Racial and ethnic differences in financial vulnerability in America

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Minority populations in the U.S. face a number of economic challenges that contribute to persistent wealth gaps, and the COVID-19 pandemic exacerbated many of these. This report summarizes key findings from our analysis of financial vulnerability among Asians, Blacks, and Hispanics in the U.S. To explore patterns of financial vulnerability and factors that might explain observed racial/ethnic differences, we use two recent datasets, the 2021 *National Financial Capability Study* (*NFCS*), and the 2022 *TIAA Institute-GFLEC Personal Finance Index*[1] (*P-Fin Index*). Our empirical findings are complemented by roundtable discussions with experts and thought leaders from National CAPACD[2] and UnidosUS,[3] two advocacy organizations for the Asian American, Native Hawaiian, and Pacific Islander communities, and the Hispanic community, respectively.

Our evidence suggests five key takeaways. First, our data show that more Blacks and Hispanics in the U.S. report being financially vulnerable compared to Whites. Second, the key factors contributing to this racial and ethnic financial vulnerability gap are single parenthood, youth, lack of savings and assets, excessive debt, expensive money management, and low financial literacy. Third, Asians' results are comparable to those of Whites in the *P-Fin Index* and are significantly better in the *NFCS* dataset. Fourth, these aggregated statistics may hide heterogeneity within these subpopulations, including important cultural aspects (e.g., multigenerational households). Fifth, the understanding of basic financial concepts has a significant impact on financial vulnerability. Our research findings will be helpful for developing more inclusive and tailored financial education programs.

1 The *P-Fin Index* is an annual survey developed by the Teachers Insurance and Annuity Association of America (TIAA) Institute and the Global Financial Literacy Excellence Center (GFLEC), in consultation with Greenwald & Associates.

2 This stands for the National Coalition for Asian Pacific American Community Development and is pronounced as "National Capacity." It is an Asian American, Native Hawaiian, and Pacific Islander advocacy group and national intermediary that builds coalitions, publishes research, and provides resources to community-based organizations.

2 This organization was previously known as National Council of La Raza (NCLR) and is the largest Hispanic advocacy organization in the U.S.

Data and variable definitions

Our analysis relies on two datasets: the 2021 *NFCS*, a large-scale, nationally representative survey commissioned by the FINRA[4] Investor Education Foundation to examine the financial capability of American adults (27,118 observations in 2022), and the 2022 *P-Fin Index*, which over-sampled Blacks, Hispanics, and Asians, permitting us to analyze these historically underrepresented groups in more detail. With a total of 28 financial literacy questions, the *P-Fin Index* offers the most comprehensive measure of financial literacy to date.[5] To measure respondents' self-reported race and ethnicity, the following specification was adopted. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*.[6]

The financial vulnerability indicators and topics covered include the following:

- **Retirement Planning:** Those lacking retirement planning skills report that they have never tried to figure out how much they need to save for retirement and/or are concerned that the money they have or will save will not last throughout retirement.[7]
- **Indebtedness:** Those being vulnerable in terms of debt report having difficulty covering their expenses and paying all their bills in a typical month[8] and/or strongly agree that they have too much debt.[9]
- **Financial Resilience:** Those lacking financial resilience report that their spending exceeds their income and/or that they are not confident about their ability to come up with $2,000 in 30 days if an unexpected need arose.

We measure financial vulnerability across demographic groups using a composite vulnerability score, the arithmetic average of the above-mentioned six financial vulnerability indicators across the three personal finance topics; it runs from zero to six. Hence, a score of zero means that the average respondent in a group does not indicate any of the vulnerability markers. Conversely, a respondent scoring six is deemed to be highly financially vulnerable by this measure, experiencing exposure to all six vulnerability indicators. We calculate the composite vulnerability score for each respondent and each dataset separately.

Results

1. Does financial vulnerability differ by race and ethnicity?

Overall, more Blacks and Hispanics in the U.S. report being financially vulnerable compared to Whites and Asians. In fact, the average composite vulnerability scores in the *NFCS* are 2.24 for Blacks, 2.11 for Hispanics, 1.34 for Asians, and 1.84 for Whites. Hence, Blacks and Hispanics score 60% worse compared to Asians, and 20% worse than Whites.[10] Figure 1 shows the distribution of the composite vulnerability scores by subgroup, illustrating the severity of people's financial vulnerability. It is apparent from the graph that more Blacks and Hispanics have at least one vulnerability indicator, versus Whites and Asians: specifically, only 14% of Blacks and 17% of Hispanics report no exposure to any vulnerability indicator (scoring 0), versus 32% for Asians and 25% for Whites.

4 The Financial Industry Regulatory Authority (FINRA) is a government-authorized not-for-profit organization that oversees U.S. broker-dealers to protect investors and ensure the market's integrity.

5 This is a joint project between the TIAA Institute and the Global Financial Literacy Excellence Center.

6 The distribution of respondents across racial and ethnic groups for both datasets is 63% Whites, 12% Blacks, 16% Hispanics, and 6% Asians, as expected for U.S. datasets weighted to be nationally representative, in line with the most recent 2021 U.S. Census estimates: https://www.census.gov/quickfacts/fact/table/US/PST045221 (retrieved 08/26/2022)

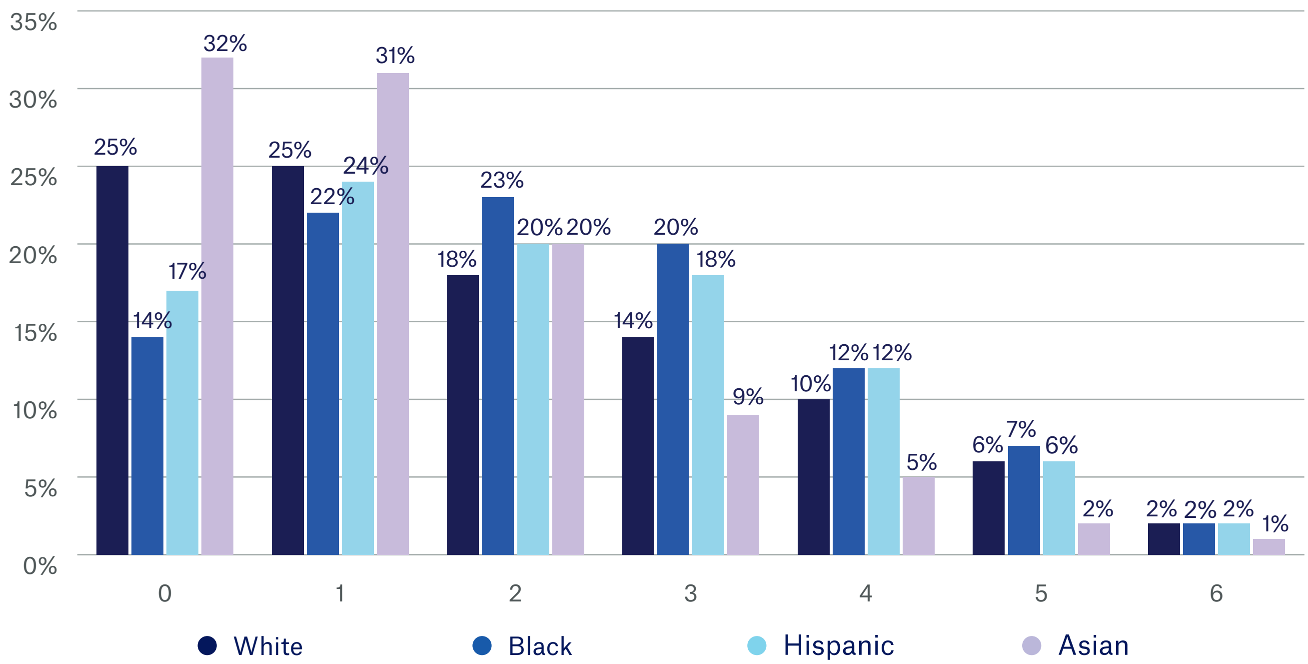
7 For the *P-Fin Index*, this variable indicates respondents not confident that they will have enough money to live comfortably throughout their retirement years.

8 For the *P-Fin Index*, this variable indicates that respondents cannot pay all their bills in full and on time in a typical month.

9 For the *P-Fin Index*, this variable indicates that respondents stated that their debt and debt payments prevent them from adequately addressing other financial priorities.

9 The results for each of the six financial vulnerability indicators individually across Asian, Black, Hispanic, and White respondents, as well as all results for the *P-Fin Index*, can be found in the TIAA Institute *Research Dialogue* report, "Understanding financial vulnerability among Asians, Blacks, and Hispanics in the United States."

Figure 1. Distribution of composite vulnerability scores (0 to 6)



Source: Authors' calculations using the 2021 *National Financial Capability Study* (NFCS).

Note. All statistics are weighted. The composite vulnerability score is an equally weighted average of the six vulnerability indicators. For the definition of the score the "don't know" and "refuse to answer" responses to the six vulnerability indicators were excluded. The number of observations for the different groups are as follows: 23,711 observations for the total population; 17,799 observations for the White; 2,214 observations for the Black; 1,944 observations for the Hispanic; and 1,005 observations for the Asian American subsample. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*.

Overall, we find that Asians' results are comparable to or better than those of Whites. Yet, we note that aggregated statistics can conceal much heterogeneity, which was one of the main points discussed with National CAPACD experts.[11]

2. What factors drive differences in financial vulnerability across race and ethnicity?

Three sets of contributing factors are discussed in this section: (i) demographic characteristics, (ii) financial situation and money management, and (iii) financial literacy.

Demographic characteristics

Two demographic factors account for a significant part of the financial vulnerability gap experienced by Blacks and Hispanics relative to Whites: the younger age distribution of Hispanics and the greater incidence of single-parenthood among Blacks.[12] Once we control for marital status and having financially dependent children, Blacks and Whites score the same, meaning that the difference in financial vulnerability is linked to the significantly larger percentage of Blacks reporting being single and having financially dependent children. Table 1 reports that among Blacks 59% are single and Figure 2 shows that within this subgroup 32% have financially dependent children; both numbers are significantly higher compared to Whites, Hispanics, and Asians. Additionally, the younger average age of the Hispanic subgroup contributes to their vulnerability gap vis-à-vis

11 There exist differences in the composite vulnerability score across income levels, indicators of wealth, those having financially dependent children, and financial literacy levels. Please see the TIAA Institute *Research Dialogue* report, "Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States," for the detailed regression results.

12 The full empirical results supporting the conclusions presented here may be found in the TIAA Institute *Research Dialogue* report, "Understanding financial vulnerability among Asians, Blacks, and Hispanics in the United States."

Whites. Once age is considered, Hispanics score the same on the composite vulnerability score. Table 1 shows that around one in three Hispanics is between 18 and 29 years old, versus about one in five for Whites and Asians.[13]

Table 1. Sociodemographic characteristics across Whites, Blacks, Hispanics, and Asians

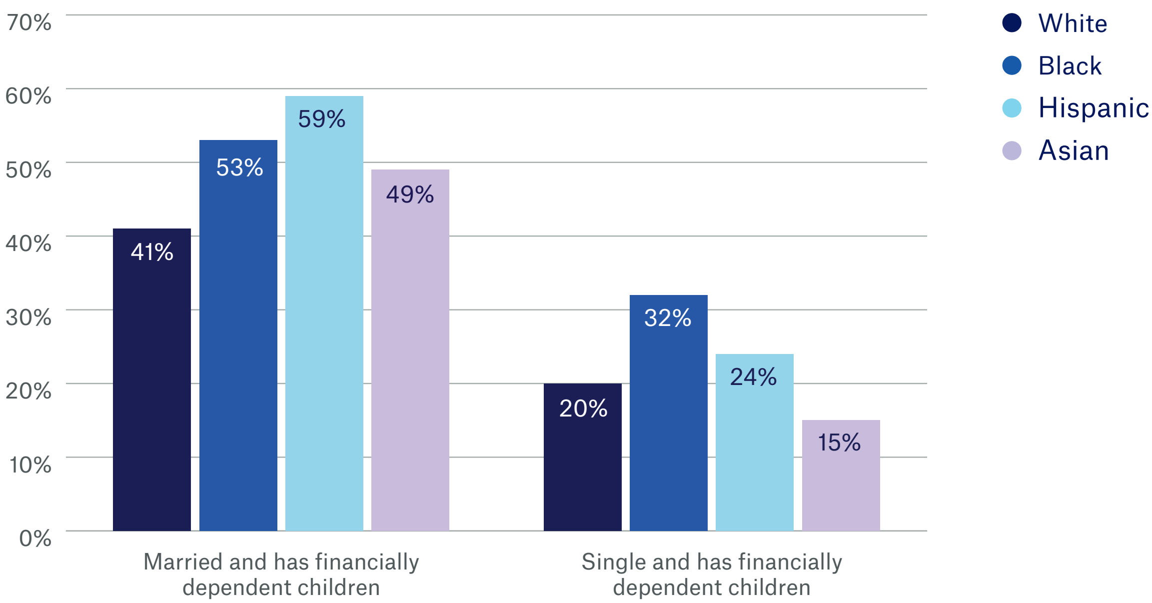
	Total population	White	Black	Hispanic	Asian
AGE					
18–29	20%	14%[b,h,a]	34%[w,h,a]	30%[w,b,a]	19%[w,b,h]
30–44	26%	25%[b,h,a]	23%[w,h,a]	31%[w,b]	28%[w,b]
45–59	25%	26%[b,h]	23%[w]	24%[w]	23%
60+	29%	35%[b,h,a]	20%[w,h,a]	15%[w,b,a]	29%[w,b,h]
HIGHEST DEGREE OBTAINED					
High school or less	31%	30%[b,h,a]	39%[w,h,a]	34%[w,b,a]	16%[w,b,h]
Some college	39%	39%[a]	40%[a]	40%[a]	28%[w,b,h]
Bachelor's degree or higher	31%	31%[b,h,a]	21%[w,h,a]	27%[w,b,a]	55%[w,b,h]
MARITAL STATUS					
Married	47%	52%[b,h]	26%[w,h,a]	41% [w,b,a]	52%[b,h]
Single	36%	28%[b,h,a]	59%[w,h,a]	46% [w,b,a]	37%[w,b,h]
Divorced/separated/widowed	17%	20%[b,h,a]	15%[w,h,a]	13%[w,b]	11%[w,b]
FINANCIALLY DEPENDENT CHILDREN					
No children	66%	68%[b,h]	63%[w,h]	60%[w,b,a]	66%[h]
1 or 2 children	27%	25%[b,h,a]	28%[w]	30%[w]	30%[w]
3 or more children	8%	7%[b,h,a]	9%[w,a]	10%[w,a]	5%[w,b,h]
HOUSEHOLD INCOME					
Less than $25K	25%	22%[b,h,a]	37%[w,h,a]	28%[w,b,a]	15%[w,b,h]
$25–49K	25%	25%[b,a]	27%[w,a]	26%[a]	19%[w,b,h]
$50–74K	18%	19%[b]	16%[w,h]	20%[b]	18%
$75–99K	13%	14%[b,h,a]	8%[w,h,a]	11%[w,b,a]	16%[w,b,h]
$100K+	19%	20%[b,h,a]	12%[w,h,a]	15%[w,b,a]	32%[w,b,h]
Total Observations	27,118	20,062	2,716	2,274	1,193

Source: Authors' calculations using the 2021 *National Financial Capability Study* (*NFCS*).

Note. All statistics are weighted. The variable *household income* includes the total amount of a household's annual income, including wages, tips, investment income, public assistance, and income from retirement plans. The education variable *highest degree obtained* includes the categories *high school or less*, indicating that the highest degree received is a high school diploma; *some college*, indicating that respondents have attended a postsecondary institution and earned, at most, a two-year degree (i.e., an associate degree); and *bachelor's degree or higher*, indicating that respondents have earned a four-year degree or postgraduate degree. The variable *financially dependent children* is based on the question: "How many children do you have who are financially dependent on you or your spouse/partner? Please include children not living at home, and step-children as well." An individual's *work status* is defined by four categories: *Employed* for those who either have a full- or a part-time occupation or are self-employed; *unemployed* for those with no occupation at the time of the survey; *not in labor force* for those who are full-time students, full-time homemakers, or permanently sick, disabled, or unable to work; and *retired* for those who classify themselves as being retired. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*. Superscripts w, b, h, and a indicate the means are statistically different at the 5% level from Whites, Blacks, Hispanics, and Asians, respectively.

13 Regressions results in the paper show that age is a larger contributing factor for the Hispanic than Black subgroups once all other demographics are controlled for.

Figure 2. Marital status and having financially dependent children



Source: Authors' calculations using the 2021 *National Financial Capability Study* (NFCS).
Note. All statistics are weighted. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*. All percentages of Blacks, Hispanics, and Asians are statistically significantly different at the 5% level from Whites. The percentages of Blacks and Hispanics are statistically significantly different as well.

Financial situation and money management

Blacks and Hispanics more often engage in costly money management practices, and they are significantly less likely to save (Table 2). Sixty-four percent of Blacks and 53% of Hispanics engage in expensive credit card practices such as making only minimum payments, making payments late, exceeding their credit limit, or receiving cash advances. This compares to 39% of Whites. Similarly striking are the differences in the use of Alternative Financial Services (AFS), which include taking out auto title loans or payday loans, using a pawn shop, or shopping at rent-to-own stores. Furthermore, a much higher percentage of Blacks and Hispanics report they lack savings. Only 47% of Blacks and 50% of Hispanics have retirement accounts, 44% of Blacks and 48% of Hispanics have emergency funds, and only 31% of both groups own investments outside retirement accounts. Besides the lack of savings, these two groups also have debt, including credit card balances and student loans, increasing their financial vulnerability. For example, 51% of Blacks paid interest on a credit card balance they carried over and 35% have a student loan, which is significantly higher compared to 42% and 20%, respectively, among Whites.

Asians' lower financial vulnerability compared to Whites appears driven by differences in savings behavior and money management practices. Savings are highly prevalent among Asian respondents: 68% have a retirement account, 70% an emergency fund, and 50% investments aside from retirement plans (Table 2). These figures are significantly lower among Whites, where 60% have retirement accounts, 54% an emergency fund, and 37% hold investments aside from retirement plans. Moreover, Asians are the least likely to engage in costly money management behaviors, such as expensive credit card management or use of AFS, contributing to their lower financial vulnerability. In interpreting these results, it is important to note that, on average, Asian respondents have higher incomes and more education. More income can provide more opportunities to save and invest, and the better-educated may be more likely to have jobs that provide employer-sponsored retirement plans. (See Table 1 for a comparison of income and education across the various racial and ethnic groups).

Table 2. Savings behavior and money management practices

	Total population	White	Black	Hispanic	Asian
SAVINGS BEHAVIOR					
Has emergency funds	53%	54%^{b,h,a}	44%^{w,h,a}	48%^{w,b,a}	70%^{w,b,h}
Has a retirement account	57%	60%^{b,h,a}	47%^{w,h,a}	50%^{w,b,a}	68%^{w,b,h}
Has other investments aside from a retirement account**	36%	37%^{b,h,a}	31%^{w,a}	31%^{w,a}	50%^{w,b,h}
DEBT					
Has carried over a credit card balance and paid interest*	43%	42%^{b,h,a}	51%^{w,a}	49%^{w,a}	21%^{w,b,h}
Has a student loan	23%	20%^{b,h,a}	35%^{w,h,a}	29%^{w,b,a}	15%^{w,b,h}
MONEY MANAGEMENT PRACTICES					
Demonstrated at least one expensive credit card behavior in the past year*	43%	39%^{b,h,a}	64%^{w,h,a}	53%^{w,b,a}	27%^{w,b,h}
Used at least one form of AFS in the past 5 years	31%	27%^{b,h,a}	49%^{w,h,a}	37%^{w,b,a}	17%^{w,b,h}
Made some form of withdrawal from the retirement account in the past year*	16%	13%^{b,h,a}	32%^{w,h,a}	21%^{w,b,a}	9%^{w,b,h}
Total Observations	27,118	20,062	2,716	2,274	1,193

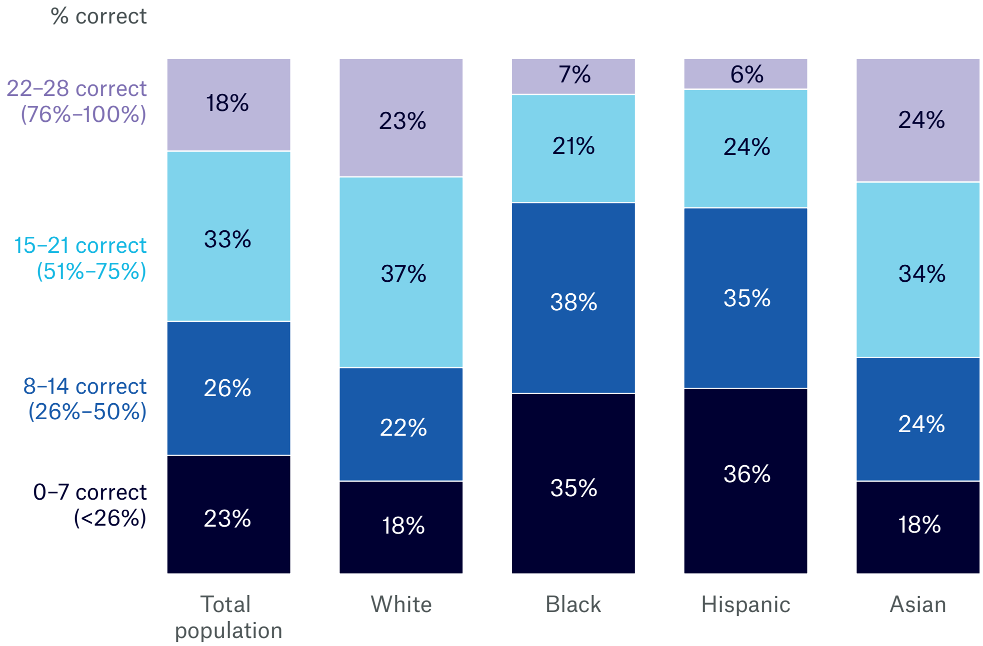
Source: Authors' calculations using the 2021 *National Financial Capability Study* (*NFCS*).

Note. All statistics are weighted. The proportion Demonstrated at least one expensive credit card behavior represents those respondents who displayed at least one of the following behaviors in the 12 months prior to the survey: a) only made the minimum payment due on their credit card bill; b) made a late payment on their credit card bill; c) went over the credit limit set for their credit card; or d) required a cash advance on their credit card. The proportion Used at least one form of AFS represents the percentage of respondents who used one of the following alternative financial services (AFS) at least once in the five years prior to the survey: a) took out an auto title loan; b) took out a payday loan; c) used a pawn shop; or d) used a rent-to-own store. The proportion Made some form of withdrawal from the retirement account represents the percentage of respondents with a retirement account who either took out a loan or made a hardship withdrawal from it in the 12 months prior to the survey. Respondents who chose "White or Caucasian" were coded as White; respondents who chose "Black or African American" were coded as Black; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as Hispanic; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as Asian. *Proportion conditional on having the related asset. **Proportion conditional on having a checking or savings account. Superscripts w, b, h, and a indicate the means are statistically different at the 5% level from Whites, Blacks, Hispanics, and Asians, respectively.

Financial literacy

We also find that respondents with greater financial literacy are much less likely to be financially vulnerable. Financial literacy levels are much lower for Blacks and Hispanics compared to Whites and Asians. On average, Blacks and Hispanics could correctly answer only about one-third of the 28 *P-Fin Index* questions (37% for Blacks and 38% for Hispanics), whereas Whites and Asians answered slightly more than one-half correctly (55%). Figure 3 displays the distribution of correct answers to the 28 *P-Fin Index* questions, where over 70% of Blacks and Hispanics correctly answered one-half or fewer of the 28 questions, compared to 40% of Whites and Asians.

Figure 3. Distribution of correct *P-Fin Index* questions



Source: Authors' calculations using the 2022 *TIAA Institute-GFLEC P-Fin Index* (*P-Fin Index*).

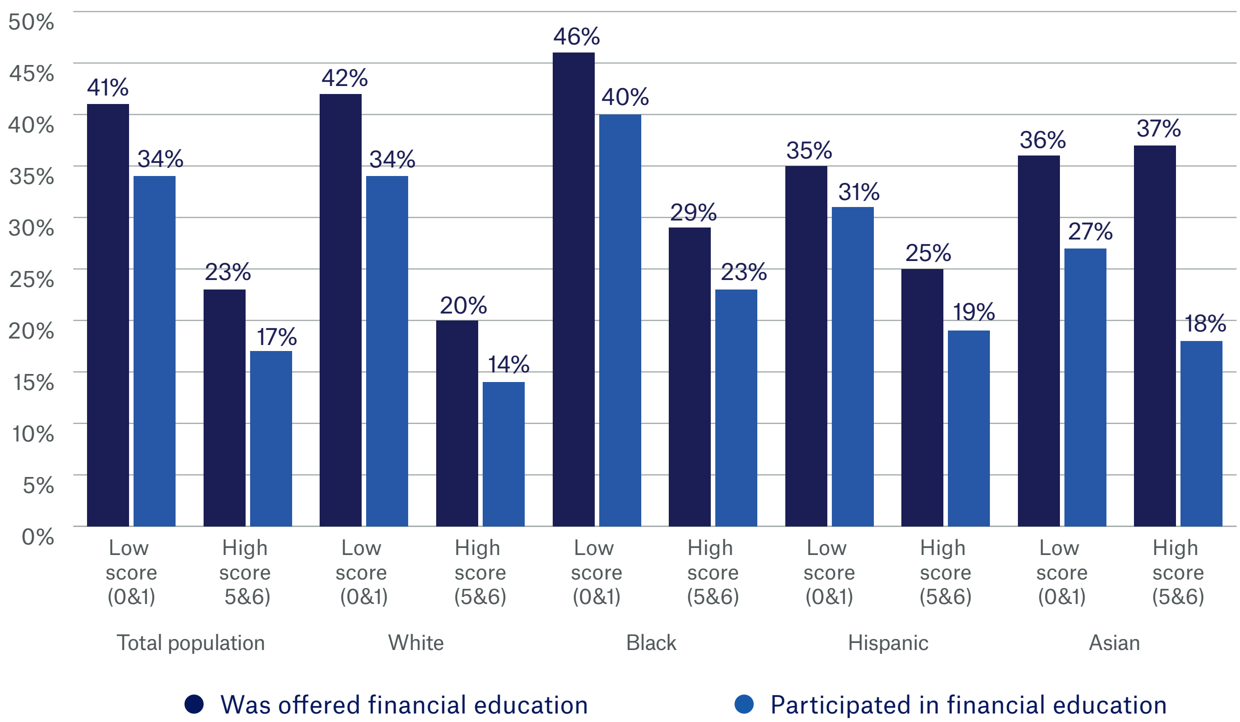
Note. All statistics are weighted. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*. All percentages of Blacks and Hispanics are statistically significantly different at the 5% level from Whites and Asians. The percentages of Blacks and Hispanics are not statistically significantly different and the same holds for the differences between Whites and Asians.

Even though all four racial/ethnic subgroups have room for improvement when it comes to understanding basic financial concepts, Black and Hispanic respondents not only have the most difficulty answering these questions correctly, but they are more likely to say "do not know." Since these groups are aware of their lack of knowledge, this could offer an opportunity for well-targeted financial education programs.

3. Does financial education contribute to improving financial vulnerability?

We analyze the link between financial education and financial vulnerability by comparing those with low (0 or 1) and high (5 or 6) vulnerability scores. Figure 4 shows that financially vulnerable persons are less likely to have been offered and participated in financial education programs, and this relationship is particularly pronounced among Blacks and Whites. For example, only 23% of very financially vulnerable Blacks and 14% of Whites participated in financial education initiatives, versus 40% and 34% of the non-vulnerable (Blacks and Whites, respectively). Moreover, for racial/ethnic subpopulations (excluding Asians), fewer respondents in the high vulnerability category were offered financial education.

Figure 4. Financial education across high and low composite vulnerability scores



Source: Authors' calculations using the 2022 *TIAA Institute-GFLEC P-Fin Index* (*P-Fin Index*).

Note. All statistics are weighted. The two financial education variables presented in this figure are based on the following question: Have you ever participated in a financial education class or program that was offered in high school or college, in the workplace, or by an organization or institution where you lived? Possible answer options are 1) Yes; 2) No, was offered one but did not participate; 3) No, was never offered one; or 4) Refuse to answer. Respondents who chose "White or Caucasian" were coded as *White*; respondents who chose "Black or African American" were coded as *Black*; respondents who chose "Hispanic or Latino/a" alone or in combination with any other race were coded as *Hispanic*; and respondents who chose "Asian" or "Native Hawaiian or other Pacific Islander" were coded as *Asian*. Those with a composite vulnerability score of 0 or 1 were classified as having a low score and those with a score of 5 and 6 were classified as having a high score.

Discussion and program recommendations

We examine financial vulnerability among Asians, Blacks, Hispanics, and Whites in the U.S., along with potential drivers of observed differences. Blacks and Hispanics are more financially vulnerable than Whites and Asians. The main factors contributing to this financial vulnerability gap are youth, single parenthood, lack of savings and assets, excessive debt, expensive money management, and low financial literacy. Discussions with National CAPACD and UnidosUS experts revealed additional factors that likely influence personal finances, financial decision making, and ultimately financial vulnerability. Those factors include multigenerational influences, the existence of a strong financial safety net of family and friends, limited English language proficiency, exposure to rising costs of living due to gentrification, and limited access to the formal financial market and basic financial services.[14]

14 A more detailed discussion of these additional factors can be found in the TIAA Institute *Research Dialogue* report, "Understanding financial vulnerability among Asians, Blacks, and Hispanics in the United States."

Since financial education appears to be inversely related to vulnerability, our findings offer information to those interested in developing more inclusive and tailored financial education programs. Key components that these programs should consider to be effective are:

- Availability in the target population language
- Input and support from community members in program development and operation
- Integration of cultural values and practices
- Use of empowering language to change inaccurate beliefs about financial decision making
- Promotion of knowledge sharing
- Provision of holistic content

The financial service and pension industry, employers, and policymakers seeking to design programs and initiatives that target underserved populations and follow an inclusive approach in order to strengthen financial well-being will find these insights useful.

About the authors

Andrea Hasler is an Assistant Research Professor in Financial Literacy at GFLEC. She leads the team of researchers working on financial literacy and capability, and develops analyses for educational and policy initiatives. Hasler has recently worked on projects focused on financial literacy levels of the young, women, entrepreneurs, investors, and historically underrepresented communities in the United States and around the world. She holds a PhD in finance as well as an MSc and BA in business and economics from the University of Basel. During her doctorate, she spent two years at the New York University Stern School of Business conducting research on household saving and financial decision making. She has been a lecturer at the University of Basel for the past seven years. Her professional experience includes the development of an online advanced studies course in financial market theory and work as an analyst conducting global equity market research.

Annamaria Lusardi is a University Professor of Economics and Accountancy at the George Washington University, and the founder and academic director of GFLEC. She has published extensively and in many leading economics journals and is the recipient of several prestigious awards. Lusardi also directs the Financial Education Committee in Italy and is in charge of implementing a national strategy for financial literacy. In addition, she chairs the Organisation for Economic Co-operation and Development's (OECD's) International Network for Financial Education Research Committee. She previously taught at Dartmouth College, Princeton University, the University of Chicago Harris School of Public Policy and Booth School of Business, and Columbia Business School. She was also a visiting scholar at Harvard Business School. She earned her BA from Bocconi University in Milan and her PhD from Princeton University. Lusardi is a TIAA Institute Fellow.

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