



How Does Social Security Affect the Racial Wealth Gap?

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Understanding the large and persistent wealth differentials between white and Black individuals requires answering several interconnected research questions. First, how large are the differentials in wealth, and how are they changing over time? Second, how much of the racial wealth gap can be explained by factors such as earnings, marriage patterns, gender, and education? Third, is the racial wealth gap the same across the entire wealth distribution, or is the focus in the literature on average and median households obscuring smaller or larger differentials at low and high wealth levels? Finally, one specific policy issue interacts with all three questions: Does Social Security help us understand wealth differentials by race?

This study answers these questions using two large-scale, U.S. survey data sets, the Health and Retirement Study (HRS) and the Survey of Consumer Finances (SCF). The HRS and SCF collect household wealth data in different ways, but the data sets are in general agreement about levels and trends in the ratio of white to Black wealth. This study focuses on individuals between the ages of 51 and 56 born between 1936 and 1965. In addition, the literature on racial wealth gaps tends to focus on means and medians,

and the analysis here extends that up the wealth distribution. Wealth at the 75th and 90th percentiles for whites and Blacks separately are more similar than at the mean or the median, but the racial wealth gaps are still substantial.

Analyzing the racial wealth gap using standard wealth measures is much more problematic for the bottom half of the wealth distribution. Conventionally measured wealth includes the market value of homes, vehicles, retirement accounts, other financial assets, and businesses. That measure of wealth is only positive for individuals near and above the middle of the wealth distribution. Indeed, median wealth holdings (especially for Blacks) tend to hover just above zero, generally consisting of highly leveraged owned homes, small retirement accounts, and vehicles with outstanding loans. This proximity to zero leads to large swings in estimated wealth around the median, driven by macroeconomic factors such as house prices.

The HRS and SCF wealth data differ in some key respects, but there is general agreement that the overall ratio of white to Black wealth hovers around 5. In addition, the HRS and SCF data sets also agree that the estimated

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ratios of white to Black wealth holdings are rising over time (meaning across birth cohorts observed at ages 51 to 56) at every point in the wealth distribution. Thus, in addition to the widely acknowledged increase in overall wealth inequality, racial wealth gaps are getting larger over time.

The HRS and SCF data sets are even closer in terms of a new racial wealth gap measure based on wealth-rank percentiles and introduced here. The wealth-rank percentile identifies where every individual places in the overall wealth distribution, with individuals in the lowest percentile assigned a value of 1, individuals in the middle assigned a value of 50, and those at the top assigned a value of 100. Both data sets show that the average wealth percentile rank for whites is close to 53, while the average wealth percentile rank for Blacks is 30, for a gap of 23 rank percentage points.

Still focusing on individuals between the ages of 51 and 56 born between 1936 and 1965, the HRS and SCF data sets also agree that about half of the 23-percentage point wealth-rank percentile gap can be explained by racial differences in earnings, education, marital status, and sex. This result stems from a statistical regression analysis that removes the effect of earnings and demographics. The other half of the wealth-rank percentile gap remains unexplained and a subject of future research.

The final step in this research project involves expanding the measure of wealth to include Social Security wealth (SSW). The SSW measures used here are generated for

individuals in the HRS and capture the wealth equivalent of future Social Security benefits. The idea is that an individual with no Social Security and a bank account that could pay \$1,000 per month for the rest of their life is just as well off as an individual with no bank account but a \$1,000 per month Social Security benefit.

Including SSW substantially reduces the levels of racial wealth gaps as measured by ratios of white to Black wealth across the wealth distribution, but it does not affect the conclusions about trends in racial wealth gaps over time or explain the gap in wealth rank percentiles. This apparent anomaly is really about the question being asked. Ratios of white to Black wealth at various points in the wealth distribution tell us about levels of economic resources. The fact that Social Security plays such a large role in the retirement resources for all low lifetime earners (who are disproportionately Black) simply acknowledges that half the population is, in fact, not entering their retirement years with zero accumulated wealth.

The wealth rank percentile analysis answers a different question, and one that is more relevant for improving our understanding of racial wealth gaps. If we compare a Black and a white individual with the same lifetime earnings percentile rank, education, marital status, and sex, we see the Black individual is lower in the wealth percentile rank distribution. Future research could explore why those unexplained wealth rank differentials exist. ❖

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