IPRPD
International Journal of Business & Management Studies
ISSN 2694-1430 (Print), 2694-1449 (Online)
Volume 02; Issue no 11: November, 2021

The Financial Literacy and Fragility of African Americans before and during Covid-19

Kriste K. Flowers [1]

[1] *Assistant Professor of Accounting, University of Arkansas at Pine Bluff, USA*

Abstract

This study examines the financial literacy and fragility of African Americans in the state of Arkansas. The National Financial Capability Study (NFCS) is administered by FINRA Investor Foundation. The NFCS is a survey designed to establish key indicators of Americans' financial capability. The survey is nationally representative with more than 27,000 observations. The 2018 NFCS survey also contains data from the TIAA Institute-Global Financial Literacy Excellence Center (GFLEC) Personal Finance Index (P-Fin Index) to examine the current state of financial literacy among African Americans. The NFCS was administered in Arkansas to 500 respondents. Data was extracted from the 500 respondents to obtain only African Americans. There were 59 African American respondents. The sample includes 36 females (61%) ages 18 to over 65 and 23 males (39%) within same age range. This study identified the financial well-being of African Americans was well below that of the U.S. population prior to Covid-19. The national results showed that personal finance knowledge is lowest among African Americans. In Arkansas, 18% of respondents reported over the past year, their household spent more than their income. Nationally, African Americans (19%) reported spending more than their income. In Arkansas, 50% of individuals lack emergency funds and 53% of African Americans lack emergency funds. Study participants were asked six questions from the P-Fin Index. Arkansas respondents answered there or fewer questions correctly. Over 50% of African Americans in Arkansas answered two questions correctly and over 50% indicated they didn't know.

Keywords: financial literacy, covid-19, financial fragility, financial well-being, African Americans, financial capability

Introduction

The pandemic has created a global economic crisis. The economic crisis, according to the Brookings Institute (2021), is unprecedented in its scale; "the pandemic created demand shock, supply shock and financial shock all at once." (Triggs and Kharas 2020). Prior to the pandemic, the 2018 NFCS surveys were administered to measure financial capabilities of the U.S. populations. The surveys are nationally represented and it the largest sample size (more than 27,000 observations). The surveys included demographic, behavioral, attitudinal, and financial literacy characteristics (Bolognesi et al. 2020). TIAA Institute conducted the 2020 P-Fin Index an annual survey to assess the knowledge and understanding which enable sound financial decision making and effective management of personal finances (Yakoboski et al. 2020). The results of the 2018 NFCS measured American's financial fragility prior to the pandemic. The 2020 P-Fin Index measured America's financial fragility during the pandemic. Prior research has shown that financial fragility was high prior to COVID-19 and the pandemic exacerbated the financial and economic crisis.

One of the main challenges preventing problems settling household liabilities during financial crises is financial education (Kurowski, 2021). Kurowski (2021) indicates the lack of financial and debt literacy of borrowers may lead to loans being taken by people who are unable to repay. The data from the 2018 National Financial Capability Study (NFCS) and the TIAA Institute Personal Finance (P-Fin) Index was used to show the financial literacy and behavior of Americans, and more specifically, African Americans, prior to COVID-19. Financial literacy is the knowledge and understanding that enable sound financial decisions and effective management of personal finances. Studies have shown that there is a strong connection between financial literacy and financial wellness. However, research data has shown prior to COVID-19 American families were financially fragile. Financial fragility is the capacity to meet unexpected emergency or financial crisis. Financial fragility is connected to financial literacy and many Americans were not prepared for the financial crisis and devastation when Covid-19 hit the United State in early 2020.

Prior research shows that before the current crisis, the financial well-being of African Americans was well behind the U.S. population as a whole and one reason for the gap was the lack of increased financial literacy (Yakoboski et al. 2020). Financial literacy contributes to financial wellness and financial resiliency especially through a crisis. Lusardi et al. (2020) notes, financial literacy tends to be lower among females, lower-income individuals, the unemployed or disabled and the young less educated. Underrepresented minorities are often hit the hardest by an economic crisis and lower levels of financial literacy only exacerbate these situations (Lusardi et al. 2020). According to Lusardi et al. (2020), the P-Fin index indicated a substantial proportion of the population was already financially vulnerable even when the economy was doing well. According to Yakoboski et al. (2020) personal finance knowledge among African Americans is below that of whites (African Americans answered 38% of P-Fin Index questions correctly, with only 28% answering over one-half of index correctly. Whites answered 55% correct and 62% answering over one-half of index correctly). Financial literacy is greater among men, older individuals, those with formal education and higher incomes (Yakoboski et al. 2020). Notably, borrowing and debt management are the areas of highest personal finance knowledge among African Americans; however, insuring is the functional area where personal finance knowledge is lowest among African American population as well as comprehending risk, investing and identifying go to information sources (Yakoboski et al. 2020).

H1: African Americans were lacking financial literacy skills and were financial fragile prior to Covid-19 and the pandemic exacerbated these challenges.

Method

Participants

The NFCS was administered to people in Arkansas and there were 500 respondents. There were 59 African American respondents out of all respondents in Arkansas. The sample of African Americans included 36 females (61%) and (23) males (39%). The mean age for males was 43 and for females 44. The majority of respondents (54%) did not own their own home and were single (49%) with either no children or no financially dependent children. Information regarding the respondents' employment status showed 42% worked full-time for an employer and the majority (24%) earned at least $25,000 but less than $35,000.

Data collection

The surveys focused on the general population of Arkansas. Respondents took the 2018 NCFS which had not been updated for the Covid-19 questions until now. Also, they responded to P-Fin Index questions that were part of NFCS. Respondents answered all questions anonymously and confidentially. First portion of survey was short demographic questionnaire to collect personal information regarding gender, age, educational level, marital status, employment status and amount of annual income (wages, tips, investment income, public assistance, retirement income, etc...) Those questions were also asked of the respondents' spouse or partner. Respondents' were also asked about their and their spouse or partner's military status. In regards to this study, what is highly significant is most respondents had a high school diploma or GED as well as some college but no degree.

Measures

Personal Finance

The TIAA Personal finance functional knowledge and understanding gauges eight functional areas. Those areas include: 1) earnings – determinants of wages and take-home pay; 2) consuming – budgets and managing spending; 3) saving – factors that maximize accumulations; 4) investing – investment types, risk and return; 5) borrowing and managing debt – relationship between loan features and repayments; 6) insuring – types of coverage and how insurance works; 7) comprehending risk and uncertainty – understanding uncertain financial outcomes and 8) go-to information sources – recognizing appropriate sources and advice. The GFLEC Financial Literacy course teaches students the following topics: time value of money and the financial calculator guidelines; consumer borrowing; saving and investing; planning for retirement; inflation, purchasing power, and the Fed; mortgage borrowing; personal taxes; basic probability, risk vs. return; risk diversification; risk, leverage, and retirement planning and biases in consumer finance.

Respondents were ask questions to gauge their level of comprehension and understanding of the aforementioned function areas after the demographic questions. Respondents were asked to assess their assets, debts, and savings to understand how well they were satisfied with their personal financial condition. They were asked if they have investments and if so, if they were willing to take risk. The survey questionnaire also included the following: How difficult is it for you to cover your expenses? Do you have a rainy day fund that will cover your expenses for three months in case of sickness, job loss, economic downturn or other emergencies? Have you ever tried to figure out how much you need to save for retirement? How your credit history is and how many credit cards do you own? Do you pay them off in full every month or do you pay the minimum? Do you have student loans? Do you have a checking, savings, money market or cd? How comfortable do you feel going to bank or credit union to ask about product or services? Do you have a retirement plan and is it through your employer or not through your employer (example: IRA, Keogh, SEP, etc.…)? Have you had to withdraw from your retirement account? Do you have an auto loan? Have you ever gone to a pawn shop or traded you auto title to borrow cash? Do you have any medical expenses? Have you not gone to the doctor or gotten a prescription because it's just too expensive? Have you had financial education? Where? How long? Lastly, the P-Fin Index questions (6).

Data Analysis

The data analysis has been carried out with SPSS 25.0 and XLSTAT software packages. A descriptive analysis has been conducted to describe the demographic characteristics, the same way as the mean, the standard deviation, the frequency and the percentage have calculated from respondents' personal information provided in the survey; in order to examine our research hypothesis, the financial literacy measure is included in a regression where the dependent variable is an indicator for whether or not individuals report ever having to having tried to save for retirement or make a plan for retirement. Also, to determine if saving for a rainy day or emergencies. Most respondents in this study indicated that financial education was not offered by schools or colleges they attended or workplace were they are employed. Therefore in this study financially literacy was not generally a strong predictor of financial behavior. Many of the respondents indicated they did not know for the P-fin Index questions.

Results/Discussion

Using the Pearson's correlation coefficient there was no significant difference between highest education level (either some college and no degree or an Associate Degree); income (at least $25,000 but less than $35,000); satisfaction with current financial condition (25% are not at all satisfied); and either they or someone in the household were equally knowledgeable regarding savings, investing and debt. Likewise there was no significant difference between males and females in regards to education, income, satisfaction with current financial situation and understanding savings, investing and debt. More than half of the respondents indicated that they do have student loans for their children and 42% had taken out student loans for themselves.

According to the National Data 42% of African Americans who employed full time engaged in extra work. In Arkansas, same 42% were employed full-time; however, over 70% of them did not engage in extra work. African Americans nationally are more likely than whites to feel that they currently have too much debt (45%). In Arkansas, 30 % agreed that they have too much and however, 32% responded that they spend less than their income and 42% responded it is not at all difficult for them to cover their expenses on a monthly basis. One-fourth of the respondents indicated that financially, I'm just getting by.

African Americans are less likely than whites to be homeowners (42% and 66% respectively). African Americans are more likely to have been late with mortgage payments in the past years (46% compared with 14%). Over half of the African American respondents in Arkansas do not own their home. Accordingly, most (13%) have never been late on their mortgage payment in the last 12 months.

Over half (53%) have not set aside emergency or rainy day find that would cover expenses for three months. They have not tried to figure out how much to save for retirement but they do have a retirement plan through their employer and they can choose how to invest. They do not have any other retirement accounts that are not through their employer (only 15% do have other types of retirement). Also, most have not taken a loan or hardship withdrawal from their retirement. Most do not worry about running out of money when they retire. However, if they set a financial goal for themselves they are confident in their ability to achieve it. Most have a savings, checking, money market or CD. They are very confident in regards to going into the bank or credit union to discuss products or services.

Most of the respondents do not receive government assistance such as Medicaid or food stamps/SNAP. African Americans nationally (68%) engage in expensive credit card behaviors such as late payments and cash advances as well as alternative financing sources such as (trading auto loans for cash, rent to own places, payday loans, advance tax refund and pawn shops). Most respondents indicated that they had not engaged in that behavior. Fortunately, most of the respondents indicated that they are covered by employer sponsored health insurance. Sadly, many respondents indicated that they had missed appointments are medical procedures or prescriptions because of it being too expensive.

African American financial literacy

Nationally on average African Americans answered 38% of the P-Fin Index questions correctly. On 28% answered over one-half of the index questions correctly with 5% answering over 75% correctly. Over half of the respondents responded that they did not know and most answered two questions correctly.

Limitations

Some important limitations should be noted in this current study. This study was conducted during the pandemic and while all courses currently are remote on campus. Additionally, some resources are unavailable due to lack of access to the School of Business due to devastation to the building cause by winter storm February 2020. Funding and resources to bring the building and technology has been limited. Most of this study was conducted online by web based survey data to avoid infections to both researchers and respondents. The small sample size may limit the generalization of the results.

Conclusion

African Americans have been deeply affected by the most recent economic crises. In 2011, the New York Times, and studies completed by the ACLU's Civil Rights Division (2013), and the NAACP's Opportunity and Diversity Report Card on the Consumer Banking Industry (2013), the nearly insatiable appetite for subprime loans to package and sell on securities market encouraged lenders to maximize volume at all costs, including peddling loans with abusive terms and an elevated risk of ending in foreclosure. By indicating its willingness to buy up enormous quantities of subprime loans, Wall Street set the stage for an upsurge in discriminatory lending strategies.

Those events coupled with the student loan debt crisis and African Americans' precarious financial circumstances and lack of financial literacy skills are making it difficult for African Americans to achieve financial wellness. The statistics and results of this study show that African Americans were financial fragile prior to Covid-19. African Americans carry large debt inform of student loans and mortgages. They are having issues making ends meet and paying off debt. Many are engaging in expensive credit card and retirement account management to use alternative financial services.

We need targeted mandatory financial literacy programs in our local schools, communities and colleges and universities. Many people believe that financial literacy programs should be offered by employers. How is that going to assist many African Americans who do not have a job due to disabilities and sickness or being laid off because of the pandemic? The colleges and universities that serve as an important social conduit to the African American population need financial literacy education programs that are mandatory to students and offered free to those in the community. These programs need a holistic approach and personal counselors to offer personal assistance to those who need it. Also, the financial literacy educational program needs to be comprehensive enough to address all functional knowledge as recommended by Global Financial Literacy Excellence Center at George Washington University and TIAA P-Fin Index 28 questions exam.

Acknowledgements

The author is grateful to Drs. Edwina Harris-Hamby, Limmie M. Flowers, Annie Mae McQuirter, Mr. Henry W. Flowers, Attorney Dwight McQuirter and the late Rev. Wroten McQuirter for their encouragement and support.