September 2024

Authors:

Harold J. Toro, Ph.D.
Research Director, Center for the New Economy, Puerto Rico, Guest Scholar, Kellogg Institute for International Studies University of Notre Dame

Olivia Valdés, Ph.D.
Senior Researcher, FINRA Investor Education Foundation

What's inside

Summary	1
Puerto Rico's Social and Economic Context	2
Making Ends Meet	2
Borrowing and Debt	5
Financial Planning and Wealth Building	6
Conclusion and Interpretations	9
References	10

An Overview of Factors Tied to the Financial Capability of Adults in Puerto Rico

Summary

The Commonwealth of Puerto Rico has been an unincorporated territory of the United States (U.S.) for over a century. Despite being an important part of the U.S. and its residents U.S. citizens, our understanding of the financial state of households of Puerto Rico remains limited. To better understand how Puerto Rican households are faring financially, a topic last comprehensively studied in the 2007–08 Puerto Rico Survey of Consumer Finances (Toro, 2013), the 2021 National Financial Capability Study (NFCS) surveyed 1,001 adults in Puerto Rico in both English and Spanish. The findings show that while debt levels are relatively low, many in Puerto Rico struggle to make ends meet—particularly those who are younger, have lower household incomes and lack a four-year college degree. Wealth building and financial planning are sparse with few reporting they have emergency savings or own investment accounts.

We provide a brief contextual summary of Puerto Rico's population and its economic trajectory during the last 15 years and later examine three main areas of financial capability: (1) people's ability to "make ends meet," including the extent to which they experience financial fragility, income volatility and overspending; (2) their indebtedness, including reports of student loans and medical debt; and (3) their financial planning and wealth building, including home ownership, emergency savings, and ownership of retirement and taxable (*i.e.*, non-retirement) investment accounts. We analyze how these indicators vary by age, gender, educational attainment, household income and the presence of intergenerational wealth transfers. Section six provides a summary of our findings and offers some general implications of this research.

Puerto Rico's Social and Economic Context

Among Puerto Rico's population, the median age is 44 years, six years above the median in the mainland U.S. Nearly three out of four adults 25 or older have less than a four-year college degree (73 percent). Puerto Rico's average household income is $34,931 dollars, but 55 percent of households have an annual income lower than $25,000. Comparatively, approximately fewer than one-in-five households in the mainland U.S.[1] report incomes below $25,000 (United States Census Bureau, 2021a,b). Approximately 43 percent of Puerto Rico's population is living below the poverty line (United States Census Bureau, 2021c), more than twice the rate of states in mainland U.S. with the highest poverty rates. Puerto Rico's high poverty rate is far from a new development. Over the past half-century, all of Puerto Rico has experienced persistent poverty, a term coined by the U.S. government to describe counties that maintain poverty rates of at least 20 percent for more than 30 years (Vargas-Ramos et al., 2023).

Over the last several decades, and particularly since the Great Recession, Puerto Rico has experienced a string of events with highly negative economic consequences and grave impacts for its residents. In 2014, Puerto Rico's general obligation bonds were downgraded to non-investment status, and in 2015 Puerto Rico defaulted on its debt payments. As a result, the federal government established the Fiscal Oversight and Management Board to oversee Puerto Rico's fiscal reforms and debt restructuring process (Association for Financial Professionals, 2017; Caraballo-Cueto & Lara, 2018). For many of Puerto Rico's residents, the austerity measures that followed meant cuts to pensions, education and health care services (Lopez, 2017).

In 2017, Hurricane Maria traversed Puerto Rico diagonally, leaving more than 300,000 homes destroyed. Following the hurricane, all of Puerto Rico's 1.5 million grid-connected customers were left without power and access to food and medical services was severely limited for weeks (FEMA, 2018; Universities Space Research Association, n.d.). In its wake, Puerto Rico's economy declined by four percent. Despite economic improvements in 2019 largely due to an increase in exports (Bureau of Economic Analysis, 2022), subsequent natural disasters and the COVID-19 pandemic undid the post-hurricane recovery.

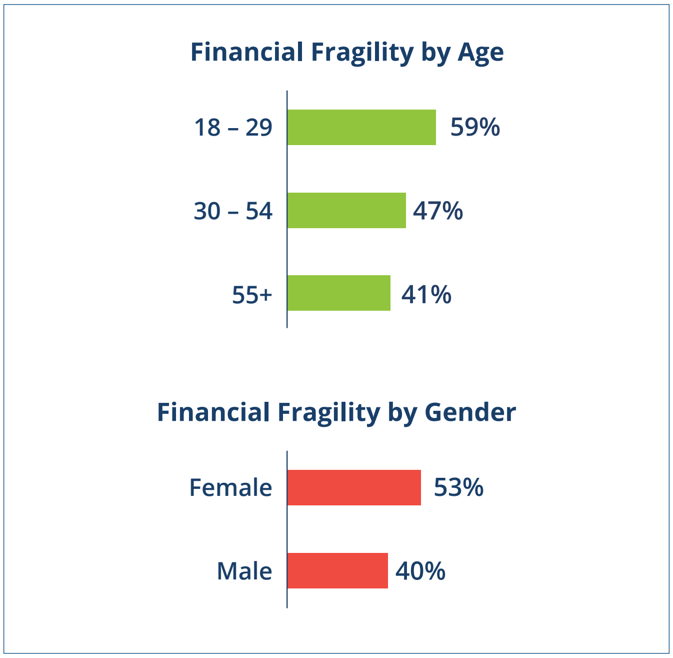
The cumulative effect of these events resulted in a major economic reversal. By 2022, Puerto Rico's economy was no larger than in 2017 (PR Planning Board, 2020: 1-2). As economic hardship continued, employment declined by nearly 16 percent relative to 2004 (from 1.38 million to 1.16 million in 2022), and over 800,000 people migrated to the U.S. mainland[2], including a large number of working-age Puerto Ricans.

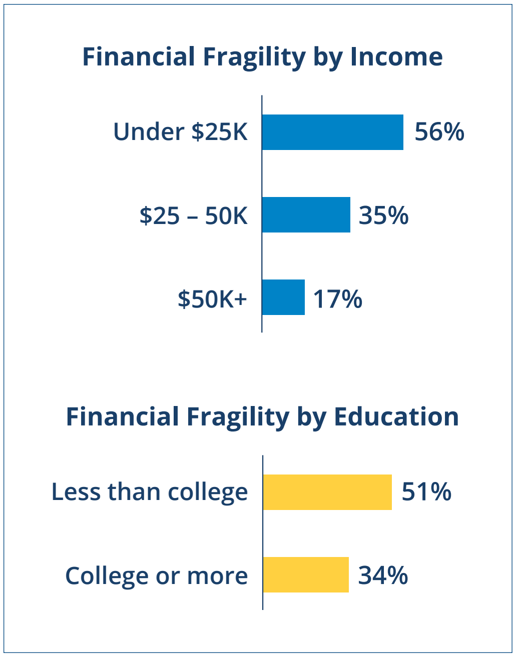
Making Ends Meet

Financial Fragility

Nearly half of respondents in Puerto Rico (47 percent) are financially fragile, lacking confidence in their ability to absorb a $2,000 economic shock. This figure is higher than in the U.S. mainland, where approximately 30 percent of the population is classified as financially fragile (Lin et al, 2022). In Puerto Rico, the factors most closely tied to financial fragility are age, household income and educational attainment.

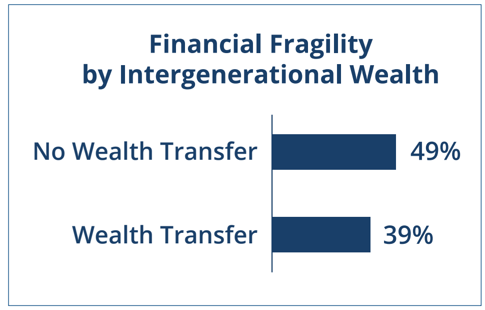
Fifty-nine percent of adults ages 18 to 29 are financially fragile, compared to 47 percent of those 30 to 54, and 41 percent of those 55 or older. In terms of gender, women are more likely to be financially fragile than men (53 versus 40 percent).





In Puerto Rico, well over half of adults with a household income below $25,000 are financially fragile (56 percent), a prevalence higher than that of those earning $25,000 to $50,000 (35 percent) and more than three times higher than that of those in households with incomes of $50,000 or higher (17 percent). Financial fragility is also strongly tied to educational attainment. Over half of adults without a four-year college degree are financially fragile, compared to about a third of those with a degree (51 versus 34 percent).

Financial fragility rates are lower among those who expect or have received intergenerational wealth transfers of at least $10,000 than those who have not. Among the former, nearly four-in-ten adults are financially fragile. Among the latter, nearly half are financially fragile (39 percent versus 49 percent).

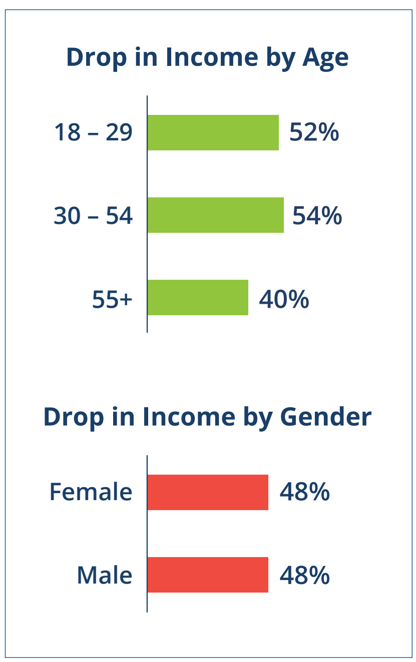


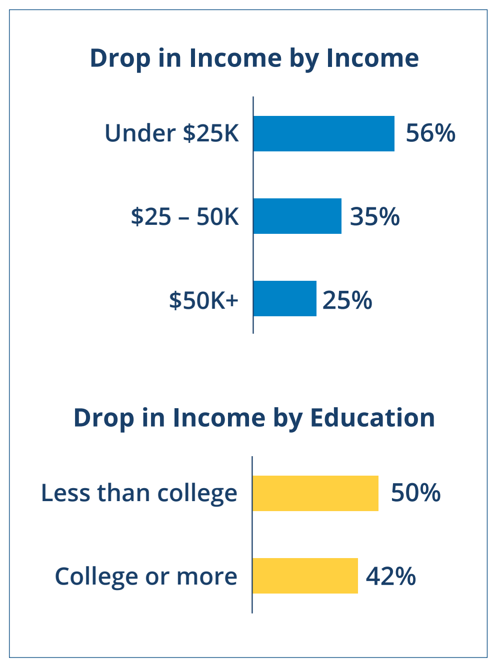
Sudden Drop in Income

Forty-eight percent of respondents report having experienced a sudden drop in income in 2021. This rate is almost twice that in the U.S. mainland, where 26 percent experienced one. In Puerto Rico, age, household income, and educational attainment, are the factors most closely linked to a sudden income drop.

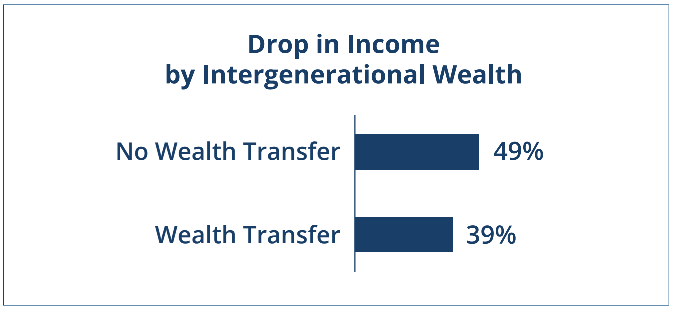
Over half of all adults ages 18 to 29 and 30 to 54 report experiencing an income drop in 2021 (52 and 54 percent respectively), compared to two out five adults ages 55 or older (40 percent). The likelihood of a sudden drop in income did not vary by gender.

Fifty-six percent of those in households with an income under $25,000 report a sudden drop in income. This is twice as high as among those in households with an income of $50,000 or more (25 percent). Two out of five college-educated adults experienced a sudden drop in income. Those without a college degree are worse since one out of two do so, a risk that is 1.2 times greater (42 versus 50 percent).





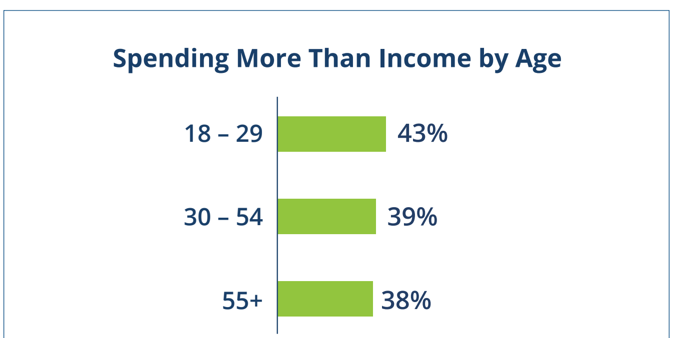
As with fragility, those who received (or expect) an inheritance or a monetary gift from parents are less likely to have experienced a drop in income (39 versus 49 percent).

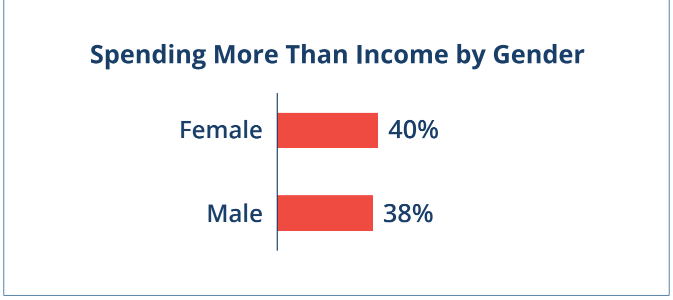


Spending More Than Income

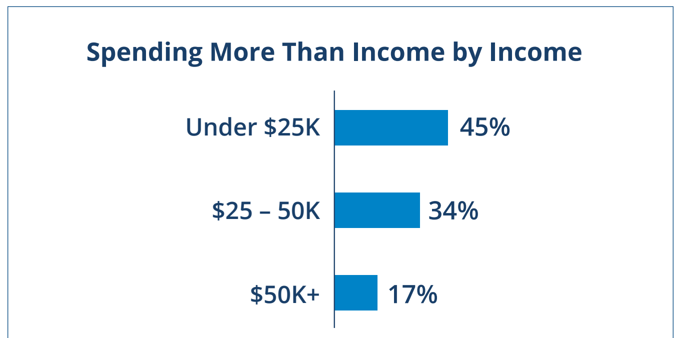
Thirty-nine percent of respondents report spending more than their monthly income, a rate more than twice as high as that in the U.S. mainland (19 percent). In Puerto Rico, spending more than income is most tied to age, income and educational attainment.

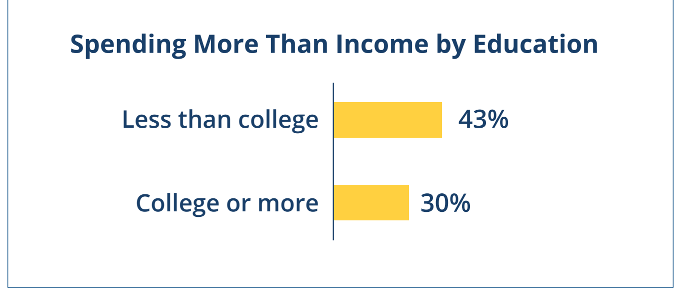
Forty-three percent of adults 18 to 29 report outspending their income, a higher percentage than among those ages 30 to 54 (39 percent) or those 55 or older (38 percent). Fewer men than women spend more than their income (38 percent versus 40 percent), though the difference is small.



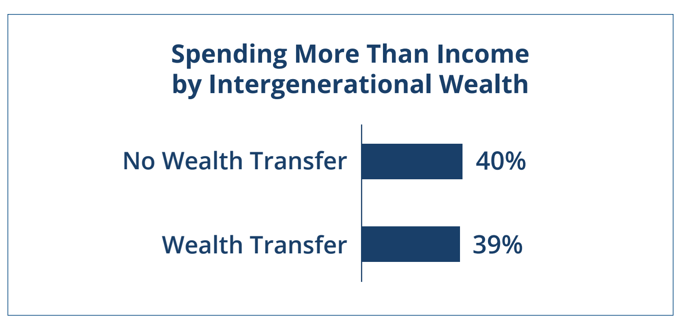


The likelihood of spending more than income is strongly linked to a household's annual income. Forty-five percent of adults in households with an income below $25,000 spend more than their income, compared to 34 percent of adults in households with incomes between $25,000 to $50,000, and 17 percent of those in households with an income of $50,000 or more. The percentage of adults in Puerto Rico who spend more than their income also varies by educational attainment. While 43 percent of adults without a college degree outspend their income, 30 percent of those with a college degree report doing so.



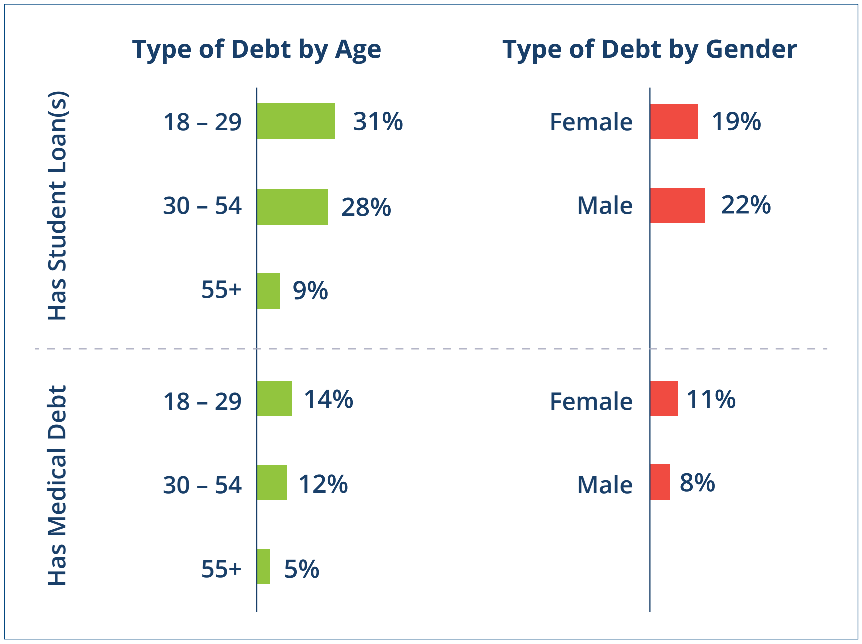


Receiving an intergenerational wealth transfer has no discernible ties to spending more than income. Thirty-nine percent of those who received or expect a gift or an inheritance indicate outspending their income, a rate close to that of those who have not received one (40 percent).



Borrowing and Debt

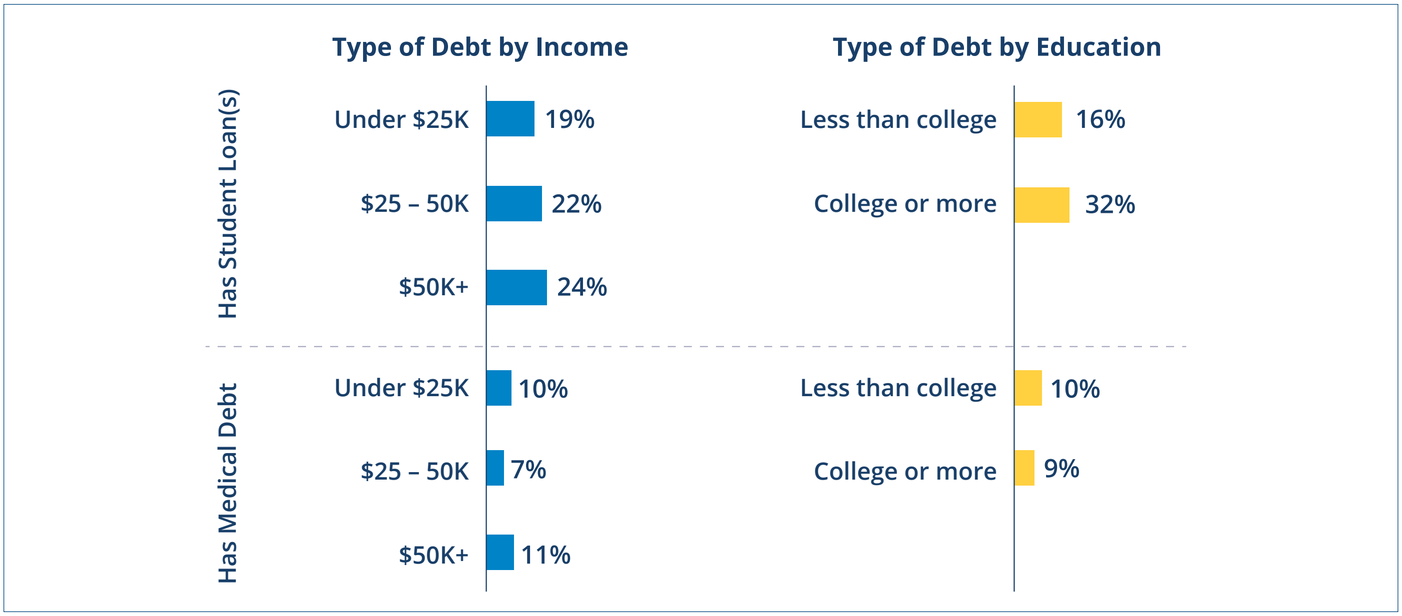
Student Loans and Medical Debt



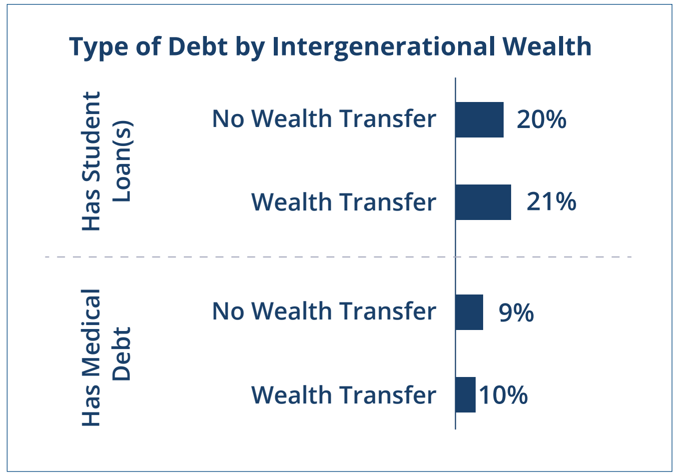
Twenty percent of respondents report having student loans—slightly lower than in the U.S. mainland (23 percent), though this may partly be a function of substantially lower college costs in Puerto Rico relative to the U.S. mainland. About one in 10 respondents report medical debt or unpaid bills related to medical services, significantly lower than in the U.S. mainland, where 22 percent report medical debt. The likelihood of having either type of debt varies most by age and by educational attainment.

Younger respondents are more likely than their older counterparts to report either form of debt. Those ages 18 to 29 are nearly four times as likely as those 55 or older to report student loans (31 versus 9 percent), and nearly three times as likely to report medical debt (14 versus 5 percent). Relative to men, women are slightly less likely to have student loans (19 versus 22 percent), but more likely to have medical debt (11 versus 8 percent).

Nineteen percent of adults in households with an income below $25,000 have student loans, compared to nearly one-quarter of those in households with an income of $50,000 or higher (24 percent). Medical debt varied little by income. One of ten respondents in households earning $25,000 or less in annual income report medical debt, compared to 7 percent of those with household incomes of $25,000 to $50,000 and 11 percent of those with incomes of $50,000 or higher. In terms of educational attainment, adults with a college degree are twice as likely as those without to report student debt (32 versus 16 percent). However, the prevalence of medical debt is nearly equal between those with and those without a college degree (9 versus 10 percent respectively).



Intergenerational wealth transfers play a negligible role in the prevalence of either form of debt. Those who receive or expect an intergenerational transfer are one percentage point more likely to have either form of debt than those who do not receive intergenerational bequests (21 versus 20 percent for student loans, and 10 versus 9 percent in the case of medical debt).



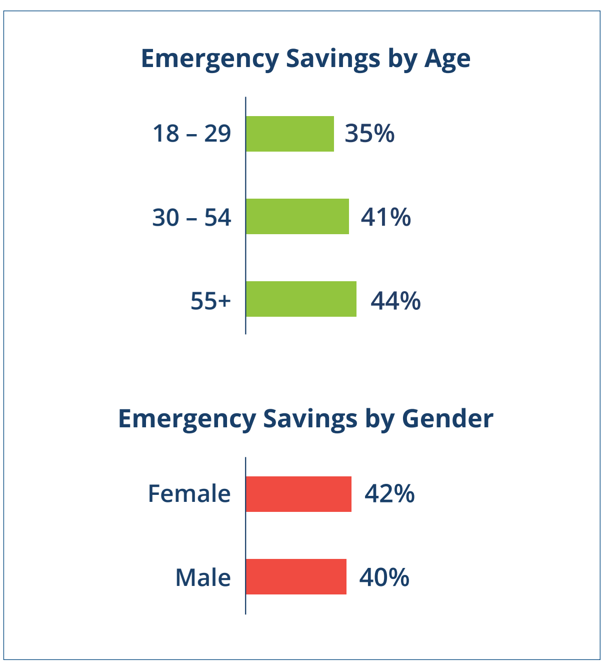
Financial Planning and Wealth Building

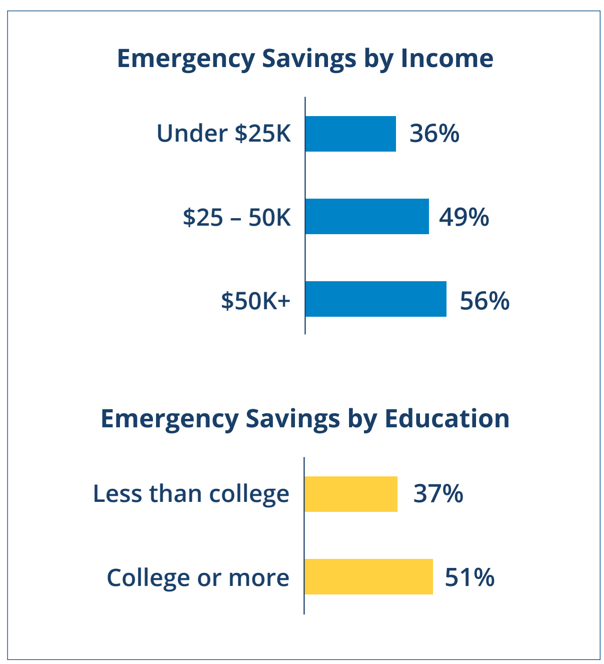
Emergency Savings

About four in 10 (41 percent) adults in Puerto Rico report having emergency savings, a lower fraction than in the U.S. mainland, where over half of adults report such savings (53 percent). In Puerto Rico, the factors most tied to having emergency savings include educational attainment and household income.

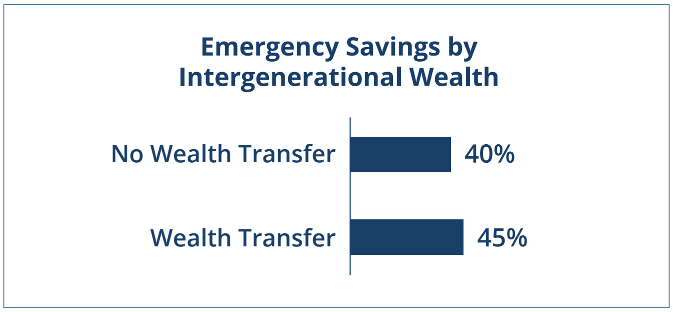
Young adults are the least likely to report having emergency savings. Thirty-five percent of respondents 18 to 29 indicate having emergency savings, compared to 41 percent of 30 to 54-year-olds, and 44 percent of those 55 and older. A similar percentage of women and of men report having emergency savings (42 and 40 percent, respectively).

Income is the main factor tied to having emergency savings, with the likelihood to set aside savings increasing as income rises. Thirty-six percent of those with a household income of $25,000 or less have emergency savings, compared to 49 percent of those with a household income of $25,000 to $50,000, and more than half of those with a household income of $50,000 or higher (56 percent). Adults with a college degree were much more likely to have emergency savings than those without a college degree (51 versus 37 percent).





Intergenerational wealth plays a minor role in having emergency savings. Recipients of intergenerational wealth were somewhat more likely than non-recipients to have such savings (45 versus 40 percent).



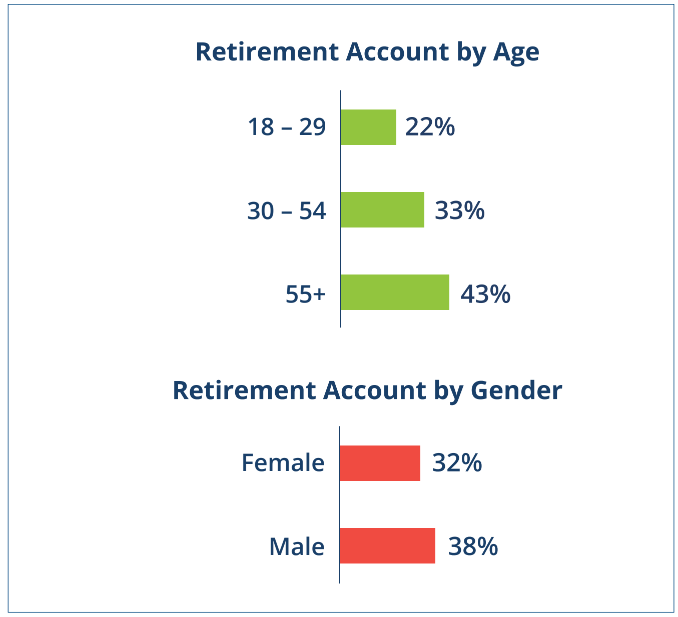
Retirement Accounts

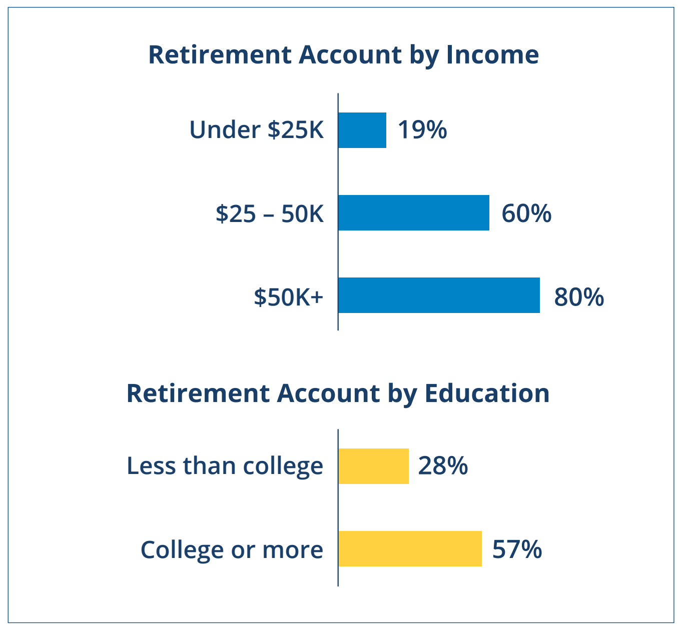
About one-third (35 percent) of adults in Puerto Rico report owning a retirement account (employer-based or independent retirement account), substantially lower than in the U.S. mainland, wherein over half of adults report owning one (57 percent). In Puerto Rico, retirement account ownership is most closely tied to household income, educational attainment and intergenerational wealth.

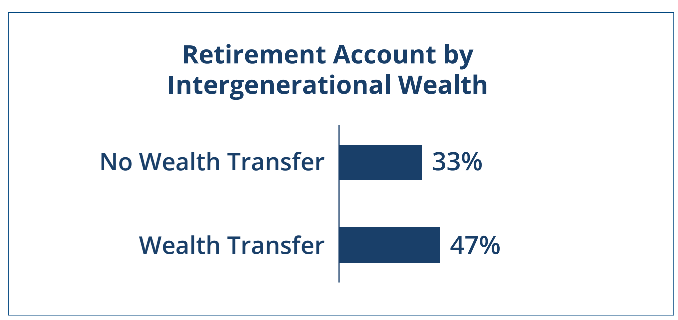
Having a retirement account rises with age; from a low of 22 percent among those ages 18 to 29 to a high of 43 percent among those 55 or older. Women are less likely than men to own a retirement account (32 versus 38 percent).

Eighty percent of adults with a household income of $50,000 or higher own a retirement account, three times that of those with a household income between $25,000 and $50,000, and more than four times the percentage of those with a household income below the $25,000 threshold (19 percent). A four-year college degree is also linked to a higher likelihood of having retirement accounts. College graduates are more than twice as likely to own a retirement account as those without a college degree (57 percent versus 28 percent).

Approximately half of those who have received (or expect) an intergenerational wealth transfer or a monetary gift of at least $10,000, own a retirement account (47 percent), compared to a third of those who have not received any intergenerational bequests (33 percent).



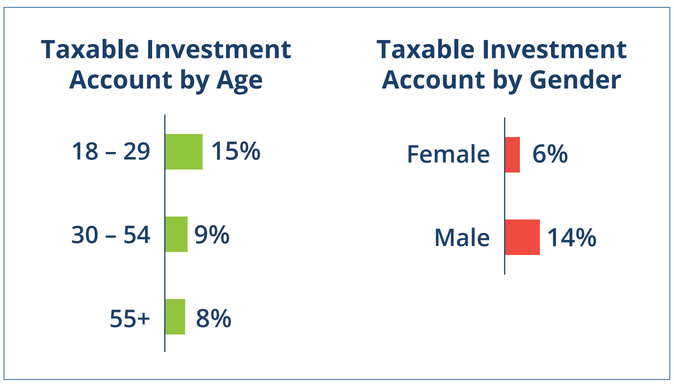




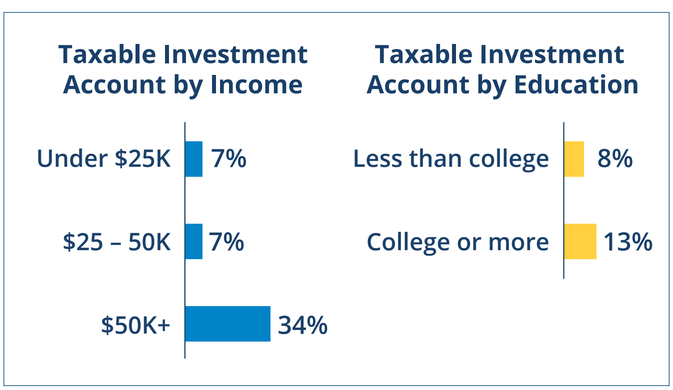
Taxable Investment Accounts

One in 10 adults in Puerto Rico own a taxable (*i.e.*, non-retirement) investment account, lower than in the U.S. mainland by a factor of 3, where approximately one-third of adults report having such accounts (35 percent). The factors most tied to owning taxable investments include household income, educational attainment and intergenerational wealth.

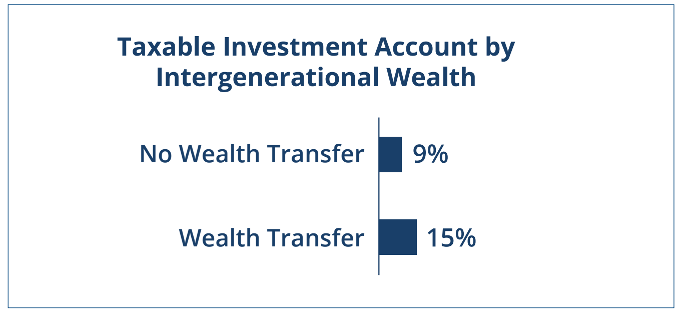
Younger adults are twice as likely as their older counterparts to own taxable investments. Fifteen percent of those 18 to 29 own taxable investments, compared to 9 percent of those 30 to 54, and 8 percent of those 55 and older. Men are also more than twice as likely as women to own taxable investments (14 versus 6 percent).



Adults with a household income of $50,000 or higher are just under five times more likely to own taxable investment accounts than those whose household income is lower than $50,000 (34 versus 7 percent). College graduates are also more likely than those without a college degree to own taxable investment accounts (13 versus 8 percent).



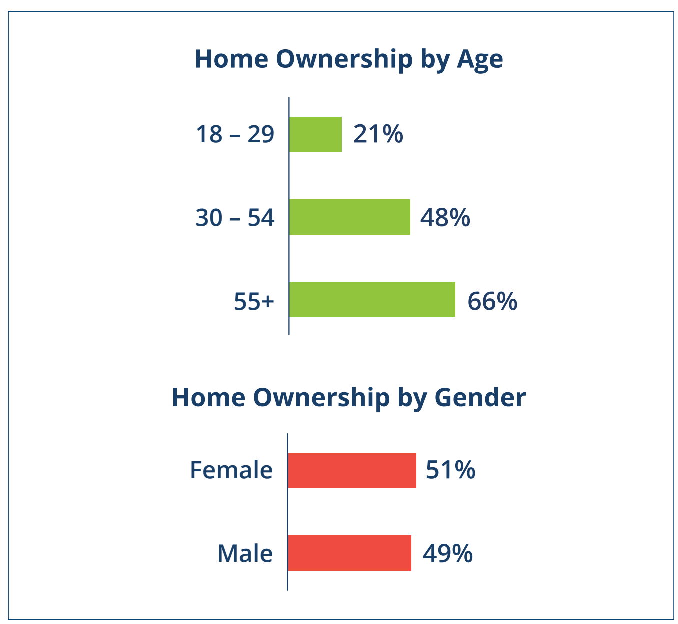
Those who have received or who expect to receive an intergenerational wealth transfer are more likely to own a taxable investment account than those who have not (15 versus 9 percent).



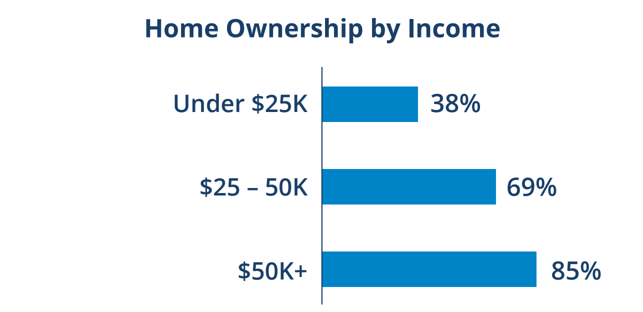
Home Ownership

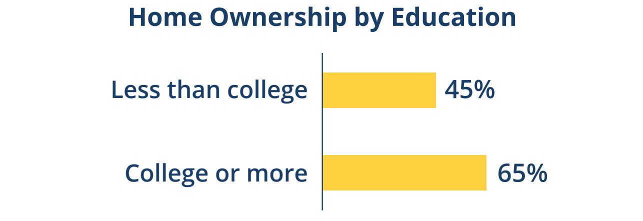
Half of adults in Puerto Rico report owning a home (50 percent), a somewhat lower rate than in the U.S. mainland (57 percent; Lin, et al, 2021). In Puerto Rico, age is the demographic factor most tied to home ownership.

Only 21 percent of young adults own a home. Those 18 to 29 are half as likely as those 30 to 54 to own a home (48 percent), and three times less likely as those ages 55 or older (66 percent). Women are slightly more likely than men to report owning a home (51 versus 49 percent).

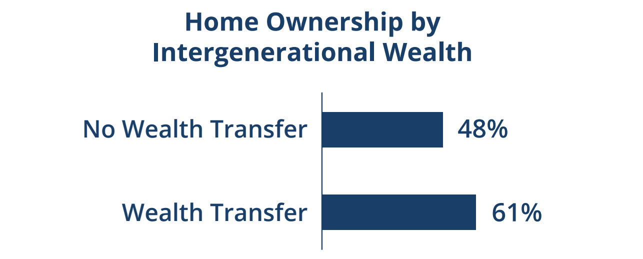


The likelihood of home ownership increases with household income. Respondents with a household income of less than $25,000 are half as likely as those with an income of $50,000 or higher to own their home (38 versus 85 percent). Home ownership is also more likely among adults with a college degree than among those without one (65 versus 45 percent).





Adults who have received or expect an intergenerational wealth transfer are 27 percent more likely to own a home than those who have not received or expect an intergenerational bequest (61 versus 48 percent).



Conclusion and Interpretations

This brief examines Puerto Rico's financial situation, focusing on its residents' ability to make ends meet, manage debt, build wealth and plan for the future. The findings convey a general picture of financial insecurity relative to the financial landscape of the U.S. mainland and show significant variations among subgroups in Puerto Rico by education, income and received/expected intergenerational wealth transfers. Many in Puerto Rico face financial fragility and have trouble managing daily expenses. Few have set aside savings or own investments, likely, in part, as a function of these large income and educational inequalities. As a result, people of Puerto Rico report lower financial wellbeing than people in the U.S. mainland (Malaiyandi, 2023). Yet, despite broad evidence of financial insecurity, relatively few adults report medical debt or student loans, and half of the population owns a home.

Across nearly all financial indicators, higher household income and educational attainment are strongly tied to financial capability likely driving disparities observed between Puerto Rico and the U.S. Those who have a college degree and who live in higher-income households are better able to make ends meet and engage in planning and wealth-building opportunities. Of those in households with incomes below $25,000, most are financially fragile, have experienced a drop in income or have medical debt. A little over a third have emergency savings, and fewer than one in four own a retirement account. These findings are particularly alarming given the median household income in Puerto Rico is $22,237 (United States Census Bureau, 2021a)—and high and persisting poverty levels are likely to continue given limited employment opportunities and emigration patterns.

Financial capability also differs by age. Financial fragility and rates of outspending income are lower among those 55 or older. Emergency savings, retirement accounts and home ownership rates are also higher among older adults. Though women are on average more likely to be financially fragile than men, there are notably very few gender differences in financial outcomes. In certain cases, gender patterns diverge from those of the U.S. mainland, with women in Puerto Rico slightly more likely to own a home and have emergency savings relative to their male counterparts. In the U.S. mainland, in turn, women are less likely than men to own a home or have emergency savings. In addition to gender, the findings also suggest financial capability differences by intergenerational wealth transfers, suggesting that such transfers may be an important contributor to respondents' financial security.

Our findings provide new and important insights on the financial challenges of people in Puerto Rico. While the general picture is consistent with well-known characteristics of Puerto Rico's economy, such as limited labor market opportunities and income disparities, these analyses provide individual and household-level insights that can help policymakers, educators and practitioners better identify challenges and provide opportunities to improve financial capability.

About the Data

This brief uses data from the Puerto Rico sample of the 2021 National Financial Capability Study, funded and led by the FINRA Investor Education Foundation and conducted by FGS Global. The sample included a total of 1,001 adults ages 18 and over who reside in Puerto Rico. Respondents are drawn from established nonprobability online research panels using quota sampling. These panels consist of millions of individuals who are offered incentives in exchange for participating in online surveys.[3] Each uses industry-standard techniques to promote data quality, verifying panel members' identities, and ensuring the validity of panelists' demographic characteristics. The survey was self-administered by respondents via internet. Fielding was conducted from June to December 2021. Participants had the choice of taking the survey in English or Spanish. Most respondents completed the survey in Spanish (87 percent). Figures are weighted to be representative of Census distributions for Puerto Rico in terms of age, gender, ethnicity, education (weights are based on data from the American Community Survey). Findings are weighted to be representative of the population of Puerto Rico, but breakdowns of subpopulations may not be representative.

The data used for this brief as well as detailed methodological information, including the questionnaires, can be found at FINRAFoundation.org/NFCS.

References

Association for Financial Professionals. (2017). *Puerto Rico: Cash and Treasury Management Report.* https://www.afponline.org/docs/default-source/default-document-library/pdf/cp_afp-puerto_rico.%20pdf?sfvrsn=0

Bureau of Economic Analysis. (2021, September 27). *Gross Domestic Product for Puerto Rico.* [Press Release]. https://www.bea.gov/news/2021/gross-domestic-product-puerto-rico-2019

Caraballo-Cueto, J., & Lara, J. (2018). Deindustrialization and unsustainable debt in middle-income countries: The case of Puerto Rico, *Journal of Globalization and Development*. *8*(2), 1-11. https://doi.org/10.1515/jgd-2017-0009

FEMA. (2018). *Hurricanes Irma and María in Puerto Rico. Building performance, observations, recommendations, and technical guidance*. FEMA P-2020. https://www.fema.gov/sites/default/files/2020-07/mat-report_hurricane-irma-maria-puerto-rico_2.pdf

Lin, J. T., Bumcrot, C., Mottola, G., Valdes, O., Ganem, R., Kieffer, C., Lusardi, A., & Walsh, G. (2022). *Financial Capability in the United States: Highlights from the FINRA Foundation National Financial Capability Study (5th Edition).* FINRA Investor Education Foundation. www.FINRAFoundation.org/NFCSreport2021

Lopez, A. (2017). *Puerto Rico is getting squeezed, and it will cost all of us.* Institute for New Economic Thinking. https://www.ineteconomics.org/perspectives/blog/puerto-rico-is-getting-squeezed-and-it-will-cost-all-of-us

Malaiyandi, S. (2023). *Financial struggles in Puerto Rico bite deeper than the rest of the United State* [Blog]. Consumer Financial Protection Bureau. https://www.consumerfinance.gov/about-us/blog/financial-struggles-in-puerto-rico-bite-deeper-than-the-rest-of-the-united-states/

Puerto Rico Planning Board. (2020). *Economic report to the governor*. https://jp.pr.gov/wp-content/uploads/2021/09/Informe-Economico-al-Gobernador-2020.pdf

Toro, H. J. (2013). *Puerto Rico Survey of Consumer Finances, Top-line report*. https://grupocne.org/wp-content/uploads/2013/11/TopLine-Report-FINAL.for_.web_.pdf

United States Census Bureau. (2021a). Income in the Past 12 Months (in 2021 Inflation-Adjusted Dollars) [data table for 2021]. *American Community Survey 5-Year Estimates* (S1901). Retrieved from https://data.census.gov/table/ACSST5Y2021.S1901?q=puerto%20rico%202021%20income

United States Census Bureau. (2021b). Income in the Past 12 Months (in 2021 Inflation-Adjusted Dollars) [data table for 2021]. *American Community Survey 5-Year Estimates* (S1901). Retrieved from https://data.census.gov/table/ACSST5Y2021.S1901?q=united%20states%202021%20income

United States Census Bureau. (2021c). Poverty Status in the Past 12 Months[data table for 2021]. *American Community Survey 5-Year Estimates* (S1701). Retrieved from https://data.census.gov/table/ACSST5Y2021.S1701?q=puerto%20rico%202021%20poverty

Universities Space Research Association. (n.d.). *When power utilities' monitoring services are disrupted during a hurricane, novel satellite technology comes to the rescue.* Earth from Space Institute. https://www.usra.edu/efsi-case-study-hurricane-maria

Vargas-Ramos, C., Colón-Meléndez, Soldevilla-Irrizarry, J, Figueroa-Lazu, D., Hinojosa, J., and Bonilla, Y. (September 2023). *Pervasive poverty in Puerto Rico: A closer look.* Centro Hunter CUNY. https://centropr.hunter.cuny.edu/app/uploads/2023/09/Pervasive-Poverty-PR-1.pdf

Endnotes

1 For the purposes of this brief, the mainland U.S. refers to the 48 contiguous U.S. states, Hawaii and Alaska.

2 Source: Authors' calculations based on data from Puerto Rico's Vital Statistics. In absolute terms the reduction entailed a drop in the island's population from 3.83 to 3.22 million and a drop in the labor force from 1.3 million to 1.2 million. Source: The World Bank: https://data.worldbank.org/indicator/SP.POP.TOTL?end=2021&locations=PR&start=2000.

3 Sample providers for the State-by-State Survey use survey router techniques in which potential respondents are directed to one of several open surveys, contingent on sample needs and qualification criteria. Thus, email invitations are not direct invitations to the NFCS survey. As the online research panel industry has evolved, survey routers are increasingly used to distribute sample more efficiently, and to manage panel participation and retention.

Acknowledgments

The authors thank Hector Ortiz, Kurt Schindler and the FINRA employees who reviewed earlier versions of this draft for their insights and expertise, which greatly improved the document. A special thanks to FINRA's Corporate Communications team for editing, designing and releasing/promoting this brief. The opinions provided herein are those of the authors and do not reflect the views of FINRA, the FINRA Investor Education Foundation, or any organizations with which the authors are affiliated.

1700 K Street, NW
Washington, DC 20006-1506
www.finrafoundation.org

CCSD-11372—09/2024