

Understanding the Racial/Ethnic Gap in Bank Account Ownership Among Older Adults

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Racial/ethnic disparity in bank account ownership among older population

Percentage of Financial Respondents 51 Years and Older Who Do Not Own a Bank Account at the Household Level by Race and Ethnicity

	2000-2012
White	10
Black	39
Hispanic	32

Source: Author's calculation, Health and Retirement Study (HRS)

The objective of our project

We study the socio-economic, cognitive and cultural factors at the individual and neighborhood level explaining bank account ownership facing older individuals, with a focus on racial/ethnic disparities specific to Blacks and Hispanics

Factors explaining bank account ownership

Demand

- Socio-econ status
- Language
- Culture
- Perceptions
- Situational

Supply

- Availability of banks and financial services offered
- Neighborhood environment

Methodology

We use data from the Health and Retirement Study (HRS) between 2000 and 2012 (longitudinal study)

Our sample includes individuals 51-90 years old from the following populations:

- 1) Whites, non-Hispanics
- 2) Blacks, non-Hispanics
- 3) Hispanics

Methodology

The decision to own a bank account is based on the **net utility of bank account ownership**, which is influenced by:

- time-invariant individual characteristics (race/ethnicity)
- time-varying individual characteristics (SES)
- unobserved, time-invariant individual preferences for participation in the formal financial sector
- time-varying neighborhood characteristics

Methodology

- We conduct a regression analysis, where we use a Correlated Random Effects (CRE) Model that allows us to account for the correlation between time-varying variables and time invariant unobserved individual preferences
- This approach allows us to see what factors are likely to explain the racial/ethnic gap in bank account ownership

Methodology

Factors explaining bank account ownership

Individual/Household level

- 1) Self-reported health and cognitive ability
- 2) Nativity status and citizenship
- 3) Individual “taste for privacy”, SSN
- 4) Spanish survey (language skills)

Methodology

Factors explaining bank account ownership

Neighborhood level

- 1) Neighborhood SES Index (census tract)
- 2) Neighborhood race/ethnicity & language composition (census tract)
- 3) Number of financial institutions (zip code)

Determinants of Bank Account Ownership, race/ethnicity of the household financial respondent

	Blacks	Hispanics
1. Baseline	-0.1451***	-0.1520***
2. Adding ownership of different assets	-0.1284***	-0.1345***
3. Adding health and cognition	-0.1149***	-0.1258***
4. Adding citizenship and foreign born	-0.1166***	-0.1162***
5. Adding taste for privacy, SSN consent	-0.1155***	-0.1156***
6. Adding Spanish survey	-0.1187***	-0.0841***
7. Adding neighborhood characteristics	-0.1159***	-0.0822***

*** and ** denotes statistical significance at the 1% and 5% level, respectively

Results – Full sample

- At baseline specification Blacks and Hispanics are less likely to own a bank account than Whites by 14 and 15 percentage points, respectively
- Once we include all the individual & neighborhood variables, the estimated residual gap is cut by 20% for Blacks and 46% for Hispanics (3 and 7 percentage points, respectively)
- Physical and cognitive health account for 3 and 2 percentage points of the gap
- Lack of English proficiency is the factor contributing the most to the gap in bank ownership among Hispanics (6 percentage points)

Determinants of bank account ownership, by different income, wealth and NSES groups

	Income		Diff.
	<i>I < Median</i>	<i>I ≥ Median</i>	<i>Sig.</i>
Black	-0.1348***	-0.0730***	1%
Hispanic	-0.0933***	-0.0708***	10%
	Wealth		Diff.
	<i>W < Median</i>	<i>W ≥ Median</i>	<i>Sig.</i>
Black	-0.1206***	-0.0558***	1%
Hispanic	-0.0869***	-0.0473***	5%
	<i>Neighborhood Socio-Econ. Status</i>		Diff.
	<i>NSES < Median</i>	<i>NSES ≥ Median</i>	<i>Sig.</i>
Black	-0.1118***	-0.0978***	5%
Hispanic	-0.0824***	-0.0792***	N.S.

*** and ** denotes statistically significance at the 1% and 5% level, respectively

Results – Wealth, Income & NSES groups

We estimate our model separately for those with income, wealth, and NSES index below and above the sample median

- Differences in wealth explain the gap in bank account ownership for Blacks & Hispanics
- Differences in income and NSES explain the gap in bank account ownership for Blacks

Determinants of bank account ownership by different neighborhood racial/ethnicity & language composition groups at the census tract level

Hispanics percentage (H)		Diff.	
<i>H < Median</i>	<i>H ≥ Median</i>	<i>Sig.</i>	
Black	-0.1179***	-0.1184***	N.S.
Hispanic	-0.028	-0.0849***	N.S.
Spanish language percentage (S)		Diff.	
<i>S < Median</i>	<i>S ≥ Median</i>	<i>Sig.</i>	
Black	-0.1214***	-0.1162***	N.S.
Hispanic	-0.0091	-0.0857***	5%

*** and ** denotes statistically significance at the 1% and 5% level, respectively

Results – Hispanics and Spanish language speakers in census tract groups

We estimate our model separately for those with percentage of Hispanics and Spanish speaking individuals in census tract below and above the sample median

- There is no statistical significant difference in bank account ownership among Hispanics that reside in neighborhoods with more or less Hispanics
- Hispanics in neighborhoods with a large proportion of Spanish speaking residents are less likely to have a bank account

Results – Spousal Peer Effects

We create a variable that accounts for race/ethnicity of the spouse:

- (i) White couples
- (ii) White–Minority (“mixed” couples)
- (iii) Minority couples

Determinants of Bank Account Ownership, race/ethnicity of the household financial respondent and Spouse

	Mixed couple	Minority couple
1. Baseline	-0.0339***	-0.1316***
2. Adding ownership of different assets	-0.0283**	-0.1145***
3. Adding health and cognition	-0.0271**	-0.1051***
4. Adding citizenship and foreign born	-0.0275**	-0.1045***
5. Adding taste for privacy, SSN consent	-0.0276**	-0.1034***
6. Adding Spanish survey	-0.0284**	-0.0997***
7. Adding neighborhood characteristics	-0.0275**	-0.0972***

*** and ** denotes statistical significance at the 1% and 5% level, respectively

Results – Spousal Peer Effects

- Mixed and Minority couples are less likely to own a bank account than White couples by 3 and 13 percentage points, respectively in baseline specification
- Estimated residual gap is cut by 26 percent for Minority couples in our full specification

Conclusion

1. The residual gaps between Blacks and Whites and between Hispanics and Whites are reduced by 20% and 46% in our full model, respectively
2. Socioeconomic status, health, cognitive ability and language contribute substantially to the racial/ethnic gap
3. We find evidence of spillovers within households, where "mixed" couples are less likely than minority couples to face economic, cultural & psychological barriers to own a bank account

Policy Implications

Our work aims at providing knowledge that is crucial for devising interventions that can effectively change financial decision-making among households where resources are most scarce and cultural/psychological hurdles more difficult to overcome

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