Financial Literacy and Retirement Planning in Sweden

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Summary

• Major pension reform since mid 90s
  – well designed
  – emphasis on information provision
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• Likely to have affected both financial literacy and planning for retirement
  – broadening of financial literacy
  – lowering of barriers to planning
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• Less reason to expect a strong link between FL and planning
The Swedish pension system

- **Public pension**
  - notional DC (16%)
  - funded DC (2.5%)
  - universal
- **Occupational pension**
  - funded DC (2-5%)
  - very common
- **Private pension**
  - funded DC
  - common
The Swedish pension system

• Limited downside
  – guarantee pension
• Limits on choice
  – small part of public pension contributions
  – occupational schemes more important for high earners; likely to have higher FL
• Information provision
  – information about investment options
  – user-friendly projections about future value of pension benefits
    • Tailored to the individual
    • Sent to everybody once a year (the ”orange envelope”)
    • Available online throughout the year
Measuring financial literacy

- Consumer survey commissioned by the Swedish Financial Supervisory Authority (Finansinspektionen)
- Telephone interviews
- 1,300 Swedish adults aged 18-79
- Representative sample
- Participation rate 45 percent
Levels of financial literacy

<table>
<thead>
<tr>
<th>Question 1: Interest Compounding*</th>
<th>Question 2: Inflation</th>
<th>Question 3: Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correct</td>
<td>36 %</td>
<td>59 %</td>
</tr>
<tr>
<td>Incorrect</td>
<td>49 %</td>
<td>24 %</td>
</tr>
<tr>
<td>dk</td>
<td>15 %</td>
<td>17 %</td>
</tr>
<tr>
<td>Total</td>
<td>100 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Overall Performance

| 3 correct                        | 22 %                  |
| 0 correct                        | 14 %                  |
| 1 dk                             | 34 %                  |
| 3 dk                             | 3 %                   |

*) Note: the wording used in the Swedish survey is slightly more difficult.
Levels of financial literacy

Overall performance:
• decreases with age
• is lower for women
• is higher among joint decision-makers vs singles
• strongly increasing with education
• higher among high-income group (4th q.)
Levels of planning

24 % are categorized as planners

Typically:

• older
• higher education
• higher income
• No diff men/women
Link between FL and Planning

• Planners have somewhat higher financial literacy:
  - 25 % vs 21 % 3 correct
  - 27 % vs 37 % 1 dk

• Probit regression: financial literacy not linked to planning

• Planning increases with age and income

• No link between education and planning
### Table 10. Multivariate Analysis of Retirement Planning: Results from a Probit regression, reporting marginal effects

<table>
<thead>
<tr>
<th></th>
<th>Planner (0/1)</th>
<th>Private Pension Savings (0/1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial Literacy: 3 correct</td>
<td>Financial Literacy: 0-3 correct</td>
</tr>
<tr>
<td></td>
<td>-0.034 (0.031)</td>
<td>-0.0112 (0.015)</td>
</tr>
<tr>
<td>Men</td>
<td>-0.016 (0.028)</td>
<td>-0.016 (0.028)</td>
</tr>
<tr>
<td>living with a partner</td>
<td>0.042 (0.029)</td>
<td>0.042 (0.029)</td>
</tr>
<tr>
<td>age: 35 and younger</td>
<td>-0.063* (0.035)</td>
<td>-0.064* (0.035)</td>
</tr>
<tr>
<td>age: 51-65</td>
<td>0.106* (0.061)</td>
<td>0.106* (0.061)</td>
</tr>
<tr>
<td>age: 66 and older</td>
<td>0.238*** (0.042)</td>
<td>0.238*** (0.042)</td>
</tr>
<tr>
<td>lower secondary education</td>
<td>-0.034 (0.047)</td>
<td>-0.034 (0.047)</td>
</tr>
<tr>
<td>post-sec, non-tert. education</td>
<td>0.011 (0.042)</td>
<td>0.011 (0.042)</td>
</tr>
<tr>
<td>first stage tertiary education</td>
<td>0.034 (0.033)</td>
<td>0.034 (0.033)</td>
</tr>
<tr>
<td>2nd quartile</td>
<td>0.045 (0.050)</td>
<td>0.046 (0.050)</td>
</tr>
<tr>
<td>3rd quartile</td>
<td>0.132*** (0.051)</td>
<td>0.134*** (0.051)</td>
</tr>
<tr>
<td>4th quartile</td>
<td>0.171*** (0.043)</td>
<td>0.171*** (0.044)</td>
</tr>
<tr>
<td>Observations</td>
<td>1047</td>
<td>1047</td>
</tr>
</tbody>
</table>

Note: Reference group is being female, single, age 36 to 50, having secondary education, 1st income quartile.
Interpreting our results

- Planners have slightly higher financial literacy
- Differences in financial literacy between different demographic groups
- No link between financial literacy and planning when we control for individual characteristics
- In line with expectations. Twofold effects of Swedish pension reform
  - Increased (widened) financial literacy
  - Lowered barriers to planning for retirement, in terms of the demands on financial literacy
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