The Exchange: Discussions on Women's Financial Literacy

Episode No. 4: Women and the Financial Literacy Gap

Jill: Hi, and welcome to the fourth installment of The Exchange: Discussions on Women's Financial Literacy. I am your host, Jill Harris. Before we get started, I want to state the views expressed today are those of the presenters and do not necessarily reflect those of the Commission, the Commissioners, or other members of the Staff. Today, I am joined by Jeaneen Kappell, a staff attorney, colleague, and good friend. Jeaneen has worked in the white collar space in private practice for about 10 years, and has now been with the Commission for about two years. Welcome!

Jeaneen: Thank you for having me! I am excited to talk about this interesting and relevant topic.

Jill: Today, we are discussing women and the financial literacy gap. So, financial literacy is a theme throughout all of our conversations, but we wanted to devote time to discuss what financial literacy is, the importance of financial literacy and the notable difference in how women interact with finances – what I will term the 'financial literacy gap'. Jeaneen, do you want to kick us off?

Jeaneen: Sure, so I think the first task is to define financial literacy. There were a couple definitions out there, but the best one I found is "People's ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions."[1] The reason I like that one is because it reflects a lot of the topics covered in previous conversations: specifically informed decision making and planning.

Jill: I like that definition as well. Let's set out some context for this conversation – the research shows women control about 40% of the global wealth, and some expect that percentage to increase to 77% by 2029.[2] We also know that women have different financial needs, due to various factors, including pregnancy, child care, and longevity. Finally, we know that not being financially literate has a major impact: Consumers who fail to understand the concept of compounding interest, tend to spend more on transaction fees, run up bigger debts, incur higher interest rates, and save less money.[3]

Jeaneen: Agreed Jill. Despite the importance of financial literacy and women's increasing control over finances, we see a gap between the way women and men interact with finances. Studies show that, overall, women are less engaged and less confident on issues of finance and investing.[4] The Global Financial Literacy Excellence Center surveyed 150,000 people in multiple countries on basic financial literacy questions. Across the board, women were disproportionately more likely than men to answer "Do not know" to a financial question. Rather than taking a shot at the answer, they chose not to risk it.[5]

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[1] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5450829/
[2] https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/global-wealth-report-2018-women-hold-40-percent-of-global-wealth-201810.html
[3] https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x73402
[4] https://gflec.org/wp-content/uploads/2016/02/WP-2016-1-How-Financially-Literate-Are-Women.pdf
[5] *Id.*

Jill: I want to expand on the survey a bit: there was one question about interest rates, one about inflation and one about risk diversification.[6] I wonder if the overall results would have been different if there had been questions about budgeting and saving, which we know are key components of financial literacy.

Jeaneen: It's a good point – as we discuss the rest of these results, we should note that the phrasing and substance of the questions likely factored into the results.

Jill: As we dig in, we find that for each of the basic financial literacy questions, the proportion of correct answers was lower amongst women. About 55% of men correctly answered questions regarding interest rates and inflation, compared to 38% of women.[7] In the United States, women are 14% points less likely to give a correct answer.[8] Not surprisingly, we see this trend continue in the more advanced financial concepts, like mortgage pricing, the stock market, and mutual funds.

Jeaneen: I found that interesting too. What is fascinating to me when I look at these studies, is that this is true across all demographics - the gender gap in financial literacy continues to persist even after taking into account marital status, education, income, age, and other socioeconomic characteristics.[9]

Jill: I saw that too. A lot of these variables overlap – particularly age, marital status and income, but I think they are each worth further discussion, because they can illuminate some of the reasons behind the gender gap. It's not obvious why women lag behind men in their knowledge and confidence with finances.

Jeaneen: Let's tackle age – the survey reveals younger women are not more financially literate than their older counterparts.[10] This is interesting because younger women are more likely to be educated and participate in the labor market, and also less aligned with traditional gender roles. I also think it's notable because culturally, there's an increased focus on women in finance that does not seem to be translating to actual engagement.

Jill: That is interesting – while it's important for women of all ages to be financially literate, different generations have different concerns. For younger women, they are managing somewhat novel issues like student debt and increasingly doing so independently, as less people are getting married. For older women who outlive the husbands who traditionally handled the finances – they find themselves needing new skills later in life.

Jeaneen: So, this dovetails into another variable: marital status. As you might expect – married women are more financially literate that their unmarried counterparts.[11] I am not sure we can infer that marriage equals additional financial literacy – I think this makes sense because marital status overlaps with age and more complex financial decisions. However, in the U.S., unmarried women display very low levels of financial

[6] *Id.*
[7] *Id.*
[8] *Id.*
[9] *Id.*
[10] *Id.*
[11] *Id.*

literacy.[12] Yet, the gap in financial literacy between married women and married men remains consistent with our overall theme - married men are more financially literate. Even the female survey respondents who identified as the joint decision makers know significantly less than respective male respondents.[13]

Jill: I think this is partially explained by the fact that finances have traditionally and culturally been seen as a domain outside of the home, which is usually dominated by men. One study suggested that financial language itself could be a barrier to financial literacy because so many financial industry terms and phrases are associated with traditionally male-skewing activities like war, sports, and gaming.[14]

Additionally, I would note the absence of women in the financial industry likely reinforces the idea that finances are not something for women. One illustrative statistic – less than 25% of the leadership roles within financial firms are held by women.[15]

Jeaneen: I would agree with those observations. I would also note, that the persistence of the gap between different age groups regarding finances within the home demonstrates that a certain cultural understanding of finance continues between the generations. With an increasing amount of women in the workforce, the popular wisdom on this has shifted a bit: although the majority of married couples still put all their income into a joint account,[16] in a 2016 survey, the respondents were split evenly about *whether* a married couple could merge all their money.[17] There are a lot of approaches to financial literacy but for some couples, keeping separate accounts can bolster financial literacy. With technologies like online bill pay, and mobile payment services like Venmo or CashApp, the practice of splitting finances is likely going to become more commonplace. Anyone using these technologies should, however, be aware of privacy settings – some services may publicly display transaction or transfer details, which may not be ideal.

Jill: Apparently one of the main concerns around splitting is the inconvenience – I think those technologies you mentioned could certainly allay concerns about inconvenience.

Jeaneen: It is important to remember, however, that every couple has different circumstances and there is no "one-size-fits-all" approach to handling finances. Some couples may choose to maintain joint accounts to avoid potential fees associated with multiple accounts, to obtain available pricing benefits often reserved for larger accounts, or for estate planning considerations. Regardless of account structure, it is beneficial for both men and women to have a grasp of critical financial concepts and how they can impact a couple's decision-making process.

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[12] *Id*.
[13] *Id*.
[14] https://fileserver.carloalberto.org/cerp/WP_140.pdf
[15] https://www2.deloitte.com/us/en/insights/industry/financial-services/women-in-the-finance-industry.html
[16] https://www.theatlantic.com/family/archive/2022/04/how-couples-should-manage-finances-hybrid-model/629607/
[17] Pepin, Joanna, Beliefs About Money in Families: Balancing Unity, Autonomy, and Gender Equality, Journal of Marriage and Family; Minneapolis, Vol. 81, Iss. 2, (Apr. 2019).

Jill: So I want to shift gears here and address another variable: race. The most recent studies show that whites were more likely than Black and Hispanic respondents to answer basic financial literacy questions correctly. Depending on the question, Blacks were between 12 – 17% less likely to give a correct response than their white counterparts; Hispanics were between 7 – 12% less likely to give a correct response than their white counterparts. This finding aligns with other studies that found differences in financial literacy based on race in high school students.

Jeaneen: I think it's important to consider this gap in context, because it aligns with the racial wealth gap – we know in the U.S., the average Black or Hispanic/Latino household earn about half as much as the average White household, and own only about 15 to 20 percent as much net wealth.[18] We also know that wealthier people have more financial literacy: Respondents from households that own taxable investments were more likely to answer the questions correctly relative to households with only retirement accounts or no accounts.[19] Considering we have a society where certain races and ethnicities have historically less wealth, it's not surprising that there seems to be a relationship between the two

Jill: You've touched on a key point: there seems to be a correlation between greater wealth and financial literacy, probably because wealth tends to provide more exposure to the education, people, and institutions that use advanced financial terms and concepts. This is important because, while the lack of financial literacy may not initially cause the racial wealth gap, it could perpetuate it. We know that financial literacy generally correlates to the type of financial decision making that can create wealth, specifically, individuals with higher financial literacy are more likely to take on higher risk and higher yield assets like stocks or options, are less likely to take on high interest debt, and are more likely to save at higher interest rates.[20] So, it's a bit self-perpetuating: financial literacy can help create wealth, but already having wealth generally means you have financial literacy.

Jeaneen: Yes, and it's one of the many reasons the racial wealth gap has remained stagnant. I want to pick up on this wealth and financial literacy link because I think it's important, and the studies around wealth and women of color are particularly illustrative: a 2019 study found a single Black women's median wealth is $1,700, compared with the median wealth of a single white man at $78,200.[21] This remains true even as women of color close the education gap; for instance, Black women make up around 13% of this country's female population, but they consistently make up over 50% of the number of Black people who receive post-secondary degrees.[22]

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18 https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.htm

19 https://www.finrafoundation.org/sites/finrafoundation/files/A-Snapshot-of-Investor-Households-in-America_0_0_0.pdf

20 https://gflec.org/wp-content/uploads/2016/02/WP-2016-1-How-Financially-Literate-Are-Women.pdf

21 https://ncrc.org/racial-wealth-snapshot-women-men-and-racial-wealth-divide/#:~:text=African%20Americans%2C%20who%20in%20many,women's%20median%20wealth%20of%20%241%2C700.

22 https://www.americanprogress.org/article/fact-sheet-the-state-of-african-american-women-in-the-united-states/

Jill: That's a great point. To summarize, I think reviewing how the financial literacy gap interacts with a lot of these variables – marital status, age, race - can help us see where financial literacy really comes from and its effects. One thing I came away with is that schools, colleges, and universities are not embedding financial literacy in their curriculum. Instead, the idea of learning about finance largely aligned with culture and traditional gender roles.

Jeaneen: I had the same observation. Especially considering formal education attainment does not translate to financial literacy. So I want to transition to discuss exactly why financial literacy matters. I know before you mentioned how it correlates to wealth creation – and that's important, but there's also some major negative correlations with low financial literacy – especially for women. One that we saw throughout the research is increased poverty in older women, particularly in the United States. This goes back to women often outliving their partners, the fact that elderly widows have few alternatives for enhancing their financial situation, and that women are less likely than men to have defined contribution pension plans – and even when they do, contribute less to them because they earn less over their career.[23] Numerous studies argue that this situation is in part due to lack of financial preparation; these are bolstered by the studies we cited above where women reply "do not know" to survey questions about their expected retirement age and expected retirement income.

Jill: That's helpful context Jeaneen, and you can imagine a world in which financial literacy is normalized, formally taught, and easily accessible that would really address that specific issue. So now that we've established the financial literacy gap, its extent and consequences, let's discuss some of the efforts at closing the financial literacy gap.

Jeaneen: Yes, so let's start with adult education. A comprehensive analysis showed that efforts at financial literacy in adulthood have positive effects on both financial knowledge and behaviors.[24] However, financial interventions – where family, friends, or others approach an individual to raise concerns regarding that person's financial situation and encourage them to seek professional help – may not necessarily lead to *changes in behavior* if people have resource constraints or are already acting optimally, or it may be optimal not to change the behavior. This makes sense to me - it really gets at the idea we were discussing earlier: access to financial literacy can be constrained by financial resources.

Jill: Agreed. The good news here is that increasingly, we are seeing policy makers and the private sector work on specific programs to address financial literacy. As you can expect the focus is mostly on K-12 education. In fact, last year, state legislatures in two dozen states were considering financial literacy bills.[25] In 2019, North Carolina passed a bill requiring a full-year course in economics and personal finance for

[23] https://gflec.org/wp-content/uploads/2016/02/WP-2016-1-How-Financially-Literate-Are-Women.pdf
[24] https://www.nber.org/system/files/working_papers/w27057/w27057.pdf
[25] https://www.nytimes.com/2021/04/02/your-money/financial-literacy-courses.html

high school graduates starting in 2024.[26] The course will require instruction on true cost of credit, borrowing, credit scores and reports, and planning and paying for post-secondary education.[27] To date, this is the most aggressive effort, but we do see many states, including Texas, offering personal finance courses in high school.

Jeaneen: I think that's a great first step. A lot of this increased attention appears to be spurred on by the pandemic and the issues with economic inequality it revealed. You mentioned the North Carolina bill addresses borrowing – I am happy to hear that especially considering the increased attention around student loans.

Jill: I am as well. Though there appears to be wide consensus that this is necessary, the discussion appears to be whether to make these types of courses required or elective. According to a recent study by Next Gen Personal Finance that does a lot of good work in this area, only 15 states passed legislation requiring a personal finance course before graduation.[28] Based on what we've seen in the data, I would argue this type of instruction should be required, and am interested to see the results out of North Carolina.

Jeaneen: Same here, very encouraging. Beyond efforts to educate school-age children, we're also seeing resources for other "at-risk" demographics coming from the nonprofit sector. For instance, some nonprofits provide online resources and seminars covering important issues for divorced women and widows.[29] Topics range from how divorce can impact retirement accounts, to the rights of a widow to her spouse's pension, and many more.

Jill: So, let's end on that high note – to summarize: we've learned the financial literacy gap exists, and it seems to largely exists because of the cultural and institutional structures around finance. Education is key – but creating a full scale personal finance education curriculum is still a work in progress. Any other observations?

Jeaneen: As women continue to manage an increasing share of global wealth, it is particularly important that we emphasize the role women can and should have in managing their own financial destinies. Women – and indeed, everyone – should be engaged and active when making critical financial decisions. Research, long-term financial planning strategies, and awareness can all assist in making smarter financial decisions. Jill, thanks so much for having me on today to discuss this important topic.

[26] https://www.bestnc.org/economics-personal-finance/
[27] *Id*.
[28] https://www.ngpf.org/blog/advocacy/how-many-states-require-students-to-take-a-personal-finance-course-before-graduating-from-high-school-is-it-6-or-is-it-21/
[29] *See, e.g.*, https://www.wife.org/ and https://wiserwomen.org/?id=38&page=National_Education_and_Resource_Center_on_Women_and_Retirement_Planning.