

OCCUPATIONAL LEARNING, FINANCIAL KNOWLEDGE, AND THE ACCUMULATION OF RETIREMENT WEALTH

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Even before the current economic crisis, there has been an explosion of interest in evidence that many Americans lack even rudimentary “financial literacy” (Lusardi and Mitchell, 2007, 2007a, 2007b; Lusardi, Mitchell, and Curto, 2009). Moreover, there is considerable cross-sectional evidence that low levels of literacy are correlated with a variety of poor economic outcomes (McArdle, Smith and Willis, 2009; Smith, McArdle and Willis, 2010). This evidence has created interest in the question of whether it would be possible to improve the economic welfare of ordinary Americans by increasing their financial literacy through informational campaigns, formal education or other means.

In this brief, we discuss and present preliminary evidence on the role of occupational exposure to financial concepts on financial literacy or knowledge and wealth accumulation. First, we investigate whether individuals are learning financial concepts from working in a financial occupation, which we define both broadly and narrowly. We find evidence that occupational exposure correlates with greater financial knowledge. Second, as there is considerable interest in policy ideas aimed at increasing financial literacy, we ask whether learning more finance from the workplace actually helps individuals do a better job accumulating wealth (and hence, planning for retirement). We find some evidence of this, but are cautious in interpreting these findings as our results are primarily descriptive and exploratory.

WHAT IS FINANCIAL KNOWLEDGE AND HOW DO INDIVIDUALS ACQUIRE IT?

Following a simple human capital model proposed by Delavande, Rohwedder and Willis (2008), denoted hereafter as DRW, individuals accumulate financial knowledge over their lives by investing time and energy learning about matters that affect a household’s ability to manage its income, expenditures and savings effectively and efficiently. Individuals need financial knowledge to manage day-to-day matters such as budgeting, shopping for the lowest price, paying bills, balancing a checking account, and using a credit card. They also need it in pursuit of long-run goals including housing, children’s education and having access to sufficient resources during retirement. Broadly, financial knowledge includes understanding issues such as compound interest, knowledge of the risks and returns of alternative investments, benefits of risk diversification, options for mortgage finance, tax law, trustworthiness and costs of alternative financial and credit institutions, etc., all of which help individuals with the aforementioned tasks.

Deciding whether (and when) to invest in learning these concepts depends on the balance between the benefits of additional financial knowledge and the cost of acquisition. Depending on how ability and knowledge affect the opportunity cost of time, more able and knowledgeable people may face either higher or lower costs of learning relative to those with lesser ability and knowledge. While deliberate attempts to learn about financial matters are surely im-

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portant, it is likely that a significant amount of the information—accurate or inaccurate—that people have in their minds about finance is the result of spillovers from the social interactions they have in their personal and work lives. In this paper, we will examine descriptively the role of occupational spillovers on people’s financial knowledge and financial outcomes.

DOES FINANCIAL KNOWLEDGE “SPILLOVER” FROM OCCUPATION?

We use rich linked data from the CogUSA and CogEcon studies to examine whether working long term in a finance occupation is associated with greater financial knowledge, separate from educational background and ability. We find that among this nationally representative population of older Americans, individuals in financial occupations tend to have greater financial knowledge regardless of how we define “financial occupation.” That is, individuals who work in a job where they deal with budgets, finance, or even mathematical concepts seem to understand factual or positive financial concepts better as well as attitudinal or normative financial ideas. Additionally, they are more likely to understand the historical equity premium.

DOES THE FINANCIAL KNOWLEDGE OCCUPATIONAL “SPILLOVER” TRANSLATE INTO GREATER WEALTH?

Using the CogEcon/CogUSA data, we find some evidence that individuals working in a finance occupation are more likely to hold stocks or mutual funds, but we do not find significant differences in wealth from occupational spillover. As a robustness check, we conduct the same analysis using a larger sample of married couples from the Health and Retirement Study, where we can control more adequately for lifetime earnings. Households with at least one spouse who works in finance occupations tend to have greater total wealth than households where neither spouse works in finance. Thus, we find some evidence that the financial knowledge obtained as an occupational spillover translates into greater wealth accumulation. However, because of the complexities and likely interdependence of these relationships, we are cautious about interpreting these exploratory findings as causal.

CONCLUSION

In this study, we aimed to provide some preliminary and exploratory evidence about the relationships between general human capital investment, financial knowledge, occupational spillovers, and the accumulation of wealth. Drawing upon human capital theory and following previous related work by Delavande, Rohwedder and Willis (2008), we hypothesized that individuals with daily exposure to financial knowledge through their occupation would benefit by having greater financial knowledge that would translate into greater wealth accumulation than individuals who do not enjoy such spillovers from their occupation.

Using the CogEcon data, we find strong patterns of greater financial knowledge, as measured by financial literacy scores, for individuals who sort into occupations with at least some exposure to financial and investment content. Finally, we find some suggestive evidence, which is admittedly stronger with the HRS data, that this occupational spillover (of financial concepts to one’s financial knowledge) may translate into greater wealth accumulation. Although these findings are preliminary and exploratory, the policy implication is that individuals do seem to benefit from greater financial literacy.

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