



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

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Three topics I will cover

- 1 ▶ Personal finance knowledge and behavior**
- 2 ▶ Applications of these findings**
- 3 ▶ Two groups in which to invest**

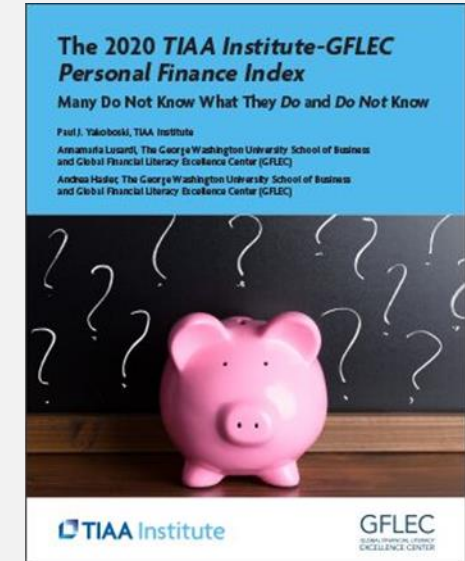
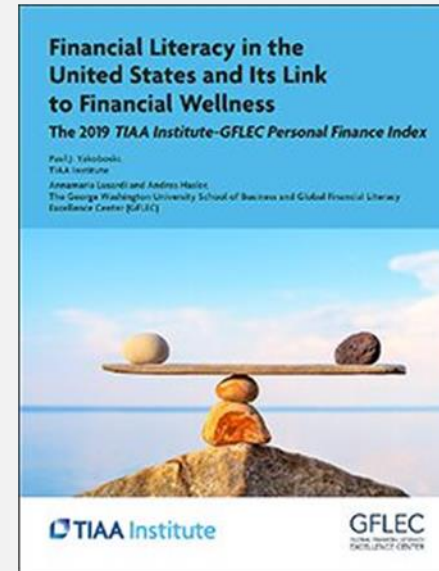
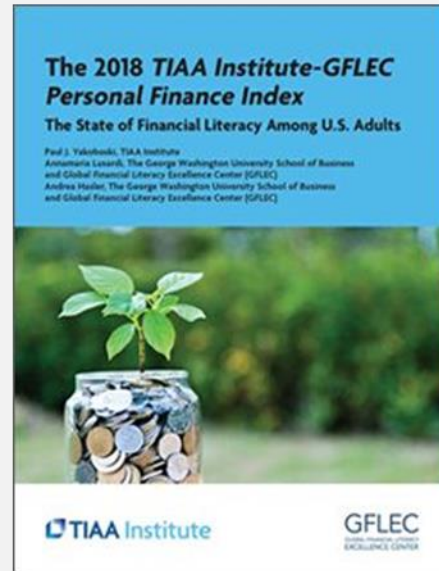
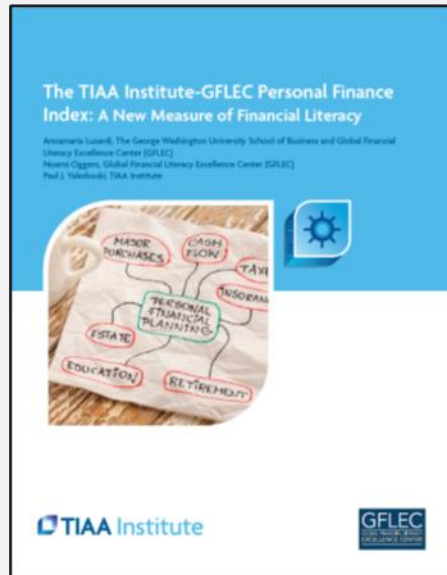


What is the P-Fin Index?

- 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+).

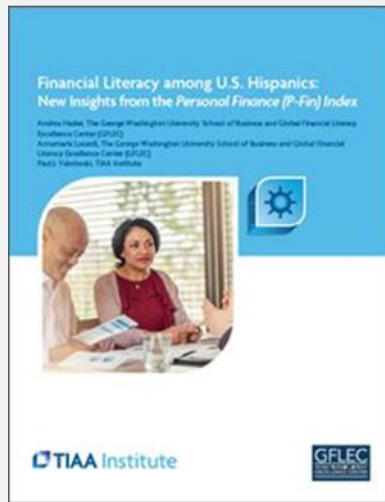


Four years of P-Fin Index data (2017-2020)



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



What is unique : 8 functional areas (from the National

Finlit Standards)

- 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

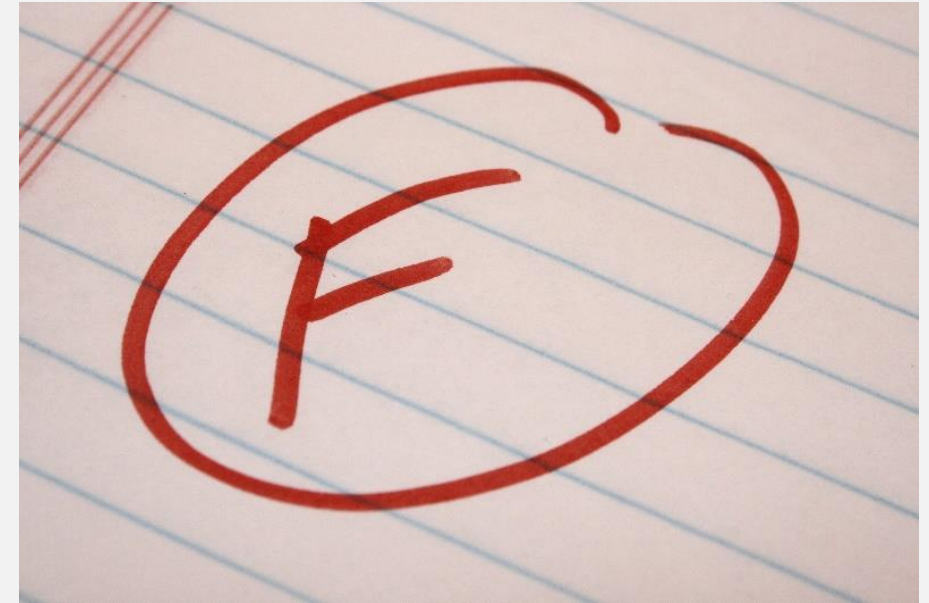
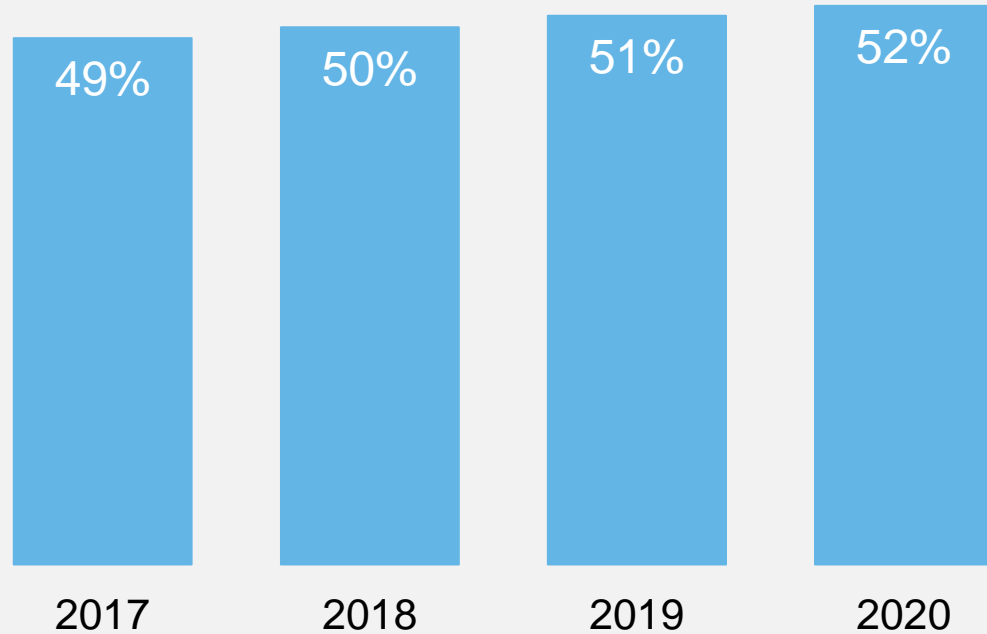
Results:

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

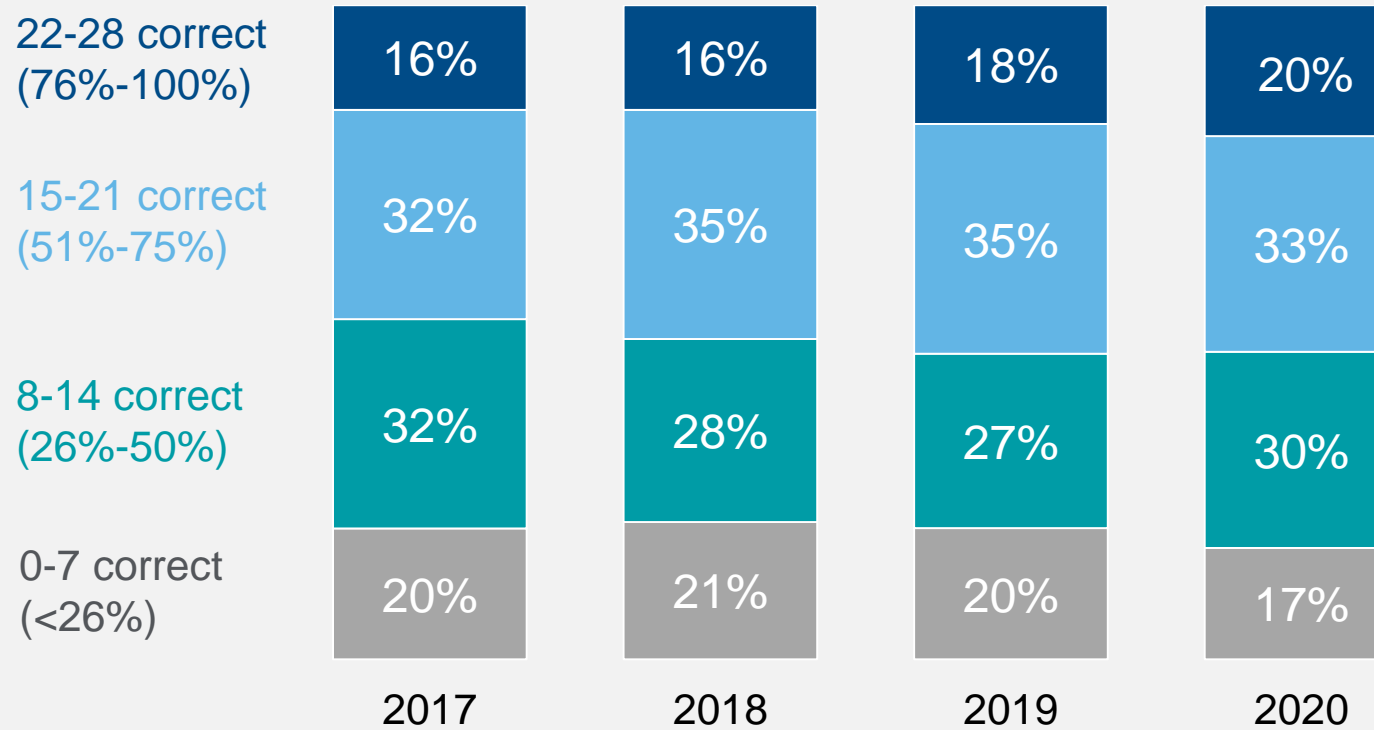


Source: TIAA Institute-GFLEC Personal Finance Index (2017-2020).



High and low knowledge over time

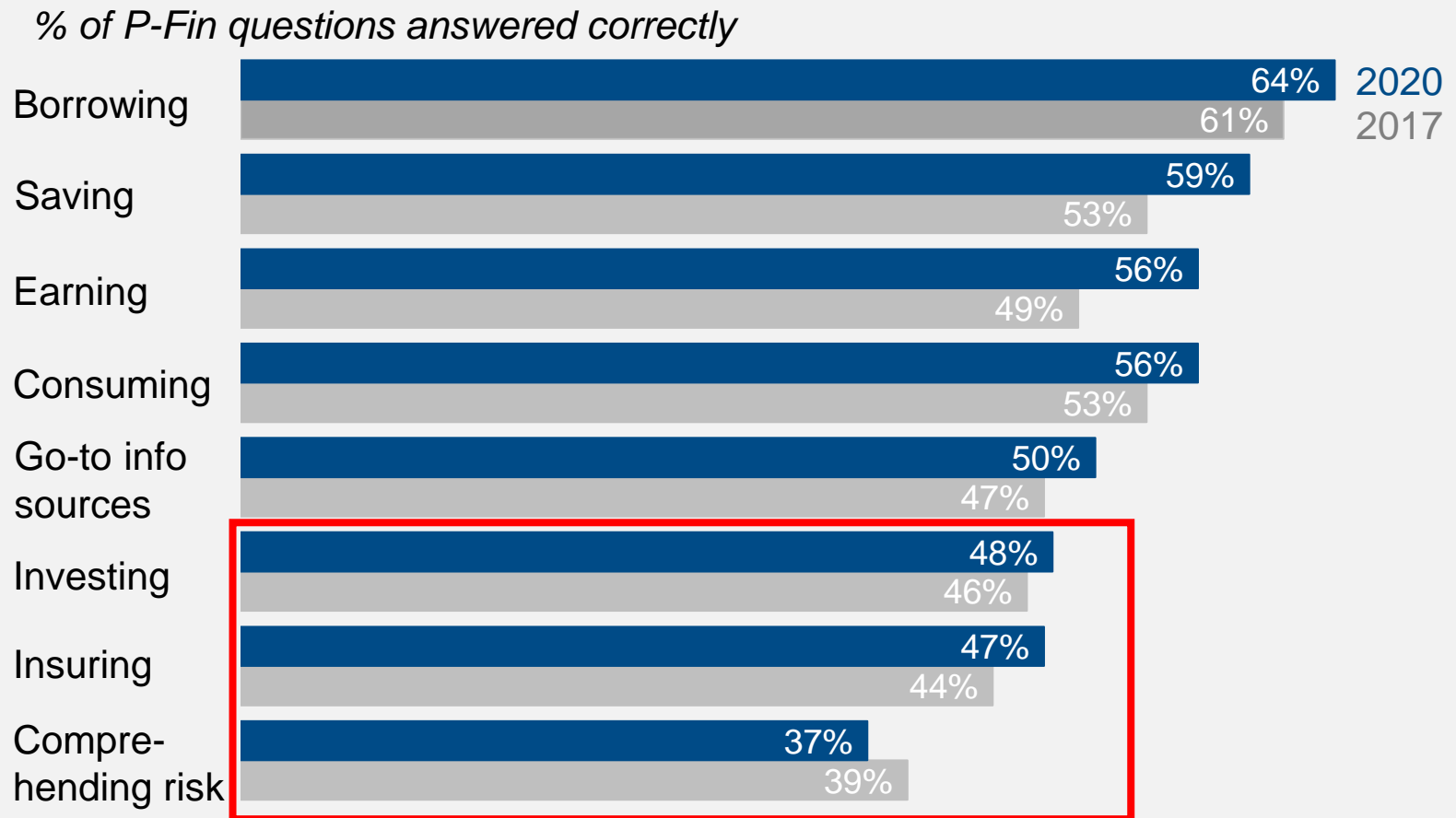
Distribution of correct answers to P-Fin questions



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



What do people know and how it has changed over time

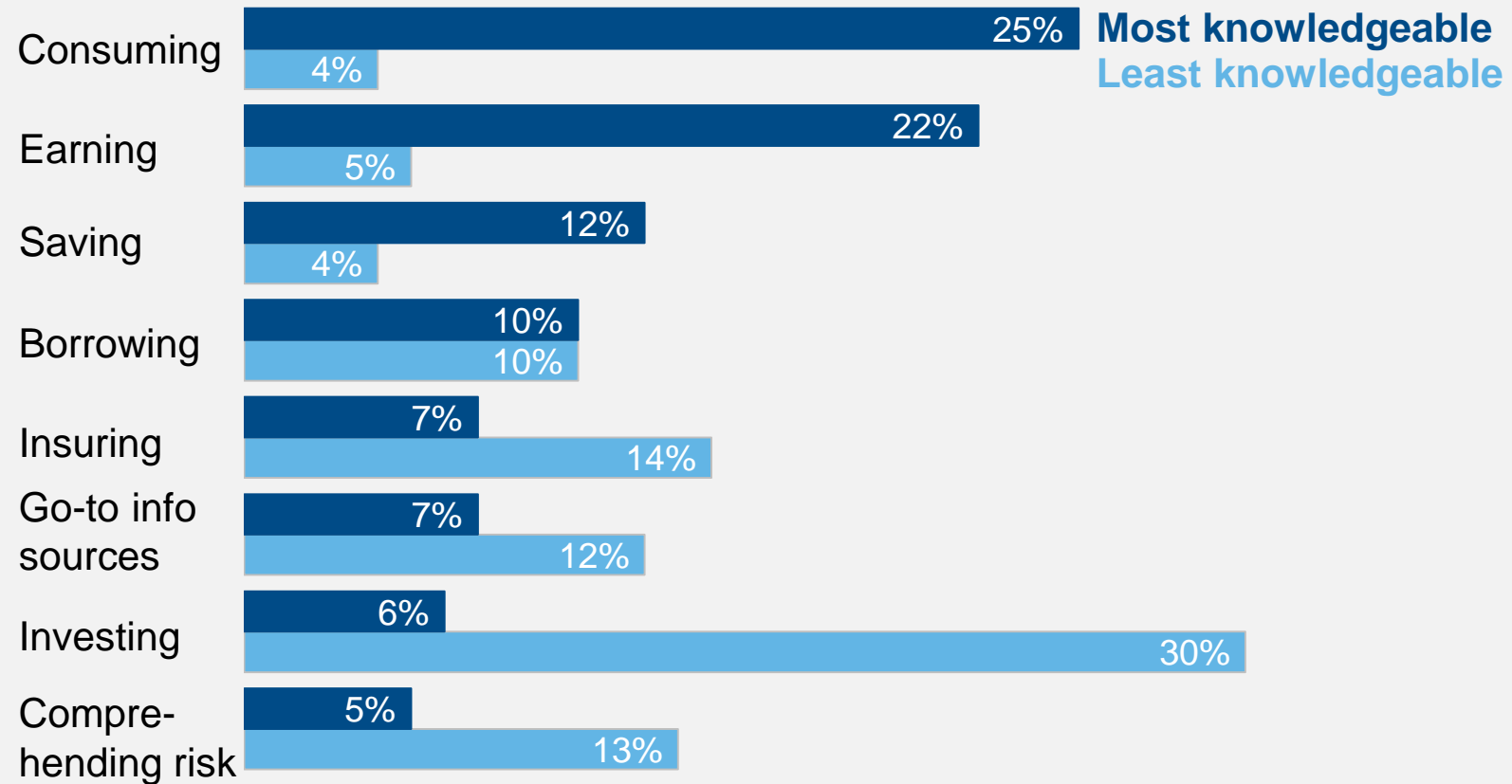


Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).



What do people *think* they know?

% who feel most/least knowledgeable on each topic

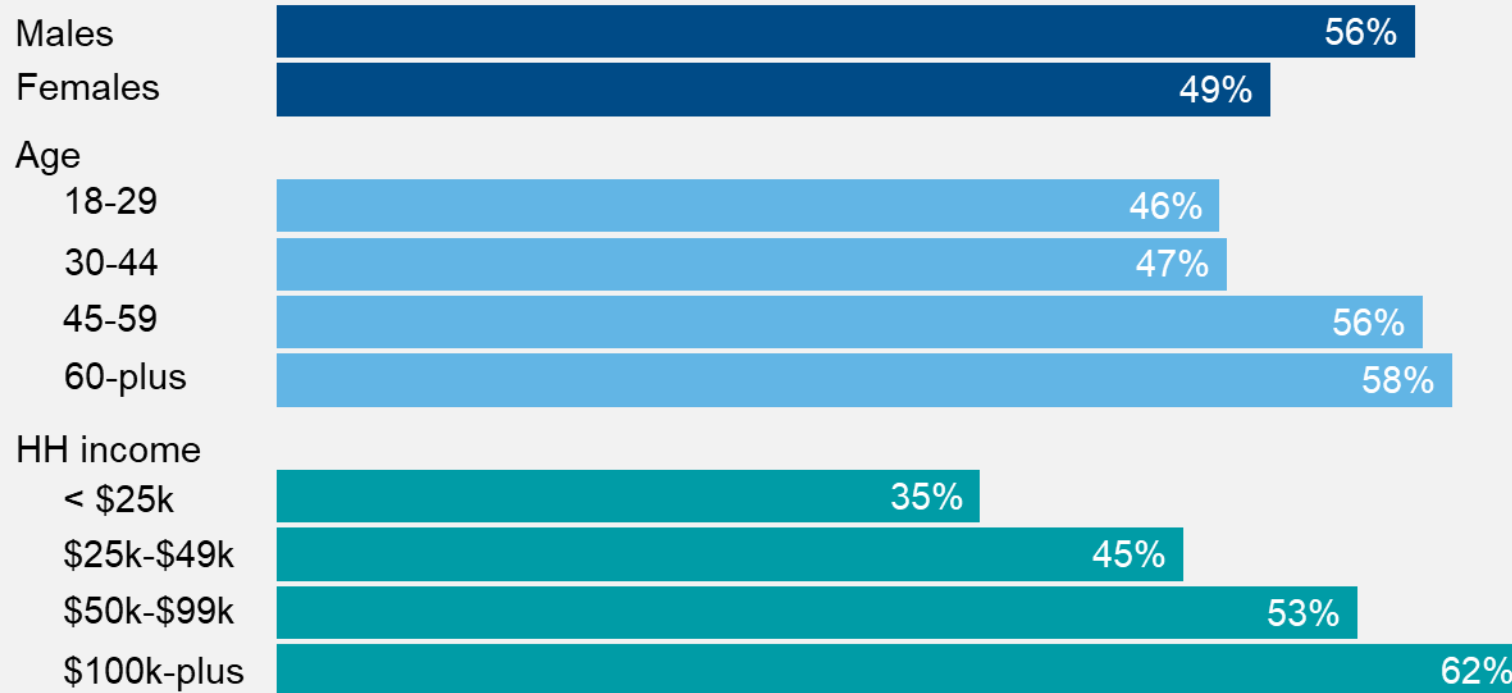


Source: TIAA Institute-GFLEC Personal Finance Index (2020).



Who knows the least?

% of P-Fin questions answered correctly

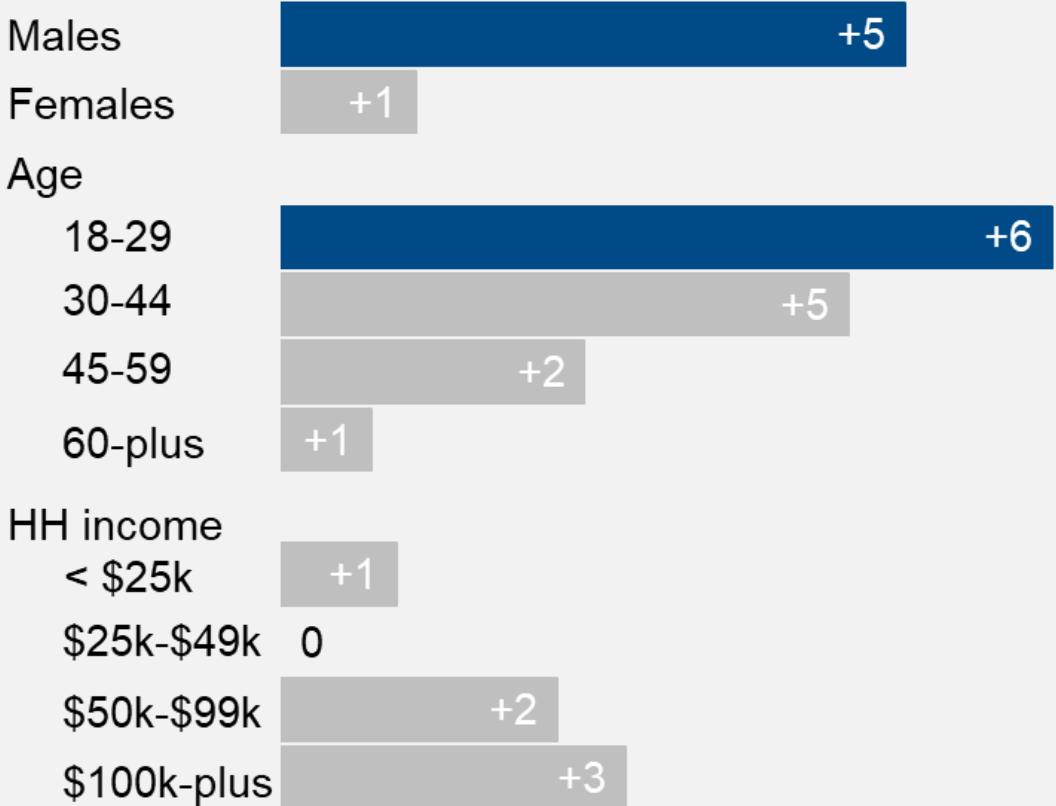


Source: TIAA Institute-GFLEC Personal Finance Index (2020).



Where changes happened over time: Toward an unequal path

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

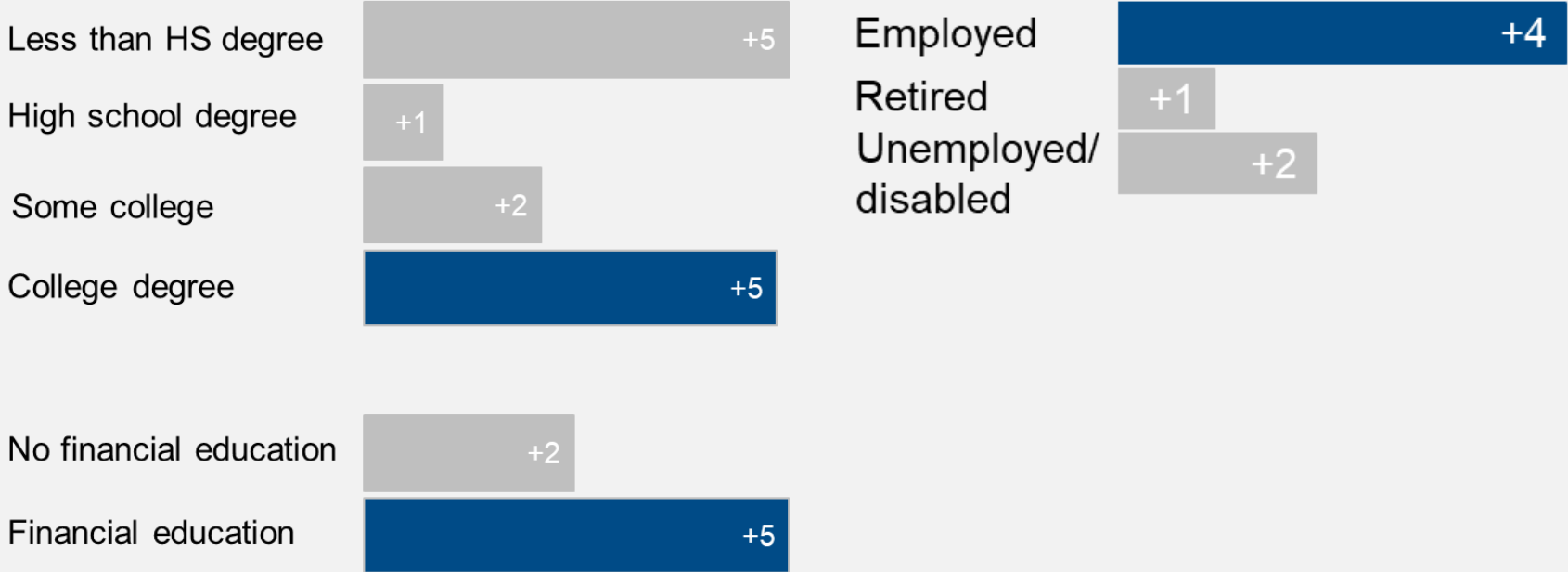


Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).



Where changes happened over time: Toward an unequal path

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



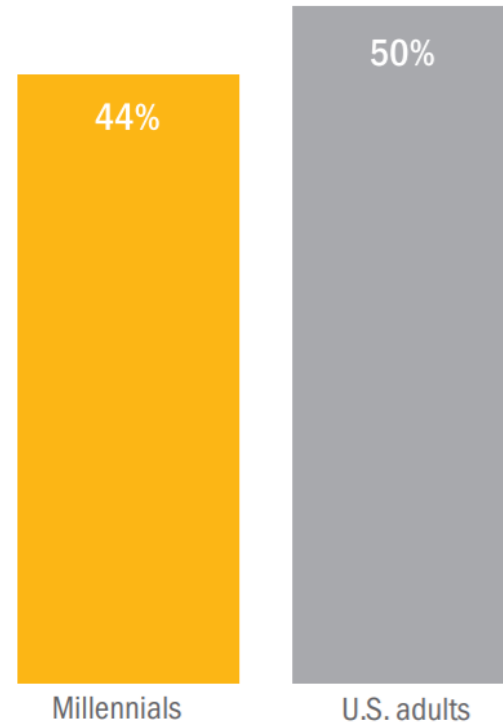
Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2020).



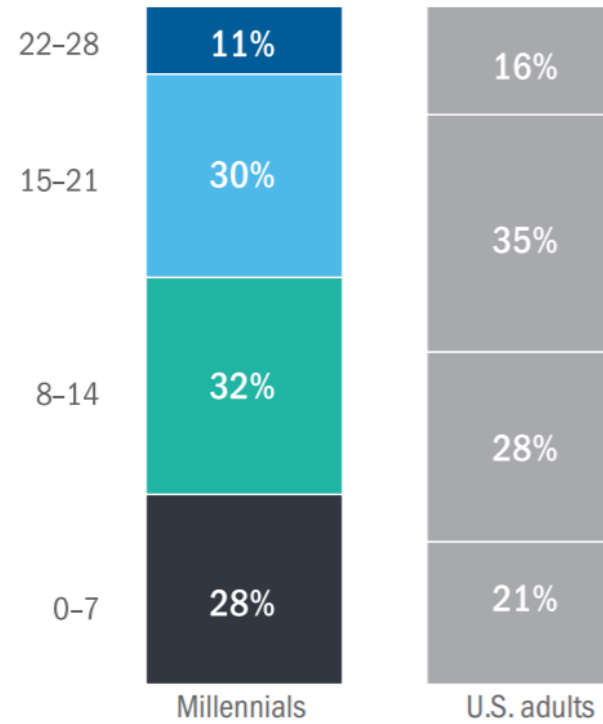
Spotlight on Millennials (age 18-37)

Millennials are less financially literate than the general population.

% of *P-Fin* questions answered correctly



Distribution of correct answers to *P-Fin* questions



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

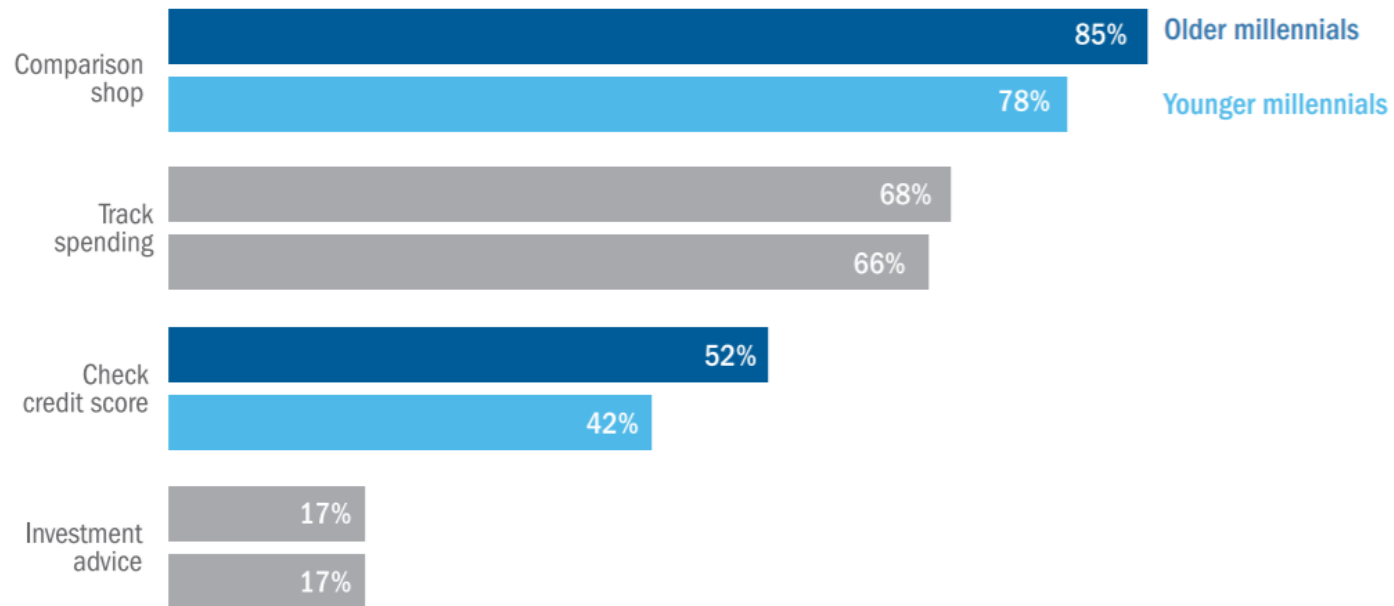


Spotlight on Millennials: Fin-Tech

Older millennials are more likely to comparison shop and check their credit score with their smartphone.

% of millennials using their smartphone to...

Informational fin-tech

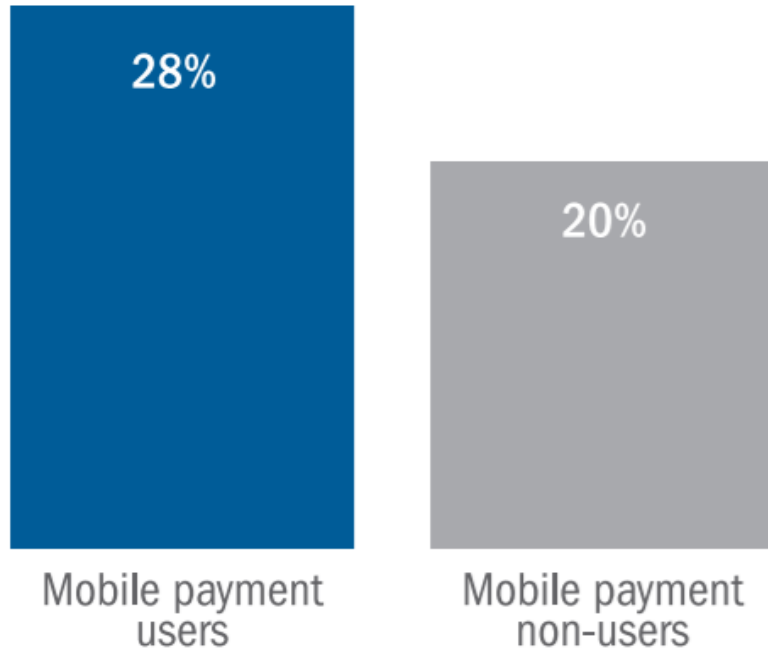


Source: *The TIAA Institute-GFLEC Personal Finance Index (2018)*.



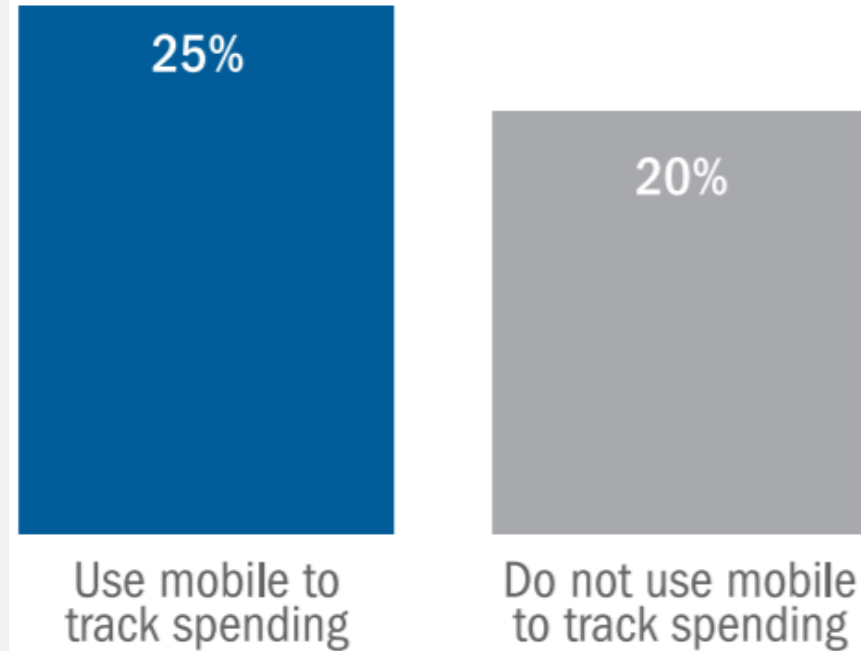
Spotlight on Millennials: Is Fin-Tech beneficial?

% overdrawing their checking account



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

% overdrawing their checking account



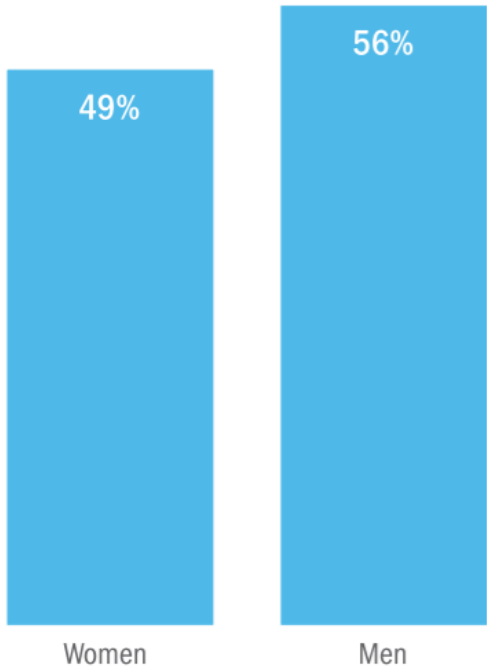
Source: *The TIAA Institute-GFLEC Personal Finance Index (2018).*



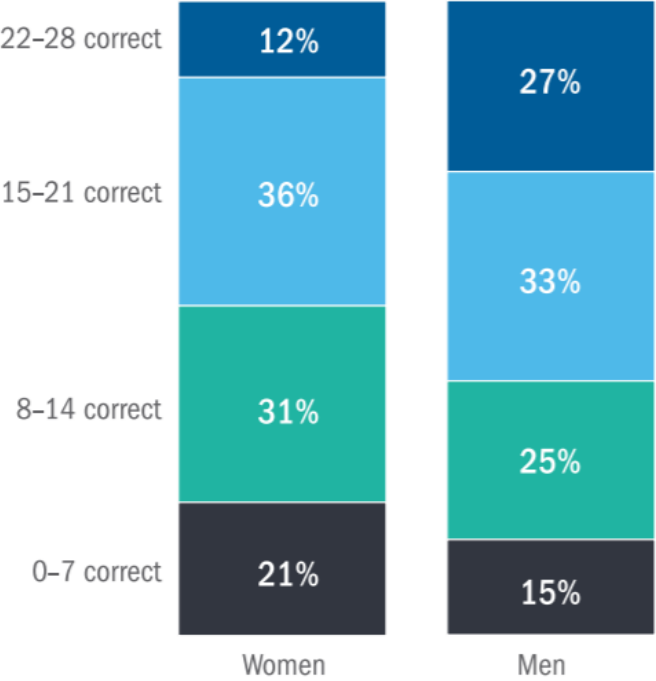
Spotlight on Women

Women's financial literacy tends to lag that of men.

% of P-Fin questions answered correctly



Distribution of correct answers to P-Fin questions



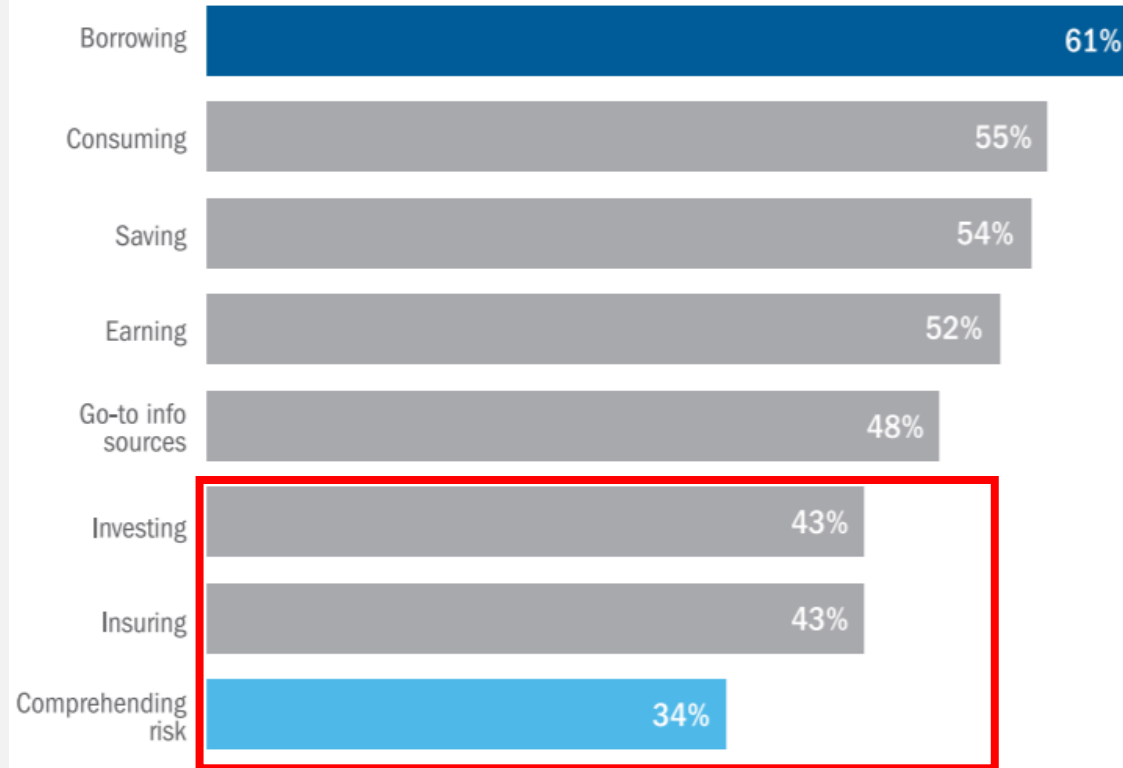
Source: TIAA Institute-GFLEC Personal Finance Index (2020).



Spotlight on Women (cont.)

Borrowing is where women's financial literacy is highest; comprehending risk is where it is lowest.

% of P-Fin questions answered correctly



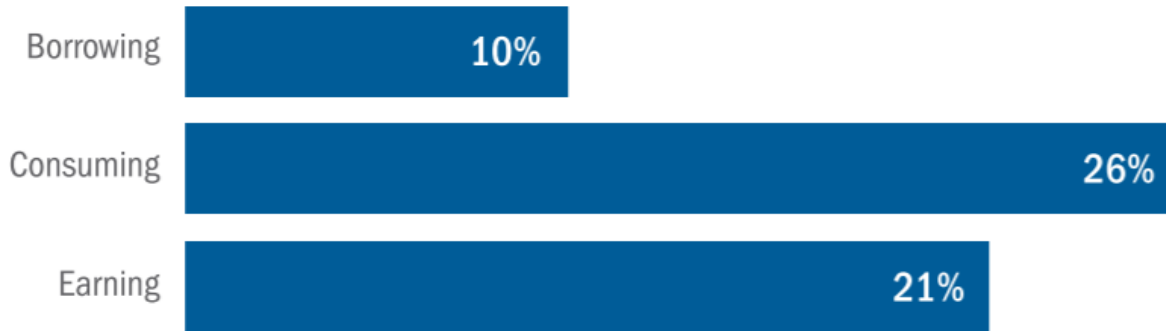
Source: TIAA Institute-GFLEC Personal Finance Index (2020).



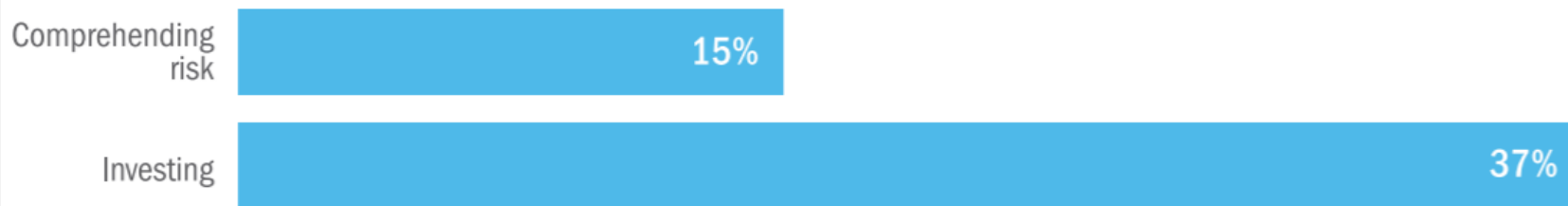
Spotlight on Women (cont.)

Many women do not know what they do know or what they do not know.

% who feel most knowledgeable on each topic



% who feel least knowledgeable on each topic



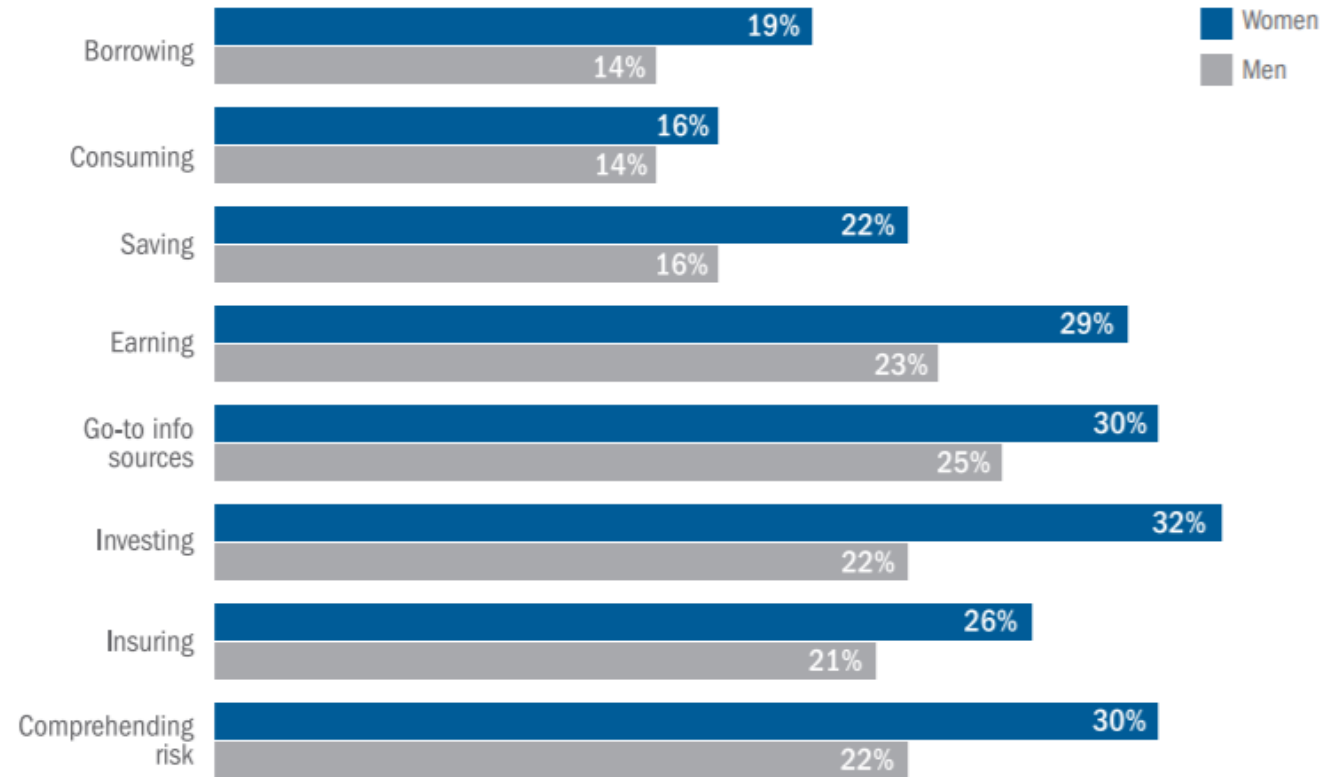
Source: TIAA Institute-GFLEC Personal Finance Index (2020).



Spotlight on Women (cont.)

Women are more likely than men to answer “don’t know” across most functional areas.

% of *P-Fin* questions answered with “don’t know”



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

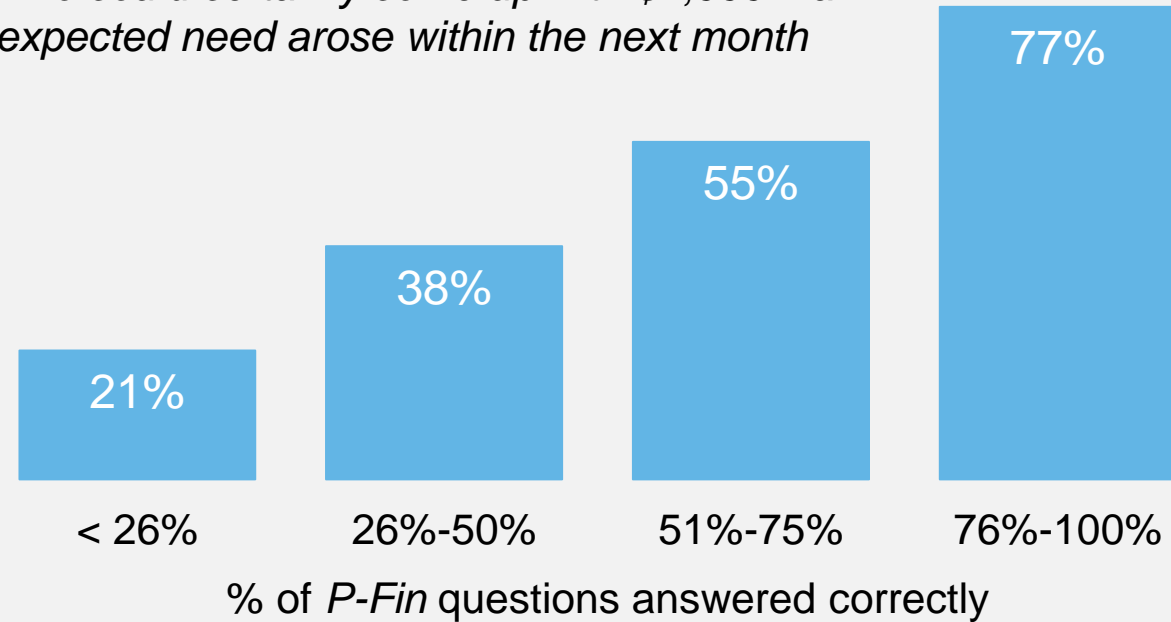


Short-term consequences

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!



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



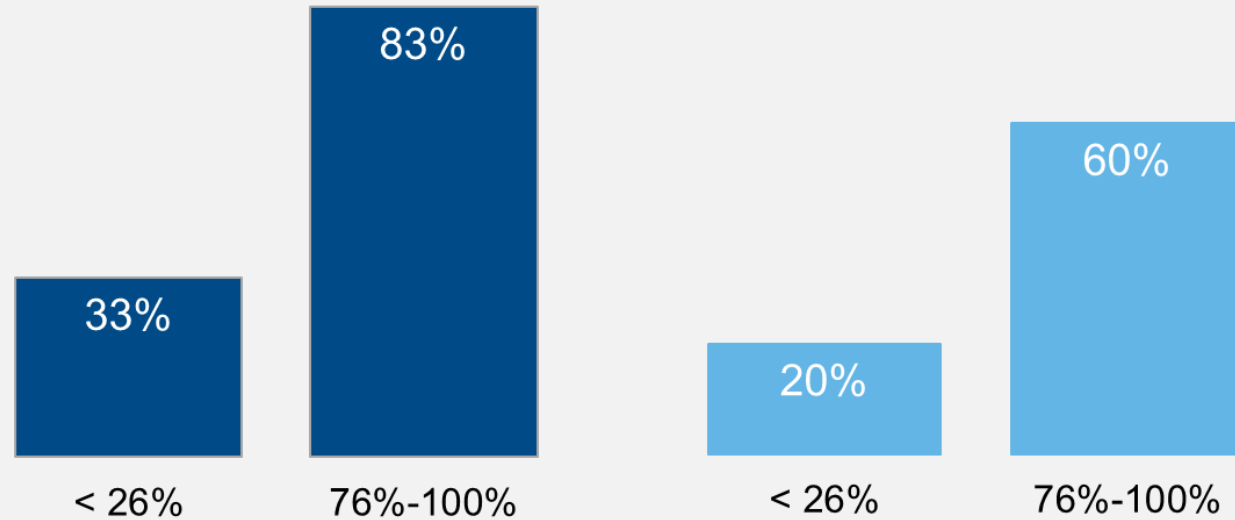
Long-term consequences

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

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

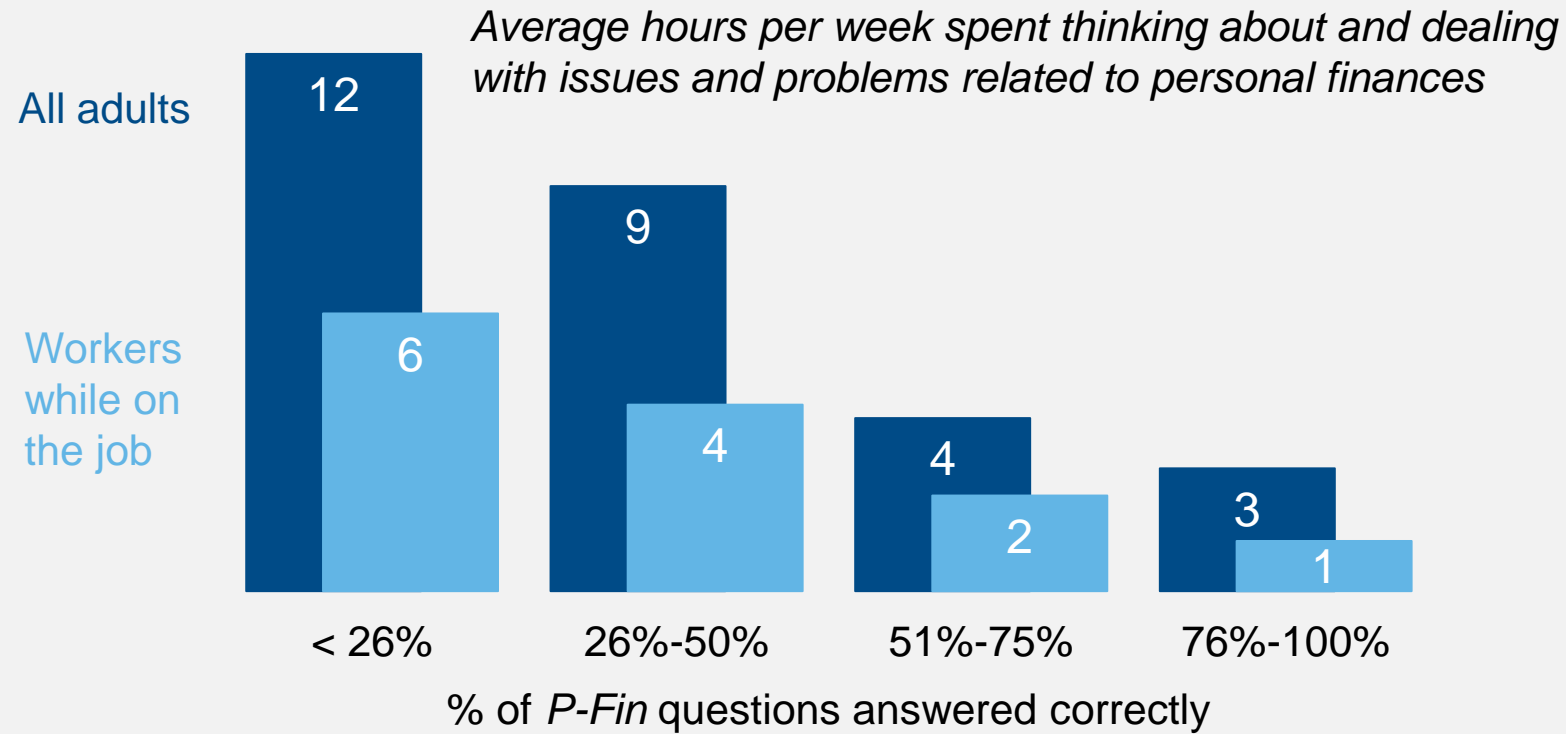


% of P-Fin questions answered correctly

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



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



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



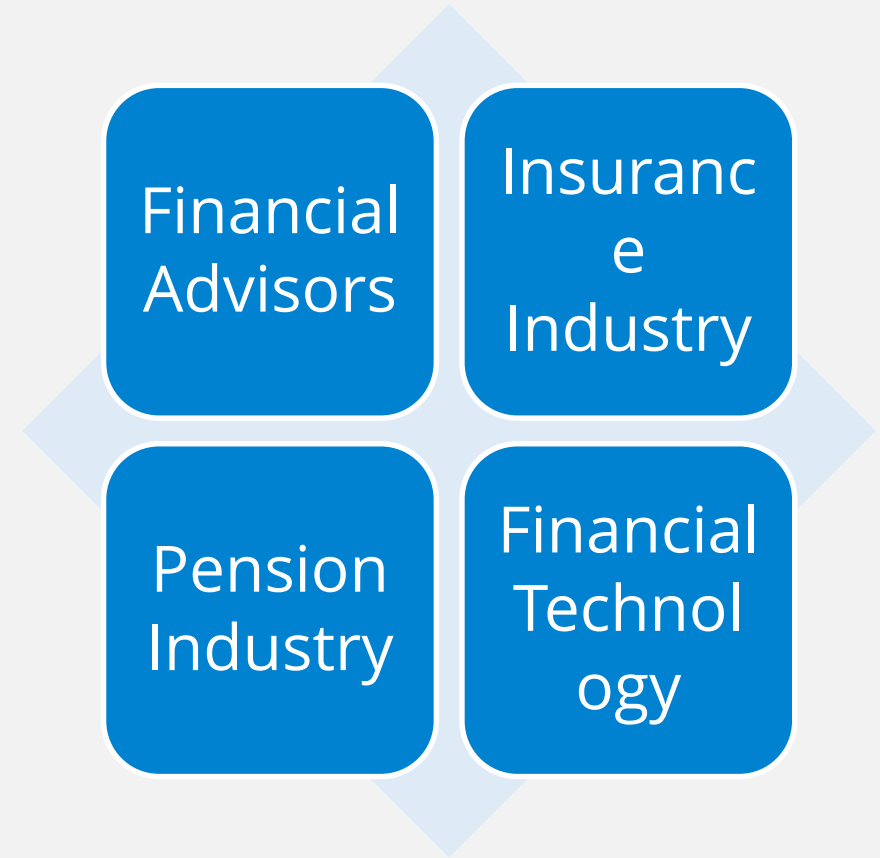
Implications for policy and programs

- Cost of ignorance can be high. We can do some cost-benefit analysis
- One size does not fit all: customize programs
- Some topics are very hard for people to grasp: investing and risk management
- Some groups are left behind: target those groups
- Financial literacy and fintech are complements, not substitutes
- Need to boost confidence in women



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



Boosting financial literacy: Financial education in school

- Financial education in schools and universities can make a difference for students
- Online solutions during the pandemic can continue post-pandemic
- Financial education should focus on areas of weakness identified by research (e.g., risk comprehension)



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.



More than ever, women need to be... fearless





Thank You!

More info at www.gflec.org

