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Working Women's Financial Capability: An Analysis across Family Status and Career Stages

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GFLEC
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- **Individuals are in charge of deciding**
 - How much to contribute to retirement accounts
 - How much and when to invest in education
- **Not enough to look at asset side; liability side is equally important**
 - Increase in household debt
 - Debt normally incurs higher interest rates than what is earned on assets
- **Financial decisions are complex**
 - Many more financial products than in the past



More women are participating in the economy than ever before

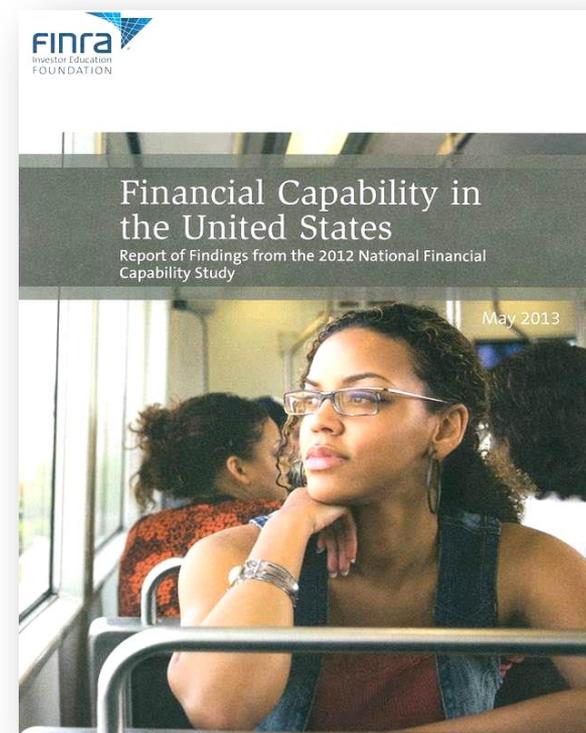
- Women are facing many challenges as they become better represented in the workforce and more involved in decisions in their households.
- Women have a greater role in financial decision-making than ever and their attitudes and approaches to these decisions are different from men's.

To study women's personal finances, we examined rich data from the 2012 National Financial Capability Survey.

2012 National Financial Capability Study (NFCS)

State-by-State Survey: Online survey of more than 25,000 respondents (roughly 500 per state + DC)

- First wave in 2009, second wave in 2012
- Objective—Benchmark and better understand financial capability in America
- Representative of the US population
- GFLEC has been FINRA's academic advisor on the survey



We are currently designing the 2015 wave

Working Women's Financial Capability

TIAA-CREF Institute



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Introduction

Women contribute more to the US economy than ever before. Women now outpace men at every level of educational attainment and currently make up 47 percent of the workforce according to the U.S. Department of Labor (2012). As working women's earning power increases, so does their responsibility to make critical financial decisions for themselves and their household. These decisions are influenced by the unique financial challenges that women face; for example, women typically live longer than men, implying that they are more likely to live alone following the death of their spouse, and women often leave their career at the peak of their earning potential to take care of children or parents.

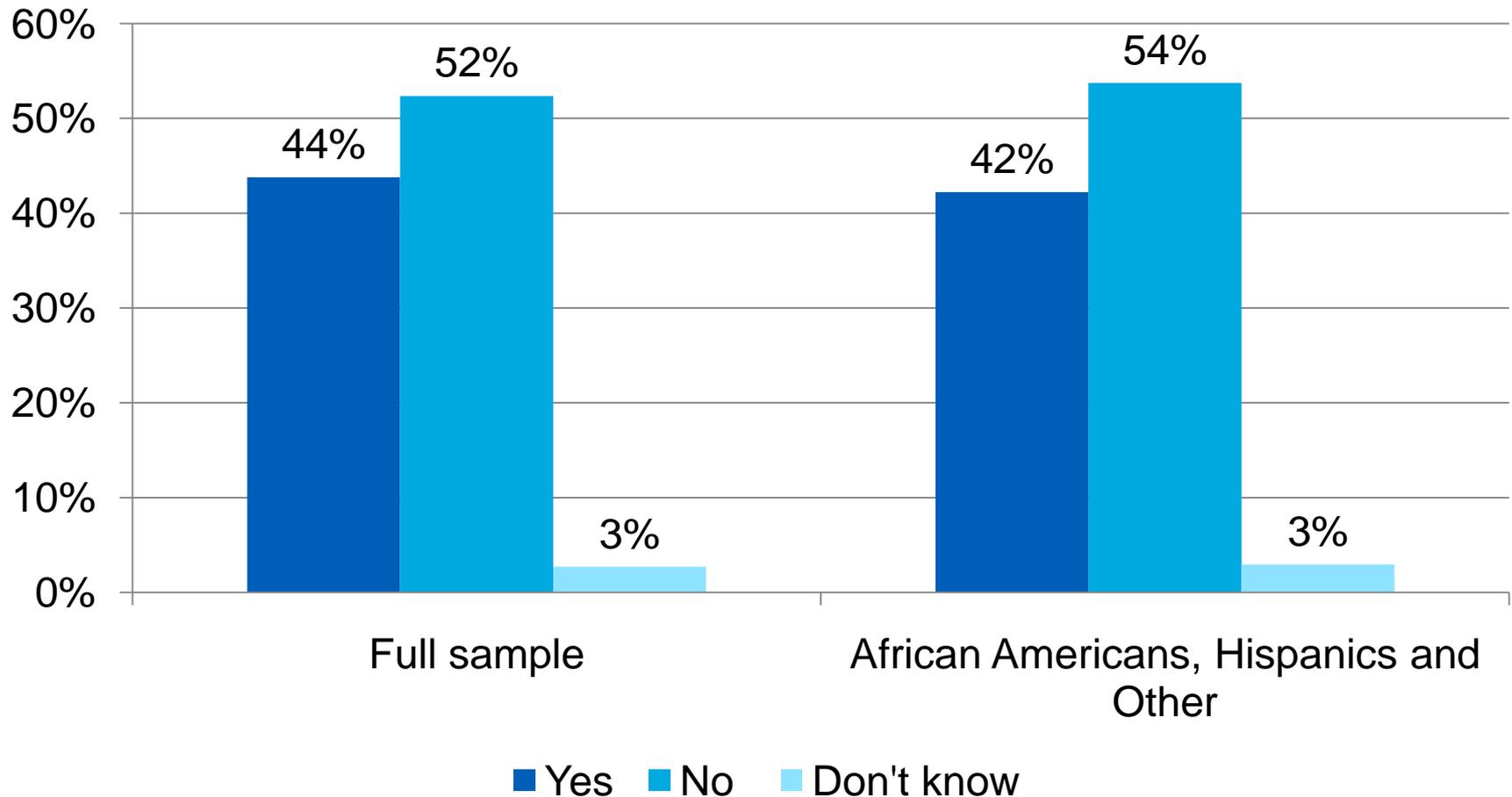
This study increases our understanding of the unique financial needs of working women by examining key factors associated with their personal finances and identifying issues that are critical to their financial future. The study provides an overview of working women's financial capability and documents how personal financial needs and financial behaviors vary by family status and career stage. The study concludes with a list of actions that would help to better serve working women's financial needs.



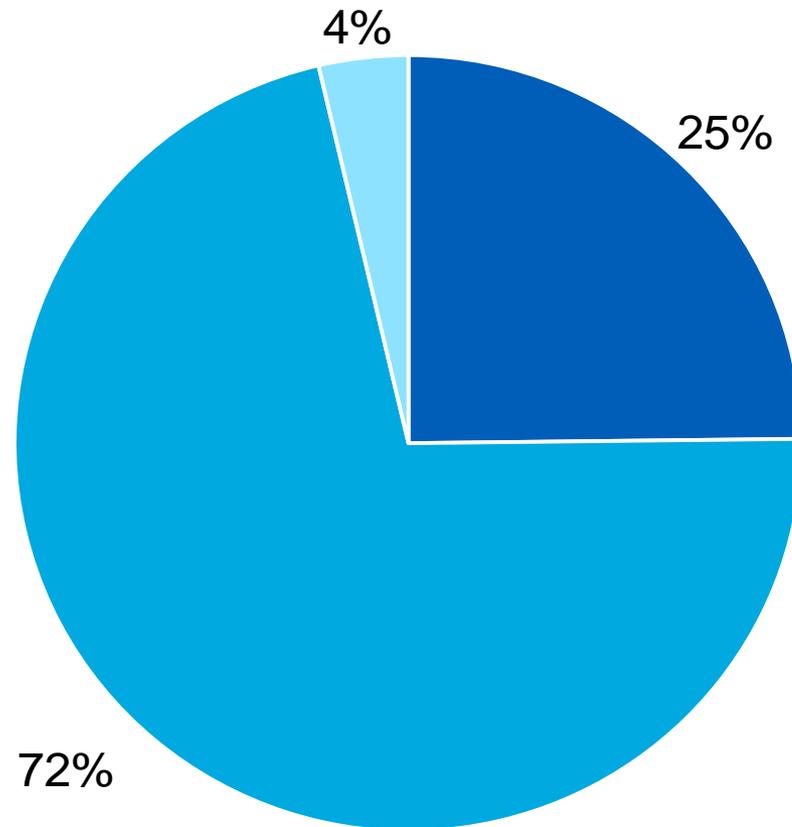
- **Our sample: 6,051 women age 23-65 employed on a full-time or a part-time basis at the time of the survey.**
- **In this presentation, I focus on differences by ethnicity**



Have you ever tried to figure out how much you need to save for retirement?



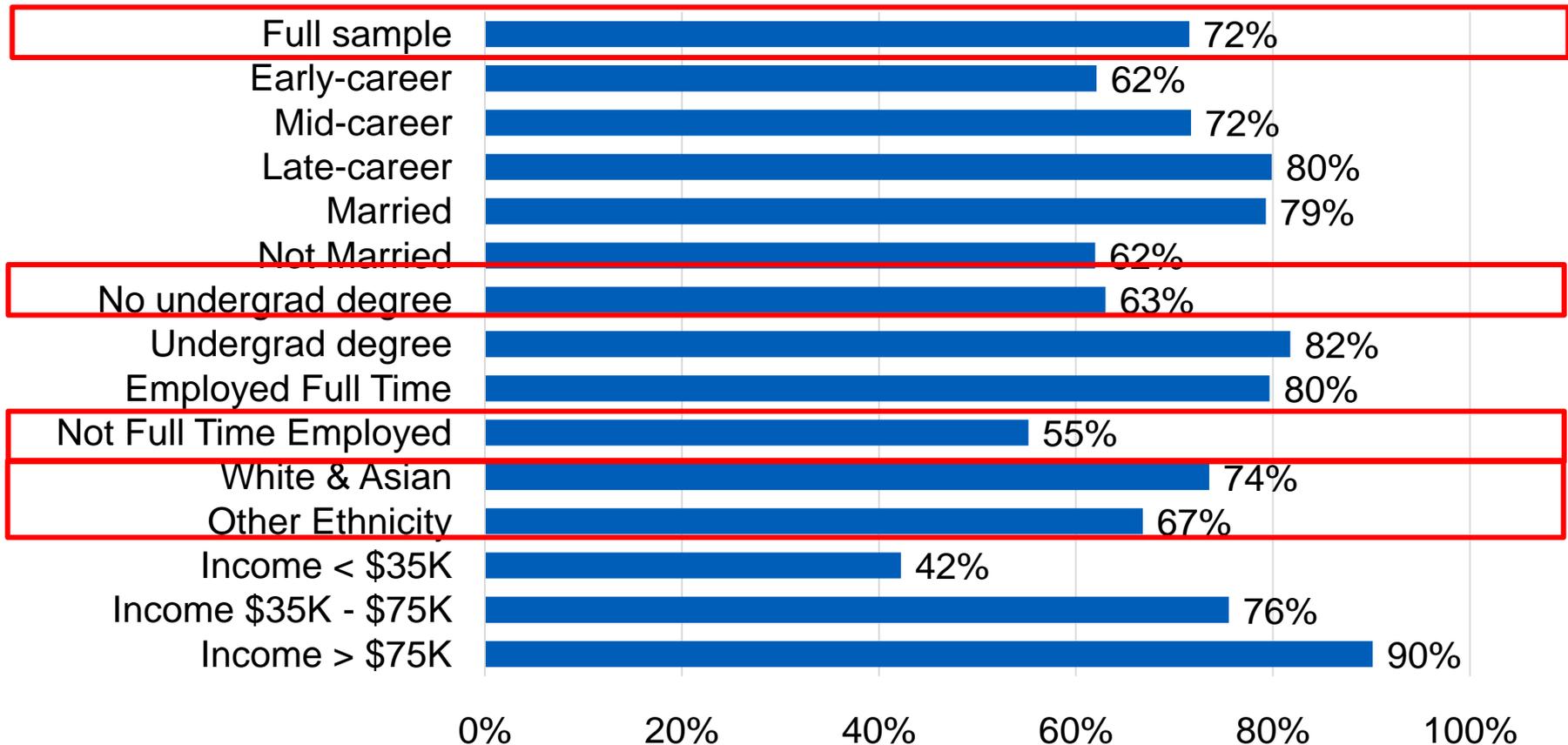
Retirement Account Ownership Among Working Women



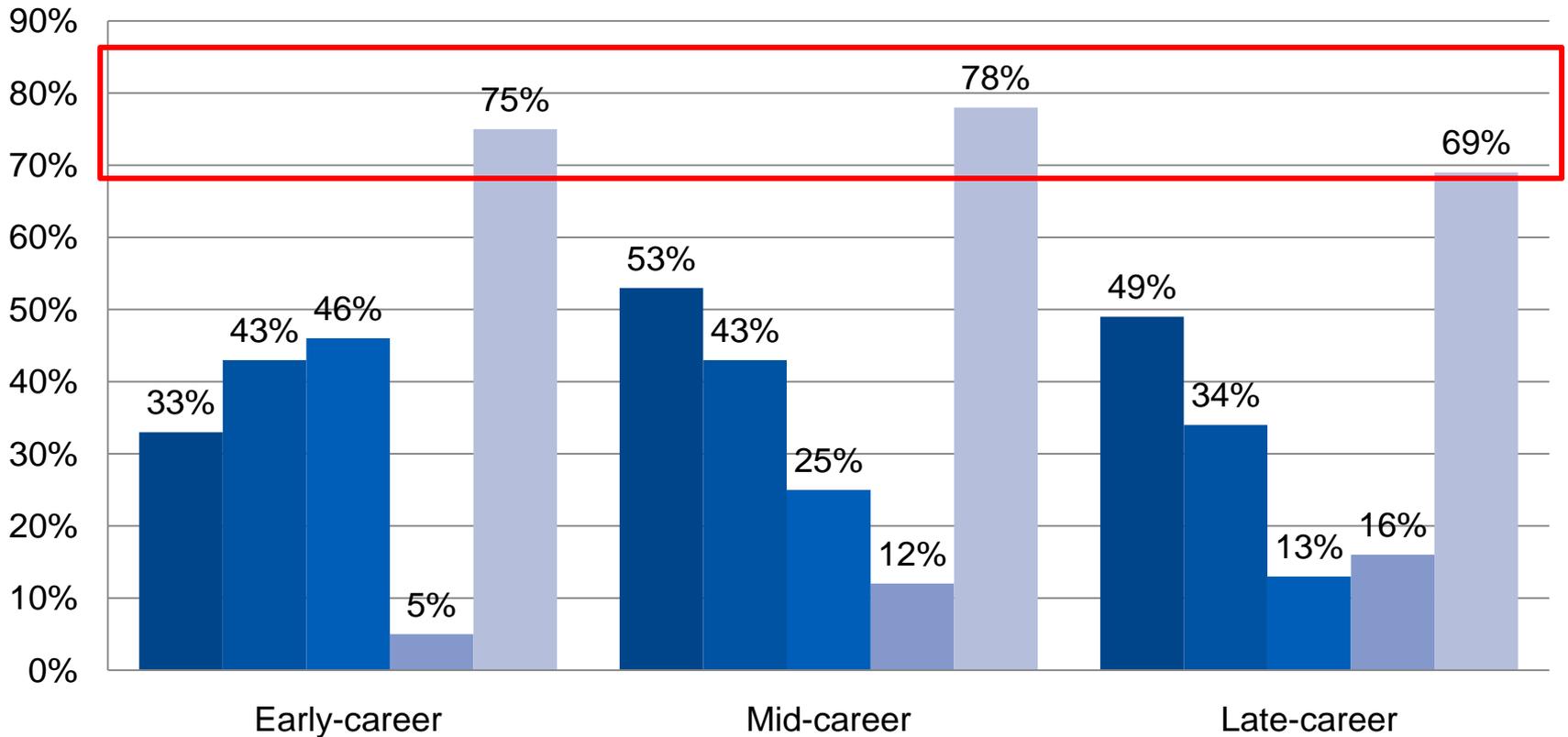
■ Don't have retirement account ■ Have retirement account ■ Undetermined

Retirement Account Ownership by Demographic Characteristics

Retirement Account Ownership by Demographic Characteristics

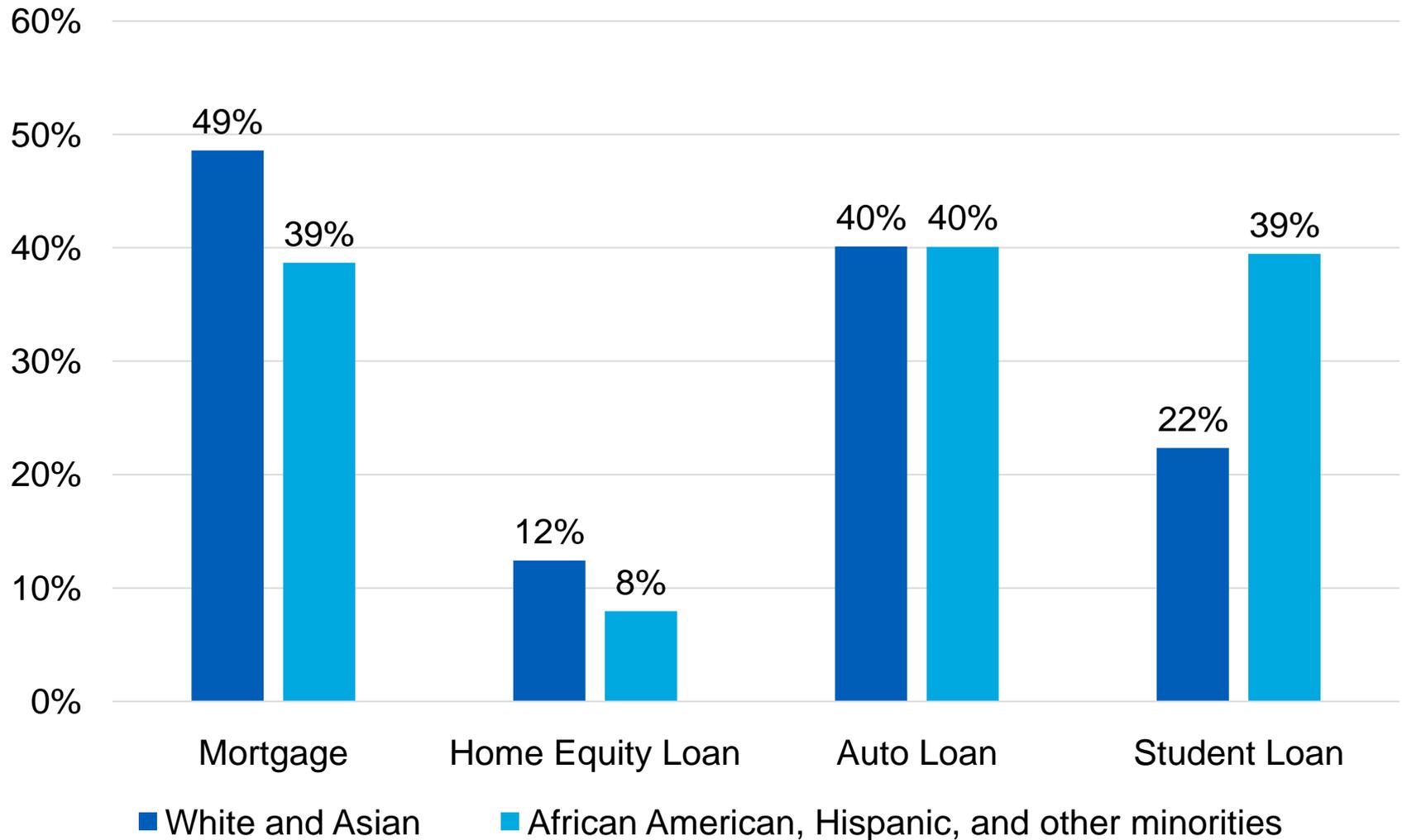


Long-Term Debt among Working Women

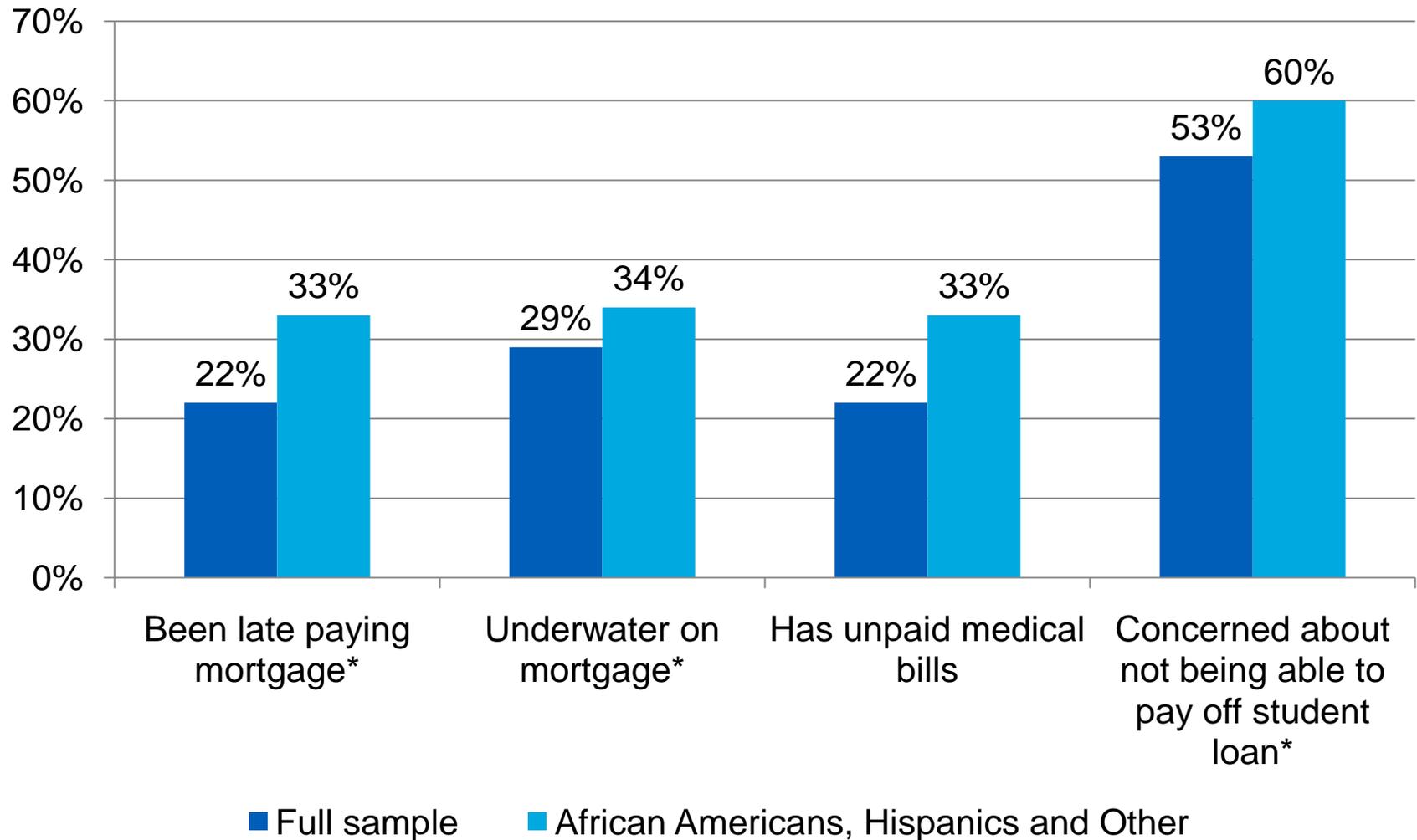


- Home mortgage
- Auto loan
- Student loan
- Home equity loan
- Have at least one form of outstanding long-term debt

Long-Term Debt by Ethnicity



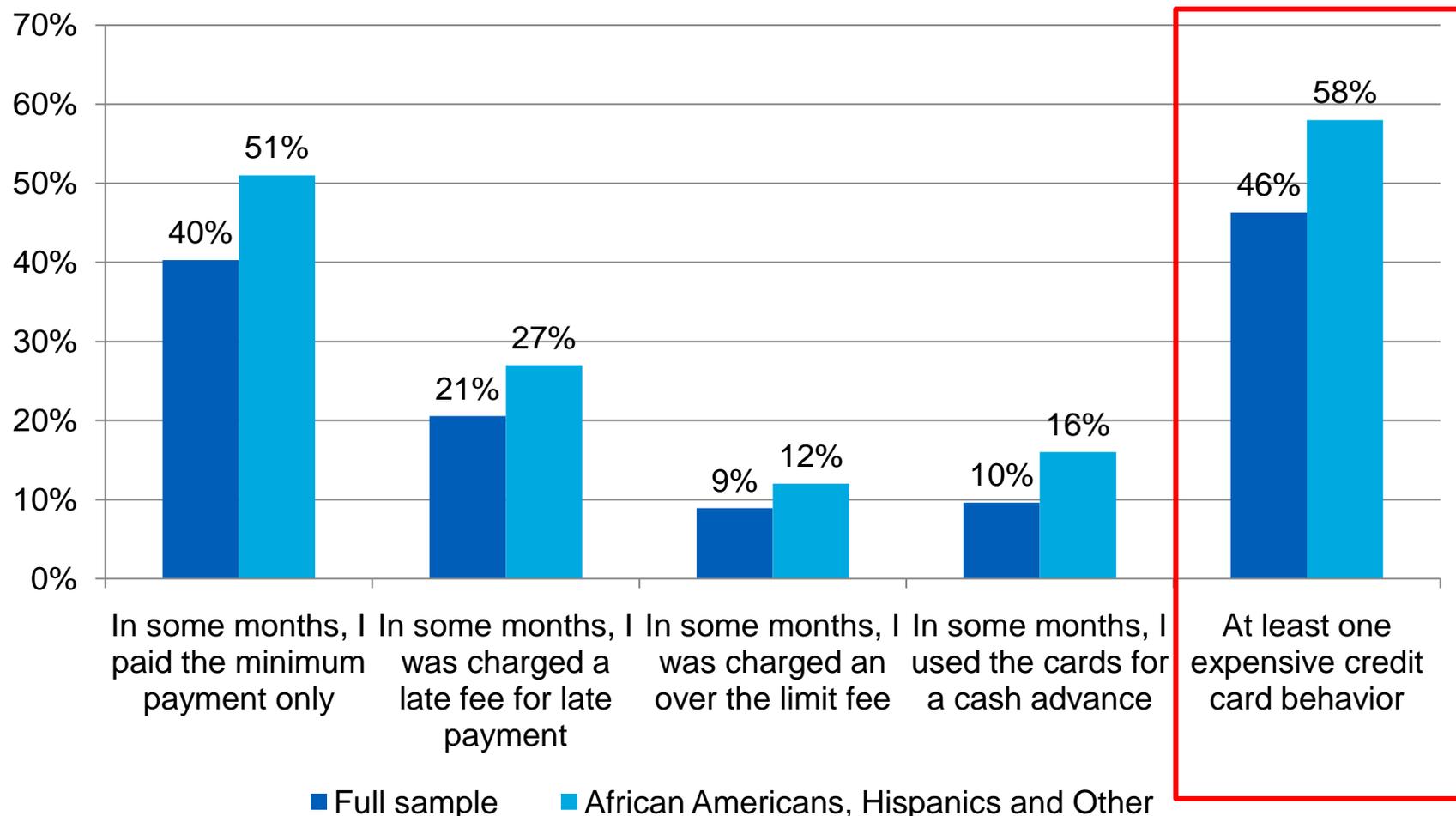
Signs of Financial Distress



**Statistics conditional on having a student loan or a mortgage.*

Expensive Credit Card Behavior among Cardholders

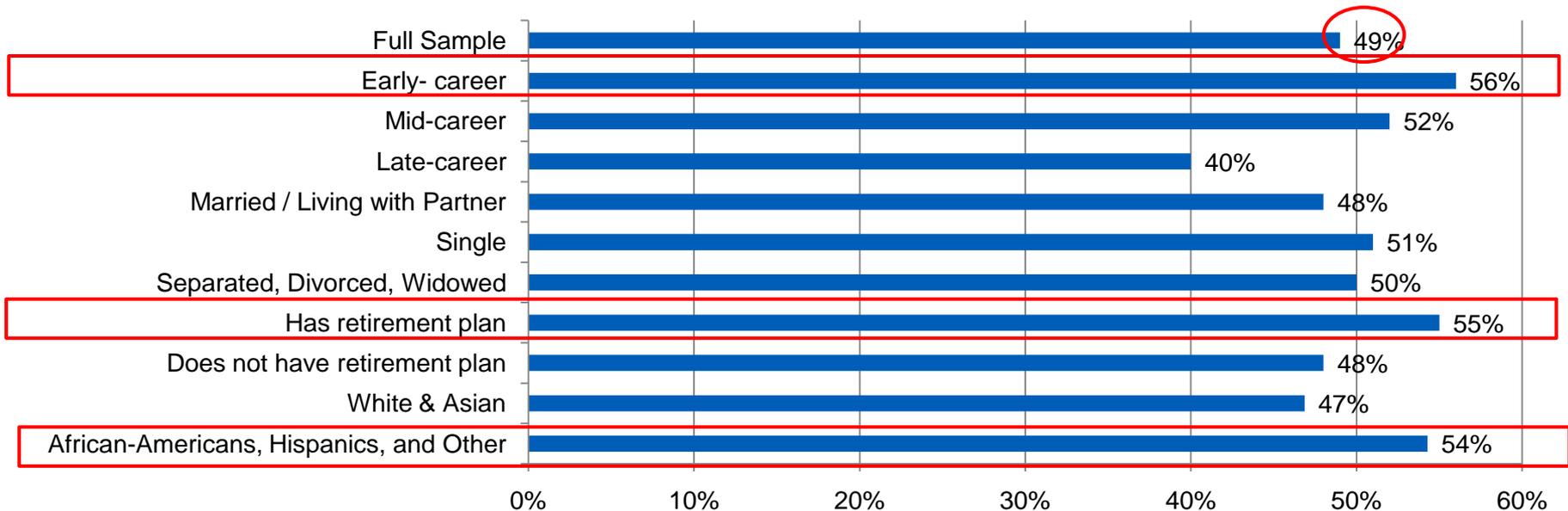
- 78% of working women have a credit card.
- Many women are engaging in expensive credit card behavior



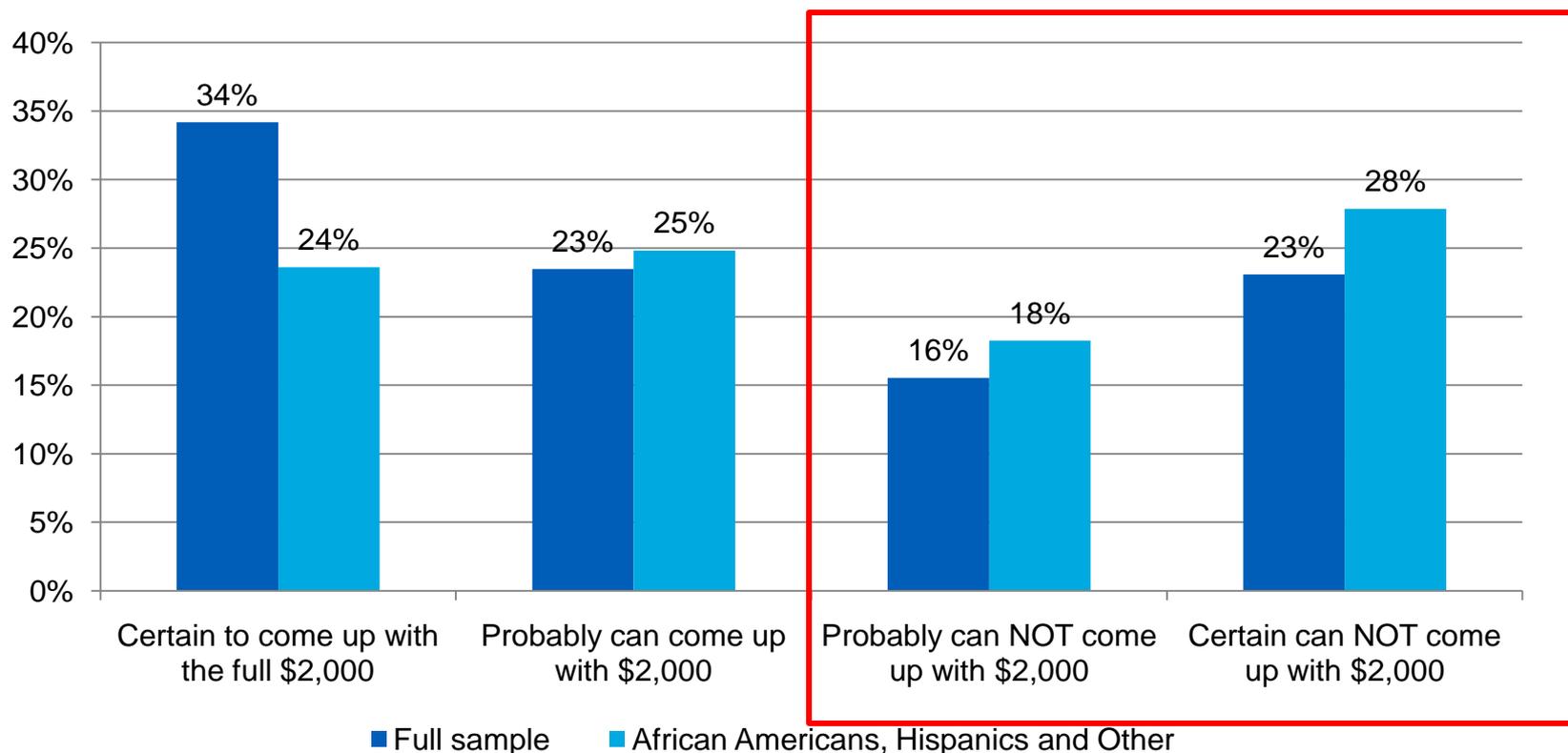
Feeling overburdened with debt

- The majority of working women struggle to make debt payments, with nearly half feeling overburdened with debt.
- This burden tends to influence their financial decisions and affects their ability to weather unfavorable economic events.

On a scale from 1 to 7, how strongly do you agree or disagree with the following statement? – I have too much debt right now. (% who agrees, 5-7)

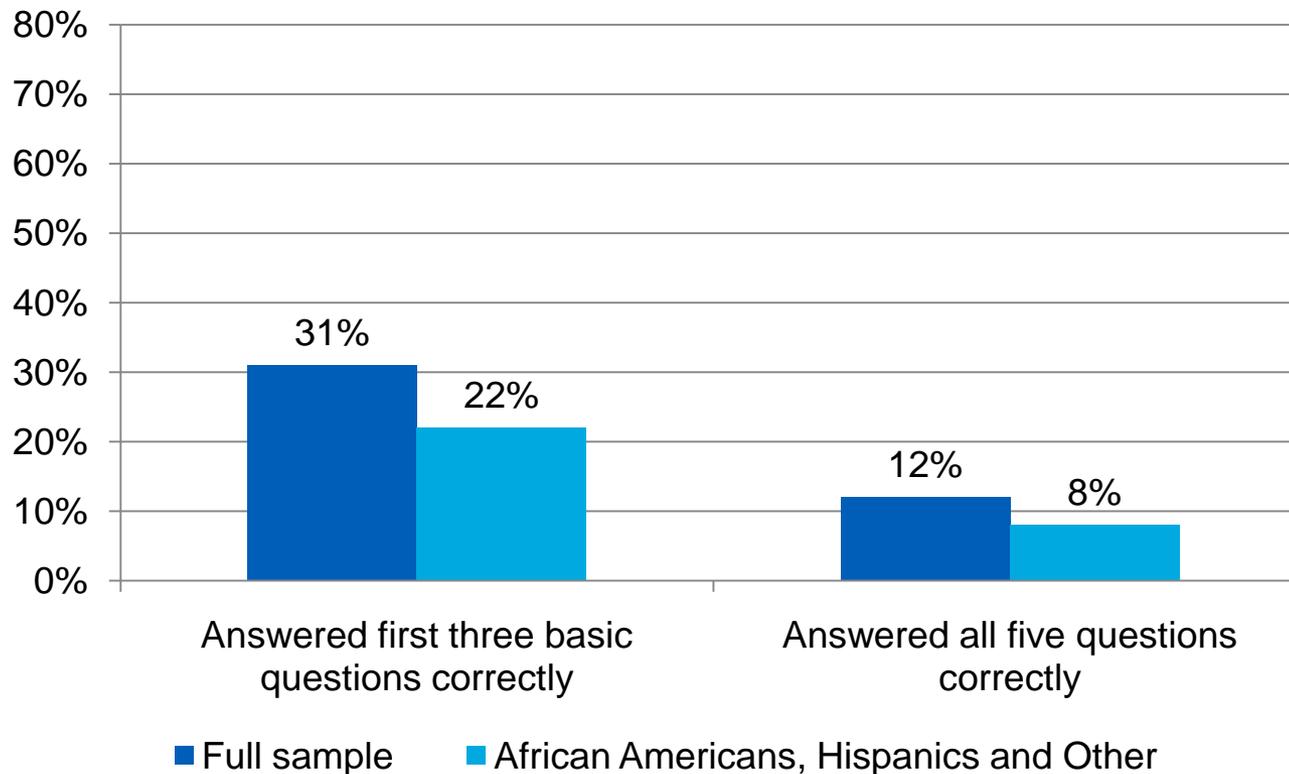


Financial fragility: “How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?”



Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

- Women are particularly vulnerable to income shocks. Nearly 40% of working women either probably or certainly cannot come up with \$2,000 if a sudden need arise
- Financial fragility is even higher among minorities: 46% cannot come up with \$2,000



- When quizzed with five financial literacy questions, only one in three working women could answer the first three basic questions correctly, and only 12% could answer all five correctly.
- Financial literacy is significantly lower among minorities

Financial Literacy (cont'd)

In addition to having low levels of financial literacy, women are significantly more likely to answer “*Don’t Know*” to financial literacy questions. **65% of women answered “*Don’t Know*”** to at least one question.

The most problematic question is the one on risk diversification:

When asked if the statement “*Buying a single company's stock usually provides a safer return than a stock mutual fund*” is true or false, **nearly half of women** answered “*Don’t Know.*”



Recent study:

- Lusardi, Michaud, and Mitchell (2013) incorporate financial literacy into an intertemporal model of saving



- The authors show that financial literacy alone can account for more than **40%** of the wealth inequality in the United States
- Differences in financial knowledge among the young have important consequences later in life
- We are currently working on empirical research to study how disparities in financial knowledge early in life act as a multiplier of economic inequality among older adults

Summary: 6 Key Findings

1. Many working women are approaching retirement carrying long-term and short-term debt, and without having planned for retirement
2. Working women across career stages have pervasive concerns about their level of debt and ability to repay it
3. Women exhibit high rates of expensive credit card behavior
4. Working women tend to have little short-term savings, making them financially fragile. Only 60% of working women can come up with \$2,000 in the next month in case of emergency
5. Women demonstrate low levels of financial literacy, and are significantly more likely to answer “Don’t Know” to financial literacy questions than men.
6. African-American and Hispanic working women tend to be more financially vulnerable

1. Women are one of the four key focus areas of GFLEC
2. We have designed several financial education programs targeted to women, in particular workplace financial education
3. We are in the process of launching *FinLab*, a laboratory that combines academic research, entrepreneurship and technology to design innovative financial education initiatives

Thank you

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