

# The State of U.S. Financial Capability: The 2018 National Financial Capability Study



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### Financial Capability Gaps Are Widening

Despite economic growth and declining unemployment, there are signs of persistent or widening divides between those who are prospering and those who are struggling financially — younger Americans, those without a college degree, African-Americans and those with lower incomes.

## Introduction

Financial capability encompasses a combination of knowledge, resources, access, experience, and habits. The FINRA Foundation's National Financial Capability Study (NFCS) is designed to understand and measure a rich, connected set of perceptions, attitudes, experiences, and behaviors across a large, diverse sample in order to provide a comprehensive analysis. In 2018, ARC Research and the FINRA Foundation conducted a fourth wave of the NFCS. As with previous waves, the 2018 NFCS has been updated to include new questions on timely, critical topics, while maintaining measures to track comparisons over time.

## Highlights

- ▶ **The Economy and Financial Capability.** In the three years since the 2015 NFCS, the U.S. economy has continued to expand. However, unlike previous waves of the NFCS, which showed increases in Americans' financial capability accompanying positive changes in overall economic conditions, the 2018 NFCS findings reveal a population that has settled into a static financial state, possibly signaling a "new normal." For the majority of Americans, financial capability, stability, and confidence are no longer improving in step with the economy.
- ▶ **Widening Gap in Financial Capability.** The results of the study found signs of persistent or widening divides between those who are struggling financially and those who are prospering, even amid economic growth and declining unemployment over the past decade. While all demographic groups have improved relative to 2009 in their ability to cover monthly expenses and bills, younger Americans, those with lower incomes, and African-Americans have improved less than older Americans, those with higher incomes, and other ethnicities, respectively. Among White respondents, the percentage who spend less than they earn has remained steady since 2009, while the percentage of African-Americans who are able to save has declined by 6 points.
- ▶ **Financial Anxiety.** For too many Americans, personal finances are a source of anxiety and stress. More than half (53%) agree that thinking about their finances makes them anxious, and 44% feel that discussing their finances is stressful, with respondents ages 18-34 reporting the highest levels of stress (63%) and anxiety (55%). With respect to gender differences, single women are more likely than their male counterparts to feel anxious or stressed about their finances. Sixty-one percent of single women feel anxious thinking about their finances compared to 52% of single men. Similarly, 52% of single women feel stressed discussing their finances compared to 42% of single men.
- ▶ **College Debt Remorse.** Among student loan holders with payments due, 42% have been late with a payment at least once in the past year. Further, nearly half (47%) of Americans with student loan debt wish they had chosen less expensive colleges, and 48% are concerned they will not be able to pay off their student loans.
- ▶ **Ability to Save.** Despite the daily stress of making ends meet, nearly three in 10 Americans with very modest annual incomes under \$25,000 are able to save. That said, the percentage of savers in this income bracket was lower in 2018 than it was in 2009.
- ▶ **Financial Education.** Financial education matters. Both the amount and quality of financial education correlate positively with behaviors indicative of financial capability. Respondents who receive more financial education or believe their financial education was higher quality are more likely to save and less likely to overdraw their checking accounts, engage in fee-generating credit card behaviors, or use non-bank borrowing methods.

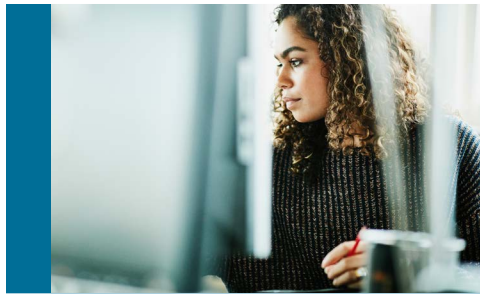
- ▶ **Online and Mobile Banking.** New questions in the 2018 NFCS show that both online and mobile banking are common (84% and 65%, respectively). In addition, 39% of Americans report using websites or apps to help manage their finances. More than a third use their mobile phones for payments at the point of sale (35%) and for transferring money to another person (37%).
- ▶ **Gig Economy.** The 2018 NFCS indicates that informal work activities are common. Nearly a third (32%) of employed Americans earned money from work outside their main employment in the past year. One in six Americans (17%) have taken on a work assignment through a website or app such as Uber, TaskRabbit, Care.com, and other gig economy tools. Among self-employed respondents, this number rises to 27%.

The demographic differences presented throughout this report—including age, ethnicity, and gender—do not control for other variables, like income, that could be driving, in part, some of these differences. In addition to tracking comparisons and demographic breakdowns,<sup>1</sup> this report<sup>2</sup> includes Data Dives with findings from various subgroups (veterans, those with income volatility, and state-by-state comparisons). The Data Dives are included in this report to stimulate further discussion and exploration of the data.

Researchers and others interested in further exploring financial capability in America are encouraged to download the raw respondent-level NFCS data at [www.USFinancialCapability.org](http://www.USFinancialCapability.org) (all four waves are available).

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1. For demographic breakdowns and other sub-samples shown in this report, each sub-sample consists of at least 100 respondents.  
2. Percentages shown in this report may not always add up to 100% due to rounding and/or “don’t know” and missing responses.



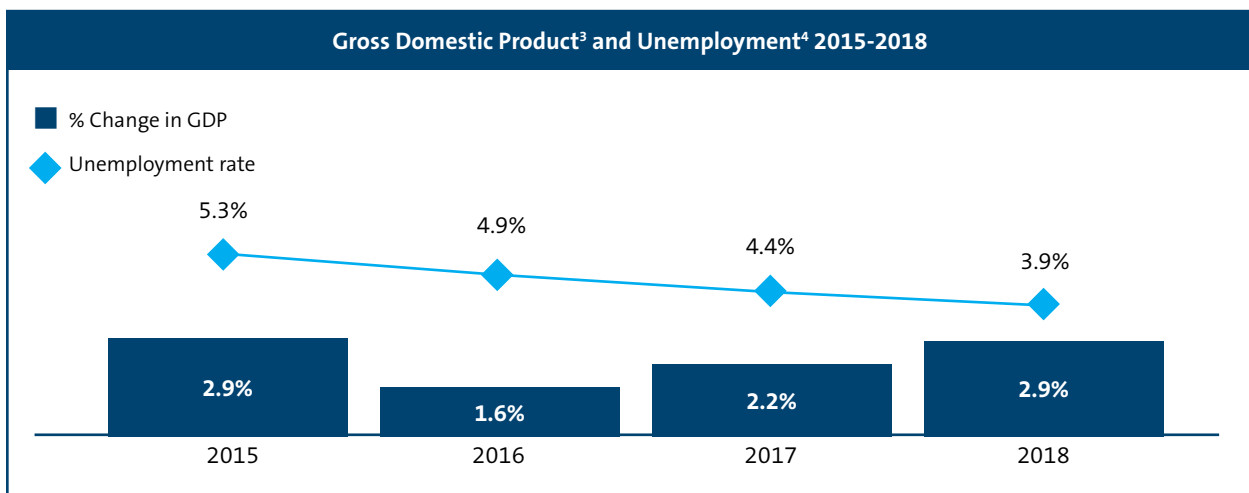
### Personal Finances Are a Cause of Anxiety

More than half (53%) of Americans feel that their personal finances are a source of anxiety. Young adults under age 35 and single women are more likely than single men—or married women or men—to feel the most anxious.

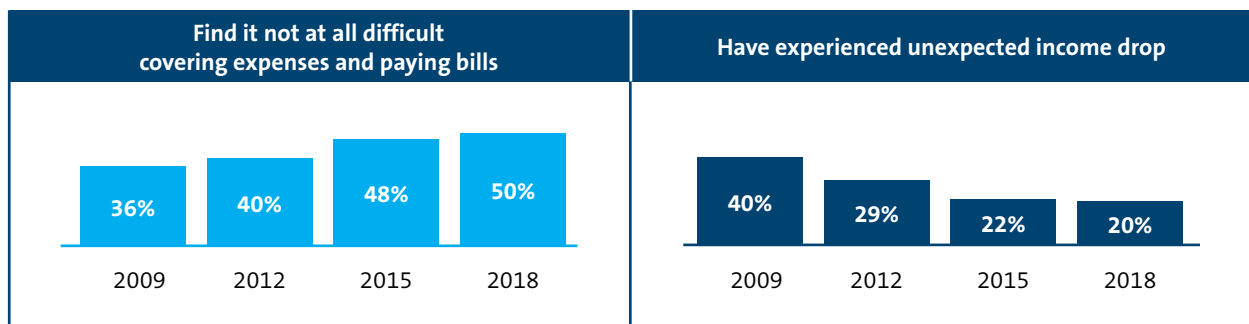
## 1. Making Ends Meet

The ability to make ends meet is central to financial capability, encompassing the extent to which people balance monthly income and expenses and how they deal with everyday financial matters.

While findings from previous waves of the NFCS have shown improvements in Americans’ ability to make ends meet parallel to recovery and growth in the overall economy, results from 2018 suggest that the pace of improvement may be slowing. Since 2015, when the previous wave was conducted, GDP has continued to grow modestly, and unemployment has continued to decline, falling to 3.9% in 2018, the lowest annual average rate in nearly 50 years.



However, the percentage of respondents in the NFCS who report no difficulty in covering monthly expenses and bills has changed little from 2015 (48%) to 2018 (50%), compared to the more substantial increases in 2012 and 2015. Similarly, the proportion of respondents indicating they had experienced a large unexpected income drop in the past year has not changed substantially from 2015 (22%) to 2018 (20%), compared to larger declines between 2009 and 2012 and again in 2015.



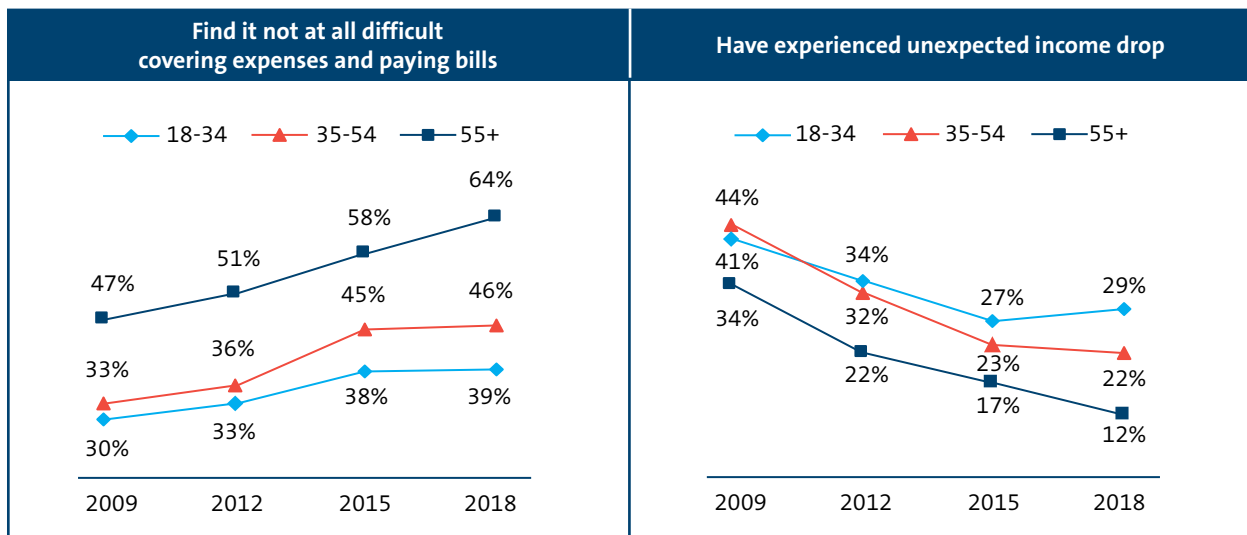
3. Source: U.S. Department of Commerce Bureau of Economic Analysis, Percent Change from Preceding Period in Real Gross Domestic Product, Annual Data from 2015 to 2018.

4. Source: U.S. Department of Labor Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Annual Average Unemployment Rates from 2015 to 2018.

Income and education are correlated with ability to make ends meet. Those with higher incomes or college degrees are more likely than those with lower incomes or no college degree to have no difficulty covering their monthly expenses. Men are more likely than women to have an easier time making ends meet.

	Total	Gender		Income			Education		
		Male	Female	<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more
Find it not at all difficult covering expenses and paying bills	50%	55%	46%	26%	48%	71%	44%	46%	64%

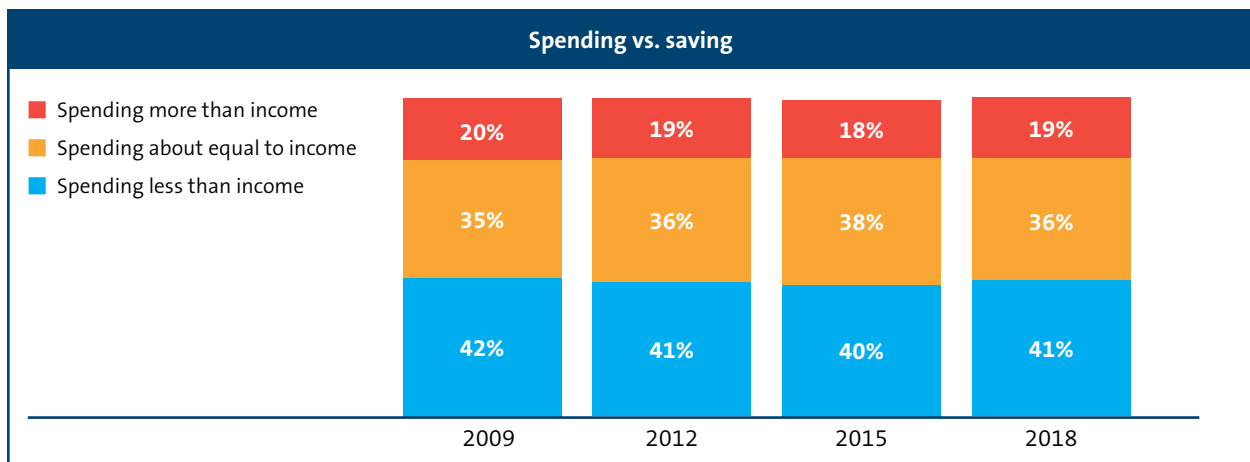
Examination of trends over time within age groups shows a widening gap between the youngest and oldest respondent groups in making ends meet. Relative to 2009, the proportion of respondents who report no difficulty covering monthly expenses has increased by 17 percentage points among respondents ages 55 and older, compared to an increase of 9 percentage points among those ages 18-34. The percentage of respondents ages 55 and older who have experienced an unexpected income drop has decreased by 22 points since 2009, compared to a decrease of only 12 points among respondents ages 18-34.



Similar patterns can be seen by ethnicity. The ability to cover monthly expenses has improved by 16 percentage points since 2009 among White respondents, 15 points among Asian-Americans, 14 points among Hispanics, and 9 points among African-Americans. Over the same period of time, the number of respondents reporting an unexpected income drop has declined 21 percentage points among Whites and Hispanics, 19 points among Asian-Americans, and 12 points among African-Americans.

## Spending and Saving

As previous NFCS waves have shown, despite improvements in Americans’ ability to make ends meet relative to 2009, there has not been a corresponding increase in propensity to save. Forty-one percent of respondents report spending less than their income, 36% spend about equal to their income, and 19% spend more than their income. These percentages have remained consistent across all four NFCS waves.

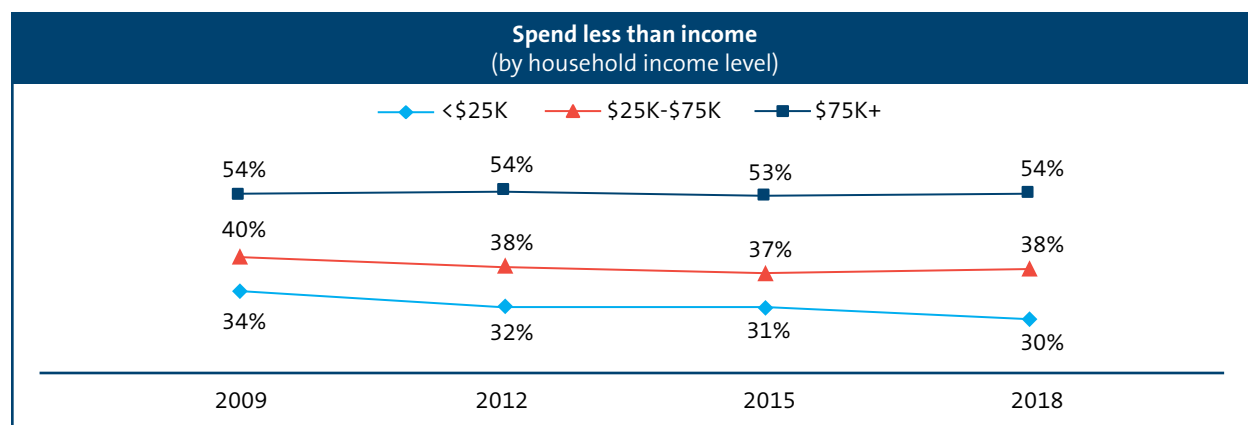


Those with higher incomes or college degrees are more likely than those with lower incomes or no college degree to save. Nevertheless, it is encouraging to note that nearly three in 10 Americans with incomes under \$25,000 are able to save.

	Total	Income			Education		
		<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more
Spend less than income	41%	29%	38%	54%	36%	38%	50%

Although the overall percentage of Americans who spend less than they earn has been largely the same since 2009, further analysis reveals slight declines in saving among those least able to save. Among respondents with incomes of less than \$25,000, the percentage who save has decreased by 4 percentage points relative to 2009, while it has not changed among those with incomes of \$75,000 or more. Differences also emerge by ethnicity. From 2009 to 2018, the percentage of respondents who spend less than they earn has decreased by 6 percentage points among African-Americans, 3 points among Hispanics, 2 points among Asian-Americans, and zero points among White respondents.



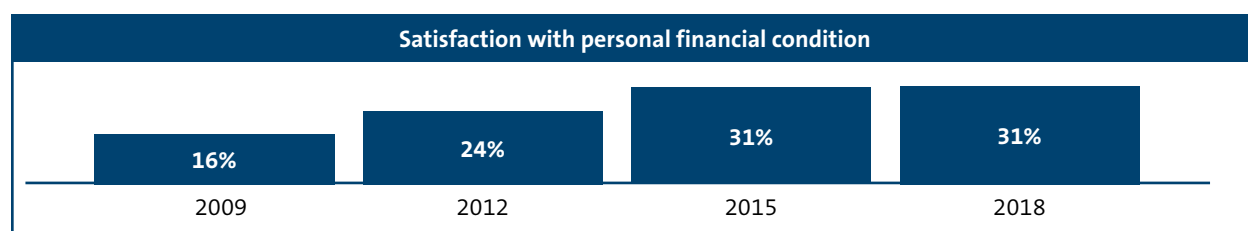


	2009	2012	2015	2018
White	42%	41%	41%	42%
African-American	40%	39%	36%	34%
Hispanic	42%	41%	41%	39%
Asian-American	48%	49%	45%	46%

Similarly, the percentage of respondents ages 18-34 who save has ticked down by 3 percentage points since 2009, while the percentage among those ages 55 and older has ticked up by 3 points.

### Feelings About Personal Financial Condition

Mirroring the slowing pace of improvement in Americans’ ability to make ends meet, satisfaction with one’s personal finances, which nearly doubled between 2009 and 2015, has been flat since then. Thirty-one percent of respondents in the 2018 NFCS report being very satisfied with their current personal financial condition (8 to 10 on a 10-point scale), unchanged from 2015.



As anticipated, those who have no difficulty making ends meet are much more likely to be satisfied with their personal finances than those who find it very difficult to make ends meet (48% vs. 20%). Respondents who save are more likely to be satisfied with their personal finances than those who spend more than their income (42% vs. 20%).

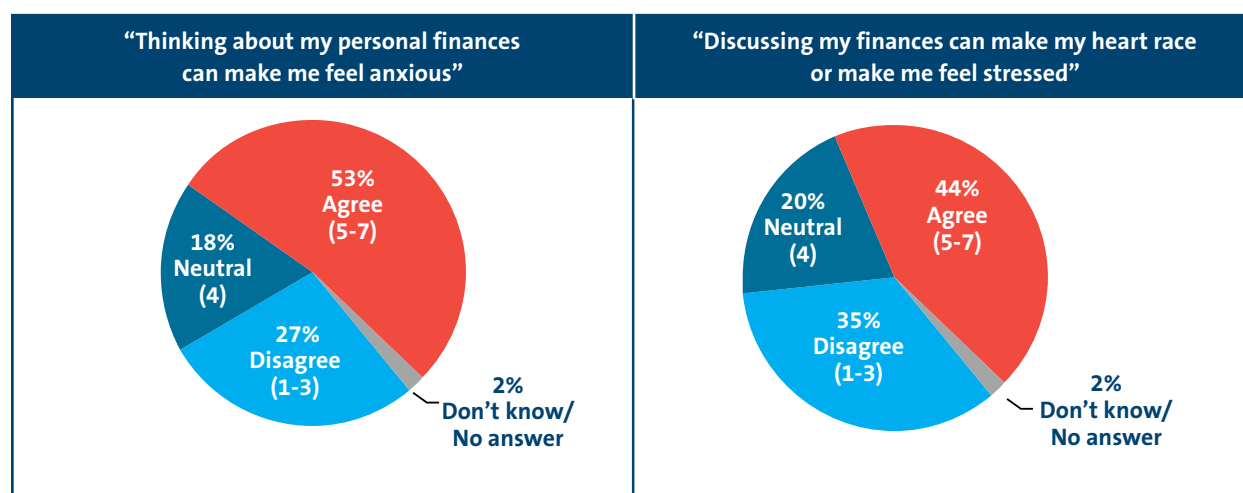
The 2018 NFCS includes the abbreviated version of the Consumer Financial Protection Bureau’s (CFPB) financial well-being scale,<sup>5</sup> which produces a score between 0 and 100, with higher numbers indicating a greater level of financial well-being. These new data enable researchers to study not only specific behaviors or outcomes but also a broader measure such as well-being. Across the population of NFCS respondents, the average score is 52. Financial well-being scores increase with age and income. Among ethnic groups, White and Asian-American respondents have modestly higher average scores.

5. “Measuring Financial Well-Being: A Guide to Using the CFPB Financial Well-Being Scale,” Consumer Financial Protection Bureau, December 2015.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other <sup>6</sup>
Financial well-being score	52	48	49	59	44	51	59	54	50	50	53	49

Financial well-being is correlated with overall satisfaction with one’s personal finances, and it is inversely correlated with difficulty making ends meet. In addition, respondents who are able to save have higher levels of financial well-being than those who cannot or do not save.

The 2018 NFCS includes two new questions to measure financial anxiety and stress.<sup>7</sup> As the accompanying charts illustrate, many Americans find their personal finances a source of anxiety or stress. Over half (53%) agree that thinking about their personal finances makes them anxious (5 to 7 on a 7-point scale), and 44% agree that discussing their finances is stressful.



Women, younger respondents, those with financially dependent children, and non-retired respondents are more likely to experience their personal finances as anxiety- or stress-provoking.

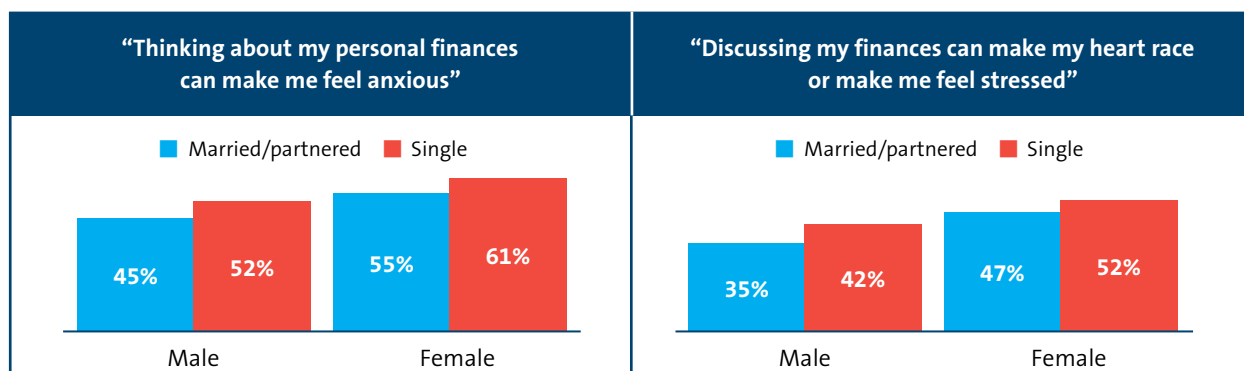
Agree (5 to 7 on 7-point scale)	Total	Gender		Age			Financially dependent children		Household retirement status	
		Male	Female	18-34	35-54	55+	Yes	No	Non-retired	Retired
“Thinking about my personal finances can make me feel anxious”	53%	47%	57%	63%	58%	39%	61%	48%	58%	33%
“Discussing my finances can make my heart race or make me feel stressed”	44%	38%	49%	55%	49%	30%	53%	38%	49%	25%

6. Includes non-Hispanic respondents who self-identified as Native American or Alaska Native, other, or two or more ethnicities.

7. Adapted from Nadia Linciano, Monica Gentile, and Paola Soccorso, “Report on Financial Investments of Italian Households. Behavioural Attitudes and Approaches—2017 Survey,” CONSOB, September 2017.

Among ethnic groups, Hispanic respondents are the most likely to agree with both of these statements (59% “feel anxious” thinking about, and 50% “feel stressed” discussing, their finances), while White respondents are the least likely to agree (51% and 41%, respectively).

Crossing gender with marital status reveals that single women are the most likely to feel anxious or stressed about their finances, followed by married women, single men, and married men.



### Behavioral Signs of Financial Stress

The percentages of respondents engaging in behaviors indicative of financial stress—such as late mortgage payments or loans and hardship withdrawals from retirement accounts—have not changed substantially from 2015. Nineteen percent of mortgage holders report having been late with a mortgage payment at least once in the past year. Sixteen percent of non-retired respondents with retirement accounts report having taken a loan from their accounts in the past year, and 13% report a hardship withdrawal. However, while the magnitude of change is very small, the direction of change across these three measures points toward a potential increase in financial stress, particularly when compared with 2009.

	2009	2012	2015	2018
Have been late with mortgage payments <sup>8</sup>	--	--	16%	19%
Have taken a loan from their retirement account	10%	14%	13%	16%
Have taken a hardship withdrawal from their retirement account	8%	10%	10%	13%

With respect to demographic differences among age cohorts and ethnicities, the data reveal younger Americans, especially those 34 and under, are more likely to show these signs of financial stress, as are African-American respondents.

	Total	Age			Ethnicity				
		18-34	35-54	55+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Have been late with mortgage payments	19%	40%	17%	7%	14%	46%	21%	14%	19%
Have taken a loan from their retirement account	16%	28%	15%	6%	14%	35%	17%	10%	9%
Have taken a hardship withdrawal from their retirement account	13%	26%	10%	4%	10%	34%	13%	10%	8%

8. Direct comparisons to 2012 and 2009 NFCS data are not possible because this question was asked differently prior to 2015.



**Healthcare Costs Affect the Insured and Uninsured**

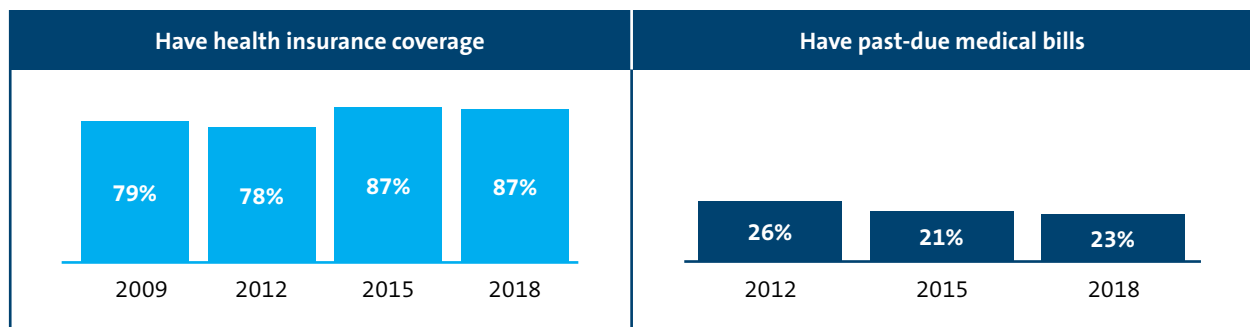
Nearly three out of 10 Americans have avoided a medical service due to cost, including 27% of those with health insurance.

Among respondents with checking accounts, 19% occasionally overdraw their checking accounts, unchanged from 2015. Examining across age cohort, ethnicity, and family structure, younger respondents, African-Americans, and those with financially dependent children are more likely to overdraw their checking accounts.

	Total	Age			Ethnicity					Financially dependent children	
		18-34	35-54	55+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	Yes	No
Overdraw checking account	19%	29%	22%	10%	16%	34%	22%	16%	24%	29%	14%

### Medical Expenses

The percentage of Americans who report having health insurance in 2018 has remained steady at 87% after a substantial increase from 2012 to 2015 (likely due to the implementation of the Affordable Care Act in 2014). Among respondents under age 65 in the NFCS, health insurance coverage rates appear to be higher in states that have adopted Medicaid expansion, averaging 88% compared to 79% among the states that have not.<sup>9</sup>



Consistent with 2015, more than one in five Americans (23%) report having unpaid, past-due bills from a healthcare or medical service provider. Among those without health insurance, the number rises to 33%.

Younger respondents are more likely than older respondents to have unpaid medical bills. This is likely due to the lower incidence of health insurance among younger Americans and the ubiquity of Medicare among those 65 and older. Women are more likely than men to have medical debt, though they are not less likely to be insured.

	Total	Gender		Age		
		Male	Female	18-34	35-54	55+
Have past-due medical bills	23%	20%	25%	29%	28%	13%

9. Based on the 31 states (and the District of Columbia) that had implemented Medicaid expansion before January 1, 2018, compared to the 19 states that had not. Since then, several more states have adopted Medicaid expansion. (Source: KFF's State Health Facts, Status of State Action on the Medicaid Expansion Decision, February 13, 2019.)

Nearly three out of ten Americans (29%) have avoided some kind of medical service (visiting a doctor, following through with doctors’ recommendations, or filling prescriptions) because of cost concerns.

In the past year...	2015	2018
Did not fill a prescription for medicine because of the cost	15%	17%
Skipped a medical test, treatment or follow-up recommended by a doctor because of the cost	17%	19%
Had a medical problem but did not go to a doctor or clinic because of the cost	19%	21%
Had any of the above medical cost difficulties	28%	29%

Women are more likely than men to have financial difficulty with the cost of medical services, as are younger respondents, those with lower income levels, and those with financially dependent children.

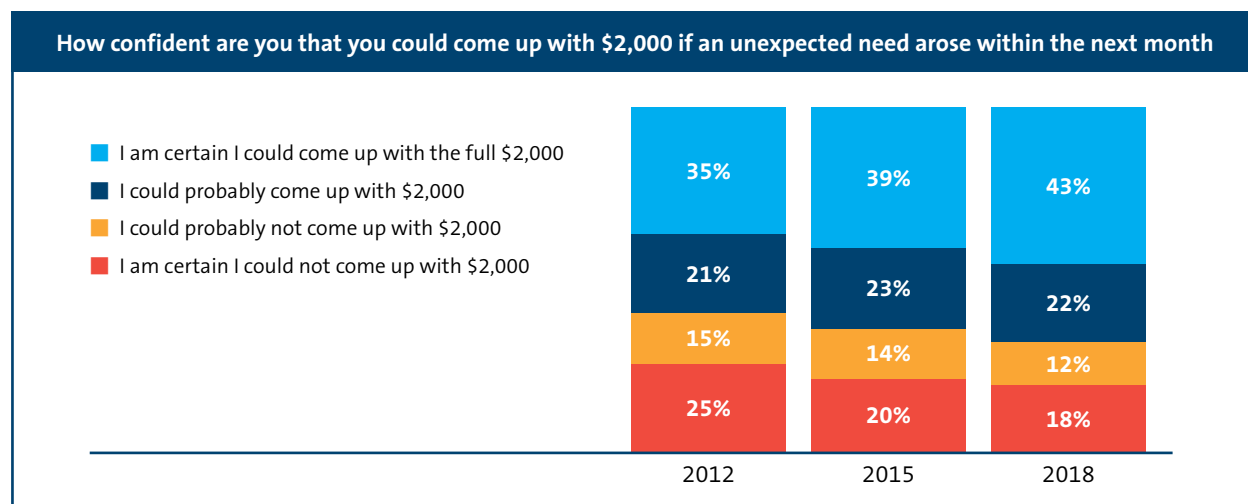
	Total	Gender		Age			Income			Financially dependent children	
		Male	Female	18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	Yes	No
Had medical cost difficulties	29%	26%	32%	41%	32%	17%	36%	32%	21%	38%	25%

Over half (51%) of respondents without health insurance say they have avoided medical services because of the cost, while only 27% of those with insurance have done so. Among respondents who find it very difficult to cover all their monthly bills, 62% have avoided medical services, compared to 15% of those who have no difficulty making ends meet.

### Financial Fragility

Financial fragility is defined as the lack of liquidity to deal with an unexpected challenge (for example, a major car or housing repair). Liquidity could involve tapping into savings, selling valuables, or borrowing.

When asked if they would be able to come up with \$2,000 if an unexpected need arose in the next month, nearly a third of respondents (31%)<sup>10</sup> said they probably or certainly could not, little changed from 34% in 2015. However, the long-term trend since 2012 shows that Americans appear less financially fragile



10. 2018 percentages in the chart do not appear to add up to 31% due to rounding.



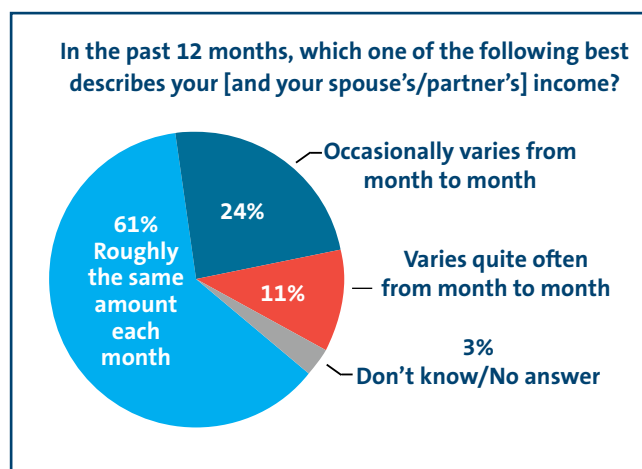
There are considerable demographic differences in financial fragility. Women are more likely than men to have trouble covering an unexpected expense (36% vs. 25%), as are respondents under 55 (37% among ages 18-34 and 35% among ages 35-54, compared to 21% among those 55+). Similarly, looking across income, education, and ethnicity, those with lower income and education levels, as well as African-American and Hispanic respondents, are more likely to have difficulty handling a short-term, unexpected expense. Although controlling for income and education narrows the gap, ethnic differences persist.

	Total	Income			Ethnicity					Education		
		<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	HS or less	Some college	College or more
Probably/certainly could not come up with \$2,000	31%	57%	31%	10%	27%	41%	38%	21%	40%	40%	34%	16%

### Income Volatility

Income volatility is another factor that affects a household’s ability to make ends meet. Without a steady, predictable monthly income, meeting monthly bills and managing expenditures can be challenging.

Data from a new question in the 2018 NFCS show that, while a majority of respondents’ household incomes are fairly steady (61%), more than one in three Americans (36%)<sup>11</sup> say their income varies either occasionally or quite often from month to month. Compounding the difficulties that these households may face, income volatility tends to be more common among groups that are more financially vulnerable, particularly younger Americans (those under 35), Hispanics and African-Americans, and those with lower annual household incomes.



	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Income varies occasionally or often	36%	48%	39%	22%	39%	38%	30%	32%	41%	46%	36%	42%

Over half of respondents (55%) with fluctuating incomes say they find it somewhat or very difficult to cover their monthly expenses and bills, compared to 42% among those whose incomes are consistent. Respondents with income volatility are also more likely than those with steady incomes to spend more than they earn (24% vs. 16%) and to be financially fragile (35% vs. 28% say they probably/certainly could not cover an unexpected \$2,000 expense).

11. Percentages in the chart do not appear to add up to 36% due to rounding.



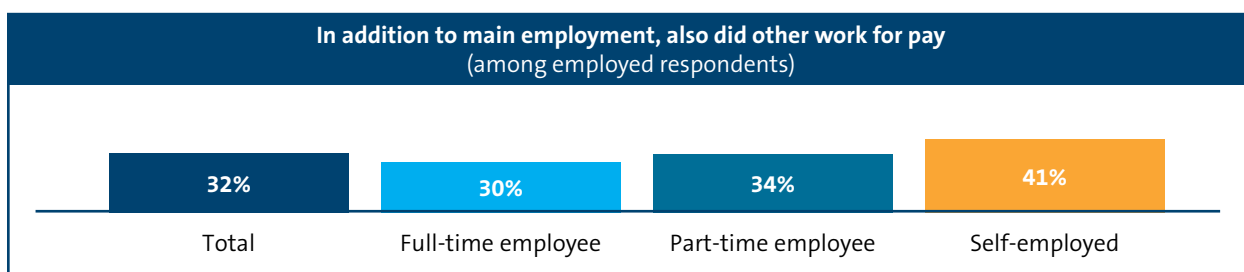
### Gig Economy Is a Reality

Nearly a third of employed Americans earned money from work outside of their primary employment. One in six have taken on a work assignment through a website or app such as Uber, Task Rabbit and Care.com.

## Informal Work Activities

Given the increasing media interest in non-traditional work arrangements and the rise of the “gig economy” (or “contingent workforce”), the 2018 NFCS includes new questions to measure these phenomena. Capturing the many combinations of various possible income-generating activities requires multiple, detailed questions,<sup>12</sup> which would not be feasible for a study such as the NFCS. Instead, the survey simply asks respondents whether in the past year they engaged in any paid work outside of their main employment (for those currently employed), or whether they engaged in any paid work at all (for those not currently employed). Separately, respondents are also asked whether they have used digital platforms to take on work assignments.

Just under a third of employed respondents (32%) indicate that they earned money from work other than their main employment in the past year. Not surprisingly, this percentage is higher among self-employed and part-time workers. But even among full-time employees, 30% also did other work for pay. Among those not currently employed, 22% have done some work for pay in the past year.



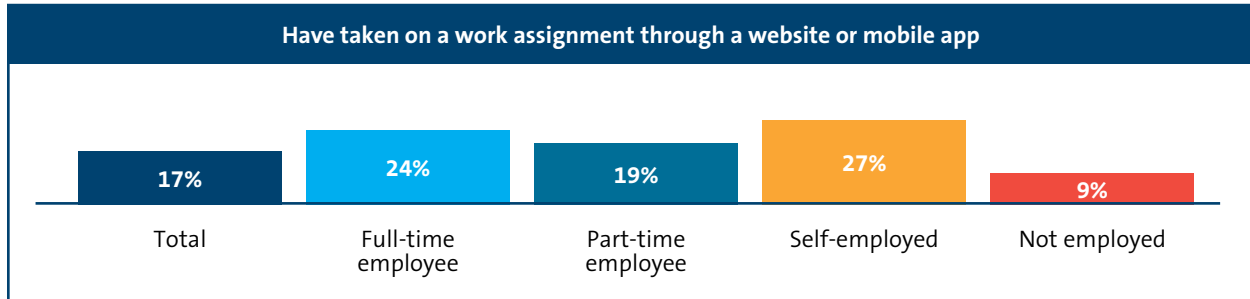
Among full-time employees, men are more likely than women to report engaging in side work (32% vs. 27%). Incidence of side work decreases as income increases. With respect to age cohorts and ethnicities, younger Americans (18-34) and African-Americans are the most likely to be working informally in addition to their full-time employment.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Full-time employees who also did other work for pay	30%	42%	25%	18%	33%	30%	28%	28%	42%	31%	23%	26%

Full-time employees who do side work are more likely to find it somewhat or very difficult to make ends meet than those who only have one job (57% vs. 41%) and to have experienced an unexpected income drop (35% vs. 13%, respectively). They are also more likely to spend more than they earn (27% vs. 16% among those without side jobs). Despite this, they are not more likely to be financially fragile (25% of both groups say they probably or certainly could not cover an unexpected \$2,000 expense) and are more likely to be satisfied with their finances (38% vs. 29% among those without side work).

12. For example, see Barbara Robles and Marysol McGee, “Exploring Online and Offline Informal Work: Findings from the Enterprising and Informal Work Activities (EIWA) Survey,” Board of Governors of the Federal Reserve System, October 2016.

One in six respondents (17%) say they have taken a work assignment through a website or mobile app (for example, Uber, TaskRabbit, Care.com, and other gig economy tools) in the past year. Among self-employed respondents, over a quarter (27%) have done so. Among those who are not currently employed, 9% report using websites or mobile apps to get work assignments.



Men are more likely than women to have taken on work through a digital platform (22% vs. 12%). As with other technology-related trends in the NFCS, younger respondents and non-White respondents are more likely to have used an app or website to obtain work. Usage trends upward slightly with education.

	Total	Age			Ethnicity					Education		
		18-34	35-54	55+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	HS or less	Some college	College or more
Have taken on a work assignment through a website or mobile app	17%	33%	16%	4%	12%	29%	22%	26%	13%	15%	17%	19%

### Government Benefits

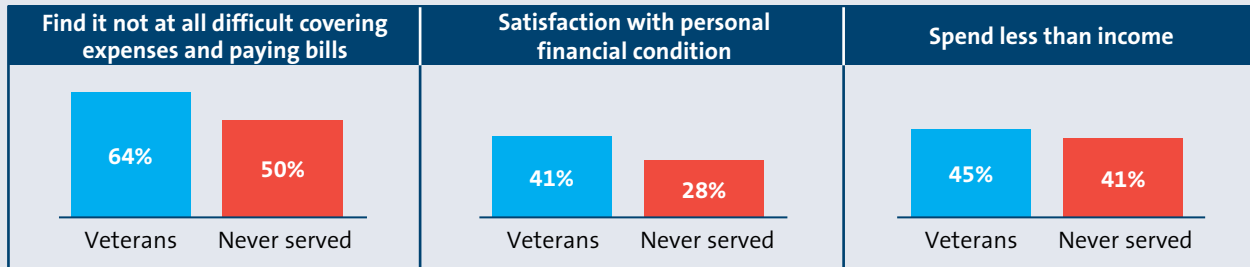
Just over one in five NFCS respondents (21%) say they receive Medicaid or food stamps. Younger respondents, those with lower incomes and education levels, and respondents with financially dependent children are more likely to be receiving government assistance.

	Total	Age			Income			Education			Financially dependent children	
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more	Yes	No
Receive Medicaid or food stamps/ SNAP	21%	28%	22%	13%	47%	16%	8%	28%	23%	10%	28%	17%

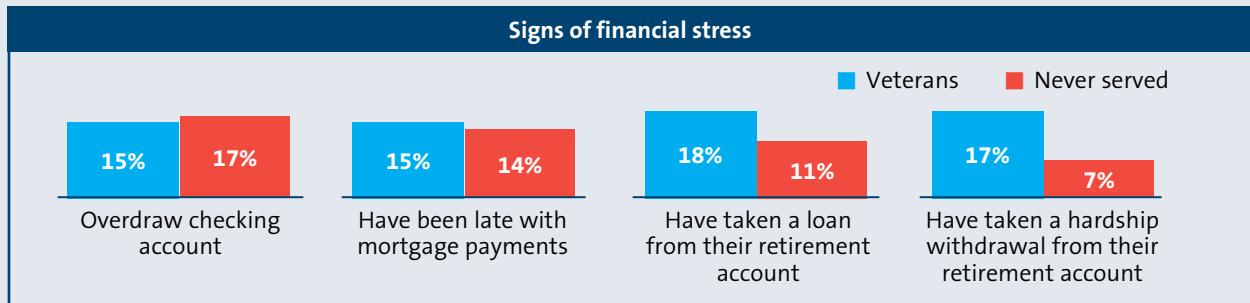
### Data Dive: Veterans and Making Ends Meet

The 2018 NFCS includes 3,055 respondents who indicate that they have previously served in the U.S. Armed Services. Comparing the responses of these veterans to those who have never served shows that veterans appear to be doing better than non-veterans on some measures of ability to make ends meet.<sup>13</sup>

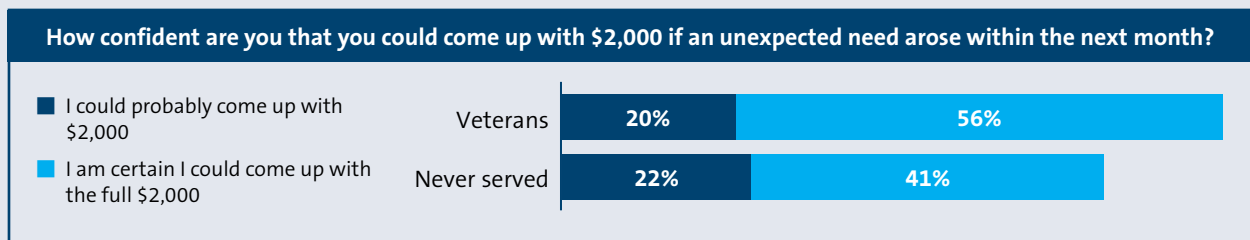
Nearly two-thirds (64%) of veterans say they have no difficulty covering monthly expenses and bills, compared to half of those who have never served. Similarly, veterans are much more likely to be satisfied with their personal finances than non-veterans (41% vs. 28%). Veterans are somewhat more likely to be saving than non-veterans (45% vs. 41%).



However, veterans are more likely than non-veterans to show some indications of financial stress. While they are comparable to the non-veteran population in terms of overdrawing checking accounts and late mortgage payments, they are more likely than non-veterans to have taken a loan or a hardship withdrawal from their retirement accounts.



Veterans appear to be less financially fragile than those who have never served. Over three-quarters (76%) of veterans say they could probably or certainly meet an unexpected \$2,000 expense, compared to 63% of non-veterans.



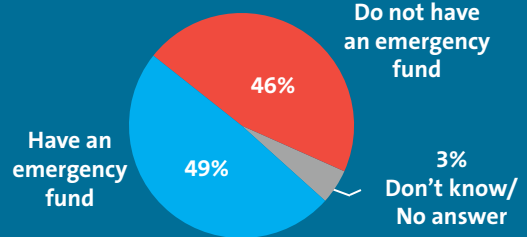
Note that there are substantial demographic differences between veterans and non-veterans in the NFCS. Veterans are overwhelmingly male (85%), and the majority are over 55 years of age (59%). It is likely that these demographic differences play at least some part in the findings outlined above. Accordingly, further analysis is necessary to isolate the effects of veteran status independent of other demographic variables.<sup>14</sup>

13. Current military service members are excluded from the analysis.

14. A more comprehensive analysis of financial capability among veterans will be released in a separate report.

### Fewer Than Half Have Emergency Funds

In the 2018 NFCS, nearly half (49%) of respondents report having emergency funds. However, almost half (46%) have not set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn, or other emergency.

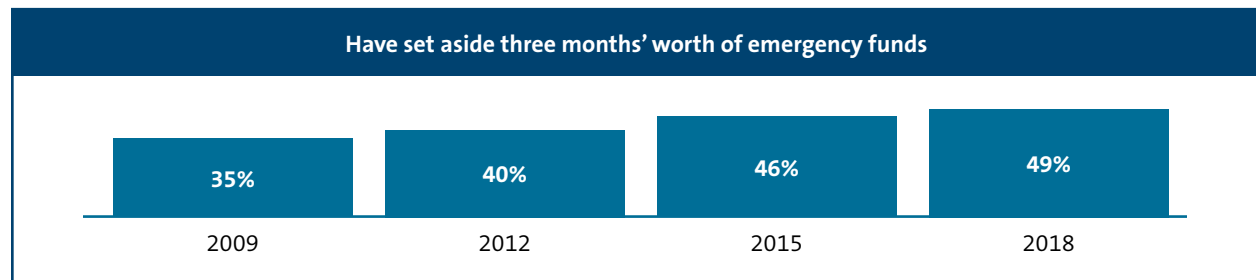


## 2. Planning Ahead

Most Americans experience predictable life events that require planning, including financing one’s retirement and funding the cost of a child’s higher education. Also, because the future is uncertain, individuals and families need to buffer themselves against financial emergencies. Being able to manage shocks contributes to financial stability.

### Rainy Day Funds

Emergency savings, or “rainy day” funds, are an important element of planning for the financial future. In the 2018 NFCS, nearly half (49%) of respondents report having emergency funds, continuing the upward trend since 2009. However, almost half (46%)<sup>15</sup> have not set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn, or other emergency. As a result, many individuals and families would not be able to draw on personal financial resources if they were faced with an economic shock.



Respondents in the highest income group are three times more likely to have an emergency fund than those in the lowest income group. Older respondents (55 and up) and those with higher levels of education are also more likely to have emergency funds.

	Total	Age			Income			Education		
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more
Have set aside three months' worth of emergency funds	49%	41%	41%	61%	23%	47%	69%	38%	45%	64%

15. Percentages do not appear to add up to 100% due to “don’t know” and missing responses.

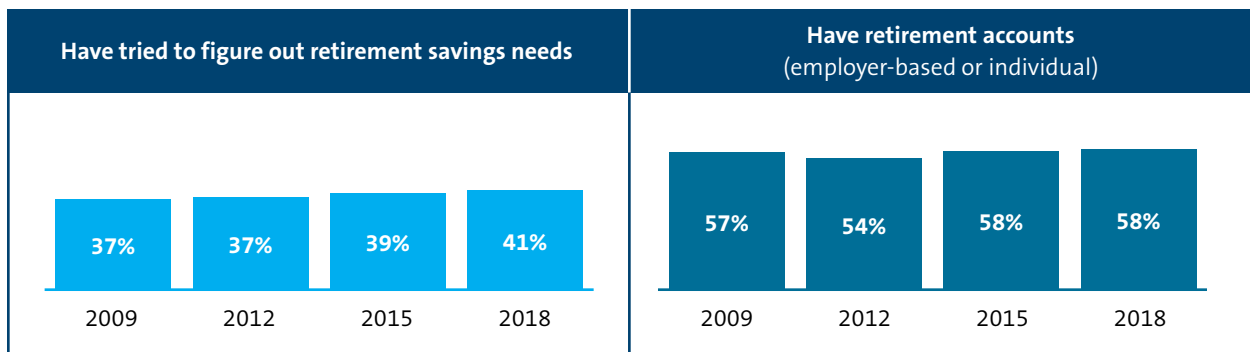


## Planning for Retirement

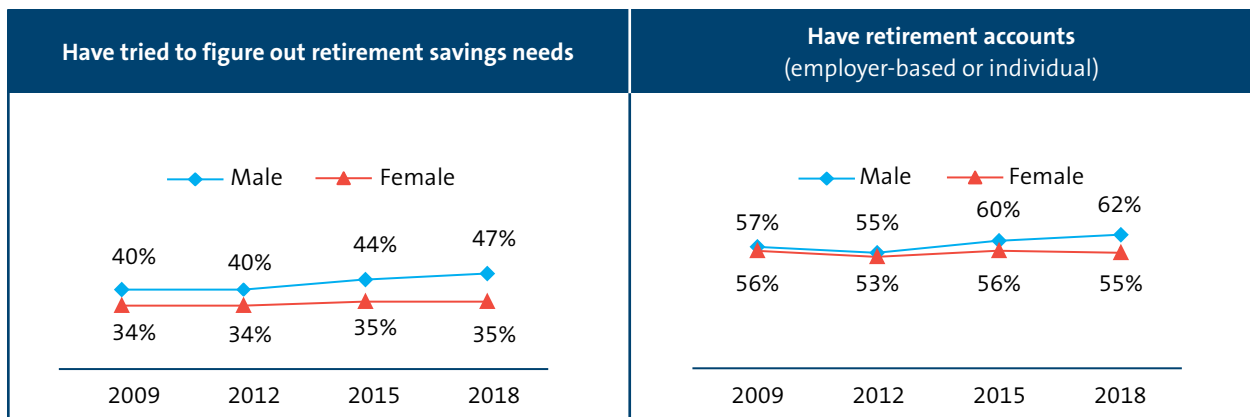
While individuals increasingly have to take responsibility for their financial security after retirement, the majority of Americans do not appear to have done much retirement planning. Forty-one percent of respondents have tried to figure out how much they need to save for retirement, while 54% have not. The act of planning for retirement is a strong positive indicator of retirement wealth.

Recognizing that many Americans are not familiar with the technical terms and distinctions used to describe various types of retirement plans, the survey employs plain-language questions to assess whether respondents have a retirement plan through an employer, and if so, which type (specifically, a defined benefit plan or a defined contribution plan, such as a 401(k)). In addition, the survey asks whether individuals have retirement accounts they set up on their own, such as an Individual Retirement Account (IRA), Keogh Plan, SEP, or other type of retirement account. More than half of all non-retired respondents (58%) have some kind of retirement account, either employer-based (for example, 401(k) or pension) or independent (for example, IRA).

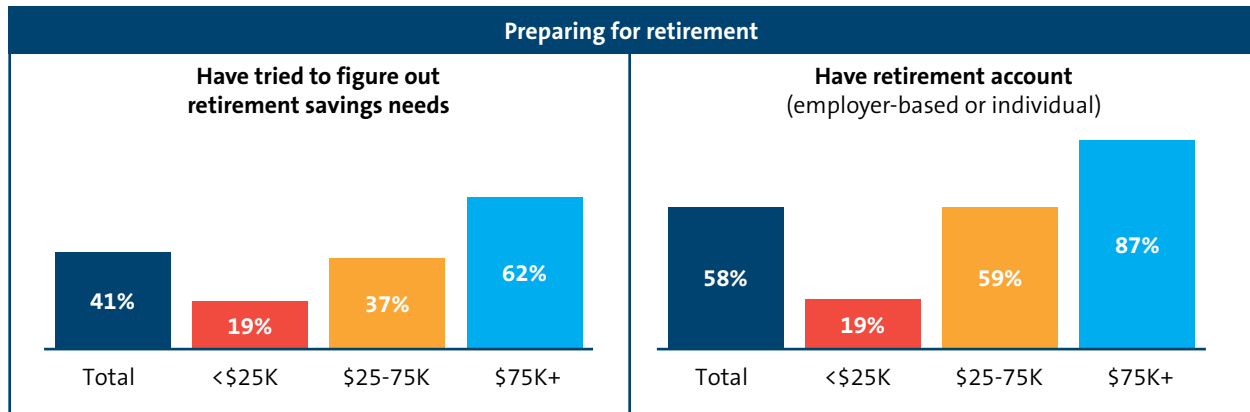
Despite the considerable improvement in Americans' ability to make ends meet relative to 2009, the percentages of those who have planned for retirement or have a retirement account have not shifted much over the past four waves of the NFCS.



An examination of the differences between women and men in preparing for retirement suggests that the gender gap may be widening slightly. Relative to 2009, the percentages of women who have tried to calculate their retirement savings needs or who have a retirement account have not changed, whereas both of these measures have improved somewhat for men.



Nevertheless, gender differences in preparing for retirement pale in comparison to differences by household income. Only 19% of those with incomes under \$25,000 have tried to plan for retirement, compared to 62% of those with \$75,000 or more income. Similarly, the likelihood to have a retirement account increases dramatically with income, such that only a small minority of respondents with less than \$25,000 income have a retirement account (19%) while the vast majority of respondents with \$75,000 or more income have one (87%).



Just over half of respondents (51%) in the 2018 NFCS say they are worried about running out of money in retirement, down from 56% in 2015.

Women are more likely than men to be worried about retirement, as are those with financially dependent children. Respondents ages 55 and up are less likely than younger respondents to be worried about retirement (though more than two-fifths of them are worried).

	Total	Gender		Age			Financially dependent children	
		Male	Female	18-34	35-54	55+	Yes	No
"I worry about running out of money in retirement" Agree (5 to 7 on 7-point scale)	51%	48%	53%	53%	58%	42%	58%	47%

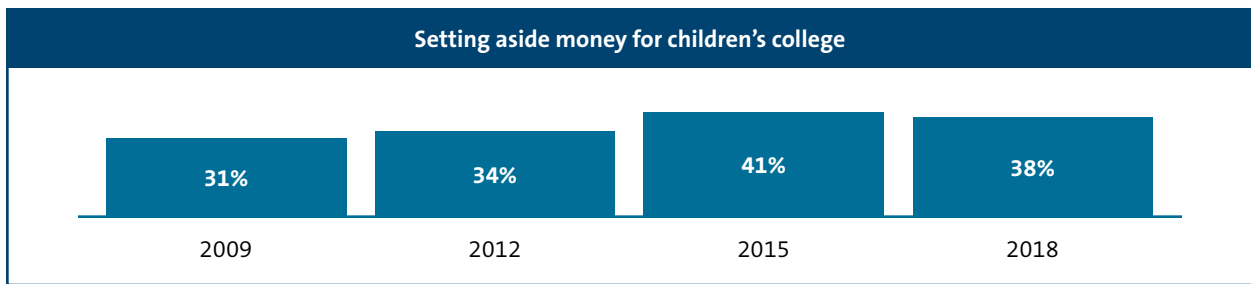


### Fewer Parents Are Saving for College

The percentage of parents who are saving money for their children’s college education has declined, ending an upward trend in college savings from 2009 to 2015.

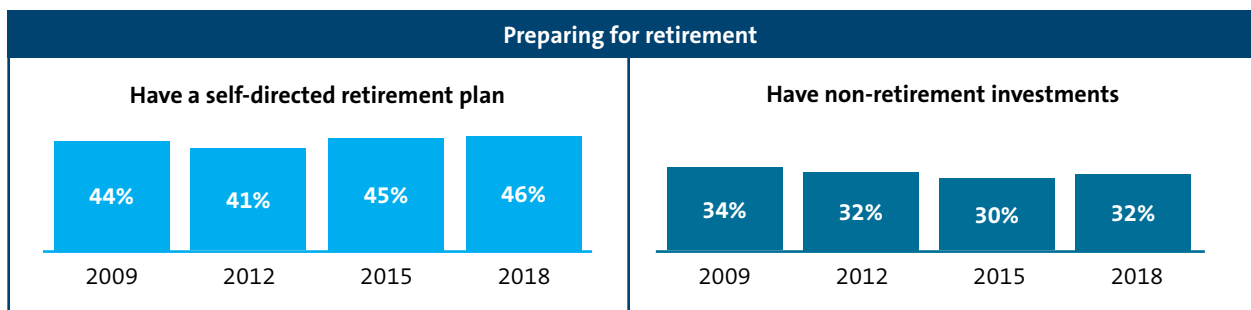
## Planning for College

An average American family with children can expect to allocate a sizable share of their resources to paying college tuition. In the 2018 NFCS, 38% of those with financially dependent children report setting aside money for their children’s college education. This figure is not substantially different from 2015, but represents a break in the upward trend from 2009 to 2015.



## Investing

One of the most concrete indicators of planning ahead is investing, both in tax-deferred retirement accounts and in non-retirement accounts.<sup>16</sup> Forty-six percent of non-retired respondents have a self-directed retirement plan (such as a 401(k) from an employer or an IRA they have set up themselves) and just under a third of respondents (32%) have investments in stocks, bonds, mutual funds, or other securities outside of retirement accounts. These percentages have not changed substantially relative to 2015.



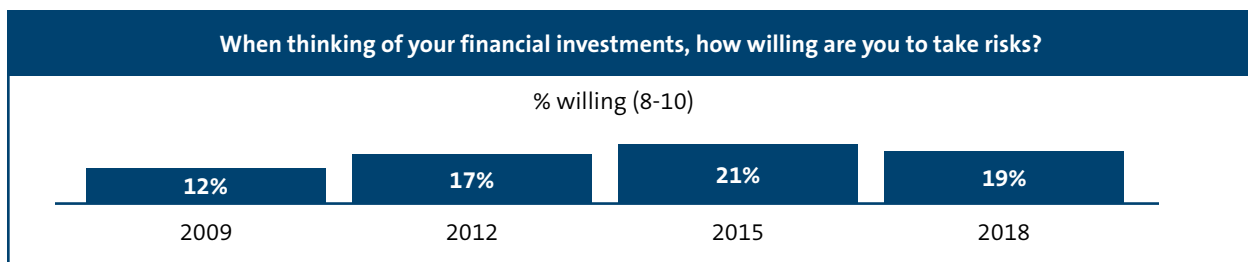
16. As with the previous wave, the 2018 NFCS also includes a follow-up survey of investors with non-retirement accounts to provide additional detail on investor-specific topics, such as types of securities owned, perceptions of the securities market, and investment-specific financial literacy questions. Findings from this survey will be released in a separate report.

Not surprisingly, those with higher incomes and higher education levels are much more likely than those with lower incomes and lower education levels to have both retirement and non-retirement investments.

	Total	Income			Education		
		<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more
Have self-directed retirement plan	46%	14%	42%	75%	30%	43%	66%
Have non-retirement investments	32%	11%	27%	53%	21%	28%	48%

### Risk Preferences

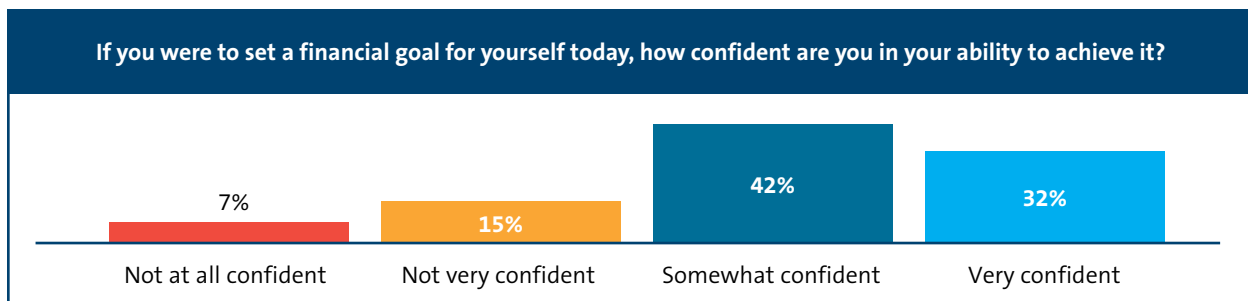
An important determinant of how people choose to invest their savings and retirement wealth is their attitude towards financial risk. Only about one in five Americans (19%) say they are willing to take financial risks. While not substantially lower than the 21% in 2015, the 2018 figure may signal the beginning of a pullback in willingness to take financial risks. Respondents may also have been reacting to the increased volatility seen in the stock market during the first quarter of 2018, a few months before the NFCS began fielding.<sup>17</sup>



Men are much more likely than women to say they are willing to take risks in financial investments (28% vs. 11% respectively).

### Financial Self-Efficacy

Nearly three-quarters of Americans (73%)<sup>18</sup> feel somewhat or very confident in their ability to achieve financial goals.



17. Fielding was completed before the sharp market drop in the fourth quarter of 2018.

18. Percentages in the chart do not appear to add up to 73% due to rounding.

Men are more likely to feel confident than women, as are those with higher incomes. Interestingly, respondents ages 35 to 54 are less likely than both younger and older respondents to feel confident in their ability to achieve financial goals, though a large majority of that age cohort do feel confident.

	Total	Gender		Age			Income		
		Male	Female	18-34	35-54	55+	<\$25K	\$25-75K	\$75K+
Very/somewhat confident in ability to achieve financial goals	73%	77%	70%	76%	70%	74%	55%	73%	88%

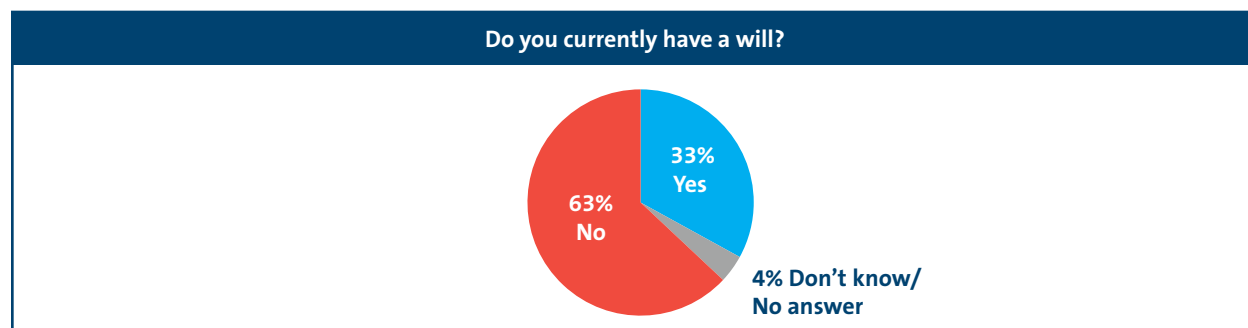
### Personal Finance Technology

Thirty-nine percent of respondents use websites or apps to help with financial tasks such as budgeting, saving, or credit management (11% frequently and 28% sometimes), while the majority of respondents (58%) do not. Consistent with other FinTech-related measures in the NFCS, younger respondents, those with higher incomes, and non-White respondents are more likely to use technology to help with personal financial management.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Use websites/apps for financial tasks	39%	56%	42%	23%	34%	40%	42%	34%	51%	49%	45%	41%

### Estate Planning

Only a third of Americans currently have a will, while 63% say they do not.



Older Americans, particularly those 55 and up, and those with higher incomes are more likely to have a will in place. Only 28% of respondents with financially dependent children have a will, compared to over half (52%) of those with children who are not financially dependent. This appears to be largely due to age, as the vast majority of respondents with non-financially-dependent children are 55 or older (78%), while those with financially dependent children are younger.

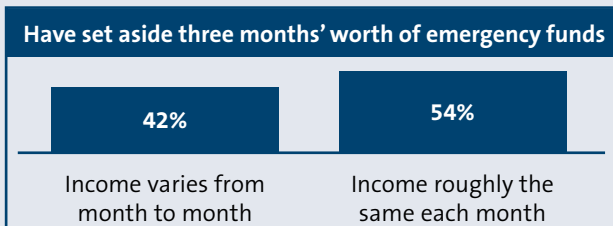
	Total	Age			Income			Children		
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	Dependent	Not dependent	No children
Have a will	33%	17%	23%	55%	15%	31%	48%	28%	52%	21%



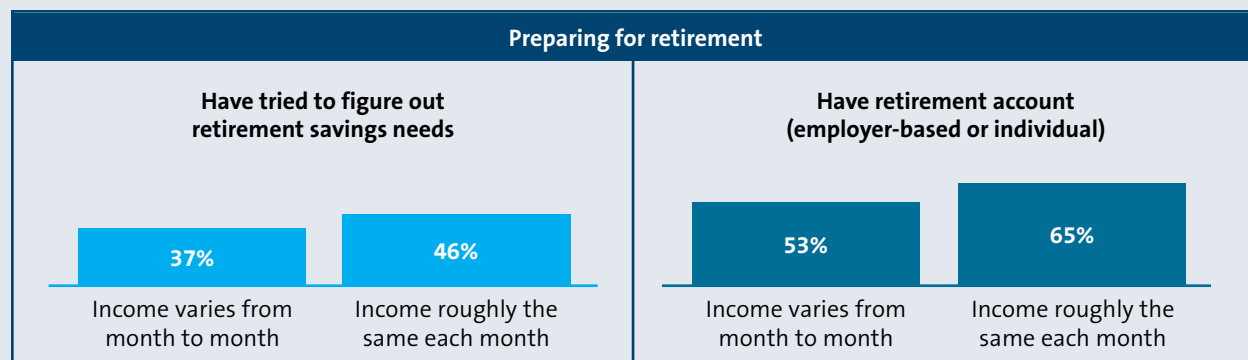
### Data Dive: Income Volatility and Planning Ahead

As reported earlier, more than a third (36%) of Americans have incomes that vary occasionally or often from month to month. Further analysis reveals that having a steady income is correlated with key measures of planning ahead. Accordingly, those with volatile incomes may find themselves at a disadvantage.

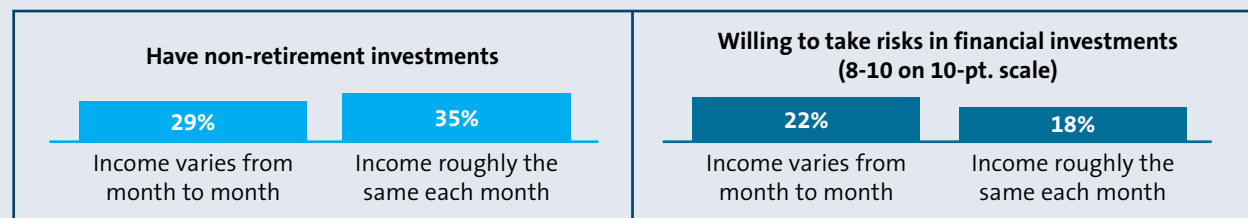
Emergency funds are especially important for households whose incomes vary from month to month in order to bridge cash-flow gaps during lean times. However, respondents with variable incomes are less likely to have set aside rainy day funds than those with steady incomes (42% vs. 54%).



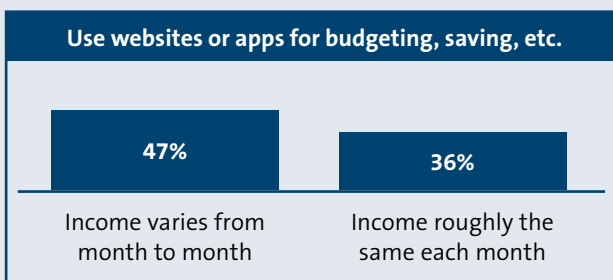
In terms of longer-term planning for retirement, individuals with fluctuating incomes are less likely than those with consistent incomes to have tried to calculate retirement savings needs (37% vs. 46%) and are also less likely to have a retirement account (53% vs. 65%).



While respondents with variable incomes are somewhat less likely than those with steady incomes to have investments outside of retirement accounts (29% vs. 35%), they are somewhat more likely to be comfortable taking risks with financial investments (22% vs. 18%).



Respondents with volatile incomes are considerably more likely than those with steady incomes to use websites or apps to help with personal financial tasks such as budgeting, saving, or credit management. Because of the variable nature of their incomes, it is possible that these respondents have a greater need for such tools to help them manage their finances. However, it is also possible that this finding is driven by underlying demographic differences between the two groups: Respondents with variable incomes tend to be younger and are more likely to be non-White, both of which are correlated with increased usage of financial technology in the NFCS.





### Online and Mobile Banking Are on the Rise

New questions regarding online and mobile banking reveal that nearly 85% of respondents engage in online, computer-based banking, and nearly two-thirds say they bank on their phones.

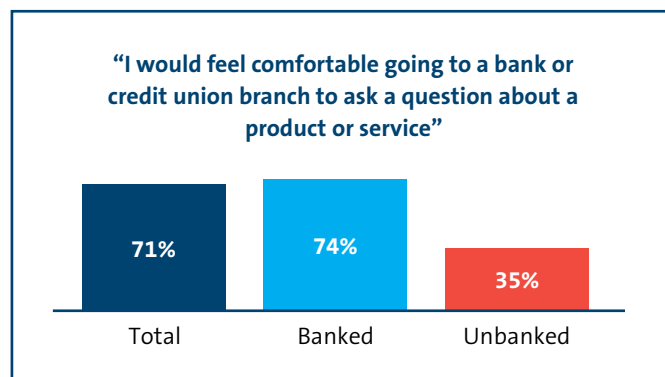
## 3. Managing Financial Products

Every individual and household must manage a potentially confusing range of financial products in the course of their lives, including saving and investing vehicles, payment tools, and credit products. How one decides which products to use and how to use them can determine whether one experiences successful financial outcomes or encounters serious financial distress.

### Banking and Payment Methods

The vast majority of respondents in the NFCS report having a bank account (91%); only 6% are unbanked, defined as having neither a checking account nor a savings account. This is similar to the 6.5% of unbanked households reported in the 2017 FDIC National Survey of Unbanked and Underbanked Households conducted as part of the U.S. Census Bureau’s Current Population Survey.

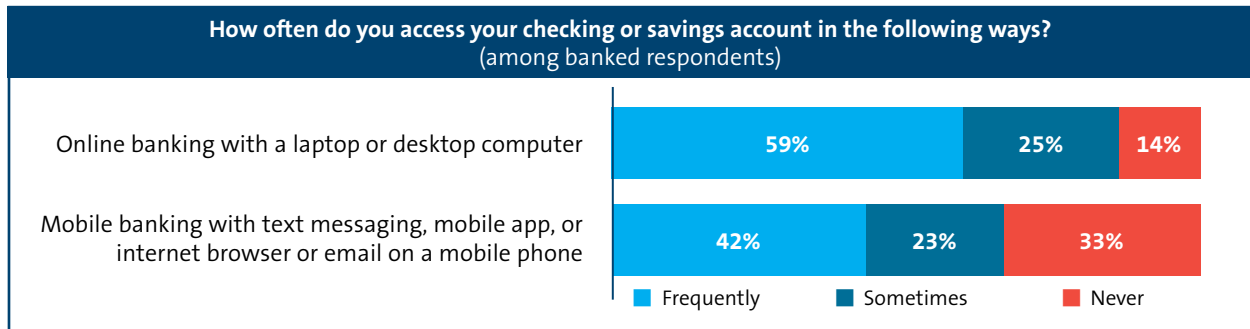
The 2018 NFCS includes a new question to assess respondents’ comfort with banking in person. Given that most of the NFCS respondents are banked, it is to be expected that a large majority (71%) say they would feel comfortable going to a bank (5 to 7 on a 7-point scale). However, among unbanked respondents, only 35% say they would feel comfortable, compared to nearly three-quarters of banked respondents.



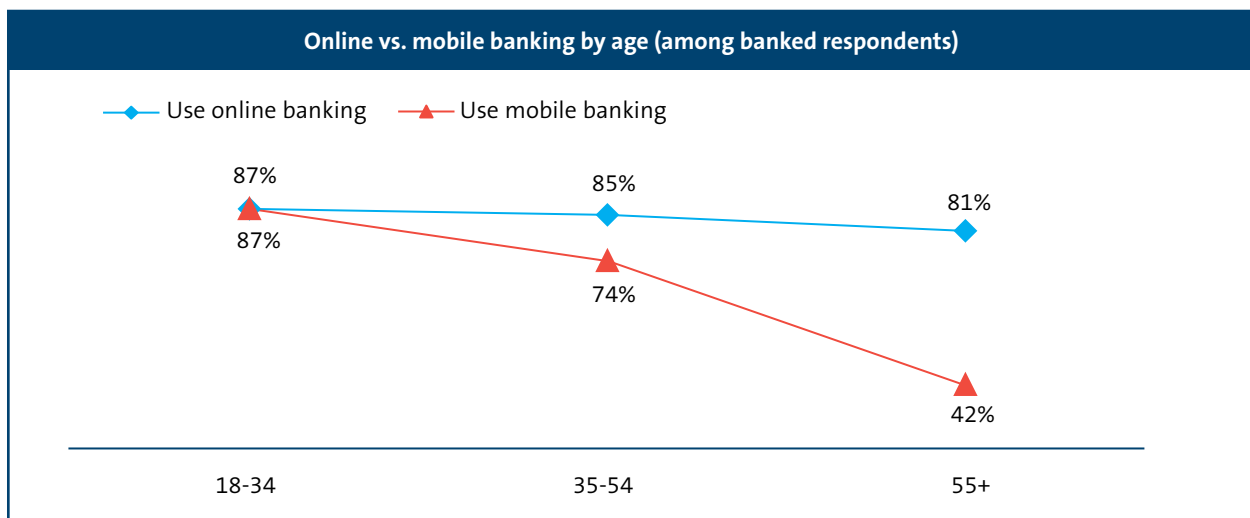
Respondents with higher incomes and education levels are much more likely to feel comfortable going to a bank. Differences by ethnicity are not as great as those by income and education.

	Total	Income			Ethnicity					Education		
		<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	HS or less	Some college	College or more
“I would feel comfortable going to a bank or credit union branch to ask a question about a product or service” —Agree” (5 to 7 on 7-point scale)	71%	54%	72%	82%	74%	67%	65%	69%	63%	61%	71%	81%

The 2018 NFCS also includes new questions regarding online and mobile banking. The data show that more than four-fifths of banked respondents (84%) engage in online banking (on a computer) at least sometimes, and more than half of them (59%) do it frequently. Though not quite as prevalent as online banking, mobile banking (on a mobile phone) has also become common, with nearly two-thirds of respondents (65%) saying they bank on their phones at least sometimes.



Age differences in usage patterns of online and mobile banking are striking. Among younger Americans (ages 18-34), equal numbers use both online and mobile banking at least sometimes. In contrast, while older Americans (ages 55+) are nearly as likely as younger Americans to use online banking, they are far less likely to bank on their mobile phones.



Respondents with higher income and education levels are more likely to use both online and mobile banking. White respondents are less likely than non-White respondents to use mobile banking.

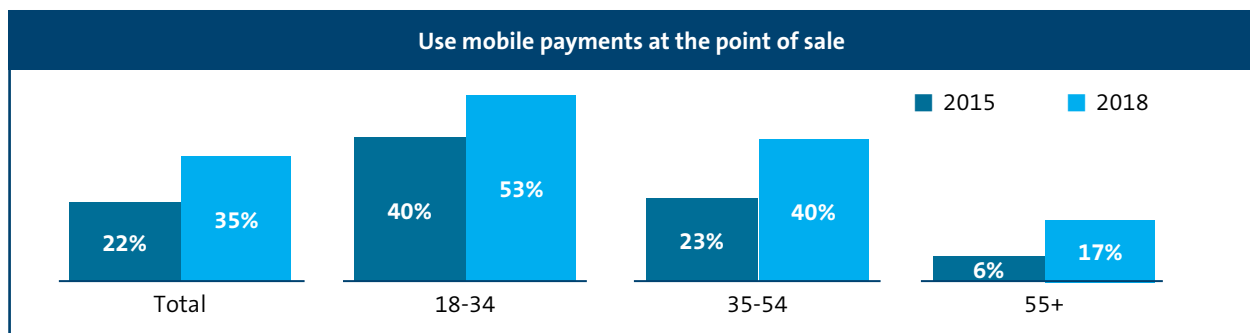
	Total	Income			Education			Ethnicity				
		<\$25K	\$25-75K	\$75K+	HS or less	Some college	College or more	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Use online banking	84%	75%	84%	90%	76%	85%	91%	83%	85%	86%	88%	82%
Use mobile banking	65%	60%	64%	70%	58%	68%	68%	60%	76%	78%	71%	66%

Over a third of respondents (35%) use mobile phones to pay at the point of sale (11% frequently and 24% sometimes). Responses to a new question in the 2018 NFCS indicate that mobile money transfers are as prevalent as mobile payments. Thirty-seven percent of respondents report using mobile phones to transfer money to another person (10% frequently and 27% sometimes).

Younger respondents, particularly those under 35, and non-White respondents are much more likely to use their mobile phones for payments and money transfers. Mobile payments and money transfers also appear to trend upward with higher income levels.

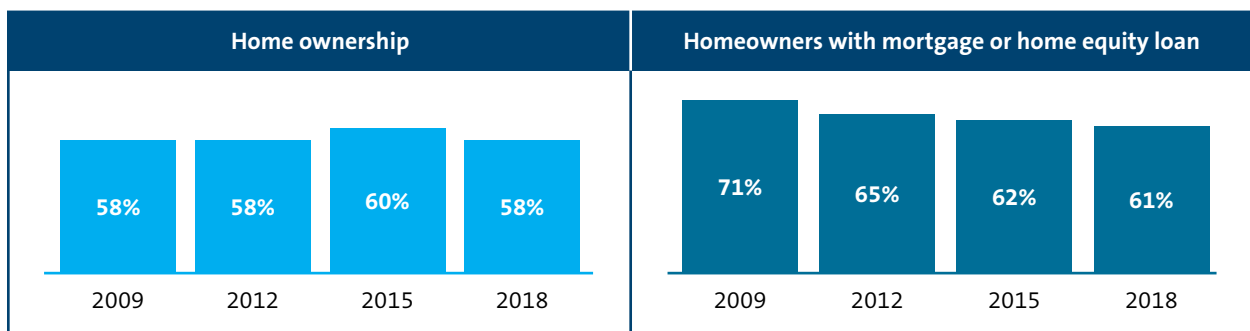
Use mobile phone to ...	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Pay at the point of sale	35%	53%	40%	17%	32%	34%	40%	29%	49%	48%	47%	32%
Transfer money to another person	37%	60%	40%	15%	30%	36%	43%	30%	50%	50%	44%	40%

The 35% of respondents using mobile payments represents a substantial increase over 22% in 2015. This increase is not limited to the youngest age group.



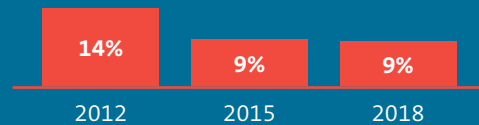
### Home Ownership and Mortgages

Many Americans borrow money to purchase a home. Fifty-eight percent of respondents surveyed are homeowners, consistent with previous NFCS waves. Among homeowners, 61% have a mortgage or home equity loan. This percentage declined sharply from 71% in 2009 to 65% in 2012, as the housing and mortgage markets reeled in the aftermath of the financial crisis, but has changed little since 2015.



### Homeowners underwater

“Do you currently owe more on your home than you think you could sell it for today?” In response to this question, 9% of homeowners report being “underwater,” unchanged from 2015.



Home ownership varies greatly among demographic groups. Younger respondents, those with lower incomes, and African-American and Hispanic respondents are less likely to own a home.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Home ownership	58%	36%	58%	76%	28%	57%	82%	66%	42%	43%	58%	47%

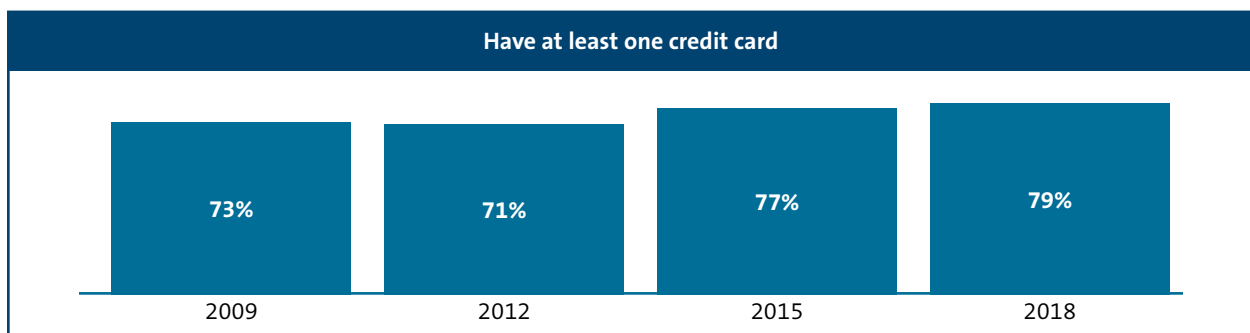
Because self-reported home values are often inaccurate—making it difficult to calculate the exact amount of equity respondents have in their homes—the NFCS uses a simple measure of home equity that asks participants, “Do you currently owe more on your home than you think you could sell it for today?” In response to this question, 9% of homeowners report being “underwater,” unchanged from 2015.

Being underwater shows a strong correlation with the age of the homeowner. One-quarter of homeowners aged 18-34 report being underwater, compared to only 3% of those 55 and older. Although African-American homeowners appear more likely to be underwater relative to other ethnicities, deeper analysis reveals nearly two-thirds of these homeowners (65%) are under age 35. In contrast, fewer than half of White homeowners who report being underwater (45%) fall within the 18-34 age cohort. With respect to income, there appears to be little difference across groups.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Homeowners “underwater”	9%	25%	9%	3%	10%	8%	10%	7%	27%	11%	9%	6%

### Credit Cards

A common way Americans borrow is through the use of credit cards. A large majority of Americans (79%) have at least one credit card, and over a quarter (29%) report having four or more cards. Credit card ownership has not changed substantially relative to 2015 (77%).



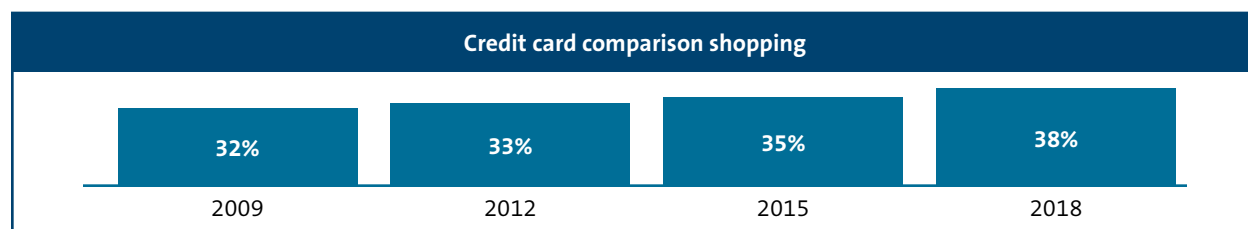
The percentage of respondents saying they always paid their credit cards in full shows an upward trend over the four waves of the NFCS. Correspondingly, several of the individual credit card behaviors that generate interest or fees have decreased relative to 2009. However, when compared to 2012 and 2015, the prevalence of these fee-generating behaviors has not changed substantially. More than half of credit card holders (57%) engage in at least one behavior that results in either interest or fees, and over a third (35%) engage in two or more such behaviors.

In the past year ...	2009	2012	2015	2018
I always paid my credit cards in full	41%	49%	52%	54%
In some months, I carried over a balance and was charged interest	56%	49%	47%	46%
In some months, I paid the minimum payment only	40%	34%	32%	35%
In some months, I was charged a late fee for late payment	26%	16%	14%	16%
In some months, I was charged an over-the-limit fee for exceeding my credit line	15%	8%	8%	10%
In some months, I used the cards for a cash advance	13%	11%	11%	13%

Considering the subset of behaviors that are likely to generate sizeable interest or fees (paying the minimum due, paying late fees, paying over-the-limit fees, or using the card for cash advances), we find that 42% of credit card holders engage in at least one of these expensive practices, up slightly from 39% in 2015. Looking across age cohorts, income levels, and ethnicity, younger respondents, those with lower incomes, and African-American respondents are more likely to use costly credit card borrowing methods.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Engage in expensive credit card behaviors	42%	60%	50%	24%	56%	45%	33%	36%	68%	54%	38%	51%

Thirty-eight percent of respondents report that they compared information about different cards from more than one company when obtaining their most recent credit card, while the majority (56%) say they did not. The proportion of respondents who shopped around for credit cards has increased incrementally over the past four waves of the NFCS.



Younger respondents are much more likely than older respondents to have shopped around for credit cards.

	Total	Age		
		18-34	35-54	55+
Compared credit cards	38%	49%	39%	29%



### College Debt Remorse

Among those with student loans, nearly half wish they had chosen a less expensive college. About half of people with student loans did not fully understand how much they would owe.

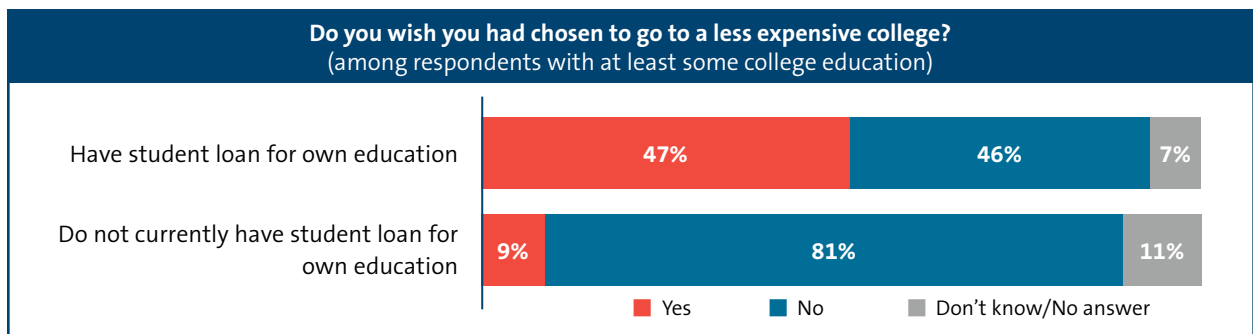
## Student Loans

Just over a quarter (26%) of American adults in the 2018 NFCS report that they currently have a student loan for themselves or a family member, unchanged from 2015. Among those with student loans, the majority (72%) took out the loans for their own education.

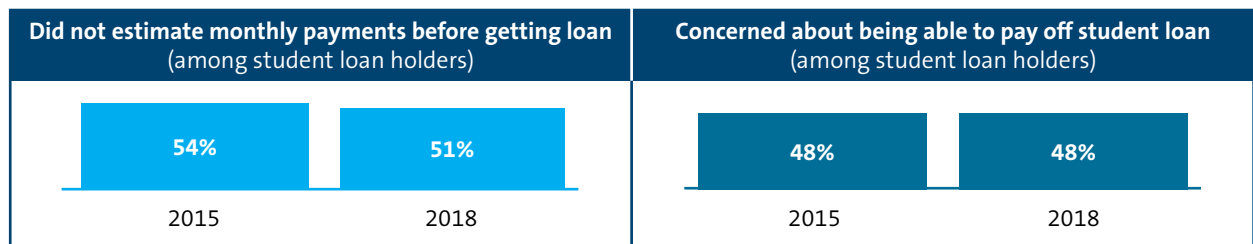
Student loan debt is highly correlated with age. While 44% of respondents ages 18-34 have student loans, only 8% of those 55 and older do. White and Asian-American respondents are less likely than other ethnic groups to have a student loan. The prevalence of student loan debt does not appear to differ greatly across income levels.

	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Have student loan	26%	44%	29%	8%	24%	25%	28%	21%	41%	32%	22%	30%

Among those with student loans for themselves, nearly half (47%) say they wish they had gone to a less expensive college, compared to only 9% among those without loans for themselves.



Findings from the NFCS suggest that many student loan holders did not fully understand what they were getting into when they took out their loans. The majority of student loan holders (51%) say they did not try to estimate monthly payments when obtaining their most recent student loan, while 43% report they did. Among those with student loans, about half (48%) are concerned that they will not be able to pay off their loans, unchanged from 2015.





Among student loan holders with payments due, 42% have been late with a payment at least once in the past year, up slightly from 37% in 2015. Looking across income levels and ethnicity, student debt holders with annual incomes of less than \$25,000 and respondents identifying as African-American, Hispanic, or Other are more likely to report late student loan payments than their demographic counterparts. Comparing by family structure, respondents with financially dependent children are also more likely to have missed student loan payments than those without financially dependent children.

	Total	Income			Ethnicity					Financially dependent children	
		<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	Yes	No
Have been late with student loan payments	42%	53%	42%	36%	35%	59%	46%	33%	44%	49%	34%

## Non-Bank Borrowing

A sizable share of Americans engage in alternative forms of borrowing, such as taking out an auto title loan or a payday loan, getting an advance on a tax refund, using a pawn shop, or using a rent-to-own store. These borrowing methods may entail higher interest rates than those charged by banks, credit unions, or credit card companies. As widely reported in the financial literacy literature, use of these products often indicates borrowers have poor credit histories, lack access to more traditional sources of credit, or both.

Nearly three in ten respondents (29%) have used at least one alternative borrowing method within the past five years, and 18% have used two or more. These percentages have remained fairly consistent since 2012. Among the five types of alternative borrowing measured in the survey, pawn shops are the most commonly used.

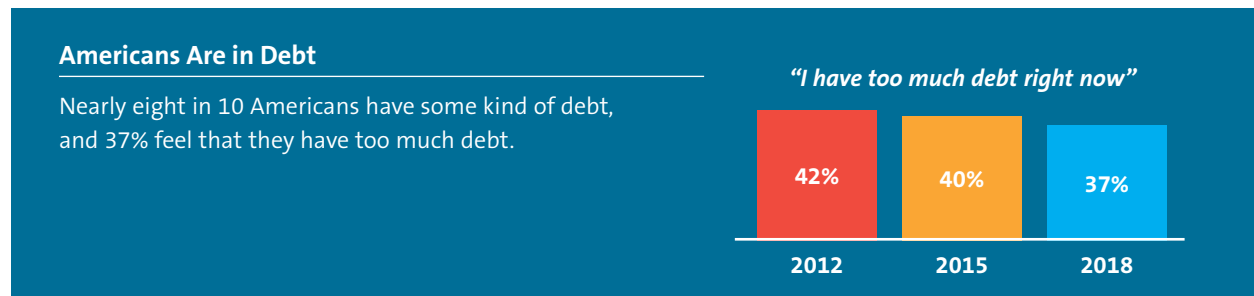
Non-bank borrowing methods used at least once in the past five years	2012	2015	2018
Pawn shop	18%	16%	18%
Short-term “payday” loan	12%	12%	14%
Rent-to-own store	10%	10%	12%
Auto title loan	9%	10%	11%
Tax refund advance	8%	--	10%
Used one or more	30% <sup>19</sup>	-- <sup>20</sup>	29%

Examining differences by age, ethnicity, and family structure, usage of non-bank borrowing methods is higher among those 54 and younger, African-American and Hispanic respondents, and those with financially dependent children.

	Total	Age			Ethnicity					Financially dependent children	
		18-34	35-54	55+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	Yes	No
Used one or more non-bank borrowing method	29%	45%	32%	12%	23%	50%	38%	24%	31%	42%	22%

19. The 2012 percentage has been recalculated to include use of a tax refund advance, and therefore differs from the figure cited in the 2015 report.

20. Because tax refund advance was not asked in the 2015 NFCS, the figure cited in the 2015 report is not directly comparable to data shown in this report.



### Overall Debt

Looking across the total population of respondents, we see that various types of debt are fairly common, ranging from nearly two-fifths with credit card debt to over one-fifth with medical debt. More than three-quarters of Americans (78%) have at least one of the six types of debt measured in this study, and 30% have three or more types of debt.<sup>21</sup>

	Percent of total sample
Carried a credit card balance in the past year	37%
Have a mortgage or home equity loan	35%
Have an auto loan	33%
Used non-bank borrowing in the past five years	29%
Have a student loan	26%
Have unpaid medical bills	23%
At least 1 type of debt	78%
At least 2 types of debt	53%
At least 3 types of debt	30%
At least 4 types of debt	14%

While the incidence of credit card debt and home debt has declined somewhat relative to 2009, the prevalence of most other types of debt has remained consistent over various NFCS waves.

	2009	2012	2015	2018
Carried a credit card balance in the past year	41%	35%	36%	37%
Have a mortgage or home equity loan	41%	37%	37%	35%
Have an auto loan	33%	31%	30%	33%
Used non-bank borrowing in the past five years	--	30%	--	29%
Have a student loan	--	--	26%	26%
Have unpaid medical bills	--	26%	21%	23%

Despite little change in reported debt types, the percent of Americans who feel they have too much debt has trended slightly downward. In the 2018 NFCS, 37% of respondents report feeling that they have too much debt (5 to 7 on a 7-point scale), down from 42% in 2012. Among those with three or more types of debt, nearly two-thirds (65%) feel they have too much debt.

21. Direct comparisons to previous waves are not possible, because of changes to the student loan and non-bank borrowing questions.

Younger respondents and those with lower incomes are more likely to feel burdened by debt. Asian-Americans are less likely than other ethnic groups to feel they have too much debt.

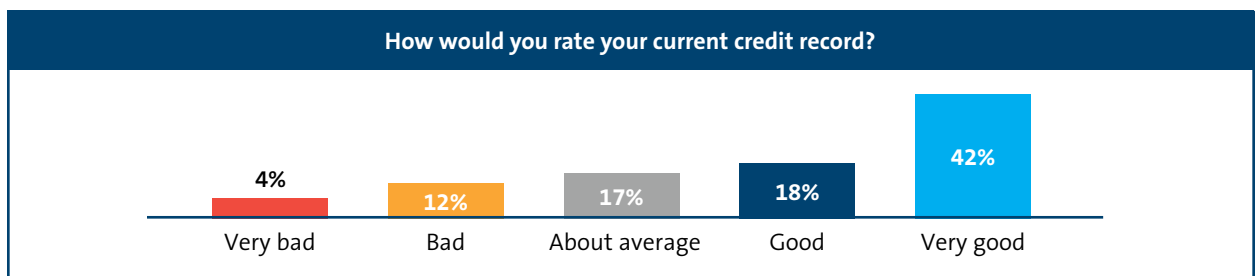
5 to 7 on 7-point scale	Total	Age			Income			Ethnicity				
		18-34	35-54	55+	<\$25K	\$25-75K	\$75K+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
"I have too much debt right now"	37%	43%	45%	24%	40%	38%	32%	35%	45%	40%	26%	44%

Nineteen percent of respondents say they have been contacted by a debt-collection agency in the past year. Respondents with unpaid medical bills are the most likely to have been contacted by a debt collector, followed by those who use non-bank borrowing.

Among respondents who...	% have been contacted by debt collection agency in past year
Have unpaid medical bills	56%
Use non-bank borrowing	41%
Have student loan	36%
Carry credit card balance	26%
Have auto loan	25%
Have mortgage or home equity loan	18%

### Credit Scores

A majority of Americans (61%)<sup>22</sup> believe they have above average credit, and the plurality (42%) rate their credit as “very good.” These percentages have not changed noticeably from 2015 (60% above average, and 41% very good).



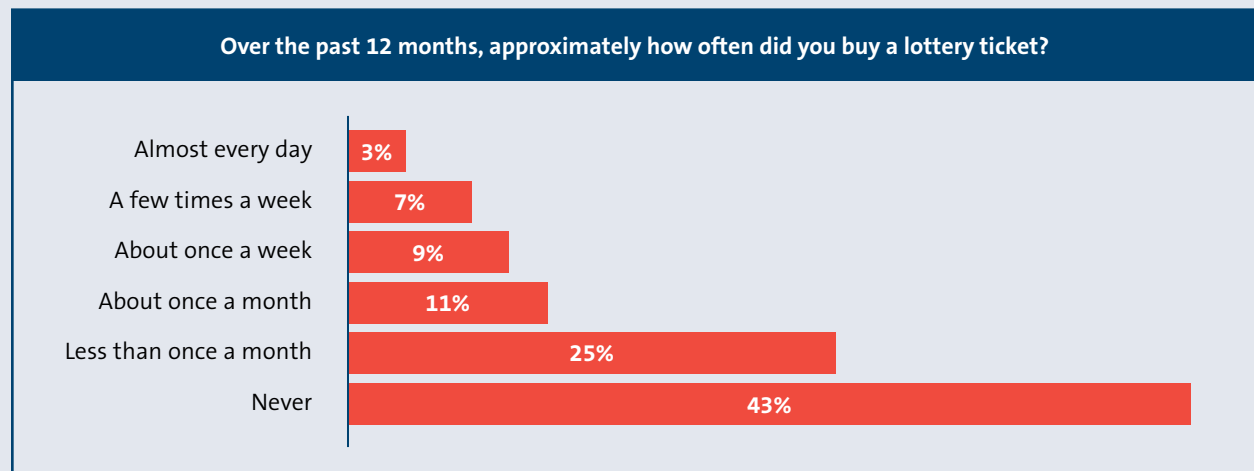
Older respondents and White and Asian-American respondents are more likely to rate their credit as “good” or “very good.”

	Total	Age			Ethnicity				
		18-34	35-54	55+	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other
Good/very good credit	61%	50%	53%	76%	66%	43%	51%	72%	48%

22. Percentages in the chart do not appear to add up to 61% due to rounding.

### Data Dive: Playing the Lottery

Though they are completely different, investing and playing the lottery are often incorrectly perceived to be similar, based on superficial characteristics: One risks a certain amount of money with the hopes that it will yield a larger financial return. Over half of Americans (55%) have purchased a lottery ticket in the past year, considerably more than the 32% mentioned above who invest outside of retirement accounts. This is perhaps not surprising, given that the upfront costs for participating in the lottery can be as little as \$1 or \$2, much less than typical securities investments. Nearly three in 10 respondents (29%) play the lottery once a month or more frequently.



Men are more likely than women to be regular lottery players (at least once a month), as are those with lower education levels. Among ethnic groups, African-American and Hispanic respondents are more likely to play at least once a month.

	Total	Gender		Ethnicity					Education		
		Male	Female	White	Afr.-Amer.	Hisp.	Asian-Amer.	Other	HS or less	Some college	College or more
Play lottery once a month or more	29%	36%	23%	27%	42%	34%	23%	19%	33%	30%	24%

Further analysis suggests that lottery behaviors are not substituting for other types of financial planning. Respondents who play the lottery at least once a month are more likely than those who never play to have tried to calculate their retirement needs (47% vs. 36%) and to have a retirement account (63% vs. 54%). However, they are also more likely to have difficulty making ends meet (16% vs. 10%) and to spend more than they earn (23% vs. 17%). Regular lottery players also show some attitudinal differences from non-players: They are more likely to be worried about running out of money in retirement (57% vs. 46%) and more likely to be comfortable taking financial risks (30% vs. 13%).



### Financial Literacy Continues to Decline

The financial literacy rate among Americans has decreased from 42% to 34% since 2009, despite the fact that 71% of Americans believe they have a high level of financial knowledge.

## 4. Financial Knowledge and Decision-Making

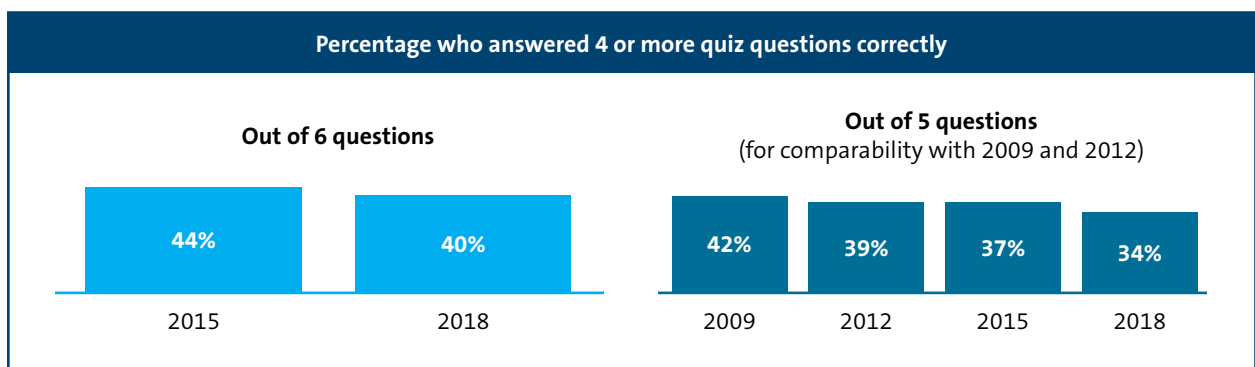
To make sound financial decisions, individuals need both financial knowledge and the skills to apply what they know to actual financial decision-making situations. As the survey data demonstrate, all too often a gap exists between self-reported knowledge and real-world behavior.

### Financial Literacy

Survey respondents answer a series of questions covering fundamental concepts of economics and personal finance. With one exception, the questions do not require complex calculations. They focus on interest rates and inflation, principles relating to risk and diversification, the relationship between bond prices and interest rates, the impact that a shorter term can have on total interest payments over the life of a mortgage, and compounding interest on a loan. As illustrated in the accompanying table, the survey reveals relatively low levels of financial literacy among Americans.

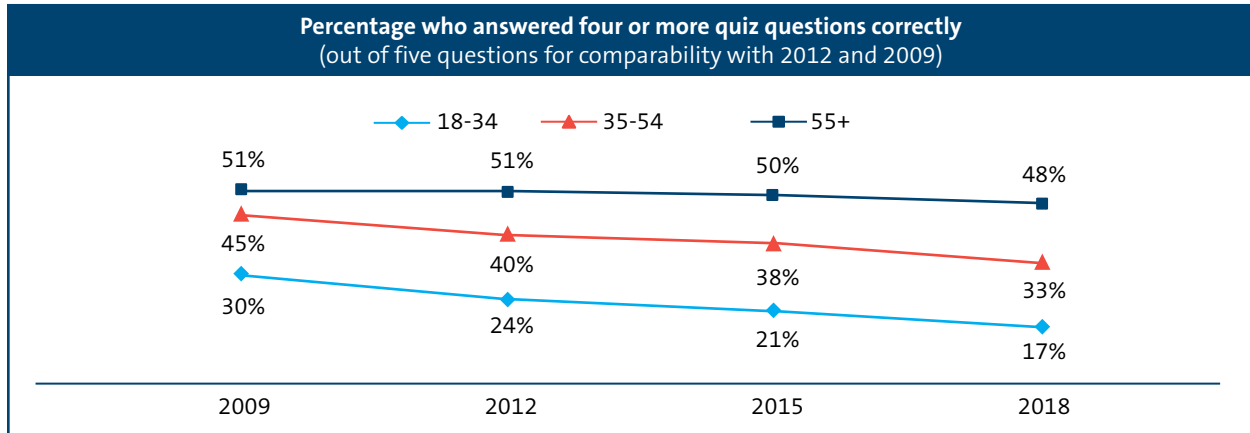
	Correct	Incorrect	Don't know
Mortgage question	73%	9%	17%
Interest rate question	72%	13%	13%
Inflation question	55%	22%	21%
Risk question	43%	11%	45%
Compound interest in debt question	30%	42%	26%
Bond price question	26%	37%	36%

While the correct response to some individual questions reaches 73%, only 7% of respondents are able to answer all six questions correctly, and only 40% are able to answer at least four questions correctly, down slightly from 44% in 2015. Looking at only the five questions that have been asked in the NFCS since 2009,<sup>23</sup> we see a clear trend of declining financial literacy over the past nine years, though the differences in successive waves are small.

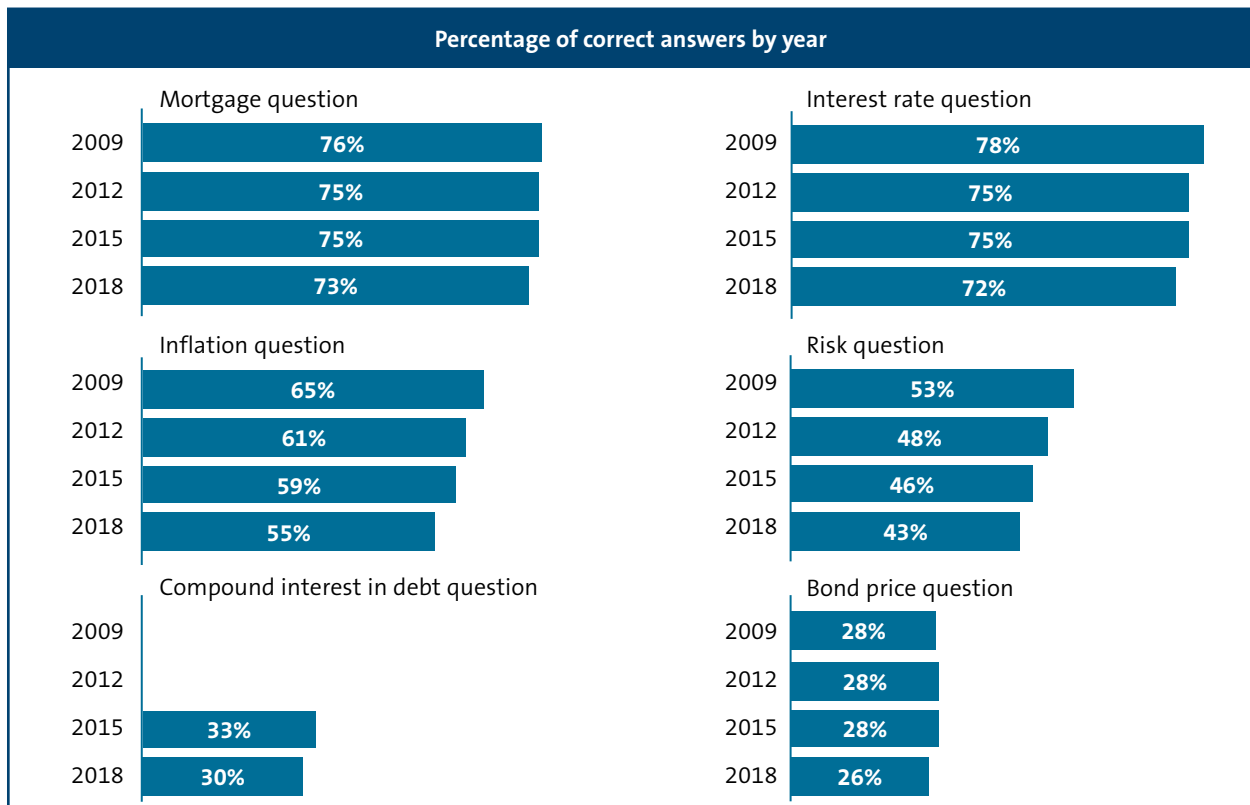


23. These include the mortgage, interest rate, inflation, risk, and bond price questions. The compound interest in debt question was added in 2015.

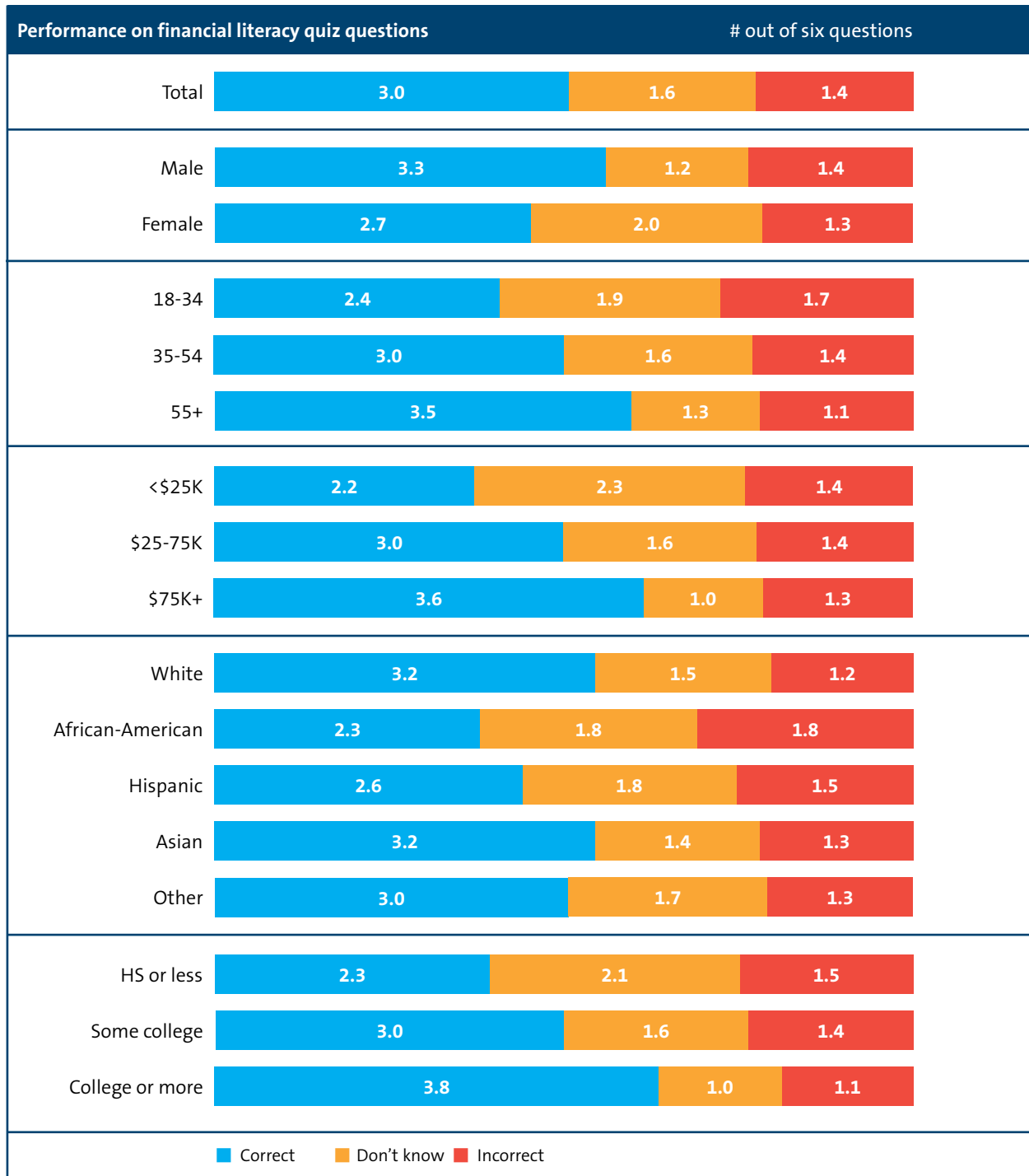
Relative to 2009, older respondents (55 and up) do not show much of a decrease in financial literacy. The proportion of respondents 55 and older correctly answering four or more quiz questions (out of five) has ticked down by three percentage points over the past nine years. In contrast, the proportions among respondents 18-34 and 35-54 have dropped by 13 and 12 percentage points, respectively, over the same time period. As the high inflation, high interest rate environment of the 1980s fades from public consciousness, it is possible that Americans (with the exception of those who experienced that period first-hand as adults) are gradually becoming less attentive to these fundamental issues, which are central to the NFCS financial literacy quiz.



Performance on each individual question has also trended downward relative to previous years.



There are considerable demographic differences in overall financial literacy levels. Relative to their demographic counterparts, males, older respondents, White and Asian-American respondents, and those with college degrees are more likely to answer the quiz questions correctly.





Financial literacy is strongly correlated with behavior that is indicative of financial capability. Specifically, those with higher literacy are more likely to plan for retirement and to have an emergency fund and less likely to engage in expensive credit card behaviors. Financial literacy also correlates with financial well-being, such that those with higher financial literacy also have higher financial well-being scores.

### Self-Perceptions of Financial Knowledge

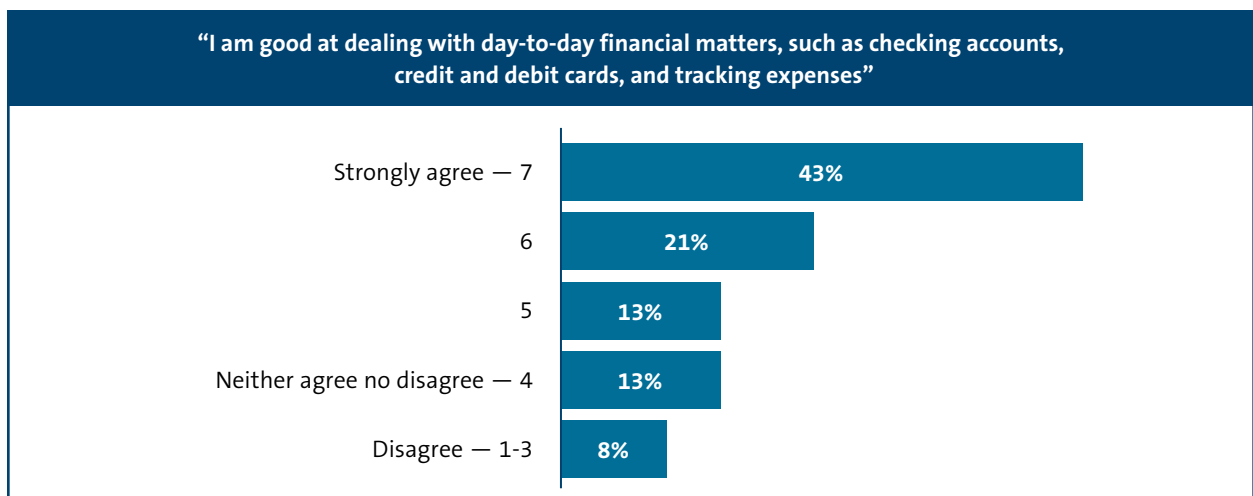
Despite low levels of financial literacy as measured by the quiz questions, Americans tend to have inflated self-perceptions of their financial knowledge. When asked to assess their own financial knowledge, 71% give themselves high marks (5 to 7 on a 7-point scale, where 1=“very low” and 7=“very high”). The percentage of respondents with positive self-perceptions of financial knowledge increased from 2009 to 2015 but has decreased somewhat in 2018.

	2009	2012	2015	2018
“High” self-assessment of financial knowledge (5 to 7 on 7-point scale)	67%	73%	76%	71%

Because many financial decisions require knowledge of mathematics, respondents are also asked to evaluate their numeracy skills. Three-quarters of respondents give themselves high scores (5 to 7 on a 7-point scale); 39% give themselves the highest possible rating of “7.” But even among respondents who give themselves the highest rating, only 59% are able to do two simple calculations involving interest rates and inflation, and only 38% are able to calculate compound interest in the context of debt.

### Self-Perceptions vs. Financial Behavior

The survey data also show a potential disconnect between perceptions and actions in day-to-day financial matters. When asked how good they are at dealing with day-to-day financial matters (such as managing checking accounts and credit cards), over three-quarters of Americans (77%) rate themselves positively. However, even among the 43% of respondents who give themselves the highest score (7 on a 7-point scale), 31% engage in costly credit card behaviors (paying the minimum due, paying late fees, paying over-the-limit fees, or using the card for cash advances), 21% use non-bank borrowing methods, and 13% overdraw their checking account.





### Financial Education Matters

Both the amount and quality of financial education appear to matter. Americans who have participated in 10 hours or more of financial education exhibit better financial behaviors than those who have not.

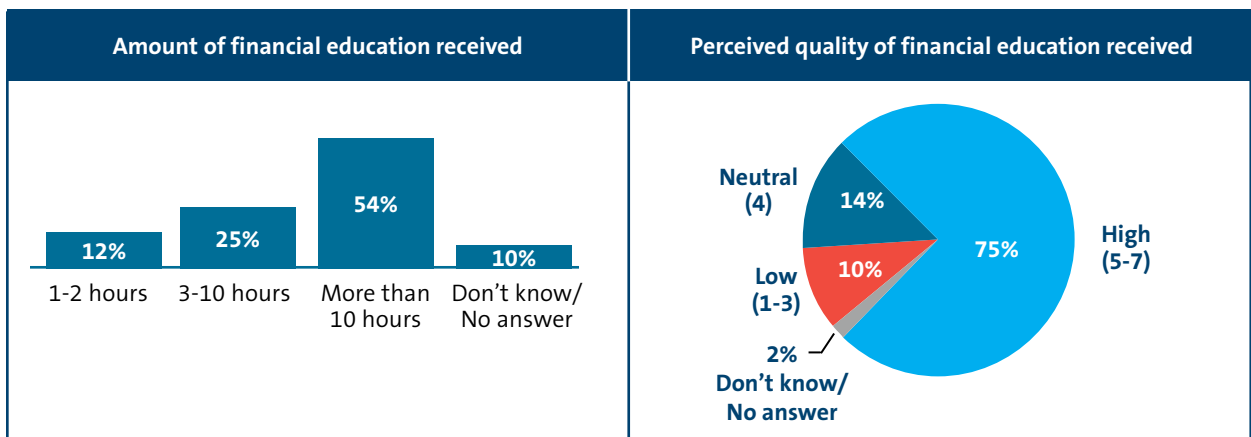
## Financial Education

Because of the importance of financial literacy in achieving and maintaining financial capability, many efforts have been launched by schools, colleges, workplaces, not-for-profits, and government agencies to provide financial education to the American people. Measuring the efficacy of these educational efforts is challenging, but the NFCS is able to show some correlations between exposure to financial education and positive financial behaviors.

More than a quarter of respondents (29%)<sup>24</sup> report having been offered financial education at a school, college, or workplace; 20% say they participated. Rates of exposure to financial education have been largely consistent since 2012. In the 2018 survey, 15% of respondents indicate that they were required at some point in their lives to take financial education.

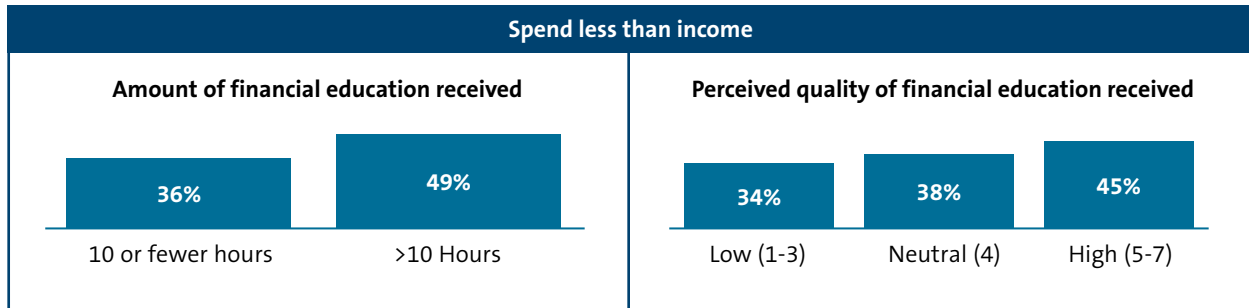
Was financial education offered by a school or college you attended, or a workplace where you were employed?	2012	2015	2018
Yes, but I did not participate in the financial education offered	10%	10%	8%
Yes, and I did participate in the financial education	19%	21%	20%
No	60%	59%	58%
Don't know/No answer	11%	10%	13%

The 2018 NFCS includes two new questions to further probe the nature of respondents' financial education. Among those who participated in financial education at school or work, over half (54%) report receiving more than 10 hours, and three-quarters rate the quality of the education highly (5 to 7 on a 7-point scale).



24. Percentages in the table do not appear to add up to 29% due to rounding.

Self-reports of both the amount and quality of financial education correlate with behaviors indicative of financial capability. Forty-nine percent of respondents who received more than 10 hours of financial education report spending less than they earn, compared to 36% among those who received less than 10 hours. Similarly, those who rate the quality of their financial education highly are more likely to save than those who give their education neutral or low ratings.

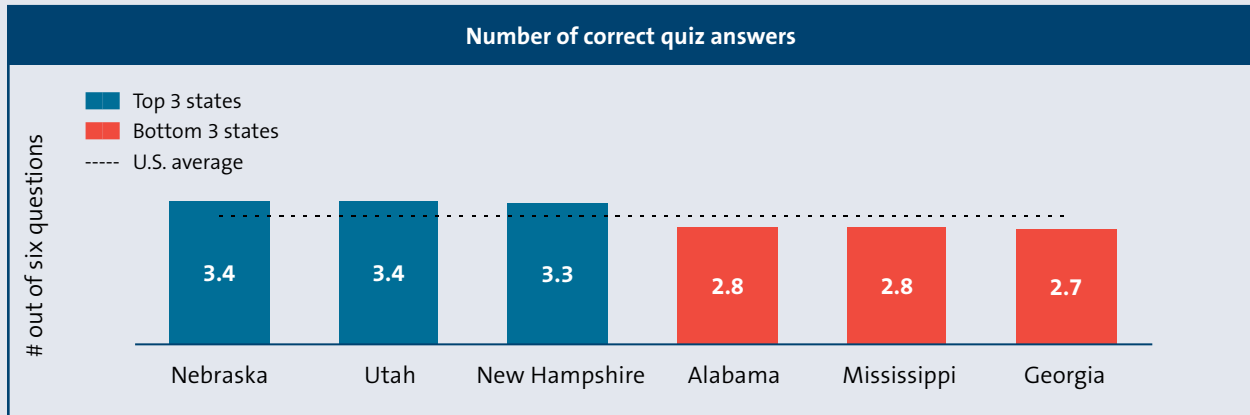


Respondents with more hours or higher quality financial education are also less likely to overdraw their checking accounts, engage in fee-generating credit card behaviors, or use non-bank borrowing methods.

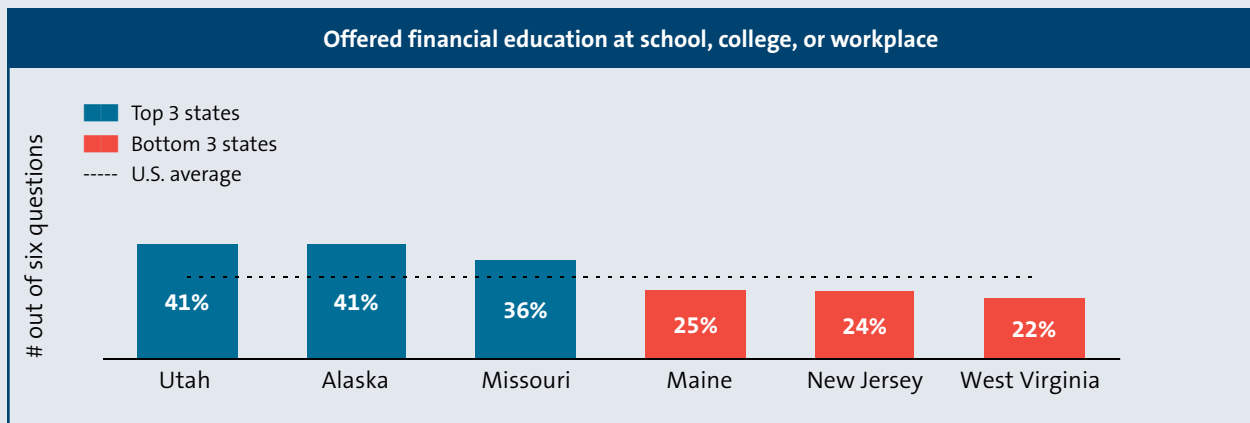
### Data Dive: Financial Literacy by State

The NFCS survey sample includes roughly 500 respondents for each state and the District of Columbia, allowing for detailed analysis by state. The data show considerable differences among states in terms of financial literacy and financial education.<sup>25</sup> Following are comparisons of the states that are in the top three and bottom three among all states on selected measures of financial literacy and financial education.

Respondents in Nebraska, Utah, and New Hampshire score better on the financial literacy quiz than those in Alabama, Mississippi, and Georgia.

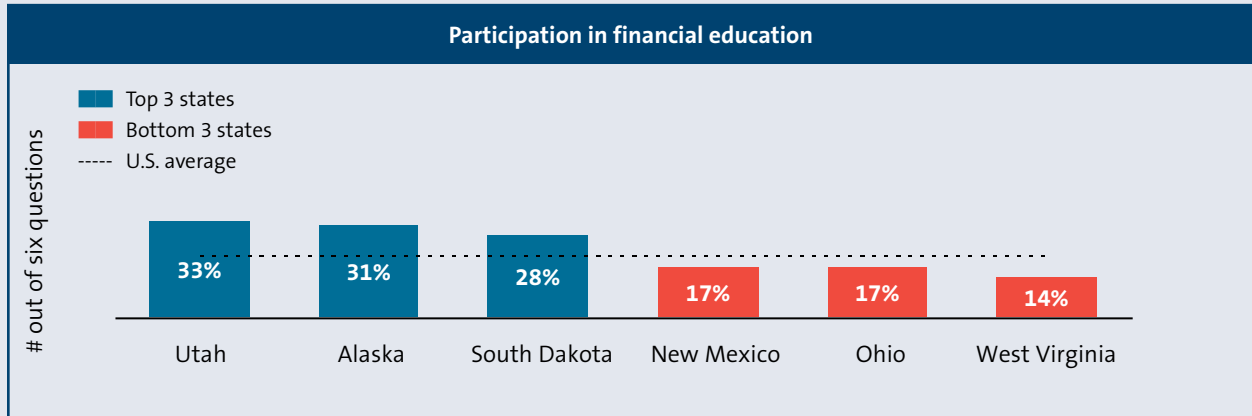


In terms of financial education, 41% of respondents in Utah and Alaska say they were offered financial education at a school, college, or workplace (regardless of participation), compared to less than a quarter in New Jersey and West Virginia.

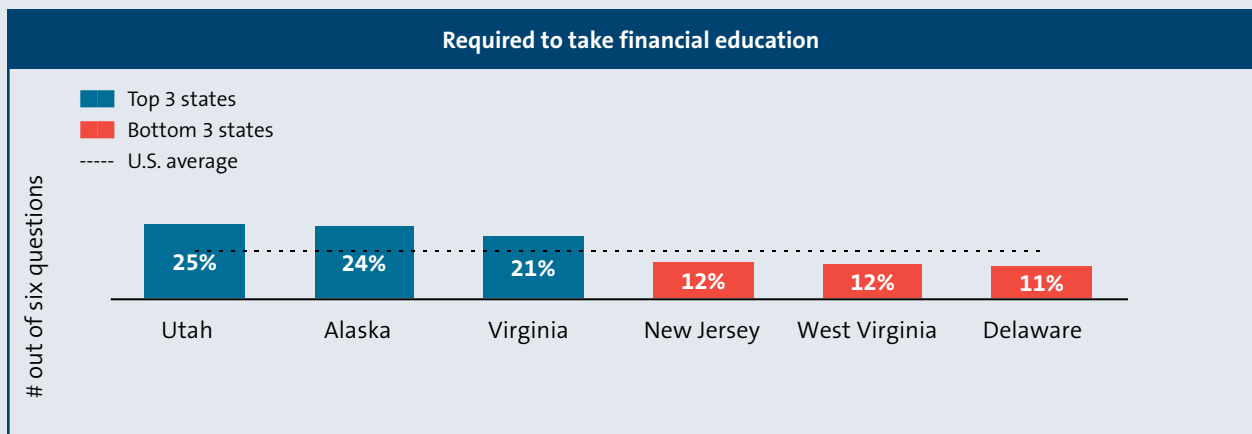


25. State figures are weighted to be representative of each state in terms of age, gender, ethnicity, and education.

Utah, Alaska, and South Dakota have the highest rates of participation in financial education, while New Mexico, Ohio, and West Virginia have the lowest. A third of respondents in Utah report participating in financial education at school, college, or work, compared to less than one-sixth in West Virginia.



Finally, respondents in Utah, Alaska, and Virginia are much more likely than those in New Jersey, West Virginia, and Delaware to say they were required to take financial education.



For researchers interested in additional findings, full data tables by state are available for download at [www.USFinancialCapability.org](http://www.USFinancialCapability.org).

## Conclusion

Following a six-year period of substantial improvements in key measures of financial capability as measured by the National Financial Capability Study in 2012 and 2015, the 2018 findings suggest that a plateau may have been reached. Despite ongoing economic growth and declining unemployment:

- ▶ the percentage of people in the U.S. who report feeling highly satisfied with their personal financial condition has not changed over the past three years; and
- ▶ post-recession progress on making ends meet without difficulty has slowed to a crawl.

Some measures of financial capability have been stubbornly resistant to progress throughout the nine-year period from the benchmark 2009 study to the current wave:

- ▶ In 2018, 19% spent more than their income, and 41% spent less than their income. In 2009, these figures were 20% and 42%, respectively.
- ▶ In 2018, 58% had some kind of retirement account, little changed from the 57% in 2009.

More troubling are potential indications of an increasing divide between those who are prospering and those who are struggling. For example, while saving behaviors have not changed among those in the highest income group, Americans in the lowest income group are less able to save than they were in 2009. Similarly, while all groups are better able to cover monthly expenses relative to 2009, White respondents have improved by 16 percentage points while African-Americans have improved by 9 points.

Undergirding these patterns is a worrisome, ongoing decline in the overall population's ability to answer five basic financial literacy questions. This decline has been consistent across all three waves of the NFCS since the 2009 benchmark. The relevance of financial literacy is reaffirmed by the strong correlations we see in the study between performance on these basic questions and many of the key measures of financial capability.

A growing economy is not sufficient to improve people's financial lives. Widespread access to and comfort with basic financial knowledge are also essential.

## Background and Methodology

In 2009, the FINRA Investor Education Foundation commissioned the first national study of the financial capability of American adults. The overarching research objectives of the NFCS were to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics.

The 2009 NFCS consisted of three linked surveys:

- ▶ **National Survey:** A nationally projectable telephone survey of 1,488 American adults
- ▶ **State-by-State Survey:** A state-by-state online survey of 28,146 American adults (roughly 500 per state, plus the District of Columbia)
- ▶ **Military Survey:** An online survey of 800 military service members and spouses

In 2012, the FINRA Foundation commissioned a second wave of the NFCS in order to assess changes in key measures from the 2009 study. The 2012 NFCS replicated two of the three components of the original baseline study:

- ▶ **State-by-State Survey:** A state-by-state online survey of 25,509 American adults (roughly 500 per state, plus the District of Columbia)
  - ▶ **Military Survey:** An online survey of 1,000 military service members
-

In 2015, a third wave of the NFCS was conducted, which replicated the State-by-State Survey and added a supplemental survey of investors:

- ▶ **State-by-State Survey:** A state-by-state online survey of 27,564 American adults (roughly 500 per state, plus the District of Columbia)<sup>26</sup>
- ▶ **Investor Survey:** An online survey of 2,000 Americans who have investments outside of retirement accounts

In 2018, a fourth wave of the NFCS was conducted to continue tracking core measures from both the State-by-State and Investor Surveys and to incorporate additional topics that are highly relevant today. The 2018 NFCS replicates two components of the 2015 study:

- ▶ **State-by-State Survey:** A state-by-state online survey of 27,091 American adults (roughly 500 per state, plus the District of Columbia)<sup>27</sup>
- ▶ **Investor Survey:** An online survey of 2,003 Americans who have investments outside of retirement accounts

The survey instruments were designed by a multi-disciplinary team of researchers, policy makers, and practitioners in the financial capability field. All surveys were funded by the FINRA Investor Education Foundation and conducted by ARC Research (formerly known as Applied Research & Consulting).

This report outlines the findings of the 2018 State-by-State Survey administered to respondents between June and October 2018, with comparisons to the 2015 State-by-State Survey fielded between June and October 2015, the 2012 State-by-State Survey fielded from July to October 2012, and the 2009 State-by-State Survey fielded from June to October 2009. Data from each survey are weighted to be representative of the national population as a whole in terms of age, gender, ethnicity, education, and Census Division, based on the Census Bureau's American Community Survey. However, breakdowns of sub-populations may not necessarily be representative.

More information about the NFCS, including the survey instrument, data sets, detailed methodological information, and the financial literacy quiz can be found at [www.USFinancialCapability.org](http://www.USFinancialCapability.org).

## Acknowledgments:

The authors thank Shari Crawford, Claire Fleischer, Mimi Massé, Laura McNulty, Mike Rote, and Angelita Williams of FINRA for their insights and assistance on this report. We also thank the many researchers and policy makers who provided valuable input on the survey instrument. Last, we thank the FINRA Investor Education Foundation Board of Directors for making this project possible.

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26. The 2015 State-by-State Survey included oversamples for CA, IL, NY, and TX.

27. The 2018 State-by-State Survey includes oversamples for OR and WA.





A copy of this summary and the full report can be found on [www.USFinancialCapability.org](http://www.USFinancialCapability.org) or by calling (202) 728-6964.



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