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Precautionary savings, retirement planning and misperceptions of financial literacy[☆]

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Abstract

We measure financial literacy among LinkedIn members, complementing standard questions with additional questions that allow us to gauge self-perceptions of financial literacy. Average financial literacy is surprisingly low given the demographics of our sample: fewer than two-thirds of chief financial officers, chief executive officers, and chief operating officers complete the test correctly. Financial literacy, precautionary savings and retirement planning are positively correlated, but this is mostly driven by perceived, not actual, literacy: controlling for self-perceptions, actual literacy has low predictive power. Perceptions drive decision-making among low-literacy respondents and are associated with mistaken beliefs about financial products and less willingness to accept financial advice.

Keywords: Financial literacy, overconfidence, optimism.

JEL codes: G18, D18

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