

# Study finds barriers limit black households' access to financial services

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Kenneth White is an assistant professor in the department of financial planning, housing and consumer economics in the College of Family and Consumer Sciences. Credit: Cal Powell

While black households see value in using financial planning services, most don't pursue it due to barriers to entry including large gaps in income and net worth relative to other ethnic groups, according to a

University of Georgia researcher.

Black and Hispanic households have significantly fewer financial assets compared to [white](#) and Asian households, in addition to lower levels of education, less willingness to take financial risk and a shorter horizon for planning for the future.

All of these factors are predictors of the use of [financial planning](#) services.

Notably, when these variables were controlled, research showed that black households were actually more likely to consult a financial planner, suggesting usage rates might be higher if the playing field were more level.

"I believe our findings suggest that black households understand there is value in financial planning and they're more likely to use financial planners than other households, but they just have these barriers to entry," said Kenneth White, an assistant professor in the department of financial planning, housing and consumer economics in the College of Family and Consumer Sciences.

Among those barriers, White said, is the low number of black financial planners in the industry and low levels of trust among black households for financial institutions.

Black households also have less [net worth](#) and fewer financial assets relative to whites and Asians, which makes them less attractive to providers operating under a traditional [fee structure](#).

An analysis of the Survey of Consumer Finances, a cross-sectional, nationally representative data set published every three years by the Federal Reserve Board, showed black households had the lowest mean

net worth—\$95,261—of the four [ethnic groups](#) studied.

By contrast, white households had the highest mean net worth at \$678,737, followed by Asian households at \$575,511.

"The way financial planners have historically been compensated is they look for assets, and black households just don't have the same level of net worth and assets that white households have," White said. "You can't depend on assets under management as a stream of revenue if there are no assets to be managed."

Relative to those gaps, however, the income gap between white and black households was not as significant at \$101,731 to \$42,208.

White suggested a change in the fee structure to include hourly rates or a monthly fee rather than a model based on [assets](#) and net worth might make financial planning services more attractive to black households.

Although there are challenges with an hourly or monthly model, it still may make financial planning services more accessible to black households, White said.

"If you're looking at it from an income perspective and charging based on what someone can afford to pay, that kind of opens up the services a little more," he said.

The paper, "Financial Planner Use Among Black and Hispanic Households," appeared in the September 2016 issue of the *Journal of Financial Planning*.

Provided by University of Georgia

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