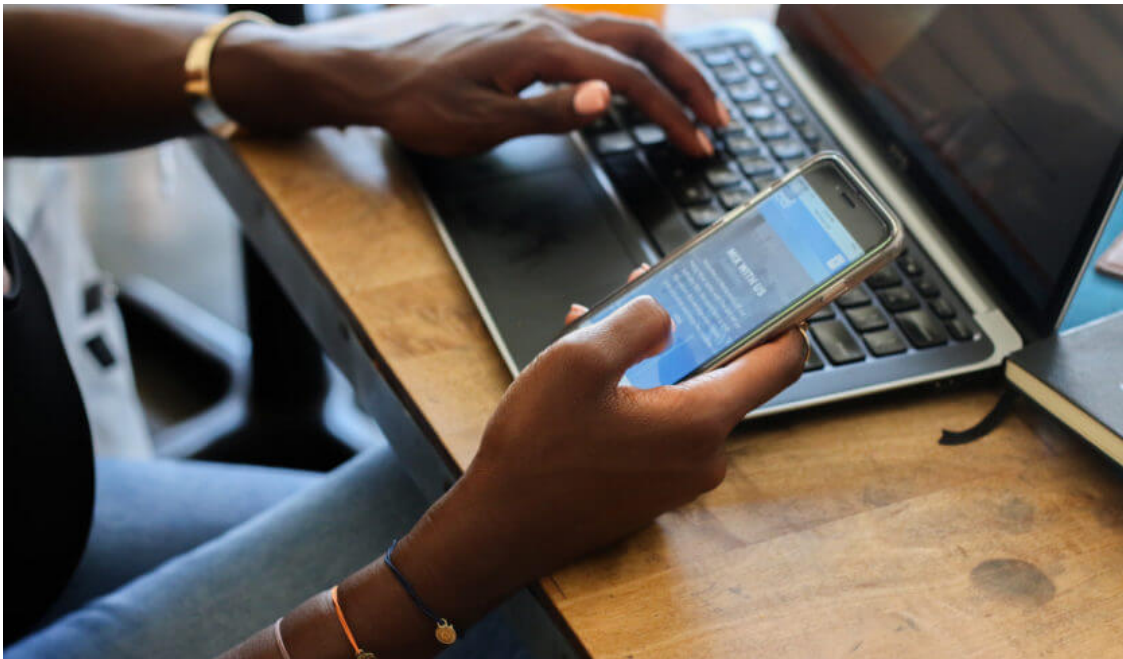


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INEQUALITY AND FINANCIAL BASICS

[Dori Zinn](#) | November 9, 2023



Black and brown communities are missing out on earning potential and wealth building due to a lack of literacy with financial basics.

It's easy to think that if you can do it, everyone can. But not everyone grew up with the same level of income, access or privilege. It's important to realize that we are all different, especially when it comes to how we earn, spend, and manage money, and that not everyone received education on financial basics growing up.

There are many financial basics that communities of color haven't historically been taught, and that lack of education makes it challenging to build generational wealth. We take a look at some of those barriers, and what they mean for people across the country.

UNDERSTANDING GENERATIONAL WEALTH

If you never believed you can achieve wealth or even financial stability, then you might not think you ever will, says Lawrence Delva-Gonzalez, Auditor and Financial Literacy Educator at [The Neighborhood Finance Guy](#). "The main struggles are psychological," he says. "If you have never seen or known other examples, it's easy to think that wealth is not for you."

[According to a study](#) from the Global Financial Literacy Excellence Center (GFLEC) at TIAA Institute, there's a lack of financial literacy among African Americans when compared to white individuals. When surveyed, Black people said they were less equipped to handle an emergency

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expense, and the study found low financial literacy rates among African Americans for topics including compounding risk, insurance and investing.

But this is just the tip of the iceberg when it comes to inequalities in financial literacy.

White people are more likely to benefit from ‘generational wealth transfers that help pay for college, mortgages, and more,’ Delva-Gonzalez says. “There’s more than \$68 trillion being transferred from retirees to Millennials, but most Black Millennials aren’t likely to see any of it. [At the same time], white millennials can easily find mid-six-figure inheritances.”

While people of all races often “learn by doing” when they’re first getting started with their financial lives, people of color are far less likely to have the safety net of wealthy parents or generational wealth to bail them out if things go awry, or if they want to try something new. Which means that one wrong financial move or bad decision could have long-lasting implications for their financial future.

THE FINANCIAL BASICS NOT EVERYONE LEARNS

Delva-Gonzalez says most people of color aren’t educated early on as to how personal finance works, and unless they’re taught it in college or by friends and family, they may be learning it for the first time once they start earning an income as adults. Thankfully, there are more resources available today than ever before.

“With the advent of consumer technology and the internet, Fintech has changed the way people invest,” he says. “This is the arena where Black and brown communities lack. The power is on our phones and knowledge is all over the internet.”

If you’re not sure where to start, Delva-Gonzalez offers a few places to start.

1. **Make a list (and check it often)** One of the best places to start is by taking inventory of your wealth, even if you don’t think you have any. You can give apps like [YouNeedABudget](#) (YNAB) or [Empower](#) a try, or take a look at other budgeting tools to track your assets, income, and expenses. This might take awhile, but adapting this into everyday use will show you exactly where your money goes and where to make changes to your spending and earning.
2. **Reduce credit card use.** Since compounding risk (aka credit card debt that just keeps snowballing every month due to high interest) is one of the biggest barriers to financial solvency among communities of color, try your hardest not to carry a balance. “Most people aren’t aware how compounding debt can be debilitating,” Delva-Gonzalez says. Even if you use your credit cards, only spend what you can afford to pay off every month.
3. **Pare down expenses.** Your needs might be basic, but what you pay for them could be more than you can afford. For instance, you might need a car to get around, but you don’t need a high-end car when a cheaper (or used) model will do. “Choosing the affordable route works,” he says. “You can save as much as possible by cutting unnecessary expenditures.” It’s not always easy, especially as the housing and rental markets are pricing many people out of homes. Try to limit your housing costs to 30% of your gross pay, if possible.
4. **Save and invest — even if it’s only a little.** For people living paycheck-to-paycheck, it can be hard to imagine that there will be any money left over to be put away for a later time. But even micro-saving \$1 here and \$5 there (and micro-investing similarly-sized amounts) are good ways to make a little bit go a long way. “The average household saves 10 cents for every dollar,” Delva-Gonzalez says. “Even an investment of \$100 per week for 40 years, can make you a millionaire on average just by investing in an index ETF.”
5. **Think long-term in the short-term.** The small financial decisions you make now can make a big impact when you need that money later. “Most millionaires get there through either their 401(k) or their home,” he says. “A single person can save as much as \$30,000 tax-

deferred in their 401(k), Traditional/ROTH IRA, and HSA annually. A married couple can do even \$60,000.”

6. **Find ways to grow income.** According to that TIAA Institute-GFLEC study, the median household income among African Americans was \$35,400 in 2016, while the median household income of whites was \$61,200. You can only cut expenses so much, which means you might need to boost your income to get ahead. [Learn to negotiate](#) and don't be afraid to [ask for more money in your current job](#) or a prospective one. (It's one of the best tactics for eliminating the racial and gender wealth gaps!) And don't be afraid to look for work that pays you what you're worth — now is a great time to get hired.

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