

# *Measuring Racial/Ethnic Retirement Wealth Inequality*

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# Outline of presentation

- Introduction to project
- Calculating accrued retirement wealth
- Comparing wealth at retirement by race/cohort

It is well established that black and Hispanic households have less wealth than white ones.

- Furthermore, the literature has suggested that this inequality is worsening.
- However, these studies often ignore annuitized sources of wealth like Social Security and defined benefit (DB) pension plans that make up a big part of *retirement* wealth.
- This project focuses on how inequality in retirement wealth has evolved over five birth cohorts of the *Health and Retirement Study* (HRS).

# This project:

- Calculates retirement wealth for five HRS cohorts, including wealth accumulated in:
  - Social Security;
  - DB pensions;
  - defined contribution (DC) retirement plans;
  - housing; and
  - other financial wealth.
- Compares these sources of wealth across racial/ethnic groups.
- Converts this wealth to income in order to calculate income replacement rates.

# The project fits into a broader literature on wealth inequality by race/ethnicity.

- Today, black and Hispanic households have net worth that is 15 to 25 percent that of white households (e.g., Dettling et al. 2017, Kochhar and Cilluffo, 2017).
- Data from the *Survey of Consumer Finances* shows that this inequality has generally grown since 1992.
- Black and especially Hispanic households were hit hard by the bursting of the housing bubble and resulting decline in prices and home ownership (e.g., see Emmons, 2017).

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# This project focuses on retirement wealth of individuals ages 51-56.

- These ages cover respondents' first wave of the HRS.
- The project includes even the most recent cohort of HRS entrants, the Late Baby Boomers, who entered the sample in 2016.
- However, the project must be careful in calculating wealth from sources like Social Security and DBs, where accrual estimates often assume the individual works until retirement age.

# Social Security wealth

- Social Security wealth is based on a person's expected present value of benefits from age 65 (based on observed AIME for observed claimants in the HRS, projected otherwise).
- For individuals who are married, their income stream reflects their worker, spousal, and survivor benefits.
- Each stream of income is adjusted by a long-term interest rate and the appropriate SSA cohort survival probabilities.



# Social Security wealth (cont'd)

- To provide an apples-to-apples comparison to DC and other sources of non-annuitized wealth which are reported at HRS entry, Social Security wealth must be pro-rated.
- This pro-ration is accomplished by multiplying the ratio of a person's AIME at HRS entry to the ratio of their actual/projected AIME when retiring at age 65.

# DB wealth

- DB wealth is based upon self-reported estimates of pension benefits at the participant's expected retirement age.
- The project calculates the expected present value of these benefits using a long-term interest rate, survival probabilities, and assuming employment until retirement.
- The benefit is then apportioned by time based on current years of service relative to expected final years of service.

# DC, housing, and other financial wealth

- DC wealth includes both 401(k) and IRA balances.
- Housing wealth includes equity net of mortgage debt.
- Financial wealth includes stocks, bonds, certificates of deposit, and cash, less any non-housing debt balances.
- Because all of these sources of wealth are based on self-report at ages 51-56, they do not need to be prorated.

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# Inequality in retirement wealth is less than in net worth, and has been fairly stable.

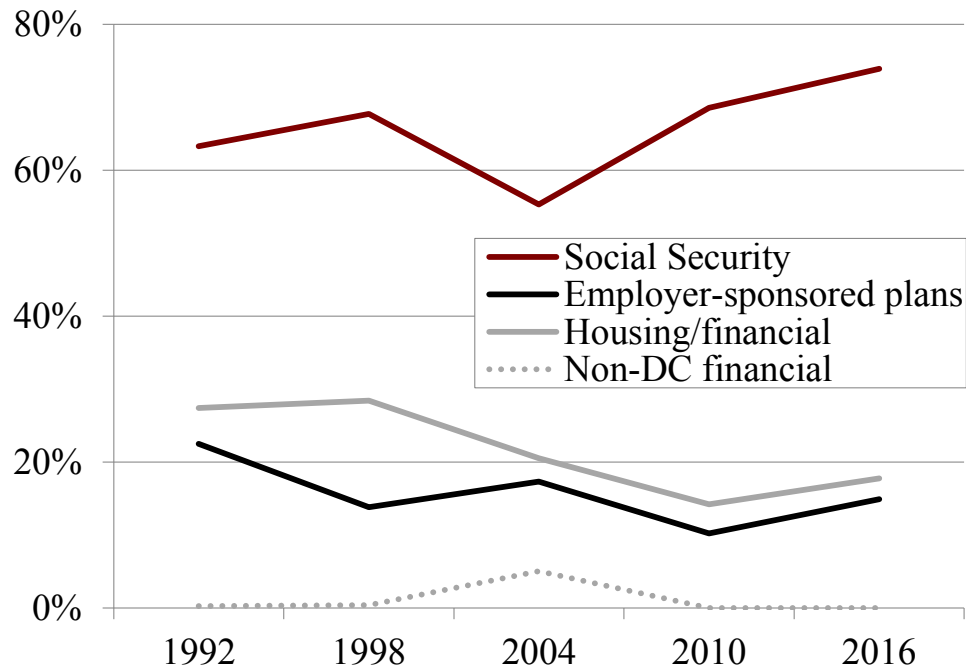
Average Retirement Wealth for Middle Quintile Household in 2016 Dollars, by HRS Cohort

Race/ethnicity	HRS cohort				
	1992	1998	2004	2010	2016
	"HRS"	"War Baby"	"Early Boomer"	"Mid Boomer"	"Late Boomer"
White	\$449,100	\$525,600	\$520,200	\$469,500	\$377,800
Black	177,200	207,100	173,700	180,800	172,700
Hispanic	155,500	248,700	226,500	194,100	186,000
<i>Wealth ratios</i>					
Black-to-white	39%	39%	33%	39%	46%
Hispanic-to-white	35	47	44	41	49

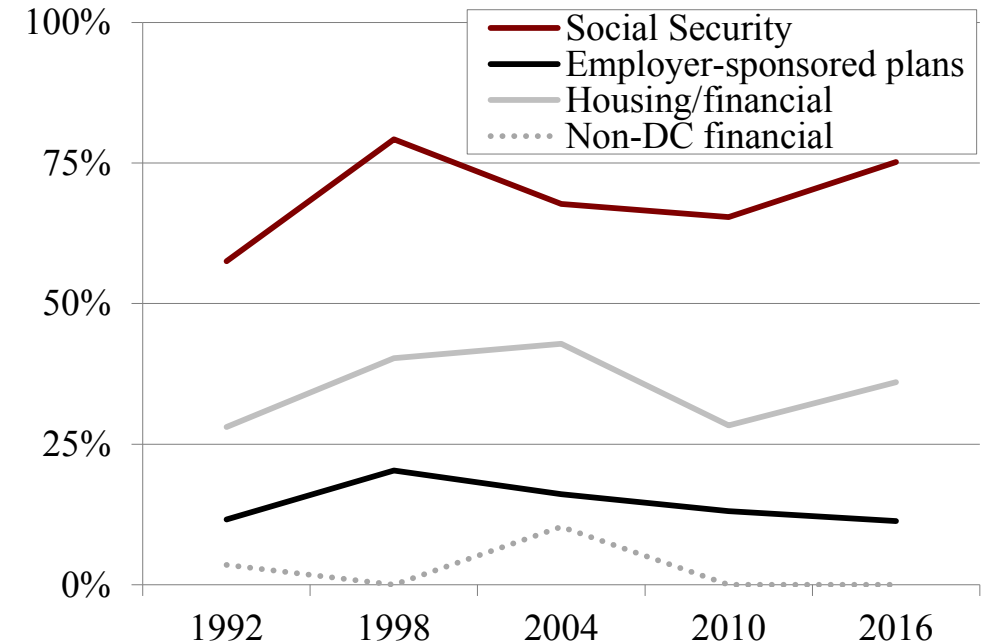
Source: Authors' calculations from *Health and Retirement Study* (HRS), 1992-2016.

# Social Security is the most equally distributed form of retirement wealth.

Ratio of Mean Black-to-White Wealth, by Source and HRS Cohort



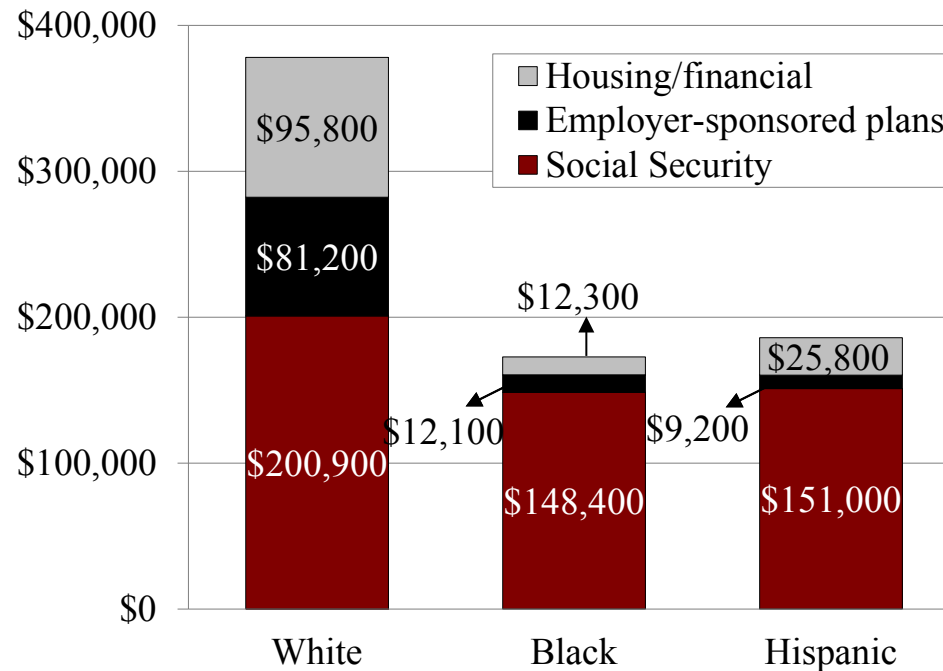
Ratio of Mean Hispanic-to-White Wealth, by Source and HRS Cohort



Source: Authors' calculations from HRS, 1992-2016.

# Indeed, the typical minority household has little non-Social Security wealth.

Total Retirement Wealth by Source for Middle Quintile Household, 2016 HRS Cohort



Source: Authors' calculations from HRS, 2016.

Across the distribution, inequality between groups is consistent, with low-wealth black households being especially vulnerable...

Average Retirement Wealth within Race/Ethnicity by Quintile, 2016 HRS Cohort

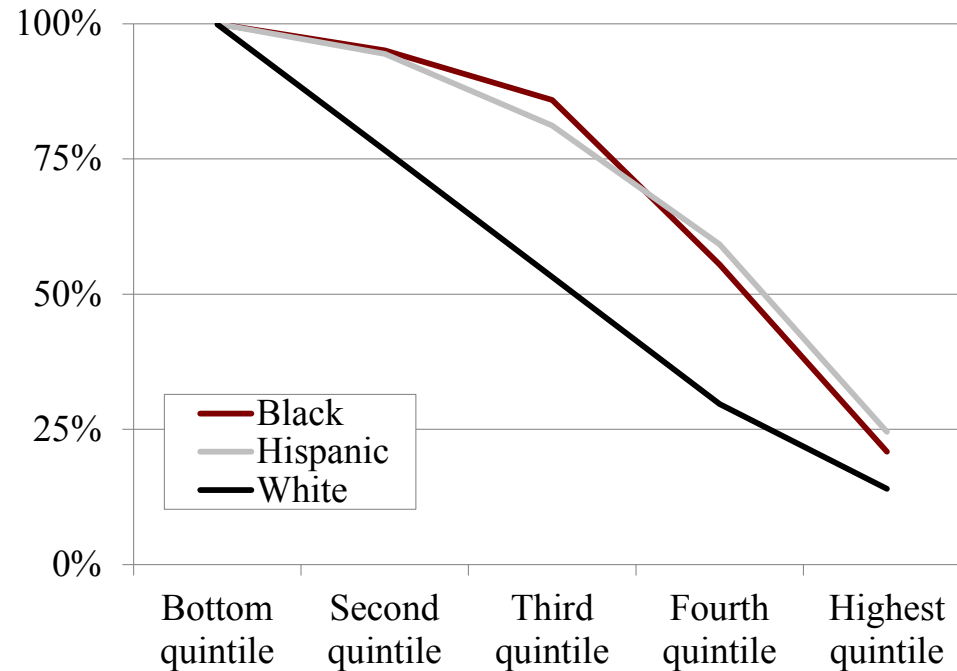
Race/ethnicity	Within race/ethnicity retirement wealth quintile				
	Bottom quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile
White	\$88,900	\$216,600	\$377,800	\$750,300	\$1,873,700
Black	20,600	96,700	172,700	306,100	915,800
Hispanic	37,400	110,900	186,000	302,200	802,700
<i>Wealth ratios</i>					
Black-to-white	23%	45%	46%	41%	49%
Hispanic-to-white	42	51	49	40	43

Source: Authors' calculations from HRS, 2016.



...with reliance on Social Security higher throughout the distribution for minorities.

Share of Retirement Wealth from Social Security within Race/Ethnicity Specific Quintiles, 2016 HRS Cohort



Note: When wealth from non-Social Security Sources was negative, as it was for both minority groups, the ratio was capped at 1.

Source: Authors' calculations from HRS, 1992-2016.

Given racial/ethnic differences in earnings, the project also calculates replacement rates.

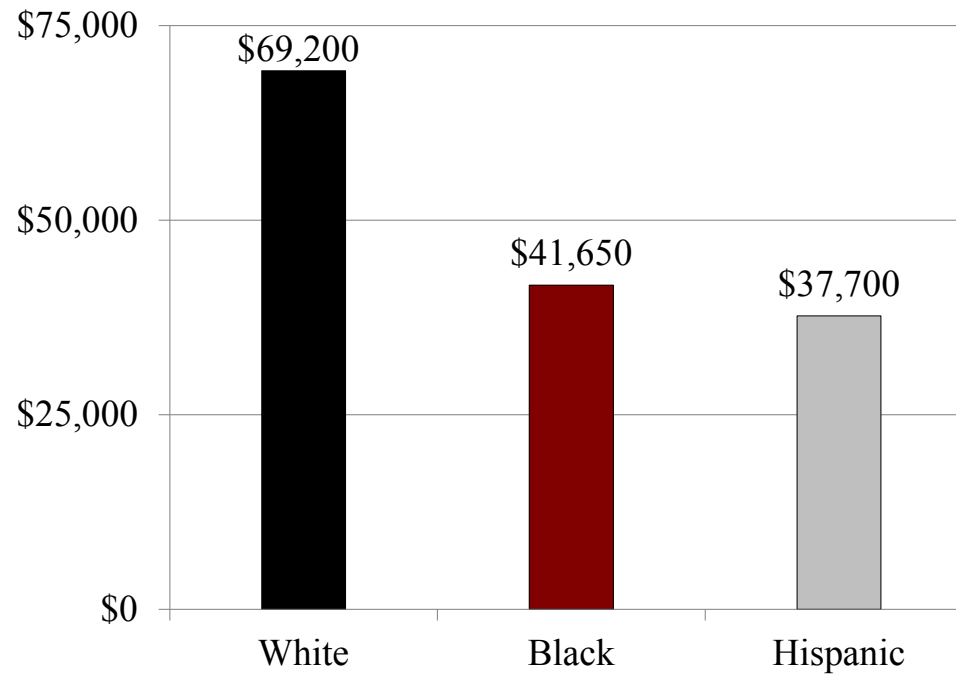
- The goal of retirement wealth is to enable households to maintain their standard of living in retirement.
- A common metric for this purpose is the replacement rate.
- This measure is the ratio of income generated by retirement wealth divided by a measure of lifetime income.

# Calculating replacement rates requires estimates of pre- and post-retirement income.

- The measure of pre-retirement income used is the highest last five years of significant earnings from administrative data as of ages 51-56.
- To calculate post-retirement income:
  - DC wealth, other financial wealth, and housing wealth is annuitized at the private market rate; and
  - DB income and Social Security income is based on the projected amounts, again pro-rated.

# Because minorities have lower incomes...

Household Earnings in 2016 Dollars for Middle Quintile, 2016 HRS Cohort

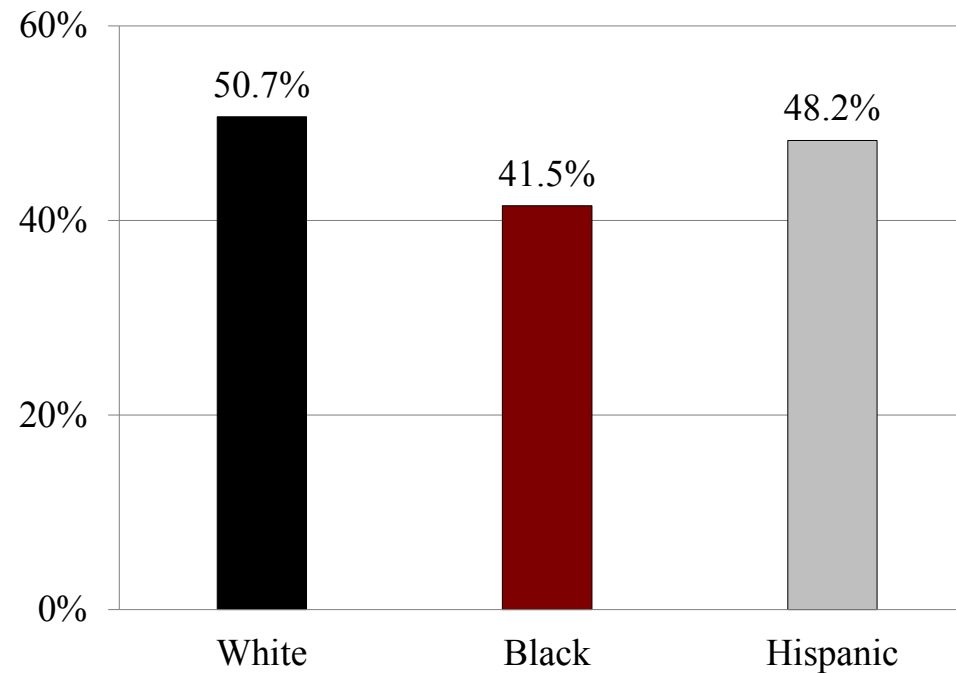


Note: Based on highest last five years of earnings greater than \$100.

Source: Authors' calculations from HRS, 1992-2016.

...inequality in replacement rates is much lower than in retirement wealth.

Replacement Rates from Retirement Wealth  
Relative to Current Income for Middle Quintile, 2016 HRS Cohort



Source: Authors' calculations from HRS, 2016.

# Conclusion

- Through 2016, retirement wealth remains unequal between racial/ethnic groups, with the inequality reduced slightly only because white household wealth declined.
- Social Security is consistently the most equal form of retirement wealth, with the median black and Hispanic households relying almost exclusively on the program.
- As policymakers consider changes to the program, understanding the distributional impacts on minority groups will be important.