

The growth opportunity with Hispanic clients

Special considerations and potential for expansion into the Hispanic market



Key highlights

- ▶ The U.S. Latino population is growing faster than any other minority population in America.
- ▶ Hispanics tend to be underinsured when it comes to life insurance, but interest is growing as the country emerges from the pandemic.
- ▶ Better savings opportunities, more tailored advice and a richer understanding of family dynamics hold potential for financial professionals to build long-term relationships and promote improved financial health with Hispanic clients.

Multiculturalism brings a diversity of characteristics to financial life. That translates to both challenges and opportunities for financial professionals and advisors. In this paper, we explore the unique characteristics of the Hispanic community as it relates to financial planning.

Snapshot: A slice of Hispanic life

While statistics will never quite capture the richness of any culture, it's helpful to begin with recent demographic data to describe the dynamics of the Hispanic population in the U.S. We're talking about a large and growing community with increasingly complex financial needs.

One figure underscores just how significant the Hispanic economy is: If the U.S. Latino population were an independent country, it would rank as the seventh-largest economy on the planet.¹ For context, that makes the Hispanic economy larger than the national economies of Russia, Canada, Italy or Brazil.

Sheer population size confirms the tremendous potential in the Hispanic market. Latino people comprised 18.7% of the U.S. population in 2020², making it the largest of all minority groups in the country. In 1970, the Latino share of the national population was just 5%. Perhaps more significantly, the Latino community's growth alone has contributed to slightly more than half of total U.S. population growth between 2010 and 2020.³

This is not a short-term trend, either. The U.S. Census Bureau data suggests the Hispanic population will expand to more than a quarter of the population by 2060.⁴

Youth

The average age among Latino people is 30, compared with 44 for non-Latino whites.⁵

Living longer

On average, life expectancy at birth is 79.9 for Hispanics versus 77.8 for the general U.S. population.⁶

Getting educated

Hispanic students are earning bachelor's degrees at nearly double the rate they did in 2010.⁷

Running businesses

Latino-owned small businesses grew 34% between 2008 and 2018.⁸

Attitudes among young Hispanic people back up the forecast of a growing opportunity. Nearly three-quarters (72%) of Hispanic millennials believe it is important to have a personal relationship with a life insurance professional. That figure is just 51% for the broader consumer market.⁹ The promise this represents for financial professionals speaks for itself.

Knowledge grows confidence

Members of the Hispanic population have unique concerns about their financial health and ability to retire comfortably. In fact, research shows that two out of three in this group are not confident they are prepared financially for retirement. And far more Hispanic Americans than white Americans say that planning for retirement makes them feel stressed — 69% vs. 52% among people that earn \$75,000 or more.¹⁰

Along with other findings regarding family connections, 36% of Hispanics surveyed stated that they do not know who to go to for good financial or retirement planning advice.¹¹

A small knowledge gap contributes to this unease. 75% of Hispanic Americans versus 81% of white Americans

who earn \$75,000 or more feel knowledgeable about managing savings and investments for the future.¹² That is a 6-point gap the financial professional can help close with quality advice and lasting client relationships.

The Employee Benefit Research Institute's (EBRI) 2021 Retirement Confidence Survey provides some interesting insights; 57% of Hispanic respondents said working with a financial professional who has had a similar upbringing or life experience is important to them. More than half said that a financial professional being affiliated with their employer would also be valuable. Likewise, the comfort of working with a financial professional from a similar racial or ethnic background was important to 46% of Hispanic participants.

These findings don't mean that financial professionals who aren't Hispanic don't have role to play in this market. This challenge is also an opportunity for all members of the industry.

- ▶ There is a clear need for internal proponents in firms to hire, develop and retain diverse talent.
- ▶ When advising clients, explore family history, saving habits and unique goals in early conversations. Be sure to get a sense for a client's level of comfort with finance and its terminology — focusing on fundamentals and addressing particular needs rather than promoting products.
- ▶ Remember, this is about a relationship for the long term. Time invested early on is well spent.



Evolving economics

Hispanic communities today contribute significantly to America's economic growth. This segment has more than \$1.9 trillion in buying power. And their buying power increased 87% from 2010 to 2020.¹³

However, there is a lingering gap between Hispanic and white wage earners. On average, Hispanic men make approximately 91 cents for every dollar that white men make.¹⁴

In short, there is a need for financial professionals to consider how to serve the Hispanic market and tap into its expanding opportunities. Whether it's focusing on fundamentals or being sensitive to unique client needs, embracing Hispanic clients is key to future industry growth.

Family values

Cultural and social norms can have a vital role in financial planning. Think about just one layer of group social fiber: family and friends. These close relationships can be a powerful boon or burden when managing one's finances. Hispanic attitudes on this have their own implications for financial planning.



Products such as life insurance address client concerns about supporting family after they're gone.

The EBRI's 2021 Retirement Confidence Survey found that 47% of Hispanic people who earn \$75,000 or more think it is more important to help friends and family members than it is to save for their own retirement. For that earnings segment among white people, that figure goes down to 33%. There's a similar divergence when comparing these two groups on whether they "agree or strongly agree that retirement savings is not a priority relative to current needs of my family." On this measure, Hispanic people lean toward current needs of family 42% of the time, while white respondents did so just 29% of the time.¹⁵

Strong family bonds in finance show up in parent-child relationships. The Associated Press-NORC Center for Public Affairs Research has found that 56% of Hispanic people believe it is an adult child's responsibility to support a parent if needed. And the feeling is mutual. Nearly half say it's a parent's responsibility to provide financial assistance to an adult child if needed.

Whether a safety net for tough times or a potential unexpected expense, this is a cultural nuance that demands exploration and the right sort of planning and products.



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Sources of savings

The Hispanic community brings a distinct history and culture to an America that is in many ways defined by its rich diversity. It makes sense that members of this community tend to have a unique wealth profile when it comes to financial planning for retirement. This presents the challenge for financial professionals to do more with less. We can see this in the numbers around typical sources of retirement income.

Ownership of suitable retirement saving accounts tells much of the story. Among households age 24 to 64, nearly two-thirds of white households have a pension,

401(k) or IRA. Only 39% of Latino families in this grouping have these types of fundamental retirement savings accounts.¹⁶ Establishing retirement savings accounts could be a starting point that unlocks more avenues for Hispanic clients to seek better financial health.

That said, even for Latino households that have a retirement account, their balances tend to be less robust. On average, they hold less than half the retirement savings of a typical white household: \$34,000 compared to \$69,000 for whites.¹⁷

Actionable ideas

Ensuring adequate diversity among professional staff can make a firm substantially more approachable to minorities. Hispanic clients tend to feel more comfortable with a financial professional who:

- ▶ Has had a similar upbringing or life experience
- ▶ Is affiliated with their employer
- ▶ Has a similar racial or ethnic background

Financial professionals can help their firms better serve Hispanic clients by championing hiring strategies that ensure sufficient diversity, accompanied with the appropriate career development and retention.

The Hispanic community has identifiable needs that a financial professional will do well to respond to. Sensitivity to family wealth, sources of savings and community norms around saving for retirement need in-depth understanding in order to build a sustained and fruitful relationship. Asking about personal approaches to these financially critical issues is a great way to start the partnership in managing money for the future.



Key takeaways

- 1 Hispanic clients are an economic segment with expanding, unique needs, representing an avenue for growth for financial professionals.
- 2 This market has a number of unique attributes that financial professionals should understand in order to serve properly.
- 3 Asking the right questions and providing appropriate tools can help foster long-term relationships and build better financial futures for Hispanic clients.



¹ 2021 Latino Donor Collaborative U.S. Latino GDP Report

² "2020 Census Illuminates Racial and Ethnic Composition of the Country" U.S. Census Bureau, Aug. 12, 2021.

³ Ibid.

⁴ U.S. Census Bureau data

⁵ "The nation is diversifying even faster than predicted, according to new census data" Brookings Institution. Published on brookings.edu. July 1, 2020.

⁶ "Provisional Life Expectancy Estimates for January through June, 2020" Centers for Disease Control and Prevention (CDC), National Center for Health Statistics. February 2021.

⁷ "Educational Attainment of Young Adults" National Center for Education Statistics, May 2021

⁸ "2020 Research Report: State of Latino Ownership" Stanford Graduate School of Business, Latino Entrepreneur Initiative

⁹ The Insurance Purchase Decision - US, Mintel, August 2017

¹⁰ 2021 Retirement Confidence Survey. Employee Benefit Research Institute (EBRI).

¹¹ EBRI 2021 Retirement Confidence Survey

¹² Ibid

¹³ The Multicultural Economy 2021. Selig Center for Economic Development. Terry College of Business, Univ. of Georgia.

¹⁴ "Racial Wage Gap for Men" PayScale. May 7, 2019.

¹⁵ 2021 EBRI Retirement Confidence Survey

¹⁶ U.S. DOL ERISA Advisory Council Hearing "Gaps in Retirement Savings Based on Race, Ethnicity and Gender" Nari Rhee, PhD. June 24, 2021. Based on author's analysis of Survey of Consumer Finances.

¹⁷ Ibid.

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

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