

Household Financial Fragility: Evidence and Implications

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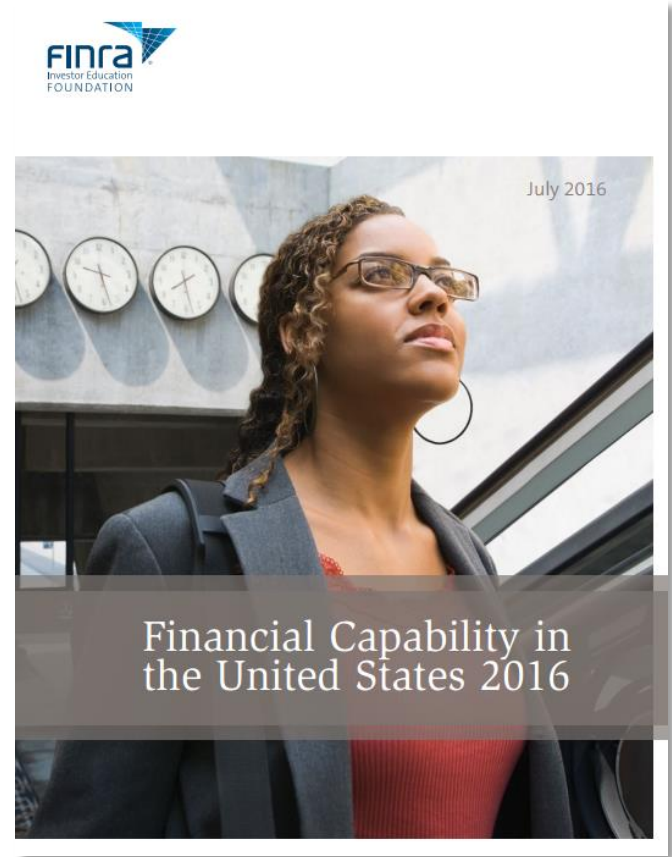
Background

- 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

2015 National Financial Capability Study (NFCS)

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

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Measuring financial fragility

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 - 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

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People with these responses are classified as financially fragile.

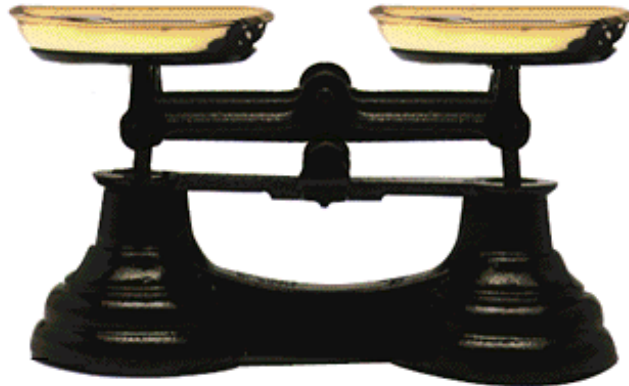
From Lusardi and Tufano, BPEA, 2011

What this measure does

- Financial fragility:

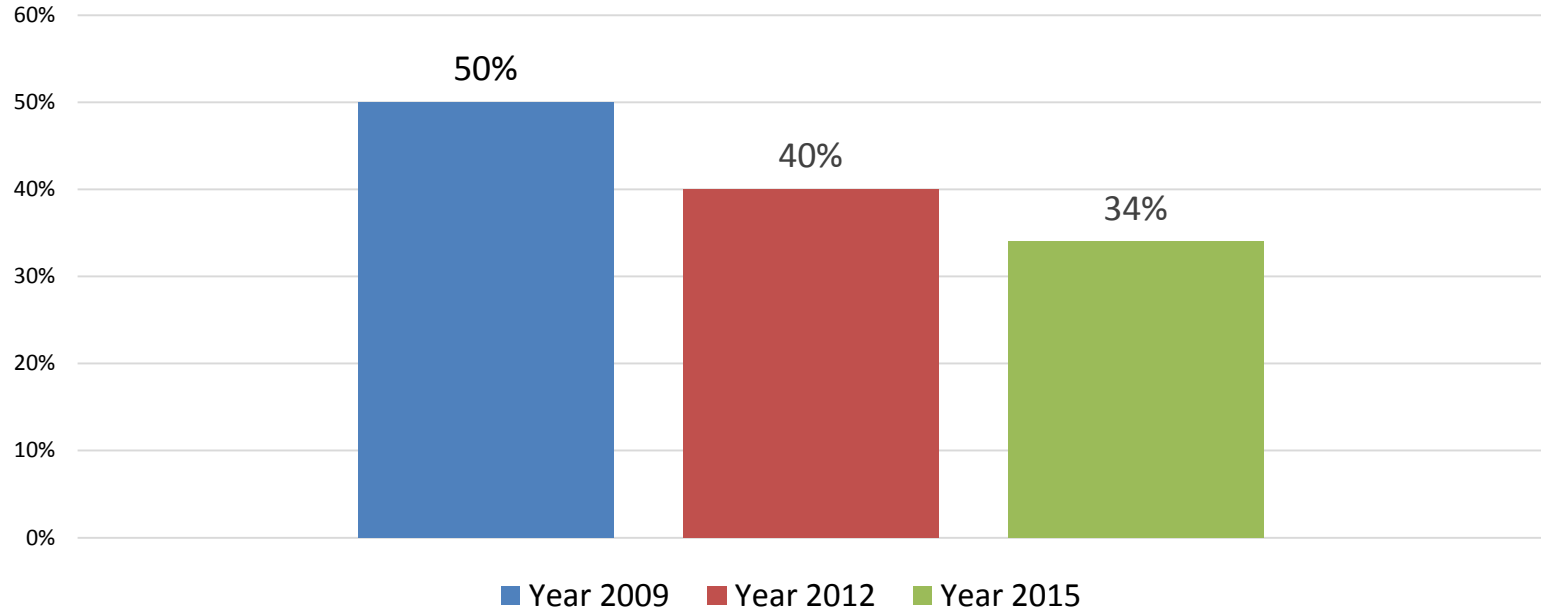
Is a symptom
of lack of
assets

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

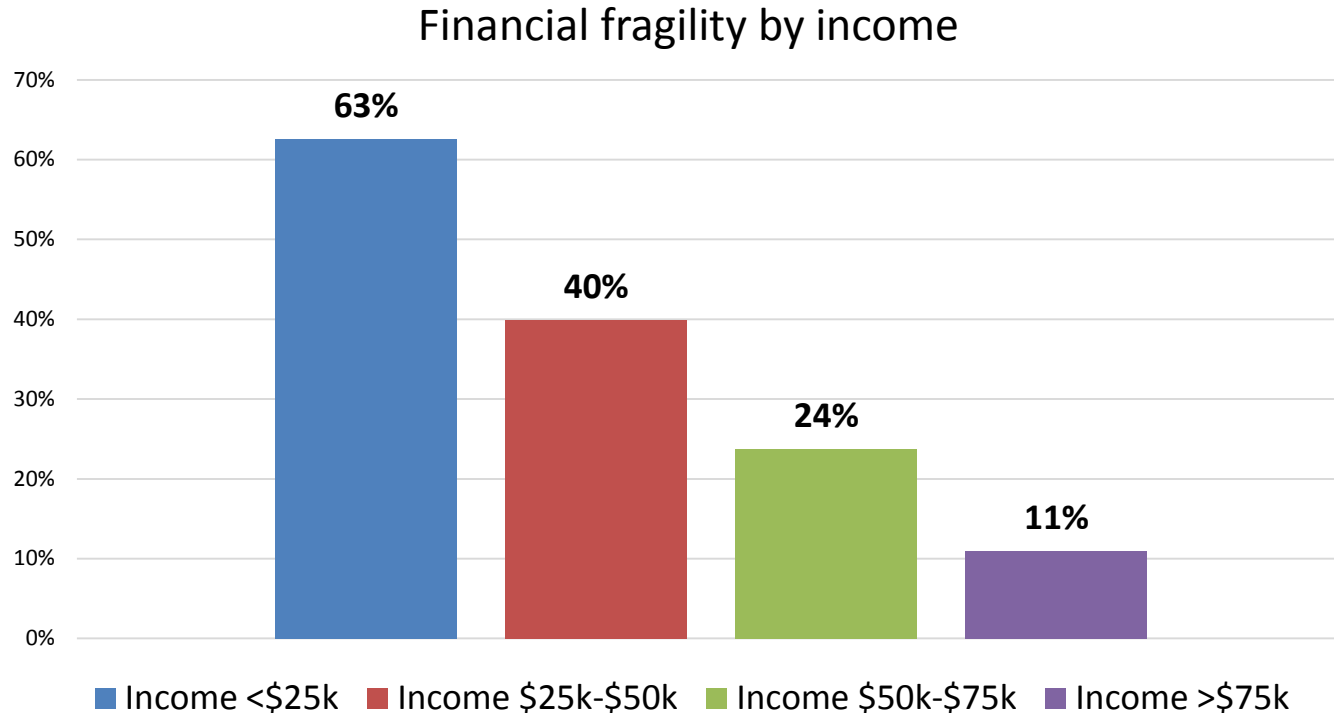
Who are the most financially fragile?



African-Americans

- **48%** of African-Americans are financially fragile

Who are the most financially fragile?



- The middle class is financially fragile

...but also



Upper Middle Class

- **24%** of people with income between \$50,000 and \$100,000 are financially fragile¹

¹ Sample age 25-60

Fragility and financial literacy



LOW 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 Atlantic

How Islam
Created Europe
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The Right Way to Brag
p. 39

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



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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?

Question

Should household financial resilience be part of public policy?

Contact and further information

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