



Understanding Racial Disparities in Financial Preparedness for Retirement

*Junjie Guo and Ananth Seshadri **

We estimate a model of labor supply and savings over the life cycle where key parameters, including the interest rate, the degree of risk aversion and the fixed cost of working, and the stochastic processes of health, mortality, and wages are all allowed to vary by race. We then use the estimated model to run a series of counterfactual experiments to understand the racial disparities in the age and financial preparedness of retirement.

We find that, combined with worse health, the higher fixed cost of working (a parsimonious measure that includes the transportation cost, the psychological cost, and any other costs

associated with working) is the most significant contributor to the lower labor force participation rate for Blacks than whites, and the Black-white wage gap is the most significant contributor to the Black-white wealth gap.

In addition to the racial differences in preferences and skills, labor market discrimination against Blacks could also contribute to their higher fixed cost of working and lower wages. This suggests that reducing the discrimination faced by Blacks in the labor market could also significantly reduce the racial disparities in retirement preparedness. ❖

* **Ananth Seshadri** is a professor in and chair of the economics department at the University of Wisconsin–Madison. **Junjie Guo** is a staff economist at the Center for Research on the Wisconsin Economy, University of Wisconsin–Madison. This research brief is based on working paper MRDRC WP 2022-445.

Michigan Retirement and Disability Research Center

Institute for Social Research
426 Thompson Street, Room 3026
Ann Arbor, MI 48104-2321

Phone: (734) 615-0422 **Fax:** (734) 615-2180

mrdrumich@umich.edu www.mrdrc.isr.umich.edu

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