REPORT

Financial Capability among Highly Educated Hispanics

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ACKNOWLEDGMENTS

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Executive Summary

Overview

Highly educated Hispanics are a growing subgroup within the larger Hispanic population. Despite being educated and poised for success, this demographic is in a dire state of financial fragility.

However, Hispanics are struggling with managing their finances. Despite their increased prominence and presence, Hispanics, like many distinct racial groups, face unique socioeconomic challenges. A financial snapshot reveals income disparities between even the most educated Hispanics and the general American population. As a growing subgroup within the broader category of Hispanics, highly educated Hispanics are marked by financial fragility, expensive credit card behaviors, and financial illiteracy. In other words, education doesn't guarantee a sound financial future. This demographic is in need of assistance.

What Is the Research About?

This report explores the financial condition of highly educated Hispanics. It relies on key data from the 2012 National Financial Capability Study (NFCS), supported by the FINRA Investor Education Foundation. The sample we look at in this report is composed of 1,553 respondents who designate their ethnicity as Hispanic and who report “some college” or more as their highest level of education completed. We want to paint a clear picture of highly educated Hispanics’ assets, liabilities, financial fragility, financial literacy, and use of financial advice.

Even among the highly educated, the underlying themes and findings are worrisome:

→ Almost 8 in 10 highly educated Hispanics have at least one credit card, and half of these cardholders report behaviors that can damage credit scores, increase interest rates, and harm their future borrowing capacity.

→ 35% have used one or more alternative financial services (AFS) within the five years preceding the survey.

→ 22% report taking loans or hardship withdrawals from their retirement accounts.
Nearly 40% can be classified as “financially fragile.”

Hispanics are less likely than whites to correctly answer any of the five financial literacy questions and 20 percentage points less likely to demonstrate basic financial literacy.

Nearly 60% feel that financial advisors are too expensive.

What Are the Credit Union Implications?

The results from the study highlight the need for credit unions to play a leading role in serving highly educated Hispanics. If these are the results for the highly educated, imagine the challenges of others. The data clearly indicate a strong disconnect between Hispanics and traditional financial institutions. Since highly educated Hispanics show low levels of financial literacy, programs to appeal to and educate this population will do much to improve their financial standing. Similar to other American subgroups such as Gen Y and baby boomers, Hispanics struggle with personal financial knowledge, with only 12% showing high financial literacy. Credit unions should consider the following tactics:

→ Increase engagement efforts with Hispanics through marketing and personal outreach.

→ Offer low-cost products and services to eliminate the need for Hispanics to engage in expensive financial behaviors.

→ Utilize Spanish-speaking financial advisors to help foster a culture of comfort and trust for potential Hispanic members.

→ Encourage incentive-based savings programs to help build rainy-day or emergency funds.

With expanding purchasing power and a growing population, Hispanics are of particular importance to the US economy. A deeper analysis reveals a subgroup of promising, highly educated Hispanics struggling with short- and long-term financial management. No longer should language or cultural barriers hold your credit union back from actively engaging this demographic. As this population grows, so too will their financial influence, making it imperative for credit unions to communicate the depth and value of their core service offerings.
With expanding purchasing power and a growing population, Hispanics are now of particular importance to the US economy. A distinctive demographic, the Hispanic population is younger than the general population, rapidly changing, and marked by a unique set of financial and social challenges. For instance, while growing in economic importance, gaps in wealth and income persist in setting apart Hispanics from the overall US population, a difference that was only exacerbated by the Great Recession. These disparities affect even highly educated Hispanics, a growing subgroup within the broader category of Hispanics. In other words, despite their rising levels of education and the growth in the number of college-educated Hispanics within the population, this group remains marked by financial fragility and lower levels of integration with traditional financial institutions like banks and credit unions.

Understanding the financial situation of Hispanics and the distinct challenges they face is increasingly important, largely due to the growing impact that Hispanics have within the US economy. This report examines the financial practices, experience, and condition of highly educated Hispanics (defined as those who report “some college” or more as the last level of education completed) to shed light on their overall financial capability.

Highly educated Hispanics are poised to play an increasingly prominent role in the US economy, but they are rarely the subject of analysis in reports on financial capability. We hope this report can be used as a baseline for future research on highly educated Hispanics and their personal finances.
Financial Capability among Highly Educated Hispanics

CHAPTER 1

The State of Hispanics in the United States

The Hispanic population in the United States is marked by rapidly shifting sociodemographic characteristics and unique financial challenges. And since the number of Hispanics is growing steadily, their impact on the US economy is set to increase substantially.

The Population Size and Purchasing Power of Hispanics Are Growing Rapidly

The United States is now home to 52 million Hispanics; by 2050, this number is projected to grow to 133 million—30% of the total US population (Ennis, Rios-Vargas, and Albert 2011).
Similarly, the purchasing power of Hispanics is rapidly expanding. Their purchasing power was $1.2 trillion in 2013 and is expected to rise to $1.5 trillion by 2015 (Nielsen 2012). While purchasing power among the total US population is expected to expand by 27% between 2011 and 2016, the analogous power of Hispanic consumers is set to increase by 48% (Bueno 2011).

Hispanics Must Confront Linguistic and Cultural Challenges

The US Hispanic population faces several specific challenges, including low levels of educational attainment and language barriers. In 2010, only 63% of the Hispanic population had a high school degree or higher, 13 percentage points less than the general population (US Census Bureau 2012). The earning potential and financial decision-making capability of Hispanics are detrimentally influenced by these lower levels of education.

Language is a concurrent obstacle. Only 61% of Hispanics say they can speak English “very well” or “pretty well” (Taylor et al. 2012a). This number is particularly troubling since 87% of Hispanics responding to a 2012 Pew Research Center survey said that learning English is necessary for immigrants to succeed in the United States (Taylor et al. 2012a). In another Pew survey, half of respondents who did not pursue education beyond high school cited their limited English skills as the reason (Lopez 2009).

Hispanics Were Hit Hard by the Great Recession

In the United States, Hispanics were hit hardest by the financial crisis compared with other ethnic groups. Even before the recession, they were lagging behind other groups in terms of wealth and income. Between 2005 and 2009, Hispanic household wealth plummeted by 66%, compared with 53% and 16% for black and white households, respectively (Taylor et al. 2012b). Unemployment among Hispanics also rose at a faster rate than that of other ethnic groups, nearly doubling between 2007 and 2011 (Taylor et al. 2012a).

The Characteristics and Demographics of the Hispanic Population Are Changing Rapidly

The demographic characteristics of the Hispanic population in the United States are shifting rapidly. The population is growing quickly, although the impetus behind that growth is no longer immigration but new births within the United States. The decline in foreign-born Hispanics has led to increased rates of educational attainment (Krogstad and Lopez 2014). In fact, in the last 40 years, the number of Hispanics who have earned associate’s or bachelor’s degrees has swelled sixfold and sevenfold, respectively (Fry and Taylor 2013). According to a US Census Bureau report, the rate of college enrollment among Hispanics between 2011 and 2012 increased while for other groups it fell. Moreover, for the first time,
among recent high school graduates a greater proportion of Hispanics (49%) than whites (47%) was enrolled in college (Fry and Taylor 2013). As Hispanics seek higher education at ever-increasing rates, an understanding of their financial needs becomes more important than ever. In this report we will use data from the 2012 National Financial Capability Study (NFSC) to provide an assessment of the personal finances of highly educated Hispanics.

CHAPTER 2

2012 National Financial Capability Study Data

The NFCS, sponsored 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 over 25,000 observations, the overarching objectives of the NFCS are to provide key benchmark indicators of Americans’ financial capability and to evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics. The NFCS survey centers around questions about how people manage resources and make financial decisions and what skills they have to make said decisions.

The sample under consideration in this report is composed of 1,553 respondents who designate their ethnicity as Hispanic and who report “some college” or more as their highest level of education completed. The majority of the sample is female (55%) and young (80% are 50 or younger). These statistics mirror the trend in higher education of more women and young people receiving college degrees and the absence of an older Hispanic population with a college education (Lopez and Gonzalez-Barrera 2014; US Chamber of Commerce Foundation 2012). Thirty-five percent of the sample have a college degree and an additional 14% hold a postgraduate degree. Figure 1 contains the full

<table>
<thead>
<tr>
<th>Demographic Characteristic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>45%</td>
</tr>
<tr>
<td>Female</td>
<td>55%</td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>18–30</td>
<td>33%</td>
</tr>
<tr>
<td>31–50</td>
<td>47%</td>
</tr>
<tr>
<td>51+</td>
<td>20%</td>
</tr>
<tr>
<td>Marital status</td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>55%</td>
</tr>
<tr>
<td>Single</td>
<td>35%</td>
</tr>
<tr>
<td>Separated, divorced, or widowed</td>
<td>11%</td>
</tr>
<tr>
<td>Financially dependent children</td>
<td></td>
</tr>
<tr>
<td>1 or more</td>
<td>51%</td>
</tr>
<tr>
<td>No financially dependent children</td>
<td>13%</td>
</tr>
<tr>
<td>Do not have any children</td>
<td>35%</td>
</tr>
<tr>
<td>Employment status</td>
<td></td>
</tr>
<tr>
<td>Self-employed</td>
<td>7%</td>
</tr>
<tr>
<td>Work full-time for an employer</td>
<td>51%</td>
</tr>
<tr>
<td>Work part-time for an employer</td>
<td>10%</td>
</tr>
<tr>
<td>Homemaker</td>
<td>9%</td>
</tr>
<tr>
<td>Unemployed, disabled, or unable to work</td>
<td>9%</td>
</tr>
<tr>
<td>Student</td>
<td>8%</td>
</tr>
<tr>
<td>Retired</td>
<td>6%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Some college</td>
<td>50%</td>
</tr>
<tr>
<td>College graduate</td>
<td>35%</td>
</tr>
<tr>
<td>Postgraduate education</td>
<td>14%</td>
</tr>
</tbody>
</table>

Note: Percentages are calculated over a full sample of 1,553 observations. Some figures may not total 100% because of rounding.
set of descriptive statistics for the population, including marital and employment statuses. The incomes for this sample are slanted toward the middle and lower levels (see Figure 2).

The characteristics of the highly educated Hispanic sample population vary greatly from those of the highly educated white sample. The latter are much older: 53% are over age 51. White respondents are less likely to have financially dependent children and more likely to be retired, and their income levels tend to be higher than those of the Hispanic sample (see Figure 2). Additionally, whites are five percentage points more likely to have a postgraduate education.

At relevant points throughout the report, we give an analysis of these pronounced differences between the highly educated white and Hispanic populations to provide a greater understanding of the status of the Hispanic population in the United States.

**Assets and Liabilities of Highly Educated Hispanics**

To examine the personal finances of highly educated Hispanics, we begin by looking at asset ownership and liabilities in the short term and long term.

**Assets**

The NFCS collects information on asset ownership, which is indicative of financial well-being. Among highly educated Hispanics, 95% indicate that they have a checking or savings account. Most own a home, with rates increasing with age. Likewise, 32% of Hispanics have investments in stocks, bonds, or other securities (see Figure 3).
These rates are high when compared to asset ownership in the total Hispanic population but still significantly below those for highly educated whites. Whites in this group are nearly 20 percentage points more likely to own a home and 16 percentage points more likely to be invested in stocks, bonds, and/or other securities.

A stable and secure retirement requires a well-managed retirement fund, making this another indicator through which to examine financial capability. Despite the relative youth of the highly educated Hispanic population, having a retirement account is still an important indicator of future financial security. Sixty percent of highly educated Hispanics have at least one retirement account, and 8 in 10 of those make regular contributions (see Figure 4).

NFCS respondents are also asked questions regarding how they manage their cash flows, specifically how they receive income and how they make payments. As is to be expected from a young population, highly educated Hispanics are more reliant on cash, debit, and online payments, with some use of paper checks and credit cards (see Figure 5). Each of the three most popular methods is used “frequently” or “sometimes” by at least three-quarters of the population. These methods of payment are quicker, more versatile, and linked more to technology than other forms of payment that are more popular with older populations. Tapping a mobile phone to pay is still the least popular form of payment, but it is expected to grow in popularity as the youthful population ages and the technology becomes more ubiquitous. Already the rate of mobile payment usage for those under 51 is more than twice that of those over 51.
Similarly, when asked to indicate the primary mode by which they receive income, the majority of highly educated Hispanics identify direct deposit, followed by checks for deposit (see Figure 6).

**Liabilities**

**Long-Term Liabilities**

Mortgages, one of the largest components of national consumer debt (Federal Reserve Bank of New York 2013), are among the most prevalent sources of debt among highly educated Hispanics. Thirty-eight percent of these respondents report having mortgages and nearly 1 in 10 has a home equity loan. Additionally, 36% of highly educated Hispanics have student loans and 39% have auto loans (see Figure 7). A concurrent analysis of long-term debt finds that 73% of highly educated Hispanics have at least one source of long-term debt and 35% have at least two.

Managing this debt presents a challenge for highly educated Hispanics. Among those with mortgages or home equity loans, 3 in 10 owe more than their homes could sell for currently. Moreover, over a quarter of those with mortgages were late with payments during the two years preceding the survey (see Figure 8), and nearly 60% of those who made late payments did so repeatedly.

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**FIGURE 6**

**METHODS FOR RECEIVING INCOME AMONG HIGHLY EDUCATED HISPANICS**

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct deposit</td>
<td>68%</td>
</tr>
<tr>
<td>Checks</td>
<td>21%</td>
</tr>
<tr>
<td>Cash</td>
<td>8%</td>
</tr>
<tr>
<td>Prepaid debit cards</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Note: Percentages are calculated over a full sample of 1,553 observations. Responses are to the question: “How did you receive most of your income in the past 12 months?”*

**FIGURE 7**

**TYPES OF DEBT HELD BY HIGHLY EDUCATED HISPANICS AND WHITES**

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>Hispanics</th>
<th>Whites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>38%</td>
<td>31%</td>
</tr>
<tr>
<td>Auto loan</td>
<td>39%</td>
<td>34%</td>
</tr>
<tr>
<td>Student loan</td>
<td>36%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**FIGURE 8**

**SOURCES OF FINANCIAL DISTRESS AMONG HIGHLY EDUCATED HISPANICS**

<table>
<thead>
<tr>
<th>Distress Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned about paying off student loans</td>
<td>58%</td>
</tr>
<tr>
<td>Underwater on mortgage</td>
<td>30%</td>
</tr>
<tr>
<td>Have been late paying mortgage</td>
<td>26%</td>
</tr>
</tbody>
</table>

*Note: Percentages are calculated over a full sample of 1,553 observations.*

*Note: Percentages are calculated over a sample of 1,553 observations for Hispanics and 12,033 for whites. All statistics are unconditional.*
Troublingly, all forms of debt are more prevalent among Hispanics than among whites. Moreover, whites show fewer signs of financial distress: They are less likely to be late with mortgage payments and are less concerned about paying off their student loans.

**Short-Term Liabilities**

Short-term liabilities, which include debt from credit cards, alternative financial services (AFS), and other short-term borrowing, contribute significantly to Hispanics’ overall debt levels.

As seen in Figure 9, a large proportion of highly educated Hispanics have one or more credit cards. Despite their greater education and income relative to the overall Hispanic population, this group exhibits high rates of expensive credit card behaviors (see Figure 9). Overall, half of highly educated Hispanics who have credit cards report having engaged in some form of expensive credit card behavior—a much higher proportion than is observed among highly educated white cardholders, of whom only 34% have engaged in such behaviors.

The tendency of highly educated Hispanics to engage in expensive credit card behaviors could reflect a lack of understanding of the terms and fees associated with such borrowing. A study by Lusardi and Tufano (2009) linked lower levels of financial literacy with higher rates of expensive credit card behaviors. Moreover, research shows that the overall Hispanic population, though less likely to have credit cards, is more likely to maintain balances on those cards and to report difficulty managing credit card debt. They are also more likely to carry credit cards with high interest rates, which could contribute to their having greater difficulty in managing credit cards (Ibarra and Rodriguez 2007).

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**FIGURE 9**

**CREDIT CARD BEHAVIOR AMONG HIGHLY EDUCATED HISPANICS**

<table>
<thead>
<tr>
<th>Have at least one credit card</th>
<th>78%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always pay credit cards in full</td>
<td>45%</td>
</tr>
<tr>
<td>In some months, carried over a balance and was charged interest</td>
<td>56%</td>
</tr>
</tbody>
</table>

**Engagement in expensive credit card behavior in some months over the previous year**

<table>
<thead>
<tr>
<th>Paid the minimum payment only</th>
<th>42%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Was charged a late fee for late payment</td>
<td>19%</td>
</tr>
<tr>
<td>Used card for cash advance</td>
<td>15%</td>
</tr>
<tr>
<td>Was charged an over-the-limit fee for exceeding credit line</td>
<td>11%</td>
</tr>
</tbody>
</table>

| Engaged in any form of expensive credit card behavior | 50% |

Note: Percentage of those with a credit card is calculated over a full sample of 1,553 observations. All other percentages are calculated over the sample of 1,217 with a credit card.
AFS are another source of short-term debt among highly educated Hispanics. AFS have been defined in research as high-cost borrowing methods because they come with exceptionally high interest rates and fees (Lusardi and de Bassa Scheresberg 2013). The NFCS investigates AFS use by asking respondents whether in the five years prior to the survey they took out auto title loans, payday loans, or advances on tax refunds or used pawnshops or rent-to-own stores.

As shown in Figure 10, 35% of highly educated Hispanics report having used one or more alternative borrowing methods in the past five years, a result that is nearly 16 percentage points higher than that of the analogous white sample. One study found that AFS are popular in part because of their greater liquidity, control, and accessibility (Pew Health Group 2011). This finding underscores that there are needs that may not be adequately addressed by banks and traditional financial institutions, particularly among the Hispanic population.

Consistent with the previous research on the subject, our research shows that highly educated Hispanics without bank accounts are much more likely to use AFS. Fifty-four percent report having done so in the five years prior to the survey. In addition, 24% of highly educated Hispanics report sometimes using check-cashing stores. This is a relatively high proportion in comparison with whites (8%). Twenty-six percent of highly educated Hispanics with bank accounts report that they occasionally overdraw their checking accounts. Similarly, nearly a quarter of those with retirement accounts indicate they have withdrawn from the accounts, taking either loans or hardship withdrawals.

### Figure 10

**Use of Alternative Financial Services Among Highly Educated Hispanics**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used a pawn shop</td>
<td>22%</td>
</tr>
<tr>
<td>Taken a short-term “payday” loan</td>
<td>17%</td>
</tr>
<tr>
<td>Taken an auto title loan</td>
<td>11%</td>
</tr>
<tr>
<td>Used a rent-to-own store</td>
<td>11%</td>
</tr>
<tr>
<td>Gotten an advance on a tax refund</td>
<td>10%</td>
</tr>
<tr>
<td>Used one or more high-cost borrowing methods</td>
<td><strong>35%</strong></td>
</tr>
</tbody>
</table>

*Note: Percentages are calculated over a full sample of 1,553 observations.*
In Focus: Making Ends Meet

The NFCS asks respondents a series of questions designed to ascertain how easily they are able to make ends meet. Many highly educated Hispanics report difficulties, raising concerns about their financial stability. Some 59% say it is “somewhat difficult” or “very difficult” to cover all their expenses and bills in a typical month (Figure 11). Moreover, one-fifth report that their spending over the past year exceeded their income, and another third say it was about equal, leaving no income to save (Figure 12).

Precautionary Savings

Given the previously described challenges, it is important to assess whether Hispanics are able to cope with unexpected adverse financial shocks. In the 12 months prior to the survey, a third of highly educated Hispanics experienced an unexpected drop in household income. However—and possibly as a result of this drop—only 40% of households have set aside emergency or rainy-day funds to cover expenses for three months. Hispanics were hit particularly hard by the economic turbulence of the financial crisis. In the midst of the crisis in 2009, the overall unemployment rate was 9%, while unemployment among Hispanics surpassed 12% (Bureau of Labor Statistics 2014). This gap persists, though it has narrowed somewhat.
Respondents are 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 used to represent several kinds of unexpected financial needs, such as medical bills, car repairs, and other possible shocks. Almost 4 in 10 respondents say they probably or certainly could not come up with the money (see Figure 13). The ease with which respondents can come up with this amount speaks to their financial strength (Lusardi, Schneider, and Tufano 2011). Being unable to deal with unexpected expenses leaves many educated Hispanics vulnerable to adverse financial shocks.

Financial Literacy

Past research has shown that most individuals consider themselves financially knowledgeable and are confident in dealing with personal financial matters. These findings apply to highly educated Hispanics, as well; for example, 77% of respondents in our sample agree 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” (see Figure 14). Similarly, 76% of respondents see themselves as having high levels of financial knowledge (see Figure 15).4

Such self-assessments are called into question not only by the financial behavior

Note: Percentages are calculated over a full sample of 1,553 observations. 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 were on a scale of 1–7, where 1–3 indicated disagreement, 4 was neutral, and 5–7 indicated agreement.

Note: Percentages are calculated over a full sample of 1,553 observations. 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 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.
discussed earlier, but by an objective measurement of financial literacy through questions designed to measure knowledge of simple concepts in economics and finance. The questions, phrased in the language of everyday transactions, test five fundamental concepts: numeracy and the capacity to do calculations related to interest rates, inflation, risk diversification in stocks and mutual funds, interest payments on a mortgage, and the relationship between interest rates and bond prices. Broadly speaking, correctly answering the first three questions indicates a basic level of financial literacy, while correctly answering all five questions indicates a high level of financial literacy.5

When looking at the responses to these questions, we find that many highly educated Hispanics show low levels of financial literacy (see Figure 16). Despite high self-assessments of financial knowledge, only 12% answered all five 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 of very low financial knowledge (Lusardi and Mitchell 2008, 2011a, 2011b, 2014).

Highly educated Hispanics display much lower financial literacy levels than their white counterparts. Hispanics are 20 percentage points less likely to display basic financial literacy than are highly educated white respondents. Hispanics are also much more likely to answer “Do not know” than white respondents. While some of these differences may be driven by the fact that the Hispanic sample is younger and has a higher percentage of women,6 these differences show that, even at high levels of education, there are still

<table>
<thead>
<tr>
<th></th>
<th>Highly educated Hispanics</th>
<th></th>
<th>Highly educated whites</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correct</td>
<td>Don’t know</td>
<td>Correct</td>
<td>Don’t know</td>
</tr>
<tr>
<td><strong>Numeracy question</strong></td>
<td>76%</td>
<td>9%</td>
<td>85%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Inflation question</strong></td>
<td>58%</td>
<td>20%</td>
<td>76%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Risk diversification question</strong></td>
<td>48%</td>
<td>40%</td>
<td>64%</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Mortgage question</strong></td>
<td>79%</td>
<td>13%</td>
<td>87%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Bond prices question</strong></td>
<td>27%</td>
<td>35%</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Answered the first three questions correctly</strong></td>
<td>32%</td>
<td>–</td>
<td>52%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Answered all questions correctly</strong></td>
<td>12%</td>
<td>–</td>
<td>25%</td>
<td>–</td>
</tr>
</tbody>
</table>

Note: Percentages are calculated over a sample of 1,553 observations for Hispanics and 12,033 for whites. 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.
important differences across ethnicities. As a consequence, Hispanics may be more at risk for making poor personal financial decisions than their white counterparts.

**Use of Financial Advice and Perception of Financial Professionals**

The problem of low financial literacy would be less severe if individuals were likely to seek help from financial professionals. However, research has shown that those with high financial literacy are more likely to consult with professional financial advisors than those with low financial literacy (Collins 2012). To determine whether highly educated Hispanics seek the services of financial professionals, they were asked whether in the five years prior to the survey they had received any advice about debt counseling, savings and investment, or taking out a mortgage or a loan.

Thirty-three percent of respondents indicate that they received professional advice on savings and investments, while 26% report having sought mortgage and loan advice and 12% having sought debt counseling (see Figure 17). In comparison with highly educated Whites, 52% of whom report having received professional financial advice, highly educated Hispanics seek advice at lower rates.

In the 2009 wave of the NFCS, respondents were also asked about their perceptions of and trust in financial professionals. Specifically, the 2009 NFCS asked:

> How strongly do you agree or disagree with the following statements? (On a scale from 1 to 7 where 1 means “strongly disagree,” 4 means “neither agree nor disagree,” and 7 means “strongly agree.”)

1. I would trust financial professionals and accept what they recommend.
2. Financial professionals are too expensive for me.
3. It is hard to find the right financial professional for me.

Nearly a quarter of highly educated Hispanic respondents disagree with the statement, “I would trust financial professionals and accept what they recommend” (Figure 18). A third neither agree nor disagree, while almost 40% agree. The spread is informative. Broadly, highly educated Hispanics trust financial professionals, though not very strongly.
Moreover, those with higher financial literacy levels tend to trust financial professionals more than those who are less financially literate. This signals a potentially vicious cycle in which the less financially literate do not seek the advice they need.

Perceived cost and difficulty finding a good match are additional barriers. Almost 6 in 10 respondents agree with the statement that financial professionals are too expensive. Only 13%, moreover, disagree with this sentiment. Similarly, 44% of respondents feel that it is hard to find the right financial professional. Thirty-two percent neither agree nor disagree with this sentiment and only 15% disagree.

It is clear, then, that highly educated Hispanics have significant issues with financial advisors. They find them expensive and frequently feel that the ones they work with are not appropriate for their circumstances. Finding a way to address this attitudinal issue will go far in resolving the gap in advice-seeking behavior and, in turn, offset issues associated with low financial literacy.

**CHAPTER 3**

**Key Findings**

This report has examined the personal finances of highly educated Hispanics through a systematic analysis of their assets, liabilities, planning behavior, and financial literacy. Among the key findings:
→ The rates of expensive credit card behavior are high among highly educated Hispanics. Almost 8 in 10 have at least one credit card, and half of these cardholders report behaviors that can damage credit scores, increase interest rates, and harm their future borrowing capacity.

→ Highly educated Hispanics use AFS frequently. Thirty-five percent used one or more AFS within the five years preceding the survey. Check-cashing stores see similarly high rates of use. These numbers are alarmingly high, even among those who are banked.

→ Although 60% of highly educated Hispanics have retirement accounts, a full quarter of them have taken loans or hardship withdrawals from these accounts. This may provide short-term help with financial challenges, but it jeopardizes long-term security.

→ Highly educated Hispanics are financially fragile. About 40% could not come up with $2,000 if the need arose within the next month. This fragility leaves Hispanics in a very precarious position.

→ Financial literacy is low among highly educated Hispanics. Hispanics are less likely than whites to correctly answer any of the financial literacy questions and 20 percentage points less likely to demonstrate basic financial literacy. They are also about half as likely to exhibit high financial literacy. Financial illiteracy is a serious problem for this population.

→ Highly educated Hispanics are not comfortable with professional financial advice. Forty-four percent believe it is too hard to find the right financial advisor and nearly 60% feel that advisors are too expensive. On the whole, highly educated Hispanics’ attitudes toward financial professionals indicate that they have serious issues with financial advice. This may explain the low rates of financial advice seeking.

Two implications for the financial industry emerge from this analysis:

→ Because highly educated Hispanics show low levels of financial literacy, programs to appeal to and educate this population will do much help improve their financial condition. Low levels of financial literacy correlate with measures of financial distress as well as financial vulnerability. Despite high confidence in their financial knowledge, highly educated Hispanics show very low financial literacy. Less than one-third of highly educated Hispanics demonstrate basic financial literacy and only 12% show high financial literacy. This means that the highly educated Hispanic population is less able to cope with the financial challenges they face daily than those with higher financial literacy. This low literacy is particularly pronounced when compared to well-educated whites, who show far higher levels of financial literacy and fewer “don’t know” responses to survey questions.
designed to measure financial literacy. Given these detrimental rates, addressing this financial knowledge gap will help to increase overall financial capability.

There is room for traditional institutions to reach out to Hispanics. This will help address the use of AFS and other high-cost borrowing behaviors. Expensive credit card behavior and use of AFS are common among highly educated Hispanics. Half of credit cardholders engage in expensive behaviors, and 35% of highly educated Hispanics used one or more high-cost borrowing methods in the five years preceding the survey. Even when accounting for unbanked respondents, these numbers are very high. This means that Hispanics with access to traditional financial institutions still turn to high-cost borrowing methods. Finding a way to increase highly educated Hispanics’ engagement with traditional financial institutions would decrease these expensive behaviors and benefit this population.

CHAPTER 4

Conclusions

This report has examined the personal finances of highly educated Hispanics by looking at their assets, liabilities, financial fragility, financial literacy, and use of financial advice. Highly educated Hispanics are, in many ways, in a dangerous financial state characterized by great financial fragility and broad use of expensive credit card behaviors or AFS. Moreover, their financial literacy is consistently low, despite high self-confidence in their decision-making abilities. These low levels of financial literacy are associated with the other financial challenges faced by highly educated Hispanics that have been outlined in this report. Actions must be taken to address these problems, particularly low financial literacy and costly borrowing behavior. Finding a way to do so will help to improve the financial situation of this highly educated and influential population.
Endnotes

1 Normally Filene uses the term “Latino,” but in this report we use the term “Hispanic” to maintain consistency with the National Financial Capability Study.

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

3 Among homeowners, 73% have mortgages and 16% have home equity loans.

4 This result is similar to that of highly educated whites, who are slightly more confident in their financial knowledge (80%).

5 The financial literacy questions were originally designed by Lusardi and Mitchell for the US 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.

6 In related research, women and young adults have been shown to display particularly low financial literacy relative to men and other age groups, respectively.

7 For the 2009 wave, the sample consists of 1,631 highly educated Hispanics.

8 Possible answers also included “I do not know” and “I prefer not to say.”
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