Improving Financial Literacy: From Corporate Finance to Personal Finance

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This article provides an overview of the literature on financial literacy. It covers the initial measurement that created the Big Three questions and measures of personal finance knowledge featuring 28 questions. It shows that levels of financial literacy are low and have not been improving over time. This is true not only in the United States but also in countries worldwide. These findings matter because financial literacy is conducive to savvy financial behaviors, from holding precautionary savings to planning for retirement to many other financial decisions. Financial education programs have grown exponentially over time, providing important insights into their cost-effectiveness. Personal finance courses have been added to high school and college curricula, and the evidence indicates that they are useful initiatives to improve financial knowledge and downstream behavior.

Objectives of the presentation

- Show why we need to improve financial literacy and we can all play a role
- Make a case for teaching personal finance in college, in addition to high school

Outline of the presentation

- Measuring personal finance knowledge: Evidence from two decades of data

- Financial literacy matters
  - Empirical work
  - Theoretical work
  - Effectiveness of financial education

- Designing a personal finance course

Why is financial literacy important?

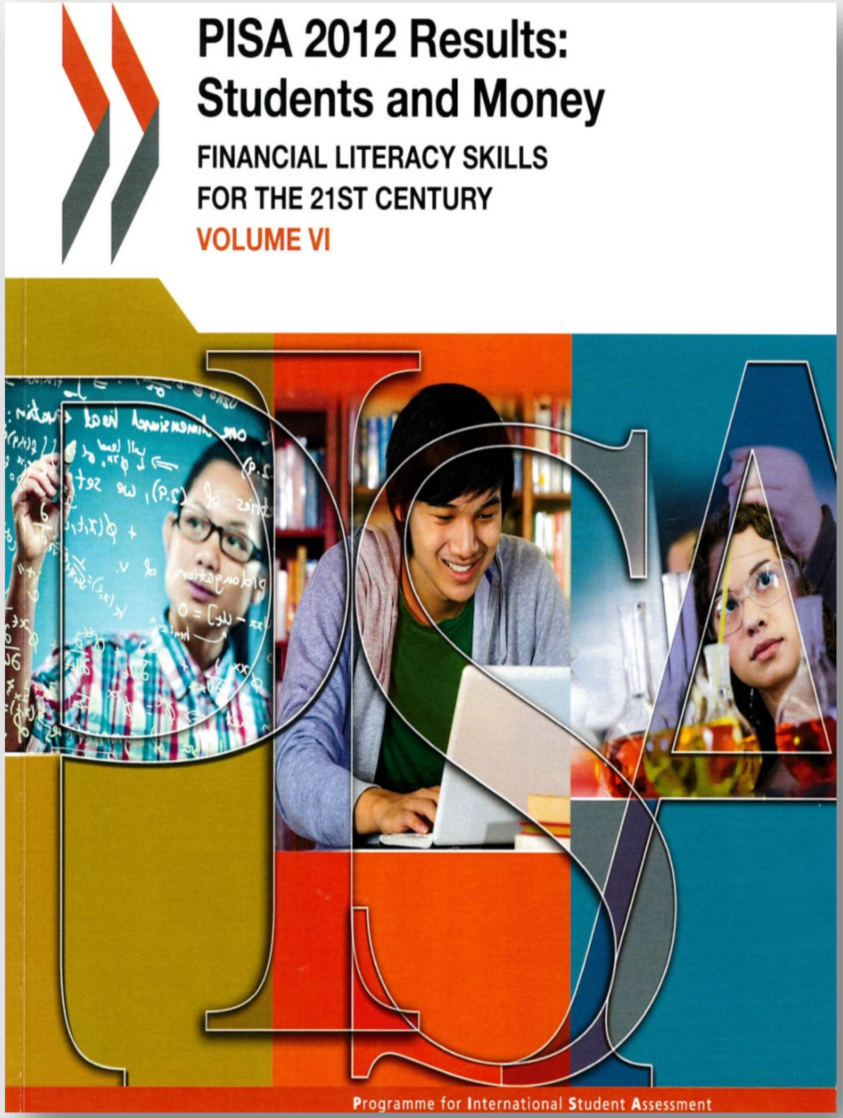
- Changes in the pension system: People are in charge of their financial security after retirement
- Changes in the labor market: Gig economy and STEM
- Changes in financial markets: Complexity of financial instruments, including new ones and easy access to credit
- Fintech and AI

Need a rigorous approach to financial decision-making

Financial literacy was added to PISA in 2012 already

Since 2000, every three years the **OECD Programme for International Student Assessment (PISA)** assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.

OECD
BETTER POLICIES FOR BETTER LIVES



Measuring personal finance knowledge: Evidence from two decades of data


A basic test

Measuring financial literacy (HRS module, 2004)

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?"
   - [x] 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
   - [x] 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
   - [x] False
   - [ ] Don't know (DK)
   - [ ] Refuse to answer

How much do Americans know?

(Lusardi and Mitchell, Journal of Pension Economics and Finance (JPEF), 2011)

Distribution of responses across the U.S. population
(**2009** National Financial Capability Study)

	Responses			
	Correct	Incorrect	DK	Refuse
Interest rate	64.9%	20.5%	13.5%	1%
Inflation	64.3%	20.2%	14.2%	1.3%
Risk diversif.	51.8%	13.3%	33.7%	1.2%

NB: Only about 1/3 correctly answer all 3 questions. About 1/3 do not know about risk diversification.

Financial Literacy around the World (FLat World)

Initial evidence from 14 countries (published in the Journal of Economic Literature, 2014)

- USA
- Germany
- The Netherlands
- Italy
- Russia
- Sweden
- New Zealand
- Japan
- Australia
- France
- Switzerland
- Romania
- Finland
- Canada

Using the Big Three, we have found that financial literacy is low in both developed and developing economies

More international evidence on financial literacy

Recent evidence from other countries (special issue of the *Journal of Financial Literacy and Wellbeing*, 2023) show similar results

- USA
- Canada
- Latin America (Peru and Uruguay)
- Eastern Europe (9 countries)
- Singapore
- Finland
- Italy
- Japan
- Germany

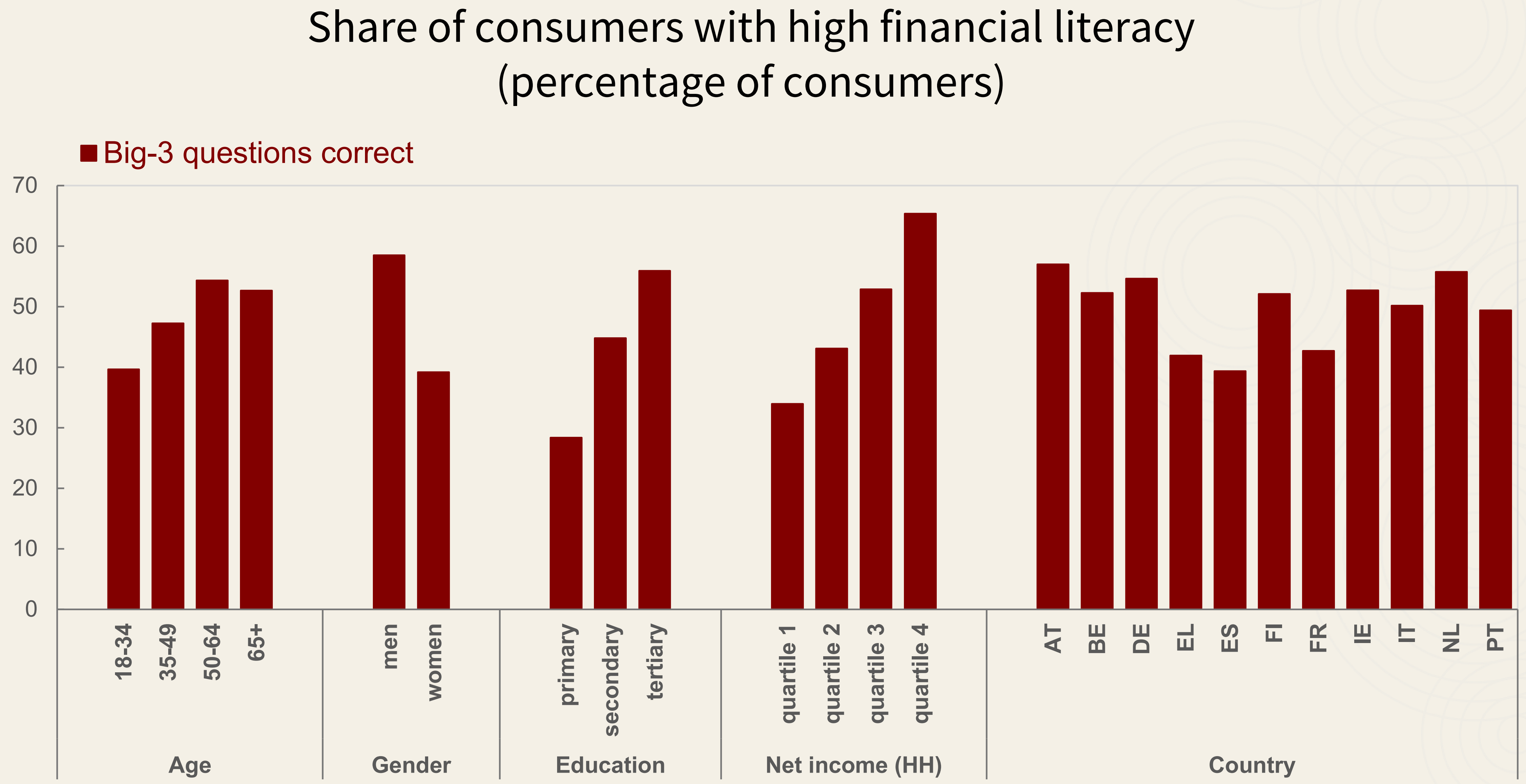
15 years later: Financial literacy is still low

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 (29%) correctly answer all 3 questions. Close to 1/2 do not know about risk diversification.

Financial literacy in the Euro Area - Consumer Expectations Survey (CES) 2020-2026



Main findings across countries

- Strikingly similar findings across countries

  Low percentage of people who know the Big Three even in the G7 countries

- Risk diversification is what people know the least

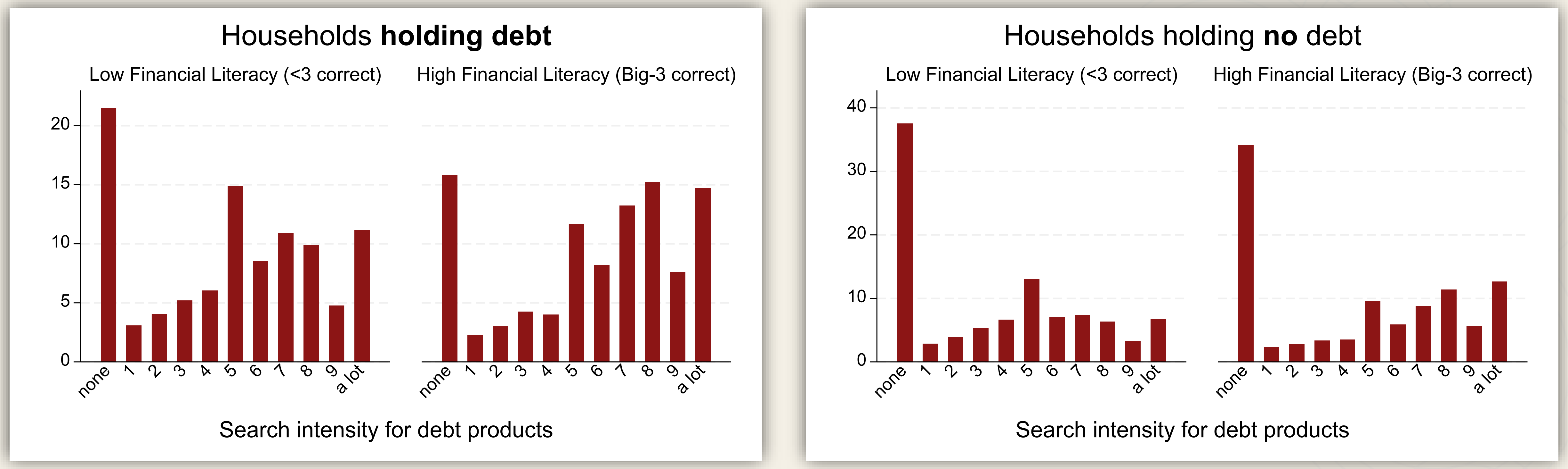
- Little improvement over time

  Across countries, improvements in financial literacy are small

Shopping for best debt products by debt holdings (CES data)

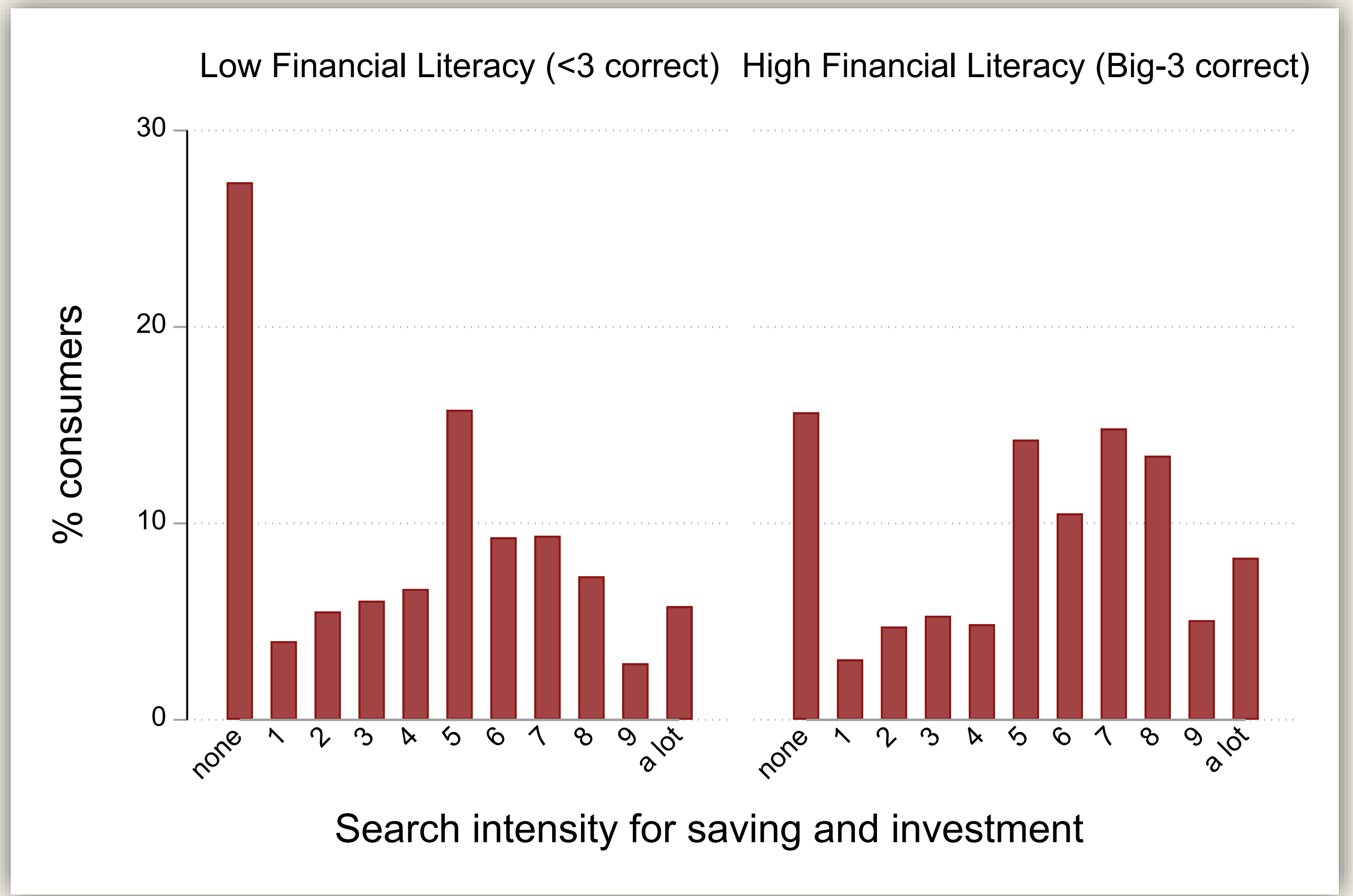
Shopping for best products

(percentage of consumers, by literacy)



Source: ECB Consumer Expectations Survey. Authors' calculations. **"When making major decisions about borrowing money or obtaining credit, some people search for the very best terms while others don't. What best describes you and your household?"** on a 11-point-scale from 0 (no searching) to 10 (A great deal of searching). Weighted estimates. Pooled Nov. 2022, Nov. 2023, Nov. 2024, Nov. 2025 data.

Shopping for best products (CES data)

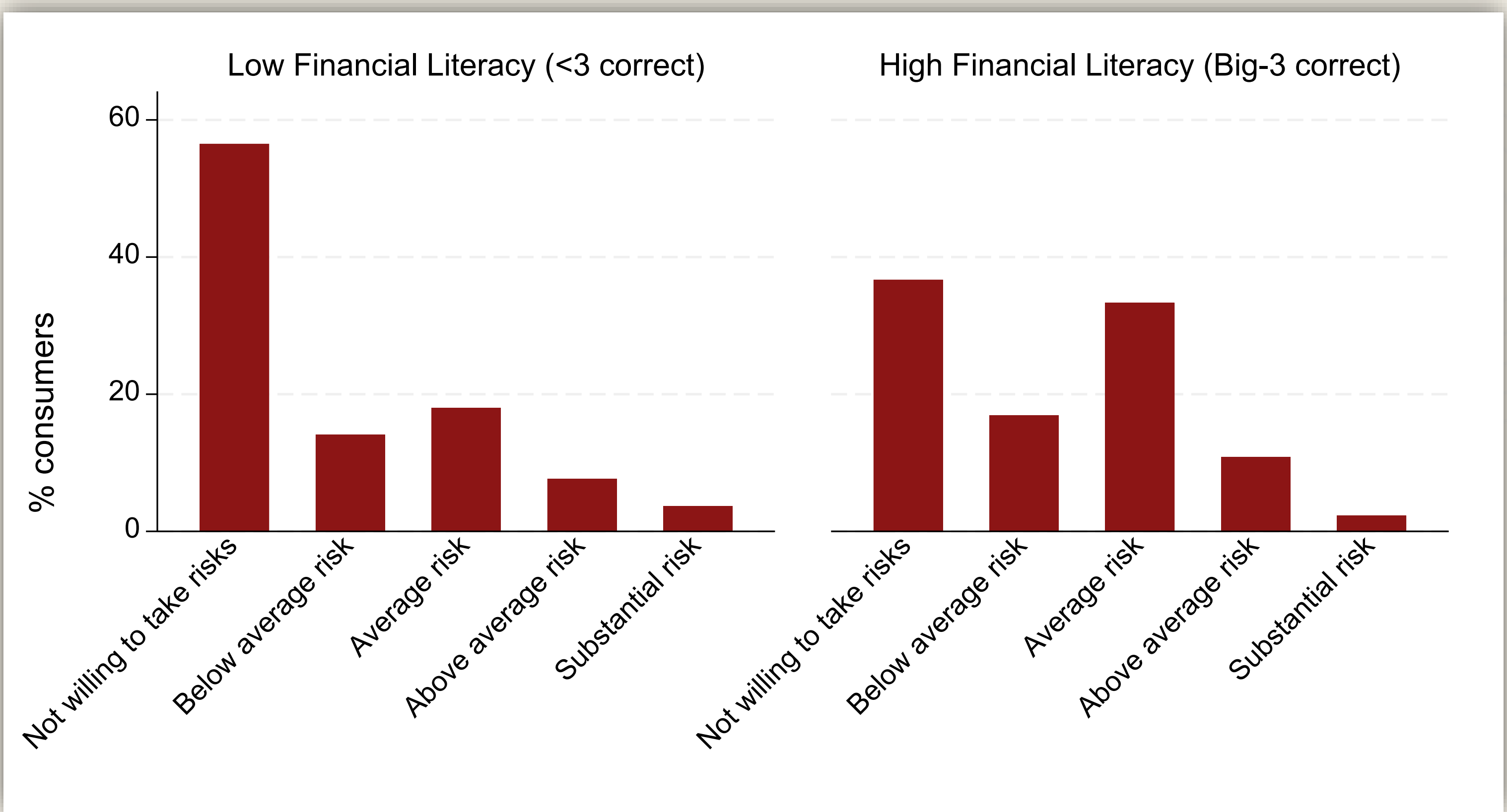


High FL: Do more shopping for saving and investment products

Source: ECB Consumer Expectations Survey. Authors' calculations.
Notes: Consumers are asked **"When making major decisions about [borrowing money or obtaining credit/saving and investment decisions], some people search for the very best terms while others don't. What best describes you and your household?"** on a 11-point-scale from 0 (no searching) to 10 (A great deal of searching). Weighted estimates. Pooled Nov. 2022, Nov. 2023, Nov. 2024, Nov. 2025 data.

Risk taking behavior (CES data)

Willingness to take financial risk
(percentage of consumers, by literacy)



Source: ECB Consumer Expectations Survey. Authors' calculations. **"Which of the following statements comes closest to the amount of financial risk you are willing to take when you save or make investments?"**. Weighted estimates. Pooled Nov. 2022, Nov. 2023, Nov. 2024, Nov. 2025 data.

Some research findings about the young (2007-2008 NLSY)

- In the US, young people (age 23-28) who are financially literate (27%) are disproportionally white males from college-educated families.

- Financial literacy can be linked to the wealth of parents when young people 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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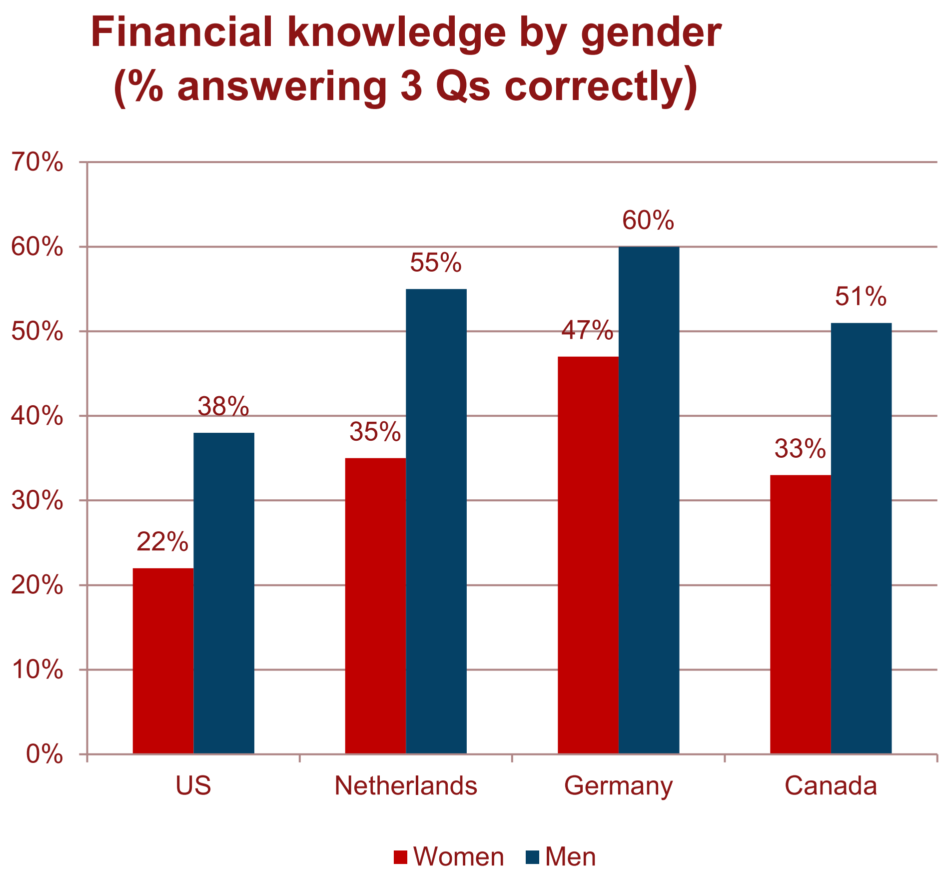
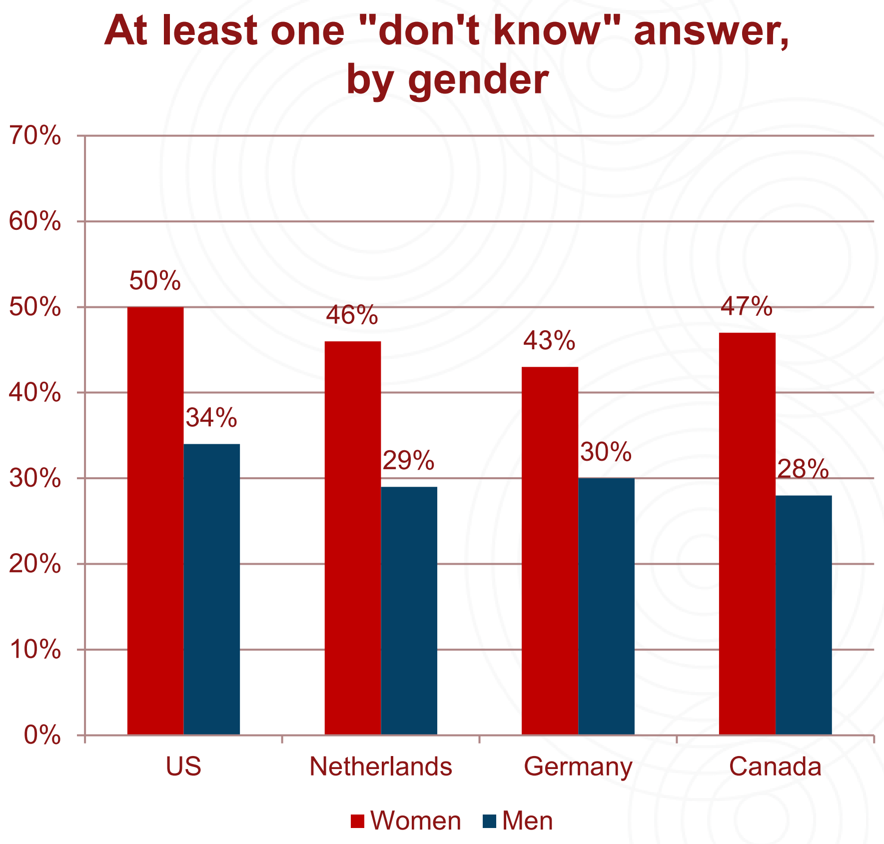
A persistent gender gap in financial literacy

Women are disproportionately more likely than men to respond to a question with “do not know.”





Source: Flat World

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

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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

An extended test

Started our own data collection in 2017

- Designed an index of personal finance knowledge: TIAA Institute – GFLEC Personal Finance Index (*P-Fin Index*)

- Data is collected each year (in January)

- We can focus on specific areas of interest

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+).

- **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

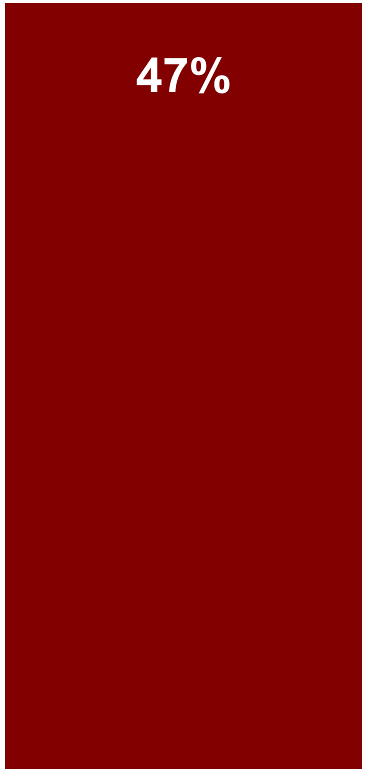
The index is based on responses to **28 questions**, with three or four questions for each of the eight functional areas (from the National Standards for Financial Literacy).

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

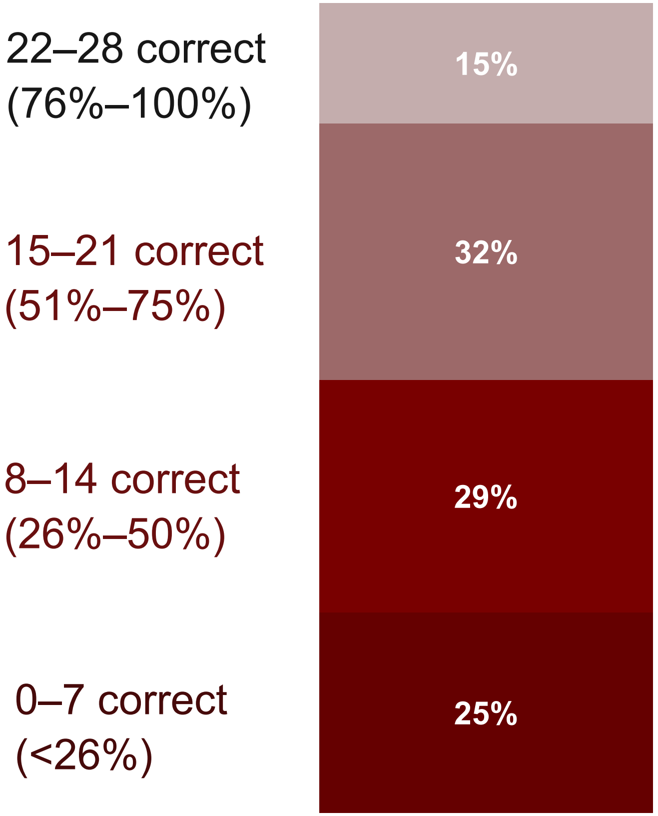
1. Earning
2. Saving
3. Consuming
4. Investing
5. Borrowing
6. Insuring
7. Comprehending risk
8. Go-to information sources

Financial literacy: A failing grade

% of P-Fin Index questions answered correctly

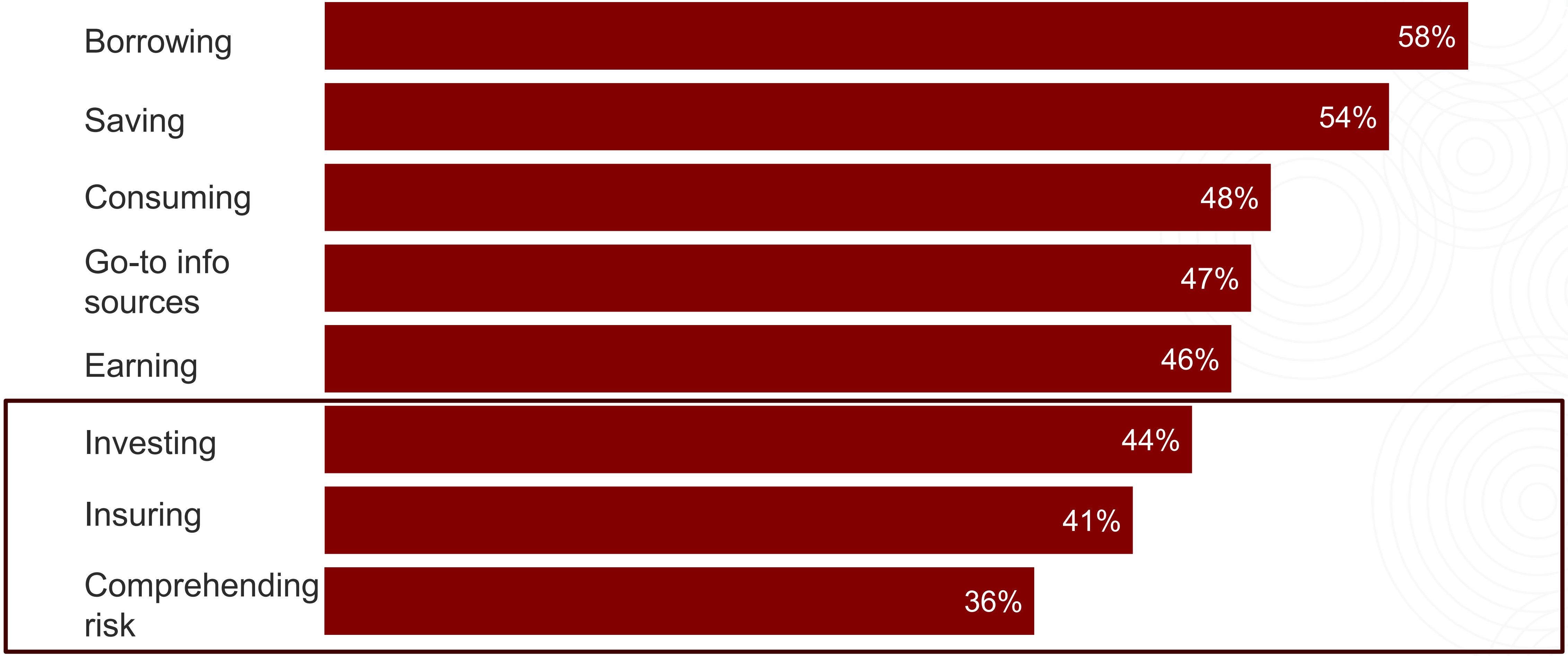


Distribution of correct answers to *P-Fin Index* questions



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

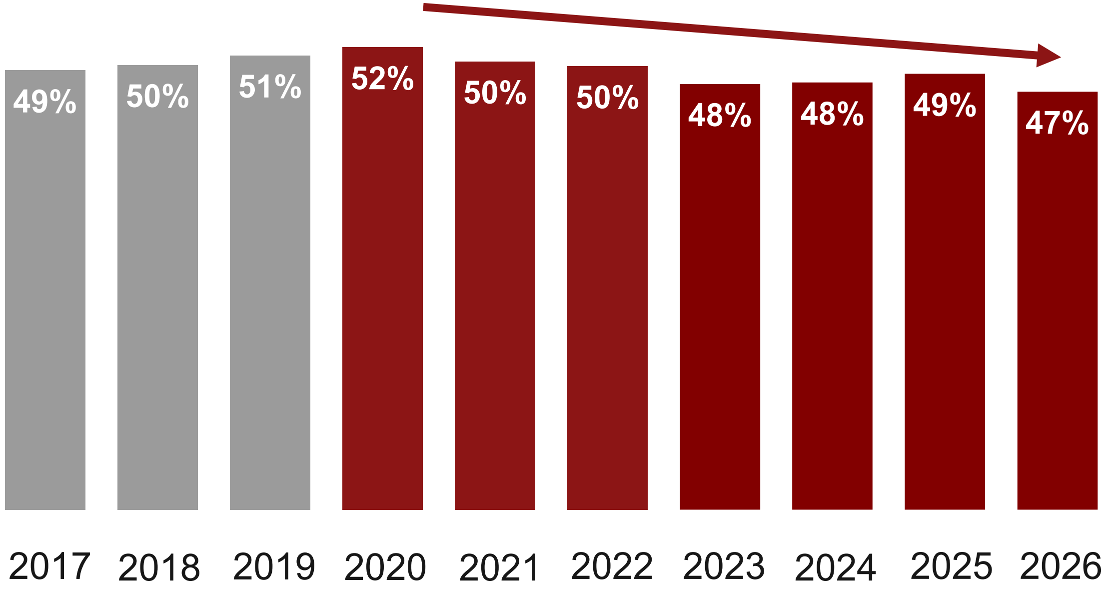
What do people know the most and the least?



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

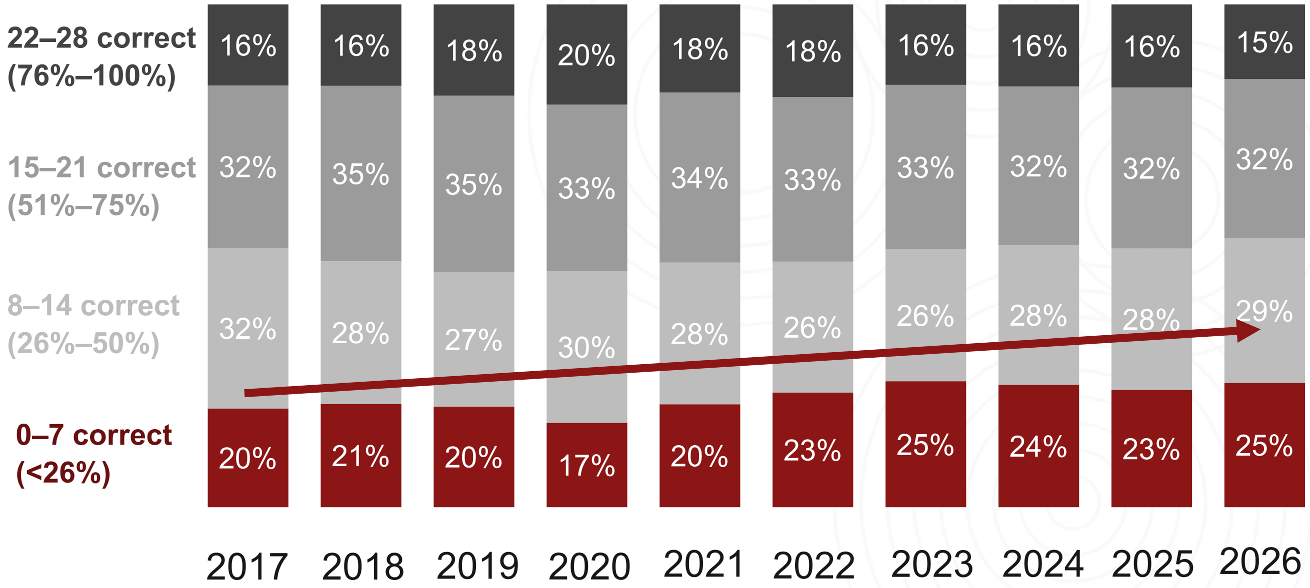
Financial literacy is not improving

% of P-Fin Index questions answered correctly



Significant decline

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

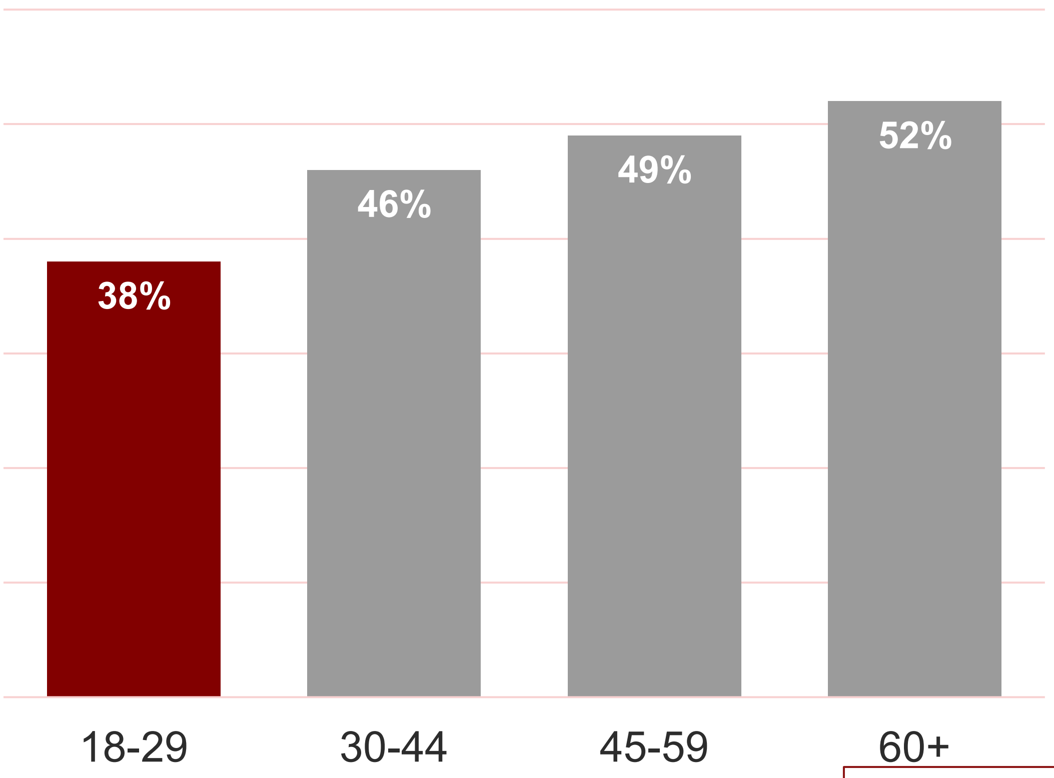


Significant increase in the share of respondents correctly answering seven or fewer of the 28 index questions.

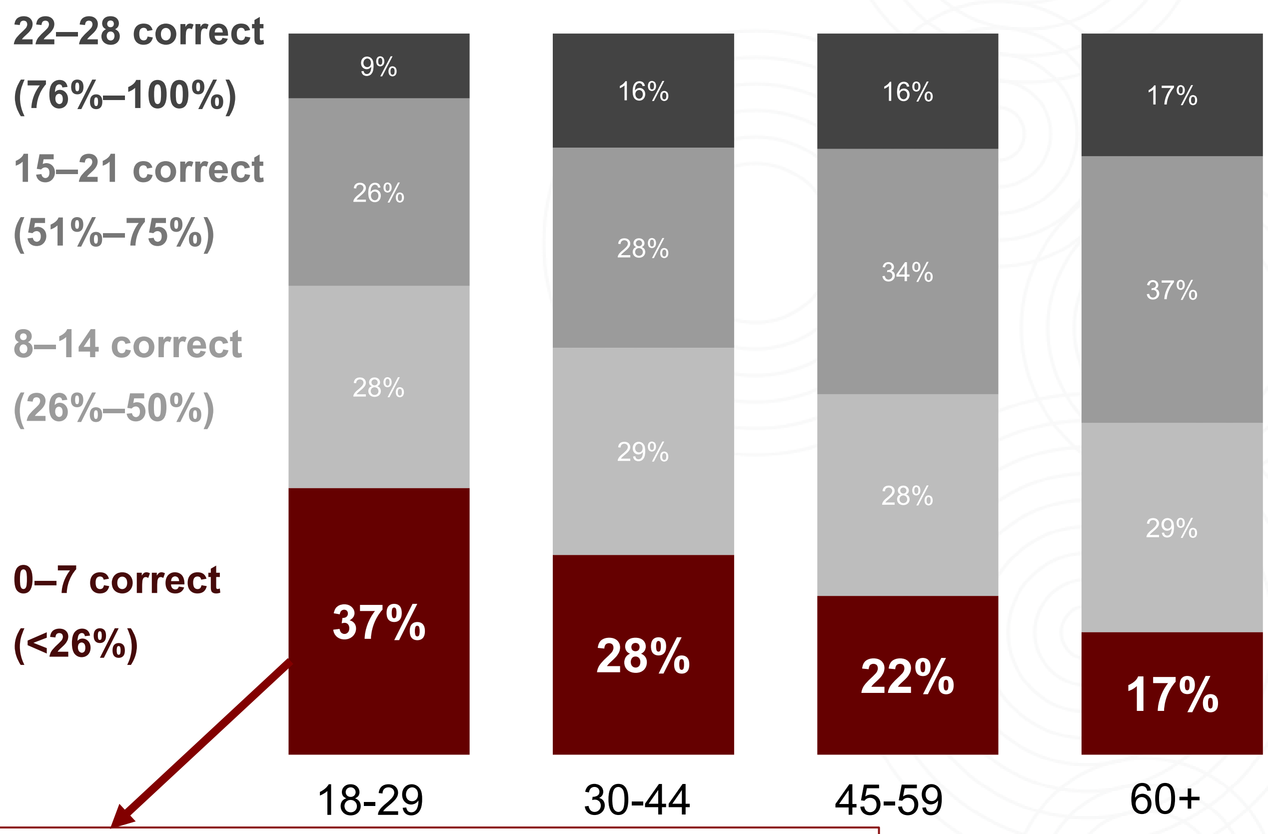
Source: TIAA Institute-GFLEC Personal Finance Index (2017-2026)

The young are the least knowledgeable

% of P-Fin Index questions answered correctly



Distribution of correct answers to P-Fin Index questions



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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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 & well-being 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 (include versions of the Big Three)

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

Financial literacy matters

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


David H. Romer and Justin Wolfers, Editors

Brookings Papers
ON ECONOMIC ACTIVITY

SPRING 2011

KRUEGER and MUELLER
on Job Search and Emotional Well-Being
in the Great Recession

LUSARDI, SCHNEIDER, and TUFANO
on the Financial Fragility of Households

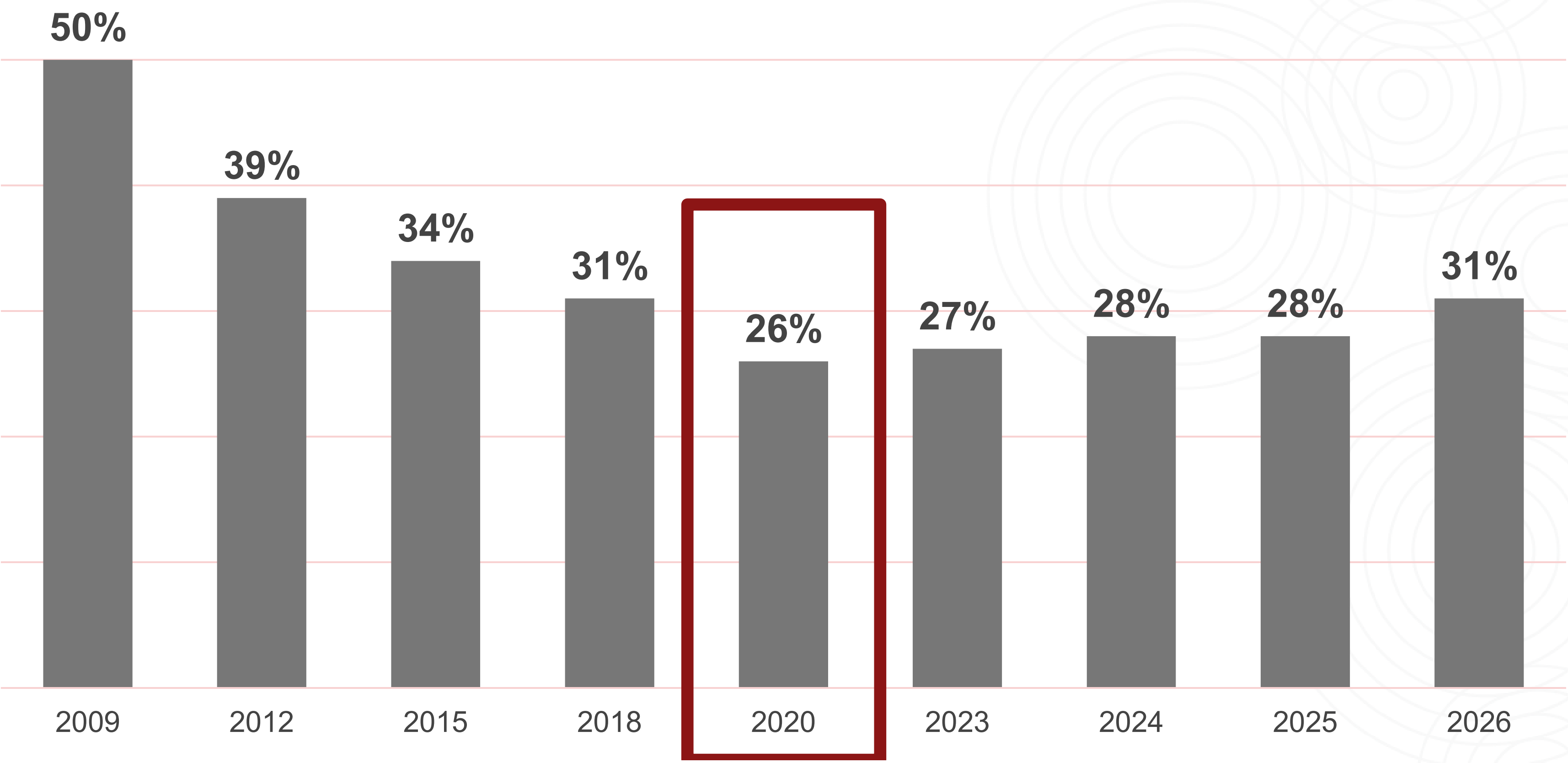
SWANSON
on Operation Twist and Its Implications for QE2

MANKIW and WEINZIERL
on the Welfare Consequences
of Alternative Stabilization Policies

BURDA and HUNT
on the German Labor Market Miracle

BALL and MAZUMDER
on Recent Inflation Dynamics and the Phillips Curve

Financial fragility over time



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

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).

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).

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 ultimately **well-being**.

Adding financial literacy to an intertemporal model of saving (Lusardi, Michaud and Mitchell, JPE 2017)

- Who benefits from financial literacy? And what are the costs of acquiring financial literacy?

- Consider a life cycle model of saving with financial literacy. Financial literacy affects the return on savings. We have to spend time and effort in acquiring financial literacy

- Financial literacy is a choice variable and we can derive the “optimal” amount of knowledge.

- **According to the model, 30- 40% of retirement wealth inequality is accounted for by financial literacy.**

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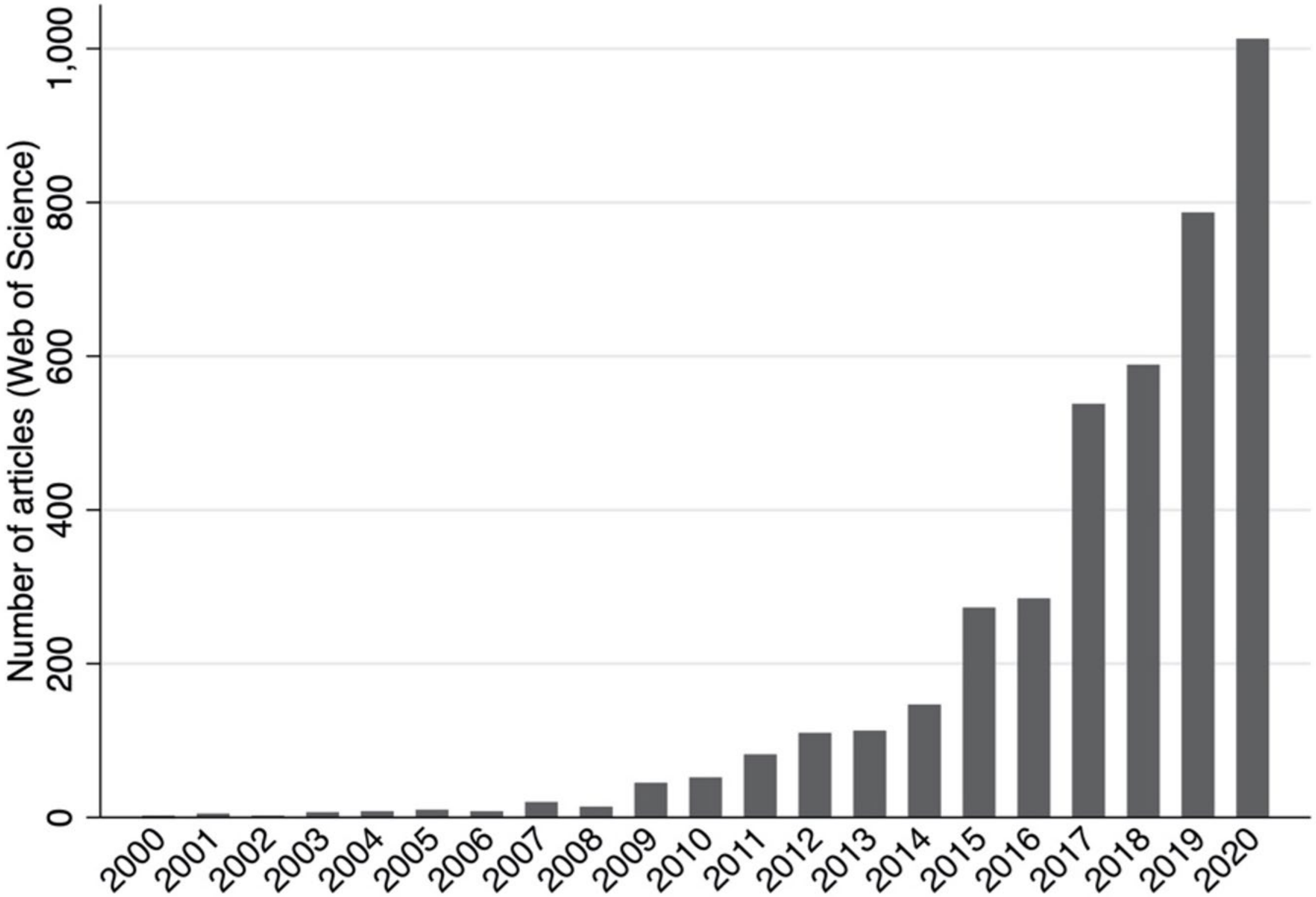
https://doi.org/10.1016/j.jfineco.2021.09.022

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**

Numbers of articles on 'financial literacy' per year in the Web of Science have grown exponentially



Source: Kaiser et al, JFE (2022)

Implications for Education: Teaching Personal Finance

Personal finance (Econ 43) at Stanford University

- Since 2020, we have been teaching Personal Finance at Stanford
- I taught Personal Finance since 2011
- The course has become one of the most popular electives at Stanford
- We offer it several times a year, including in the Summer
- 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 are collaborating with the St Louis Fed to feature personal finance data in FRED
- We have a lot of interactive tools to complement the lectures

Personal finance

Some questions:

- What goes into the course?
- What is the sequence of topics?
- Who should take the course?
- Who benefits the most from the course?

Personal finance course

Personal finance topics we cover in our courses

1. The basics of personal finance
2. Accounting for households
3. Life-cycle model of saving under uncertainty
4. Debt management
5. FICO score and its determinants

Personal finance course, cont.

Personal finance topics we cover in our courses, cont.

6. Home, car, and other purchases
7. Investing in education
8. Investing in financial markets
9. Investing, taxes and employer benefits
10. Insurance and retirement planning

Ripple effect of financial education

- First-generation Stanford students bring their knowledge back to their family and community
- Students who took the course went to local high schools to do presentations on financial literacy
- They organized financial literacy events for peers
- They are currently organizing events for athletes

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 Graduate School of Business

GFLEC Global Financial Literacy Excellence Center

Teaching Personal Finance Conferences

Stanford University

HOME ABOUT AGENDA PEOPLE PHOTO GALLERY

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 alusardi@stanford.edu to get an invitation
- Information on past conferences can be found here:

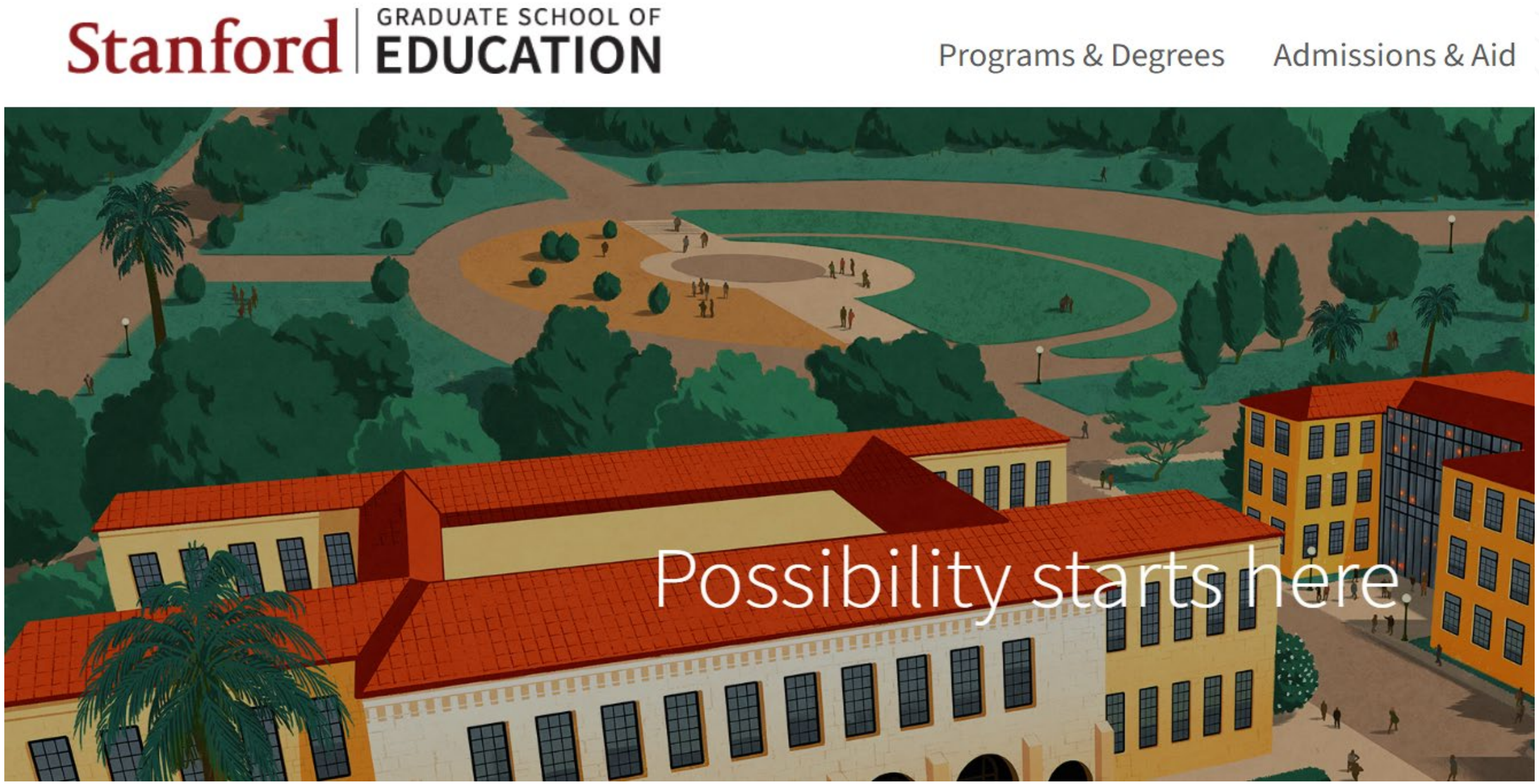
Business case for personal finance education

It is a win-win for everyone

- Strong demand from students
- One can teach multiple sessions of this course and for a long time
- Administrators benefit from financially literate students/alumni
- Parents want the education for their children
- **Alumni are very excited about this course and willing to support it**
- Education can be extended beyond students

Training program for high school teachers

Together with Stanford Graduate School of Education we did a week-long training program on personal finance for high school teachers in July 2026.



Impacting policy

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
- The private sector and global leaders can play an important role

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?

Research: What's next

Research ideas: Topics that require more work

- Gender differences in financial literacy?
- What works in financial education and why?
- Assessing the costs of financial illiteracy
- Building wealth early in life
- Macro implications of financial illiteracy, including the transmission of monetary policy

New project on 529 plans

Initiative for Financial Decision-Making (IFDM)

Collaboration between:

Stanford | Institute for Economic Policy Research (SIEPR)

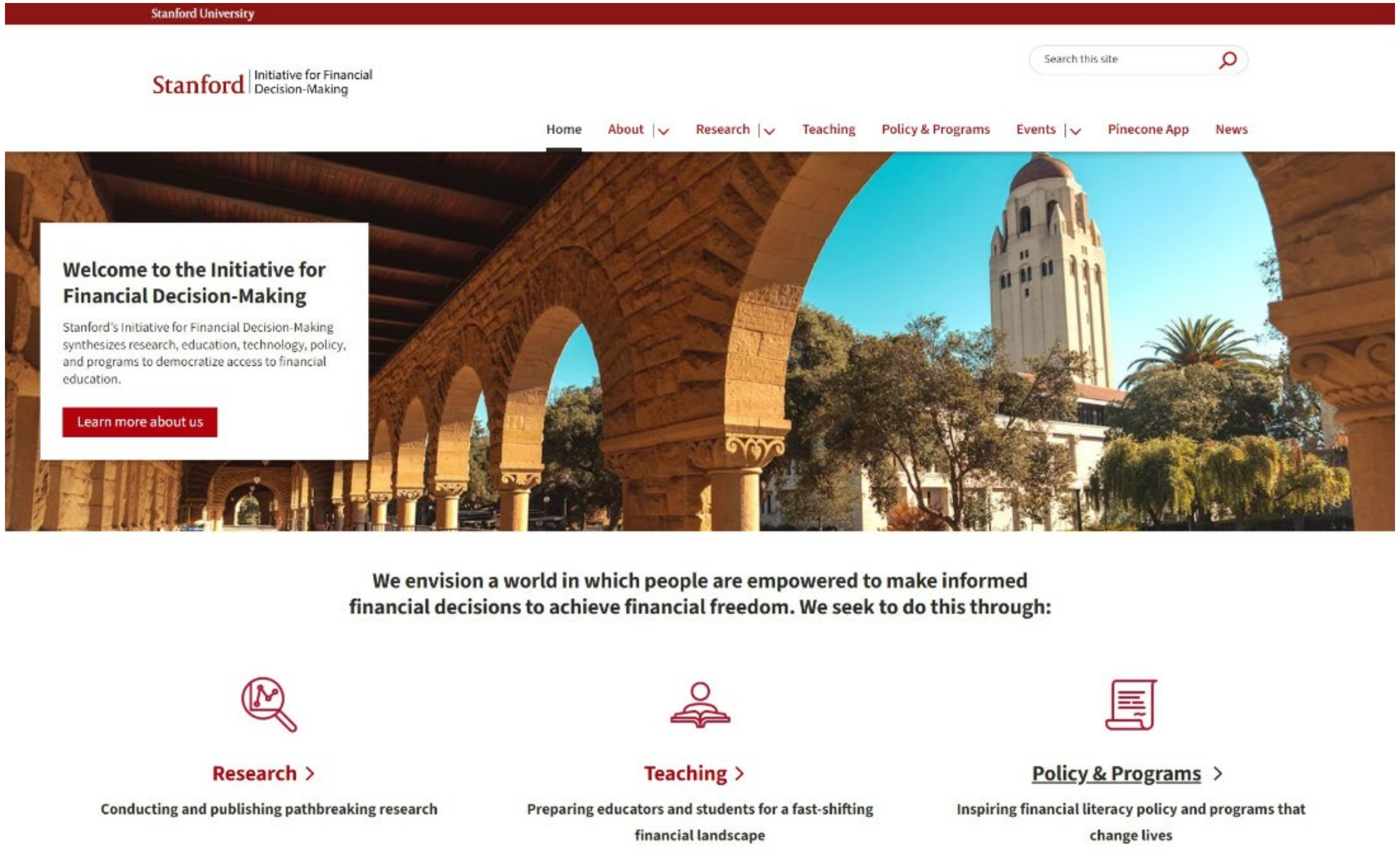
STANFORD BUSINESS GRADUATE SCHOOL OF

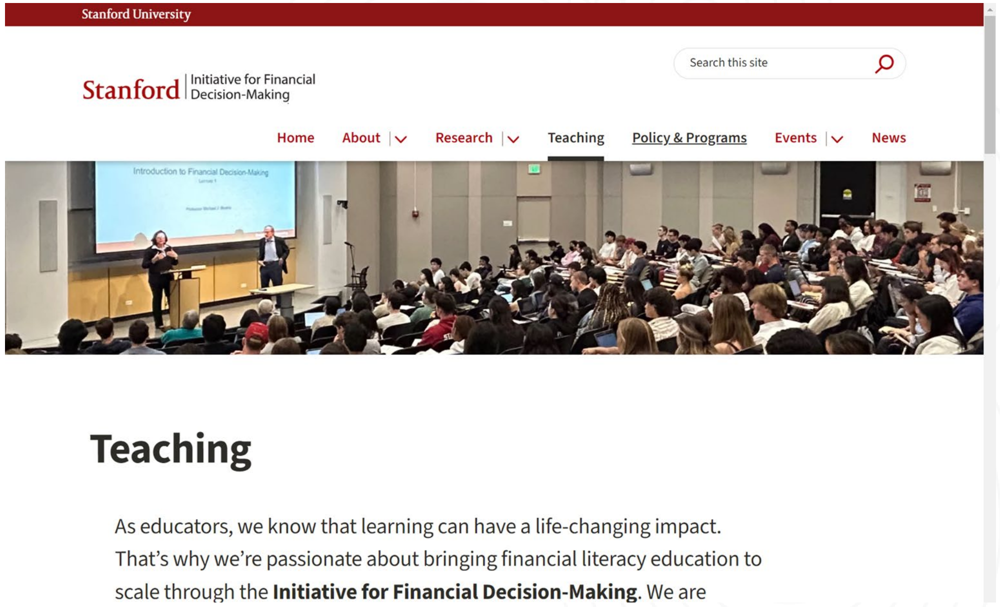
Stanford | Department of Economics
SCHOOL OF HUMANITIES AND SCIENCES

One of our missions is to transform personal finance education

For more information, please visit us at

https://ifdm.stanford.edu/





Stanford | Initiative for Financial Decision-Making