

Financial Literacy among U.S. Hispanics: New Insights from the *Personal Finance (P-Fin) Index*

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Executive Summary

This report uses the inaugural wave of the *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* to examine financial literacy among Hispanics. A more refined understanding of Hispanic financial literacy could accelerate initiatives to improve their financial well-being.

Personal finance knowledge among Hispanics is lower than that of the U.S. adult population as a whole. But beyond the gap with the general population, there is a notable difference in financial literacy within the Hispanic population between those born in the U.S. and those foreign born. The difference in the percentage of *P-Fin Index* questions answered correctly among U.S.-born Hispanics and foreign-born Hispanics (8 percentage points) is close to the difference between whites and U.S.-born Hispanics (11 percentage points).

The difference in financial literacy between U.S.-born and foreign-born Hispanics cannot simply be attributed to differences in underlying demographics. Greater financial literacy among U.S.-born Hispanics relative to their foreign-born peers is consistent with education and income differences between the two groups. However, it is inconsistent with age differences between the two.

Young (ages 18–34) U.S.-born Hispanics have a relatively high level of financial literacy. They have greater financial literacy than each age group—young, middle-aged and older—of foreign-born Hispanics. Furthermore, their financial literacy almost equals that of young white adults.

Implications of these findings include:

- Financial literacy programs that separately address U.S.-born and foreign-born Hispanics are likely to experience better results for both groups.
- As growth in the U.S. Hispanic population is increasingly driven by births, the gap in Hispanic financial literacy relative to the general population will likely decrease.
- The increasing educational attainment of Hispanics will further decrease the financial literacy gap.
- Given the modest levels of financial literacy in the general population, eliminating the financial literacy gap should not be the ultimate objective. Rather, equalization at a higher overall level of financial literacy for all should be the objective.

Introduction

The economic importance of the U.S. Hispanic population continues to grow as its size expands, its demographics evolve and its purchasing power increases. The United States was home to 58 million Hispanics in 2016, with Hispanics accounting for one-half of U.S. population growth since 2000.¹ The purchasing power of Hispanics was \$1.4 trillion in 2016.² Nonetheless, Hispanics are set apart from the general population by gaps in wealth, income and integration with traditional financial institutions.

Financial literacy and capability are keys to closing such gaps, but are often lacking in the Hispanic community. Even among successful Hispanic entrepreneurs and those with a college-education, financial literacy and capability cannot be taken for granted. These were among the takeaways from *Advancing Financial Literacy, Capability and Well-Being Among Hispanics*, a symposium hosted in 2015 by the TIAA Institute and The University of Texas at Austin Center for Mexican American Studies and Department of Mexican American and Latina/o Studies.³

A more refined understanding of financial literacy among Hispanics—their level of knowledge relative to the general population, variations among subgroups, and areas of strength and weakness—could accelerate initiatives to improve their financial well-being.⁴

This report uses the inaugural wave of the *TIAA Institute-GFLEC Personal Finance Index (P-Fin Index)* to examine the current state of financial literacy among Hispanic adults. The *P-Fin Index* measures knowledge and understanding which enable sound financial decision making and effective management of personal finances. It is unique in its capacity to examine financial literacy across eight areas of personal finance in which individuals routinely function, in addition to providing a robust indicator of overall personal finance knowledge and understanding.⁵

1. Flores, Antonio. *How the U.S. Hispanic Population is Changing*, Pew Research Center (September 18, 2017).
2. *The Multicultural Economy 2017*, Selig Center for Economic Growth, University of Georgia, Terry College of Business.
3. The symposium examined the financial capabilities, practices and experience of Hispanics, as well as initiatives to improve outcomes along these dimensions. For a synthesis of the presentations and dialogue, see Yakoboski, Paul J. *Advancing Financial Literacy, Capability and Well-being among Hispanics*, TIAA Institute, Center for Mexican American Studies, The University of Texas at Austin, Department of Mexican American and Latina/o Studies, The University of Texas at Austin (May 2016).
4. See also de Bassa Scheresberg, Carlo, Annamaria Lusardi and Paul Yakoboski. *Hispanic Personal Finances: Financial Literacy and Decisionmaking among College-Educated Hispanics*, TIAA Institute and the Global Financial Literacy Excellence Center (May 2015).
5. For a full discussion of the P-Fin Index, see Lusardi, Annamaria, Noemi Oggero and Paul J. Yakoboski. *The TIAA Institute-GFLEC Personal Finance Index: A New Measure of Financial Literacy*, TIAA Institute and the Global Financial Literacy Excellence Center (March 2017).

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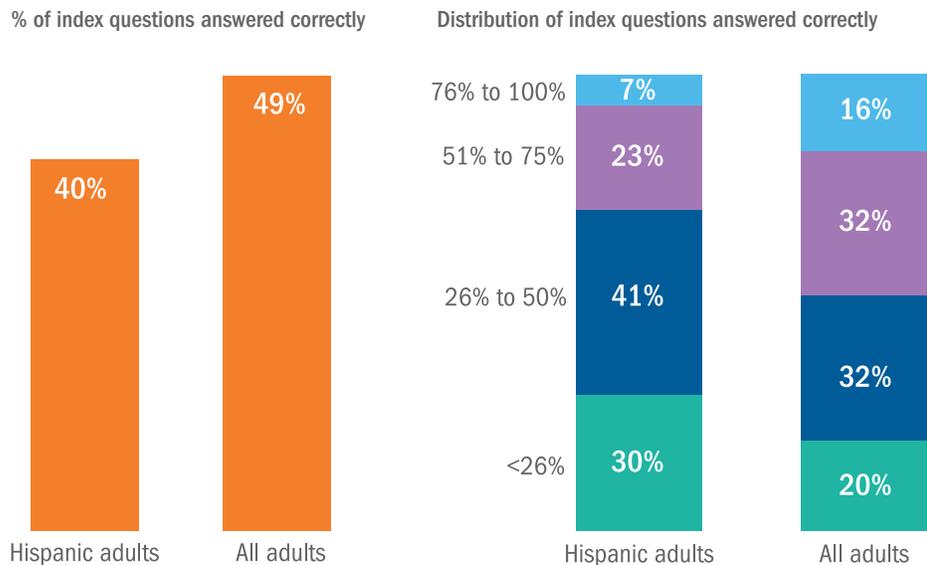
The initial wave of the *P-Fin Index* survey was fielded online in September 2016 with a nationally representative sample of adults, ages 18 and older; Hispanics were oversampled during survey fielding, with 1,018 participating in the survey.⁶ Participants were given the option to take the survey in Spanish or English.

The current state of Hispanic financial literacy

Personal finance knowledge among Hispanic adults is lower than that of the U.S. adult population as a whole (Figure 1). On average, Hispanics answered 40% of the *P-Fin Index* questions correctly, compared with 49% for the general population. Thirty percent of Hispanics answered over one-half of the index questions correctly; the analogous figure for the general population was 48%. Seven percent of Hispanic adults demonstrated a relatively high level of personal finance knowledge, i.e., they answered over 75% of the index questions correctly, while 30% showed a relatively low level, i.e., they answered 25% or less of the questions correctly.

Figure 1. *P-Fin Index* levels

Hispanic financial literacy lags that of the general population.



Source: *The TIAA Institute–GFLEC Personal Finance Index* (2017).

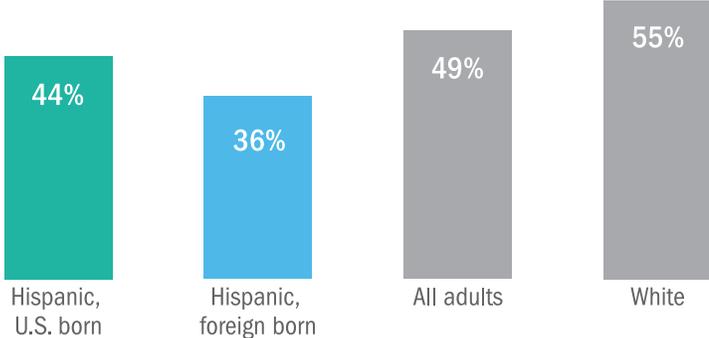
6. The Hispanic sample was weighted along the following dimensions: gender (male/female) by age (18-29, 30-44, 45-59, 60+); Hispanic origin (Mexican, Puerto Rican, Cuban, other Hispanic origins); Census region (northeast, midwest, south, west); metropolitan status (metro/non-metro); education (less than high school degree, high school degree, some college, college degree); household income (under \$25,000, \$25,000-\$49,999, \$50,000-\$74,999, \$75,000-plus); language proficiency (English proficient, bilingual, Spanish proficient).

The dynamics of financial literacy among Hispanics are more nuanced than the aggregate figures, however. Beyond the gap with the general population, there is a notable difference in financial literacy within the Hispanic population between those born in the U.S. and those foreign born (Figure 2). In fact, the difference in the percentage of *P-Fin Index* questions answered correctly among U.S.-born Hispanics and foreign-born Hispanics (8 percentage points) is close to the difference between whites and U.S.-born Hispanics (11 percentage points).

Figure 2. *P-Fin Index* levels

U.S.-born Hispanics have greater financial literacy than foreign-born Hispanics.

% of index questions answered correctly



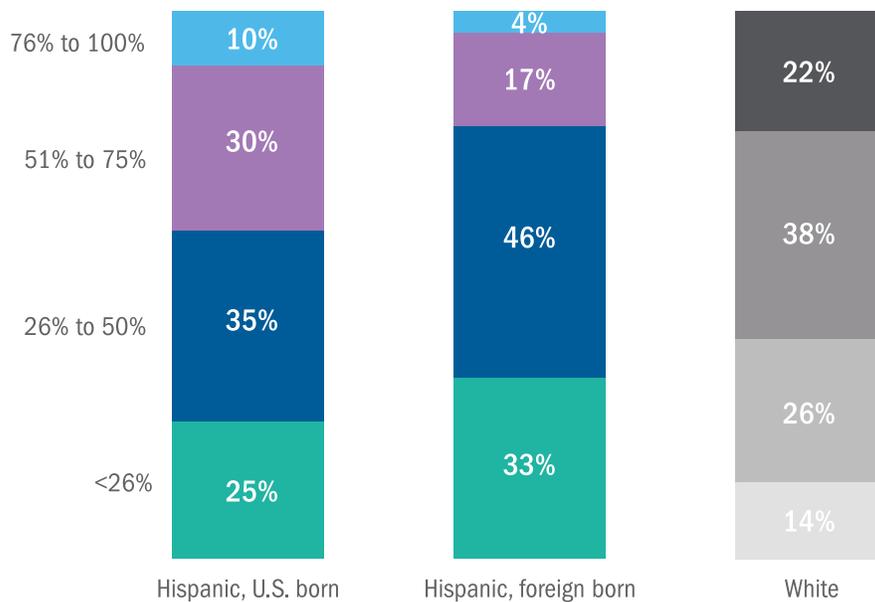
Source: *The TIAA Institute-GFLEC Personal Finance Index (2017)*.

Figure 3 presents further detail on the difference in financial literacy levels between U.S.-born Hispanics and their foreign-born peers. Forty percent of U.S.-born Hispanics answered over one-half of the *P-Fin Index* questions correctly compared with 21% of foreign-born Hispanics. The analogous figure for whites was 60%.

Figure 3. *P-Fin Index* levels

U.S.-born Hispanics have greater financial literacy than foreign-born Hispanics.

Distribution of index questions answered correctly



Source: *The TIAA Institute–GFLEC Personal Finance Index (2017)*.

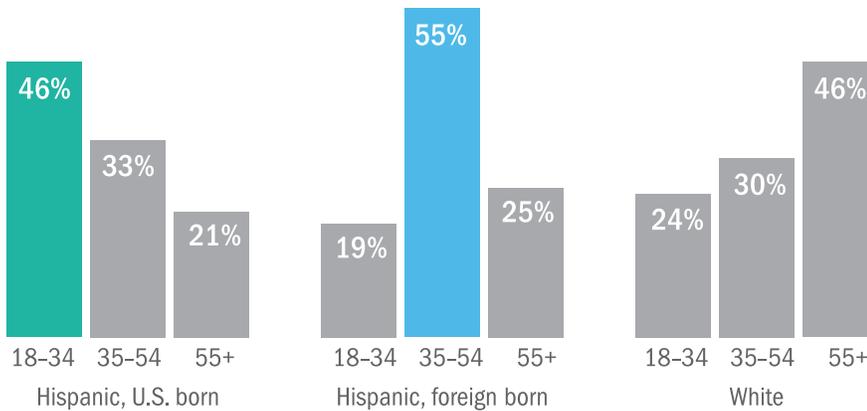
The difference in financial literacy between U.S.-born Hispanics and foreign-born Hispanics cannot simply be attributed to differences in underlying demographics. Financial literacy levels in the general population tend to increase with age, education and household income. Given these patterns, greater financial literacy among U.S.-born Hispanics relative to their foreign-born peers is consistent with education and income differences between the two groups. However, as discussed below, it is inconsistent with age differences between the two groups.

Age

U.S.-born Hispanics are relatively young as a group; 46% are ages 18 to 34 (Figure 4). In comparison, 19% of foreign-born Hispanics are this young. In fact, over one-half of foreign-born Hispanics are ages 35 to 54, compared with one-third of those U.S. born. Whites are relatively old as a group, with 46% age 55 or older.

Figure 4. Age distribution of each group

Almost one-half of U.S.-born Hispanics are young; over one-half of foreign-born Hispanics are middle-aged.



Source: *The TIAA Institute-GFLEC Personal Finance Index (2017)*.

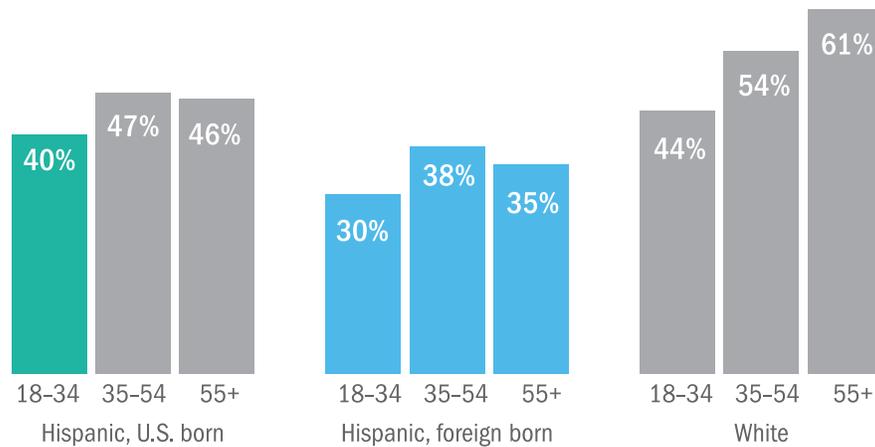
In the general population, financial literacy is greater among older individuals compared with younger ones. Given that U.S.-born Hispanics are significantly younger as a group than foreign-born Hispanics, one could then expect them to have a lower financial literacy level. However, the opposite is true.

At each age level, the average percentage of *P-Fin Index* questions answered correctly by U.S.-born Hispanics exceeds that of their foreign-born peers, with the gap constant at about 10 percentage points (Figure 5). More fundamentally, young U.S.-born Hispanics (ages 18 to 34) answered 40% of the *P-Fin Index* questions correctly, exceeding the average scores of middle-aged and older foreign-born Hispanics (38% and 35% correct, respectively), as well as their younger peers (30% correct). Furthermore, the gap in financial literacy between U.S.-born Hispanics and whites is only 4 percentage points among the young, rising to 15 percentage points in the 55 and older age group.

Figure 5. Financial literacy by age

Financial literacy of young U.S.-born Hispanics exceeds that of young, middle-age and older foreign-born Hispanics.

% of index questions answered correctly



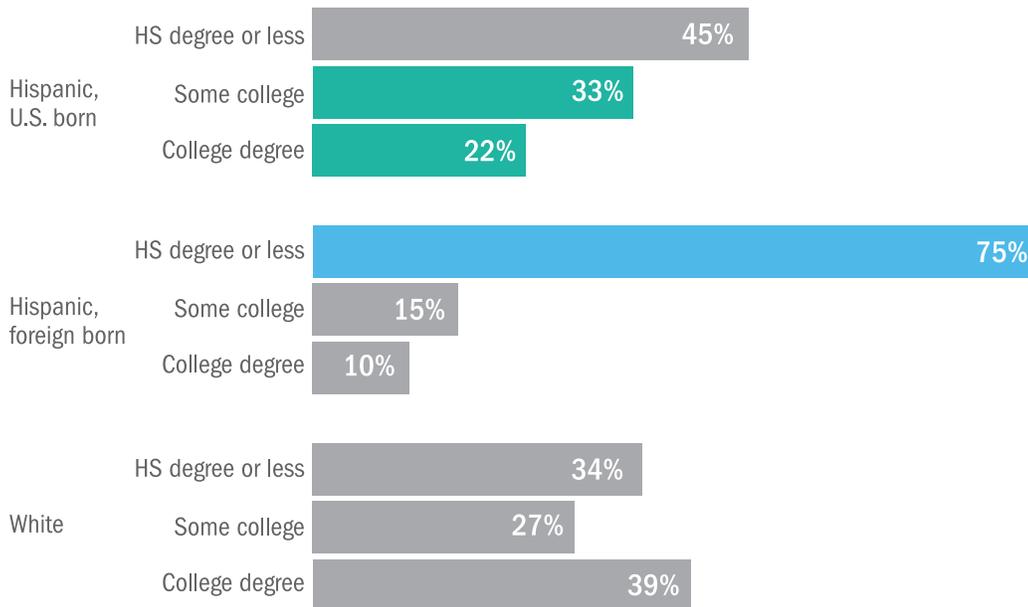
Source: *The TIAA Institute–GFLEC Personal Finance Index* (2017).

Educational attainment

As a group, U.S.-born Hispanics are better educated than foreign-born Hispanics (Figure 6). Over one-half of U.S.-born Hispanics have attended college, with 22% having earned a college degree. In contrast, the top educational attainment for 75% of foreign-born Hispanics is a high school degree or less.

Figure 6. Education distribution of each group

75% of foreign-born Hispanics have a high-school degree or less; over 50% of U.S.-born Hispanics have attended college.



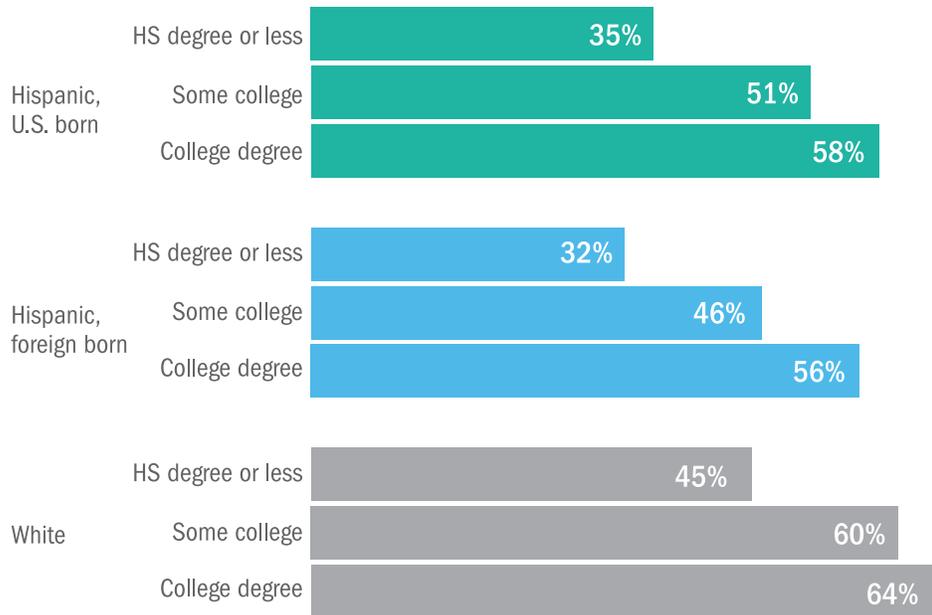
Source: *The TIAA Institute–GFLEC Personal Finance Index (2017)*.

In the general population, individuals with higher educational attainment tend to have greater financial literacy. So, greater financial literacy among U.S.-born Hispanics as a group relative to foreign-born Hispanics is consistent with the education dynamic. In addition, within both groups, there is a clear pattern of greater financial literacy accompanying greater educational attainment (Figure 7). Finally, at each level of educational attainment, the average percentage of *P-Fin Index* questions answered correctly among U.S.-born Hispanics exceeds that of their foreign-born peers, but the gaps are marginal at the college degree and high school degree or less levels.

Figure 7. Financial literacy by educational level

At each education level, the financial literacy of U.S.-born Hispanics marginally exceeds that of foreign-born Hispanics.

% of index questions answered correctly



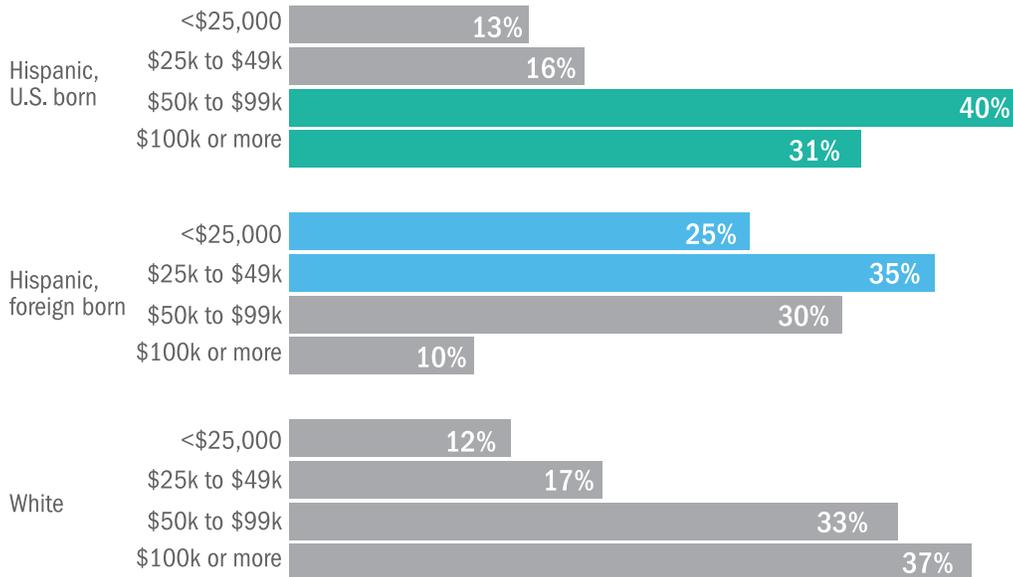
Source: *The TIAA Institute–GFLEC Personal Finance Index (2017)*.

Household income

U.S.-born Hispanics tend to have higher household incomes than foreign-born Hispanics (Figure 8). Seventy-one percent of U.S.-born Hispanics are in households with incomes of \$50,000 or more; the analogous figure for foreign-born Hispanics is 40%. One-quarter of foreign-born Hispanics are in households with incomes of less than \$25,000.

Figure 8. Household income distribution of each group

Most U.S.-born Hispanics have household incomes of at least \$50,000; most foreign-born Hispanics have incomes below \$50,000.



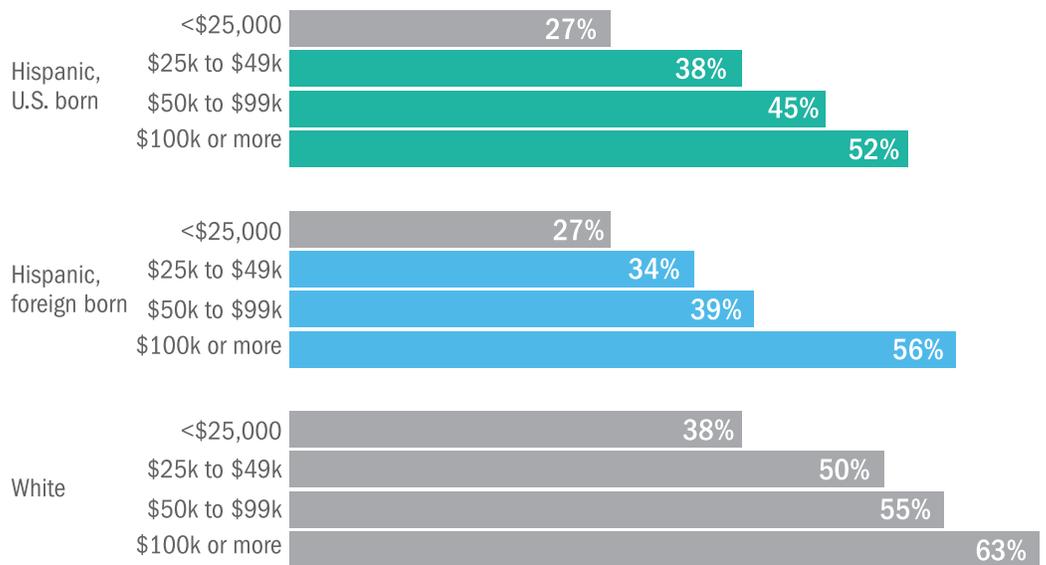
Source: The TIAA Institute–GFLEC Personal Finance Index (2017).

In the general population, financial literacy tends to be greater among individuals with higher household incomes. The greater financial literacy of U.S.-born Hispanics as a group relative to foreign-born Hispanics is consistent with this income dynamic. In addition, within both groups, personal finance knowledge increases with household income (Figure 9). However, while financial literacy levels among middle-income U.S.-born Hispanics tend to be somewhat greater than that of their foreign-born peers, the reverse is true among those with household incomes of \$100,000 or more.

Figure 9. Financial literacy by household income level

At middle-income levels, financial literacy of U.S.-born Hispanics marginally exceeds that of foreign-born Hispanics.

% of index questions answered correctly



Source: The TIAA Institute–GFLEC Personal Finance Index (2017).

Knowledge across functional areas

The *P-Fin Index* gauges personal finance knowledge and understanding in eight functional areas:⁷

1. Earning—determinants of wages and take-home pay.
2. Consuming—budgets and managing spending.
3. Saving—factors that maximize accumulations.
4. Investing—investment types, risk and return.
5. Borrowing/managing debt—relationship between loan features and repayments.
6. Insuring—types of coverage and how insurance works.
7. Comprehending risk—understanding uncertain financial outcomes.
8. Go-to information sources—recognizing appropriate sources and advice.

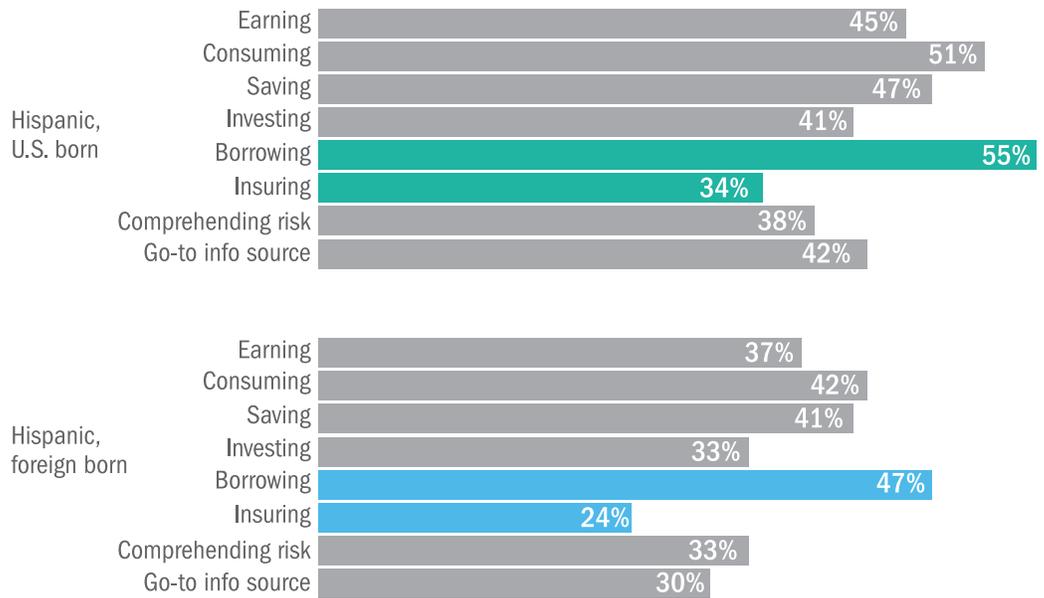
Insuring is the area where Hispanics—both U.S.-born and foreign-born—tend to have the lowest level of personal finance knowledge (Figure 10). On average, U.S.-born Hispanics answered 34% of these questions correctly and foreign-born Hispanics answered 24% correctly.

7. These areas correspond to the National Standards for Financial Literacy outlined by the Council for Economic Education. See <http://councilforeconed.org/resource/national-standards-for-financial-literacy/>.

Figure 10. Financial literacy across functional areas

Borrowing is area of greatest financial literacy; insuring is where financial literacy is lowest.

% of index questions answered correctly



Source: The TIAA Institute–GFLEC Personal Finance Index (2017).

Among all U.S. adults, comprehending risk is the area where personal finance knowledge is lowest. This is the second lowest area of financial literacy among U.S.-born Hispanics (38% correct, on average). Among foreign-born Hispanics, go-to information sources is the second lowest area of personal finance knowledge (30% correct, on average), followed by comprehending risk and investing (both at 33%).

Personal finance knowledge is highest in the area of borrowing and debt management for both U.S.-born and foreign-born Hispanics. On average, 55% of the borrowing questions were answered correctly by U.S.-born Hispanics, while foreign-born Hispanics answered 47% correctly. This is also the area of greatest knowledge among all U.S. adults. Debt tends to be a feature of personal finance common across the life cycle for many individuals; knowledge and understanding may emerge from confronting accumulated debt, often from early on in the life cycle.

The percentage of *P-Fin Index* questions answered correctly in each functional area was consistently higher among U.S.-born Hispanics compared with their foreign-born peers, ranging from a difference of 5 percentage points in comprehending risk to 12 percentage points in go-to information sources.

The *P-Fin Index* and personal finance outcomes

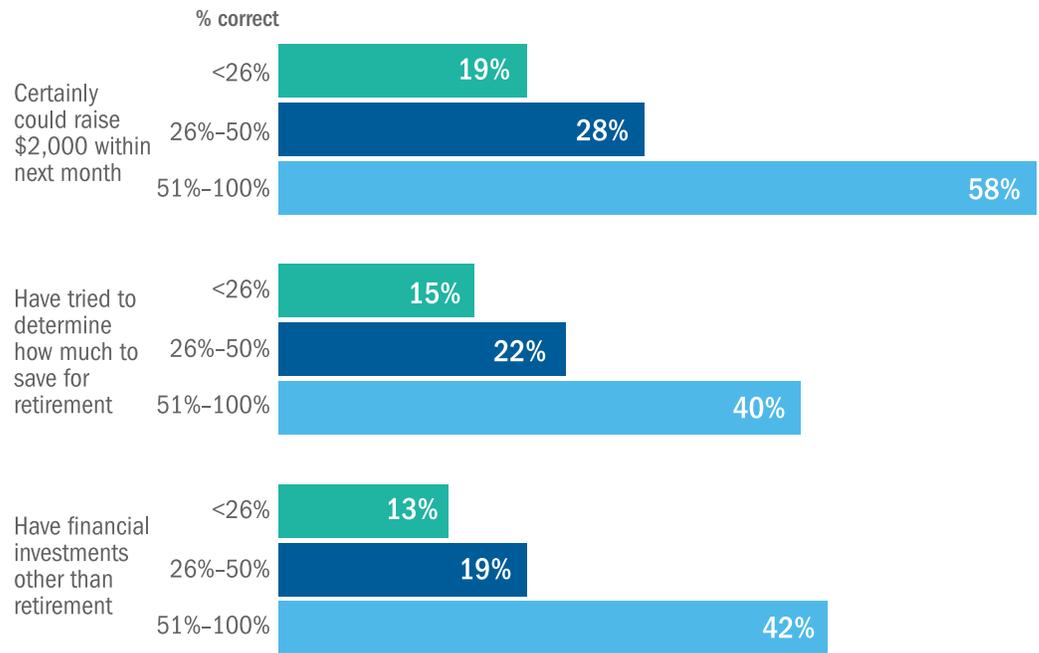
In the general adult population, individuals with greater financial literacy, as measured by the *P-Fin Index*, are more likely to have positive personal finance experiences. This is expected; since the index measures knowledge and understanding which enable sound financial decision making and effective management of personal finances, it should correlate with financial actions and outcomes. The same holds true among Hispanic adults.

As the percentage of *P-Fin Index* questions answered correctly increases, Hispanics are:

- More confident in their ability to raise \$2,000 in the near term to meet an unexpected need (Figure 11).
- More likely to have savings sufficient to cover living expenses for three months in the case of job loss, sickness, disability or some other emergency.
- More likely to have planned for retirement, among those not retired (Figure 11).
- More likely to have financial investments aside from retirement accounts (Figure 11).
- More likely to be current on loan payments.

Figure 11. Financial literacy and personal finance outcomes

Individuals with greater financial literacy are more likely to have positive personal finance experiences.



Source: *The TIAA Institute-GFLEC Personal Finance Index (2017)*.

Discussion

The economic importance of the U.S. Hispanic population will continue to grow as its size expands and its demographics shift. Therefore, the financial literacy of Hispanics has macro implications for the economy as a whole, in addition to micro implications for the financial well-being of individual households.

The dynamics of financial literacy among Hispanics are more nuanced than the gap in their personal finance knowledge compared with the general population. Specifically, there is a significant difference in financial literacy between Hispanics born in the U.S. and those foreign born. In fact, the difference in financial literacy (as measured by the percentage of *P-Fin Index* questions answered correctly) between U.S.-born Hispanics and foreign-born Hispanics is close to the difference between U.S.-born Hispanics and whites.

The difference in financial literacy between U.S.-born and foreign-born Hispanics cannot simply be attributed to differences in underlying demographics. Financial literacy levels in the general population tend to increase with age, education and household income. Given these patterns, greater financial literacy among U.S.-born Hispanics relative to their foreign-born peers is consistent with education and income differences between the two groups. However, it is inconsistent with age differences between the two.

The relatively high financial literacy of young (ages 18-34) U.S.-born Hispanics is particularly noteworthy. They have greater financial literacy than each age group—young, middle-aged and older—of foreign-born Hispanics. Furthermore, their financial literacy almost equals that of young white adults.

Several implications follow:

- Financial literacy programs that separately address U.S.-born and foreign-born Hispanics are likely to experience better results for both groups.
- As growth in the U.S. Hispanic population is increasingly driven by births, as opposed to immigration, the gap in Hispanic financial literacy relative to the general population will likely decrease.
- The increasing educational attainment of Hispanics will further decrease the financial literacy gap.
- Given the modest levels of financial literacy in the general population, eliminating the Hispanic financial literacy gap should not be the ultimate objective. Rather, equalization at a higher overall level of financial literacy for all than currently exists should be the objective.

About the Authors



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Andrea Hasler is an Assistant Research Professor in Financial Literacy at GFLEC. She holds a B.A. and M.Sc. in Business and Economics as well as a Ph.D. in Finance from the University of Basel. Her dissertation was on households' financial decisions and retirement planning. During her doctorate, she spent two years at NYU Stern conducting research. Moreover, she has been teaching for five years as a lecturer at the University of Basel. Her previous professional experience includes the development of an advanced studies online course in financial market theory and the provision of global equity market research as research analyst.



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