



Evaluating the Impact of Workplace Financial Education Using a Life Cycle Model

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Motivation

- Financial knowledge is important to understand wealth inequality (Lusardi, Michaud and Mitchell, 2013) and retirement preparation
- Yet, evidence does not yet support view that financial education is cost-effective
- Calls for better design of interventions and better methods to evaluate their effects



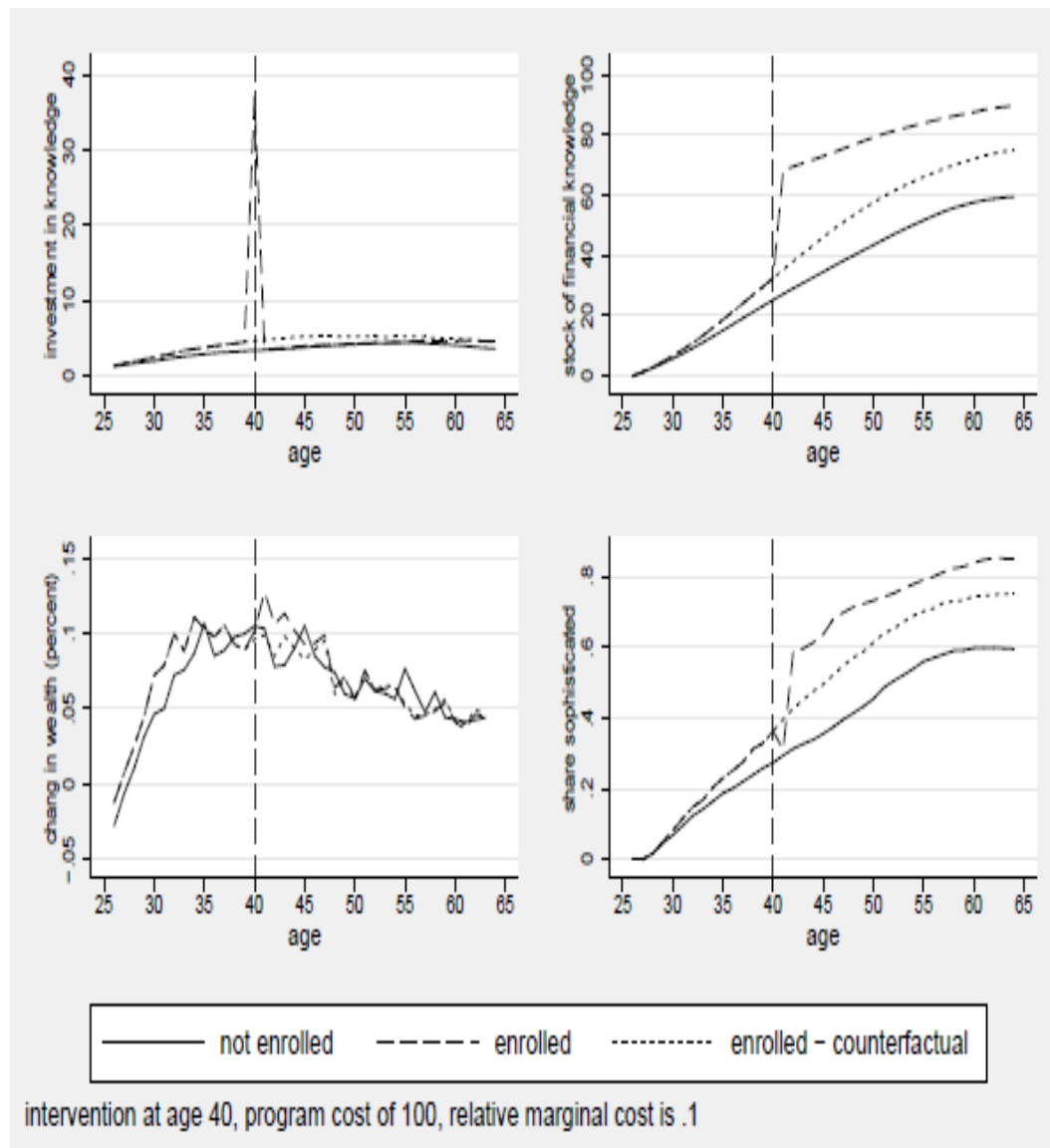
Use Model For Program Evaluation of Employer-Provided FK Programs



- Employees choose when and how much to invest in knowledge given savings goals
- Fin program can cut cost of investing in knowledge for employees.
- Firm offers program & eligibility assigned randomly to all employees of a given age.
- Compare each (simulated) employee's outcome with and without access to program.
- *Great advantage: we see actual counterfactuals! So can estimate selection bias.*

Compare LC Effects of FK @ages 30, 40, 50

- One-shot treatment offered to age 40 does best.
- Slowing depreciation key to higher retirement wealth.
- Lower cost programs more favorable.



Participant vs Nonparticipant Diff's *(conditional on being eligible)*:

- Participation in FK is endogenous.
 - Participants have higher earnings, more initial knowledge, and more wealth at baseline;
 - Nonparticipants are poorer, earn less, and have little financial knowledge at baseline.
- **Selectiveness implies**: average program effectiveness measure that assumes program *nonparticipants* could benefit as much as *participants* will be biased.



Illustration:

- If program participation assumed independent of retirement wealth, nonparticipants could be used to measure the counterfactual: **estimated program effect suggests retirement wealth up by 75%.**
→ **But actually, effect is 1%!**
- Using wealth trend of nonparticipants as counterfactual grossly overestimates program effect.
- DD with eligibility yields relatively smaller biases, compared to using participation.



Conclusions:

- Financial knowledge is *economically important* for understanding differences in LC wealth accumulation.
- Makes sense for some to remain unsophisticated, and for effects of early knowledge investments to fade in later life.
- Program evaluation needs to acknowledge endogeneity of FK program participation.
- Sound design and methods needed for cost-effective interventions

