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

The economic importance of U.S. Hispanics continues to grow as their population expands, demographics evolve, and purchasing power increases. The United States was home to 58 million Hispanics in 2016, and Hispanics account 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.

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.

Hispanic financial literacy lags that of the general population.

<table>
<thead>
<tr>
<th>% of index questions answered correctly</th>
<th>Distribution of index questions answered correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic adults</td>
<td>40%</td>
</tr>
<tr>
<td>All adults</td>
<td>49%</td>
</tr>
<tr>
<td>76% to 100%</td>
<td>7%</td>
</tr>
<tr>
<td>51% to 75%</td>
<td>23%</td>
</tr>
<tr>
<td>26% to 50%</td>
<td>41%</td>
</tr>
<tr>
<td>&lt;26%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Beyond the gap with the general population, there is a notable difference in financial literacy within the Hispanic population between those born in the United States and those foreign born.

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

% of index questions answered correctly


Among all U.S. adults, financial literacy is greater among older than younger individuals. U.S.-born Hispanics are significantly younger as a group than foreign-born Hispanics; nonetheless, they tend to have a higher financial literacy level.

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


Financial literacy levels in the general population also tend to increase with education and household income. Unlike financial literacy across age groups, which counters the general trend, financial literacy among U.S.-born Hispanics relative to their foreign-born peers is consistent with education and income differences between the two groups.
Financial literacy across functional areas

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

Hispanic financial literacy across functional areas

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

% of index questions answered correctly

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>U.S. born</th>
<th>Foreign born</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>Consuming</td>
<td>51%</td>
<td>42%</td>
</tr>
<tr>
<td>Saving</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Investing</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>Borrowing</td>
<td>55%</td>
<td>47%</td>
</tr>
<tr>
<td>Insuring</td>
<td>34%</td>
<td>24%</td>
</tr>
<tr>
<td>Comprehending risk</td>
<td>38%</td>
<td>33%</td>
</tr>
<tr>
<td>Go-to info source</td>
<td>42%</td>
<td>30%</td>
</tr>
</tbody>
</table>


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%). For both groups, the lowest area of financial literacy is insuring, and the area of highest financial literacy is borrowing.

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.
Financial literacy and personal finance outcomes

Among all U.S. adults, individuals with greater financial literacy as measured by the P-Fin Index are more likely to have positive personal finance experiences. 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.
- 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.
- More likely to have financial investments aside from retirement accounts.
- More likely to be current on loan payments.

Implications

Several implications follow from the P-Fin Index data:

- 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.

Moving forward

In 2015, the TIAA Institute and the University of Texas at Austin Center for Mexican American Studies and Department of Mexican American and Latina/o Studies sponsored a symposium to examine the financial capabilities, practices and experience of Hispanics, as well as initiatives to improve outcomes along these dimensions. Key takeaways from the symposium include:

- Lack of trust in financial institutions is a challenge that must be addressed in efforts to improve financial literacy and capability in the Hispanic community.
- Connecting culturally with Hispanics is crucial to establishing trust. This means understanding and adapting to cultural nuances and dynamics common among Hispanics.
- Deliver program content that connects to an immediate need, with an opportunity to act on the information.
- Emphasize the importance of higher education, since education, financial literacy, and financial success are interconnected.
Financial literacy among U.S. Hispanics

Read more:

About Hispanic personal finances:

About advancing Hispanics’ financial literacy:

About financial literacy among college-educated Hispanics:

Please note that the underlined text throughout this piece is hyperlinked in its online version so that you can readily access the resources cited herein.

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2 The Multicultural Economy 2017, Selig Center for Economic Growth, University of Georgia, Terry College of Business.

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