Financial Fragility in America

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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?
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.
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
Our long term research

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

Financial Fragility Over Time

Source: 2009 TNS, 2012 & 2015 NFCS

Combining 2009 TNS data with 2012 and 2015 NFCS data
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
Contributing factors for middle-income households

Family size

Debt burden

Financial literacy levels
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
Life sometimes is a storm

*The Storm on the Sea of Galilee*
Rembrandt, 1633

Should financial resilience be part of public policy?