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The NFCS During a Pandemic

The FINRA Investor Education Foundation National Financial Capability Study (NFCS) examines a rich, connected set of perceptions, attitudes, experiences, and behaviors across a large, diverse sample in the United States. The study enables a comprehensive analysis of financial capability among U.S. adults. Each wave of the study, which has been conducted every three years since 2009, includes new questions on current, critical topics, while maintaining core measures to track changes over time.

The fifth and latest wave of the NFCS was fielded from June to October 2021 (N=27,118), providing a view of financial capability during the COVID-19 pandemic. This unusual context is important to bear in mind while interpreting the study's findings.

- Sixteen percent of respondents in the 2021 NFCS reported that they or someone in their household had COVID-19 at or before the time of the study, which was conducted before the Omicron variant became prevalent.
- Twenty percent of respondents indicated they were laid off or furloughed due to the pandemic at some point during 2020 or 2021.
- Over a quarter of respondents (26 percent) experienced a large, unexpected drop in income.

- More than three-quarters of respondents (78 percent) received at least one pandemic-related stimulus payment from the federal government.
  - Most used the funds to make purchases or pay bills (59 percent), consistent with the overall goals of the stimulus.
  - Many also added the money to savings or used it to pay down debt (38 percent and 33 percent, respectively).
  - Over half of respondents (56 percent) reported feeling anxious about their finances. More than two in five (42 percent) said they think about their finances daily; this figure is even higher (58 percent) among those reporting financial anxiety.
  - The 2021 NFCS included a new question to assess respondents' understanding of probabilities. Only 36 percent of respondents were able to answer the question correctly. This raises concerns, because understanding probability helps one to evaluate potential outcomes and risks associated with financial decisions.

Use of COVID-19 stimulus money
(among respondents who received payments)

<table>
<thead>
<tr>
<th>Use of Money</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made purchases or paid bills</td>
<td>59%</td>
</tr>
<tr>
<td>Added to savings</td>
<td>38%</td>
</tr>
<tr>
<td>Paid down debt</td>
<td>33%</td>
</tr>
<tr>
<td>Donated to individuals or organizations</td>
<td>7%</td>
</tr>
<tr>
<td>Invested in the stock market</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Which of the following indicates the highest probability of getting a particular disease?

- There is a one-in-twenty chance of getting the disease
- 2% of the population will get the disease
- 25 out of every 1,000 people will get the disease
- Don't know

Correct answer: Don't know 33%
Financial Capability Over Time

Examining changes across the five waves of the NFCS suggests that the pandemic did not lead to decreased financial capability among U.S. adults as a whole (though, as discussed later in this report, it did negatively affect some groups). The data show gains on several indicators of financial capability, and potentially the beginnings of an upward trend among measures that stagnated in 2018.

- The ability to make ends meet appears to have improved despite the pandemic. The percentage of respondents in the NFCS who reported no difficulty covering monthly expenses and bills increased from 50 percent in 2018 to 54 percent in 2021, showing continued progress since 2009.

- Satisfaction with personal finances has remained fairly steady since 2015, after nearly doubling between 2009 and 2015. A third of respondents in the 2021 NFCS reported feeling very satisfied with their current personal financial condition (8 to 10 on a 10-point scale), little changed from 2018, though the overall trend appears to be moving in a positive direction.
While people's ability to make ends meet has improved over the years, patterns of spending relative to income have not changed. In 2021, roughly one in five reported that they spend more than their income, 34 percent indicated they spend about equal to their income, and 43 percent said they spend less than their income. These percentages have remained consistent across all five NFCS waves.

![Spending vs. income chart]

Note: Individual bars do not sum to 100 percent because the percentage of respondents who answered “Don't know” or “Prefer not to say” are not displayed.

The percentage of respondents who always pay their credit cards in full has increased steadily over the five waves of the NFCS to nearly 3 out of 5 respondents (59 percent).

![In the past year, I always paid my credit cards in full chart]

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, 7 percent of homeowners reported being “underwater” in 2021. Though this figure does not differ substantially from 2018 and 2015 (9 percent), it continues a gradual recovery from the collapse in home values during the Great Recession.³
The proportion of homeowners who reported being underwater varies greatly by state, ranging from 3 percent or less in New Hampshire, South Dakota, and North Dakota, to 12 percent or more in Texas, Florida, and Washington, D.C.

Incidence of financial fragility (lack of capacity to deal with an unanticipated expense) in 2021 was comparable to 2018 levels. When asked if they could come up with $2,000 if an unexpected need arose in the next month, nearly a third of respondents (30 percent) said they probably or certainly could not. However, the data show fewer U.S. adults reporting financial fragility compared to 2012.

For the first time since the NFCS began, more than half of respondents reported having set aside “rainy day” funds to cover three months’ worth of expenses in case of sickness, job loss, economic downturn, or other emergencies. This percentage has increased steadily from 35 percent in 2009 to 53 percent in 2021.
Demographic Differences in Financial Capability

Consistent with previous waves, data from the 2021 NFCS reveal differences in financial capability among demographic groups. Younger respondents, those with lower incomes, those with lower education levels, and Black/African American and Hispanic/Latino respondents continue to show higher levels of vulnerability across multiple measures of financial capability.

- The percentage of respondents who reported having an unexpected income drop in the past year correlates negatively with age. Respondents 54 or younger were more than twice as likely as those 55 and older to report having an income drop.
- While not as large as the differences by age, there are also notable disparities by race/ethnicity and education in the likelihood of respondents to have experienced an income drop. Black/African American and Hispanic/Latino respondents were nine percentage points more likely than white respondents to report an unexpected income drop. A similar gap exists between those with no college education and college graduates.

![Graph showing the percentage of respondents who have experienced an unexpected income drop by age, race/ethnicity, and education.](image-url)
Younger respondents and those with lower incomes are more likely to engage in behaviors indicative of financial stress, such as late mortgage payments or hardship withdrawals from retirement accounts. Among respondents ages 18 to 34, 26 percent reported taking a hardship withdrawal in the last 12 months, and 38 percent reported being late with mortgage payments, compared to only 5 percent and 6 percent respectively among those 55 and older. Incidence of hardship withdrawals and late mortgage payments among respondents with incomes of less than $25,000 is more than double that of those with incomes of $75,000 or more.

<table>
<thead>
<tr>
<th>Behavioral signs of financial stress</th>
<th>By age</th>
<th>By income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have taken a hardship withdrawal from their retirement account (among respondents with defined contribution retirement accounts)</td>
<td>18–34: 26%</td>
<td>&lt;$25K: 29%</td>
</tr>
<tr>
<td></td>
<td>35–54: 13%</td>
<td>$25–75K: 13%</td>
</tr>
<tr>
<td></td>
<td>55+: 5%</td>
<td>$75K+: 13%</td>
</tr>
<tr>
<td>Have been late with mortgage payments (among respondents with mortgages)</td>
<td>18–34: 38%</td>
<td>&lt;$25K: 30%</td>
</tr>
<tr>
<td></td>
<td>35–54: 16%</td>
<td>$25–75K: 18%</td>
</tr>
<tr>
<td></td>
<td>55+: 6%</td>
<td>$75K+: 14%</td>
</tr>
</tbody>
</table>

These same groups are also more likely to exhibit psychological symptoms of financial stress. More than two-thirds of respondents in the lowest age group and two-thirds in the lowest income group reported that their personal finances are a source of anxiety, compared to fewer than half among the highest age and income groups. Personal financial issues are a daily stressor for more than half of those in the lowest age and income groups, while only around a third of those in the highest age and income groups reported thinking about their finances every day.

<table>
<thead>
<tr>
<th>Psychological signs of financial stress</th>
<th>By age</th>
<th>By income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anxious about personal finances</td>
<td>18–34: 69%</td>
<td>&lt;$25K: 66%</td>
</tr>
<tr>
<td></td>
<td>35–54: 62%</td>
<td>$25–75K: 58%</td>
</tr>
<tr>
<td></td>
<td>55+: 40%</td>
<td>$75K+: 45%</td>
</tr>
<tr>
<td>Think about personal finances at least once a day</td>
<td>18–34: 52%</td>
<td>&lt;$25K: 51%</td>
</tr>
<tr>
<td></td>
<td>35–54: 48%</td>
<td>$25–75K: 43%</td>
</tr>
<tr>
<td></td>
<td>55+: 30%</td>
<td>$75K+: 34%</td>
</tr>
</tbody>
</table>
The proportion of respondents with three months of emergency funds varies greatly by income and education levels. Among those with household incomes of $75,000 or more, 75 percent reported having emergency funds, compared to only 28 percent among those with incomes of less than $25,000. Similarly, while 72 percent of college graduates reported setting aside rainy day funds, only 49 percent of those with some college and 38 percent of those with no college reported doing so.

Differences in the prevalence of retirement accounts by income and education are even starker. Eighty-three percent of non-retired respondents with incomes of $75,000 or more reported having some kind of retirement account, either employer-based (such as a 401(k) or pension) or independent (such as an IRA), compared to just 18 percent of those in the lowest income group. Among college graduates, more than three-quarters (78 percent) reported having a retirement account, compared to only a third of those with no college.
Retirement account ownership rates also differ by age and race/ethnicity. Younger respondents are less likely than older respondents to have a retirement account. Black/African American and Hispanic/Latino respondents are less likely than white respondents to have a retirement account, while Asian/Pacific Islander respondents are more likely to have a retirement account.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Retirement Account Ownership Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>18–34</td>
<td>43%</td>
</tr>
<tr>
<td>35–54</td>
<td>59%</td>
</tr>
<tr>
<td>55+</td>
<td>66%</td>
</tr>
</tbody>
</table>

By race/ethnicity:
- White: 57%
- Black/Afr. Amer.: 46%
- Hispanic/Latino: 49%
- Asian/Pac. Isl.: 65%

There is considerable variation by income, education, and race/ethnicity in the proportion of respondents expecting an inheritance. Only 15 percent of those in the lowest income group, 16 percent of those with no college education, and 18 percent of Black/African American and Hispanic/Latino respondents indicated that they expect to inherit or have already inherited at least $10,000. In contrast, 38 percent of those in the highest income group, 40 percent of those with college degrees, and 30 percent of white respondents said they expect to inherit or have already inherited at least $10,000.

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Expected or Received Inheritance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25K</td>
<td>15%</td>
</tr>
<tr>
<td>$25–75K</td>
<td>24%</td>
</tr>
<tr>
<td>$75K+</td>
<td>38%</td>
</tr>
</tbody>
</table>

By education:
- HS or less: 16%
- Some college: 23%
- College or more: 40%

By race/ethnicity:
- White: 30%
- Black/Afr. Amer.: 18%
- Hispanic/Latino: 18%
- Asian/Pac. Isl.: 22%
COVID-19 and Financial Capability

While the pandemic did not appear to have a negative effect on the financial capability of U.S. adults overall, its impact has been more detrimental for those who experienced a COVID-19-related job loss.

- Among respondents indicating that they had been laid off or furloughed due to COVID-19 at some point, nearly two-thirds (64 percent) reported having a somewhat or very difficult time making ends meet each month, compared to only 39 percent of those who were not laid off or furloughed. Those in the former group were also more likely than those in the latter to report spending more than their income (30 percent vs. 16 percent).

  - Difficulty covering expenses and paying bills:
    - COVID-19 layoff/furlough: 64%
    - No COVID-19 layoff/furlough: 39%

  - Spending more than income:
    - COVID-19 layoff/furlough: 30%
    - No COVID-19 layoff/furlough: 16%

- Respondents who experienced COVID-19-related job loss were much more likely to report feeling financially anxious than those who did not experience such job loss (73 percent vs. 51 percent). They were also more likely to report behavioral signs of financial stress, such as hardship withdrawals from retirement accounts, late mortgage payments, and overdrawn checking accounts.

  - Hardship withdrawal (among respondents with defined contribution retirement accounts):
    - COVID-19 layoff/furlough: 32%
    - No COVID-19 layoff/furlough: 8%

  - Late mortgage payments (among respondents with mortgages):
    - COVID-19 layoff/furlough: 40%
    - No COVID-19 layoff/furlough: 10%

  - Overdrawn checking (among respondents with checking accounts):
    - COVID-19 layoff/furlough: 38%
    - No COVID-19 layoff/furlough: 17%

- COVID-19-related job loss appears to have disproportionately affected financially vulnerable demographic groups, compounding the challenges these populations face in reaching financial security. Incidence of COVID-19-related job loss is much higher among younger respondents (30 percent among ages 18 to 34, compared to 11 percent among ages 55 and up). Respondents with lower income and education levels, and Black/African American and Hispanic/Latino respondents are also more likely to have experienced a layoff or furlough due to COVID-19.
Intergenerational Wealth Transfer and Financial Capability

Over the past five waves of the study, the NFCS has consistently shown that income is positively correlated with financial capability. It can be hypothesized that beneficiaries of wealth from previous generations might experience similar advantages in terms of financial capability. However, looking at both inheritances and *inter vivos* transfers (those occurring between living individuals), findings from the 2021 NFCS show that the relationship between intergenerational wealth transfer and financial capability is not quite as straightforward.

- Respondents who indicated that they expect to receive or have already received an inheritance of at least $10,000 were more likely than those not expecting an inheritance to report having emergency funds (72 percent vs. 45 percent) and less likely to report financial fragility (14 percent vs. 37 percent).
- The same is true for respondents receiving *inter vivos* wealth transfers of $10,000 or more, such as gifts from parents or grandparents (during the giver’s lifetime), or having parents or grandparents pay for expenses such as college, a wedding, and so on.
Respondents expecting an inheritance were also more likely to report being able to make ends meet each month compared to those not expecting an inheritance (67 percent vs. 48 percent), and to report spending less than their income (51 percent vs. 41 percent).

- However, *inter vivos* wealth transfer does not appear to have a clear relationship with making ends meet or the ability to save.
The presence of *inter vivos* wealth transfers may be a sign of financial need. Respondents who reported receiving them were more likely to have experienced an unexpected income drop than those who did not receive such assistance (33 percent vs. 24 percent). Recipients were also more likely to report being financially anxious (61 percent vs. 55 percent).

- In contrast, expecting an inheritance is negatively correlated with these two measures.

Note that these findings are correlational, not causal. In addition, given that inheritance expectations are more common among older respondents while *inter vivos* transfers are more prevalent among younger respondents, it is likely that age is also a contributing factor to the findings observed here.
Financial Literacy and Financial Capability

To assess respondents' financial literacy, the 2021 NFCS used seven quiz questions covering fundamental economics, personal finance, and numeracy concepts (including the new question on understanding probabilities discussed earlier in this report). As in previous years, the data show that financial literacy is strongly correlated with behavior that is indicative of financial capability.

- Respondents with higher financial literacy (above the median number of correct answers on the seven-question quiz) appear to be better prepared for their short-term financial needs. They were more likely than those with lower financial literacy to report spending less than their income (53 percent vs. 35 percent) and setting aside three months' worth of emergency funds (65 percent vs. 42 percent).

- In addition, those with higher financial literacy are more likely to have taken steps to plan for their long-term financial future, such as calculating retirement savings needs (52 percent, compared to 29 percent among those with lower financial literacy) and having a retirement account (70 percent vs. 43 percent).
Finally, those with higher financial literacy appear better able to avoid some of the pitfalls associated with managing financial products.

- They were less likely to report engaging in credit card behaviors that generate sizeable interest or fees (paying the minimum due, paying late fees, paying over-the-limit fees, or using the card for cash advances) than those with lower financial literacy levels.

- They were also less likely than those with lower financial literacy to report using 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.
Conclusion

The 2021 NFCS, conducted against the backdrop of a global pandemic, shows encouraging signs of improvement in the U.S. adult population’s financial capability despite substantial challenges in the labor market. Rising trends in key measures such as the ability to make ends meet, setting aside emergency funds, and paying off credit cards appear to have persisted during the COVID-19 pandemic.

Amid these overall gains in financial capability, there are segments that continue to struggle, particularly younger adults, those with lower income and education levels, Black/African Americans, Hispanic/Latino Americans, and those who were laid off or furloughed due to COVID-19. In contrast, other groups, such as those with high financial literacy and those expecting an inheritance, appear relatively advantaged.

As in previous years, the study underscores the importance of financial knowledge in financial capability. Individuals with high financial literacy are more likely to demonstrate positive financial behaviors such as saving and planning for retirement, and less likely to engage in negative behaviors such as expensive borrowing methods.

In sum, the 2021 NFCS portrays a rising tide in financial capability, but also troubling crosscurrents. The COVID pandemic and its eventual aftermath may prevent many U.S. adults from experiencing smooth financial sailing for some time to come, and rising inflation and interest rates may create uncertainties not experienced in this country during the five waves of the NFCS to date. It remains to be seen whether the progress in financial capability this report describes can be maintained, and for how long.
Background & Methodology

In 2009, the FINRA Investor Education Foundation commissioned the first national study of the financial capability of U.S. 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.

Since then, the NFCS has been conducted at three-year intervals to continue tracking core measures from previous waves, while also incorporating new questions to address timely and relevant topics in each wave.

The 2021 NFCS consists of two linked surveys:
- **State-by-State Survey**: A state-by-state online survey of 27,118 U.S. adults (roughly 500 per state, plus the District of Columbia).
- **Investor Survey**: An online survey of 2,824 U.S. adults who have investments outside of retirement accounts.

In addition, there are two supplemental datasets for the 2021 State-by-State survey. These data are not included in the current report but are available upon request:
- **Asian/Pacific Islander Oversample**: An additional sample of 1,001 Asian American and Pacific Islander respondents nationwide.
- **Puerto Rico Sample**: A sample of 1,001 residents of Puerto Rico.

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 FGS Global.

This report outlines the findings of the 2021 State-by-State Survey administered to respondents between June and October 2021. Percentages were calculated using all respondents, including those who answered “Don’t know” or “Prefer not to say.” The data 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 survey instruments, data sets, and detailed methodological information, can be found at [www.FINRAFoundation.org/NFCS](http://www.FINRAFoundation.org/NFCS).

Measuring Racial and Ethnic Identity

The survey includes a question asking participants “Which of the following best describes your race or ethnicity? Select all that apply.” Respondents were given the following response options: “White or Caucasian,” “Black or African American,” “Hispanic or Latino/a,” “Asian,” “Native Hawaiian or other Pacific Islander,” “American Indian or Alaska Native,” and “Other.” Respondents who chose “Hispanic or Latino/a” alone or in combination with any other race were coded as Hispanic/Latino; respondents who chose “White or Caucasian” were coded as white; respondents who chose “Black or African-American” were coded as Black/African American; respondents who chose “Asian” or “Native Hawaiian or other Pacific Islander” were coded as Asian/Pacific Islander; respondents who chose “American Indian or Alaska Native,” “Other,” or two or more ethnicities were coded as Other. In this report, respondents coded as “Other” are included in all analyses, but the “Other” category is not displayed in the figures.
Appendix: NFCS Topic Areas

This report highlights only a portion of the topics covered in the NFCS. In addition to detailed demographic information, below is a list of financial capability topics included in the 2021 study. The full survey instrument can be found at www.FINRAFoundation.org/NFCS.

**Making Ends Meet**
- Covering monthly expenses
- Spending and saving
- Satisfaction with personal finances
- Financial well-being
- Financial anxiety
- Behavioral signs of financial stress
- Covering medical expenses
- Financial fragility
- Income volatility
- Informal work activities
- Intergenerational wealth transfer
- Pandemic-related stimulus payments
- Pandemic-related job loss

**Planning Ahead**
- Rainy day funds
- Retirement planning and retirement accounts
- Saving for college
- Investing
- Risk preferences
- Financial self-efficacy
- Personal finance technology

**Managing Financial Products**
- Banking and payment methods
- Home ownership and mortgages
- Credit card behaviors
- Student loans
- Non-bank borrowing
- Overall debt
- Credit scores

**Financial Knowledge**
- Financial literacy
- Self-perceptions of financial knowledge
- Financial education
Endnotes


2. Unless otherwise noted, the base for all figures is the total sample.

3. Question added to the NFCS in 2012; data for 2009 not available.

4. For demographic breakdowns and other sub-samples shown in this report, each sub-sample consists of at least 200 respondents.

5. The 2021 State-by-State Survey includes oversamples for California and Oregon.