

Personal Finance Education in the Classroom

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HEFWA Executive Leadership Forum on Financial Wellness
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Personal Finance Education

- What the Data Shows
- Teaching Personal Finance
- Our Initiative at Stanford
- The Case for Personal Finance Education



Measuring personal finance knowledge

- The TIAA-Institute-GFLEC Personal Finance Index (P-Fin Index) is an annual measure 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 now collected on a representative sample of about 3,500 respondents (age 18+).
- Data collection started at the end of 2016.

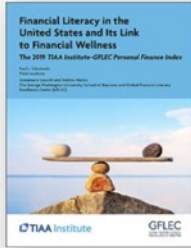


Eight years of P-Fin Index data (2017-2024)

2017



2019



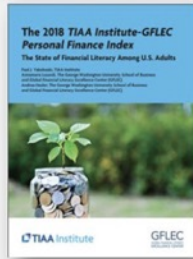
2021



2023



2018



2020



2022



2024



FINANCIAL LITERACY AND RETIREMENT FLUENCY

New insights for improving financial well-being

The 2024 TIAA Institute-GFLEC Personal Finance Index

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TIAA
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What is unique: 8 functional areas of personal finance

The index is based on responses to **28 questions**, with three or four questions for each of the eight functional areas (from the National Standards for Financial Literacy). It is a **check-up for personal finance**.

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

Inflation knowledge

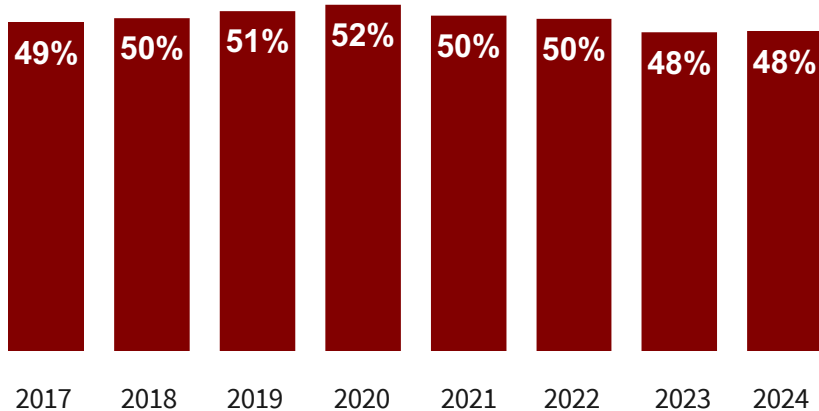
Akiko has \$1,000 in savings that earns a 2% rate of return over the course of the year. The inflation rate during the year is 3%. Which statement is true?

- She can afford to buy fewer things at the end of the year
- She can afford to buy more things at the end of the year
- It's not clear whether she can afford to buy more things or fewer things at the end of year
- Don't know
- Refuse to answer

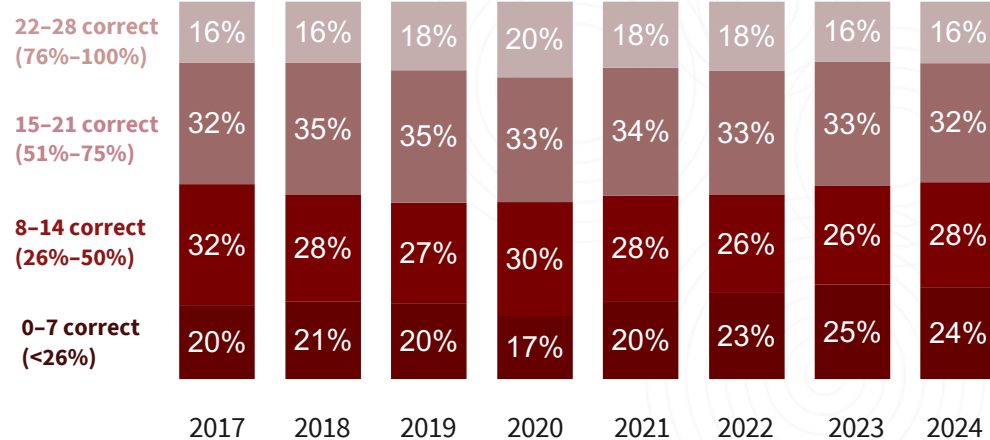
Results:	
Correct	47%
Incorrect	23%
Don't Know	29%
No Answer	1%

Financial (il)literacy is holding steady: 2017-2024

% of P-Fin Index questions answered correctly

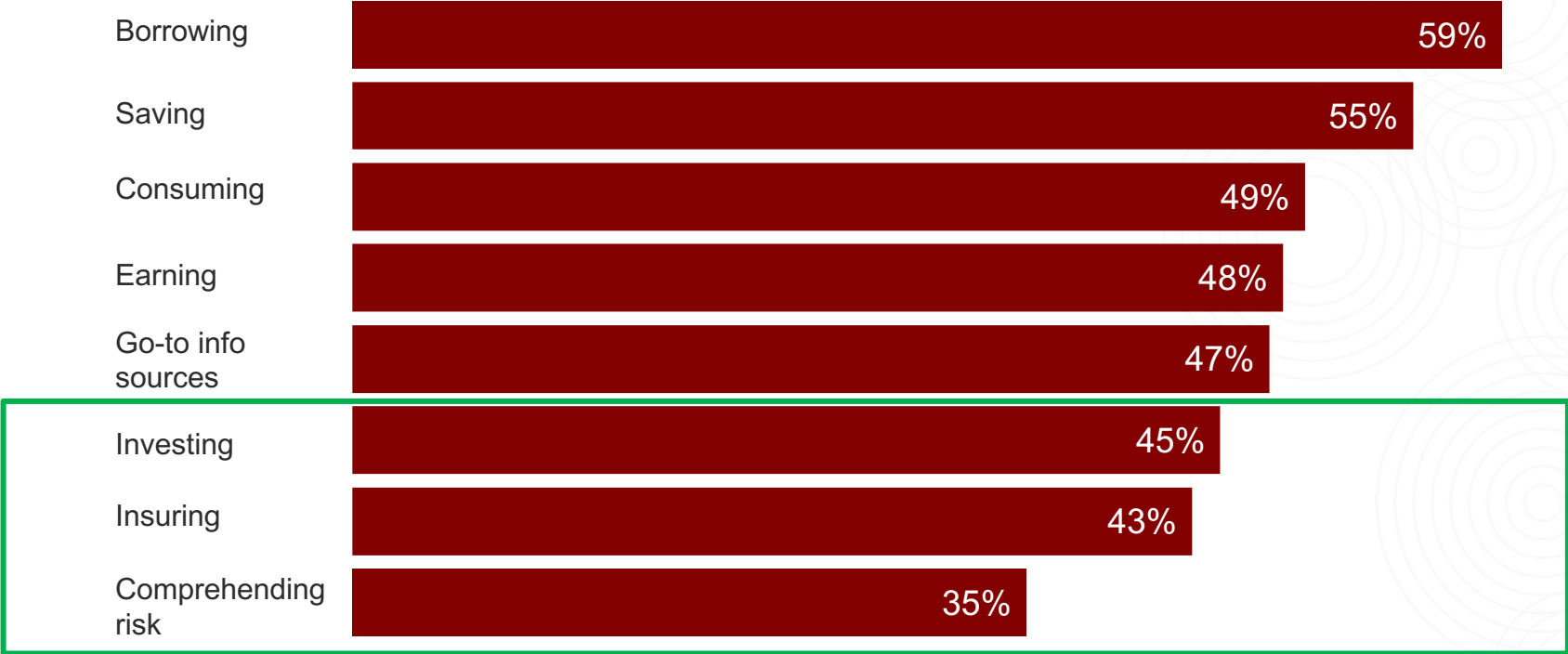


Distribution of correct answers to *P-Fin Index* questions



Source: TIAA Institute-GFLEC Personal Finance Index (2017-2024).

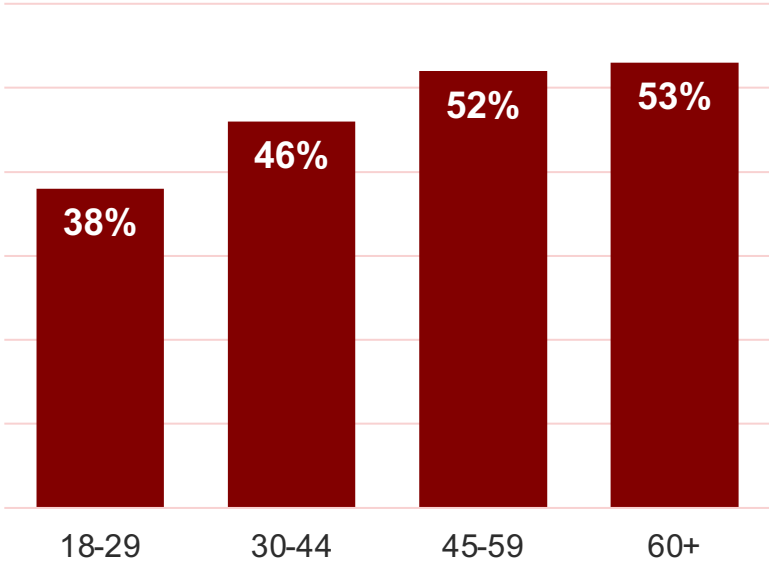
What do people know the most and the least



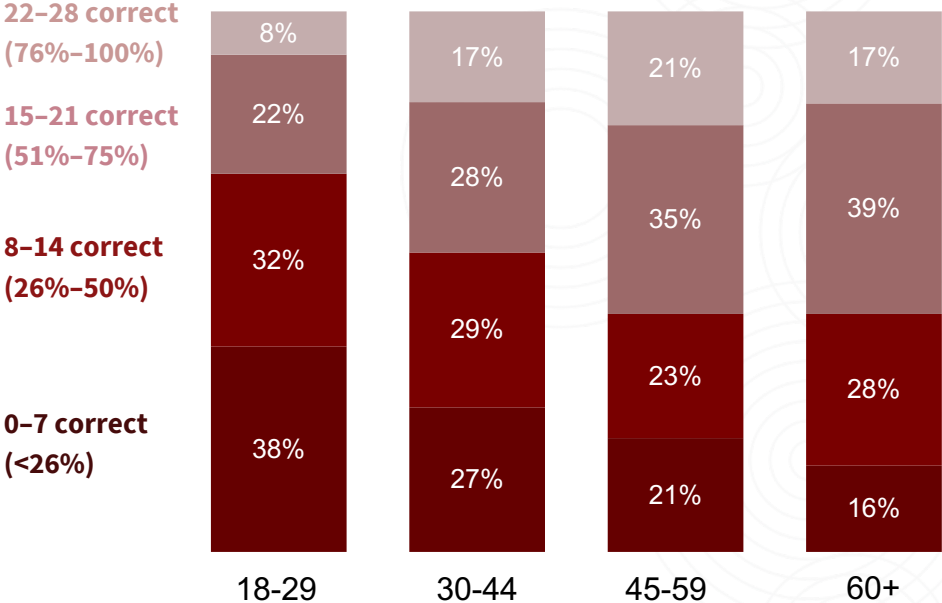
Source: TIAA Institute-GFLEC Personal Finance Index (2024).

Gaps in financial knowledge: Age groups/cohorts

% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin Index questions



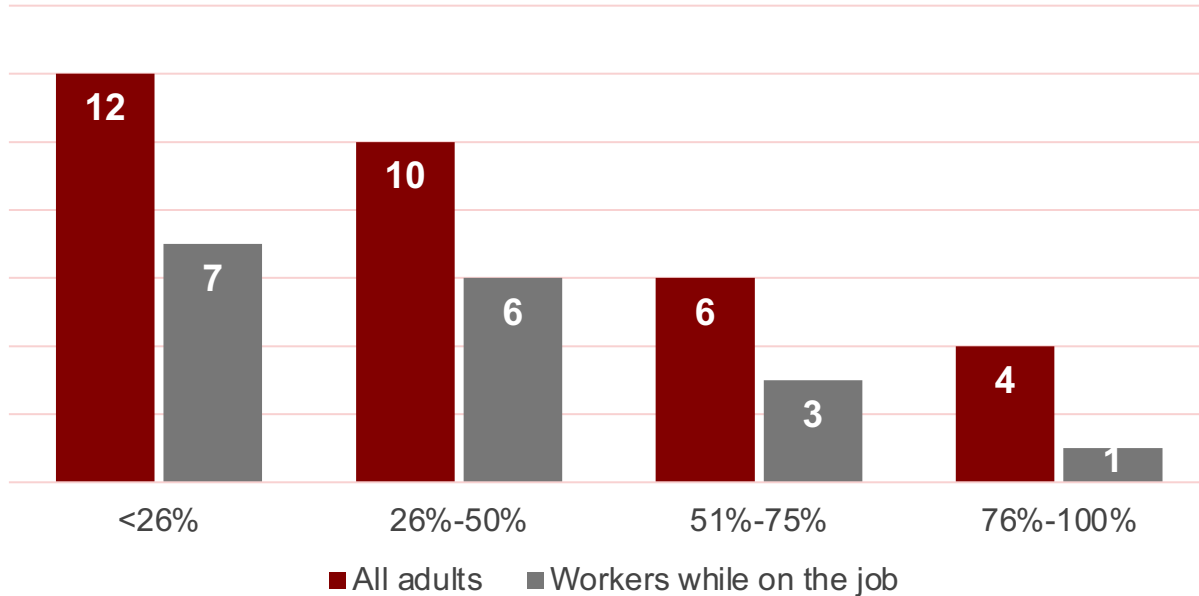
Source: TIAA Institute-GFLEC Personal Finance Index (2024).

Turning to financial wellness



A simple measure of the cost of financial illiteracy

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



People spend an average of 8h per week thinking about and dealing with financial issues and problems. An average of 4h per week occur at work.

Measuring financial fragility (*Lusardi, Schneider and Tufano, BPEA, 2011*)

How **confident** are you that you could come up with **\$2000** if an unexpected need arose **within the next month**?

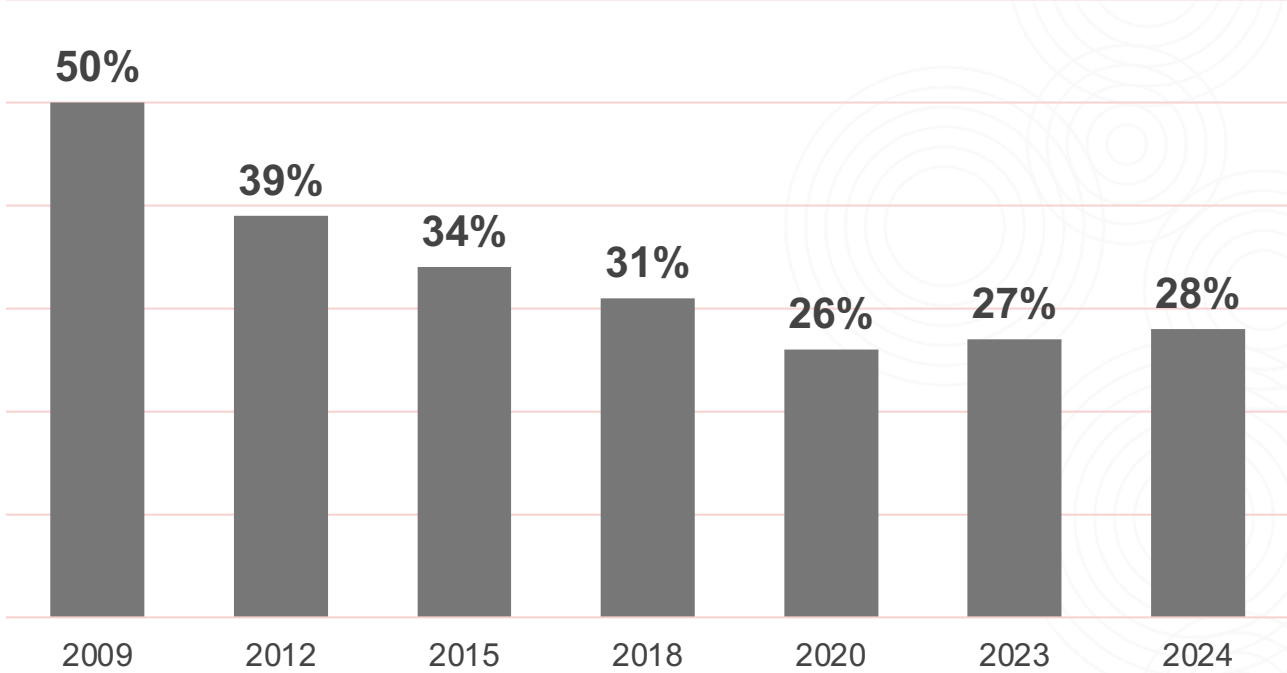
- I am certain I could come up with the full \$2,000.
- I could probably come up with \$2,000.
- **I could probably not come up with \$2,000.**
- **I am certain I could not come up with \$2,000.**
- Don't know.
- Prefer not to say.



Respondents are classified as financially fragile.

Financial fragility before and after the pandemic

Financial fragility over time

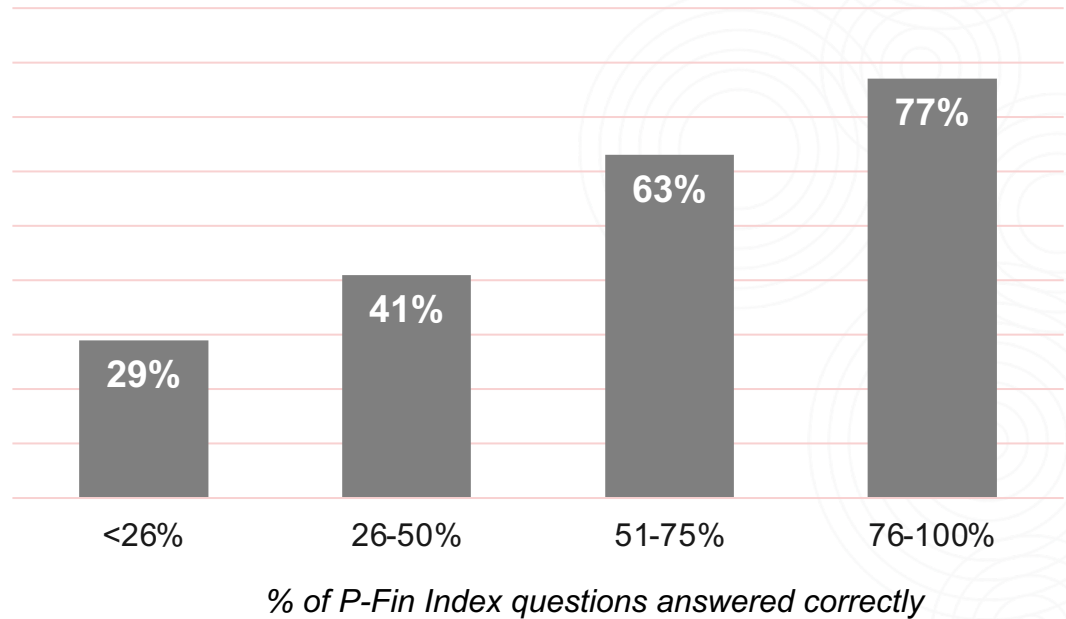


Source: 2009 TNS data; 2012, 2015 and 2018 NFCS data; 2020, 2023, 2024 P-Fin data.

Financial literacy and financial fragility

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



The relationship between financial resilience (being able to cope) and financial literacy

	Model 1 <i>Financial Resilience</i>	Model 2 <i>Financial Resilience</i>	Model 3 <i>Financial Resilience</i>
>50% of P-Fin questions correct	0.095*** (0.018)		
Total # of P-Fin questions correct		0.007*** (0.001)	
Was offered financial education			0.052*** (0.015)
Demographic Controls	Yes	Yes	Yes
Observations	3,687	3,687	3,687
R-squared	0.173	0.175	0.168



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Full length article

Resilience and wellbeing in the midst of the COVID-19 pandemic: The role of financial literacy



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ABSTRACT

Using the 2021 wave of the TIAA Institute-GFLEC Personal Finance Index (*P-Fin Index*), this paper provides an in-depth examination of the financial literacy of U.S. adults in the midst of the COVID-19 pandemic. Knowledge is troublingly low, with U.S. adults averaging a score of 50 percent on the twenty-eight questions that compose the *P-Fin Index*. Even more disturbingly, only 28 percent of U.S. adults correctly answered a question testing their ability to comprehend and compare probabilities. Financial literacy matters. Lower financial literacy is associated with increased time spent worrying about personal finances. After controlling for income, education, and key demographic information, the more financially literate are found to be more likely to be financially resilient, to plan for retirement, and to feel unconstrained by debt. These findings highlight the importance of financial knowledge, in particular in a time of crisis, and raise concerns about the public's ability to comprehend complex messages about risk during the pandemic.

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A new academic field

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The Importance of Financial Literacy: Opening a New Field

Annamaria Lusardi and Olivia S. Mitchell

The screenshot shows the American Economic Association's website. At the top left is the AEA logo. The navigation bar includes links for Membership, About AEA, Log In, Journals, Annual Meeting, Careers, Resources, EconLit, and EconSpark. The main content area is titled "JEL Classification Codes Guide". It features a sidebar with "Resources" and a main text area. The text explains that the guide provides JEL Code application guidelines, keywords, and examples of items within each classification. It also notes that the JEL classification system originated with the Journal of Economic Literature and is a standard method for classifying scholarly literature in the field of economics. A word cloud graphic is positioned to the right of the text, with "ECONOMICS" and "JEL" being prominent words. At the bottom of the page, there is a red banner that reads "G53 Financial Literacy".



People face complex financial decisions with potentially long-lasting consequences at all stages of life. As young people grow into adulthood, they make decisions about loans for college tuition, cars, and houses, along with how to manage credit cards, health and other kinds of insurance, and living within a budget. The shift from defined benefit to defined contribution retirement plans implies that ordinary people must now shoulder decisions about saving, investing, and more. Older people face decisions about how to manage risks and costs of aging, as well as drawing down their retirement assets. These decisions have only become more complex with the advent of new financial products (which, with the help of technology, one can access with a click), novel ways to make payments (“buy now, pay later”), risky instruments such as crypto assets, and most recently the rise of inflation. According to Google Trends, searches for how to budget or save for retirement have increased fourfold since 2004.

For these reasons and others, *financial literacy*, by which we mean people’s knowledge of and ability to use fundamental financial concepts in their economic decision-making, matters and is more important than ever. The fact that so many people lack financial knowledge not only limits their ability to utilize their resources to the fullest, but also contributes to macroeconomic problems. Recent economic crises related to the subprime mortgage debacle and the COVID-19 pandemic

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For supplementary materials such as appendices, datasets, and author disclosure statements, see the article page at <https://doi.org/10.1257/jep.37.4.137>.

From research to teaching and programs



From research to teaching



- Personal Finance courses for undergraduate and graduate students
- At GW and Stanford, it has been a big success
- When it first started, 362 students enrolled in the Personal Finance course at Stanford
- I am teaching in the Summer too

Teaching Personal Finance Conference

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Policy Research (SIEPR)

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A case for personal finance education

It is a win-win for everybody

- Education is much needed and for everyone
- Needs are different, and one-size-does-not fit all: we need courses and wellness programs
 - A course can be longer and more mathematical
- Courses and programs can collaborate, for example on mentorship, peer learning, and the provision of tools
- Education and programs are going to save on costs
- Alumni and parents are very interested in this topic and willing to support it

An eco-system

- Need to work together
- Long term perspective, how to keep it in place
- Adequate support
- Coordination



Living well

We need to provide access to knowledge and skills so that people can be more financially resilient and secure. Financial literacy is like water in an eco-system, it is essential to grow and flourish.



Thank you!

If you have any questions, please send them to alusardi@stanford.edu.