

The TIAA Institute-GFLEC Personal Finance Index: A New Measure of Financial Literacy

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Executive Summary

The *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* measures knowledge and understanding which enable sound financial decision-making and effective management of personal finances. It is unique in its capacity to examine financial literacy across eight areas of personal finance in which individuals routinely function, as well as providing a robust indicator of overall personal finance knowledge and understanding.

U.S. adults are split 50/50 between those who could and those who could not answer over one-half of the *P-Fin Index* questions correctly. Sixteen percent of Americans demonstrated a relatively high level of personal finance knowledge and understanding, i.e., they answered over 75% of the index questions correctly. Twenty percent have a relatively low level of knowledge and understanding, answering 25% or less of the questions correctly.

Personal finance knowledge is lowest in the area of comprehending risk; on average, 39% of these questions were answered correctly. This is troubling given that uncertainty is a common feature of financial decision-making. Future conditions are simply unknown, thus, comprehending risk and its implications is integral to making appropriate decisions.

Basic personal finance behavior and habits often become established early in adulthood. Young adults also confront a range of financial decisions with ramifications for their financial well-being decades into the future, as well as the present. Yet they are working from a limited base of personal finance knowledge. While 10% of young adults (under age 45) have a relatively high level of financial literacy, 30% have a relatively low level. Comprehending risk and insuring are areas where young adult knowledge appears lowest.

The *P-Fin Index* correlates with financial actions and outcomes in the expected manner, i.e., individuals with greater personal finance knowledge are more likely to have positive personal finance experiences, such as planning and saving for retirement and for other reasons.

Overall, *P-Fin Index* data highlight the gap between current personal finance knowledge levels and the level needed for sound financial decision-making in the normal course of life. This, in turn, highlights the need for a renewed focus on efforts to improve financial literacy, particularly among the young who face many significant financial decisions early in their working lives.

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