Public Comments Received During the 30-day Comment Period

May 2017

2017-17 Baccalaureate and Beyond Longitudinal Study (B&B:16/17)

Comment on FR Doc # 2017-08739

Document: ED-2017-ICCD-0058-DRAFT-0005

Name: Dr. Annamaria Lusardi

In 2004, economists Dr. Annamaria Lusardi and Dr. Olivia Mitchell proposed three questions for measuring an individual's financial literacy. These questions, dubbed the "Big Three", have since been adopted in numerous national surveys in the U.S., including the American Life Panel, The Survey of Consumer Finances, and the National Financial Capability Study. The Big Three questions have also been included in national surveys of 15 countries worldwide (Global Financial Literacy Excellence Center, 2017). The three financial literacy questions include concepts pertaining to interest, inflation, and risk diversification. These three questions have the virtue of being simple, relevant, brief and good differentiators of financial literacy.

Research utilizing the Big Three indicates financial knowledge among Americans is lacking. Less than half of respondents correctly answer two questions related to interest rates and inflation, and only one-third correctly answer those two questions, in addition to another question related to risk diversification (Lusardi and Mitchell, 2011). According to the Big Three metric of financial literacy, two-thirds of Americans are not deemed to be financially literate.

Comparing performance across countries, Lusardi and Mitchell find that a country's level of educational attainment is associated with higher rates of national financial literacy (2014). While greater rates of educational attainment improve a country's overall financial literacy, this trend does not necessarily hold at the individual level (Mitchell and Lusardi, 2015). In other words, some well-educated people are still not savvy in the area of personal finance. Research on the educational experiences of those who demonstrate high levels of financial literacy is therefore an essential area for future study.

Including the Big Three financial questions into the Baccalaureate and Beyond Survey would provide researchers the opportunity to identify differentiators of financial literacy among college graduates. For instance, financial literacy rates may be examined among graduates who have received financial education as part of their degree or career training, in comparison to peers who have not. The exploration of variables such as these, which are included in the Baccalaureate and Beyond Survey, may provide insight into factors that improve financial literacy among American youth.

This is an important area of study, as research demonstrates that financial literacy rates are exceptionally low among young adults (Mitchell and Lusardi, 2015), including those with a college degree (de Bassa, Scheresberg, and Lusardi, 2014; de Bassa, Scheresberg, Lusardi and Yokoboski, 2014). Young adults in the early stages of their career (ages 23-28) exhibit little knowledge of compound interest, inflation, and risk diversification (Lusardi, Mitchell, and Curto, 2010). These findings have been consistent over time, with Millennials continuing to demonstrate low levels of financial literacy (de Bassa, Scheresberg, and Lusardi, 2014; de Bassa, Scheresberg, Lusardi and Yokoboski, 2014). Because young adults are at risk of having low levels of financial knowledge, steps should be taken to monitor the impact of financial literacy among this population.

The inclusion of the following Big Three financial literacy questions in the *Baccalaureate and Beyond Survey* is proposed. When combined with survey data from college graduates in the United States, these three questions would allow for new areas of research related to financial literacy, education, and the economy. The inclusion of financial literacy questions in the survey would provide additional context for interpreting economic outcomes observed among college graduates. This research may guide the future direction of financial education and may work to improve economic outcomes among young adults in the United States.

The "Big Three" Financial Literacy Questions

1) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

    More than $102**
    Exactly $102
    Less than $102
    Do not know
    Refuse to answer

2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

    More than today
    Exactly the same
    Less than today**
    Do not know
    Refuse to answer

3) Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."

    True
    False**
    Do not know
    Refuse to answer

Dear Dr. Lusardi,

Thank you for your feedback posted on May 30, 2017 responding to a 30-day request for comments on the proposed Baccalaureate and Beyond Longitudinal Study. The National Center for Education Statistics (NCES) appreciates your interest in the B&B:16/17 survey.

The three proposed financial literacy items were collected in the base year survey (NPSAS:16) and as such will be available for both the NPSAS:16 sample and the B&B:16 cohort, allowing research on financial literacy among students at all levels of postsecondary education. The items were also included in the field test for the first follow-up survey of the B&B:16 cohort. However, the technical review panel recommended removing them from the main study 1) because they had been asked just a year before and 2) to necessarily shorten the overall length of the survey. It is possible that the items will be included again in the second follow-up survey which will occur four years after graduation (B&B:16/20).

Sincerely,

Tracy Hunt-White
Sample Surveys Division: Longitudinal Surveys Branch
National Center for Education Statistics
U.S. Department of Education
Office: (202) 245-6507