FINRA Investor Education FOUNDATION

Insights: Financial Capability

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## What's Inside



**Award-Winning Paper**

This issue brief is based on the paper that won the 2020 FINRA Foundation National Financial Capability Study Research Award. The full paper has been published in the Journal of Financial Planning and Counseling. It can be obtained here or by contacting the authors. More information about the award and the National Financial Capability Study can be found at *USFinancialCapability.org*.

# What We Leave Behind: Financial Education and Estate Planning

## Summary


This brief examines the role of financial education on basic estate planning among U.S. households. Using data from the 2018 National Financial Capability Study (NFCS), we found that financial education was tied to basic estate planning (proxied by having a will). Multiple exposures to financial education were associated with a greater likelihood of having a will. In addition, receiving financial education offered through an employer or both an employer and another source (high school and college) was tied to a higher likelihood of having a will. Among those who received financial education, a greater number of hours and a higher overall quality of education were associated with a greater likelihood of having a will. The findings held for individuals across different generations, suggesting that these results are generalizable.


## Background

Over the past decade, the percentage of older Americans has grown substantially, and it is only expected to increase further.[1] By 2030, the share of adults 65 years and older will be larger than those aged 18 and under. With an increasingly older population, death becomes more commonplace. Deaths were already expected to increase by 20 percent over the next 32 years.[2] However, given a spike in COVID-19-related deaths, the true figure may be even larger. An understanding of basic estate planning, such as designating who will receive assets and handle affairs upon one's passing, has therefore become increasingly important. Conservative estimates suggest a wealth transfer of $58.1 trillion from estates from 2007 to 2061.[3] Financial education provides a knowledge base that can improve long-term financial behavior, financial literacy and financial attitudes and may also play a role in estate planning.[4,5,6] This study examined ties between financial education and having a will, and whether the association differs by the quantity and quality of education received.

### Estate Planning in the United States: What Factors Play a Role?

Only 37 percent of respondents reported having a will. Respondents who were male, white, older, married, had obtained at least a college degree, reported higher income, had dependents, higher subjective financial knowledge and a bank account were more likely to have a will. Full-time employees were more likely to have a will than those who were unemployed, but less likely than retired respondents.

## Prevalence of Financial Education

Fewer than a quarter (24 percent) of respondents had participated in financial education. Among those who did, 13 percent received instruction from a single source. Six percent of respondents received education only during high school, five percent during college and two percent through an employer. Ten percent of respondents received instruction from more than one source, and three percent from all three (high school, college, employer; *see* Figure 1). Among the share that had participated in financial education, more than half (55 percent) received more than 10 hours, while nearly a quarter (25 percent) received 3-10 hours and 21 percent 1-2 hours (Figure 2). On average, respondents rated the overall quality of financial education as a 5.4 out of 7, with an overwhelming majority (78 percent) reporting the quality of education was good (5 or higher). *See* Figure 3 for more details.

**Figure 1: Source(s) of Financial Education**


**Figure 2: Hours of Financial Education Received**

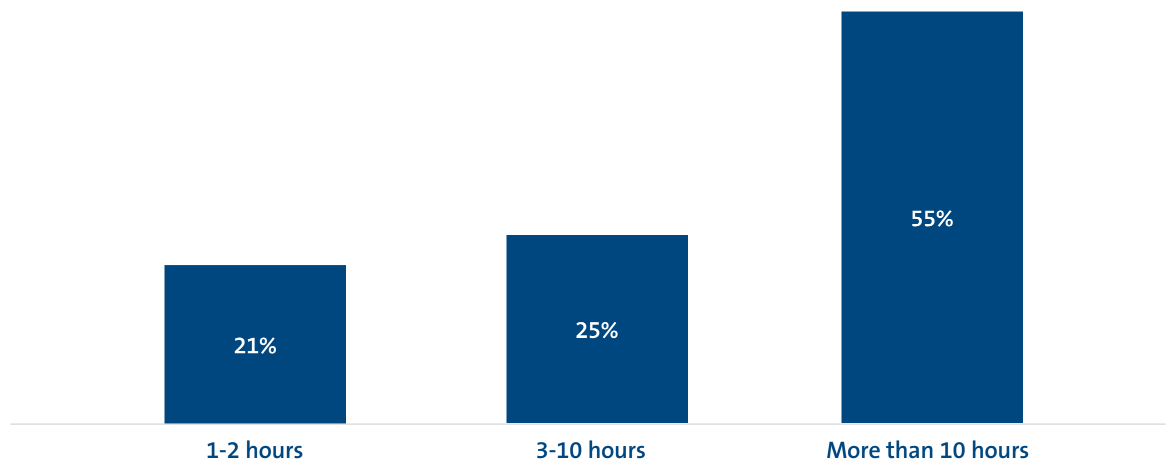
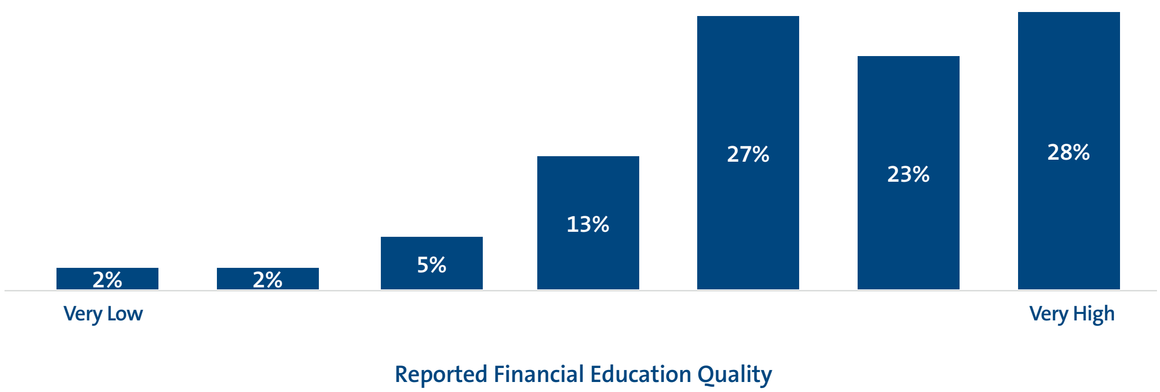


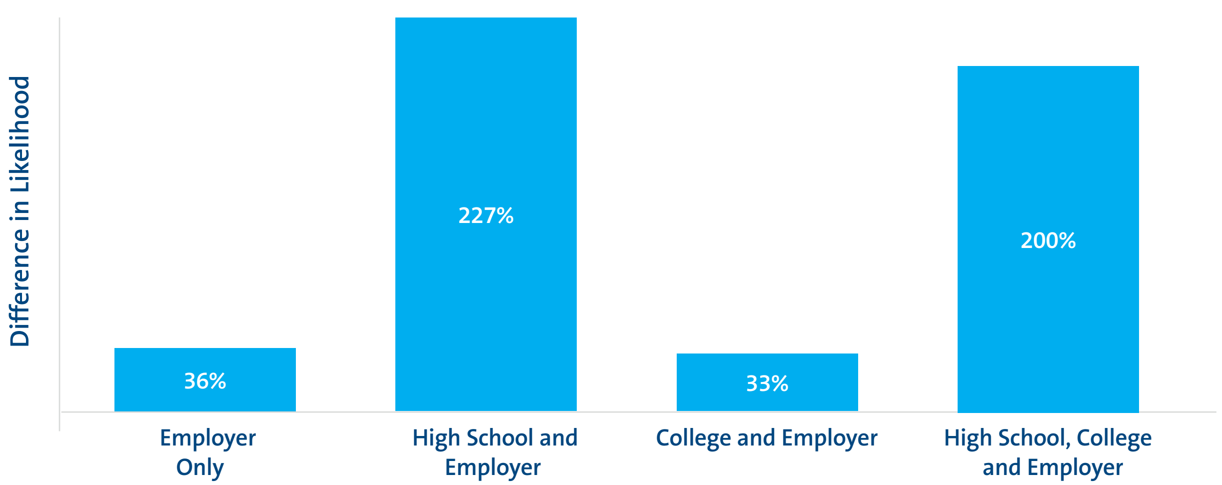
Figure 3. Frequency of Quality Ratings of Financial Education Received




## Links Between Financial Education and Estate Planning

We used logistic regressions to examine how the variability in the likelihood of having a will was tied to respondents' financial education. Those who participated in financial education were 42 percent more likely to have a will compared to those who did not. Specifically, those who received financial education through a) an employer only, b) both high school and an employer, c) both college and an employer, and d) all three sources were more likely to have a will than those who had not received any financial education (*see* Figure 4).[7]

Figure 4. Changes in Likelihood of Having a Will: Different Education Source(s) Compared to No Education



Among the share of adults who had participated in financial education, the number of hours of instruction played a role in whether or not they had a will. Respondents who received 3-10 hours of instruction were 58 percent more likely to have a will than those who had received only 1-2 hours. The overall quality of financial education also mattered, with a higher quality of education tied to an increased likelihood of having a will. Specifically, each one-point increase in the reported overall quality of education, which was measured on a seven-point scale (from 1= very low quality to 7= very high quality), was tied to a 15 percent increase in the likelihood of having a will.

*Among the share of adults who had participated in financial education, the number of hours of instruction played a role in whether or not they had a will.*

### Financial Education and Estate Planning: Comparisons Across Generations

We also compared links between financial education and estate planning across three generations: millennials, Generation X and baby boomers. Certain sources were more important for some generations than others. For millennials, those who received financial education from multiple sources had a higher likelihood of having a will than those who did not receive any instruction. Specifically, millennials who obtained instruction from high school, college and an employer were 352 percent more likely to have a will than those who received no education. Those who obtained education from both an employer and through college were 88 percent more likely to have a will, and those who obtained it through high school and an employer were 303 percent more likely to have a will. For Gen X-ers, those who received instruction exclusively through an employer, through both high school and an employer, and through all three sources were 65 percent, 219 percent, and 82 percent more likely, respectively, to have a will than those who had received no education. For baby boomers, only respondents who received instruction from all three sources (high school, college, and an employer) had a 56 percent higher likelihood of having a will compared to those who had not participated in any financial education.

We also studied the quantity of financial education (that is, the number of hours of instruction the respondents received) across generations, by taking a closer look at the share of adults in each generation who had partaken in least some financial education. Millennials who received 3-10 instruction hours were 92 percent more likely to have a will than millennials who had only received 1-2 hours. Baby boomers who had received between 3-10 hours or over 10 hours were 57 and 47 percent more likely, respectively, to have a will than boomers who had only received 1-2 hours. However, for Gen X-ers, there was no association between the number of hours of financial education received and the likelihood of having a will. The overall quality of the education was important for millennials; those who reported a higher quality of education were more likely to have a will. Specifically, each one-point increase in the reported overall quality of education quality was tied to a 28 percent increase in the likelihood of having a will.

## Conclusion

Our brief illustrates a troubling reality. Nearly two-thirds of Americans (63 percent) do not have a will, a basic form of estate planning. However, financial education may help. Our findings indicate that financial education was tied to a higher level of basic estate planning, proxied by having a will. Those who had multiple exposures to financial education (that is, through high school, college, and an employer) were more likely to have a will. In addition, a higher quantity and quality of financial instruction also played key roles.

With an increasing number of seniors in the United States, the need for estate planning will also grow. While a comprehensive estate plan involves more than just writing a will, these initial findings provide evidence of the important role that financial education can play in end of life processes. Financial educators and advisors may want to spend more time ensuring that students or employees understand the implications of inheriting retirement accounts and taxable accounts along with how to update beneficiary designations.

## About the Data

This brief uses data from the 2018 National Financial Capability Study (NFCS). The NFCS is a project of the FINRA Investor Education Foundation, who funds and leads the project. Logistic regression was used for statistical analyses involving associations between financial education and the likelihood of having a will. The sample included a total of 27,091 respondents. Participants were recruited through non-probability quota sampling using established online panels consisting of millions of individuals who have been recruited to join and are offered incentives in exchange for participating in online surveys. These panels use industry-standard techniques to verify the identities of respondents and ensure that demographic characteristics provided are accurate and current. The 2018 NFCS surveys was self-administered by respondents on a website and fielding was conducted from June to October 2018. National figures are weighted to be representative of the national population in terms of age, gender, ethnicity, education, and Census Division (weights are based on data from the American Community Survey). The data used for this brief as well as detailed methodological information, including the questionnaires, can be found at USFinancialCapability.org.

## Notes

The authors would like to thank Donna Hemans for editing the brief and Shari Crawford for designing it. The opinions provided herein are those of the authors and do not necessarily reflect the views of FINRA or the FINRA Investor Education Foundation.

## Footnotes

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7. Throughout the paper, the effect sizes reported are based on odds ratios obtained from the logistic regressions we ran. We use phrases such as "more likely" and "increased the likelihood of" to make the paper more readable to non-researchers. The full paper and more precise interpretations of the logistic regressions can be found at the Journal of Financial Planning and Counseling or by contacting the authors.

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