Press contact

First Name Last Name

P 888-200-4062

Media@TIAA.org

Inflation forces 1 in 4 Americans to cut retirement savings

The 7th Annual Personal Finance (P-Fin) Index also shows an increase in the number of people struggling with debt, challenged to make ends meet

NEW YORK, April 20, 2023 – As inflation hit a 40-year high in 2022, American workers of all ages cut their retirement savings, struggled with debt and found it difficult to make ends meet, according to the 7th annual Personal Finance (P-Fin) Index, a joint initiative of the TIAA Institute and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business.

The survey showed that 25% of workers cut their retirement savings because of financial pressures created by inflation, and almost half of those (12%) stopped saving entirely. Hispanic Americans were impacted the most. They were twice as likely (24%) to stop saving altogether, and 40% saved less.

“This steep of a drop – on top of a crisis where 40% of Americans already don’t have enough saved for retirement – means many families will have to work even harder to achieve a secure retirement,” said Surya Kolluri, head of the TIAA Institute. “There are no simple solutions to this challenge, but we need to take a holistic approach, because health and wealth are two sides of the same coin. It’s just as important to know about someone’s medical condition as it is to know about the health of their retirement savings accounts, and employers need to engage workers on both fronts.”

The cuts in retirement savings mirror a larger financial challenge. The P-Fin Index also found that:

- 30% of those surveyed often found it difficult to make ends meet in 2022, up from 24% in 2021.
- 26% were debt constrained, up from 20%.
- 39% lacked nonretirement savings sufficient to cover one month of living expenses, up from 32%.

These problems are particularly pronounced among some groups. Approximately 40% of Blacks, Hispanics, and Gen Z typically find it difficult to make ends meet and about 50% of each lack enough nonretirement savings to cover one month of living expenses. Roughly one-third of Blacks, Hispanics, Gen X and Gen Y are debt constrained.

The results also show a gender gap in financial literacy. Men correctly answered about 25% more questions than women, on average (53% compared with 43%).

“Every year we say the findings are troubling, but this year, more than ever, we see how low levels of financial literacy in a volatile economy can lead to problems,” said Annamaria Lusardi, University Professor at GW and GFLEC's Academic Director. “It’s important we focus on helping people of all ages, races and genders, especially the ones who are the most vulnerable.”

The *P-Fin Index* is an annual barometer of financial literacy based on a 28-question survey. U.S. adults correctly answered about one-half of the questions, which has been the norm since the project began, but the share of adults who cannot correctly answer even 7 of the questions has increased. Today, one in four people cannot correctly answer more than a quarter of the questions.

The questions that have always been the most difficult for people to answer are the ones about comprehending risk. This year, barely a third (35%) answered those correctly.

Financial literacy matters: American workers with a very low level of financial literacy are twice as likely to have decreased their retirement savings and more than 4 times as likely to have stopped saving for retirement compared to their peers with very high levels of financial literacy.

Further, overall, compared to those with a very high level of financial literacy, those with a very low level of financial literacy are:

- More than 4 times as likely to typically have difficulty making ends meet (44% vs 10%).
- Nearly 3 times as likely to be debt constrained (34% vs 12%).
- More than 4 times as likely to lack emergency savings sufficient to cover one month of living expenses (56% vs 13%).
- More than three times as likely to spend at least 10 hours a week coping with issues related to personal finances (32% vs 10%).

The full report can be found at https://www.tiaa.org/public/institute.

About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies and maximize opportunities for success. For more information about the TIAA Institute, visit www.tiaainstitute.org.

About TIAA

TIAA is a leading provider of secure retirements and outcome-focused investment solutions to millions of people and thousands of institutions. It is the #1 not-for-profit retirement market provider[1], paid more than $5.6 billion in lifetime income to retired clients in 2022 and has $1.2 trillion in assets under management (as of 12/31/2022)[2].

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About GFLEC

The Global Financial Literacy Excellence Center (GFLEC) is dedicated to advancing research and solutions that open the door to universal financial literacy. In working toward that mission, GFLEC has positioned itself as the world's leading incubator for financial literacy research, policy, and solutions. GFLEC launched in 2011 at the George Washington University School of Business in Washington, D.C. Since then, it has pioneered breakthrough tools to measure financial literacy, developed and advised on educational programs, and crafted policy guidelines aimed at advancing financial knowledge in the United States and around the world. For more information on GFLEC, visit www.gflec.org.

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1. *As of July 21, 2022. Based on data in PLANSPONSOR's 403(b) 2022 DC Recordkeeping Survey, combined 457 and 403(b) data.*
2. *As of December 31, 2022 assets under management across Nuveen Investments affiliates and TIAA investment management teams are $1,212 billion.*