



BLACK AMERICA'S FINANCIAL WELLNESS

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The Hill We Climb

By Amanda Gorman

“

... because we know our inaction and inertia
will be the inheritance of the next generation.
Our blunders become their burdens.
But one thing is certain,
If we merge mercy with might,
and might with right,
then love becomes our legacy,
and change our children's birthright.
So let us leave behind a country
better than the one we were left with.
Every breath from my bronze-pounded chest,
we will raise this wounded world into a wondrous one.

”

It takes more than information to influence people's lives, and money alone does not result in financial health. Financial well-being is “a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life.”¹ Financial well-being is a holistic view of our financial lives and includes our access to financial services, our financial behaviors and decisions, as well as how we think and feel about money. Because financial well-being is somewhat objective and subjective, it accommodates the realities and individualities of financial circumstances. It is the ideal measurement to evaluate the financial health of individuals and communities.

Generally, financial and economic research controls for gender, race, or ethnic heterogeneity of populations. In statistical analysis, controlling for race or gender is simple. In real life, that is not an option. Nobody gets to push the “appear as a gray avatar” button to walk into a bank, apply for a mortgage, or navigate starting a small business. We show up as we are, and our identities have real implications on how we experience life. The reality of carrying our identity with us throughout our financial and economic life experiences prompted this research.

In an effort to understand the cultural specificity of financial well-being, **Timi Joy Jorgensen, PhD, Assistant Professor and Director of Financial Literacy at The American College of Financial Services**, conducted research that deconstructed the variables that were predicting financial well-being for different populations. This report focuses exclusively on the specific predictors of financial well-being for Black women and men in the United States.

Understanding the identity-specific predictors of financial well-being is the first step for the financial services industry to engage in culturally competent and meaningful ways with Black Americans. Financial empathy and data-informed business solutions can foster a business environment of concerted economic inclusion.

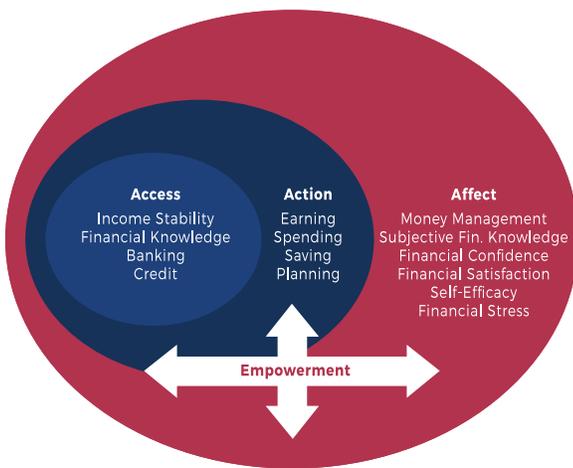
¹ Consumer Finance Protection Bureau, 2015

Methodology

At the base of inclusive practices, all parties must have access to the same tools, knowledge, products, and services. Equal access is necessary to make the same level of autonomous financial decisions. The level of access as well as the autonomy to make positive financial decisions, both feed into how individuals think and feel about finances. The Inclusive Financial Wellness and Empowerment Model takes into account the access points that are required to make positive financial actions, and finally considers the emotional implications (see Figure 1). This holistic view of financial well-being creates a more accurate predictive model for specific groups.

Figure 1

Inclusive Financial Wellness & Empowerment Model



Using the Inclusive Financial Wellness and Empowerment Model, Dr. Jorgensen conducted financial well-being research with the 2018 wave of the National Financial Capability Study (NFCS). The NFCS is a project of the FINRA Investor Education Foundation (FINRA Foundation) and was collected by Arc Research. The research includes 1,582 Black women and 1,253 Black men from across the U.S., and sampling procedures actively recruited to mimic U.S. Census demographic benchmarks.

Trend-Breaking Results

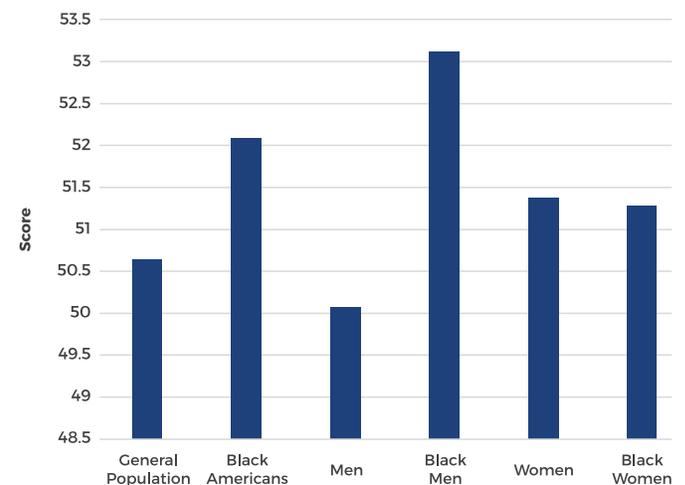
What do we know about Black America's financial wellness? It is significantly higher than the overall population with Black American's financial well-being score at 52 and the average for the population is 50.

With a significant lead, Black Americans defy three trends seen in the general population. First, women have higher financial well-being in the general population. Second, older consumers have higher financial well-being than younger ones. Third, the lower the income, the lower the financial well-being of the general population.

Black men have higher average financial well-being scores than Black women. Age was not a significant predictor of financial well-being for Black women. Finally, Black Americans make up a disproportionate percentage of lower income groups, but have significantly higher well-being scores than the general population (see Figure 2).

Figure 2

Average Financial Wellness Score



Key Findings

1. THIS IS AN ISSUE OF ECONOMIC EMPOWERMENT AND EQUALITY

Black women and men experience the lowest levels of access to financial education, banking, lines of credit, and stable incomes. The lack of access influences the ability to take action. Lack of access and financial autonomy continues to diminish financial well-being by eroding the financial satisfaction, financial confidence, and financial self-efficacy of Black men and women, as well as compounding the financial stress.

Black America is a fertile and untapped marketplace of resilient and capable consumers ready for better financial alternatives – communities, legislators, educators, and financial services organizations must work together to develop viable alternatives for

historically underserved markets. Therein lies the opportunity for unprecedented growth.

ROADMAP TO IMPACT:

Exposure, Stability, Empowerment

The keys to sustainable increases in financial wellbeing include:

- **EXPOSURE:** Share culturally competent education married with financially sound practices
- **STABILITY:** Focus on the next goal – wealth creation comes after financial stability
- **EMPOWERMENT:** Change the narrative around what it means to “make it” financially from “making money” to “making your money work for you”

What exactly does low access mean? Access scores range from 0-11, which are broken down into four levels (or quartiles) of access. Access is calculated as the sum of:

- Financial knowledge (# correct out of six questions)
- Income stability (stable household income over the last 12 months)
- Access to banking (has a checking account, has a savings account)
- Access to lines of credit (has a credit card, has an auto loan)

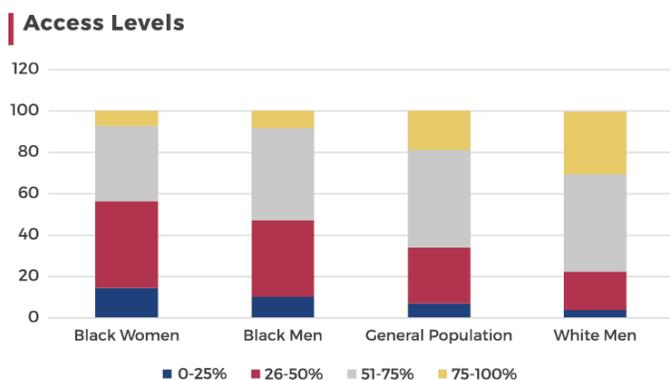
Over 14.6 million American adults have the lowest level of access; of which, 4.9 million are Black adults. What has led to this lack of access? There are several contributing factors. On the financial services side there are proximity issues for low-income zip codes. There are also issues of affordability when it comes to opening accounts or dealing with overdraft fees. The financial socialization side-effects are that people find other ways to accomplish their banking needs - through alternative financial services. Generally, in low-access areas, alternative financial services thrive because they are meeting a demand for check cashing, bill pay, access to credit, or services to smooth uneven income.

2. LIMITED ACCESS IS FINANCIALLY CRIPPLING

Black consumers experience the lowest levels of access of any identity. Access measures financial knowledge, income stability over the previous 12 months, and access to banking and lines of credit. Just over 10% of Black men and 14% of Black women reported the lowest levels of access. Only eight percent of Black men and seven percent of Black women experienced the highest tier of access. By comparison, three percent of White men reported the lowest tier of access and 30% of White men experienced the highest tier of access (see Figure 3).

What can the financial services industry do to reverse this trend? The advances seen in eCommerce and online banking have democratized and reduced fees and overdraft issues dramatically. For many underbanked individuals, they haven’t returned to a formal banking institution because they had overdraft fees and account maintenance fees that made it unwise to continue the services. Changing a consumer’s view of the industry and increasing trust may not be a quick change, but it is worthwhile.

Figure 3



At 3.2%, Roughly 1.28 Million Black Adults Lack Access to Financial Services

- No Banking Accounts
- No Access to Credit
- Unstable Income
- Zero Financial Literacy

3. BLACK AMERICA MODELS FINANCIAL RESILIENCE

Unlike the overall consumer market, where financial stress strongly predicted financial well-being, financial stress was not a significant predictor of financial well-being for Black women.

Black women are key stakeholders in the financial culture and well-being of Black communities. The most significant predictors of financial well-being for Black women were *ACTIONS*. Tangible solutions for Black women to improve their financial well-being include paying credit cards in full, being able to handle an unexpected \$2,000 expense, and regularly contributing to retirement savings.

Black women have a financial resiliency that, if met with a culturally competent financial services industry, can lead to an economic equality revolution never seen before in the history of our country. For the U.S. overall, financial stress and financial well-being are so highly linked, there could almost be an equal sign between the two. In other words, high levels of financial stress almost certainly correlate with low financial well-being. For Black women, financial stress was not significantly predictive of financial well-being.

Using this as a starting point, we see that when it comes to how Black women are thinking and feeling about money, the biggest predictors of financial well-being are financial satisfaction, financial confidence (or one's ability to set a goal and accomplish it,) and financial self-efficacy (knowing how to act and believing in one's ability to follow through). The data and this moment in history point to a clear path forward – economic equality and empowerment for Black communities.

Key Takeaways

Acknowledging the lack of access faced by Black Americans refocuses the effort from financial literacy “if they just knew, things would be better” to a clear path to allyship for the financial services industry toward improving the financial well-being of an entire market segment.

The good news? Certain segments of the marketplace (White and Asian American men) are experiencing high levels of access right now. We do not have to reinvent the wheel; we just have to take the wheel that is working and put it on the other side of the car. It is completely possible to extend access to all historically underserved markets.

An uplift for Black consumers in any area of access – financial knowledge, income stability, access to banking, or access to lines of credit – would result in a statistically significant increase in positive financial behaviors, increased financial satisfaction and confidence, lowered financial stress and ultimately, improved financial well-being.

Holistic problems call for holistic solutions. The only way to see dramatic growth is to adopt an ecosystem-wide solution. Creating economic equality requires top-down efforts married with community-based solutions, magnified by mainstream adoption and implementation.

The American College of Financial Services has launched The Center for Economic Empowerment and Equality to meet this clarion call. To learn more about The Center, its initiatives, and to see how you can donate and get involved, please visit:

TheAmericanCollege.edu/Equality.

Conclusion

For Black consumers, every component of access was significantly lower than the general population. Access to financial knowledge, stable income, banking, and credit were all uniquely low for Black men. Black women experienced significantly lower access to stable income sources and financial knowledge. Even without differences in banking and credit – without the knowledge or resources, Black women are unable to create their own economic equality.

Financial behaviors were remarkably similar across all groups researched, and when controlling for differences in access, no behavior gap exists for Black Americans. The differences that we see are accounted for by limited access as well as the emotional burdens created by that restricted access.

The cultural norms that impact generational behavior have been shaped by socio-historic discrimination. A lack of access to optimal financial products and services has influenced cultural norms that can be addressed through financial empowerment system-wide support. Building cultural competency requires financial empathy and data-informed solutions.

It's not about doom and gloom - it's about recognizing the financial grit, resilience, and skills in the Black community. This is a marketplace that can and should be addressed with positivity and optimism. Together we are stronger.