Financial Fragility in America

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Peterson Foundation US 2050 Conference, Washington, DC, March 22nd
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

  - It is a symptom of lack of assets
  - It measures lack of borrowing capacity of highly leveraged households
Our long term research

Financial Fragility Over Time

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

Source: 2009 TNS, 2012 & 2015 NFCS

Combining 2009 TNS data with 2012 and 2015 NFCS data
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 levels
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
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?