

Financial Literacy, Retirement Planning and Household Wealth

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Abstract

Relying on comprehensive measures of financial knowledge, we provide evidence of a strong positive association between financial literacy and net worth, even after controlling for many determinants of wealth. We discuss two channels through which financial literacy might facilitate wealth accumulation. First, financial knowledge increases the likelihood of investing in the stock market, allowing individuals to benefit from the equity premium. Second, financial literacy is positively related to retirement planning and the development of a savings plan has been shown to boost wealth.

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