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Executive Summary

How the pandemic altered Americans' debt burden and retirement readiness

This paper analyzes Americans' perceptions of being debt constrained. We focus on which population subgroups reported feeling most debt constrained, how this perception was impacted by the COVID-19 pandemic, and how it relates to financial literacy and retirement readiness. To this end, we analyze two datasets, namely the 2020 and 2021 *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*) files. The evidence shows that, prior to and during the pandemic, one in three American adults felt constrained by their debt. The percentage was even higher among vulnerable subgroups such as Black and Hispanic individuals, those lacking a bachelor's degree, those with lower incomes, and the financially illiterate. Being debt constrained also has long-term financial consequences, as it is negatively linked to planning and saving for retirement. Finally, we show that financial literacy has a strong connection to both debt and retirement money management, confirming that financial knowledge is essential if people are to be able to manage their debt and build financial well-being.

Andrea Hasler
The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)

Annamaria Lusardi
The George Washington University and Global Financial Literacy Excellence Center (GFLEC)
TIAA Institute Fellow

Olivia S. Mitchell
The Wharton School
University of Pennsylvania
TIAA Institute Fellow

Recent research has demonstrated that over the past 40 years, household debt levels have risen substantially in the United States. In this paper, we analyze Americans' perception of being debt constrained and how this perception was impacted by the COVID-19 pandemic using the 2020 and 2021 *TIAA Institute-GFLEC Personal Finance Inde*x. We also examine the socioeconomic characteristics of those who believe themselves to be debt constrained, link the debt-constraint measure to the most comprehensive financial literacy index available to date, and report on long-term financial consequences for those feeling debt burdened. We document that about one in three American adults expressed feeling debt constrained prior to and during the pandemic. The percentage was even higher among those in their prime age, Black and Hispanic individuals, persons lacking a bachelor's degree, those with children under the age of 18, those with lower incomes, and the financially illiterate. Furthermore, being debt constrained is negatively linked to planning and saving for retirement, indicating long-term financial consequences. Finally, it is evident that financial literacy, especially the understanding of risk, is highly correlated with both debt management and retirement readiness. Our research also shows that those who are most constrained by debt are most motivated to want to boost financial literacy. Thus, there may be a good opportunity to advocate for and implement financial education programs and resources targeting vulnerable subpopulations.

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