

Putting Research to Work for Families



Focus:
Civilian

Racial Differences in Returns to Financial Literacy Education

Al-Bahrani, A., Weathers, J., & Patel, D. (2019). Racial differences in returns to financial literacy education. *The Journal of Consumer Affairs*, 53(2), 572-599. doi:10.1111/joca.12205

SUMMARY: The racial wealth gap has garnered attention in the past several years and it can be partly attributed to a lack of financial knowledge. This study examined the racial differences in financial literacy and learning outcomes from financial education. Results show that benefits of participation in financial literacy education vary by race.

KEY FINDINGS:

- White participants scored higher on financial literacy knowledge than participants who identified as racial minorities.
- Participation in financial education increased financial literacy, but White participants reported better financial literacy scores than participants who identified as racial minorities.
- The income, age, and education of participants was positively related to financial literacy.
- Males have higher financial literacy than females.

IMPLICATIONS FOR YOUTH DEVELOPMENT PROFESSIONALS:

- Collaborate with others to identify ways that engage racial minority participants in financial literacy education
- Attend trainings about systemic bias to increase their knowledge and skills in a manner that provides racial minority participants with meaningful learning experiences

IMPLICATIONS FOR PROGRAM LEADERS:

- Develop curricula that take into account the demographics (e.g., race, gender, income level) of the participants being served
- Develop strategies to reduce attrition rates among racial minority participants in financial literacy programs

IMPLICATIONS FOR POLICY MAKERS:

- Encourage the development of programs that reduces systemic bias and takes participants' demographic characteristics into consideration, such as income and education level, in financial literacy curriculums
- Promote evaluation of the effectiveness of programs aimed at increasing financial literacy specifically for racial minority participants

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METHODS

- Data were collected from the 2015 National Financial Capabilities Study.
- Participants were asked financial literacy questions that examined the relationships between bonds and interest rates, compound interest, diversification, real rates of return, and loan maturity, as well as access to and intensity of financial literacy education.
- Data from the White and racial minority samples were compared to examine differences in the financial literacy between the two groups.

PARTICIPANTS

- Participants were relatively equally divided in terms of gender.
- There were equal number of participants in each age group that ranges from 18 to 65 years and older.
- Majority of racial minority participants were in the age group of 25-34 years, while the majority of White participants were above 65 years old.
- No information was provided on the racial identity of the racial minority participants or the exact number of participants

LIMITATIONS

- Racial minorities in the sample were considered as one group, which overlooked the racial diversity in financial literacy among different racial groups.
- The data were cross-sectional, which does not allow for interpretations of causal relationships.
- Financial education was not fully examined in the study (e.g., lack of measures on the quality of financial education); therefore, it may have unintentionally influenced the results of the study.
- The age differences in this study must be considered.

AVENUES FOR FUTURE RESEARCH

- Examine the differences in financial literacy between different racial groups and how each racial group compares to Whites in financial literacy scores
- Explore the contribution of other variables (e.g., socioeconomic status, education level, etc.) to the unexplained difference in financial literacy between Whites and racial minorities
- Analyze the role of attrition rate on the relationship between financial education and financial literacy in racial minorities

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