

The Role and Limits of Financial Education and Information

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Given that the responsibility of families and individuals for making critical and sometimes complex financial decisions continues to increase, what role can financial education and informational programs play in helping families make good decisions? What role should such programs play?

Recent research has shown that while financial information and education can have a clear impact on individual awareness and intentions around financial issues, the influence of such programs on actual outcomes is modest. While possession of skills in basic planning, budgeting, and financial mathematics appears to be strongly related to individual financial outcomes, it is not clear how effectively educational and informational programs are in building these skills. Assessing the effectiveness of these programs is especially difficult given a key challenge: most programs are neither mandatory, nor randomly administered. Participation is often limited to those predisposed to receiving the intended educational messages, while the greatest need for improvement in financial literacy may exist among those who are unaware and uninterested.

In the current environment, financial education and information is clearly good and should be encouraged and improved. However, it seems clear that there are limits to what can be achieved via informational and educational programs alone. Going forward, in an environment in which automatic enrollment and other “autopilot”-type procedural policies may more strongly influence certain outcomes, the key challenge for policymakers is assessing and judging the cost and effectiveness of educational programs relative to alternatives. It will be critical to make the right choice about which mechanisms are most likely to be effective in which situations—and there is strong reason to suspect that different methods will meet with different degrees of success in different situations.