The Importance of Financial Literacy: Evidence from Ten Years of Data

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

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Outline of the presentation

- Measuring personal finance knowledge: Evidence from 10 years of data
- Linking financial knowledge to short-term and long-term financial security
- Implications for teaching and policy

Why is financial literacy important?

We have to make more and complex financial decisions:

- Changes in the pension system: People are in charge of their financial security after retirement
- Changes in the labor market: Gig economy and STEM
- Changes in financial markets: Complexity of financial instruments, including new ones and easy access to credit
- Fintech and AI
- The increase in risk

Measuring financial literacy: A validated test

How much do we know? These are the questions I originally designed together with Olivia Mitchell, known as the "Big Three."

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?"

- ☑ More than $102
- ❑ Exactly $102
- ❑ Less than $102
- ❑ Don't know (DK)
- ❑ Refuse to answer

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…"

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

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."

- ❑ True
- ☑ False
- ❑ Don't know (DK)
- ❑ Refuse to answer

Initial findings

- The level of financial knowledge is very low
- Risk is what people know the least
- There are large gaps in financial literacy across demographics groups

Starting in 2017, in collaboration with the TIAA Institute, we were able to collect data on personal finance knowledge each year

A Decade of Personal Finance Data

Measuring personal finance knowledge

- The TIAA-Institute-GFLEC Personal Finance Index (P-Fin Index) is a 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 security indicators.
- Data is now collected on a representative sample of about 3,500 respondents (age 18+).

- 2017: Hispanic
- 2018: Millennial
- 2019: African American
- 2020: Women
- 2021: Five Generation
- 2022: Longevity Literacy measure
- 2023: Longevity Literacy measure 2.0
- 2024: Retirement Planning measures
- 2025: Impact of longevity expectations
- 2026: **A Decade of Data: 10th anniversary**

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

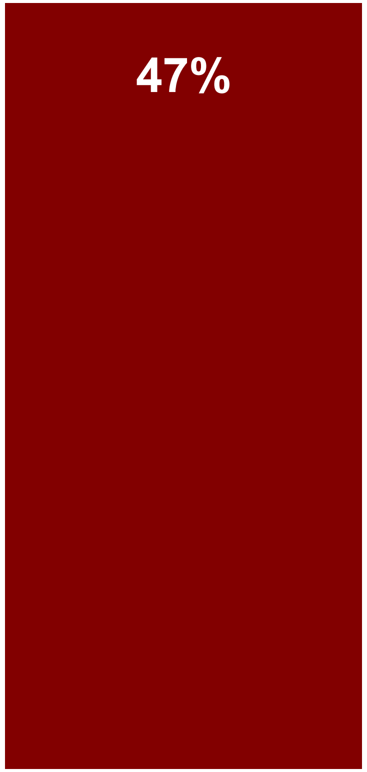
An example question

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?

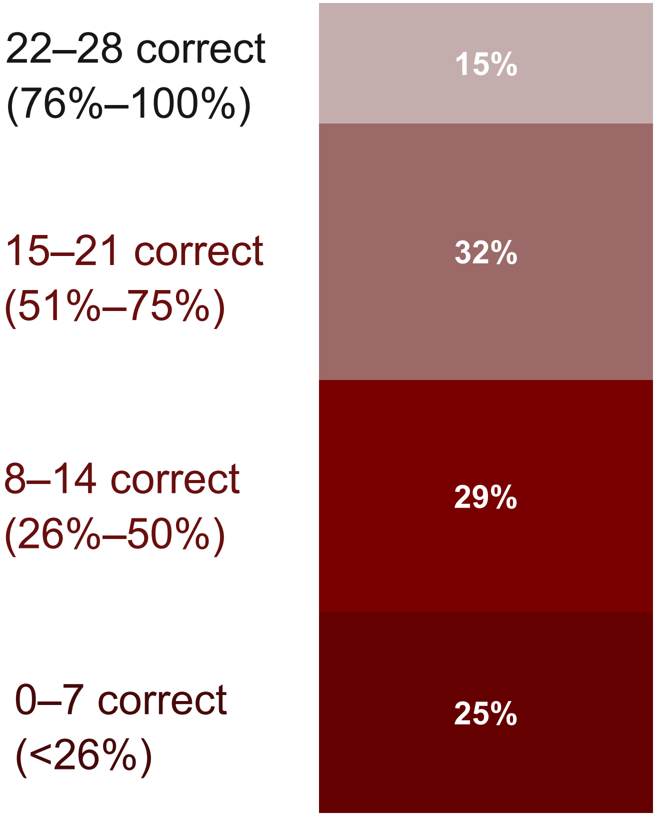
- Paula
- Charlie
- Paula and Charlie will have the same amount
- Don’t know
- Refuse to answer

Financial literacy: A failing grade

% of P-Fin Index questions answered correctly



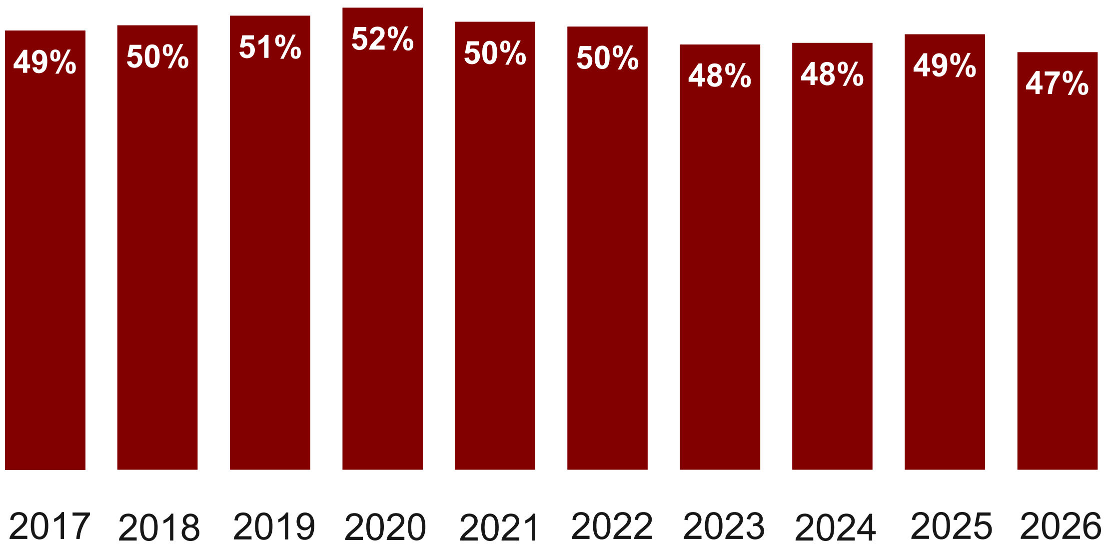
Distribution of correct answers to *P-Fin Index* questions



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

Financial (il)literacy across a decade: 2017-2026

% of P-Fin Index questions answered correctly



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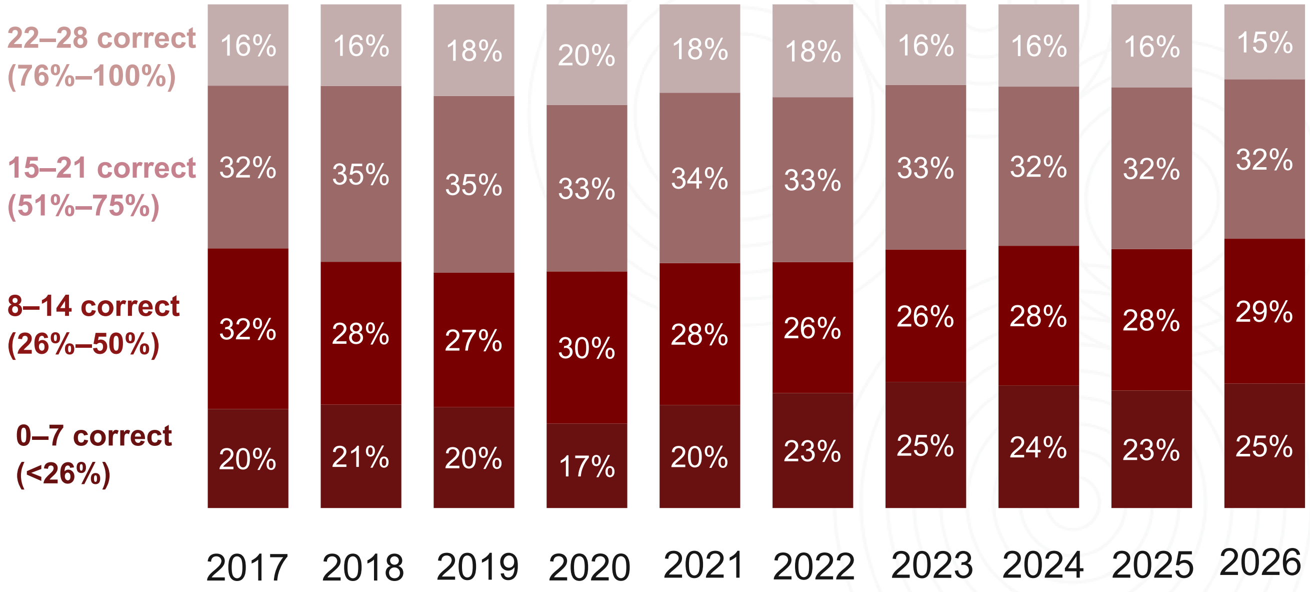

Source: TIAA Institute-GFLEC Personal Finance Index (2017-2026)

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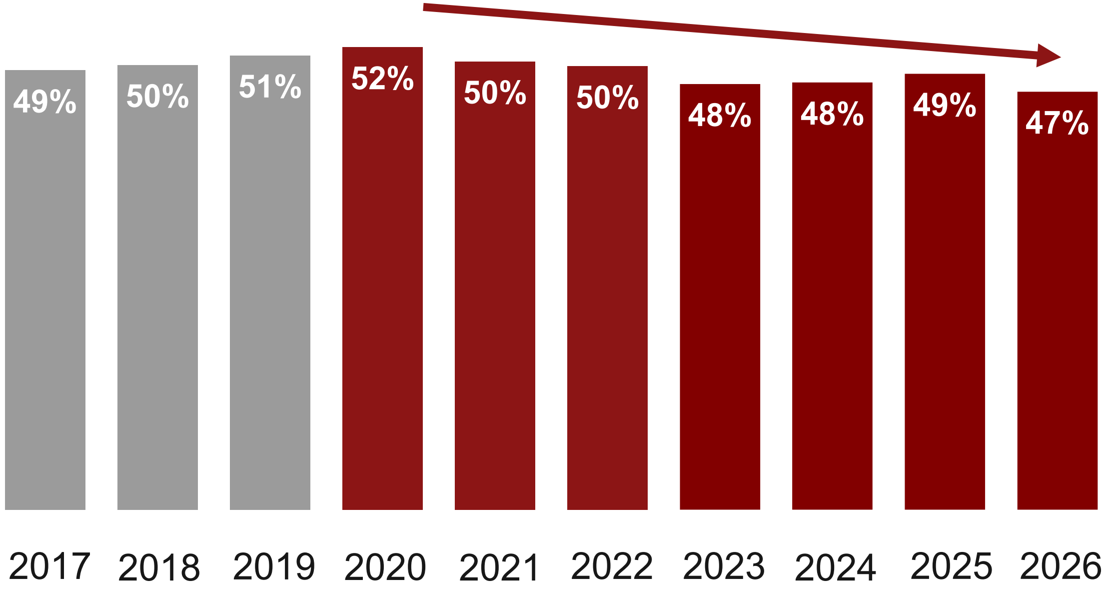
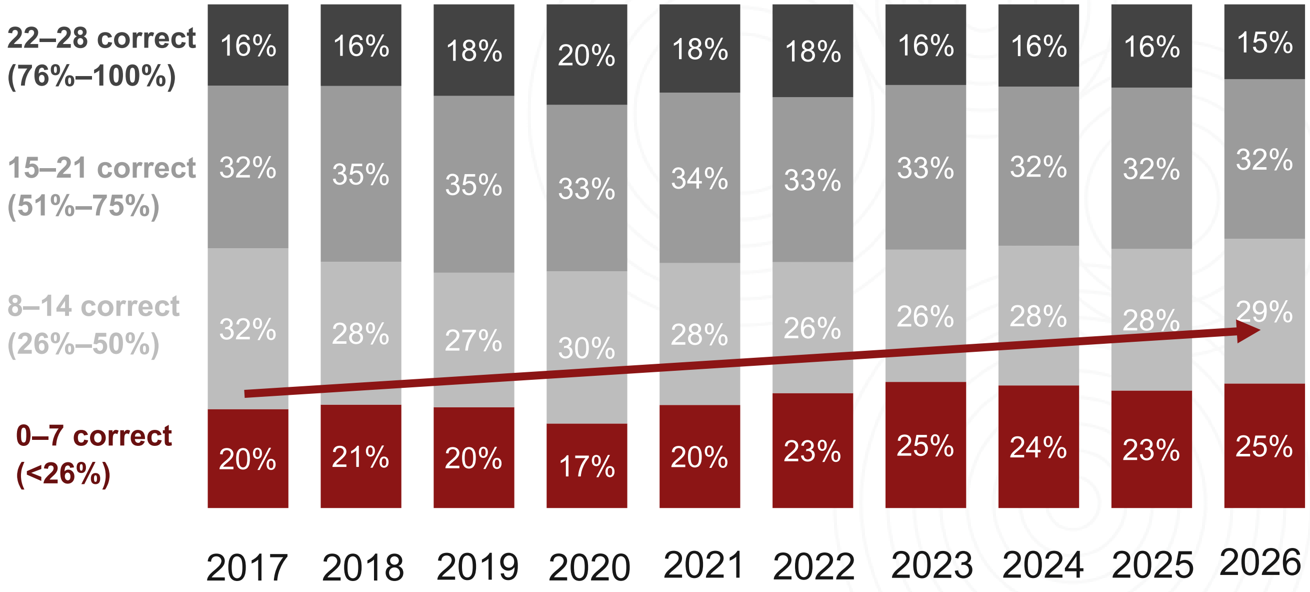
Financial literacy is not improving over time

% of P-Fin Index questions answered correctly



Significant decline

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



Significant increase in the share of respondents correctly answering seven or fewer of the 28 index questions.

Source: TIAA Institute-GFLEC Personal Finance Index (2017-2026)

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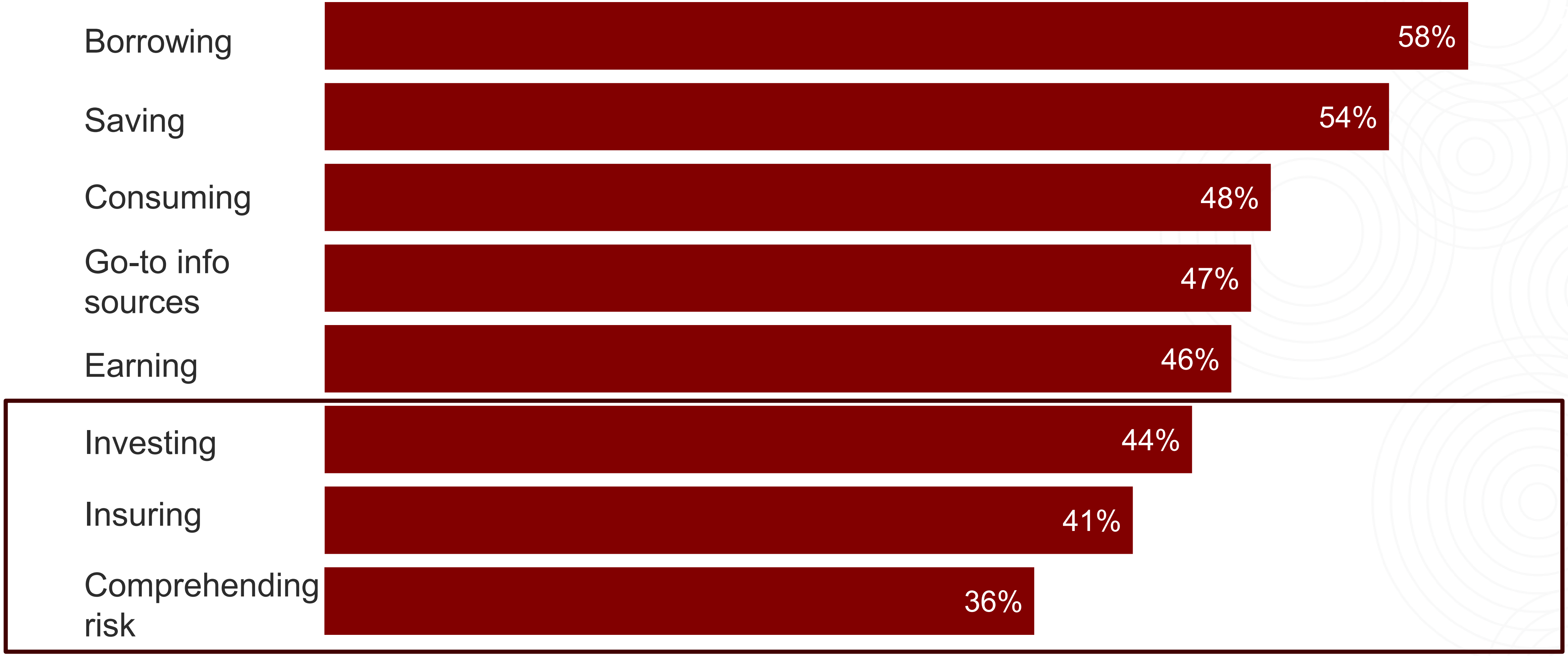
Regression results in 2026

Regression analysis	**(1) Percent of P-Fin Index Questions answered correctly**
Survey Waves (Ref.: 2017)	
2018	0.738
	(0.995)
2019	1.551
	(1.015)
2020	2.369**
	(0.993)
2021	0.416
	(0.840)
2022	-0.750
	(0.826)
2023	-2.868***
	(0.829)
2024	-2.972***
	(0.813)
2025	-2.568***
	(0.833)
2026	-4.432***
	(0.820)
Constant	31.768***
	(1.079)
DEMOGRAPHIC CONTROLS	YES
Observations	24,969
R-squared	0.312

Demographic controls:
Gender, Age, Race/Ethnicity, Education, Income, Work Status, Marital Status, Children under Age 18

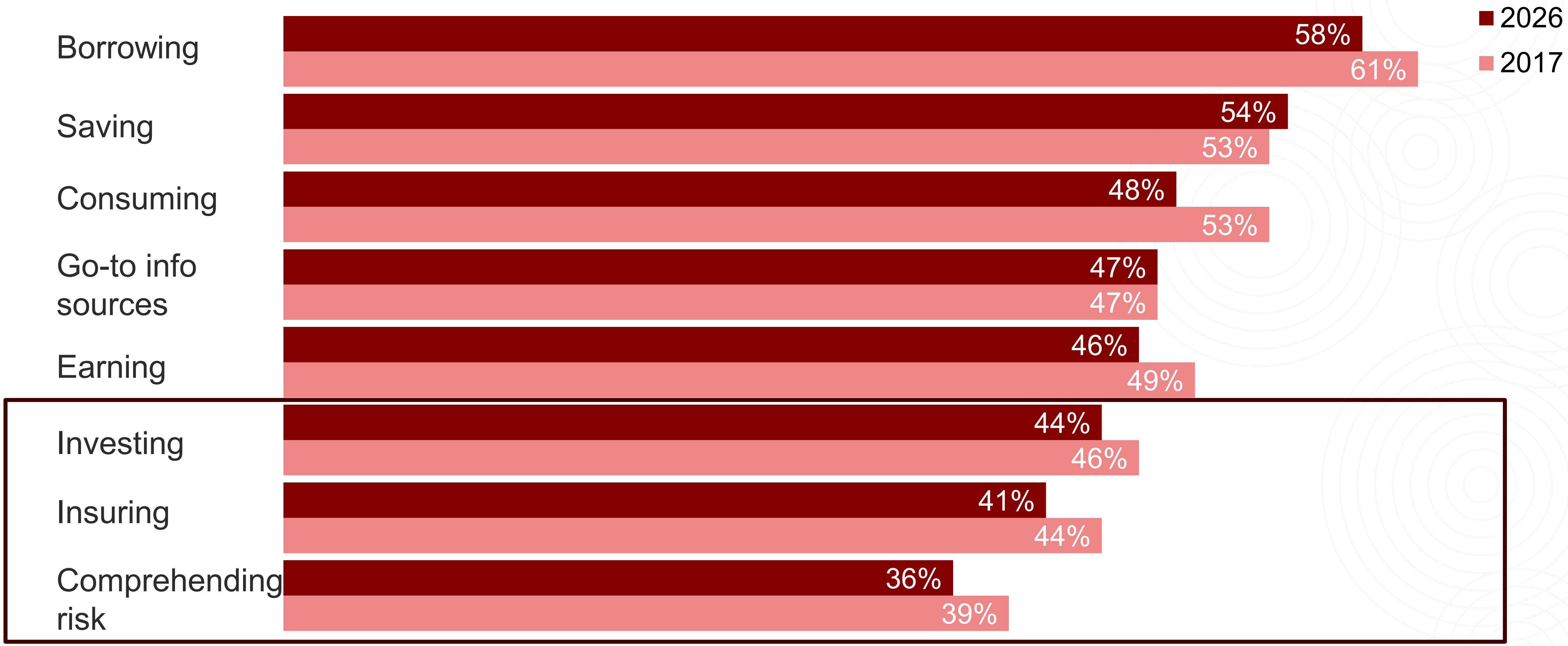
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2026).

What do people know the most and the least?



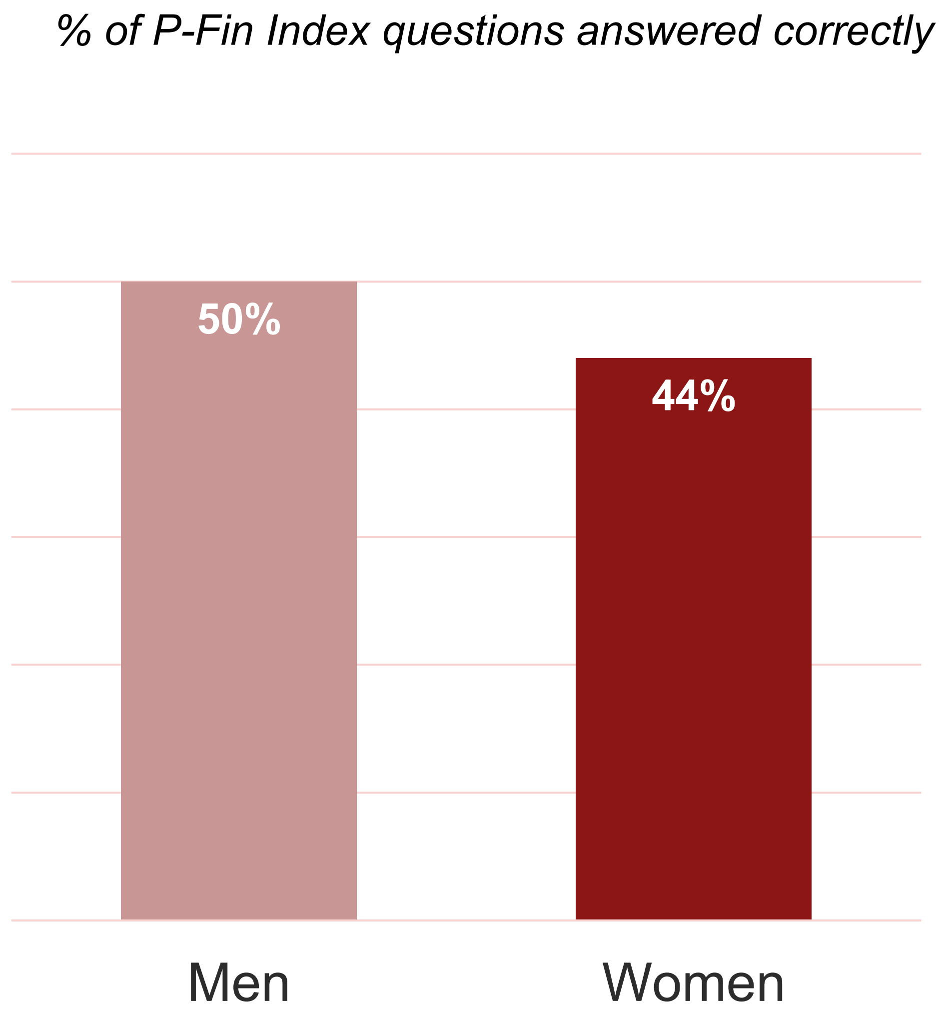
Source: TIAA Institute-GFLEC Personal Finance Index (2026).

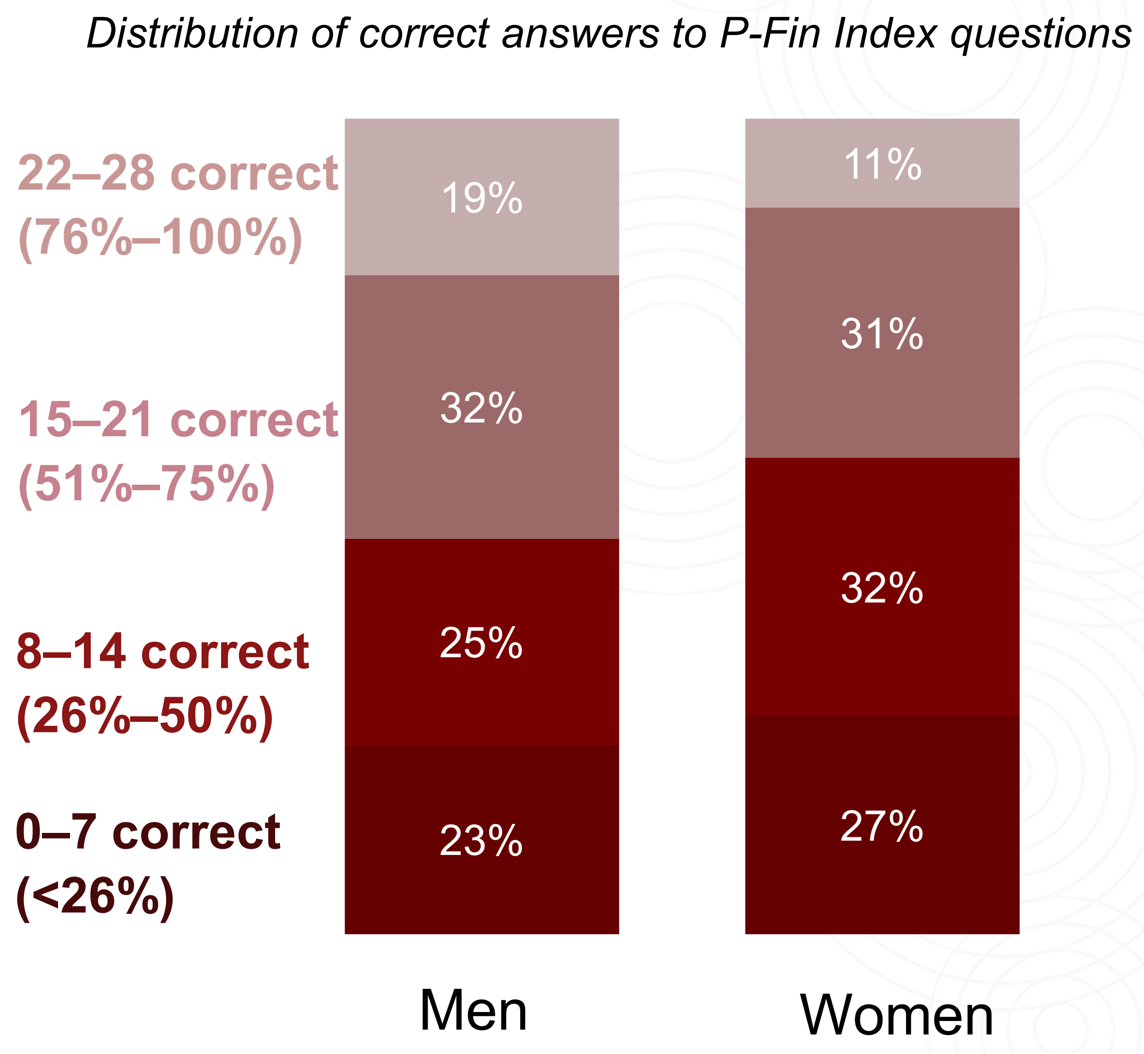
What people know the most/least has not changed over time



Source: TIAA Institute-GFLEC Personal Finance Index (2026, 2017).

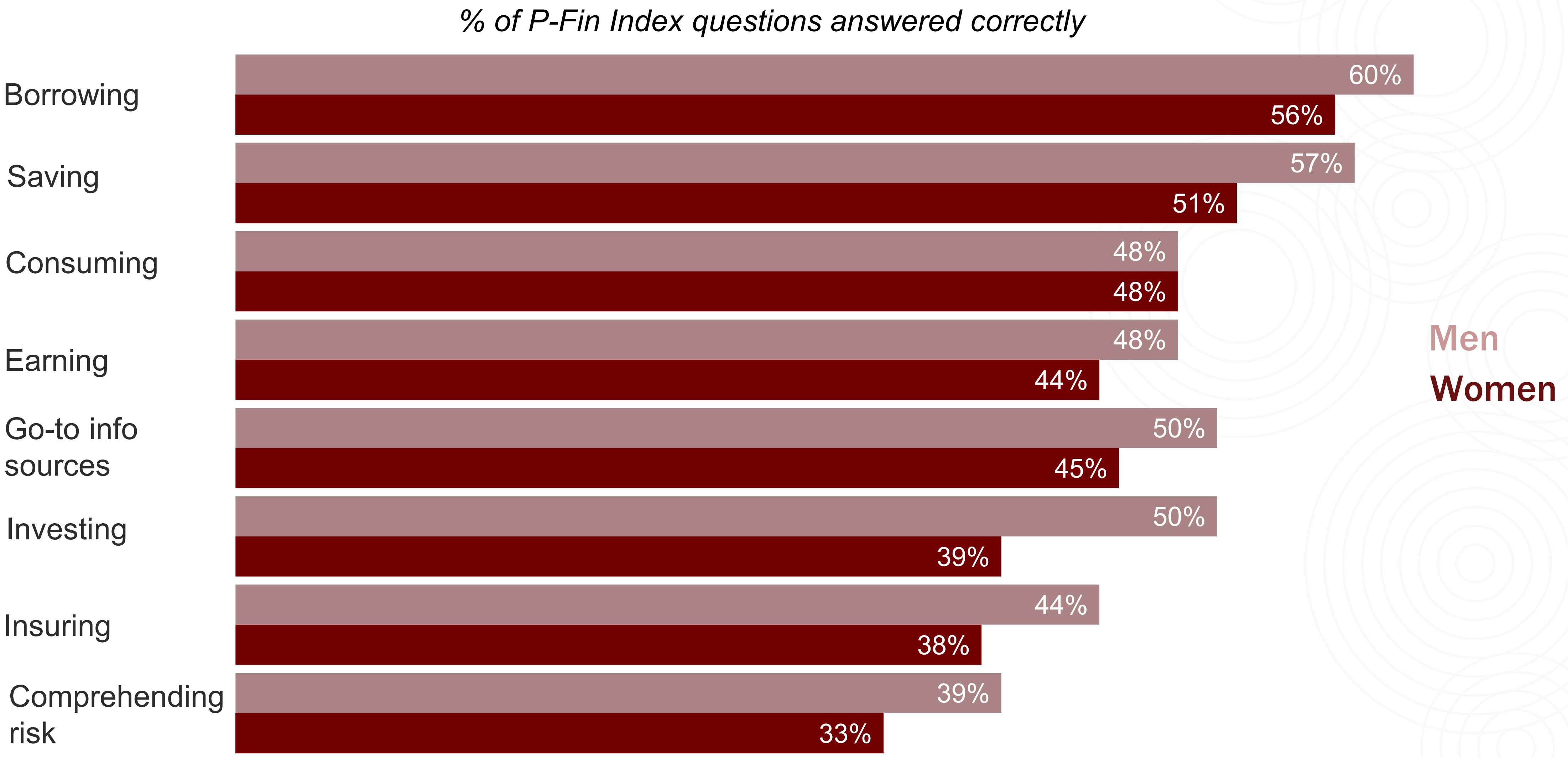
Gaps in financial knowledge: Women and men





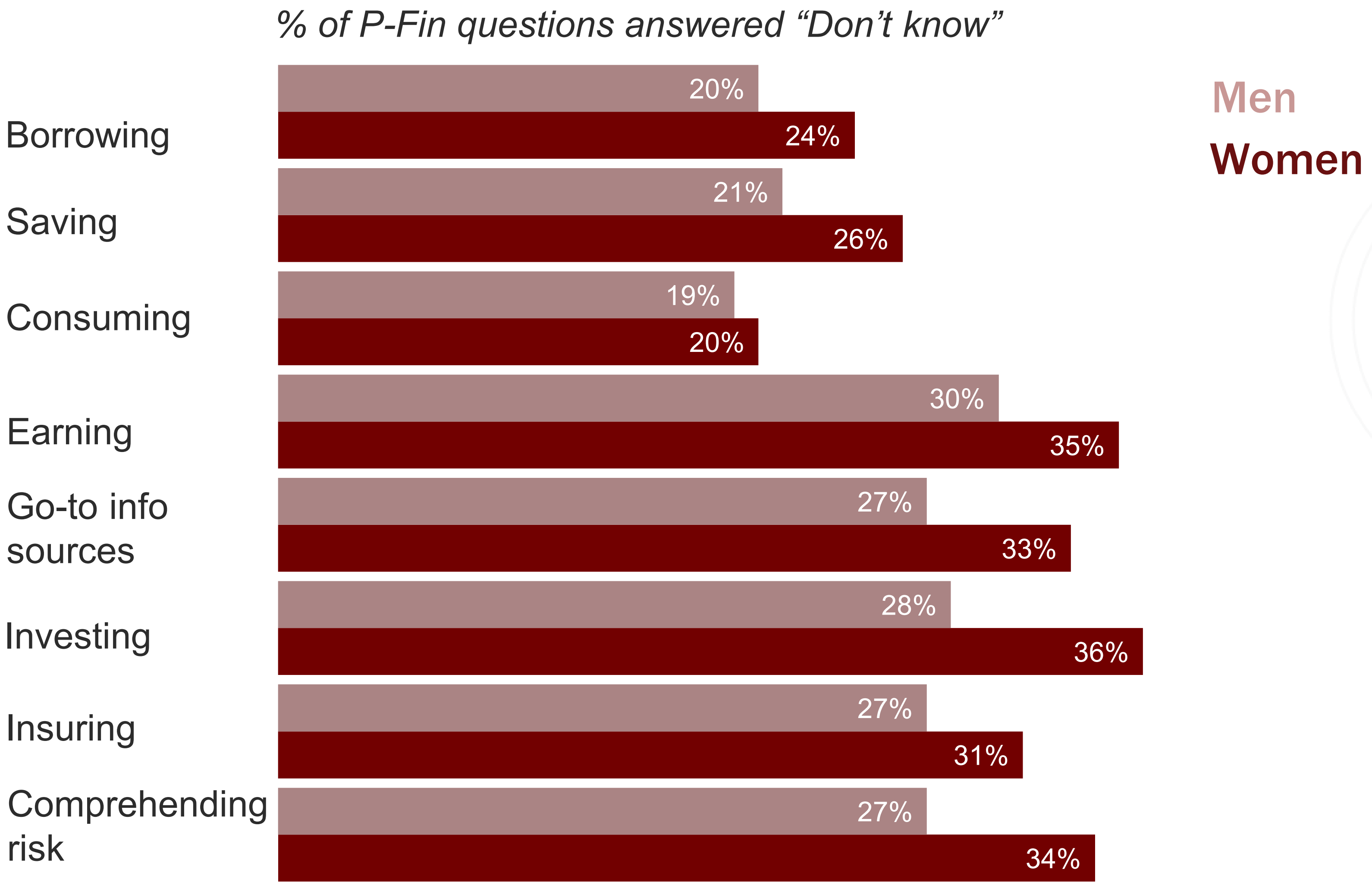
Source: TIAA Institute-GFLEC Personal Finance Index (2026).

Financial literacy gender gap in each topic…



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

...and in answering "Do not know"



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

Focusing on gender differences

What happens if we take away the “do not know” option?

This is what we did in a project with data from the Dutch Central Bank using the Big Three.

- The gender difference shrinks but does not go away
- Women know more than they think they do, but they are not confident about their knowledge.
- About 1/3 of the gender difference can be explained by confidence.
- Both knowledge and confidence matter for financial behavior (investing in the stock market)

Bucher-Koenen, Alessie, Lusardi and van Rooij, 2025, “Fearless woman: Financial literacy, confidence and stock market participation.” Published in *Management Science, 2024*

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Fearless Woman: Financial Literacy, Confidence, and Stock Market Participation

Tabea Bucher-Koenen,[a,*] Rob Alessie,[b] Annamaria Lusardi,[c] Maarten van Rooij[d]

[a] University of Mannheim and ZEW-Leibniz Center for European Economic Research, 68161 Mannheim, Germany; [b] School of Economics and Business, University of Groningen, 9700 AV Groningen, Netherlands; [c] Stanford Institute for Economic Policy Research and Graduate School of Business, Stanford, California 94305; [d] European Central Bank and De Nederlandsche Bank, 1000 AB Amsterdam, Netherlands

*Corresponding author

Contact: tabea.bucher-koenen@zew.de, https://orcid.org/0000-0002-3901-3912 (TB-K); R.J.M.Alessie@rug.nl, https://orcid.org/0000-0002-5128-6753 (RA); alusardi@standford.edu, https://orcid.org/0000-0002-2378-7489 (AL); M.C.J.van.Rooij@dnb.nl (MvR)

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Abstract. Women are less financially literate than men, and it has been difficult to determine whether this gap reflects a lack of knowledge or, rather, a lack of confidence. To address this important research question, we designed two survey modules that enable us to calculate the extent to which confidence matters for both financial literacy and behavior. We developed and estimated a model that provides a new measure of financial literacy and disentangles confidence from knowledge. We find that confidence accounts for about 30% of the gender difference in financial literacy. Moreover, both financial knowledge and confidence are linked to stock market participation. We also provide researchers with a method to account for confidence in regressions.

History: Accepted by Bo Becker, finance.

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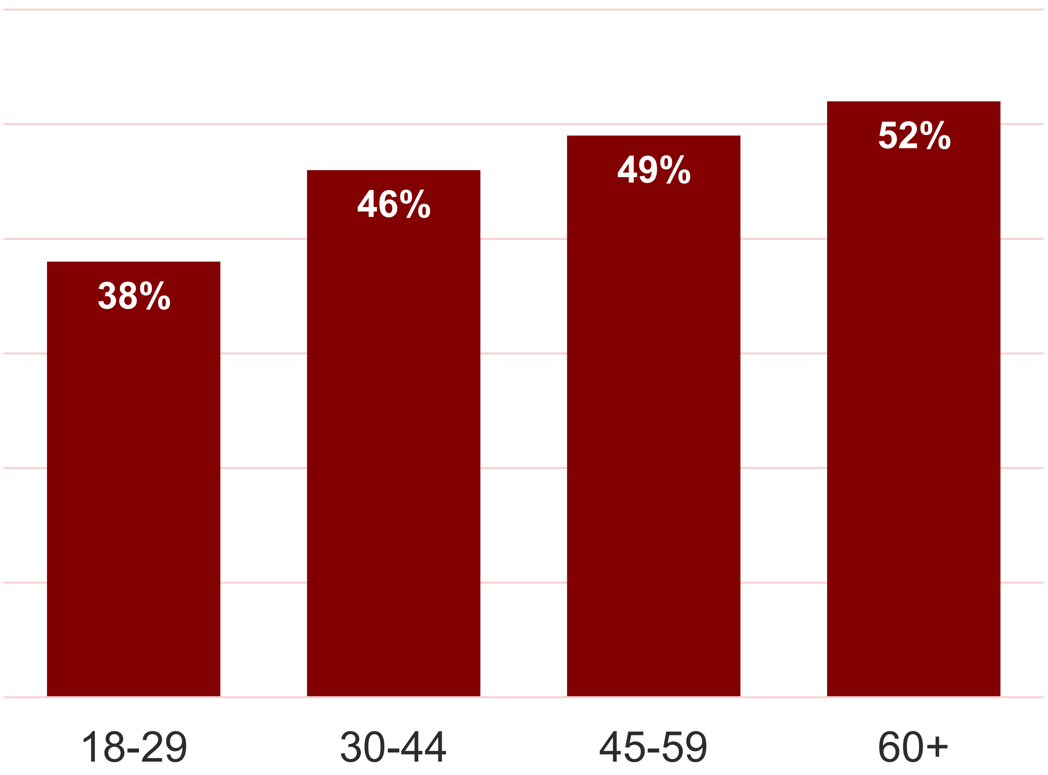
Supplemental Material: The online appendix and data files are available at https://doi.org/10.1287/mnsc.2023.00425.

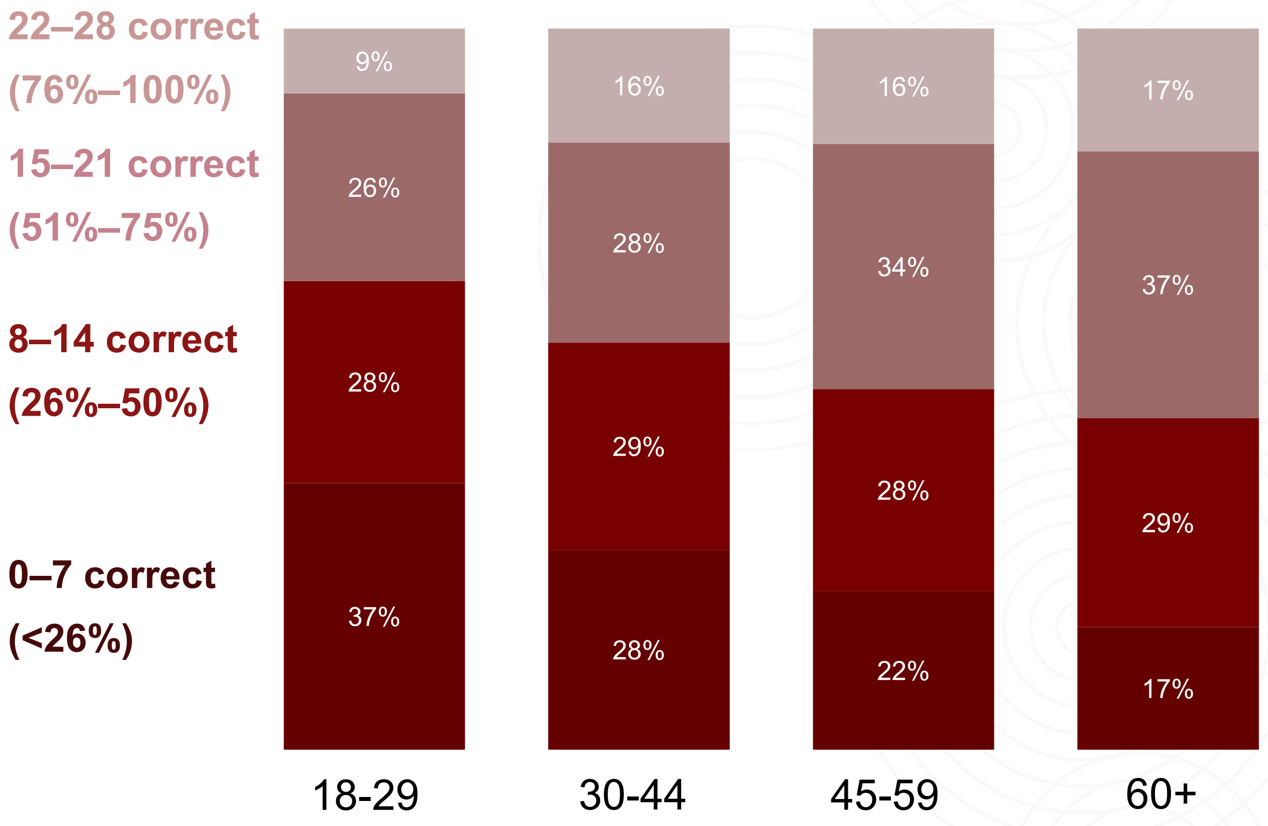
Keywords: financial knowledge • gender gap • measurement error • financial behavior

Gaps in financial knowledge: Age groups/cohorts

% of P-Fin Index questions answered correctly



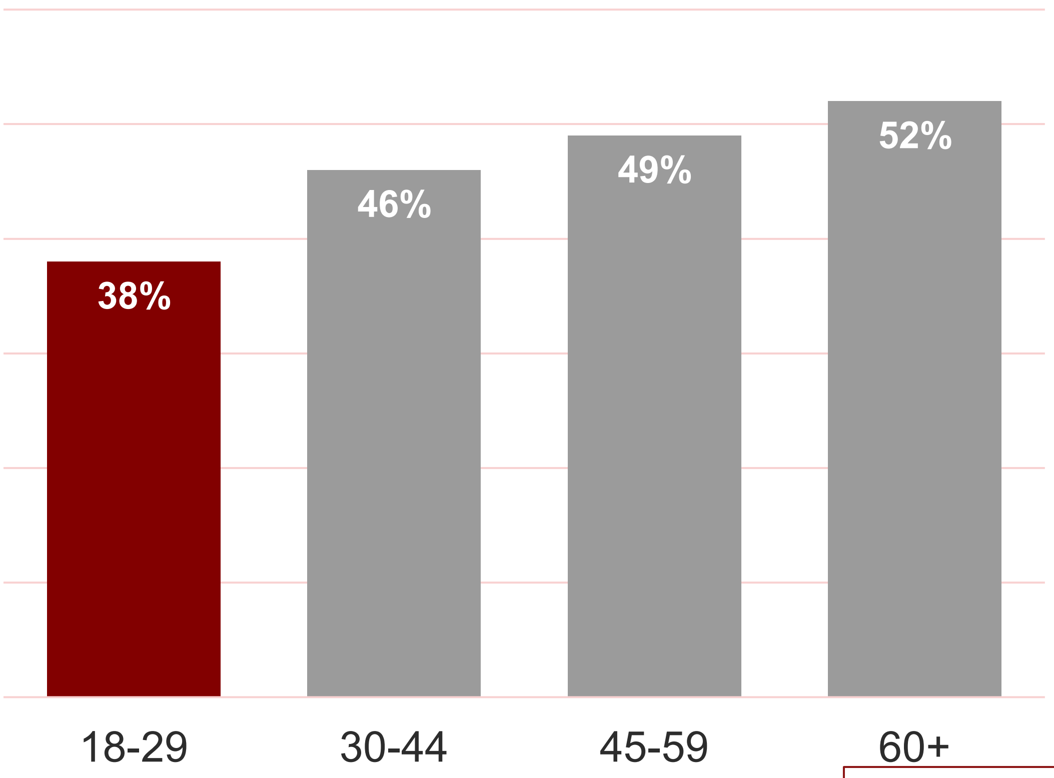
Distribution of correct answers to P-Fin Index questions



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

The young are the least knowledgeable

% of P-Fin Index questions answered correctly



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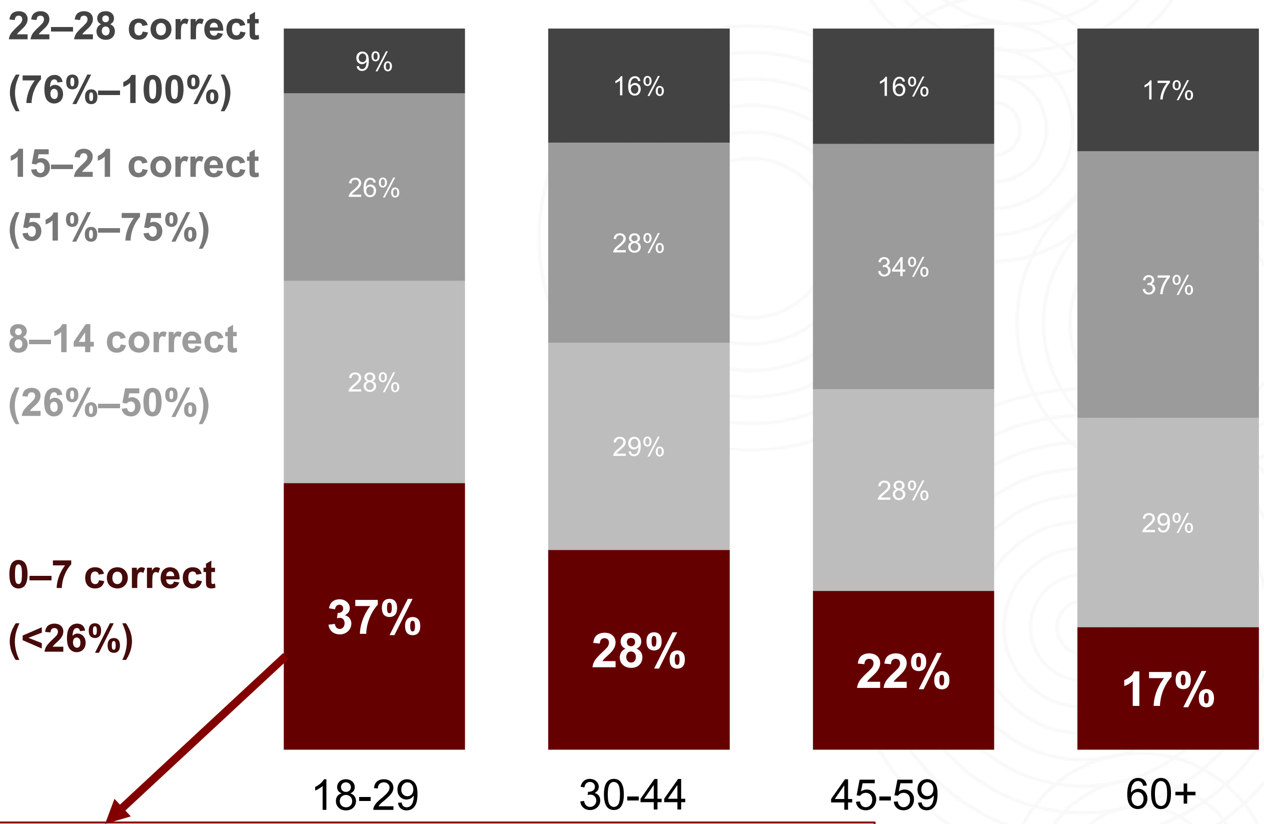

For the young, those with low scores are the largest single segment of the distribution, with significantly smaller shares reaching higher score ranges.

Source: TIAA Institute-GFLEC Personal Finance Index (2026).

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

- In the US, young people who are financially literate are disproportionally 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

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Regression results in 2026 using P-Fin Index data

Regression Analysis **Dependent variable: Number of correct P-Fin Index questions**	**(1)** **18-29 year old**
Gender (Ref.: Male)	
Female	-1.810***
	(0.584)
Race/Ethnicity (Ref.: White)	
Black	-1.801**
	(0.894)
Hispanic	-0.198
	(0.712)
Asian	0.731
	(1.300)
Other	1.237
	(1.344)
Education (Ref.: Less than HS)	
High school	0.346
	(1.029)
Some college	2.412**
	(1.091)
Bachelor's degree or higher	5.915***
	(1.148)
Additional controls are income, employment and marital status, and the number of children	YES
Observations	621
R-squared	0.157

Source: TIAA Institute-GFLEC Personal Finance Index (2026).

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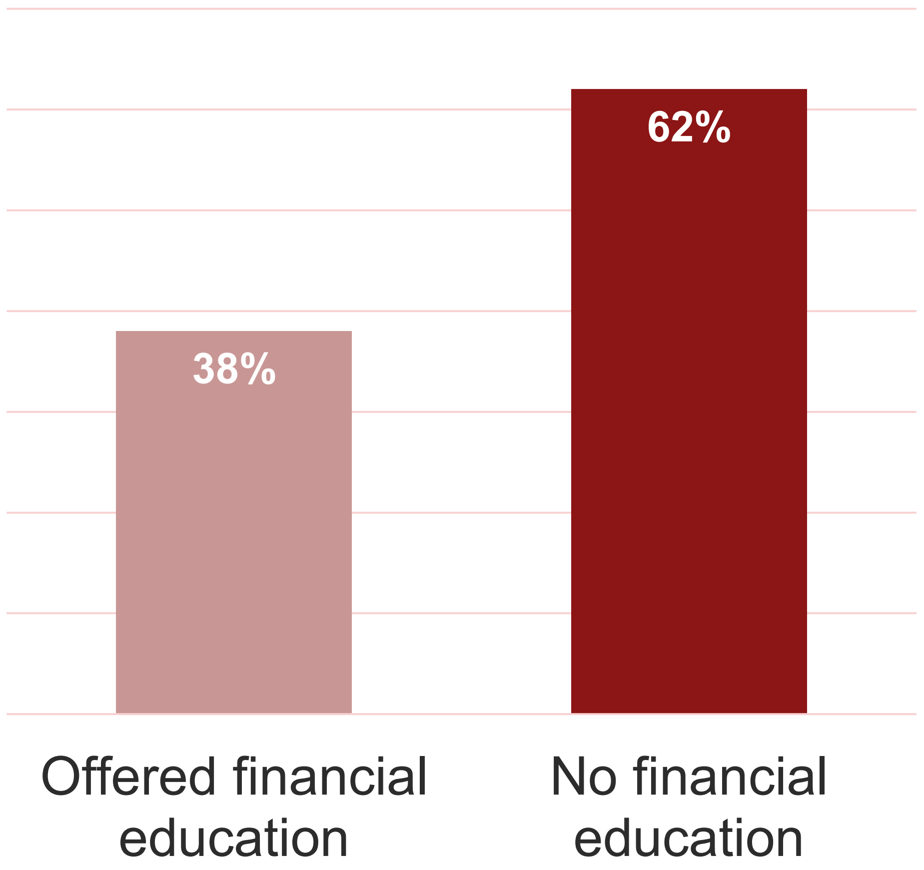
We added information on whether financial education was offered in school, the workplace, or other places



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

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.

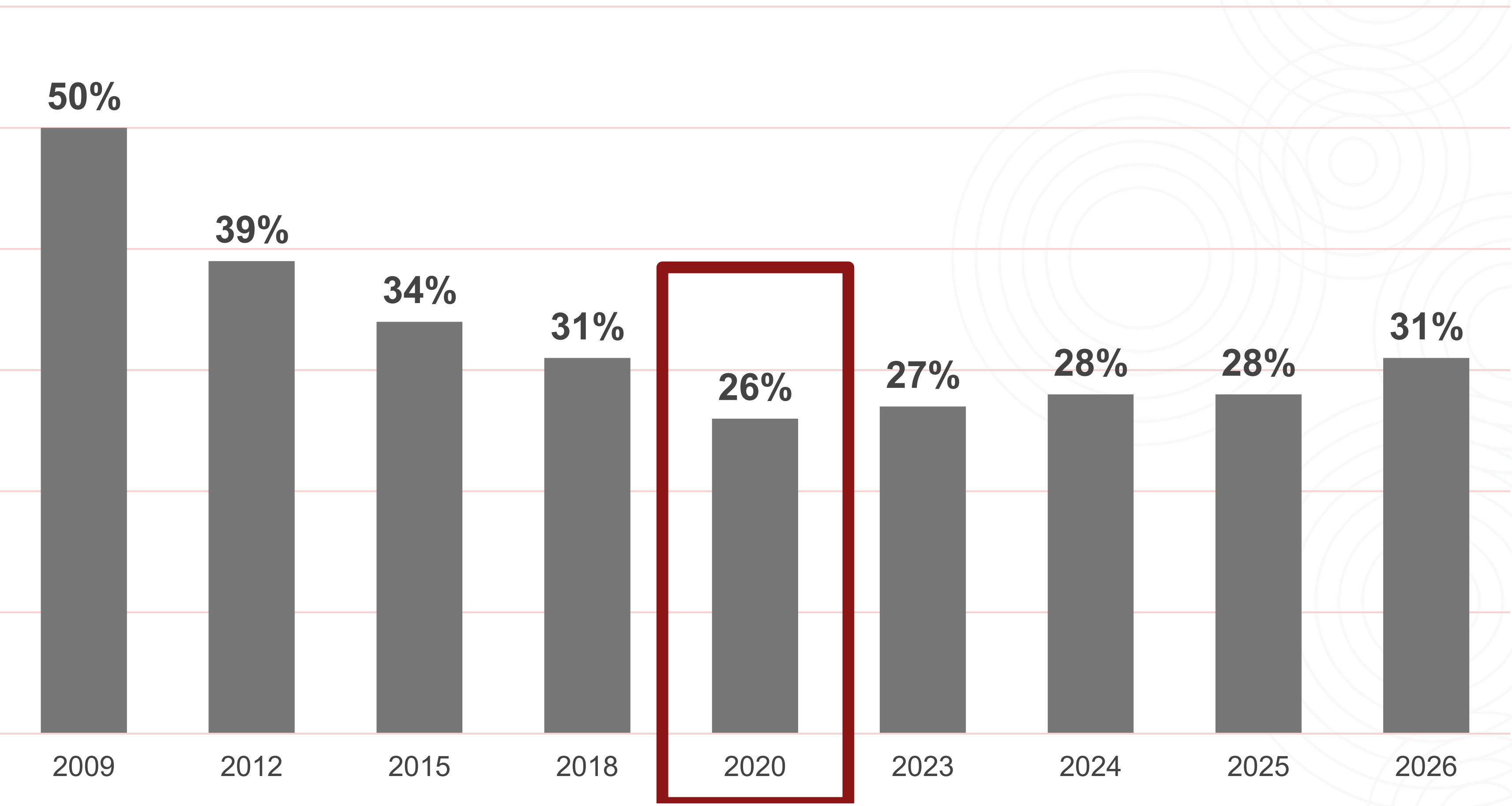
Financial fragility: What does it measure?

Is a symptom of lack of assets

Indicates lack of borrowing capacity of highly leveraged households

Financial fragility before and after the pandemic

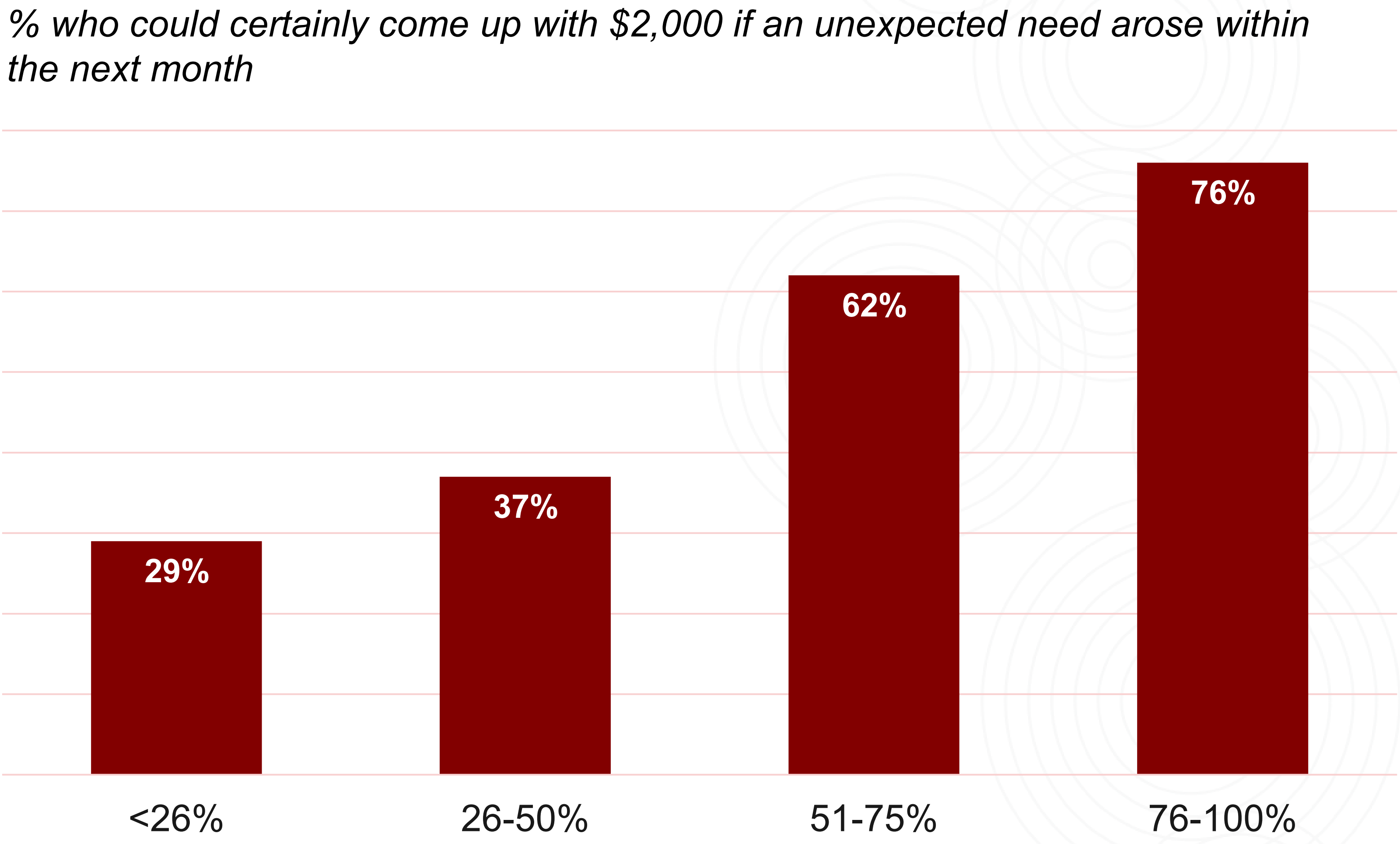
Financial fragility over time



Source: 2009 TNS data; 2012, 2015 and 2018 NFCS data; 2020-2026 P-Fin data.

Financial literacy and financial fragility

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



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

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

	Model 1 *Financial Resilience*	Model 2 *Financial Resilience*	Model 3 *Financial Resilience*
>50% of P-Fin questions correct	0.096*** (0.017)		
Total # of P-Fin questions correct		0.006*** (0.001)	
Was offered financial education			0.056*** (0.015)
Demographic Controls	Yes	Yes	Yes
Observations	3,437	3,437	3,437
R-squared	0.206	0.205	0.201

Source: TIAA Institute-GFLEC Personal Finance Index (2026).

Robustness checks across papers

- Similar results using different measures of precautionary savings
- Instrumenting for financial literacy tend to give even higher estimates than the OLS
- Relationship on financial literacy and financial fragility also holds at the macro level (use aggregated data across countries)

Similar findings during the pandemic

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journal homepage: www.elsevier.com/locate/jaccpubpol

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Full length article

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

Andrea Hasler [a], Annamaria Lusardi [b,*], Nikhil Yagnik [c,1], Paul Yakoboski [d]

[a] GFLEC, The George Washington University, School of Business, United States
[b] The George Washington University, United States
[c] Cornerstone Research, United States
[d] TIAA Institute, United States

A R T I C L E I N F O

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G53
D14

A B S T R A C T

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.

Measuring planning for retirement

Non-retirees: Have you [and your spouse/partner] ever tried to figure out how much you need to save for retirement?

Retirees: Before retiring, did you [and your spouse/partner] ever try to figure out how much you needed to save for retirement?

- Yes
- No
- Prefer not to say

Yes: 40%

No: 59.5%

Prefer not to say: 0.5%

Source: TIAA Institute-GFLEC Personal Finance Index (2026).

Planning for retirement: What does it measure?

It is a good proxy for wealth

An indicator for following personal finance recommendations

Planning is a strong predictor of wealth

Table 4
Distribution of net worth by planning ($2004)

Group	% of sample	25th percentile	Median	Mean	75th percentile
(A) Early Baby Boomers: age 51–56 in 2004					
Planning					
Hardly at all	27.9	9,000	79,000	315,579	271,000
A little	17.0	62,800	173,400	356,552	390,500
Some	27.7	51,000	189,000	365,354	447,200
A lot	27.4	54,000	199,000	517,252	470,000
(B) 1992 HRS cohort: age 51–56 in 1992					
Planning					
Hardly at all	32.0	10,100	76,910	224,3110	200,610
A little	14.3	37,700	126,560	343,110	292,170
Some	24.8	71,360	172,340	340,340	367,300
A lot	28.9	71,390	173,690	353,520	356,800

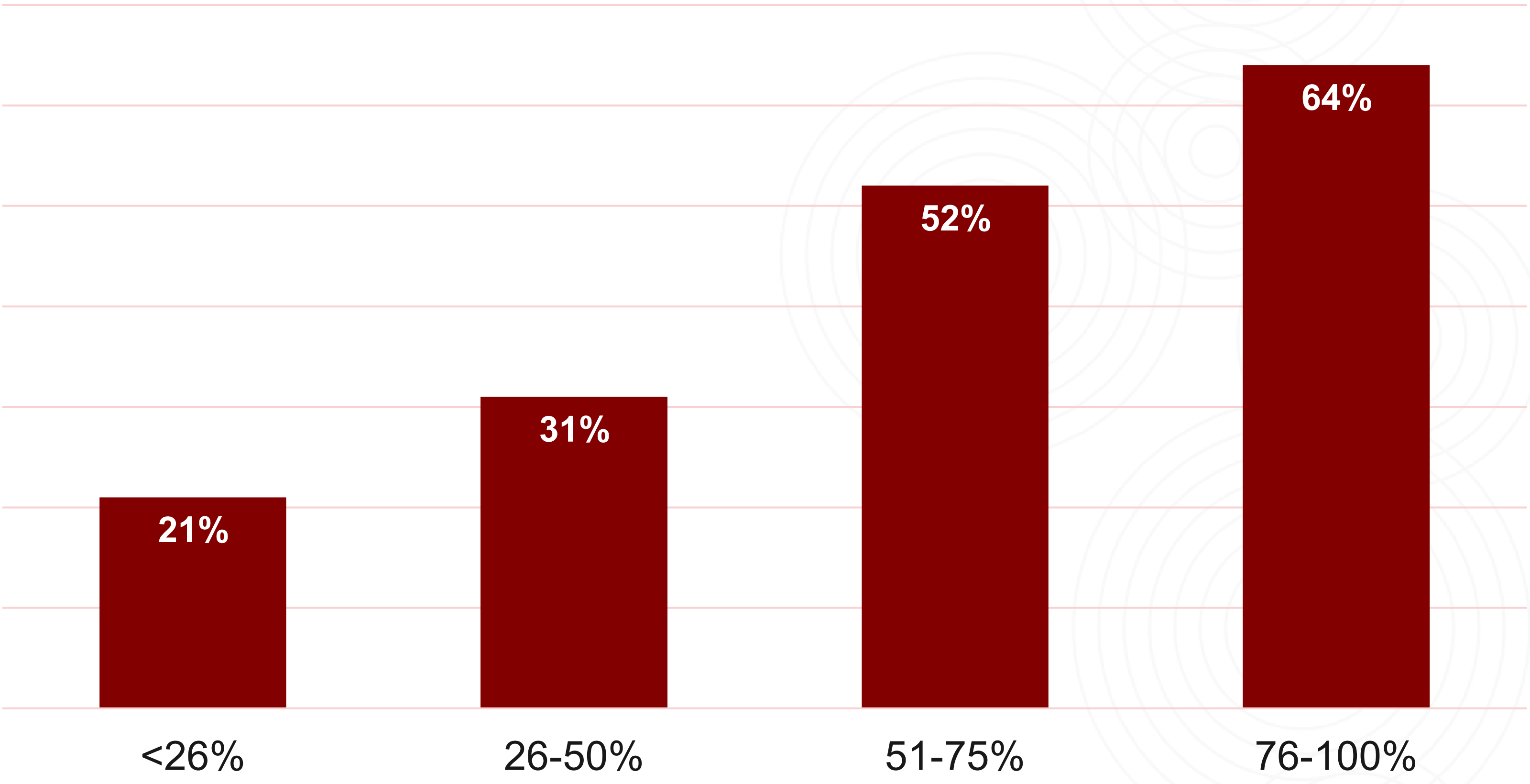
Note: All data weighted using HRS household weights.

Source: Baby Boomer retirement security: The roles of planning, financial literacy, and housing wealth (*Journal of Monetary Economics, 2007*)

Financial literacy and retirement planning

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

% planning for retirement by figuring out how much they need to save



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

The relationship between retirement planning and financial literacy

	Model 1 *Retirement Planning*	Model 2 *Retirement Planning*	Model 3 *Retiremen Planning*
>50% of P-Fin questions correct	0.172***		
	(0.022)		
Total # of P-Fin questions correct		0.012***	
		(0.001)	
Was offered financial education			0.117***
			(0.020)
Demographic Controls	Yes	Yes	Yes
Observations	2,439	2,439	2,439
R-squared	0.187	0.189	0.176

Source: TIAA Institute-GFLEC Personal Finance Index (2026); non-retirees.

Key lesson: Financial literacy matters

A financially literate person is…

- more likely to weather financial shocks
- less likely to be debt constrained
- more likely to save
- more likely to plan for retirement

These are indicators of **financial resilience** and financial security.

AI and personal finances

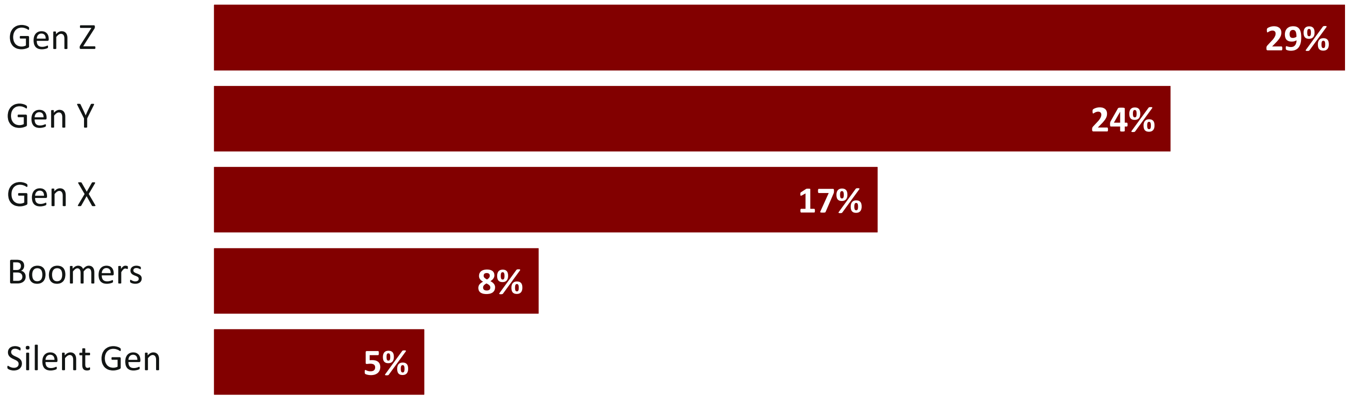
19% Have used an AI tool such as ChatGPT, Gemini, Claude or a bank app chatbot to get **information** about a personal finance topic.

4% Have used AI regularly (at least monthly) to help **manage** their personal finances.

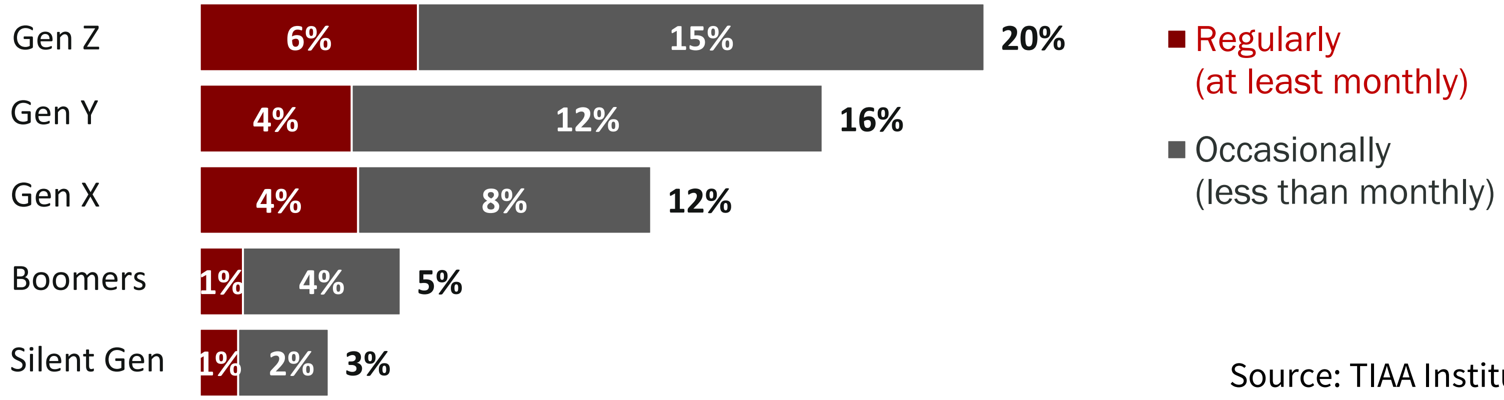
Source: TIAA Institute-GFLEC Personal Finance Index (2026).

AI across generations

Have used an AI tool to get information about personal finance topics



Have used AI tools in the past 12 months to help manage personal finances



Source: TIAA Institute-GFLEC Personal Finance Index (2026).

AI and financial literacy

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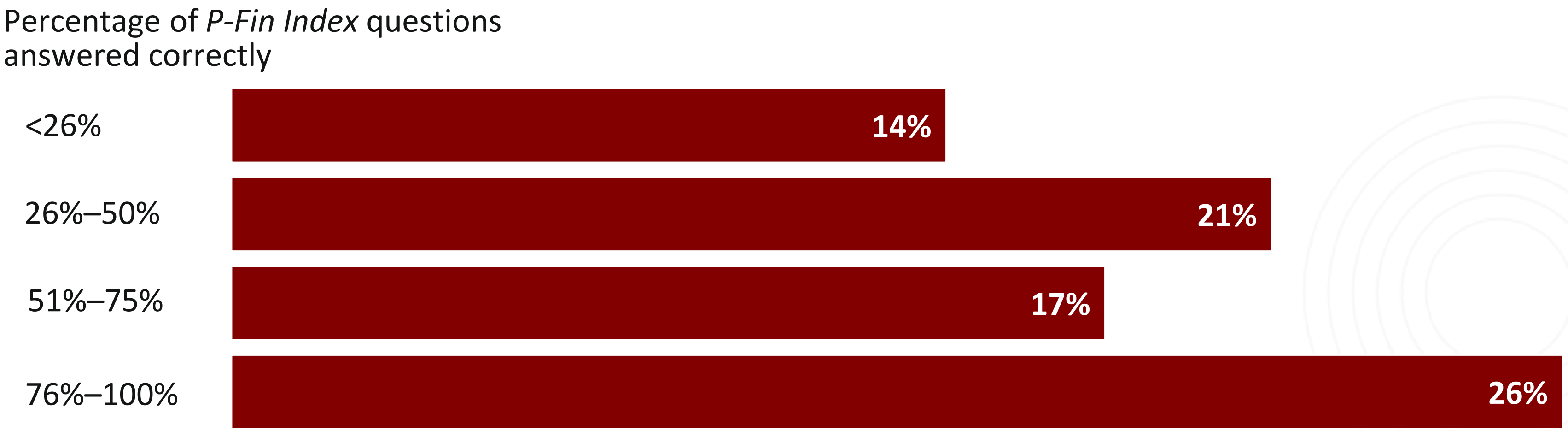

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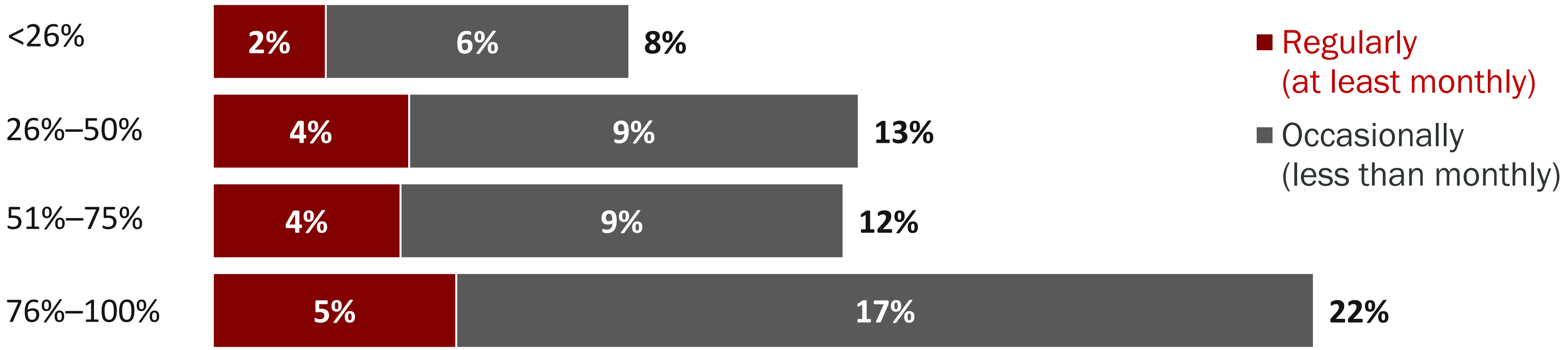

Source: TIAA Institute-GFLEC Personal Finance Index (2026).

P-Fin 8 Index: A proxy for the P-Fin Index

- New short-form index developed for researchers & practitioners
- 8 questions (one per functional area) -> proxy for full 28-question index
- Strong performance as a proxy
  - Correlation with full index >0.9
  - Average score: 46% (P-Fin 8) vs. 47% (full index)
  - Replicates key patterns across demographics & behavior indicators
- It can be used for surveys, program evaluations, policy assessments and enables benchmarking to national statistics
- The measure is made public and we will also soon give the data

P-Fin 8 Questions

1. **Mark's salary has increased over the past two years. What would be a plausible reason for this?**
   A. The number of workers with Mark's skills increased where he lives and works
   B. New technology reduced the demand for workers with Mark's skills
   C. Mark completed several training courses at a local college
   D. Don't know

2. **A household budget cannot be used for which of the following?**
   A. To track household financial assets
   B. To plan for necessary household expenses
   C. To plan household discretionary spending
   D. Don't know

3. **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?**
   A. She can afford to buy fewer things at the end of the year
   B. She can afford to buy more things at the end of the year
   C. It's not clear whether she can afford to buy more things or fewer things at the end of the year
   D. Don't know

4. **Which statement about investing is correct?**
   A. Investing in the stock of a single company is typically safer than investing in a mutual fund that holds shares of many companies in multiple industries
   B. Investing in a mutual fund that holds shares of many companies in multiple industries is typically safer than investing in the stock of a single company
   C. Investing in the stock of a single company and investing in a mutual fund that holds shares of many companies in multiple industries are typically equally safe
   D. Don't know

5. **José owes $1,000 on a loan that has an interest rate of 20% per year compounded annually. If he makes no payments on the loan, at this interest rate, how many years will it take for the amount he owes to double?**
   A. Less than 5 years
   B. 5 to 10 years
   C. More than 10 years
   D. Don't know

6. **Katherine is a single 25-year-old worker who is in good health. What type of insurance coverage is she most likely to need in the near term?**
   A. Life insurance
   B. Disability insurance
   C. Long-term care insurance
   D. Don't know

7. **Lottery A pays a prize of $200 and the chance of winning is 5%. Lottery B pays a prize of $90,000 and the chance of winning is 0.01%. Expected winnings are greater in which lottery?**
   A. Lottery A
   B. Lottery B
   C. They are equal
   D. Don't know

8. **Which of the following appears to be inappropriate investment advice for the respective individual?**
   A. A stock index fund to a 30-year-old worker saving for retirement
   B. A bond fund to a 60-year-old worker for some of her retirement savings
   C. A stock fund that invests in small start-up businesses to a 75-year-old retiree
   D. Don't know

P-Fin 8 Resources

More resources on the P-Fin 8 including a Technical Guide and a Data Exploration Tool can be found here:

The *P-Fin 8 Index*: Official Questions, Scoring, and Technical Guide

Quick Start

To construct the P-Fin 8 Index, sum correct responses across the eight questions. Each correct answer = 1 point; incorrect and "Don't know" responses = 0 points. Total scores range from 0 to 8.

Overview

The P-Fin 8 Index is a concise measure of financial literacy developed by the TIAA Institute and the Global Financial Literacy Excellence Center (GFLEC). It consists of eight multiple-choice questions, each representing one of the eight core domains of personal finance.

The P-Fin 8 is designed as a reduced-form version of the full 28-question P-Fin Index. It closely approximates the full index while minimizing respondent burden, making it suitable for both research and applied settings.

The P-Fin 8 enables researchers to measure financial literacy using a short, validated instrument while maintaining comparability with the full P-Fin Index.

How the P-Fin 8 is Scored

Respondents answer eight multiple-choice questions. Each correct answer receives one point.

- Each correct answer = 1 point
- Each incorrect or "Don't know" response = 0 points
- Total scores range from 0 to 8

The index is computed as:

P-Fin 8 Score = Σ (Correct Answer i), for i = 1 to 8

For research implementation, the following naming convention may be useful:

- Q1_Earning, Q2_Consuming, …, Q8_Information
- PF8_Total (sum of correct responses)

Big Three and P-Fin Index (full index and P-Fin 8)

- The findings in the P-Fin Index replicate the findings provided by the Big Three

- If you do not have room for many questions, the Big Three are a good proxy for financial literacy

- The P-Fin 8 is more extensive and contains questions measuring the concepts in the Big Three

Implications for Education: Teaching Personal Finance

Does financial education work?

ELSEVIER

Journal of Financial Economics

Available online 3 October 2021

In Press, Corrected Proof

Financial education affects financial knowledge and downstream behaviors

Tim Kaiser [a], Annamaria Lusardi [b], Lukas Menkhoff [c], Carly Urban [d]

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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 (RTCs studies) in as many as 33 countries
- Financial education affects a variety of behaviors
- It not only works but it is also cost effective
- It is effective both among the young and the old

Personal finance (Econ 43) at Stanford University

- Since 2020, we have been teaching Personal Finance at Stanford
- It has become one of the most popular elective courses at Stanford
- We offer it several times a year
- We can share our material (lectures, applications, exams, etc.)

Personal finance at Stanford University, cont.

- The course is data and research-based
- We use the data from the P-Fin Index in the lectures
- We used the data to design the course as well
- We are assessing the effectiveness of personal finance teaching (and with AI) in collaboration with two universities that have a lot of students

Network of personal finance teachers

We are building a network of personal finance teachers. Please join the network if you are teaching or interested in teaching personal finance. **Please contact us at Stanfordifdm@stanford.edu**

Annual Teaching Personal Finance Conference

Stanford | Institute for Economic Policy Research (SIEPR)
Stanford | Department of Economics SCHOOL OF HUMANITIES AND SCIENCES
STANFORD BUSINESS GRADUATE SCHOOL OF
GFLEC GLOBAL FINANCIAL LITERACY EXCELLENCE CENTER

Teaching Personal Finance Conferences

Stanford University

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Save the date for this year's conference

- The Teaching Personal Finance Conference is scheduled on **Friday, September 25, 2026**
- Join us if you are teaching or interested in teaching personal finance. Email Stanfordifdm@stanford.edu to get an invitation
- Information on past conferences can be found here:

Policy and programs

Impacting policy

Our new work in progress:

- Financial literacy: Why should central banks care

Working with global leaders

Working with former UK premier, Rishi Sunak, to measure financial literacy in the UK

New findings available here: The Richmond Project: Spotlight on Financial Literacy

Engaging thought leaders

- Working with the World Economic Forum
- One of their Global Future Councils in 2025-2026 is devoted to financial education
- Online forum in October with central bankers

WORLD ECONOMIC FORUM

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

- Personal finance knowledge is low and not improving
- It is linked to behavior
- Teaching personal finance has the potential to change the statistics among the young
- Engaging policy and thought leaders is important to make an impact at the aggregate level

Initiative for Financial Decision-Making (IFDM)

Collaboration between:

Stanford | Institute for Economic Policy Research (SIEPR)

STANFORD BUSINESS | GRADUATE SCHOOL OF

Stanford | Department of Economics
SCHOOL OF HUMANITIES AND SCIENCES

Our mission is to transform personal finance research and education

For more information, please visit us at

https://ifdm.stanford.edu/