Financial well-being and literacy in a high-inflation environment

The 2023 TIAA Institute–GFLEC Personal Finance Index

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Executive summary

The 2023 *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*) provides critical insights into the state of Americans' personal finances after twelve months of historically high inflation. In fact, the inflation experienced in 2022 impacted many Americans' financial well-being.

- One-quarter of employed adults decreased their retirement saving in 2022 because of inflation's impact on their finances. This figure was 40% among Hispanic workers, a figure significantly higher than that of their Asian, Black, and White peers.
- From January 2022 to January 2023, the share of adults who typically find it difficult to make ends meet increased from 24% to 30%; the share who are debt constrained increased from 20% to 26%; and those without nonretirement savings sufficient to cover one month of living expenses increased to 39% from 32%.

The *P-Fin Index* has served as an annual barometer of financial literacy among U.S. adults since 2017. The index survey assesses personal finance knowledge using 28 questions across eight functional areas, in addition to asking questions that are indicators of financial well-being. A consistent finding over those seven years of the *P-Fin Index* is a generally poor level of financial literacy among U.S. adults.

- On average, U.S. adults correctly answered only 48% of the 28 index questions in 2023. This figure has hovered around the 50% mark since the inaugural 2017 survey.
- Functional knowledge is consistently lowest in the realm of comprehending risk. On average, only 35% of these questions were answered correctly in 2023.
- Financial literacy levels among Asians and Whites are roughly equal. Likewise, financial literacy levels among Blacks and Hispanics are roughly equal, albeit at lower levels.
- Financial literacy tends to be low across generations, but particularly so among Gen Z followed by Gen Y—37% of Gen Z and 30% of Gen Y could correctly answer only up to seven of the 28 index questions.
- Financial literacy among women consistently tends to lag that of men. The financial literacy gender gap exists among racial and ethnic groups, as well as generations.
- Analogous to overall financial literacy, functional knowledge levels among women tend to lag those of men, and the gender gap is statistically significant across all functional areas.
- Financial literacy is lowest among Gen Z in seven of the eight functional areas. Comprehending risk is the one area where functional knowledge is essentially equal across generations, albeit at very low levels.

It is evident again that greater financial literacy generally translates into greater financial well-being, and lower financial literacy is generally associated with lower financial well-being.

- Compared to those with a very high level of financial literacy, those with a very low level are more than four times as likely to have difficulty making ends meet in a typical month; nearly three times as likely to be debt constrained; three times more likely to be financially fragile; more than four times as likely to lack emergency savings sufficient to cover one month of living expenses; and more than three times as likely to spend 10 hours or more per week on issues and problems related to personal finances.

- The same relationship between financial literacy and financial well-being holds across demographic groups. Among both men and women, among each of the four racial and ethnic groups, and among each generation, there is typically a double-digit decrease in the percentage experiencing a poor outcome with each financial well-being indicator when comparing those with relatively high financial literacy to those with relatively low financial literacy.

Additionally, financial literacy tends to be strongly related to inflation-induced changes in individuals' personal finances. Employed adults with very low financial literacy were more than four times as likely to stop saving for retirement in 2022 because of inflation's impact on their finances, compared to those with a very high level of financial literacy.

Introduction

Pandemic-related supply chain constraints, steady consumer demand, and the fallout from Russia's invasion of Ukraine led to high inflation in 2022. The rising cost of living, in turn, put a heavy burden on household budgets. Fielded in January, the 2023 *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* provides critical insights into the state of Americans' personal finances along several dimensions after twelve months of historically high inflation.

The *P-Fin Index* is an annual barometer of financial literacy among the U.S. adult population.[1] It is unique in its capacity to produce a robust measure of overall financial literacy plus a nuanced analysis of personal finance knowledge across eight areas in which individuals routinely function. In addition to the core set of questions assessing financial literacy, the *P-Fin Index* survey contains questions that are indicators of financial well-being. The 2023 survey also included a question regarding the impact of inflation on U.S. adults' retirement saving behavior. Importantly, *P-Fin Index* data are available across various demographic segments of the population.

This report begins by examining how various dimensions of financial well-being among U.S. adults changed over the course of 2022, a year marked by high inflation. It then analyzes the state of financial literacy among U.S. adults, including the link between financial literacy and financial well-being. A particular focus throughout the report is comparisons across gender, race and ethnicity, as well as generations.

The 2023 *P-Fin Index* survey was completed online in January by a sample of 3,503 U.S. adults, ages 18 and older.[2] Asians, Blacks, and Hispanics were quota-sampled for at least 500 respondents each.[3] Gen Z was also quota-sampled for at least 500 respondents, enabling cross-generational comparisons across the Silent Generation, baby boomers, Gen X, Gen Y, and Gen Z.[4] The survey data were weighted to be nationally representative. (Appendix Figure A1 presents the weighted distribution of the 2023 survey sample.)

1 See Lusardi et al. (2017) and Yakoboski et al. (2018, 2019, 2020, 2021, 2022).

2 The survey was fielded from January 6 to January 18, 2023, with a sample drawn from Ipsos's KnowledgePanel, a large-scale probability-based online panel.

3 The 3,503 respondents included 502 Asians, 532 Blacks, 589 Hispanics, and 1,782 Whites.

4 The 3,503 respondents consisted of 547 Gen Z (born 1997–2002), 772 Gen Y (1981–1996), 878 Gen X (1965–1980), 1,108 baby boomers (1946–1964), and 198 members of the Silent Generation (1929–1945).

Financial well-being in inflationary times

P-Fin Index data demonstrate how historically high inflation, which plagued the U.S. economy in 2022, impacted financial well-being among many Americans.[5] Comparing 2022 and 2023 survey responses reveals changes along various dimensions of financial well-being, such as the ability to make ends meet or cope with a mid-sized financial shock. In addition, the 2023 *P-Fin Index* survey specifically asked whether non-retired individuals decreased the amount they were saving for retirement in 2022 because of inflation's impact on their finances.

In fact, 25% of employed adults (full-time, part-time, and self-employed) decreased their retirement savings in 2022 (Figure 1). Furthermore, almost one-half of those who decreased their savings (12% of those employed) stopped saving completely. These findings are worrisome because interrupting retirement savings can have long-lasting consequences for retirement security. Employees not only get behind with their regular contributions but also miss out on investment earnings, which can have a substantial impact on the total amount accumulated at retirement age, especially for young workers. In addition, research has shown that inertia is an important factor preventing retirement savings contributions from being increased.[6] Thus, the lower contributions to retirement savings could persist far beyond the times driven by high inflation, amplifying the impact of the recent decrease in retirement savings on long-term financial security.

Decreased retirement savings were most common among Hispanic workers—40% decreased their savings and more than half of those (24% of all employed Hispanics) stopped saving completely in response to inflation. In comparison, these figures are approximately double that among Asian, Black, and White workers. Regression analysis shows that the greater occurrence among Hispanic workers of decreasing or stopping contributions to retirement savings due to inflation remains after accounting for sociodemographic differences such as education, income, and family size. (Appendix Figure B1 shows the regression results regarding decreased retirement saving levels.) These findings are consistent with recent research demonstrating increased inflation inequality across racial and ethnic groups.[7] It was found that Hispanics spend a particularly high share on transportation (specifically for used cars and motor fuel), the consumption category hit the hardest by inflation in 2022.

Moreover, there was essentially no variation across generations in the propensity to decrease retirement savings nor was there a gender difference in the aggregate. Both findings are confirmed by regression analyses supporting the data reported in Figure 1.

5 In January 2022, the consumer price index for all urban consumers (CPI-U) was 7.5% higher than one year earlier. From there the inflation rate rose to a high of 9.1% in June and subsequently fell to 6.5% in December.

6 See e.g., Madrian and Shea (2001) or Krijnen et al. (2020).

7 Chakrabarti et al. (2023).

Figure 1. Impact of inflation on retirement saving among employed adults

	Decreased saving	Stopped saving
Employed adults	25%	12%
Men	25%	11%
Women	26%	13%
Asian	24%	12%
Black	24%	13%
Hispanic	40%	24%
White	21%	9%
Gen Z	26%	15%
Gen Y	27%	14%
Gen X	24%	10%
Baby boomers	25%	11%

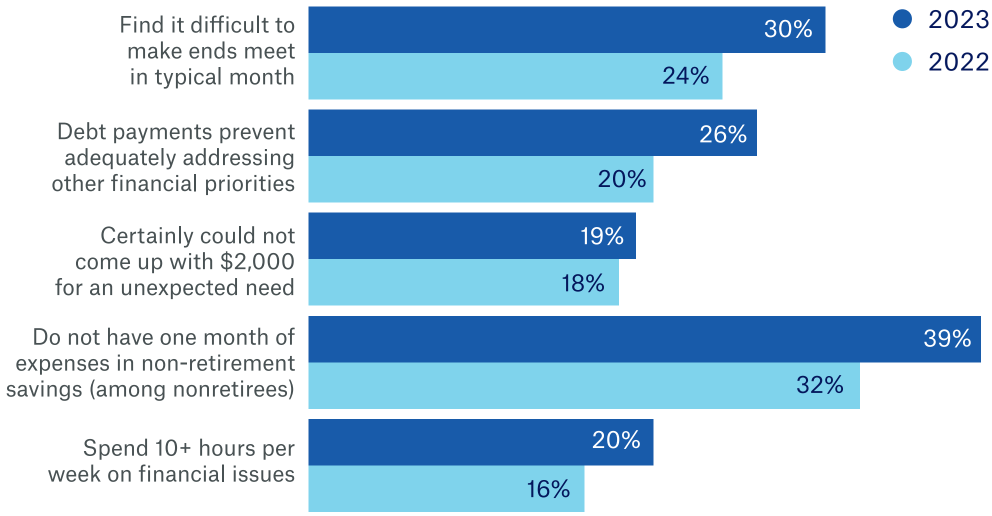
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Comparing responses to questions indicative of financial well-being between the 2022 and 2023 *P-Fin Index* surveys provides additional insights (Figure 2).[8]

- The share of adults who find it difficult to make ends meet in a typical month increased significantly from 24% to 30%.
- The percentage of adults who are debt constrained (i.e., their debt and debt payments prevent them from adequately addressing other financial priorities) increased from 20% to 26%, which is a statistically significant increase. This hints at a tightening of people's balance sheets.
- Those without non-retirement savings sufficient to cover one month of living expenses if needed increased to 39% from 32%, indicating that many may have dipped into savings to deal with the increased cost of living.
- Finally, there was an uptick from 16% to 20% in adults who typically spend 10 or more hours per week thinking about and dealing with issues and problems related to personal finances.
- There was no significant change in the share reporting that they definitely could not come up with $2,000 if an unexpected need arose within the next month.

8 There is exactly one year between the surveys, which were both collected in early January of their respective years. All reported differences in Figure 2 between 2022 and 2023 are statistically significant except for the indicator assessing whether people could cope with a $2,000 financial shock in a month time frame.

Figure 2. Changes in financial well-being: January 2022 to January 2023



Source: *TIAA Institute-GFLEC Personal Finance Index* (2022, 2023).

It should be noted that these differences in the well-being measures could be due to factors other than or in addition to high inflation. For example, the direct COVID-19 stimulus payments to individuals were made by the federal government between April 2020 and December 2021, potentially leaving individuals with more money in early 2022 that likely positively impacted their balance sheets. Nevertheless, there is no question that the persistent inflationary environment made it more difficult for Americans to afford their basic necessities of gas, groceries, and rent.[9]

[Appendix Figures A2–A4 present data regarding financial well-being across the five indicators by gender, race and ethnicity, and generation, including separately for men and women within each racial and ethnic group.]

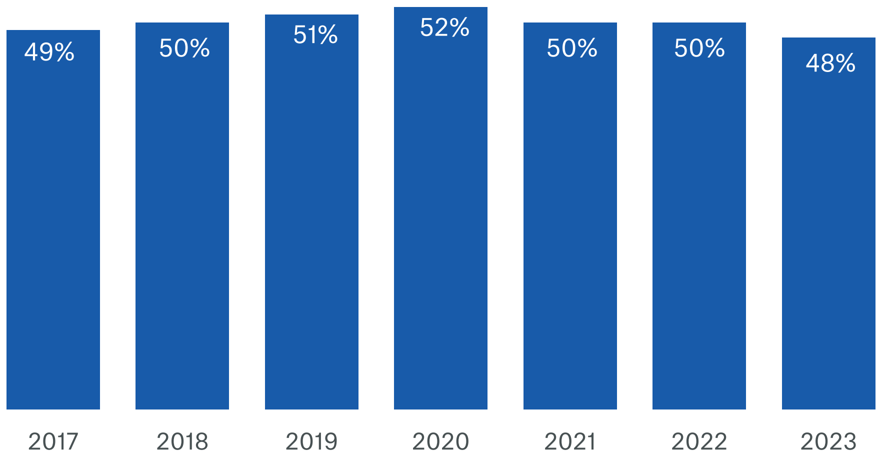
Financial literacy among U.S. adults

A consistent finding over the seven years of the *P-Fin Index* is that many Americans function with a poor level of financial literacy (Figure 3). On average, U.S. adults correctly answered only 48% of the index questions in 2023, a figure that has consistently hovered around the 50% mark since the initial 2017 survey. This low level of financial literacy is troubling since the *P-Fin Index* measures working knowledge related to financial situations encountered in the normal course of life. The lack of change in the past seven years, however, is not surprising as knowledge levels of the entire adult population will not change rapidly. Time and a continuous effort are needed to bring financial resources to everybody, from classes in schools for the young to programs at the workplace or in communities for working-age adults and retirees.

9 More robust empirical analyses utilizing both the 2022 and 2023 data sets confirm outside factors are related to these significant differences in the well-being indicators. This holds for all indicators except for the one assessing whether people could cope with a $2,000 financial shock in a month time frame.

Figure 3. Financial literacy among U.S. adults, 2017 to 2023

Percentage of *P-Fin Index* questions answered correctly

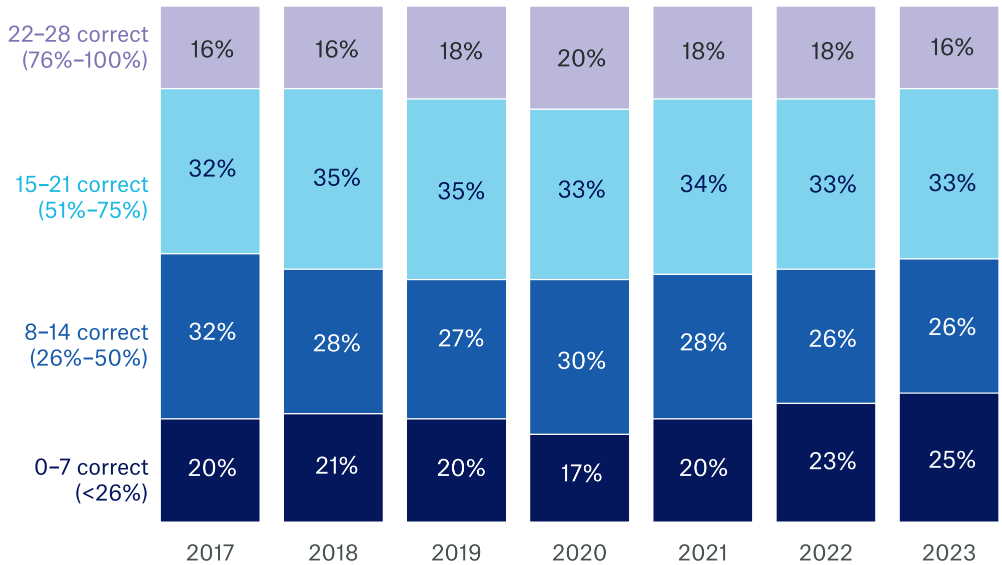


Source: *TIAA Institute-GFLEC Personal Finance Index* (2017–2023).

Likewise, the distribution of correct answers has been relatively stable over the seven years (Figure 4). With that said, the share of U.S. adults demonstrating a very low level of financial literacy (i.e., they correctly answered only seven or fewer of the 28 index questions) has trended up in recent years and now stands at 25%. The difference between this figure and the 2017 level of 20% is statistically significant. At the same time, however, the percentage correctly answering one-half or fewer of the index questions is essentially unchanged between 2017 (52%) and 2023 (51%).

Figure 4. Financial literacy among U.S. adults, 2017 to 2023

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



Source: *TIAA Institute-GFLEC Personal Finance Index* (2017–2023).

The *P-Fin Index* is a comprehensive measure that assesses financial literacy across eight functional areas.[10] Functional knowledge among U.S. adults is consistently lowest in the realm of comprehending risk (Figure 5).[11] On average, 35% of these questions were answered correctly in 2023, a figure significantly below its 2017 level (39%).[12] This is problematic since uncertainty is inherent in most aspects of personal finances and financial decision making. The outcomes associated with most choices are rarely known with certainty when decisions are made, so individuals should ideally be capable of making appropriate decisions in an environment of uncertainty. The experience of the past few years alone, with the global pandemic, financial market volatility, and high inflation, makes it obvious how individuals must deal with many uncertainties that impact financial decision making in consequential ways.

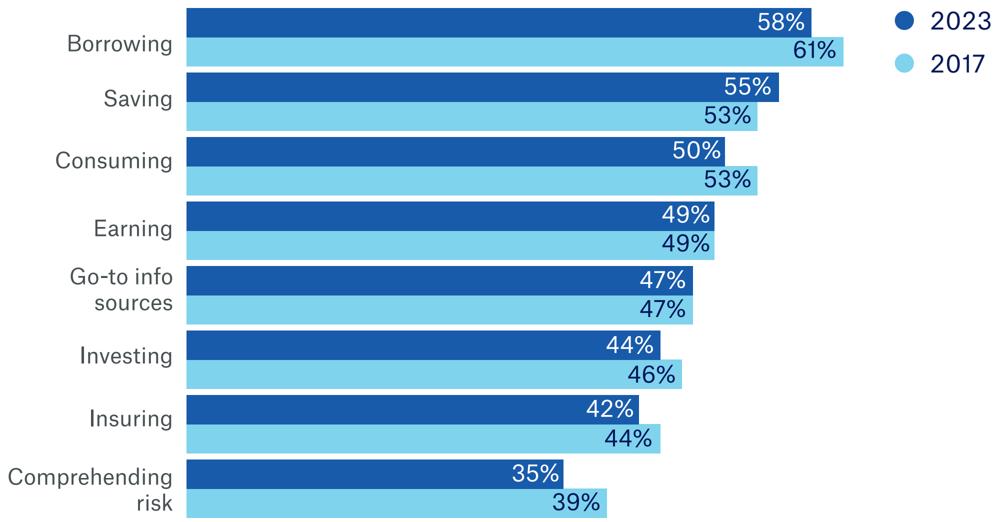
10 The eight areas are: earning (determinants of wages and take-home pay); consuming (budgets and managing spending); saving (factors that maximize accumulations); investing (investment types, risk and return); borrowing/managing debt (relationship between loan features and repayments); insuring (types of coverage and how insurance works); comprehending risk (understanding uncertain financial outcomes); and go-to information sources (recognizing appropriate sources and advice). These areas correspond to the National Standards for Financial Literacy outlined by the Council for Economic Education; see https://www.councilforeconed.org/wp-content/uploads/2021/10/2021-National-Standards-for-Personal-Financial-Education.pdf. There are three or four questions covering each functional area.

11 Comprehending risk involves, for example, understanding that the expected outcome in a given scenario depends on the range of possible outcomes, the financial implication associated with each outcome, and the likelihood of each outcome occurring.

12 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 5. Functional knowledge, 2017 and 2023

Percentage of *P-Fin Index* questions answered correctly



Source: *TIAA Institute-GFLEC Personal Finance Index* (2017, 2023).

At the other end of the spectrum, borrowing and debt management has been the area of greatest financial literacy each year thus far. On average, 58% of the borrowing questions were answered correctly in 2023; the analogous 2017 figure was 61%. Debt tends to be a feature of personal finance common across the life cycle for many individuals; knowledge and understanding may emerge from confronting accumulated debt, often from the early stages of adulthood. Saving, consuming, and earning are the other areas where financial literacy is above average in 2023 (i.e., above the aggregate average correct—48%), and saving is also the one area where the percentage of correct answers is greater in 2023 than 2017.[13]

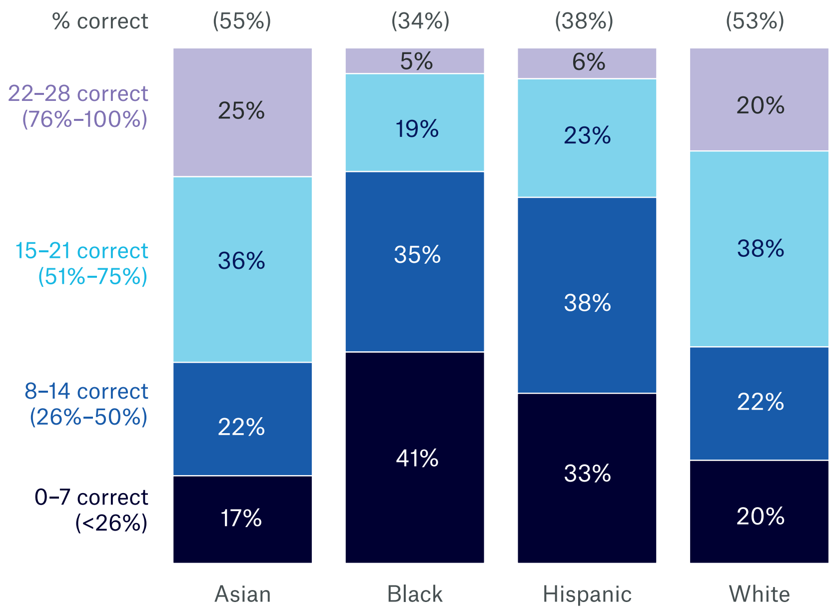
Demographic variations in financial literacy

Financial literacy levels among Asians and Whites are roughly equal; the former correctly answered 55% of the index questions in 2023, on average, and the latter 53% (Figure 6). A significantly greater share of Asians demonstrate very high levels of financial literacy (i.e., they correctly answered 22 or more of the 28 index questions), 25% compared to 20% among Whites.

13 Borrowing, consuming, insuring, and comprehending risk are the areas where the percentage of correct answers is lower in 2023 than 2017 at a statistically significant level. The increase in the area of saving is statistically significant at the 10% level only.

Figure 6. Financial literacy by race/ethnicity

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



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Likewise, financial literacy levels among Blacks and Hispanics are comparable, albeit at much lower levels than Asians and Whites. Blacks correctly answered 34% of the index questions in 2023, on average, and Hispanics 38%. Figure 6 shows that for both subgroups a significantly larger percentage demonstrates very low levels of financial literacy (i.e., they correctly answered 7 or fewer of the 28 index questions), 41% among Blacks and 33% among Hispanics.

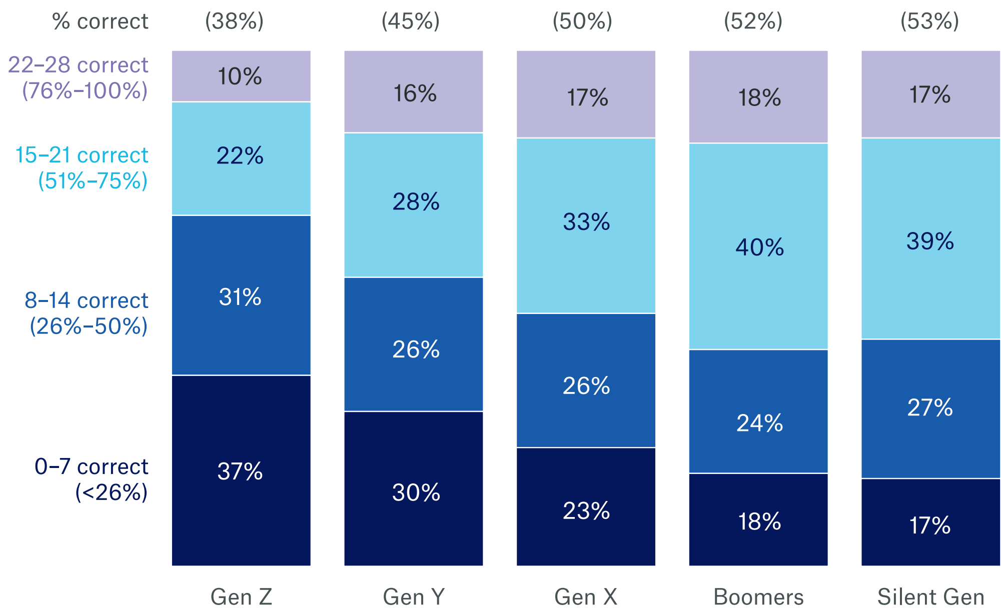
Top-level differences in financial literacy across race and ethnicity do not mean inherent differences in capability. There are demographic differences across subgroups that matter, such as differences in age, education, and income (Appendix Figure A1). Beyond that, other dynamics which data do not capture are in play, including systemic factors and overall greater economic challenges. A more rigorous empirical analysis points to this. The regression results presented in Appendix Figure B2 show that financial literacy remains lower among Blacks and Hispanics relative to Whites after controlling for various socioeconomic factors such as household income, age, and education. In line with the findings discussed above, Asians have similar financial literacy levels to Whites after controlling for these other factors.

The U.S. adult population spans five generations with seven years of Gen Z now over age 18. Unfortunately, financial literacy tends to be low across generations, but particularly so among Gen Z followed by Gen Y (Figure 7). Gen Z correctly answered 38% of the *P-Fin Index* questions, on average, in 2023, well below the already poor average of the population as a whole.

Similarly, Gen Y correctly answered 45% on average.[14] The analogous figures among Gen X, baby boomers, and the Silent Generation are 50%, 52%, and 53%, respectively. Furthermore, 37% of Gen Z and 30% of Gen Y could correctly answer only 25% or fewer of the index questions. By comparison, only 18% of baby boomers answered so few questions correctly.

Figure 7. Financial literacy by generation

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



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

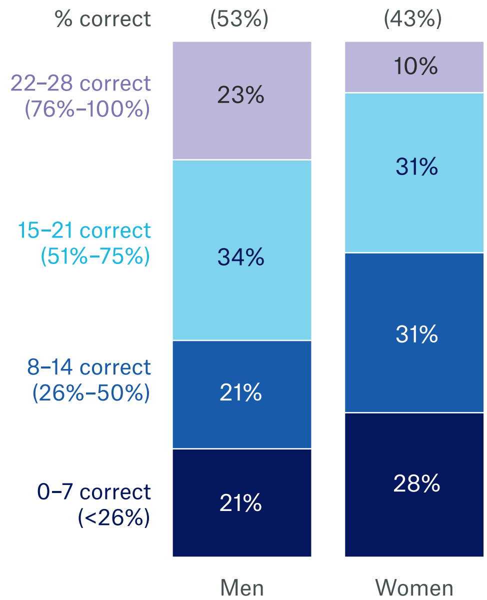
It's important to note that it is not possible to differentiate between age and generational effects with cross-sectional data covering only a seven-year time span. This means that greater financial literacy levels among older generations could be attributed to both life cycle as well as generational characteristics, i.e., the behavior of a cohort born at a certain time. Nevertheless, these findings show that the typical individual begins adulthood with a low level of financial literacy, which tends to remain low despite increasing over the course of life.

A consistent finding over seven years of the *P-Fin Index* is that financial literacy among women tends to lag that of men. In 2023, men correctly answered 53% of the index questions, on average, and 23% of men demonstrated very high financial literacy (Figure 8). The analogous figures among women are significantly lower at 43% and 10%, respectively. Regression analysis confirms the financial literacy gender gap: women correctly answer a significantly lower percentage of the *P-Fin Index* questions even when taking various sociodemographic characteristics into account (Appendix Figure B2).

14 The regression findings of Appendix Figure B2 show that once controlling for various sociodemographic characteristics, Gen Y does not answer more *P-Fin Index* questions correctly compared to their Gen Z peers.

Figure 8. Financial literacy by gender

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



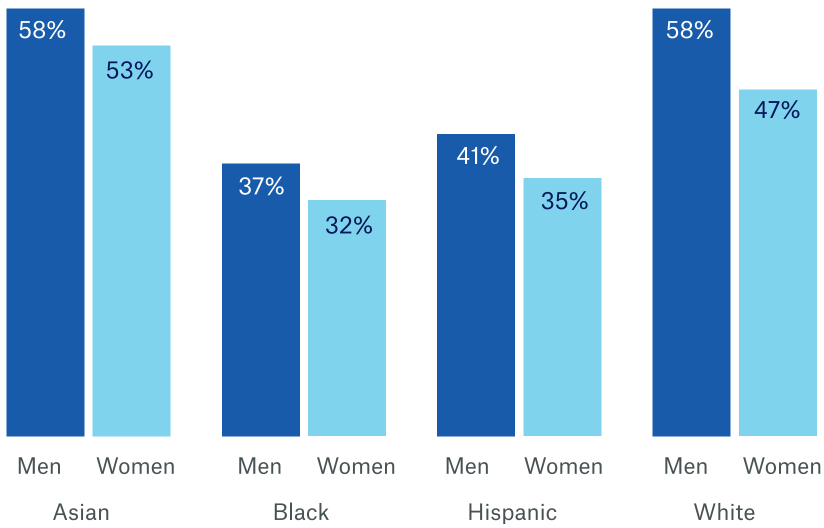
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Furthermore, the financial literacy gender gap exists among race and ethnicity groups, as well as generations.[15] Across racial and ethnic groups, the gap is largest among Whites—White women correctly answered 47% of the index questions, on average, compared with 58% among White men (Figure 9). Among women, financial literacy tends to be greatest among Asians—they correctly answered 53% of the *P-Fin Index* questions, on average. In contrast, Black and Hispanic women correctly answered only about one-third of the index questions, on average. This likely compounds the financial challenges many Black and Hispanic women already face.

15 Separate subsample regressions for Asians, Blacks, Hispanics, and Whites, as well as all generations, show that women score statistically significantly lower on the *P-Fin Index* compared to men, even controlling for various socio-demographics, such as income and marital status.

Figure 9. Financial literacy by race/ethnicity and gender

Percentage of *P-Fin Index* questions answered correctly



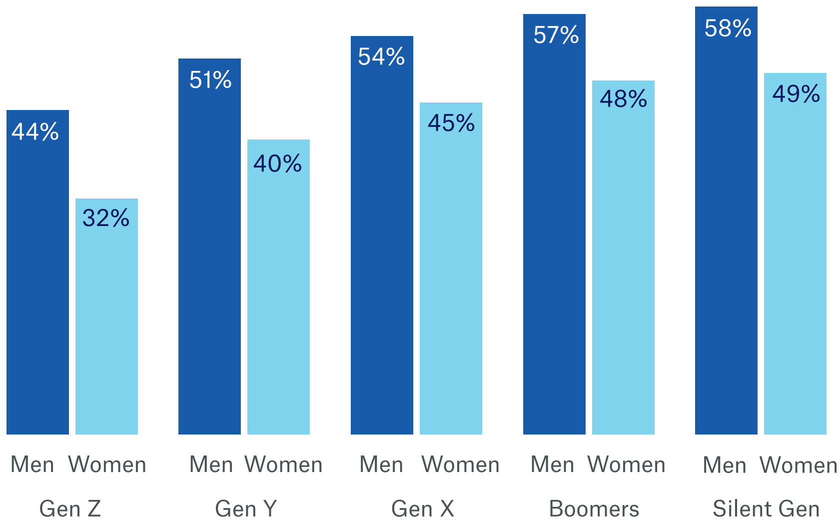
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Financial literacy levels tend to be greater among older generations for both men and women. Nonetheless, the financial literacy gender gap persists across generations (Figure 10). The gender gap is largest for Gen Z and Gen Y, the two cohorts with the lowest financial literacy levels.[16]

16 Regression analysis shows that the financial literacy gender gap is the largest among Gen Z and Gen Y.

Figure 10. Financial literacy by generation and gender

Percentage of *P-Fin Index* questions answered correctly



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Financial literacy levels also tend to vary with other demographics in addition to gender, race and ethnicity, and generation. Financial literacy tends to be greater among those with more education, those who have received financial education, those employed or retired, and those with higher household incomes. See Appendix Figure A5. These patterns are consistent with variations identified in previous years of the *P-Fin Index* and other studies, as well as the regression findings shown in Appendix Figure B2.[17]

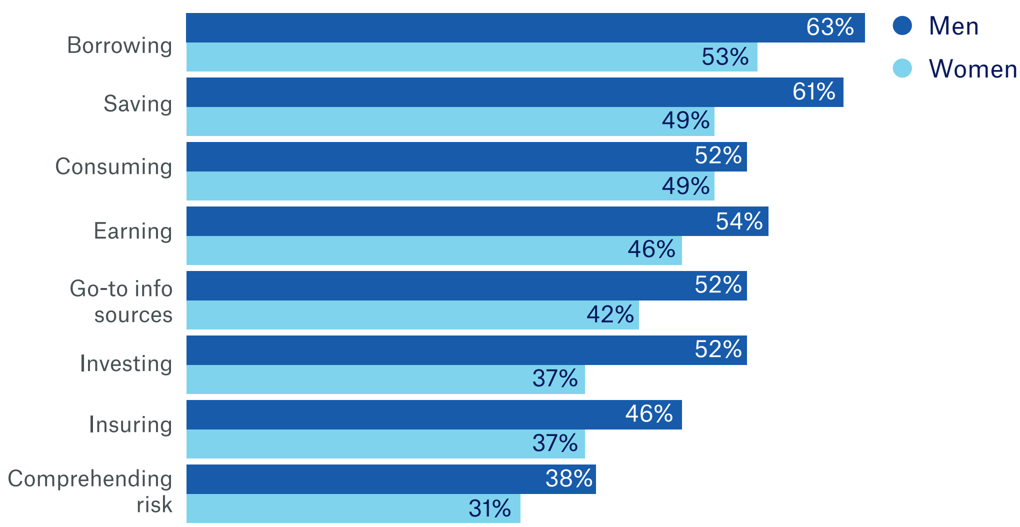
Demographic variations in functional knowledge

Analogous to overall financial literacy, functional knowledge levels among women tend to lag those of men (Figure 11). Gender differences across all functional areas are statistically significant and generally large, ranging up to 15 percentage points in the realm of investing.

17 See Lusardi and Mitchell (2007, 2011, 2014), Lusardi et al. (2017), and Yakoboski et al. (2018, 2019, 2020, 2021, 2022).

Figure 11. Functional knowledge by gender

Percentage of *P-Fin Index* questions answered correctly



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Functional knowledge levels in the areas of saving, consuming, investing, and comprehending risk are significantly greater among Asians compared to Whites (Figure 12). Functional knowledge levels among Hispanics are generally greater than those of Blacks, and the differences are statistically significant in the areas of borrowing, saving, go-to information sources, investing, and comprehending risk. Overall, the rank ordering of functional areas by financial literacy levels is very similar across the four groups.

Figure 12. Functional knowledge by race/ethnicity

Percentage of *P-Fin Index* questions answered correctly

	Asian	Black	Hispanic	White
Borrowing	64% (2)	42% (1)	47% (1)	64% (1)
Saving	65% (1)	38% (3)	45% (2)	60% (2)
Consuming	60% (3)	42% (1)	45% (2)	53% (4)
Earning	53% (5)	37% (4)	41% (4)	54% (3)
Go-to info sources	56% (4)	31% (5)	36% (5)	53% (4)
Investing	53% (5)	28% (6)	34% (6)	49% (6)
Insuring	46% (7)	27% (8)	26% (8)	48% (7)
Comprehending risk	44% (8)	28% (6)	31% (7)	36% (8)

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

The rank ordering of functional knowledge areas tends to be similar across generations (Figure 13). Financial literacy is lowest among Gen Z in seven of the eight areas. Comprehending risk is the one area where functional knowledge is essentially equal across generations, albeit at very low levels. Insuring is where Gen Z functional knowledge is lowest and correspondingly where the generation gap is largest.

Figure 13. Functional knowledge across generations

Percentage of *P-Fin Index* questions answered correctly

	Gen Z	Gen Y	Gen X	Baby boomers	Silent Generation
Borrowing	47% (1)	55% (1)	60% (1)	64% (1)	61% (1)
Saving	47% (1)	54% (2)	56% (2)	59% (2)	58% (2)
Consuming	43% (3)	49% (3)	53% (3)	53% (3)	49% (7)
Earning	37% (5)	49% (3)	51% (4)	53% (3)	56% (3)
Go-to info sources	38% (4)	45% (5)	49% (5)	51% (5)	53% (5)
Investing	33% (6)	40% (6)	47% (6)	49% (7)	50% (6)
Insuring	26% (8)	36% (7)	43% (7)	50% (6)	55% (4)
Comprehending risk	32% (7)	34% (8)	36% (8)	36% (8)	36% (8)

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

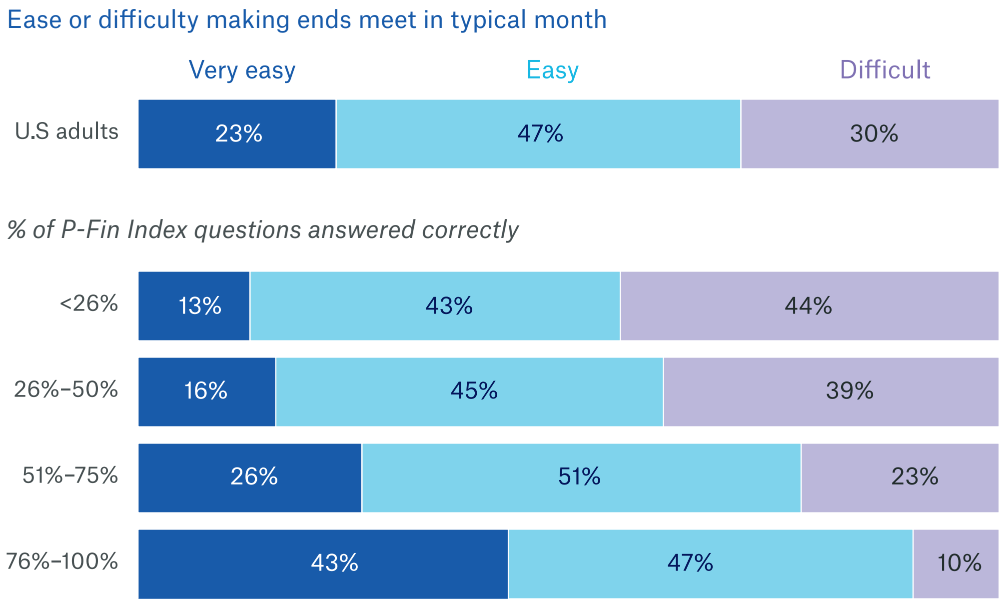
The link between financial literacy and financial well-being

Consistent with *P-Fin Index* findings from the previous six years, it is evident in the 2023 data that financial well-being is linked to financial literacy—greater financial literacy generally translates into greater financial well-being, and lower financial literacy is generally associated with lower financial well-being. For example, compared to those with a very high level of financial literacy (i.e., they correctly answered more than 75% of the *P-Fin Index* questions), those with a very low level of financial literacy (i.e., they correctly answered only up to 25% of the questions) are:

- More than four times as likely to typically have difficulty making ends meet (Figure 14).
- Nearly three times as likely to be debt constrained (Figure 15).
- Three times more likely to be financially fragile (Figure 16).
- More than four times as likely to lack emergency savings sufficient to cover one month of living expenses (Figure 17).

- Seven times more likely to spend 20 hours or more per week thinking about and dealing with issues and problems related to personal finances, and more than three times as likely to spend 10 or more hours per week (Figure 18).[18]

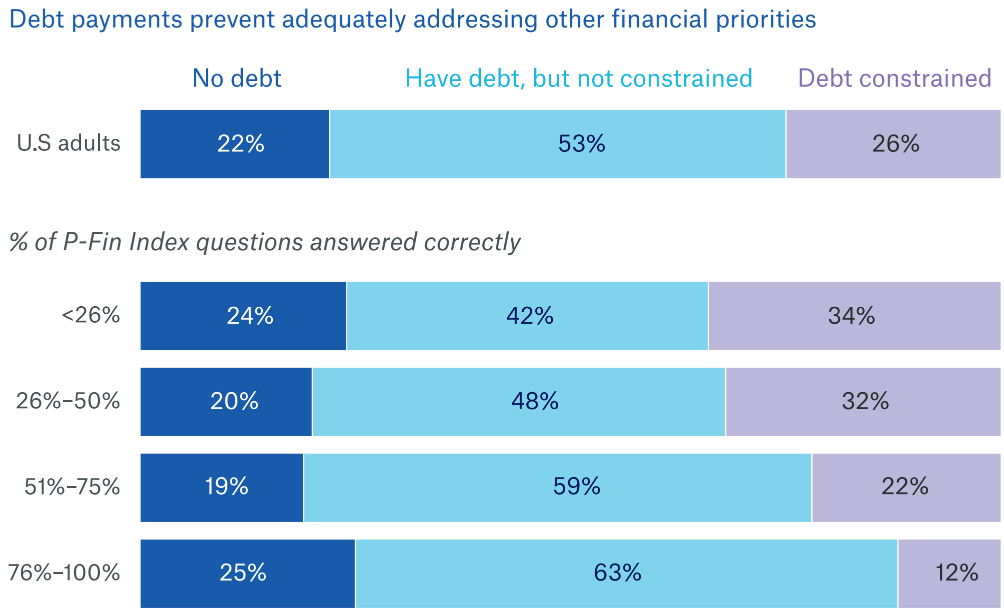
Figure 14. Financial literacy and making ends meet



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

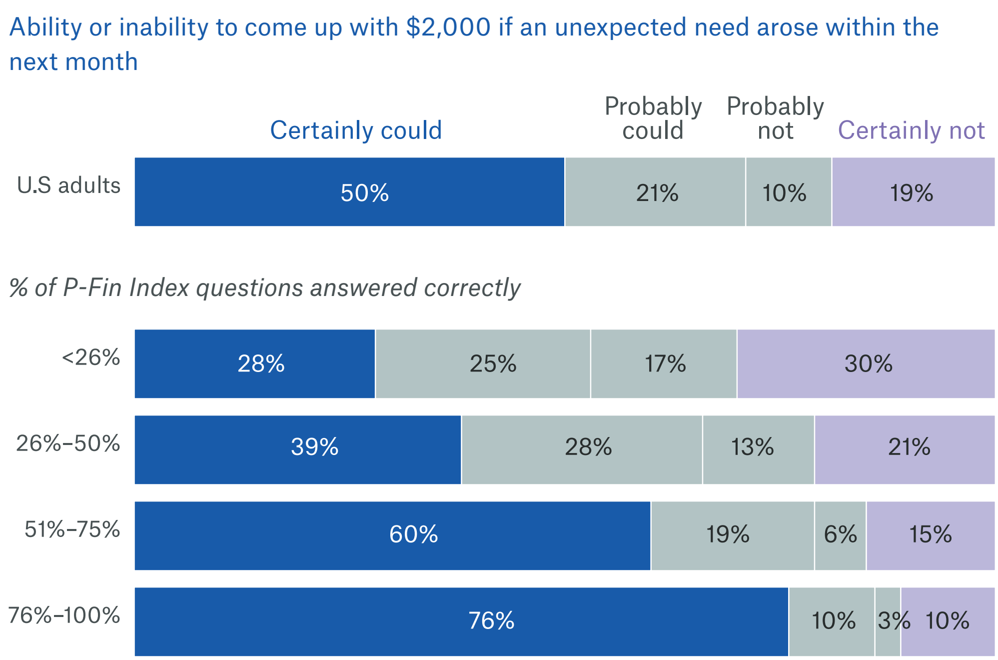
18 Regression analysis confirms a statistically significant relationship between financial literacy as measured by the *P-Fin Index* and each of these financial well-being indicators. Appendix Figure B3 shows the results of the difficulty making ends meet, debt constraint, and lack of emergency savings regressions, for example.

Figure 15. Financial literacy and debt constraint



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

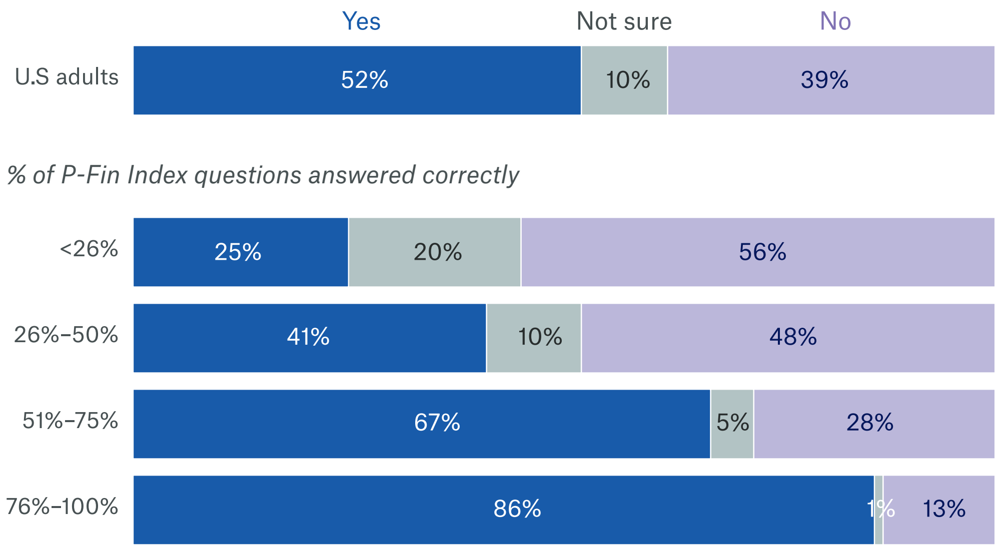
Figure 16. Financial literacy and financial fragility



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure 17. Financial literacy and emergency savings

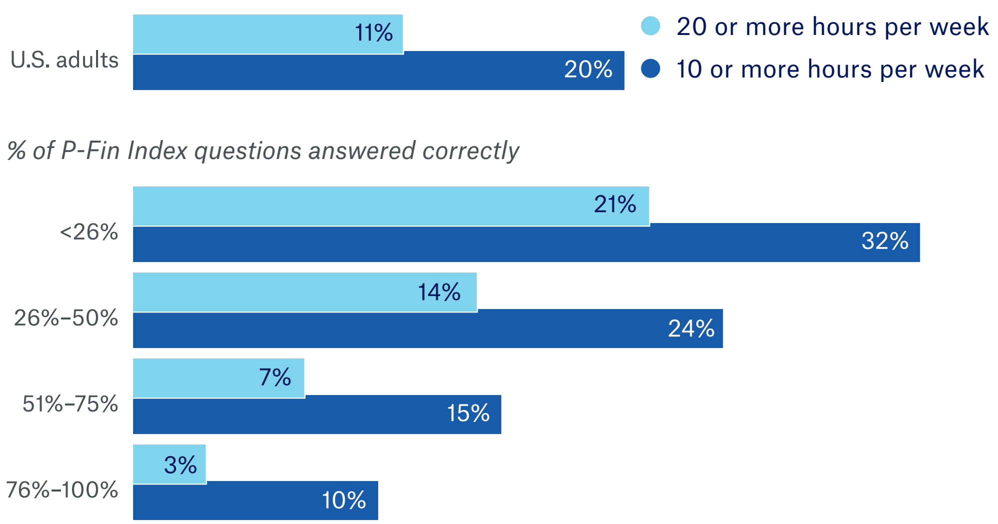
Have nonretirement savings sufficient to cover one month of living expenses if needed (among nonretirees)



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure 18. Financial literacy and time spent on personal finances

Hours typically spent thinking about and dealing with issues and problems related to personal finances



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

On average, U.S. adults typically spend more than eight hours per week thinking about and dealing with issues and problems related to personal finances, which is equivalent to an entire workday. Again, this dynamic varies significantly with financial literacy—those with a very high level of financial literacy spend only about four hours per week compared to 14 hours among those with a very low level of financial literacy.

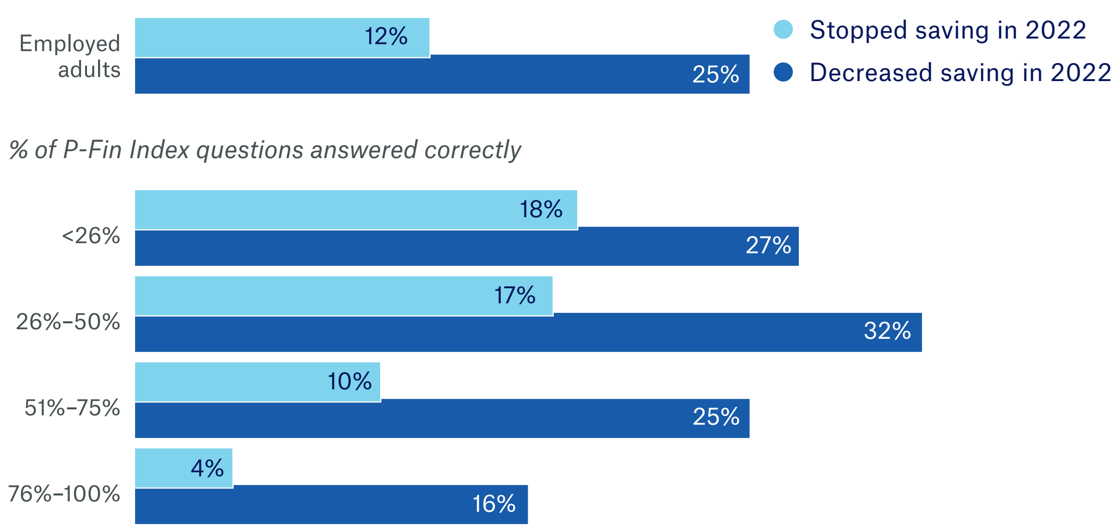
Furthermore, the same relationships between financial literacy and financial well-being hold across demographic groups. More specifically, among both men and women, among each of the four racial and ethnic groups, and among each generation, there is typically a double-digit decrease in the percentage of adults experiencing a poor outcome with each financial well-being indicator when comparing those with relatively high financial literacy (i.e., they correctly answered over 50% of the index questions) to those with relatively low financial literacy (i.e., they correctly answered 50% or fewer of the index questions). See Appendix Figures A6 (gender), A7 (race and ethnicity), and A8 (generation).

Financial literacy and inflation

It was previously noted that 25% of employed adults in the U.S. decreased the amount they were saving for retirement in 2022 because of inflation's impact on their finances, and 12% stopped saving completely. This reaction was significantly less common among those with a very high level of financial literacy (i.e., they correctly answered more than 75% of the *P-Fin Index* questions) (Figure 19). More specifically, compared to those with a very low level of financial literacy, those with a very high level were:

- Approximately 40% less likely to decrease their retirement saving.
- Almost 80% less likely to completely stop saving for retirement.

Figure 19. Financial literacy and impact of inflation on retirement saving



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

As noted earlier, decreased retirement savings due to financial pressures created by inflation was most common among Hispanic workers. However, even among Hispanics, this response was less common among those with greater financial literacy. Among those with relatively low financial literacy (i.e., they correctly answered 50% or fewer of the *P-Fin Index* questions), 45% decreased their retirement savings, with 28% stopping saving completely. In comparison, the analogous figures among those with relatively high financial literacy (i.e., they correctly answered over 50% of the index questions) were 31% and 16%, respectively.

These findings clearly show the relationship between financial literacy and financial well-being as well as consequential inflation-related decision making. This is why financial literacy matters.

Discussion

In an environment of financial stress, such as that created by the inflation experience of 2022, the challenge of making sound financial decisions is heightened. What are the appropriate adjustments to make when the cost of living increases at rates not seen in decades? The 2023 *P-Fin Index* found that 25% of workers decreased the amount they were saving for retirement in 2022 because of inflation's impact on their finances; almost one-half of these stopped saving completely. Furthermore, the 2023 *P-Fin Index* found that the share of adults without non-retirement savings sufficient to cover one month of living expenses increased from 32% to 39% during 2022, indicating that many may have dipped into savings to deal with the increased cost of living. In addition, the share who are debt constrained increased from 20% to 26%.

Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. As such, financial literacy helps people navigate challenges like high inflationary environments, and ultimately helps promote financial well-being. Data from this year's *P-Fin Index* and the previous six years is clear on this point—individuals with greater financial literacy tend to have greater financial well-being, while those with lower financial literacy tend to have lower financial well-being.

Unfortunately, many individuals are functioning with a poor level of financial literacy. Another consistent finding of the *P-Fin Index* has been that U.S. adults correctly answer only about one-half of the index questions. This is troubling since the *P-Fin Index* measures working knowledge in areas where individuals inherently function during the normal course of life. Furthermore, while financial literacy is generally low across sociodemographic groups, it tends to be even lower among some groups—women relative to men, Blacks and Hispanics relative to Whites and Asians, younger adults relative to older adults.

These findings make clear the importance of targeted initiatives to improve financial literacy. It's not that increased financial literacy is itself a panacea for poor financial well-being. Clearly, resources matter, as do access and opportunity in the financial system. But at the same time, the ability to make sound financial decisions matters as well. This is especially true during challenging times, such as the recently experienced high inflation environment, which require individuals to grasp both short- and long-term consequences and react accordingly.

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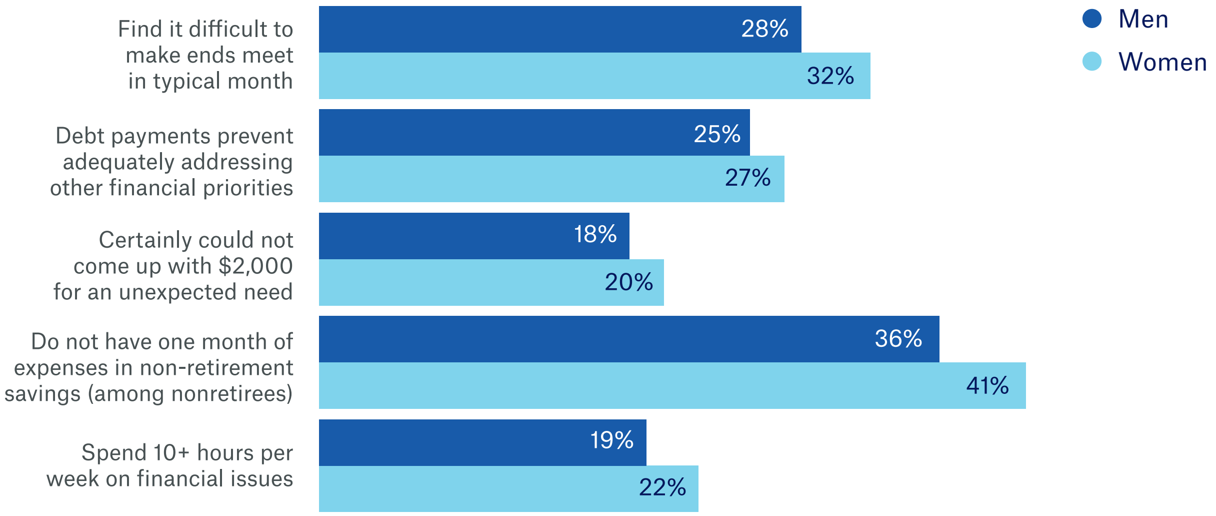
Appendix A: Additional cross-tabulations

Figure A1. Distribution of respondent demographics in the 2023 *P-Fin Index* (weighted sample)

	All	Asian	Black	Hispanic	White
GENERATION					
Gen Z	14%	14%	16%	20%	11%
Gen Y (millennials)	25	30	29	29	23
Gen X	27	28	25	30	26
Baby boomers	29	23	27	19	33
Silent Generation	6	5	3	3	7
GENDER					
Male	49%	47%	46%	50%	49%
Female	51	53	54	50	51
EDUCATION					
Less than HS degree	9%	4%	10%	24%	6%
High school degree	29	20	34	34	28
Some college	26	18	30	24	27
College degree	35	57	25	19	39
HOUSEHOLD INCOME					
Less than $25,000	12%	10%	20%	14%	11%
$25,000 to $49,999	16	10	21	20	15
$50,000 to $99,999	29	23	30	32	28
$100,000 or more	43	57	29	34	47
EMPLOYMENT STATUS					
Employed	57%	62%	56%	60%	55%
Retired	26	21	25	15	31
Unemployed or disabled	8	6	10	9	6
Homemaker	5	6	2	11	4
Student	4	6	7	5	4
RACE/ETHNICITY					
Asian	6%	100%	-	-	-
Black	12	-	100%	-	-
Hispanic	17	-	-	100%	-
White	62	-	-	-	100%
Other	2	-	-	-	-

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A2. Financial well-being by gender



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A3. Financial well-being by generation and gender

	Difficult to make ends meet in typical month	Debt prevents adequately addressing other financial priorities	Certainly could not come up with $2,000 for an unexpected need	Do not have one month of non-retirement savings (if nonretired)	Spend 10+ hours per week on financial issues
Gen Z	40%	21%	28%	52%	24%
Men	37%	19%	26%	52%	20%
Women	43%	23%	29%	53%	28%
Gen Y	36%	35%	19%	40%	28%
Men	33%	31%	18%	35%	23%
Women	39%	38%	21%	44%	33%
Gen X	33%	34%	19%	36%	21%
Men	27%	32%	18%	32%	20%
Women	37%	35%	21%	40%	22%
Baby boomers	22%	16%	17%	24%	13%
Men	24%	18%	18%	26%	16%
Women	20%	15%	16%	22%	11%
Silent Gen	16%	12%	11%		13%
Men	14%	15%	10%		11%
Women	18%	9%	12%		15%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A4. Financial well-being by race/ethnicity and gender

	Difficult to make ends meet in typical month	Debt prevents adequately addressing other financial priorities	Certainly could not come up with $2,000 for an unexpected need	Do not have one month of non-retirement savings (if nonretired)	Spend 10+ hours per week on financial issues
Asian	21%	17%	11%	24%	10%
Men	23%	20%	15%	27%	10%
Women	19%	15%	7%	22%	10%
Black	39%	32%	27%	55%	27%
Men	37%	28%	25%	50%	23%
Women	41%	36%	29%	59%	31%
Hispanic	45%	38%	17%	48%	26%
Men	44%	37%	17%	42%	25%
Women	45%	38%	16%	55%	27%
White	25%	22%	19%	33%	18%
Men	23%	21%	18%	32%	18%
Women	27%	23%	20%	34%	19%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A5. Financial literacy by other sociodemographics

Percentage of *P-Fin Index* questions answered correctly

EDUCATION	
Less than HS degree	29%
High school degree	37%
Some college	48%
College degree	62%
FINANCIAL EDUCATION	
Received financial education	57%
No financial education	44%

HOUSEHOLD INCOME	
Less than $25,000	28%
$25,000 to $49,999	38%
$50,000 to $99,999	47%
$100,000 or more	58%
EMPLOYMENT STATUS	
Employed	50%
Unemployed or disabled	34%
Retired	51%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A6. Financial literacy and financial well-being (by gender)

	Men		Women	
Percentage of *P-Fin Index* questions answered correctly	**≤50%**	**>50%**	**≤50%**	**>50%**
Find it difficult to make ends meet in typical month	41%	19%	41%	19%
Debt payments prevent adequately addressing other financial priorities	33%	19%	33%	18%
Certainly could not come up with $2,000 for an unexpected need	25%	14%	25%	13%
Do not have one month of expenses in nonretirement savings	52%	22%	52%	24%
Spend 10+ hours per week on financial issues	27%	14%	28%	13%
Stopped retirement saving in 2022 due to inflation (among those employed)	17%	7%	17%	8%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A7. Financial literacy and financial well-being (by race/ethnicity)

	Asian		Black		Hispanic		White	
Percentage of *P-Fin Index* questions answered correctly	**≤50%**	**>50%**	**≤50%**	**>50%**	**≤50%**	**>50%**	**≤50%**	**>50%**
Find it difficult to make ends meet in typical month	33%	13%	44%	24%	51%	28%	36%	17%
Debt payments prevent adequately addressing other financial priorities	23%	13%	35%	23%	42%	27%	29%	17%
Certainly could not come up with $2,000 for an unexpected need	19%	6%	31%	16%	19%	13%	26%	14%
Do not have one month of expenses in nonretirement savings	41%	13%	62%	29%	56%	28%	47%	23%
Spend 10+ hours per week on financial issues	17%	6%	32%	13%	30%	17%	25%	14%
Stopped retirement saving in 2022 due to inflation (among those employed)	21%	7%	16%	5%	28%	16%	12%	7%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure A8. Financial literacy and financial well-being (by generation)

	Gen Z		Gen Y		Gen X		Boomers		Silent Gen	
Percentage of *P-Fin Index* questions answered correctly	**≤50%**	**>50%**	**≤50%**	**>50%**	**≤50%**	**>50%**	**≤50%**	**>50%**	**≤50%**	**>50%**
Find it difficult to make ends meet in typical month	48%	21%	48%	20%	43%	22%	30%	16%	23%	11%
Debt payments prevent adequately addressing other financial priorities	24%	14%	42%	25%	42%	25%	22%	12%	19%	6%
Certainly could not come up with $2,000 for an unexpected need	34%	15%	26%	12%	24%	16%	22%	14%	15%	8%
Do not have one month of expenses in nonretirement savings	60%	36%	54%	22%	49%	24%	38%	15%		
Spend 10+ hours per week on financial issues	31%	10%	38%	17%	27%	15%	17%	11%	13%	14%
Stopped retirement saving in 2022 due to inflation (among those employed)	17%	10%	18%	9%	17%	5%	18%	8%		

Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Appendix B: Multivariate findings

Figure B1. Regression analysis

Dependent variable: decreased retirement saving in response to inflation	
GENDER (REF.: MALE)	
Female	0.000
	(0.021)
AGE (REF.: GEN Z)	
Gen Y	0.025
	(0.035)
Gen X	-0.008
	(0.037)
Baby boomers	0.015
	(0.042)
Silent Generation	0.013
	(0.124)
RACE/ETHNICITY (REF.: WHITE)	
Black	-0.006
	(0.031)
Hispanic	0.163***
	(0.031)
Asian	0.061*
	(0.034)
Other	-0.023
	(0.058)
EDUCATION (REF.: LESS THAN HS)	
High school	0.019
	(0.056)
Some college	0.055
	(0.057)
Bachelor's degree or higher	-0.010
	(0.056)
INCOME (REF.: <$25K)	
$25–50K	-0.020
	(0.056)
$50–100K	-0.109**
	(0.052)
>$100K	-0.192***
	(0.052)
MARITAL STATUS (REF.: MARRIED)	
Single	-0.067**
	(0.029)
Widowed/divorced/separated	0.060
	(0.038)
CHILDREN UNDER AGE 18	
Yes	0.048**
	(0.024)
Constant	0.320***
	(0.072)
Observations	1,932
R-squared	0.067

Note. This table uses the subsample of only employed adults. Estimated regression coefficients are compared to the following reference values (Ref.): Male for the gender variable, Gen Z for the age variable, White for the race/ethnicity variable, household income of less than $25,000 for the income variable, having less than a high school degree for the educational attainment variable, employed for the work status variable, and being married for the marital status variable. Robust standard errors in parentheses: *p<0.10, **p<0.05, ***p<0.01.
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure B2. Regression analysis

Dependent variable: Percentage of *P-Fin Index* questions answered correctly	
GENDER (REF.: MALE)	
Female	-7.445***
	(0.835)
AGE (REF.: GEN Z)	
Gen Y	-0.273
	(1.482)
Gen X	2.939*
	(1.530)
Baby boomers	4.447**
	(1.750)
Silent Generation	4.681*
	(2.396)
RACE/ETHNICITY (REF.: WHITE)	
Black	-12.841***
	(1.198)
Hispanic	-7.053***
	(1.128)
Asian	0.415
	(1.506)
Other	-7.213***
	(2.563)
EDUCATION (REF.: LESS THAN HS)	
High school	3.388**
	(1.549)
Some college	10.503***
	(1.658)
Bachelor’s degree or higher	20.905***
	(1.697)
INCOME (REF.: <$25K)	
$25–50K	7.409***
	(1.463)
$25–50K	11.472***
	(1.412)
>$100K	16.470***
	(1.482)
WORK STATUS (REF.: EMPLOYED)	
Unemployed/disabled	-3.869***
	(1.220)
Retired	1.087
	(1.287)
MARITAL STATUS (REF.: MARRIED)	
Single	-0.612
	(1.254)
Widowed/divorced/separated	0.603
	(1.242)
CHILDREN UNDER AGE 18	
Yes	-2.454**
	(1.000)
Constant	30.875***
	(2.262)
Observations	3,492
R-squared	0.314

Note. Estimated regression coefficients are compared to the following reference values (Ref.): Male for the gender variable, White for the race/ethnicity variable, Gen Z for the age variable, household income of less than $25,000 for the income variable, having less than a high school degree for the educational attainment variable, employed for the work status variable, and being married for the marital status variable. Robust standard errors in parentheses: *p<0.10, **p<0.05, ***p<0.01.
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

Figure B3. Regression analysis

	Difficult to make ends meet in typical month	Debt prevents adequately addressing other financial priorities	Do not have one month of non-retirement savings (if non-retired)
Total # of *P-Fin Index* questions correct	-0.002*	-0.004***	-0.006***
	(0.001)	(0.001)	(0.001)
GENDER (REF.: MALE)			
Female	-0.003	-0.011	0.003
	(0.016)	(0.016)	(0.019)
AGE (REF.: GEN Z)			
Gen Y	0.036	0.118***	-0.027
	(0.030)	(0.029)	(0.030)
Gen X	0.015	0.093***	-0.049
	(0.031)	(0.030)	(0.032)
Baby boomers	-0.057*	-0.060*	-0.138***
	(0.034)	(0.034)	(0.036)
Silent Generation	-0.122***	-0.098**	-0.203**
	(0.046)	(0.043)	(0.098)
RACE/ETHNICITY (REF.: WHITE)			
Black	0.041*	0.054**	0.084***
	(0.025)	(0.024)	(0.030)
Hispanic	0.092***	0.089***	0.026
	(0.024)	(0.024)	(0.026)
Asian	-0.014	-0.030	-0.027
	(0.026)	(0.023)	(0.030)
Other	0.042	0.021	0.081*
	(0.047)	(0.047)	(0.047)
EDUCATION (REF.: LESS THAN HS)			
High school	-0.078**	-0.035	0.020
	(0.036)	(0.037)	(0.041)
Some college	-0.069*	-0.004	-0.036
	(0.037)	(0.038)	(0.043)
Bachelor's degree or higher	-0.151***	-0.069*	-0.160***
	(0.037)	(0.039)	(0.045)
INCOME (REF.: <$25K)			
$25–50K	-0.113***	-0.010	-0.022
	(0.034)	(0.033)	(0.038)
$25–50K	-0.271***	-0.062**	-0.187***
	(0.031)	(0.031)	(0.037)
>$100K	-0.403***	-0.178***	-0.315***
	(0.032)	(0.031)	(0.038)
WORK STATUS (REF.: EMPLOYED)			
Unemployed/disabled	0.051**	-0.022	0.072***
	(0.026)	(0.026)	(0.026)
Retired	-0.034	-0.050**	
	(0.024)	(0.023)	

Figure B3. Regression analysis (continued)

	Difficult to make ends meet in typical month	Debt prevents adequately addressing other financial priorities	Do not have one month of non-retirement savings (if non-retired)
MARITAL STATUS (REF.: MARRIED)			
Single	-0.011	-0.135***	-0.013
	(0.024)	(0.024)	(0.026)
Widowed/divorced/separated	0.077***	0.028	0.141***
	(0.026)	(0.026)	(0.032)
CHILDREN UNDER AGE 18			
Yes	0.057***	0.020	0.075***
	(0.019)	(0.020)	(0.021)
Constant	0.660***	0.427***	0.695***
	(0.049)	(0.051)	(0.057)
Observations	3,477	3,483	2,501
R-squared	0.209	0.115	0.249

Note. Estimated regression coefficients are compared to the following reference values (Ref.): Male for the gender variable, White for the race/ethnicity variable, Gen Z for the age variable, household income of less than $25,000 for the income variable, having less than a high school degree for the educational attainment variable, employed for the work status variable, and being married for the marital status variable. Robust standard errors in parentheses: *p<0.10, **p<0.05, ***p<0.01.
Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

About the authors

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