Household Financial Fragility: Evidence and Implications

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Background

- Several years after the financial crisis, how have families’ finances recovered?
- The functioning of financial markets is crucial for the ability of families to grow wealth and attain financial security
- Monetary policy affects every household
- Financial status of households
State-by-State Survey: Online survey of more than 27,000 respondents

• It started in 2009
• Survey offers unique information on financial literacy & capability
• The data provide an encompassing overview of households’ personal finances
• New measures to evaluate household balance sheets
Measuring financial fragility

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

• 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.

From Lusardi and Tufano, BPEA, 2011
Measuring financial fragility

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What this measure does

- Financial fragility:

  Is a symptom of lack of assets

  Indicates lack of borrowing capacity of highly leveraged households
Financial fragility in the US

Financial Fragility Over Time

- Combining 2009 TNS data with 2012 and 2015 NFCS data we see families are less financially fragile in 2015
Who are the most financially fragile?

Millennials (age 18-35)

- 42% of Millennials are financially fragile
Who are the most financially fragile?

African-Americans

• 48% of African-Americans are financially fragile
Who are the most financially fragile?

The middle class is financially fragile

Financial fragility by income

- Income <$25k: 63%
- Income $25k-$50k: 40%
- Income $50k-$75k: 24%
- Income >$75k: 11%

- The middle class is financially fragile
...but also

Upper Middle Class

• 24% of people with income between $50,000 and $100,000 are financially fragile\(^1\)

\(^1\) Sample age 25-60
Fragility and financial literacy

• 44% of people who do not know at least 1 of the 3 basic financial literacy concepts (interest, inflation, risk) are financially fragile
Evidence from FRB Survey of Household Economics and Decisionmaking (SHED)

• Since 2013, the Federal Reserve Board has conducted SHED

• SHED evaluates the economic well-being of U.S. households and identifies potential risks to their financial stability

• Respondents are asked how they would pay for a hypothetical emergency expense that would cost $400.

In 2015, 46% indicate they could face this expense with difficulty
The Secret Shame of the Middle Class

Nearly half of Americans would have trouble finding $400 in a crisis. I'm one of them.

By NEAL GABLER
Concluding remarks

• Several years after the financial crisis, the finances of some families have not recovered
• Potential implications for the economy
• Could we do prevention?
Should household financial resilience be part of public policy?
Contact and further information

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