

# The Importance of Financial Literacy: Opening a New Field

Based on the Journal of Economic Perspectives article, "[The Importance of Financial Literacy: Opening a New Field](#),"  
by Annamaria Lusardi, Stanford University; and Olivia S. Mitchell, University of Pennsylvania

Only 43 percent of Americans correctly answer three basic questions about interest, inflation, and risk – and financial literacy can account for 30–40 percent of wealth inequality near retirement.

Financial literacy is strikingly low in the United States, and varies by race, gender, age, and education level, with direct consequences for wealth and wealth inequality. This brief covers Annamaria Lusardi and Olivia S. Mitchell's 2023 paper "[The Importance of Financial Literacy: Opening a New Field](#)," summarizing what the researchers have learned in two decades of research on financial literacy in the United States.

## Quantifying Financial Literacy

In 2004, when concerns were mounting about inadequate savings, financial vulnerability, and retirement insecurity among Americans, Lusardi and Mitchell created the first nationally representative measure of financial literacy. The researchers added three questions on financial literacy to the Health and Retirement Study, the long-running longitudinal survey of Americans over age 50. Now known as the "Big Three," the questions have been added to major US surveys and more than 40 surveys across Europe, Latin America, and Asia, and adapted for the S&P Global Financial Literacy Survey covering 140+ countries.

To illustrate what the Big Three reveal, the researchers draw on the 2019 Survey of Consumer Finances, a leading US wealth survey that incorporates the questions (Bhutta et al. 2020).

**Table 1 • The "Big Three" Financial Literacy Questions**

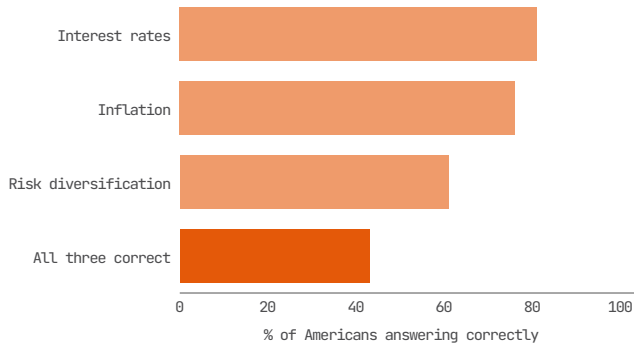
<b>Interest</b>	Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? <b>More than \$102</b> ✓ Exactly \$102 Less than \$102 Do not know / Refuse to answer
<b>Inflation</b>	Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? More than today Exactly the same <b>Less than today</b> ✓ Do not know / Refuse to answer
<b>Risk</b>	Please tell me whether this statement is true or false: "Buying a single company's stock usually provides a safer return than a stock mutual fund." True <b>False</b> ✓ Do not know / Refuse to answer

Note: Checkmark indicates correct answer. Source: Lusardi and Mitchell (2011a).

## Findings: Financial Literacy in the United States

Financial literacy is strikingly low in the United States. While 81 percent of Americans understand simple interest rates, about three-quarters get the inflation question correct, and only 61 percent of the population knows that a single stock is riskier than a stock mutual fund. Overall, only 43 percent of Americans answer all three questions correctly.

**Figure 1 • Big Three: Percent of Americans Answering Correctly**

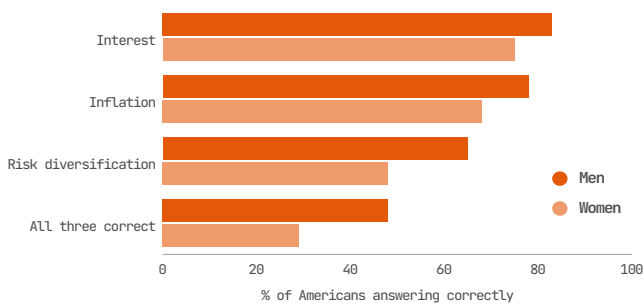


Note: Percent of Americans answering each Big Three question correctly. Source: Authors' tabulations, 2019 Survey of Consumer Finances.

Financial literacy varies by:

**Gender: Financial literacy is lower among women.** Only 29 percent of women answer all three questions correctly, compared to 48 percent of men. This gender difference is remarkably stable across topics (Yakoboski, Lusardi, and Hasler 2022) and is also strikingly stable across the 140 countries examined by Klapper and Lusardi (2020). Women are also much more likely than men to respond that they do not know the answer to at least one financial literacy question, especially the one about risk diversification.

**Figure 2 • Financial Literacy by Sex**

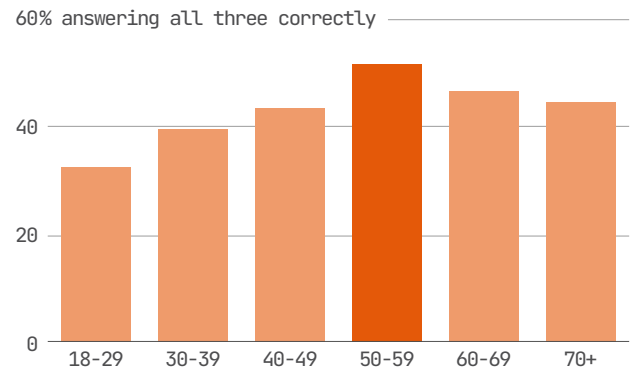


Note: Percent of women and men answering each Big Three question correctly. Source: Authors' tabulations, 2019 Survey of Consumer Finances.

**Age: Financial literacy follows a hump-shaped pattern with age.** Young adults display very low financial literacy,

with only one-third being able to answer all three questions correctly. The pattern peaks with about half of respondents in their 50s answering all questions correctly, before the percentage getting all three answers correct falls after age 60.

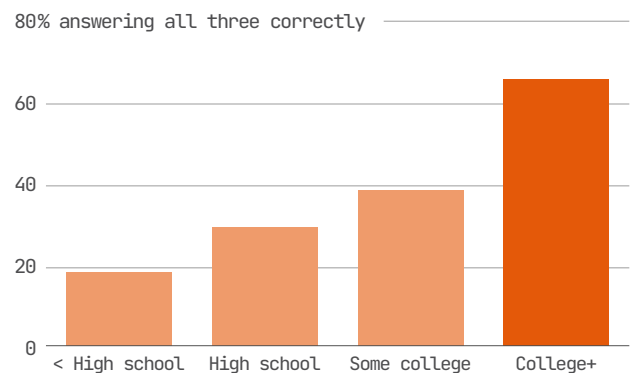
**Figure 3 • Financial Literacy by Age**



Note: Percent answering all three Big Three questions correctly, by age. Source: Authors' tabulations, 2019 Survey of Consumer Finances.

**Education: Financial literacy is higher among those with more education.** Sixty-five percent of respondents with college degrees or more earned a perfect score on the Big Three, compared to only 18 percent of high school dropouts. Nevertheless, even within the college-plus group, more than one-third of respondents did not know one or more of the Big Three questions. Only about half of those without a high school degree know about the eroding power of inflation, versus 85 percent of those with a college degree or more education.

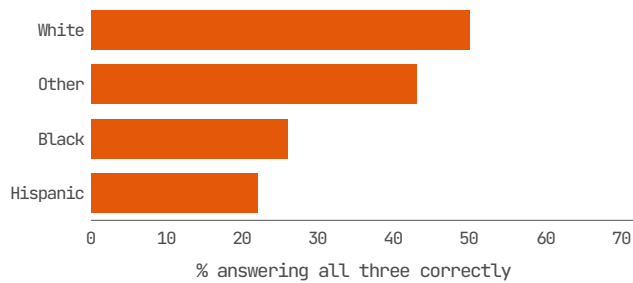
**Figure 4 • Financial Literacy by Education**



Note: Percent answering all three Big Three questions correctly, by education. Source: Authors' tabulations, 2019 Survey of Consumer Finances.

**Race/Ethnicity: Financial literacy also differs by race/ethnicity.** Half of White respondents correctly answer all three questions, compared to only 26 percent of Black respondents and 22 percent of Hispanic respondents.

**Figure 5 • Financial Literacy by Race/Ethnicity**



Note: Percent answering all three Big Three questions correctly, by race/ethnicity. Source: Authors' tabulations, 2019 Survey of Consumer Finances.

## How Financial Literacy Shapes Financial Decision-Making

These gaps in financial knowledge translate directly into the financial decisions people make and the economic outcomes that follow.

**Financial literacy is a strong predictor of retirement planning and wealth** (Lusardi and Mitchell 2007, 2011a). Indeed, 30–40 percent of wealth inequality near retirement can be accounted for by financial literacy (Lusardi, Michaud, and Mitchell 2017). Even after controlling for age, gender, education, marital status, employment status, race, and income, each additional correct answer on the financial literacy measure is associated with 13 percent higher median net wealth, 24 percent higher financial wealth, 7 percent more nonfinancial wealth, and a 15 percent higher median wealth/income ratio.

**Financial literacy also produces better investment outcomes.** The more financially literate are more likely to invest in the stock market, and hence, earn higher (risk-adjusted) returns on their investments (van Rooij, Lusardi, and Alessi 2011; Clark, Lusardi, and Mitchell 2017).

**Financial literacy also shapes the liability side of the balance sheet.** People who are more financially literate are better able to manage debt (Lusardi, Mitchell, and Oggero 2020).

## The Power of Financial Education

Financial literacy in the United States is low, unequally distributed, and consequential for financial decisions. The good news is that it can be changed. A recent meta-analysis of 76 randomized evaluations across 33 countries finds that financial education programs measurably improve both financial knowledge and downstream behavior, at effect sizes comparable to interventions in health, energy, and environmental education (Kaiser et al. 2022). For programs whose success depends on informed family-level financial decisions, including college savings vehicles like 529 plans, closing the financial literacy gap is foundational to closing the participation and outcomes gaps.

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JOURNAL OF ECONOMIC PERSPECTIVES • VOL. 37, NO. 4 • FALL 2023 • PP. 137–154

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[pubs.aeaweb.org/doi/pdfplus/10.1257/jep.37.4.137](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.37.4.137)

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