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# Financial Health Pulse® Chicago 2022 Report

## Examining Racial and Ethnic Disparities in Financial Health in Chicago and Cook County

### RESEARCH BRIEF

Financial health creates opportunity. Having savings in the bank, equity in a home, and investments for retirement helps families thrive today and plan for the future. Financial stress and shortage, on the other hand, traps them in a vicious cycle of instability.

Financial health reflects the ability to manage one's current needs, respond to unexpected expenses, and achieve longer-term security. While an individual cannot be financially healthy without some measure of wealth (e.g., sufficient liquid savings), it's also true that the foundation of financial health — including positive cash flow, manageable debt, and ability to safeguard assets — is necessary to build wealth. Thus, understanding one's overall financial health can suggest areas for investment and opportunity that, over time, support wealth creation.

As the Financial Health Network's recent **Financial Health Pulse® Chicago 2022 Report** reveals, for far too many families in the Chicago area, particularly families of color, financial health is far from a reality. In the Chicago region, the disparities in financial health across race and ethnicity are larger than even national gaps.<sup>1</sup> Financial vulnerability is translating into higher levels of stress and financial hardships with Black and Latinx residents delaying health care, having trouble paying rent, and often worried they will not have enough money for food at higher rates than white residents.<sup>2</sup>



### FINANCIAL HEALTH DEFINED

The Financial Health Network, which partnered with the Chicago Community Trust to conduct a survey of Cook County residents, assesses financial health using eight indicators of a respondent's capacity to spend, save, borrow, and plan. Respondents' answers across these categories are calculated into a "FinHealth Score" that categorizes respondents as either Financially Vulnerable, Financially Coping, or Financially Healthy. Visit the **FinHealth Score methodology page** of the report for more information.

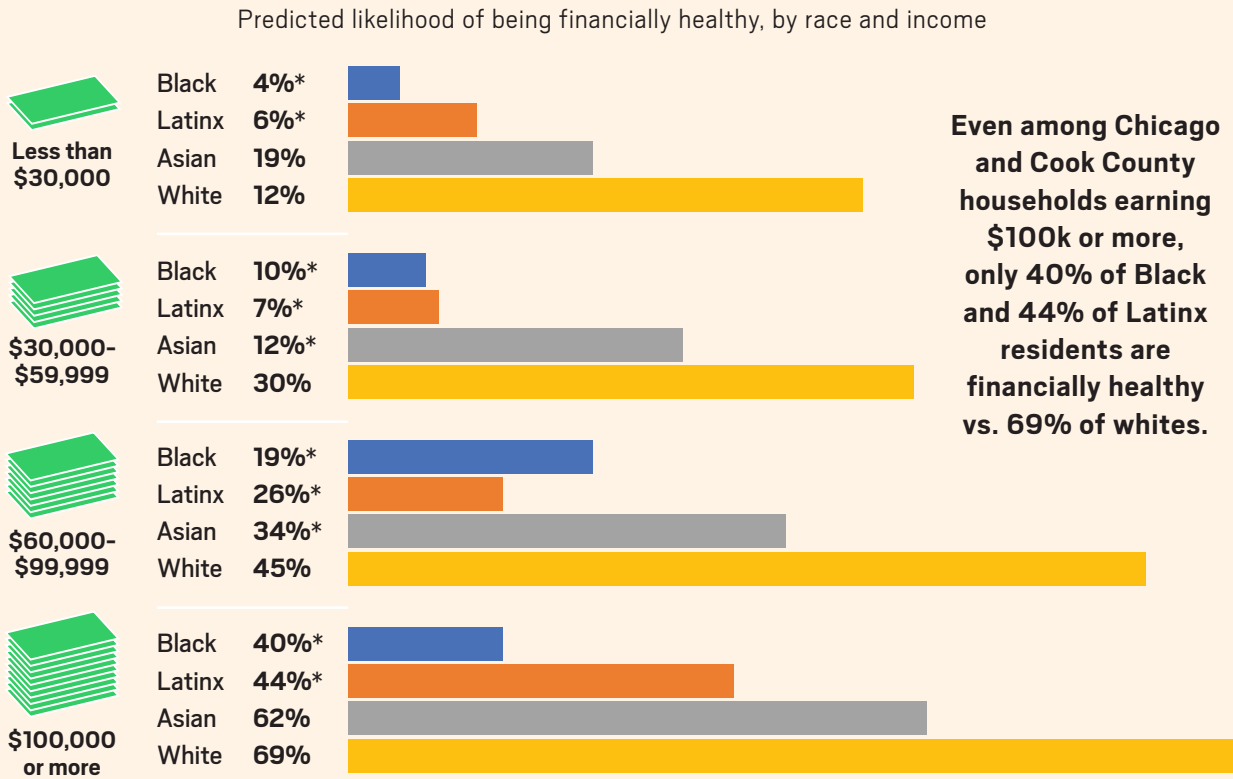
<sup>1</sup> In Cook County, 13% of Black residents are financially healthy versus 15% nationally; 16% Latinx residents in Cook County/18% nationally, 49% white residents in Cook County/36% nationally) Differences between percent of Black and Latinx respondents and white respondents in Chicagoland is statistically significant ( $p < 0.05$ ).

<sup>2</sup> While the majority of the FHN report focuses on racial disparities between Black and Latinx residents and white residents in Cook County, FHN has included data on Asian residents where sample size allows and where differences are notable (Asian people comprise 7% of Cook County's population and represent a wide range of nationalities and backgrounds). For additional information on demographics in the study, please see the full report.

**It's more than individual effort:** Some observers suggest that the wealth gap is a product of low earnings or personal decision-making. But as the Pulse report shows, even among those earning \$100,000 or more, the gap remains. Only 40-44 percent of Black and Latinx households are financially healthy vs. 69 percent of white households.

Clearly, more is at play than individual effort, and there is a deeper story to be told.

**FIGURE 1: FINANCIAL HEALTH GAPS BY RACE PERSIST EVEN AS INCOME INCREASES**



Note: Predictions are based on a multinomial logistic model of financial health tiers that includes race, household income, interaction of race and household income, and household size as regressors.

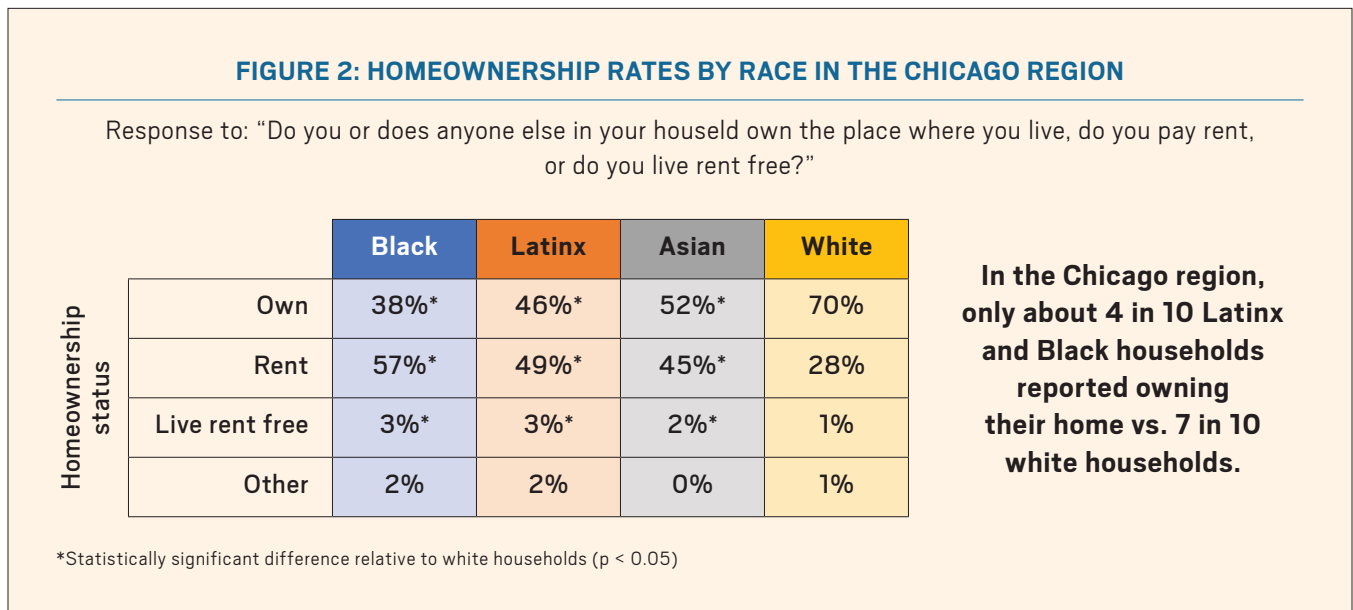
\*Statistically significant difference relative to white residents ( $p < 0.05$ ).



# SYSTEMIC BARRIERS TO WEALTH

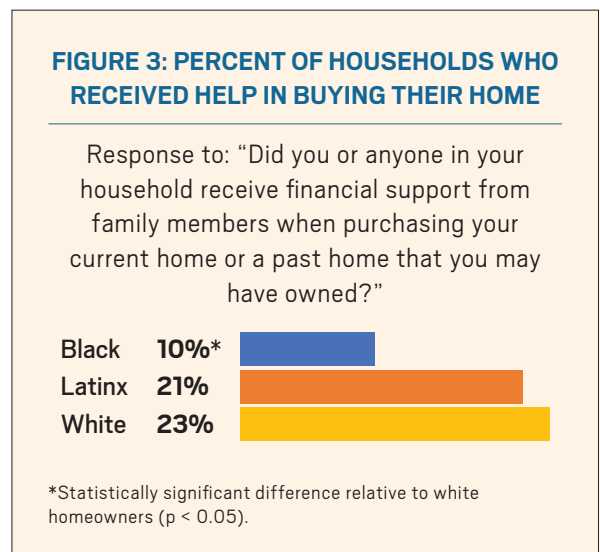
The reasons this gap in financial health persists across household income levels is an interwoven story of systemic disadvantage that leads to a **vicious cycle of blocked opportunity**.<sup>3</sup>

**Lopsided homeownership:** For most Americans, their home is by far their biggest asset. Yet, in the Chicago region, only about 4 in 10 Latinx and Black households reported owning their home. In contrast, 7 in 10 white households are homeowners (figure 2). The gap is even greater among those earning the least.



**Black and Latinx buyers face higher hurdles to homeownership:** One of the reasons for this homeownership gap is that mortgages are harder to get for Black and Latinx applicants, and they pay **higher interest rates** than similar white buyers, often because they are unable to put more money down at purchase. A recent **study** found that appraisers also consistently undervalue homes in Black and Latinx neighborhoods, even when the neighborhoods have comparable amenities and income levels as white neighborhoods. Appraisals were found to be, on average, \$371,000 higher in white neighborhoods, a disparity that affects the ability of Black and Latinx homeowners to build and sustain equity through homeownership.

**Down payment help is rare for Black buyers:** One factor rarely discussed in homeownership is the role of family support — the help some homeowners receive when buying their first homes. In the Chicago Pulse study, only 10 percent of Black homeowners received financial support from family to buy their homes. That is half the rate reported by white and Latinx homeowners (figure 3).



<sup>3</sup> Institute for Research on Race and Public Policy, Chicago’s Racial Wealth Gap: Legacies of the Past, Challenges in the Present, Uncertain Futures. Available for download at <https://irppp.uic.edu/state-of-racial-justice/reports/#chicagos-racial-wealth-gap-legacies-of-the-past-challenges-in-the-present-uncertain-futures>.

**FIGURE 4: PERCENT OF HOUSEHOLDS THAT RECEIVED AN INHERITANCE**

Response to: “Have you or has anyone else in your household received an inheritance or transfer of assets from family members?”



\*Statistically significant difference relative to white homeowners ( $p < 0.05$ ).

**White households were four times more likely to have received an inheritance than Black and Latinx households.**

**Inheritance — a leg-up, for some:** These hurdles to homeownership and equity-building for Black and Latinx families may contribute to the sizable gap in inheritance. Home equity and sufficient savings can mean the difference between passing down assets instead of debt to the next generation.

As the Chicago Pulse study finds, in the Chicago region, white households were four times more likely to have received an inheritance than Black and Latinx households (figure 4).

**Missing out on other wealth-building tools:**

Many Black and Latinx families have been excluded from banks, investment platforms, and other wealth-building tools or are focusing on meeting basic needs first before being able to invest for the longer term.

Among low-income families in the Chicago region (defined as a household income of \$30,000 or less), nearly twice as many white as Black households reported having a savings account (figure 5). And while almost every white low-income household (94 percent) has a checking account, only two-thirds of Black and 79 percent of Latinx households do. Bank accounts are critical to establishing **creditworthiness** and the ability to access capital at non-predatory rates. While the ownership of non-retirement investment vehicles (like mutual funds, money market accounts, and stocks) was low across all low-income respondents, white households were four times more likely than Black or Latinx households to have such investments to add to their savings.

**FIGURE 5: PERCENT OF THOSE EARNING LESS THAN \$30K WITH THE FOLLOWING ASSETS**

Response to: “Do you or does anyone in your household have any of the following financial assets or accounts?”

	Black	Latinx	Asian	White
Checking account	67%*	79%*	85%*	94%
Savings account	35%*	47%*	59%	63%
Savings in cash	11%*	19%	33%	24%
Retirement accounts	10%*	20%*	39%	37%
Employer-provided traditional pension	9%*	5%*	5%	16%
Tax-advantaged education savings accounts	1%	4%	5%	2%
Other personal savings or investments	6%*	8%*	27%	28%
Other financial assets or accounts	0%	1%	4%	1%

\*Statistically significant relative to white households ( $p < 0.05$ ).

**Even at higher incomes, gaps are evident:** Higher-income Black and Latinx households — those earning more than \$100,000 — are much less likely than their white peers to own stocks or other personal investment vehicles (figure 6). Notably, only a handful of Black (16 percent) and Latinx (12 percent) households earning over \$100,000 are using tax-deferred educational savings plans.

**FIGURE 6: PERCENT OF THOSE EARNING \$100K OR MORE WITH THE FOLLOWING ASSETS**

Response to: "Do you or does anyone in your household have any of the following financial assets or accounts?"

	Black	Latinx	Asian	White
Checking account	99%	98%	98%	100%
Savings account	97%	86%*	88%*	94%
Savings in cash	59%	52%	50%	54%
Retirement accounts	91%*	90%*	95%*	98%
Employer-provided traditional pension	68%*	39%*	48%	52%
Tax-advantaged education savings accounts	16%*	12%*	28%	26%
Other personal savings or investments	66%*	58%*	84%	82%
Other financial assets or accounts	10%	5%*	7%	11%

**Wealthier Black and Latinx households are less likely than their white peers to fully tap investment tools.**

\*Statistically significant relative to white households (p < 0.05).

**Retirement savings gaps are stark:** Building a nest egg for old age is a uniquely American requirement. But pensions and retirement accounts are falling short for many, particularly those working in low-wage jobs, which **seldom offer** such plans. Who works for low wages may deepen this disparity: according to a **recent study**, Latinx and Black workers, and women especially, are overrepresented in the low-wage work force, while white workers are underrepresented.

In the Chicago region, more white households have either a pension or retirement account than do Black or Latinx households (figure 7).

**FIGURE 7: PERCENT OF HOUSEHOLDS WITH A PENSION OR RETIREMENT ACCOUNT**

Response to: "Do you have any of the following financial assets or accounts?"



\*Statistically significant difference relative to white households (p < 0.05).

**Fees eat up resources:** Relying on nontraditional, often predatory, financial services (figure 8) can tack on fees and interest. Black and Latinx families in the region are roughly four times more likely than white households to rely on these high-cost services, and according to FHN's **FinHealth Spend Report 2022**, spend greater portions of their income on fees and interest than white households.

**FIGURE 8: PERCENT OF HOUSEHOLDS USING HIGH-COST FINANCIAL SERVICES**

Response to: "In the past 12 months, did you or anyone in your household do any of the following activities?"

	Black	Latinx	Asian	White
Purchased a money order	33%*	20%*	10%*	5%
Used a check-cashing service	17%*	13%*	5%	3%
Took out a payday loan or advance	8%*	7%*	1%	2%
Used a pawn shop loan	8%*	6%*	0%	1%
Used rent-to-own services	5%*	3%*	2%*	1%
Took out a tax refund anticipation loan	3%*	3%*	1%	0%

**Black and Latinx households use high-cost alternative financial services at a higher rate than white residents.**

\*Statistically significant relative to white households (p < 0.05).

# DEBT BURDENS STACK THE DECK

The flip side of income and assets is debt, and Chicago’s Black and Latinx families are disproportionately struggling. More than twice as many Black and Latinx households as white households in Cook County report facing burdensome debt loads, undercutting their financial health. Fully half of Black households say their debt is unmanageable.

**Even higher education can be a debt trap:** While it is undoubtedly true that higher education can lead to better-paying jobs and more financial security, a college degree **does not always close the income gap**, let alone the wealth gap, for Black and Latinx Americans. Instead, it can leave them with unmanageable student debt, even many years later.<sup>4</sup>

**A Catch-22:** A venerable tradition in Black families is to support extended family with loans or aid. But it can also be burdensome. Black residents are much more likely than white residents to provide financial assistance to others (56% vs. 39%). According to [Brookings](#), Black college graduates’ tendency to use their higher income to provide financial support for family members makes it more challenging to pay down student loan debt quickly — nearly three-quarters of Black borrowers’ student loans having a higher balance today than they did initially.

Fully half of Black households say their debt is unmanageable.

One in five Black and Latinx households who could not pay municipal fees said it impacted their ability to find work.

Even small debts can be catastrophic for financially vulnerable people: An inability to pay municipal fines and fees caused some Black and Latinx residents to lose their jobs or ability to drive, making it harder to pay off their debt and build assets.

**FIGURE 9: PERCENT OF HOUSEHOLDS WITH THE FOLLOWING TYPES OF DEBTS**

Response to: “Which of the following debt, if any, do you or does anyone in your household currently have?”

	Black	Latinx	Asian	White
Auto loans	38%*	35%*	22%	26%
Student loans	42%*	34%*	22%	22%
Small business loans	3%*	3%*	1%	1%
Mortgages	31%*	38%*	38%*	45%
Home equity line of credit	5%*	7%	4%*	7%
Outstanding credit card balances	57%*	47%*	22%*	28%
Past-due medical bills	31%*	27%*	8%*	12%
Past-due utility bills	29%*	22%*	3%	4%
Other debts	29%*	26%*	11%	10%

**Black and Latinx households are more likely to report holding most kinds of debt than white households.**

\*Statistically significant relative to white households (p < 0.05).

4 The Chicago Pulse found that Black households reported holding student loan debt at nearly twice the rate of white households (42% compared to 22%), despite fewer Black respondents holding bachelor’s degrees. 34% of Latinx respondents currently had student loan debt in the Pulse sample.

## WHAT TO DO

Wealth and financial health are clearly intertwined. An individual cannot be financially healthy without a baseline measure of wealth that includes sufficient savings, prospects to accrue longer-term savings, and debt that does not overwhelm.

However, for individuals to grow new wealth — and make progress against the racial and ethnic wealth gap — financial health is a precursor to wealth. The Chicago Pulse study indicates that we have a long way to go to ensure that all the residents of Chicago are financially stable and that our region is thriving.

As the Pulse data underscore, significantly more white households in Cook County are financially healthy than Black and Latinx households. Further, the data from the study highlights that white Chicago area residents are more financially healthy than white people nationally, while Black and Latinx residents are more frequently financially vulnerable.

To address the enduring financial health and wealth gaps we see regardless of income in the Chicago region, systemic change is required. The Chicago Community Trust's focus is not just on individual solutions or shifting behaviors, but on financial systems, housing markets, employment practices, income and tax policies, and the structures that enable



families to be financially healthy and build and sustain wealth. Below are some of the ways The Chicago Community Trust is working to improve financial health and grow wealth for Black and Latinx residents by increasing assets and income while reducing debts.

## ASSETS

- **Housing Interventions:** Increasing access to affordable mortgage lending products; working with the appraisal industry to eliminate systemic bias; and enhancing affordable housing stock.
- **Place-Based Investments:** Investing in businesses and initiatives that drive equitable economic recovery and increase investment in Black and Latinx communities that have experienced disinvestment; expanding shared ownership models.
- **Financial Services and Supports:** Supporting organizations that build financial knowledge and improve access to financial products for Black and Latinx residents and small business owners.
- **Long-Term Savings:** Advancing savings incentives through baby bonds, child savings accounts, and retirement plans that require individuals to opt out instead of opt in.

## INCOME

- **Local, State, and Federal Policies:** Supporting the implementation of the state Earned Income Tax Credit expansion and direct cash assistance guaranteed income pilots in Chicago and Cook County; advocating for a state child tax credit; and expanding the federal refundable child tax credit.
- **Workforce Solutions:** Funding efforts to build post-secondary pathways to good jobs that pay living wages and sustain families; expanding workplace training to increase advancement opportunities.

## DEBT

- **Fair Lending Reforms:** Supporting the implementation of the state and federal Community Reinvestment Act and the City of Chicago Lending Equity Ordinance.
- **Fines and Fees:** Supporting the implementation of reforms to government-imposed penalties and fees that disproportionately burden people of color as well as strengthening predatory lending laws.
- **Student Debt Burdens:** Helping to lower student debt burdens by increasing transfers from community college to four-year institutions that are affordable and accessible and lead to jobs with career pathways.

In 2019, The Chicago Community Trust committed to a 10-year strategic focus on closing the Chicago region's racial and ethnic wealth gap. The Trust funded the Financial Health Pulse® Chicago 2022 Report and prepared this research brief as a part of its work to understand the wealth gap and advance its strategy.

Visit Financial Health Network's website, at [finhealthnetwork.org](https://www.finhealthnetwork.org), to download the complete report.

Learn more about the Trust's wealth gap strategy at [cct.org](https://www.cct.org).



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