

# Financial Literacy Center WORKING PAPER

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## Barriers to Immigrant Use of Financial Services

### The Role of Language Skills, U.S. Experience, and Return Migration Expectations

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**BARRIERS TO IMMIGRANT USE OF FINANCIAL SERVICES  
THE ROLE OF LANGUAGE SKILLS, U.S. EXPERIENCE, AND  
RETURN MIGRATION EXPECTATIONS**

**REPORT TO THE SOCIAL SECURITY ADMINISTRATION**

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## Executive Summary

Immigrants constitute a rapidly growing share of the U.S. population. However, when compared to natives, foreign-born residents are more likely to be unbanked, less likely to participate in formal retirement savings programs and have lower levels of financial literacy. This project (1) investigated barriers to the use of financial services faced by immigrants and (2) designed and evaluated new financial education materials targeted at immigrants. Three potential barriers are the focus of our analysis: limited English proficiency, lack of U.S. experience and return migration expectations. We provide evidence that, even controlling for a wide range of personal characteristics, these factors are strongly related to immigrant financial participation, portfolio allocation, financial confidence, trust in financial institutions, retirement planning and retirement program participation. In addition to the decision of which assets to hold, where to hold wealth is an important choice immigrants need to make, since many of them hold a significant fraction of their wealth abroad. Our analysis also shows that Hispanic immigrants are different than natives in several aspects relevant for financial decision making. When compared to white natives, Hispanic immigrants are less confident in financial matters and in their ability to meet unexpected expenses, have lower levels of trust in financial institutions (presumably partly “inherited” from low levels of trust in financial institutions in their origin country), are less likely to plan for retirement, and are more likely to make pre-retirement withdrawals and to borrow against retirement plans. In order to complement these empirical findings, we conducted a series of interviews with professionals who work directly with immigrant populations, such as immigration attorneys, accountants and religious counselors. The results from these interviews confirmed our previous findings that trust and knowledge issues, especially with regard to investments and retirement planning financial products constitute key immigrant barriers.

We used these findings to develop new materials targeted at specific barriers related to immigration status. To develop the educational materials we used as a starting point FDIC’s Money Smart curriculum (especially the “Bank on it” and “Pay yourself first” modules). Specifically, we developed two versions of this resource material, with the dual objectives of testing hypotheses about constraints to financial participation and obtaining proof-of-concept for design features and materials that are suitable for widespread use by other organizations interested in the financial well-being of immigrants. The financial education materials provided information about reasons to keep money in a bank, type of financial institutions, accounts insured (and not insured) by the FDIC, saving options, “rule of 72” for interest rate calculation (a simple rule to determine the amount of time it takes for an investment to double in value at a constant interest rate), investment products (including bonds, mutual funds, retirement plans, stocks and securities) and saving tips. The materials include pictures and straightforward questions about the content presented in order to increase participants’ engagement and interest. The second version of the material also included additional information targeted at immigrants such as procedures and documents needed to open an U.S. bank account, FDIC insurance information, and retirement plan rules that apply to non-citizens. The material took the form of

an easy-to-navigate website with information and questions to fixate content presented during the internet survey.

Using the RAND American Life Panel we administered the two different versions of the educational material to randomly selected test groups – one general version and one including immigrant-specific information -- as well as having a control group who received no information. We find that the groups that received the educational intervention were more likely to correctly answer questions on investment and savings strategies, IRA and 401(k) rules and to perform simple interest rates calculations. When questions involved specific immigrant information, the effect was mostly present for the second treatment, which included the immigrant-specific screens. Despite the significant effects of the treatments on knowledge, treatment respondents are not found to report to be more likely to enroll on 401(K), to want to learn more about IRA or to open an IRA. They also don't behave differently when given choice tasks. Overall, the knowledge outcomes point to the efficacy of this type of educational material in informing respondents with respect to important financial information that they are not familiar with, including information related to their immigrant status. However, we find limited effect on intended behavior change.

The evaluation points to large effects on financial knowledge, with Hispanic respondents and those who paid more attention to the materials presenting the largest effects. Since the materials were presented in English, respondents with limited English ability benefited less from the material. These results yield key lessons for the design of effective financial educational materials targeted at immigrant populations. First, they underline the importance of interesting and entertaining materials that catch the participants' attention. Second, given that a significant fraction of this population have limited English ability, translating the materials into different languages is crucial for the effectiveness of the intervention. Future research should test and compare different specific designs of computer-based financial education programs on knowledge, intended behavior and actual behavior change. More evidence on what works for which audiences and in which dimensions, and especially on what works best given immigrant financial education policy objectives, would be welcome in this field.