

Financial Fragility in America



Prof. Annamaria Lusardi

GWSB and Global Financial Literacy Excellence Center (GFLEC)

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GFLEC
GLOBAL FINANCIAL LITERACY
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Background

- The US has been hit hard by the financial crisis and Great Recession
- Data show that large segments of the population continue to face financial difficulties
- Several years after the Recession, many people feel they are not financially secure
- When the government shut down, people could not put food on the table
- How can we build a more resilient society?

Measuring financial fragility (starting in 2009)

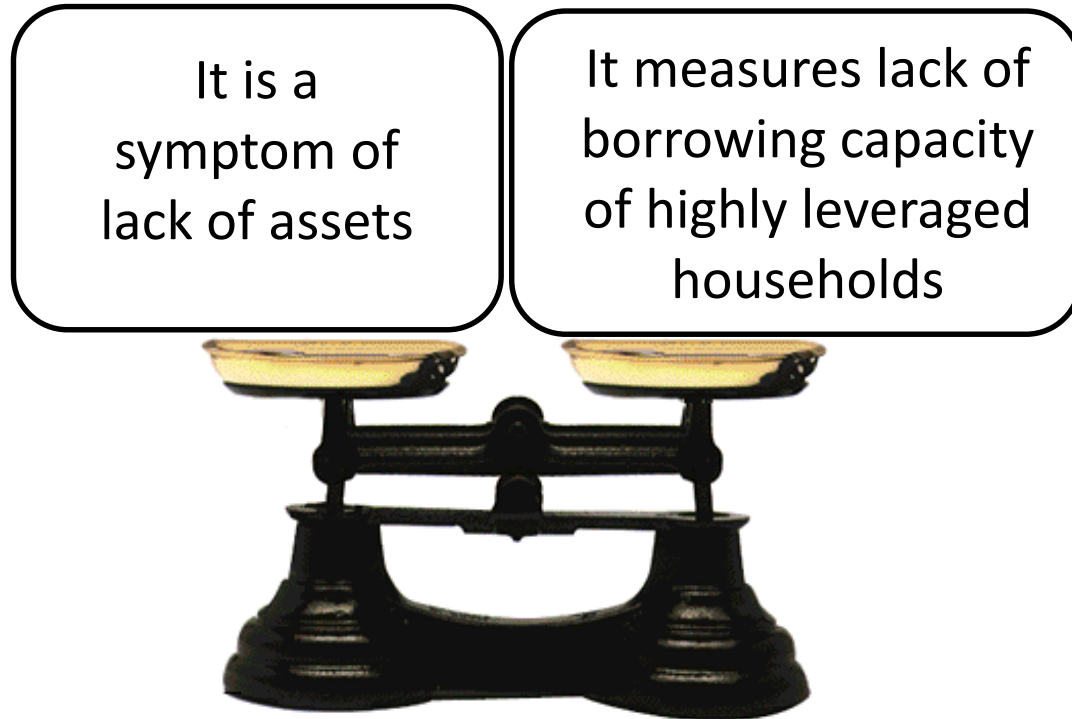
- How **confident** are you that you could come up with **\$2,000** if an unexpected need arose **within the next month**?
 - I am certain I could come up with the full \$2,000.
 - I could probably come up with \$2,000.
 - I could probably not come up with \$2,000.
 - I am certain I could not come up with \$2,000.
 - Don't know.
 - Prefer not to say.



People with these responses are classified as financially fragile.

A measure that goes beyond assets

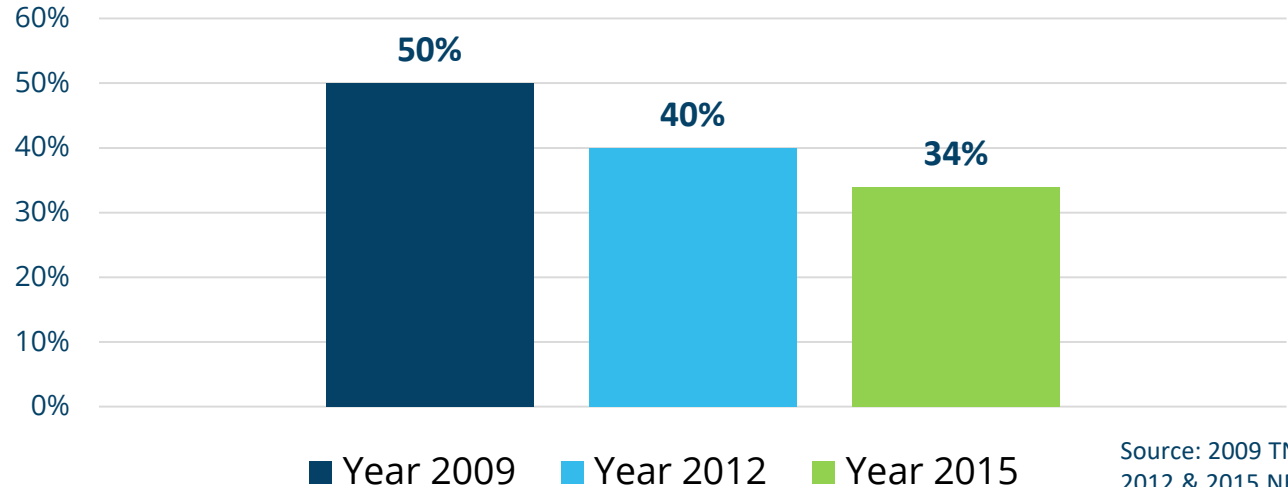
- Financial fragility measures at least 2 aspects of personal finance



Our long term research



Financial Fragility Over Time



Source: 2009 TNS,
2012 & 2015 NFCS

Combining 2009 TNS data with 2012 and 2015 NFCS data

- Financially Fragile Households: Evidence and Implications. Lusardi, Schneider, and Tufano (2011)
- Document how American households cope with shocks

Who are the most financially fragile?

Millennials (age 18-34)

- 43% of Millennials are financially fragile



Women

- 42% of American women are financially fragile vs. 29% of men

Middle-Income (income \$50K-\$75K)

- 28% of middle-income people are financially fragile*

* Age 25-60, 2015 NFCS



Source: 2015 NFCS

Contributing factors for middle-income households

Family size



Debt burden



Financial literacy level



Qualitative in addition to quantitative data

- We did focus groups in 3 cities (Austin, Baltimore, Cincinnati) among young, women, and blue collar workers
- The financial fragility question was asked in on-the-street interviews



If My Wallet Could Talk

Financial Literacy Month Interview Series



Implications

- Implications for policy
 - Incentives for short-term savings
 - Stress test for households' financial capability
- Implications for research
 - Financial fragility question could be used in many surveys
- Implications for pension design: people do not have liquidity to deal with short-term shocks
- Moving toward measuring well-being: this measure also correlates strongly with financial satisfaction

Life sometimes is a storm



The Storm on the Sea of Galilee
Rembrandt, 1633

**Should financial resilience be
part of public policy?**