

# Notes

Public Opinion on the Future of Employment-Based Health Benefits: Findings From the 2011 Health Confidence Survey, p. 2

How Do Financial Literacy and Financial Behavior Vary by State? p. 15

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## EXECUTIVE SUMMARY

### **Public Opinion on the Future of Employment-Based Health Benefits: Findings From the 2011 Health Confidence Survey**

**CONFIDENCE IN AVAILABILITY OF EMPLOYMENT-BASED COVERAGE FALLING:** Over the long-term, public confidence that employers and unions will continue to offer health coverage has fallen. In 2011, 57 percent of individuals with employment-based coverage were extremely or very confident that their employer or union would continue to offer health coverage, down from 68 percent in 2000. Most of the erosion in confidence occurred between 2000 and 2002.

**FAMILIARITY WITH INSURANCE EXCHANGES LACKING:** The vast majority of the population, 62 percent, reported that they were not at all familiar with health insurance exchanges, a key provision in the health reform law of 2010 (PPACA). However, the public does have opinions about the oversight of them: A majority of the population is not confident in the ability of the federal or state governments to run the exchanges, and 42 percent are not confident in private insurers' ability to run them.

### **How Do Financial Literacy and Financial Behavior Vary by State?**

**ROLE OF STATES:** This study uses relatively new data to show the difference in financial literacy and financial behavior across states. After controlling for the effect of individual demographic characteristics, most bottom-ranked states have a statistically significant effect on their residents' financial literacy and almost all states have a statistically significant effect on their residents' financial behavior. This suggests that there might be something going on at the state level whereby individual financial literacy and financial behavior are being shaped not only by individual demographic characteristics but also by the state in which people live.

**TOP-RANKED STATES:** New Hampshire and Alaska top the financial literacy and the financial behavior rankings, respectively. Minnesota, Idaho, Washington, Colorado, Wisconsin, Utah, and Maryland also appear in the top 15 of both rankings.

**BOTTOM-RANKED STATES:** Louisiana and West Virginia are at the bottom of the financial literacy and the financial behavior rankings, respectively. Mississippi, Arkansas, Tennessee, Alabama, Ohio, Kentucky, Texas, and Indiana also appear in the bottom 15 of both rankings.

# Public Opinion on the Future of Employment-Based Health Benefits: Findings From the 2011 Health Confidence Survey

*By Paul Fronstin, Employee Benefit Research Institute*

## Introduction

Enactment of the Patient Protection and Affordable Care Act (PPACA) of 2010 has raised many questions about whether employers will continue to offer health coverage in the future. In 2014, state-based health insurance exchanges will be available to individuals without employment-based coverage. These exchanges change the playing field in that workers will no longer need to rely on their employer to obtain health coverage. Workers will benefit from a number of insurance market reforms, such as guaranteed issue, modified community rating, subsidies, and increased choice of health plan.

The Congressional Budget Office<sup>1</sup> and others<sup>2</sup> have concluded that there will be very little change in the number of people with employment-based coverage. While many surveys of employers have been conducted to gauge their interest in dropping coverage,<sup>3</sup> two conclusions emerge from these surveys: 1) there is no reason to believe that any survey conducted today can be used to determine the percentage of employers that might be dropping coverage three or more years from now, and 2) if a few large employers drop coverage, others could follow in a “me too” effect.<sup>4</sup>

This article examines public opinion surrounding the future of employment-based health coverage. Data come from the EBRI/MGA 2011 Health Confidence Survey (HCS), a survey that examines a broad spectrum of health care issues, including Americans’ satisfaction with health care today, their confidence in the future of the health care system and the Medicare program, and their attitudes toward health care reform.<sup>5</sup>

## Confidence in the Future of the Employment-Based Health System

Over the long term, public confidence that employers and unions will continue to offer health coverage has fallen. In 2011, 57 percent of individuals with employment-based coverage were extremely or very confident that their employer or union would continue to offer health coverage, down from 68 percent in 2000 (Figure 1). Most of the erosion in confidence occurred between 2000 and 2002, when the percentage of individuals who were extremely or very confident fell to 61 percent. By 2007, 58 percent of individuals were extremely or very confident that their employer or union would continue to offer health coverage. Other than a one-year dip to 52 percent in 2010, the percentage who were extremely or very confident has remained just below 60 percent.

The reduction in the percentage of individuals who were extremely or very confident that their employer or union would continue to offer health benefits did not affect the percentage reporting that they were somewhat confident, which has mostly remained in the mid-20 percent range. Instead, the percentage of individuals reporting that they were not too or not at all confident that their employer or union would continue to provide health coverage increased. In 2000, it was 7 percent and by 2011 it was 18 percent.

## Confidence in Ability to Afford and Likelihood of Purchasing Health Coverage

Individuals have a low level of confidence that they can afford to purchase health coverage on their own even if their employer or union gave them the money to do so. In 2011, 20 percent were extremely or very

confident that they could afford to purchase coverage; 30 percent were somewhat confident; and 48 percent were not too or not at all confident (Figure 2).

Other than the big swings in confidence levels seen in 2003 and 2004, there has not been much change in the percentage of individuals who are extremely or very confident in their ability to afford coverage. However, despite the fact that 48 percent were not too or not at all confident in their ability to afford coverage on their own in 2011, there has been a longer term downward trend. In 2002, 60 percent of individuals were not too or not at all confident that they could afford coverage if their employer or union stopped providing it and gave workers the money to purchase it on their own.

Despite the low confidence levels regarding their ability to afford coverage, individuals report a relatively high likelihood of purchasing coverage if it were no longer available through work. Nearly two-thirds (63 percent) report that they are extremely or very likely to purchase coverage on their own if it becomes unavailable through work, and another 19 percent are somewhat confident that they would purchase coverage (Figure 3). Less than 1 in 5 (17 percent) are not too or not at all likely to purchase coverage on their own. There has been no trend upward or downward in these estimates since 2004.

## **Choosing a Health Plan and Using a Rating System**

Starting in 2014, workers will no longer need to rely on their employer to obtain health coverage. Under PPACA, workers will be able to purchase health insurance directly from a health insurance exchange; however, the key provisions of PPACA are not the exchanges per se, but a number of insurance market reforms that are combined with the exchanges, such as guaranteed issue, modified community rating, premium and cost-sharing subsidies, and increased choice of health plan.

The exchanges will provide information to help potential purchasers of health insurance better understand the available options. Information on premiums, covered benefits, cost sharing, enrollee satisfaction, and management of chronic disease, among others, would be provided by the exchange in a user-friendly format.

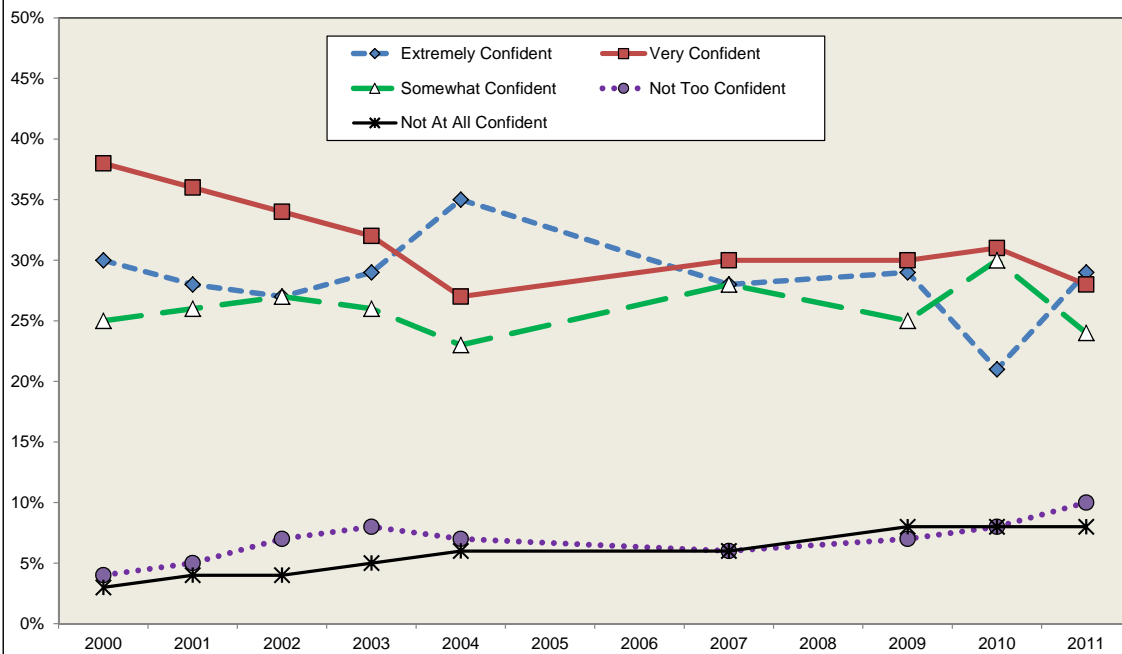
According to the 2011 HCS, individual confidence in one's ability to compare different plan options and choose the best plan is neither high nor low. Seventeen percent are extremely confident that they could compare different plan options and choose the best plan, 21 percent are very confident, 41 percent are somewhat confident, 11 percent are not too confident, and 10 percent are not at all confident (Figure 4). Most people are also very or somewhat comfortable using an objective rating system to choose a health plan. Nearly 1 in 3 (28 percent) of adults are very comfortable using an objective rating system to choose a health plan, and another 42 percent are somewhat comfortable with it (Figure 5). Few are at the extremes, with 12 percent extremely comfortable, 7 percent not too comfortable, and 9 percent not at all comfortable with using an objective rating system to choose a health plan.

When it comes to confidence levels in an objective rating system being able to help an individual choose the best available plan, again, most people are somewhere in the middle. An equal number (10 percent) were each extremely confident, not too confident, and not at all confident that an objective rating system would help them choose the best available plan (Figure 6). Most people were very confident (22 percent) or somewhat confident (46 percent).

## **Health Insurance Exchanges**

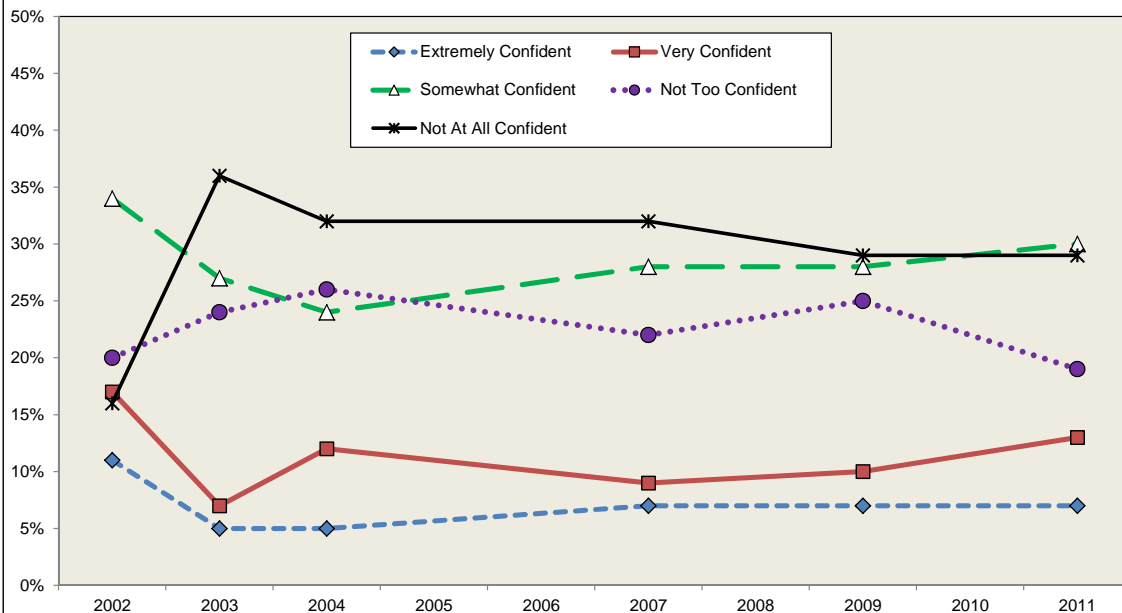
It should come as no surprise that when it comes to the various questions about choosing a health plan in Figures 4–6, most people are not at the extremes and that the "somewhat" category dominates, because most people do not know anything about health insurance exchanges. According to the 2011 HCS, only 1 percent of respondents reported that they were extremely familiar with health insurance exchanges, and

Figure 1  
**Confidence That Employer or Union Will Continue to Offer Health Insurance, 2000–2011**



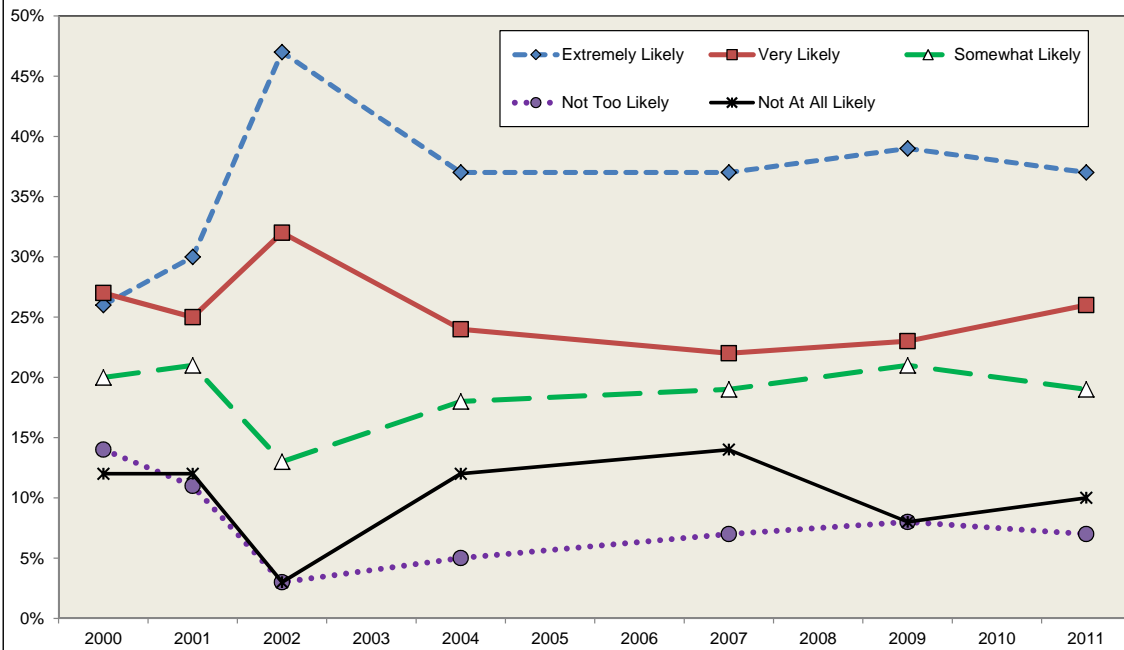
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2011 Health Confidence Surveys.

Figure 2  
**Confidence That Individuals Could Afford to Purchase Health Coverage on Their Own, If Employer or Union Stopped Offering It and Gave Workers the Money, 2002–2011**



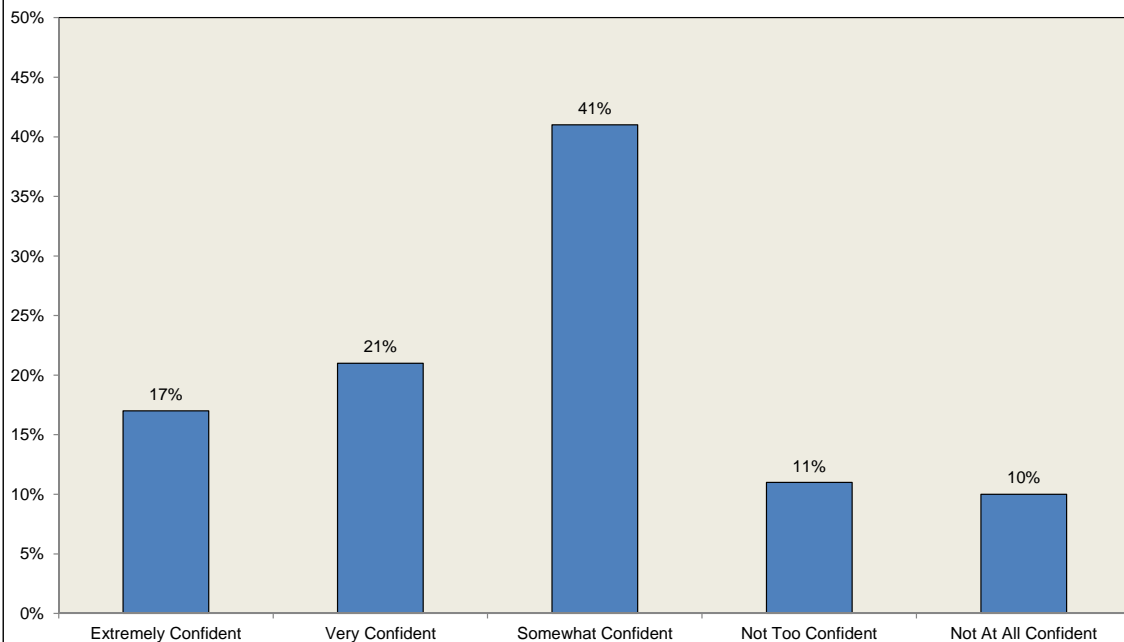
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2002–2011 Health Confidence Surveys.

**Figure 3**  
**Likelihood of Purchasing Coverage if Employer or Union Stopped Offering It and Gave Workers the Money, 2000–2011**



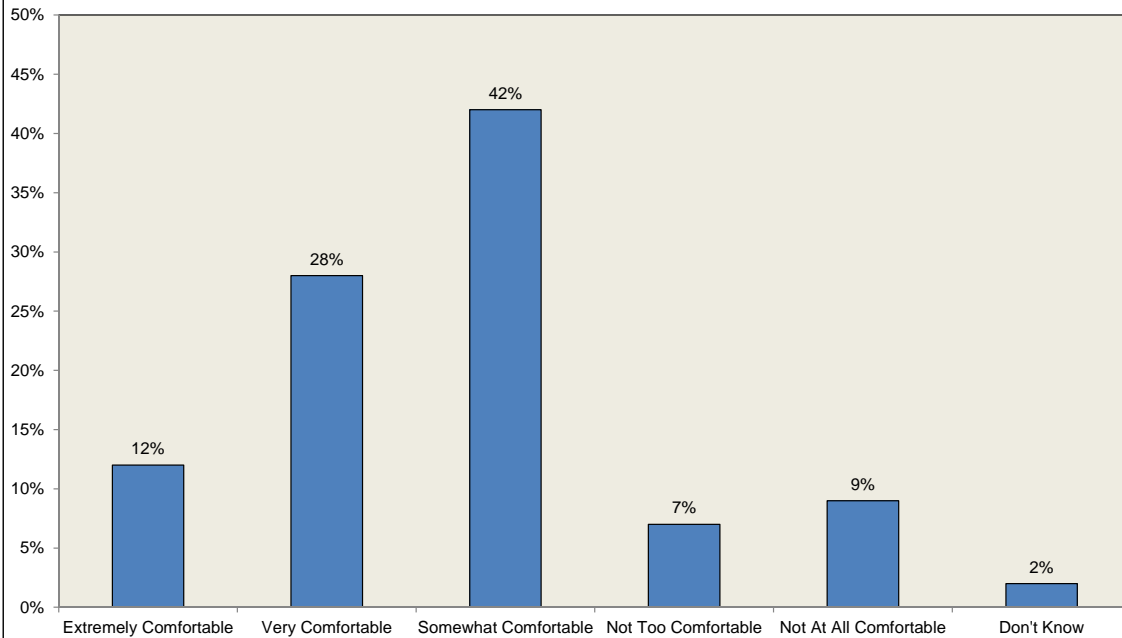
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2011 Health Confidence Surveys.

**Figure 4**  
**Confidence in Ability to Compare Different Health Plans and Choose the Best Plan if Employer or Union Stopped Offering It, 2011**



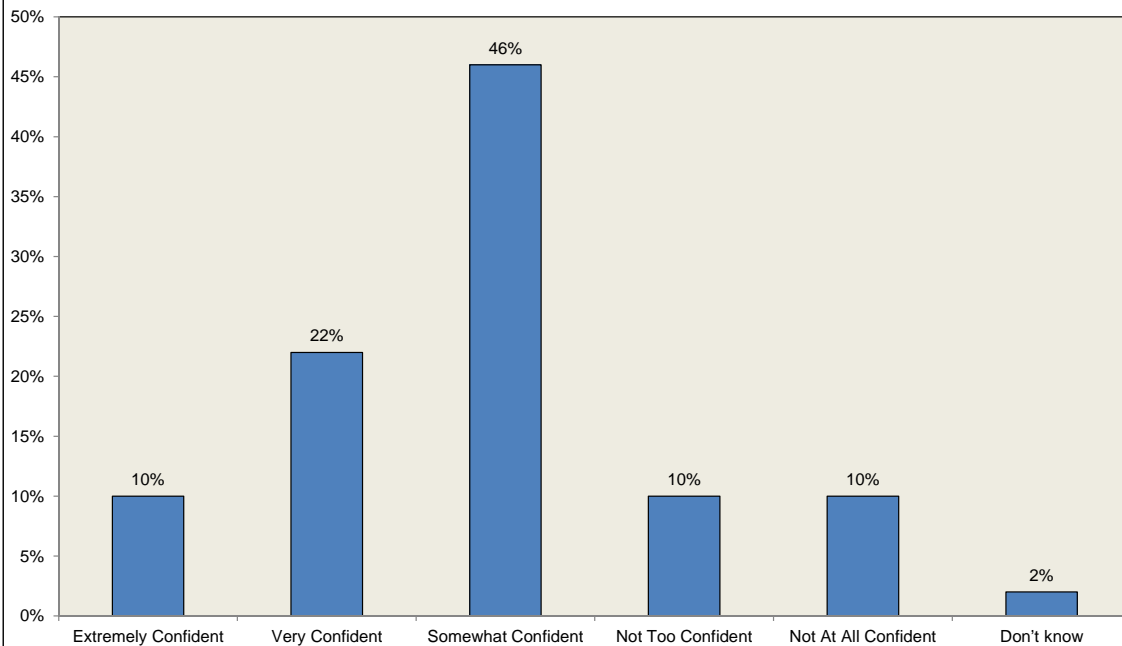
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Health Confidence Survey.

**Figure 5**  
**Comfort With Using Objective Rating System**  
**to Choose Health Plan, 2011**



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Health Confidence Survey.

**Figure 6**  
**Confidence That an Objective Rating System**  
**Could Help You Choose the Best Health Plan, 2011**



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Health Confidence Survey.

only 2 percent were very familiar (Figure 7). Even the percentages of the population reporting that they were somewhat familiar or not too familiar were not large, amounting to 15 percent and 19 percent, respectively. The vast majority of the population, 62 percent, reported that they were not at all familiar with health insurance exchanges.

Despite the lack of familiarity with health insurance exchanges, the public does have opinions about the oversight of them. Very few (3–5 percent) are extremely confident in the ability of the federal government, state government, or private insurers to run the exchanges (Figure 8). Not many more (7–11 percent) are very confident. The remainder are somewhat confident (29–40 percent), not too confident (20–24 percent), or not at all confident (22–36 percent). In fact, if the not too and not at all confident categories are combined, a majority of the population is not confident in the ability of either the federal government or state governments to run the exchanges (57–58 percent), and 4 in 10 (42 percent) are not confident in private insurers' ability to run them. The low confidence levels may be a reflection of the general lack of confidence that the American public has in institutions. For example, Gallup found that, other than the military, small business, and the police, less than one-half of the population was highly confident in the various institutions included in its survey.<sup>6</sup>

## Conclusion

Enactment of PPACA has raised many questions about whether employers will continue to offer health coverage in the future. Public confidence that employers and unions will continue to offer health coverage is down over the longer term and may be more volatile recently. Yet, while individuals have a low level of confidence that they can afford to purchase health coverage on their own even if their employer or union gave them the money to do so, despite the low confidence levels, they report a relatively high likelihood of purchasing coverage if it were no longer available through work.

In 2014, health insurance exchanges will provide information to help potential purchasers better understand the available options. However, the majority of the population is very or somewhat confident in their ability to compare different plan options and choose the best plan. Similarly, most people are also very or somewhat comfortable using an objective rating system to choose a health plan. And when it comes to confidence levels in an objective rating system being able to help an individual choose the best available plan, again, most people are somewhere in the middle. Yet, a public education campaign may be necessary. Most people are not at the extremes, and the "somewhat" category dominates because the vast majority of the population reported that they were not at all familiar with health insurance exchanges.

## Endnotes

<sup>1</sup> See [www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf](http://www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf)

<sup>2</sup> See [www.whitehouse.gov/blog/2011/06/08/getting-insurance-work](http://www.whitehouse.gov/blog/2011/06/08/getting-insurance-work)

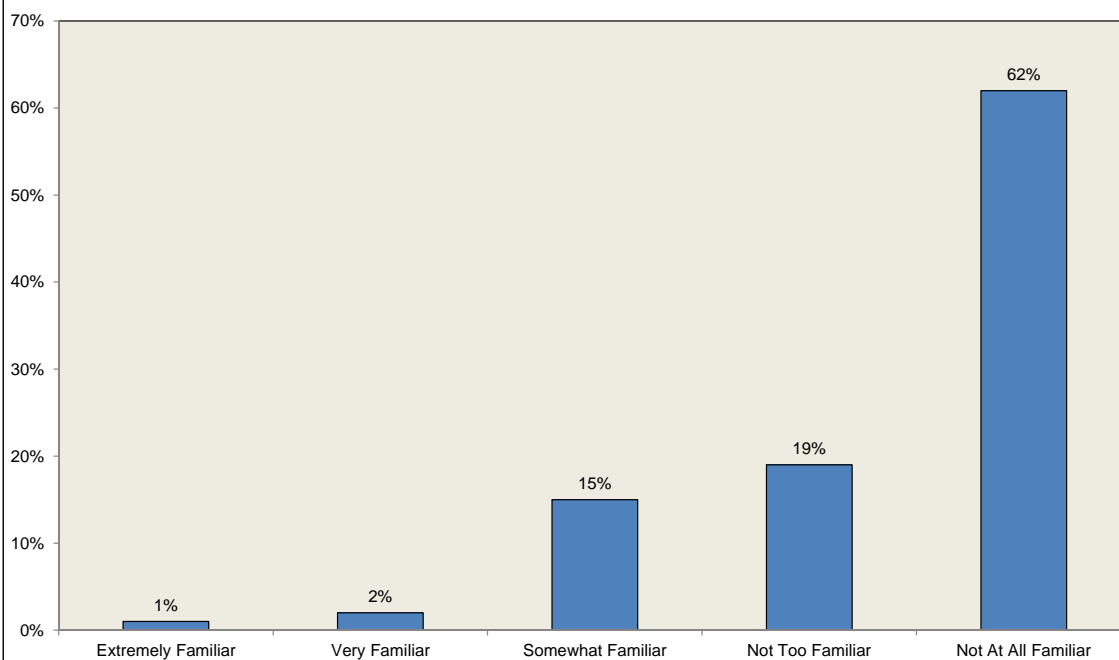
<sup>3</sup> <https://ebriorg.wordpress.com/2011/07/14/understanding-employer-surveys-that-address-the-future-of-employment-based-health-coverage/>

<sup>4</sup> [www.avalerehealth.net/pdfs/2011-06-17\\_ESI\\_memo.pdf](http://www.avalerehealth.net/pdfs/2011-06-17_ESI_memo.pdf)

<sup>5</sup> The HCS was conducted within the United States between May 13 and June 6, 2011, through 20-minute telephone interviews with 1,001 individuals age 21 and older. Random digit dialing with a cell phone supplement was used to obtain a representative cross section of the U.S. population. Interview quotas were established by sex of respondent and employment status, and the data were weighted by gender, age, and education to reflect the actual proportions in the population. The HCS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization, and Mathew Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2011 HCS data collection was funded by grants from 12 private organizations. Staffing was donated by EBRI and Greenwald & Associates. HCS materials and a list of underwriters may be accessed at the EBRI website: [www.ebri.org/hcs](http://www.ebri.org/hcs)

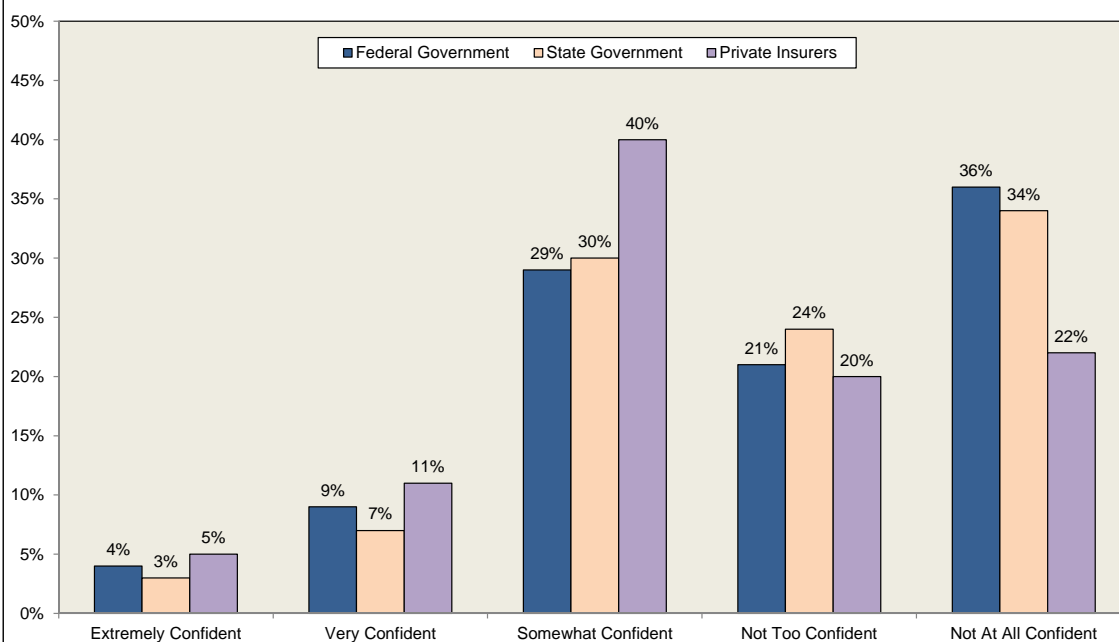
<sup>6</sup> See [www.gallup.com/poll/141512/congress-ranks-last-confidence-institutions.aspx](http://www.gallup.com/poll/141512/congress-ranks-last-confidence-institutions.aspx)

Figure 7  
Familiarity With Health Insurance Exchanges, 2011



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Health Confidence Survey.

Figure 8  
Confidence in Ability to Run Health Insurance Exchanges, by Sector, 2011



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Health Confidence Survey.



# How Do Financial Literacy and Financial Behavior Vary by State?

*By Sudipto Banerjee, Employee Benefit Research Institute*

## Introduction

In a rapidly aging society and volatile economy, the importance of financial literacy is slowly being recognized. EBRI highlighted this importance when it joined with many others in 1995 to found the American Savings Education Council ([www.asec.org](http://www.asec.org)) and its public education website [www.choosetosave.org](http://www.choosetosave.org). Research continues to document the need for financial literacy and capability among Americans in general and workers in particular. Lusardi and Mitchell (2007) have shown that people with higher levels of financial literacy approach retirement with much higher levels of wealth.

The shift in the pension system from annuity-only defined benefit plans to lump-sum distributions from both defined benefit and defined contribution plans has put more individuals in charge of their retirement security. As the economy continues to evolve, Americans face an increasingly complex financial planning process and set of investment and savings instruments which makes financial decision-making increasingly difficult. Thus, to navigate the path toward a comfortable retirement requires sound knowledge of financial basics and the existing investment choices, as well as the ability to understand and cope with the ever-changing set of financial instruments.

Most of the existing research (Lusardi and Mitchell, 2006, 2007, and 2008; Lusardi, Mitchell, and Curto, 2009; Hilgert, Hogarth, and Beverly, 2003) shows that a majority of Americans have limited knowledge about such basic financial concepts as inflation, compound interest, risk diversification, as well as low numeracy skills. Not surprisingly, lower financial literacy is also associated with low income and education. Therefore, an important policy question is whether the lack of financial literacy can be entirely attributed to individual characteristics (such as income and education), or if institutional factors have a role in it.

This study investigates the role of the states in explaining financial literacy and financial behavior. As shown below, some states consistently fare worse than others in terms of financial literacy<sup>1</sup> and financial behavior. This analysis addresses the important question of whether there is any structural difference in financial literacy and financial behavior among states that cannot be attributed to individual characteristics such as income, education, gender, race, etc.

## Data

The data for this study come from the National Financial Capability Study (NFCS), designed by the FINRA Investor Education Foundation.<sup>2</sup> The study consists of three linked surveys: a nationally representative survey of approximately 1,500 American adults; a state-by-state survey of 28,146 American adults, interviewing roughly 500 people from each state and the District of Columbia; and a survey of 800 military service members and their spouses. The study uses the state-by-state online survey which was fielded between June–October 2009. The variables are weighted to match U.S. Census Bureau distributions on certain demographic variables within each state.

The objective of the analysis is to construct measures of financial literacy and financial behavior and study how they vary across states. The NFCS asks several questions that can be used to construct such measures. The survey questions and the methodology used to construct the measures of financial literacy and financial behavior are described below.

## Financial Literacy

The following questions from the FINRA survey are used as indicators of financial literacy:

1. Suppose you had \$100 in a savings account and the interest rate was 2 percent per year. After five years, how much do you think you would have in the account if you left the money to grow?
  - *Answer choices:* a) More than \$102; b) Exactly \$102; c) Less than \$102.
2. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After one year, how much would you be able to buy with the money in this account?
  - *Answer choices:* a) More than today; b) Exactly the same; c) Less than today.
3. If interest rates rise, what will typically happen to bond prices?
  - *Answer choices:* a) They will rise; b) They will fall; c) They will stay the same.
4. A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.
  - *Answer choices:* a) True; b) False.
5. Buying a single company's stock usually provides a safer return than a stock mutual fund.
  - *Answer choices:* a) True; b) False.

Respondents also had the option to indicate that they don't know the answer or they could also refuse to answer. A binary variable (correct/incorrect) was constructed for each of the above questions. The "don't know" answers were categorized as wrong. The refused cases were dropped. The overall measure of financial literacy is constructed as the percentage of financial literacy questions answered correctly. The overall measure can take distinct values of 0, 0.2, 0.4, 0.6, 0.8, and 1, with 0 being the lowest (least literate) and 1 being the highest (most literate) ranking.

## Financial Behavior

The following questions from the FINRA survey are used as indicators of financial behavior:

1. Have you set aside emergency or rainy day funds that would cover your expenses for three months, in case of sickness, job loss, economic downturn, or other emergencies?
  - *Answer choices:* a) Yes; b) No.
2. Have you ever tried to figure out how much you need to save for retirement?
  - *Answer choices:* a) Yes; b) No.

Two separate versions of the question were asked to working and retired respondents:

3. In the past 12 months, have you obtained a copy of your credit report/ checked your credit score?

- *Answer choices:* a) Yes; b) No.
4. In the last five years, have you asked for any advice from a financial professional about any of the following – debt counseling, savings or investments, taking out a mortgage or a loan, insurance of any type, and tax planning?
- *Answer choices:* a) Yes; b) No.
5. Do you (does your household) have a savings account, money market account, or CDs?
- *Answer choices:* a) Yes; b) No.

The “don’t know” and “refuse to answer” cases were dropped. The “Yes” and “No” responses here can be thought of as “Good” and “Bad” financial behavior, respectively. For question 4, answering “Yes” to any of the options would be categorized as “Good.” The overall measure of financial behavior is constructed as the percentage of financial behavior questions that were answered “Yes.” So, the overall measure can take distinct values of 0, 0.2, 0.4, 0.6, 0.8, and 1, with 0 being the lowest (worst financial behavior) and 1 being the best financial behavior) ranking.

## State Rankings

Columns 2 and 5 of Figure 1 show the overall state rankings for financial literacy and financial behavior, respectively. New Hampshire takes the top spot in financial literacy while Alaska takes the top spot in financial behavior rankings. One interesting thing to note is that nine states (New Hampshire, Minnesota, Idaho, Washington, Colorado, Wisconsin, Utah, Alaska, and Maryland) appear in the top 15 of both rankings. The bottom of Figure 1 shows that Louisiana lies at the bottom of financial literacy, and West Virginia lies at the bottom of financial behavior rankings. It also shows that 10 states (Louisiana, Mississippi, Arkansas, Tennessee, West Virginia, Alabama, Ohio, Kentucky, Texas, and Indiana) appear in the bottom 15 of both rankings. This means a large number of people in these states lack not only financial literacy but also a good financial behavior, according to the data.

But based on these rankings alone, it cannot necessarily be concluded that there is something structurally lacking in these states. It could be the case that these states have a large concentration of low-education/low-income households that are unable to attain adequate financial literacy. But if the analysis can control for the individual demographic characteristics and still show that some states are more likely to perform worse than others in terms of financial literacy and financial behavior indicators, then policymakers in those states would have something to think about.

To address this issue, a regression analysis<sup>3</sup> is performed in the next section. Nevertheless, the high concentration of the same states at the top and the bottom of both rankings indicates that there could be something going on at the state level that is causing some states to perform better than others while other states perform worse.

## Regression Analysis

The goal here is to find if any of the variation in financial literacy and financial behavior across states can be significantly attributed to the states and not to individual characteristics. To do this, two regressions were run with **low financial literacy score** (or 1 minus the overall financial literacy) and **bad financial behavior** (or 1 minus the overall financial behavior) as the dependent variables. Individual controls were included for age group, ethnicity, gender, education, income, marital status, and labor force status. Finally, dummies

were included for all 50 states and District of Columbia. The two states with the highest rank in each of the rankings were set as the omitted state; i.e., for the financial literacy regression, New Hampshire was the omitted state (so that the coefficients on state dummies are interpreted with respect to New Hampshire), and for the financial behavior regression, Alaska was the omitted state (so that the coefficients on the state dummies are interpreted with respect to Alaska). Setting the omitted state in this fashion facilitates the interpretation (both sign and magnitude) of the state dummies. Also, it makes it easier to compare each state with the benchmark state.

## Regression Results

Column 4 of Figure 1 shows the state fixed-effects coefficients from the regression of a low financial literacy score on state dummies and other demographic characteristics.<sup>4</sup> First, it shows that only four states (Minnesota, South Dakota, Idaho, and Vermont) have a negative coefficient, which means they are less likely to score low in the financial literacy quiz than New Hampshire. But these effects are not statistically significant. All other states have a positive coefficient (higher chance of scoring low than New Hampshire), which would be expected given that New Hampshire is ranked above all these states in terms of financial literacy.

Next, Figure 1 shows that the state dummies are *not* statistically significant for most of the states that ranked highly in terms of financial literacy, but they *are* statistically significant for the lower-ranked states. For example, none of the states in the top 10 in the financial literacy ranking has a statistically significant coefficient, but eight of the bottom 10 states (Louisiana, Arkansas, North Carolina, Tennessee, New York, West Virginia, Pennsylvania, and Ohio) have a coefficient that is significant at one of the traditionally accepted levels of significance. This means that the performance of the top states in the financial literacy quiz can only be attributed to the individuals, but this is not the case for bottom-ranked states. For example, people from Louisiana are 4 percentage points more likely to score low in the financial literacy quiz than people from New Hampshire. The results indicate that there is room for policy intervention in these low-ranked states to improve the financial literacy of their residents.

Column 7 of Figure 1 shows the state fixed-effects coefficients from the regression of bad financial behavior on state dummies and other demographic characteristics. Here the first thing to notice is that all the states have a positive coefficient, which means that all states are more likely to have a worse financial behavior ranking than Alaska. Given that Alaska topped the ranking in financial behavior, the positive state dummy coefficients are expected. Unlike the financial literacy regression, here the results show the presence of very strong state fixed-effects for almost all states, and the magnitude shows an increasing trend with financial behavior ranking.

For example, Utah, which is ranked second in terms of financial behavior (only next to Alaska), is 1 percentage point more likely to have a worse financial behavior ranking than Alaska, and the effect is not statistically significant. But West Virginia, which is at the bottom of the financial behavior ranking, is 10 percentage points more likely to have a worse financial behavior ranking than Alaska, and this effect is statistically significant at any conventional level of significance. The states like Tennessee, Vermont, Ohio, Texas, Missouri, Louisiana, Oklahoma, Arkansas, Mississippi, and Kentucky, which were close to the bottom in the financial behavior ranking, are all at least 8 percentage points more likely to have a worse financial behavior ranking than Alaska. All these effects are statistically significant. So, in terms of building the right financial behavior, most states face a policy issue, some more than others.

## Conclusion

This study uses relatively new data to show the difference in financial literacy and financial behavior across states. The data show that mostly the same states tend to appear at the top and bottom of financial literacy and financial behavior rankings. This suggests that there might be something going on at the state level whereby individual financial literacy and financial behavior are being shaped not only by individual demographic characteristics but also by the state in which people live.

To test this hypothesis, regressions were run with state fixed-effects after controlling for demographic factors like age, ethnicity, education, income, marital status, and labor-force status. The results show the presence of statistically significant state fixed-effects. In the case of financial literacy, the significance of the state fixed-effects is mostly limited to states that ranked low in the financial literacy ranking. But in the case of financial behavior ranking, the state fixed-effects are significant for almost all states, and the chance of having a worse financial behavior increases as the financial behavior ranking drops. The results indicate that there may be a reason for policy intervention at the state level to help Americans achieve a financially secure retirement.

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## Endnotes

<sup>1</sup> "Financial literacy" refers to an individual's ability to understand finance (both the concepts and the arithmetic) in order to make intelligent financial decisions.

<sup>2</sup> FINRA's website is [www.finra.org/](http://www.finra.org/); its Investor Education Foundation website is [www.finrafoundation.org/http://www.finrafoundation.org/](http://www.finrafoundation.org/http://www.finrafoundation.org/)

<sup>3</sup> A regression analysis is a statistical tool used to investigate the relationship between two or more variables. More specifically, it is used to determine the effect of one variable on another (such as how price affects demand) keeping other variables (such as income, population etc.) fixed. The process involves computer modeling that uses data on the underlying variables and uses a statistical algorithm to estimate how much one variable affects others.

<sup>4</sup> More detailed regression results can be found in the Web version of the article posted at [www.ebri.org](http://www.ebri.org)

**Figure 1**  
**State Rankings of Financial Literacy and**  
**Financial Behavior and Regression Coefficients**

Rank	Financial Capability			Financial Behavior		
	State	% Correct	State Fixed-Effects	State	% Yes	State Fixed-Effects
1	New Hampshire	69.3%	(Dropped)	Alaska	60.3%	(Dropped)
2	Minnesota	67.9%	-0.003	Utah	59.8%	0.014
3	South Dakota	67.8%	-0.020	Delaware	59.2%	0.038**
4	Idaho	66.5%	-0.007	Colorado	58.1%	0.042***
5	Washington	66.4%	0.014	New Jersey	58.0%	0.064***
6	Colorado	66.1%	0.015	Minnesota	57.8%	0.051***
7	Wisconsin	65.9%	0.009	Idaho	57.8%	0.017
8	Vermont	65.9%	-0.001	Washington	57.7%	0.053***
9	Nebraska	65.7%	0.008	D.C	57.4%	0.069***
10	Utah	65.5%	0.009	Wyoming	57.0%	0.031*
11	Iowa	65.2%	0.016	Connecticut	56.9%	0.074***
12	Michigan	65.1%	0.006	Kansas	56.8%	0.044***
13	Alaska	65.1%	0.000	New Hampshire	56.8%	0.068***
14	Maryland	65.0%	0.033**	Maryland	56.5%	0.090***
15	Rhode Island	64.9%	0.021	Wisconsin	56.2%	0.046***
16	Massachusetts	64.7%	0.036**	Rhode Island	56.1%	0.060***
17	California	64.3%	0.011	Iowa	55.8%	0.050***
18	Arizona	64.2%	0.012	Nebraska	55.7%	0.056***
19	Wyoming	64.1%	0.022	Massachusetts	55.5%	0.086***
20	Missouri	64.0%	0.007	Georgia	55.4%	0.051***
21	Delaware	63.9%	0.029*	Arizona	55.4%	0.053***
22	Maine	63.9%	0.026*	Michigan	54.8%	0.063***
23	Connecticut	63.6%	0.050***	South Dakota	54.7%	0.043**
24	New Mexico	63.6%	0.001	Oregon	54.6%	0.057***
25	Virginia	63.5%	0.039***	New York	54.6%	0.076***
26	Oregon	63.5%	0.027*	New Mexico	54.6%	0.040**
27	North Dakota	63.5%	0.015	Florida	54.2%	0.060***
28	Montana	63.3%	0.015	South Carolina	54.2%	0.044***
29	Hawaii	63.2%	0.015	Virginia	54.2%	0.092***
30	Florida	63.1%	0.009	Hawaii	54.1%	0.092***
31	Nevada	63.0%	0.015	California	53.8%	0.094***
32	Illinois	63.0%	0.030**	Nevada	53.5%	0.077***
33	South Carolina	62.9%	0.000	Pennsylvania	53.5%	0.069***
34	Oklahoma	62.6%	0.015	Maine	53.1%	0.068***
35	New Jersey	62.5%	0.044***	Illinois	53.1%	0.092***
36	Kansas	62.4%	0.043***	North Carolina	52.8%	0.071***
37	Indiana	62.1%	0.028*	Indiana	52.4%	0.075***
38	District of Columbia	62.0%	0.045**	Montana	52.0%	0.041**
39	Texas	61.9%	0.015	North Dakota	51.8%	0.063***
40	Georgia	61.9%	0.021	Tennessee	51.2%	0.081***
41	Kentucky	61.7%	0.024	Vermont	51.2%	0.083***
42	Ohio	61.3%	0.030**	Alabama	50.9%	0.071***
43	Alabama	61.2%	0.021	Ohio	50.8%	0.086***
44	Pennsylvania	61.0%	0.048***	Texas	49.9%	0.108***
45	West Virginia	60.4%	0.040***	Missouri	49.7%	0.096***
46	New York	60.3%	0.051***	Louisiana	49.7%	0.087***
47	Tennessee	60.3%	0.040**	Oklahoma	48.8%	0.097***
48	North Carolina	60.2%	0.042***	Arkansas	48.4%	0.080***
49	Arkansas	59.6%	0.029*	Mississippi	47.8%	0.081***
50	Mississippi	58.9%	0.015	Kentucky	47.6%	0.110***
51	Louisiana	58.4%	0.042***	West Virginia	47.2%	0.100***

Source: Author's calculations from NFCS data.

The state fixed-effects coefficients are from regressions with low financial literacy scores and bad financial behaviors as the dependent variables, respectively, for columns 4 and 7. Other demographic controls, such as age, race, gender, education, income, marital status etc. were included in the regressions so that the fixed-effects show only the effect of residing in a particular state. The top-ranked state in each case is the omitted state so that the fixed-effects coefficients are interpreted with respect to the top-ranked state. Column 4 coefficients are interpreted as the percentage points by which a state is likely to have a lower financial literacy score as compared with New Hampshire. Column 7 coefficients are interpreted as the percentage points by which a state is expected to have a worse financial behavior as compared with Alaska.

\* p< .10

\*\* p< .05

\*\*\* p< .01

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