Americans’ Financial Capability

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Background

• Several years after the financial crisis, how are families doing financially?
• Are Americans financially prepared, what is their financial capability?
• Taking the pulse of American families
Scheme of presentation

- Americans’ financial capability using data from the National Financial Capability Study (several waves including the most recent one in 2015)
- How research can help measure financial capability
- Applications to financial wellness programs
National Financial Capability Study (NFCS)

State-by-State Survey: Online survey of more than 25,000 respondents

- It started in 2009, 2\textsuperscript{nd} wave in 2012, 3\textsuperscript{rd} wave in 2015
- Survey offers unique information on financial literacy & capability
- The data provide an encompassing overview of households’ finances
- New questions in recent waves
Framework

• Financial capability is measured by 4 key components:
  1. Short term money management
  2. Planning ahead
  3. Managing financial products
  4. Financial literacy
1. Short term money management
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
1. Short term money management

Financial fragility

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

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*From Lusardi and Tufano, BPEA, 2011*
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 23-35)

- 38% of Millennials are financially fragile
Who are the most financially fragile?

Women

- 39% of American women are financially fragile vs. 28% of men
2. Planning ahead
Retirement planning

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

  – Yes
  – No
  – Don’t know
  – Prefer not to say

* Or, if already retired: Before you retired, did you try to figure out how much you needed to save for retirement?
2. Planning ahead
Retirement planning

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

  – Yes
  – No
  – Don’t know
  – Prefer not to say

People with this response are classified as planners

* Or, if already retired: Before you retired, did you try to figure out how much you needed to save for retirement?
Retirement planning is a strong predictor of wealth

- Planners accumulate about three times the amount of wealth of non-planners (Lusardi and Mitchell, 2011)

Source: 2004 Health & Retirement Study
Retirement planning by age and gender

- Retirement planning slightly increases over the life-cycle
- Women are less likely to plan than men
3. Managing financial products

Indebtedness

• How strongly do you agree or disagree with the following statement: I have too much debt right now.

  - 1 = “Strongly Disagree”
  - 2
  - 3
  - 4 = “Neither Agree or Disagree”
  - 5
  - 6
  - 7 = “Strongly Agree”
  - Don’t know
  - Prefer not to say
3. Managing financial products

Indebtedness

- How strongly do you agree or disagree with the following statement: I have too much debt right now.
  - 1 = “Strongly Disagree”
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  - 3
  - 4 = “Neither Agree or Disagree”
  - 5
  - 6
  - 7 = “Strongly Agree”
  - Don’t know
  - Prefer not to say

People with these responses are classified as over-indebted
Who are the most over-indebted?

- Over-indebtedness decreases over the life-cycle
- But still 38% of people close to retirement feel over-indebted
Long-term debt: Student loans

- Student loans are much more prevalent among the young
- But many individuals carry student loan debt late in life
Student loans: Focus on Millennials (age 23-35)

- The majority of those with student loans would make a change in their decision

If you could go through the process of taking out loans to pay for your education all over again, would you take the same actions or make a change?

- Take the same action, 30%
- Make a change, 57%
- Don't know, 13%

*Note: The statistics are conditional on having a student loan.*
4. Financial literacy

• Three simple questions:
  • Numeracy/interest rate
  • Inflation
  • Risk diversification

• *Being financially literate*: How many can answer these 3 questions correctly?

• These 3 questions have been used in 15 countries: Financial Literacy around the World (FLAT World) project
Financial literacy by age in the United States

2015 National Financial Capability Study
(% answering 3 questions correctly)
Building block approach

To promote financial capability, we need to address many needs

First building block:
- Precautionary savings

Second building block:
- Planning and taking advantage of tax incentives and employer matches

Third building block:
- Debt and debt management

Fourth building block:
- Higher financial literacy
A simple analogy

• A check-up is necessary for people to understand if they are doing well
• A financial check-up should look at financial capability (not just one variable)
• Important to do prevention
What can be done to improve financial capability

How research can inform policy and programs:

1. **Financial literacy is very low**
   - We are at a crisis level

2. **Some segments of the population are more vulnerable**
   - E.g., the young and the women

3. **One size does not fit all**
   - We need more targeted programs, particularly for vulnerable groups

4. **One-time financial education programs are not going to be effective**
   - Robust interventions are necessary
Targeting Millennials: 5 steps to planning success

Our research-based programs:
• Are targeted to young workers
• Use new methods of communication
• Keep the message free of economic/finance jargon (helpful especially for women)
• Cover concepts that people know the least, such as risk diversification, in a simple story
Our initiatives for the workplace

Our **Workplace Financial Wellness** describes the financial wellness programs we have designed based on our research

Concluding remarks

• Several years after the financial crisis, the finances of many families have not recovered
• Need to step up the effort for financial wellness
• Many programs have proved effective

GFLEC can help design solutions