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Household Saving Behavior: The Role of Financial Literacy, Information, and Financial Education Programs

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Individuals are increasingly in charge of their own financial security after retirement. But how well-equipped are individuals to make saving decisions; do they possess adequate financial literacy, are they informed about the most important components of saving plans, do they even plan for retirement? This paper shows that financial illiteracy is widespread among the U.S. population and particularly acute among specific demographic groups, such as those with low education, women, African-Americans, and Hispanics. Moreover, close to half of older workers do not know which type of pensions they have and the large majority of workers know little about the rules governing Social Security benefits. Notwithstanding the low levels of literacy that many individuals display, very few rely on the help of experts or financial advisors to make saving and investment decisions. Low literacy and lack of information affect the ability to save and to secure a comfortable retirement; ignorance about basic financial concepts can be linked to lack of retirement planning and lack of wealth. Financial education programs can help improve saving and financial decision-making, but much more can be done to improve the effectiveness of these programs.

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“U.S. Household Savings Behavior: The Role of Financial Literacy, Information and Financial Education Programs,” in C. Foote, L Goette, and S. Meier (eds), “ Policymaking Insights from Behavioral Economics ,” Federal Reserve Bank of Boston, 2009, pp. 109-149.

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