

# **Financial Literacy and Retirement Planning in Sweden**

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# Summary

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  - *well designed*
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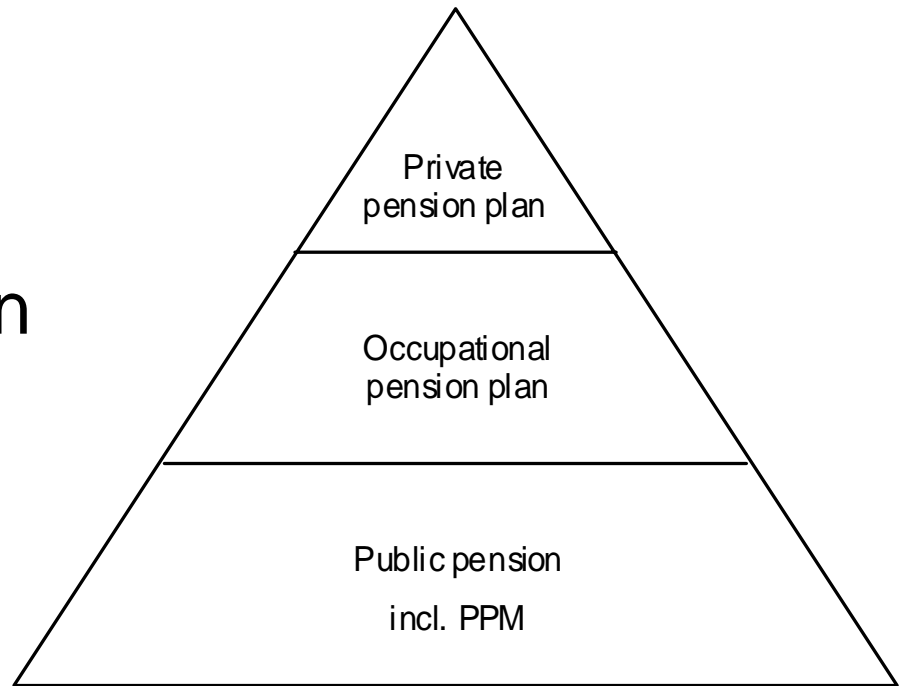
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- **Less reason to expect a strong link between FL and planning**

# 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

	Question 1: Interest Compounding*	Question 2: Inflation	Question 3: Risk
Correct	36 %	59 %	69 %
Incorrect	49 %	24 %	13 %
dk	15 %	17 %	18 %
Total	100 %	100 %	100 %

## 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**

	<b>Planner (0/1)</b>		<b>Private Pension Savings (0/1)</b>	
<b>Financial Literacy: 3 correct</b>	<b>-0.034</b>		<b>-0.010</b>	
	<b>(0.031)</b>		<b>(0.044)</b>	
<b>Financial Literacy: 0-3 correct</b>		<b>-0.0112</b>		<b>0.011</b>
		<b>(0.015)</b>		<b>(0.020)</b>
Men	-0.016	-0.016	-0.032	-0.039
	(0.028)	(0.028)	(0.037)	(0.037)
living with a partner	0.042	0.042	0.137***	0.136***
	(0.029)	(0.029)	(0.037)	(0.037)
age: 35 and younger	-0.063*	-0.064*	-0.286***	-0.281***
	(0.035)	(0.035)	(0.042)	(0.043)
age: 51-65	0.106*	0.106*	0.053	0.058
	(0.061)	(0.061)	(0.073)	(0.073)
age: 66 and older	0.238***	0.238***	-0.088*	-0.086*
	(0.042)	(0.042)	(0.048)	(0.048)
lower secondary education	-0.034	-0.034	-0.034	-0.030
	(0.047)	(0.047)	(0.067)	(0.067)
post-sec, non-tert. education	0.011	0.011	0.013	0.011
	(0.042)	(0.042)	(0.053)	(0.053)
first stage tertiary education	0.034	0.034	0.092**	0.085**
	(0.033)	(0.033)	(0.041)	(0.042)
2 <sup>nd</sup> quartile	0.045	0.046	0.089	0.088
	(0.050)	(0.050)	(0.055)	(0.055)
3 <sup>rd</sup> quartile	0.132***	0.134***	0.313***	0.312***
	(0.051)	(0.051)	(0.045)	(0.045)
4 <sup>th</sup> quartile	0.171***	0.171***	0.363***	0.359***
	(0.043)	(0.044)	(0.045)	(0.045)
Observations	1047	1047	1047	1047

Note: Reference group is being female, single, age 36 to 50, having secondary education, 1<sup>st</sup> income quartile.

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- 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
  - Broadening of financial literacy
  - Lowering of barriers to planning for retirement, in terms of the demands on financial literacy