

Women and Financial Literacy

AMY SCHMITZ
KATIE BOVA

INTRODUCTION

This white paper examines low-literate women and their role as personal finance managers, their obstacles to financial management, their familiarity with personal credit scores, and their opinions about homeownership. ProLiteracy undertook this study to help evaluate the critical need to better integrate American women with low literacy skills into the financial systems of the United States. The data from ProLiteracy's Women and Financial Literacy survey indicated that women with low literacy skills in the U.S. often lack basic financial knowledge and as a result experience a significantly higher risk of making uninformed decisions and engaging in potentially risky financial behavior.

EXECUTIVE SUMMARY

More than 30 million American adults struggle to read, write, and do basic math at around a third grade level¹, meaning they struggle daily with tasks such as completing job applications, reading simple books to their children or grandchildren, taking driver's license exams, or reading prescription labels.

30 MILLION AMERICAN ADULTS—46 PERCENT OF THEM WOMEN—HAVE LITERACY SKILLS BELOW THE “BASIC” LEVEL. —THE U.S. DEPARTMENT OF EDUCATION

Additionally, adults with low literacy skills may have difficulty understanding mortgage documents, bank statements, and credit card agreements, and may therefore be more vulnerable to questionable lending practices and risky financial behavior.

¹ National Assessment of Adult Literacy, National Center for Education and Statistics, 2003

Research shows that generally speaking, women are thought to be less knowledgeable about finances than men², perhaps merely as a result of the institutionalization of the math-gender stereotype that sometimes manifests in childhood. This perception is compounded by the fact that women are more likely than men to underestimate their own financial knowledge, which may have an impact on confidence and decision-making behaviors³. In many households, male spouses or relatives still make most of the major financial decisions regarding big-ticket purchases and investing. Yet with single-parent families headed by women on the rise⁴, it's evident that women in general need to be better prepared and better educated in spending, saving, and investing.

The risk of ill-informed financial behavior is higher when it involves women with low literacy skills, who may have a limited ability to use or understand print and digital information, including information pertaining to finances. Based on our initial findings, it's evident that investments in new financial education programs for women need to be made. There is an opportunity for financial institutions, who are perceived negatively among this study's target audience, to fund this initiative and partner with community-based nonprofits, who are perceived more positively, as reliable resources for women with low literacy skills. This additional investment will allow this targeted population to better navigate our financial systems and, consequently, improve their personal prosperity and that of their communities.

THE SCOPE OF THE ADULT LITERACY PROBLEM IN THE UNITED STATES

Based on the most recent national survey of adult literacy, the U.S. Department of Education estimates that 30 million American adults—46 percent of them women—have literacy skills below the “basic” level. This means they struggle to read, write, and do basic math at around a third grade level.

Many of these individuals function at or below the U.S. poverty level and many struggle to find and maintain living-wage employment. A disproportionate number of adults with literacy skills below the basic level are people of color, people with lower educational attainment, people who speak English as another language, and people who are or have been incarcerated⁵. Millions of women also fit this profile and have only basic literacy skills, far below the level needed to consume typical financial information or interact with typical financial materials such as monthly bills, bank statements, or tax forms.

2 Hung, A., J. Yoong and E. Brown, “Empowering Women Through Financial Awareness and Education,” 2012

3 Lusardi, Annamaria & Mitchell, Olivia S., “Financial literacy around the world: an overview,” 2011

4 Pew Research Center, “Breadwinner Moms,” 2013

5 U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, Special Report, Education and Correctional Populations, 2003, and U.S. Department of Education, National Center for Education Statistics, “Adult Literacy in America,” 2002

Financial literacy is the ability to understand everyday financial matters, including debt, credit, saving, consumer rights, and more, as well as how to make informed and effective decisions about earning, managing, investing, and donating money. Numeracy skills—the ability to add, subtract, multiply, divide, etc.—are critical to financial literacy. A number of studies indicate that roughly one-third of American adults possess low financial literacy skills, meaning they are not able to access or understand the information they need to sufficiently manage their personal finances or to make good decisions about saving, spending, investing, borrowing, and more. More than half (56 percent) of American adults admit they do not have a budget, and more than one in five (22 percent) say they don't have a good idea of how much they spend on housing, food, and entertainment every year⁶. While the ProLiteracy study did not quantify these same measurements in our survey, based on qualitative study, our expectation would be that these same percentages would be higher among our target audience.

**"It is harder for women to get the knowledge they need to manage their finances."
— Focus group participant,
Newland Center**

56 MORE THAN HALF OF AMERICAN ADULTS ADMIT THEY DO NOT HAVE A BUDGET. —HARRIS INTERACTIVE

Women fare slightly worse with financial literacy than men⁷, which has a cascading effect on other aspects of their lives, such as retirement, savings, and credit. Although studies show that women tend to save a slightly higher percentage of their paychecks than men, they score consistently lower on financial literacy tests than men⁸. A study by the Center for Women and Financial Independence at Smith College revealed that the mean financial literacy test score for women who hold at least a bachelor's degree is only 47 percent, a failing grade⁹.

6 Harris Interactive, "The 2012 Consumer Financial Literacy Survey," 2012

7 Lusardi, A. and Mitchell, O.S., "Planning and Financial Literacy: How Do Women Fare?" American Economic Review, 2008

8 FINRA "In Our Best Interest: Women, Financial Literacy and Credit Card Behavior," April 2012

9 Mahnaz Mahdavi, reported at the Council for Economic Education, 2012

We posit that this mean financial literacy test scores for women decrease as educational attainment levels decrease. Because 75 percent of all female heads of households with less than a high school diploma live in poverty, and because nearly 40 percent of all female single mothers have an eighth grade education or less¹⁰, our study of this specific group of American women with low literacy skills attempts to support the correlation between low-literate women and low personal financial skills and knowledge.

INFORMATION COLLECTION

Data was collected through two channels: a national survey administered through ProLiteracy's member network of 1,000 community-based organizations, and a series of focus groups administered in partnership with three specific member programs: Literacy DuPage (Illinois), Newland Center (New York), and the Adult Literacy League (Florida).

The participants in the qualitative focus groups ranged in age from their early 20s to their late 50s, and

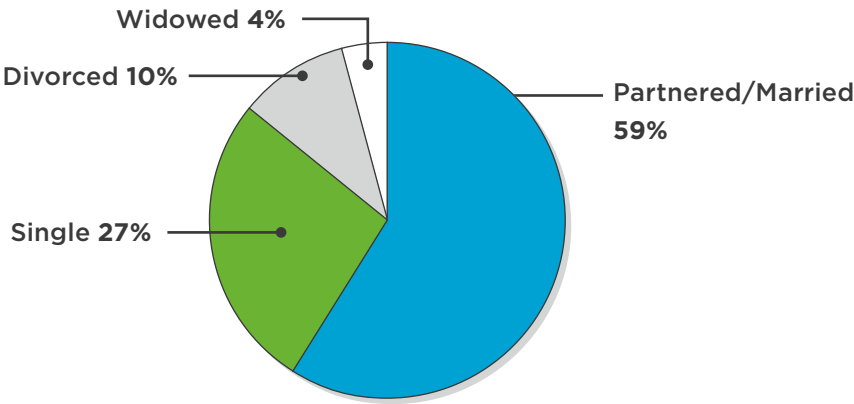
represented a broad range of cultural backgrounds, education levels, and experience relative to personal finance management.

ProLiteracy adapted an existing national financial literacy survey instrument that was originally developed by Freddie Mac to gain insights into women's financial and credit education needs. The survey was modified to be more accessible and relevant to respondents with low English literacy skills.

Respondents completed the survey online. Instructors and tutors were invited to make the survey available in print to students when computer-based completion was not an option. Those responses were then manually compiled with the online results.

ProLiteracy surveyed women enrolled in literacy, adult basic education, high school equivalency test preparation, and English language instruction across the country. We received responses from 951 individuals, and 775 of the respondents completed the entire survey.

All survey respondents are women. They self-identified as follows:



¹⁰ Pew, "Record Share of New Mothers are College Educated," 2013

Additional demographic information such as age group, race, household size, employment status, and income was not collected in order to keep the survey concise and to maintain the privacy of women who took this survey with the assistance of a literacy tutor or instructor.

FINDINGS

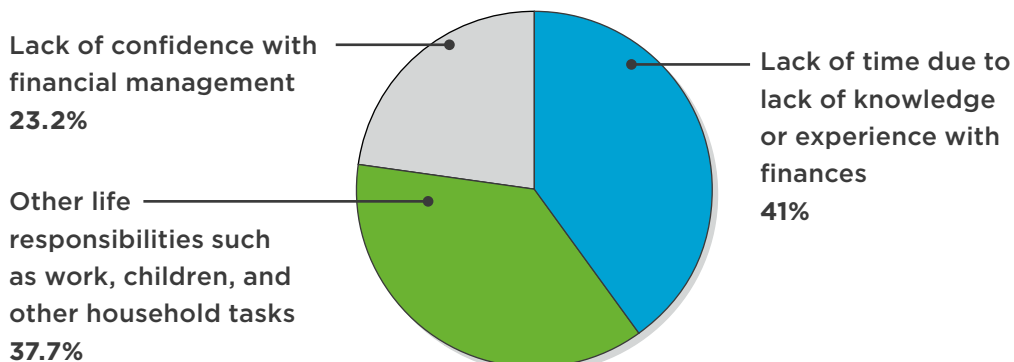
Women as personal financial managers

The majority of respondents (86 percent) were involved on some scale in financial management for themselves or for their families, yet the vast majority of respondents (69 percent) also indicated that they had an interest in learning more about at least one critical financial literacy topic, such as managing credit and understanding loan processes, underscoring both the need and the demand for financial education for low-literate women.

Although the majority (70 percent) of respondents indicated that they had never participated in financial education programs in the past, those who had were more likely to take responsibility for most or all of the financial management in their household than those who had not. This illustrates educational disparities in financial management.

Obstacles to financial management

When asked what obstacles prevent them from having more control over their finances, the vast majority of respondents indicated barriers of some sort exist that prevent them from taking some responsibility for personal or household financial management tasks:



Focus group participants underscored the challenge posed by fear or lack of confidence, noting they were worried that even after following advice gained through the completion of a financial literacy course they might still face rejection when applying for a loan such as a mortgage.

Roughly 10 percent of survey respondents indicated that cultural factors influenced their financial management responsibilities in the home. Focus group participants from locations including Albania and Sudan noted that in their home countries, women were forbidden from handling the family finances and thus there was no reason to learn about financial management. Culture-based gender norms and traditional roles in the home are difficult to relinquish, even across generations. Financial management practices are often passed down within the family; for example, a mother shares grocery budgeting practices with her daughter. This may result in a persistent intergenerational cycle wherein the women in the household take care of personal needs such as food and clothing, while the men are charged with maintaining and controlling the household infrastructure such as the mortgage or rent, utilities, and car payments, as well as saving for the future and/or making investments. One focus group participant, a mother of nine who resided on a rural farm in her home country, said: “Women take care of things inside the house, men outside. It depends on how controlling he [the husband] wants to be, but most women don’t know, and aren’t allowed to know, too much about money.” As the definition of a typical family structure changes and more families emerge with one or more female heads of household, these norms will likely evolve—but many women, particularly low-literate women, are unprepared and ill-equipped to step into this role.

"A lot of women don't have reliable ways to learn about money...They just do what their families do" — Focus group participant, Literacy DuPage

57 PERCENT OF OUR TARGET POPULATION INDICATED THEY DID NOT KNOW THEIR CREDIT SCORE OR WHAT INFLUENCES IT.

Awareness of credit scores

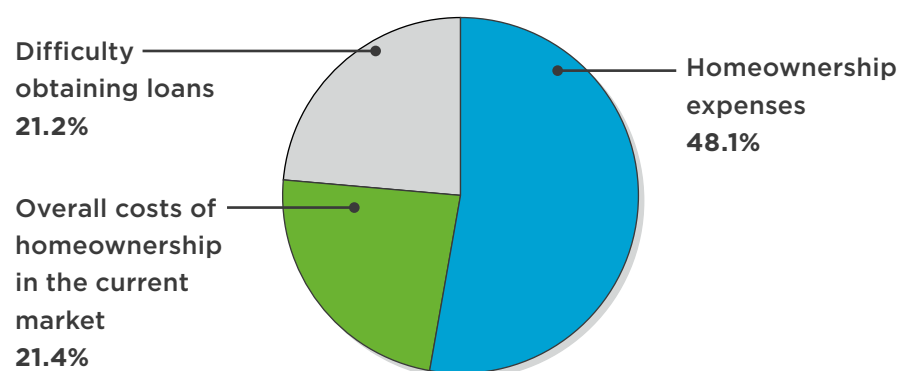
The majority of survey respondents indicated that they did not know their credit score or what influences it (57 percent), indicating that our target population of low-literate women is slightly less likely to

be aware of their credit score when compared with the general population¹¹. Single women with low literacy skills were less likely to know their credit score than current or previously married/partnered respondents. This is consistent with findings associated with the general public which indicate that women across educational attainment who are currently or who were previously married or partnered tend to have higher financial literacy rates than single women¹². Single respondents were also less likely to be homeowners than currently or previously partnered/married respondents suggesting a correlation between personal relationship status, homeownership, and credit score awareness. This underscores our point that financial education needs to be developed specifically to address barriers to financial independence faced by single women¹³—a need which is underscored by a recent OECD report that indicated that there is a lack of financial literacy instruction that responds to women’s unique interests and life situations .

Homeownership

More than 48 percent (48.2) of survey respondents indicated that they are homeowners. Current or previously married/partnered respondents were more likely to own a home with or without a mortgage, while respondents who identified themselves as single were more likely to rent a home or live with friends or family members.

When asked what barriers exist to homeownership, respondents who do not currently own a home cited:



11 Ciccone, Report: Nearly Half of Americans Don't Know Their Credit Score, 2012

12 FINRA, 2012

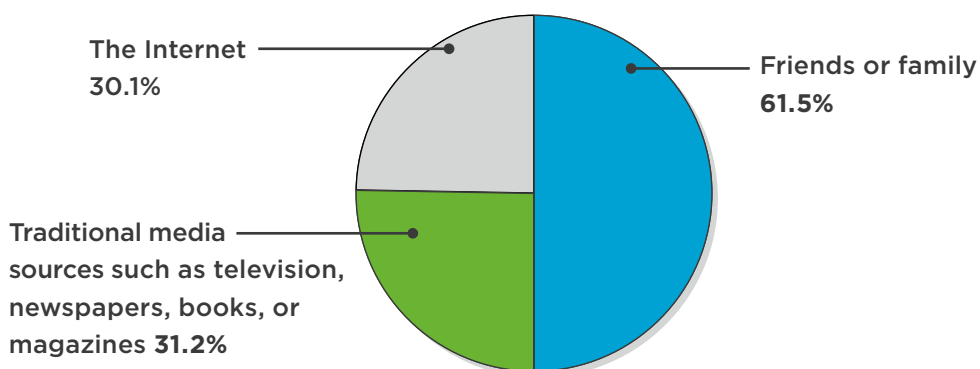
13 OECD, "Addressing Women's Needs for Financial Education," 2013.

Focus group and survey participants indicated they felt discouraged from pursuing current or future homeownership because of past experiences around loan denial due to low credit score or foreclosure due to inability to keep up with mortgage payments or manage increases in adjustable rate mortgages.

Accessing financial literacy instruction and information

Across all personal status categories, low-literate women respondents are most likely to learn about money or finances from friends or family (61.5 percent), traditional media sources such as television, newspapers, books, or magazines (31.2 percent), and the Internet (30.1 percent). Respondents are least likely to learn about finances from faith leaders or faith-based organizations (7.3 percent) or local housing agencies (3.0 percent).

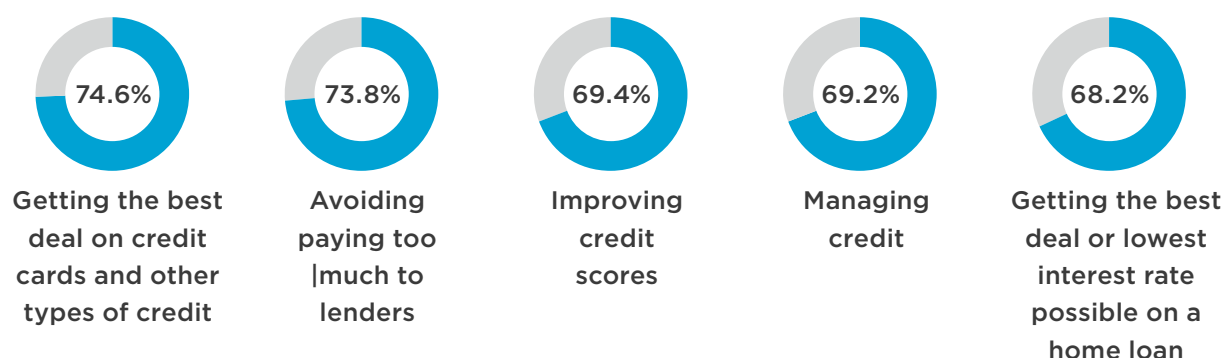
Across all personal status categories, low-literate women in our survey reported that they are most likely to learn about money or finances from:



Respondents are least likely to learn about finances from faith leaders or faith-based organizations (7.3 percent) or local housing agencies (3.0 percent).

61.5 PERCENT, THE MAJORITY OF SURVEY RESPONDENTS, INDICATED THEY ARE MOST LIKELY TO LEARN ABOUT MONEY OR FINANCES FROM FRIENDS OR FAMILY.

Only 29.2 percent of respondents reported having participated in a personal financial management class or instructional program; however the majority of respondents indicated interest in learning more about the following subjects:



Respondents indicated that classes available online, classes taught by a female teacher, and those that are available during the week are preferred, whereas classes offered during the daytime, those that are offered over the course of several weeks, and those that are offered on a mobile device such as a cell phone or tablet are least appealing.

Focus group participants indicated that classes offered by trusted nonprofit organizations and in some cases government organizations, are more desirable than those offered by lending institutions or financial advisers whose primary motivation may be to sell a product or service that involves a fee or commission. Further, while financial expertise was noted as an important instructor characteristic, participants also valued the opportunity to learn from others who had been through a financial situation similar to their own. Finally, respondents underscored the importance of free childcare, particularly for single mothers, during class time to reduce barriers to participation.

RECOMMENDATIONS

The ProLiteracy analysis reveals significant gaps in the financial knowledge of women in America who are low literate. Our findings underscore that women with low literacy skills are less financially skilled relative to men and to women with higher literacy skills, and, as a result, may be more susceptible to fraudulent or unethical financial practices. This sentiment was aptly expressed by focus group participants, who said that if women go to school, they know more about money; and therefore, if the husband is not “good with money” the wife could take more control. This suggests that that women must be educated to be on equal footing with men—no matter if they are partnered or not—when it comes to competent financial literacy.

We recommend investing in financial literacy outreach for women with low literacy in order to provide them, and their families and communities, with the skills, information, and tools they need to be informed and empowered managers of their own money. Doing so will likely decrease uneducated and risky financial behavior. The Smith College study reinforces our recommendation by reporting that women who participated in formal financial instruction performed better than average on the financial literacy test while those who scored lowest on the test were most likely to report relying primarily on friends or family for financial advice.

Further, based on our survey, it's evident that investments in new, audience-specific education programs are critical, and that one-size-fits-all strategies are ineffective, only maintaining—if not actually increasing—the gap in financial literacy between men and women. This additional investment will allow this targeted population to better navigate our financial systems and, consequently, to improve women's personal prosperity and that of their communities. Because of the positive perception of community-based nonprofits over financial institutions, we recommend incremental funding for nonprofits in order to position them as “brokers” of financial literacy programs and resources. Financial institutions have a philanthropic opportunity to provide this funding through grant programs and foundation giving.

Because there is some crossover between women with low literacy skills and women who are non-native English speakers, we recommend further research to include first languages as well as geographic location, which would more fully allow for understanding localized cost of living and housing/home ownership trends, as well as for identifying key areas of program investment and demographic-specific need.

The risk of ill-informed financial behavior is higher when it involves women with low literacy skills. Additional investments for programs aimed specifically at low literate women are critical to help them address fundamental financial needs and practices and, consequently, improve their personal prosperity as well as that of their families and communities.

This study was made possible by support from Freddie Mac.

ABOUT THE AUTHORS: Amy Schmitz is the director of marketing and communications at ProLiteracy. Katie Bova is the grant writer/researcher at ProLiteracy.

For more information, visit ProLiteracy.org or email us at info@proliteracy.org.

ProLiteracy is the largest adult literacy and basic education membership organization in the nation. It works with adult new readers and learners and with local and national organizations to help adults gain the reading, writing, math, computer, and English skills they need to be successful. ProLiteracy advocates on behalf of adult learners and the programs that serve them, provides training and professional development, and publishes materials used in adult literacy and basic education instruction. ProLiteracy has 1,000 member programs in all 50 states and the District of Columbia and works with 50 nongovernmental organizations in 34 developing countries. In the 2011-2012 academic year, 162,454 women were served through ProLiteracy's domestic member network.

©2013 ProLiteracy. Proprietary and Confidential. All rights reserved.