New study highlights disparity in black financial literacy

27 November 2019

The P-Fin Index measures eight key areas of personal finance knowledge: earning, consuming, saving, investing, borrowing and managing debt, insuring, comprehending risk and uncertainty and go-to information sources. According to the new report, African-American adults answered 38 percent of the P-Fin Index questions correctly, compared to 55 percent of white adults.

African Americans scored highest in the areas of borrowing and debt management, but scored lowest on questions relating to insuring. African Americans scored comparatively low on questions related to comprehending risk, investing and identifying go-to information sources. The report states that low levels of financial literacy in insuring and comprehending risk are especially 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," the report states. "Poor insurance decisions can leave an individual under-insured for some risks and over-insured for others, as well as overpaying for coverage."

There are demographic differences in financial knowledge among African Americans. For example, financial literacy is greater for those with more formal education, those who received financial education and those with higher incomes. Men and older individuals also tend to have greater financial literacy than women and younger adults.

The gap in financial knowledge between African Americans and whites can be partially attributed to underlying demographic differences between the two groups. However, the differences cannot account for the entire gap as financial literacy is still lower for African Americans compared to whites in each demographic subgroup reported in this study.

The report also states that it is important to increase efforts to promote financial education in
school and the workplace to help bridge some of the gaps in financial literacy and ultimately financial wellness. These efforts could include programs that emphasize topics where financial literacy is lowest, such as insuring and understanding risk and uncertainty.

The connection between financial literacy and financial wellness is well-documented, and this is true among African Americans as well, the report states. For example, those with higher financial literacy tend to save for retirement, have non-retirement savings and be better in managing their debt overall. They are also less likely to be financially fragile.

"While not a cure-all, increased financial literacy can lead to improved financial capability and practices that benefit even those with relatively low incomes," the report states.

It also states that future initiatives that aim to bridge these gaps must better target the needs of specific demographic subgroups if they are to be successful.

Provided by George Washington University

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