| <b>Implications</b>      | <p>Findings will provide a window into the crisis for policymakers, researchers, and advocacy groups</p> <ul style="list-style-type: none"><li>• How are households affected, and what specific adjustments are they making?</li><li>• How are the effects evolving over time?</li><li>• How does financial literacy affect preparedness / coping?</li><li>• What policy responses are most needed?</li></ul> |

# ***New Proposal : Financial Literacy Among Households Outside the Financial Mainstream***

|                                   |   |
|-----------------------------------|---|
| <b>Context</b>                    | <ul style="list-style-type: none"><li>• Recent crisis may adversely affect a long-term problem: large number of households do not use formal financial services</li><li>• Such households likely to pay higher costs for services, be less prepared for emergencies and more vulnerable to thefts</li></ul>   |
| <b>Proposed research question</b> | What are the connections (if any) between financial literacy, staying “unbanked”, and its effect on household well-being?   |
| <b>Goals</b>                      | <ul style="list-style-type: none"><li>• Understand how these households perceive their financial environment and choose service providers</li><li>• Estimate the economic impact of remaining “unbanked”</li><li>• Analyze how financial literacy affects unbanked status, relative to other factors<ul style="list-style-type: none"><li>• Lack of information, misperceptions of costs/benefits</li><li>• Other costs or service features</li><li>• Non-financial factors: trust, environment, culture</li></ul></li><li>• Identify policy initiatives that are likely to be effective (or not)</li></ul> |

# ***What Can RAND Contribute to Financial Literacy Efforts in the Gulf States?***

- Financial literacy is already part of many active local initiatives
  - Post-Katrina: literacy-focused programs for individuals and small businesses; for example, Bush-Clinton Fund/Project HOPE
  - Economics courses are mandatory for Mississippi students
  - Mississippi Council on Economic Education programs

## **Two key questions**

- Where would research and analysis *add more value to this work?*
- What valuable lessons can researchers *learn from these efforts?*

# *What Can RAND Contribute to Financial Literacy Efforts in the Gulf States?*

**Background research  
on strategic issues**

- Review issues, policies
- Study best practices

**Surveys and primary  
data collection**

- Assess financial literacy, behavior
- Target specific concerns, groups

**Program design**

- Integrate financial education into other programs
- Design choice environments for better decisions: simplifying , building “behavioral” incentives

**Program evaluation**

- Conduct rigorous statistical analysis of program impact and cost efficiency

## ***More about RAND***

- **The RAND Gulf States Policy Institute--created by the RAND Corporation in 2005 in the wake of hurricanes that devastated Louisiana, Mississippi, and Alabama--conducts policy research on critical issues affecting the region.**
- **The RAND Corporation is a nonprofit institution that helps improves policy and decision making through research and analysis.**

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