Financial literacy, wellness and resilience among African Americans

Paul J. Yakoboski, TIAA Institute

Annamaria Lusardi, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)

Andrea Hasler, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)

TIAA Institute

GFLEC
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Executive Summary

The economic consequences of the COVID-19 pandemic have made obvious the precarious financial state of many American households. The capacity to cope with a financial shock is lacking, as is an understanding of fundamental personal finance concepts, such as risk and uncertainty, which is of particular importance during periods of economic turmoil.

Overall, in 2019, even before the current crisis hit, the financial well-being of African Americans lagged that of the U.S. population as a whole, and whites in particular. The reasons for this gap are complex, but one area of importance in addressing it is increased financial literacy.

Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. As such, improved financial literacy contributes to improved financial well-being. This report uses the third wave of the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*) to examine the state of financial literacy among African American adults and the relationship between financial literacy and financial wellness. Key findings include:

- Personal finance knowledge among African American adults lags that of whites. On average, African Americans answered 38% of the *P-Fin Index* questions correctly, with only 28% answering over one-half of index questions correctly. The analogous figures among whites were 55% and 62%, respectively.
- Financial literacy varies across demographic groups within the African American population. The observed patterns are consistent with variations identified in the U.S. population as a whole—financial literacy is greater among men, older individuals, those with more formal education, and those with higher incomes.
- Insuring is the functional area where personal finance knowledge is lowest among African Americans, but it is also essentially just as low in the areas of comprehending risk, investing and identifying go-to information sources.
- Borrowing and debt management is the area of highest personal finance knowledge among African Americans.
- A lack of financial resilience was more common among African Americans than whites in 2019, before the onset of COVID-19 and its economic consequences. African Americans were less likely to express confidence in their ability to cope with a midsized emergency expense.
- There is a strong link between financial literacy and financial wellness among African Americans. Those who are more financially literate are more likely to plan and save for retirement, to have non-retirement savings and to better manage their debt; they are also less likely to be financially fragile.

A more refined understanding of financial literacy among African Americans—their level of overall financial knowledge, areas of strength and weakness, and variations among subgroups—can inform initiatives to improve financial well-being. While not a cure-all, increased financial literacy can lead to improved financial capability and practices that benefit even those with relatively low incomes.

Introduction

The financial situation of African Americans lags that of the U.S. population as a whole, and of whites in particular. Simple economic indicators illustrate the gap. While 66% of African Americans report that they are doing at least OK financially, the comparable figure among whites is 78%.[1] Median household income among African Americans was $35,400 in 2016; median household income of whites was $61,200. African American household net worth was $17,600 in 2016, and 19% had zero or negative net worth; the analogous figures for white households were $171,000 and 9%, respectively.[2]

The gap is evident in more nuanced indicators, as well. According to the *2018 National Financial Capability Study* (NFCS):[3]

- Forty-two percent of African Americans who were employed full time engaged in additional work for pay; the comparable figure among whites was 28%.
- African Americans are more likely than whites to feel that they currently have too much debt (45% and 35%, respectively).
- African Americans are less likely than whites to be homeowners (42% and 66%, respectively). Among homeowners, African Americans are more likely to have been late with a mortgage payment in the past year (46% compared with 14%).
- African Americans are more likely than whites to carry student loan debt (41% and 21%, respectively). Among those with student loan debt, African Americans are more likely to have been late with a payment in the past year (59% compared with 35%).
- Among credit card holders, 68% of African Americans engage in expensive credit card behaviors compared with 36% of whites. Such behavior includes paying only the minimum due, incurring late payment fees, incurring over-limit fees, and taking cash advances.

This report uses data from the third wave of the *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin Index*) to examine the current state of financial literacy among African American adults and the link between financial literacy and financial wellness. Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. As such, greater financial literacy contributes to greater financial well-being.

1 See Board of Governors of the Federal Reserve System (2019).

2 See Board of Governors of the Federal Reserve System (2017).

3 See FINRA Investor Education Foundation (2019).

The *P-Fin Index* 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.[4] The online survey is fielded each January with a sample of U.S. adults; the 2019 sample consisted of 1,008 individuals.[5] At the same time, the survey is also fielded with a separate oversample of a particular demographic group to enable detailed analysis of that group; 1,015 African American adults were oversampled in 2019.[6,7] Previous oversamples were Hispanics in 2017 and millennials in 2018.

African American financial literacy

Financial literacy is low among many U.S. adults, including African Americans. On average, African American adults answered 38% of the *P-Fin Index* questions correctly. Only 28% answered over one-half of index questions correctly, with 5% answering over 75% correctly (Figure 1).

4 See Yakoboski, Lusardi and Hasler (2019) for a full discussion of the *P-Fin Index* and 2019 findings for the U.S. adult population.

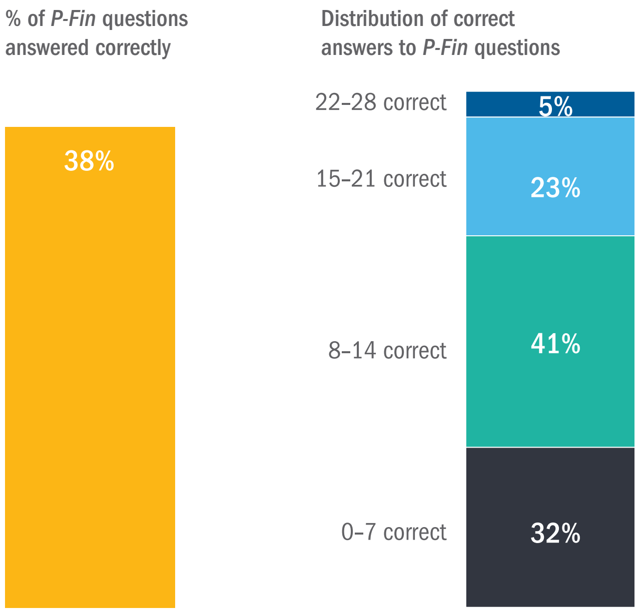
5 The sample was drawn from Ipsos' *KnowledgePanel*, which is a large-scale, probability-based online panel. The sample was weighted by gender, age, race and ethnicity, census region, metropolitan status education level, household income and language proficiency to be nationally representative of U.S. adults, ages 18 and older.

6 There is no overlap between members of the general population sample and the oversample; the 120 African Americans in the general population sample were not included among the 1,015 members of the African American oversample.

7 The African American oversample too was weighted by gender, age, census region, metropolitan status, education level and household income to be nationally representative.

Figure 1. 2019 *P-Fin Index*

African American adults answered 38% of *P-Fin Index* questions correctly, on average.

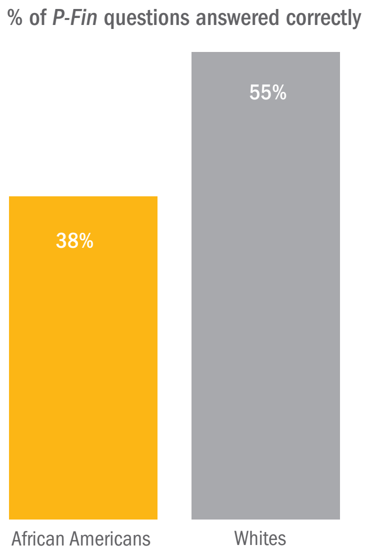


Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Personal finance knowledge among African Americans tends to be lower than that of whites. On average, white adults answered 55% of the *P-Fin Index* questions correctly (Figure 2). Sixty-two percent of whites answered over one-half of the index questions correctly, with 22% answering over 75% correctly (Figure 3). One-third of African Americans demonstrated a relatively low level of financial literacy, i.e., they answered 25% or less of the index questions correctly, compared with 16% of whites.

Figure 2. 2019 *P-Fin Index*

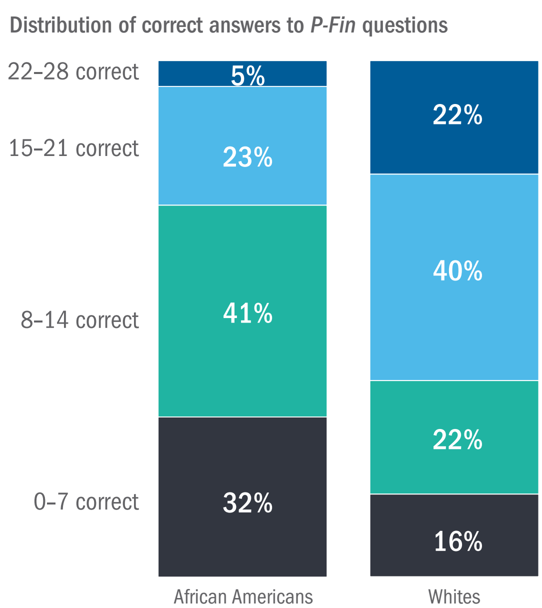
African American financial literacy lags that of whites.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Figure 3. 2019 *P-Fin Index*

African American financial literacy lags that of whites.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Demographic variations among African Americans

Financial literacy varies across demographic groups among African Americans (Figure 4). Observed variations in the average percentage of *P-Fin Index* questions answered correctly are consistent with those identified among the U.S. adult population as a whole.[8]

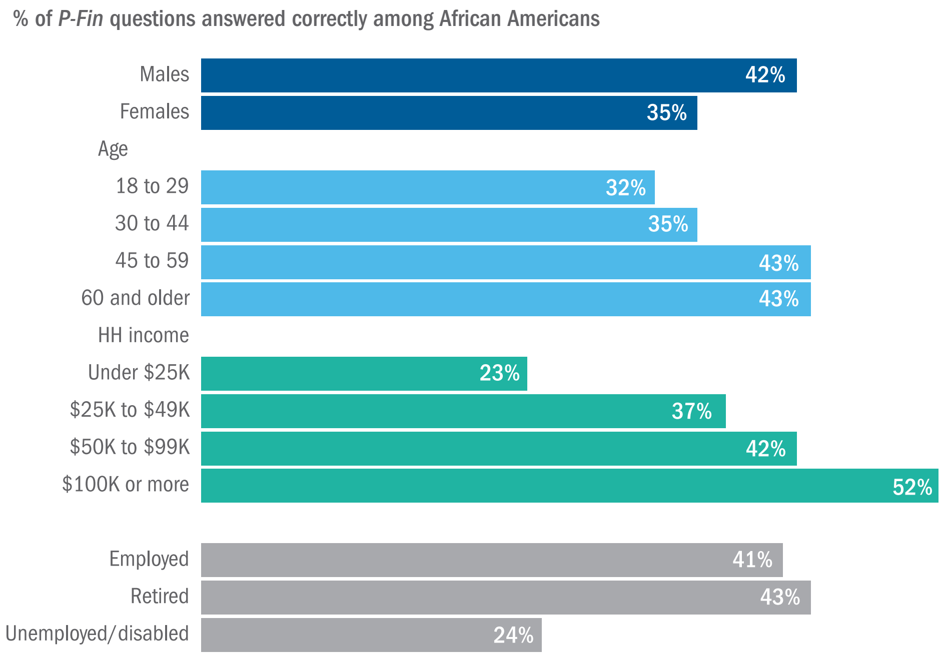
- Financial literacy is significantly higher among men. There is a seven percentage point difference between African American men and women in the percentage of index questions answered correctly.
- Personal finance knowledge tends to increase with age. One-third of index questions are answered correctly on average among African Americans under age 45, compared to 43% among those ages 45 and older.
- Personal finance knowledge tends to be greater among those with higher household incomes. There is a 29 percentage point difference in *P-Fin Index* questions answered correctly between African Americans with household incomes below $25,000 and those with household incomes of $100,000 or more.
- Financial literacy varies with employment status. In particular, unemployed or disabled[9] African Americans have markedly less personal finance knowledge than those employed[10] and those retired.

8 See Yakoboski, Lusardi and Hasler (2019).

9 Includes those unemployed or on temporary layoff, as well as those disabled and unable to work.

10 Includes those employed full time, part time and self-employed.

Figure 4. 2019 *P-Fin Index*



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

In the U.S. adult population, financial literacy tends to be greater among those with more education and those who have received financial education.[11] The same holds among African Americans (Figure 5).

- College-educated African Americans answered 53% of the *P-Fin Index* questions correctly on average, compared with 24% among those with less than a high school degree.
- There is an 11 percentage point difference in the percentage of index questions answered correctly between African Americans who have participated in a financial education class or program and those who have not done so.[12]

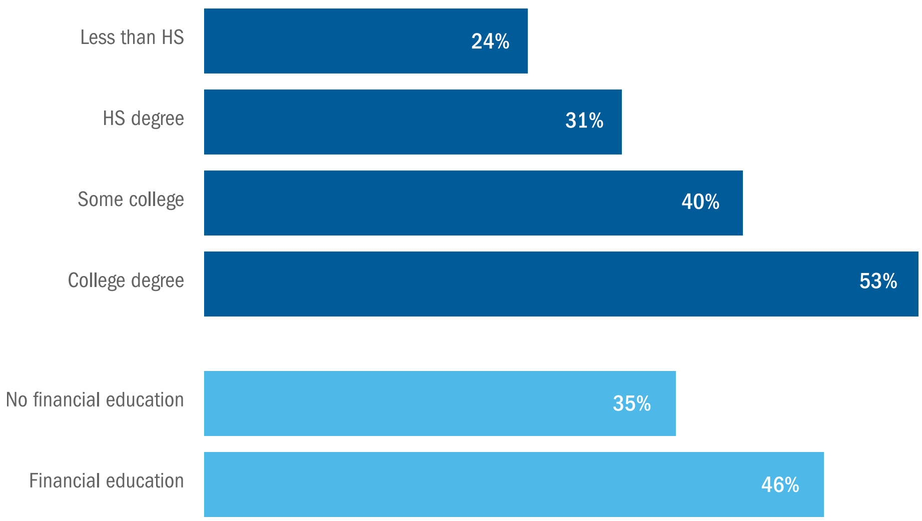
11 See Yakoboski, Lusardi and Hasler (2019).

12 See Lusardi and Mitchell (2014) for a discussion of existing research regarding the relationship between financial education programs and financial literacy levels, as well as the challenges inherent in empirically establishing causality and effectiveness.

Figure 5. 2019 *P-Fin Index*

Financial literacy increases with education.

% of *P-Fin* questions answered correctly among African Americans



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Personal finance functional knowledge

The *P-Fin Index* gauges personal finance knowledge and understanding in eight functional areas:[13]

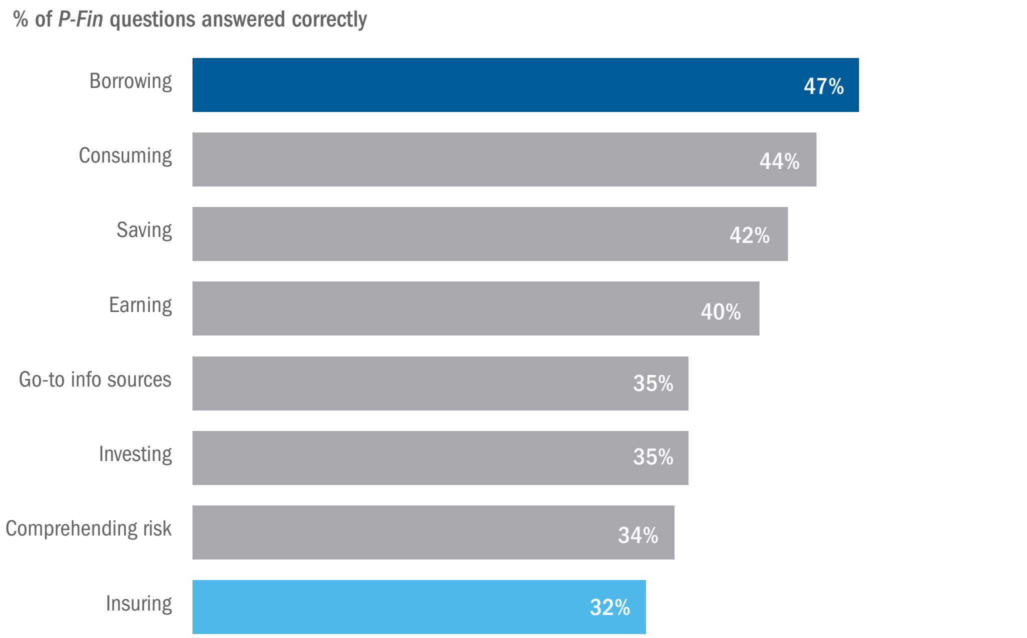
1. Earning—determinants of wages and take-home pay.
2. Consuming—budgets and managing spending.
3. Saving—factors that maximize accumulations.
4. Investing—investment types, risk and return.
5. Borrowing and managing debt—relationship between loan features and repayments.
6. Insuring—types of coverage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

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

In each functional area, African Americans answered less than one-half of the index questions correctly (Figure 6). Beyond that, financial literacy is particularly low in some areas. Insuring is where African American financial literacy tends to be lowest, with 32% of questions answered correctly on average. Comprehending risk, investing and go-to information sources are areas where functional knowledge is essentially just as low.

Figure 6. Functional knowledge

Borrowing is where African American financial literacy is highest; insuring is where it is lowest.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

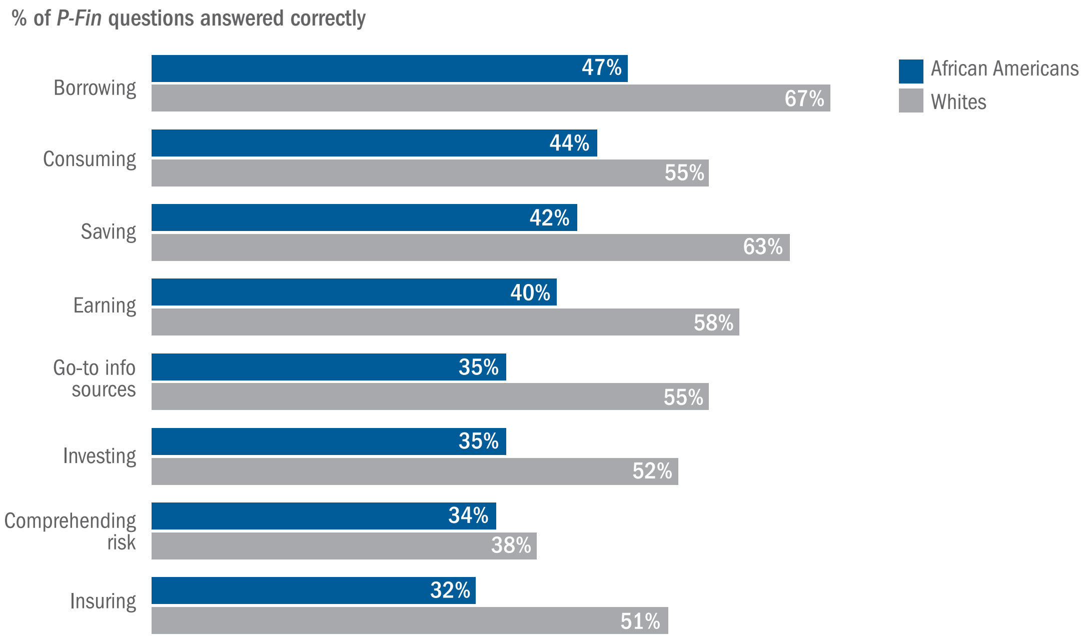
Low financial literacy in the areas of insuring and comprehending risk is particularly troubling—risk and uncertainty are inherent in financial decision making, and individuals face a range of choices regarding events to insure and how to structure their coverage. Understanding how insurance works (e.g., the trade-off between deductibles and premiums) and what constitutes appropriate coverage is important. Poor insurance decisions can leave an individual underinsured for some risks and overinsured for others, as well as overpaying for coverage. Sobering, the percentage of correct answers in the area of insuring tends to be even lower among African American women (29%), the young (25% among 18-29-year-olds), and the unemployed and disabled (18%).

Borrowing and debt management is the area of greatest personal finance knowledge among African Americans, with 47% of index questions answered correctly on average. This is also the area of greatest knowledge among all U.S. adults. Borrowing and managing debt often begin relatively early in life. Knowledge and understanding, in turn, can emerge from experience tracing back to relatively young ages.

Differences in functional knowledge between African Americans and whites are striking (Figure 7). The percentage of *P-Fin Index* questions answered correctly is lower among African Americans in each functional area except comprehending risk and uncertainty, where the four percentage point difference is not statistically significant. All other functional areas have double-digit differences ranging from 11 to 21 percentage points.

Figure 7. Functional knowledge

African American financial literacy lags that of whites across functional areas.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Financial resilience

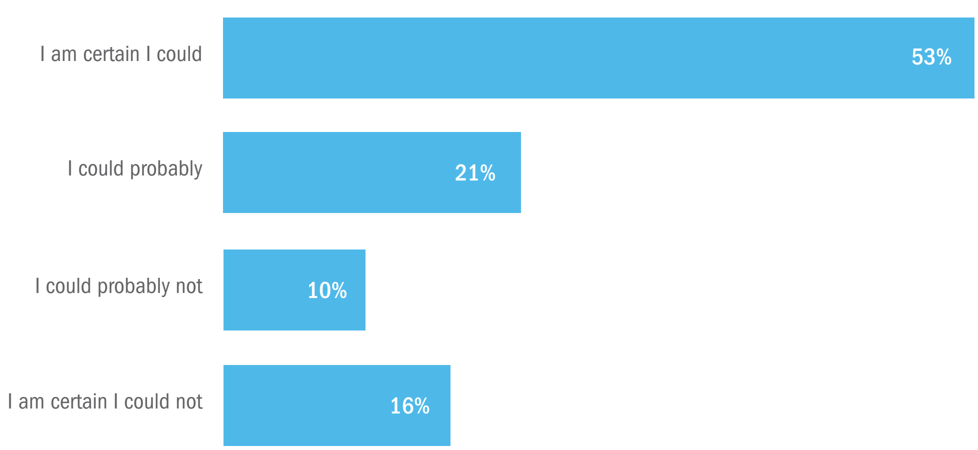
Financial resilience is the ability to cope with an unexpected financial shock. Financial fragility is the inability to do so. 2019 *P-Fin Index* data, collected at a time of continued economic expansion prior to the onset of COVID-19, demonstrates how ill-positioned many Americans, including African Americans, were to face the economic consequences—furloughs or job loss, salary reductions, investment losses and unexpected expenses—of the pandemic.

Only about one in two U.S. adults were certain that they could cope with a midsized unexpected expense in the near term. More specifically, 53% reported that they could certainly come up with $2,000 within the next month to cover an unexpected expense (Figure 8). Twenty-six percent reported that they certainly could not or probably could not do so, i.e., they are financially fragile. The percentage of adults that are financially fragile has been consistent over the four years to date of the *P-Fin Index*—27% in 2017, 26% in 2018, 26% in 2019, and 27% in 2020—indicating that the issue is deeply rooted and financial resilience is a challenge for many even in good economic times.

Figure 8. Financial resilience

U.S. adults were ill-prepared to face a financial shock prior to the onset of COVID-19 and its economic consequences.

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month? [Responses in January 2019]



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

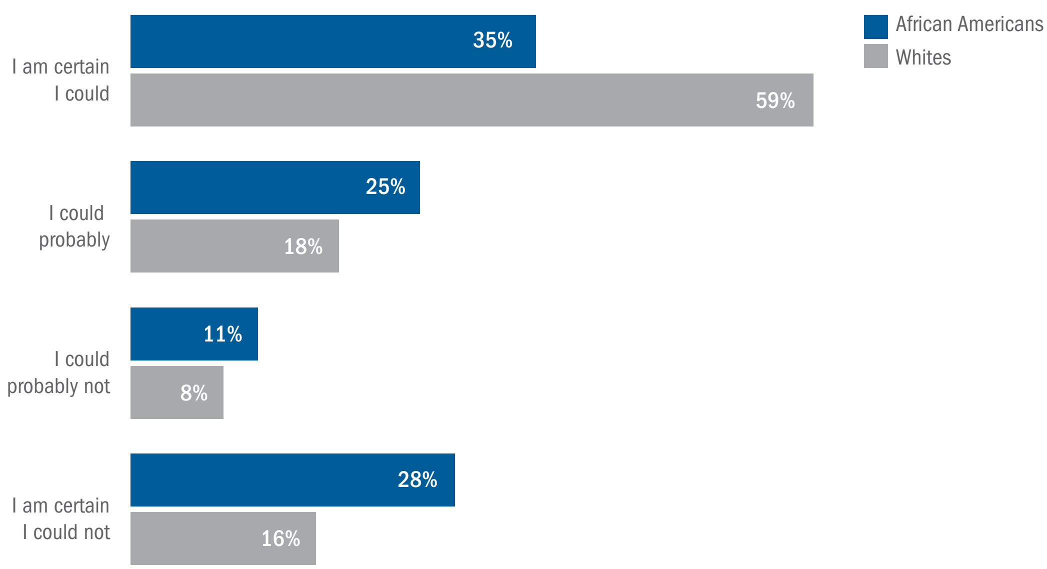
There was a significant gap in financial resilience between African Americans and whites prior to COVID-19. Only 35% of African Americans were certain that they could cover a $2,000 emergency expense within a month compared with 59% of whites (Figure 9). While financial fragility is prevalent among a broad cross-section of African Americans, those vulnerable are most likely to be women, the young, and those with lower incomes and less education (Figures 10 and 11):

- 45% of African American women are financially fragile, compared to 33% of men.
- Almost 50% of 18- to 29-year-old African Americans are financially fragile; this figure drops to 34% among those age 60 and older.
- Financial fragility is highest among African Americans with low income; nonetheless, approximately 40% of middle-income individuals are financially fragile.
- On average, 65% of those without a high school degree are financially fragile, compared to only 17% of those who have at least a bachelor's degree.

Figure 9. Financial resilience

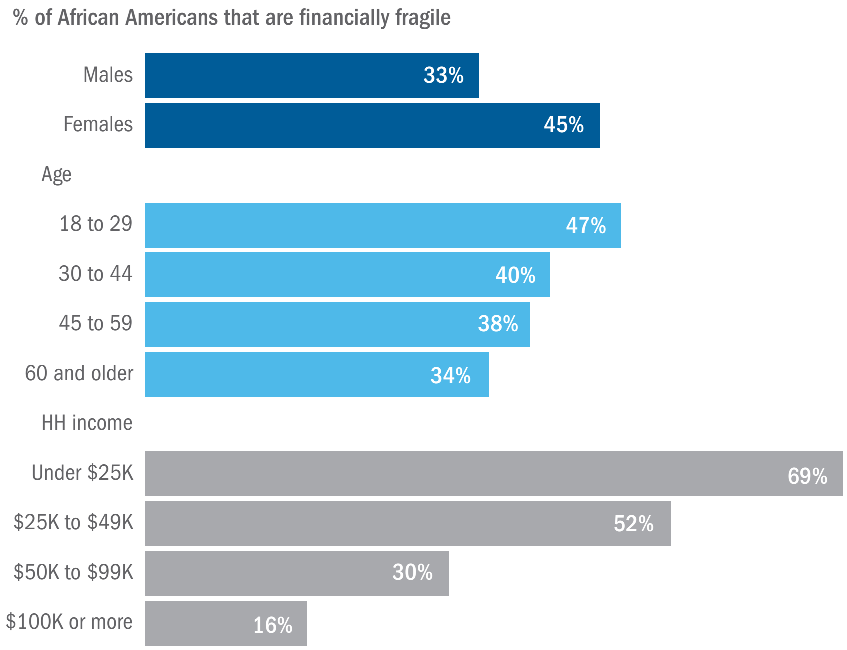
African Americans were less prepared to face a financial shock prior to the onset of COVID-19 and its economic consequences.

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month? [Responses in January 2019]



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

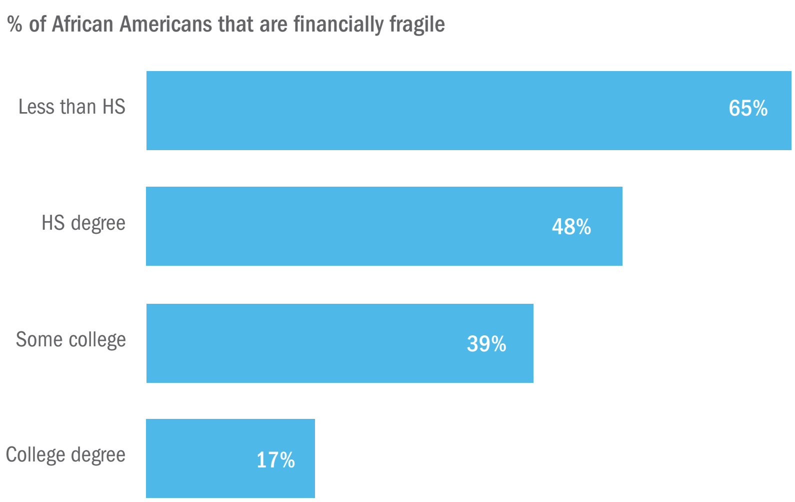
Figure 10. Financial resilience



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Figure 11. Financial resilience

Financial fragility decreases with education.



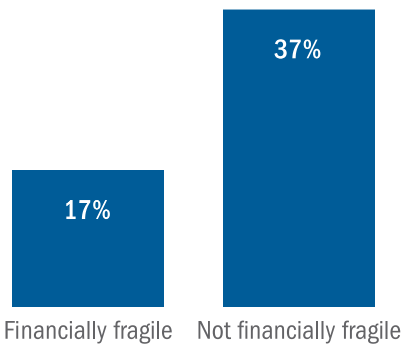
Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

In addition, individuals vulnerable to a current financial shock may also be more financially vulnerable in the long term. Among financially fragile African American non-retirees, only 17% have tried to determine how much they need to save for retirement. In contrast, 37% of non-retirees who are not financially fragile have planned for retirement (Figure 12).

Figure 12. Financial resilience

Financial resilience can have implications for long term financial well-being.

% of non-retirees who have tried to determine how much they need to save for retirement



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

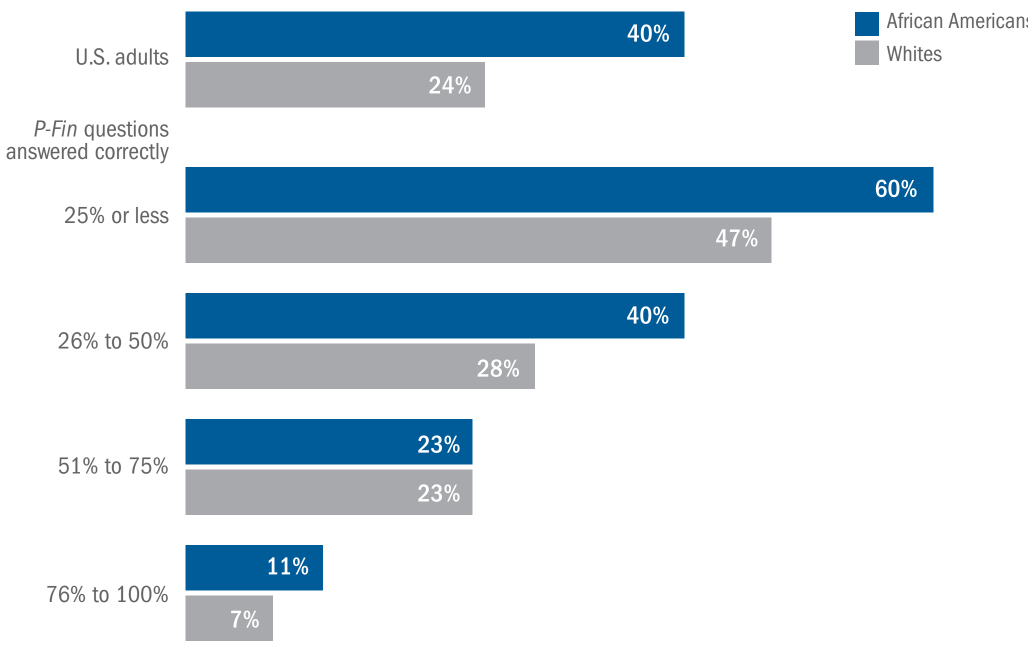
Financial literacy and financial resilience

A strong relationship between financial literacy and financial resilience holds among both African Americans and whites. Among African Americans who correctly answered 25% or less of the *P-Fin Index* questions, 60% could certainly not or probably not come up with $2,000 within 30 days (Figure 13). This figure drops to only 11% among African Americans who correctly answered 75% or more of the index questions. In fact, at higher levels of financial literacy, financial resilience among African Americans and whites is equal (Figure 13). The link between financial literacy and financial resilience is verified in regression analysis (Table A1 of the Appendix). Among African Americans, there is a statistically significant relationship between financial literacy and financial resilience after controlling for various socioeconomic factors, such as education and household income. Those with greater financial literacy are more likely to have the capacity to handle a financial shock.

Figure 13. Financial resilience

African Americans with greater financial literacy are less likely to be financially fragile.

% who could certainly or probably not come up with $2,000 if an unexpected need arose within the next month.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Financial wellness

Financial resilience is one indicator of financial wellness. The 2019 *P-Fin Index* survey contained several others—questions regarding behaviors that should promote financial wellness or regarding outcomes that demonstrate financial wellness:

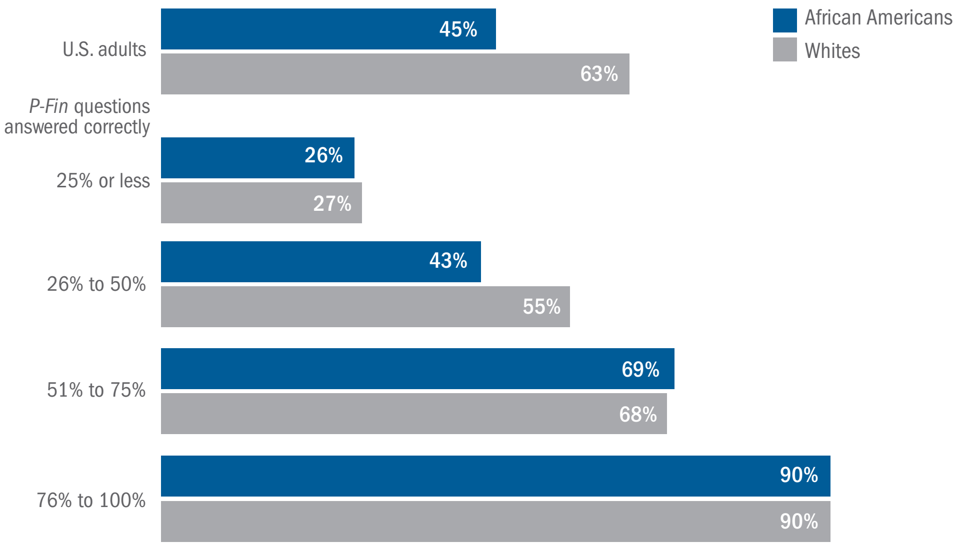
- Saving and planning for retirement.
- Non-retirement savings.
- Debt constraint.

Across these dimensions, African Americans tend to exhibit lower financial well-being than whites. However, there is a strong link between *P-Fin Index* scores and these indicators of financial wellness among African Americans as well as whites—those with greater financial literacy tend to exhibit greater financial well-being. Furthermore, analogous to financial resilience, greater financial literacy tends to mitigate the financial wellness gap between African Americans and whites in some instances. See Figures 14-17.

Figure 14. Financial wellness

African Americans with greater financial literacy are more likely to save for retirement.

% of non-retirees who save for retirement on a regular basis

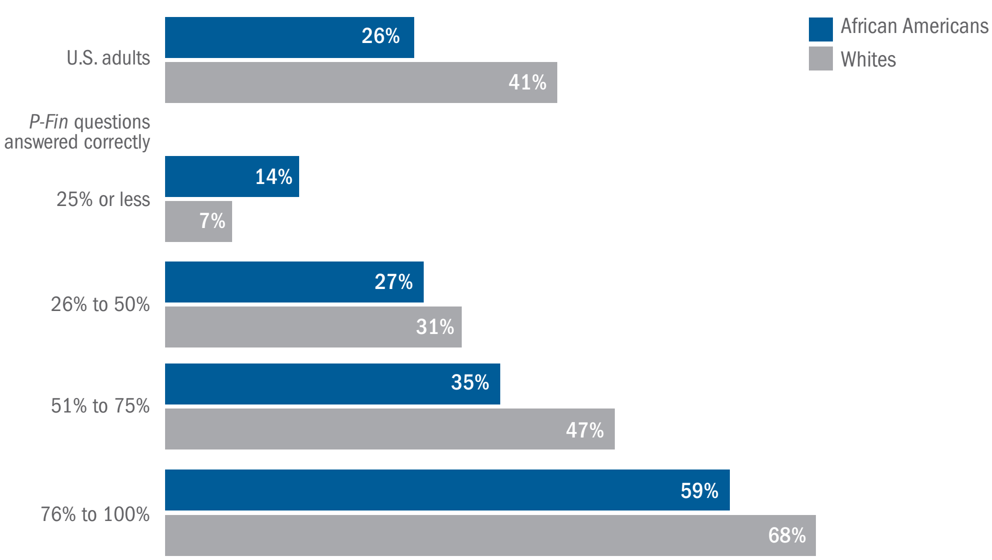


Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Figure 15. Financial wellness

African Americans with greater financial literacy are more likely to plan for retirement.

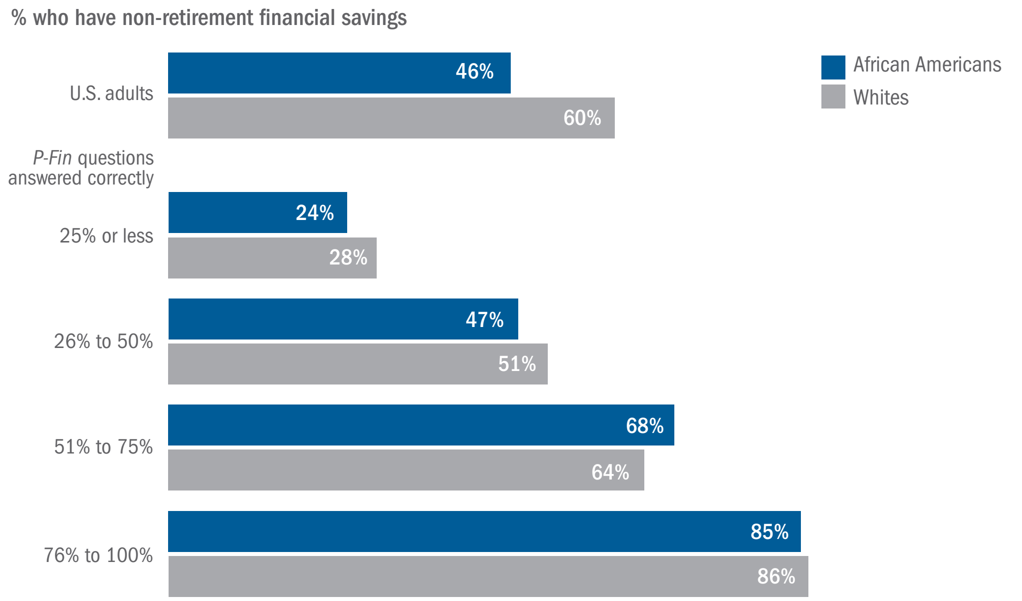
% of non-retirees who have tried to determine how much they need to save for retirement



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Figure 16. Financial wellness

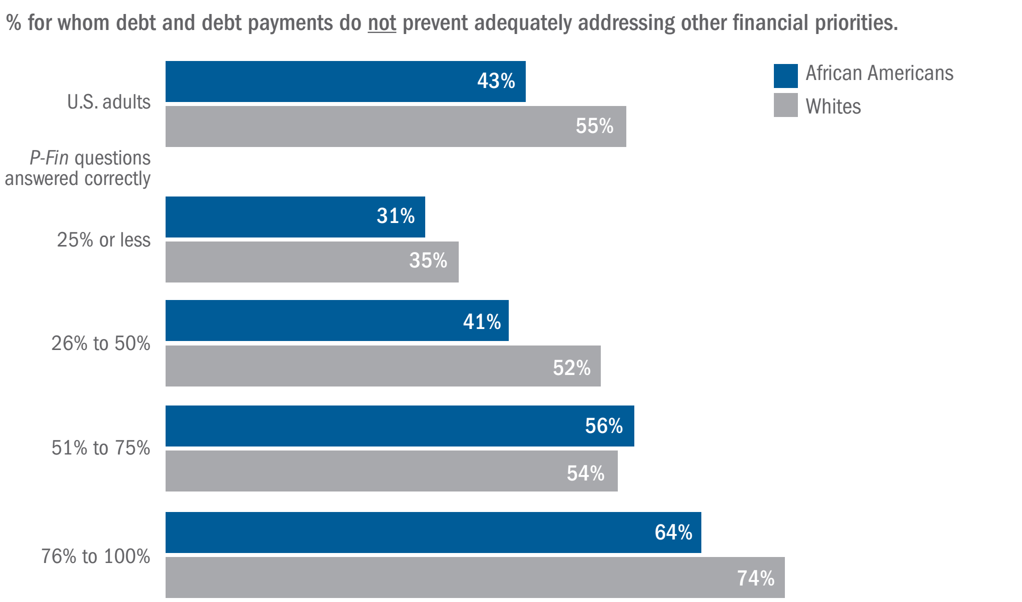
African Americans with greater financial literacy are more likely to have non-retirement savings.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Figure 17. Financial wellness

African Americans with greater financial literacy are less likely to be debt constrained.



Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Discussion

Financial wellness depends in part on how well individuals navigate the myriad of financial decisions faced in the normal course of life. Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. As such, financial literacy contributes to financial well-being.

Unfortunately, financial literacy among U.S. adults is modest at best. Financial literacy among African Americans is even lower. Furthermore, African American financial literacy is lower than that of whites in all but one functional knowledge area. African American financial literacy tends to be lowest in the areas of insuring, comprehending risk and uncertainty, investing and go-to information sources. In addition, data collected in January 2019, a time of economic expansion, shows how ill-prepared African Americans were to face any financial shock, let alone an economic contraction as severe as the one caused by the COVID-19 pandemic.

A more refined understanding of financial literacy among African Americans, including areas of strength and weakness and variations among subgroups, can inform initiatives to improve financial well-being. While not a cure-all, increased financial literacy can lead to improved financial capability and practices that benefit even those with relatively low incomes. There is a strong link between financial literacy and financial wellness among African Americans. Those who are more financially literate are more likely to plan and save for retirement, to have non-retirement savings and to better manage their debt; they are also less likely to be financially fragile.

Given the financial literacy gap between African Americans and whites and the variations among African Americans described in this report, it is important for initiatives to better target the needs of specific demographic subgroups. This includes increasing efforts to promote financial education in school and the workplace. It is also important to provide programs that emphasize topics where financial literacy is particularly low, such as insuring and understanding risk and uncertainty.

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Appendix

Table A1. Regression analysis for African Americans
Dependent variable: Being financially fragile

P-Fin questions correct	**-0.011*****
	(0.003)
Gender (BL: Male)	
Female	0.056
	(0.040)
Age (BL: 18-29)	
Age 30-44	-0.005
	(0.072)
Age 45-59	0.008
	(0.070)
Age 60+	-0.052
	(0.076)
Income (BL: <$25K)	
$25-50K	-0.117*
	(0.069)
$50-100K	-0.299***
	(0.073)
>$100K	-0.409***
	(0.075)
Education (BL: Less than HS)	
High School	-0.055
	(0.095)
Some College	-0.047
	(0.099)
Bachelor's degree or higher	-0.117
	(0.102)
Marital status (BL: Married)	
Single	-0.035
	(0.053)
Widowed/divorced/separated	0.099**
	(0.049)
Work status (BL: unemployed/disabled/retired)	
Employed	0.014
	(0.054)
Constant	0.773***
	(0.118)
Observations	918
R-squared	0.199

Notes: Estimated regression coefficients are compared to the following baseline values: male for the gender variable, age category 18–29 for the age variable, household income of less than $25,000 for the income variable, having less than a high school degree for the educational attainment variable, being married for the marital status variable, and unemployed/disabled/retired for the work status variable. Robust standard errors in parentheses: *p<0.10, **p<0.05, ***p<0.01.
Source: *TIAA Institute-GFLEC Personal Finance Index* (2019).

Paul Yakoboski

About the authors

Paul Yakoboski is a senior economist with the TIAA Institute, where he is responsible for research on lifetime financial security, including topics related to defined contribution plan design, individual saving and investing, financial literacy and capability, and asset management during retirement, as well as research on workforce issues in the higher education and nonprofit sectors. Prior to joining the TIAA Institute, Yakoboski held positions with the American Council of Life Insurers, the Employee Benefit Research Institute and the U.S. Government Accountability Office. Yakoboski earned his B.S. in economics from Virginia Tech and M.A. and Ph.D. in economics from the University of Rochester.

Annamaria Lusardi

Annamaria Lusardi is a University Professor of Economics and Accountancy at the George Washington University, and the founder and academic director of GFLEC. She has published extensively and in many leading economics journals and is the recipient of several prestigious awards. Lusardi also directs the Financial Education Committee in Italy, in charge of implementing a national strategy for financial literacy. In addition, she chairs the OECD's International Network for Financial Education Research Committee. She previously taught at Dartmouth College, Princeton University, the University of Chicago Harris School of Public Policy and Booth School of Business, and Columbia Business School. She also was a visiting scholar at Harvard Business School. She earned her B.A. from Bocconi University in Milan and Ph.D. from Princeton University. Lusardi is a TIAA Institute Fellow.

Andrea Hasler

Andrea Hasler is an Assistant Research Professor in Financial Literacy at GFLEC. She leads the team of researchers working on financial literacy and capability and develops analyses for educational and policy initiatives. Hasler has recently worked on projects focused on financial literacy levels of the young, women, entrepreneurs, investors, and minorities in the United States and around the world. She holds a Ph.D. in finance as well as an M.Sc. and B.A. in business and economics from the University of Basel. During her doctorate, she spent two years at the New York University Stern School of Business conducting research on household saving and financial decision making. She also has been a lecturer at the University of Basel for six years. Her professional experience includes the development of an online advanced studies course in financial market theory and work as an analyst conducting global equity market research.

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