

Financial Capability and Financial Literacy Among Working Women: New Insights

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Executive Summary

Analysis of the 2015 National Financial Capability Study provides new insight into the state of working women's financial capability, including how it has changed over the past several years, as follows:

- Small but significant improvements in working women's financial capability occurred between 2012 and 2015.
- In 2015, working women found it easier to make ends meet, carried credit card debt less often, used alternative financial services less often, and were less likely to engage in expensive credit card behaviors.
- While behaviors related to short-term assets and debt improved, there has been little headway in relation to long-term debt. In 2015, three-quarters of working women held at least one form of long-term debt and many stated that they have too much debt.
- Student loan debt is a particular challenge for working women, as many are falling behind on payments and are concerned about their ability to pay off these loans.
- Working women across all demographics are worried about running out of money in retirement. The majority do not plan for retirement.
- Despite some improvement from 2012, working women significantly lag behind working men in terms of almost every aspect of financial capability examined.
- Young working women, women with children, and women who experienced a marital disruption are more likely to demonstrate signs of financial distress.
- In general, working women have very low financial literacy: less than one-third demonstrated basic financial literacy, a percentage significantly lower than that of working men.

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Introduction

Over recent decades, women have become an increasingly vital part of the U.S. labor market. Today, they make up nearly one-half of the labor force and account for a growing portion of the U.S. economy. Yet working women face difficulty in managing their personal finances. Data from the 2012 National Financial Capability Study (NFCS) showed that many working women had difficulty making ends meet and were heavily leveraged in both the short and long term. In particular, over-indebtedness and concerns about debt repayment were pervasive, and only 38 percent had precautionary savings sufficient to cover living expenses for three months. In addition, working women were approaching retirement carrying long-term and short-term debt and without having planned for retirement.

Since 2012, the U.S. economy has experienced significant improvements. Between 2012 and 2015, the GDP steadily grew, the number of jobs in the private sector increased, and interest rates remained generally low. Moreover, the overall unemployment rate decreased from 8 percent in 2012 to 5 percent in 2015. The extent to which economic improvements have translated into improvements in working women's personal finances is the focus of this analysis. Specifically, this work is based on a sample of women age 23–65 and either self-employed or employed on a full/part-time basis from the 2012 and 2015 waves of the NFCS. The findings have been detailed in the TIAA Institute *Research Dialogue* entitled, “Financial Capability and Financial Literacy among Working Women: New Insights.” This report summarizes the paper's main findings and outlines the most important implications.

Changes since 2012

Understanding whether working women's financial capability improved begins by examining changes in asset ownership. Between 2012 and 2015, homeownership and the percentage of working women who are banked (have either a checking or savings account) remained stable at 63 percent and

96 percent, respectively. On the other hand, credit card ownership and retirement account ownership increased, while ownership of financial assets such as stocks, bonds, and mutual funds declined. This last finding is consistent with other research showing stock market participation has steadily decreased over the past decade.

There are also signs of improvement in working women's financial security. In 2015, working women were 5 percentage points more likely to be able to make ends meet and 6 percentage points less likely to be financially fragile¹ compared to 2012 (Figure 1). While these findings highlight substantial improvement, it is worrisome that one-third of working women are financially fragile, and that over one-half find it difficult to cover their expenses and pay their bills in a typical month.

There were also improvements in working women's credit card use. In 2015, 55 percent of working women with a credit card carried a balance for which they were charged interest—compared to 57 percent in 2012. Similarly, the percentage of working women who used their credit cards in expensive ways decreased to 45 percent.² Another short-term financial behavior that improved among working women is use of Alternative Financial Services (AFS)—high-cost borrowing methods whose use is considered a sign of financial distress.³ AFS use dropped to 26 percent in 2015.

However, there were no substantial improvements in working women's long-term financial positions. For example, working women's long-term indebtedness did not change, with three-quarters holding at least one source of long-term debt (auto loan, student loan, home mortgage, or home equity loan) in 2012 and in 2015. Moreover, one-half of working women in 2015 felt they had too much debt, a figure unchanged since 2012.⁴

It is noteworthy that despite the many improvements in the economy, saving behavior has not changed meaningfully. In 2015, working women are not saving more—even though the average household income among working women has increased since 2012.

1. Individuals are considered to be financially fragile if they indicated that they probably or certainly could not come up with \$2,000 if a sudden need were to arise within the next month.
2. We define respondents to be using credit cards “in expensive ways” if in the past 12 months they sometimes made the minimum payment only, they were charged a late payment fee, they were charged an over-the-limit fee, or they took a cash advance from their card.
3. AFS include auto title loans, payday loans, pawnshops and rent-to-own products.
4. Respondents were asked, “On a scale from 1 to 7, how strongly do you agree with the statement? ‘I have too much debt right now?’” Respondents are said to agree with the statement if they responded 5-7 on the 7-point scale.

The gender gap in financial capability

Despite improvements, the financial capability of working women still lags behind that of working men. For example, working women were more likely to have difficulty making ends meet than working men (54% vs. 43%). Similarly, working women are more likely to be financially fragile than working men (33 percent vs. 22 percent) and are more likely to have difficulty covering day-to-day expenses.

Working women also continue to lag behind working men with regard to credit card debt and credit card management. Despite a decrease between 2012 and 2015 in the percentage of working women carrying credit card debt, they are still 7 percentage points more likely to hold such debt than working men (see Figure 2). Moreover, working women are 6 percentage points more likely than working men to have engaged in at least one expensive credit card behavior and they are eight percentage points more likely to agree with the statement *“I have too much debt right now.”* This finding further reinforces that working women are not experiencing the same improvements as working men and continue to lag behind with their finances.

Vulnerable subgroups

Several subgroups of working women appear to be particularly financially vulnerable. Young working women (age 23–35) are more likely than their older peers to experience financial challenges in both the short and long term. Specifically, they are the most likely to be financially fragile, use credit cards expensively, and use AFS. At the same time, they are also the least likely to plan for retirement. Similar outcomes and behavior are observed among those who have children, those who have experienced marital disruption, and those who are African American, indicating that all of these subgroups are substantially more vulnerable than their counterparts.

Student loan debt

The 2015 NFCS included several new questions on student loan debt that allowed closer examination of the problems that working women experience in dealing with this type of debt. Thirty-six percent of working women hold student loan

debt and many are having trouble paying off their loans. One-quarter of those with an outstanding student loan reported being late with a payment at least once in the previous twelve months (Figure 3). Even more worrisome is that one-half of working women with student loans reported concerns about their ability to pay off their loans, indicating the burden student loans are placing on the personal finances of working women. Moreover, the majority of working women with student loans (57 percent) would make changes to the way they borrowed if they were given the chance to do it over, indicating they may regret their decisions. Only 34 percent tried to calculate how much their monthly payments would be before taking out their loan. These findings signal that working women may not have fully understood the burden they were taking on and are having difficulty managing their student loan debt as a result.

Retirement planning

Working women are more likely to hold a retirement account in 2015 than they were in 2012, but many are still not planning for retirement. While almost three-quarters of working women have a retirement account, less than one-half have tried to figure out how much they need to save for retirement. This finding is alarming, as planning for retirement is one of the strongest predictors of retirement savings. Many working women have also tapped into their retirement accounts; 16 percent have taken out a loan or made a hardship withdrawal from their account within the past year. Furthermore, the majority of working women (66 percent) are concerned about running out of money in retirement (see Figure 4).⁵ This high degree of concern among working women is present across career stages, marital status, family stages and ethnicities, indicating a universal struggle that working women face in ensuring their retirement security.

Financial literacy

Previous research has documented the importance of financial literacy with regard to financial decision making. A basic level of financial literacy has been linked to planning for retirement, greater wealth accumulation, better financial decision making, and fewer problems with debt. The NFCS includes a standard set of five questions regarding

5. The 2015 NFCS included a new question—On a scale from 1 to 7, how strongly do you agree with the statement—*I am worried about running out of money in retirement?*

knowledge of basic financial topics (inflation, interest, risk diversification, mortgages and bond prices) to gauge respondents' financial literacy. Respondents are considered to have a basic level of financial literacy if they can answer three questions regarding interest rates, inflation and risk diversification correctly, and an advanced level if they answer all five questions correctly.

While financial literacy among the whole U.S. population is generally low, it is particularly low for women. Only 29 percent of working women demonstrated a basic level of financial knowledge. Despite the increasing emphasis placed on financial literacy over the years, this represents no significant improvement from the 2012 level. Comparing subgroups of working women, those who most often demonstrated greater financial challenges are also those who are less likely to have basic financial literacy. That is, those who are younger, those who are African American, and those who have children less often display basic levels of financial literacy. Moreover, working women were less likely to answer each financial literacy question correctly than working men. Overall, working men were 18 percentage points more likely to demonstrate a basic level of financial literacy.

Also of note is working women's propensity to answer the financial literacy questions with "don't know." Figure 5 shows that for every question, a higher percentage of working women answer "don't know" compared to men. In particular, nearly one-half (47 percent) of working women responded they "don't know" the correct answer to the risk diversification question compared to 29 percent of working men. This is a common finding in financial literacy surveys, and it applies as well to a sample of working women.

The 2015 NFCS included a new financial literacy question regarding knowledge of compounding interest in the context of debt. The responses indicate that less than one-third of working women are able to correctly calculate how long it will take for debt to double when interest compounds at 20%. One-quarter answered they "don't know," and nearly 40 percent overestimated the time it would take for debt to double. Given working women's high debt levels and the

potential for a rise in interest rates, working women may be at risk, and much more so than men. More generally, working women's poor understanding of basic financial concepts leaves them exposed to poor financial decision-making.

Conclusions and recommendations

This report has provided an overview of working women's financial capability in 2015. Working women have experienced some improvements in terms of their short-term finances since 2012. They are less financially fragile and find it easier to make ends meet. They are also less likely to carry credit card debt, they pay fewer fees on their credit cards, and they are less likely to use alternative financial services.

Yet working women still struggle with the long term, particularly when it comes to debt and debt management. Three-quarters hold at least one form of long-term debt, such as mortgages, auto loans, student loans or home equity loans; a figure that is unchanged from 2012. One-half of working women also indicated that they feel they have too much debt, and this statistic also has not improved since 2012. Student loan debt is a particularly worrisome factor, given that nearly 50 percent of working women with student loans reported being concerned about their ability to repay these loans. Concerns about long-term personal finances are not only linked to debt, but also come from a worry about financial security in retirement. In 2015, two-thirds of working women reported worrying about running out of money in retirement.

Furthermore, several groups of working women—early career women, those with children, those who have experienced marital disruption, and African Americans—continue to be particularly financially vulnerable.

Incentivizing employers to develop targeted and holistic financial wellness programs that address working women's financial challenges may go a long way in helping working women achieve financial security.

About the Authors

Annamaria Lusardi is the Denit Trust Chair of Economics and Accountancy at the George Washington University School of Business (GWSB). She is also the founder and academic director of GWSB's Global Financial Literacy Excellence Center (GFLEC). Previously, she was the Joel Z. and Susan Hyatt Professor of Economics at Dartmouth College, where she taught for twenty years. She has also taught at Princeton University, the University of Chicago Harris School of Public Policy, the University of Chicago Booth School of Business, and Columbia Business School. From January to June 2008, she was a visiting scholar at Harvard Business School. She holds a Ph.D. in Economics from Princeton University and a B.A. in Economics from Bocconi University.

Dr. Lusardi has won numerous research awards. Among them is a research fellowship from the University of Chicago Harris School of Public Policy, a faculty fellowship from the John M. Olin Foundation, and a junior and senior faculty fellowship from Dartmouth College. She was also awarded the 2015 Financial Literacy Award from the International Federation of Finance Museums, the 2014 William A. Forbes Public Awareness Award from the Council for Economic Education, the 2013 William E. Odom Visionary Leadership Award from the Jump\$tart Coalition for Personal Financial Literacy, and the National Numeracy Network's inaugural 2012 Steen Award. Additionally, she is the recipient of the 2007 Fidelity Pyramid Prize, an award to authors of published applied research that best helps address the goal of improving lifelong financial well-being for Americans.

She has published more than sixty academic articles and edited two books: *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs* published by the University of Chicago Press in 2008, and *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*, joint with Olivia Mitchell, published by Oxford University Press in 2011. Dr. Lusardi chairs the Programme for International Student Assessment (PISA)'s Financial Literacy Expert Group. She also chairs the OECD/International Network on Financial Education's Research Committee. In 2009, she served as a faculty advisor for the Office of Financial Education of the U.S. Treasury.

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Figure 1. Making ends meet and financial fragility among working women

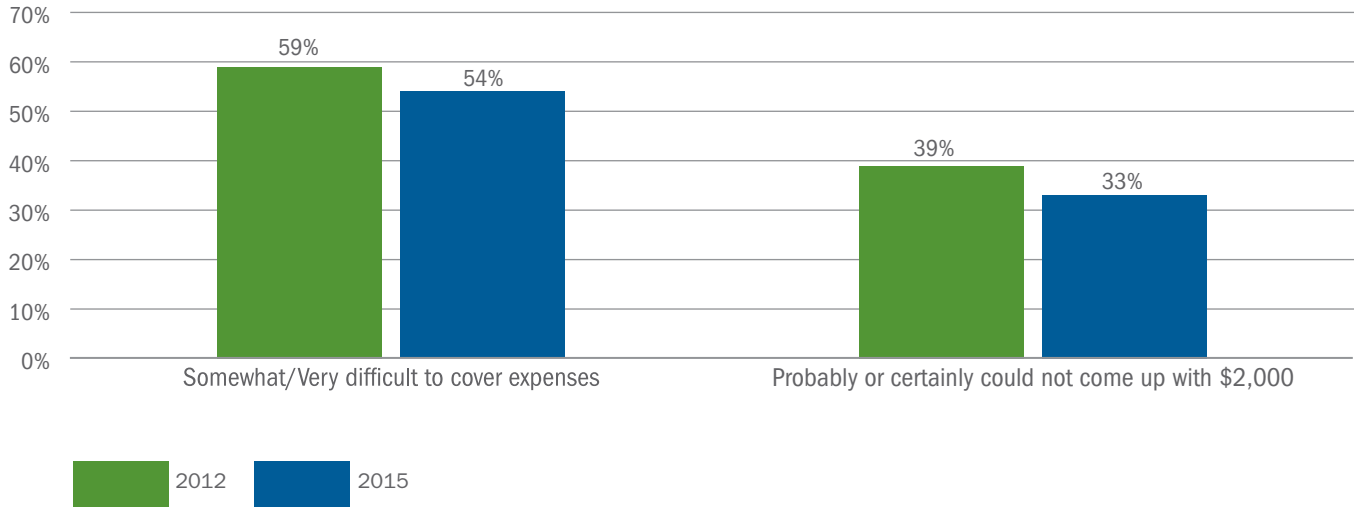
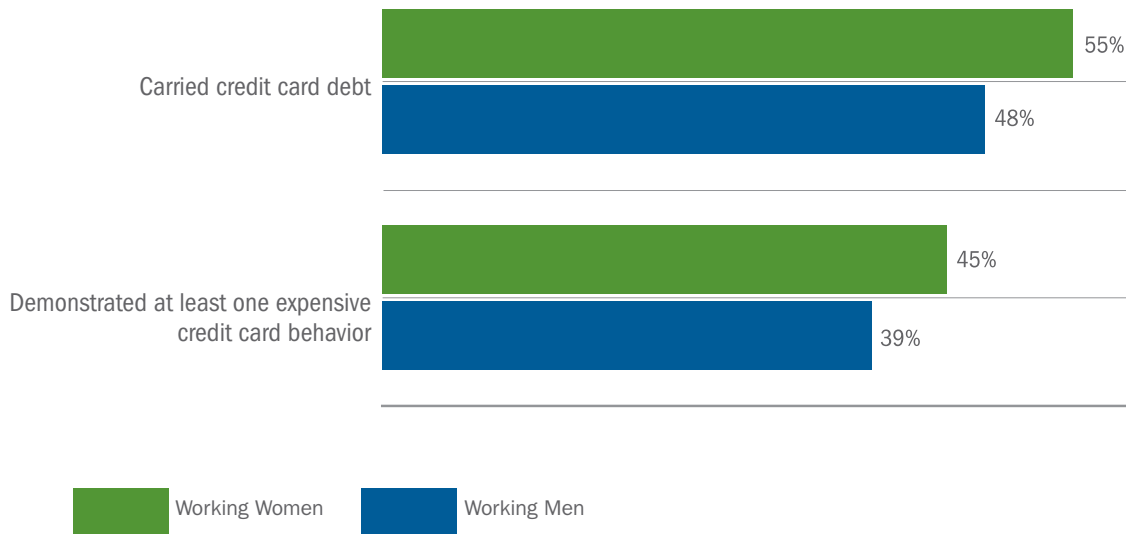
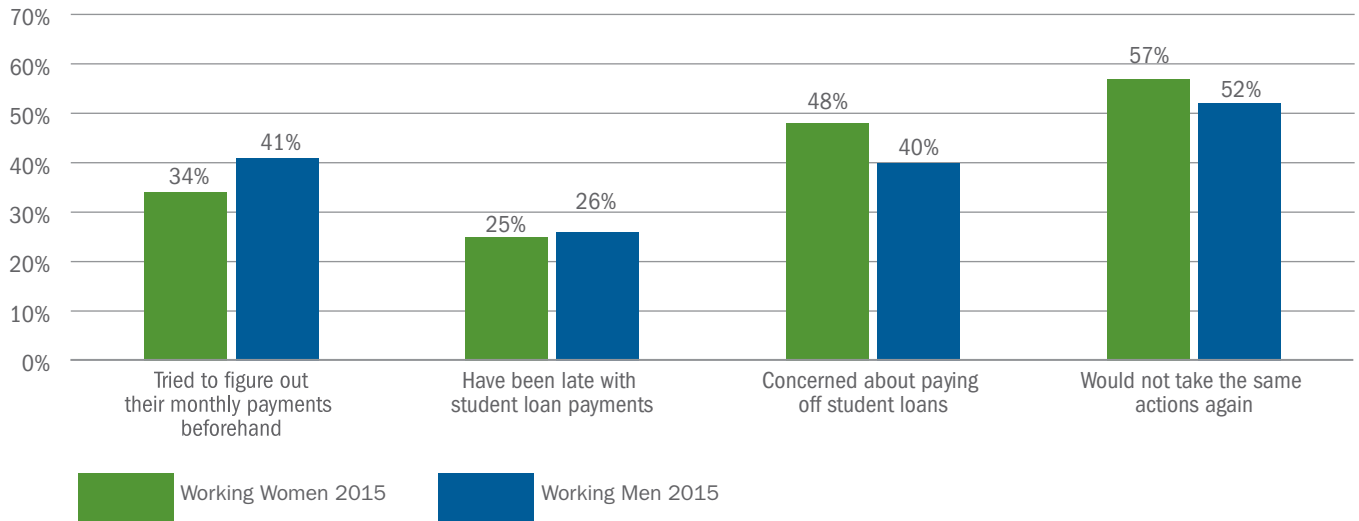


Figure 2. Credit card management among working women and working men



Note: Statistics are conditional on holding a credit card.

Figure 3. Student loan debt and respondents' concerns by gender



Note: Statistics are conditional on having a student loan.

Figure 4. Agree with the statement “ I am worried about running out of money in retirement”

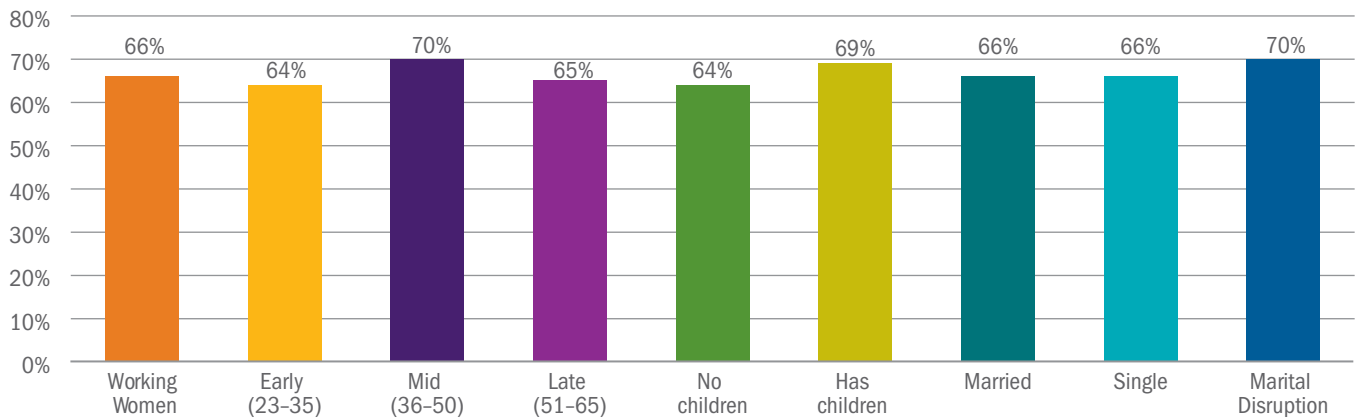


Figure 5. Percentage of respondents who answered “Don’t know” to the six financial literacy questions

