The P-Fin Index: Four Years of Data to Understand Personal Finance in America

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# Even before COVID-19, new data indicate:

- The large majority of Americans (61%) had not tried to figure out how much to save for retirement

- About 1 in 3 families were financially fragile, i.e., could not face a mid-size emergency expense

- People spent more than 6 hours each week dealing with financial issues/problems, but some spent as many as 12 hours per week. Some of these hours are spent at work
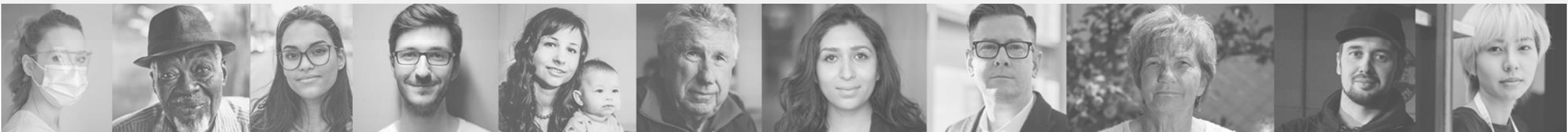
Long lines at the food banks at the start of the pandemic
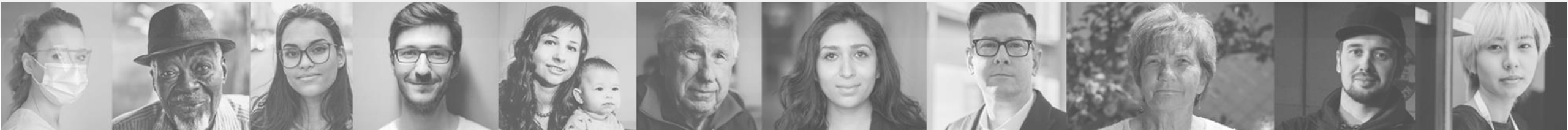
Three topics I will cover

1 ▶ **Personal finance knowledge**

2 ▶ **Who knows the least?**

**3** ▶ **Knowledge matters. Applications and solutions**

What is the P-Fin Index?

- The TIAA-Institute-GFLEC Personal Finance Index (P-Fin Index for short) is an annual barometer of knowledge and understanding which enable sound financial decision-making and effective management of personal finances among U.S. adults

- The P-Fin Index relates to common financial situations that individuals encounter and, in that sense, can be viewed as a gauge of "working knowledge"

- In addition to personal finance knowledge it provides information on financial well-being indicators

- Data is collected on a representative sample of about 1,000 respondents (age 18+).

Four years of P-Fin Index data (2017-2020)
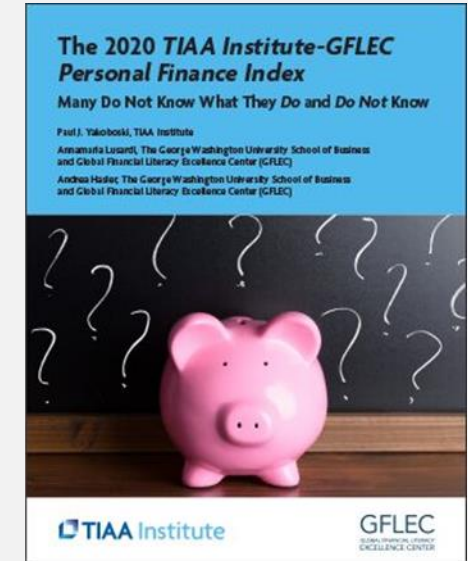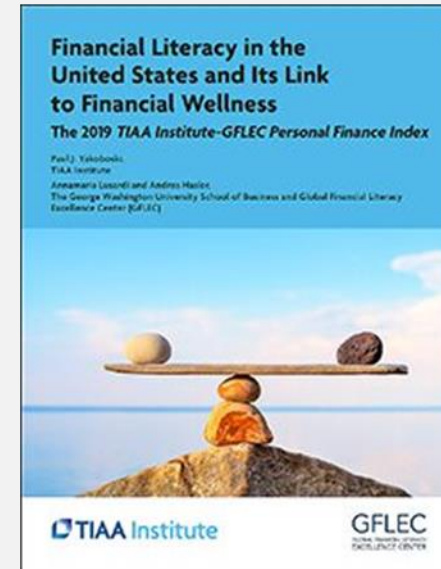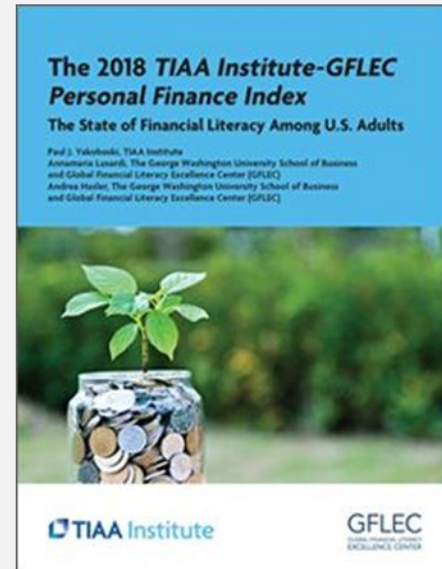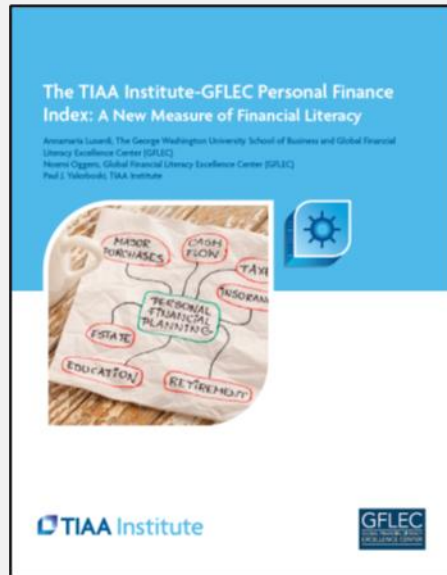
Zooming in into specific sub-groups

- Each year, a specific demographic group is oversampled so we can provide a more detailed analysis of their financial literacy and wellness.
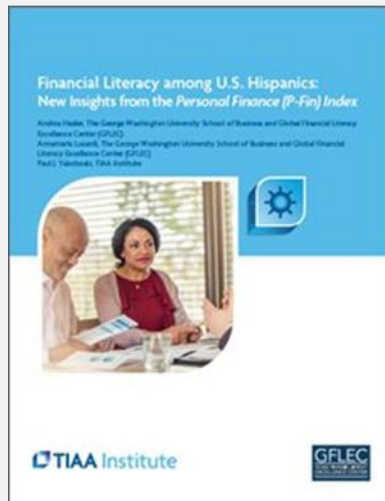 - 2017: Hispanics
  - 2018: Millennials
  - 2019: African Americans
  - 2020: Women (forthcoming)

What is unique : 8 functional areas

- The P-Fin Index is unique in its capacity to produce a robust measure of overall personal finance knowledge and a nuanced analysis of knowledge across different areas of personal finance in which individuals inherently function. The index is based on responses to 28 questions, with three or four questions for each of the eight functional areas:

The *P-Fin Index's* 28 questions cover eight functional areas:

1. Earning
2. Saving
3. Consuming
4. Investing

5. Borrowing
6. Insuring
7. Comprehending risk
8. Go-to information sources

An example question

Anna saves $500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a $5,000 gift which he decides to save. If both Anna and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

- **Anna**
- Charlie
- Anna and Charlie will have the same amount
- Don't know
- Refuse to answer

Results:
Correct   57%
Incorrect   26%
Don't Know   17%
No Answer   0.1%

Financial literacy: A failing grade for the country

% of P-Fin questions answered correctly

2017	2018	2019	2020
49%	50%	51%	52%
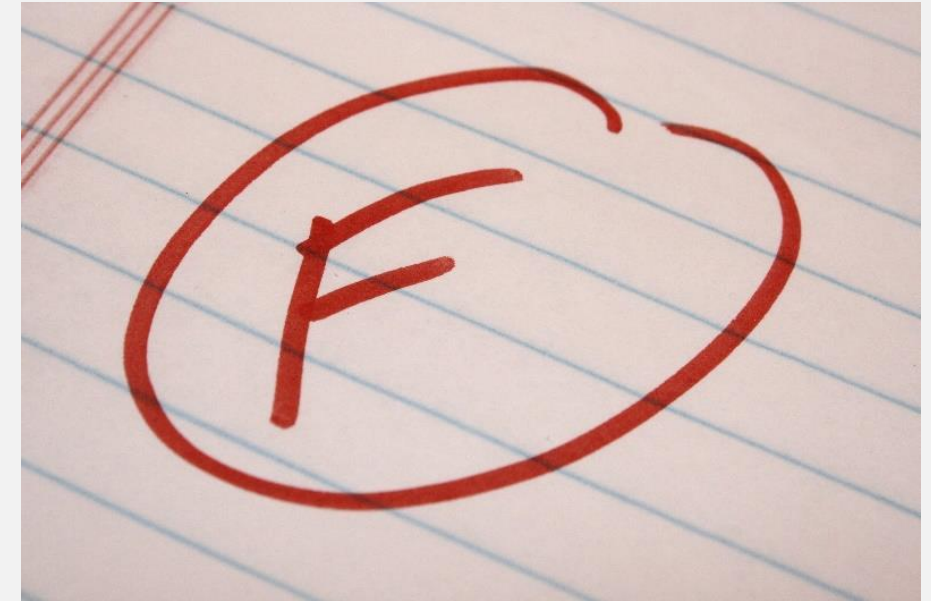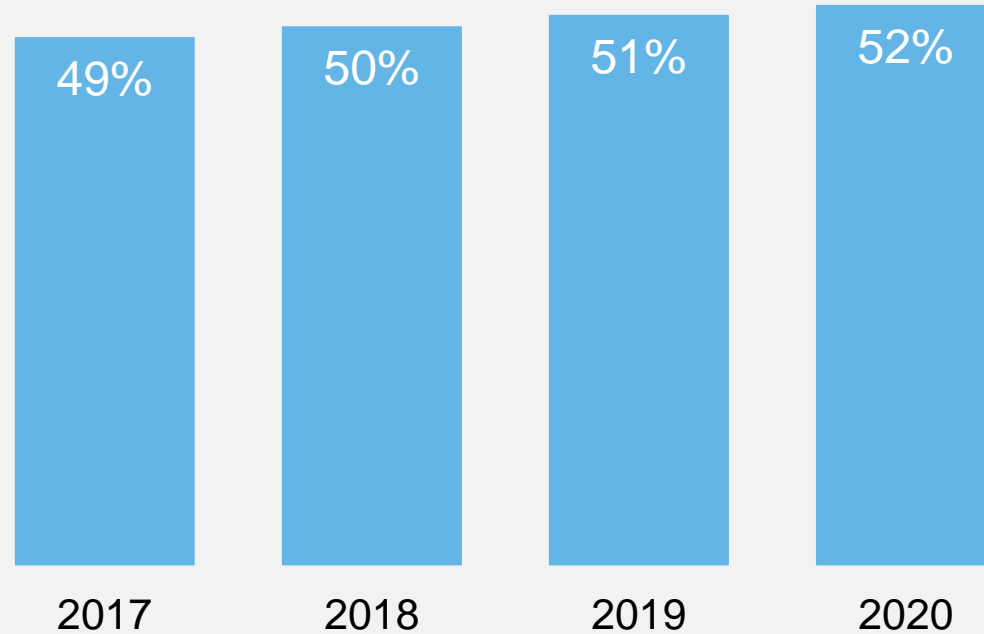
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2020).

High and low knowledge over time

Distribution of correct answers to P-Fin questions

	2017	2018	2019	2020
22-28 correct (76%-100%)	16%	16%	18%	20%
15-21 correct (51%-75%)	32%	35%	35%	33%
8-14 correct (26%-50%)	32%	28%	27%	30%
0-7 correct (<26%)	20%	21%	20%	17%
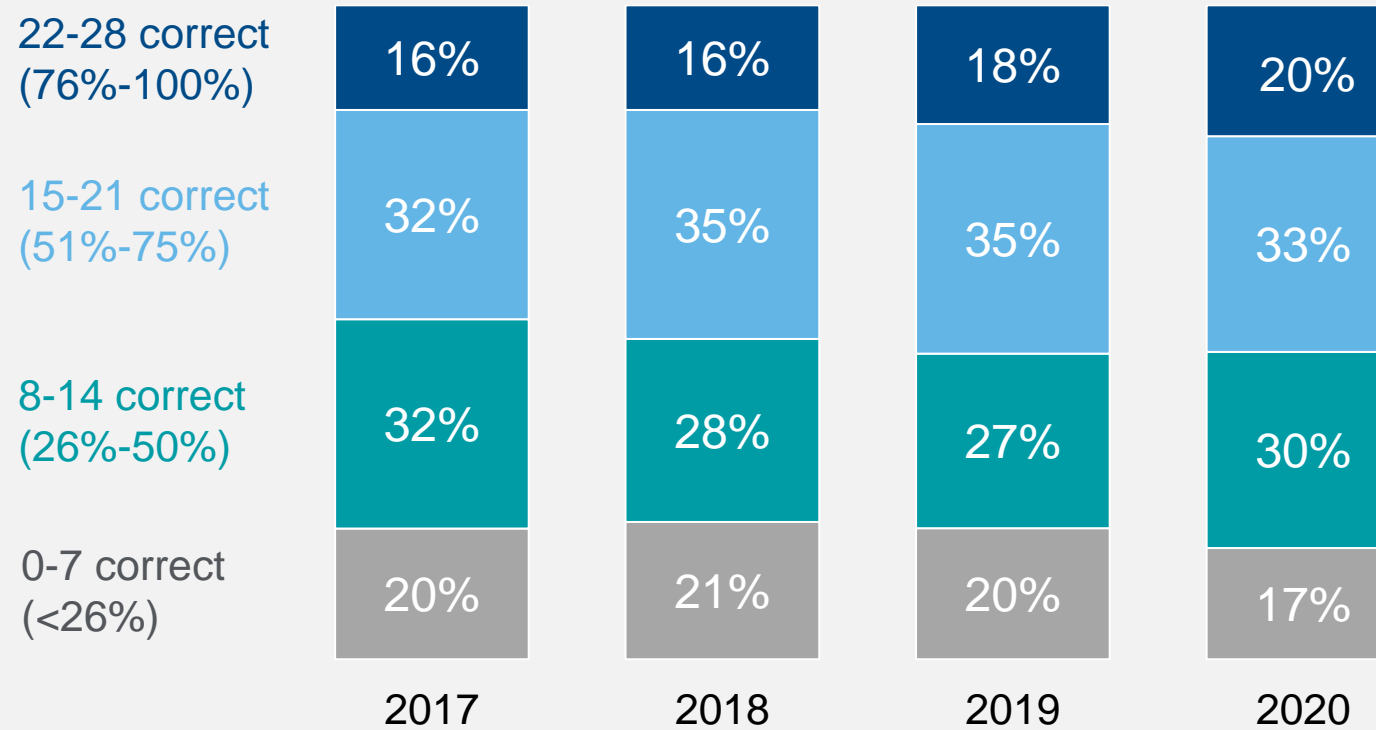
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2020).

What do people know and how it has changed over time

% of P-Fin questions answered correctly

	2020	2017
Borrowing	64%	61%
Saving	59%	53%
Earning	56%	49%
Consuming	56%	53%
Go-to info sources	50%	47%
Investing	48%	46%
Insuring	47%	44%
Comprehending risk	37%	39%

Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).
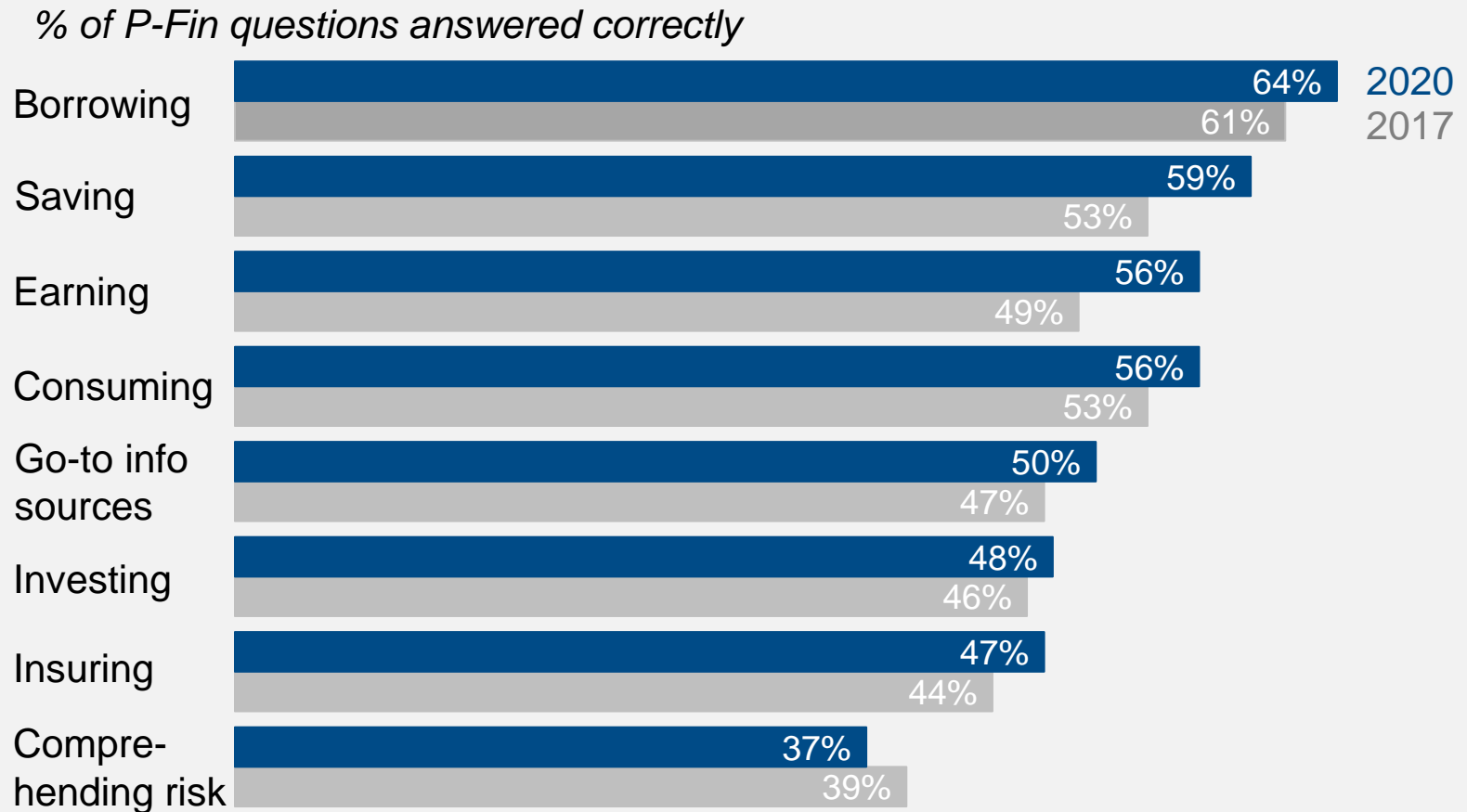
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Who knows the least?

% of P-Fin questions answered correctly

Males	56%
Females	49%
Age	
18-29	46%
30-44	47%
45-59	56%
60-plus	58%
HH income	
< $25k	35%
$25k-$49k	45%
$50k-$99k	53%
$100k-plus	62%
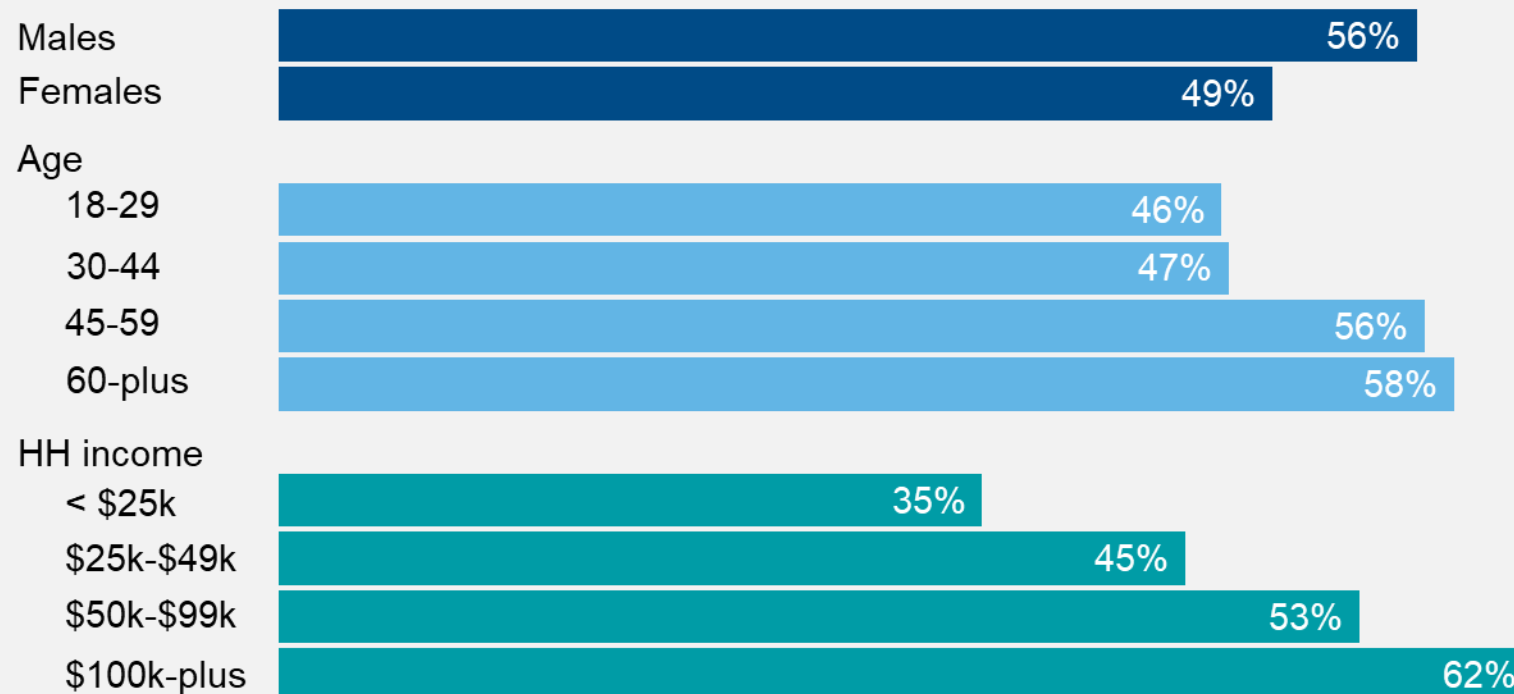
Source: TIAA Institute-GFLEC Personal Finance Index (2020).

Who knows the least? Hispanics (2017 Report)

Hispanic financial literacy lags that of the general population.

% of index questions answered correctly

- Hispanic adults: 40%
- All adults: 49%

Distribution of index questions answered correctly

	Hispanic adults	All adults
76% to 100%	7%	16%
51% to 75%	23%	32%
26% to 50%	41%	32%
<26%	30%	20%

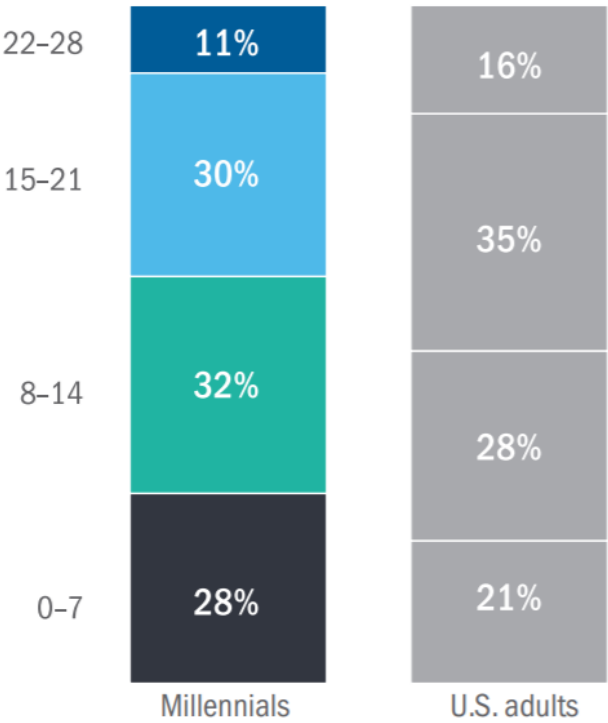Source: *The TIAA Institute–GFLEC Personal Finance Index* (2017).
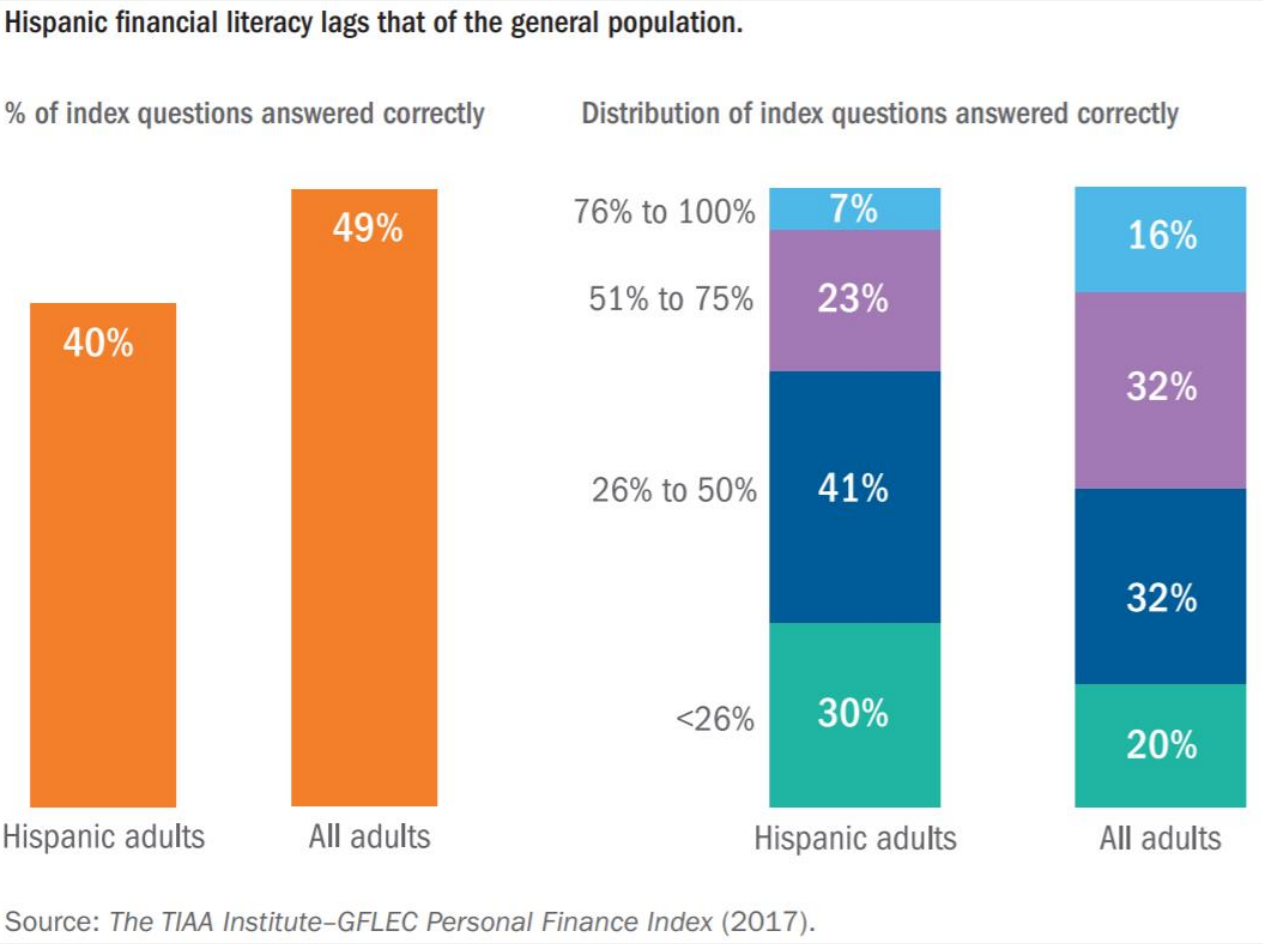
Who knows the least? Millennials (2018 Report)

Millennials are less financially literate than the general population.

% of *P-Fin* questions answered correctly
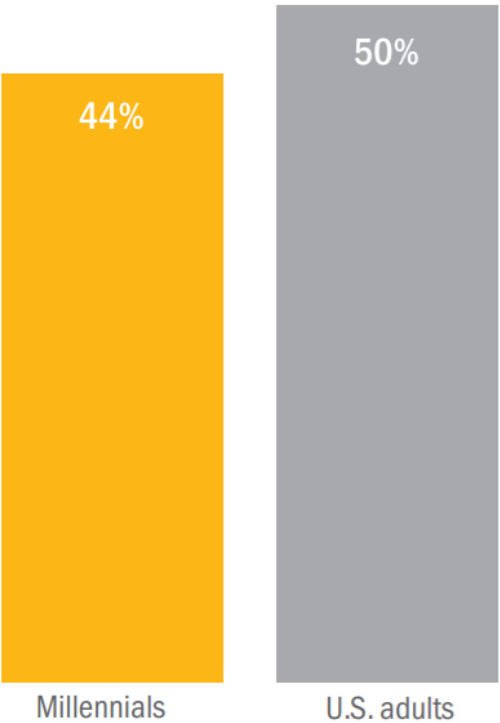
Millennials: 44%
U.S. adults: 50%

Distribution of correct answers to *P-Fin* questions

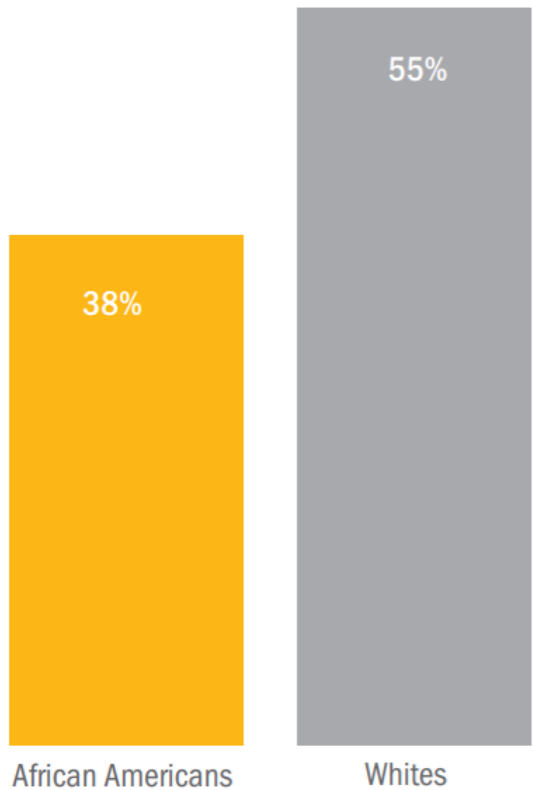| Age range	Millennials	U.S. adults
22–28	11%	16%
15–21	30%	35%
8–14	32%	28%
0–7	28%	21%

Source: *The TIAA Institute-GFLEC Personal Finance Index* (2018).

Who knows the least? African Americans (2019 Report)

% of P-Fin questions answered correctly

African Americans	38%
Whites	55%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Distribution of correct answers to P-Fin questions

	African Americans	Whites
22–28 correct	5%	22%
15–21 correct	23%	40%
8–14 correct	41%	22%
0–7 correct	32%	16%
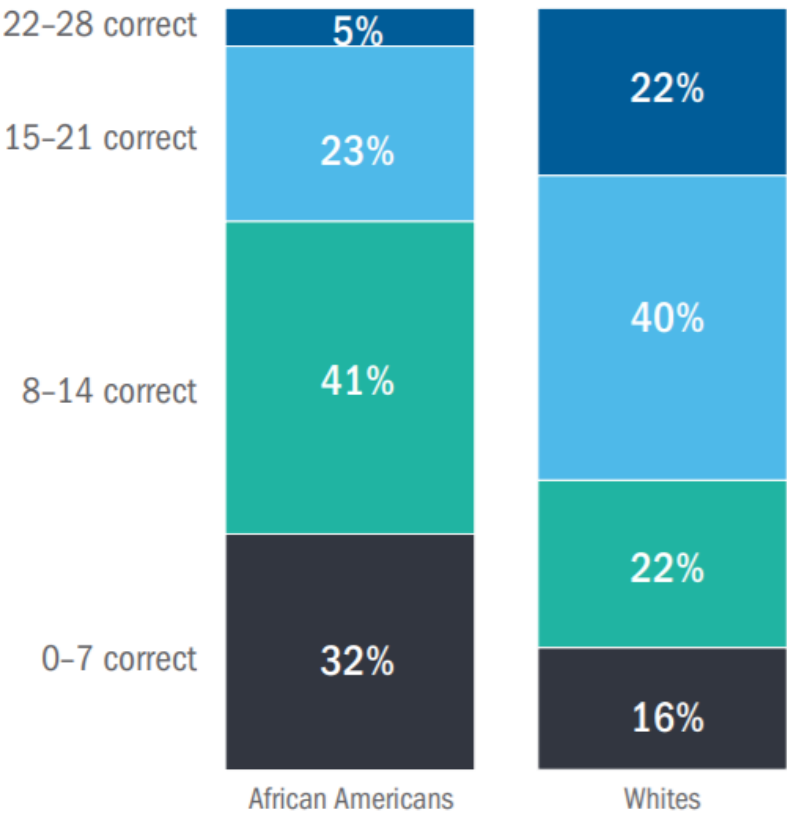
Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Where changes happened over time: Toward an unequal path

% point change in P-Fin questions answered correctly, 2017 to 2020

Males	+5
Females	+1

Age

18-29	+6
30-44	+5
45-59	+2
60-plus	+1

HH income

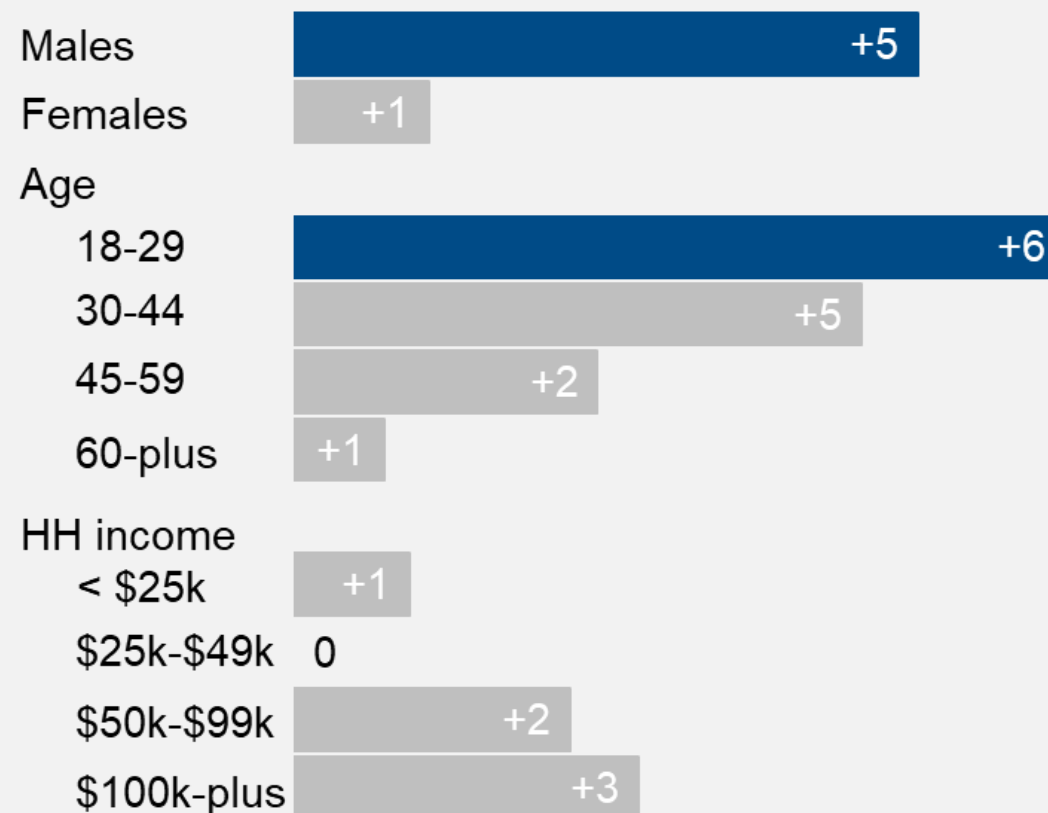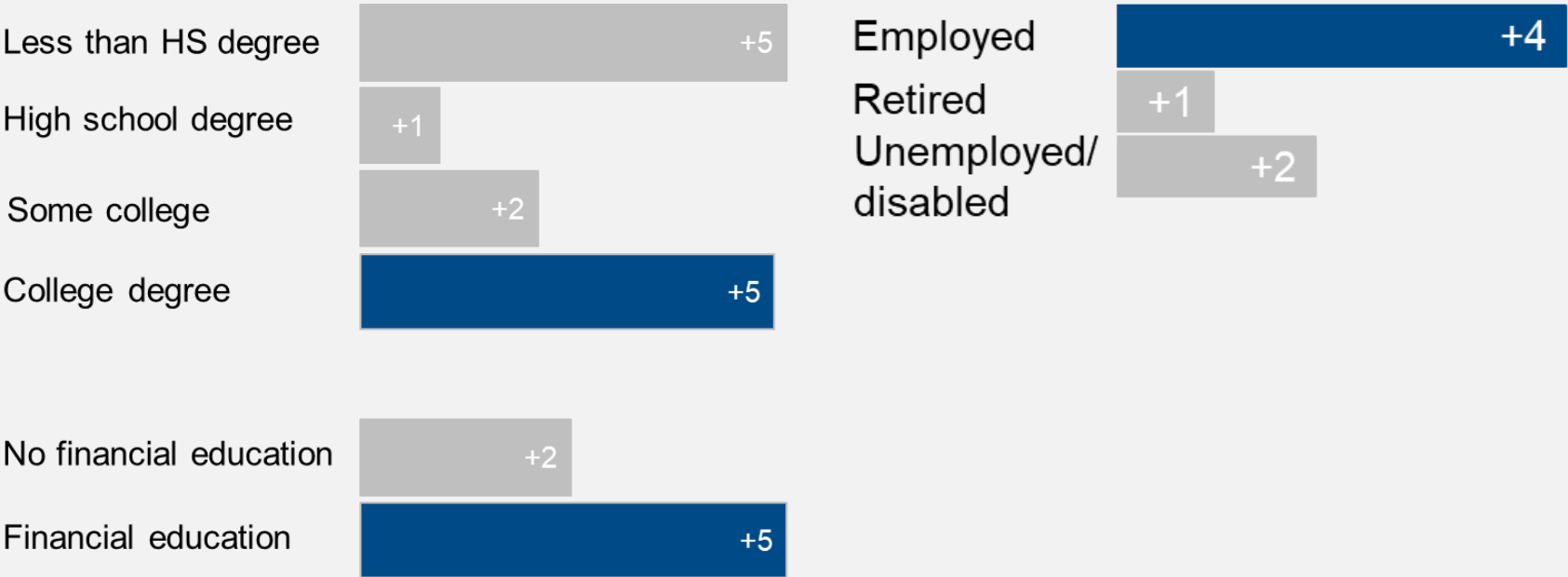|	
< $25k	+1
$25k-$49k	0
$50k-$99k	+2
$100k-plus	+3

Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).

Where changes happened over time: Toward an unequal path

% point change in P-Fin questions answered correctly, 2017 to 2020

Less than HS degree	+5
High school degree	+1
Some college	+2
College degree	+5

Employed	+4
Retired	+1
Unemployed/ disabled	+2

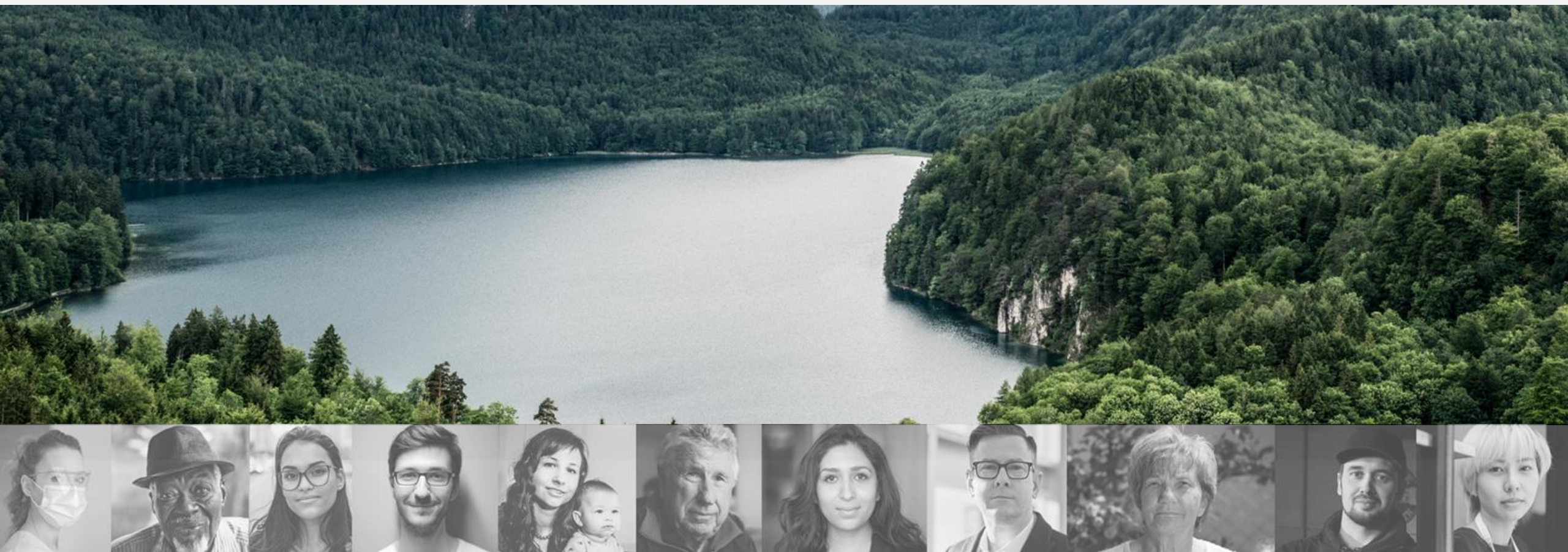|	
No financial education	+2
Financial education	+5

Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).

Implications for financial well-being

- Financial literacy is like water in an ecosystem

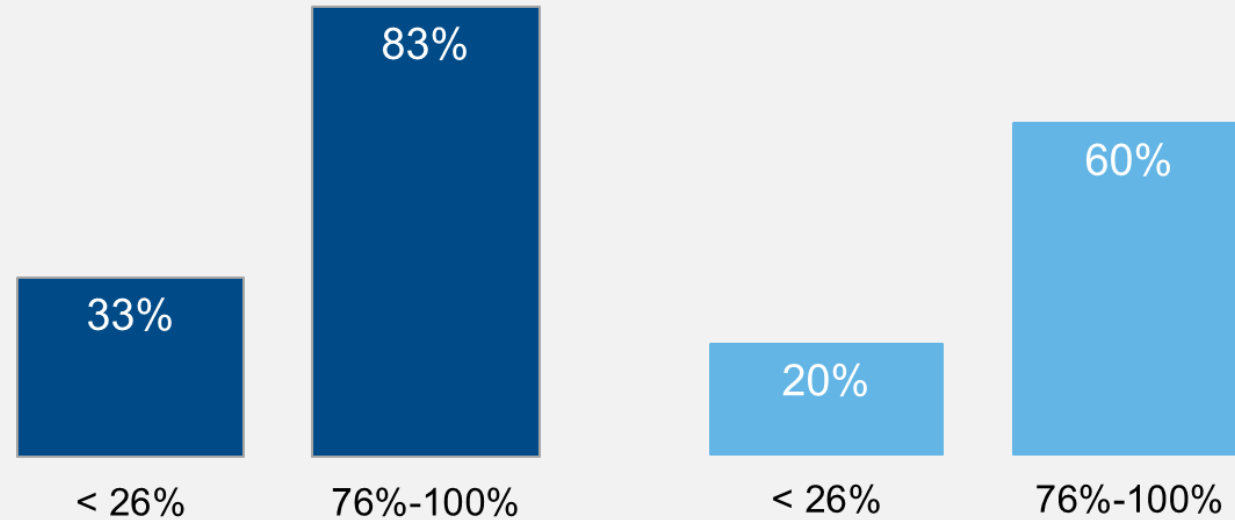 - One of many ingredients needed for one's financial life to flourish

Long-term consequences

This relationship holds even after controlling for demographic and other variables in a regression analysis.

Those with greater financial literacy are more likely to save and plan for retirement.

% of non-retirees who save for retirement on a regular basis

% of non-retirees who have tried to determine how much they need to save for retirement

83%
33%
60%
20%

< 26%   76%-100%   < 26%   76%-100%

% of *P-Fin* questions answered correctly

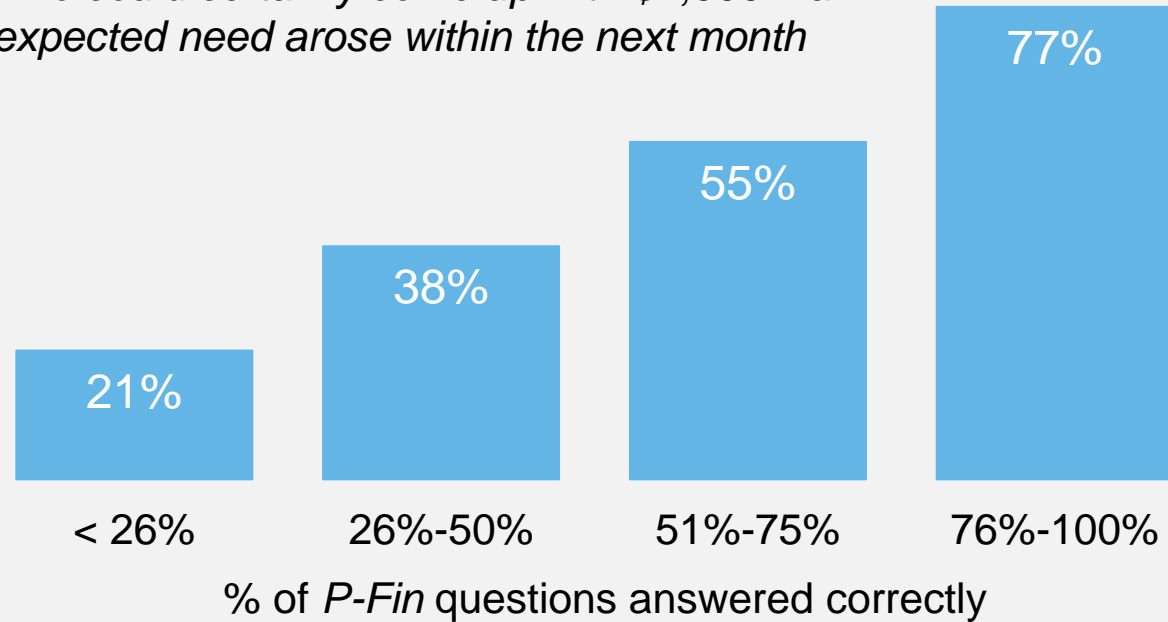Source: TIAA Institute-GFLEC Personal Finance Index (2020).

Short-term consequences

Those with greater financial literacy are less likely to be financially fragile.

% who could certainly come up with $2,000 if an unexpected need arose within the next month

This relationship holds even after controlling for demographic and other variables in a regression analysis!

< 26%	26%-50%	51%-75%	76%-100%
21%	38%	55%	77%

% of *P-Fin* questions answered correctly

Source: TIAA Institute-GFLEC Personal Finance Index (2020).

Those with greater financial literacy spend less time on financial issues and problems.

Average hours per week spent thinking about and dealing with issues and problems related to personal finances

All adults

Workers while on the job

| < 26% | 26%-50% | 51%-75% | 76%-100% |

12 · 6 · 9 · 4 · 4 · 2 · 3 · 1

% of *P-Fin* questions answered correctly
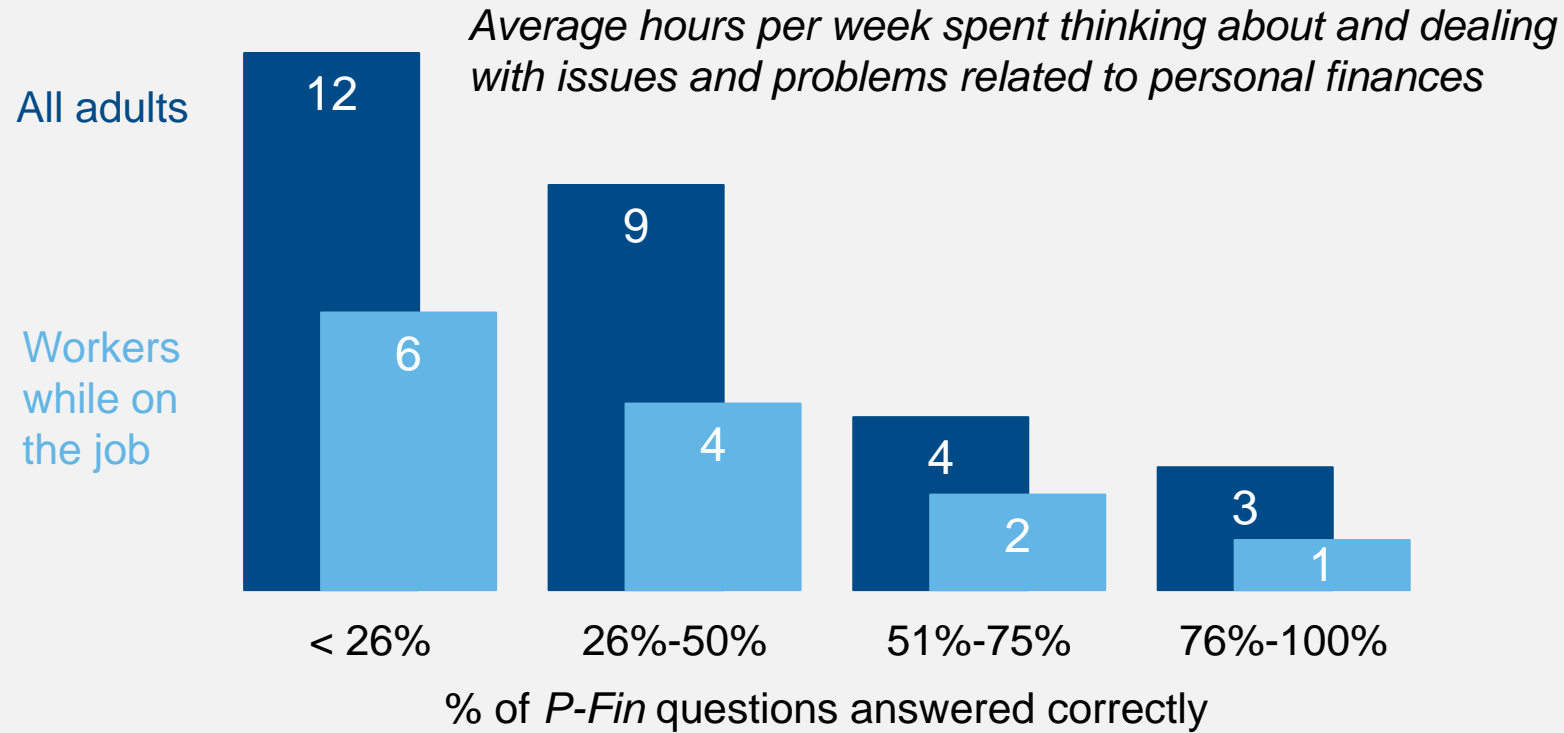
Source: TIAA Institute-GFLEC Personal Finance Index (2020).

Boosting financial literacy: Financial education in school

- Financial education in schools and universities can make a difference for students

- Need to consider online solutions during the pandemic

- Financial education should focus on areas of weakness identified by research (e.g., risk comprehension)

Financial wellness in the workplace

- A focus on financial education as part of workplace financial wellness programs can help employees

- There is a need to target particularly vulnerable groups (e.g., women, young people, African Americans and Hispanics)

- Visit GFLEC's work on Workplace Financial Wellness: *https://gflec.org/initiatives/workplace-financial-wellness/*

Applications of the P-Fin Index

- Functional areas provide a useful diagnostic tool

- Tailor financial education and services according to individuals' strengths and weaknesses

Financial Advisors

Insurance Industry

Pension Industry

Financial Technology
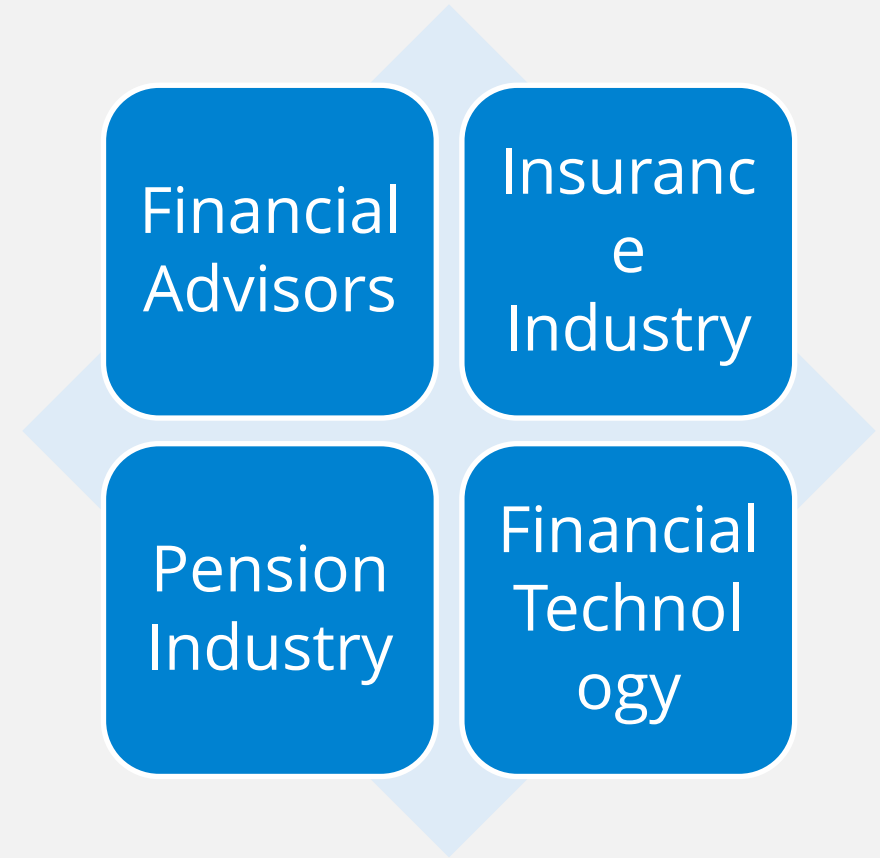
Concluding remarks: The costs of ignorance

- Financial Illiteracy has dire implications for financial anxiety, financial fragility, and retirement planning. In January 2020, before the start of the pandemic, 27% of people were financially fragile, 61% had not planned for retirement, and people spent an average of 6.3 hours each week dealing with personal finance issues

- But among the least financially literate (score < 26%):

  - **12 hours** per week is the average time spent worrying about financial issues

  - Only **21%** are certain they can come up with $2,000 in one month for an unexpected expense, compared to 51% of the general population

  - Only **20%** have spent time planning for retirement

In each case, the most financially literate (score ≥ 76%) are doing **between 3 and 4 times better** than the least financially literate.

Living well

- Financial literacy is like water in an eco-system. Just as we ensure access to clean water to protect quality of life, we must provide people with the resources and skills they need to become financially literate so they can be more financially resilient, more financially secure, and less worried about their future.

Thank You!

More info at www.gflec.org