What we've learned from eight years of financial literacy data

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Financial decisions touch every chapter of our lives, often with long-lasting consequences. Young adults have to think about college and how educational loans may impact them for decades to come, while older employees must decide how to turn their years of working into financially secure retirements. Indeed, every major life event—new job, marriage, the birth of a child, promotion—carries a financial component. Financial decisions are manifold, but one common factor links them: They're too often made with a limited understanding of basic financial concepts.

Many Americans struggle when answering a financial literacy quiz designed to assess overall personal finance knowledge and understanding. The TIAA Institute and Stanford University's Global Financial Literacy Excellence Center (GFLEC) partnered to collect this annual barometer of U.S. financial knowledge, and they've been following the results since 2017.[1] Eight years of the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*) have taught us a lot.

Every major life event carries a financial component.

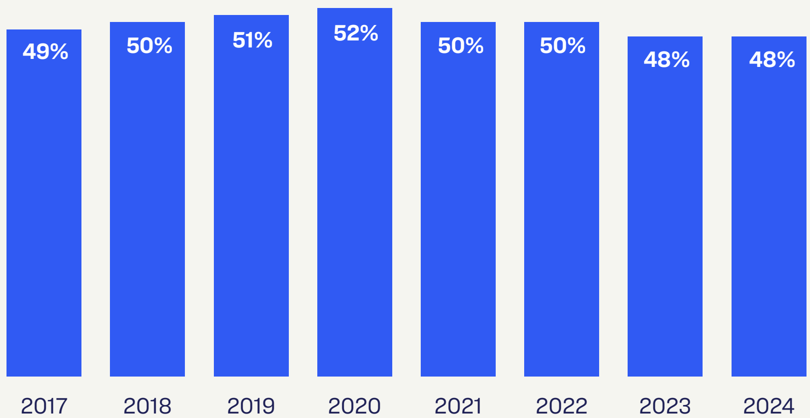
Low financial literacy is persistent

Financial literacy among U.S. adults has remained stubbornly low over the past eight years. On average, Americans can answer only about half of the 28 questions in the quiz, which measures the knowledge needed for savvy financial decision-making on issues such as saving for retirement, managing debt or insuring against risks (see Figure 1). This is troubling given that the *P-Fin Index* gauges working knowledge required for the financial situations people routinely encounter during the normal course of life.

1 See Lusardi et al. (2017a) and Yakoboski et al. (2018a–2024). These reports are available on the TIAA Institute and GFLEC websites.

FIGURE 1. STAGNANT FINANCIAL LITERACY LEVELS AMONG U.S. ADULTS BETWEEN 2017 AND 2024

Percentage of *P-Fin Index* questions answered correctly, on average



Source: Author's calculations based on the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*).

To break this impasse, we need to accelerate our financial literacy efforts and entrench financial education as a lifelong journey. It's essential that we start in school to empower young people with knowledge *before* they make life-changing financial decisions. In that way, they begin their lives and careers on a strong footing. We can't stop there, however. We also need to anchor access to continued learning through financial wellness programs at the workplace and in local communities.

Financial literacy levels vary markedly across American households

The *P-Fin Index* lays bare the complex inequities that mark Americans' financial understanding. Specific groups within the population have much deeper shortfalls in their financial knowledge, and they happen to be groups that are already vulnerable. Financial literacy levels are especially low among young people, underserved racial and ethnic groups, and women (see Figure 2).[2]

When we look at how the *P-Fin Index* questions are answered by our youngest cohort—18- to 29-year-olds—we see correct responses only about a third of the time. That's far below the already troubling average of 48% for the population as a whole. The disconnect is alarming, especially since these young people are on the verge of making—or already have made—important and consequential financial decisions.

The finding that underserved racial and ethnic groups also score below average may magnify the greater economic challenges they already face, driven in part by a history of systemic racism. The *P-Fin Index* results show that Black Americans have a 12-percentage point disadvantage and Hispanic Americans have an 11-percentage point disadvantage when compared with financial literacy levels in the population as a whole.

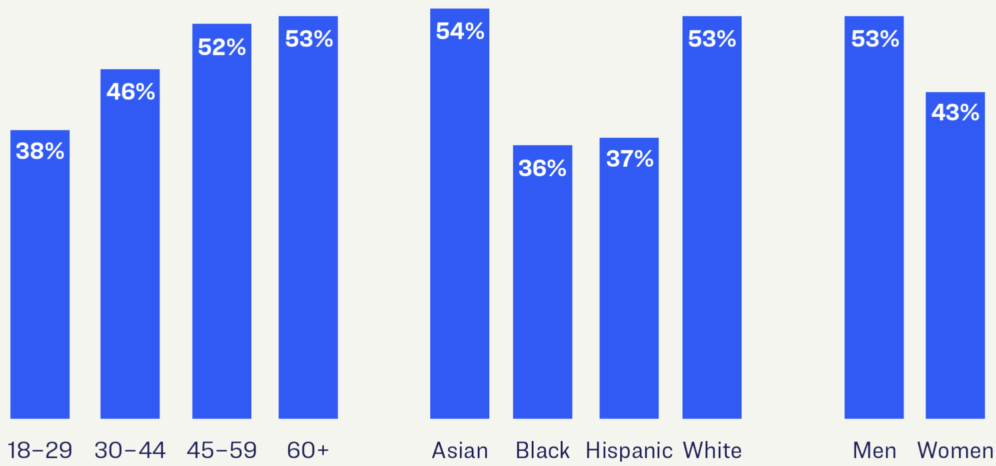
Also troubling is the gender gap, leaving women with a significant knowledge shortfall. Women, on average, score 10-percentage points lower than men on the *P-Fin Index* assessment of financial literacy levels. This gap adds to the financial security challenges women already face, led by the tendency toward longer lifespans than men—meaning women must stretch their money over more years. Adding to this, women often have less money to begin with because of wage disparity or career interruptions triggered by childcare or elder care demands.

> Women are significantly less financially literate than men—10 percentage points lower on the *P-Fin Index* assessment.

2 A detailed report on a subsample of the population is released every year; please see Hasler et al. (2017) and Yakoboski et al. (2018b, 2019b, 2020b, 2021b).

FIGURE 2. LARGE VARIATION ACROSS SOCIODEMOGRAPHIC GROUPS

Percentage of *P-Fin Index* questions answered correctly, on average



Source: Author's calculations based on the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*), 2024 data.

These data are a call to action. The findings make clear the importance of targeted financial literacy initiatives using programming and content tailored for specific sociodemographic groups. We must improve everyone's financial literacy, but especially the financial knowledge of those who are farthest behind. Financial literacy isn't a cure-all. However, empowering people with the knowledge to make sound financial decisions can play a transformative role in the journey toward a more equitable future.

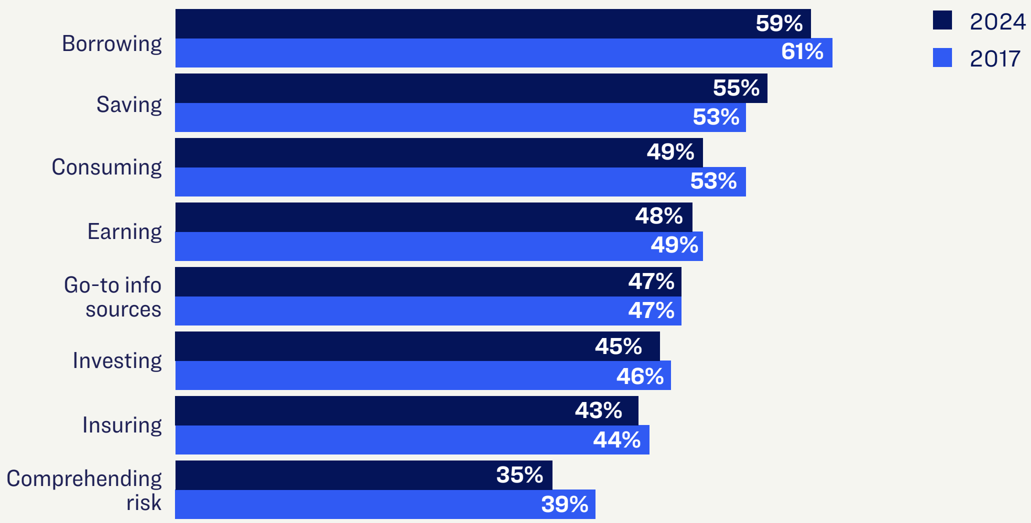
Risk is the hardest financial topic to understand

The *P-Fin Index* is unique in its ability to gauge overall personal finance knowledge while also providing nuanced analysis of eight areas in which individuals regularly make financial decisions, from saving to investing, from borrowing to risk. Over the past eight years, we have learned that comprehending risk is an area where financial literacy is particularly low (see Figure 3). Only one out of three questions assessing Americans' understanding of uncertain outcomes are answered correctly on the *P-Fin Index* survey.

Even more, around one in two adults answer "I don't know" to at least one of the risk-comprehension questions. This finding may reflect an opportunity. Respondents' self-awareness about their lack of knowledge could be leveraged to increase their engagement in financial education programs.

FIGURE 3. LITTLE CHANGE IN THE EIGHT FUNDAMENTAL PERSONAL FINANCE TOPICS COVERED IN THE *P-FIN INDEX*

Percentage of *P-Fin Index* questions answered correctly, on average



Source: Author's calculations based on the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*), 2017 and 2024 data.

Risk is interwoven in many decisions we tackle over the course of our lives, from the way we manage financial emergencies to how we plan for retirement. The latter is one of the most significant decisions, but it's also one of the most complex since it involves so many unknowns, including estimating the number of years of retirement for which we need to save and plan. In the most recent *P-Fin Index* surveys, we assessed how much people know about longevity risk. The results weren't encouraging.

More than half the population bases retirement decisions on inaccurate information. Notably, these individuals either didn't know what average life expectancy was for current 65-year-olds in the United States or they underestimated it.[3] Inaccurate risk assessment jeopardizes retirement preparedness and, ultimately, long-term financial security. It also affects decisions beyond personal finance. For example, it influences health-related decisions, something that was evident during the most recent global health crisis.

> 50% of Americans make retirement decisions based on inaccurate information.

There's a clear need to provide access to programs and initiatives that focus on teaching risk-related concepts. When thinking about educational programs, it's important to recognize that risk comprehension doesn't increase with age. Learning by doing isn't an effective way to acquire knowledge around the concept of risk.[4] Thus, it should be taught.

The *P-Fin Index* findings also offer a heads-up to the financial services industry. Advisors should be aware of the difficulty of communicating information on probability and risk to their clients.

Financial literacy matters in both the short and the long run

The most important finding of all is the strong link between financial literacy and financial well-being indicators. Our data show that in the short run, individuals with greater financial literacy are better prepared to weather financial shocks and better able to make ends meet in a typical month. Over the long run, those answering more of the *P-Fin Index* questions correctly are also more likely to plan for retirement.

3 For more information on this see Yakoboski et al. (2022b, 2023b).

4 For more information on this see Yakoboski et al. (2024, Figure 11).

More concretely, Americans with very high financial literacy are around three times more likely to be able to cope with a midsized financial shock of $2,000 within the next month, have emergency savings to cover one month of living expenses, make ends meet in a typical month, and plan for retirement than are households with very low financial literacy (see Table 1).

Financial literacy puts people on the path to more stable and secure financial futures. Described another way, the widespread lack of financial literacy may levy a substantial cost on individuals' personal finances and put their financial resilience at risk today—and for the rest of their lives.

TABLE 1. FINANCIAL LITERACY HAS A STRONG POSITIVE ASSOCIATION WITH FINANCIAL BEHAVIORS

Among those with low financial literacy (correctly answered 0–7 *P-Fin Index* questions)	**Financial behavior** **Percentage of U.S. adults...**	**Among those with high financial literacy (correctly answered 22–28 *P-Fin Index* questions)**
29%	...able to cope with a midsized financial shock of $2,000 within the next month	77%
28%	...with nonretirement savings sufficient to cover one month of living expenses if needed (among nonretirees)	85%
13%	...easily able to make ends meet in a typical month	43%
18%	...planning for retirement by figuring out how much they need to save	57%

Source: Author's calculations based on the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*), 2023 and 2024 data.

Eight years of data provide enough proof: Financial literacy matters. It enables individuals to make smart decisions over the course of their lifetime, allowing them—and their families—to achieve greater levels of financial security and overall well-being. We must now get serious about addressing low levels of financial knowledge in the United States.

Financial knowledge is tied to achieving greater levels of financial security. Education is key.

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