



# Financial Well-being and Literacy in the Midst of a Pandemic

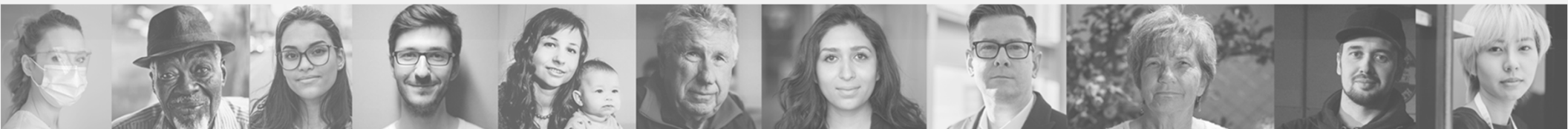
**Annamaria Lusardi**  
The George Washington University, Global Financial Literacy Excellence Center (GFLEC), and Italian Financial Education Committee

**November 16, 2021**



## Even before COVID-19 data indicated:

- The large majority of Americans (61%) had not tried to figure out how much to save for retirement.
- About 1 in 3 families were financially fragile, i.e., could not face a mid-size emergency expense.
- People spent more than 6 hours each week dealing with financial issues/problems, but some spent as many as 12 hours per week. Some of these hours are spent at work.

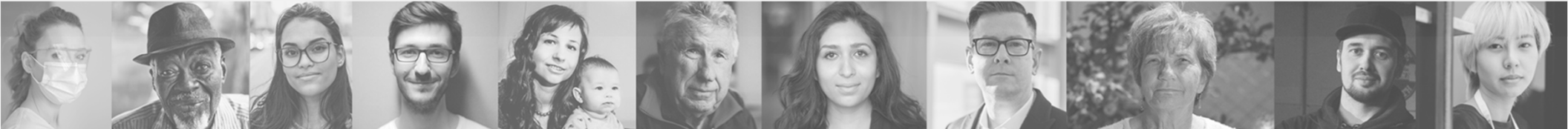




# Long lines at the food banks at the start of the pandemic

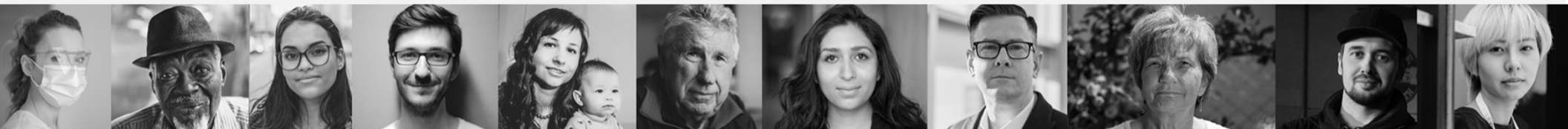


Source: Neil Blake/Grand Rapids Press/AP; <https://www.motherjones.com/food/2020/04/these-photos-show-the-staggering-food-bank-lines-across-america/>



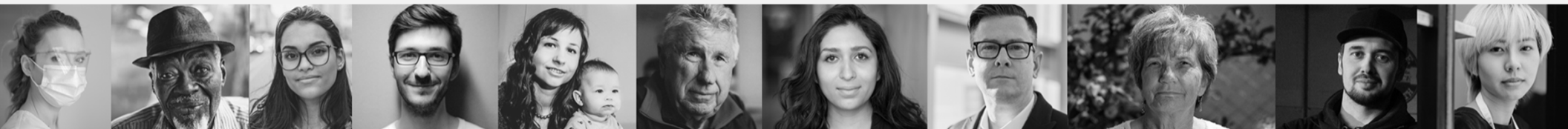
# Three questions I will cover

- 1 ▶ How well-equipped are people to make savvy decisions about their personal finances?**
- 2 ▶ Who are the most vulnerable groups?**
- 3 ▶ Which programs can we design to improve financial literacy and wellbeing?**



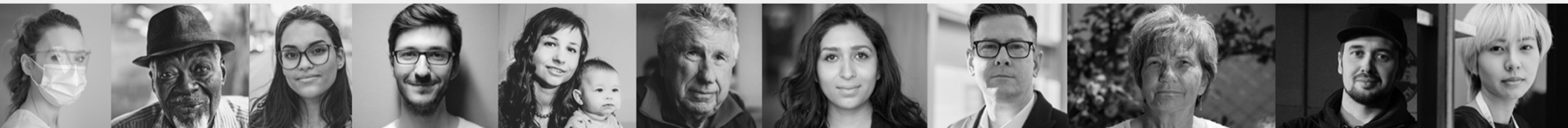
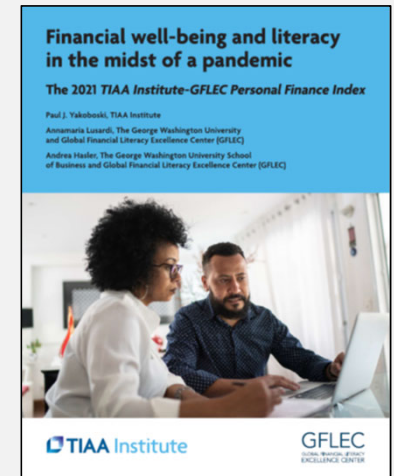
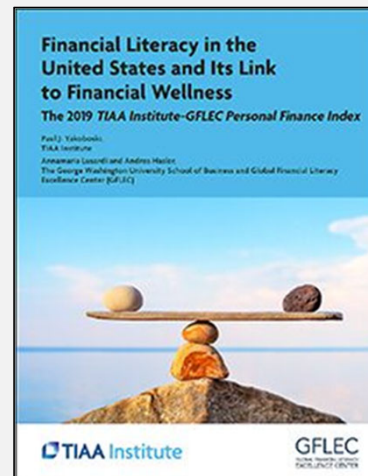
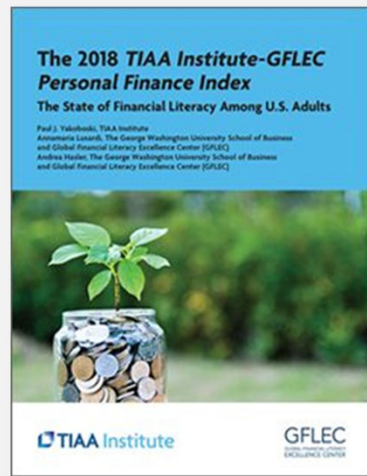
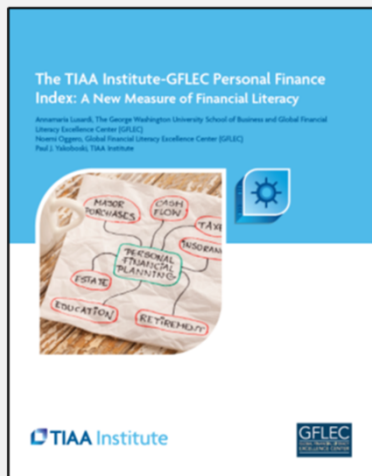
# Measuring financial literacy and well-being

- 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+).





# Five years of P-Fin Index data (2017-2021)



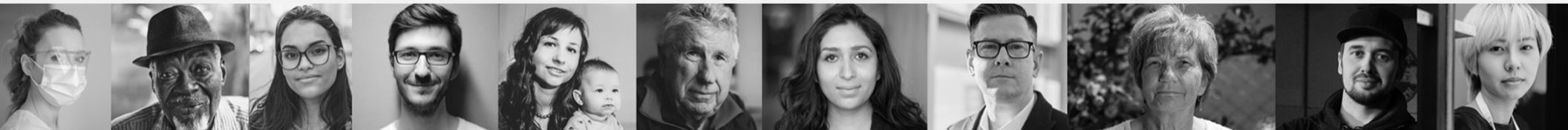
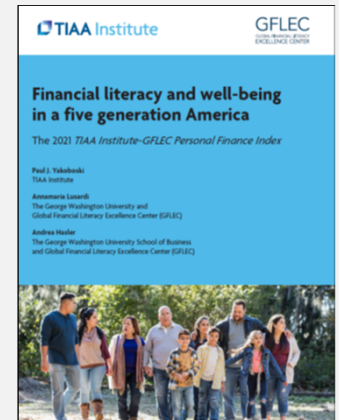
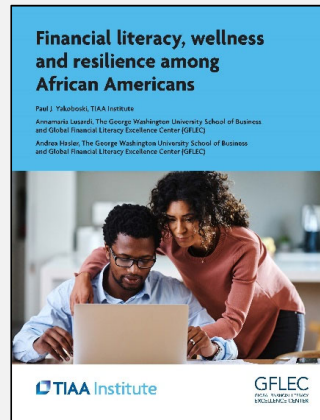
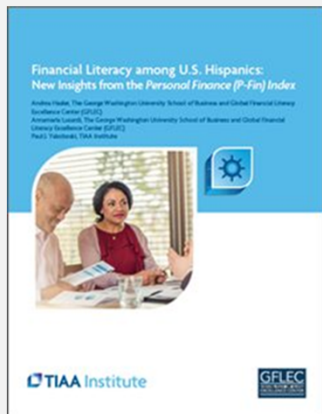
# Zooming in into specific sub-groups

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

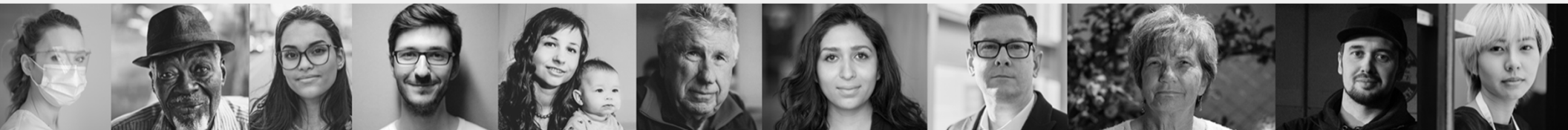


# What is unique: 8 functional areas of personal finance

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

**The *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**





## An example question

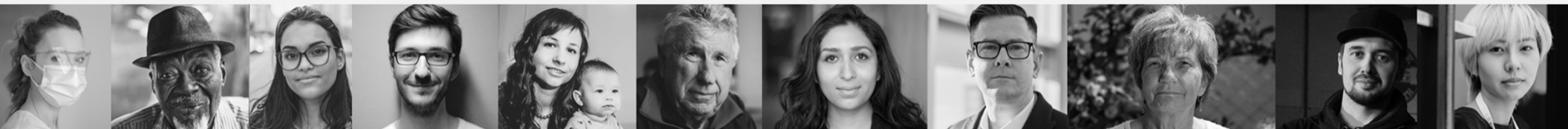
Anna saves \$500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a \$5,000 gift which he decides to save. If both Anna and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

- **Anna**
- Charlie
- Anna and Charlie will have the same amount
- Don't know
- Refuse to answer

**Results:**

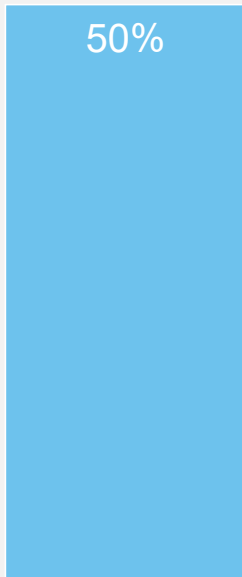
<b>Correct</b>	<b>53%</b>
<b>Incorrect</b>	<b>26%</b>
<b>Don't Know</b>	<b>20%</b>
<b>No Answer</b>	<b>0%</b>

Source: TIAA Institute-GFLEC Personal Finance Index (2021).

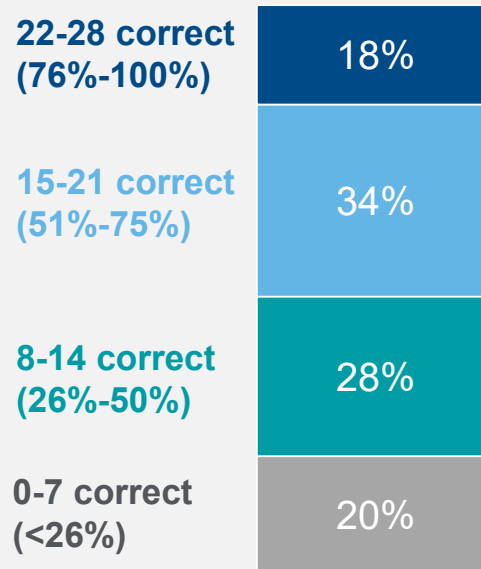


# Financial literacy: A failing grade

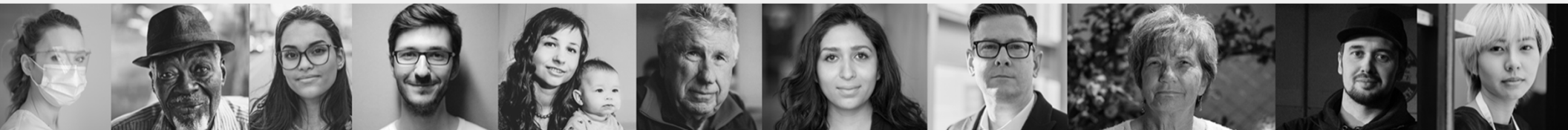
*% of P-Fin Index questions answered correctly*



*Distribution of correct answers to P-Fin Index questions*

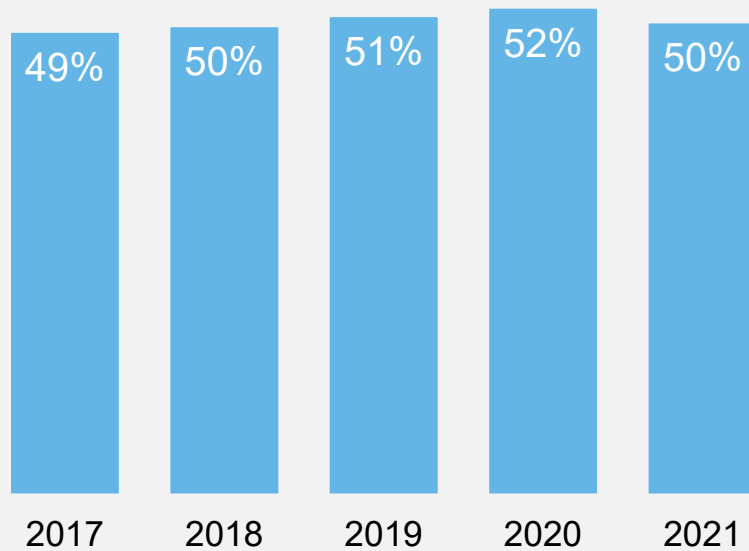


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

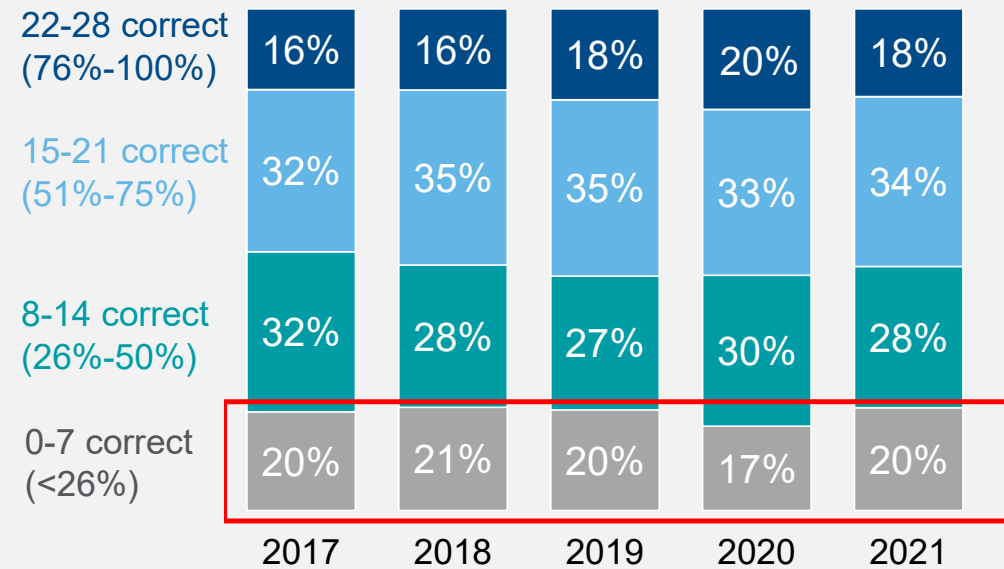


# Financial (il)literacy is holding steady: 2017-2021

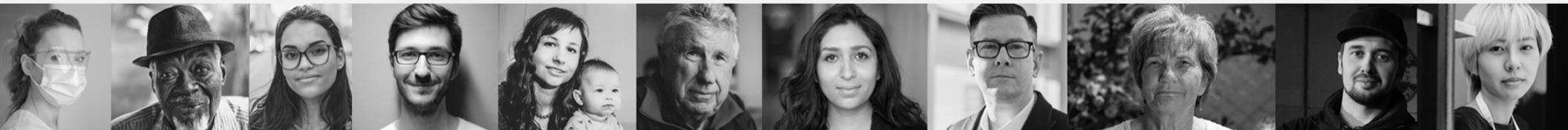
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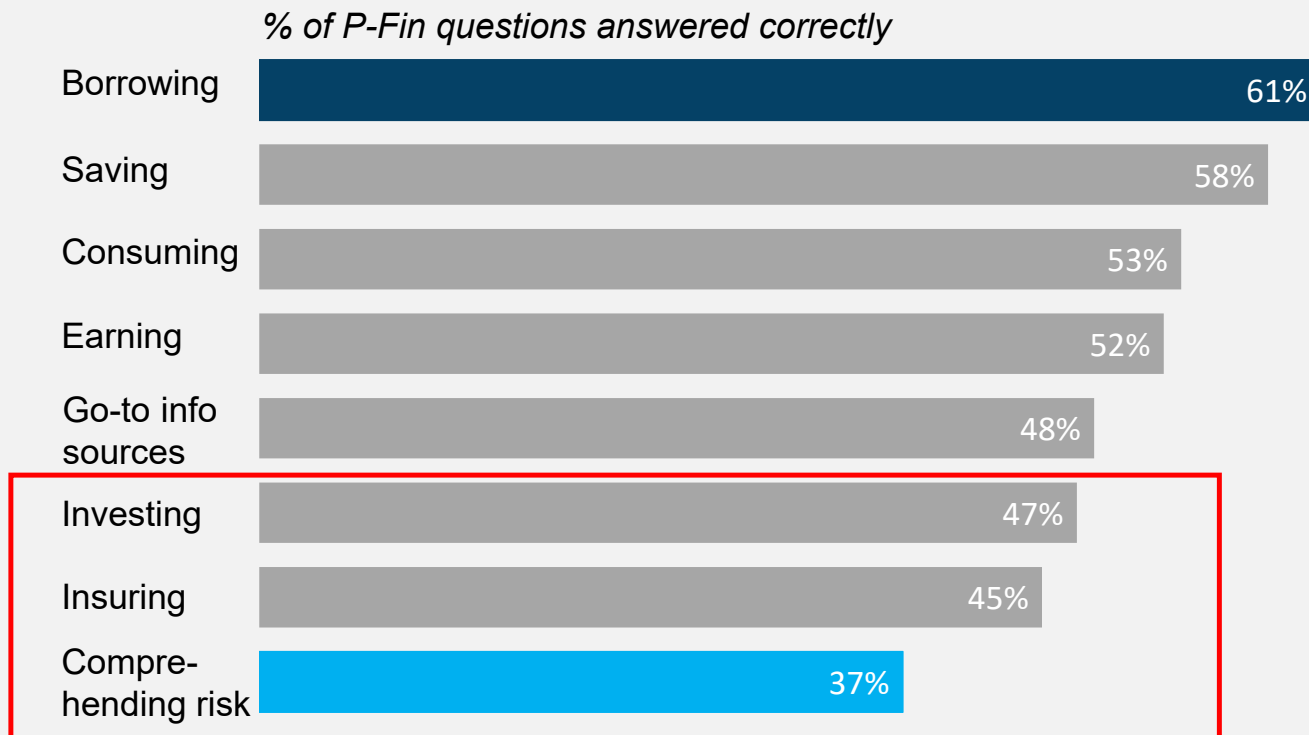


Source: TIAA Institute-GFLEC Personal Finance Index (2017-2021).

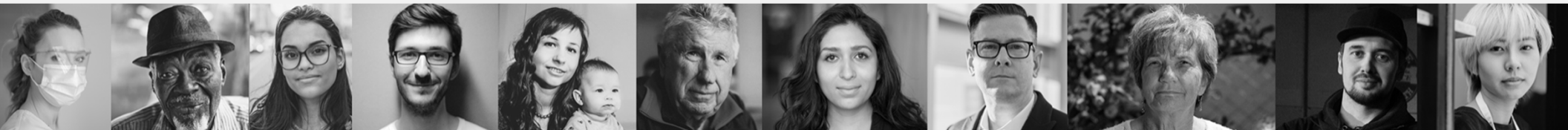




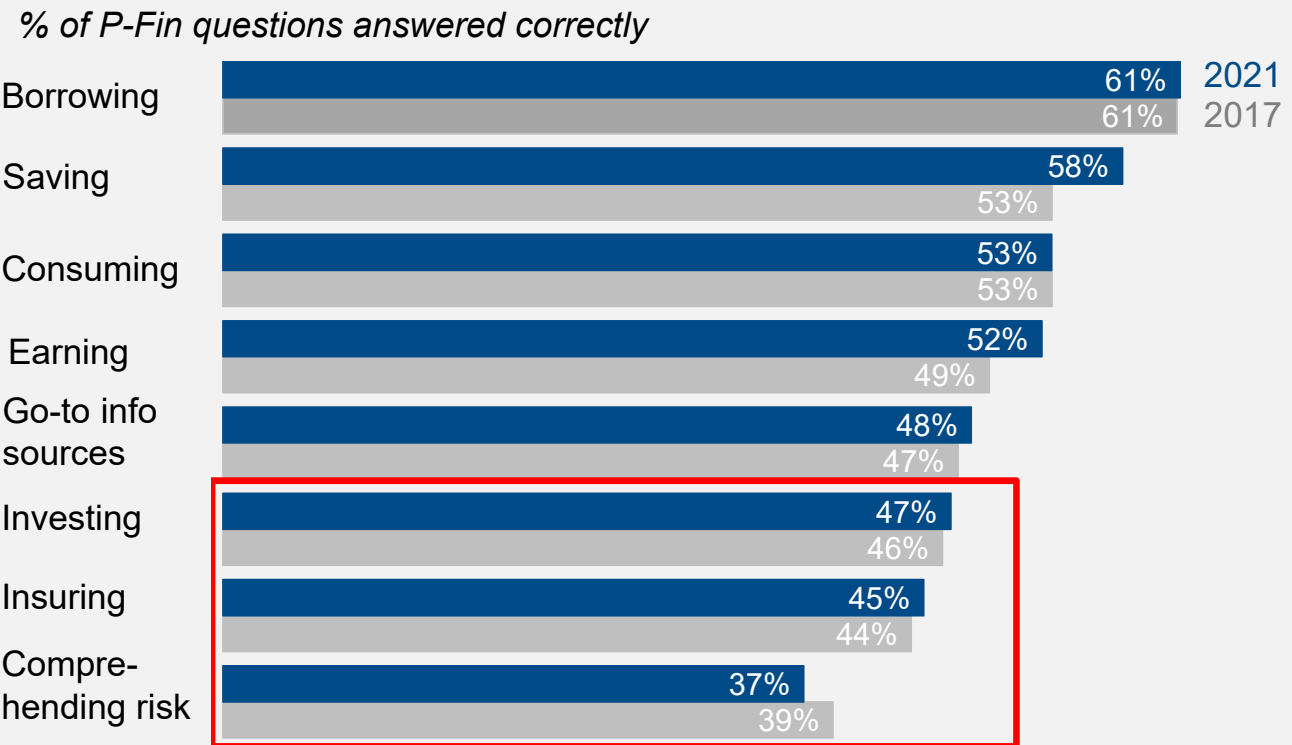
# What do people know the most and the least



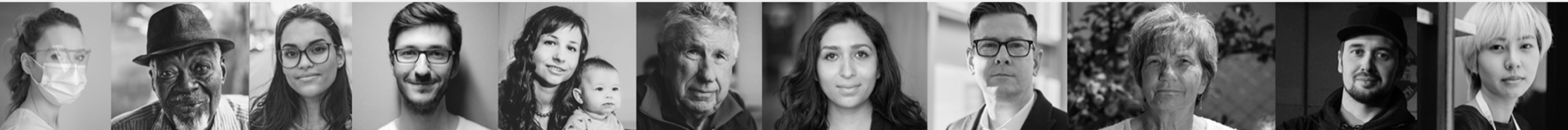
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# What do people know and how it has changed over time



Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2021).



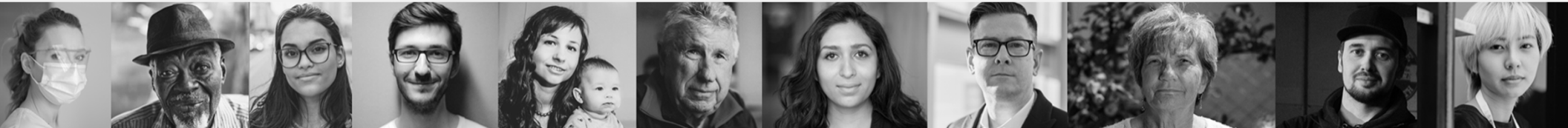
# “Calculated risk” ?

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

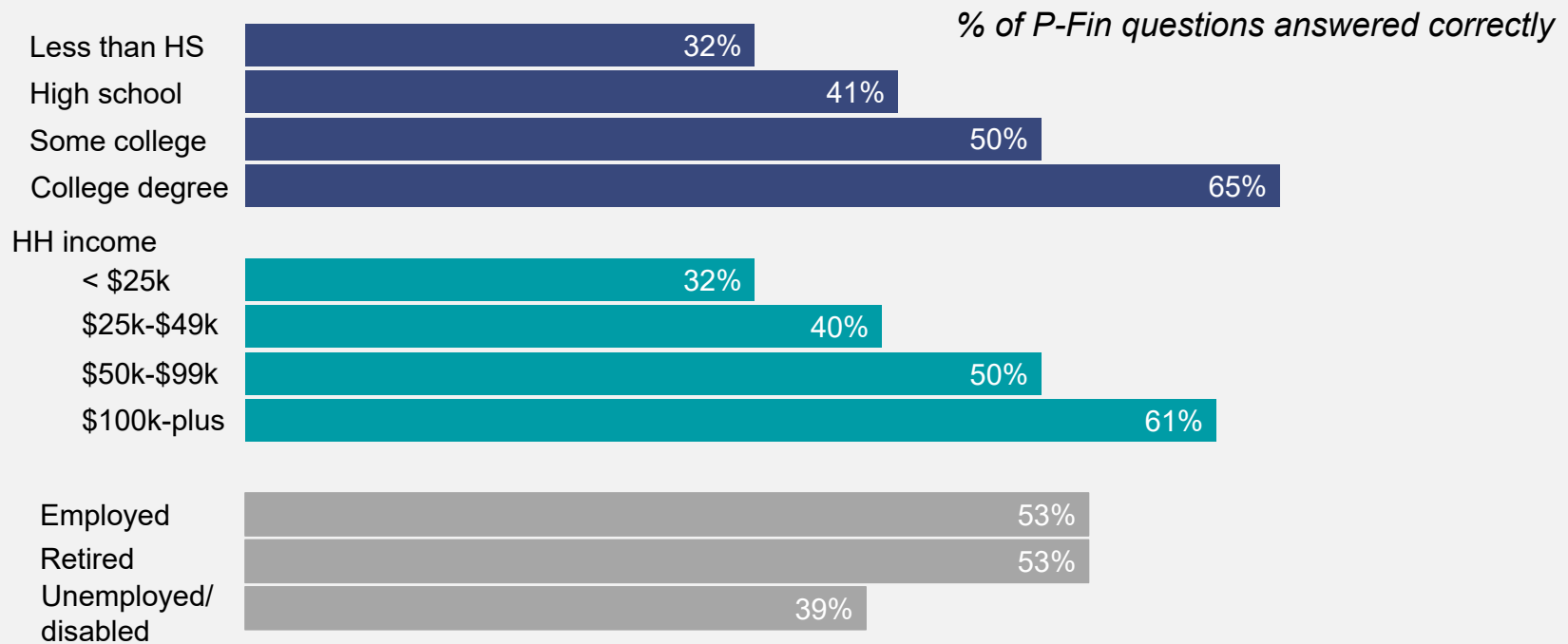
<b>Results:</b>	
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<b>Don't Know</b>	<b>53%</b>
<b>No Answer</b>	<b>0%</b>

Source: TIAA Institute-GFLEC Personal Finance Index (2021).

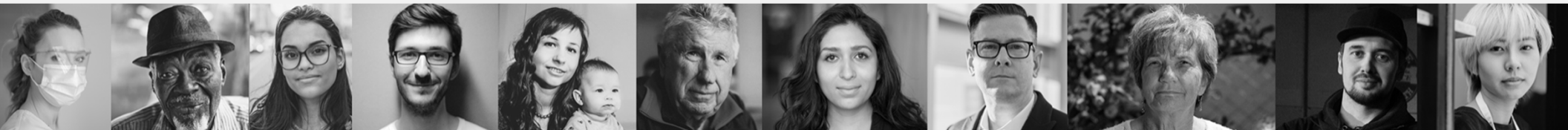




# Large variation in financial literacy across demographics

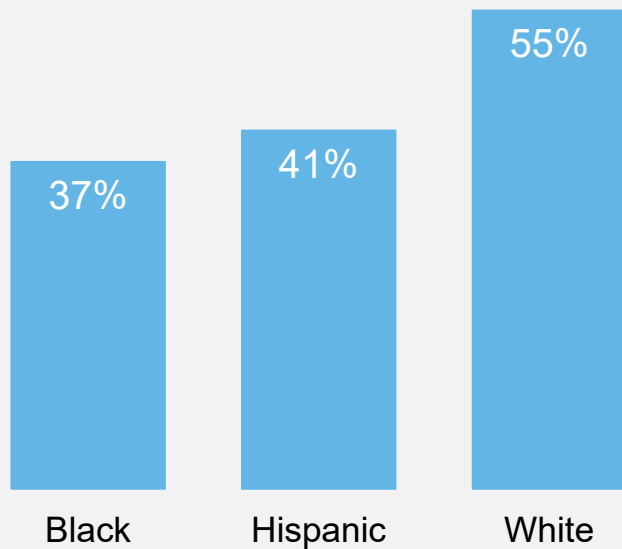


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

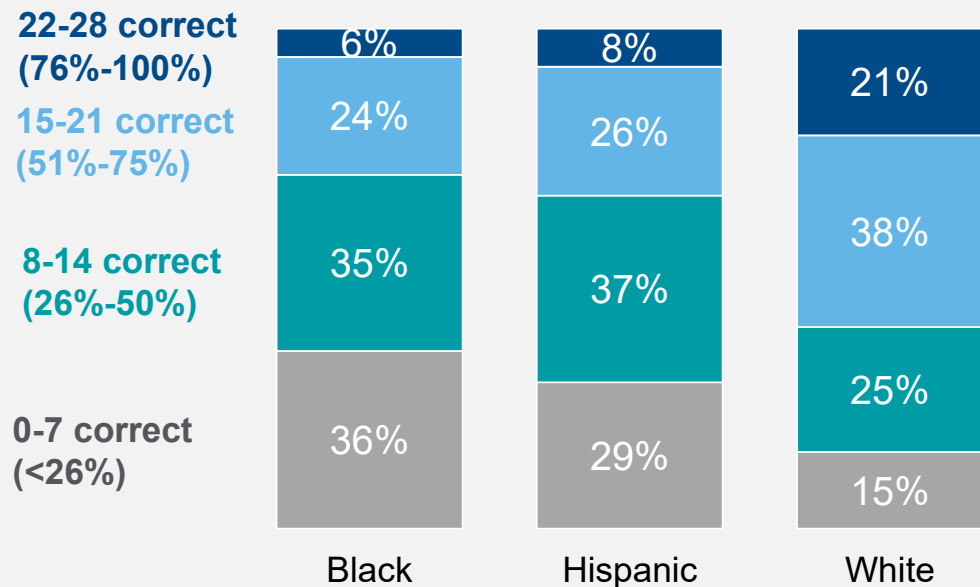


# Demographic variation: Racial/Ethnic groups

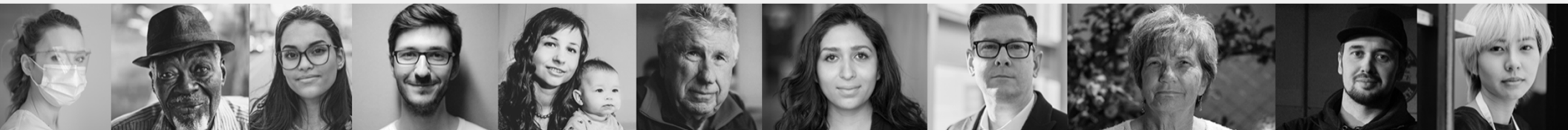
*% of P-Fin Index questions answered correctly*



*Distribution of correct answers to P-Fin Index questions*



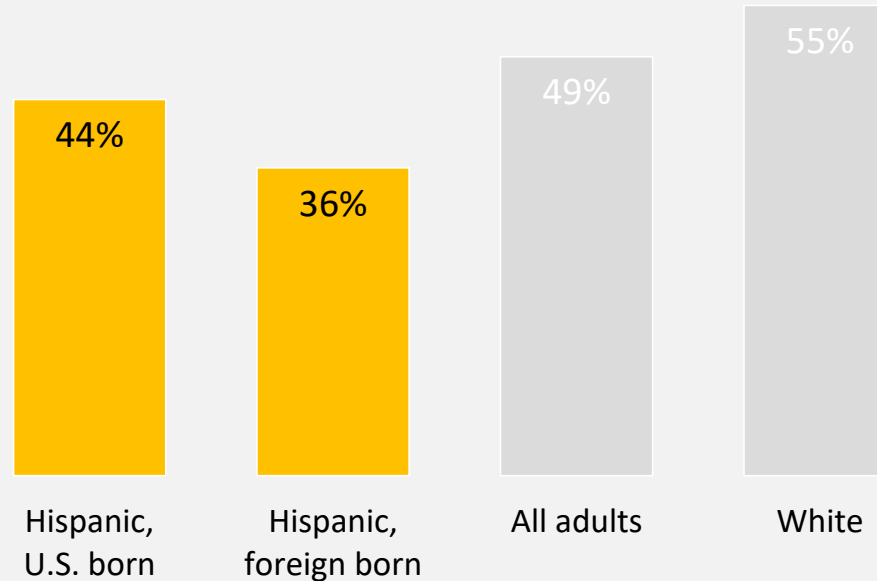
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# U.S.-born and foreign-born Hispanics

U.S.-born Hispanics have greater financial literacy than foreign-born Hispanics.  
From 2017 P-Fin Index

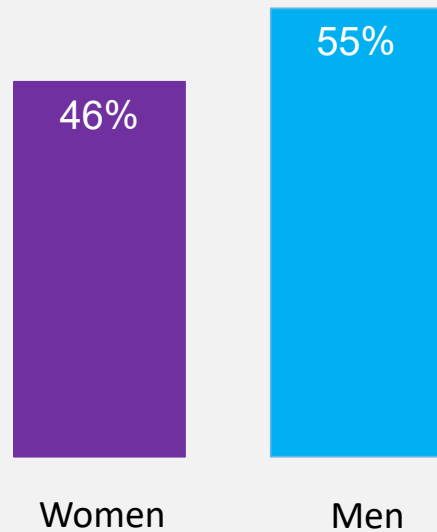
*% of Index questions answered correctly*



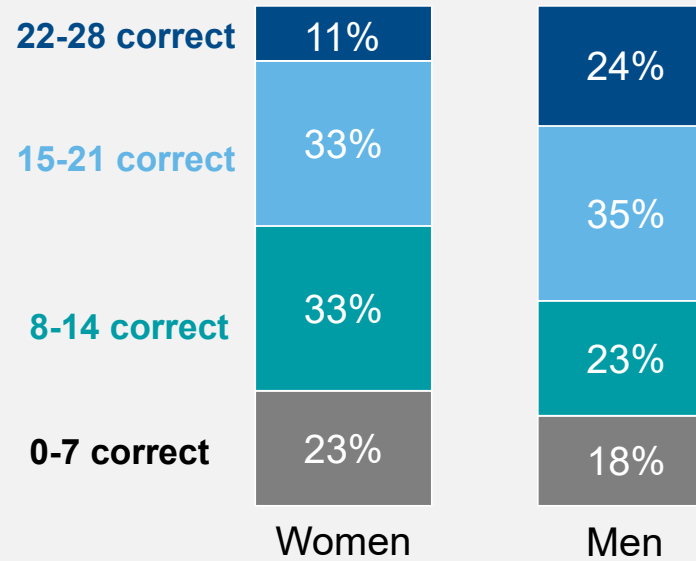


# Demographic variation: Women and knowledge

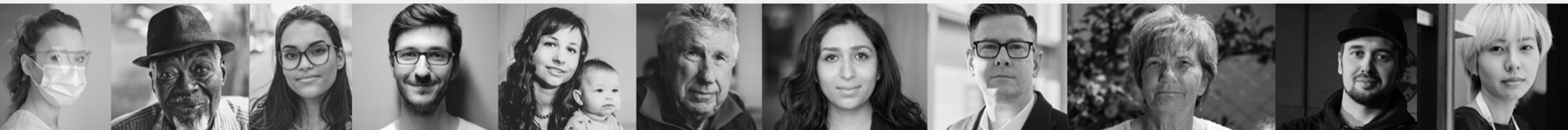
*% of P-Fin questions answered correctly*



*Distribution of correct answers to P-Fin questions*



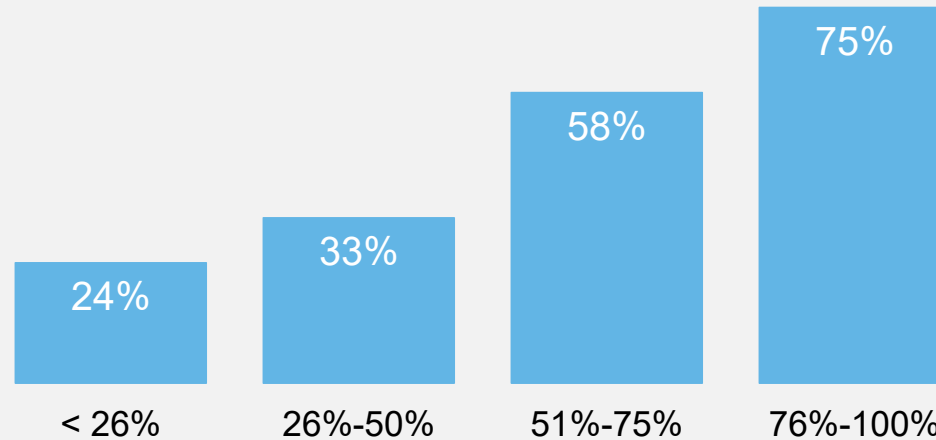
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# Financial literacy and financial fragility

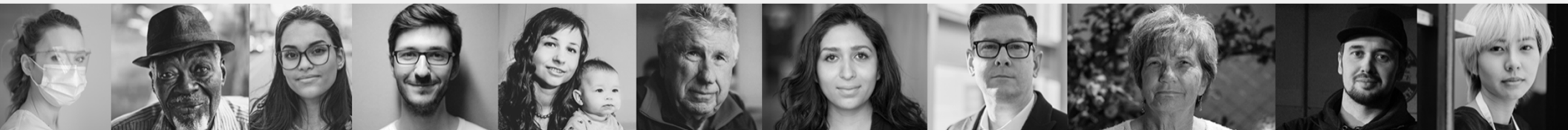
*% who could certainly come up with \$2,000 if an unexpected need arose within the next month*

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



% of *P-Fin* questions answered correctly

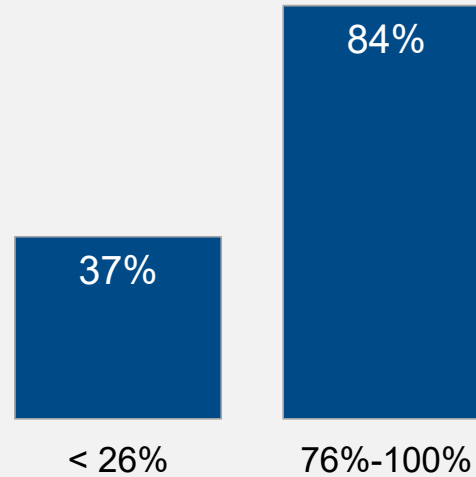
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



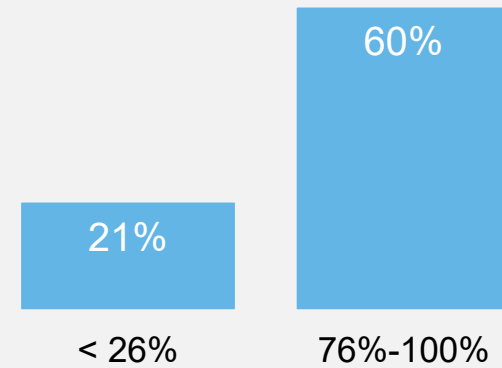
# Financial literacy and financial security

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*

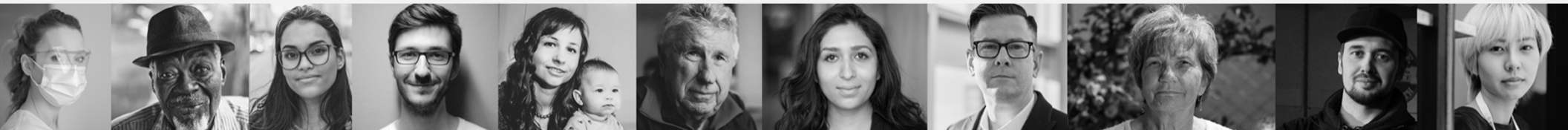


*% of non-retirees who have tried to determine how much they need to save for retirement*



% of P-Fin questions answered correctly

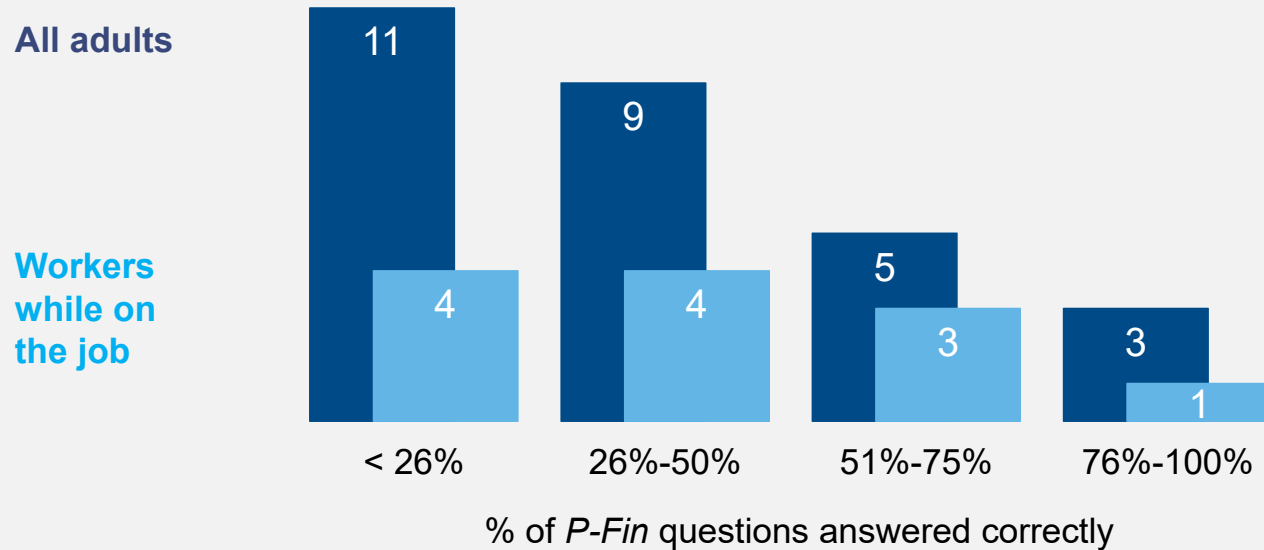
Source: TIAA Institute-GFLEC Personal Finance Index (2021).





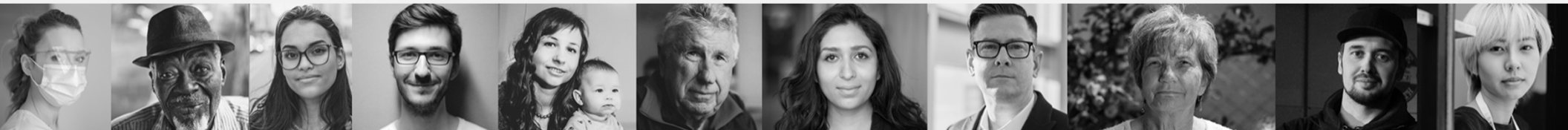
# Time spent on financial issues and problems

*Average hours per week spent thinking about and dealing with issues and problems related to personal finances*



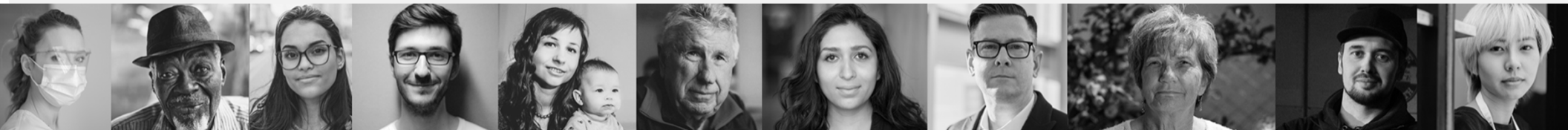
People spend an average of 7h per week thinking about and dealing with financial issues and problems. An average of 3h per week occur at work.

Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# What we learn from research

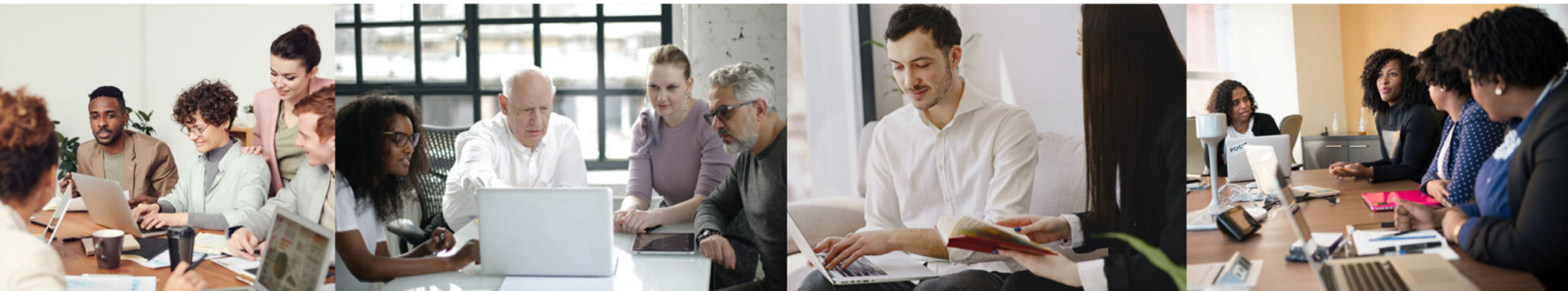
- Need to improve levels of financial literacy
  - Levels of knowledge are critically low
- Some topics are particularly complex
  - Risk and risk diversification
- Large heterogeneity across demographic subpopulations
  - One size does not fit all
- Customize programs
  - Target vulnerable groups



# Given widespread financial illiteracy

## We need large and scalable programs

- Financial education in school
- Financial wellness programs in the workplace
- Financial education in the community (libraries, museums, theaters, other places where people go to learn)



# Personal Finance course at the George Washington University School of Business

- Personal Finance courses for undergraduate and graduate students
- Extensive coverage of risk and risk management
- Paying attention to gender differences in financial literacy
- Material available for free on our website
- Writing a textbook on personal finance





# Workplace Financial Education



Cornell Law Review

## DEFINED CONTRIBUTION PLANS AND THE CHALLENGE OF FINANCIAL ILLITERACY

Jill E. Fisch,<sup>†</sup> Annamaria Lusardi<sup>‡</sup> & Andrea Hasler<sup>††</sup>

*Retirement investing in the United States has changed dramatically. The classic defined benefit (DB) plan has largely been replaced by the defined contribution (DC) plan. With the latter, individual employees' decisions about how much to save for retirement and how to invest those savings determine the benefits available upon retirement.*

*We analyze data from the 2015 National Financial Capability Study to show that people whose only exposure to investment decisions is by virtue of their participation in an employer-sponsored 401(k) plan are poorly equipped to make sound investment decisions. Specifically, they suffer from higher levels of financial illiteracy than other investors. This lack of financial literacy is critical because of both the financial consequences of poor financial decisions and a legal structure that relies on participant choice to limit the fiduciary obligations of the employer with respect to the structure and options*

## Defined Contribution Plans and the Challenge of Financial Illiteracy

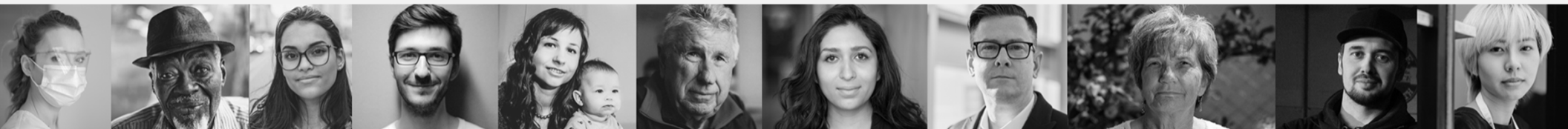
# An International Federation of Finance Museums (IFFM)

*"... the International Federation of Finance Museums (IFFM) is committed to promoting financial literacy globally, raising awareness that every individual in every country is in need of financial literacy."*



# Concluding remarks

- The data on personal finance bring the richness of people's lives
- We can use the data to design policy and programs
- We can all be ambassadors for financial education, in particular at universities
- Looking forward to the new wave of data





# Thank You!

More info at [www.gflec.org](http://www.gflec.org) or send me questions at [alusardi@gwu.edu](mailto:alusardi@gwu.edu).

