

Measuring Racial/Ethnic Inequality in Retirement Wealth

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Introduction

Analyses of racial wealth inequality have long shown that black and Hispanic households have lower net worth than white households. Yet, few studies look at recent trends across these groups in the accumulation of *retirement* wealth – a broader indicator than net worth that includes the usual suspects of defined contribution (DC) plan wealth, non-DC financial wealth, and housing wealth, *plus* annuitized sources of wealth such as Social Security and defined benefit (DB) pensions. This paper uses the *Health and Retirement Study* (HRS) to examine retirement wealth inequality across racial/ethnic groups at various points in the wealth distribution for five HRS birth cohorts as they approach retirement: the original HRS, War Baby, Early-Boomer, Mid-Boomer, and Late-Boomer.

Background

Most studies on racial and ethnic inequality in wealth include only assets that can be readily turned into cash (e.g., bank deposits, housing, financial securities, etc.). Recently, Altonji and Doraszelski (2005) used the *Panel Study of Income Dynamics* to report a ratio of black to white wealth of 25 percent for these sources.

However, a few studies examine a more comprehensive measure of wealth. One of the most relevant and recent papers on the topic of wealth inequality (Wolff, 2018) finds that including Social Security and DB wealth in the calculation greatly reduces the wealth gap between white households and both black and Hispanic households. That study used the *Survey of Consumer Finances* to show that, excluding Social Security and DB wealth, black households had 14 percent of the wealth of white

households in 2016 and Hispanic households had 19 percent. Those numbers rose to 27 and 28 percent respectively once Social Security and DB wealth were included. One expects the effect of these two sources to be larger in this paper, which focuses on households ages 51-56 who have had more time to accumulate annuitized wealth, whereas the Wolff study focused on all households.

Data and Methodology

This project takes advantage of two recent additions to the HRS to provide an accurate, up-to-date picture of retirement wealth. The first is revised information on employer-sponsored retirement plans, initiated in 2012 and applied to past waves as well. The second is the addition of the Late-Boomer birth cohort (born from 1960-1965) to the 2016 HRS, which was released in early 2019. To allow a comparison between this youngest cohort and the others, the project focuses on retirement wealth and income for households as soon as they enter the HRS at ages 51-56 and who join the study in 1992, 1998, 2004, 2010 and 2016. The samples are separated into three racial/ethnic groups: 1) non-Hispanic white; 2) non-Hispanic black; and 3) Hispanic.

Social Security wealth is calculated using administrative earnings data recognizing that members of married couples may get benefits on their spouse's record, with benefits pro-rated to reflect only earnings accumulated at ages 51-56. DB wealth is calculated based on the present value of self-reported expected benefits at the individual's retirement age and pro-rated for service accrued at ages 51-56, with DC wealth simply based on self-reported assets. Non-DC financial wealth is calculated as the sum of the appropriate wealth components (e.g., net value of stock, money market accounts, certificates of deposit) excluding holdings of any of these assets held in DC

plans such as 401ks and netting out debt. Housing wealth is calculated as the value of one's primary residence net of mortgage debt.

Results

Table 1 shows average total retirement wealth and the ratio of black-to-white and Hispanic-to-white wealth in the middle of the distribution for the cohorts entering the HRS between 1992 and 2016. In 2016, the typical black household had 46 percent of the retirement wealth of the typical white household.¹ The number was 49 percent for Hispanic households. Interestingly, the 2016 cohort was slightly more equal than past cohorts. Unfortunately, the lower level of inequality stems mostly from a decline in the retirement wealth of white households of 20 percent between 2010 and 2016.

Table 1. *Average Retirement Wealth at Ages 51-56 for Middle Quintile Households within Race/Ethnicity by HRS Entry Cohort, 2016 Dollars*

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

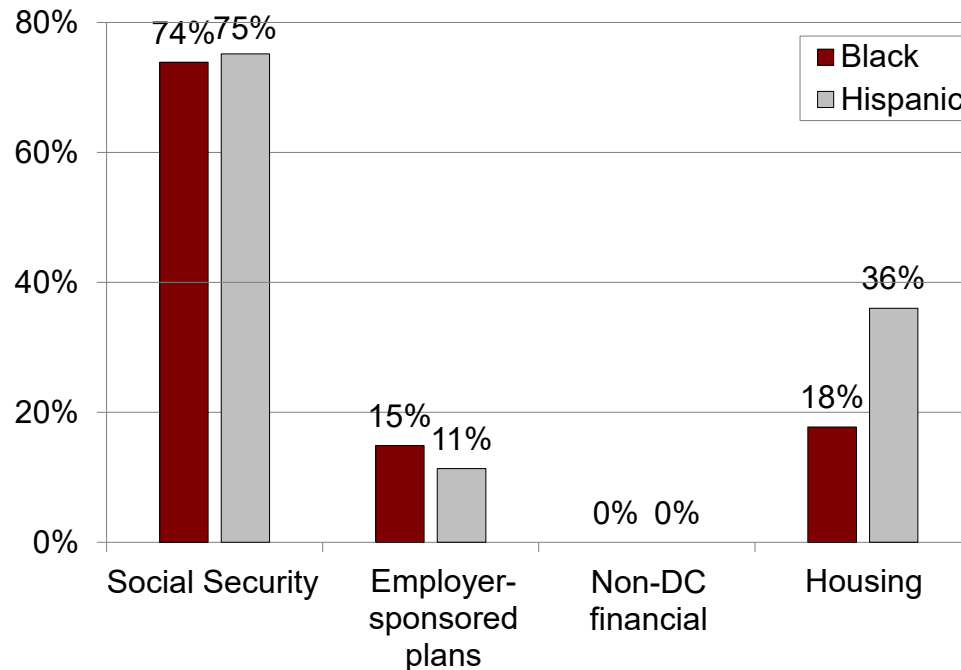
Source: Authors' calculation from *Health and Retirement Study* (HRS), 1992-2016.

The situation would be much more unequal if not for Social Security. Figure 1 shows the wealth of black and Hispanic households relative to white households for

¹ In this paper, "typical" is defined as the average for the middle quintile of the wealth distribution within each racial/ethnic group. This measure is chosen over the more traditional median because the median amount for most sources is zero.

each of the four categories of wealth considered. While relative Social Security wealth sits at around three-quarters, the other sources are all much lower.

Figure 1. *Wealth for Black and Hispanic Households in the Middle Quintile Relative to White Households, 2016*

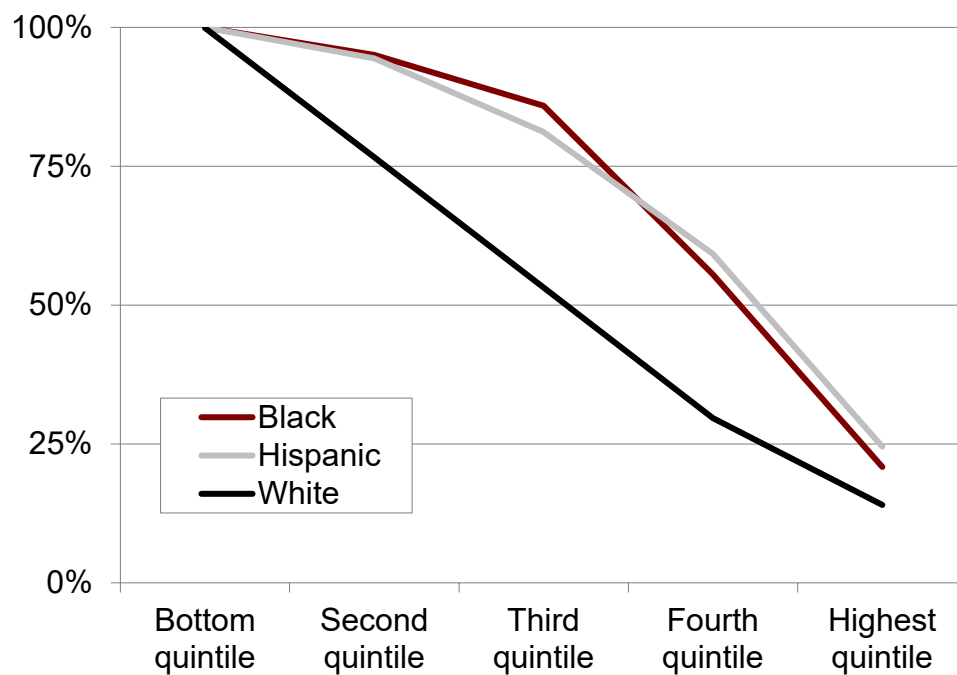


Note: Cases where the typical minority household has negative housing or non-DC financial wealth appear as 0.

Source: Authors' calculations from HRS, 2016.

Figure 1 suggests that Social Security is an equalizing force for households in the middle of the distribution. However, in some ways it understates Social Security's role in the financial well-being of minority households. Figure 2 shows the share of household wealth coming from Social Security at each quintile of the race/ethnicity retirement wealth distribution. At every point, minority households are more reliant on the program, and for the bottom three quintiles Social Security accounts for over 80 percent of their wealth.

Figure 2. *Share of Retirement Wealth from Social Security at Ages 51-56 by Racial/Ethnicity*



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, 2016.

Conclusion

While black and Hispanic households still have only half the retirement wealth as white households, the inequality is less than it would be without Social Security. In the near future, as policymakers begin to consider options to bring the Social Security program into fiscal balance, it may be worth considering the effect of any changes on the distribution of retirement wealth.