

Financial Resilience in America

APRIL 2021



Financial resilience is the ability to withstand unexpected, adverse shocks that impact one's income or assets. One commonly used proxy for financial resilience is emergency preparedness. The data show that many American families are underprepared for unexpected events such as a health shock or job loss. Right before the COVID-19 pandemic hit the US, more than **1 in 4 Americans** could not deal with a mid-sized financial shock: they wouldn't be able to pay for an unexpected \$2,000 expense—an amount representative of a medical bill, small legal fee, or home repair costs—within a month. According to a survey conducted in January 2020, a third of American households lived paycheck-to-paycheck, expressing difficulties in making ends meet.

LARGE VARIATION IN EMERGENCY PREPAREDNESS ACROSS HOUSEHOLDS

The inability to cope with a \$2,000 shock is widespread and national averages hide a lot of variation. As of January 2020, the least prepared groups for an emergency were single women, racial minorities, the less educated, and those with low income. Although college graduates tend to score higher in most financial resilience indicators, some face debt management challenges, partly due to their student loans.

PROXY FOR FINANCIAL RESILIENCE

Preparedness for an emergency is a subjective measure of the ability to come up with \$2,000 within 30 days to cover an unexpected expense. The metric assesses the respondent's capacity to cope with financial emergencies, regardless of whether the source of funds is the respondent's own assets, borrowing from a network of family and friends, or something else.

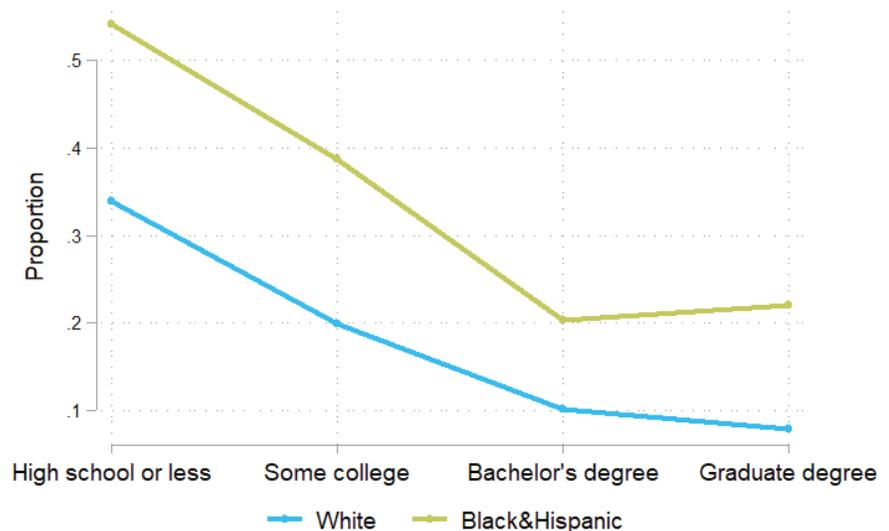
30%

Around 30% of middle-income households (earning \$50K-\$75K annually) cannot come up with \$2,000 within a month.

College-educated people are more financially resilient, better capable of paying for an unexpected expense.

At any education level, Blacks and Hispanics have more difficulties covering a mid-sized financial shock than Whites.

*Inability to Cover a \$2,000 Emergency Expense
January 2020*



Source: TIAA Institute-GFLEC Personal Finance Index (2020)



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Women are less prepared than men to pay for a mid-sized emergency expense.

Across marital status, single women are the most vulnerable: 45% wouldn't be able to come up with \$2,000 within 30 days.

*Inability to Cover a \$2,000 Emergency Expense
January 2020*



Source: TIAA Institute-GFLEC Personal Finance Index (2020)

FOUR PILLARS OF FINANCIAL RESILIENCE

The question arises: what contributes to low and varying financial resilience levels? Four pillars of personal finance behaviors and characteristics serve as underlying factors of economic resilience:



Asset Management



Debt Management

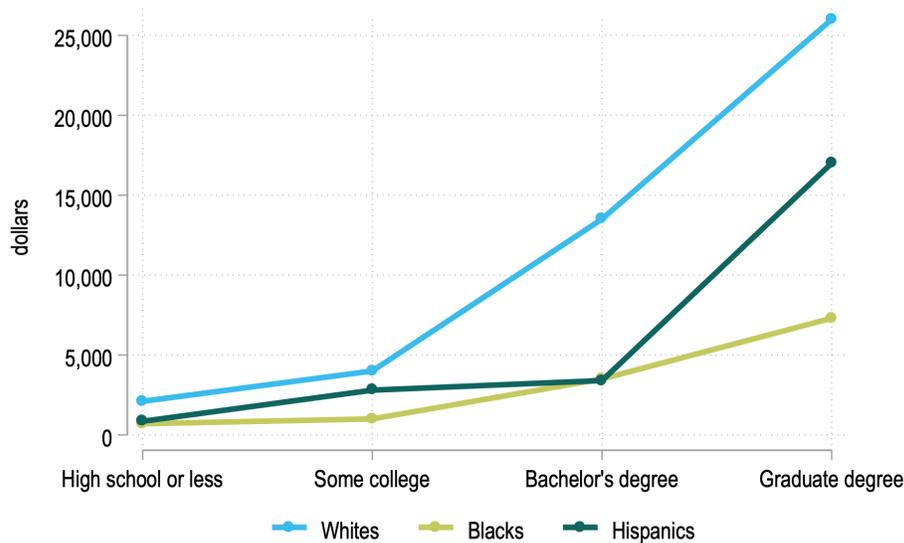


Risk Protection



Financial Literacy

*Household Liquid Assets
2019, Median*



Source: Survey of Consumer Finances (2019)

Asset Management

Liquid assets include the sum of cash, checking and savings accounts, CDs, etc.

Households headed by college graduates have seven times the liquid assets of households headed by people without a college degree.

A racial division emerges among the highly educated group: White college graduates have a level of liquid assets four times higher than Black or Hispanic college graduates.

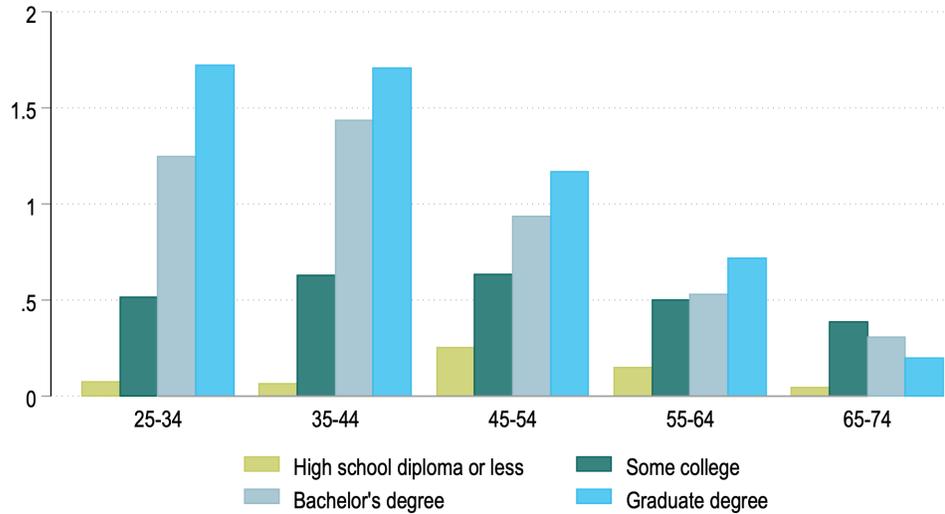


Debt Management²

The debt burden is correlated with educational attainment. In 2019, the most educated families had a median outstanding debt balance of \$135,000, 60 times higher than the least educated families' debt level.

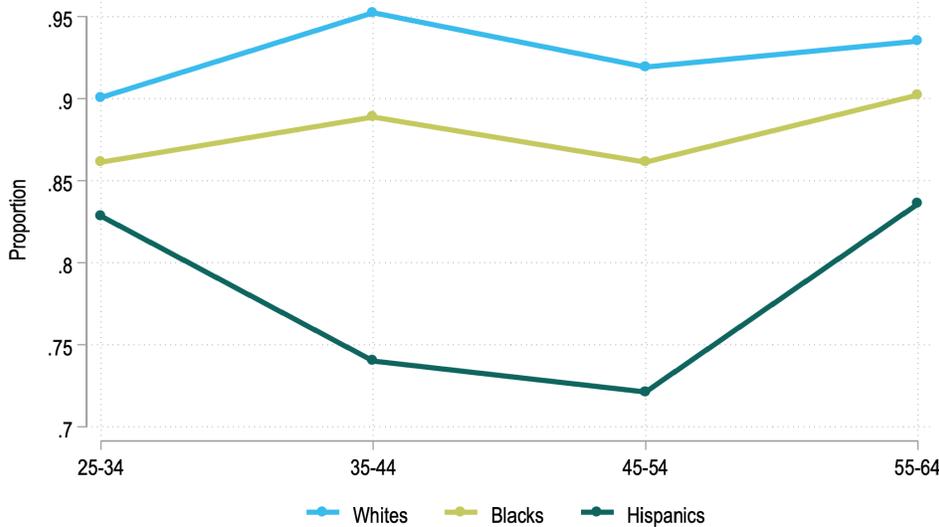
The debt balance to income ratio is the highest among well-educated people under age 45.

Household Debt Balance to Income Ratio
2019, Median ratio



Source: Survey of Consumer Finances (2019)

Whether All Family Members are Covered by Health Insurance



Source: Survey of Consumer Finances (2019)

Risk Protection

At any age, Blacks and Hispanics are less likely to have health insurance coverage than Whites.

The racial gaps vary across age. The gap is more significant among middle-age individuals and smaller among both younger and older age groups.

Financial Literacy

52%

Many Americans lack personal finance knowledge. In January 2020, only about half of the 28 *P-Fin Index* questions were answered correctly on average.³ Comprehending and managing risk is the concept hardest to grasp for respondents. However, this topic is integral to preparing for emergencies, as the occurrence and outcome of financial shocks are unknown.

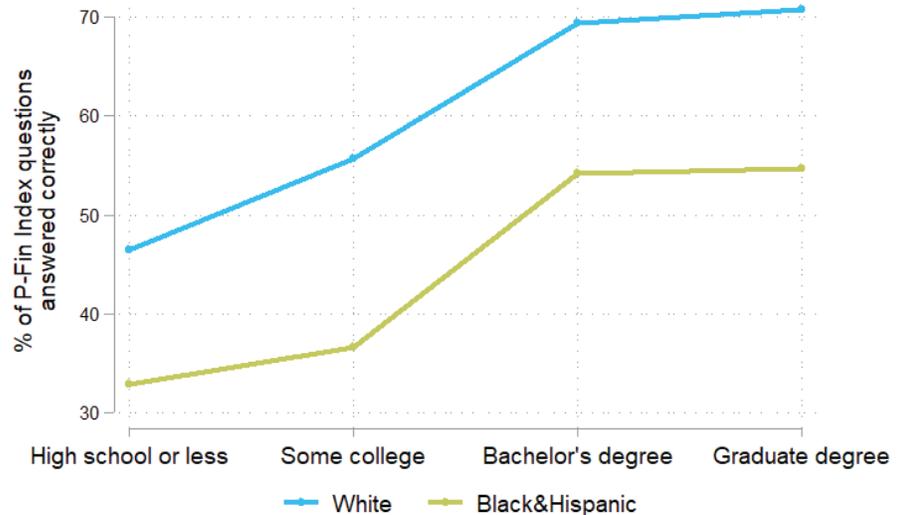


Financial Literacy (cont.)

Financial literacy is significantly lower among Blacks and Hispanics, among whom 38% of the *P-Fin Index* questions were answered correctly, compared to 58% among Whites.

There is a clear college divide: those with a bachelor's degree are more likely to score higher on the *P-Fin Index* than those with some college education or a high school diploma (or less).

Financial Literacy Index Levels
January 2020



Source: TIAA Institute-GFLEC Personal Finance Index (2020)

56%
among men

49%
among women

There is a gender gap in financial literacy.

On average, men correctly answered 56% of the *P-Fin Index* questions compared to 49% among women. This gap is persistent across all education levels but most prominent between college-educated men and women.

This provides a snapshot of the state of Americans' financial resilience right before the onset of the COVID-19 pandemic. Many Americans were unprepared to cover a mid-sized emergency expense, and there are considerable variations across groups with different demographic backgrounds and socioeconomic status.

Stay tuned for the complete analysis, which will discuss financial resilience and its underlying drivers, drawing evidence from the decade between the Great Recession and the beginning of the COVID-19 pandemic. It will be released in October 2021.

¹ Hasler, Andrea, Annamaria Lusardi, and Noemi Oggero. 2018. Financial Fragility in the US: Evidence and Implications. GFLEC Working Paper Series WP 2018-1.

² Besides the debt balance to income metric shown in the figure, we calculated the debt service payment to family income ratio, commonly used by banks and lenders to weigh credit applications. For the 25-34 age group, the median debt payment-to-income ratio is 3% for the least educated and 17.5% for the most educated.

³ The TIAA Institute-GFLEC Personal Finance Index (*P-Fin Index*) is based on responses to 28 questions related to common financial situations that individuals routinely encounter and provides a robust measure of overall personal finance knowledge.

Note: (1) The data for the 2020 TIAA Institute-GFLEC Personal Finance Index (*P-Fin Index*) were collected in January 2020. The 2019 Survey of Consumer Finances was collected by the Federal Reserve from March through December in 2019. (2) For the education variable, the category "some college" also includes associate degrees.