

# Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States

Andrea Hasler\*, Annamaria Lusardi\*, Olivia S. Mitchell\*\*, Alessia Sconti\*

\*The George Washington University School of Business, Global Financial Literacy Excellence Center

\*\*The Wharton School of the University of Pennsylvania

This research was supported by a grant from the TIAA Institute and the Pension Research Council/Boettner Center of the Wharton School at the University of Pennsylvania.

May 3, 2023

# Research background

In January 2023, **39%** of Blacks and **45%** of Hispanics had difficulty making ends meet in a typical month, compared to **25%** of Whites and **21%** of Asians (Yakoboski et al., 2023).

1. How does financial vulnerability differ among Asians, Blacks, Hispanics, and Whites in the US?
2. What are the contributing factors to financial vulnerability for Asian, Black, and Hispanic adults?
3. How do financial literacy and financial education contribute to improving financial vulnerability?

# Datasets

- **2021 National Financial Capability Study (NFCS)**
  - 27,118 observations, collected every three years since 2009, commissioned by the FINRA Investor Education Foundation
- **2022 TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)**
  - 3,582 observations, collected annually since 2017, providing the most comprehensive measure of financial literacy (28 questions), over-sampling of Blacks, Hispanics, and Asians
- Our empirical findings are complemented by roundtable discussions with experts and thought leaders from **National CAPACD** and **UnidosUS**.

*In what follows, we refer to the population of Asian Americans, Native Hawaiians, and Pacific Islanders as “Asian”.*

# Demographics characteristics

- Blacks and Hispanics are significantly **younger** than Whites and Asians. (Around 30% of Blacks and Hispanics are 18-29 years old and 20% of Whites and Asians)
- Among Blacks and Hispanics, a much larger percentage reports being **single** and having financially dependent children, versus Whites and Asians.
- Asians in our sample are well **educated**, with almost 60% having a bachelor's degree or more.
- In line with their higher educational attainment, a large number of Asians in the US are found in the highest **income** cohorts.

# Financial vulnerability indicators

|                   | <b>Financial Resilience</b>   | <b>Indebtedness</b>   | <b>Retirement Planning</b>   |
|-------------------|---|---|--|
| <b>Behavior</b>   | <p>Difficulty making ends meet</p> <p><i>Those who answered that it is very difficult for them to make ends meet in a typical month.</i></p>  | <p>Cannot pay all bills in full and on time</p> <p><i>Those who cannot pay all their bills in full and on time in a typical month.</i></p>                        | <p>Not planning for retirement</p> <p><i>Those who have never tried to figure out how much they need to save for retirement.</i></p>   |
| <b>Perception</b> | <p>Not confident about ability to cover emergency expense</p> <p><i>Those who say they are not confident they could come up with \$2,000 if an unexpected need arose within the next month.</i></p> | <p>Feeling debt constrained</p> <p><i>Those stating that their debt and debt payments prevent them from adequately addressing other financial priorities.</i></p> | <p>Worried about running out of money in retirement</p> <p><i>Those who said they are not confident they will have enough money to live comfortably throughout their retirement years.</i></p> |

# Single indicators across groups

## Key takeaways

- Black and Hispanic respondents show **similar** results across all vulnerability indicators
- Their results are significantly **worse** than those of Whites and Asians
- Results for Asians are **comparable** to those of Whites

# Single indicators – Short-term money management

|   | Total Population (%) | White (%) | Black (%) | Hispanic (%) | Asian (%) |
|---|----------------------|-----------|-----------|--------------|-----------|
| <b><i>Financial Resilience</i></b>                            |                      |           |           |              |           |
| Difficulty making ends meet                                   | 24                   | 20        | 34        | 36           | 18        |
| Not confident about their ability to cover emergency expenses | 26                   | 23        | 37        | 33           | 17        |
| <b><i>Indebtedness</i></b>                                    |                      |           |           |              |           |
| Cannot pay all bills in full and on time                      | 17                   | 12        | 35        | 22           | 11        |
| Feeling debt constrained                                      | 20                   | 15        | 27        | 36           | 13        |
| Total Observations  | 3,582                | 1,830     | 548       | 586          | 512       |

# Single indicators – Retirement planning

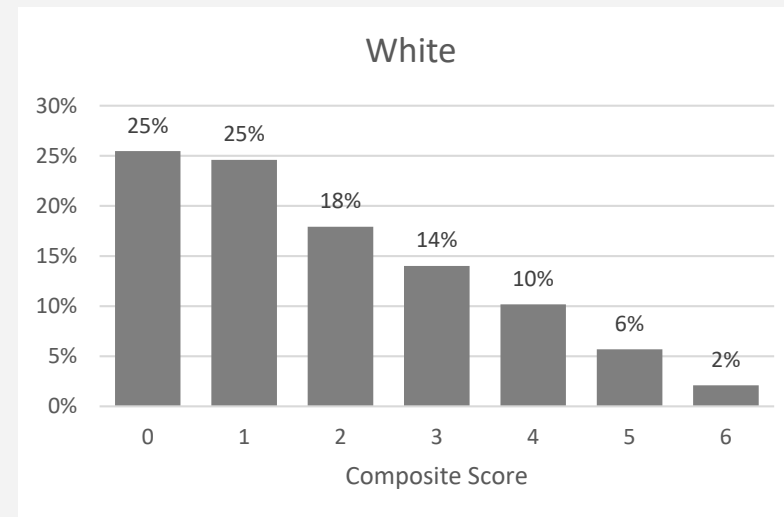
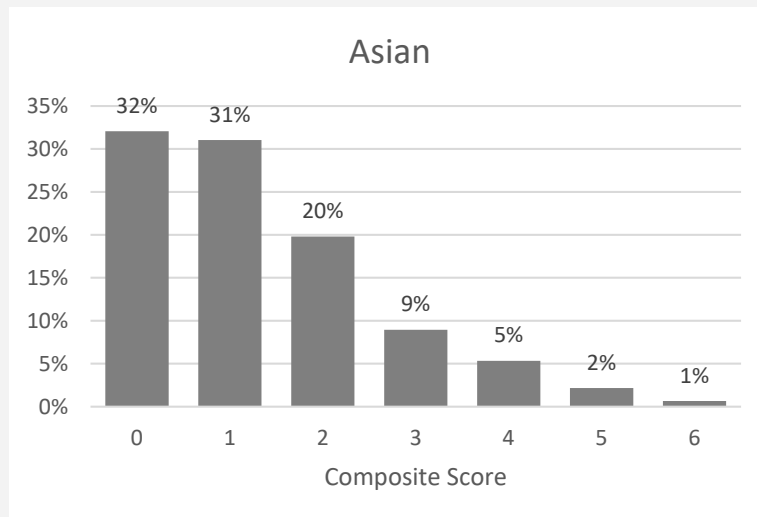
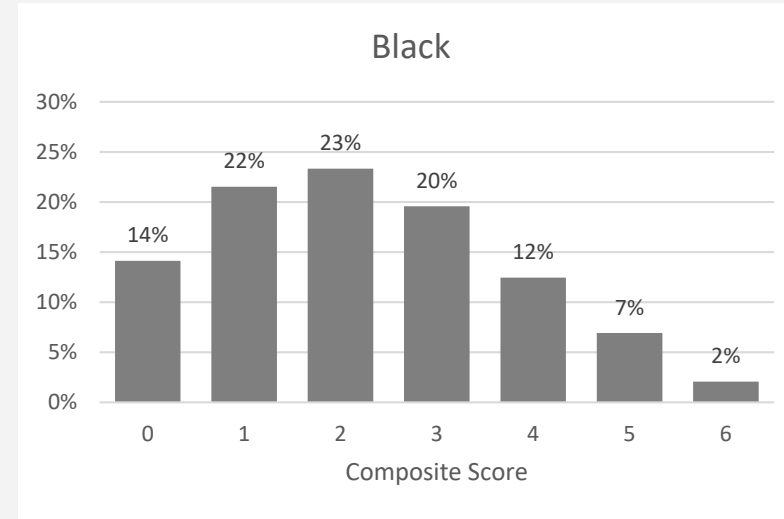
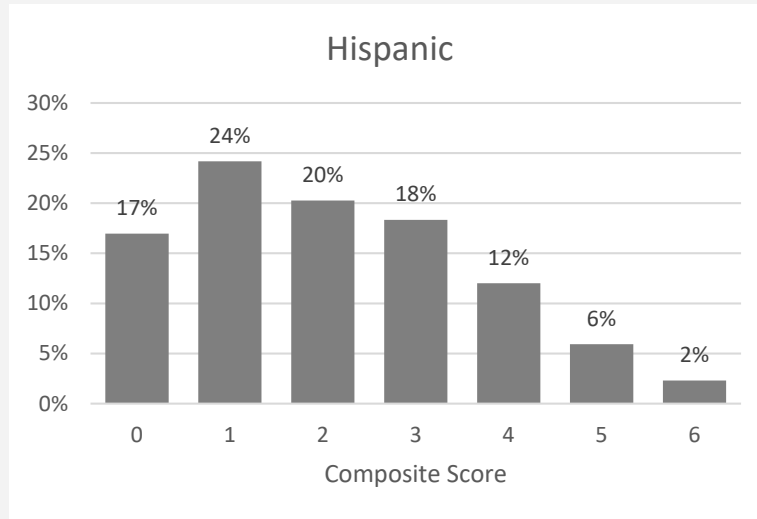
|  | Total Population (%) | White (%) | Black (%) | Hispanic (%) | Asian (%) |
|--|----------------------|-----------|-----------|--------------|-----------|
| Not planning for retirement                      | 61                   | 57        | 69        | 73           | 58        |
| Worried about running out of money in retirement | 35                   | 31        | 42        | 47           | 31        |
| Total Observations                               | 3,582                | 1,830     | 548       | 586          | 512       |

2022 P-Fin Index

- Even though Blacks and Hispanics are younger and have more working years ahead, they are still worried about running out of money in retirement. Likely linked to the large percentage who are not planning for retirement.
- Intergenerational financial support systems: Family networks are seen as financial support systems that likely impact the way family members think about and manage their finances (UnidosUS).



# Composite vulnerability score



2021 NFCS

**0** No financial vulnerability  **6** High financial vulnerability

# Factors contributing to financial vulnerability

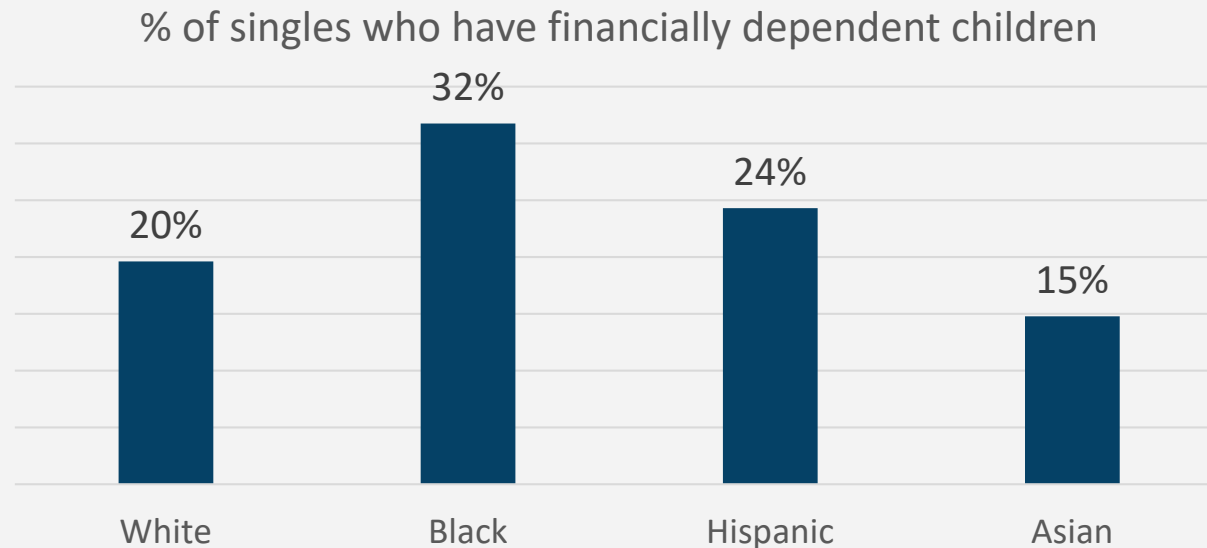
Factors that help explain the observed racial/ethnic differences in financial vulnerability:

1. Demographic characteristics
2. Financial situation and money management
3. Financial literacy

# Contributing factors – Demographics

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
- the greater incidence of single-parenthood among Blacks



Among Blacks, 59% are single and within this subgroup, 32% have financially dependent children.

Asians score significantly lower on the composite vulnerability score than Whites.

# Contributing factors – Financial situation

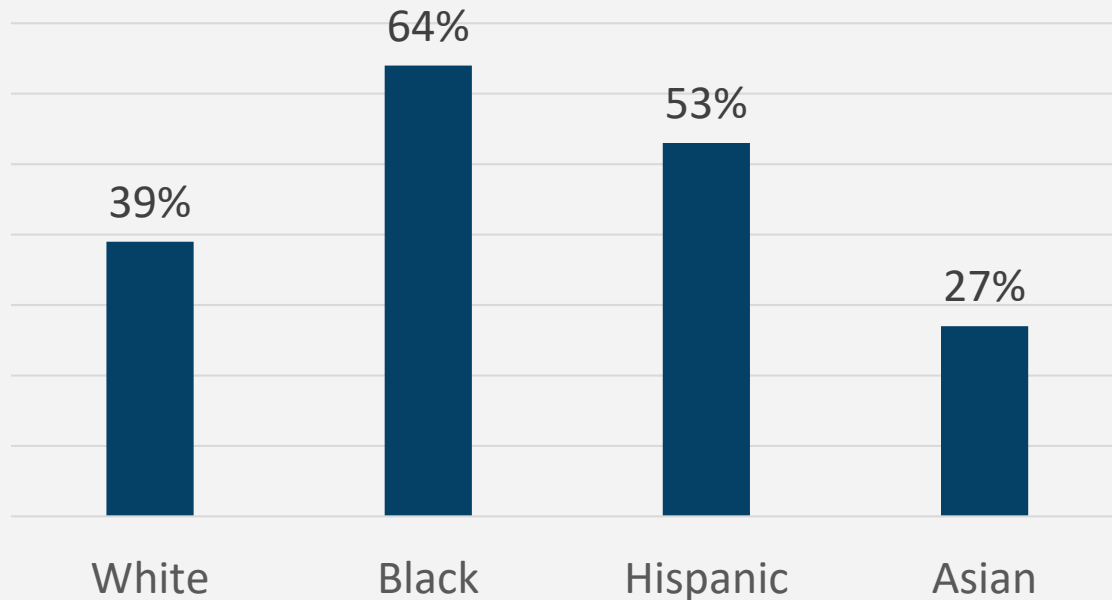
|   | Total Population (%) | White (%) | Black (%) | Hispanic (%) | Asian (%) |
|---|----------------------|-----------|-----------|--------------|-----------|
| <b>Assets</b>   |                      |           |           |              |           |
| Has emergency funds                                       | 53                   | 54        | 44        | 48           | 70        |
| Has a retirement account                                  | 57                   | 60        | 47        | 50           | 68        |
| Has other investments aside from a retirement account**   | 36                   | 37        | 31        | 31           | 50        |
| <b>Liabilities</b>  |                      |           |           |              |           |
| Has carried over a credit card balance and paid interest* | 43                   | 42        | 51        | 49           | 21        |
| Has a student loan  | 23                   | 20        | 35        | 29           | 15        |
| Total Observations  | 27,118               | 20,062    | 2,716     | 2,274        | 1,193     |

\*Proportion conditional on having the related asset. \*\*Proportion conditional on having a checking or savings account.

2021 NFCS

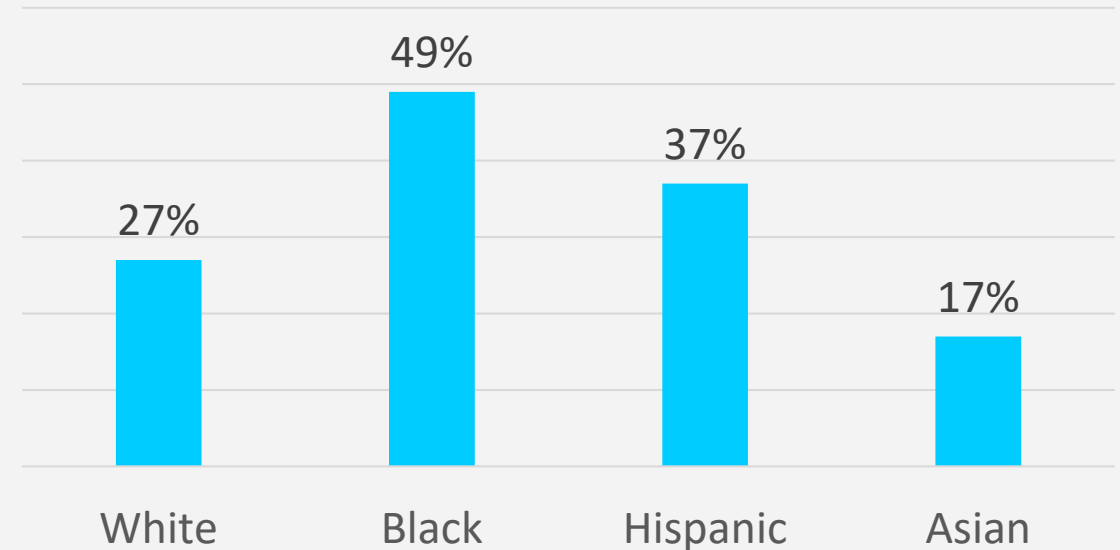
# Contributing factors – Money management

Demonstrated at least one expensive credit card behavior in the past year



Being charged interest for making only the minimum payment, or being charged a fee for making a late payment, going over the credit limit, or receiving cash advances.

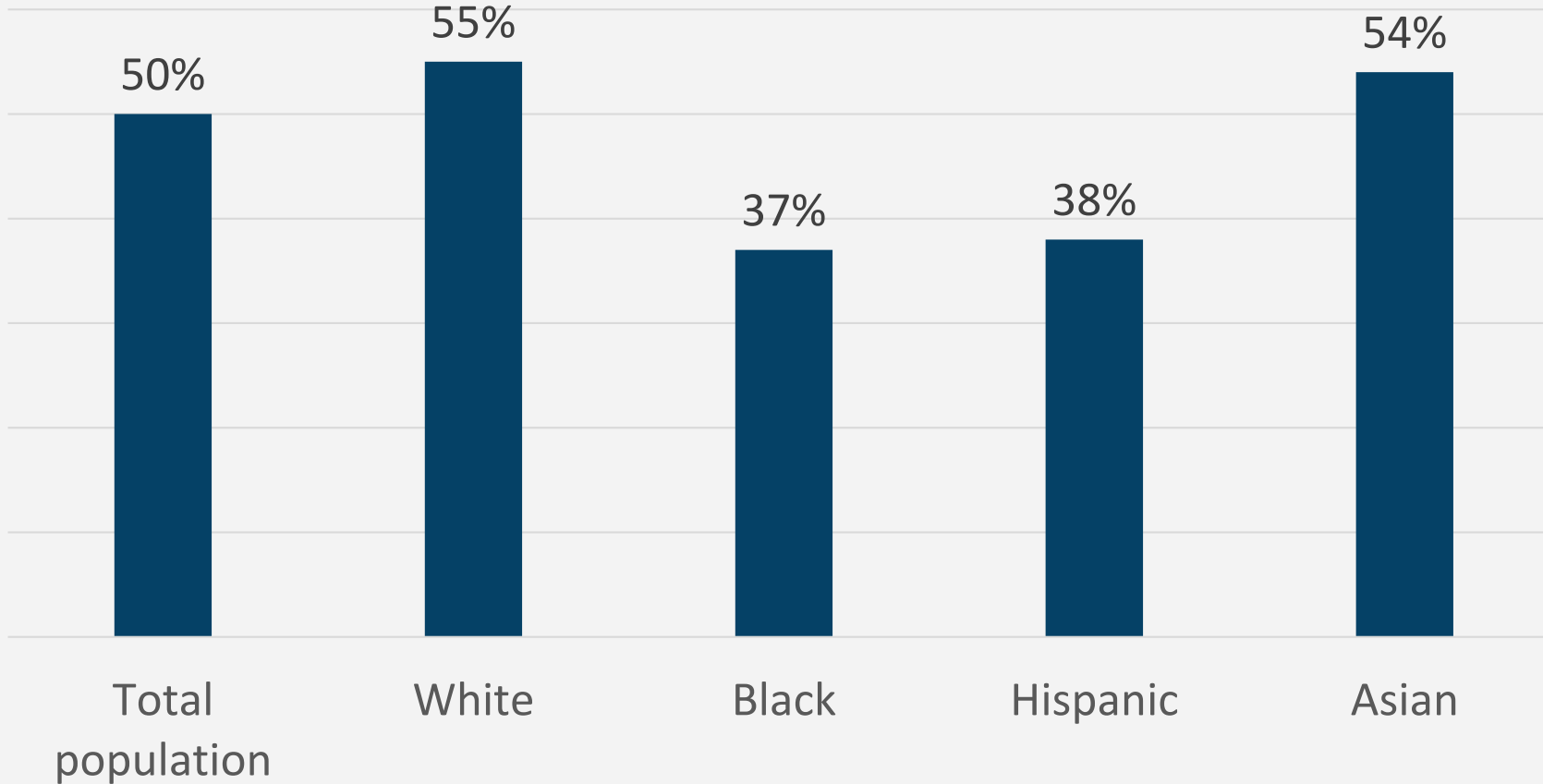
Used at least one form of AFS in the past 5 years



Taking out auto title loans, payday loans, using pawn shops, and shopping at rent-to-own stores.

# Contributing factors – Financial literacy

% of P-Fin Index questions correct

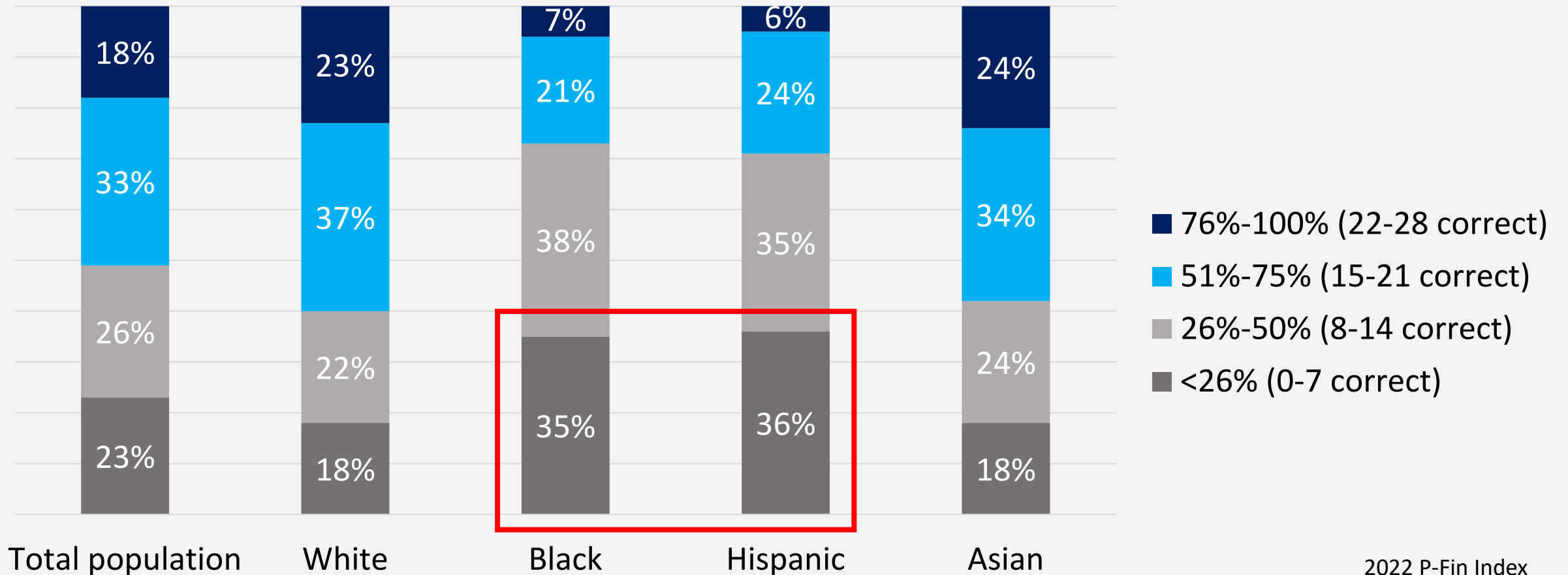


Regression results show that respondents who are *more* financially literate are also substantially *less* likely to be financially vulnerable.

2022 P-Fin Index

# Contributing factors – financial literacy

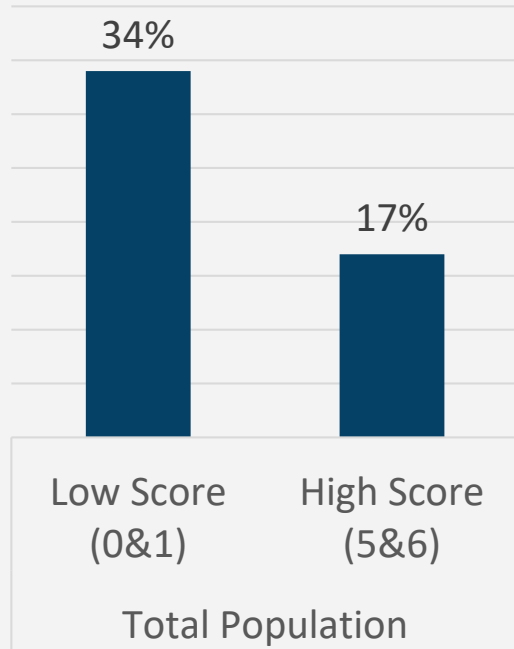
Distribution of correct P-Fin Index questions



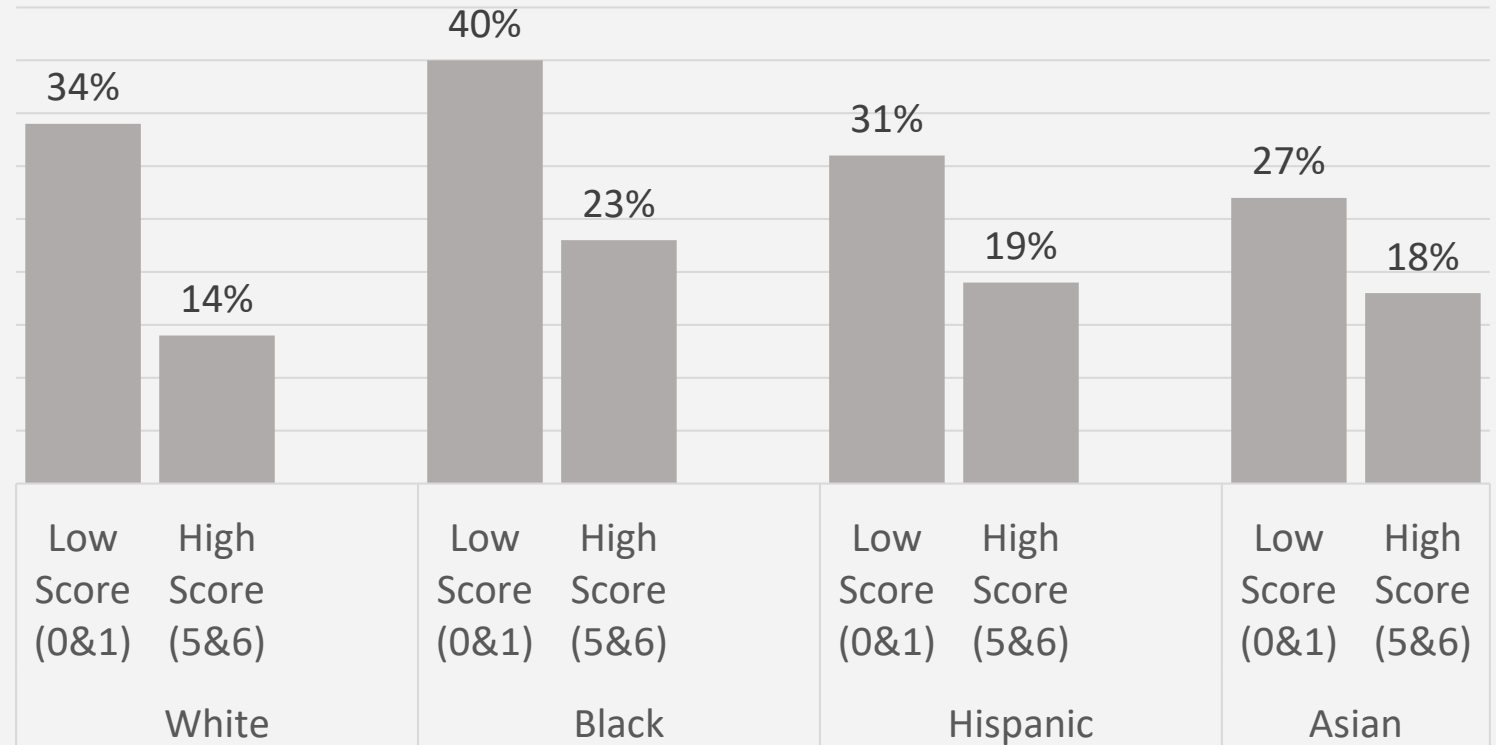
2022 P-Fin Index

# Connecting FinEd and vulnerability

Participated in financial education



Participated in financial education





# Key components for programs and initiatives

- **Language access:** Language barriers can be a big obstacle and main barrier to engagement in programs and services/products
- **Representation:** Input and support from community members in program development and operation. Having a presence in the community is essential for helping to promote certain programs and services.
- **Cultural relevance:** Successful programs will need to integrate cultural values and practices.
- **Narrative transformation:** Use of empowering language to change inaccurate beliefs about financial decision making
- **Generational inclusivity:** Successful programs will focus on reaching multiple generations and promoting knowledge sharing.
- **Holistic content:** Provision of holistic content, with a particular focus on topics that people know the least such as insuring and comprehending risk.

# Thank you!

**For more info visit [www.gflec.org](http://www.gflec.org).**

Follow us on social media and stay informed.

**If you have any questions, please send them to [ahasler@gwu.edu](mailto:ahasler@gwu.edu).**