

Financial Literacy in the Black Community

Closing the racial wealth gap isn't a simple fix. But many experts say education and financial literacy can help. In this article, we identify the impact this knowledge gap has on the African American community — and explore how Black educators and financial advisors are working to close it.



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Published: September 28, 2021

Updated: July 22, 2022

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Closing the Wealth Gap

African Americans have struggled for decades to build wealth in America. Historical injustices — including slavery, systematic inequality, employment discrimination, racist housing policies and other barriers — have stymied economic well-being and harmed retirement confidence for the community.

Today, the average white family has eight times the wealth of the average Black family, according to the Federal Reserve's 2019 Survey of Consumer Finances.

Closing the racial wealth gap in the United States is a complex issue with no one-size-fits- solution. But expanding [financial literacy](#), education and job training efforts can help, experts say.

DID YOU KNOW?

In 2019, white Americans had a median family wealth of \$188,200, while Black Americans had a median family wealth of just \$24,100.

Source: [U.S. Federal Reserve](#)

Lawrence Gonzalez is an auditor for the U.S. Department of Treasury Office of Inspector General in Washington D.C. who says healthy conversations about personal finance often don't exist in Black culture.

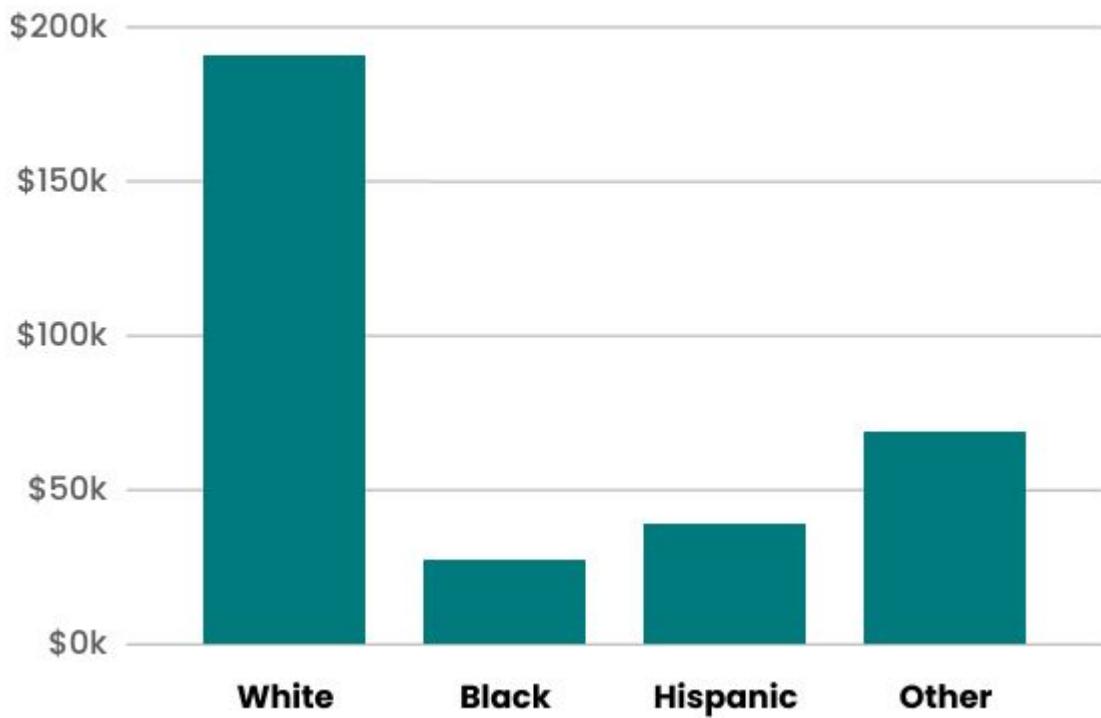
"People never wanted to discuss money, understand it, or grow it," Gonzalez told Annuity.org. "There's almost a mysticism around it because not enough people understand the concepts."

Raised in Port-au-Prince, Haiti with Brazilian roots, Gonzalez excelled at math at an early age. He came to the United States when he was 11 years old and graduated with a degree in accounting from the Florida State University.

After starting his career, Gonzalez wanted to give back to the Black community. In 2018, he started a financial literacy platform called the [Neighborhood Finance Guy](#) to share practical knowledge about eliminating debt and building personal wealth.

Gonzalez says leveraging experiences common to Black culture can help break down barriers to financial literacy.

Median Net Worth of Racial Minorities



"My friends love basketball, so I use that as a metaphor to explain investing," he said. "You try to use anything to trigger an idea, a concept that clicks and stays with people."

Drawing on family ties is another strategy.

"Remember what your parents and grandparents did. They were always performing financial literacy principals around you, from meal prepping to side hustles to buying in bulk at the grocery store," Gonzalez said.

The Internet has also made financial information more readily available over the last 20 years. Mobile banking, investment apps and online resources have helped level the playing field, according to Gonzalez.

"This information is more accessible than ever," he said. "Now it comes down to someone's personal motivation to pursue it."

What Is the Racial Gap in Financial Literacy?

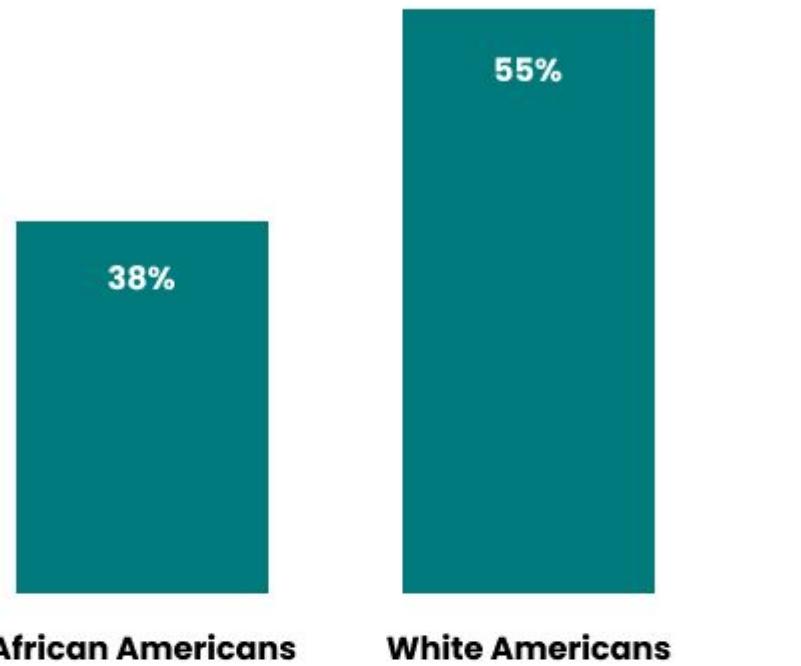
In 2018, just one-third of Americans could correctly answer at least four out of five financial literacy questions on concepts such as mortgages, interest rates, inflation and risk, according to a 2018 study by the [Financial Industry Regulatory Authority \(FINRA\)](#).

The disparity is greatest among African Americans.

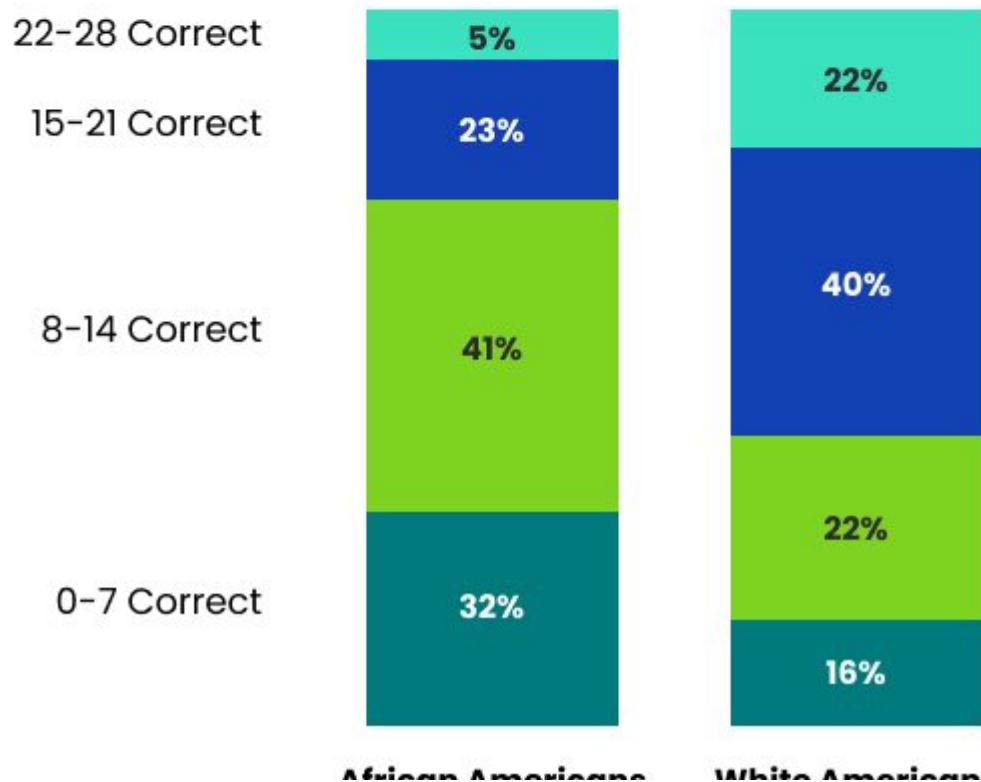
According to the [2021 TIAA Institute-GFLEC Personal Finance Index](#), African Americans answered an average of 38 percent of the study's financial literacy questions correctly, whereas white Americans answered an average of 55 percent of questions correctly.

African American Financial Literacy Lags White Americans

% of P-Fin questions answered correctly



Distribution of correct answers to P-Fin questions



Similarly, 28 percent of African Americans answered over one-half of the questions correctly, compared to 62 percent of white Americans.

Other findings from the TIAA study include

A lack of financial resilience was more common among African Americans than white Americans.

Insurance tends to be the greatest knowledge gap among African Americans, followed closely by comprehending risk, investing and identifying reliable sources of financial information.

Debt management is the area of highest personal finance knowledge among African Americans.

Among surveyed African Americans, financial literacy is greater among men, older individuals, those with more formal education and those with higher incomes.

Minority financial experts agree that strengthening financial literacy — the ability to use skills to effectively manage money and resources — can be the key for African Americans to achieve a lifetime of financial well-being.

Educating Early

Raising public awareness is important — but so is [teaching students financial literacy](#) in public schools.

Yet a patchwork of state laws, coupled with funding issues and limited training for teachers, has made financial literacy education in schools inconsistent at best and [nonexistent at worst](#).

Twenty-one states required students to complete a personal finance course prior to high school graduation as of 2020, according to the [Council for Economic Education](#).

However, the size and scope of mandated high school personal finance classes vary. Only six states require students to complete a semester-long, standalone class. Other states offer a shorter course or fold curriculum into a different class.

TIP

See if your child's school offers personal finance instruction by searching [Check Your School](#), a tool from the nonprofit JumpStart Coalition.

Research indicates that mandated education requirements make a difference.

College students who undergo state-mandated financial education in high school are more likely to apply for financial aid, more likely to borrow fewer private loans and less likely to carry a credit card balance, according to a study from the [National Endowment for Financial Education](#).

Almost 70 percent of high schoolers graduating in 2019 had at least some access to personal finance, including the option to take at a one-semester elective, according to research from Next Gen Personal Finance, a nonprofit group that creates free curriculum and funds professional training for high school teachers.

Status of Personal Finance Education Across 50 U.S. States, 2020

	YES	NO
Included in the K-12 Standards	45	5 + D.C.
Standards Required to Be Implemented by Districts	37	13 + D.C.
High School Course Required to Be Offered	24	26 + D.C.
High School Course Required to Be Taken	6 STANDALONE 15 INTEGRATED	29 + D.C.
Standardized Testing	5	45 + D.C.

However, major gaps in access exist between higher and lower income students, particularly in states where there is no required one-semester personal finance course.

In schools where at least 75 percent of students were eligible for free and reduced lunch — a common measurement of low income — only 3.9 percent of

students were required to take a one-semester personal finance course.

Another 52.4 percent were at least given the option.

In contrast, wealthier school (where less than 25 percent of students were eligible for free or reduced lunch), students were nearly three times as likely to be required to take a one-semester personal finance course (10.5 percent). Another 61.6 percent were at least given the option.

"It's a huge gap," said Tim Ranzetta, co-founder of Next Gen, to Annuity.org. "To say the numbers are disappointing is an understatement."

Next Gen and other organizations are trying to narrow the financial literacy gap by focusing on schools in underserved communities.

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— Tim Ranzetta, co-founder of Next Gen Personal Finance

Last year, Next Gen launched a pilot program providing grants to some of the nation's largest school districts, which historically have more minority students. The three-year grants help districts cover salary for a personal finance education specialist for three years, Ranzetta said.

Of course, [teaching kids about personal finance](#) can take place outside the classroom, too. Podcasts, YouTube videos and free online resources can help teach students — and parents — valuable lifelong lessons about money.

Keeping an open dialogue at home is important, too.

Ranzetta said everyday discussions — like how to save money at the grocery store or how to use an ATM — can spark interest in personal finance for children and teens.

"Talking about money is still seen as a taboo subject in many households," Ranzetta said. "But it doesn't need to be a 'big talk.' It should just be a part of day-to-day conversations."

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How Financial Literacy Impacts the Black Community

Financial literacy is made of several components. The 2021 TIAA Institute Index study assess financial knowledge in eight key areas.

8 Areas of Financial Literacy

Earning

Consuming, such as budgeting and managing expenses

Saving**Investing**

Borrowing and debt management

Insurance

Comprehending risk and uncertainty

Recognizing trustworthy sources of financial information and advice

Borrowing is where African American financial literacy is highest, according to the study, while knowledge about insurance is the lowest.

Borrowing and Managing Debt

Brandy Baxter, an accredited financial counselor and founder of Living Abundantly Coaching and Counseling in Dallas, knows first-hand how a lack of financial education can impact young adults.

When she was in college, Baxter amassed thousands of dollars in credit card debt. She fell victim to enticing offers at a freshman academic fair, a common occurrence prior to 2009 legislation that brought sweeping protections to young credit consumers.

"When I walked onto campus, the first two vendors I saw were for pizza and credit cards," Baxter told Annuity.org.

Baxter didn't learn much about borrowing money or building credit growing up.

"All my mom told me is 'Don't get a credit card,'" Baxter said. "But I didn't know why."

Baxter's "awakening" happened when she tried to join military after college. She almost didn't get in because her credit card debt was too high.

"I couldn't believe it," she said. "They said my debt-to-income ratio was a potential security risk for the military. I didn't even know what a debt-to-income ratio was."

Building a credit score, taking out student loans and paying down credit card debt are aspects of financial literacy many people encounter relatively early in

life.

But many Black Americans still struggle with debt. About 54 percent of Black Americans report having no credit or a poor to fair credit score below 640, according to a 2021 survey of 5,000 U.S. adults conducted by Credit Sesame.

In contrast, just 37 percent of white Americans report having poor or no credit.

The survey also found that 30 percent of Black Americans say they were misinformed or tricked in their first interactions with credit, compared to 18 percent of white Americans.

Comprehending Risk and Uncertainty

Financial risk is often a necessary strategy that is seldom understood by most individuals not immediately familiar with finance. Investing money in the stock market is a risk. So is purchasing a home or taking out student loans for college.

When you take a financial risk, you know the potential outcomes in advance. For example, if you buy a stock, you know it might lose value.

Uncertainty is when the potential outcome of future events is completely unknown. For example, no one knows what the U.S. economy will be like in 10 years.

Insurance is a risk management tool and a hedge against uncertainty. It can be used to protect against financial loss.

Yet insuring is the least understood area of personal finance among African Americans, according to the TIAA Index study. Comprehending risk, investing, and identifying go-to sources of financial information follow close behind.

A lack of insurance, or inadequate coverage, can be financially devastating if an emergency arises.

“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. Understanding how insurance works...and what constitutes appropriate coverage is important.”

— 2021 TIAA Institute-GFLEC Personal Finance Index

Black Americans are actually slightly more likely to own life insurance than white Americans, according to a 2020 study by Haven Life, an insurance company.

However, the national survey also shows the median value of life insurance policies held by Black Americans is substantially lower at just \$50,000, compared to a median coverage amount of \$150,000 for white Americans.

Years of discriminatory practices have fueled this gap, according to survey researchers. Without adequate life insurance, Black families may struggle to pass along wealth to the next generation.

“There’s a lot of confusion about insurance vehicles and a lack of education,” Baxter said. “You have to know how to protect your assets.”

Socioeconomic and Cultural Barriers

Socioeconomic and cultural influences can make financial literacy seem out of reach to members of the Black community.

Grammy award-winning rapper, 21 Savage, grew up in some of Atlanta’s poorest neighborhoods. The 29-year-old reportedly didn’t open his first bank account until he became a rapper.

“I knew there had to be a way to understand how to make and save money—but no one was teaching me that in my Atlanta schools,” 21 Savage wrote in an August 2020 op-ed for Time Magazine.

The rapper notes the persistence of myths surrounding wealth and distrust of financial institutions as hurdles to closing the racial wealth gap.

In 2018, 21 Savage launched a financial literacy campaign called "Bank Account," a nod to his 2017 hit.

Two years later, he partnered with Chime, a mobile bank, to further expand financial literacy resources to young people. The online course features lessons in banking, budgeting, managing credit and more.

For the popular rapper, financial literacy is a gateway to success and stability.

"It can help free youth to focus on the more important things in life," 21 Savage wrote in 2020.

Retirement Confidence

Institutionalized racism has eroded the earnings, savings, home values and overall wealth of many Black Americans. Those inequities don't disappear when people retire.

About 83 percent of Black seniors do not have the assets they need for [retirement](#), according to the Center for Global Policy Solutions, a nonprofit think tank.

In the past, many workers could rely on pensions, guaranteed sources of retirement income funded and managed by employers.

But the retirement landscape has shifted in recent decades toward defined contribution plans, such as [401\(k\)s](#), which require workers to invest in the stock market.

Research shows Black Americans are less likely to participate in these plans than white Americans.

In general, Black Americans also have lower incomes than white Americans, which means less money to invest for retirement. Many also work for employers who don't offer 401(k) plans.

Among middle-aged families, 65 percent of white families have some type of retirement account, according to Federal Reserve data, compared to just 44 percent of Black families.

Even wealthier Black households are much less likely to own stocks than white Americans, according to the Associated Press.

"In the Black community, there's a fear with investing that you've worked so hard for this money, you don't want to lose any of it in the stock market," said Baxter, the accredited financial counselor in Dallas. "Yes, there are risks. But investing is also a way to make your money work for you and your future."

Baxter said teaching people about financial literacy concepts like compounding interest and picking investments to align with their [risk tolerance](#) can help encourage retirement confidence among Black Americans.

Research from the National Bureau of Economic Research shows that more financial knowledge increases people's likelihood of [planning for retirement](#).

"We've been taught by our parents and grandparents that traditional savings accounts are the best place to save," Baxter said. "We rarely learn about the many other savings vehicles out there, and those can really make a big difference."

The Role of Black Financial Advisors

There is a significant lack of Black representation in the financial planning industry. In 2020, less than 2 percent of U.S. certified financial planners (CFPs) were Black.

While other financial designations exist, such as accredited financial counselors and brokers, data on minority representation in these professions is virtually nonexistent, making it difficult to track the industry's overall progress on racial diversity.

Increasing the number of Black financial advisors is important, experts say. One potential benefit is attracting new customers from minority communities who may feel more comfortable working with an advisor of the same race.

"If you're Black and you walk into an institution where no one looks like you and people are using technical terms you don't understand, the entire experience can feel intimidating and demeaning," Baxter said.

After serving in the military, Baxter was inspired to grow her financial knowledge, and ultimately started her own financial advisory company.

But she soon realized, "I wasn't meeting a lot of people in my field who looked like me."

In 2017, Baxter co-founded Black Girl Financial Magic, an organization dedicated to promoting women of color in the personal finance industry. Baxter said building a professional network has been beneficial to both advisors and their clients.

But knowing when and [how to pick a financial advisor](#) can be daunting.

"In Black culture, people aren't used to paying for trusted financial education," Baxter said. "Often they don't understand the benefit."

Baxter recommends people start with their banking institution.

"You already trust this place to hold your money," she said. "You can trust them to teach you about money, too."

Major banks — such as Bank of America Corp, Fifth Third, JPMorgan Chase & Co. and others — offer financial literacy programs and initiatives, from free online resources to hands-on programs for high school students.

Baxter also recommends seeking out certified financial advisors to further your education. Many professionals offer free discovery sessions to [identify your goals](#) and explain the services they offer.

"Don't be afraid to interview these people," Braxton said. "You can Google questions to ask a financial professional, so you go into the meeting prepared."

It's also important to check a financial professional's credentials. Anyone can call themselves a financial advisor, but those with legitimate certifications undergo specific training and education requirements.

If you want to find a Black financial professional to work with, you can use the Association of African American Financial Advisors' [Find a Financial Advisor](#) tool.

Enter your contact information, ZIP code, and any expertise you're looking for — such as investing or retirement planning — and the tool will provide a list of financial advisors in your area. There's also an option to search for professionals who offer virtual advising.

Additional Resources

[FDIC's Money Smart for Young People](#)

The Federal Deposit Insurance Corporation's Money Smart for Young Adults program includes four free age-appropriate curriculum products

for students K-12. Lesson plans for educators along with guides for parents teach the basics of handling money, including how to build positive relationships with financial institutions.

Y4Y Financial Literacy for All Resources

Interested in starting an after-school financial literacy program? This resource page from You 4 Youth offers numerous links to government and nonprofit resources to help educators and community leaders implement personal finance lessons into after-school programs.

Million Bazillion Podcast for Kids

Million Bazillion is a podcast about money for kids and their families from NPR's Marketplace. The program features engaging episodes that answer questions like "What is the stock market?", "Why is money green?" and "Why can girls' things cost more than boys' things?"

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