Olivia Mitchell discusses financial literacy at the Global Corporate Center

In June, colleagues in the Munich office had the opportunity to hear what Professor Olivia Mitchell, one of the world's leading academics in the field of pension and social security research, had to say on her current topic of research: financial literacy – measuring it, and tackling what needs to be done based on the results.

The U.S. based researcher is the Professor of Employee Benefit Plans and the Chair of the Department of Insurance and Risk Management at Wharton, the University of Pennsylvania, where Allianz sponsors a research council. These are just two positions in a long list of recognitions and qualifications Mitchell holds, noted Brigitte Miksa, AllianzGI Head of International Pensions, who introduced Mitchell to the audience. Mitchell has also contributed to several issues of the AllianzGI *PROJECT M* publication. Before giving the audience an indication of the results of the financial literacy research she and co-researcher Annamaria Lusardi, Professor of Accountancy and Economics at the George Washington University and a Director of the Financial Literacy Center which is sponsored jointly by Dartmouth and Wharton universities and the RAND corporation, had carried out in many countries around the world, Mitchell described why a good level of financial literacy is of growing importance: governments are trying to ease out of the picture in respect of pension provision, and companies are moving employees to defined contribution schemes, she said. This and other factors, such as mobile and flexible labor markets, are forcing people to take more personal responsibility for their pension and retirement planning.

Olivia Mitchell of the Wharton School, University of Pennsylvania and Brigitte Miksa, AllianzGI Head of International Pensions

Financial terms not always easy to understand

But this is no easy task, Mitchell noted: financial markets are complex and it's not always easy to understand what one should have a grasp of in order to best manage one's finances: terms such as interest compounding, real versus nominal value (inflation), and risk diversification are not immediately or easily understandable by a layperson, she suggested. And even if you do have an understanding of these terms, she questioned, would you, and should you, act on what you know? In her lively presentation, and during the interactive question and answer session which followed, Mitchell discussed the initial findings from the research (the findings are not yet fully compiled). Mitchell and Lusardi measured how the three financial terms – interest compounding, inflation, and risk diversification – are understood in different countries. She compared the results from the U.S. and Germany: Germans have a better understanding of interest rate compounding and inflation, she noted, but in both countries, over 30% of those surveyed said they didn't know about risk diversification – a result she felt was worrisome.

Mitchell discuss the importance for the layperson of understand terms like interest rate compounding.

Behaving differently: men and women

There was an interesting gender-specific behavioral aspect to one of the research findings: women say when they don't know something, freely admitting this, Mitchell said, whereas, in many instances, men maintained that they knew something about one of the terms but, when questioned, proved that they didn't. This means you have to have a "nuanced approach" when probing these topics with males, she suggested.

Not just planning, execution also required

The research also showed that there wasn't always a correlation between making a financial plan and executing that plan. Of a group of people over age 50 who were questioned, 31% said they had a retirement plan, but less than 20% said they stuck to their plan. Mitchell emphasized that just drawing up a financial plan is not enough; a plan won't be of benefit unless it is executed. Based on their research findings, Mitchell concluded, it is clear that more needs to be done in the area of financial literacy and in helping people to *do more* to act at the times when they need to act. She also noted the benefits of starting financial literacy programs early in life, saying there is evidence to show that school children who have been educated in areas of finance and money management in some U.S. states later did better at planning and at executing their financial plans.