Old Age and the Decline in Financial Literacy

Summary: A study published in Management Science, authored by Department of Personal Financial Planning professors Michael Finke and Sandra Huston of Texas Tech University and John Howe of the University of Michigan, shows a decrease in financial awareness among Americans of retirement age. This is worrisome because households aged 60 years and older control more than half of the wealth in the United States. Since fewer employers provide pensions than ever before, more people are dependent entirely on their retirement savings.

Figure 1 (Color online) Mean and Predicted Financial Literacy Score by Age

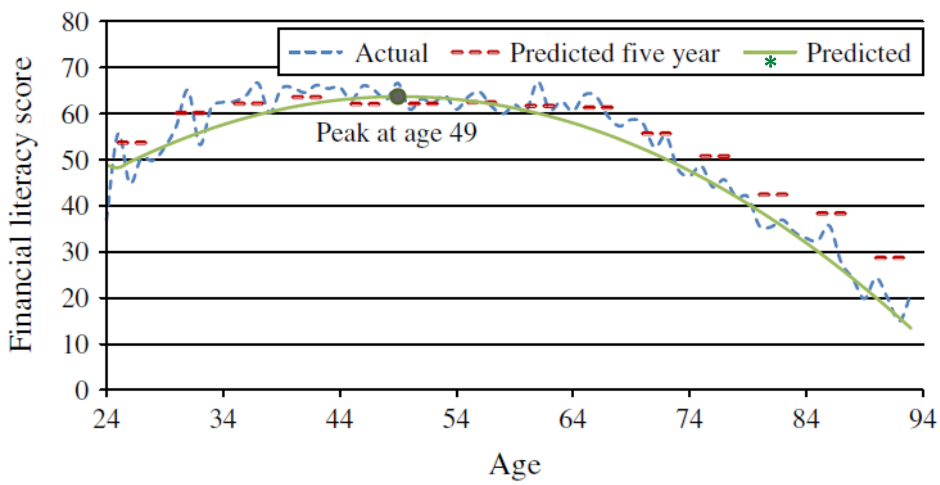

Figure 1 shows the average financial literacy scores by age. Average financial literacy scores within each year of age increase up to roughly age 50 and then begin to fall with age.

*Predicted financial literacy score controlled for household characteristics.

Figure 2 (Color online) Financial Literacy, Financial Confidence, and Cognitive Ability

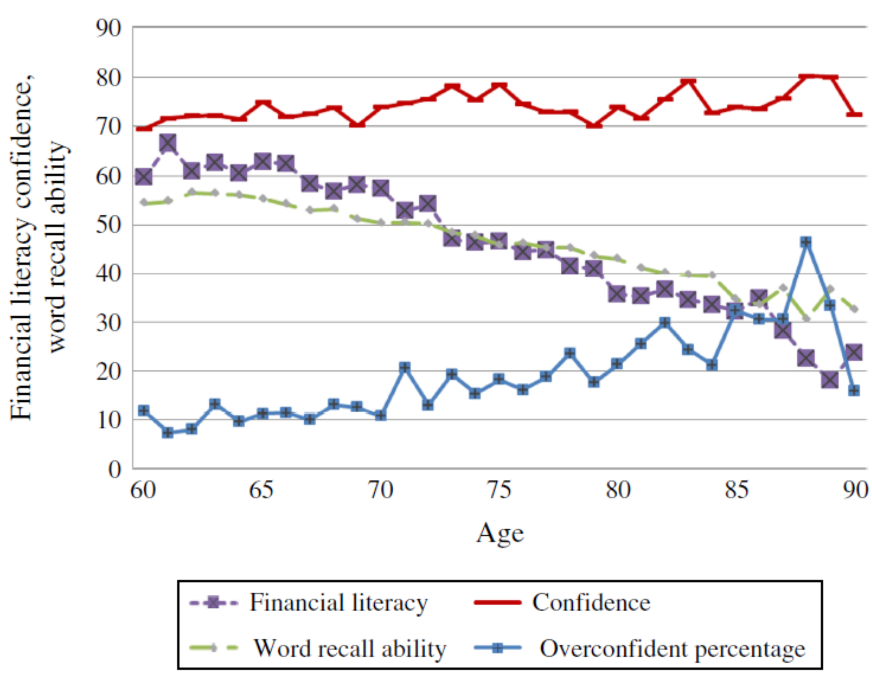

Figure 2 shows average financial literacy score, average confidence in financial decision-making ability, and average percentage of overconfident respondents within each age year using the Consumer Financial Monthly (CFM) for respondents age 60 or older. (CFM collects demographic and detailed credit use information through a random digit dialing phone survey in the US.) Average recall score within each year of age is draw from the Health Retirement Study (HRS).

This figure demonstrates that confidence remains high even as financial literacy falls after age 60.

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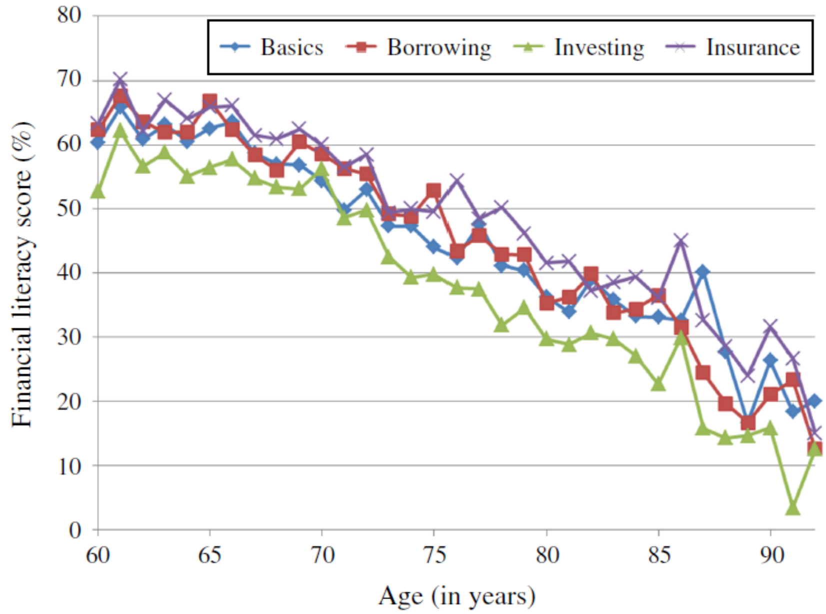
Figure 3 (Color online) Financial Literacy and Topic Area



The third figure shows the average financial literacy score within each topic (basics, borrowing, insurance, and investments using the CFM for respondents age 60 or older.

It indicates that the decline in financial literacy is similar across topic areas.

Key Points / Relevancy to UWEX

- Families may need to address these issues with older adults *before* the older adults believe it is a problem. This research also highlights the importance of financial pre-planning, such as estate planning or divestment/disbursement planning.
- Low financial literacy is an important driver of poor financial decisions (above and beyond age itself), but individuals can combat it if they recognize and/or anticipate the decline. There is evidence that financial advice can help dampen overconfidence and act as "emotional circuit breaker."
- Older adults with declining financial literacy skills may be particularly vulnerable to financial abuse (from unethical financial advisors, family caregivers, or scams) and more prone to make financial mistakes. There is evidence that warning older adults of scams can help them reject the scam.
- Please not that this research compared people of different ages, rather than following the same people over time. (Within-person changes in financial literacy may look different.)

Tools and Resources:

- Consumer Financial Protection Bureau: Financial protection for older Americans. This site also has resources for financial caregivers
- Pamphlet on Starting the Conversation about Health, Legal, Financial and End-of-Life Issues
- You can get scam alerts by email
- Financial Fraud Enforcement Task Force: Resources for protecting elders from financial abuse and fraud

Discussion: Potential for UWEX

- Spread awareness of this phenomenon among families and caregivers?
- Incorporate these concepts into financial coaching?
- Mention new scams in aging-related programming ("PSAs")?
- Reinvigorate curriculum for adult children and aging parents?
- Adopt CFPB's Money Smart for Older Adults curriculum?