Financial Fragility in America

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GWSB and Global Financial Literacy Excellence Center (GFLEC)

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Background

- The US has been hit hard by the financial crisis and Great Recession
- Data show that large segments of the population continue to face financial difficulties
- Several years after the Recession, many people feel they are not financially secure
- When the government shut down, people could not put food on the table
- How can we build a more resilient society?

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Measuring financial fragility (starting in 2009)

- How **confident** are you that you could come up with **$2,000** if an unexpected need arose **within the next month**?
  - I am certain I could come up with the full $2,000.
  - I could probably come up with $2,000.
  - I could probably not come up with $2,000.
  - I am certain I could not come up with $2,000.
  - Don’t know.
  - Prefer not to say.

People with these responses are classified as financially fragile.

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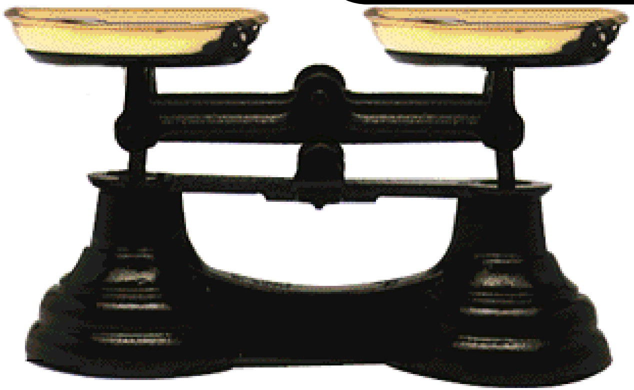
A measure that goes beyond assets

- Financial fragility measures at least 2 aspects of personal finance

It is a symptom of lack of assets

It measures lack of borrowing capacity of highly leveraged households



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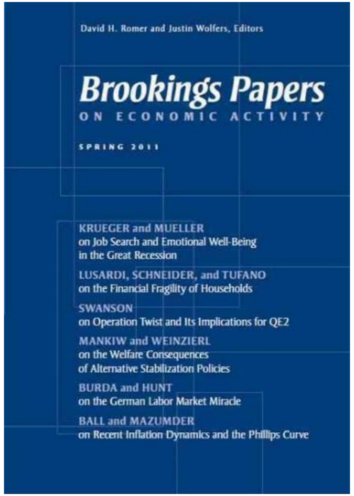
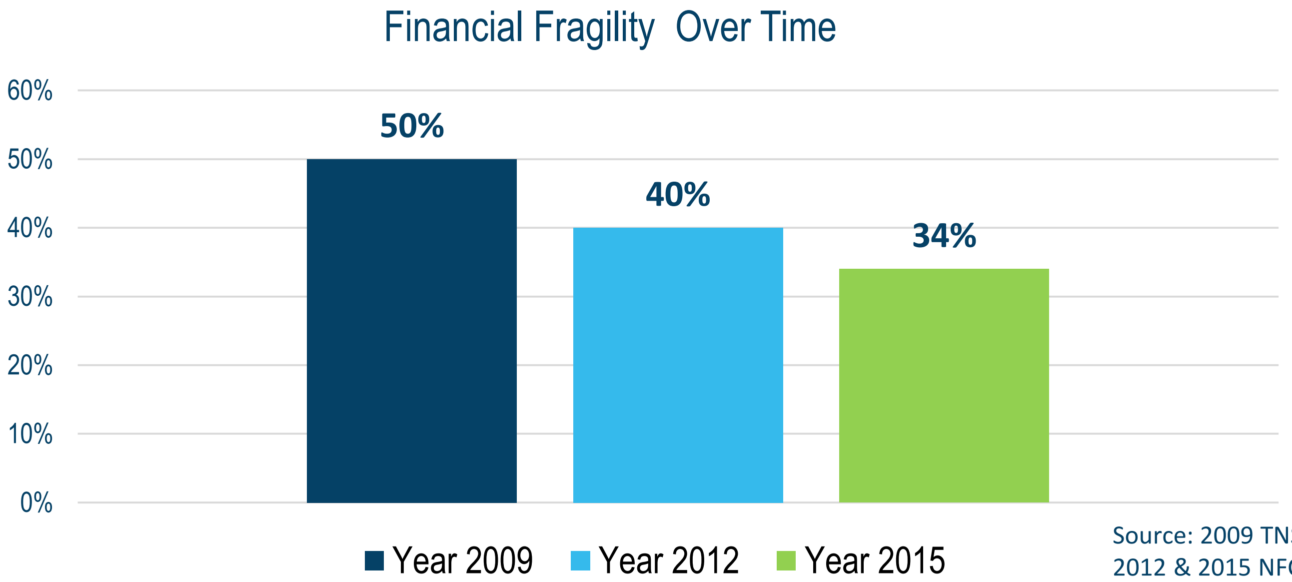
Our long term research





Source: 2009 TNS, 2012 & 2015 NFCS

Combining 2009 TNS data with 2012 and 2015 NFCS data

- Financially Fragile Households: Evidence and Implications. Lusardi, Schneider, and Tufano (2011)
- Document how American households cope with shocks

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Who are the most financially fragile?

Millennials (age 18-34)

- 43% of Millennials are financially fragile

Women

- 42% of American women are financially fragile vs. 29% of men

Middle-Income (income $50K-$75K)

- 28% of middle-income people are financially fragile*

* Age 25-60, 2015 NFCS

Source: 2015 NFCS

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Contributing factors for middle-income households

Family size

Debt burden

Financial literacy levels

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Qualitative in addition to quantitative data

- We did focus groups in 3 cities (Austin, Baltimore, Cincinnati) among young, women, and blue collar workers

- The financial fragility question was asked in on-the-street interviews

Implications

- Implications for policy
  - Incentives for short-term savings
  - Stress test for households' financial capability

- Implications for research
  - Financial fragility question could be used in many surveys

- Implications for pension design: people do not have liquidity to deal with short-term shocks

- Moving toward measuring well-being: this measure also correlates strongly with financial satisfaction

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Life sometimes is a storm

The Storm on the Sea of Galilee
Rembrandt, 1633

Should financial resilience be part of public policy?

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