

Hispanic Personal Finances: Financial Literacy and Decision-making Among College-Educated Hispanics

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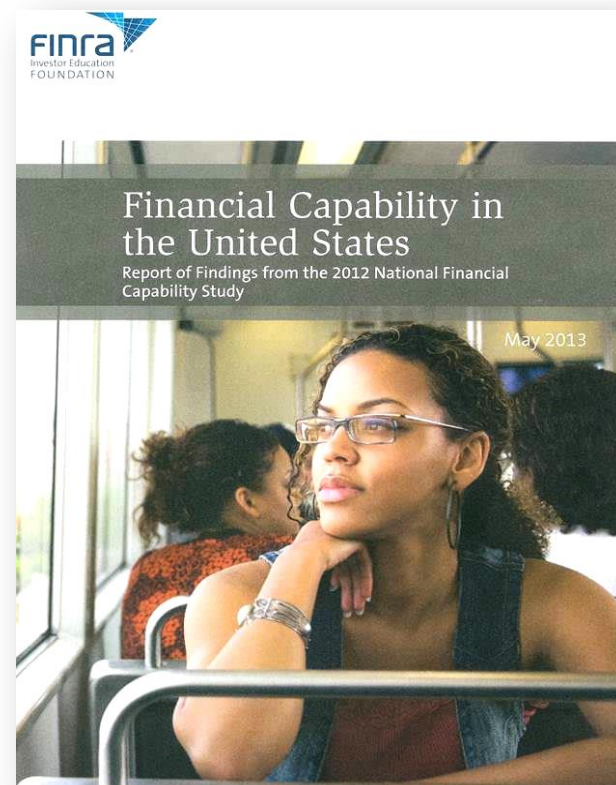


TIAA-CREF Institute

National Financial Capability Study (NFCS)

State-by-State Survey: Online survey of more than 25,000 respondents (roughly 500 per state + DC)


- First wave collected in 2009.
- Survey offers unique information on Americans' financial capability
- The sample size is sufficiently large to allow for an analysis of the personal finances of highly educated Hispanics



Data from the 2015 wave will be available in summer 2016

Our Report

1. Provides an overview of Hispanic personal finances
2. Looks at assets and liabilities
3. Examine measures of financial distress
4. Examines levels of financial literacy
5. Examine the effects of financial literacy on financial distress



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May 2015

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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.

With special thanks to Mary Benman, Creighton Camera, Connor Delaney, and Thom Josephson for their invaluable research assistance.

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Characteristics of the Sample

The sample is composed of respondents who described their ethnicity as Hispanic and who reported at least some college education.

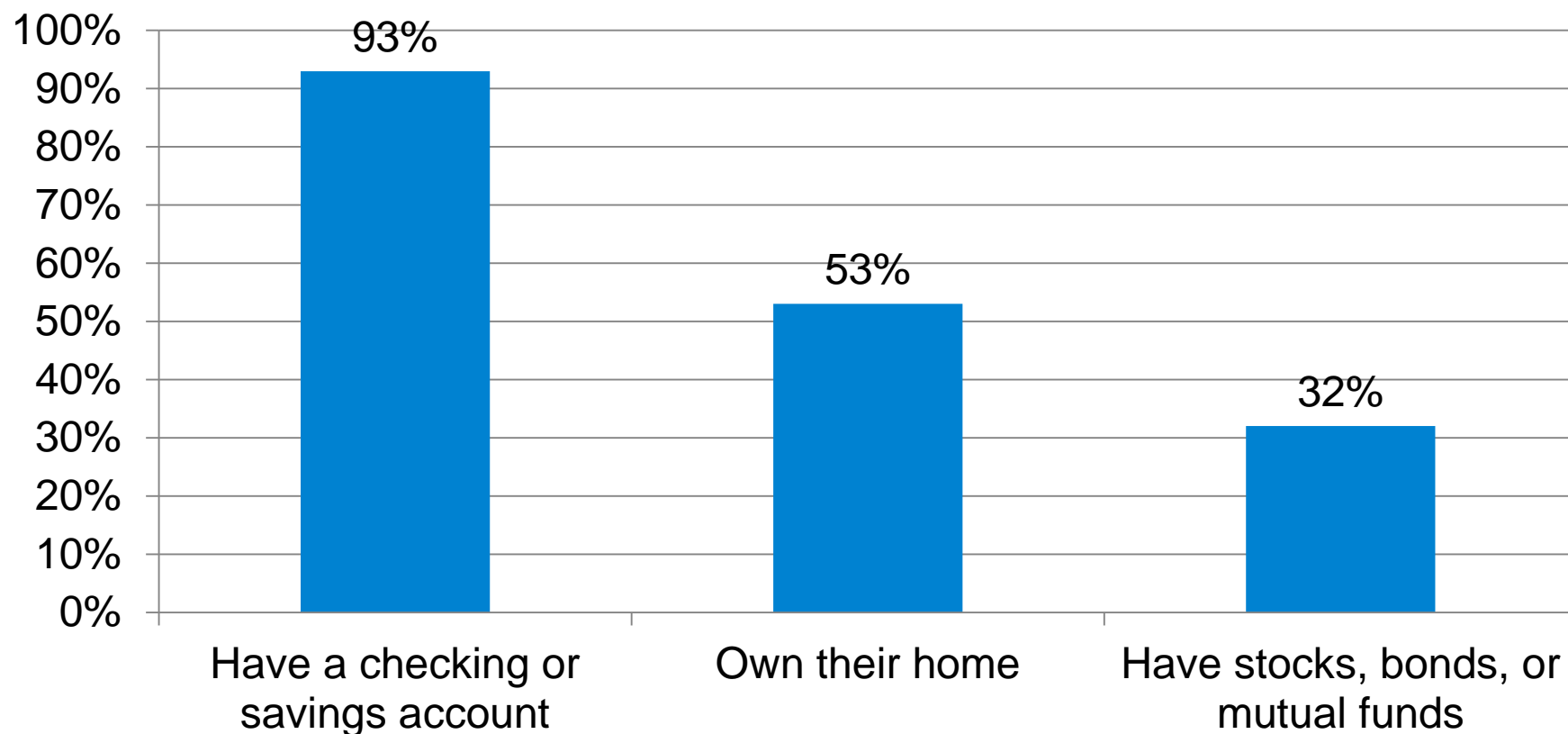
Our total sample contains **1,553 observations**.

Demographic characteristics of the sample:

- Majority female (55%) and young (80% are age 50 or younger)
- 35% of the sample has a college degree and an additional 14% hold a postgraduate degree
- 58% are self-employed or employed full-time, while another 10% are employed part-time, and 9% are unemployed, disabled, sick, or otherwise unable to work
- 55% are married, 35% are single
- 51% have financially dependent children

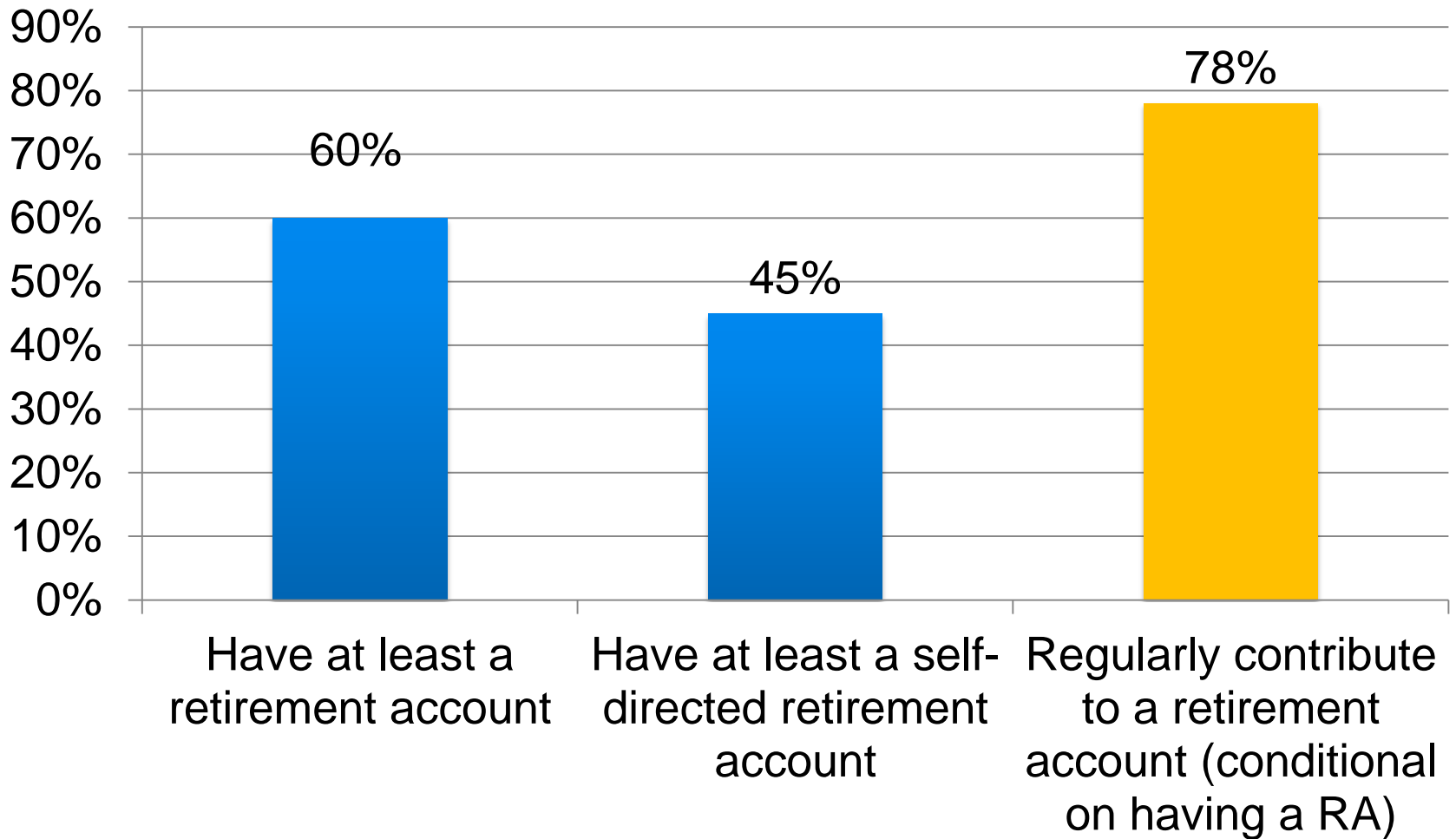


Assets

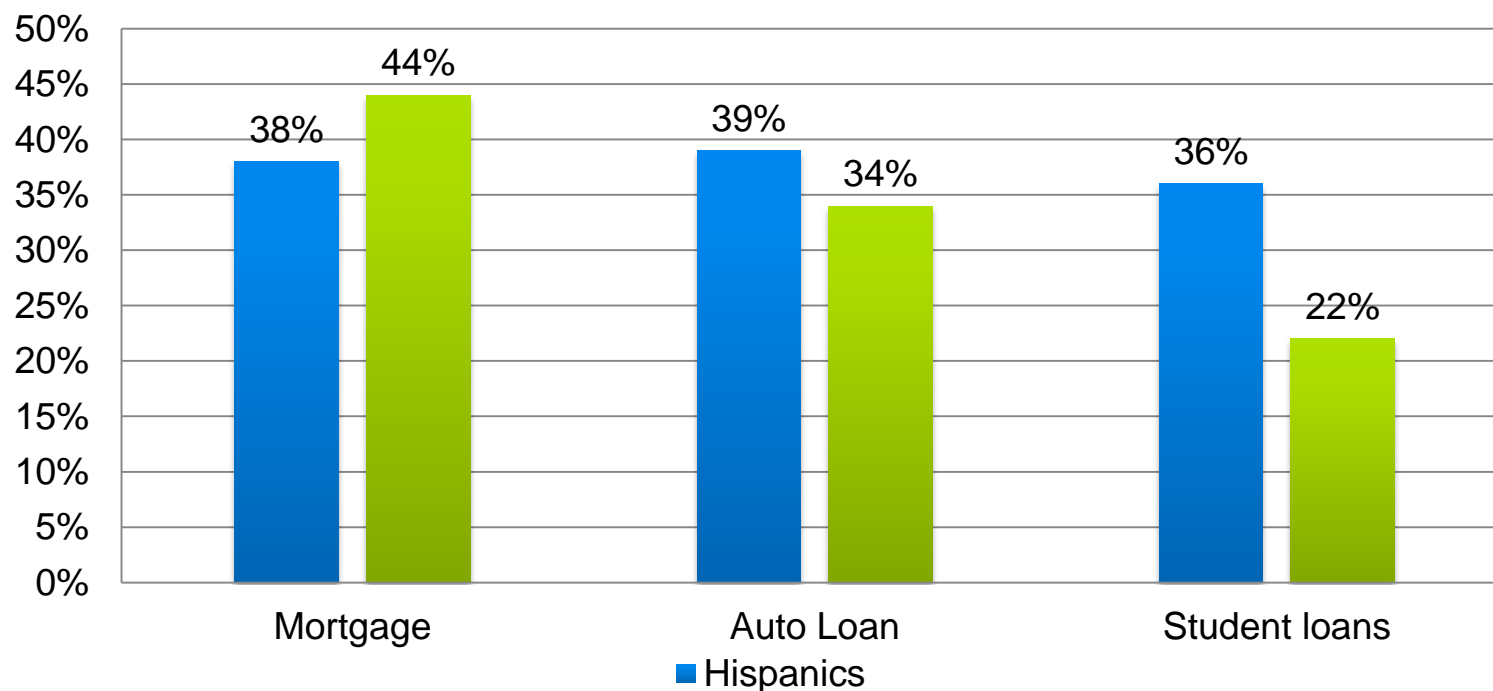


- These are high rates when compared to asset ownership in the total Hispanic population
- However, these rates are still significantly below those of college-educated Whites

Retirement Accounts

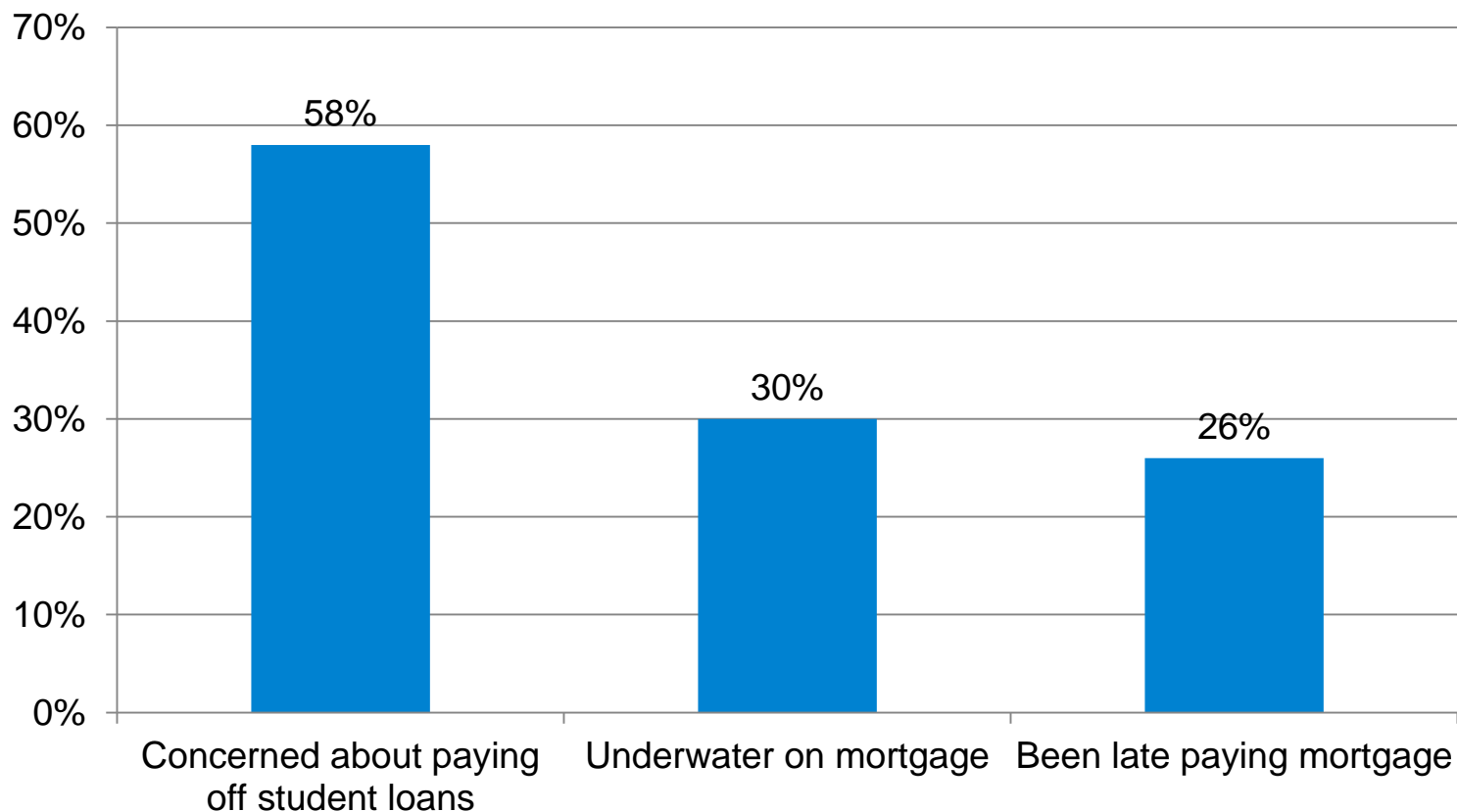


Long-term Debt Liabilities



- Combining the different measures of long-term debt into a single indicator provides a better understanding of overall indebtedness.
- 73 percent of college-educated Hispanics have at least one source of long-term debt and 35 percent have at least two.
- Troublingly, all forms of debt are more prevalent among Hispanics than among Whites.

Sources of Financial Distress



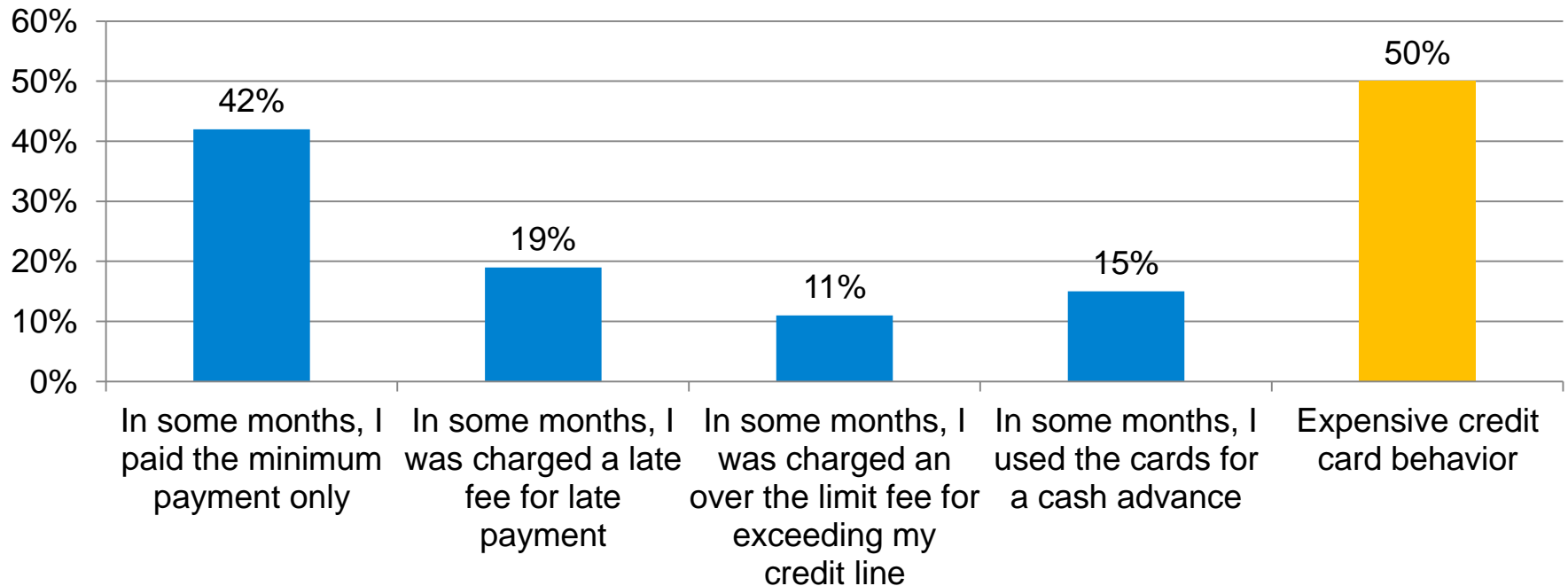
Note: The statistics in the figure are conditional, respectively, on having a student loan or having a mortgage.

- Managing debt presents a challenge for many college-educated Hispanics.
- Whites show fewer signs of financial distress: they are less likely to be late with mortgage payments and less concerned about paying off their student loans.

Expensive Credit Card Behavior among Cardholders

- 78% of college-educated Hispanics have at least a credit card
- Many use credit cards expensively

Credit Card Behavior

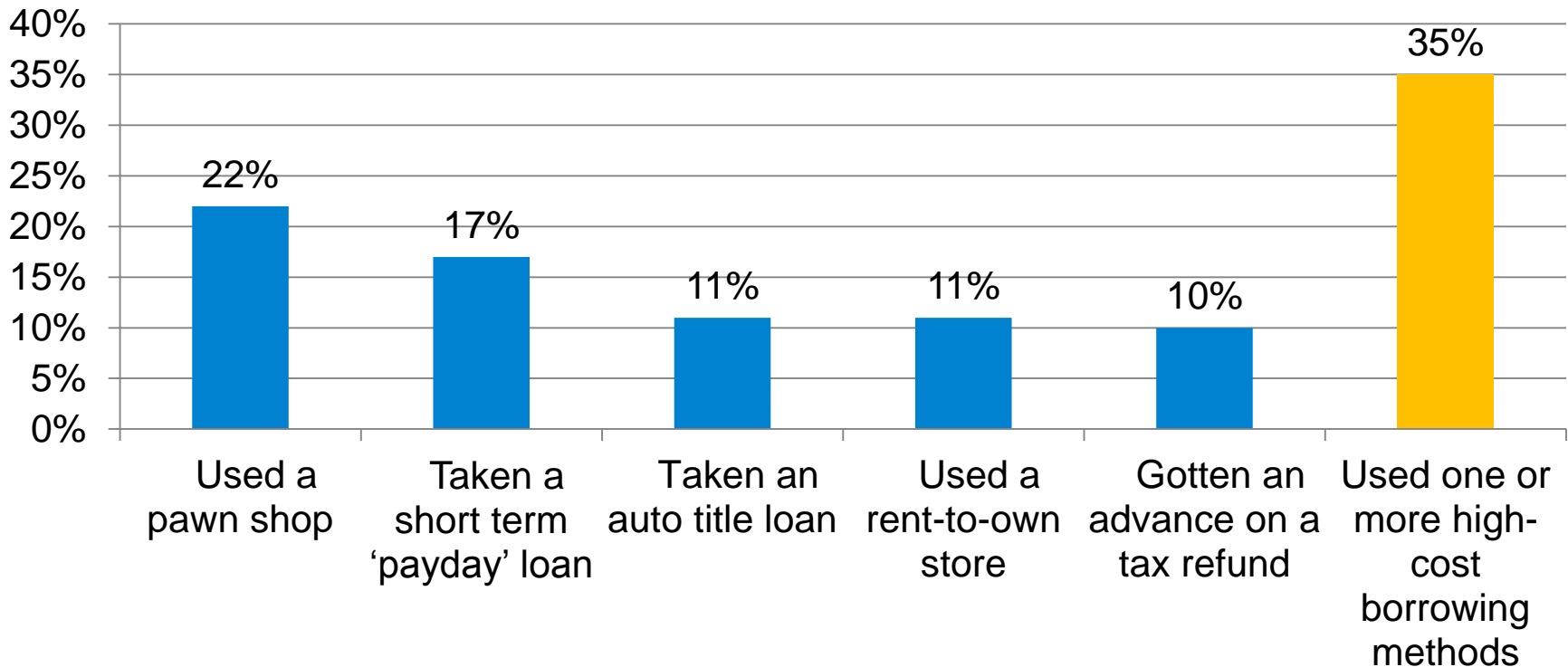


Note: The statistics in the figure are conditional on having a credit card.

- Overall, half of college-educated Hispanics who have credit cards report having engaged in some form of expensive credit card behavior – a proportion much higher than is observed among college-educated White cardholders, of whom only 34% have engaged in such behaviors.

Use of Alternative Financial Services

Use of AFS in the 5 years prior to the survey



- In addition, nearly a quarter of those with retirement accounts indicated they had withdrawn from the accounts, taking either loans or hardship withdrawals.

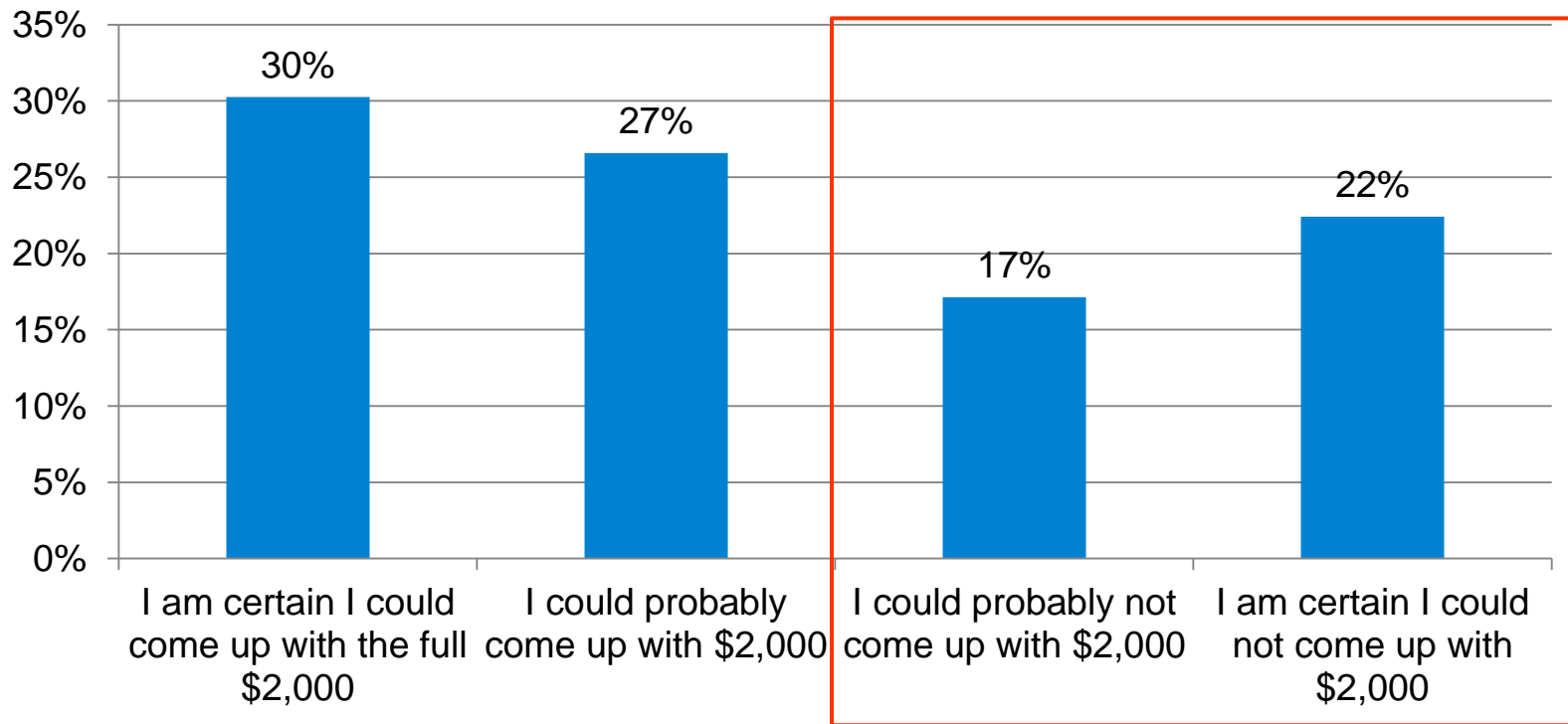
Debt Perception: Having Too Much Debt

Perceptions of Debt Among College-Educated Hispanics and Whites

	Disagree 1-3	Neutral 4	Agree 5-7
<i>How strongly do you agree with the following statement (rated on a scale of 1 to 7)?: "I have too much debt right now."</i>			
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.

Financial fragility: “How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?”

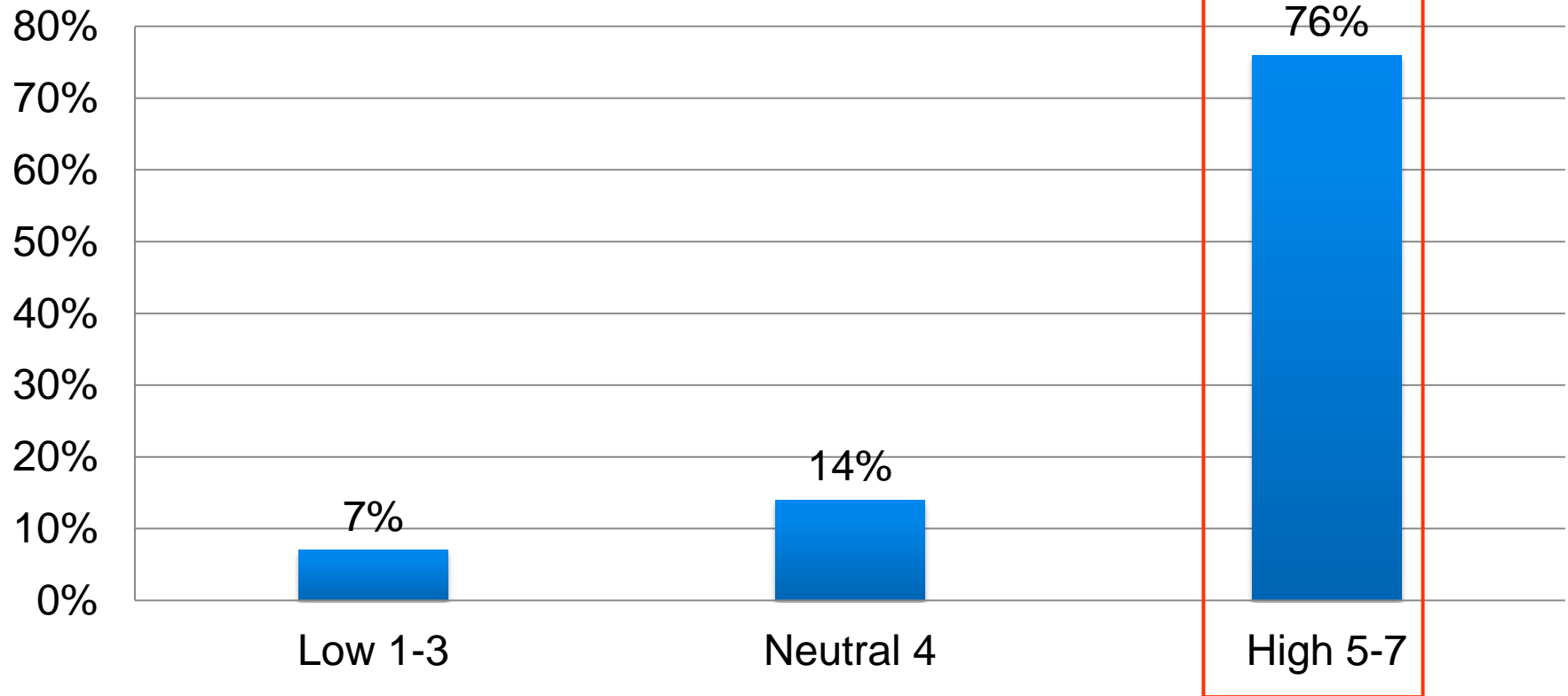


Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

- 39% of college-educated Hispanics either probably or certainly cannot come up with \$2,000 in a month in case of emergency

Perceptions of Financial Knowledge

How would you rate your overall financial knowledge?



- More than three fourths of college-educated Hispanics rated themselves as having high levels of financial knowledge

Financial Literacy

Answers to financial literacy questions

	Highly Educated Hispanics		Highly Educated 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%	—

- Despite high self-assessments of financial knowledge, only 12% answered all five financial literacy questions correctly and only 32% answered the first three questions correctly.
- Not only is the percentage of correct answers low, but many respondents responded that they *did not know* the answers —an indicator which is associated with low financial knowledge.

Main Insights From Regression Analysis

We report the main results of multivariate analysis of two variables: indebtedness and financial fragility.

1. Income shocks are important factors associated with indebtedness and financial fragility. Respondents who experienced an income shock in the 12 months prior to the survey are 18pp more likely to struggle financially and 18pp less likely to be able to come up with \$2,000 in one month.
2. Only a few demographic variables are associated with the likelihood of being highly indebted. The likelihood decreases with age and it increases for those who have two or more dependent children. On the other hand, financial fragility is significantly negatively correlated with age and education.
3. Financial fragility is associated with low financial literacy. College-educated Hispanics who correctly answered all three financial literacy questions are six percentage points less likely to be financially fragile.

Two Key Implications

1. Programs that increase the financial literacy of this population can do much help to improve their financial condition.

- 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.

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