Financial well-being and literacy in the midst of a pandemic

The 2021 *TIAA Institute-GFLEC Personal Finance Index*

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Executive summary

Data from the 2021 *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* clearly depict the precarious financial state of many U.S. adults in the midst of the COVID-19 pandemic.

- 26% are dissatisfied with their current financial condition.
- 18% spend 10 hours or more per week on personal finance issues and problems.
- 22% cannot pay all their bills in full and on time in a typical month.
- 30% could not cope with an unexpected expense of $2,000 within a month's time.

Furthermore, financial challenges are significantly more prevalent among Black and Hispanic Americans, two groups disproportionately impacted by the pandemic. Strained personal finances are also evident in how individuals say they would use an unexpected receipt of $1,000. Black and Hispanic Americans are more likely to use this unforeseen windfall for an immediate need.

- Approximately 20% each of Black and Hispanic Americans would use the money to put food on the table compared with 10% of whites.
- 27% of Blacks and 19% of Hispanics would use the money to pay overdue bills; 10% of whites would do so.
- Approximately 50% each of Black and Hispanic Americans would pay down debt compared with 35% of whites.

Financial decisions can exacerbate or mitigate personal finance challenges, especially in an environment of economic turbulence such as that created by COVID-19. Financial literacy, in turn, is knowledge that enables sound financial decision making. Unfortunately, the 2021 *P-Fin Index* data clearly demonstrate that a significant share of U.S. adults is ill-positioned to make appropriate financial decisions due to poor financial literacy.

- U.S. adults answered only 50% of the *P-Fin Index* questions correctly, on average.
- 20% demonstrated an extremely low level of financial literacy by correctly answering only one-quarter or less of the index questions.

Financial literacy is lowest in the realm of comprehending and understanding risk and uncertainty, which is particularly troubling in today's environment. On average, U.S. adults correctly answered only 37% of the index questions related to risk and uncertainty. Low functional knowledge in this area means that individuals are particularly ill-positioned to make financial decisions during a time of amplified uncertainty and volatility. Furthermore, financial literacy among Black and Hispanic Americans tends to be notably lower than that of whites.

- Black and Hispanic Americans each correctly answered approximately 40% of the *P-Fin Index* questions, on average, compared with 55% among whites.
- 36% of Blacks and 29% of Hispanics correctly answered only up to 25% of the *P-Fin Index* questions, which is only up to 7 questions out of the 28 that comprise the index.
- Financial literacy is lower among Black and Hispanic adults in almost every functional area compared with whites.

The COVID-19 experience has made clear the importance of possessing the knowledge and skills to navigate an uncertain economic environment and of having the financial cushion to weather the unexpected. More than ever, now is an excellent time to make financial education a prioritized focus as the United States moves forward from the pandemic.

Introduction

Fielded in the midst of the COVID-19 pandemic, the 2021 *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* provides critical insights into the state of Americans' personal finances along several dimensions during an environment of extended national and global stress–medical, societal and economic.

In addition to its core set of questions that assess financial literacy, the *P-Fin Index* survey contains questions that are indicators of financial well-being. Responses to these questions enable examination of Americans' financial well-being approximately nine months into the pandemic along dimensions beyond unemployment levels, furloughs, and changes in household income. Importantly, this data is available across various socio-demographic segments of the population.

Financial decisions can exacerbate or mitigate financial challenges and have a long-lasting impact on financial well-being. The core financial literacy questions in the *P-Fin Index* provide an understanding of how well or poorly equipped individuals are to make appropriate financial decisions, particularly during a period of economic turbulence at a macro-level and, in many cases, at an individual level.

This report begins by examining various dimensions of financial well-being among U.S. adults at the beginning of 2021. It then analyzes the state of financial literacy among U.S. adults, including the link between financial literacy and financial well-being. Black and Hispanic Americans are a particular focus throughout the report. Previous research has documented and examined the disadvantaged personal finances among Black and Hispanic Americans.[1] More recently, data shows that these groups have been disproportionately impacted medically and economically by the COVID-19 pandemic.[2]

The 2021 *P-Fin Index* survey was completed online in January by a sample of 3,035 U.S. adults, ages 18 and older.[3] Black and Hispanic Americans were oversampled for at least 500 respondents each, enabling examination of the financial literacy and financial well-being of each relative to whites.[4] In addition, Gen Z was quota-sampled for at

1 For example, see de Bassa Scheresberg, Lusardi and Yakoboski (2015), Board of Governors of the Federal Reserve System (2017), Yakoboski, Lusardi and Hasler (2017, 2020b) and Lusardi, Hasler, Yakoboski (2020).

2 See Clemens et al. (2020), Getachew et al. (2020), Moen, Pedtke and Flood (2020), Lopez, Rainie and Budiman (2021) and Centers for Disease Control and Prevention (2021).

3 The survey was fielded from January 6 to January 20, 2021, with a sample drawn from Ipsos' KnowledgePanel, a large-scale probability-based online panel.

4 The 3,035 respondents included 516 Blacks, 528 Hispanics and 1,800 whites.

least 450 respondents, enabling cross-generational comparisons across the Silent Generation, baby boomers, Gen X, Gen Y and Gen Z.[5] The survey data were weighted to be nationally representative.[6]

Financial well-being in the midst of COVID-19

The 2021 *P-Fin Index* data clearly depict the precarious financial situation and struggles that exist for many American adults. These challenges are manifested in various, often interrelated, ways. For starters, many Americans confront short-term, month-to-month financial challenges on an ongoing basis. According to the 2021 *P-Fin Index* data:

- 22% of U.S. adults find it difficult to make ends meet in a typical month.
- 22% cannot pay all their bills, including loan payments and credit cards, in full and on time in a typical month.

Given such immediate financial concerns, it is not surprising that many have limited capacity to cope with financial emergencies or sudden changes in circumstances, such as a job loss. According to the 2021 *P-Fin Index* data:

- 40% of non-retired U.S. adults do not have emergency savings, more specifically non-retirement savings sufficient to cover one month of living expenses if needed.
- 30% could not cope with a mid-sized financial shock, i.e., they certainly or probably could not raise $2,000 if an unexpected need arose within the next month.

Debt is also part of a challenging financial dynamic for many.

- 31% of U.S. adults are debt constrained, i.e., their debt and debt payments prevent them from adequately addressing other financial priorities.

Furthermore, 18% of U.S. adults spend 10 hours or more per week thinking about and dealing with issues and problems related to their personal finances. Besides the time investment, there is a mental health cost for many, as well; almost one-half (47%) report that thinking about their personal finances can make them feel anxious, indicating that financial challenges can affect other aspects of individual well-being.[7]

5 The 3,035 respondents consisted of 450 Gen Z (born 1997-2002), 663 Gen Y (1981-1996), 643 Gen X (1965-1980), 1,043 baby boomers (1946-1964) and 236 members of the Silent Generation (1929-1945).

6 Table A1 in Appendix A provides the weighted distribution of respondents across various socio-demographics.

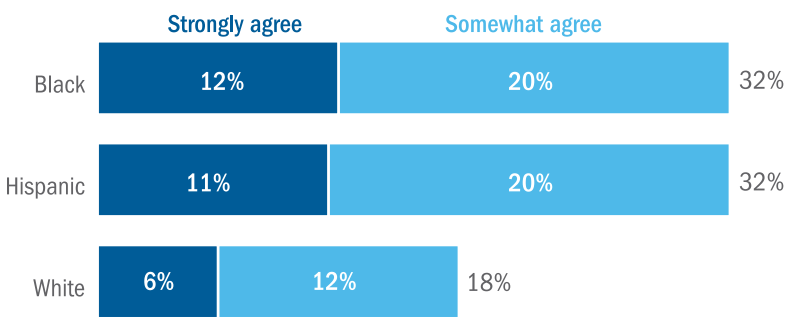
7 Sweet et al. (2013) found that reporting high financial debt relative to available assets is associated with higher perceived stress and depression, worse self-reported general health, and higher diastolic blood pressure.

On net, 26% of U.S adults are dissatisfied with their current financial condition. Many people most likely already had issues with their personal finances prior to the onset of COVID-19. For some, the pandemic has further exacerbated those issues. Irrespective, these data points depict the dire state of Americans' personal finances in the midst of COVID-19.

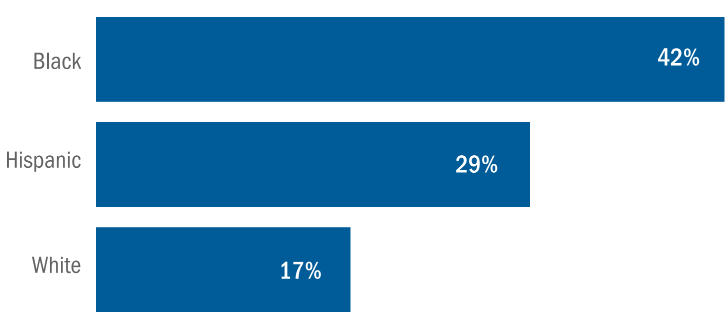
Underneath these aggregate figures lie significant differences across various segments of the population, in particular among Black and Hispanic Americans relative to whites. Black and Hispanic Americans are more likely to struggle with short-term, month-to-month finances (Figure 1). One-third each of Black and Hispanic Americans typically find it difficult to make ends meet; the analogous figure among whites is less than 20%. It follows that 42% of Blacks and 29% of Hispanics typically cannot pay all their bills in full and on time compared with 17% of whites.

Figure 1. Month-to-month financial challenges

In a typical month, it is difficult for me to make ends meet.



% who cannot pay all bills, including loan payments and credit cards, in full and on time in a typical month.

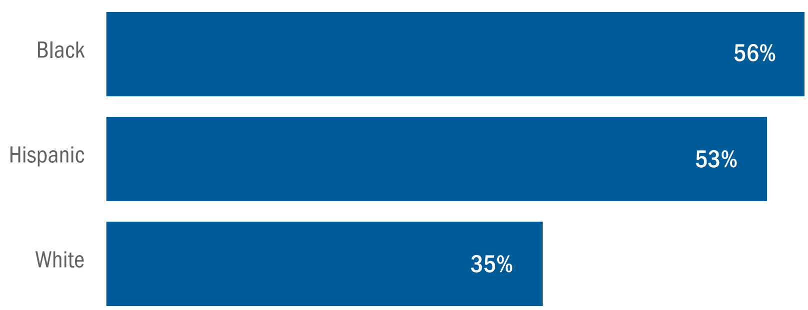


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

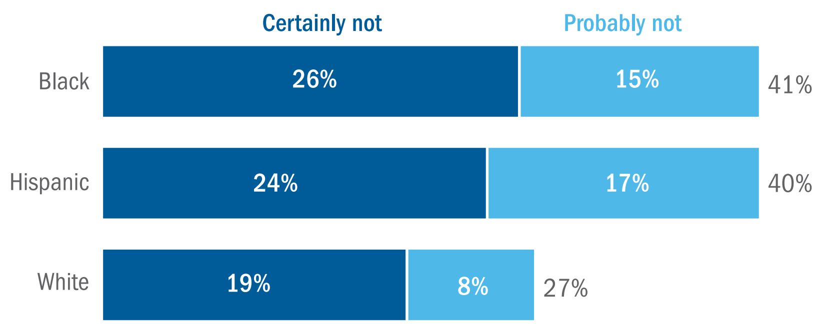
Given the challenge many have making ends meet month to month, it is not surprising that Black and Hispanic Americans more often lack the financial resilience to handle a financial shock, such as an unexpected expense or job loss (Figure 2). Over 50% each of non-retired Black and Hispanic Americans do not have emergency savings that would cover one month of living expenses, compared with one-third of whites. Forty percent of each do not feel that they could come up with $2,000 if necessary within the next month; only 27% of whites doubt that they could do so.

Figure 2. Financial resilience

% of non-retirees who do not have non-retirement savings sufficient to cover one month of living expenses.



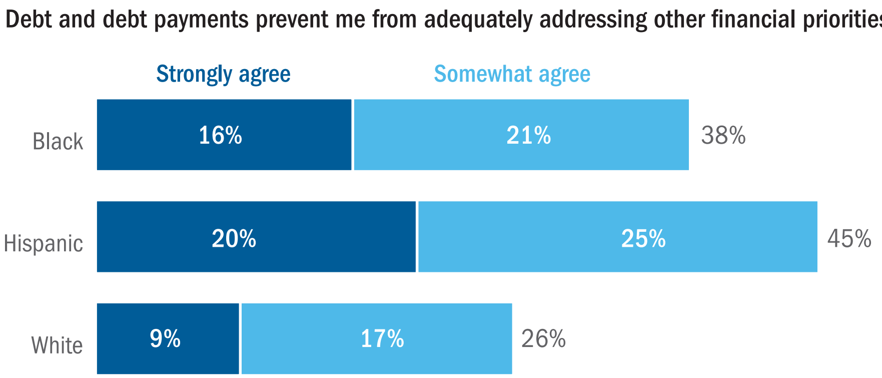
How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

In addition, debt is a challenge for many Black and Hispanic Americans. Almost 40% of Blacks and 46% of Hispanics report that they are debt constrained, i.e., debt and debt payments prevent them from adequately addressing other financial priorities (Figure 3). By comparison, only 26% of whites are debt constrained.

Figure 3. Debt constraint



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Strained personal finances are also evident in how individuals say they would use an unexpected windfall of $1,000.[8] While saving is a common response across all three groups, Black and Hispanic Americans are more likely than whites to report that they would use the money for some type of immediate need (Figure 4). Approximately 20% each of Black and Hispanic Americans would use the money to put food on the table compared with 10% of whites. Twenty-seven percent of Blacks and 19% of Hispanics would use the money to pay overdue bills; the analogous figure among whites is 10%. In addition, approximately one-half each of Black and Hispanic Americans would pay down debt compared with one-third of whites.

8 A new question in the 2021 *P-Fin Index* survey was "If you were to receive an unexpected $1,000, how would you use it?" Response options included donation or gift to others, pay overdue bills, add to savings, put food on table, pay down debt and other. Respondents were allowed to report multiple uses.

Figure 4. Unexpected windfall

Black and Hispanic Americans are more apt to use an unexpected windfall to address current needs.

If you were to receive an unexpected $1,000, how would you use it?

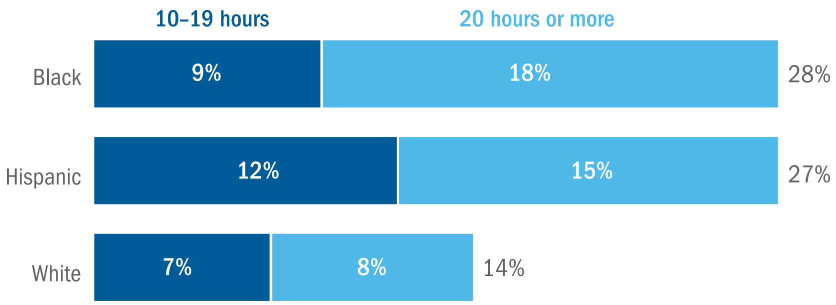
	Black	Hispanic	White
Add to saving	49%	41%	55%
Pay down debt	48%	45%	35%
Pay overdue bills	27%	19%	10%
Put food on the table	19%	21%	10%
Donate or gift	9%	6%	12%
Something else	8%	11%	9%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

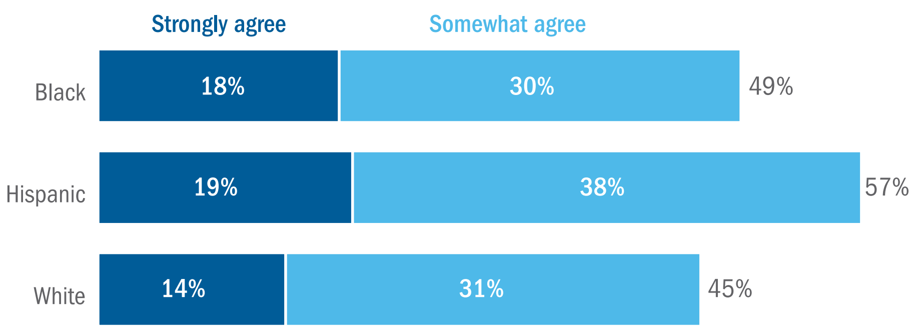
Finally, other manifestations of financial struggles, such as anxiety and time spent dealing with personal finance issues, are more common among Black and Hispanic Americans (Figure 5). Almost 30% each of Black and Hispanic Americans spend 10 hours or more per week thinking about and dealing with personal finance issues; 18% of Blacks and 15% of Hispanics spend 20 hours or more per week. Those figures are approximately double those among whites. In addition, thinking about personal finances creates anxiety among 49% of Blacks and 57% of Hispanics compared with 45% of whites.

Figure 5. Time and anxiety

% who typically spend 10 or more hours per week thinking about and dealing with issues and problems related to personal finances.



Thinking about my personal finances can make me feel anxious.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Another demographic group hit hard by the COVID-19 pandemic and its economic consequences is women, with the crisis likely exacerbating pre-existing gender gaps in financial well-being. Women are more likely than men to find it difficult to make ends meet in a typical month, 24% and 19%, respectively (Figure 6). They more typically cannot pay all their bills, including loan payments and credit cards, in full and on time in a typical month. Also striking is the lack of financial resilience among women to handle a financial shock; 45% do not have emergency savings that would cover one month of living expenses and 33% could not come up with $2,000 if necessary within the next month. The analogous figures among men are 35% and 27%, respectively.

Figure 6. Financial well-being among women

Women tend to have lower financial well-being than men.

	Women	Men
Find it difficult to make ends meet in a typical month	24%	19%
Cannot pay all bills in full and on time in a typical month	26%	18%
Lack emergency savings equal to one month of living expenses	45%	35%
Could not come up with $2,000 if a an unexpected need arose	33%	27%
Debt prevents adequately addressing other financial priorities	32%	31%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

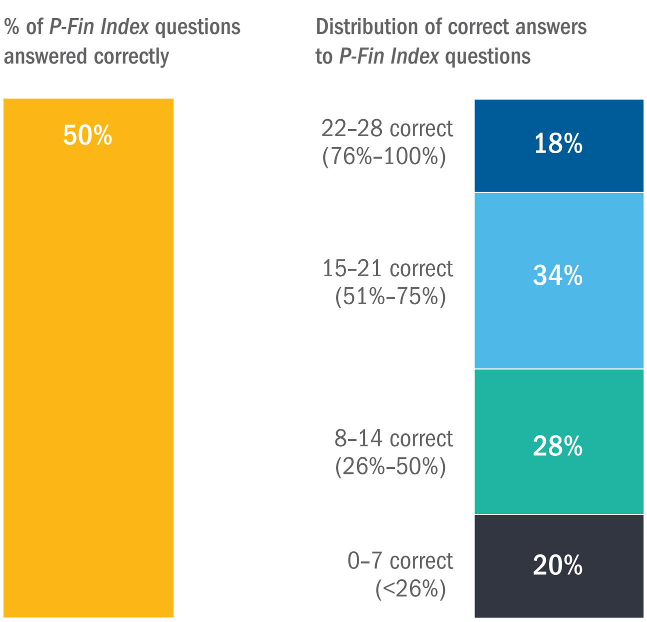
Financial literacy in the midst of COVID-19

In times that are anything but normal, such as the current COVID-19 pandemic and its economic consequences, the ability to make appropriate financial decisions matters greatly. Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. The *P-Fin Index*, in turn, is an annual barometer of financial literacy among the U.S. adult population. Unfortunately, many Americans are functioning in today's environment with poor financial literacy.

On average, U.S. adults answered only 50% of the *P-Fin Index* questions correctly in 2021 (Figure 7). Approximately one-half (48%) correctly answered 50% or fewer of the index questions. Moreover, 20% demonstrated an extremely low level of financial literacy by correctly answering only 25% or fewer of the questions. These findings are particularly troubling since the index is a barometer of working knowledge related to common financial situations encountered in the normal course of life.

Figure 7. 2021 *P-Fin Index*

U.S. adults answered 50% of the *P-Fin Index* questions correctly, on average.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Beyond providing a robust measure of overall financial literacy, the *P-Fin Index* is unique in its capacity to produce a nuanced analysis of personal finance knowledge across eight areas in which individuals routinely function. The index is based on responses to 28 questions,[9] with three or four questions for each functional area:[10]

1. Earning—determinants of wages and take-home pay.
2. Consuming—budgets and managing spending.
3. Saving—factors that maximize accumulations.
4. Investing—investment types, risk and return.
5. Borrowing/managing debt—relationship between loan features and repayments.
6. Insuring—types of coverage and how insurance works.
7. Comprehending risk—understanding uncertain financial outcomes.
8. Go-to information sources—recognizing appropriate sources and advice.

Borrowing is the area where functional knowledge is greatest among U.S. adults. On average, 61% of the borrowing questions were answered correctly (Figure 8). However, more significant in today's environment is the finding that financial literacy is lowest in the area of comprehending and understanding risk and uncertainty. On average, U.S. adults correctly answered only 37% of the index questions related to risk and uncertainty.[11]

9 Each question is multiple choice with four response options: the correct answer, two incorrect answers and a "don't know" option.

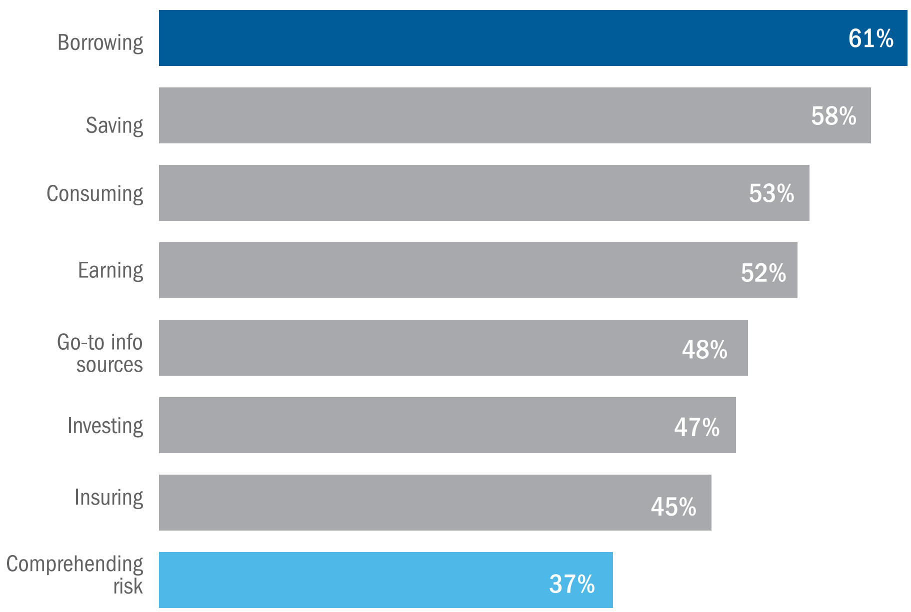
10 These areas correspond to the National Standards for Financial Literacy outlined by the Council for Economic Education. See http://councilforeconed.org/resource/national-standards-for-financial-literacy/.

11 This finding is consistent with other research identifying risk-related concepts as the most difficult for individuals to grasp. See Coppola et al. (2017) and Lusardi (2015).

Figure 8. Functional knowledge

Borrowing is where financial literacy is highest; comprehending risk is where it is lowest.

% of *P-Fin Index* questions answered correctly



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Comprehending risk involves understanding that the expected outcome in a given scenario depends on the range of possible outcomes, the financial implication associated with each outcome, and the likelihood of each outcome occurring. Understanding risk and its implications are integral to sound financial decision making. Risk and uncertainty are inherent across the realms of personal finances, not just investments. Low financial literacy in this functional area means that individuals are particularly ill-positioned to make decisions in a time when uncertainty and volatility dominate economic and financial life.

Risk in the context of a pandemic

Comprehending risk along with the ability to process the ways in which relative risks can be communicated are clearly relevant in other realms of life, as well, such as healthcare. For example, in the context of the ongoing COVID-19 pandemic, individuals have been confronted on an ongoing basis with terminology involving probabilities related to infection and spread of the disease and, more recently, regarding vaccine effectiveness. Given this, the following question was added to the 2021 *P-Fin Index* survey:

Which of the following indicates the highest probability of getting a particular disease?

- ***There is a one-in-twenty chance of getting the disease (correct answer; chosen by 28% of respondents)***
- *2% of the population will get the disease (chosen by 9% of respondents)*
- *25 out of every 1,000 people will get the disease (chosen by 10% of respondents)*
- *Don't know (chosen by 53% of respondents)*

That over 70% of U.S. adults could not correctly answer this question is alarming when considered in the ongoing context of a global pandemic. It implies that basic but crucial health information may often be misunderstood. Decisions can then be biased by such misunderstanding. It is also consistent with the low knowledge about comprehending financial risk.

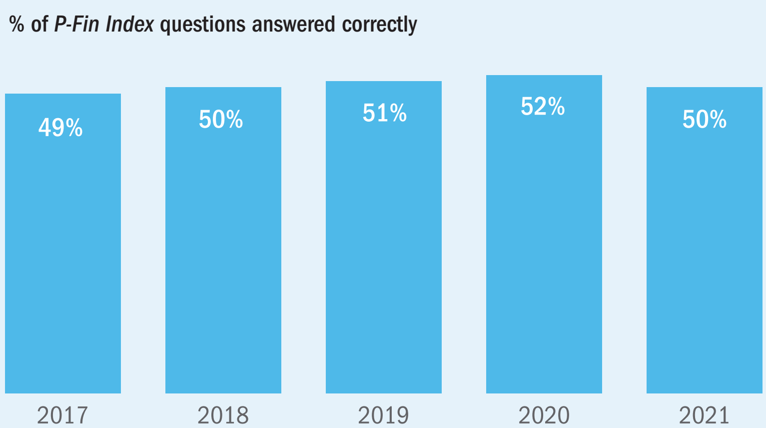
Insuring, investing and go-to information sources are other functional areas where financial literacy is below average, i.e., below the 50% average of correctly answered questions in the entire *P-Fin Index* survey. These are also areas where solid working knowledge better positions individuals to navigate various dimensions of an uncertain environment created by the pandemic, such as responding to volatility in financial markets or understanding one's health insurance coverage.

2017 to 2021

The *P-Fin Index*, begun in 2017, is an ongoing project to annually assess financial literacy among the U.S. adult population.[12] The percentage of *P-Fin Index* questions answered correctly, on average, has essentially remained steady around the 50% mark since the initial survey (Figure 9).[13] The 2021 figure is two percentage points lower than 2020 but equal to the 2018 figure. Likewise, there has been little change over time in the distribution of correct answers with the *P-Fin Index* (Figure 10). The percentage of U.S. adults correctly answering more than 75% of the index questions is 18% in 2021, after having risen from 16% initially to 20% in 2020. The percentage correctly answering more than one-half of the index questions is 52% this year compared with 48% in 2017. The percentage correctly answering 25% or less of the index questions has consistently been 20%, except for last year when it dropped to 17%.

Figure 9. Financial literacy over time

Financial literacy is holding steady among U.S. adults.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2017–2021).

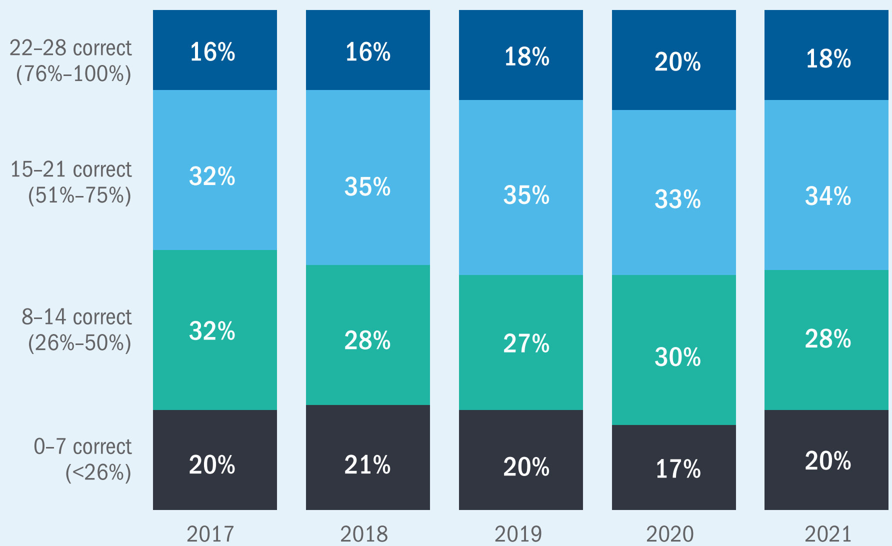
12 See Lusardi, Oggero and Yakoboski (2017) and Yakoboski, Lusardi and Hasler (2018, 2019, 2020a).

13 Data for the 2017 index were collected in September 2016. Data collection for the 2018-2021 indices occurred in January of the respective year.

Figure 10. Financial literacy over time

The distribution of financial literacy levels is unchanged.

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



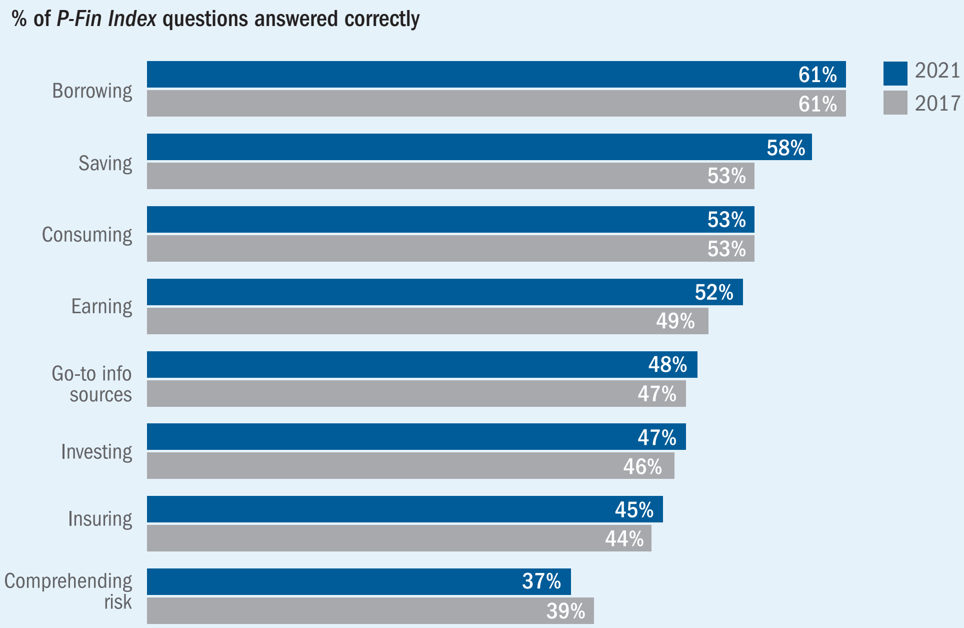
Source: *TIAA Institute-GFLEC Personal Finance Index* (2017–2021).

Relative rankings of functional knowledge remain unchanged between 2017 and 2021 (Figure 11). Borrowing has been the area of greatest financial literacy in each year of the index. The percentage of correctly answered questions, on average, has increased in five functional areas, some marginal and others more noteworthy—correct answers increased five percentage points for saving and three percentage points for earning.[14] The one area with a decrease (two percentage points) in the percentage of correctly answered questions is where financial literacy has been lowest in all five years—comprehending risk.

14 Increases in the percentage of correctly answered questions for other functional areas were not statistically significant at conventional levels.

Figure 11. Functional knowledge over time

No change in rank ordering of functional knowledge.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2017, 2021).

Demographic variations in financial literacy

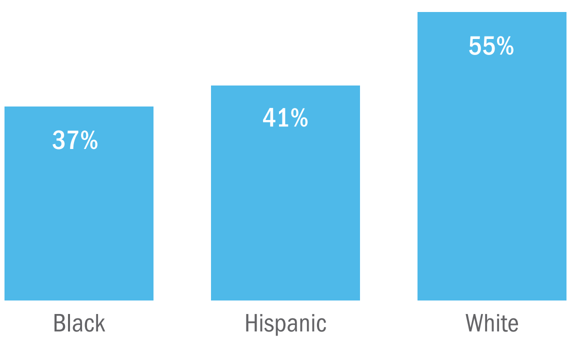
The initial four years of the *P-Fin Index* documented consistent patterns in how financial literacy varies across socio-demographic segments of the U.S. adult population.[15] Those same patterns continue in 2021. Financial literacy tends to be greater among men, older generations, those with more education, those who have received financial education, those employed or retired, and those with higher household incomes. (See Appendix Table A2.)

In addition, financial literacy tends to be significantly lower among Black and Hispanic Americans relative to whites. On average, Black and Hispanic Americans each correctly answered approximately 40% of the *P-Fin Index* questions in 2021 compared with over 50% among whites (Figure 12). Approximately 30% each of Black and Hispanic Americans demonstrated above-average financial literacy by correctly answering over one-half of the *P-Fin Index* questions; in comparison, this level of financial literacy is significantly more common among whites (60%) (Figure 13).

Figure 12. Financial literacy across race/ethnicity

Financial literacy among Black and Hispanic Americans tends to lag that of whites.

% of *P-Fin Index* questions answered correctly



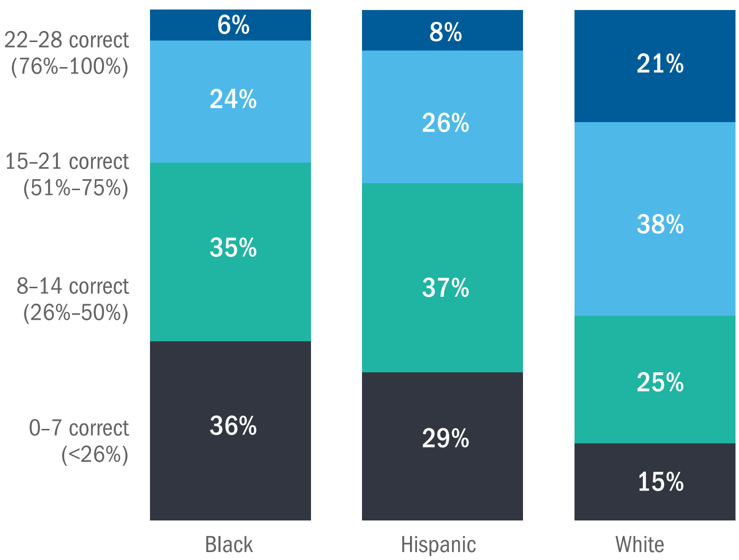
Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

15 See Lusardi, Oggero and Yakoboski (2017) and Yakoboski, Lusardi and Hasler (2018, 2019, 2020). Those same patterns have been identified in other studies, as well; see Lusardi, Mitchell and Curto (2010), Lusardi and Mitchell (2007, 2008, 2011a, 2011b, 2014, 2017), and Lusardi and Tufano (2009, 2015).

Figure 13. Financial literacy across race/ethnicity

Low levels of financial literacy tend to be more prevalent among Black and Hispanic Americans.

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

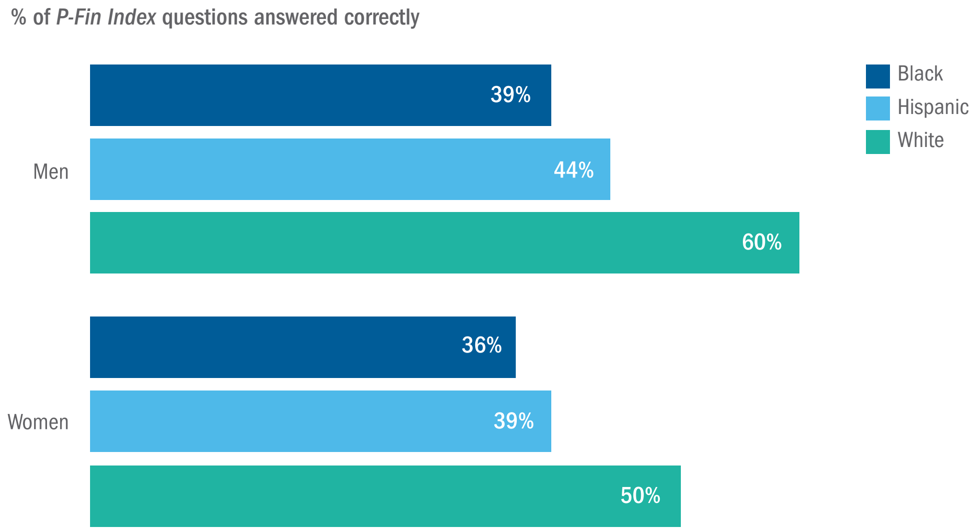


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

The financial literacy gaps between Blacks and whites and Hispanics and whites cannot be simply attributed to underlying socio-demographic differences. Within almost all socio-demographic subgroups, Black and Hispanic financial literacy tend to be lower than that of their white peers. Furthermore, the difference in the average percentage of *P-Fin Index* questions answered correctly typically exceeds 10 percentage points. This is equivalent to a difference of approximately three questions answered correctly out of the 28 questions comprising the index.

Black and Hispanic financial literacy levels tend to lag that of whites among both men and women (Figure 14). In terms of the percentage of *P-Fin Index* questions answered correctly, the gap between Black and white men is 21 percentage points, and the gap between Hispanic men and white men is 16 percentage points. Analogously, the financial literacy gaps between Black and Hispanic women with their white peers are 14 and 11 percentage points, respectively.

Figure 14. Financial literacy: race/ethnicity and gender



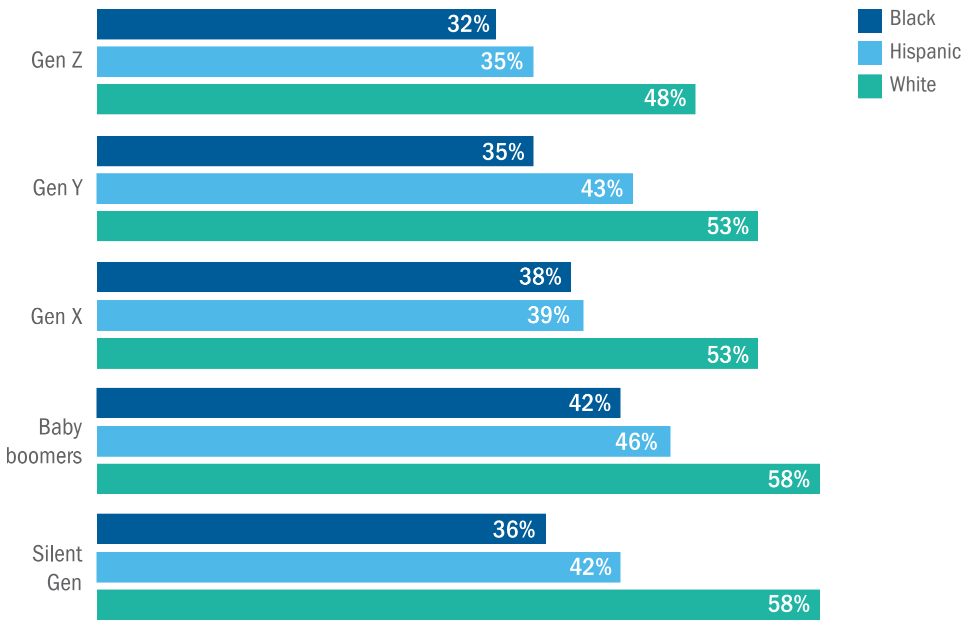
Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Figure 14 also demonstrates that there are smaller gender differences in financial literacy among Black and Hispanic Americans compared with whites. With that said, financial literacy among white women exceeds that of both Black and Hispanic men, on average.

The same dynamic is observed across all five generations, i.e., within each generation, financial literacy among Black and Hispanic Americans lags that of their white peers (Figure 15). In every case, the difference in the average percentage of *P-Fin Index* questions answered correctly is at least 10 percentage points.

Figure 15. Financial literacy: race/ethnicity and generation

% of *P-Fin Index* questions answered correctly



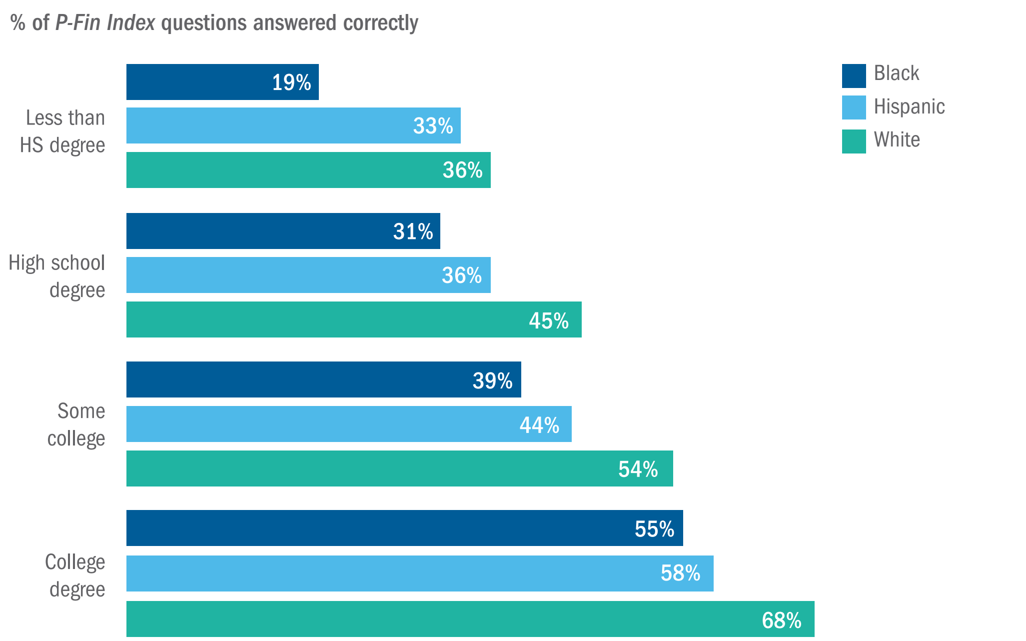
Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Figure 15 also shows that financial literacy tends to be lowest among Gen Z and highest among baby boomers for Blacks, Hispanics, and whites.[16] The difference between Gen Z and baby boomers in the percentage of *P-Fin Index* questions answered correctly is approximately 10 percentage points for each of the three groups. While generation and age effects cannot be distinguished in a single cross-section of data, these findings stand out for how little the young seem to know given the complexity of today's financial environment.

16 Among whites, financial literacy is essentially equal across baby boomers and the Silent Generation.

Likewise, financial literacy among Black and Hispanic Americans is lower than that of their white peers, on average, at every level of formal education (Figure 16). It seems particularly noteworthy that a significant gap exists even among those with a college degree–the difference between Black and white college graduates in the average percentage of *P-Fin Index* questions answered correctly is 13 percentage points, and the difference between Hispanic and white graduates is 10 percentage points.

Figure 16. Financial literacy: race/ethnicity and education

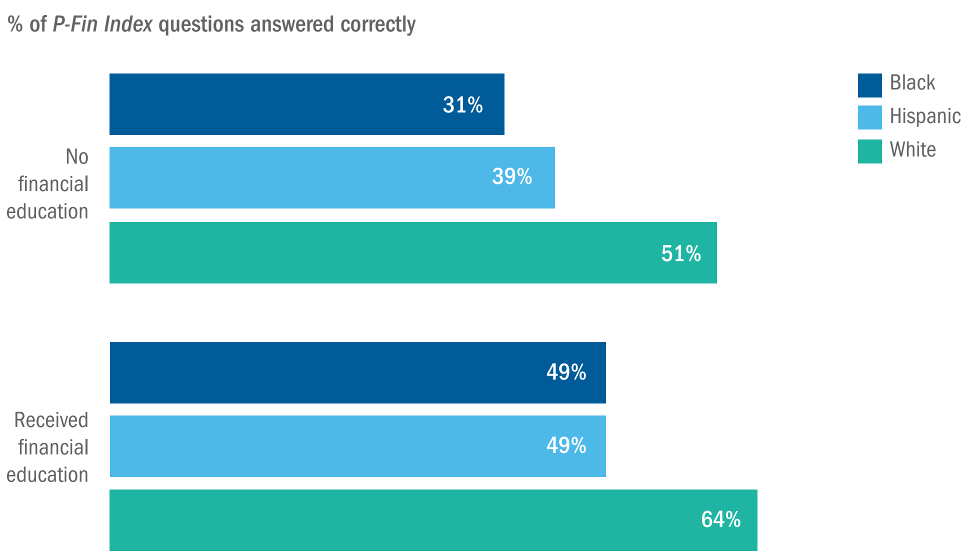


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

The increase in the percentage of *P-Fin Index* questions answered correctly between college graduates and those without a high school degree is 36 percentage points among Blacks and 32 percentage points among whites. Their starting points differ dramatically, however, as Blacks without a high school degree answered only 19% of the *P-Fin Index* questions correctly, on average.

Financial literacy is correlated with the receipt of financial education among Blacks, Hispanics and whites, i.e., those who have participated in a financial education class or program tend to answer more *P-Fin Index* questions correctly (Figure 17).[17] The difference in financial literacy between those who have received financial education and those who have not is largest among Blacks–there is an 18-percentage point difference in correctly answered index questions. The analogous differences among Hispanics and whites are 10 and 13 percentage points, respectively.

Figure 17. Financial literacy: race/ethnicity and financial education

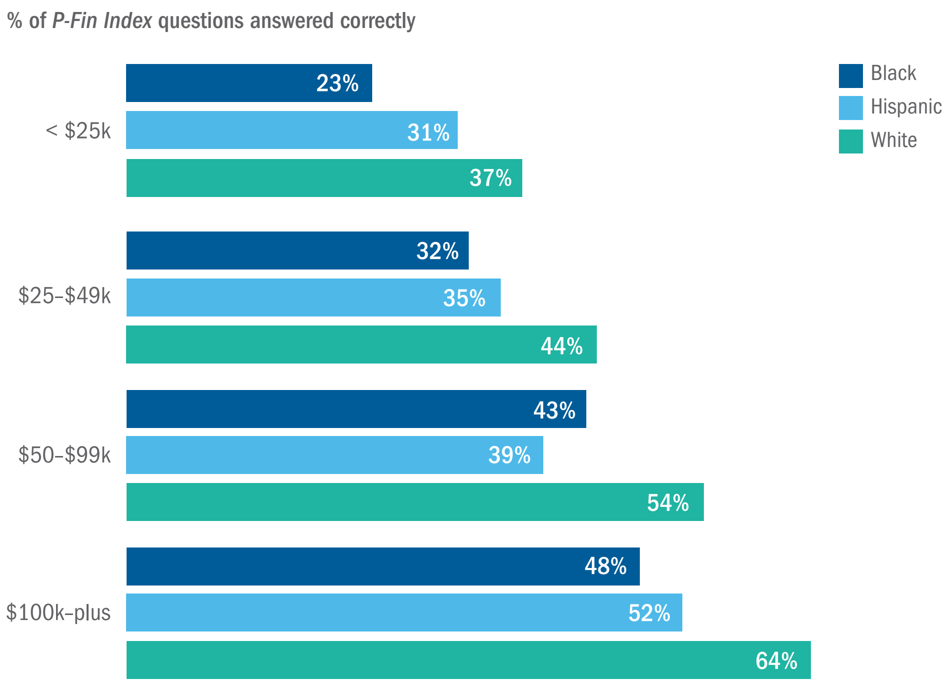


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

17 See Lusardi and Mitchell (2014) for a discussion of existing research regarding the relationship between financial education programs and financial literacy levels, as well as the challenges inherent in empirically establishing causality and effectiveness of financial education.

Finally, the same dynamic is observed across household income levels. Irrespective of household income, Black and Hispanic financial literacy tend to be lower than that of their white peers (Figure 18).

Figure 18. Financial literacy: race/ethnicity and household income



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Functional knowledge differences between Blacks and whites and Hispanics and whites are striking, as well. The average percentage of *P-Fin Index* questions answered correctly is lower among Black and Hispanic adults in almost every functional area compared with whites (Figure 19). The only exception being that the Hispanic gap in comprehending risk is not statistically significant.

Figure 19. Functional knowledge across race/ethnicity

% of *P-Fin Index* questions answered correctly

	Black	Hispanic	White
Borrowing	47%	51%	66%
Saving	41%	47%	63%
Consuming	45%	50%	55%
Earning	40%	42%	57%
Go-to info sources	34%	37%	52%
Investing	32%	36%	51%
Insuring	30%	30%	51%
Comprehending risk	31%	36%	38%

Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

While the relative rankings of functional knowledge areas are not identical across Blacks, Hispanics and whites, they are very similar. In particular, comprehending risk, along with insuring and investing, are the areas of lowest financial literacy across the three groups, whereas borrowing is the area of greatest functional knowledge across the three groups.

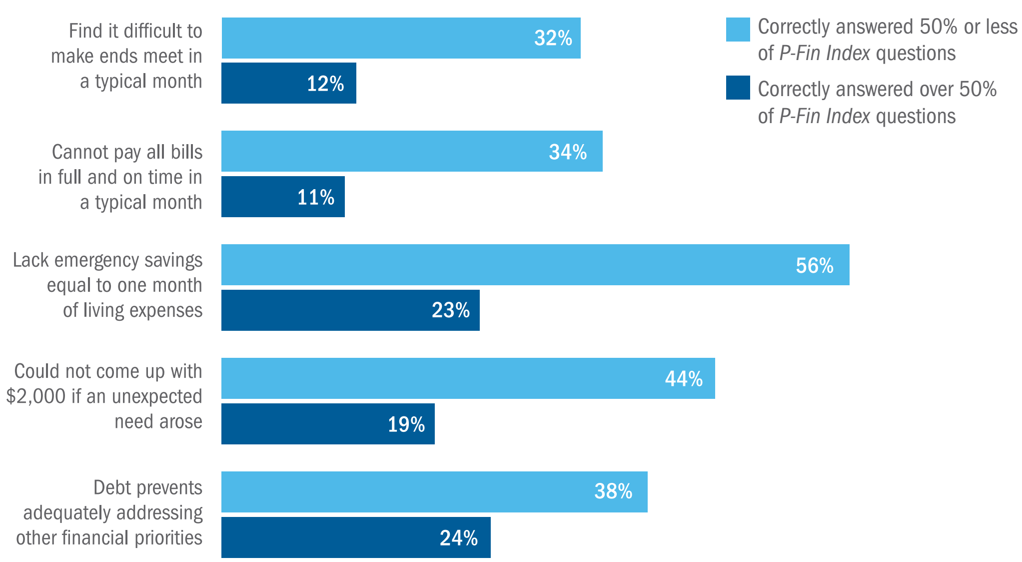
The link between financial well-being and financial literacy

While the report earlier discussed the precarious financial situation that many American adults face and low levels of financial literacy, this section examines the relationship between financial well-being and financial literacy. Consistent with *P-Fin Index* findings from previous years, it is evident from the 2021 data that financial well-being is linked to financial literacy–greater financial literacy generally translates into higher financial well-being and lower financial literacy is generally associated with lower financial well-being. More specifically, those with lower levels of financial literacy are more likely to (Figure 20):

- find it difficult to make ends meet in a typical month.
- be unable to pay all their bills in full and on time in a typical month.
- lack emergency savings sufficient to cover one month of living expenses.
- be unable to cope with a $2,000 financial shock.
- be debt constrained.

Figure 20. Financial literacy and financial well-being

Financial well-being is consistently linked to financial literacy.

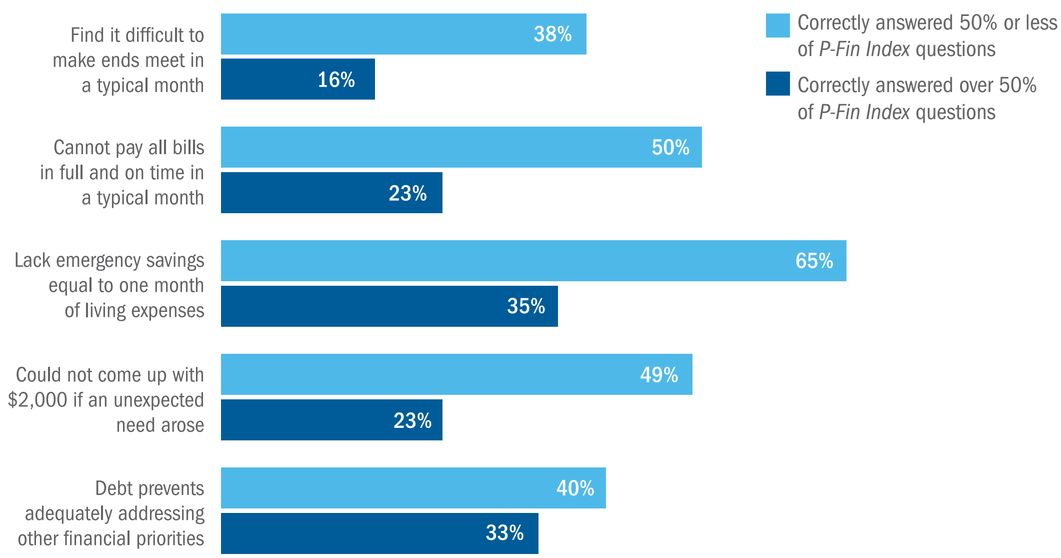


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

This implies that those with greater financial literacy tend to be better positioned along various dimensions to weather adverse economic conditions such as exist today.[18] The same relationship between financial literacy and financial well-being holds among Blacks (Figure 21) and Hispanics (Figure 22).

Figure 21. Financial literacy and financial well-being among Black Americans

Financial well-being is consistently linked to financial literacy.

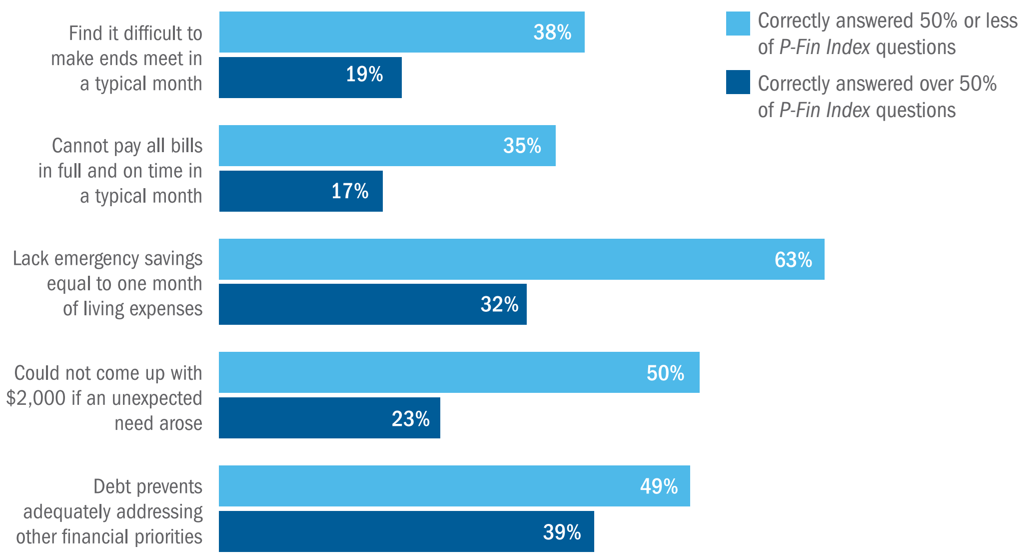


Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

18 See also Clark, Lusardi and Mitchell (2021).

Figure 22. Financial literacy and financial well-being among Hispanics

Financial well-being is consistently linked to financial literacy.



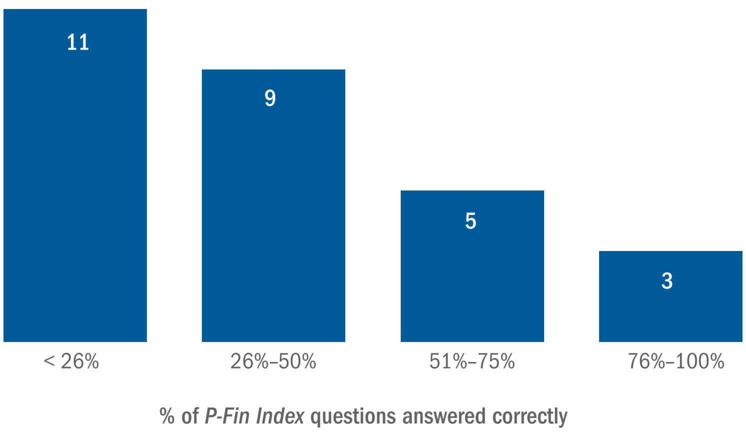
Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Moreover, while U.S. adults spend an average of seven hours per week thinking about and dealing with issues and problems related to their personal finances, those with higher levels of financial literacy tend to spend much less time doing so than those with lower levels of financial literacy. Specifically, adults with relatively high financial literacy (i.e., they correctly answer over 75% of the *P-Fin Index* questions) spend three hours per week, on average, thinking about and dealing with personal finance issues and problems. By comparison, those with relatively low financial literacy (i.e., they correctly answer 25% or less of the index questions) spend an average of 11 hours per week doing so (Figure 23).

Figure 23. Financial literacy and financial well-being

Those with greater financial literacy spend less time on financial issues and problems.

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



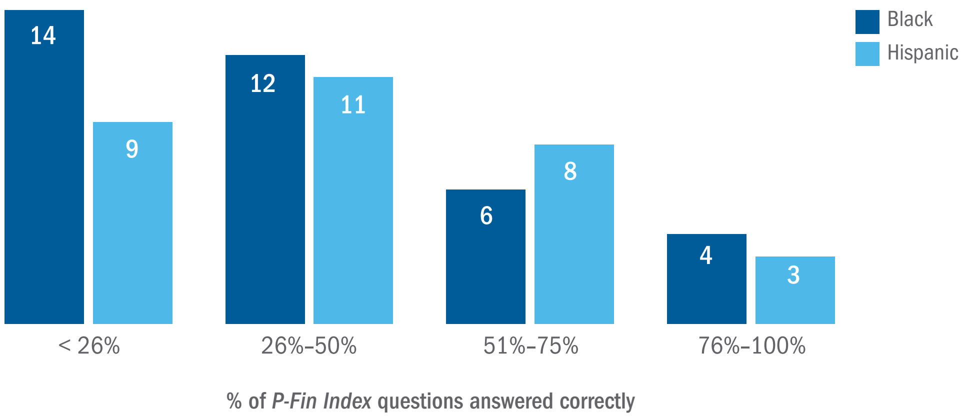
Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

The same dynamic holds among Black and Hispanic Americans. Black and Hispanic Americans spend an average of 11 and 9 hours per week, respectively, thinking about and dealing with personal finance issues and problems. Among both groups, those with greater financial literacy tend to spend fewer hours per week doing so (Figure 24). These findings can provide back-of-the-envelope calculations regarding the costs of financial illiteracy and the need to provide access to programs that can address it.

Figure 24. Financial literacy and financial well-being among Black and Hispanic Americans

Black and Hispanic Americans with greater financial literacy spend less time on financial issues and problems.

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



Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Discussion

As COVID-19 continues to loom over America along with the rest of the world, a personal finance double jeopardy looms over many U.S. adults, as well. First, many experience a precarious financial state. Month-to-month personal finances are out of balance. There is little if any capacity to handle a financial setback such as an unexpected expense, let alone a job loss. Second, many function with a poor level of financial literacy, i.e., knowledge and understanding that enable sound financial decision making and effective management of personal finances. In an environment of economic turbulence such as that created by the pandemic, the ability to make appropriate financial decisions matters greatly. Poor financial decisions can exacerbate existing personal finance challenges.

Not surprisingly, financial well-being tends to be most compromised among those with the lowest levels of financial literacy. Furthermore, financial challenges are significantly more prevalent among Black and Hispanic Americans, two groups disproportionately impacted by the pandemic. Their situation is made even more precarious by lower levels of financial literacy in comparison to whites.

Obviously, with the increasing availability of vaccinations and case numbers trending down, Americans are looking forward to life post-COVID and a return to “normal.” That does not necessarily mean a return to the pre-COVID status quo, however, nor should it. For many, that normal was still financially precarious. Moreover and importantly, the current crisis has shown the importance of possessing the knowledge and skills to navigate an uncertain economic environment and of having the financial cushion to weather unexpected shocks.

It’s thus noteworthy that improving personal finances appears to be a focus for many Americans–39% of U.S. adults say that the economic uncertainty created by COVID-19 has motivated them to increase their financial literacy. Furthermore, this figure is significantly higher among both Black and Hispanic Americans, at 53% and 55%, respectively. This is particularly important since a lack of financial literacy is particularly acute among both groups.

It’s important for the financial services sector, the education sector, community organizations, and nonprofits focused on promoting financial well-being to leverage the opportunity created by these newfound intentions. Equally important, as indicated by the *P-Fin Index* findings, is doing so with initiatives, programming, and content targeting specific socio-demographic groups, particularly subgroups of the Black and Hispanic communities. One size does not fit all when it comes to financial well-being and financial literacy. More than ever, now is an excellent time to increase the efforts and to make financial education part of the recovery path out of the pandemic.

In this vein, three points are particularly important from a policy perspective.

1. It is important to equip the young with the knowledge necessary to make the many financial decisions they will face in life. One way to do so is to promote financial education in primary and seconday education.

2. Some demographic groups, such as Black and Hispanic Americans, as well as women, have been disproportionately affected by the pandemic. These groups also display much lower levels of financial literacy, which is an important determinant of financial well-being. It is important to design policies and programs specifically targeted to those populations.

3. Comprehending risk is an area where financial literacy is particularly low. This type of knowledge is also important in areas other than personal finances, such as health. Improved functional knowledge in this realm would clearly have benefits beyond the financial, and would benefit individuals and society at large.

Appendix A

Table A1. Distribution of respondent demographics in the 2021 *P-Fin Index* (weighted sample)

Generation	
Gen Z	9%
Gen Y (millennials)	28
Gen X	24
Baby boomers	32
Silent Generation	7
Gender	
Male	48
Female	52
Ethnicity	
White	63
Black	12
Hispanic	17
Other	8
Education	
Less than HS degree	11
High school degree	27
Some college	30
College degree	31
Household income	
Less than $25,000	12
$25,000 to $49,999	18
$50,000 to $99,999	31
$100,000 and more	39
Employment status	
Employed	55
Unemployed or disabled	18
Retired	27

Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

Table A2. Percentage of *P-Fin Index* questions answered correctly

All U.S. adults	50%
Gender	
Male	55
Female	46
Generation	
Gen Z	43
Gen Y (millennials)	48
Gen X	49
Baby boomers	55
Silent Generation	55
Ethnicity	
White	55
Black	37
Hispanic	41
Education	
Less than HS degree	32
High school degree	41
Some college	50
College degree	65
Household income	
Less than $25,000	32
$25,000 to $49,999	40
$50,000 to $99,999	50
$100,000 and more	61
Employment status	
Employed	53
Unemployed or disabled	39
Retired	53
Received financial education	
Yes	60
No	46

Source: *TIAA Institute-GFLEC Personal Finance Index* (2021).

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