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# Women's financial wellness and literacy

COVID-19 and its economic consequences have negatively affected the financial well-being of many Americans and further exacerbated pre-existing gaps among US adults. Women and historically underrepresented minorities are at particular risk in this sense.

Prior to COVID-19, women were already facing greater economic challenges than men. Our data collected in January 2020, immediately before the onset of COVID-19, shows that women were already lagging men in terms of financial literacy and financial wellness.

A more refined understanding of financial literacy among women, including areas of strength and weakness and variations among subgroups, can inform initiatives to improve financial wellness, particularly as the US moves forward from the pandemic and its economic consequences. While not a cure-all, increased financial literacy can lead to improved financial capability and practices that benefit even those with relatively modest resources.

## The P-Fin Index

The TIAA Institute-GFLEC<sup>1</sup> Personal Finance Index (P-Fin Index) is a long-term project that began in 2017 to annually assess financial literacy among the US adult population. It relates to common financial situations that individuals face in their daily life and can be viewed as a gauge of “working knowledge.” The P-Fin Index is unique in its capacity to produce a robust measure of overall personal finance knowledge and a nuanced analysis of knowledge across eight areas of personal finance in which individuals inherently function. The index is based on the responses to 28 questions, with three or four questions for each functional area (earning, consuming,

saving, investing, borrowing/managing debt, insuring, comprehending risk, go-to information sources). The online survey is fielded each January on a representative sample of US adults; the 2020 sample consisted of 1,008 individuals. At the same time, the survey is also fielded with a separate oversample of a particular demographic group to provide a more detailed analysis of that group; 1,000 women were oversampled in 2020.

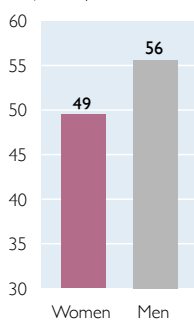
## Women's financial literacy

Financial literacy is disturbingly low among US women. On average, female adults correctly answered 49% of the 2020 P-Fin Index questions. In other words, women answered fewer than 14 out of 28 questions correctly. There also exists a significant gender gap, with men correctly answering 56% of the P-Fin Index questions (chart 1). Further, the distribution of correctly answered P-Fin questions is concerning: only 48% of women correctly answered over one-half of the index questions, with 21% demonstrating a relatively low level of financial literacy, i.e. they correctly answered only up to seven out

Chart 1

### Gender gap in financial literacy

% of P-Fin questions answered correctly

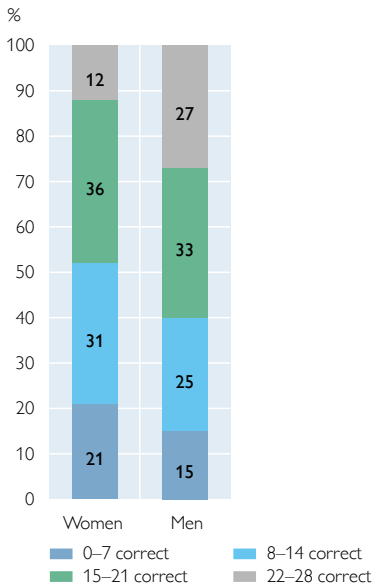


Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

<sup>1</sup> TIAA = Teachers Insurance and Annuity Association of America. GFLEC = Global Financial Literacy Excellence Center.

Chart 2

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



Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

of the 28 index questions. In comparison, 60% of men correctly answered over one-half of the index questions, with only 15% answering seven questions or less correctly (chart 2).

**Knowledge across functional areas**

Across the eight functional areas, comprehending risk and uncertainty is the area of lowest financial literacy among women. On average, women correctly answered only 34% of these questions (chart 3). The COVID-19 pandemic has greatly amplified the degree of risk and uncertainty in the economy along multiple dimensions, such as employment, earnings, investment returns and expenses. Low financial literacy, especially with regard to risk and uncertainty, means that individuals are particularly ill-positioned to make appropriate financial decisions in this environment.

Borrowing and debt management is the area of greatest personal finance

knowledge among women, with 61% of these questions answered correctly, on average. Debt tends to be a feature of personal finance common across the lifecycle for many individuals in the US; knowledge and understanding may emerge from confronting accumulated debt, often from the early stages of adulthood.

Apart from debt, only up to approximately one-half of the questions in the other functional areas are answered correctly, revealing a low level of knowledge in important areas of financial decision making among women. Further, the gender gap in financial literacy continues to hold in terms of functional knowledge. Women's financial literacy lags that of men in each functional area. The differential is particularly large in the realm of investing – 13 percentage points (chart 3).

**Heterogeneity among women**

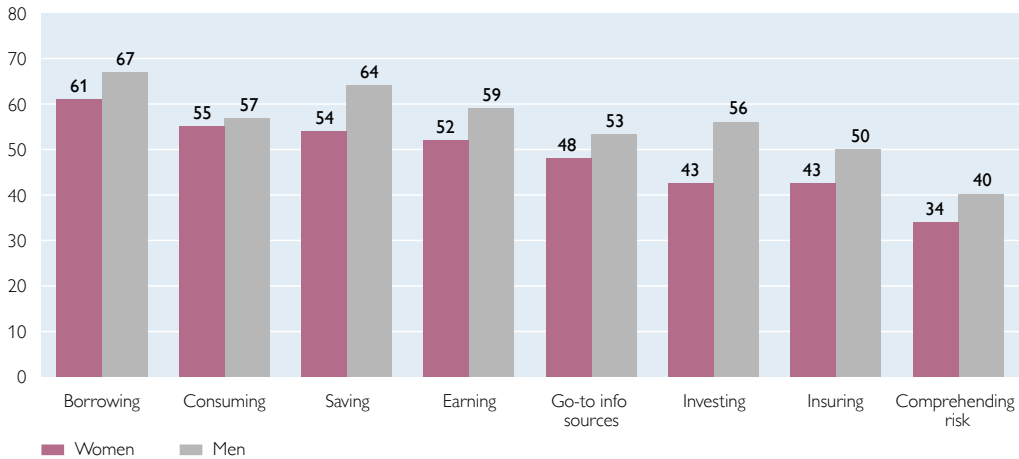
Financial literacy among women varies across socioeconomic and demographic groups (chart 4):

- Financial literacy tends to be lowest among Gen Z women and highest among Gen X and baby boomers. While generation and age effects cannot be distinguished in a single cross-section of data, these findings stand out for how little young women seem to know, given the complexity of today's financial environment.
- Personal finance knowledge tends to be lower among underrepresented minority women – Black and Hispanic women – compared with their White peers. The former correctly answered 38% of the index questions, on average, and the latter 54%.
- Financial literacy tends to be greater among women with higher household incomes. There is a 25 percentage point difference in P-Fin Index questions answered correctly between women with household incomes below

Chart 3

### Financial literacy across 8 functional areas

% of P-Fin questions answered correctly



Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

USD 25,000 and those with household incomes of USD 100,000 or more.

- Personal finance knowledge varies with employment status. In particular, unemployed or disabled women have markedly lower financial literacy than those who are employed and those retired.
- Women with a college degree correctly answered 61% of the P-Fin Index questions, on average, compared with 26% among those with less than a high school degree.
- There is a 13 percentage point difference in the percentage of index questions answered correctly between women who have participated in a financial education class or program and those who have not.

### Financial wellness among women

Achieving financial security, or financial well-being, is a goal shared across individuals. An increased employer focus on employee financial well-being has manifested itself in workplace financial wellness programs. These programs are more holistic than predecessor programs, which typically focused on a single aspect of personal finances, e.g. saving

for retirement or investing in retirement accounts. The P-Fin survey is well suited to examine the state of financial wellbeing in the US, as it contains questions indicative of financial wellness – either outcomes linked to financial well-being or behaviors that should promote it. For example, we have questions covering money management with a particular focus on debt, the capacity to cope with a USD 2,000 financial shock, the ability to make ends meet, and planning and saving for retirement. For each indicator of financial wellness in the P-Fin Index survey, there is a significant gap between underrepresented minority women and their White peers (chart 5).

- One-half of Black and Hispanic women can readily make ends meet in a typical month compared with 70% of White women.
- About only one-quarter of Black and Hispanic women do not feel debt constrained compared with 56% of White women.
- Fewer Black and Hispanic women can deal with an unexpected financial emergency. Specifically, 55% of underrepresented minority women could likely come up with USD 2,000 within

30 days to cover an unexpected need, compared with 77% of White women.

- Less than one-half of non-retired Black and Hispanic women (43%) save for retirement on a regular basis, and among the same group, only 15% are planning for their retirement.

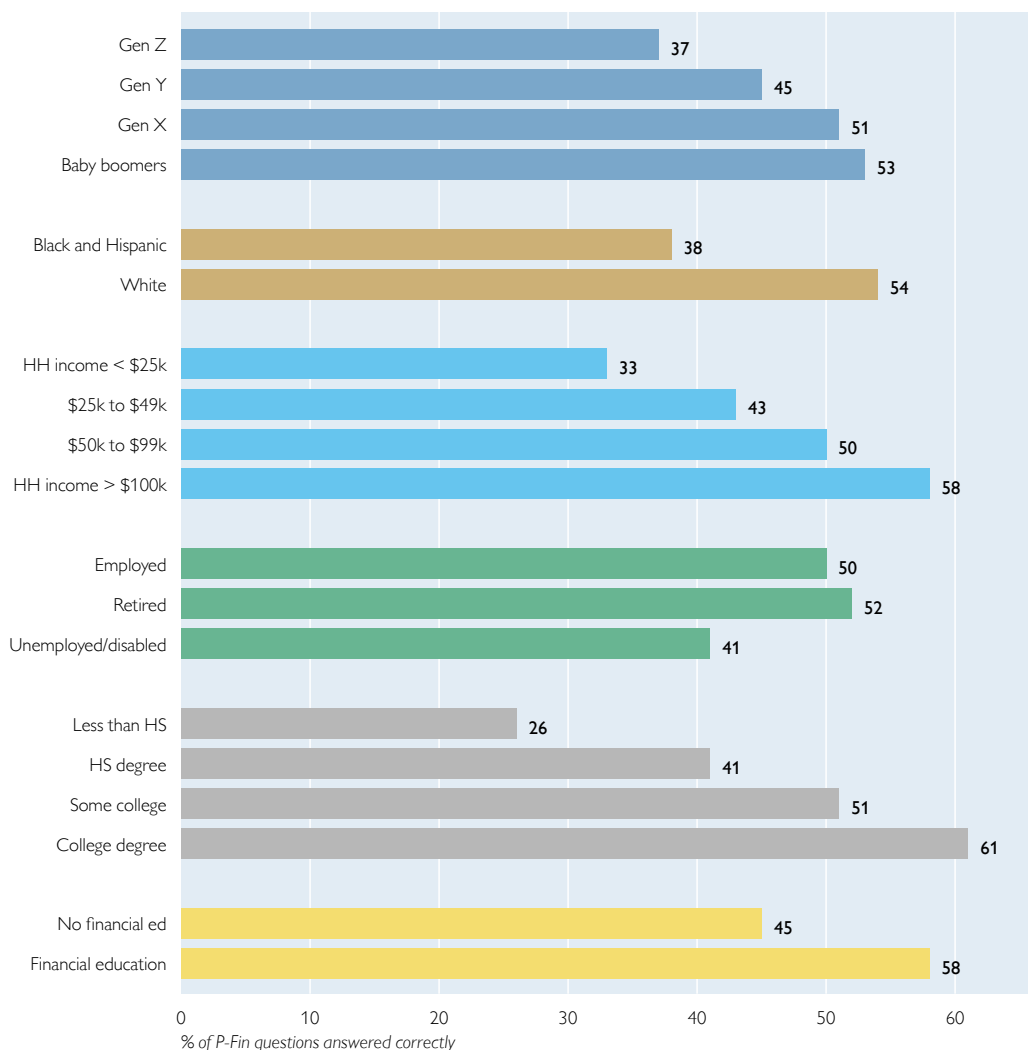
Noteworthy is that this was measured in January 2020, during a time of economic expansion and record-low unemployment rates.

### Link between financial wellness and financial literacy

The P-Fin Index data shows that financial wellness tends to be greater among US adults with higher levels of financial literacy. This implies that those with greater financial literacy are better positioned along various dimensions to weather adverse economic conditions such as those that exist today.

Chart 4

#### Variation in financial literacy among women

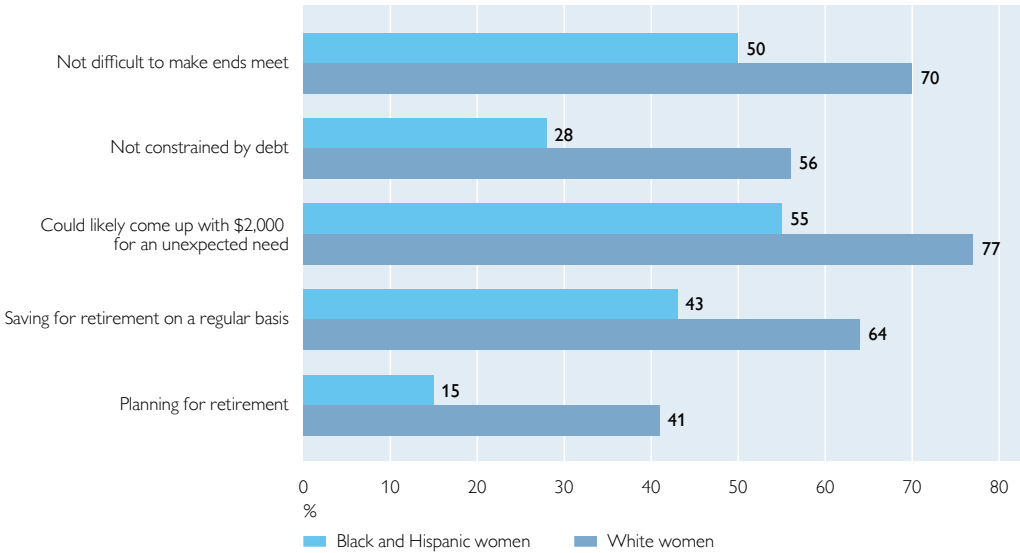


Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

Note: HH = household, HS = high school, ed = education.

Chart 5

**Financial wellness among women**

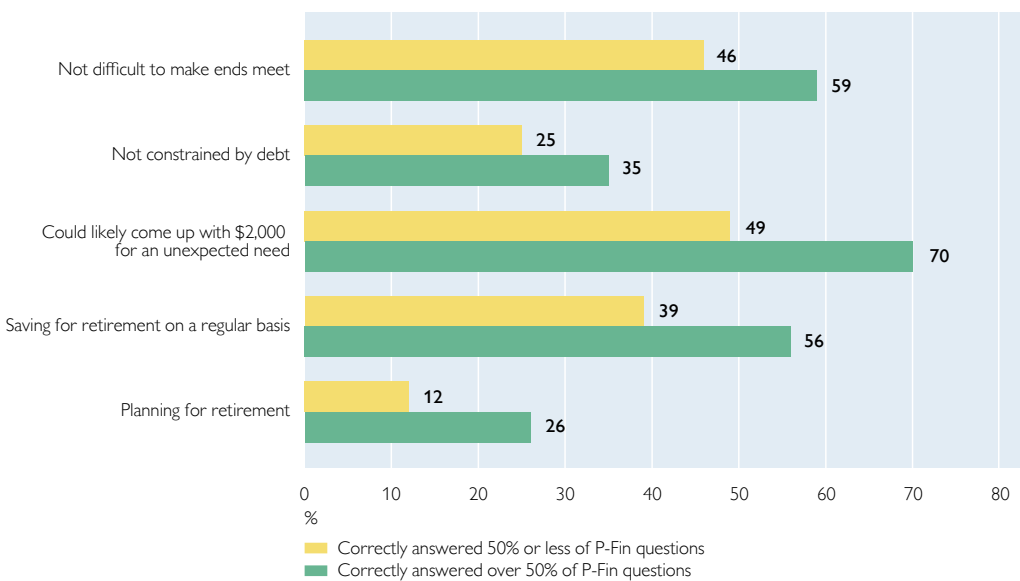


Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

The same finding holds when focusing on women in particular – those with greater financial literacy tend to exhibit greater financial wellness. Specifically, women who correctly answer more of the P-Fin Index questions are better able to make ends meet, more likely to feel unconstrained by debt, better able

Chart 6

**Financial wellness and literacy among Black and Hispanic women**



Source: Authors' calculations using the 2020 TIAA Institute-GFLEC Personal Finance Index.

to cope with a financial shock, and more likely to save and plan for retirement. Consistent with the findings among all US adult women, greater financial literacy is associated with greater financial well-being among underrepresented minority women. Black and Hispanic women who correctly answered over 50% of the index questions are more likely to engage in behaviors connected to higher financial well-being compared to underrepresented minority women who correctly answered only up to 50% of the index questions (chart 6).

### Summary

Financial literacy is knowledge and understanding that enable sound financial decision-making and effective management of personal finances. In times that are anything but normal – like today with the COVID-19 pandemic and its economic consequences – the ability to make appropriate financial decisions matters greatly. Unfortunately, many Americans are functioning in today's environment with a poor level of financial literacy. This level is even lower

among women compared to men, and within women, it is much lower among underrepresented minority women compared to their White peers. Especially problematic in today's environment is the finding that financial literacy is particularly low in the area of comprehending and understanding risk and uncertainty. This means that individuals are ill-positioned to make decisions in a time when uncertainty and volatility dominate economic and financial life. These findings point to where it would be useful to focus as the world eventually moves forward from the pandemic. Better financial well-being is related to greater financial literacy. This holds for all women, including underrepresented minority women. A heightened focus on improving financial literacy, with an emphasis on understanding and managing risk and uncertainty, is an important step that will increase women's financial resiliency in the future. While not a cure-all, increased financial literacy can lead to improved financial capability and practices that benefit even those with relatively modest resources.

### Further reading

- Yakoboski, P., A. Lusardi and A. Hasler. 2019.** Financial Literacy in the United States and Its Link to Financial Wellness: The 2020 TIAA Institute-GFLEC Personal Finance Index. The TIAA Institute/GFLEC Insights Report.
- Yakoboski, P., A. Lusardi and A. Hasler. 2020.** The 2020 TIAA Institute-GFLEC Personal Finance Index: Many Do Not Know What They Do and Do Not Know. The TIAA Institute/GFLEC Insights Report.
- Yakoboski, P., A. Lusardi and A. Hasler. 2020.** Financial Literacy and Wellness among African-Americans: New Insights from the Personal Finance (P-Fin) Index. *The Journal of Retirement* 8 (1). 22–31.
- Yakoboski, P., A. Lusardi and A. Hasler. 2020.** Financial Literacy and Wellness among U.S. Women: Insights on Underrepresented Minority Women. The TIAA Institute/GFLEC Insights Report.