

# Financial literacy and well-being in a five generation America

The 2021 *TIAA Institute-GFLEC Personal Finance Index*

**Paul J. Yakoboski**

TIAA Institute

**Annamaria Lusardi**

The George Washington University and  
Global Financial Literacy Excellence Center (GFLEC)

**Andrea Hasler**

The George Washington University School of Business  
and Global Financial Literacy Excellence Center (GFLEC)



# Executive summary

With five years of the Gen Z cohort now over age 18, the U.S. adult population spans five generations. This report uses data from the *2021 TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* to compare financial literacy across the Silent Generation, the Baby Boom Generation, Gen X, Gen Y (millennials) and Gen Z at this point in time. How well individuals navigate financial decisions throughout their lifetime depends, at least in part, on their financial literacy.

The *P-Fin Index* is a long-term project that annually assesses financial literacy among American adults. Gen Z was quota-sampled when fielding the 2021 *P-Fin Index* survey which enables comparisons with the other generations, as well as a closer examination within the Gen Z adult population. The *P-Fin Index* survey also includes indicators of financial wellness along several dimensions and those too are examined across generations and within Gen Z.

Key findings include:

- Financial literacy tends to be low within each of the five generations, but particularly so among Gen Z. Two-thirds of Gen Z could answer only 50% or less of the index questions correctly. By comparison, approximately 40% of baby boomers and the Silent Generation correctly answered no more than 50% of the questions. These findings indicate that individuals typically begin adulthood with low financial literacy and while it increases over time, financial literacy nonetheless tends to remain low.
- Within Gen Z, financial literacy tends to be lowest among those who have never attended college (currently or previously)—on average, they correctly answered 39% of the index questions. Current students and non-students who previously attended college tend to have the same level of financial literacy, the former correctly answered 43% of the *P-Fin Index* questions, on average, and the latter 45%.
- The *P-Fin Index* also enables nuanced analysis of financial literacy across eight functional areas. Functional knowledge tends to be greatest across generations in the areas of borrowing and saving. With that said, financial literacy in those two areas tends to be lower earlier in the lifecycle, particularly among Gen Z. At the other end of the spectrum, functional knowledge in the realm of insuring tends to be particularly low among Gen Z and Gen Y. For Gen Z, it is the area of lowest financial literacy.
- Gen Z is the generation most likely to have participated in a financial education class or program (40%); they are also the generation most likely to have been offered a financial education class or program (48%). Given that Gen Z adults are currently age 18 to 23, this indicates that financial education programs have become more common in secondary and higher education.
- The 2021 *P-Fin Index* data clearly depict the financial struggles that exist for many Americans. Examining the financial wellness indicators across generations reveals that financial challenges along many dimensions tend to be most common among Gen X. For example, 28% of Gen X report difficulty making ends meet in a typical month. The analogous figure is approximately 20% among Gen Z, Gen Y and baby boomers and 11% among the Silent Generation.
- Within Gen Z, financial challenges tend to be more common among those who have never attended college (currently or previously) than current students and non-students who previously attended college.
- The *P-Fin Index* has consistently found that financial wellness is linked to financial literacy and this holds across the five generations as well. Differences in financial wellness between those with relatively high and those with relatively low financial literacy tend to be most pronounced among Gen Y.
- While 39% of Americans say that the economic uncertainty created by COVID-19 has motivated them to increase their financial literacy, this feeling is significantly more common among Gen Z (52%), Gen Y (48%) and Gen X (44%) compared with baby boomers (29%) and the Silent Generation (20%).

## Introduction

Individuals are confronted with a myriad of financial decisions—big and small, simple and complex—throughout the normal course of life. What’s more, there is no warmup or trial period, financial decision-making, including significant decisions with long-term ramifications, begins with the onset of adulthood if not sooner. While some financial decisions that individuals face are life-stage dependent, others are not, and the need to make financial decisions never completely ends. How well individuals navigate financial decisions throughout their lifetime depends, at least in part, on their financial literacy.

This report leverages the 2021 *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* to examine financial literacy and financial well-being across the five generations comprising the U.S. adult population (ages 18 and older). These five generations in turn cover multiple life and career stages.

- The Silent Generation (born 1945 and earlier) is currently age 75 and older. Not surprisingly, 95% consider themselves to be retired. Sixty-nine percent are married or living with a partner; 23% are widowed. Twenty-eight percent live alone.
- The Baby Boom Generation (born 1946–1964) ranges from age 56 to 74 and straddles any conventional view of normal retirement age. Fifty-five percent of baby boomers consider themselves to be retired, 45% do not. Sixty-nine percent are married or living with a partner. Twenty-seven percent live alone.
- Gen X (born 1965–1980) spans the ages 40 to 55 and is in the mid-career/mid-life stage, with only 8% viewing themselves as retired. Seventy-three percent are married or living with a partner.
- Gen Y (born 1981–1996) is in early adulthood covering ages 24 to 39. Having entered working age, 80% are employed or currently unemployed, 10% are homemakers, 4% are disabled and 2% are students. Sixty-one percent are married or living with a partner.
- Gen Z (born 1997–2002) adults range from age 18 to 23.<sup>1</sup> Thirty-eight percent classify themselves as a student, while 59% are employed or currently unemployed. While just 14% have a spouse or partner, only 11% live alone.

<sup>1</sup> Gen Z in its entirety was born between 1997 and 2012.

Any opinions expressed herein are those of the authors, and do not necessarily represent the views of TIAA, the TIAA Institute or any other organization with which the authors are affiliated.

The *P-Fin Index* is an annual barometer of financial literacy among the U.S. adult population. It measures knowledge and understanding that enable sound financial decision making and effective management of personal finances. The *P-Fin Index* is based on responses to a 28-question<sup>2</sup> survey covering eight areas in which individuals inherently function.<sup>3</sup>

1. Earning—determinants of wages and take-home pay.
2. Consuming—budgets and managing spending.
3. Saving—factors that maximize accumulations.
4. Investing—investment types, risk and return.
5. Borrowing/managing debt—relationship between loan features and repayments.
6. Insuring—types of coverage and how insurance works.
7. Comprehending risk—understanding uncertain financial outcomes.
8. Go-to information sources—recognizing appropriate sources and advice.

This survey design produces measures of financial literacy across these functional areas that in turn aggregate to a robust measure of overall personal finance knowledge. In addition to the core set of questions that assess financial literacy, the *P-Fin Index* survey contains questions that are indicators of financial well-being. This provides insights into the state of Americans' personal finances along several dimensions and enables examining the relationship between financial literacy and financial wellness. Financial literacy matters because financial wellness depends, in part, on an individual's financial decisions and practices.

The *P-Fin Index* survey is fielded online in January each year with a sample of U.S. adults, ages 18 and older. Responses are weighted to be nationally representative and results are available across various socio-demographic segments of the population. 2021 marks the fifth year of the project.<sup>4</sup> With a sample size of 3,035 respondents and quota sampling for Gen Z in 2021, comparisons of financial literacy and financial well-being across the Silent Generation, the Baby Boom Generation, Gen X, Gen Y and Gen Z are possible for the first time with the 2021 *P-Fin Index*.<sup>5</sup>

2 Each question is structured as multiple choice with four response options: the correct answer, two incorrect answers and "don't know."

3 These areas correspond to the National Standards for Financial Literacy outlined by the Council for Economic Education. See <http://councilforeconed.org/resource/national-standards-for-financial-literacy/>.

4 See Lusardi, Oggero and Yakoboski (2017) and Yakoboski, Lusardi and Hasler (2018, 2019, 2020, 2021).

5 The survey was fielded from January 6 to January 20, 2021, with a sample drawn from Ipsos' KnowledgePanel, a large-scale probability-based online panel. The 3,035 respondents consisted of 450 Gen Z (born 1997-2002), 663 Gen Y (1981-1996), 643 Gen X (1965-1980), 1,043 baby boomers (1946-1964) and 236 members of the Silent Generation (1929-1945).

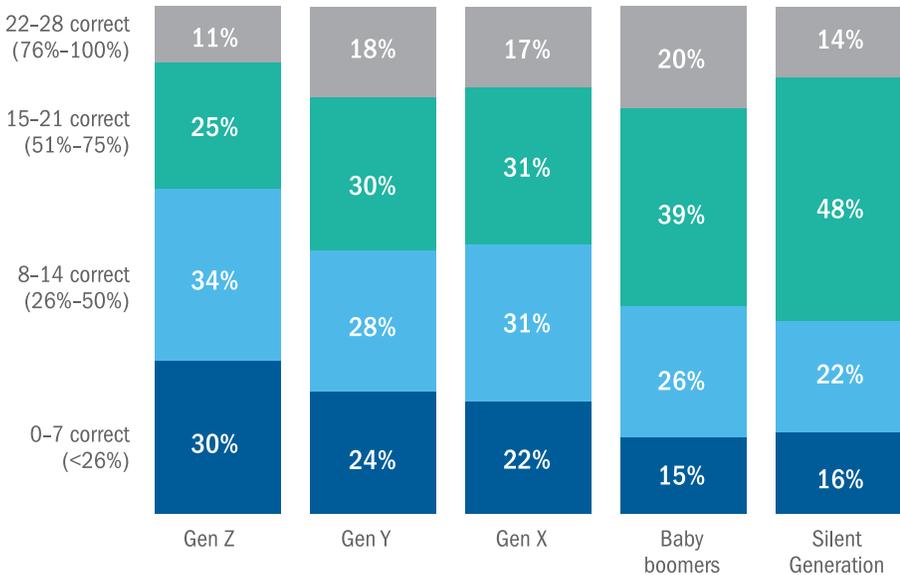
## Financial literacy across five generations

A significant share of Americans functions from a position of poor financial literacy. On average, U.S. adults have consistently answered only about 50% of the *P-Fin Index* questions correctly over the first five years of the project.<sup>6</sup> Furthermore, financial literacy tends to be low within each of the five generations comprising the adult population. While financial literacy tends to be greatest among baby boomers and the Silent Generation, the average percentage of questions answered correctly is nonetheless only 55% among each. Among Gen X, Gen Y and Gen Z, the percentage of *P-Fin Index* questions answered correctly is 49%, 48% and 43%, respectively.

Figure 1 provides a more nuanced look at financial literacy levels across the five generations and highlights the particularly low level of financial literacy among those at the beginning of adulthood. Two-thirds of Gen Z could answer only 50% or less of the index questions correctly in 2021; 30% correctly answered no more than 25% of the questions. By comparison, a little over one-half of Gen X and Gen Y correctly answered no more than 50% of the questions; the analogous figure among baby boomers and the Silent Generation was approximately 40%.

**Figure 1. Financial literacy within generations**

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



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

<sup>6</sup> See Yakoboski, Lusardi and Hasler (2021). The percentage of *P-Fin Index* questions answered correctly, on average, was 49% in 2017, increasing to 52% in 2020 and then dropping to 50% in 2021.

It is important to note that generations are being used for age groups in examining and reporting financial literacy levels across the population. Observed differences in financial literacy should be attributed to the different life stages of the generations, as opposed to true generational differences. So the greater financial literacy that tends to exist among baby boomers and the Silent Generation relative to Gen X and Gen Y relative to Gen Z reflects an increase in financial literacy that typically accrues as individuals advance through life. True generational differences would mean differences when comparing generations at the same age range; five years of data is far too little for such comparisons.

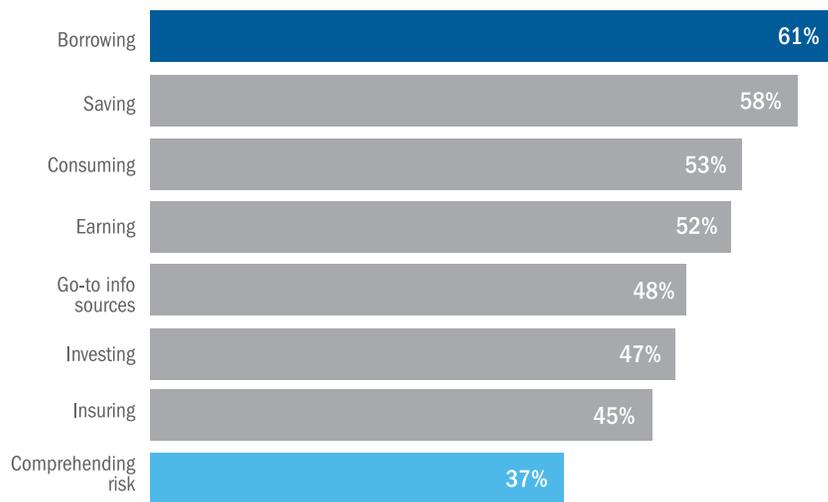
Unfortunately, these findings mean that the typical individual begins adulthood with low financial literacy and while it increases with time, financial literacy nonetheless tends to remain low. This is particularly troubling since the *P-Fin Index* gauges working knowledge related to common financial situations. It matters across generations, across life stages.

### Functional knowledge

As previously discussed, the *P-Fin Index* measures financial literacy across eight functional areas. Figure 2 rank orders those areas based on financial literacy levels for each. In the five years of the *P-Fin Index* to date, borrowing has consistently been the area of greatest functional knowledge among U.S. adults, while financial literacy has consistently been lowest in the realm of comprehending and understanding risk and uncertainty.<sup>7</sup>

**Figure 2. Functional knowledge among U.S. adults**

% of *P-Fin Index* questions answered correctly



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

<sup>7</sup> This finding is consistent with other research identifying risk-related concepts as the most difficult for individuals to grasp. See Coppola et al. (2017) and Lusardi (2015).

Figure 3 shows financial literacy in each functional area across generations. Several findings stand out.

- Functional knowledge tends to be greatest across generations in the areas of borrowing and saving. With that said, financial literacy in these areas tends to be lower earlier in the lifecycle, particularly among Gen Z.
- At the other end of the spectrum, functional knowledge in the realm of insuring tends to be particularly low among Gen Z and Gen Y, showing the largest gap with the older generations. For Gen Z, it even is the area of lowest financial literacy with only 28% of the questions answered correctly, on average. For Gen Y, it is essentially tied with comprehending risk as the area of lowest financial literacy. A failure to optimize insurance choices—including mandatory purchases such as auto insurance and health insurance, and buying insurance to cover risks that might better be self-insured such as laptop, cell phone, and other consumer good warranties—has budget implications at a life stage when earnings tend to be lowest.
- Earnings is another realm where Gen Z functional knowledge is relatively low, but this may be attributable to one-third of Gen Z being students.

### Figure 3. Functional knowledge across generations

% of *P-Fin Index* questions answered correctly

	Gen Z	Gen Y	Gen X	Baby boomers	Silent Generation
Borrowing	52% (1)	60% (1)	59% (1)	66% (1)	64% (1)
Saving	52% (1)	57% (2)	54% (2)	61% (2)	62% (2)
Consuming	50% (3)	53% (3)	52% (3)	55% (4)	50% (7)
Earning	43% (5)	51% (4)	52% (3)	56% (3)	56% (3)
Go-to info sources	44% (4)	48% (5)	44% (6)	51% (7)	52% (5)
Investing	39% (6)	43% (6)	45% (5)	52% (6)	52% (5)
Insuring	28% (8)	38% (7)	44% (6)	54% (5)	56% (3)
Comprehending risk	33% (7)	37% (8)	36% (8)	39% (8)	40% (8)

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

### **Risk in the context of a pandemic**

Comprehending risk along with the ability to process the ways in which relative risks can be communicated are clearly relevant in non-financial realms, as well, such as healthcare. For example, in the context of the COVID-19 pandemic, individuals have been confronted with terminology involving probabilities regarding infection and spread of the disease, as well as vaccine effectiveness. Given this, the following question was added to the 2021 *P-Fin Index* survey:

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

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

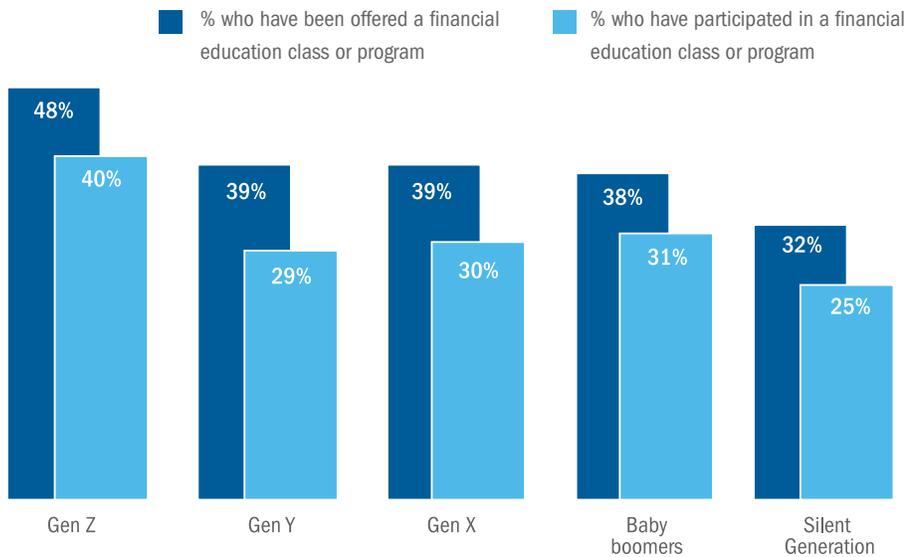
Among each generation, the majority of U.S. adults could not correctly answer this question, implying that basic but crucial health information may often be misunderstood. With that said, younger individuals are significantly more likely to answer correctly. Thirty-seven percent of Gen Z and 36% of Gen Y correctly answered the question compared with 24% of Gen X and 23% of baby boomers. Only 17% of the Silent Generation answered correctly.

### **Financial education and financial literacy**

The generation most likely to have participated in a financial education class or program is Gen Z (40%); they are also the generation most likely to have been offered a financial education class or program (48%) (Figure 4). In comparison, almost 40% of Gen Y, Gen X and baby boomers have been offered a financial education class or program. Given that Gen Z adults are currently age 18 to 23, this indicates that financial education programs have become more common in schools.<sup>8</sup>

<sup>8</sup> As of 2020, 21 states require high school students to take a personal finance course. This is a significantly higher number than it was in 1998 when just one state required personal finance education. See Council for Economic Education (2020).

**Figure 4. Receipt of financial education by generation**



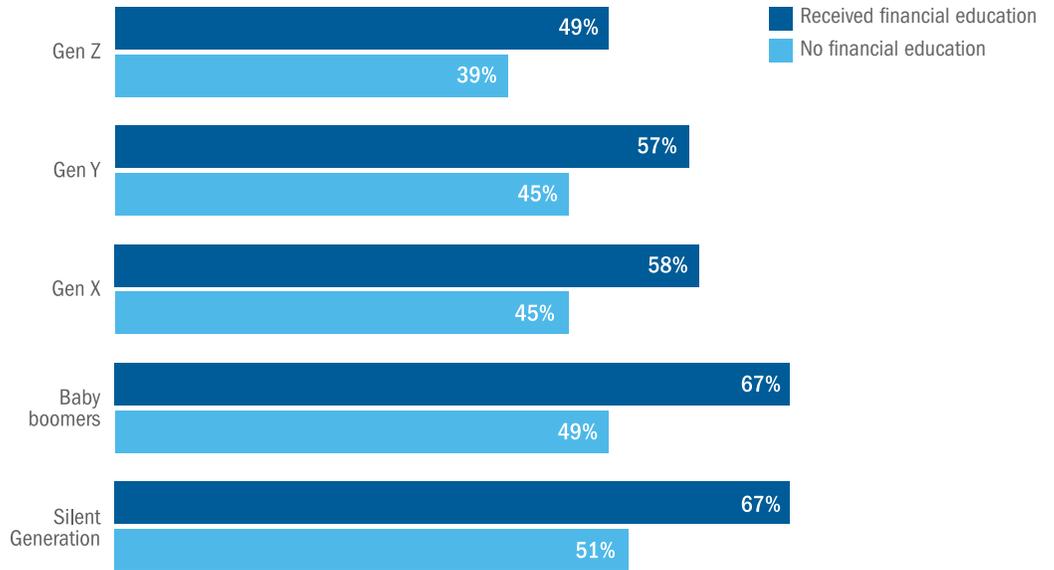
Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Financial education is clearly associated with greater financial literacy. Among all U.S. adults, those who have received financial education correctly answered 60% of the *P-Fin Index* questions, on average; the analogous figure among those who have not received financial education is 46%. Figure 5 shows that this relationship holds across the five generations. The smallest financial literacy difference between those who have and those who have not received financial education exists among Gen Z—10 percentage points in the percent of *P-Fin Index* questions answered correctly.<sup>9</sup> The differential increases with age to 18 percentage points among baby boomers. This is not surprising—older adults are more likely to have received financial education in the workplace and in that context it is more likely to address issues with greater immediacy for them. There may also be a positive interaction between financial education and experience, i.e., financial education may position individuals for greater increases in financial literacy over time.

<sup>9</sup> This holds as well when the difference is calculated in percentage terms rather than percentage points.

## Figure 5. Financial literacy by generation and financial education

% of P-Fin Index questions answered correctly



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

### A closer look at Gen Z

As noted earlier, Gen Z adults currently span a small age range—18–23—that results in a stark demographic difference with the four older generations. Thirty-eight percent of Gen Z adults report their employment status as being a student, while 47% report their employment status as employed (25% as employed full-time).<sup>10</sup> By comparison, only 2% of Gen Y report their employment status as being a student and 74% as employed. Among Gen Z non-students, 37% have not attended college, while 16% have a college degree and 47% have attended college but not earned a degree.

In light of the vastly different composition of Gen Z along this dimension, Figure 6 compares financial literacy among Gen Z students and non-students.<sup>11</sup> The latter is further divided into those who previously attended college (both those with and without a degree) and those who have not attended college. Several differences are apparent.

<sup>10</sup> The vast majority of students are college students, 80% reported having a high school degree or some college but no degree yet and only 3% have already earned a Bachelor's degree or higher.

<sup>11</sup> The category of non-students includes those employed, unemployed, disabled and homemakers.

## Figure 6. Financial literacy across Gen Z

% of *P-Fin Index* questions answered correctly

	Students	Non-students	
		Attended college	No college
Overall	43%	45%	39%
<b>Functional knowledge</b>			
Borrowing	52% (1)	56% (1)	46% (2)
Saving	52% (1)	56% (1)	48% (1)
Consuming	52% (1)	53% (3)	46% (2)
Earning	42% (5)	46% (4)	41% (4)
Go-to info sources	48% (4)	45% (5)	37% (5)
Investing	39% (6)	42% (6)	37% (5)
Comprehending risk	33% (7)	34% (7)	34% (7)
Insuring	27% (8)	31% (8)	25% (8)

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

Within Gen Z, financial literacy tends to be lowest among those who have never attended college (currently or previously)—on average, they correctly answered 39% of the index questions. Current students and non-students who previously attended college tend to have the same level of financial literacy, the former correctly answered 43% of the *P-Fin Index* questions, on average, and the latter 45%.

Comparing functional knowledge across the three Gen Z groups:

- There is only minor variation in the rank ordering of functional knowledge areas based on the percentage of questions answered correctly.
  - The top three areas of functional knowledge among each group are the same.
  - Insuring is the area of lowest functional knowledge among each group, comprehending risk is next lowest.
- Comprehending risk is the only functional area where financial literacy among the three groups is essentially equal.
- Among non-students, functional knowledge in every area except comprehending risk tends to be greater among those who previously attended college.

## Financial wellness across five generations

Data from the 2021 *P-Fin Index* clearly depict the precarious financial situation and struggles that exist for many American adults. These challenges are manifested in various, often interrelated, ways. For starters, 22% of U.S. adults find it difficult to make ends meet in a typical month. Given such immediate financial concerns, it is not surprising that many have limited capacity to cope with financial setbacks. Thirty percent report that they certainly or probably could not raise \$2,000 if an unexpected need arose within the next month. Debt issues are part of the dynamic for many. Debt and debt payments prevent 31% from adequately addressing other financial priorities. Furthermore, 18% of U.S. adults spend 10 hours or more per week thinking about and dealing with personal finance issues and problems.

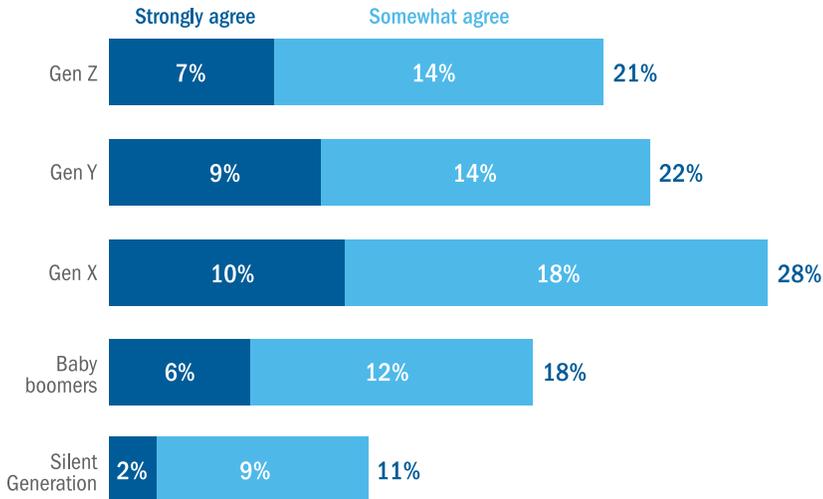
Examining these financial wellness indicators across generations reveals some general patterns. In particular, financial challenges along many dimensions tend to be most common among Gen X. In addition, these financial challenges are significantly less common among baby boomers and the Silent Generation.

Twenty-eight percent of Gen X report difficulty making ends meet in a typical month, significantly more than any other generation (Figure 7). This figure drops to 18% among baby boomers and 11% among the Silent Generation. In a complementary question, 28% of Gen X report that they cannot pay all bills, including loan payments and credit cards, in full and on time in a typical month. The analogous figure among baby boomers and the Silent Generation was 16% and 10%, respectively.<sup>12</sup>

<sup>12</sup> Twenty-one percent of Gen Z and 22% of Gen Y reported that they cannot pay all bills in full and on time in a typical month.

## Figure 7. Month-to-month financial challenges

In a typical month, it is difficult for me to make ends meet.



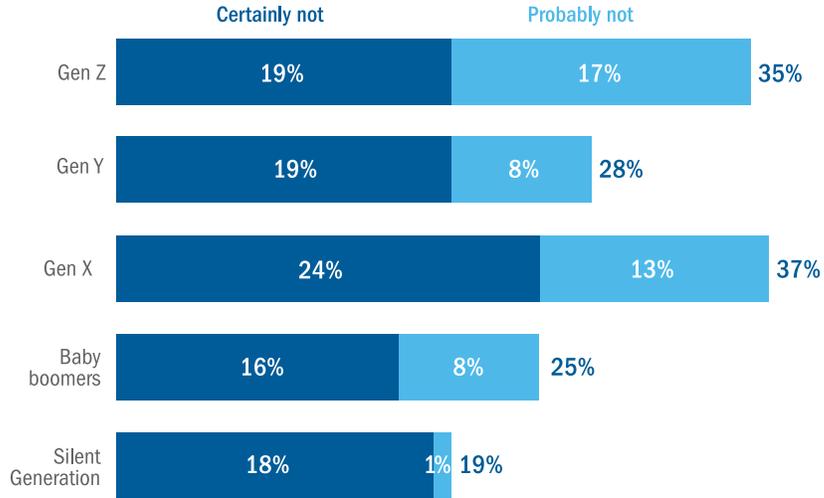
Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Thirty-seven percent of Gen X report that they certainly or probably could not come up with \$2,000 if an unexpected need arose in the next month (Figure 8). While the analogous figure among Gen Z is essentially equal at 35%, Gen X is more likely to be certain that they could not raise \$2,000 (24% versus 19%). Financial resilience tends to be strongest among the Silent Generation, only 19% feel that they could not come up with \$2,000 for an unexpected need within the next month; this figure is 25% among baby boomers.<sup>13</sup> This may indicate that retirement savings and benefits are resources on which many retirees can rely.

<sup>13</sup> Non-retired respondents were asked whether they have non-retirement savings sufficient to cover one month of living expenses if needed. Thirty percent of baby boomers do not have this level of emergency savings. The analogous figure among Gen X is 43%, among Gen Y it is 40%, and 48% among Gen Z.

## Figure 8. Financial resilience

Could not come up with \$2,000 if an unexpected need arose in the next month.

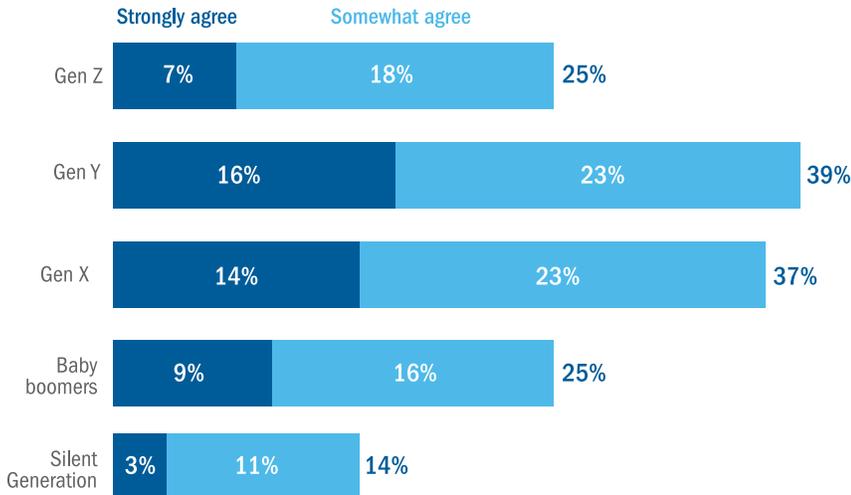


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Debt constraint is most common among Gen Y and Gen X. Almost 40% of each report that debt and debt payments prevent them from adequately addressing other financial priorities (Figure 9). The analogous figure is 25% among both baby boomers and Gen Z. Debt constraint is least common among the Silent Generation, which likely coincides with the fact that they are at a later stage in life and have had more time to pay down their debt.

## Figure 9. Debt constraint

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

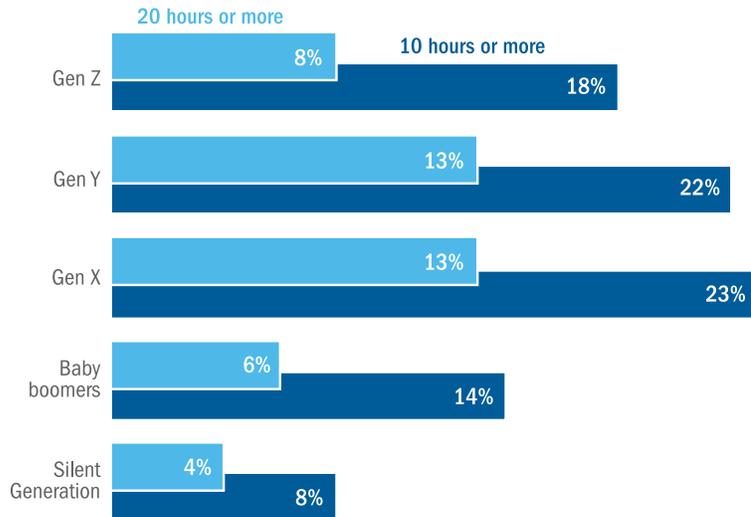


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Spending significant amounts of time thinking about and dealing with issues and problems related to personal finances is most common among Gen X and Gen Y, which reinforces previous findings indicating that they tend to struggle the most with personal finance issues. Thirteen percent of Gen X and Gen Y typically spend 20 hours or more per week on personal finance issues; over 20% of each typically spend 10 hours or more per week on personal finance issues (Figure 10). In comparison, 14% of baby boomers typically spend 10 or more hours per week on personal finances and only 6% spend 20 hours or more. The analogous figures for the Silent Generation are 8% and 4%, respectively.

## Figure 10. Time

Time typically spent per week thinking about and dealing with issues and problems related to personal finances

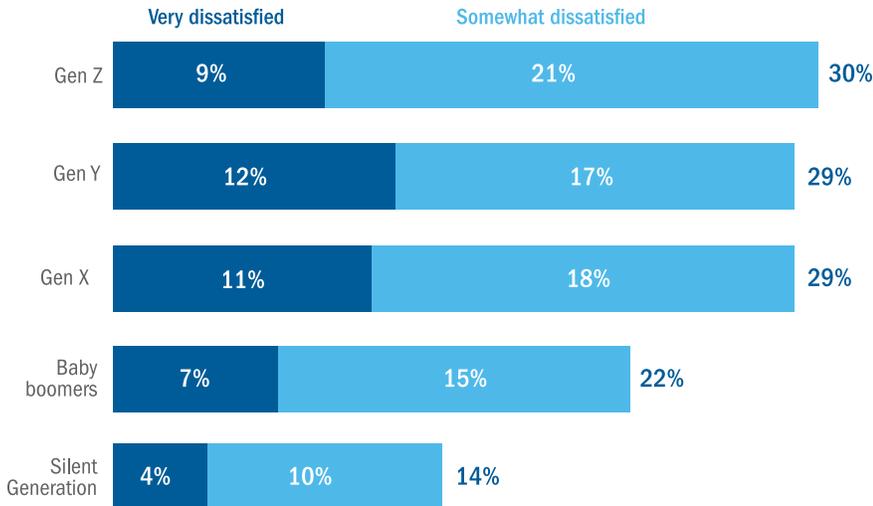


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Overall, 26% of U.S adults are dissatisfied with their current financial situation, 9% are very dissatisfied. Dissatisfaction is most common among Gen X, Gen Y and Gen Z and least common among the Silent Generation. Thirty percent each of Gen X, Gen Y and Gen Z are dissatisfied with the current state of their personal finances (Figure 11). In comparison, only 14% of the Silent Generation is dissatisfied, as is 22% of baby boomers. These generational differences in financial satisfaction align with the findings and financial struggles discussed above.

## Figure 11. Today

### Dissatisfaction with current financial condition

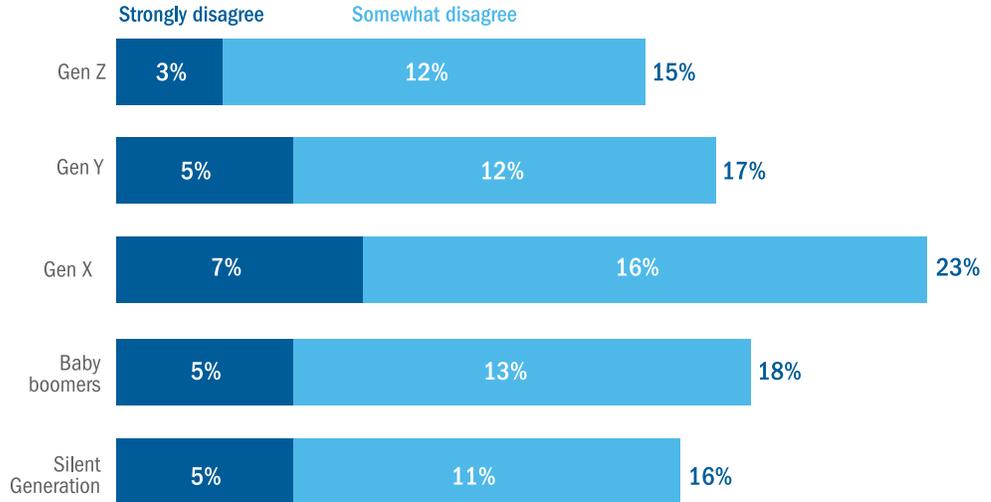


Source: TIAA Institute-GFLEC Personal Finance Index (2021).

Looking ahead, 19% of U.S. adults are not confident about achieving their longer-term financial goals. This lack of confidence is most common among Gen X—23% disagree with the statement “I am confident about achieving my longer-term financial goals.” The analogous figure among the other four generations falls between 15% and 18% (Figure 12).

## Figure 12. Tomorrow

I am confident about achieving my longer term financial goals.



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

### Another look at Gen Z

Within Gen Z, financial challenges tend to be more common among those who have never attended college (currently or previously) than current students and non-students who previously attended college. More specifically, the following issues are most common among Gen Z who have not attended college (Figure 13):

- Having difficulty making ends meet.
- Being unable to raise \$2,000 for an unexpected expense.
- Spending 10 or more hours per week on personal finance issues and problems.
- Being dissatisfied with their current financial condition.
- Lacking confidence about achieving their longer-term financial goals.

Financial challenges are least common among Gen Z who are current students along several dimensions:

- Having difficulty making ends meet.
- Being debt constrained.
- Spending 10 or more hours per week on personal finance issues and problems.

**Figure 13. Financial wellness across Gen Z**

	Students	Non-students	
		Attended college	No college
In a typical month, it is difficult for me to make ends meet.	15%	19%	32%
Could not come up with \$2,000 if an unexpected need arose in the next month.	39%	33%	48%
Debt and debt payments prevent me from adequately addressing other financial priorities.	21%	26%	29%
Typically spend 10 or more hours per week thinking about and dealing with issues and problems related to personal finances.	8%	20%	33%
Dissatisfied with current financial condition.	24%	28%	45%
Not confident about achieving longer-term financial goals.	14%	14%	18%

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

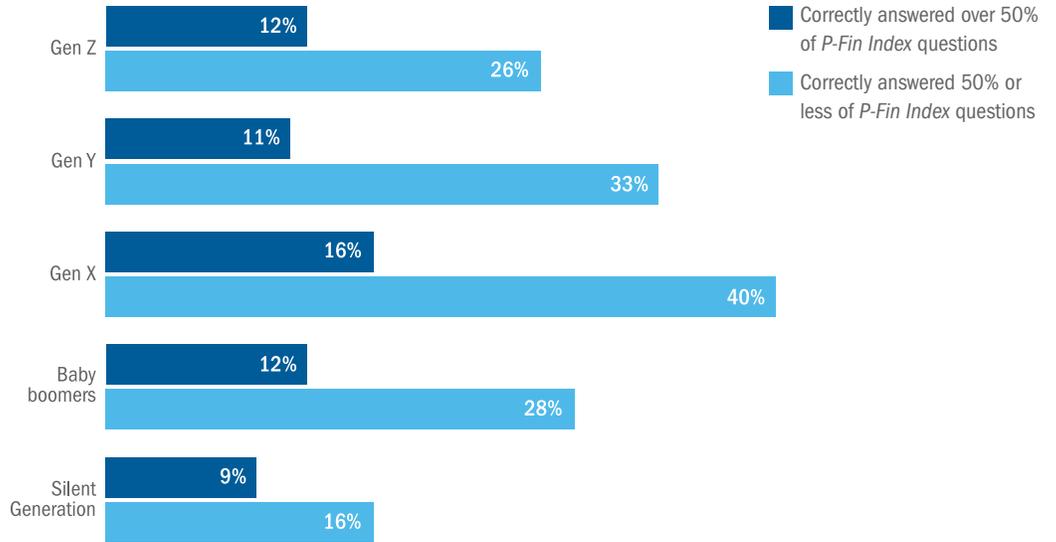
## The link between financial wellness and financial literacy

Over its first five years, the *P-Fin Index* has consistently found that financial wellness is linked to financial literacy—greater financial literacy generally translates into better financial well-being and lower financial literacy is generally associated with lesser financial well-being. This finding holds across generations as well. Within each generation, the following issues are more common among those with lower levels of financial literacy:

- Having difficulty making ends meet in a typical month (Figure 14).
- Being unable to raise \$2,000 for an unexpected expense, except for the Silent Generation (Figure 15).
- Being debt constrained (Figure 16).
- Spending time thinking about and dealing with issues and problems related to personal finances (Figure 17).

## Figure 14. Financial literacy and financial wellness

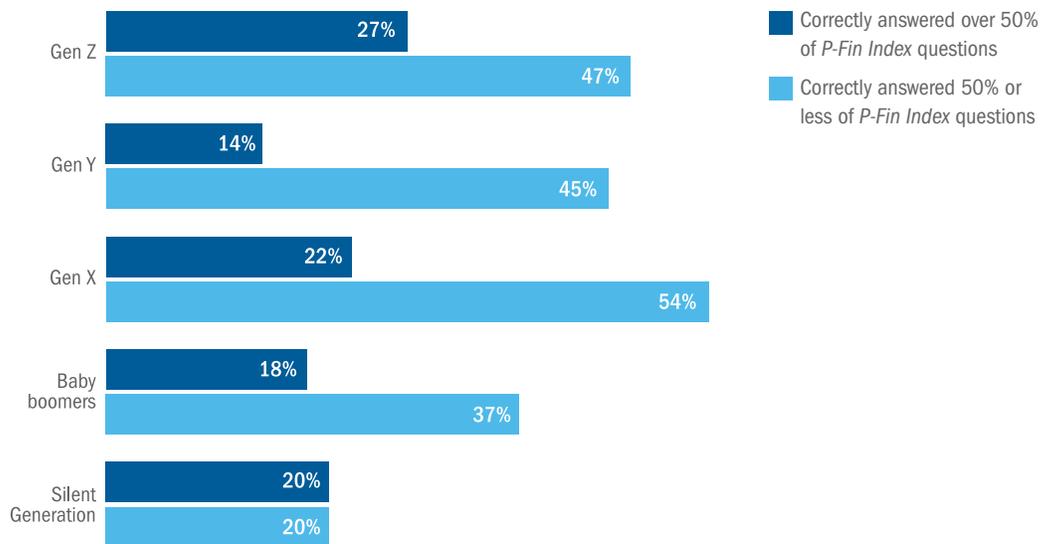
Find it difficult to make ends meet in a typical month



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

## Figure 15. Financial literacy and financial wellness

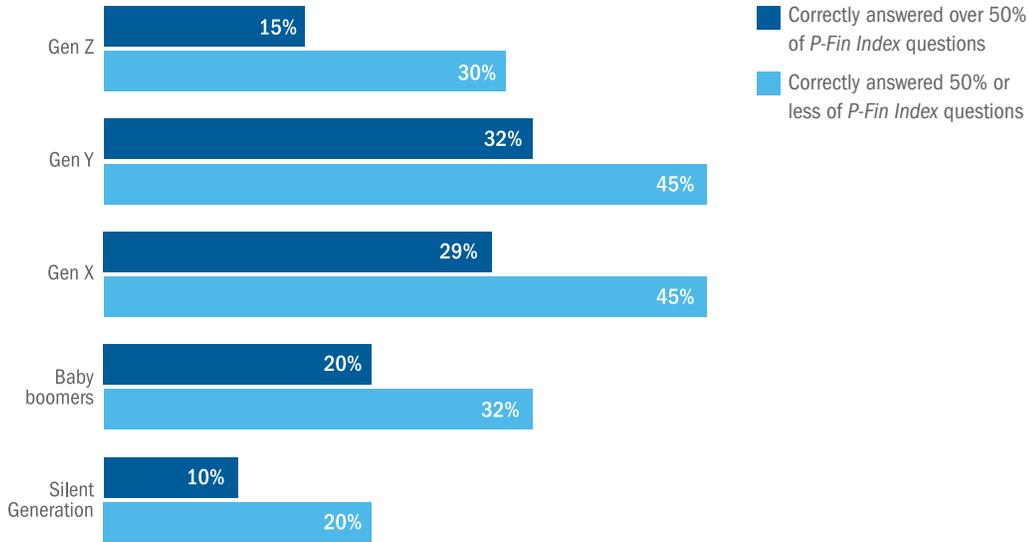
Could not come up with \$2,000 in 30 days if an unexpected need arose



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

## Figure 16. Financial literacy and financial wellness

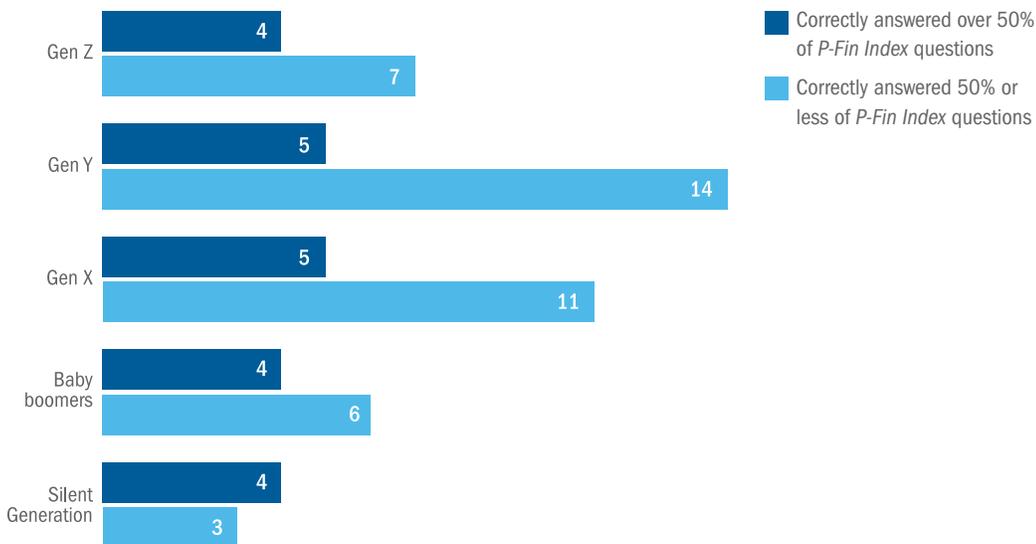
### Debt prevents adequately addressing other financial priorities



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

## Figure 17. Financial literacy and financial wellness

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



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

Differences in financial wellness between those with relatively high and those with relatively low financial literacy tend to be most pronounced among Gen Y. For example, difficulty making ends meet is three times more common among Gen Y who correctly answer 50% or less of the *P-Fin Index* questions than Gen Y who correctly answer over 50% of the index questions. Likewise, being unable to raise \$2,000 for an unexpected expense is over three times more common among Gen Y with relatively low financial literacy than those with relatively high financial literacy. Finally, Gen Y with relatively low financial literacy tend to spend almost three times the number of hours on financial issues and problems as do Gen Y with relatively high financial literacy.

## Discussion

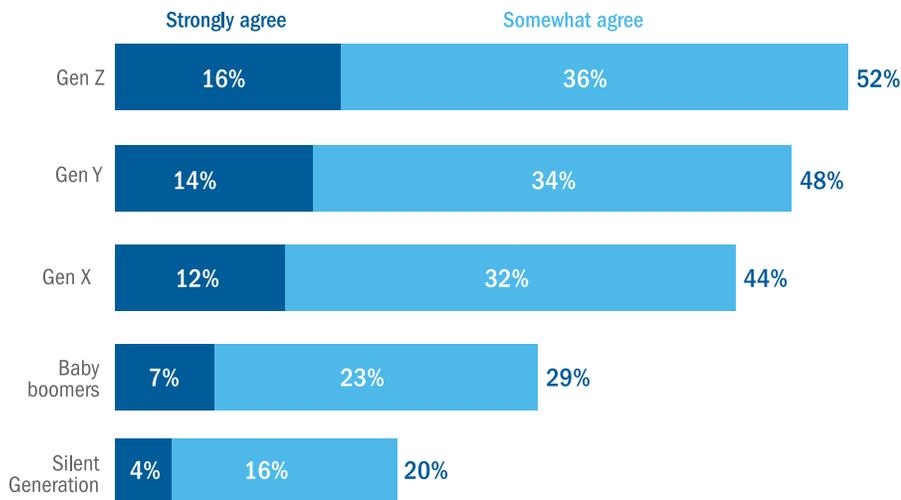
Financial literacy is knowledge and understanding that enable one to make sound and appropriate financial decisions. Unfortunately, low levels of financial literacy are common among each generation of U.S. adults. This is problematic across life stages since significant financial decision-making occurs across life stages. Retirement savings is one example—individuals new to the workforce must decide whether, when and how much to save for retirement in the face of other competing needs, while individuals in retirement must decide a strategy for spending down retirement savings when they cannot know how long they will live or what future expenses will emerge.

In the normal course of life, financial decisions will vary in degree of significance and complexity, but the data is clear—financial wellness across generations tends to be more compromised among those with lower levels of financial literacy. Furthermore, the course of life is not always “normal” as evidenced by the COVID-19 pandemic and its economic consequences. In an environment of economic turbulence and uncertainty, the value of making appropriate financial decisions is only heightened.

In this context, it is noteworthy that improving their personal finance knowledge appears to be a focus for many Americans as the world continues to work through the pandemic—39% of U.S. adults say that the economic uncertainty created by COVID-19 has motivated them to increase their financial literacy. This feeling is significantly more common among Gen Z (52%), Gen Y (48%) and Gen X (44%) (Figure 18). It is much less common among baby boomers (29%) and the Silent Generation (20%).

## Figure 18. Motivation from COVID-19

The economic uncertainty created by COVID-19 has motivated me to increase my financial literacy



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

While the COVID-19 experience has been tragic, this nonetheless represents an opportunity for the financial services sector, the education sector and organizations focused on promoting financial wellness to leverage such intentions. This should involve, at least in part, initiatives, programming, and content that are life-stage specific in terms of content and delivery. One size does not fit all when it comes to promoting financial literacy and financial well-being.

## References

- Coppola, Michela, Greg Langley, Mylene Sabatini, and Richard Wolf. 2017. "When Will the Penny Drop? Money, Financial Literacy and Risk in the Digital Age." Allianz International Pension Papers.
- Council for Economic Education. 2020. "2020 Survey of the States: Economic and Personal Finance Education in our nation's schools." Available at: 2020-Survey-of-the-States.pdf (councilforeconed.org).
- Lusardi, Annamaria. 2015. "Risk Literacy." *Italian Economic Journal* 1 (1): 5-23.
- Lusardi, Annamaria, Noemi Oggero, and Paul Yakoboski. 2017. *The TIAA Institute-GFLEC Personal Finance Index: A New Measure of Financial Literacy*.
- Yakoboski, Paul, Annamaria Lusardi, and Andrea Hasler. 2018. *The 2018 TIAA Institute-GFLEC Personal Finance Index: The State of Financial Literacy Among U.S. Adults*.
- Yakoboski, Paul, Annamaria Lusardi, and Andrea Hasler. 2019. *Financial Literacy in the United States and Its Link to Financial Wellness: The 2020 TIAA Institute-GFLEC Personal Finance Index*.
- Yakoboski, Paul, Annamaria Lusardi, and Andrea Hasler. 2020. *The 2020 TIAA Institute-GFLEC Personal Finance Index: Many Do Not Know What They Do and Do Not Know*.
- Yakoboski, Paul, Annamaria Lusardi, and Andrea Hasler. 2021. *Financial Well-being and Literacy in the Midst of a Pandemic: The 2021 TIAA Institute-GFLEC Personal Finance Index*.

## About the authors

**Paul Yakoboski** is a senior economist with the TIAA Institute, where his research focus is lifetime financial security, including issues related to financial literacy and financial wellness, retirement saving and investing, and asset management during retirement. In addition, he researches workforce issues in the higher education and nonprofit sectors. He manages the Institute's survey research program and is director of the Institute's Fellows Program. Prior to joining the TIAA Institute, Yakoboski held positions with the American Council of Life Insurers, the Employee Benefit Research Institute and the U.S. Government Accountability Office. Yakoboski earned his Ph.D. and M.A. in economics from the University of Rochester and his B.S. in economics from Virginia Tech.



Paul Yakoboski

**Annamaria Lusardi** is a University Professor of Economics and Accountancy at the George Washington University, and the founder and academic director of GFLEC. She has published extensively and in many leading economics journals, and is the recipient of several prestigious awards. Lusardi also directs the Financial Education Committee in Italy, and is in charge of implementing a national strategy for financial literacy. In addition, she chairs the OECD's International Network for Financial Education Research Committee. She previously taught at Dartmouth College, Princeton University, the University of Chicago Harris School of Public Policy and Booth School of Business, and Columbia Business School. She also was a visiting scholar at Harvard Business School. She earned her B.A. from Bocconi University in Milan and Ph.D. from Princeton University. Lusardi is a TIAA Institute Fellow.



Annamaria Lusardi

**Andrea Hasler** is an Assistant Research Professor in Financial Literacy at GFLEC. She leads the team of researchers working on financial literacy and capability, and develops analyses for educational and policy initiatives. Hasler has recently worked on projects focused on financial literacy levels of the young, women, entrepreneurs, investors, and historically underrepresented communities in the United States and around the world. She holds a Ph.D. in finance as well as an M.Sc. and B.A. in business and economics from the University of Basel. During her doctorate, she spent two years at the New York University Stern School of Business conducting research on household saving and financial decision making. She also has been a lecturer at the University of Basel for the past seven years. Her professional experience includes the development of an online advanced studies course in financial market theory and work as an analyst conducting global equity market research.



Andrea Hasler



TIAA Institute is a division of Teachers Insurance and Annuity Association of America (TIAA), New York, NY.

©2021 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017