Financial Well-being and Literacy in the Midst of a Pandemic

Annamaria Lusardi
The George Washington University, Global Financial Literacy Excellence Center (GFLEC), and Italian Financial Education Committee

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Even before COVID-19 data indicated:

- 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 questions I will cover

1. How well-equipped are people to make savvy decisions about their personal finances?
2. There is large heterogeneity across demographic subgroups. Who are the most vulnerable?
3. What has been the state of financial well-being in the midst of the crisis?
What is the P-Fin Index?

- The **TIAA-Institute-GFLEC Personal Finance Index** (P-Fin Index) 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 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+).
Five years of P-Fin Index data (2017-2021)
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
2021: Age/Generations

2021 Generation Report (forthcoming)
What is unique: 8 functional areas of personal finance

The index is based on responses to 28 questions, with three or four questions for each of the eight functional areas:

<table>
<thead>
<tr>
<th>The P-Fin Index's 28 questions cover eight functional areas:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Earning</td>
</tr>
<tr>
<td>2. Saving</td>
</tr>
<tr>
<td>3. Consuming</td>
</tr>
<tr>
<td>4. Investing</td>
</tr>
</tbody>
</table>
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 53%
Incorrect 26%
Don’t Know 20%
No Answer 0%

### Financial literacy: A failing grade

<table>
<thead>
<tr>
<th>% of P-Fin Index questions answered correctly</th>
<th>Distribution of correct answers to P-Fin Index questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>22-28 correct (76%-100%) 18%</td>
</tr>
<tr>
<td></td>
<td>15-21 correct (51%-75%) 34%</td>
</tr>
<tr>
<td></td>
<td>8-14 correct (26%-50%) 28%</td>
</tr>
<tr>
<td></td>
<td>0-7 correct (&lt;26%) 20%</td>
</tr>
</tbody>
</table>

Financial (il)literacy is holding steady: 2017-2021

% of P-Fin Index questions answered correctly

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>49%</td>
<td>50%</td>
<td>51%</td>
<td>52%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Distribution of correct answers to P-Fin questions

| 22-28 correct (76%-100%) | 16% | 16% | 18% | 20% | 18% |
| 15-21 correct (51%-75%)  | 32% | 35% | 35% | 33% | 34% |
| 8-14 correct (26%-50%)   | 32% | 28% | 27% | 30% | 28% |
| 0-7 correct (<26%)       | 20% | 21% | 20% | 17% | 20% |

What do people know the most and the least

<table>
<thead>
<tr>
<th>Topic</th>
<th>% of P-Fin questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>61%</td>
</tr>
<tr>
<td>Saving</td>
<td>58%</td>
</tr>
<tr>
<td>Consuming</td>
<td>53%</td>
</tr>
<tr>
<td>Earning</td>
<td>52%</td>
</tr>
<tr>
<td>Go-to info sources</td>
<td>48%</td>
</tr>
<tr>
<td>Investing</td>
<td>47%</td>
</tr>
<tr>
<td>Insuring</td>
<td>45%</td>
</tr>
<tr>
<td>Comprehending risk</td>
<td>37%</td>
</tr>
</tbody>
</table>

What do people know and how it has changed over time

% of P-Fin questions answered correctly

<table>
<thead>
<tr>
<th>Topic</th>
<th>2020</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>64%</td>
<td>61%</td>
</tr>
<tr>
<td>Saving</td>
<td>59%</td>
<td>53%</td>
</tr>
<tr>
<td>Earning</td>
<td>56%</td>
<td>49%</td>
</tr>
<tr>
<td>Consuming</td>
<td>56%</td>
<td>53%</td>
</tr>
<tr>
<td>Go-to info sources</td>
<td>50%</td>
<td>47%</td>
</tr>
<tr>
<td>Investing</td>
<td>48%</td>
<td>46%</td>
</tr>
<tr>
<td>Insuring</td>
<td>47%</td>
<td>44%</td>
</tr>
<tr>
<td>Comprehending risk</td>
<td>37%</td>
<td>39%</td>
</tr>
</tbody>
</table>

“Calculated risk”?

Which of the following indicates the highest probability of getting a particular disease?

- **There is a one-in-twenty chance of getting the disease**
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don’t know
- Refuse to answer

**Results:**
- Correct: 28%
- Incorrect: 19%
- Don’t Know: 53%
- No Answer: 0%

Large variation in financial literacy across demographics

% of P-Fin questions answered correctly

<table>
<thead>
<tr>
<th>Education Level</th>
<th>% Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than HS</td>
<td>32%</td>
</tr>
<tr>
<td>High school</td>
<td>41%</td>
</tr>
<tr>
<td>Some college</td>
<td>50%</td>
</tr>
<tr>
<td>College degree</td>
<td>65%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Income</th>
<th>% Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $25k</td>
<td>32%</td>
</tr>
<tr>
<td>$25k-$49k</td>
<td>40%</td>
</tr>
<tr>
<td>$50k-$99k</td>
<td>50%</td>
</tr>
<tr>
<td>$100k-plus</td>
<td>61%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Status</th>
<th>% Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>53%</td>
</tr>
<tr>
<td>Retired</td>
<td>53%</td>
</tr>
<tr>
<td>Unemployed/disabled</td>
<td>39%</td>
</tr>
</tbody>
</table>

Demographic variation: Women and knowledge

% of P-Fin questions answered correctly
- Women: 46%
- Men: 55%

Distribution of correct answers to P-Fin questions

<table>
<thead>
<tr>
<th>Correct Answers</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-28 correct</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>15-21 correct</td>
<td>33%</td>
<td>35%</td>
</tr>
<tr>
<td>8-14 correct</td>
<td>33%</td>
<td>23%</td>
</tr>
<tr>
<td>0-7 correct</td>
<td>23%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Demographic variation: Women and confidence

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>16%</td>
<td>22%</td>
</tr>
<tr>
<td>Saving</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Consuming</td>
<td>15%</td>
<td>32%</td>
</tr>
<tr>
<td>Earning</td>
<td>27%</td>
<td>34%</td>
</tr>
<tr>
<td>Go-to info sources</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>Investing</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>Insuring</td>
<td>23%</td>
<td>30%</td>
</tr>
<tr>
<td>Comprehending risk</td>
<td>23%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Demographic variation: Racial/Ethnic groups

% of P-Fin Index questions answered correctly

- Black: 37%
- Hispanic: 41%
- White: 55%

Distribution of correct answers to P-Fin Index questions

- 22-28 correct (76%-100%)
  - Black: 6%
  - Hispanic: 24%
  - White: 32%

- 15-21 correct (51%-75%)
  - Black: 26%
  - Hispanic: 37%
  - White: 38%

- 8-14 correct (26%-50%)
  - Black: 36%
  - Hispanic: 29%
  - White: 25%

- 0-7 correct (<26%)
  - Black: 35%
  - Hispanic: 15%
  - White: 15%

Demographic variation: Race/ethnicity and gender

% of P-Fin Index questions answered correctly

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>44%</td>
<td>36%</td>
</tr>
<tr>
<td>White</td>
<td>60%</td>
<td>39%</td>
</tr>
</tbody>
</table>


There are smaller gender differences in financial literacy among Black and Hispanic Americans compared to Whites.

Financial literacy among White women exceeds that of both Black and Hispanic men.
Demographic variation: Age/Generations

% of P-Fin questions answered correctly

43% 48% 49% 55% 55%
Gen Z Gen Y Gen X Baby boomers Silent Generation

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

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)
Financial well-being in the midst of COVID-19

- **22%** Find it difficult to make ends meet in a typical month.
- **22%** Cannot pay all bills, including loan payments and credit cards, in full and on time in a typical month.
- **40%** Lack emergency savings equal to one month of living expenses if needed.
- **30%** Could not cope with a mid-sized financial shock of $2,000 if an unexpected need arose within the next month.
- **31%** Debt and debt payments prevent them from adequately addressing other financial priorities.

Financial anxiety and stress

Do you agree or disagree with the following statement: “Thinking about my personal finances can make me feel anxious”

- Strongly disagree: 14%
- Somewhat disagree: 17%
- Neither agree nor disagree: 22%
- Somewhat agree: 32%
- Strongly agree: 15%

18% of U.S. adults spend 10 hours or more per week thinking about and dealing with issues and problems related to their personal finances.

Source: TIAA Institute-GFLEC
Personal Finance Index (2021).
## Large heterogeneity across subgroups (1)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find it difficult to make ends meet in a typical month</td>
<td>24%</td>
<td>19%</td>
</tr>
<tr>
<td>Cannot pay all bills in full and on time in a typical month</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>Lack emergency savings equal to one month of living expenses if needed</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td>Could not come up with $2,000 if an unexpected need arose within a month</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>Debt and debt payments prevent them from adequately addressing other financial priorities</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>Thinking about their personal finances can make them feel anxious</td>
<td>51%</td>
<td>43%</td>
</tr>
<tr>
<td>Spend 10 or more hours per week thinking about and dealing with issues related to personal finances</td>
<td>18%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Large heterogeneity across subgroups (2)

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>Hispanic</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find it difficult to make ends meet in a typical month</td>
<td>32%</td>
<td>32%</td>
<td>18%</td>
</tr>
<tr>
<td>Cannot pay all bills in full and on time in a typical month</td>
<td>42%</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td>Lack emergency savings equal to one month of living expenses if needed</td>
<td>56%</td>
<td>53%</td>
<td>35%</td>
</tr>
<tr>
<td>Could not come up with $2,000 if an unexpected need arose within a month</td>
<td>41%</td>
<td>40%</td>
<td>27%</td>
</tr>
<tr>
<td>Debt and debt payments prevent them from adequately addressing other financial priorities</td>
<td>38%</td>
<td>45%</td>
<td>26%</td>
</tr>
<tr>
<td>Thinking about their personal finances can make them feel anxious</td>
<td>49%</td>
<td>57%</td>
<td>45%</td>
</tr>
<tr>
<td>Spend 10 or more hours per week thinking about and dealing with issues related to personal finances</td>
<td>28%</td>
<td>27%</td>
<td>14%</td>
</tr>
</tbody>
</table>

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

- 24% (< 26%)
- 33% (26%-50%)
- 58% (51%-75%)
- 75% (76%-100%)

% of P-Fin questions answered correctly

Financial freedom

Those with greater financial literacy are less likely to be debt constrained.

% for whom debt and debt payments do not prevent adequately addressing other financial priorities

<table>
<thead>
<tr>
<th>Percentage of P-Fin questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 26%</td>
</tr>
<tr>
<td>26%-50%</td>
</tr>
<tr>
<td>51%-75%</td>
</tr>
<tr>
<td>76%-100%</td>
</tr>
</tbody>
</table>

Making ends meet is easier for those with greater financial literacy.

% who do not find it difficult to make ends meet in a typical month

- <26%: 35%
- 26%-50%: 53%
- 51%-75%: 72%
- 76%-100%: 85%

% of P-Fin questions answered correctly

Long-term consequences

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

- 37% of non-retirees who save for retirement on a regular basis
- 84% of P-Fin questions answered correctly
- 21% of non-retirees who have tried to determine how much they need to save for retirement
- 60% of P-Fin questions answered correctly

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

People spend an average of 7 hours per week thinking about and dealing with financial issues and problems. An average of 3 hours per week occur at work.

Workers while on the job

% of P-Fin questions answered correctly

What we learn from research

• Need to improve levels of financial literacy
  – Levels of knowledge are critically low

• Some topics are particularly complex
  – Risk and risk diversification

• Large heterogeneity across demographic subpopulations
  – One size does not fit all

• Customize programs
  – There is a need to target particularly vulnerable groups (e.g., women, minorities, young people)
What we learn from research (2)

- Cannot focus on retirement saving only
  - Holistic approach to personal finance

- Need to boost confidence in women
  - Significant part of the financial literacy gender gap can be attributed to lack of confidence

- Cost of ignorance can be high
  - We can do some cost-benefit analysis
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 6h 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.

Concluding remarks: The costs of ignorance
Looking forward

- The crisis provides an opportunity to change course
- We cannot go back to the “normal” because the (before-the-pandemic) normal was not good enough
- Financial education should be part of the recovery from the COVID-19 pandemic
- We can all be ambassadors for financial education, in particular at universities
Personal finance course at the George Washington School of Business

- Personal Finance courses for accountancy students
- Extensive coverage of risk and risk management
- Paying attention to gender differences in financial literacy
- Material available for free on our website
Personal finance course for a special group

- Our research (AER, 2015) shows that professional football players go bankrupt as soon as they stop playing

- Designed a program for professional football players

- Personal finance course targeted to these players
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/
More than ever, women need to be... fearless
Thank You!

More info at www.gflec.org