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10 YEARS

Insights on Financial Literacy and Financial Fragility

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Topics I will cover

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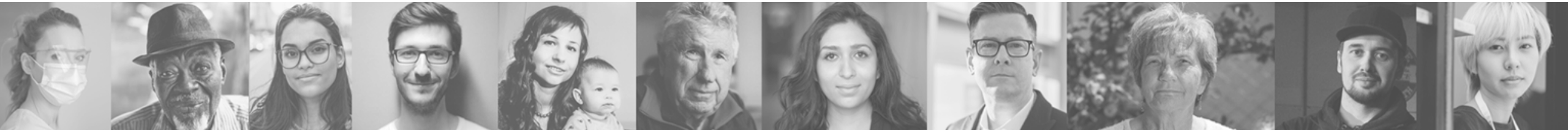
1. Financial literacy: what people know and changes overtime
2. Who are the most vulnerable groups?
3. Boosting financial resilience



Measuring financial literacy and well-being

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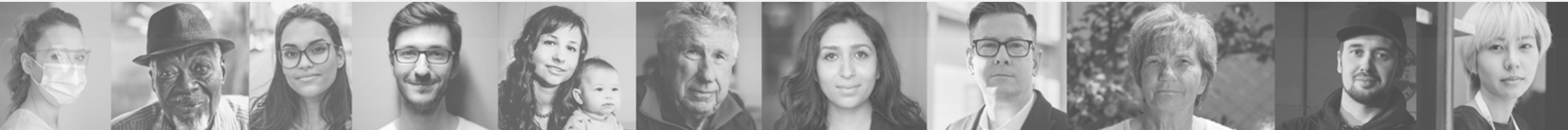
- The **TIAA-Institute-GFLEC Personal Finance Index** (**P-Fin Index**) is an annual barometer of knowledge and understanding which enable sound financial decision-making and effective management of personal finances among U.S. adults.
- The P-Fin Index relates to common financial situations that individuals encounter and can be viewed as a gauge of "working knowledge."
- In addition to personal finance knowledge it provides information on financial well-being indicators.
- Data is collected on a representative sample of about 1,000 respondents (age 18+).
- Data collection started at the end of 2016.



Five years of P-Fin Index data (2017-2021)

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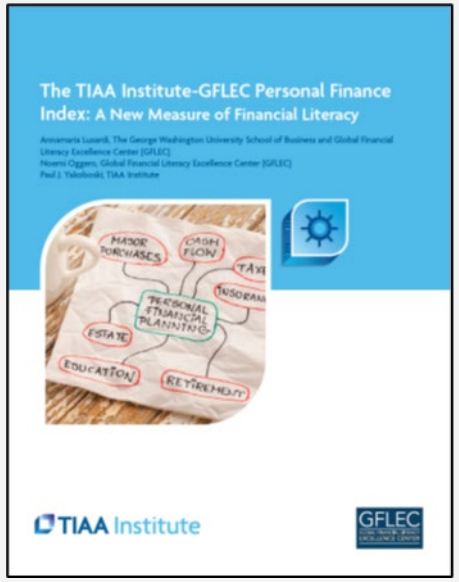

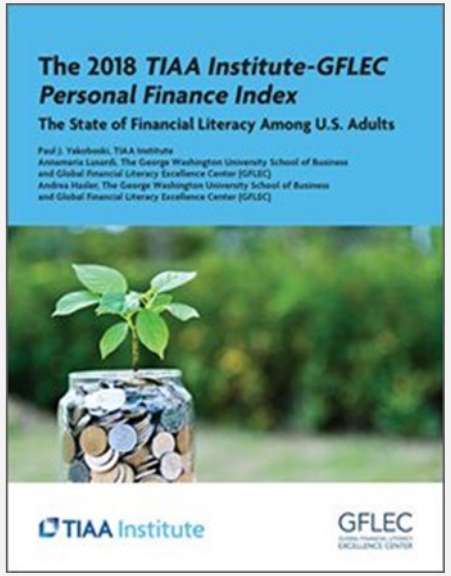

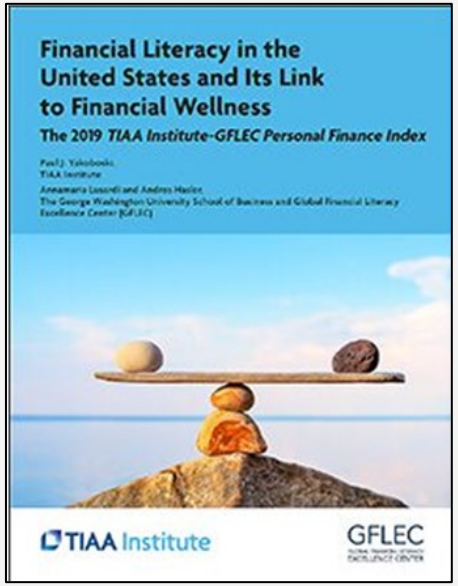

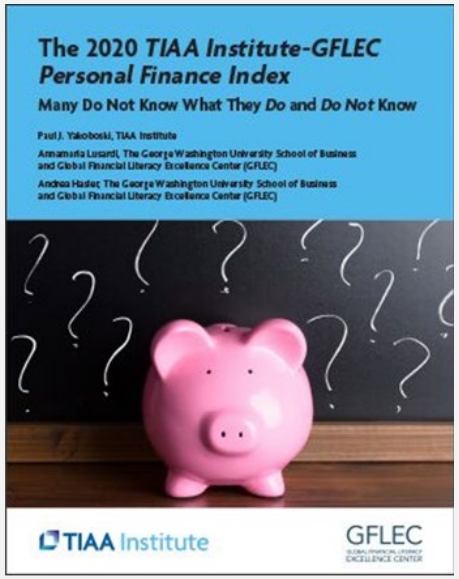

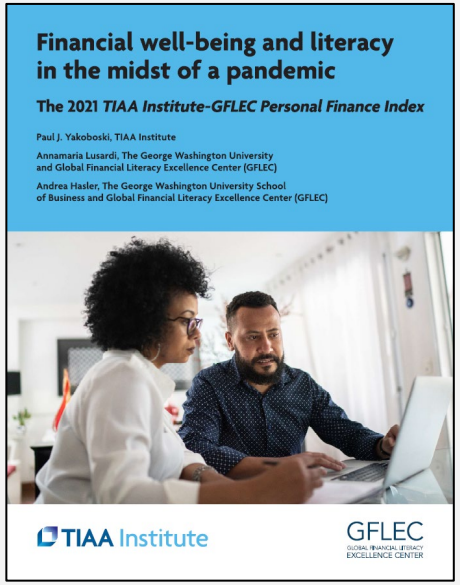

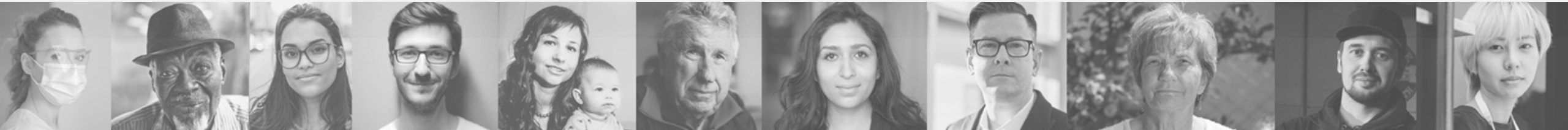

Zooming in into specific sub-groups

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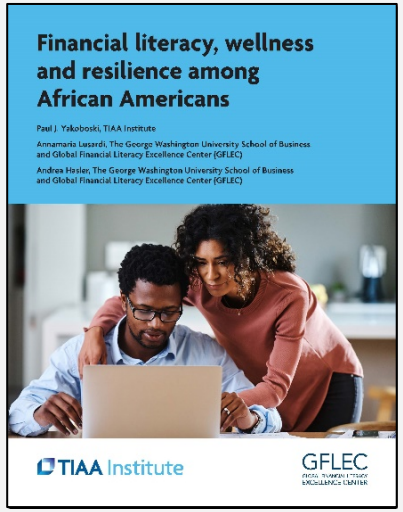
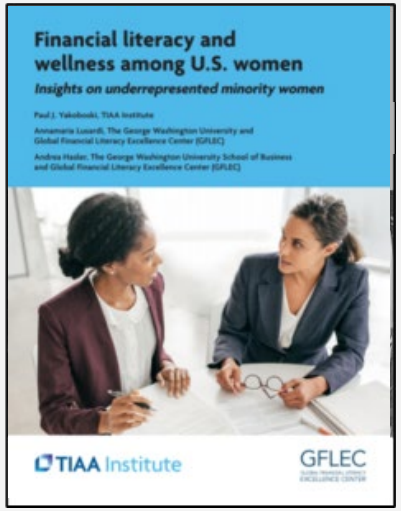
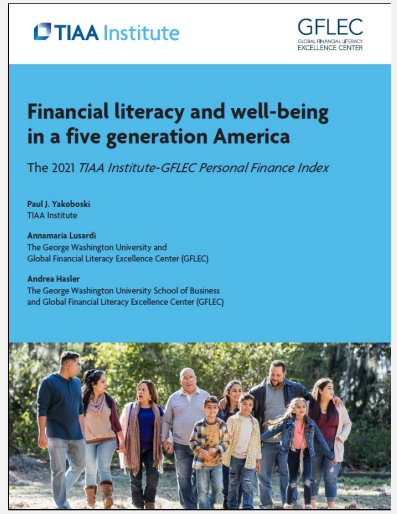
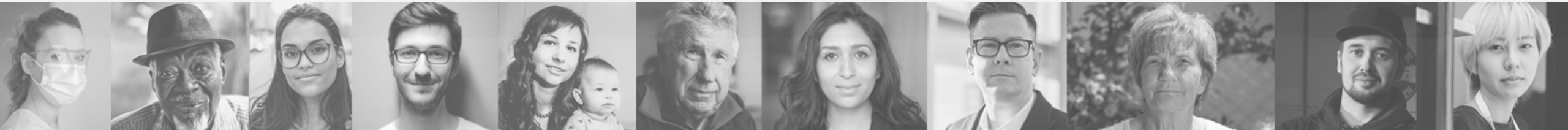
Each year, a specific demographic group is oversampled so we can provide a more detailed analysis of their financial literacy and wellness.

2017: Hispanics
2018: Millennials
2019: African Americans
2020: Women
2021: Age/Generations









What is unique: 8 functional areas of personal finance

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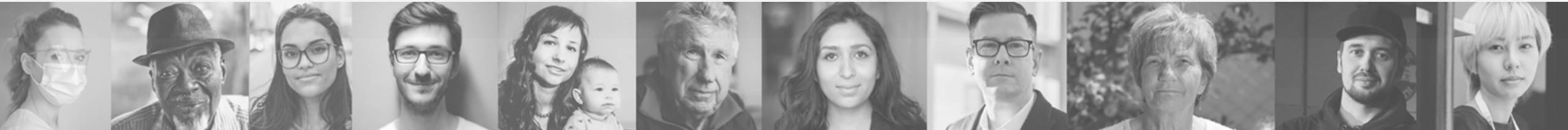
The index is based on responses to 28 questions, with three or four questions for each of the eight functional areas:

The *P-Fin Index's* 28 questions cover eight functional areas:

1. Earning
2. Saving
3. Consuming
4. Investing
5. Borrowing
6. Insuring
7. Comprehending risk
8. Go-to information sources



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

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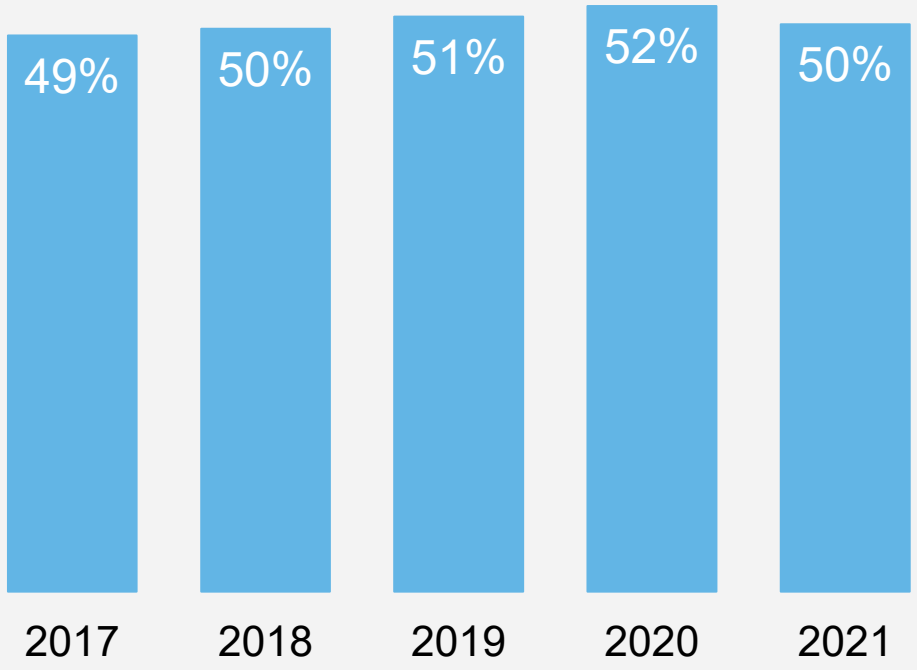
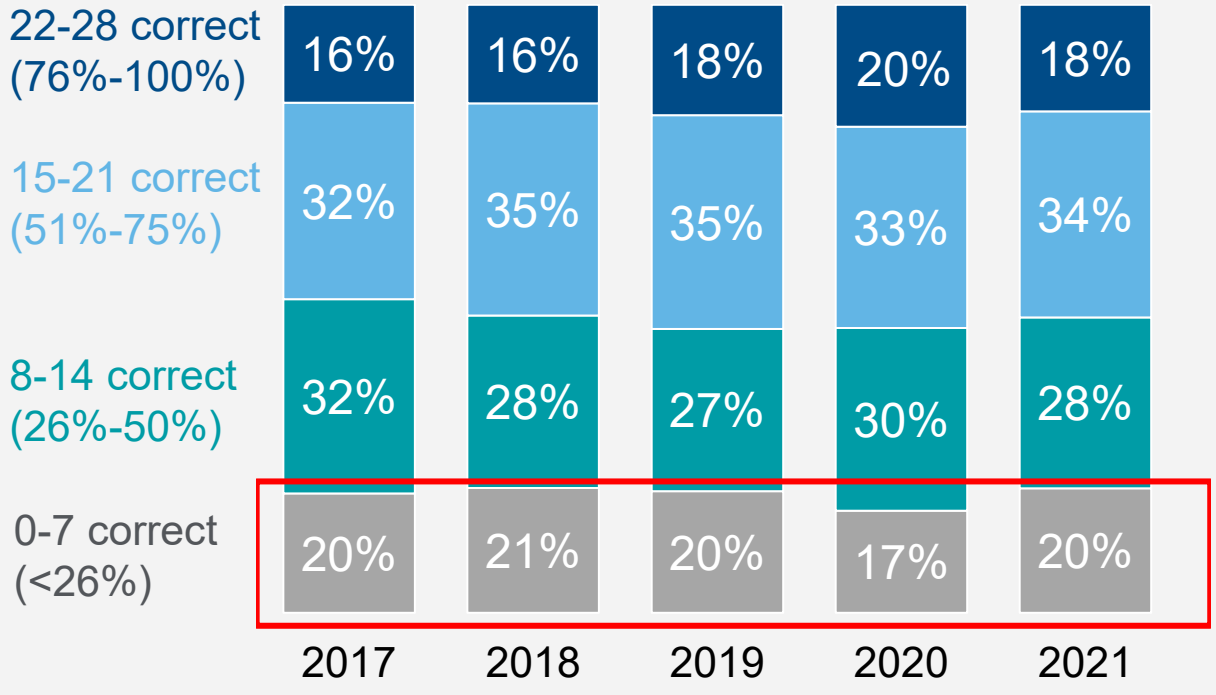
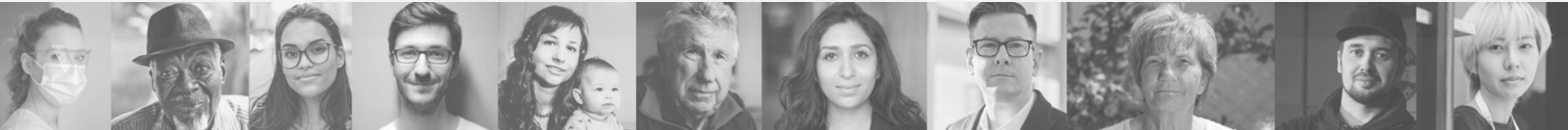
% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin questions



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



What do people know the most and the least

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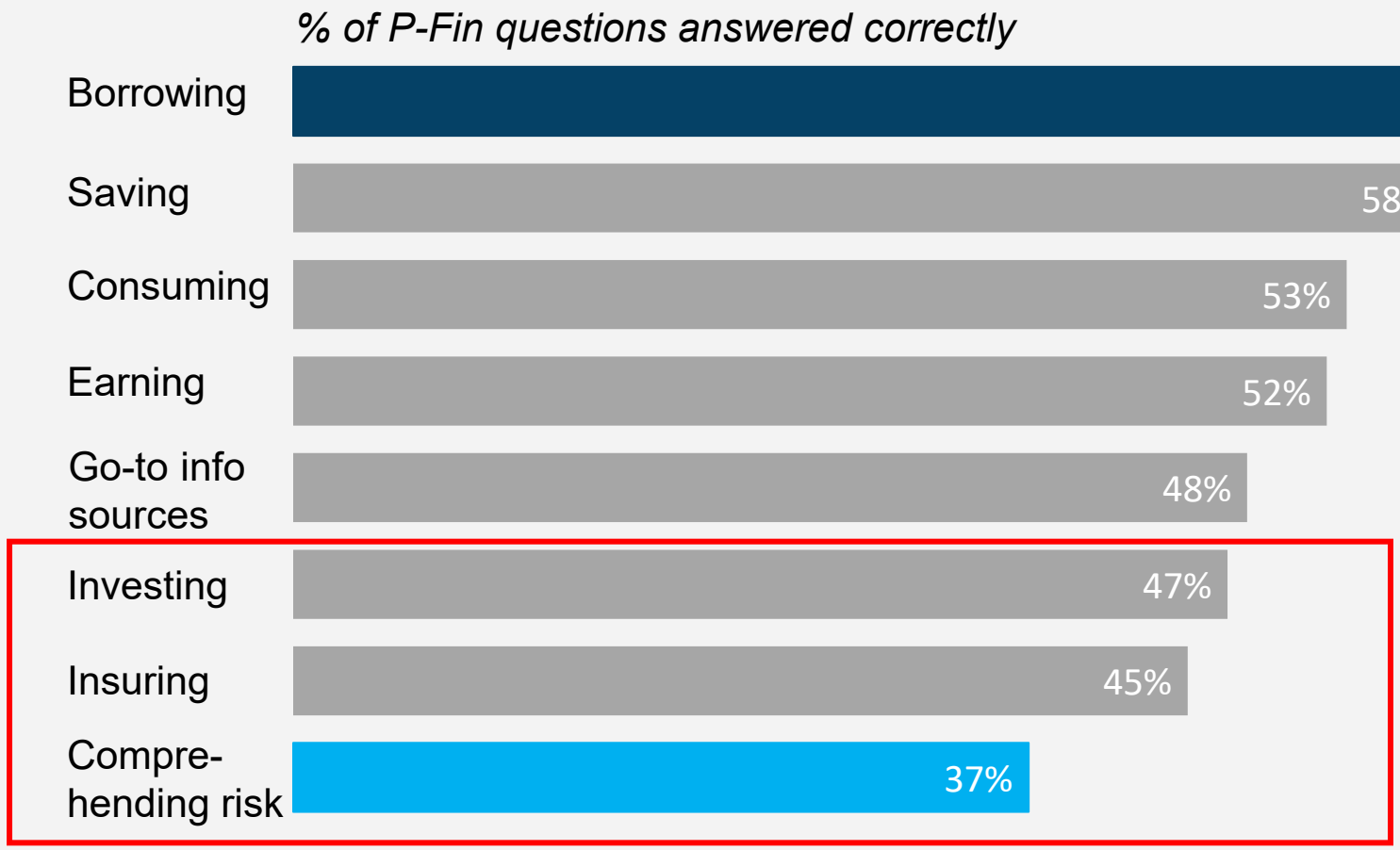
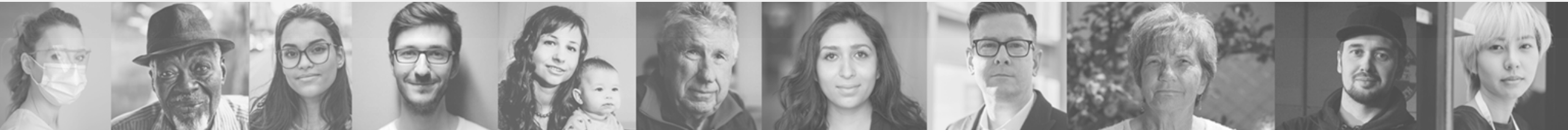


Source: TIAA Institute-GFLEC Personal Finance Index (2021).



What do people know and how it has changed over time

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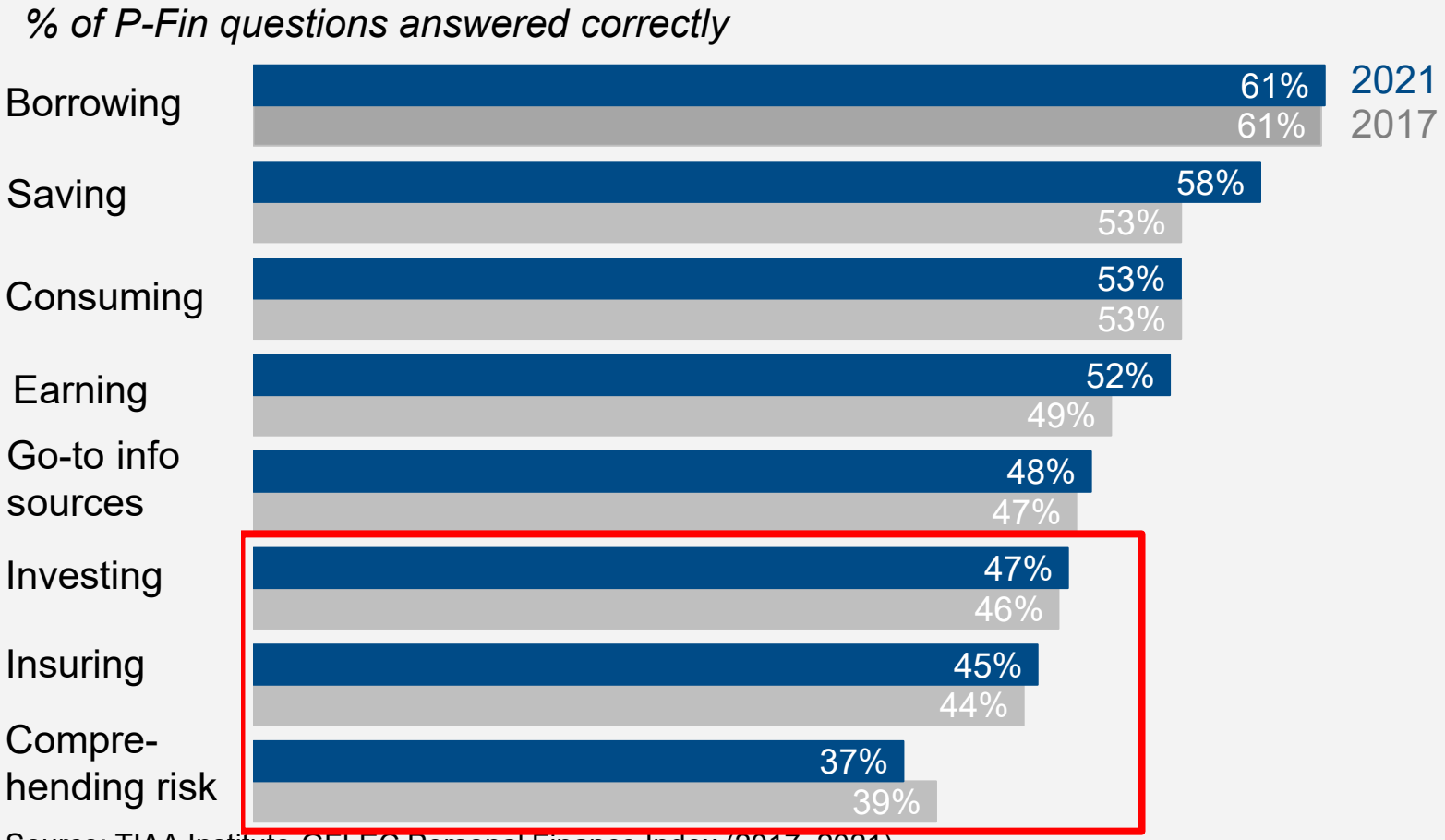
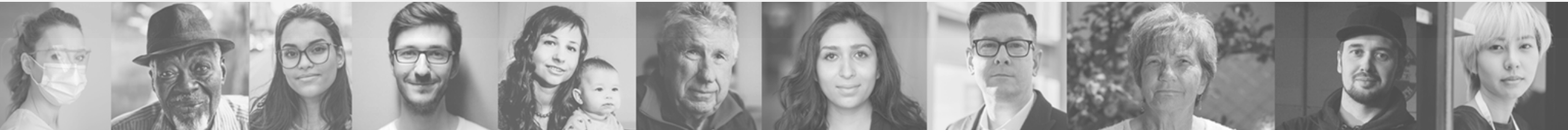


Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2021).



"Calculated risk"?

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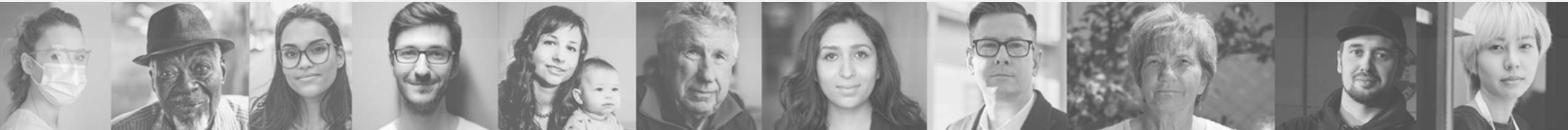
New question added to the survey: Which of the following indicates the highest probability of getting a particular disease?

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

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

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



Large variation in financial literacy across demographics

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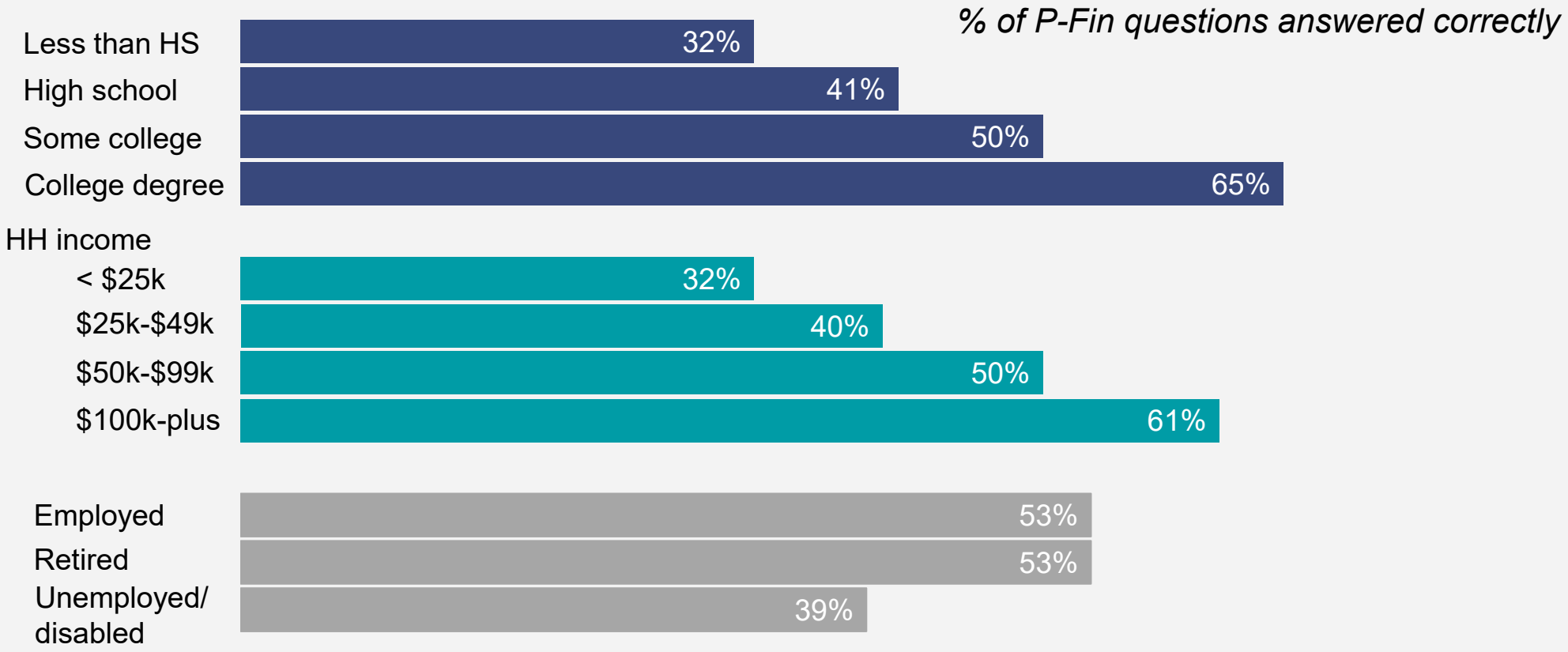
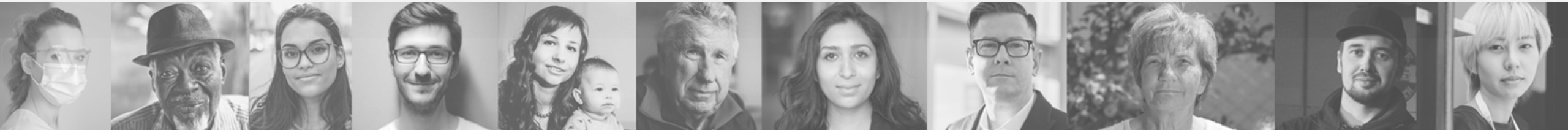


Source: TIAA Institute-GFLEC Personal Finance Index (2021).



Demographic variation: Women and knowledge

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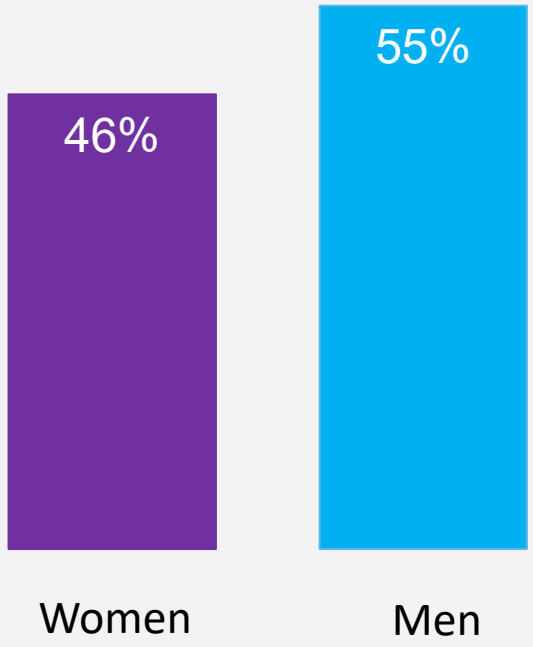
% of P-Fin questions answered correctly



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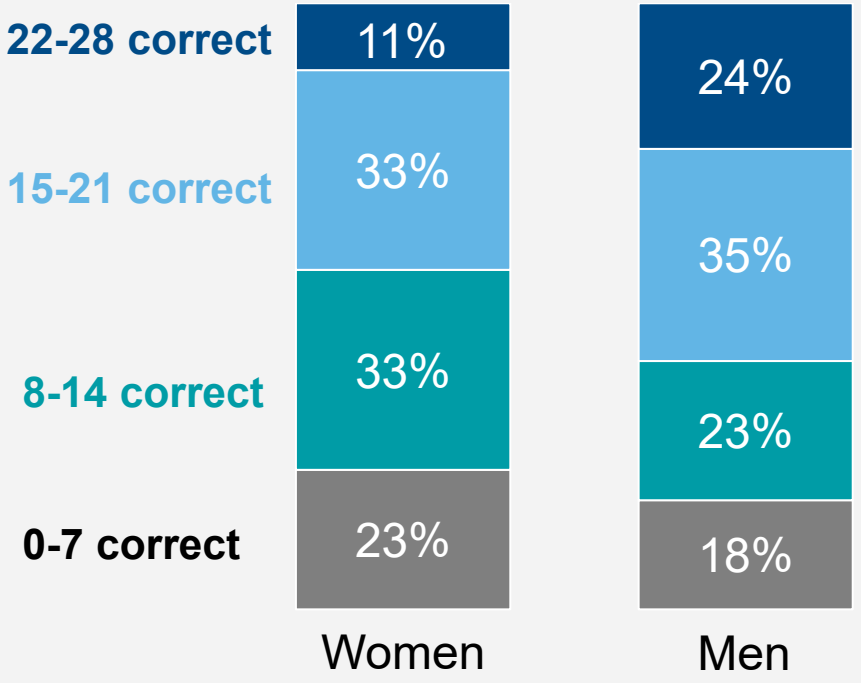
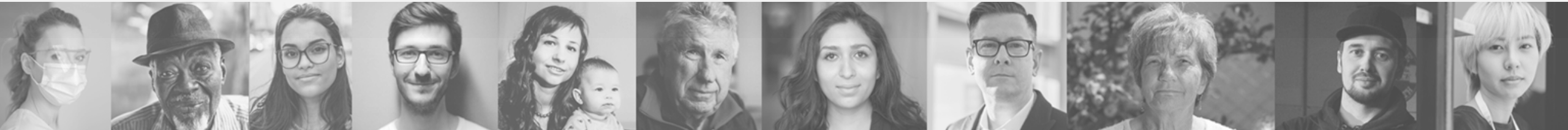


Source: TIAA Institute-GFLEC Personal Finance Index (2021).



Demographic variation: Racial/Ethnic groups

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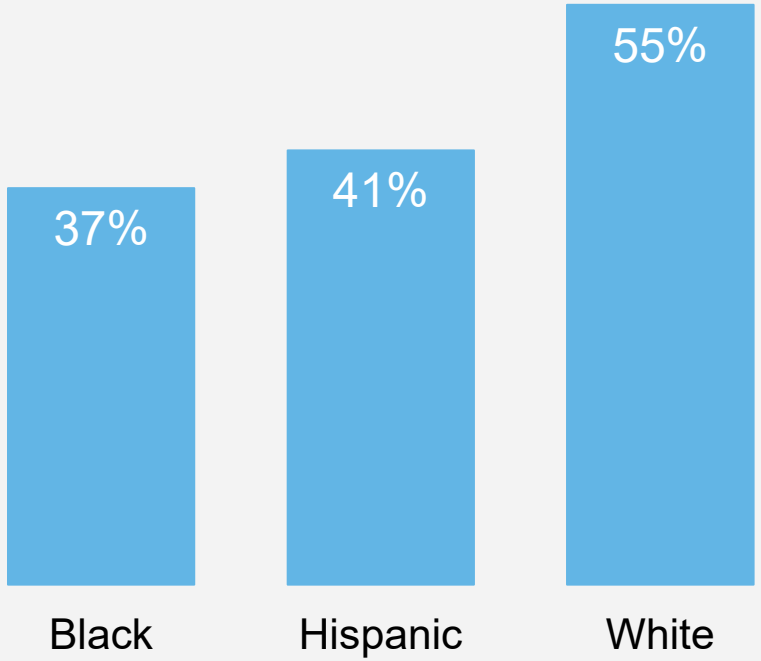
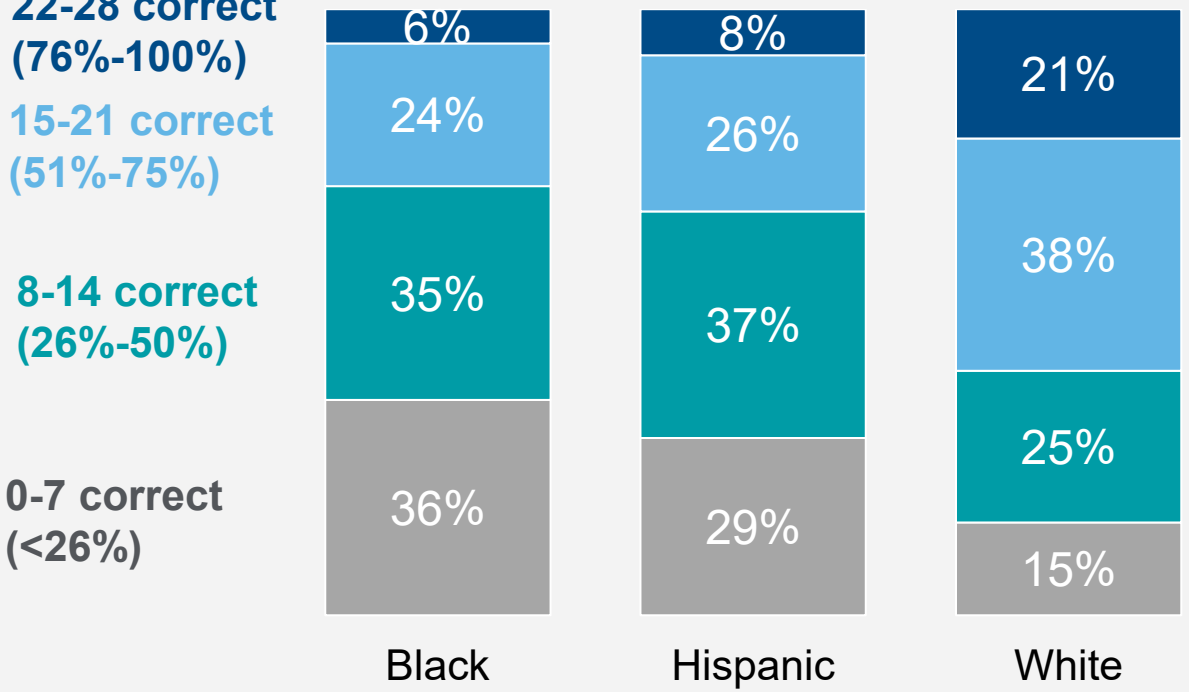
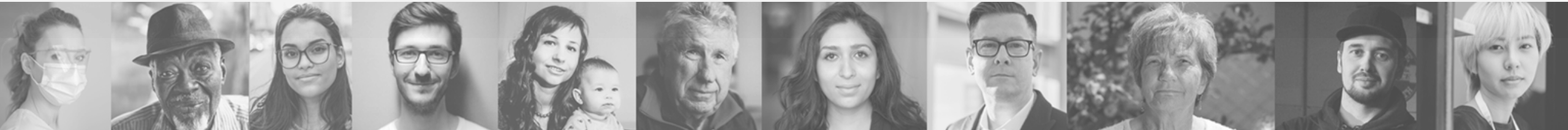
% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin Index questions

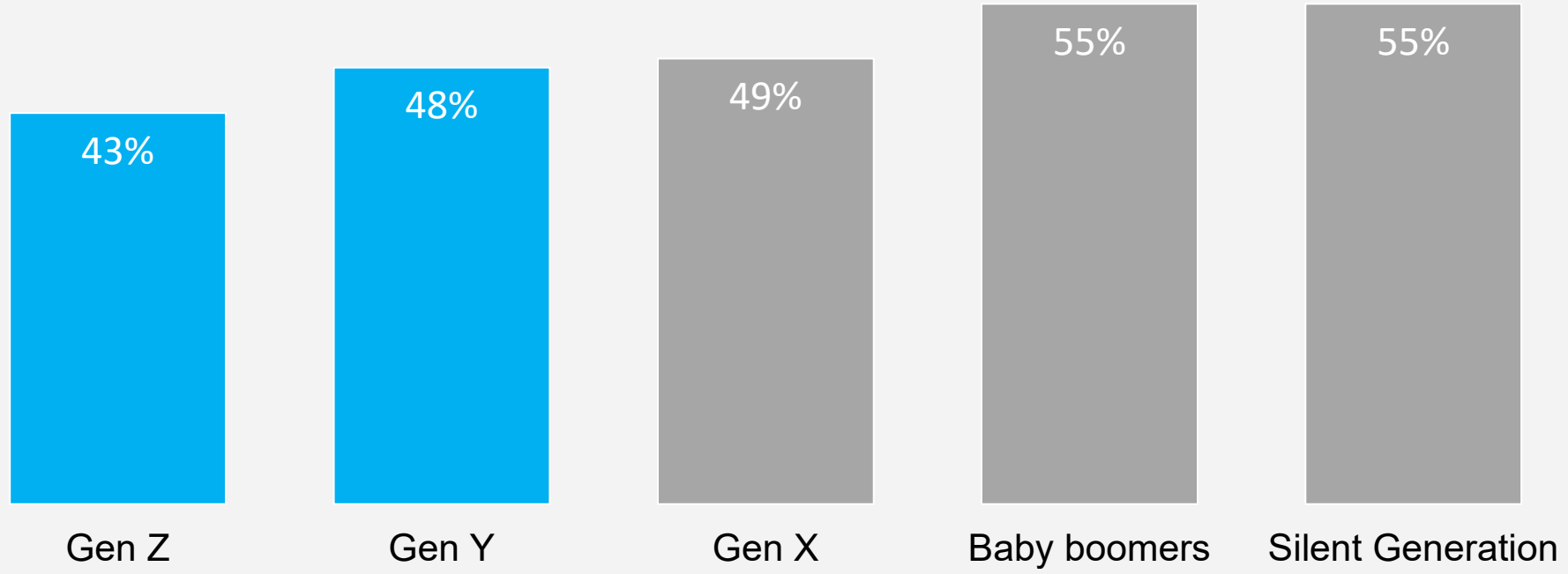


Source: TIAA Institute-GFLEC Personal Finance Index (2021).



Demographic variation: Age/Generations

% of P-Fin questions answered correctly



Even close to retirement, many people lack the knowledge necessary to prepare and plan for their retirement ahead.

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

Where changes happened over time: Toward an unequal path

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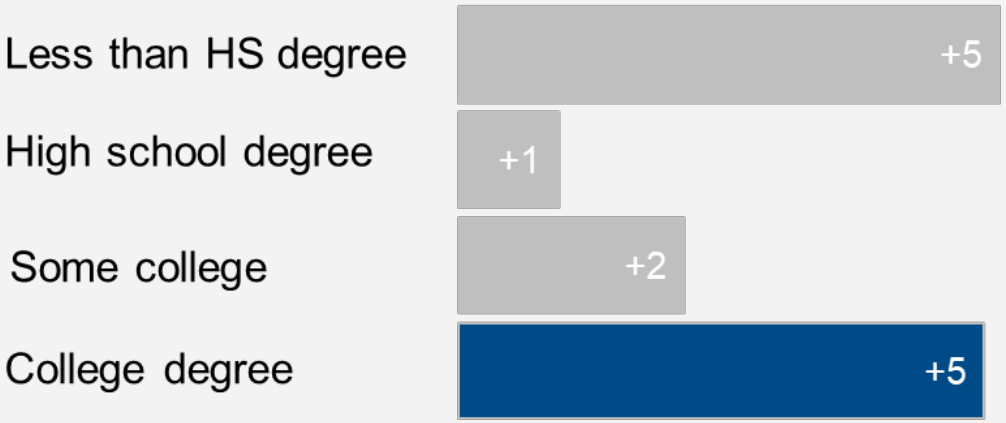
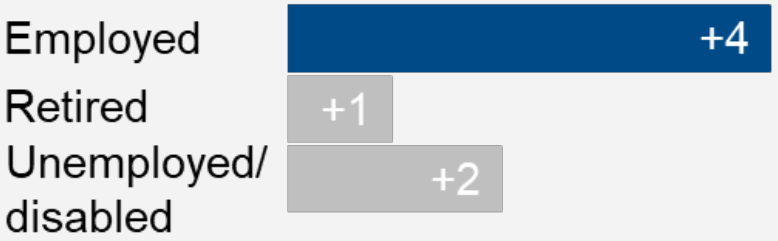
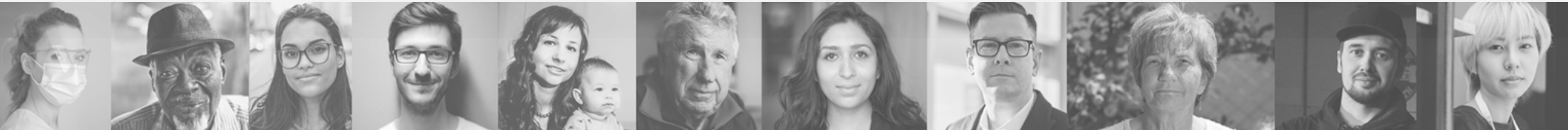
% point change in P-Fin questions answered correctly, 2017 to 2020





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



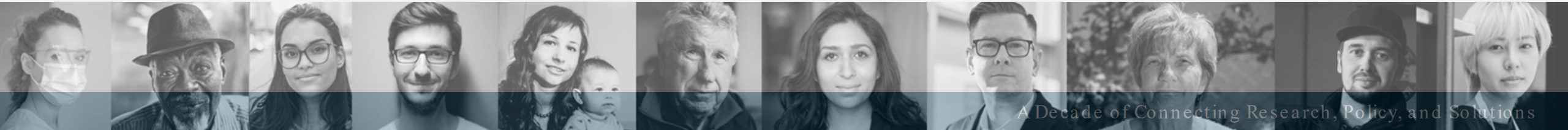
Measuring financial fragility (a measure of well-being

- How **confident** are you that you could come up with **$2,000** if an unexpected need arose **within the next month**?

  - I am certain I could come up with the full $2,000.
  - I could probably come up with $2,000.
  - I could probably not come up with $2,000.
  - I am certain I could not come up with $2,000.
  - Don't know.
  - Prefer not to say.

People with these responses are classified as financially fragile.

From Lusardi and Tufano, BPEA, 2011



Financial fragility in America before the pandemic

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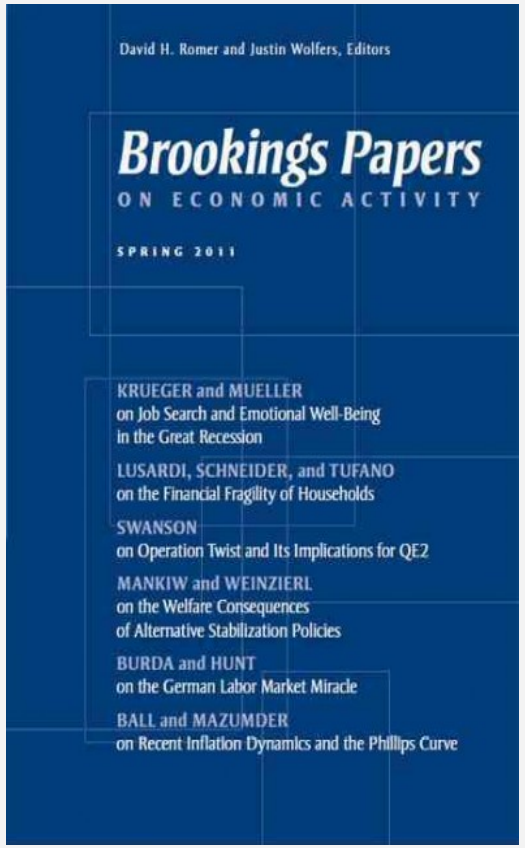
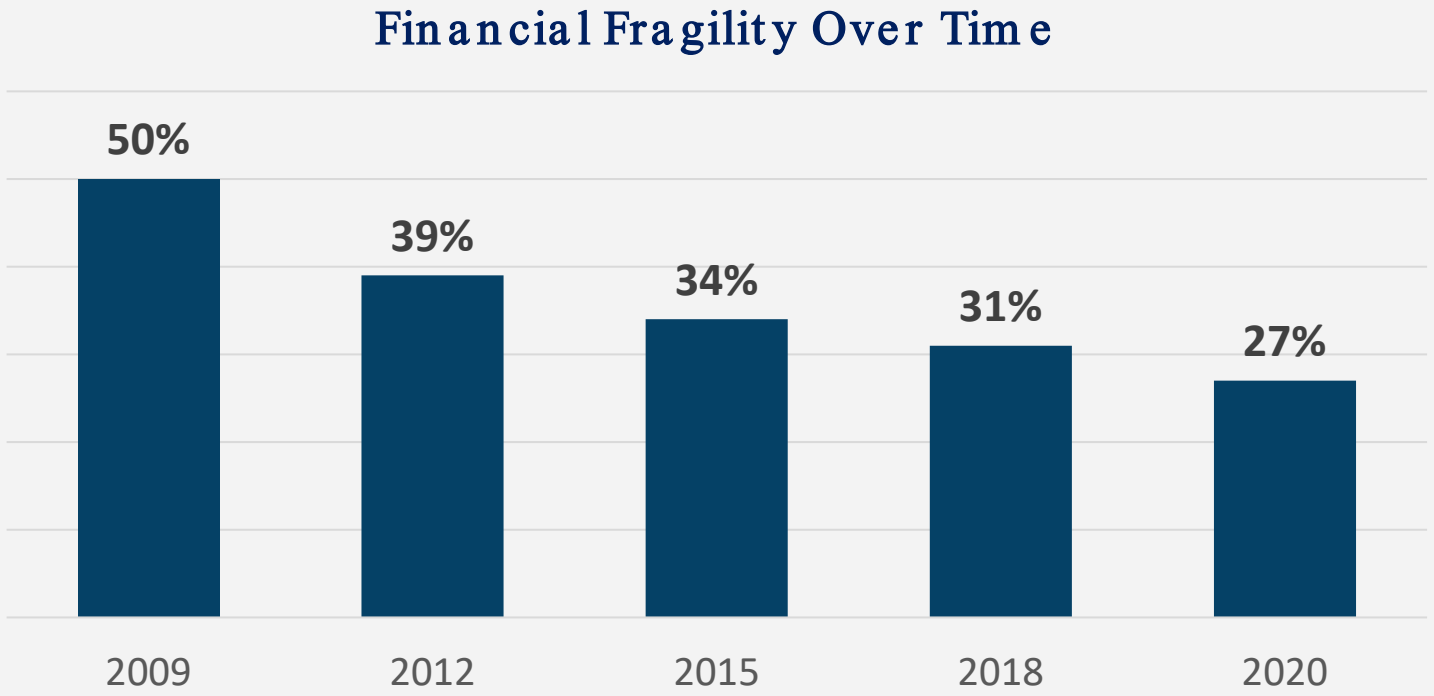
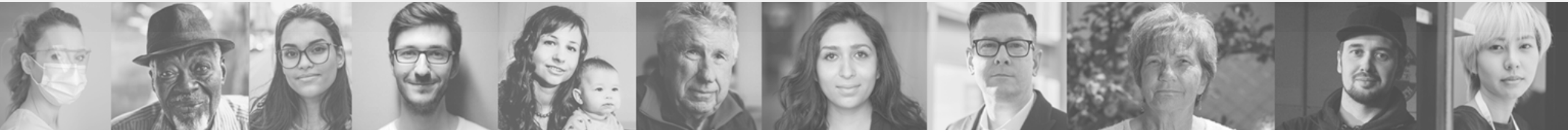
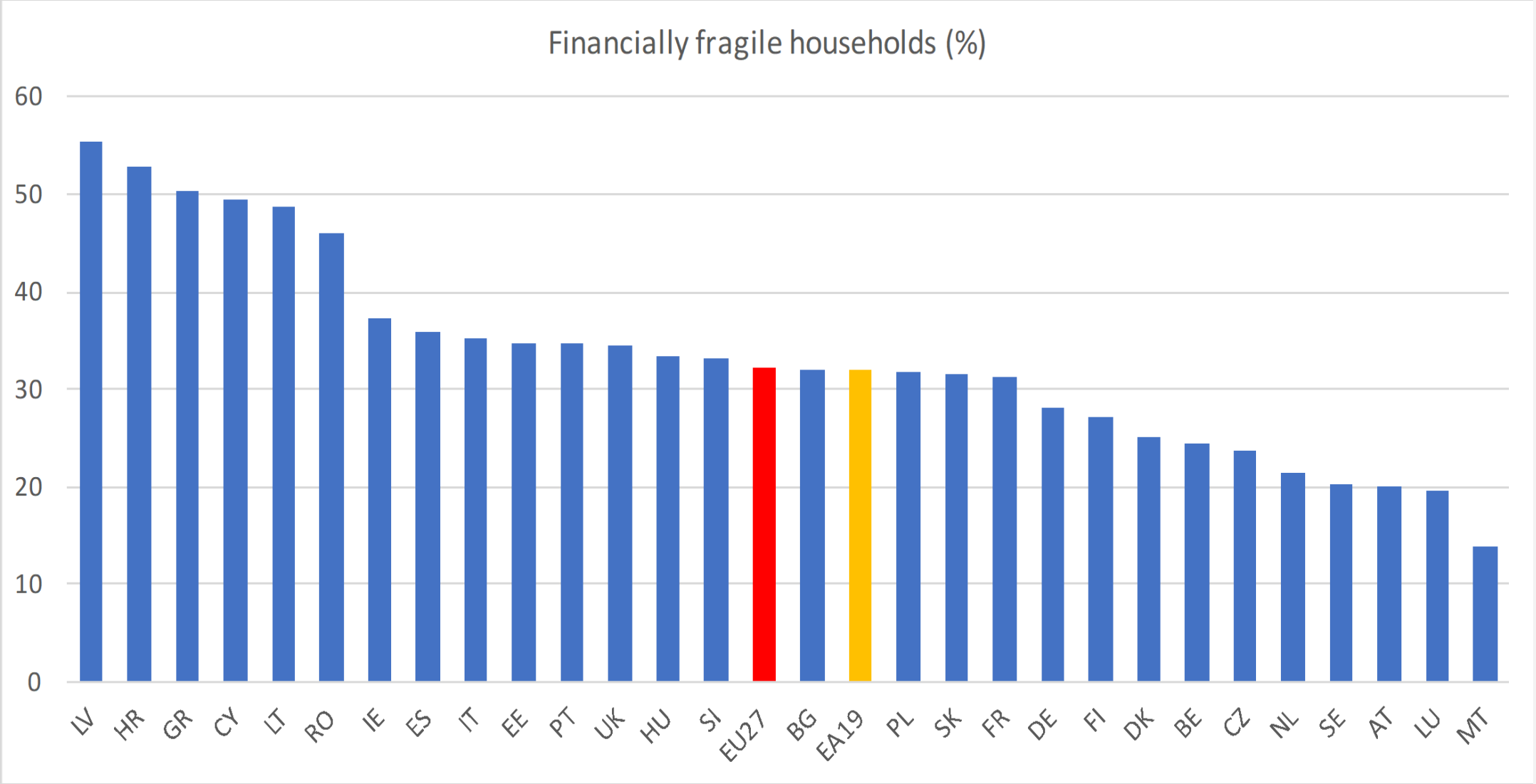




Source: 2009 TNS data, 2012, 2015 and 2018 NFCS data, and 2020 P-Fin data



EU households not ready to meet an unexpected financial expense – 2018 (From Demertzis, Domínguez-Jiménez, Lusardi, 2020)



Financial literacy and financial fragility

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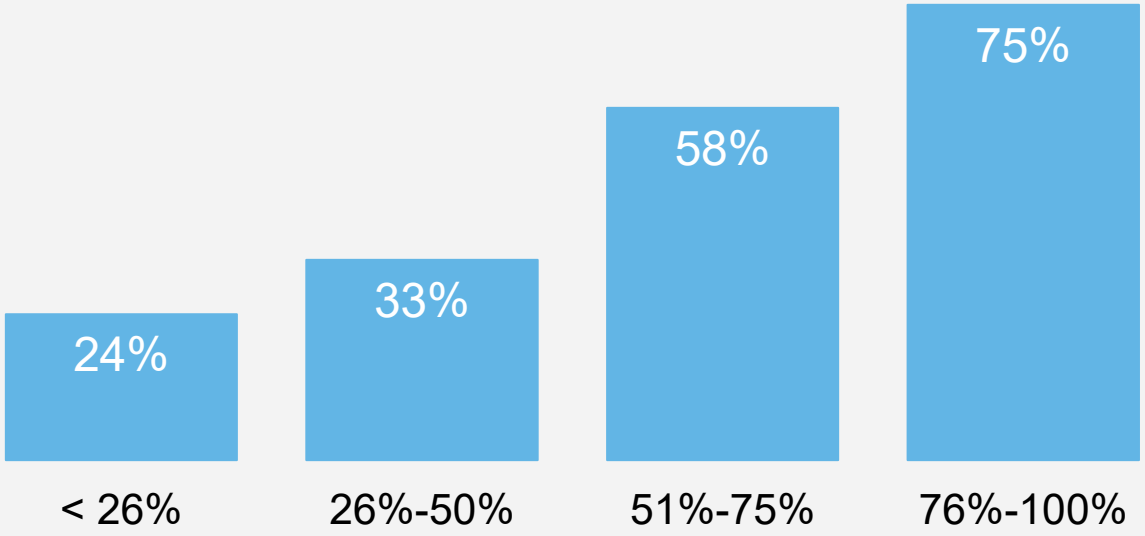
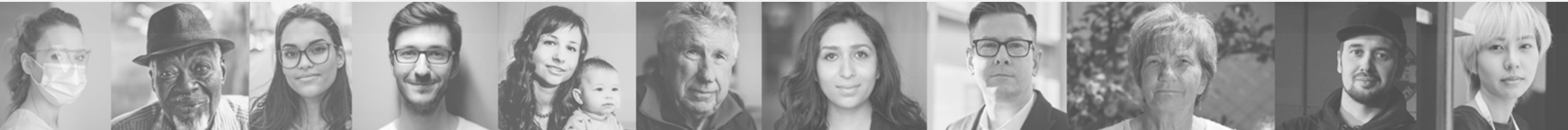
Those with greater financial literacy are less likely to be financially fragile.

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



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



The relationship between financial resilience and literacy

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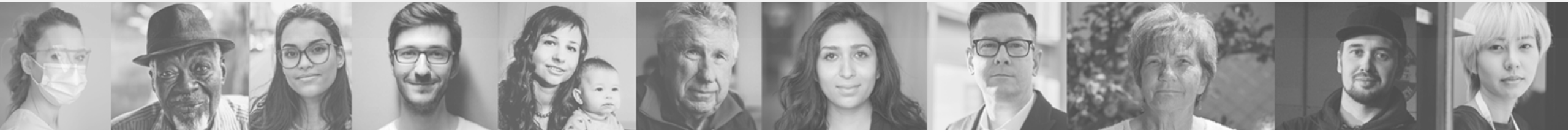
VARIABLES	**Model 1** *Financial Resilience*	**Model 2** *Financial Resilience*	**Model 3** *Financial Resilience*
> 50 % of P-Fin Index questions correct	0.130***		
	(0.0204)		
Total # of questions correct		0.00993***	
		(0.00149)	
Was offered financial education			0.0146
			(0.0184)
Demographic controls	YES	YES	YES
Constant	0.360***	0.294***	0.377***
	(0.0494)	(0.0515)	(0.0500)
Observations	2,892	2,892	2,892
R-squared	0.173	0.174	0.158

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



Financial literacy and retirement planning

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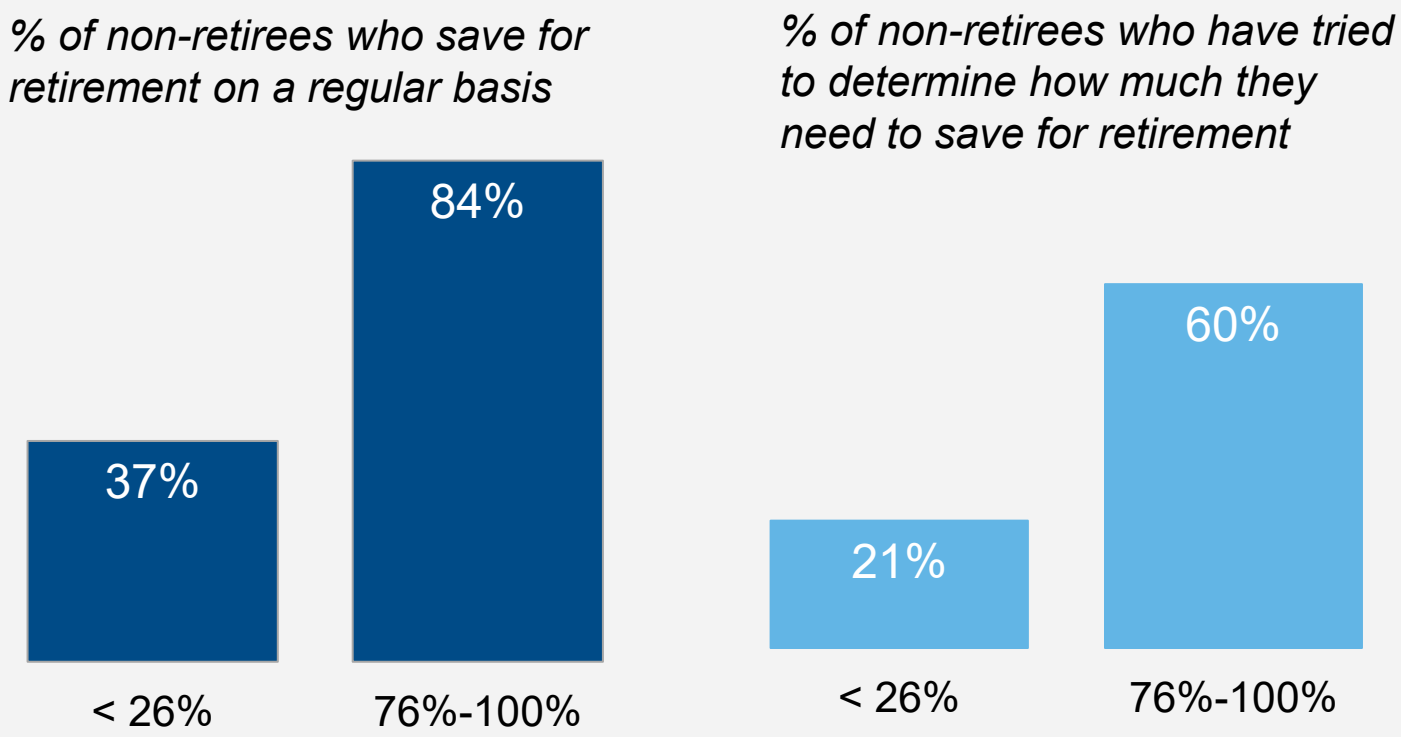
Those with greater financial literacy are more likely to save and plan for retirement.



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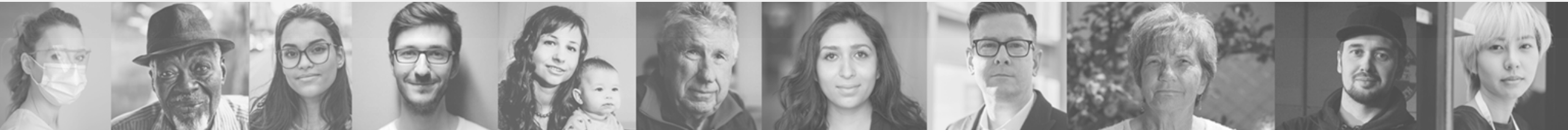

The relationship between retirement planning and financial literacy

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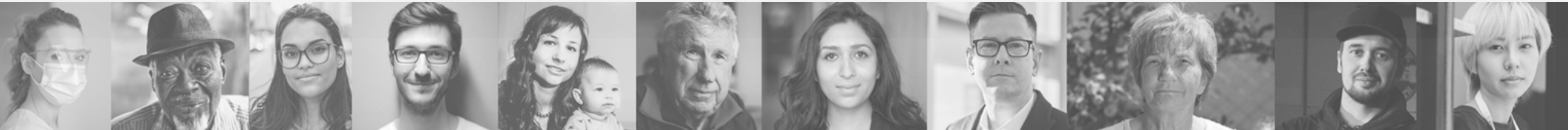
VARIABLES	**Model 1** *Retirement Planning*	**Model 2** *Retirement Planning*	**Model 3** *Retirement Planning*
> 50 % of P-Fin Index questions correct	0.135***		
	(0.0214)		
Total # of questions correct		0.0122***	
		(0.00151)	
Was offered financial education			0.167***
			(0.0198)
Demographic Controls	YES	YES	YES
Constant	0.103**	0.0251	0.0652
	(0.0454)	(0.0466)	(0.0453)
Observations	3,024	3,024	3,024
R-squared	0.172	0.179	0.183

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



New data collected in Italy for the work of the Financial Education Committee

GFLEC
GLOBAL FINANCIAL LITERACY EXCELLENCE CENTER

New panel data set: data collected in 2020 and 2021

Has questions on financial literacy and financial fragility

Empirical findings guide the work of the Financial Education Committee

Financial literacy is more important than ever

GFLEC GLOBAL FINANCIAL LITERACY EXCELLENCE CENTER 10 YEARS

Financial literacy during the pandemic: In Italy too financial literacy acted as a shield to protect people against shocks

Source: S&P Global Finlit

Concluding remarks

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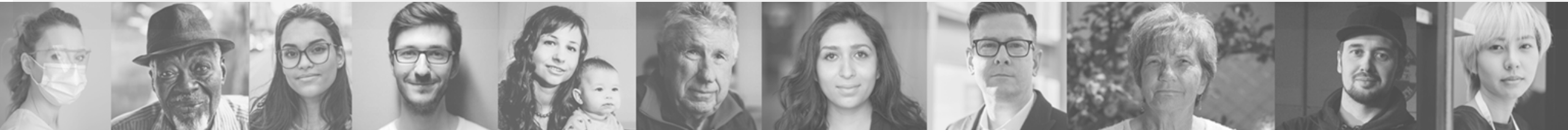
- Need to improve levels of financial literacy
  - Levels of knowledge are still low
  - Financial literacy does not increase over time without interventions

- Some topics are particularly complex
  - Risk and risk diversification

- Need to boost financial resilience
  - It is low even during good economic times
  - It is linked to financial literacy



Concluding remarks, cont.

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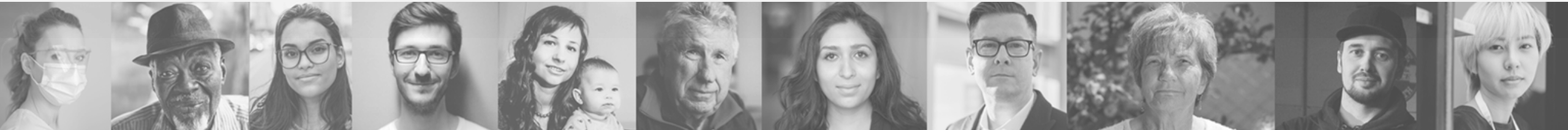
- The data on personal finance provide new and useful information
- We can use the data to design programs
- We can use to inform policy, they should be evidence-based
- Looking forward to the new wave of data



Thank you!

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