Insights on Financial Literacy and Financial Fragility

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Topics I will cover

1. Financial literacy: what people know and changes over time

2. Who are the most vulnerable groups?

3. Boosting financial resilience
Measuring financial literacy and well-being

- The TIAA-Institute-GFLEC Personal Finance Index (P-Fin Index) is an annual barometer of knowledge and understanding which enable sound financial decision-making and effective management of personal finances among U.S. adults.

- The P-Fin Index relates to common financial situations that individuals encounter and can be viewed as a gauge of “working knowledge.”

- In addition to personal finance knowledge it provides information on financial well-being indicators.

- Data is collected on a representative sample of about 1,000 respondents (age 18+).

- Data collection started at the end of 2016.
Five years of P-Fin Index data (2017-2021)
Each year, a specific demographic group is oversampled so we can provide a more detailed analysis of their financial literacy and wellness.

2017: Hispanics
2018: Millennials
2019: African Americans
2020: Women
2021: Age/Generations
What is unique: 8 functional areas of personal finance

The index is based on responses to 28 questions, with three or four questions for each of the eight functional areas:

The \textit{P-Fin Index}'s 28 questions cover eight functional areas:

1. Earning
2. Saving
3. Consuming
4. Investing
5. Borrowing
6. Insuring
7. Comprehending risk
8. Go-to information sources
Financial (il)literacy is holding steady: 2017-2021

% of P-Fin Index questions answered correctly

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>49%</td>
<td>50%</td>
<td>51%</td>
<td>52%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Distribution of correct answers to P-Fin questions

- 22-28 correct (76%-100%): 16%, 16%, 18%, 20%, 18%
- 15-21 correct (51%-75%): 32%, 35%, 35%, 33%, 34%
- 8-14 correct (26%-50%): 32%, 28%, 27%, 30%, 28%
- 0-7 correct (<26%): 20%, 21%, 20%, 17%, 20%

What do people know the most and the least

<table>
<thead>
<tr>
<th>Category</th>
<th>% of P-Fin questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>61%</td>
</tr>
<tr>
<td>Saving</td>
<td>58%</td>
</tr>
<tr>
<td>Consuming</td>
<td>53%</td>
</tr>
<tr>
<td>Earning</td>
<td>52%</td>
</tr>
<tr>
<td>Go-to info sources</td>
<td>48%</td>
</tr>
<tr>
<td>Investing</td>
<td>47%</td>
</tr>
<tr>
<td>Insuring</td>
<td>45%</td>
</tr>
<tr>
<td>Comprehending risk</td>
<td>37%</td>
</tr>
</tbody>
</table>

What do people know and how it has changed over time

% of P-Fin questions answered correctly

- **Borrowing**: 61% (2021) vs 58% (2017)
- **Saving**: 58% (2021) vs 53% (2017)
- **Consuming**: 53% (2021) vs 53% (2017)
- **Earning**: 52% (2021) vs 49% (2017)
- **Go-to info sources**: 48% (2021) vs 47% (2017)
- **Investing**: 47% (2021) vs 46% (2017)
- **Insuring**: 45% (2021) vs 44% (2017)
- **Comprehending risk**: 37% (2021) vs 39% (2017)

“Calculated risk”?

New question added to the survey: Which of the following indicates the highest probability of getting a particular disease?

- There is a one-in-twenty chance of getting the disease
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don’t know
- Refuse to answer

Results:
Correct 28%
Incorrect 19%
Don’t Know 53%
No Answer 0%

Large variation in financial literacy across demographics

<table>
<thead>
<tr>
<th>Demographics</th>
<th>% of P-Fin questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than HS</td>
<td>32%</td>
</tr>
<tr>
<td>High school</td>
<td>41%</td>
</tr>
<tr>
<td>Some college</td>
<td>50%</td>
</tr>
<tr>
<td>College degree</td>
<td>65%</td>
</tr>
<tr>
<td>HH income</td>
<td></td>
</tr>
<tr>
<td>&lt; $25k</td>
<td>32%</td>
</tr>
<tr>
<td>$25k-$49k</td>
<td>40%</td>
</tr>
<tr>
<td>$50k-$99k</td>
<td>50%</td>
</tr>
<tr>
<td>$100k-plus</td>
<td>61%</td>
</tr>
<tr>
<td>Employed</td>
<td>53%</td>
</tr>
<tr>
<td>Retired</td>
<td>53%</td>
</tr>
<tr>
<td>Unemployed/disabled</td>
<td>39%</td>
</tr>
</tbody>
</table>

Demographic variation: Women and knowledge

% of P-Fin questions answered correctly

Women: 46%
Men: 55%

Distribution of correct answers to P-Fin questions

- 22-28 correct: Women 11%, Men 24%
- 15-21 correct: Women 33%, Men 35%
- 8-14 correct: Women 33%, Men 23%
- 0-7 correct: Women 23%, Men 18%

Demographic variation: Racial/Ethnic groups

% of P-Fin Index questions answered correctly

- Black: 37%
- Hispanic: 41%
- White: 55%

Distribution of correct answers to P-Fin Index questions

- 22-28 correct (76%-100%)
  - Black: 6%
  - Hispanic: 8%
  - White: 21%
- 15-21 correct (51%-75%)
  - Black: 24%
  - Hispanic: 26%
  - White: 38%
- 8-14 correct (26%-50%)
  - Black: 35%
  - Hispanic: 37%
  - White: 25%
- 0-7 correct (<26%)
  - Black: 36%
  - Hispanic: 29%
  - White: 15%

Even close to retirement, many people lack the knowledge necessary to prepare and plan for their retirement ahead.

Where changes happened over time: Toward an unequal path

% point change in P-Fin questions answered correctly, 2017 to 2020

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Change</th>
<th></th>
<th>Education Status</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than HS degree</td>
<td>+5</td>
<td></td>
<td>Employed</td>
<td>+4</td>
</tr>
<tr>
<td>High school degree</td>
<td>+1</td>
<td></td>
<td>Retired</td>
<td>+1</td>
</tr>
<tr>
<td>Some college</td>
<td>+2</td>
<td></td>
<td>Unemployed/disabled</td>
<td>+2</td>
</tr>
<tr>
<td>College degree</td>
<td>+5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No financial education</td>
<td>+2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial education</td>
<td>+5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Measuring financial fragility (a measure of well-being)

- How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

  • I am certain I could come up with the full $2,000.
  • I could probably come up with $2,000.
  • I could probably not come up with $2,000.
  • I am certain I could not come up with $2,000.
  • Don’t know.
  • Prefer not to say.

People with these responses are classified as financially fragile.

From Lusardi and Tufano, BPEA, 2011
Financial fragility in America before the pandemic

Financial Fragility Over Time

- 2009: 50%
- 2012: 39%
- 2015: 34%
- 2018: 31%
- 2020: 27%

EU households not ready to meet an unexpected financial expense – 2018 (From Demertzis, Domínguez-Jiménez, Lusardi, 2020)
Financial literacy and financial fragility

% who could certainly come up with $2,000 if an unexpected need arose within the next month

Those with greater financial literacy are less likely to be financially fragile.

24% < 26% 33% 26%-50% 58% 51%-75% 75% 76%-100%

% of P-Fin questions answered correctly

## The relationship between financial resilience and literacy

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 50 % of P-Fin Index questions correct</td>
<td>0.130***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.0204)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total # of questions correct</td>
<td></td>
<td>0.00993***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00149)</td>
<td></td>
</tr>
<tr>
<td>Was offered financial education</td>
<td></td>
<td></td>
<td>0.0146</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.0184)</td>
</tr>
<tr>
<td>Demographic controls</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Constant</td>
<td>0.360***</td>
<td>0.294***</td>
<td>0.377***</td>
</tr>
<tr>
<td></td>
<td>(0.0494)</td>
<td>(0.0515)</td>
<td>(0.0500)</td>
</tr>
<tr>
<td>Observations</td>
<td>2,892</td>
<td>2,892</td>
<td>2,892</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.173</td>
<td>0.174</td>
<td>0.158</td>
</tr>
</tbody>
</table>

Those with greater financial literacy are more likely to save and plan for retirement.

- % of non-retirees who save for retirement on a regular basis:
  - < 26%: 37%
  - 76%-100%: 84%

- % of non-retirees who have tried to determine how much they need to save for retirement:
  - < 26%: 21%
  - 76%-100%: 60%

- % of P-Fin questions answered correctly:
  - < 26%: 76%-100%

## The relationship between retirement planning and financial literacy

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Model 1 Retirement Planning</th>
<th>Model 2 Retirement Planning</th>
<th>Model 3 Retirement Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 50 % of P-Fin Index questions correct</td>
<td>0.135*** (0.0214)</td>
<td>0.0122*** (0.00151)</td>
<td>0.167*** (0.0198)</td>
</tr>
<tr>
<td>Total # of questions correct</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was offered financial education</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Demographic Controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.103** (0.0454)</td>
<td>0.0251 (0.0466)</td>
<td>0.0652 (0.0453)</td>
</tr>
<tr>
<td>Observations</td>
<td>3,024</td>
<td>3,024</td>
<td>3,024</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.172</td>
<td>0.179</td>
<td>0.183</td>
</tr>
</tbody>
</table>

New data collected in Italy for the work of the Financial Education Committee

New panel data set: data collected in 2020 and 2021

Has questions on financial literacy and financial fragility

Empirical findings guide the work of the Financial Education Committee
Financial literacy is more important than ever

Financial literacy during the pandemic: In Italy too financial literacy acted as a shield to protect people against shocks

Source: S&P Global Finlit
Concluding remarks

- Need to improve levels of financial literacy
  - Levels of knowledge are still low
  - Financial literacy does not increase over time without interventions

- Some topics are particularly complex
  - Risk and risk diversification

- Need to boost financial resilience
  - It is low even during good economic times
  - It is linked to financial literacy
Concluding remarks, cont.

- The data on personal finance provide new and useful information
- We can use the data to design programs
- We can use to inform policy, they should be evidence-based
- Looking forward to the new wave of data
Thank you!

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