Building Financial Resilience

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Background and question

• Measuring financial fragility/resilience
• Financial resilience is an indicator of financial wellbeing
• Financial resilience right after a financial crisis and over time
• This indicator has implications for policy and programs

Question:
• How can families cope with this new crisis and how can we build a more resilient society?
Measuring *financial fragility*

- How confident are you that you could come up with \textbf{$2,000$} 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 2 aspects of personal finance

- It is a symptom of lack of assets
- It measures lack of borrowing capacity of highly leveraged households
Our methodology and data

2011 Brooking Papers on Economic Activity

2018 FINRA National Financial Capability Study

2019 TIAA Institute-GFLEC Personal Finance Index
Our long term research

- Financial fragility is declining over time
- But more than 1 in 4 Americans cannot deal with a mid-size shock
- Averages hide large differences in the population

Financial Fragility Over Time

Source: 2009 TNS; 2012, 2015, & 2018 NFCS, 2019 P-Fin Index
Who are the most financially fragile?

Millennials (age 23-37)
- 35% of Millennials are financially fragile

Women
- 36% of American women are financially fragile vs. 25% of men

Education
- 40% of those with high school education (or less education) are financially fragile

Source: 2018 NFCS
Working toward a solution: Financial fragility and financial literacy

As the number of P-Fin Index questions answered correctly increases, individuals are less likely to be financially fragile (This relationship continues to hold after accounting for many variables).

Source: 2019 P-Fin Index
The world is flat

- Strong link between financial literacy and financial resilience around the world
- Even the most advanced economies do not have high levels of financial literacy
- Financial literacy benefits not only individuals, but also the economy
- It also benefits regulators and policy makers
Implications of our research

More than ever

• People need to be able to navigate the world around them and be financially resilient

• We need to improve financial literacy. Levels of financial literacy are too low

• We need to start in school

• Lifetime learning
Seven suggestions to manage money in the time of crisis (similar to suggestions about health)

1. Learn about what your national and local government is providing in this time of crisis
2. Learn about possible hardship adjustments in financial and other contracts (different payment options and due dates for credit cards, taxes, bills and so on)
3. Revisit and create a budget to manage the new conditions imposed by the crisis
4. Rebuild over time a buffer stock of savings
5. Take advantage of lower interest rates and plummeting stock markets
6. Take advantage of online technology to manage your money as well as to compare terms and search for the best offer available
7. Take care of yourself and your health
Life sometimes is a storm

The Storm on the Sea of Galilee
Rembrandt, 1633

This is not the perfect storm, but the perfect time for financial literacy!