

Older adults have 'toxic combination' of lower financial literacy, higher self-confidence

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Previous studies have shown that as humans age, cognitive declines are inevitable. Now, a recent study by researchers at the University of Missouri and Texas Tech University has confirmed that this cognitive decline extends into financial literacy. The researchers also found that older individuals retain a strong sense of self-confidence, which could add to the problem, leading to significant mistakes when making financial decisions.

"Mixing a decline of [financial literacy](#) with an increase in self-confidence is a toxic combination," said John Howe, professor and chair of the Department of Finance in the Trulaske College of Business. "This opens the door for more honest mistakes as well as fraud. It's widely known that older adults are very common victims of financial fraud. It's important that as we age, we find someone who has our best interests in mind when managing our finances."

In the study, Howe and his colleagues, Michael Finke and Sandra Huston from Texas Tech University, surveyed more than 3,850 individuals 60 and older and found that they experienced increasing declines in financial literacy, which is the ability to understand and make good decisions about [personal finances](#). The researchers also found that the participants' self-confidence increased slightly. This meant that even though they didn't understand financial terms or policies well, they still believed they could make good decisions about their personal finances.

Howe recommends finding a [financial adviser](#) who has a good reputation; however, hiring the first [adviser](#) mentioned is also not a good idea. Howe says that investors should talk with family and friends and look for advisers who have good records and are willing to take the time to answer all of your questions.

"It is important to find an adviser who has your best interests at heart," Howe said. "Be sure to understand how your adviser is paid—fees, commissions, and so forth—as that can affect their perspective. Investors should expect to pay for good financial advice; it will save them thousands of dollars in the long run."

Howe said it's tough to know when the cognitive declines will begin, so it's a good idea to make a financial checkup a part of an annual doctor visit. During the medical visit, Howe recommends asking the doctor about any signs of cognitive declines. Following the doctor's visit, it's a good time to check in with a financial adviser and make sure every financial decision being made is clear, Howe said.

The study, "Old Age and the Decline in Financial Literacy," is available online and will be published in an upcoming issue of *Management Science*.

More information: Click here to answer some of the questions the researchers asked participants during the study:
missouri.qualtrics.com/SE/?SID=SV_efmvyNNIANLTSVT

Provided by University of Missouri-Columbia

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