

# Financial Fragility during the COVID-19 Pandemic

A hand is shown from the left, carefully balancing a single light-colored wooden block on top of a stack of several other wooden blocks of varying shades and sizes. The stack is positioned on the right side of the frame. The background is a soft, out-of-focus light gray.

**Annamaria Lusardi**

**GW, GFLEC, and Italian Financial Education Committee  
(joint work with Robert Clark and Olivia S. Mitchell)**

**April 15, 2021**

# Background

- We have been looking at several indicators of financial well-being: financial fragility, financial anxiety, indebtedness, financial planning, etc.
- Financial fragility is particularly relevant, especially during a pandemic
- Financial fragility is linked to a set of outcomes and costs as well
- Ultimate question: How to build a more resilient economy?

# Our most recent paper

- Assesses financial fragility/resilience during a pandemic
- What new data is telling us
- Who are the more vulnerable groups
- The determinants of financial fragility
- The role of financial literacy

# Measuring financial fragility in the U.S. right after the financial crisis of 2007-2008

- 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.

# Paper on financial fragility right after the 2007-2008 financial crisis

## 2009 TNS Global Economic Crisis Survey



# A measure that goes beyond assets

- Financial fragility measures 2 aspects of personal finance

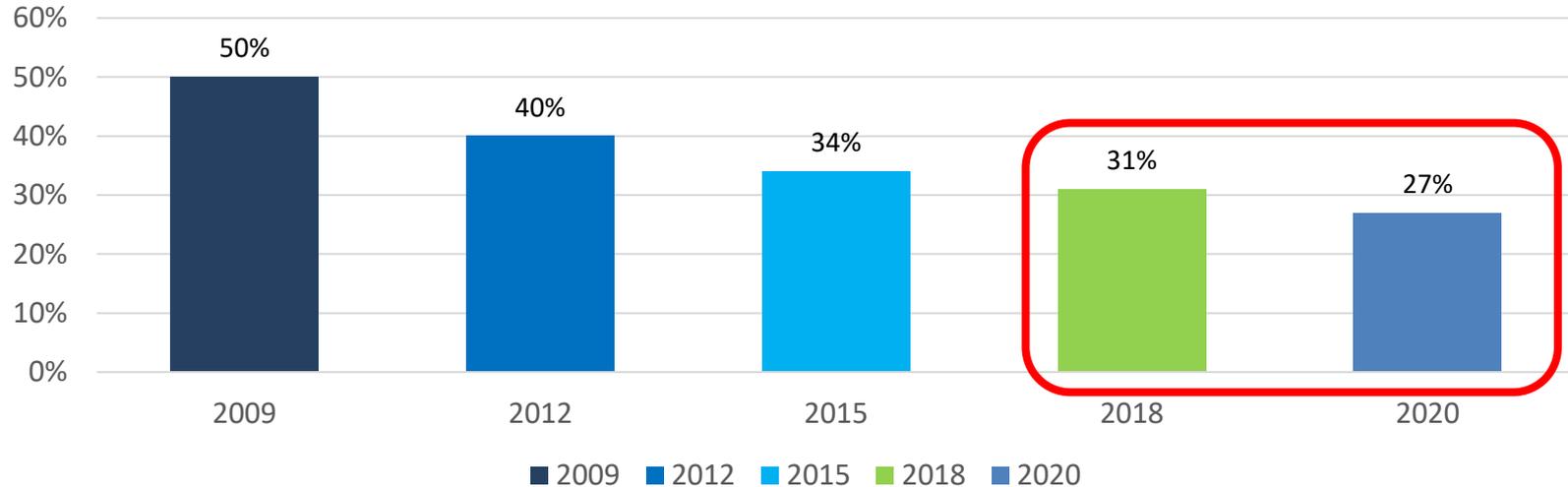


It is a  
symptom of  
lack of assets

It measures lack of  
borrowing capacity  
of highly leveraged  
households

# Financial fragility after a crisis and over time

Financial Fragility Over Time



- Financial fragility is declining over time
- But remained high before the pandemic and during economic expansions

Source: 2009 TNS; 2012, 2015, & 2018 NFCS, 2020 P-Fin Index

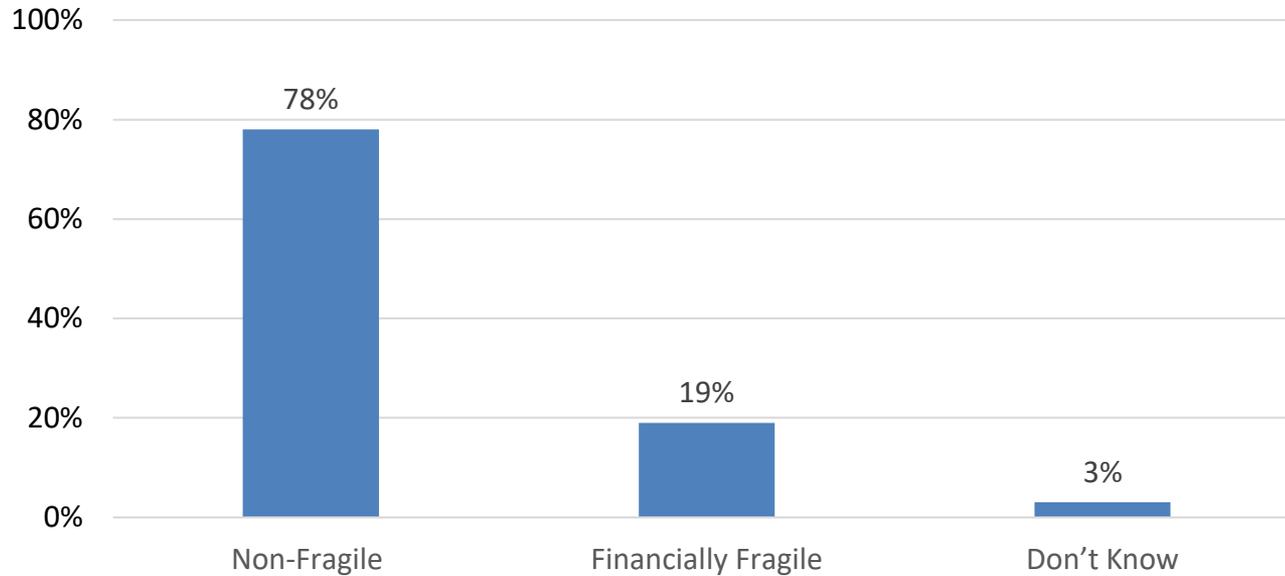
# Our data collection and new research

2020 UAS

UnderStandingAmericaStudy



# Financial fragility during the pandemic



## Sample

- 2,902 Americans
- Ages 45 to 75
- Survey fielded April/May 2020

Source: 2020 UAS

# Who are the most financially fragile?

## The under 60's

- 27% of individuals age 55-59 are financially fragile v. 15% of individuals age 70+



## Hispanics

- 29% of Hispanics are financially fragile v.s. 19% of Whites



## Low Income

- 57% of those with incomes  $\leq$ \$15K, and 40% of those with incomes \$15-\$25K, are financially fragile

Source: 2020 UAS. Age 45-75

# Who are the most financially fragile? (cont.)



## Education

- 29% of those with  $\leq$ high school education are financially fragile

## Women

- 26% of women are financially fragile v.s. 16% of men



## Marital Status

- 53% of those separated and 28% of those divorced are financially fragile

Source: 2020 UAS. Age 45-75

# A simple measure of financial literacy: The 'Big Three'



- Financial literacy (Big Three): Knowledge of simple concepts, such as interest rates/numeracy, inflation, and risk diversification
- **The more financially literate are *less likely* to be financially fragile.**

# A richer measure of financial literacy (12 questions)

Big 3 financial literacy questions + 9 more:

Topics include:

- Credit scores
- Annuities
- Social Security benefits

CNBC posted a financial fragility test based on these Qs:  
<https://www.cnbc.com/2021/01/09/are-you-financially-fragile-or-could-you-soon-be-take-this-quiz-to-find-out.html>

# Logit Marginal Effects: Explaining Financial Fragility (FF)

Controls	3-Q FF Index	12-Q FF Index	3-Q FF Index	12-Q FF Index
<b>Financial Literacy</b>				
Total Questions Correct	-0.021 (0.011)	-0.010 (0.005)		
<b>Age (Ref Age 45-49)</b>				
Age 60-64	-0.128 (0.031)	-0.128 (0.031)		
Age 65-69	-0.104 (0.035)	-0.105 (0.035)		
Age 70 and up	-0.125 (0.035)	-0.126 (0.035)		
<b>Race/Ethnicity (Ref white)</b>				
Hispanic/Latino	0.085 (0.033)	0.080 (0.033)		
Black/African American	0.047 (0.034)	0.040 (0.034)		
<b>Marital Status (Ref Married Unseparated)</b>				
Divorced			0.089 (0.026)	0.089 (0.026)
Widowed			0.056 (0.044)	0.056 (0.045)
Never Married			0.072 (0.031)	0.070 (0.031)
<b>Other Variables</b>				
# of Household Members			0.017 (0.009)	0.017 (0.009)
Works full-time			-0.040 (0.024)	-0.043 (0.024)
<b>N. of observations</b>			2,685	2,682
<b>% Financially Fragile</b>			18.85%	18.85%

Source: 2020 UAS, individuals age 45-75

# Logit Marginal Effects: Financial Fragility using 3-Question and 12-Question Literacy Indices

(Robustness check with additional controls)

VARIABLES	3-Q Model	12-Q Model	3-Q Model	12-Q Model
	Financial Fragility			
<b>Financial Literacy</b>				
Total Questions Correct	-0.021 (0.011)			
Total Questions Correct		-0.010 (0.005)		
<b>Gender (Base Female)</b>				
Male	-0.010 (0.020)	-0.011 (0.020)		
<b>Race/Ethnicity (Base White)</b>				
Hispanic/Latino	0.085 (0.033)	0.080 (0.033)		
Asian	-0.055 (0.059)	-0.056 (0.059)		
Black/African American	0.047 (0.034)	0.040 (0.034)		
<b>Education (Base HS or Less)</b>				
Some College Education	-0.012 (0.022)	-0.010 (0.022)		
Bachelor's Degree	-0.057 (0.030)	-0.049 (0.030)		
Graduate Degree	-0.028 (0.034)	-0.022 (0.033)		
			<b>Marital Status (Base Married)</b>	
			Separated	0.058 (0.062)
			Never Married	0.072 (0.031)
			<b>Household Size</b>	
			# of Household Members	0.017 (0.009)
			<b>Employment Status</b>	
			Works full-time	-0.040 (0.024)
			<b>Suffered Income Shock</b>	0.027 (0.023)
			<b>Age</b>	Y
			<b>Income</b>	Y
			<b>N. of observations</b>	2,685
			<b>Percent Financially Fragile</b>	18.85%

Source: 2020 UAS, individuals age 45-75

# Main findings

- Financially literate individuals are better protected against shocks:
  - Financial literacy acted as a shield against shocks
  - Even basic knowledge (Big Three) matters
- Effect of financial literacy is economically relevant
- New data and unusual time period confirm the importance of financial literacy

# Other findings

- Some subgroups are particularly disadvantaged:
  - Younger respondents, those with larger families, Hispanics, and those with low income are more likely to be fragile.
- Pandemic exacerbates the differences we saw before the crisis
  - Note that the 'normal' before the pandemic was also not good and is not something to go back to
- Need to strengthen the financial resilience of these subgroups

# Most recent data

- New data collected in January 2021
- 30% are financially fragile
- Strong connection with financial literacy



NEW SURVEY RESULTS

**THE 2021 TIAA INSTITUTE-GFLEC  
PERSONAL FINANCE INDEX**

**GFLEC**  
GLOBAL FINANCIAL LITERACY  
EXCELLENCE CENTER

**TIAA Institute**

# Most recent data

The cost of financial illiteracy

With these numbers, financial education can easily be cost-effective

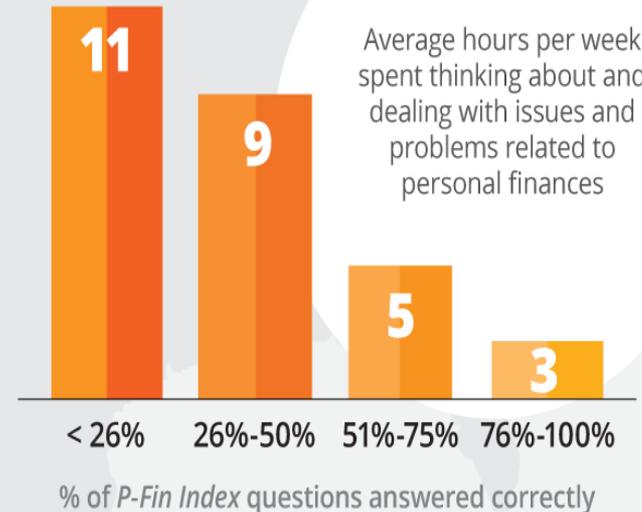
## THE 2021 P-FIN INDEX

GFLEC  
GLOBAL FINANCIAL LITERACY  
EXCELLENCE CENTER

TIAA Institute



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



Source: TIAA Institute-GFLEC Personal Finance Index 2021

# Implications and recommendations

- Need to add financial literacy in school
  - It is a basic skill everyone needs
  - We reach all young (equity)
  - It is a good investment
- Financial education in the workplace
  - Employees are spending time worrying about money issues
- Financial education in the community