

# The importance of financial literacy: Insights for policy and programs

Annamaria Lusardi  
Stanford Institute for Economic Policy Research  
(SIEPR) and Graduate School of Business  
Director, Initiative for Financial Decision-Making

**Stanford** | Initiative for Financial  
Decision-Making



**Presentation to the Financial  
Empowerment Lab NYC  
October 22, 2025**

# Outline of the presentation

- An overview of financial literacy
- Why financial literacy matters
- Insights for policy and programs

# Preview of findings



- Financial literacy is very low and not improving over time
- Financial literacy matters, it affects financial wellbeing
- There are effective remedies for the lack of financial literacy
- Academics, policy makers, practitioners have a role to play



# Why focusing on financial literacy?

- Changes in the pension system: People are in charge of their financial security after retirement
- Cut back in government support, now and in the future
- Changes in financial markets: Complexity of financial instruments and easy access to credit
- Cost of financial services
- Fintech and AI



**Need a rigorous approach to financial decision-making**

# How equipped are people to make financial decisions?

About 20 years ago, Olivia Mitchell and I started measuring financial literacy using 3 simple questions.

The results are striking and speak of the importance of looking closely at how people make decisions

This is particularly important for lower income people as the cost of financial services can be high



Back to basics

# Measuring financial literacy: The ABCs of personal finance

These are the questions I designed jointly with Olivia Mitchell, known as the “Big Three.” One question is about inflation:

## The Big Three

1. “Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”
2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”
3. “Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.”

- More than \$102
- Exactly \$102
- Less than \$102
- Don’t know (DK)
- Refuse to answer

- More than today
- Exactly the same as today
- Less than today
- Don’t know (DK)
- Refuse to answer

- True
- False
- Don’t know (DK)
- Refuse to answer

# How much do Americans know?

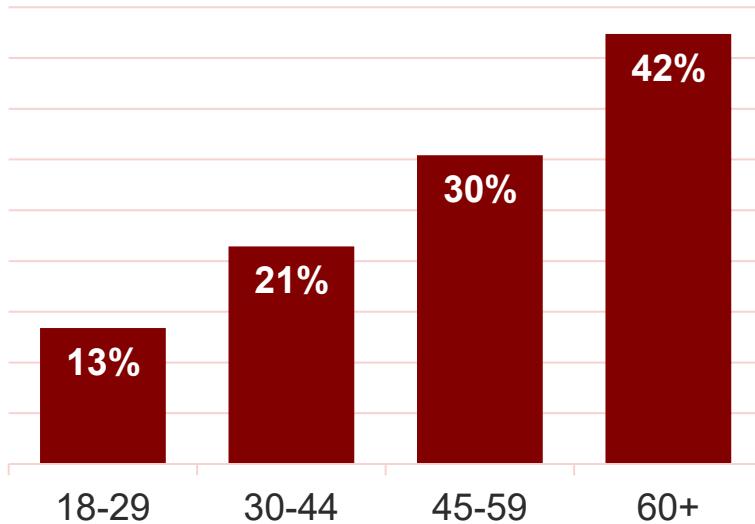
Distribution of responses across the U.S. population  
(2024 National Financial Capability Study)

	Responses			
	Correct	Incorrect	DK	Refuse
Interest rate	69.3%	13.6%	16.4%	0.7%
Inflation	58.2%	18.5%	22.5%	0.8%
Risk diversif.	41.3%	10.6%	47.5%	0.6%

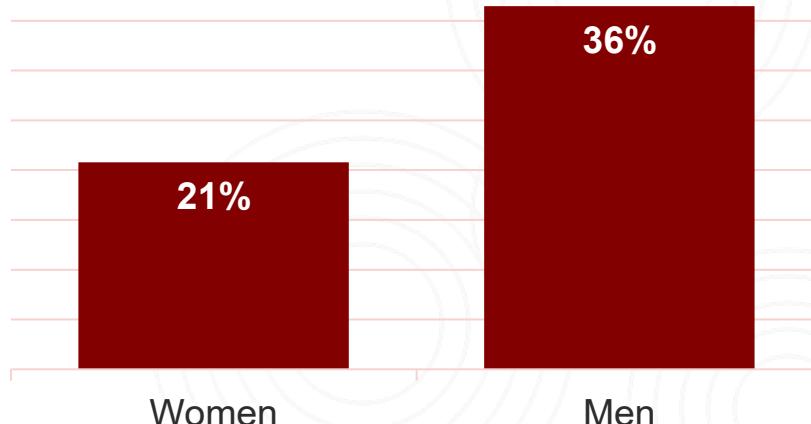
NB: Less than 1/3 (28%) correctly answer all 3 questions.

# Financial literacy across age, gender, education, and income

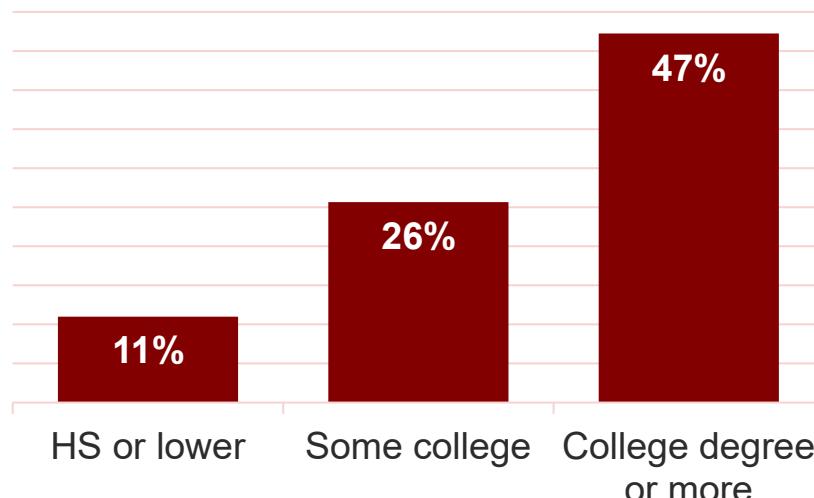
## Age



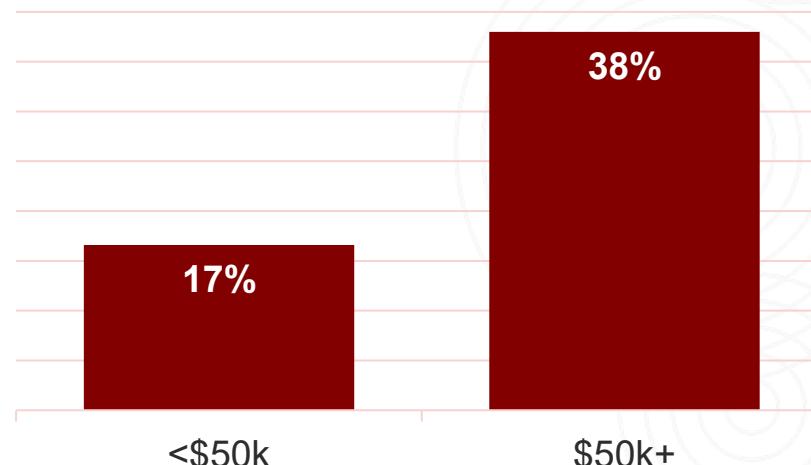
## Gender



## Education



## Income



Source: NFCS 2024. Percent of Big 3 correct.

# Some research findings about the young (age: 23-28 in 2007-2008)

- In the US, young people who are financially literate are disproportionately white males from college-educated families.
- Financial literacy can be linked to the wealth of parents when young people (age: 23-28) were growing up (they were 12-17)
- Being financially literate is a privilege enjoyed by few who learned it at the dinner table

## the journal of consumer affairs

 Full Access

### Financial Literacy among the Young

ANNAMARIA LUSARDI, OLIVIA S. MITCHELL, VILSA CURTO

First published: 01 June 2010 | <https://doi.org/10.1111/j.1745-6606.2010.01173.x> | Citations: 722

[Find it @ Stanford](#)

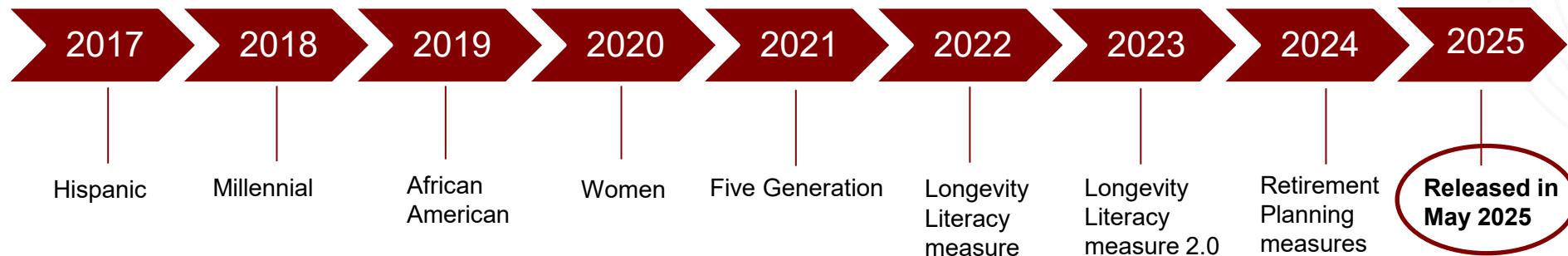
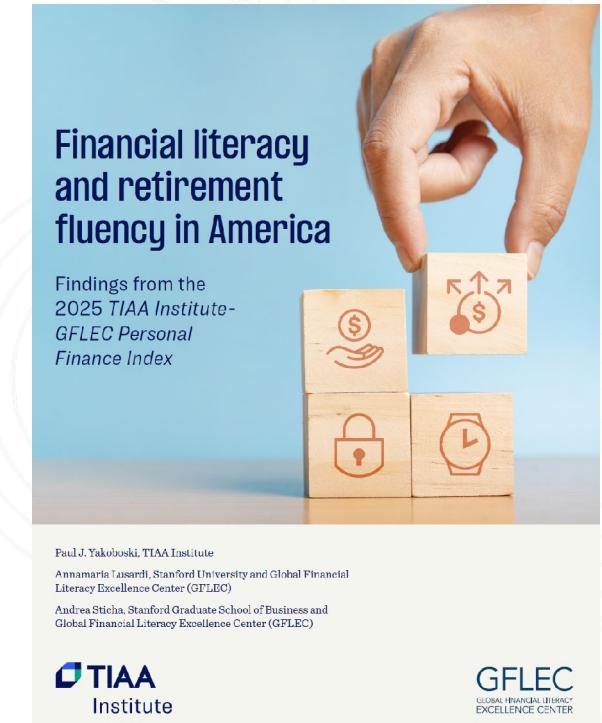
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# Beyond the basics

# 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 28 questions of the P-Fin Index relate to common financial situations that individuals encounter
- 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+).



# 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).

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

# An example question

Paula saves \$500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a \$5,000 gift which he decides to save. If both Paula and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

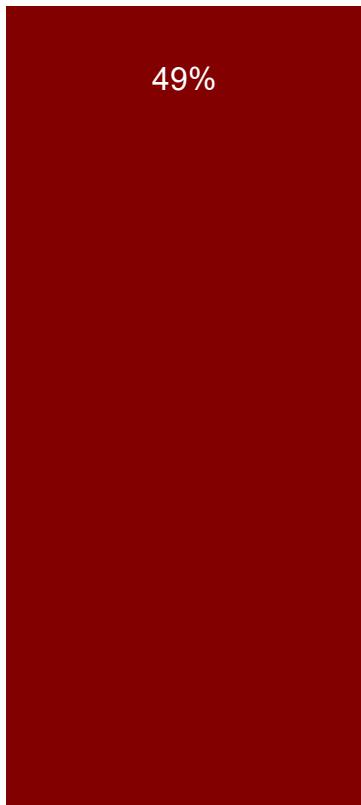
- Paula
- Charlie
- Paula and Charlie will have the same amount
- Don't know
- Refuse to answer

<b>Results:</b>	
<b>Correct</b>	<b>51%</b>
<b>Incorrect</b>	<b>23%</b>
<b>Don't Know</b>	<b>25%</b>
<b>No Answer</b>	<b>0%</b>

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

# Financial literacy: A failing grade

% of P-Fin Index questions  
answered correctly



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

22–28 correct  
(76%–100%)



15–21 correct  
(51%–75%)

8–14 correct  
(26%–50%)

0–7  
correct  
(<26%)

28%

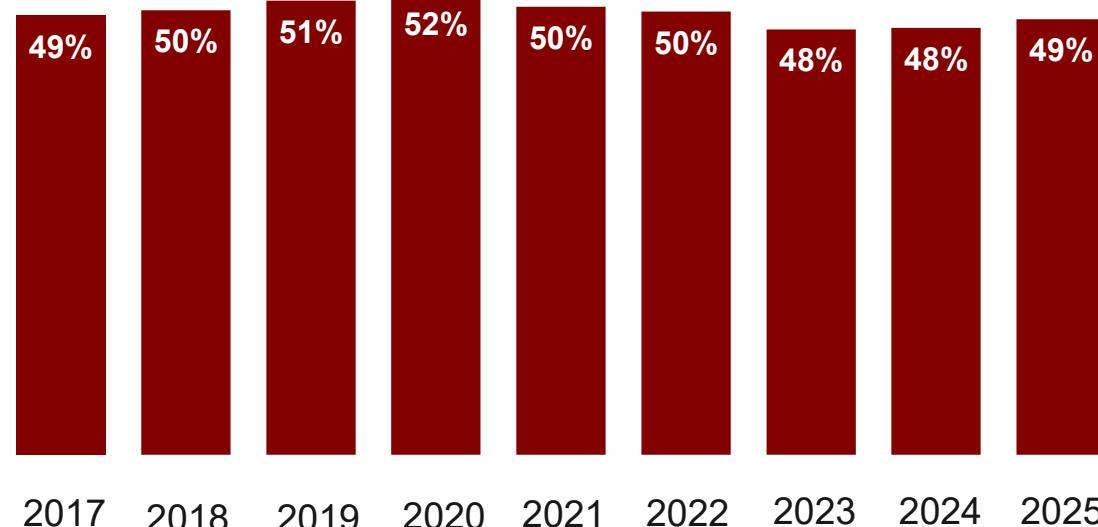
23%



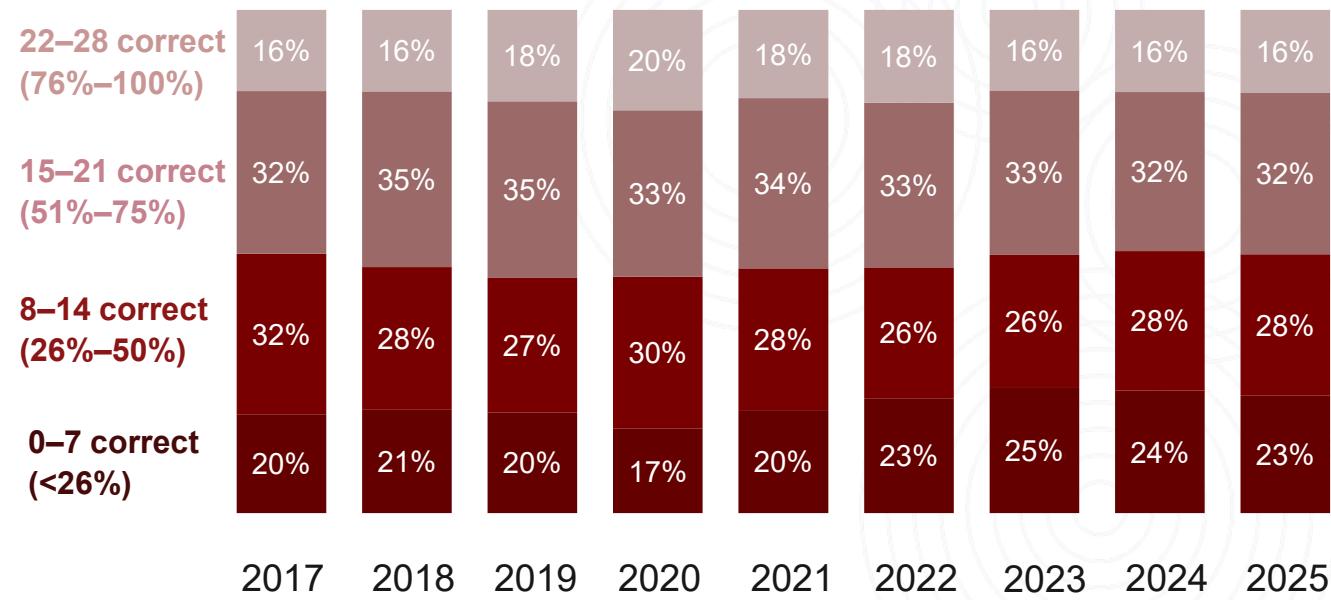
Source: TIAA Institute-GFLEC Personal Finance Index (2025).

# Financial (il)literacy is holding steady: 2017-2025

% of P-Fin Index questions answered correctly

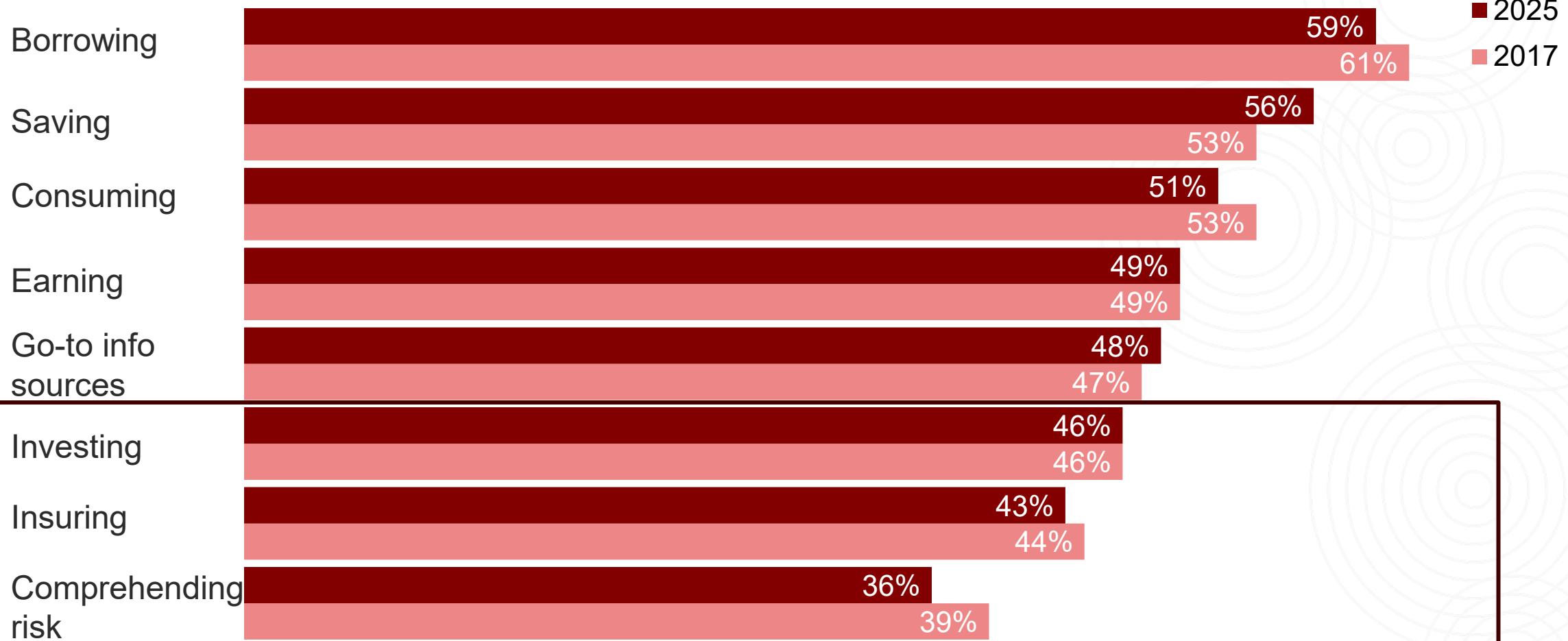


Distribution of correct answers to *P-Fin Index* questions



Source: TIAA Institute-GFLEC  
Personal Finance Index (2017-2025).

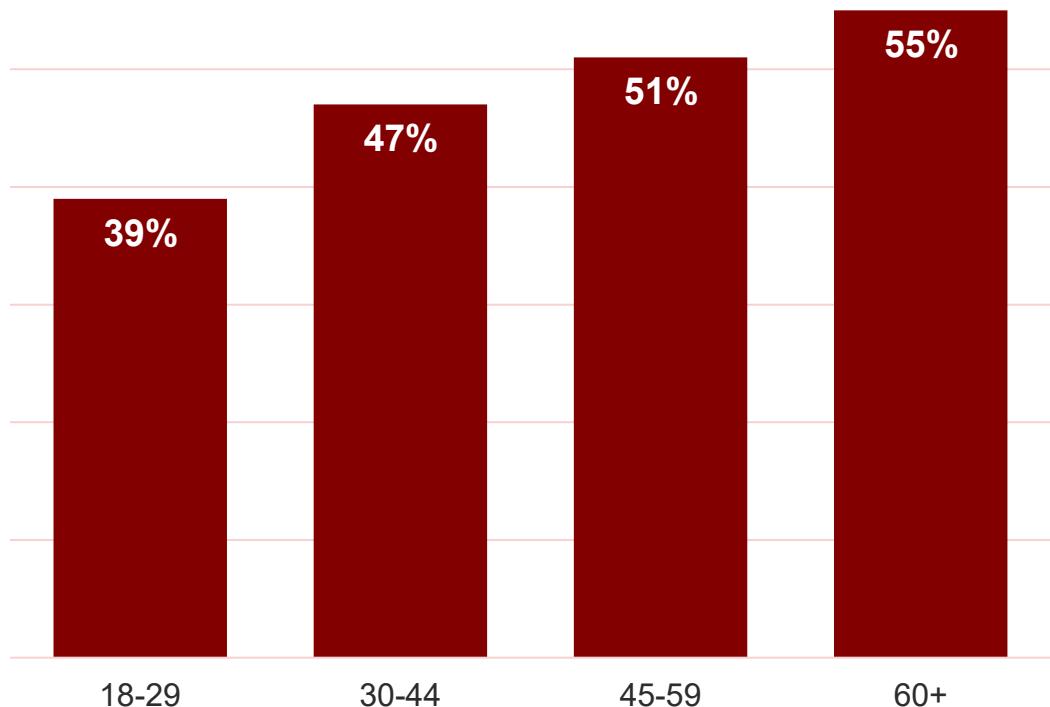
# What do people know the most and the least (over time)



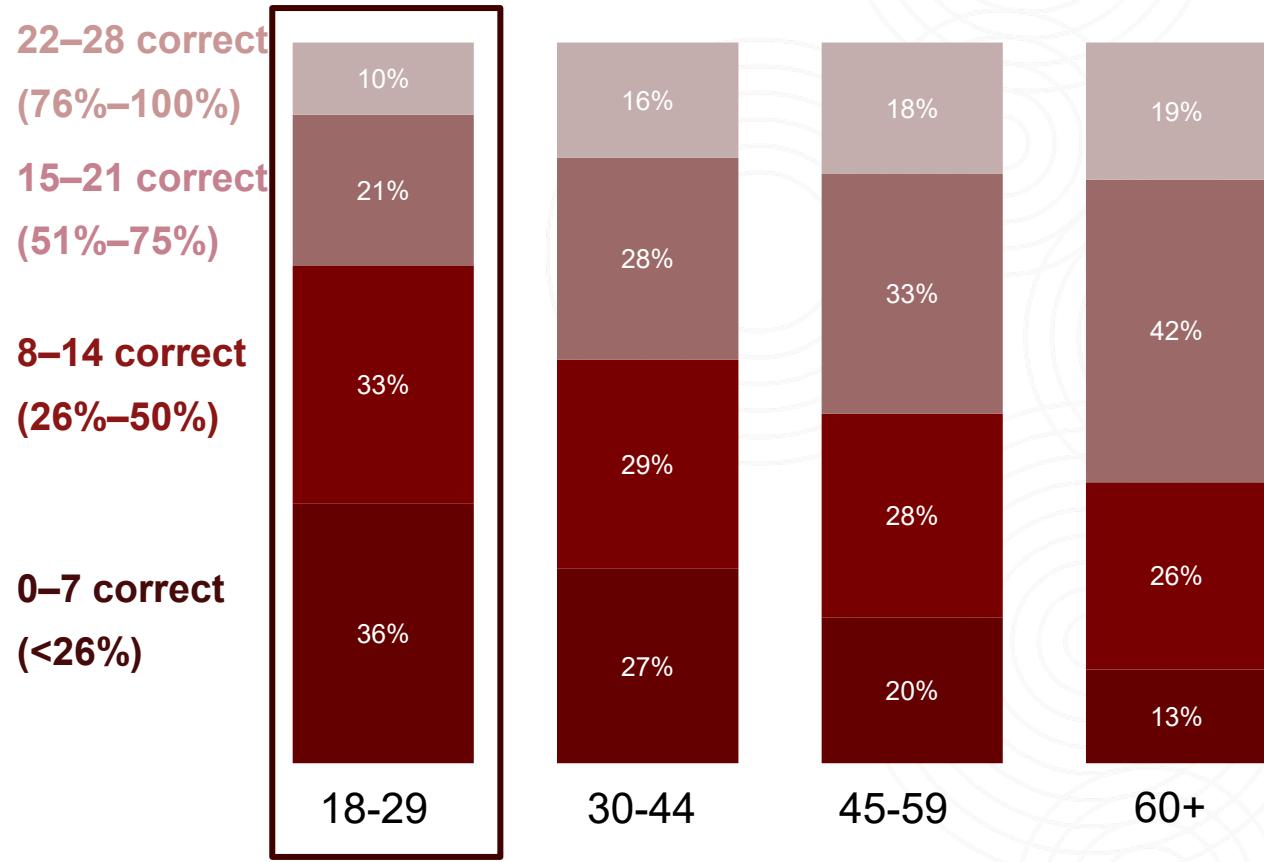
Source: TIAA Institute-GFLEC Personal Finance Index (2025, 2017).

# Gaps in financial knowledge: Age groups/cohorts

*% of P-Fin Index questions answered correctly*



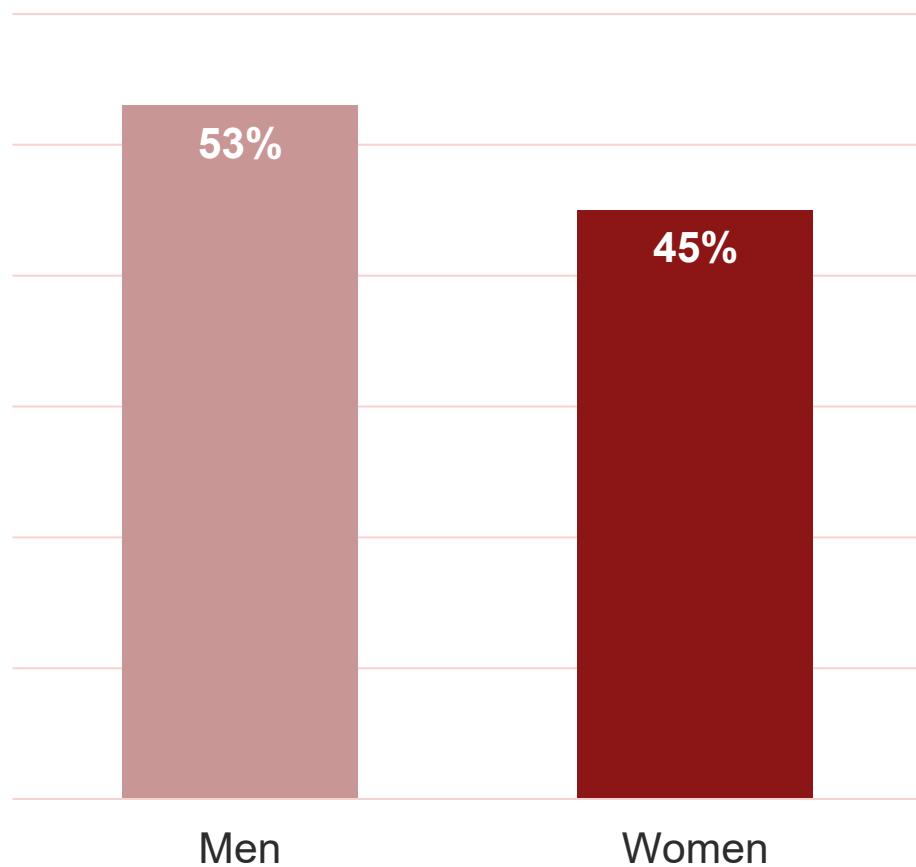
*Distribution of correct answers to P-Fin Index questions*



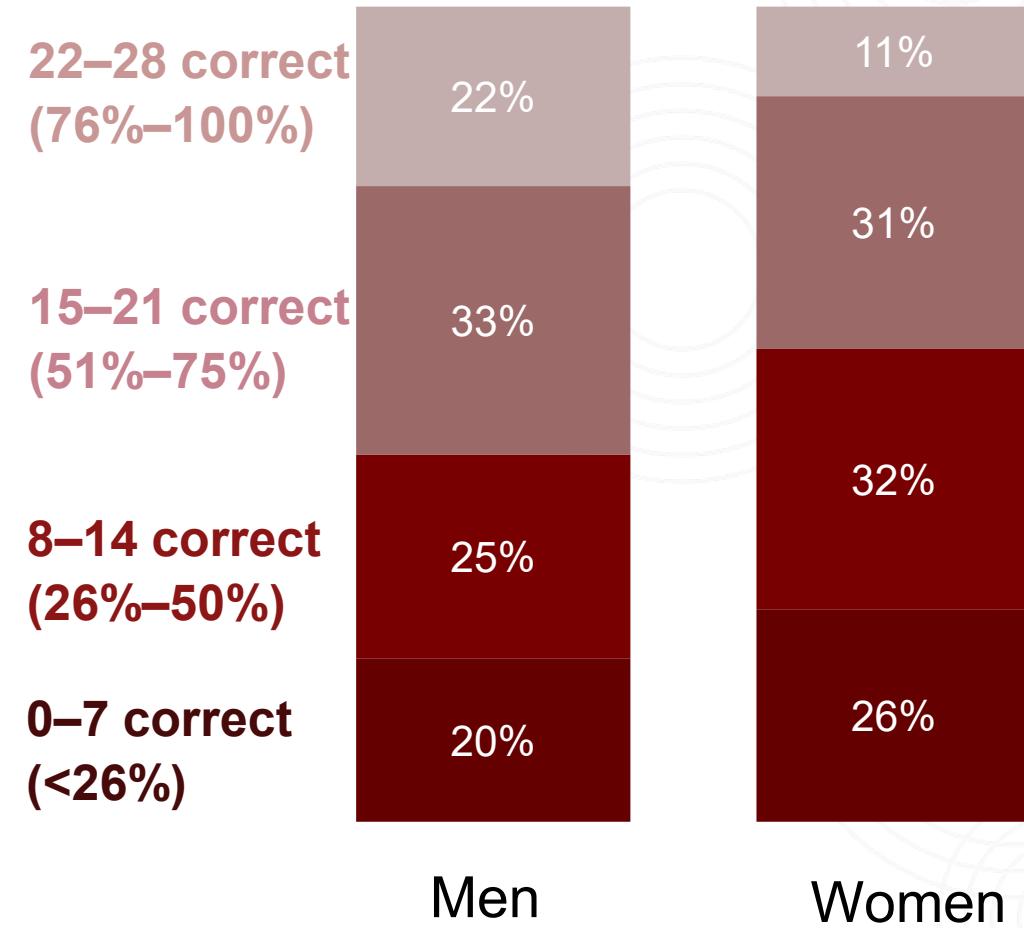
Source: TIAA Institute-GFLEC Personal Finance Index (2025).

# Gaps in financial knowledge: Women and men

*% of P-Fin Index questions answered correctly*



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



Source: TIAA Institute-GFLEC Personal Finance Index (2025).

# Other gaps in financial knowledge



- Financial literacy is low for those with low income and education
- Financial literacy is low among Blacks and Hispanics
- Financial literacy is low for the unemployed, those living in rural areas, etc.

Given these differences, we need targeted approaches to close the gaps

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

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.



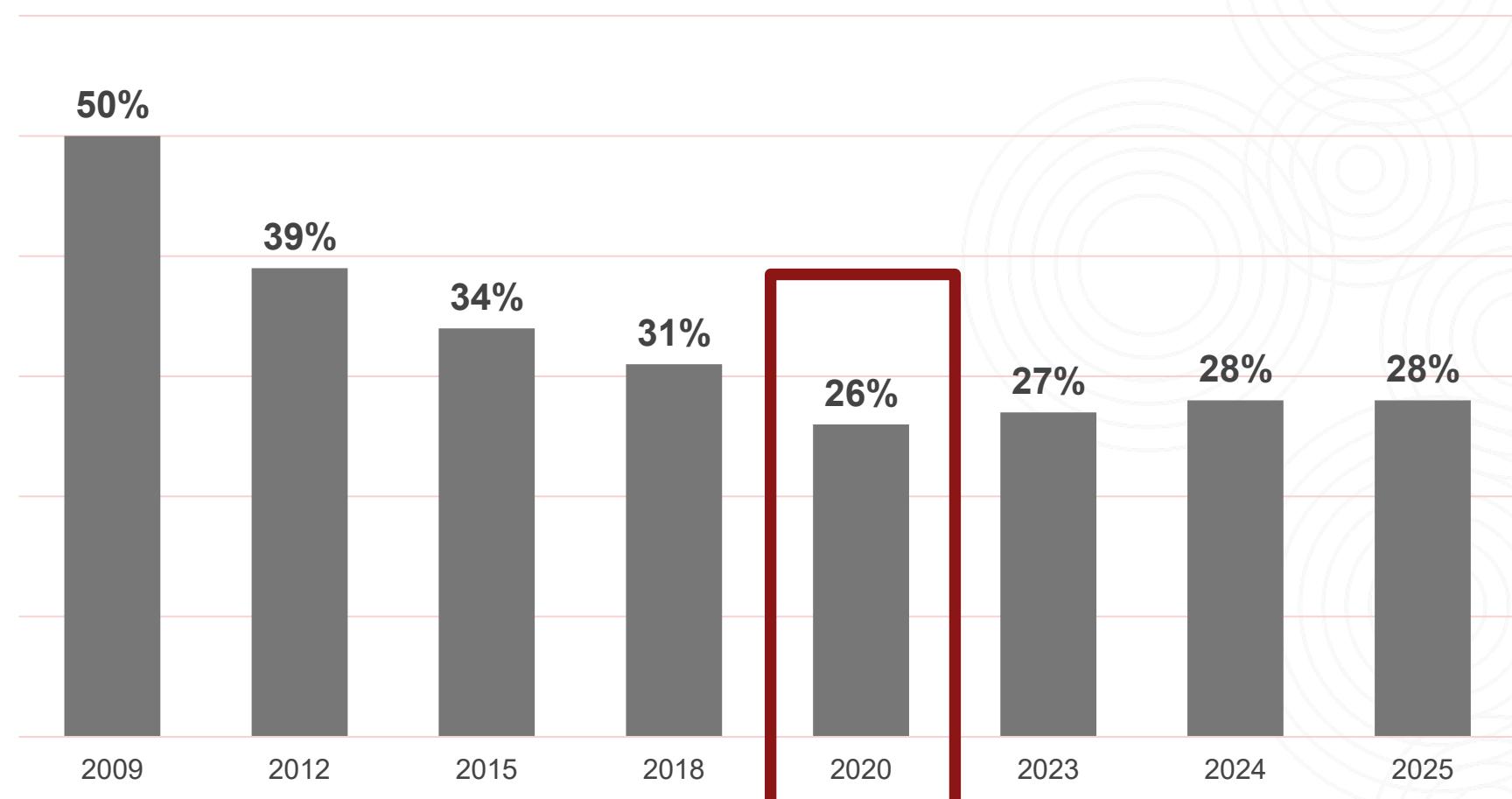
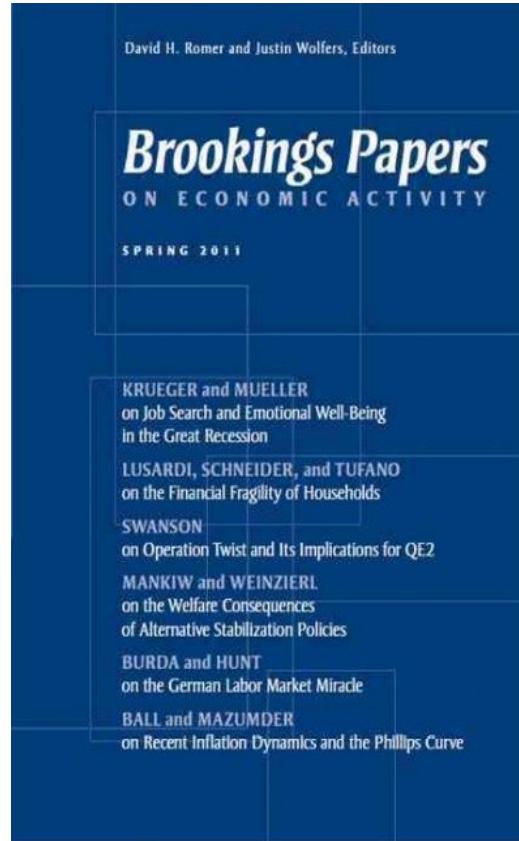
Respondents are classified as financially fragile.

# The face of financial fragility



# Financial fragility before and after the pandemic

Financial fragility over time



Source: 2009 TNS data; 2012, 2015 and 2018 NFCS data; 2020, 2023, 2024, 2025 P-Fin data.

# Financial fragility by income groups

	Income Groups			
	<\$50,000		\$50,000+	
	Fragile	Not Fragile	Fragile	Not Fragile
<i>Percentage</i>	57%	43%	20%	80%
<i>Number of observations</i>	5,903	4,582	2,768	11,498

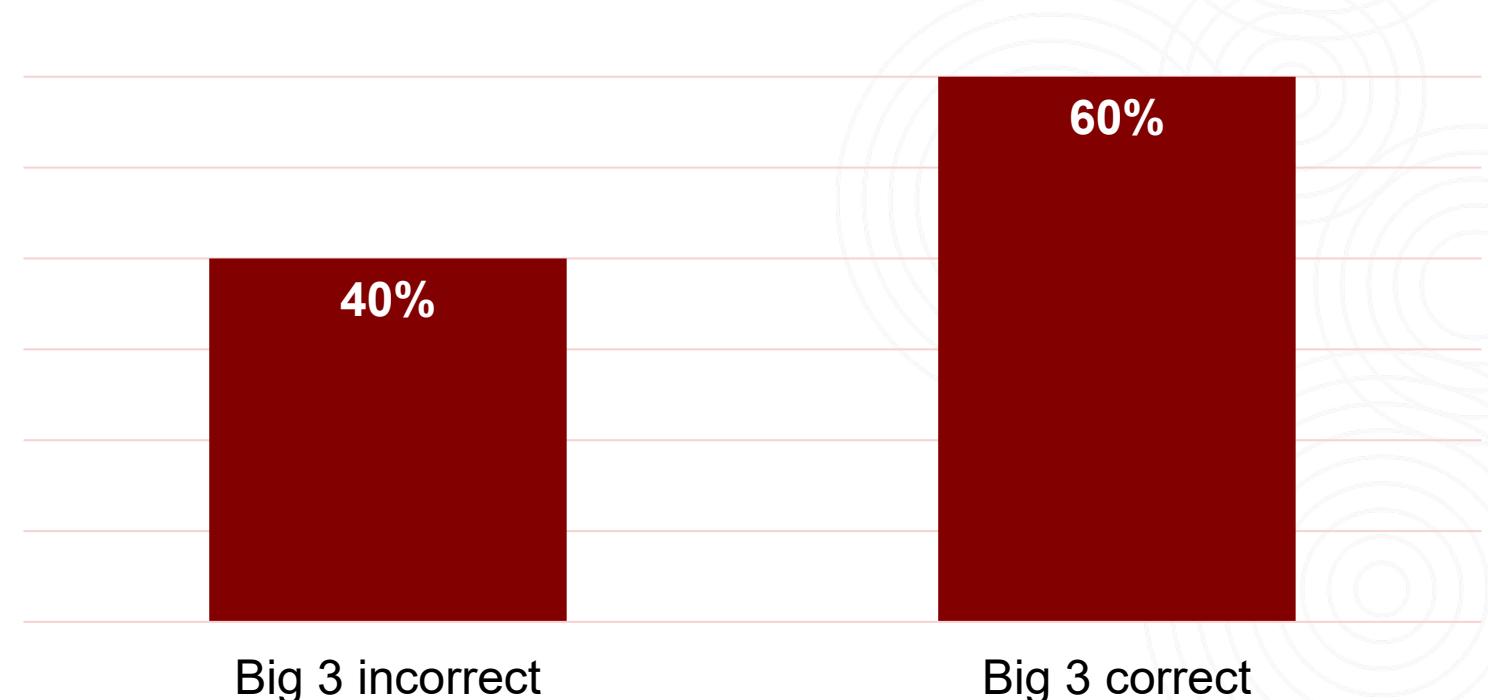
Source: National Financial Capability Study (2024).

Notes: All statistics are weighted. DNK and RF are excluded from the fragility question.

# Financial literacy and financial resilience (subsample <\$50k)

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

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



Source: National Financial Capability Study (2024).

Notes: All statistics are weighted. DNK and RF are excluded from the fragility question. Subsample restricted to those with income of less than \$50,000. Among this subgroup 17% could correctly answer the Big 3 financial literacy questions.

# Financial literacy and financial fragility (2024 NFCS)

	Model 1 <i>Financially Fragile</i>	Model 2 <i>Financially Fragile</i>	Model 3 <i>Financially Fragile</i>
Interest rate	-0.032*** (0.009)		
Inflation	0.003 (0.008)		
Risk diversification	-0.065*** (0.008)		
All Big 3 correct		-0.073*** (0.008)	
Was offered financial education			-0.073*** (0.008)
Demographic controls and income shock	Yes	Yes	Yes
Observations	23,140	23,140	23,140
R-squared	0.249	0.248	0.248

Controls: Age, gender, race/ethnicity, education, marital status, financially dependent children, employment status, income and income shock (have you experienced an income shock in the past 12 months).

Source: NFCS 2024, DNK and RF answer options are excluded from the sample.

# Financial literacy and financial fragility (subsample <\$50k)

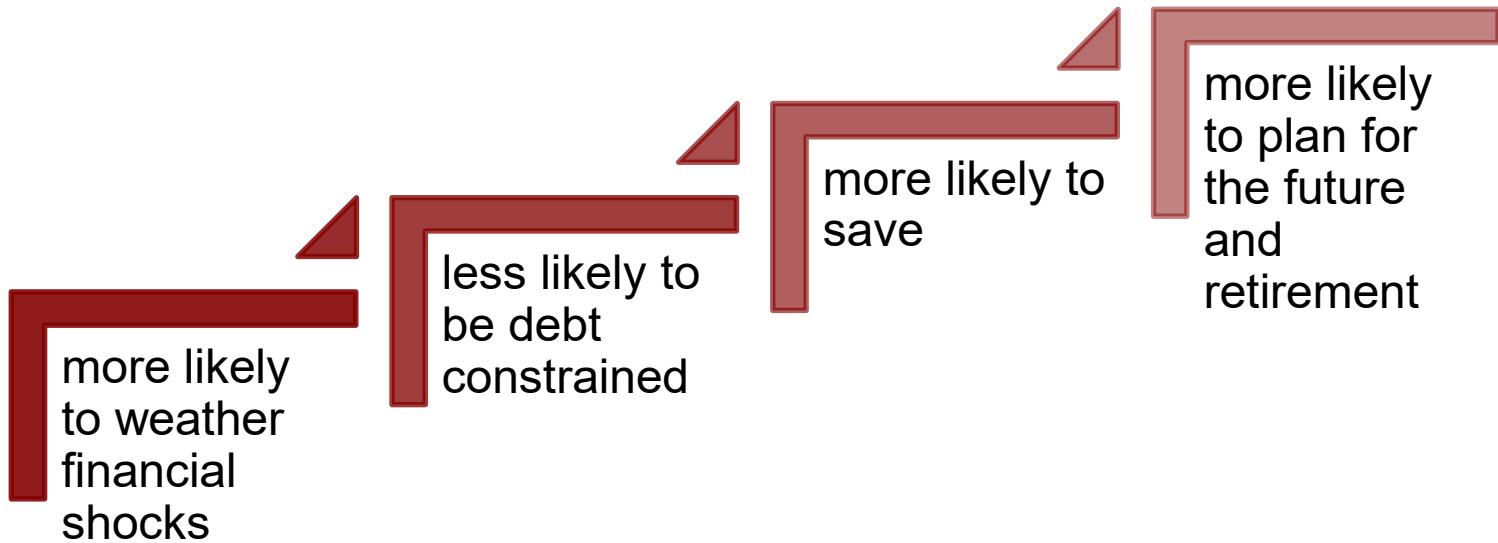
	<b>Model 1</b> <i>Financially Fragile</i>	<b>Model 2</b> <i>Financially Fragile</i>	<b>Model 3</b> <i>Financially Fragile</i>
Interest rate	-0.039*** (0.012)		
Inflation	0.012 (0.012)		
Risk diversification	-0.102*** (0.013)		
All Big 3 correct		-0.116*** (0.015)	
Was offered financial education			-0.117*** (0.013)
Demographic controls and income shock	Yes	Yes	Yes
Observations	10,210	10,210	10,210
R-squared	0.115	0.112	0.115

Controls: Age, gender, race/ethnicity, education, marital status, financially dependent children, employment status, and income shock (have you experienced an income shock in the past 12 months).

Source: NFCS 2024, DNK and RF answer options are excluded from the sample. Subsample restricted to those with income of less than \$50,000.

# Key lesson: Financial literacy matters

A financially literate person is...



These are indicators of **financial resilience** and ultimately **well-being**.

# A meta-analysis of the effects of financial education



 **Journal of Financial Economics**

Available online 3 October 2021  
In Press, Corrected Proof 



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Financial education affects financial knowledge and downstream behaviors

Tim Kaiser <sup>a</sup> , Annamaria Lusardi <sup>b</sup>  , Lukas Menkhoff <sup>c</sup> , Carly Urban <sup>d</sup> 

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<https://doi.org/10.1016/j.jfineco.2021.09.022> 

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**Abstract**

We study the rapidly growing literature on the causal effects of financial education programs in a meta-analysis of 76 randomized experiments with a total sample size of over 160,000 individuals. Many of these experiments are published in top economics and finance journals. The evidence shows that financial education programs have, on average, positive causal treatment effects on financial knowledge and downstream financial behaviors. Treatment effects are economically meaningful in size, similar to those realized by educational interventions in other domains, and robust to accounting for publication bias in the literature. We also discuss the cost-effectiveness of financial education interventions.

- Look at the most rigorous evaluation of financial education programs: RCTs studies in as many as 33 countries
- Financial education has an effect on a variety of behaviors
- It not only works but it is also cost effective
- It is effective both among the young and the old and among low-income and high-income groups

# The need for rigorous financial education

## Large and scalable programs

1. Financial education in school and college
2. Financial education in the workplace
3. Financial education in places where people go to learn



# Initiative for Financial Decision-Making (IFDM)

Collaboration among:

Stanford | Institute for Economic  
Policy Research (SIEPR)

STANFORD  
BUSINESS  
GRADUATE  
SCHOOL OF

Stanford | Department of Economics  
SCHOOL OF HUMANITIES AND SCIENCES

**Our aim is to transform personal finance education.**

# For more information, please visit us at



<https://ifdm.stanford.edu/>

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Welcome to the Initiative for Financial Decision-Making

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## Teaching

As educators, we know that learning can have a life-changing impact. That's why we're passionate about bringing financial literacy education to scale through the **Initiative for Financial Decision-Making**. We are

# Personal finance (Econ 43) at Stanford University

- When the course first opened in 2020, 362 students signed up. It is one of the most popular courses in Economics
- In 2023-24, we taught 3 courses on Personal Finance targeting different students, including during the summer term
- We are now developing an app targeting early career professionals



# Personal finance at Stanford University, cont.

- The course attracts freshmen but also first-generation students and minorities
- Spill-over effects from students to parents and their community. And student athletes bring this knowledge to their team
- A Personal Finance Lab run by students



# Annual Teaching Personal Finance Conference

Stanford | Institute for Economic  
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Stanford | Department of Economics  
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## Teaching Personal Finance Conferences

Stanford University

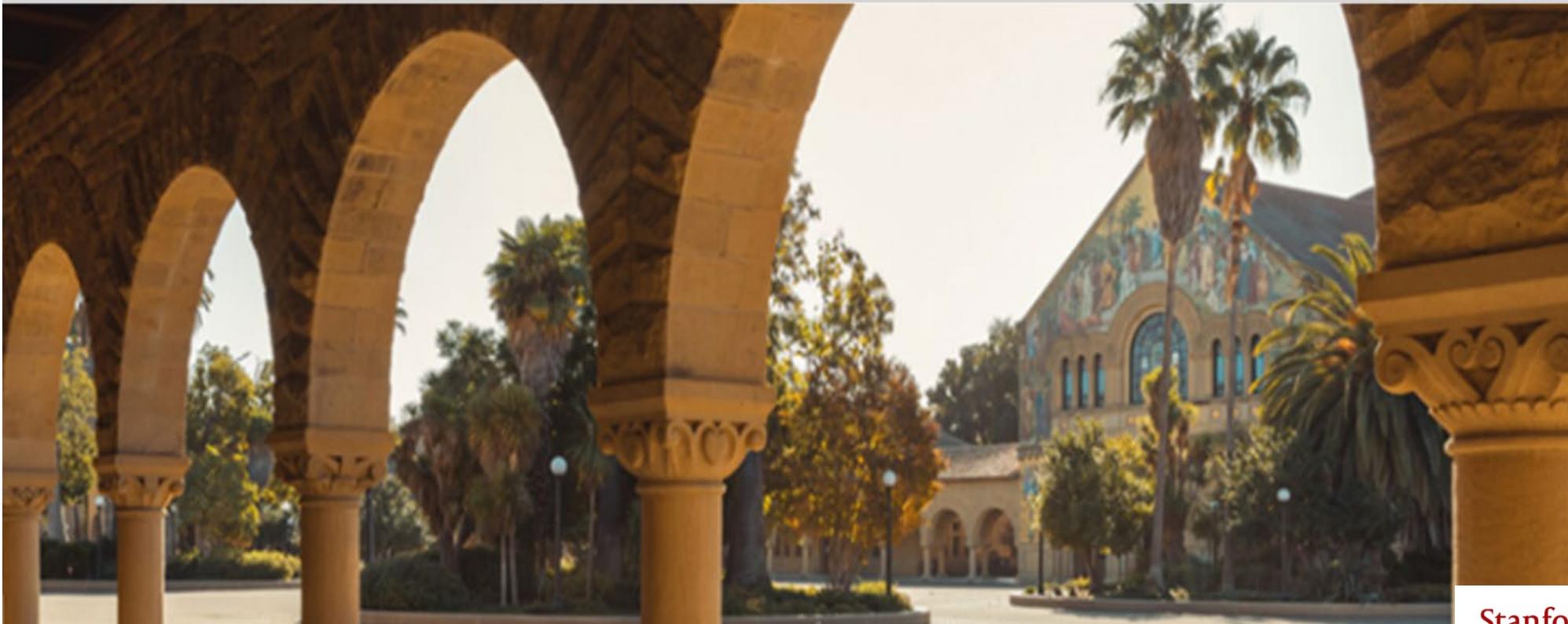
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# Research-based workplace financial education programs

Our workplace financial wellness webpage describes the financial wellness programs we have designed based on our research.

For updates and guidance related to managing personal finances during COVID-19 / Coronavirus [Click Here](#)

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## WORKPLACE FINANCIAL WELLNESS



# A financial health checkup (<https://ifdm.Stanford.edu> )

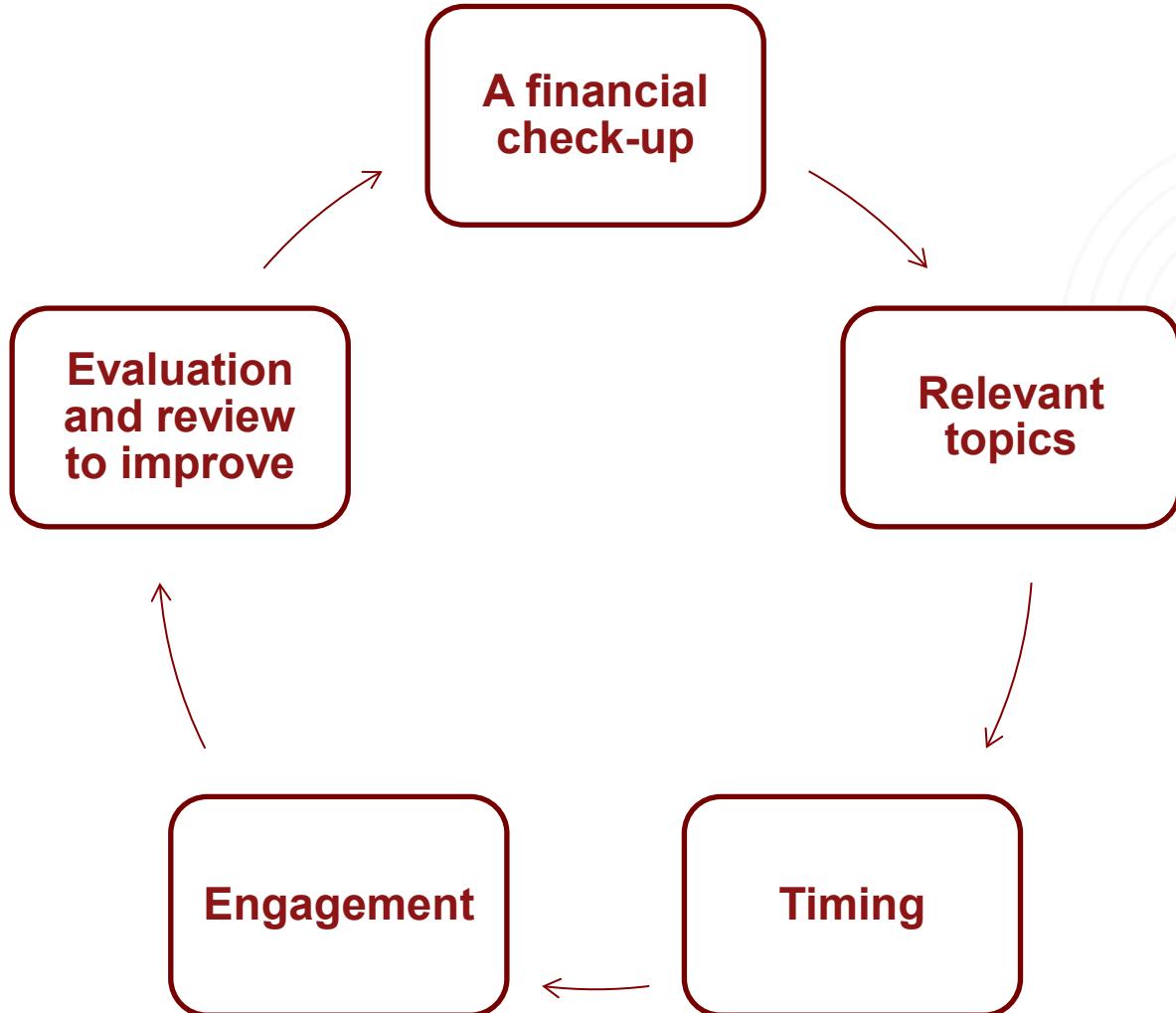


A checklist to guide your financial health and keep you on track to short- and long-term well-being.

[Financial Health Checkup >](#)

- 1. Do you know the basics of money management?**
- 2. Do you have a budget?**
- 3. Do you have control of your debt?**
- 4. Are you taking care of your credit score?**
- 5. Are you investing to grow your wealth?**
- 6. Are you taking advantage of tax-favored assets and employer benefits?**
- 7. Are you planning for the future?**

# Financial education in the workplace: Main components



# The power of storytelling: Teaching the Big Three via stories



## Compound Interest

Learn how Michelle and Dave make a small fortune from their wedding gift, simply by understanding the power of interest compounding.

[Read the story >](#)



## Inflation

Learn how a plaid shirt inspires Lisa to save more for the future by making her realize the eroding power of inflation.

[Read the story >](#)



## Risk Diversification

Learn how Kate convinces her husband, Sam, not to put all their eggs in one basket.

[Read the story >](#)

# Engaging central bankers



Our new work in progress:

- Financial literacy : Why should central banks care

(Keynote to the ECB conference on expectation surveys, October 2024)

## ECB International Women's Day 2025: Closing the gap in financial literacy

Friday, 7 March 2025, 10:30 CET

Watch live



# Engaging global leaders

- Working with the World Economic Forum
- One of their Global Future Councils in 2025-2026 is devoted to financial education
- We are co-chairing that Council



## Global Future Council on Financial Education

Amidst the rise of individual investing, innovation in financial products and tools, and economic uncertainty, it is essential to reimagine the future of financial education to ensure individuals can access the information and products needed to achieve long-term financial wealth. With the onus of financial wellbeing increasingly falling on individuals, how can we empower people with the skills they need to navigate this challenging and evolving economic landscape?

# To summarize

- Need to improve the level of financial knowledge and provide wide access to financial education
- Many states have mandated financial education in high school, but we need financial education in higher education too
- We need targeted programs for the adult population
- Add financial literacy to national statistics and make it a policy target

# A good quote

*"Well-informed consumers...are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive."*

Former Federal Reserve Chairman Ben Bernanke, testimony before the Senate Banking Committee on April 20, 2011, on the topic of financial literacy.

## Like water in an ecosystem

We need to provide wide access to rigorous financial, so that people can be more financially resilient and financially secure. **Financial literacy is like water in an ecosystem, it is needed to grow and flourish.**

