TIAA-CREF Institute

Hispanic Personal Finances

Financial Literacy and Decisionmaking Among College-Educated Hispanics

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Introduction

Hispanics are of particular importance for the U.S. economy as their population size and purchasing power quickly expand. Hispanics represent a distinctive demographic that is younger than the general population, changing rapidly, and marked by a unique set of challenges. For example, while growing in economic importance, Hispanics are set apart from the general U.S. population by gaps in wealth and income, as well as less integration with traditional financial institutions, differences that were only exacerbated by the 2008-2009 recession. Such disparities affect even college-educated Hispanics, a growing sub-group.

Given the growing significance of Hispanics for the U.S. economy, a deeper understanding of their economic situation and the distinctive challenges they face is important. This report examines the financial practices, experience, literacy and condition of college-educated Hispanics, i.e., those with high school degrees who report at least "some college" as their highest level of educational attainment, to shed light on their overall financial capability. This group is seldom the singular focus of analysis. To our knowledge there are no other reports that comprehensively examine the personal finances of Hispanics with this level of education. This report can thus serve as a baseline for future research on the personal finances of college-educated Hispanics.

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Overview of Hispanics in the United States

As the Hispanic population expands and its demographics shift, its importance to the U.S. economy increases. The U.S. is home to 52 million Hispanics, a number projected to grow to 133 million by 2050 which would represent 30 percent of the U.S. population (Ennis, et al., 2011). Likewise, Hispanics' purchasing power is growing. In 2013, the purchasing power of Hispanics, defined as personal income available for consumption after taxes, was $1.2 trillion and projected to increase to $1.5 trillion by 2015 (Nielson, et al., 2012). Between 2011 and 2016, the buying power of Hispanic consumers is expected to increase 48 percent compared with 27 percent among the general population (Bueno et al., 2011).

As a group, Hispanics face several economic challenges, including low educational attainment and language barriers. In 2010, 63 percent of the adult Hispanic population had completed high school, compared with 87 percent of the general population (U.S. Census, 2010). Lower educational levels detrimentally affect earning potential and financial decision-making capability.

A lack of proficiency in English can also be an obstacle to economic success. Sixty-one percent of Hispanics report that they speak English "very well" or "pretty well" (Taylor et al., 2012a). Eighty-seven percent of Hispanics in a 2012 Pew Research Center survey said that learning English was necessary for immigrants to succeed in the U.S. (Taylor et al., 2012b). In another Pew survey, one-half of Hispanics who did not pursue education beyond high school cited limited English skills as the reason (Lopez, 2009).

Among all ethnic groups in the U.S., Hispanics were hit hardest by the 2008-2009 financial crisis and recession. Already lagging behind in terms of wealth and income, the financial downturn only served to widen these gaps. Between 2005 and 2009, Hispanic household wealth fell 66 percent; by comparison, the drops among African-American and White households were 53 percent and 16 percent, respectively (Taylor al., 2012a). Unemployment among Hispanics nearly doubled from 2007 to 2011, and the poverty rate among Hispanics rose 6 percentage points between 2006 and 2010, both increasing faster than among any other ethnic group (Taylor et al., 2012a).

Rapid growth in the Hispanic population is now driven by births as opposed to immigration. The share of the Hispanic population that is foreign born peaked at 55 percent in 2007. The subsequent decline has been accompanied by increased educational attainment (Krogstad et al., 2014). In the last 40 years, the number of Hispanics who have earned associate's and bachelor's degrees has grown six fold and seven fold, respectively (Fry and Lopez, 2012). The rate of college enrollment among Hispanics increased between 2011 and 2012 according to a U.S. Census Bureau report, while falling for other groups. The report also found that the college enrollment rate among recent high school graduates was greater for Hispanics (49 percent) than Whites (47 percent) for the first time (Fry and Lopez, 2012). As Hispanics pursue higher education at increasing rates, an understanding of their financial practices and challenges becomes more important. In this report, data from the 2012 National Financial Capability Study is used to assess the personal finances of college-educated Hispanics.

> For the first time among recent high school graduates, a greater proportion of Hispanics enrolled in college than did Whites in 2012.

2012 National Financial Capability Study Data

The National Financial Capability Study (NFCS), supported by the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation, seeks to assess and establish a baseline measure of financial capability among American adults. With a sample size of more than 25,000 observations, the overarching objectives of the NFCS are to benchmark key indicators of Americans' financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics. The NFCS survey is focused on how people manage their resources and make financial decisions, as well as the skill sets used in making such decisions. The NFCS is consistent with surveys on financial capability conducted in other countries, all of which seek to examine multiple indicators of financial knowledge and capability (Atkinson, et al., 2007).

The sample examined in this report is comprised of 1,553 respondents who described their ethnicity as Hispanic and reported at least some college education. The sample is majority female (55 percent) and young (80 percent age 50 or younger), mirroring current outcomes in higher education with more females and young people receiving college degrees (Lopez and Gonzalez-Barrera, 2014; U.S. Chamber of Commerce Foundation, 2012).

One-half (49 percent) of the college-educated Hispanic sample has earned a bachelor's degree; 14 percent also hold a postgraduate degree. Fifty-eight percent are self-employed or employed full-time, while another ten percent are employed part-time, and nine percent are unemployed, disabled, sick, or otherwise unable to work. Table 1 contains the full set of descriptive statistics for the population. The income distribution for this sample is slanted toward middle and lower levels relative to the analogous sample of college-educated Whites (Figure 1). This is likely due in large part to the difference in age distributions—33 percent of college-educated Hispanics are age 30 or younger and 47 percent are age 31 to 50; by comparison, the shares of college-educated Whites in these age groups are 14 percent and 33 percent, respectively. The relatively small fraction of Hispanic retirees is also explained by the youth of the group.

Table 1
Demographic Characteristics of the College-Educated Hispanic and White Samples

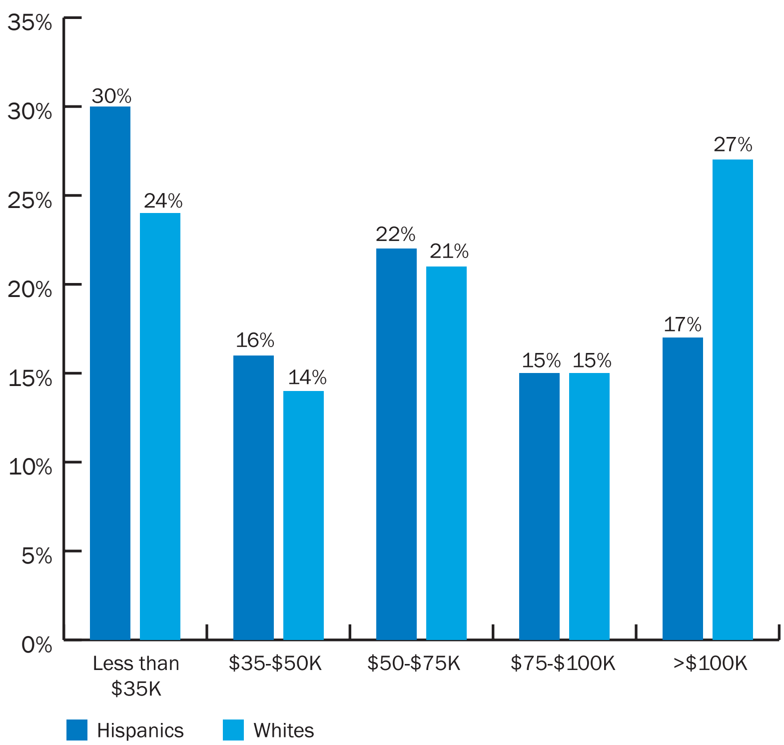
	Hispanic Sample	White Sample
Gender		
Male	45%	50%
Female	55%	49%
Age		
Age 18-30	33%	14%
Age 31-50	47%	33%
Age 51+	20%	53%
Marital Status		
Married	55%	63%
Single	35%	20%
Separated, divorced, or widow	11%	16%
Financially Dependent Children		
1 or more	51%	35%
No financially dependent children	13%	36%
Do not have any children	35%	29%

Employment status		
Self employed	7%	8%
Work full-time for an employer	51%	40%
Work part-time for an employer	10%	9%
Homemaker	9%	7%
Unemployed, disabled, or unable to work	9%	9%
Student	8%	4%
Retired	6%	23%
Education		
Some college (no degree)	50%	51%
Bachelor's degree	35%	29%
Graduate degree	14%	19%
N	1,553	12,033

Note: Percentages are calculated over a full sample of 1,553 Hispanic and 12,033 White observations. Some figures may not total 100% because of rounding.

The difference in age distributions is important to remember elsewhere in this report when financial behavior and experience among college-educated Hispanics and Whites are compared. Observed differences at the aggregate level may be largely driven by underlying differences in responses across age groups that are similar for Hispanics and Whites.

Figure 1
Annual Household Income Levels among College-Educated Hispanics and Whites



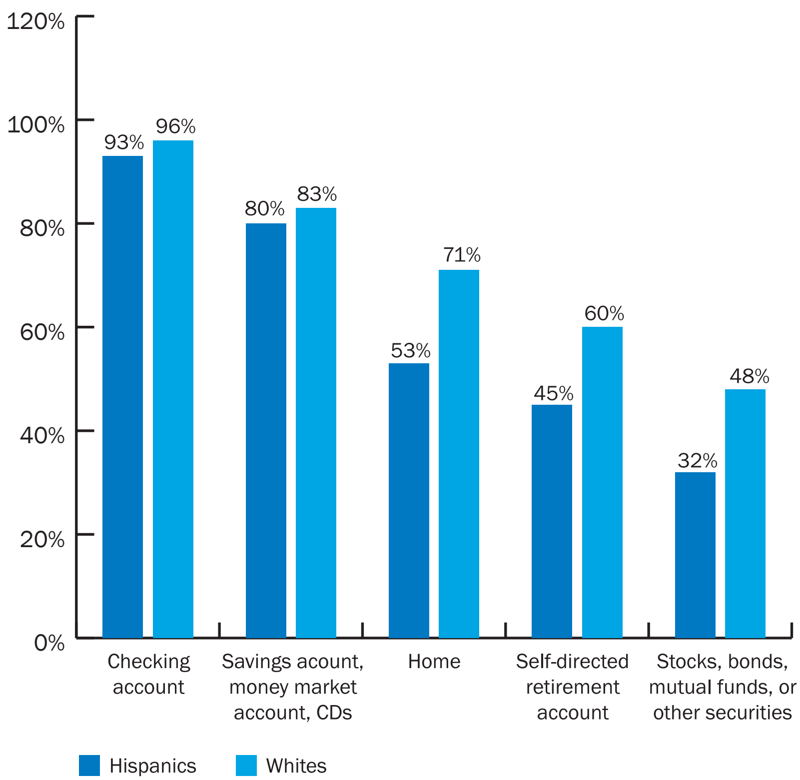
Note: Percentages were calculated over a sample of 1,553 observations for Hispanics and 12,033 for Whites.

Assets and Liabilities of College-Educated Hispanics

Assets

Almost all college-educated Hispanics (95 percent) report having the most basic financial asset, a checking or savings account. In addition, one-third have investments in stocks, bonds, or other securities. The majority owns a home, although the young are less likely to be homeowners (33 percent) than either the middle-aged (59 percent) or older respondents (70 percent). These figures are high relative to asset ownership among the broader Hispanic population,[1] but low relative to college-educated Whites who are nearly 20 percentage points more likely to own a home and 16 percentage points more likely to have investments in stocks, bonds, and other securities (Figure 2). These differences are present across age groups, but are most pronounced among those over age 50.

Figure 2
Asset Ownership among College-Educated Hispanics and Whites



Note: Percentages were calculated over a sample of 1,553 observations for Hispanics and 12,033 for Whites.

A retirement account indicates some degree of long term planning and saving for future economic security. Sixty percent of college-educated Hispanics have a retirement account, either through work or independently. Retirement account ownership is higher among peer Whites across all age groups. Whites in the youngest cohort are three percentage points more likely to have a retirement account, while those in the middle and older cohorts are seven and eight percentage points more likely, respectively. By contrast, approximately eight in ten Hispanic account holders make regular contributions, compared with two-thirds of White account holders (see Table 2).

1 For example, in 2009, 60 percent of Hispanics reported having an account at a financial institution (Taylor, et al. 2011).

Table 2
Retirement Plan Ownership and Contributions among College-Educated Hispanics and Whites

	Hispanics	Whites
Have at least one retirement account	60%	73%
Have at least one self-directed account	45%	60%
Among those with retirement plans		
Regularly contribute to a retirement account	78%	64%

Note: Percentages are calculated over a full sample of 1,553 observations for Hispanics and 12,033 for Whites.

The NFCS also asked a series of questions regarding forms of income and payment used. As expected with a young population, college-educated Hispanics are most likely to make payments with cash, plastic (debit and credit cards) and electronic transactions (Table 3). Similarly, the majority of college-educated Hispanics are most likely to receive income via direct deposit.

Table 3
Methods of Cash Flow among College-Educated Hispanics

Methods of Payment

	"Frequently" or "Sometimes"
Cash	87%
Debit cards tied to a bank account	83%
Online payments directly from a bank account	75%
Credit cards	70%
Paper checks	64%
Money orders	28%
Prepaid debit cards	25%
Tapping/waving your mobile over a sensor at checkout	12%

Methods for Receiving Income

Direct deposit	68%
Checks	21%
Cash	8%
Prepaid debit cards	2%

Note: Percentages are calculated over a full sample of 1,553 observations. For methods of payment, responses were to the question "How often does your household use each of the following to make payments?" For methods of receiving income, responses were to the question "How did you receive most of your income in the past 12 months?"

Long-Term Liabilities

Thirty-eight percent of college-educated Hispanics report having a mortgage and nearly one in ten has a home equity loan (Table 4).[2] Mortgages are more prevalent among the middle-aged than the young, who have lower rates of home ownership.

Beyond mortgage debt and home equity loans, 36 percent of college-educated Hispanics have student loans and 39 percent have auto loans. A concurrent analysis of these four forms of long-term debt finds that 73 percent of college-educated Hispanics have at least one source of long-term debt and 35 percent have at least two. The percentage of respondents with long-term liabilities is thus similar to college-educated Whites, among whom 68 percent have at least one source of long-term debt and 34 percent have at least two.

Mortgages and home equity loans are more prevalent amongst college-educated Whites, who also have a higher rate of home ownership. Student loans and auto loans are more prevalent among Hispanics. These differences are most pronounced among older respondents, while they almost disappear among the youngest cohort.

Managing this debt presents a challenge for college-educated Hispanics. Among those with mortgages or home equity loans, three in ten owe more than their homes could sell for currently. Moreover, over a quarter of those with mortgages have been late with payments during the two years preceding the survey, with nearly 60 percent of these making repeated late payments. Finally, 58 percent of those with student loans reported being concerned about their ability to pay off their student loan.

Compared to Hispanics, Whites show fewer signs of financial distress; they are less likely to have been late with mortgage payments and less concerned about paying off their student loans.

Table 4
Long-Term Debt Held by College-Educated Hispanics and Whites

	Full sample		Age 18-30		Age 31-50		Age 51+	
	Hispanics	Whites	Hispanics	Whites	Hispanics	Whites	Hispanics	Whites
Mortgage	38%	44%	22%	25%	46%	55%	46%	43%
Auto loan	39%	34%	34%	34%	44%	42%	35%	29%
Student Loan	36%	22%	53%	54%	35%	30%	11%	8%
Home equity loan	9%	13%	6%	6%	9%	12%	12%	16%
At Least One Source	73%	68%	72%	73%	77%	78%	67%	61%
At Least Two Sources	35%	34%	32%	33%	41%	44%	29%	28%
N	1,553	12,033	521	1,728	725	3,952	307	6,353

Note: All statistics are unconditional.

2 Fifty-three percent own a home and, among these, 73 percent have mortgages and 16 percent have home equity loans.

Short-Term Liabilities

Short-term liabilities, including credit card debt, alternative financial services (AFS) debt[3], and other short-term borrowing, are common to the financial profile of Hispanics and other demographic groups. Previous studies of other populations have found that such liabilities often coincide with financial distress and difficulty in managing debt.

Table 5
Credit Card Behavior among College-Educated Hispanics and Whites

	Hispanics	Whites
Have at least one credit card	78%	83%
Among those with a credit card		
Always pay credit cards in full	45%	54%
In some months, carried over a balance and was charged interest	56%	46%
Engagement in expensive credit card behavior in some months over previous year:		
Paid the minimum payment only	42%	28%
Was charged a late fee for late payment	19%	13%
Used card for cash advance	15%	8%
Was charged an over-the-limit fee for exceeding credit line	11%	6%
Engaged in any form of expensive card behavior	**50%**	**34%**

Note: Percentage of those with a credit card is calculated over a full sample of 1,553 observations for Hispanics and 12,033 observations for Whites. All other percentages were calculated over a sample of 1,217 Hispanic credit-card holders and 10,030 White credit-card holders.

Seventy-eight percent of college-educated Hispanics have one or more credit cards, compared with 83 percent of their White peers (Table 5). Hispanic cardholders exhibit high rates of expensive credit card behaviors relative to Whites. Over 40 percent of college-educated Hispanic cardholders report making the minimum required payment on their balances in some of the 12 months preceding the survey. Smaller, yet sizeable, shares of cardholders report incurring late-payment fees or over-the-limit fees and using their card for cash advances. Overall, one-half of college-educated Hispanic cardholders have engaged in some form of expensive credit card behavior. By comparison, 34 percent of their white peers have engaged in such behaviors. Previous studies have shown that Hispanics are also more likely to carry credit cards with high interest rates, another factor that could contribute to difficulty in managing credit card debt (Ibarra and Rodriguez, 2007).

AFS are defined in related research as "high-cost" borrowing methods because they involve unusually high interest rates and fees (Lusardi and de Bassa Scheresberg, 2013). The use of five AFS is examined here: auto title loans, payday loans, tax refund advances, pawnshops, and rent-to-own arrangements. More than one-third (35 percent) of college-educated Hispanics have used one or more alternative borrowing methods in the past five years (Table 6), a figure that is 16 percentage points higher than that of college-educated Whites.

3 Alternative financial services are borrowing services outside mainstream financial institutions and marked by high interest rates relative to banks and credit card companies. These services include pawn shops, payday loans, rent-to-own stores, and others.

Table 6
Use of Alternative Financial Services among College-Educated Hispanics and Whites

	Hispanics	Whites
At least once in the last five years:		
Used a pawn shop	22%	11%
Taken a short term ‘payday’ loan	17%	8%
Taken an auto title loan	11%	6%
Used a rent-to-own store	11%	6%
Gotten an advance on a tax refund	10%	4%
Used one or more high-cost borrowing methods	**35%**	**19%**

Note: Percentages for Hispanics are calculated over a full sample of 1,553 observations.
Percentages for Whites are calculated over a full sample of 12,033 observations.

> Thirty-five percent of college-educated Hispanics have used alternative financial services in the recent past and fifty percent engaged in expensive credit card behaviors.

Perceptions of Debt

Nearly one-half of college-educated Hispanics feel they have too much debt. Forty-eight percent agreed with the statement— *I have too much debt right now* (Table 7). By contrast, 40 percent of college-educated Whites responded affirmatively to the statement. This disparity is driven by the oldest cohort; there is no significant difference in responses among those age 50 and younger. Given the extent to which many college graduates struggle with debt (de Bassa Scheresberg, et al., 2014a), it is not surprising that many college-educated Hispanics struggle as well. This underscores opportunities that exist for providing this group with financial education and advice, particularly with regards to debt management.

Table 7
Perceptions of Debt Among College-Educated Hispanics and Whites

	Disagree 1-3	Neutral 4	Agree 5-7
How strongly do you agree with the following statement (rated on a scale of 1 to 7)?: “I have too much debt right now.”			
Hispanics	34%	16%	48%
Age 18-30	34%	16%	48%
Age 31-50	30%	16%	53%
Age 51+	44%	17%	38%
Whites	44%	15%	40%
Age 18-30	36%	14%	49%
Age 31-50	33%	14%	52%
Age 51+	54%	16%	30%

Note: Percentages were calculated over a full sample of 1,553 Hispanic observations and 12,033 Whites.
Percentages do not add to 100% because of the exclusion of “Don’t know” and “Prefer not to say” responses.

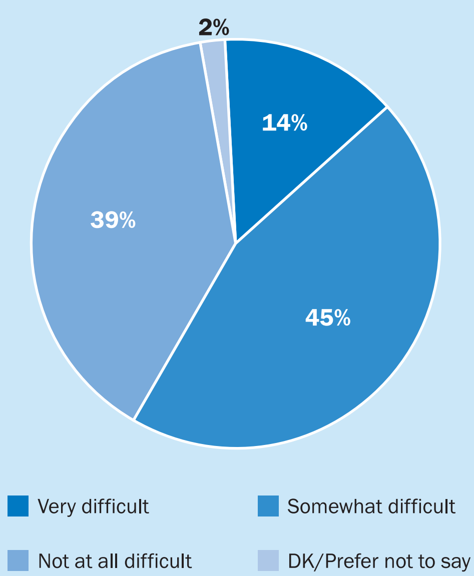
Forty-eight percent of college-educated Hispanics feel they have too much debt. Fifty-nine percent of college-educated Hispanics said it was somewhat or very difficult to pay their bills each month.

IN FOCUS: Making Ends Meet

Many college-educated Hispanics reported difficulties in making ends meet, raising concerns about their financial stability. Fifty-nine percent described it as “somewhat difficult” or “very difficult” to cover their expenses and bills in a typical month (Figure 3). Moreover, one-fifth reported that their spending over the past year exceeded their income, and an additional one-third said it was about equal, leaving no income to save (Figure 4).

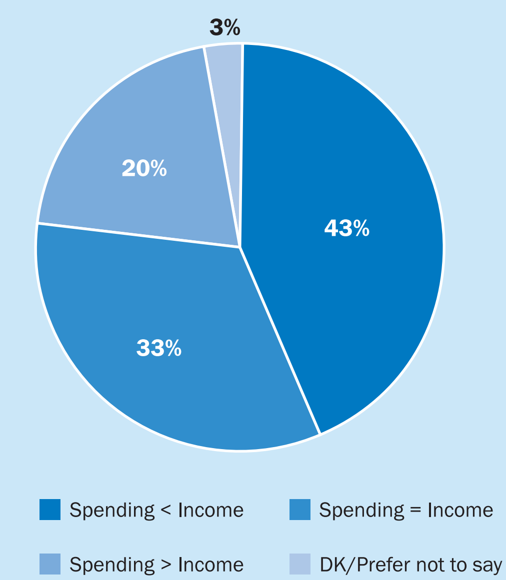
An additional indicator of financial distress among Hispanics is provided by the percentage of respondents who reported tapping into their retirement accounts. Nearly one-quarter of Hispanics with a retirement account indicated that they had taken a loan or hardship withdrawal from it.

Figure 3
Covering Expenses and Paying Bills among College-Educated Hispanics



Note: Percentages were calculated over a sample of 1,553 observations. Responses were to the question “In a typical month, how hard is it for you to cover all your expenses and pay all your bills?”

Figure 4
Household Spending Relative to Income among College-Educated Hispanics



Note: Percentages were calculated over a sample of 1,553 observations. Responses were to the question: “Over the past year would you say your spending was less than, more than, or about equal to your income?”

Financial Fragility

Many college-educated Hispanics appear unprepared for unexpected adverse economic shocks given that less than one-half (40 percent) of households have emergency or rainy day funds sufficient to cover expenses for three months. Respondents were also asked "*How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?*" The $2,000 amount is representative of several kinds of unexpected economic needs, such as medical bills or car repairs. Expected difficulty in coming up with such an amount speaks to financial fragility (Lusardi, Schneider, and Tufano, 2011). Almost four in ten college-educated Hispanics said that they probably or certainly could not come up with $2,000 within the next month (Table 8). Having neither emergency savings nor access to other sources of funds leaves many vulnerable in the event of an adverse economic shock.

Table 8
Financial Fragility among College-Educated Hispanics and Whites

	Certain I could come up with the full $2,000	Can probably come up with $2,000	Probably cannot come up with $2,000	Certain cannot come up with $2,000
How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?				
Hispanics	**30%**	**27%**	**17%**	**22%**
Age 18-30	22%	25%	23%	27%
Age 31-50	32%	28%	15%	21%
Age 51+	39%	25%	12%	19%
Whites	**50%**	**21%**	**11%**	**16%**
Age 18-30	31%	26%	19%	22%
Age 31-50	41%	23%	14%	20%
Age 51+	61%	18%	7%	12%

Note: Percentages are calculated over a full sample of 1,553 Hispanic observations and 12,033 Whites. Percentages do not add to 100% because "Don't know" and "Prefer not to say" responses are not reported in the table.

In the 12 months prior to the survey, one-third of college-educated Hispanics experienced an unexpected drop in household income. This may be a reason for reported financial vulnerability. As discussed earlier, Hispanics were particularly hard hit by the economic turbulence of the 2008-2009 recession.

> Almost four in ten college-educated Hispanics responded that they probably or certainly could not come up with $2,000 within the next month in the event of an unforeseen financial need.

Long-Term Planning

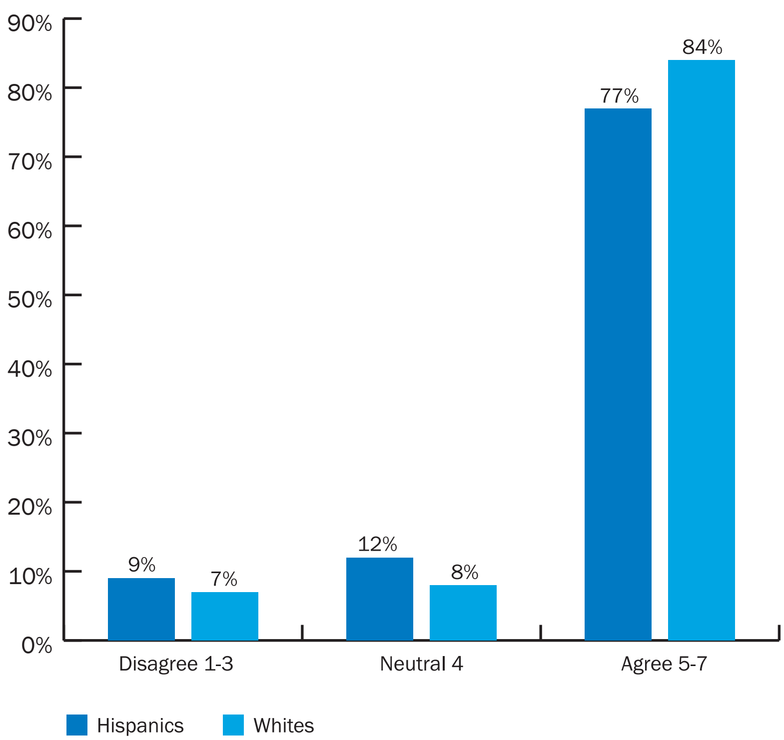
Switching focus to long-term financial security, it appears that many college-educated Hispanics are not planning for retirement. Fifty-six percent have not tried to determine how much they should save for retirement; 47 percent of Whites have not done so. This is important in light of prior research showing that planners accumulate far more retirement wealth than non-planners (Lusardi and Mitchell, 2007a, 2007b, 2011a). A lack of retirement planning is more pronounced among the young. Fewer than three in ten young adults have tried to figure out how much to save for retirement (compared with nearly one-half of respondents age 51 and over). Also, only 22 percent of college-educated Hispanics with annual income less than $35,000 have figured out how much they need to save for retirement. Among those with annual income of $75,000 or more, 57 percent have tried to determine how much they need to save. Thus, many college-educated Hispanics have given little or no systematic thought to retirement planning and their long-term financial security.

Financial Literacy

Like most individuals, college-educated Hispanics are confident about their ability to make financial decisions and believe they have a good handle on financial matters. Seventy-seven percent agreed with the statement "*I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses*" (Figure 5). Similarly, 76 percent rated themselves as having high levels of financial knowledge. This result is similar to that of college-educated Whites, 80 percent of whom rated their knowledge level as high (Figure 6).

Figure 5
Confidence in Dealing with Day-to-Day Financial Matters among College-Educated Hispanics and Whites

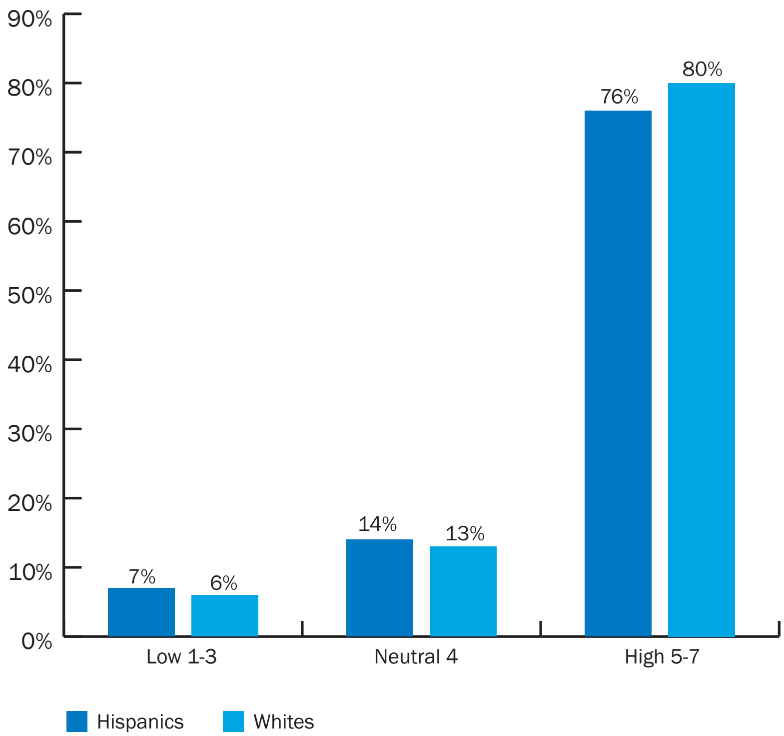
I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses.



Note: Percentages were calculated over a sample of 1,553 observations for Hispanics. Percentages do not total 100% because of rounding errors and exclusion of "Don't know" and "Prefer not to say" responses. Respondents were asked how strongly they agree with the following statement: "I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses." Answers where on a scale of 1-7, where 1-3 indicated agreement, 4 was neutral, and 5-7 indicated agreement.

Figure 6
Perceptions of Financial Knowledge among College-Educated Hispanics and Whites

How would you rate your overall financial knowledge?



Note: Percentages were calculated over a sample of 1,553 observations for Hispanics. Percentages do not total 100% because of rounding errors and exclusion of "Don't know" and "Prefer not to say" responses. Responses were elicited in response to the question: "How would you rate your overall financial knowledge?" Answers were on a scale of 1-7 where 1-3 indicated a low assessment, 4 a neutral one, and 5-7 a high one.

Such self-assessments are called into question not only by the financial behavior discussed earlier, but also by an objective measurement of financial literacy via questions designed to gauge knowledge of basic concepts in economics and finance. The questions, phrased with the language of everyday transactions, test five fundamental concepts: numeracy and the capacity to do calculations related to interest rates, understanding of inflation, understanding of risk diversification, understanding of interest payments on a mortgage, and understanding of the relationship between interest rates and bond prices. The exact wording of the questions is reported in Appendix I. Broadly speaking, correct answers to the first three questions indicate a basic level of financial literacy, while correctly answering all five questions indicates a high level of financial literacy.[4]

Responses indicated that many college-educated Hispanics have low levels of financial literacy (Table 9). Twelve percent answered all five questions correctly and 32 percent answered the first three questions correctly. In addition, respondents frequently responded that they *did not know* the answer for a particular question—an indicator of very low financial knowledge (Lusardi and Mitchell 2008, 2011a, 2011b, 2014).

4 The financial literacy questions were originally designed by Lusardi and Mitchell for the U.S. Health and Retirement Study (2008, 2011a) and have subsequently been included in numerous surveys in the United States and abroad. For an international comparison of financial literacy, see Lusardi and Mitchell 2011b, 2014.

Table 9
Financial Literacy among College-Educated Hispanics and Whites

	Hispanics		Whites	
	Correct	Don't Know	Correct	Don't Know
Numeracy question	76%	9%	85%	5%
Inflation question	58%	20%	76%	11%
Risk diversification question	48%	40%	64%	31%
Mortgage question	79%	13%	87%	7%
Bond prices question	27%	35%	37%	33%
Answered the first three questions correctly	32%	—	52%	—
Answered all questions correctly	12%	—	25%	—

Note: Percentages are calculated over the full sample of 1,553 educated Hispanic respondents. Respondents answering all three basic questions (interest rate, inflation, risk diversification) correctly are considered to have basic financial literacy, while those answering all five questions correctly are considered to have advanced financial literacy.

As a group, college-educated Hispanics display lower financial literacy levels than their White counterparts. They are 20 percentage points less likely to display a basic level of financial literacy and one-half as likely to demonstrate advanced financial literacy. Hispanics are also much more likely to answer "do not know." These differences cannot be simply attributed to the relative youth of the college-educated Hispanic population and a higher percentage of women.[5] As seen in Table 10, across age groups, gender and education level, Hispanics demonstrate lower financial literacy levels. As a consequence, Hispanics are likely more at risk for making poor personal financial decisions than their White counterparts.

Table 10
Financial Literacy among College-Educated Hispanics and Whites

	Hispanics		Whites	
	Three Correct	One or more "Don't Know"	Three Correct	One or more "Don't Know"
Total	**32%**	**61%**	**52%**	**48%**
Age 18-30	17%	72%	28%	67%
Age 31-50	39%	55%	49%	52%
Age 51+	42%	48%	61%	41%
Male	43%	45%	63%	37%
Female	23%	71%	41%	60%
No degree	25%	66%	43%	56%
Bachelor's degree	35%	54%	56%	45%
Post-graduate degree	50%	50%	71%	33%

Note: Percentages are calculated over the full sample of 1,553 educated Hispanic respondents and 12,033 Whites. Respondents answering all three basic questions (interest rate, inflation, risk diversification) correctly are considered to have basic financial literacy.

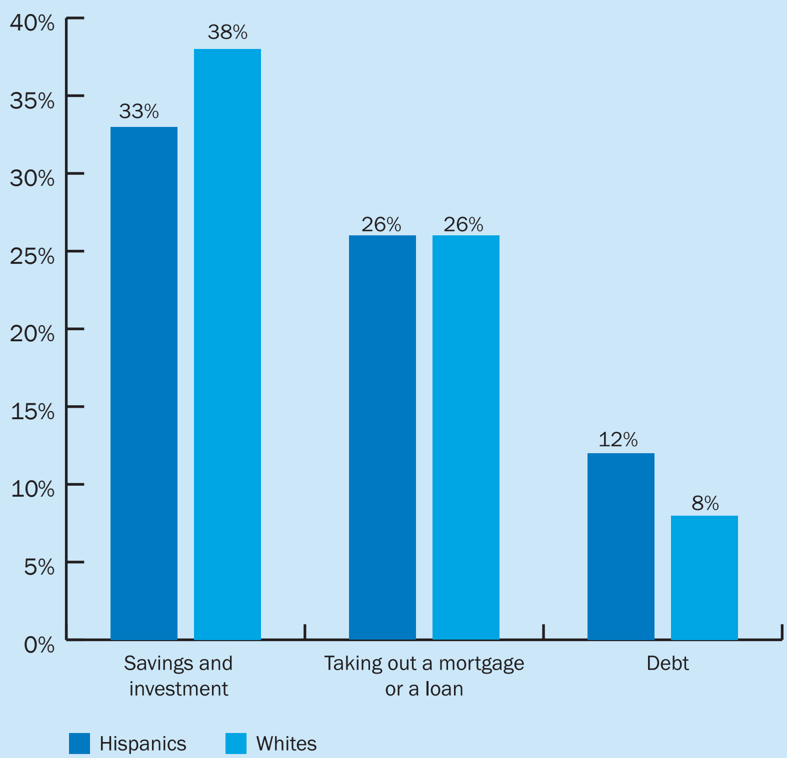
5 In related research, women and young adults have been shown to display particularly low financial literacy relative to men and other age groups, respectively (de Bassa Scheresberg, Lusardi, and Yakoboski 2014a/b)

College-educated Hispanics are 20 percentage points less likely to display basic financial literacy than their White counterparts.

IN FOCUS: Use of Financial Advice

Outcomes associated with low financial literacy could be mitigated by the use of professional financial advice. However, research has shown that those with *high* financial literacy are *more* likely to consult with professional financial advisers than those with low financial literacy (Collins, 2012). Survey respondents were asked whether in the five years prior to the survey they had received advice about debt counseling, savings and investments, and taking out a mortgage or a loan. Thirty-three percent of college-educated Hispanics indicated that they had received professional advice on saving and investing, 26 percent received mortgage and loan advice and 12 percent received debt counseling (Figure 7). The figures for college-educated Whites were comparable at 38 percent, 26 percent and 8 percent, respectively.

Figure 7
Use of Financial Advice among College-Educated Hispanics and Whites



Note: Percentages were calculated over a sample of 1,553 observations for Hispanics. Responses are to the question "In the last 5 years, have you asked for any advice from a financial professional about any of the following?"

Financial Behavior and Associated Factors: A Multivariate Analysis

A range of factors influence financial behavior and status, including personal preferences, willingness to take risks, and economic circumstances. A deeper understanding of behavior and outcomes can be derived through multivariate analysis of the associated socio-demographic factors. This study undertook a multivariate analysis of four variables:

1. Indebtedness
2. Financial fragility
3. Retirement planning
4. Financial advice regarding saving or investing

Each of the four indicators is a dummy variable. The variable measuring indebtedness refers to the question "On a scale from 1 to 7, how strongly do you agree with the following statement: I have too much debt right now?" Responses of 5, 6, or 7 are assigned a value of one; all other responses are assigned a value of zero. Respondents' ability to come up with $2,000 in one month in the event of an unexpected expense is used to measure financial fragility; this dummy variable takes a value of one if respondents indicate they are certainly unable or probably unable to come up with $2,000, and zero otherwise. The variable measuring retirement planning is assigned a value equal to one if the respondent reports having tried to determine how much to save for retirement. Similarly, the variable regarding professional advice is equal to one if the respondent has consulted a financial professional regarding saving or investment within the past five years.

The sample for the empirical analysis is composed of 1,481 observations. (Seventy-two observations from the original sample have been excluded because there is missing information in one or more of the variables included in the regressions). Table 11 reports coefficient estimates for indebtedness and financial fragility, which are indicators of financial distress. Table 12 reports estimates for retirement planning and financial advice.

Table 11
Multivariate Regressions – Indebtedness and Financial Fragility among College-Educated Hispanics

	(1) Have too much debt	(2) Have too much debt	(3) Cannot come up with $2,000	(4) Cannot come up with $2,000
3 Financial Literacy questions correct	0.033	0.036	-0.067***	-0.061**
	(0.029)	(0.029)	(0.026)	(0.026)
Age 36-50	-0.068**	-0.064**	-0.015	-0.002
	(0.032)	(0.032)	(0.028)	(0.028)
Age 51+	-0.148***	-0.137***	-0.075**	-0.043
	(0.041)	(0.042)	(0.037)	(0.037)
Female	-0.014	-0.012	0.021	0.022
	(0.028)	(0.028)	(0.025)	(0.025)
Single	-0.046	-0.053	-0.020	-0.040
	(0.036)	(0.036)	(0.032)	(0.032)
Separated or divorced	0.094**	0.086*	0.065	0.040
	(0.048)	(0.048)	(0.043)	(0.042)
Widow	-0.076	-0.076	-0.115	-0.118
	(0.126)	(0.126)	(0.112)	(0.111)
One financially dependent child	0.056	0.058	-0.046	-0.043
	(0.036)	(0.036)	(0.032)	(0.032)
Two or more financially dependent children	0.092***	0.098***	-0.029	-0.019
	(0.035)	(0.035)	(0.031)	(0.031)
Education: college degree or more	0.032	0.035	-0.065***	-0.059**
	(0.028)	(0.028)	(0.025)	(0.025)
Self-employed	-0.045	-0.049	-0.071	-0.073
	(0.051)	(0.052)	(0.046)	(0.046)
Part-time employed	-0.090*	-0.096**	-0.022	-0.035
	(0.046)	(0.046)	(0.041)	(0.041)
Homemaker	-0.062	-0.068	0.036	0.028
	(0.050)	(0.050)	(0.044)	(0.044)
Student	-0.080	-0.082	0.046	0.035
	(0.055)	(0.055)	(0.049)	(0.049)
Sick/Disabled	0.082	0.074	0.092	0.059
	(0.087)	(0.087)	(0.077)	(0.077)
Unemployed	-0.091	-0.101*	0.056	0.037
	(0.058)	(0.058)	(0.052)	(0.052)
Retired	-0.063	-0.059	-0.076	-0.068
	(0.063)	(0.063)	(0.057)	(0.056)
Income $25-$35k	-0.075	-0.070	-0.095**	-0.082*
	(0.051)	(0.051)	(0.045)	(0.045)

Income$35-$50k	-0.037	-0.026	-0.166***	-0.141***
	(0.046)	(0.046)	(0.041)	(0.041)
Income $50-$75k	-0.091**	-0.070	-0.241***	-0.193***
	(0.045)	(0.047)	(0.040)	(0.041)
Income $75-$100k	-0.109**	-0.083	-0.291***	-0.233***
	(0.052)	(0.054)	(0.046)	(0.047)
Income $100-$150k	-0.098*	-0.069	-0.358***	-0.293***
	(0.056)	(0.058)	(0.050)	(0.051)
Income more than $150k	-0.117*	-0.083	-0.358***	-0.277***
	(0.071)	(0.073)	(0.063)	(0.064)
Risk preference: medium	-0.022	-0.022	-0.131***	-0.130***
	(0.033)	(0.033)	(0.029)	(0.029)
Risk preference: high	-0.045	-0.043	-0.161***	-0.155***
	(0.034)	(0.034)	(0.030)	(0.030)
Income shock	0.176***	0.172***	0.190***	0.184***
	(0.028)	(0.029)	(0.025)	(0.025)
Has house		-0.048		-0.140***
		(0.030)		(0.026)
No health insurance		0.036		0.040
		(0.036)		(0.032)
Constant	0.557***	0.555***	0.716***	0.739***
	(0.062)	(0.065)	(0.055)	(0.057)
Observations	1,481	1,481	1,481	1,481
R-squared	0.065	0.068	0.223	0.240

Note: The dependent variable “Have too much debt” is equal to one if the respondent answered with a 5, 6, or 7 to the question “On a scale from 1 to 7, how strongly do you agree with the following statement: I have too much debt right now?” and zero otherwise. The dependent variable “Cannot come up with $2,000” takes the value one if the respondent is probably or certainly not able to come up with $2,000 in one month, zero otherwise. The sample excludes 72 observations from the original sample for which there is missing information in one or more of the dependent variables. Standard errors in parentheses. ***p<0.01, **p<0.05, *p<0.

Table 12

Multivariate Regressions – Retirement Planning and Use of Professional Advice among College-Educated Hispanics

	(1) Planned for Retirement	(2) Planned for Retirement	(3) Received savings/ investment advice	(4) Received savings/ investment advice
3 Financial literacy questions correct	0.096***	0.092***	0.029	0.023
	(0.027)	(0.027)	(0.027)	(0.027)
Age 36-50	0.014	0.003	-0.101***	-0.108***
	(0.030)	(0.030)	(0.029)	(0.029)
Age 51+	0.086**	0.061	-0.070*	-0.090**
	(0.039)	(0.040)	(0.038)	(0.039)
Female	0.050*	0.052**	0.027	0.023
	(0.026)	(0.026)	(0.026)	(0.026)
Single	-0.049	-0.034	-0.005	0.008
	(0.034)	(0.034)	(0.033)	(0.033)
Separated or divorced	0.037	0.056	-0.035	-0.019
	(0.045)	(0.045)	(0.044)	(0.044)
Widow	-0.081	-0.078	0.001	0.001
	(0.119)	(0.118)	(0.116)	(0.116)
One child	0.060*	0.060*	0.066**	0.061*
	(0.034)	(0.034)	(0.033)	(0.033)
Two or more children	0.009	0.005	0.028	0.018
	(0.033)	(0.033)	(0.032)	(0.032)
Education: college degree or more	0.045*	0.042	0.080***	0.074***
	(0.026)	(0.026)	(0.026)	(0.026)
Self-employed	-0.026	-0.031	-0.036	-0.027
	(0.049)	(0.049)	(0.048)	(0.048)
Part-time employed	-0.071	-0.065	0.067	0.080*
	(0.044)	(0.043)	(0.043)	(0.043)
Homemaker	-0.114**	-0.113**	-0.084*	-0.073
	(0.047)	(0.047)	(0.046)	(0.046)
Student	-0.116**	-0.106**	-0.030	-0.026
	(0.052)	(0.052)	(0.051)	(0.051)
Sick/Disabled	-0.157*	-0.126	-0.131	-0.116
	(0.082)	(0.082)	(0.081)	(0.081)
Unemployed	-0.088	-0.079	-0.038	-0.019
	(0.055)	(0.055)	(0.054)	(0.054)
Retired	-0.006	-0.010	-0.006	-0.014
	(0.060)	(0.060)	(0.059)	(0.059)

Income $25-35k	0.034	0.025	0.089*	0.079*
	(0.048)	(0.048)	(0.047)	(0.047)
Income $35-50k	0.130***	0.115***	0.101**	0.079*
	(0.044)	(0.044)	(0.043)	(0.043)
Income $50-75k	0.139***	0.109**	0.133***	0.093**
	(0.043)	(0.044)	(0.042)	(0.043)
Income $75-100k	0.231***	0.194***	0.159***	0.111**
	(0.049)	(0.051)	(0.048)	(0.050)
Income $100-150k	0.198***	0.157***	0.216***	0.162***
	(0.053)	(0.055)	(0.052)	(0.054)
Income more than $150k	0.328***	0.274***	0.288***	0.224***
	(0.067)	(0.069)	(0.066)	(0.067)
Risk preference: medium	0.130***	0.130***	0.146***	0.144***
	(0.031)	(0.031)	(0.030)	(0.030)
Risk preference: high	0.181***	0.177***	0.191***	0.187***
	(0.032)	(0.032)	(0.031)	(0.031)
Income shock	0.086***	0.087***	0.065**	0.073***
	(0.027)	(0.027)	(0.026)	(0.026)
Has house		0.112***		0.089***
		(0.028)		(0.028)
No health insurance		0.004		-0.070**
		(0.034)		(0.033)
Constant	0.079	0.046	0.051	0.056
	(0.059)	(0.061)	(0.057)	(0.060)
Observations	1,481	1,481	1,481	1,481
R-squared	0.141	0.151	0.106	0.116

Note: The dependent variable "Planned for retirement" is equal to one if respondent has ever tried to figure out how much to save for retirement, and zero otherwise. The dependent variable "received savings/investment advice " is equal to one if in the five years prior to the survey the respondent received advice from a financial professional on a topic related to savings or investments, and zero otherwise. The sample excludes 72 observations from the original sample for which there is missing information in one or more of the variables included in the regressions. Standard errors in parentheses. ***p<0.01, **p<0.05, *p<0.1

Two distinct specifications are used to gain an understanding of how socio-demographic factors affect financial outcomes. A parsimonious specification considers only demographic characteristics and indicators for income, labor market shocks, and risk preferences. A second specification includes indicators of respondents' capacity to deal with shocks to future income, of financial resources, and of financial literacy. Financial literacy is based on respondents' ability to correctly answer three basic questions related to interest rates, inflation, and risk diversification.

Income and income shocks emerge as important factors associated with indebtedness and financial fragility among college-educated Hispanics, although income shocks may also prompt individuals to be more financially proactive. Respondents who experienced an income shock in the 12 months prior to the survey are 18 percentage points more likely to struggle financially. Also, consistent with findings for other demographic groups, Hispanics who suffered an income shock are more likely to plan for retirement (Lusardi and Mitchell, 2011b; de Bassa Scheresberg, et al., 2014a/b).

According to the multivariate analysis, only a few demographic variables are associated at a statistically significant level with the likelihood of college-educated Hispanics being highly indebted. Gender, marital status, and employment status are not significantly correlated with over-indebtedness. The likelihood of over-indebtedness decreases with age and it increases for Hispanics who have two or more dependent children.

The results also confirm the financial fragility of certain demographic sub-groups among college-educated Hispanics. Those who experienced an income shock are much more financially vulnerable than those who have not, being 18 percentage points more likely to have difficulty raising $2,000 within the next month. Additionally, coming up with $2,000 in one month in the event of an unexpected expense tends to be more difficult for younger Hispanics and those with some college education but no degree. These results confirm descriptive findings that income shocks are important contributors to financial fragility.

Financial distress is also associated with low financial literacy. College-educated Hispanics who correctly answered all three financial literacy questions are significantly less likely to be highly indebted. Additionally, they are six percentage points less likely to be financially fragile, as measured by the capacity to come up with $2,000 in one month. Moreover, financially literate individuals are more likely to engage in behaviors that prevent financial distress. For example, financially literate respondents are nine percentage points more likely to plan for retirement. The coefficient on financial literacy maintains significance in both the reduced and extended specifications, even after controlling for levels of education, indicating that financial literacy reduces the likelihood of financial distress beyond the effect of schooling. (However, the coefficients on financial literacy in the indebtedness regression and in the financial advice regression are not statistically significant.)

When it comes to retirement planning and seeking professional advice on investments or savings, the findings point to subgroups among college-educated Hispanics that are more likely to engage in these behaviors. Age is an important factor. While studies of the general U.S. population show that use of financial advice tends to increase with age, the findings here indicate that older college-educated Hispanics are less likely to seek advice. One possible explanation is that older Hispanics are less likely to be financially acculturated and less fluent in English, both of which may be barriers to using these services. Gender is also a factor, as college-educated Hispanic women are five percentage points more likely to plan than men. This contrasts with previous literature on the general population which shows than men are more likely than women to plan for retirement. Students and homemakers are 11 percentage points less likely to plan for retirement, and higher risk tolerance is strongly linked to the tendency to plan for the future. Education is associated with higher use of financial advice, and the coefficient is highly statistically significant.

Income correlates significantly with planning for retirement and with advice seeking on investments or savings. College-educated Hispanics at the highest level of income (≥$150,000) are two to three times more likely to plan for retirement or seek professional advice than those having incomes below $50,000. These findings reiterate that already fragile lower-income earners may be exposed to additional financial insecurity at retirement owing to a lack of planning and limited exposure to professional financial advice.

College-educated Hispanics who are financially literate are nine percentage points more likely to plan for retirement and six percentage points less likely to be financially fragile.

Assessing the financial capability gap

This report has documented gaps in financial capability between college-educated Hispanics and their White peers. These gaps exist in most areas of financial capability assessed, and encompass assets, liabilities, financial fragility, long-term planning, and financial literacy. However, as noted throughout, the comparison of descriptive statistics for the White and Hispanic populations may provide a misleading picture because the Hispanic sample is much younger. It also has a higher representation of women. The question is whether gaps in financial capability persist after controlling for the main demographic differences between the two samples. Such appears to be the case with financial literacy (Table 10) and financial fragility (Table 8), but not perceived over-indebtedness (Table 7).

Multivariate analysis can provide further insight into this question. To test whether Hispanic/White gaps in financial capability persist after controlling for demographics, regression analysis similar to that described in the previous section was undertaken using a sample that includes both college-educated Whites and Hispanics. Each regression includes an indicator of ethnic status to capture underlying differences between the two groups. A related question is which socio-demographic factors explain some of the observed gaps between Hispanics and Whites.

Six regression specifications were tested. The first included only an indicator variable for ethnic status to capture the unconditional difference between college-educated Hispanics and Whites. Subsequent regressions add key socio-demographic variables (one group at a time): age, gender, other demographics (such as marital status, employment type, and income), followed by risk preferences, and finally, financial literacy. Again, the objective is to assess how much financial capability difference remains between Hispanics and Whites after controlling for demographic differences between the two groups and determine which demographic factors have the biggest effect upon observed differences. The outcome variables analyzed are those used in the previous section, plus financial literacy.[6]

As expected, the difference in age distributions between college-educated Hispanics and Whites is responsible for most of the observed differences highlighted in this report (Table 13). Controlling for age, Hispanic/White differentials for perceived over-indebtedness and seeking financial advice are no longer statistically significant. A Hispanic/White differential for financial fragility, planning for retirement, and financial literacy remains, but is reduced in magnitude. Controlling for age, college-educated Hispanics are seven percentage points less likely than Whites to be able to come up with $2,000 in one month, 12 percentage points less likely to answer the three basic financial literacy questions correctly, and four percentage points less likely to plan for retirement. Gender, on the other hand, does not have a large impact on observed differences. After controlling for age, controlling for gender does not reduce the Hispanic/White difference in a substantial way for any outcome variable. Interestingly, even accounting for risk preferences and additional demographic characteristics, the Hispanic/White differential remains for financial fragility and financial literacy.

A Hispanic/White differential for retirement planning persists after controlling for demographic characteristics and risk preferences, but the differential is no longer significant after controlling for financial literacy. This is consistent with findings from the literature which show that financial literacy is a key component of retirement planning (Lusardi and Mitchell 2007a/b and 2011). In summary, multivariate analysis confirms that financial fragility and financial literacy among college-educated Hispanics is lower than among college-educated Whites and this gap in financial knowledge seems to be an important driver of the difference in retirement planning between the two groups.

6 Please refer to the previous section for a detailed description of the dependent variables used in the regressions.

Table 13
Multivariate Regressions –Assessing the Financial Capability Gap between College-Educated Hispanics and Whites

	(1) No Controls	Controlling by: (2) Age	(3) Age+ Gender	(4) Age + Gender + Other demographics	(5) Age + Gender + Other demographics + Risk preferences	(6) Age + Gender + Other demographics + Risk preferences + Financial literacy
Have too much debt						
Hispanics vs. Whites	0.089***	0.019	0.018	-0.007	-0.006	-0.007
Cannot come up with $2,000						
Hispanics vs. Whites	0.127***	0.066***	0.064***	0.044***	0.047***	0.041***
Planned for Retirement						
Hispanics vs. Whites	-0.115***	-0.040***	-0.039***	-0.024*	-0.031**	-0.020
Received savings/ investment advice						
Hispanics vs. Whites	-0.051***	-0.008	-0.008	0.005	-0.002	0.004
Basic financial literacy						
Hispanics vs. Whites	-0.194***	-0.118***	-0.111***	-0.100***	-0.104***	-

Note: The table reports summary results for 30 OLS regressions that show how socio-demographic characteristics affect differences between Hispanics and Whites in five key financial capability areas: overindebtedness, financial fragility, use of financial advice, financial literacy, and retirement planning. The sample used in the regressions consists of 13,284 observations which include both White and Hispanic highly-educated respondents. The table reports coefficient estimates of the dummy variable “Hispanics”, which represents differences in likelihood compared to the excluded group (Whites). In column (1), no controls are included, and each dependent variable is regressed only on the dummy variable “Hispanics”. In column (2), age is added to the regression. In column (3), we control also for gender. In column (4), the following demographic variables are added to the regressions: marital status, income, employment type, education. In column (5), we add risk preferences to the list of controls. Finally, in column (5) we add a control for financial literacy (having answered all three basic financial literacy questions correctly). *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Key Findings

This report has examined the personal finances of college-educated Hispanics through a systematic analysis of their assets, liabilities, planning behavior, financial fragility and financial literacy. There are numerous indicators of financial stress and its underlying sources among this group:

1. Fifty-nine percent find it somewhat or very difficult to cover all expenses and pay bills in a typical month. Over one-half are unable to save as 20 percent report spending more than their income over the past year and 33 percent describe their spending as equal to their income.

2. One-half feel that they have too much debt.

3. Fifty percent of credit card holders engage in expensive credit card practices that can incur high interest charges and fees, damage credit scores and harm their future borrowing ability.

4. Use of alternative financial services is relatively common among college-educated Hispanics. Thirty-five percent have used one or more high-cost borrowing methods within the five years preceding the survey. These numbers are high even among those who bank with traditional institutions.

5. One-quarter of those with a retirement account have taken loans or hardship withdrawals from these accounts, potentially jeopardizing their long-term financial security.

6. Few have set aside rainy day funds sufficient to cover expenses for three months. Almost 40 percent could not come up with $2,000 if the need arose within the next month.

7. Financial literacy is low among college-educated Hispanics; 32 percent demonstrate basic financial literacy and 12 percent show high financially literacy.

Two implications emerging from this analysis are:

1. *Programs increasing the financial literacy of this population can do much help improve their financial condition.*

   Despite high confidence in their financial knowledge, college-educated Hispanics show low financial literacy. Low levels of financial literacy correlate with financial distress and financial vulnerability. Those with lower financial literacy are also less likely to seek financial advice. Notably, lower levels of financial literacy are linked to a failure to engage in retirement planning.

2. Addressing the use of high cost short-term credit and borrowing would also improve the financial condition of college-educated Hispanics.

   Hispanics with access to traditional financial institutions still turn to high-cost borrowing methods, despite the availability of alternatives. Finding a way to increase college-educated Hispanics' engagement with traditional financial institutions would decrease these expensive behaviors and benefit this population.

Conclusions

This report examined the personal finances—assets, liabilities, planning behaviors, financial vulnerability and financial literacy—of college-educated Hispanics, i.e., those with high school degrees who report at least "some college" as their highest level of educational attainment. Many college-educated Hispanics are, in various ways, in a tenuous financial state characterized by financial fragility and broad use of expensive credit card behaviors or alternative financial services. Moreover, their financial literacy is consistently low, despite high confidence about their decision-making abilities. These low levels of financial literacy are associated with the other financial challenges faced by college-educated Hispanics that have been outlined in this report. Finding a way to address these challenges, in particular low financial literacy and costly borrowing behavior, will help to improve the financial situation of this population.

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Appendix I

Financial Literacy Questions Included in the NFCS (**Indicates Correct Answer)

1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

   ❍ More than $102**
   ❍ Exactly $102
   ❍ Less than $102
   ❍ Do not know
   ❍ Refuse to answer

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

   ❍ More than today
   ❍ Exactly the same
   ❍ Less than today**
   ❍ Do not know
   ❍ Refuse to answer

3. Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."

   ❍ True
   ❍ False**
   ❍ Do not know
   ❍ Refuse to answer

4. A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.

   ❍ True**
   ❍ False
   ❍ Do not know
   ❍ Prefer not to say

5. If interest rates rise, what will typically happen to bond prices?

   ❍ They will rise
   ❍ They will fall**
   ❍ They will stay the same
   ❍ There is no relationship between bond prices and the interest rates
   ❍ Do not know
   ❍ Prefer not to say

About the Authors

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Paul Yakoboski is a senior economist with the TIAA-CREF Institute. He conducts and manages research on issues related to defined contribution plan design, retirement planning and saving behavior, income and asset management in retirement, managing retirement patterns, and topics relevant to strategic management in the higher education and non-profit sectors. He is responsible for the development and execution of Institute forums on such issues. Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing Higher Education* publication series.

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