FINRA Investor Education FOUNDATION

Insights: Financial Capability

February 2023

Authors:

Olivia Valdes, Ph.D.
and Peter Gonzalez
FINRA Investor Education Foundation

Kurt A. Schindler, Ph.D.
College of Business Administration, University of Puerto Rico, Rio Piedras Campus

What's inside

This research was made possible by a grant from the FINRA Foundation to researchers at the University of Puerto Rico.

A Closer Look at the Financial Capability of Hispanic Adults in the United States

Background

The United States is increasingly diverse, and much of this increase is due to a rise in the Hispanic population. From 2010 to 2020, the number of Hispanic individuals in the United States grew from 50.5 million to 62.1 million. Data from the United States Census Bureau shows an 18 percent increase in Hispanic adults over the same period.[1] Beyond population growth, Hispanic people in the United States have gained economic power and form a sizeable share of the labor market and consumer population. However, persistent wealth gaps hinder many Hispanic adults from achieving their full economic potential. A more comprehensive understanding of the financial capability of this segment of the United States is therefore overdue.

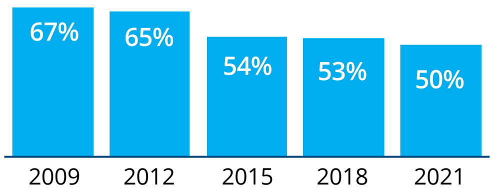
This brief examines data from five waves of the FINRA Foundation's National Financial Capability Study, spanning 12 years from 2009 to 2021, to gain insights into the trajectory of the financial capability of Hispanic adults over the past decade and a more nuanced view of its current state, examining differences across the subpopulations of Hispanic adults. Overall, the findings indicate that, while financial capability has improved over the past decade, troubling disparities exist within the Hispanic community.

Trends in Hispanic Financial Capability: 2009 to 2021

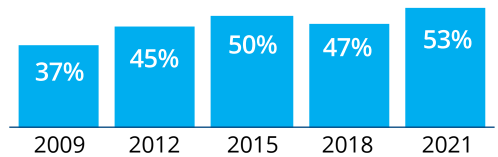
Over the 12 years from 2009 to 2021, Hispanic adults in the United States experienced improvements in financial capability. This progress persisted despite the economic turmoil that accompanied the COVID-19 pandemic.

Making Ends Meet. Overall, Hispanic respondents to the National Financial Capability Survey were better able to manage everyday money matters in 2021, compared to 2009. Fewer reported difficulty paying expenses in 2021 than in 2009 (50 percent versus 67 percent), and the incidence of financial fragility fell substantially, with about one-third (34 percent) of Hispanic adults reporting financial fragility, here defined as an inability to cope with a $2,000 economic shock, compared to nearly half (47 percent) in 2012.[2] Among those with credit cards, the percentage paying their credit card bills in full each month increased from 37 percent in 2009 to 53 percent in 2021. More Hispanic respondents felt satisfied with their finances in 2021 (28 percent) than in 2009 (16 percent), although this dropped from 30 percent in 2015. While more Hispanic respondents experienced an income drop in 2021 than in 2018 (32 percent versus 25 percent), likely due to COVID-19 labor shocks,[3] this was still substantially lower than in 2009 (46 percent).

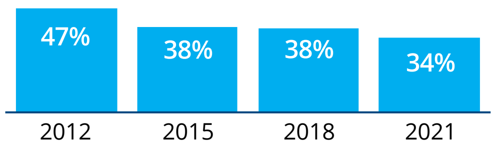
Difficulty Paying Expenses



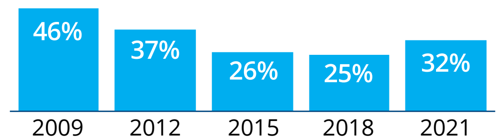
Paid Credit Card in Full Each Month



Financially Fragile

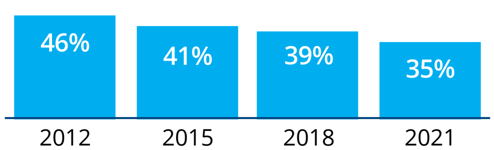


Experienced a Drop in Income

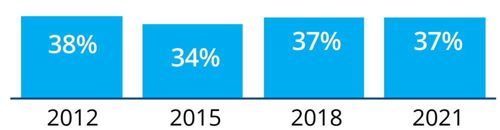


Debt Management.[4] The perceived burden of Hispanic adults' indebtedness has decreased in recent years. The proportion of Hispanic respondents reporting "too much debt" fell from 46 percent in 2012 to 35 percent in 2021, with a particularly large dip from 2018 to 2021. Because we asked respondents to report on subjective levels of debt, it is unclear whether objective debt levels declined or people's appraisals of what constituted too much debt changed. Respondents may have become more accustomed to a certain level of debt. However, as we observed declines in reports of specific types of debt, including medical debt (27 percent in 2012 versus 22 percent in 2021) and student loans (34 percent in 2015 versus 29 percent in 2021), it is possible that actual debt levels among Hispanic adults may have also fallen. Indeed, some studies have found declines in both medical and non-medical debt among U.S. adults during this period.[5] Notably, the use of high-cost borrowing services, such as pawn shops and payday loans, remained somewhat stable, falling from 38 percent in 2012 to 37 percent in 2021. It is worth noting that there was a short-term decline in use of these services from 2012 (38 percent) to 2015 (34 percent), only to bounce back up to 37 percent in 2018.

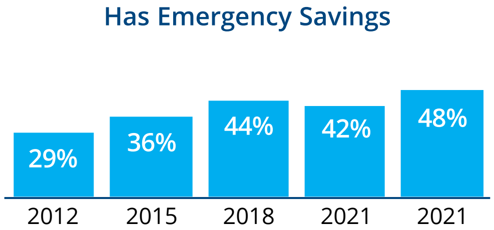
Has "Too Much Debt"

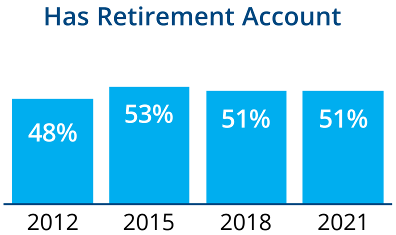


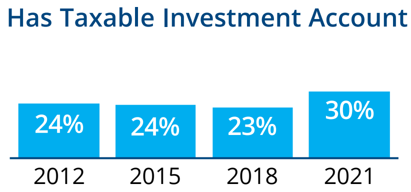
Uses High-Cost Borrowing Services



Wealth Building.[6] About half of Hispanic adults (48 percent) reported setting aside emergency savings in 2021, far surpassing those who said they had done so in 2009 (29 percent). However, retirement account ownership remained somewhat stable, increasing from 48 percent in 2012 to 51 percent in 2021. Low (and steady) retirement account ownership rates may be partly due to a lack of access, as some estimates find that only half of Hispanic workers have access to employer-sponsored retirement plans.[7] Encouragingly, there was a sharp increase in Hispanic taxable investment account owners, rising from 24 percent in 2012 to 30 percent in 2021. The pattern aligns with other research that finds a rise in racial/ethnic diversity of market participation[8] and may be due, in part, to greater access to investing via fractional shares, zero-commission trading and technological advancements that make opening an account easier.







Demographic Differences Within the Hispanic Population

While aggregated improvements are encouraging, the Hispanic population in the United States is far from monolithic. We used data from the 2021 National Financial Capability Study to examine variability within Hispanic respondents' financial capability. Adults who identified as Hispanic reflect over 20 different countries of origin. A little under half of Hispanic adults' households (46 percent) reported an annual income of $50,000 or higher, while 15 percent made at least $75,000. About one-third (27 percent) had a four-year college degree, 41 percent were married, and 40 percent reported having financial dependents. Overall, Hispanic adults were relatively young, with a lower average age (41 years) than that of their non-Hispanic white (mean age = 50), Black (mean age = 42) or Asian American/Pacific Islander counterparts (mean age = 47).

2021 Hispanic Adult Population	
Sample Size	2,274
Mean age	41 yrs.
Percent	
Women	46%
Household Income ≥ $50K	46%
Household Income ≥ $75K	15%
Four-Year College Degree	27%
Married	41%
Dependents	40%
White	32%
Black/African American	6%
Asian/Pacific Islander	3%

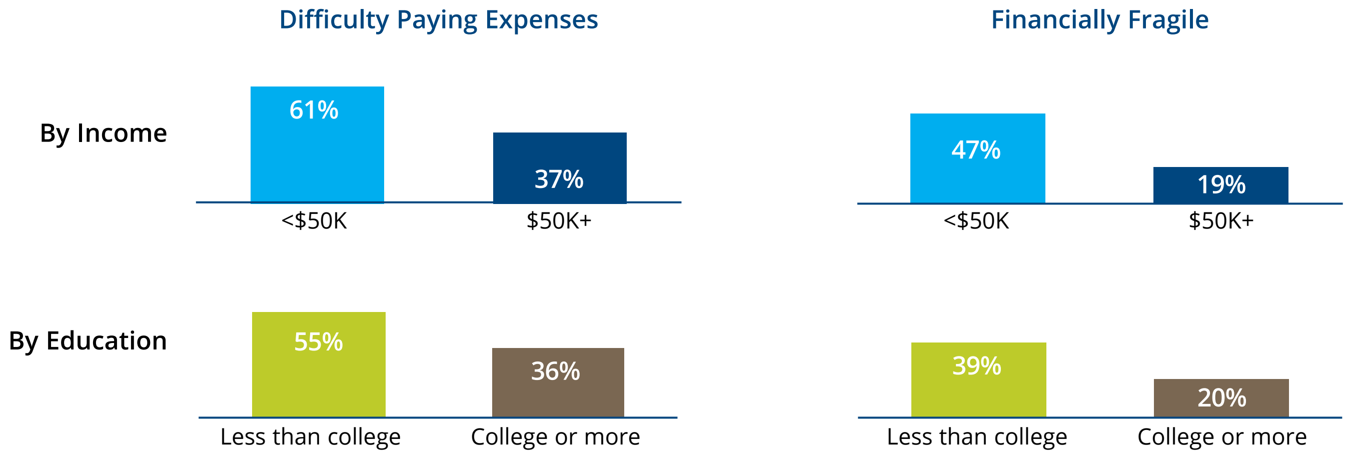
Racially and ethnically, most Hispanic adults reported being only Hispanic (57 percent). However, about 32 percent also identified as white, 6 percent as Black, and 3 percent as Asian or Pacific Islander. While few studies examine racial differences within the Hispanic population, there is a sizeable portion of Hispanic adults in the U.S. who identify as Black Hispanic or Afro-Latino.[9] And research indicates there are consistent health disparities between Black and white Hispanic adults[10] as well as greater reports of discrimination among U.S. Hispanic adults with darker skin color compared to those with lighter skin color.[11] Thus, it is critical to gain insights on how racial differences—in addition to other demographic factors—may manifest in discrepancies in financial capability.

We observed disparities in financial capability among sizeable portions of the Hispanic population. Hispanic women, Black Hispanic adults, Hispanic adults with lower educational attainment, and Hispanic adults with household income below $50,000 experienced lower financial capability than their respective counterparts.

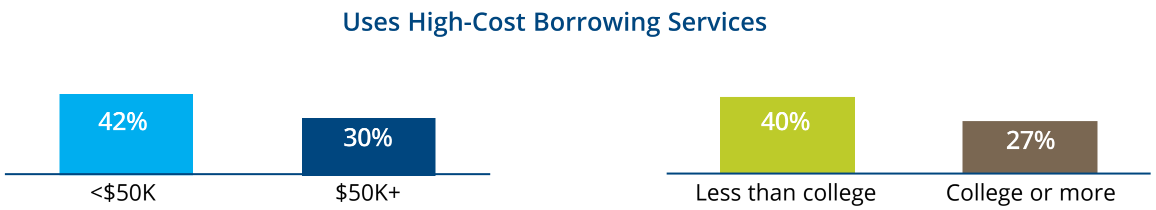
Income and Education

Making Ends Meet. Hispanic adults in households earning less than $50,000 were more likely to have trouble paying bills and covering expenses (61 percent versus 37 percent) and were more likely to experience financial fragility (47 percent versus 19 percent) than those earning $50,000 or more.

Those without a four-year college degree also reported more difficulty paying expenses (55 percent versus 36 percent) and were more likely to experience financial fragility (39 percent versus 20 percent) than those with one. Given that over half of Hispanic households have annual income below $50,000, more than two-thirds lack a four-year college degree, and nearly half both earn less than $50,000 annually and lack a four-year college degree, these findings suggest that, for many, managing everyday finances is a struggle.

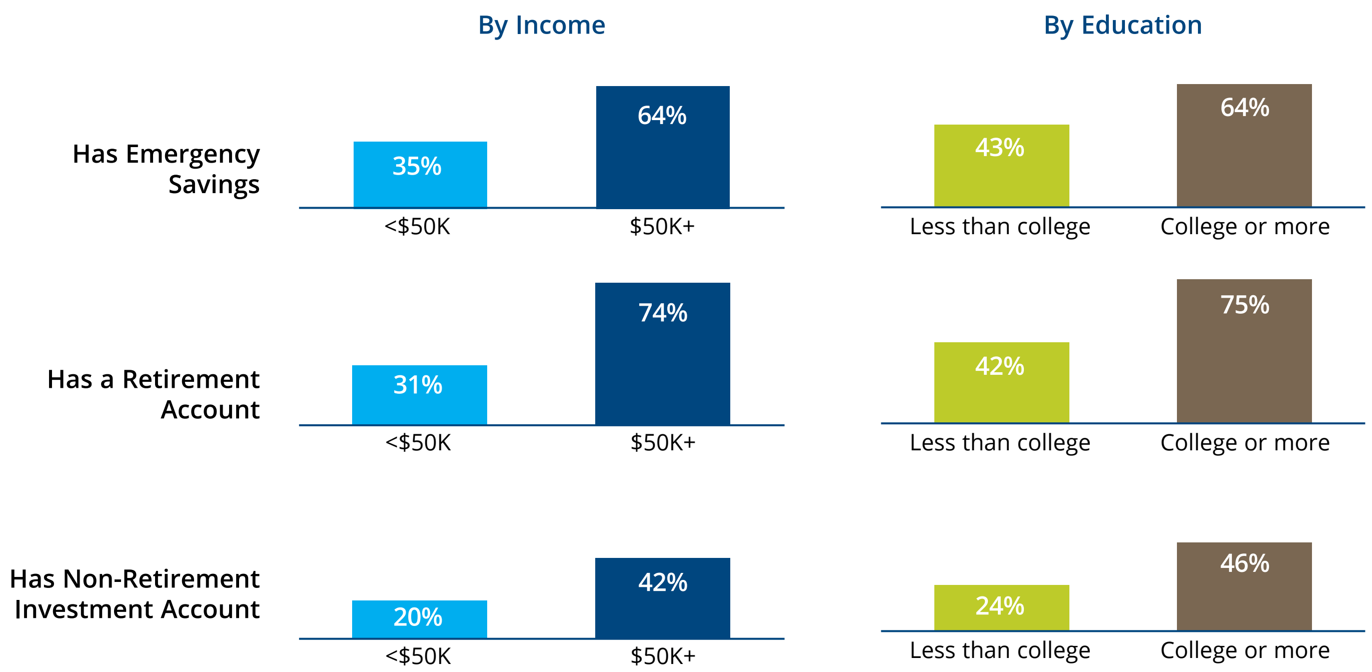


Debt Management. While we saw minimal to no differences by income in Hispanic adults who said they had "too much debt" (36 percent versus 33 percent), there were large discrepancies in the use of high-cost borrowing services. Those with household incomes under $50,000 and those without a four-year college degree were much more likely to use pawn shops, payday loans, auto-title loans and other high-cost borrowing services than their counterparts with higher incomes (42 percent versus 30 percent) or a college degree (40 percent versus 27 percent). We observed similar findings by educational attainment. There were no differences between adults with and without a four-year degree.



Wealth Building. Hispanic adults with household incomes of $50,000 or higher were nearly twice as likely to have emergency savings set aside (64 percent versus 35 percent) as those with incomes under $50,000. They were also twice as likely to have a retirement (74 percent versus 30 percent) or taxable investing account (42 percent versus 20 percent) than Hispanic adults with lower income.

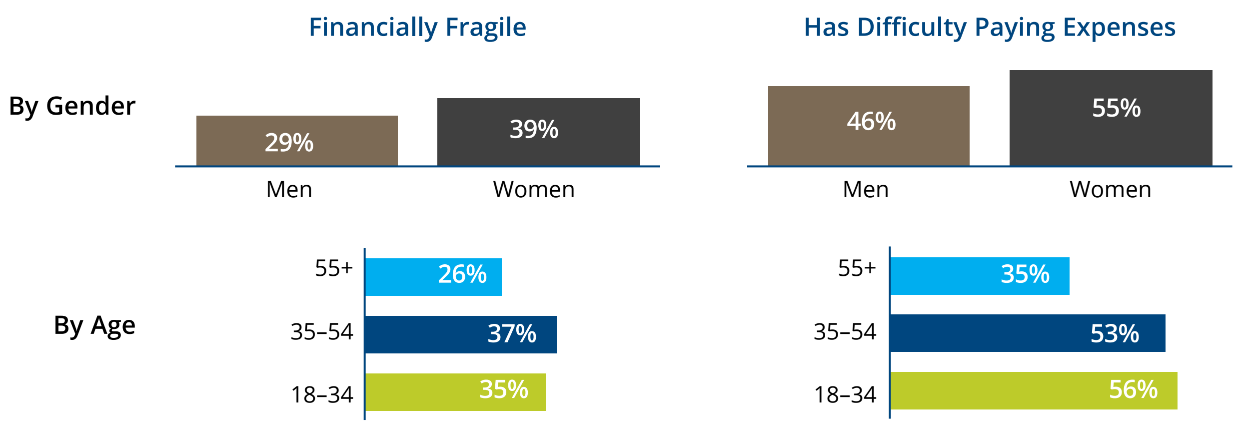
Those without a college degree were at a similar disadvantage. About two-thirds of Hispanic adults with a four-year college degree (64 percent) had a rainy-day fund, compared to 43 percent of those without a degree. Similarly, a large majority of Hispanic college graduates (75 percent) owned a retirement account, compared to only 42 percent of those without a degree. And nearly half owned a taxable investment account (46 percent), compared to fewer than a quarter (24 percent) of those without a degree.



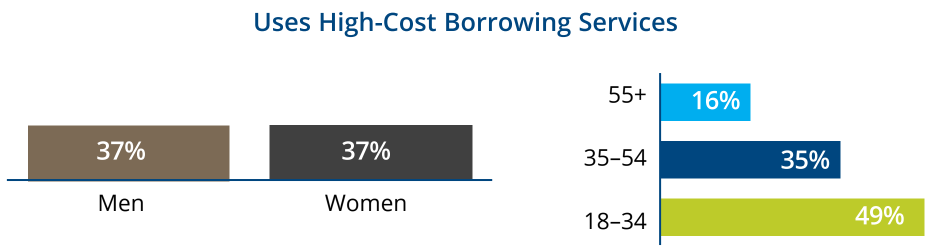
Notably, income and educational disparities were closely tied to participation in traditional financial services. A vast majority (92 percent) of Hispanic respondents reported having a checking or savings account. However, those with incomes under $50,000 were nearly five times[12] more likely than their higher-income counterparts to be unbanked (8 percent versus 1 percent). And those without a college degree were three times as likely to be unbanked, relative to those with a higher education level.

Gender and Age

Making Ends Meet. A greater proportion of Hispanic women reported financial fragility (39 percent versus 29 percent) and difficulty covering bills and expenses (55 percent versus 46 percent) than Hispanic men. And when separated into three age groups (18 – 34, 35 – 54, and 55 and older), those ages 35 – 54 were more likely to report financial fragility (37 percent) than their younger (35 percent) or older (26 percent) counterparts. However, 18 – 34-year-olds were most likely to experience difficulty paying expenses (56 percent), than either 35 – 54-year-olds (53 percent) or those ages and 55 and older (35 percent).



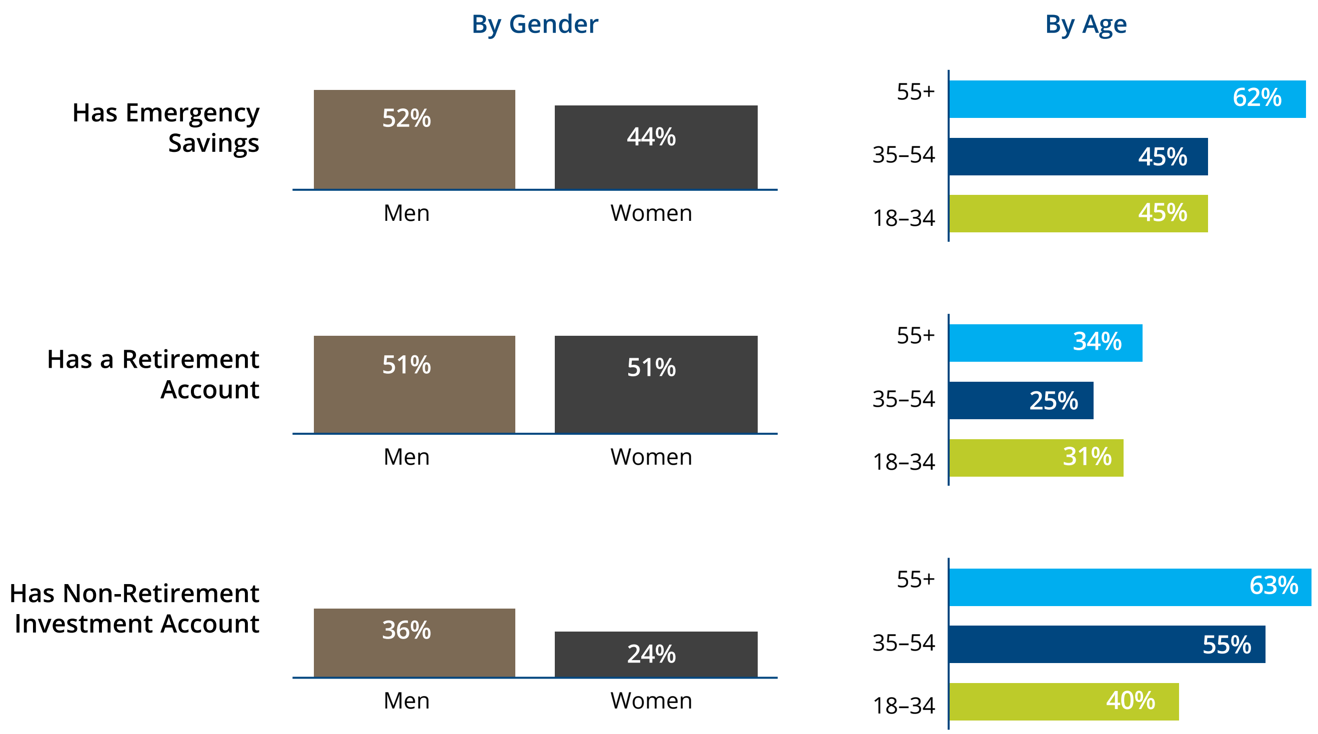
Debt Management. Hispanic women were more likely to report having too much debt than Hispanic men (37 percent versus 33 percent), although use of high-cost borrowing services did not differ by gender (37 percent for both). Age-wise, 18 – 34 and 35 – 54-year-olds were equally likely to report having too much debt (38 percent of 18 – 34-year-olds and 37 percent of 35 – 54-year-olds), but much more likely than those ages 55 and older (25 percent) to do so. The youngest group reported disproportionately greater use of high-cost borrowing services (49 percent), than 35 – 54-year-olds (35 percent) or those 55 and older (16 percent). While consumers sometimes use high-cost borrowing services in lieu of traditional financial services, with the use of these services most prevalent among those who do not own a checking or savings account,[13] the breakdown of unbanked rates by age did not reflect this trend. Those unbanked were most likely to be ages 35 – 54 (7 percent), compared to 5 percent of 18 – 34-year-olds and 3 percent of those 55 and older.



Wealth Building. Hispanic women were less likely than their male counterparts to set aside emergency savings (44 percent versus 52 percent) or have a taxable investment account (24 percent versus 36 percent). However, there was no difference in the proportion of men and women with a retirement account (51 percent for both).

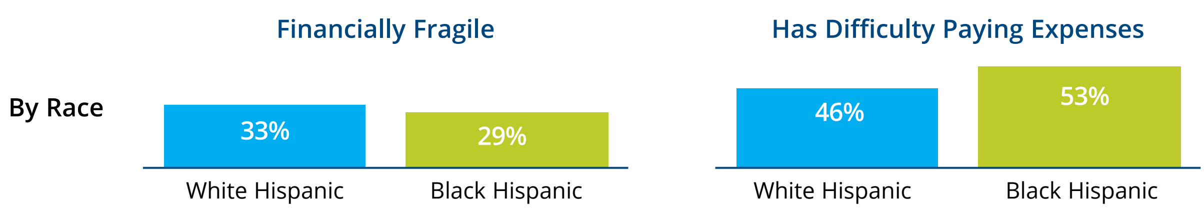
In terms of age, Hispanic adults ages 55 and older were much more likely to have an emergency fund (62 percent) than either 18 – 34-year-olds or 35–54-year-olds (45 percent for both). Retirement account ownership increased steadily with age. About 40 percent of those ages 18 – 34 had a retirement account, compared to 55 percent of 35 –

54-year-olds and nearly two-thirds of those ages 55 and older (63 percent). By contrast, the proportion of Hispanic adults with a taxable investment account followed a U-shaped pattern, with the oldest and youngest cohort being most likely to own investment accounts outside retirement. About 31 percent of Hispanic respondents ages 18 – 34 owned a taxable investment account, compared to 25 percent of those ages 35 – 54 and 34 percent of those age 55 and older.



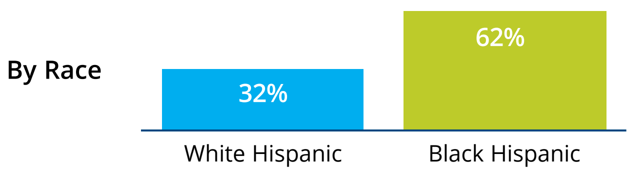
Intersection of Race and Ethnicity

Making Ends Meet. Whereas Black Hispanic respondents were somewhat less likely to report financial fragility than their white Hispanic counterparts (29 percent versus 33 percent), they were more likely to report difficulty covering bills and expenses (53 percent versus 46 percent).



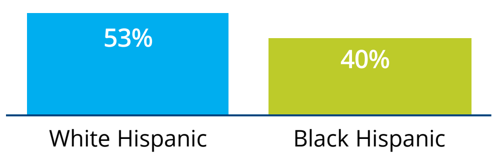
Debt Management. Compared to white Hispanic respondents, Black Hispanic respondents were more likely to report having too much debt (47 percent versus 34 percent) and use high-cost borrowing services (62 percent versus 32 percent). In fact, these differences were pronounced across different forms of debt. Black Hispanic respondents were much more likely to have medical debt (37 percent versus 17 percent) or report having a student loan (53 percent versus 26 percent). Income disparities between the two groups may explain some of these differences, as Black Hispanic adults were more likely than their white Hispanic counterparts to earn household incomes below $50,000 (58 percent versus 47 percent).

Uses High-Cost Borrowing Services

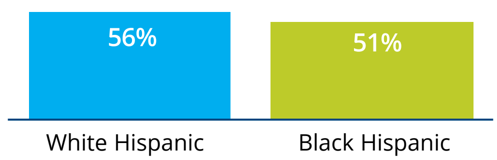


Wealth Building. Black Hispanic adults were less likely to have emergency savings (40 percent versus 53 percent) or a retirement account (51 percent versus 56 percent) than their white Hispanic counterparts. However, there was no substantive difference in taxable investment account ownership between Black and white Hispanic adults (36 percent versus 35 percent).

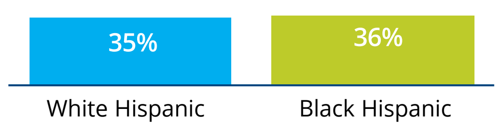
Has Emergency Savings



Has a Retirement Account



Has Non-Retirement Investment Account

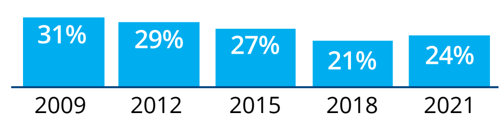


The Role of Financial Knowledge

As in the overall U.S. population,[14] financial knowledge among Hispanic adults has been generally declining since 2009. About 24 percent of Hispanic adults correctly answered four or more out of five financial literacy questions correctly on the National Financial Capability Survey in 2021, down from 31 percent in 2009. In 2021, the average Hispanic respondent answered 2.6 out of five questions correctly.

High Financial Knowledge: 2009 to 2021

(answered at least 4 out of 5 question correctly)



There were stark differences in financial knowledge within the Hispanic population. When defining “high financial knowledge” as those who correctly answered at least four questions correctly, Hispanic respondents with household incomes of $50,000 or higher were nearly three times more likely to exhibit high levels of financial literacy than their counterparts who earned incomes under $50,000 (36 percent versus 13 percent). And those with a four-year college degree were more than twice as likely as those without one to exhibit high financial literacy (39 percent versus 18 percent).

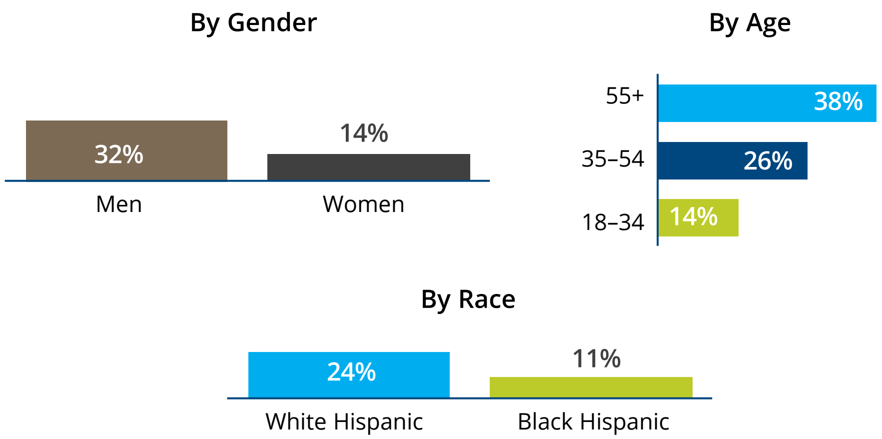
High Financial Knowledge

(answered at least 4 out of 5 question correctly)

Other demographic differences were also pronounced. Men were twice as likely as women to have high financial literacy (32 percent versus 14 percent). Financial knowledge seemed to improve with age. Only 14 percent of younger Hispanic adults (18 – 34) had high financial literacy, compared to 26 percent of 35 – 43-year-olds and 38 percent of those ages 55 and over. Race disparities across Hispanic adults were notable. Hispanic respondents who identified as white were more than twice as likely as their Black Hispanic counterparts (29 percent versus 11 percent) to exhibit high financial knowledge.

High Financial Knowledge

(answered at least 4 out of 5 question correctly)



Bolstering financial literacy, particularly among more vulnerable groups, is important given its role in other facets of financial capability. As in the general U.S. population, Hispanic adults exhibiting higher financial knowledge were better able to make ends meet and less likely to report being financially fragile (17 percent versus 39 percent) than Hispanic adults with low financial knowledge (those who correctly answered fewer than three of five questions). They were also more engaged in wealth building. Nearly half (49 percent) had a taxable investment account, compared to only 24 percent of Hispanic adults with low financial literacy. And they were more likely to display debt management behaviors conducive to reaching financial goals. Hispanic adults with high financial knowledge were half as likely to use high-cost borrowing services than those with low financial knowledge (42 percent versus 20 percent). These findings held even when controlling for age, educational attainment, household income, marital status and gender.

Conclusion

This brief examined the financial capability of Hispanic adults and its changes over the twelve years from 2009 to 2021. During this period, we found overall increases in financial capability. Hispanic respondents reported greater ability to make ends meet, lower levels of indebtedness, and greater wealth-building behaviors. Despite these encouraging trends, we saw large disparities within specific Hispanic subpopulations. Hispanic adults with low household income and without a four-year college degree reported consistently lower financial capability than their higher income and college-educated counterparts. Other demographic disparities were nuanced. Women generally reported lower financial capability than men but were as likely to use high-cost borrowing services or own a retirement account. Younger adults tended to report lower financial capability than their 55-and-older counterparts but were equally likely to own taxable investment accounts. Racial disparities were also inconsistent, with Black Hispanic adults reporting lower financial capability than white Hispanic adults in some areas (for example, high-cost borrowing rates) but similar or higher in others (for example, taxable investment accounts, difficulty paying expenses). While inconsistent disparities are unclear and merit additional research, we know many people of color face obstacles that can hinder financial capability. For example, income, wealth and educational disparities, stemming largely from structural racism, create barriers for this population. For those who identify as both Black and Hispanic, these issues may be amplified.

We separately examined the role of financial literacy in Hispanic adults' financial capability. Contrary to other capability indicators, financial knowledge sizably declined from 2009 to 2021 among both the Hispanic population and the general population. Hispanic respondents who earned lower incomes, lacked a four-year college degree, were younger and identified as Black were particularly likely to exhibit low financial knowledge. Given that financial literacy was closely and positively associated with key measures of financial capability, these results suggest that targeted financial education efforts may be especially beneficial to certain pockets of the Hispanic population.

Comprehensive and nuanced studies of the Hispanic community and other communities of color in the U.S. are necessary for understanding the unique needs of different populations and developing effective educational strategies to bolster financial capability.

Methodology

This brief uses data from five waves of the National Financial Capability Study (NFCS): 2009, 2012, 2015, 2018 and 2021. The NFCS is funded and led by the FINRA Investor Education Foundation. All data are representative of U.S. adults ages 18 and older, and of each state's population. The analyses were conducted within the sample of adults who self-identified as Hispanic or Latino/a in each wave. The sample size used for each wave is as follows: 2009 (n=2,268); 2012 (n=2,196); 2015 (n=2,700); 2018 (n=2,255); 2021 (n=2,174). Analyses reported in this brief include national sample weights, which are intended to be representative of the national population in terms of age, gender, ethnicity, education and Census Division. While the data was not weighted to be representative of Hispanic adults in the United States, Hispanic respondents' demographic characteristics aligned with results of Hispanic adults in the 2021 American Community Survey. For more information about the NFCS data, see FINRAFoundation.org/NFCS.

All results, interpretations and conclusions expressed are those of the research team alone and do not necessarily represent the views of FINRA, the FINRA Investor Education Foundation, or any of its affiliated companies.

Acknowledgements

The authors would like to thank Gary Mottola, Ritta McLaughlin, Robert Ganem, and Gerri Walsh for helpful comments. The opinions provided herein are those of the authors and do not reflect the views of FINRA, the FINRA Investor Education Foundation, University of Puerto Rico, or any organizations with which the authors are affiliated. A special thanks to Gina Santangelo and Donna Hemans for designing and editing this brief.

Endnotes

1. Jones, N., Marks, R., Ramirez, R., and Ríos-Vargas, M. (2021, August). *Improved Race and Ethnicity Measures Reveal U.S. Population Is Much More Multiracial*. United States Census Bureau.
2. Question added to the NFCS in 2012. No data available for 2009.
3. Nearly a quarter (24 percent) of Hispanic adults reported being furloughed or laid off as a result of the pandemic.
4. Debt-related questions added in 2012. No data available from 2009.
5. Kluender, R., Mahoney, N., Wong, F., and Yin, W. (2021). Medical debt in the US 2009–2020. *JAMA*. 326(3): 1–8.
6. For consistency purposes, 2009 data on retirement and taxable investment account ownership are omitted, as question modifications were made in 2012.
7. UNIDOS US. (2020, February). *Latinos' eligibility to save in a workplace retirement plan*. [Fact sheet]
8. Lush, M., Fontes, A., Zhu, M., Valdes, O., and Mottola, G. (2021, February). *Investing 2020: New accounts and the people who opened them*.
9. Gonzalez-Barrera, A. (2022, May). *About 6 million U.S. adults identify as Afro-Latino*. Pew Research Center.
10. Cuevas, A. G., Dawson, B.A., Williams, D.R. (2016). *Race and Skin Color in Latino Health: An Analytic Review*. *American Journal of Public Health*. 106(12), 2131–2136.
11. Noe-Bustamante, L., Gonzalez-Barrera, A., Edwards, K., Mora, L., & Lopez, M.H. (2021, November). *Majority of Latinos Say Skin Color Impacts Opportunity in America and Shapes Daily Life*. Pew Research Center.
12. Percent differences are calculated using non-rounded proportions.
13. Federal Deposit Insurance Corporation (FDIC). (2022, October). *2021 FDIC National Survey of Unbanked and Underbanked Households*.
14. Urban, C., and Valdes, O. *Why is financial literacy declining? Maybe we just don't know*. FINRA Investor Education Foundation.

1735 K Street, NW
Washington, DC 20006-1506
www.finrafoundation.org

CCSD-3985—02/23