



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

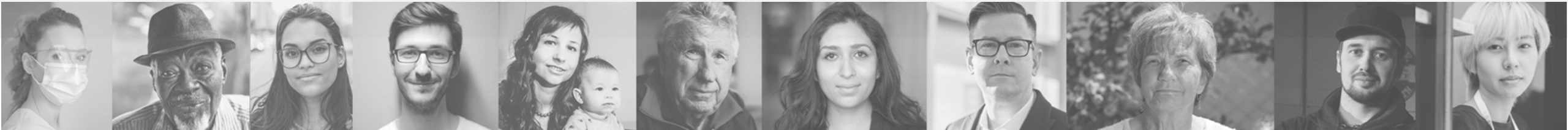
Annamaria Lusardi  
The George Washington University, Global Financial Literacy Excellence Center (GFLEC), and Italian Financial Education Committee

Journal of Accounting and Public Policy 2021 Conference - June 11, 2021



# 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

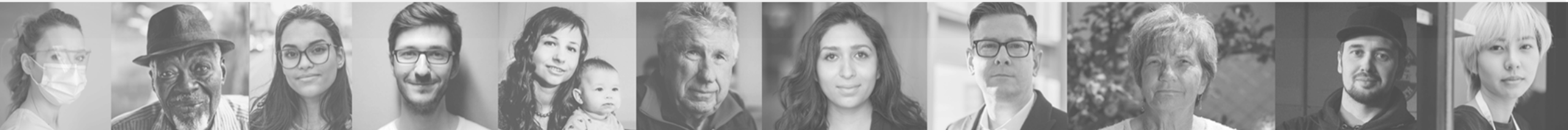


Source: Neil Blake/Grand Rapids Press/AP; <https://www.motherjones.com/food/2020/04/these-photos-show-the-staggering-food-bank-lines-across-america/>



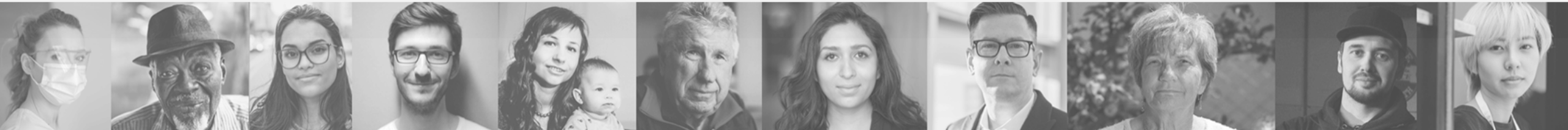
# Three questions I will cover

- 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)




**The TIAA Institute-GFLEC Personal Finance Index: A New Measure of Financial Literacy**

Annamaria Lusardi, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)  
Howard Ogden, Global Financial Literacy Excellence Center (GFLEC)  
Paul J. Yakoboski, TIAA Institute






**The 2018 TIAA Institute-GFLEC Personal Finance Index**  
**The State of Financial Literacy Among U.S. Adults**

Paul J. Yakoboski, TIAA Institute  
Annamaria Lusardi, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)  
Andrea Hasler, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)



**Financial Literacy in the United States and Its Link to Financial Wellness**  
**The 2019 TIAA Institute-GFLEC Personal Finance Index**

Paul J. Yakoboski, TIAA Institute  
Annamaria Lusardi and Andrea Hasler, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)



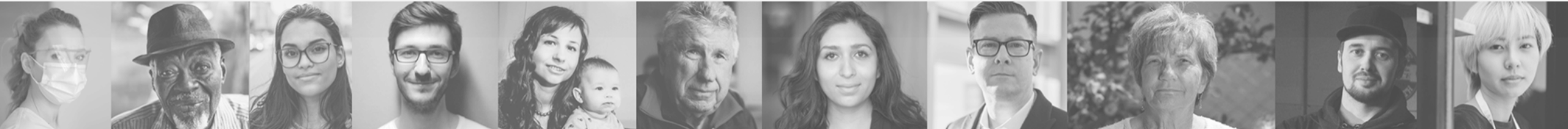



**The 2020 TIAA Institute-GFLEC Personal Finance Index**  
**Many Do Not Know What They Do and Do Not Know**

Paul J. Yakoboski, TIAA Institute  
Annamaria Lusardi, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)  
Andrea Hasler, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)



**Financial well-being and literacy in the midst of a pandemic**  
**The 2021 TIAA Institute-GFLEC Personal Finance Index**

Paul J. Yakoboski, TIAA Institute  
Annamaria Lusardi, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)  
Andrea Hasler, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)



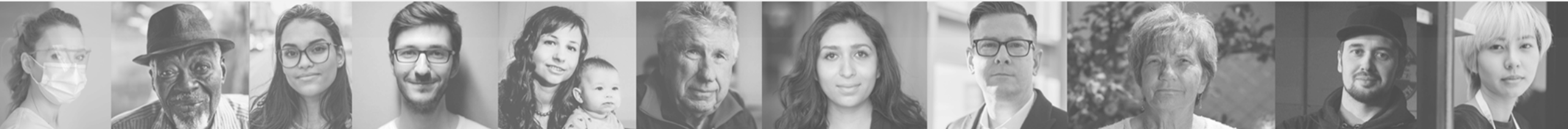
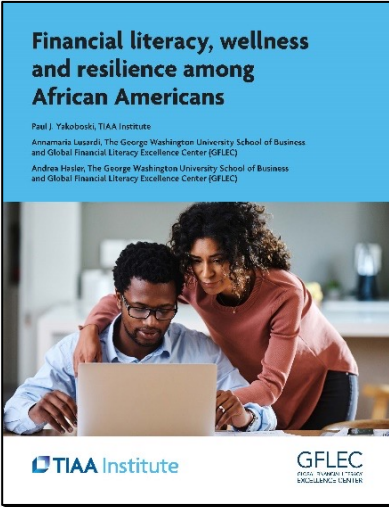
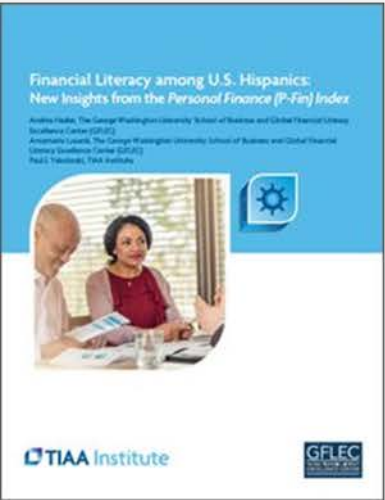
# Zooming in into specific sub-groups

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

2021: Age/Generations

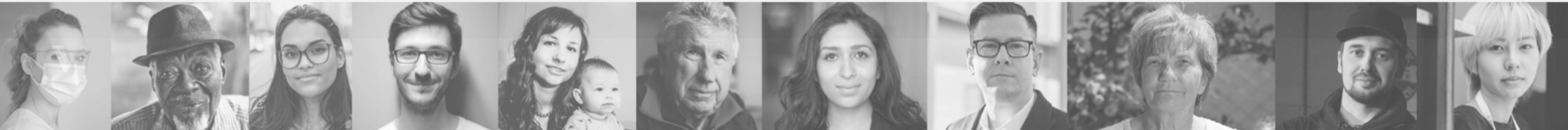


# What is unique: 8 functional areas of personal finance

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

**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

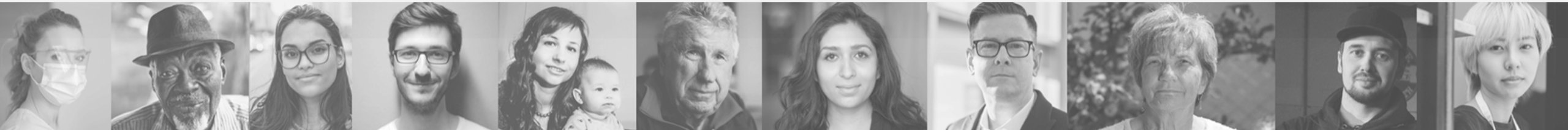
Anna saves \$500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a \$5,000 gift which he decides to save. If both Anna and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

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

**Results:**

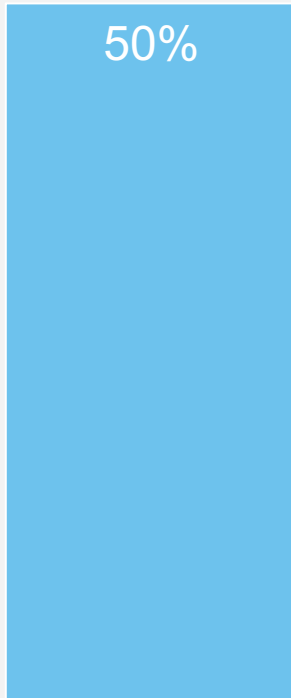
<b>Correct</b>	<b>53%</b>
<b>Incorrect</b>	<b>26%</b>
<b>Don't Know</b>	<b>20%</b>
<b>No Answer</b>	<b>0%</b>

Source: TIAA Institute-GFLEC Personal Finance Index (2021).

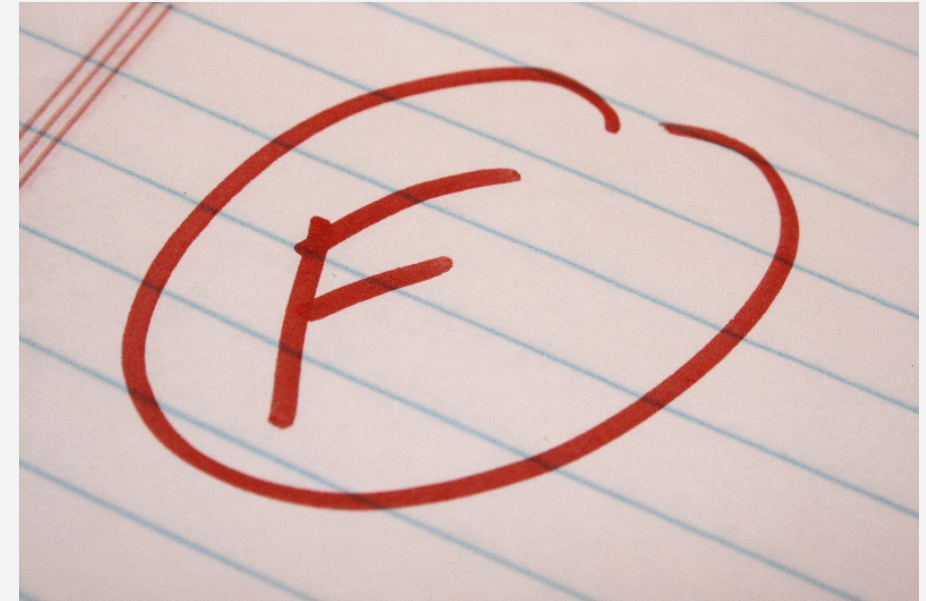
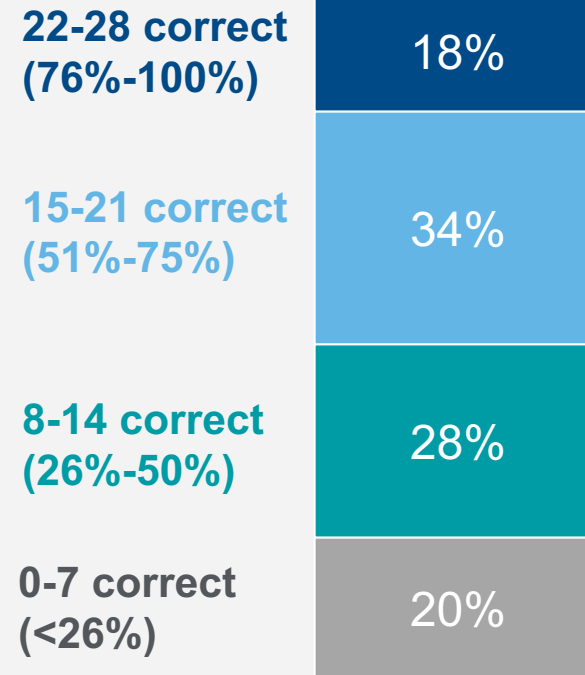


# Financial literacy: A failing grade

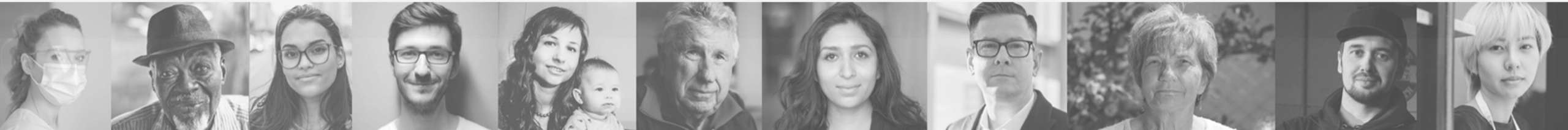
*% of P-Fin Index questions answered correctly*



*Distribution of correct answers to P-Fin Index questions*

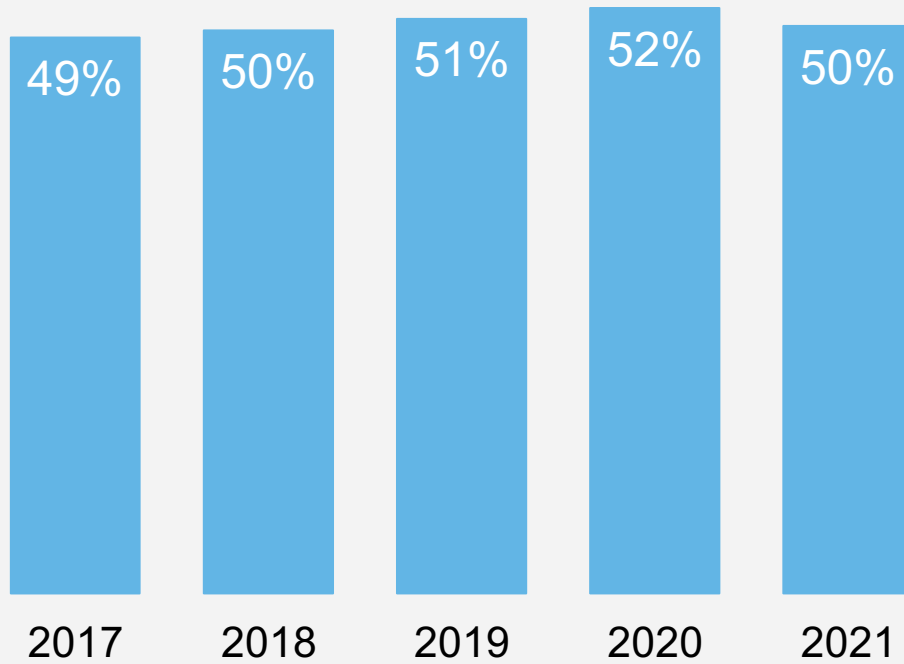


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

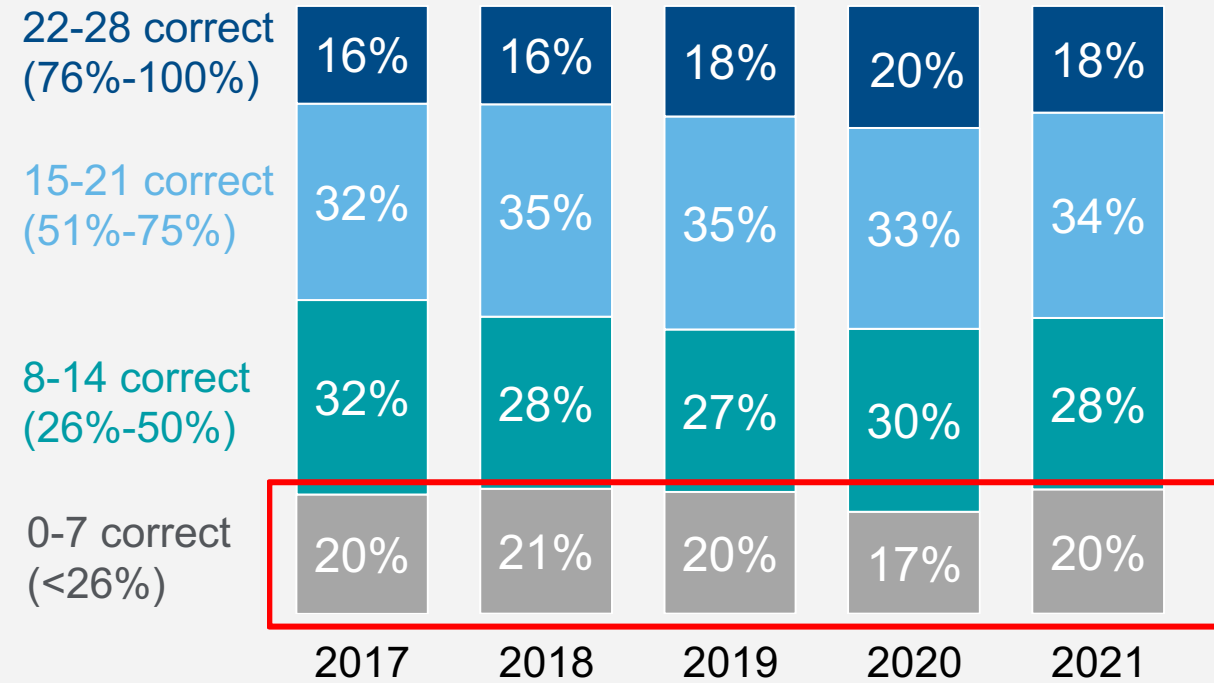


# Financial (il)literacy is holding steady: 2017-2021

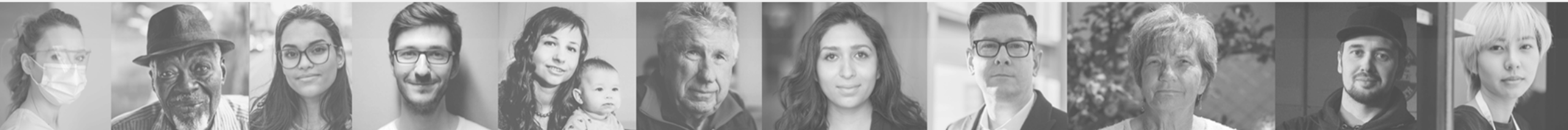
*% of P-Fin Index questions answered correctly*



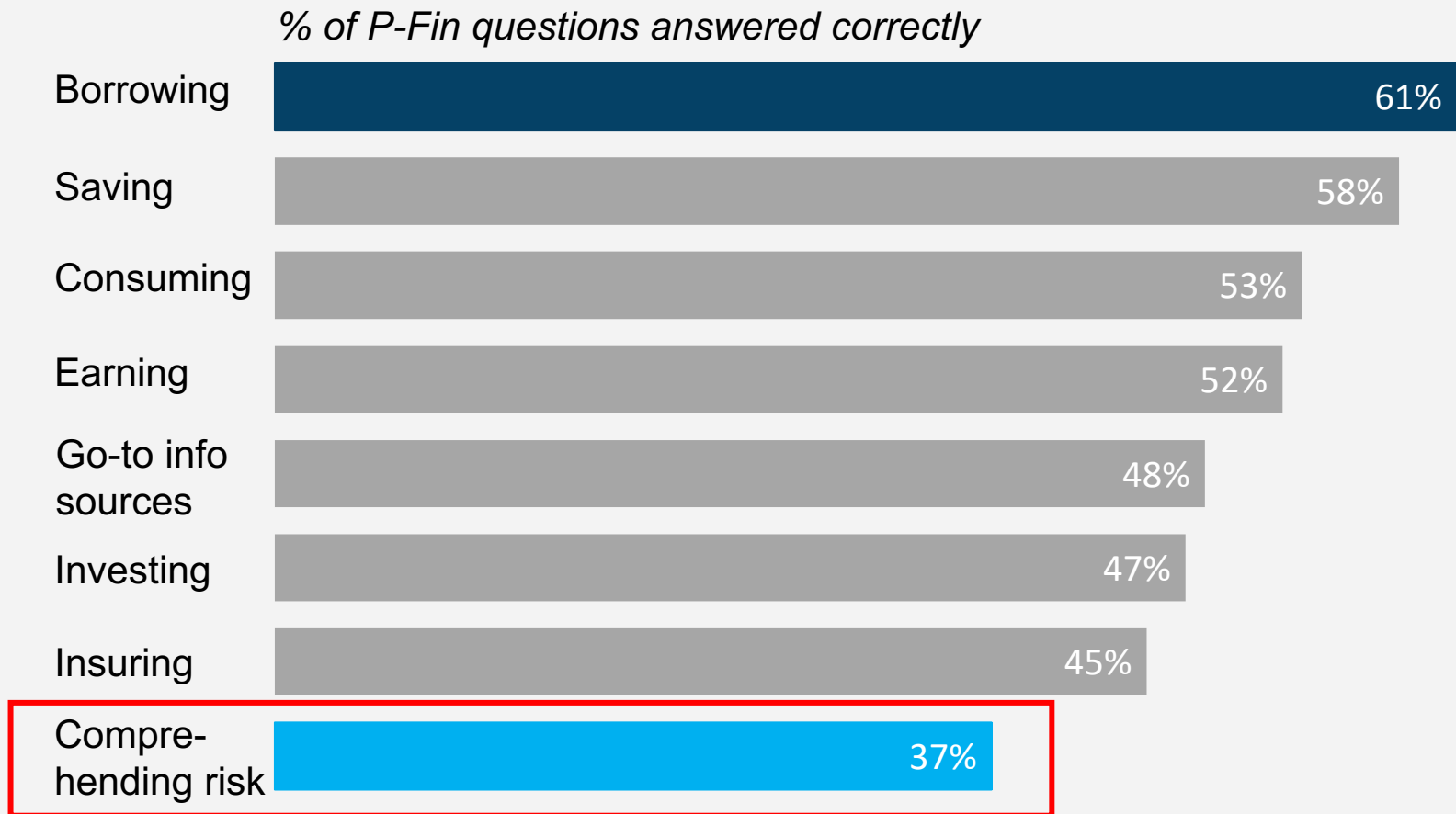
*Distribution of correct answers to P-Fin questions*



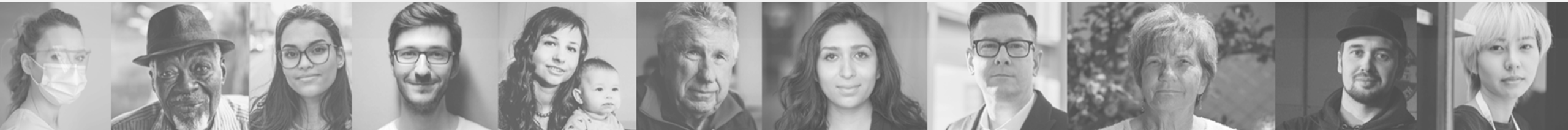
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2021).



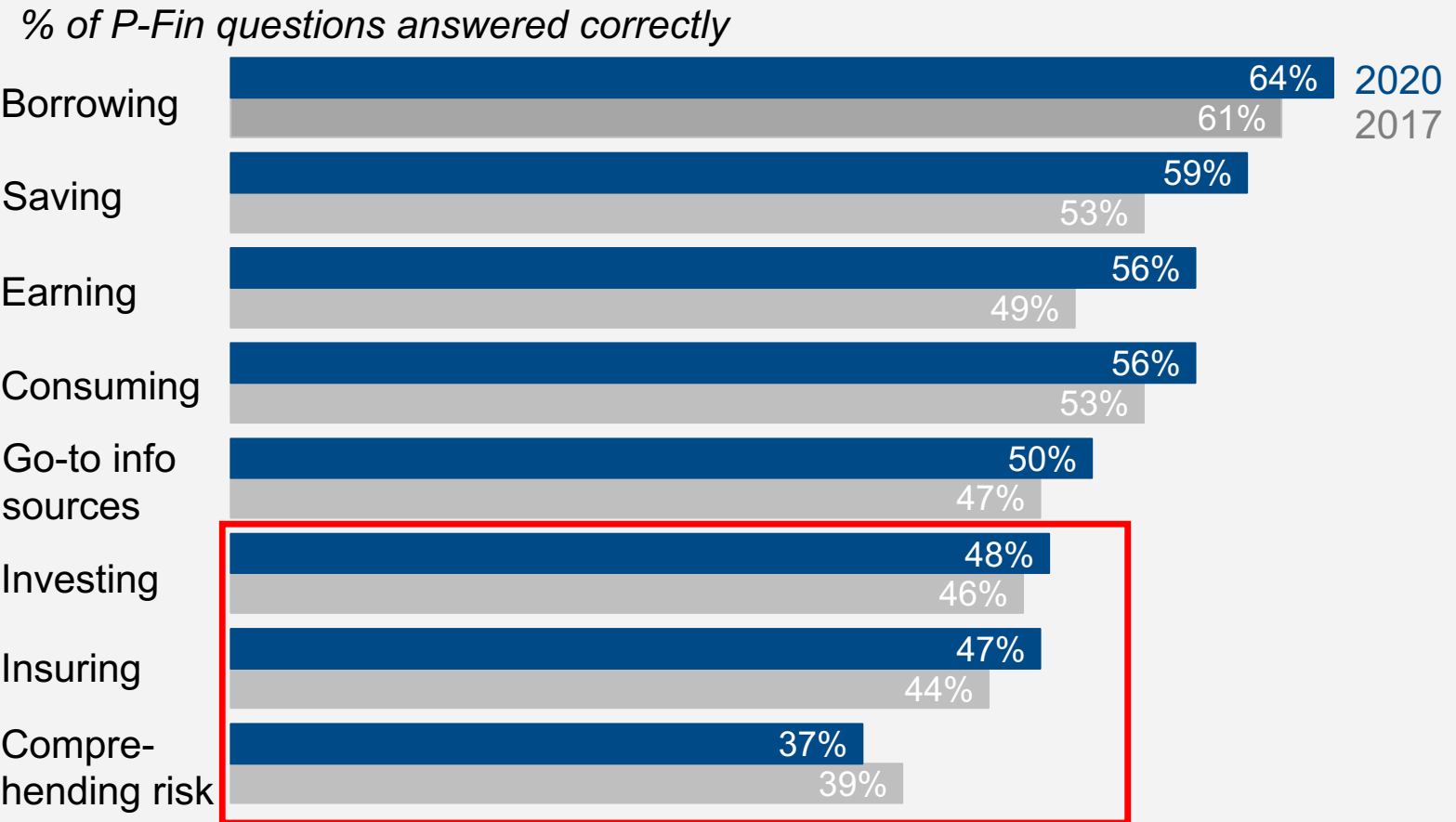
# What do people know the most and the least



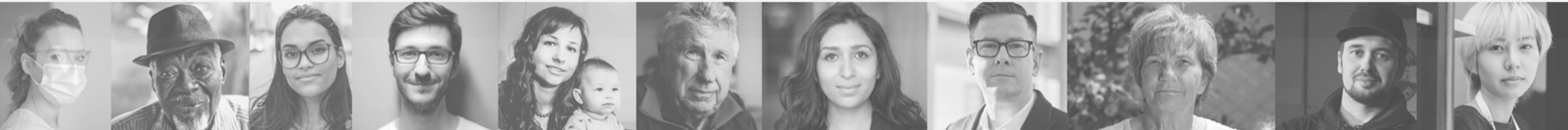
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# What do people know and how it has changed over time



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



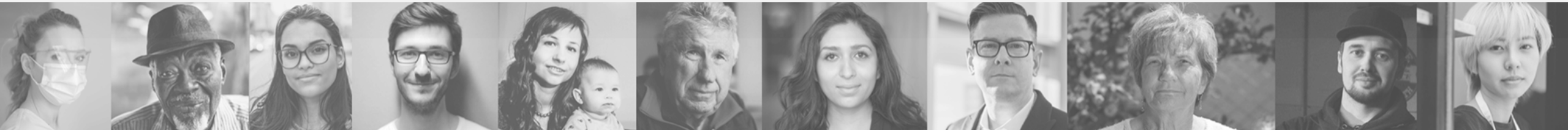
# “Calculated risk” ?

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

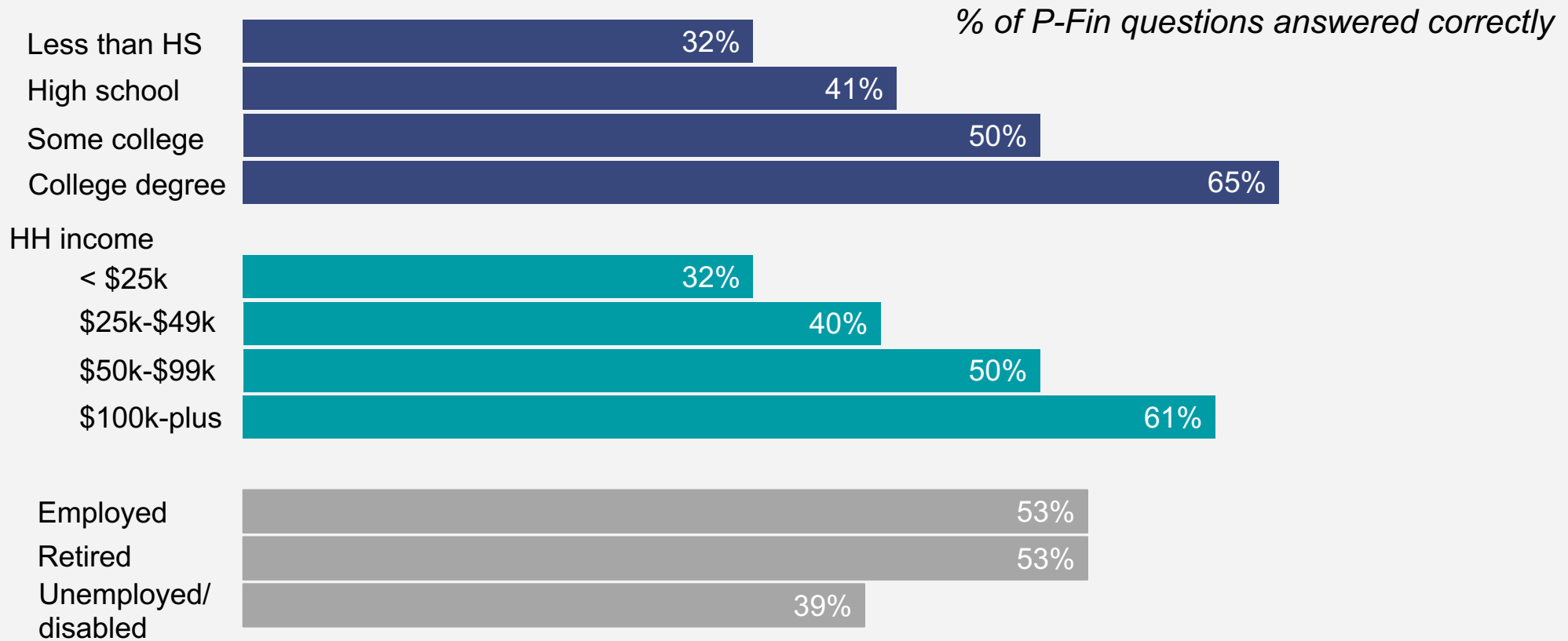
- **There is a one-in-twenty chance of getting the disease**
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don't know
- Refuse to answer

<b>Results:</b>	
<b>Correct</b>	<b>28%</b>
<b>Incorrect</b>	<b>19%</b>
<b>Don't Know</b>	<b>53%</b>
<b>No Answer</b>	<b>0%</b>

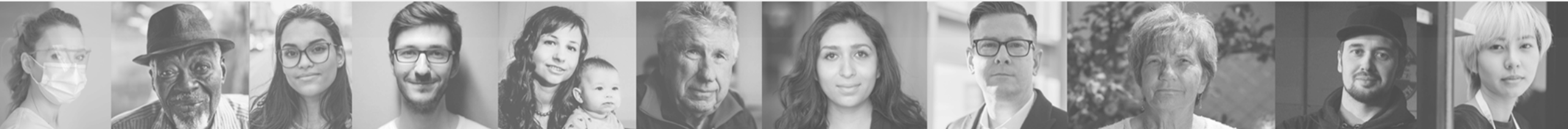
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# Large variation in financial literacy across demographics

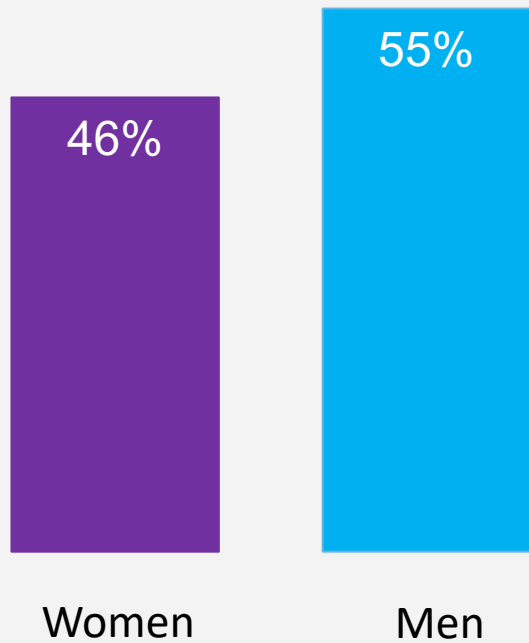


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

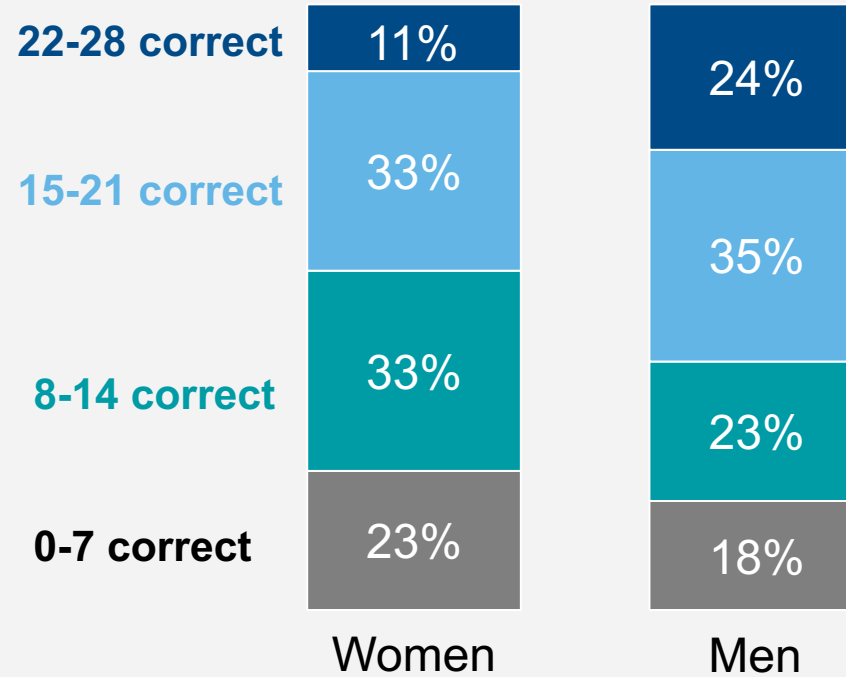


# Demographic variation: Women and knowledge

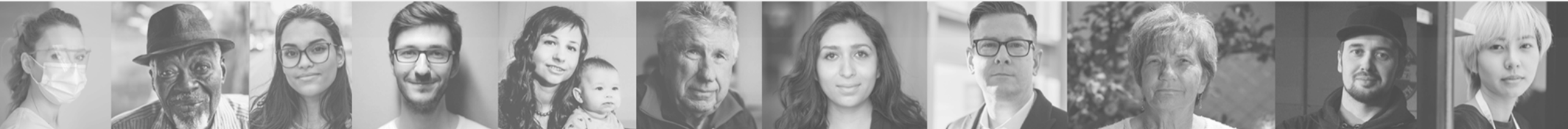
*% of P-Fin questions answered correctly*



*Distribution of correct answers to P-Fin questions*



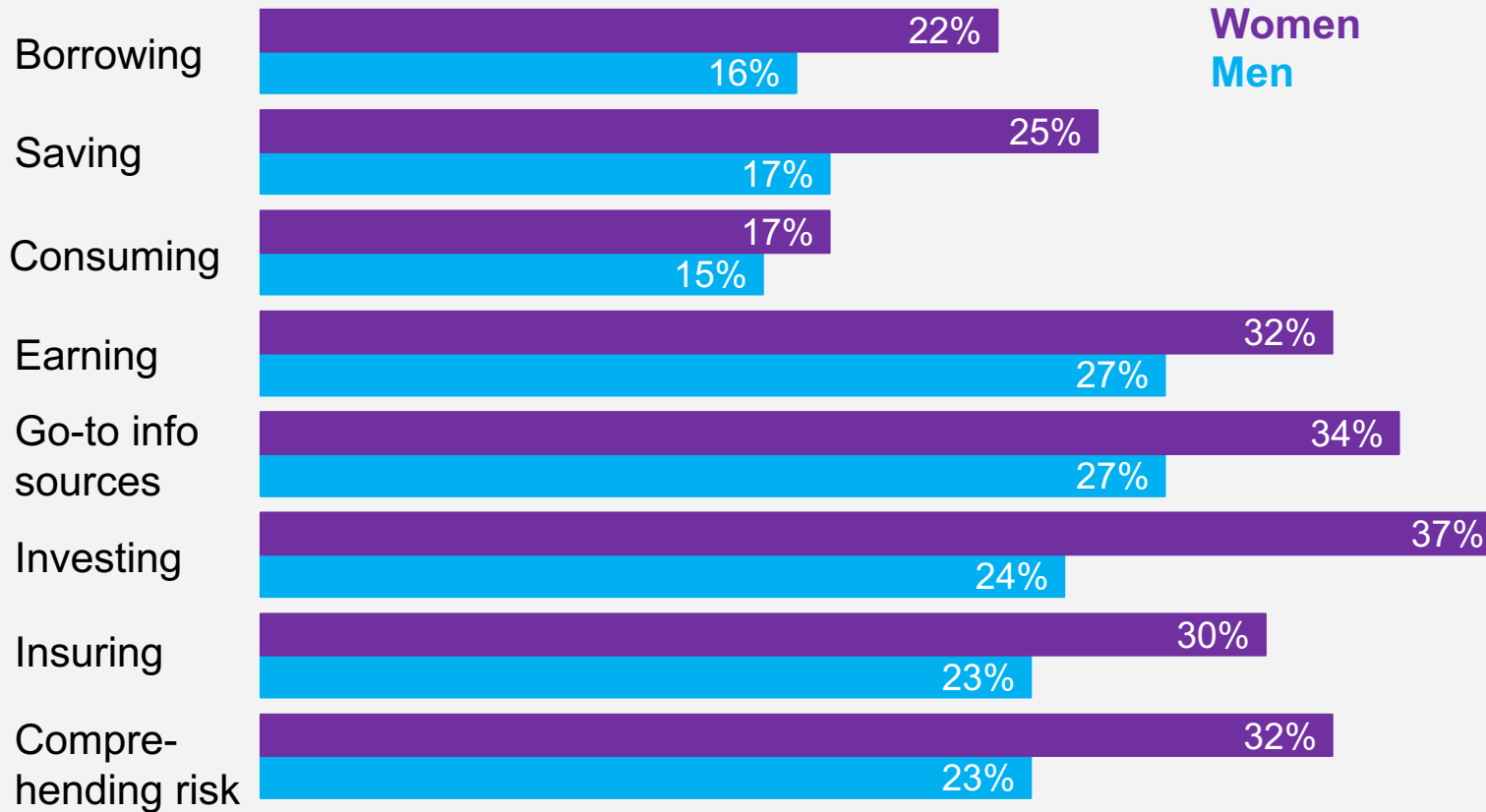
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



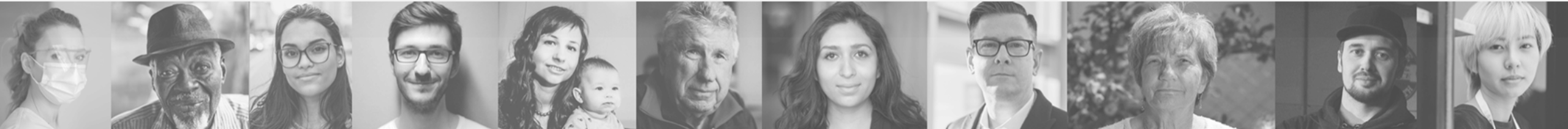


# Demographic variation: Women and confidence

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

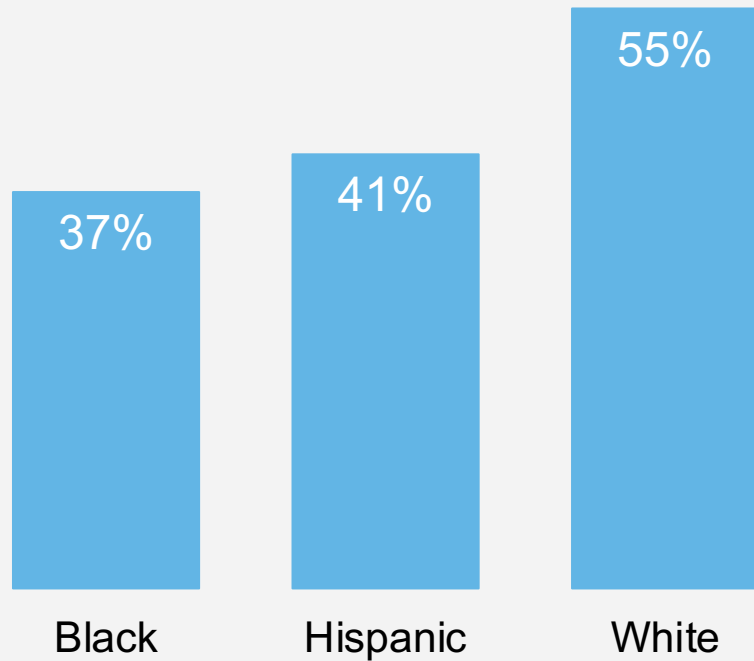


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

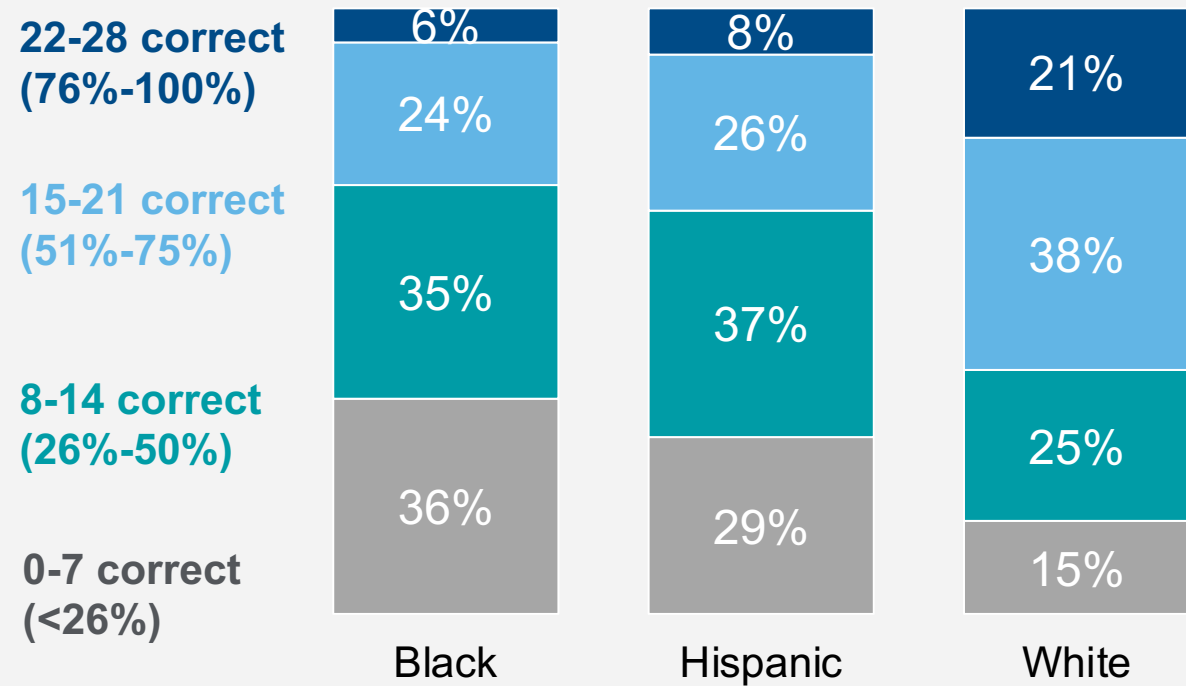


# Demographic variation: Racial/Ethnic groups

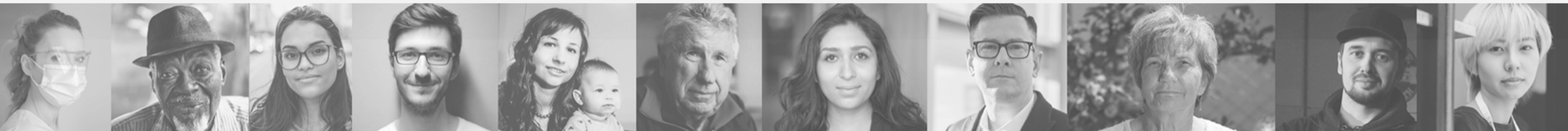
*% of P-Fin Index questions answered correctly*



*Distribution of correct answers to P-Fin Index questions*

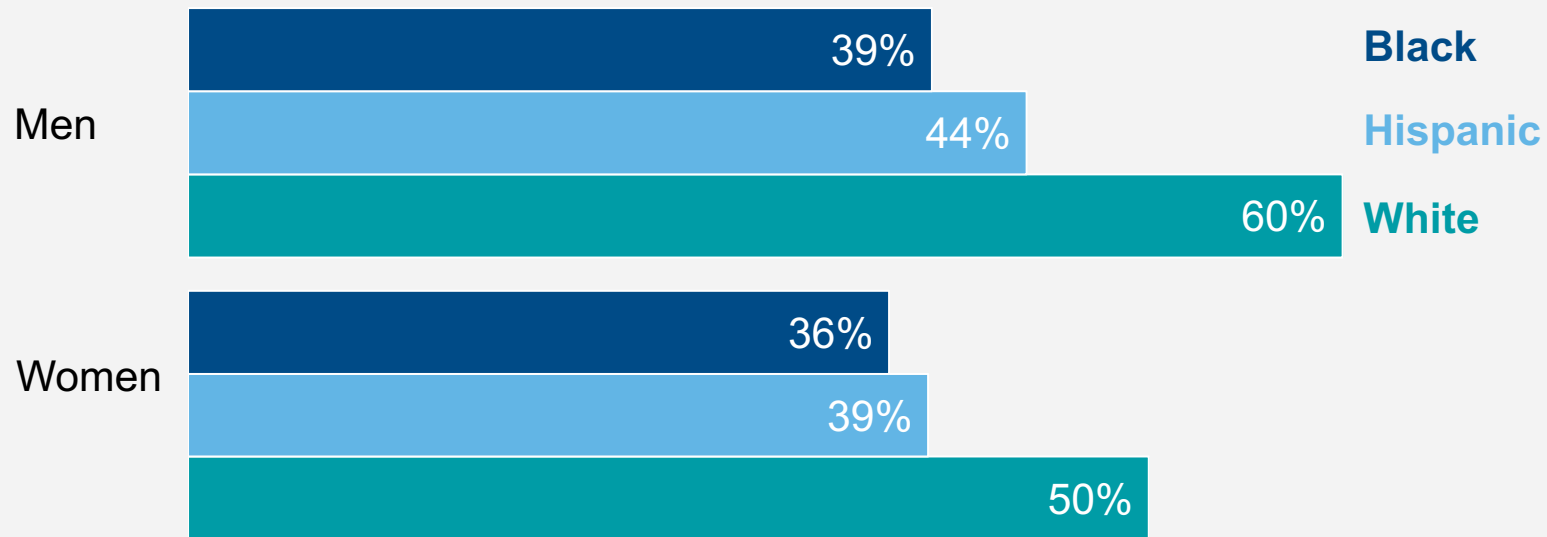


Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# Demographic variation: Race/ethnicity and gender

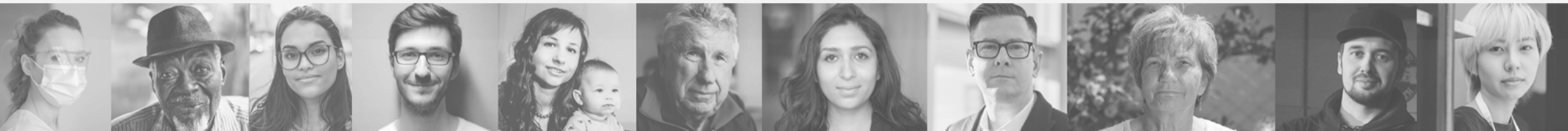
*% of P-Fin Index questions answered correctly*



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

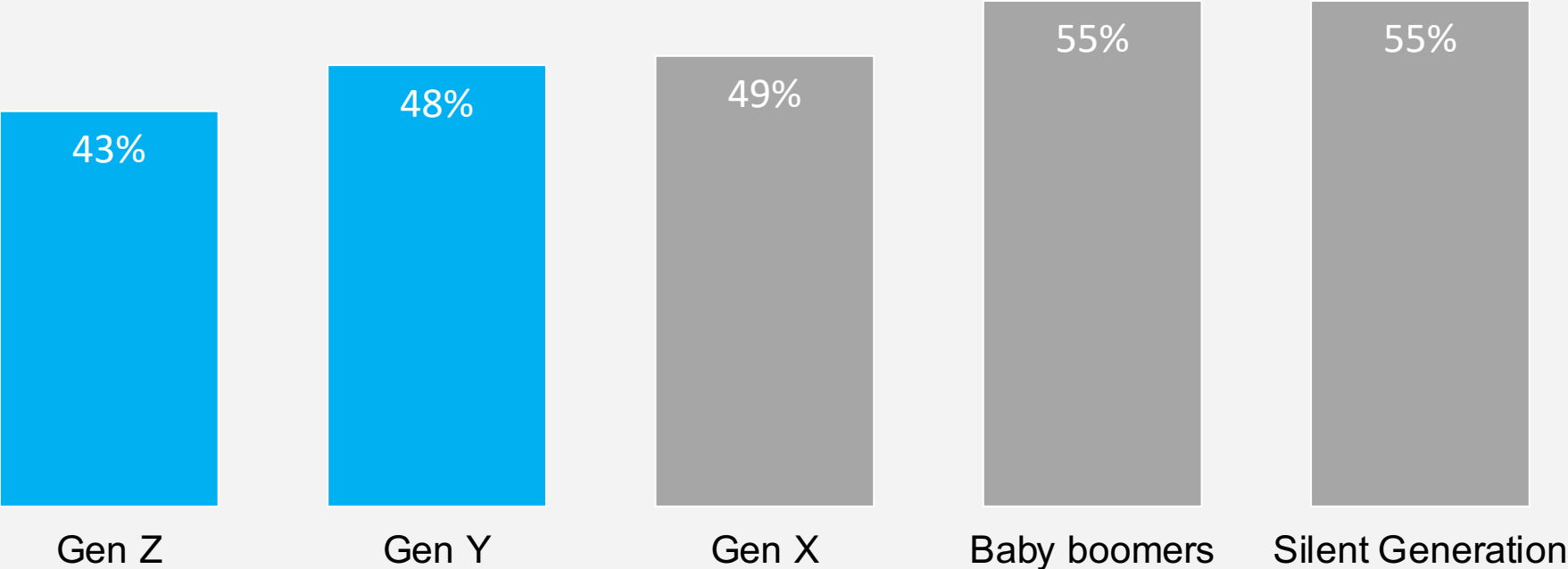
Financial literacy among White women exceeds that of both Black and Hispanic men.

Source: TIAA Institute-GFLEC Personal Finance Index (2021).

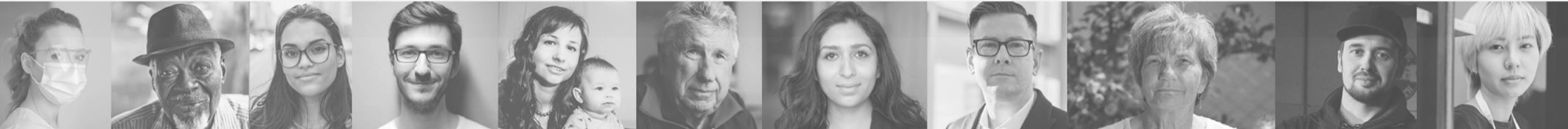


# Demographic variation: Age/Generations

*% of P-Fin questions answered correctly*

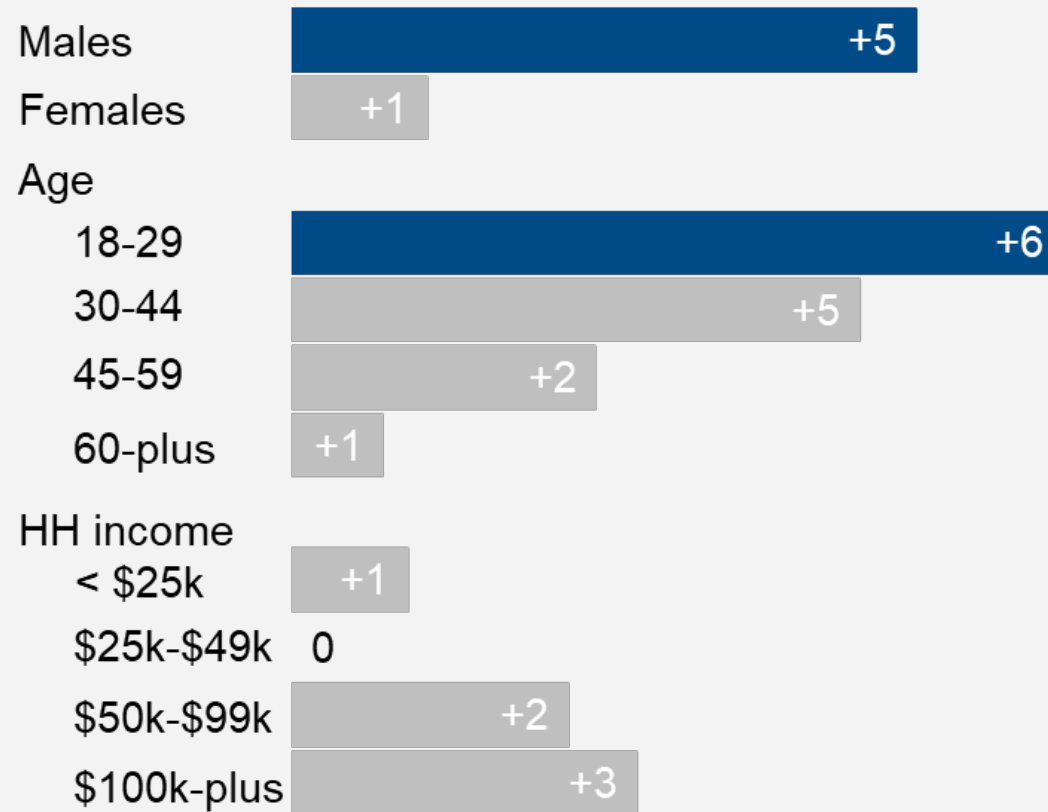


Source: TIAA Institute-  
GFLEC Personal Finance  
Index (2021).

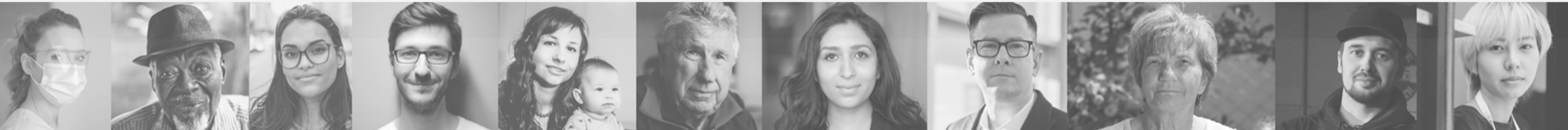


# Where changes happened over time: Toward an unequal path

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

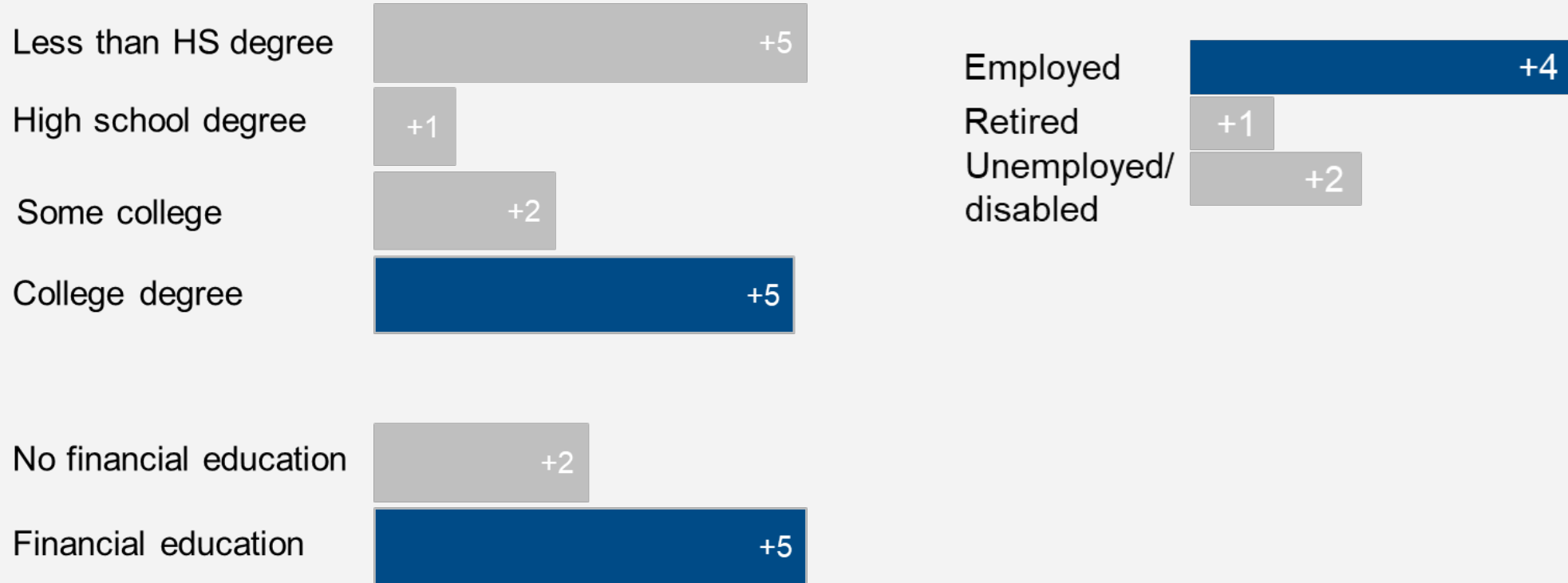


Source: TIAA  
Institute-GFLEC  
Personal Finance  
Index (2017,  
2020).

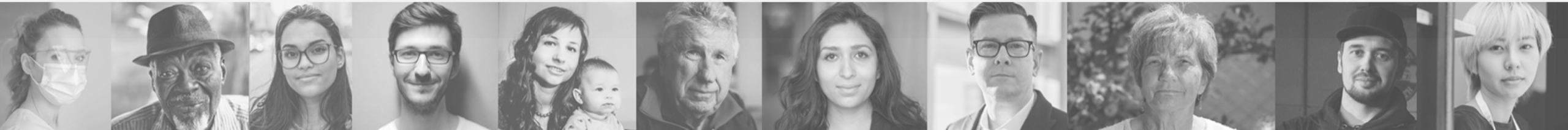


# Where changes happened over time: Toward an unequal path

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



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



# 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.

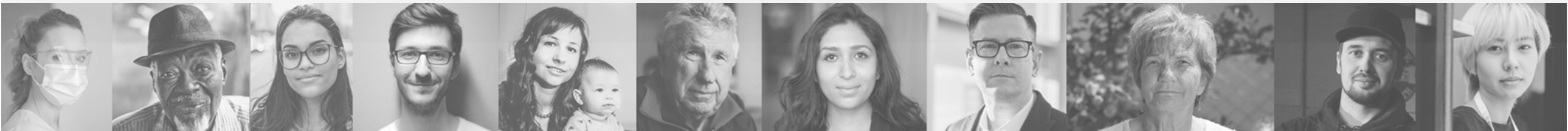
30%

Could not cope with a mid-sized financial shock of \$2,000 if an unexpected need arose within the next month.

31%

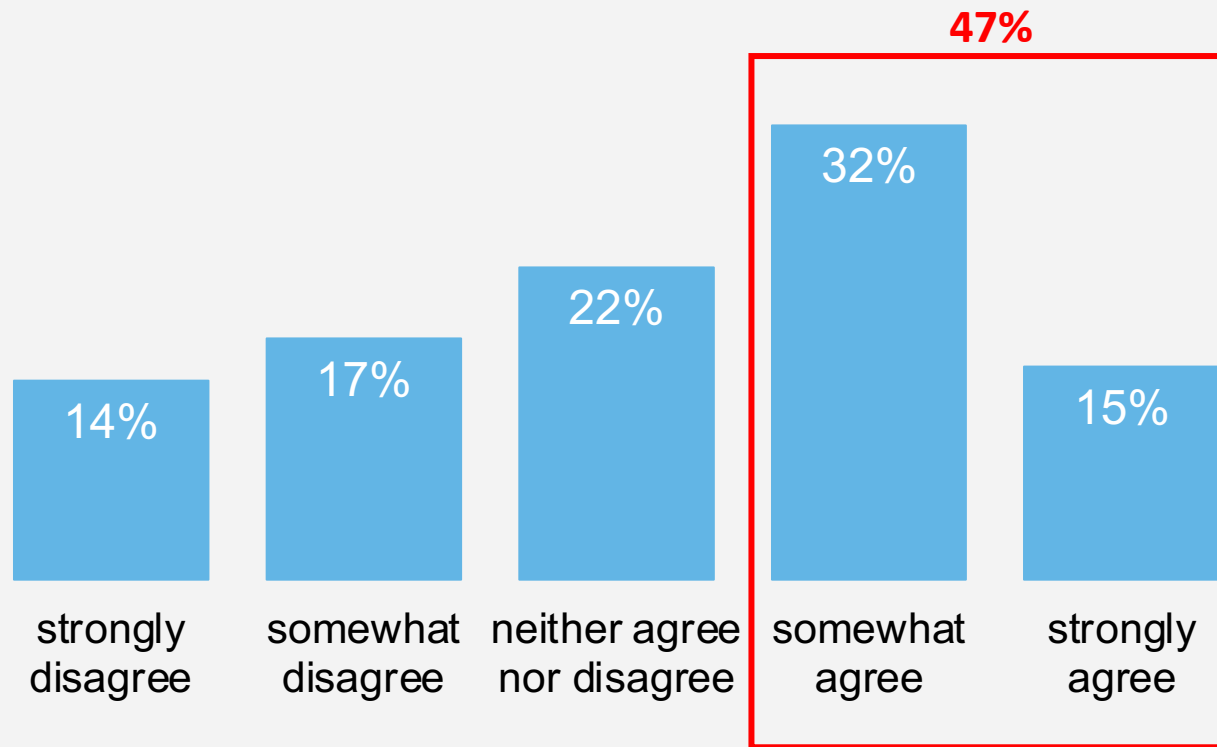
Debt and debt payments prevent them from adequately addressing other financial priorities.

Source: TIAA Institute-GFLEC  
Personal Finance Index (2021).



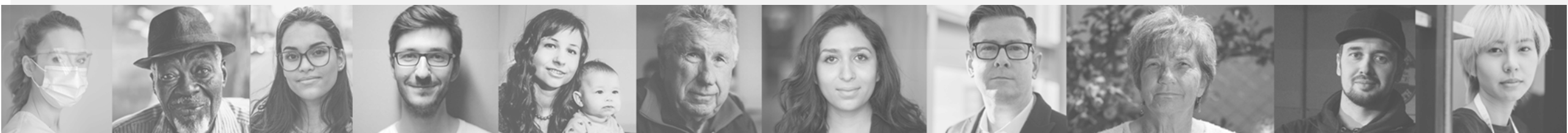
# Financial anxiety and stress

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



**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).

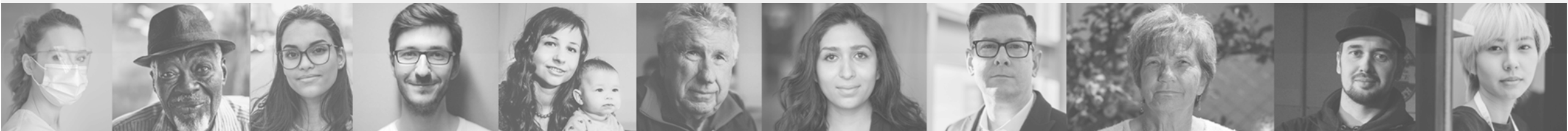




# Large heterogeneity across subgroups (1)

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

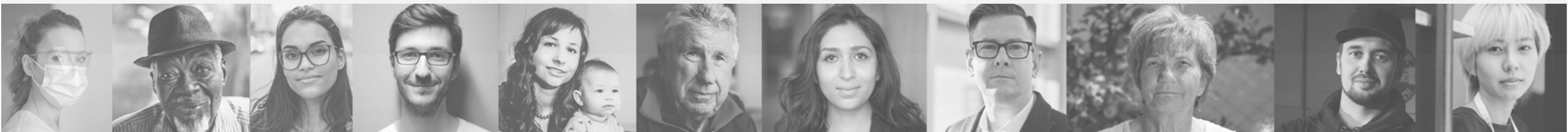
Source: TIAA Institute-  
GFLEC Personal Finance  
Index (2021).



# Large heterogeneity across subgroups (2)

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

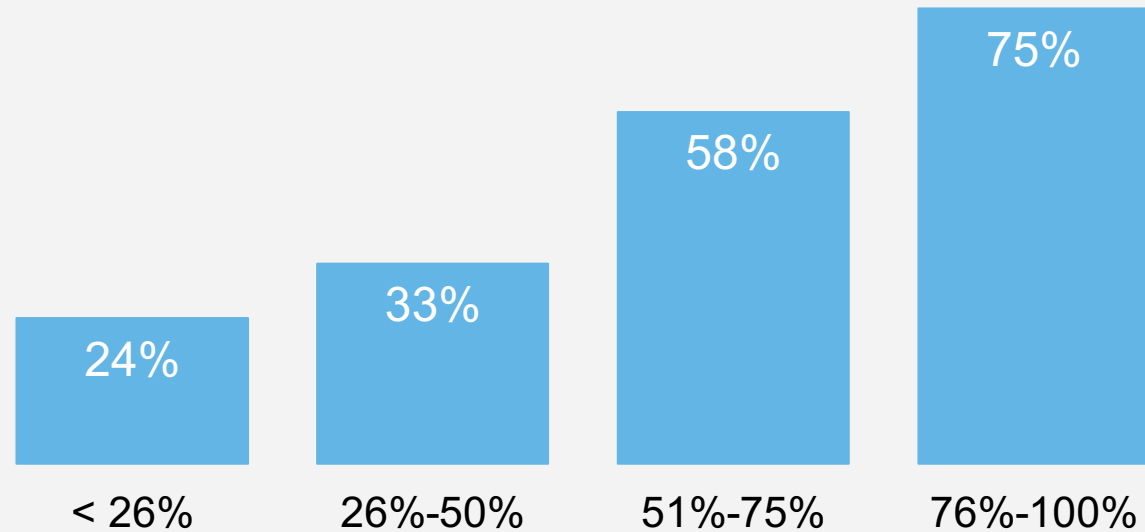
Source: TIAA Institute-  
GFLEC Personal Finance  
Index (2021).



# Short-term consequences

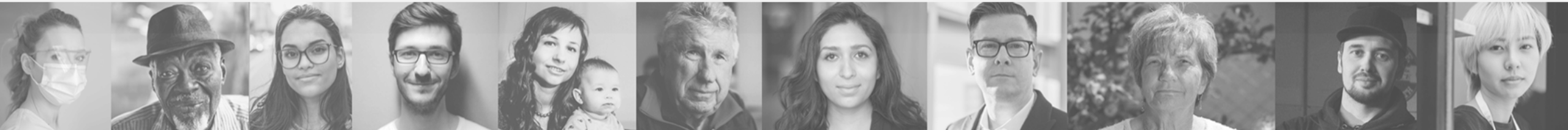
*% who could certainly come up with \$2,000 if an unexpected need arose within the next month*

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



*% of P-Fin questions answered correctly*

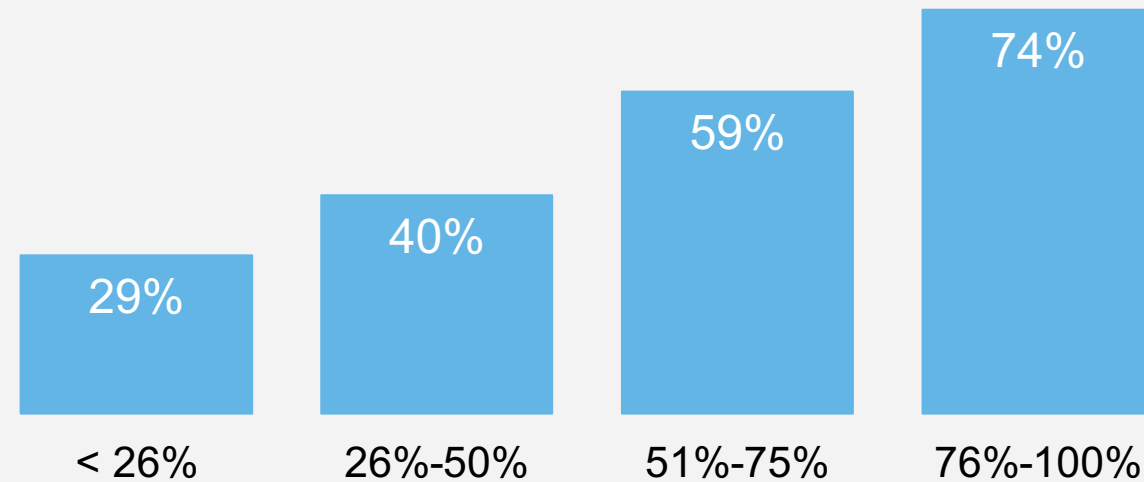
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# Financial freedom

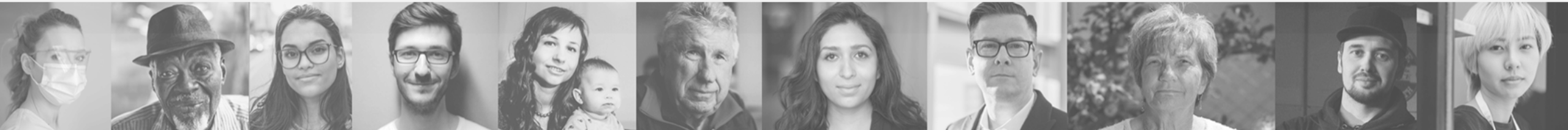
*% for whom debt and debt payments do not prevent adequately addressing other financial priorities*

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



% of *P-Fin* questions answered correctly

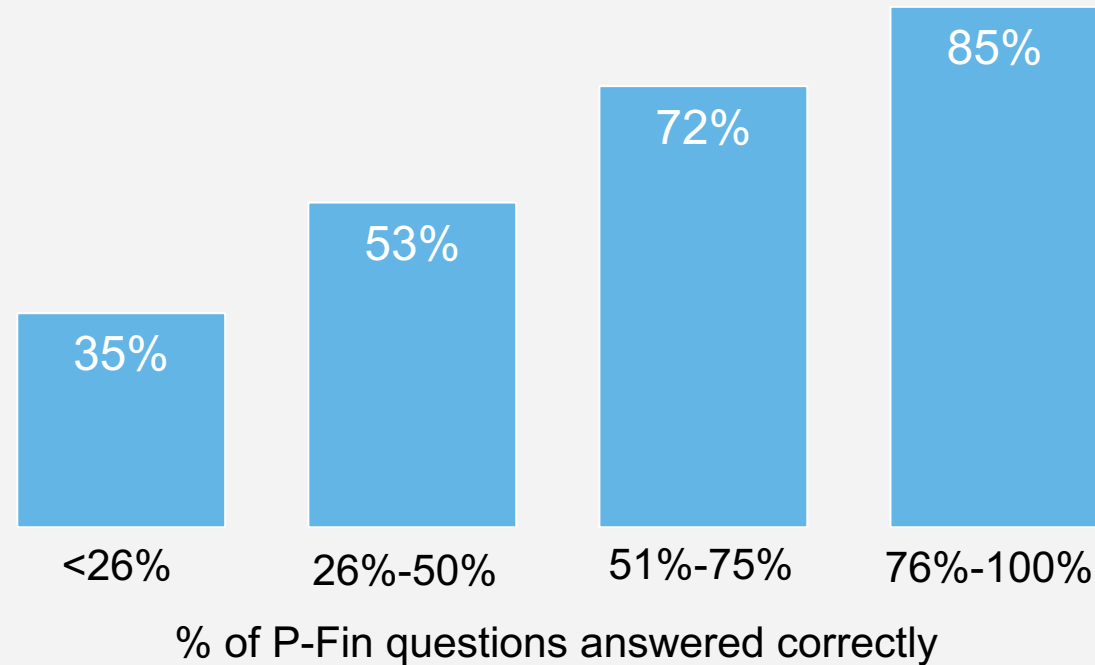
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



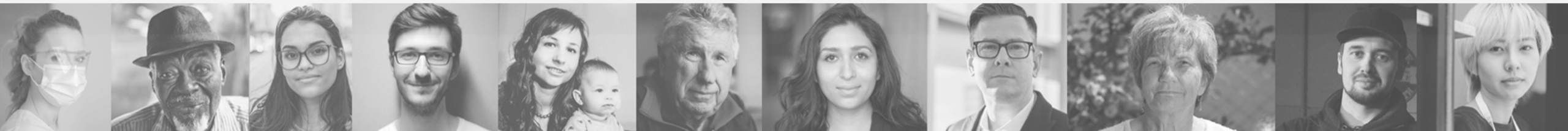
# Making ends meet

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

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



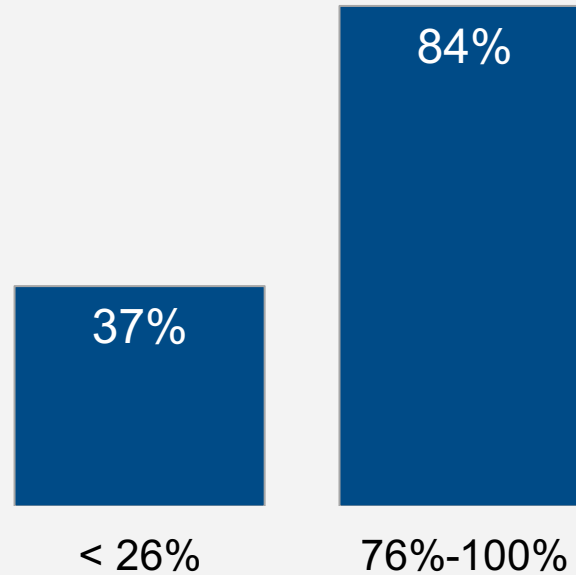
Source: TIAA Institute-GFLEC Personal Finance Index (2021).



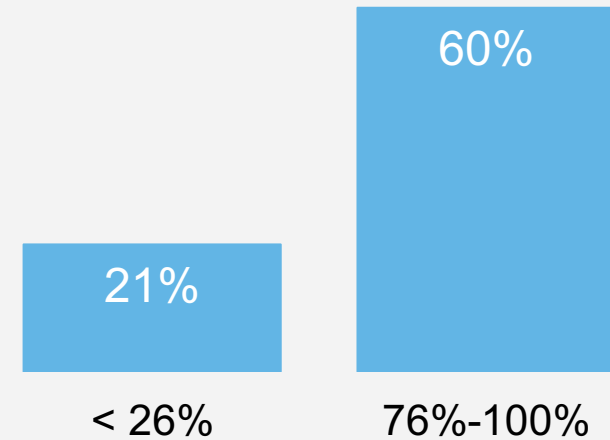
# Long-term consequences

**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*

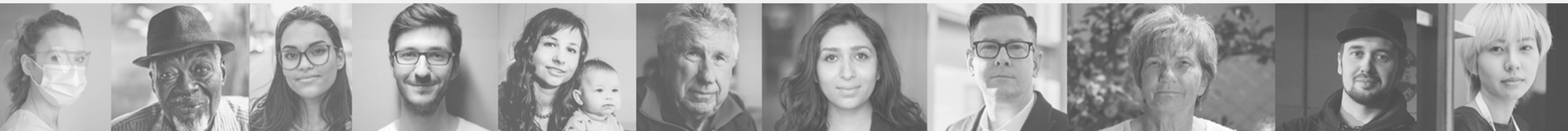


*% of non-retirees who have tried to determine how much they need to save for retirement*



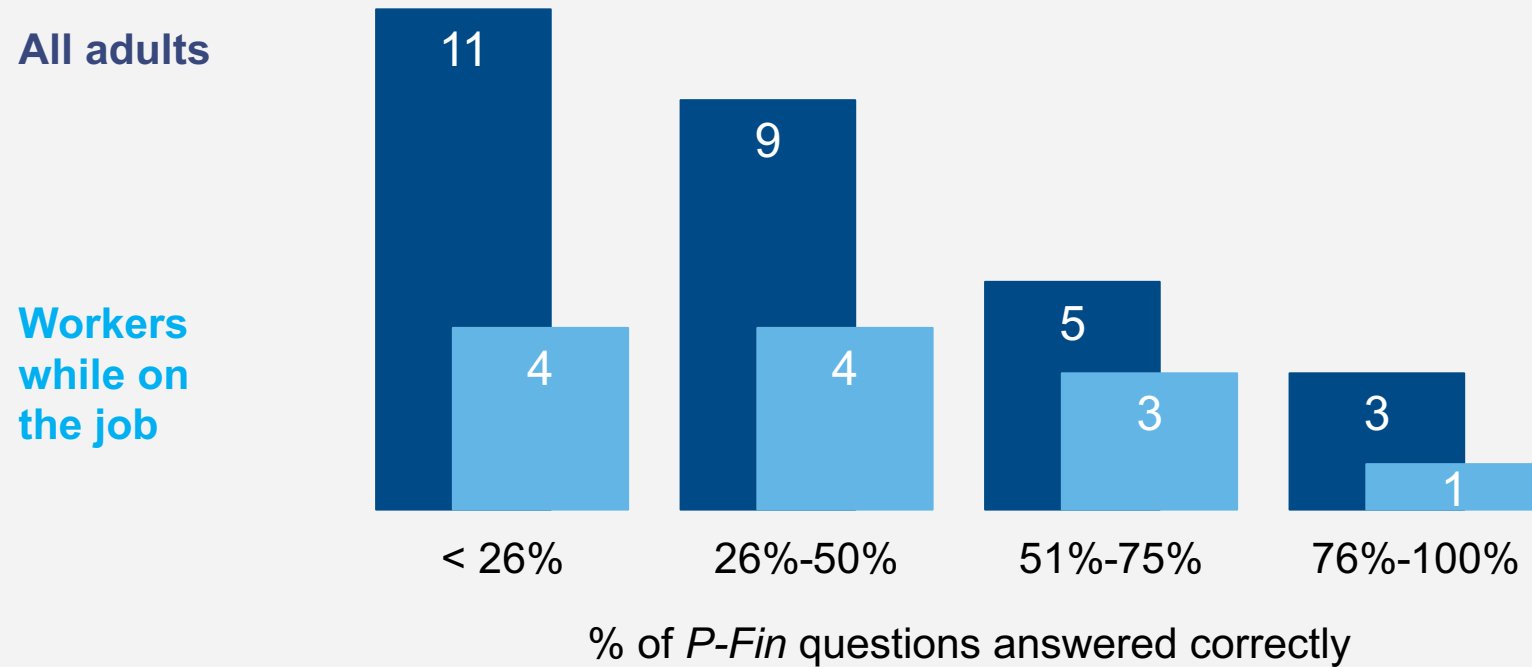
*% of P-Fin questions answered correctly*

Source: TIAA Institute-GFLEC Personal Finance Index (2021).



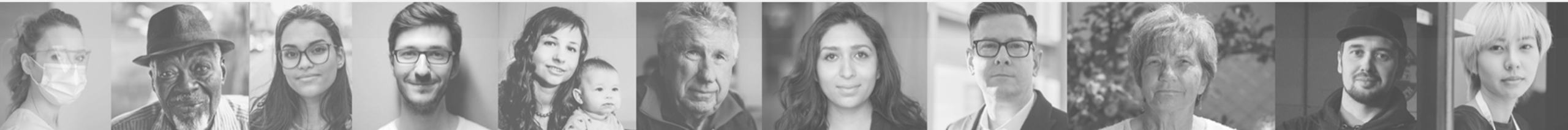
# Time on financial issues and problems

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



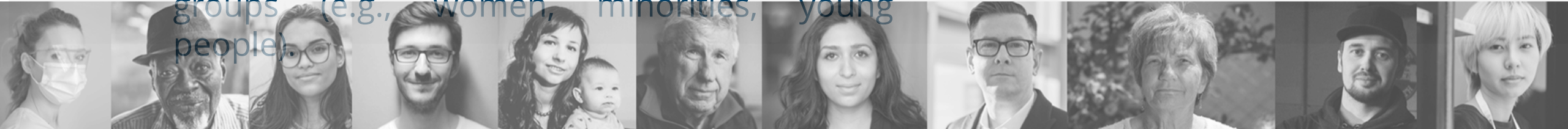
People spend an average of 7h per week thinking about and dealing with financial issues and problems. An average of 3h per week occur at work.

Source: TIAA Institute-GFLEC Personal Finance Index (2021).



# What we learn from research

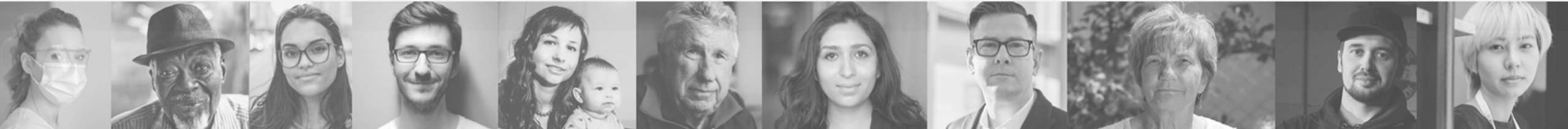
- Need to improve levels of financial literacy
  - Levels of knowledge are critically low
- Some topics are particularly complex
  - Risk and risk diversification
- Large heterogeneity across demographic subpopulations
  - One size does not fit all
- Customize programs
  - There is a need to target particularly vulnerable groups (e.g., women, minorities, young people)





# What we learn from research (2)

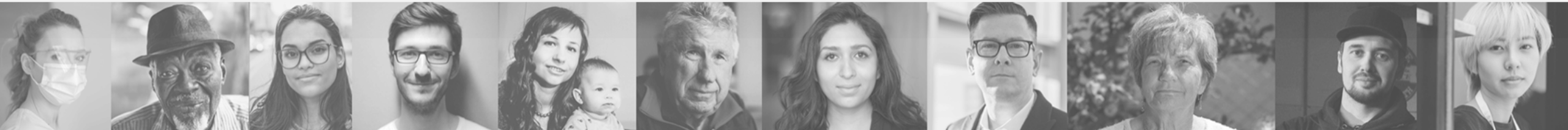
- Cannot focus on retirement saving only
  - Holistic approach to personal finance
- Need to boost confidence in women
  - Significant part of the financial literacy gender gap can be attributed to lack of confidence
- Cost of ignorance can be high
  - We can do some cost-benefit analysis



# Concluding remarks: The costs of ignorance

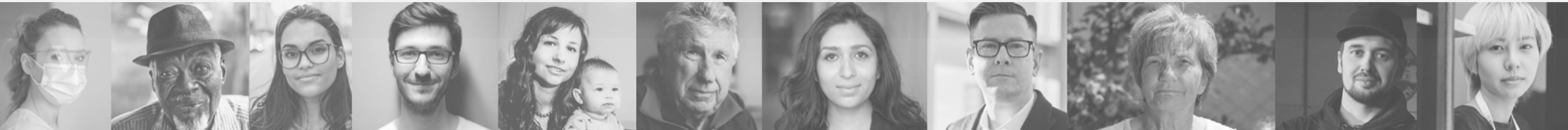
- Financial Illiteracy has dire implications for financial anxiety, financial fragility, and retirement planning.
- In January 2020, **before** the start of the pandemic, 27% of people were financially fragile, 61% had not planned for retirement, and people spent an average of 6h each week dealing with 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  $\geq 76\%$ ) are doing **between 3 and 4 times better** than the least financially literate.



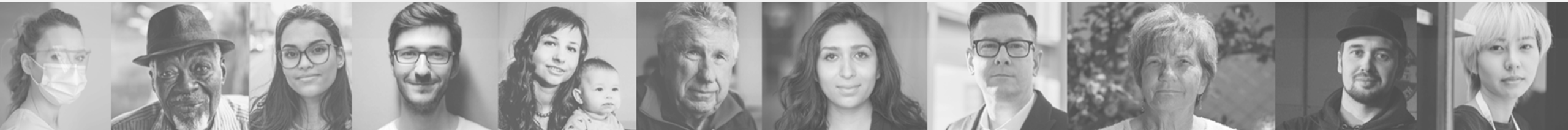
# Looking forward

- 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



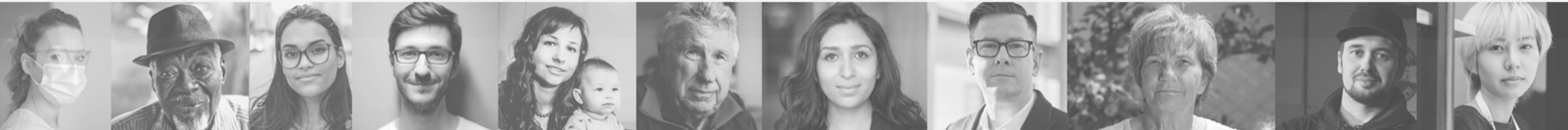
# Personal finance course at the George Washington School of Business

- 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

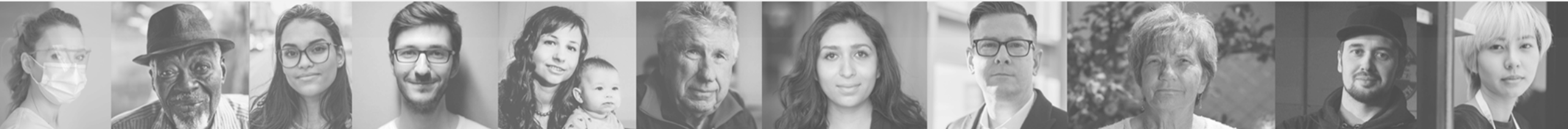


# Financial wellness in the workplace

- 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/>*



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





# Thank You!

More info at [www.gflec.org](http://www.gflec.org)

