New Research from EBRI:
State Differences in Financial Literacy & Financial Behavior

WASHINGTON—New research by the nonpartisan Employee Benefit Research Institute (EBRI) finds that the residents of New Hampshire and Alaska rank at the top of financial literacy and financial behavior, while residents of Louisiana and West Virginia rank at the bottom.

“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,” said Sudipto Banerjee, EBRI research associate and author of the study. “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.”

Banerjee noted that existing research shows that a majority of Americans have limited knowledge about such basic financial concepts as inflation, compound interest, and 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.

To explore that question, Banerjee used data from the National Financial Capability Study (NFCS), designed by the FINRA Investor Education Foundation, which uses a state-by-state online survey designed to measure financial literacy and financial behavior and how they vary across states. The survey was fielded between June–October 2009. Survey variables are weighted to match U.S. Census Bureau distributions on certain demographic variables within each state.

Banerjee’s study used statistical regression analysis to determine factors that can be attributed to residency in a particular state rather than other individual characteristics such as age group, ethnicity, gender, education, income, marital status, and labor force status. Key findings:

**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.

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**Bottom-Ranked States:** Survey respondent residents of Louisiana and West Virginia were found to be 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.

While it is currently unclear why these clear state-specific differences are found in financial literacy and financial behavior, Banerjee added that the results indicate “there may be a reason for policy intervention at the state level to help Americans achieve a financially secure retirement.”

The complete ranked listing of the states is included in the full report, which is published in the November 2011 *EBRI Notes*, “How Do Financial Literacy and Financial Behavior Vary by State?” online at [www.ebri.org](http://www.ebri.org)

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