

Changes in Racial Gaps in Retirement Security over Time



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We explore changes over time in retirement preparation, with a focus on racial differences

Bringing together:

The literature exploring the **various factors bearing on retirement security over time**—changes in pension institutions, macroeconomic events, and the generalized struggles many Americans have had saving in recent decades (e.g., [Dynan and Wozniak](#), 2021)

The literature documenting **stark differences in wealth by race** (e.g., [Derenoncourt](#), et al (2022), [Bhutta, et al](#) (2020) and many others)

To understand racial gaps, one needs to **look beyond conventionally measured wealth** given the importance of pension income—particularly social security—at the lower end of the distribution (e.g., [Sabelhaus and Volz](#), 2022)

We use data from the Panel Study of Income Dynamics (PSID)

Longitudinal data on income, employment, demographics, wealth, and consumption through 2019 (preliminary data from 2021 too incomplete for our analysis)

Focus mainly on **households in their 40s and 50s** (1500-2000 of the former and 1200-1500 of the latter in recent waves with adequate wealth/income data)

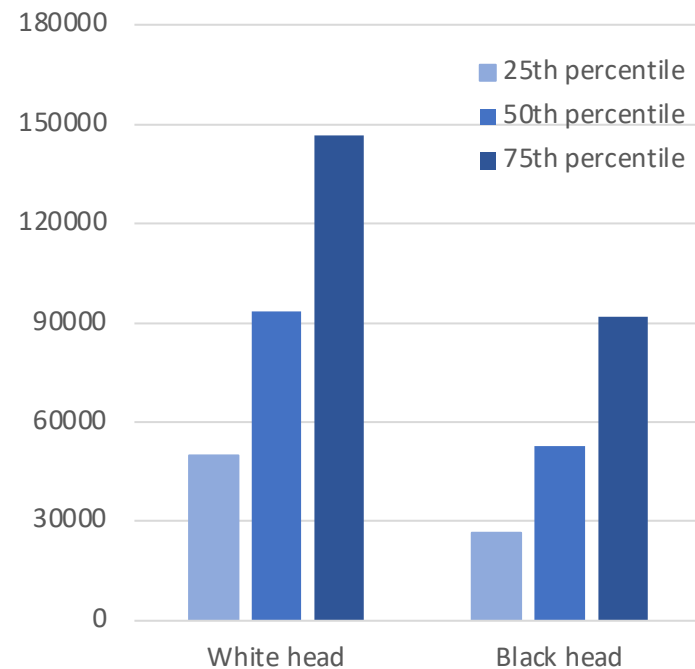
Poverty oversample => **significant numbers of Black-headed households** (~750 in their 40s and >1000 in their 50s), which means more precise estimates

PSID standard wealth measure **does not include holdings in DC accounts**; we use [Cooper, Dynan, Rhodenheiser](#) (2019) methods to pull them in, clean them up, and **add them to conventionally measured wealth**

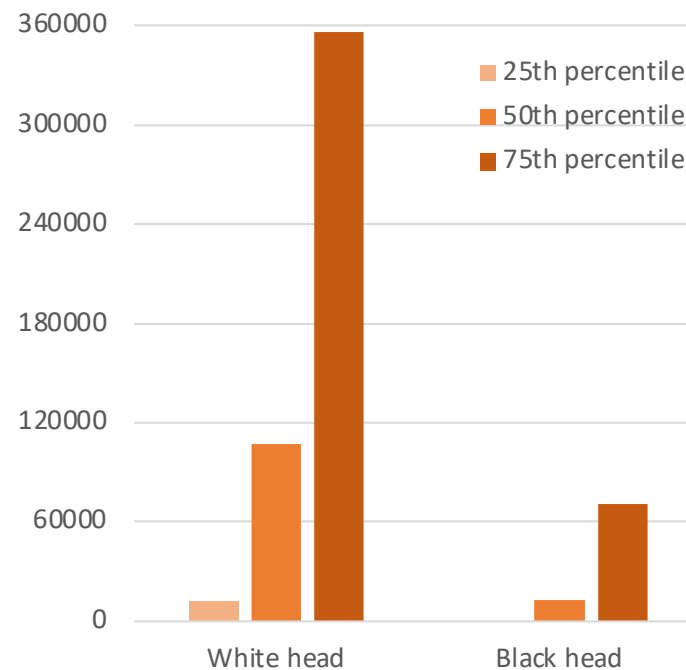
Like other data sources, the PSID shows stark racial wealth gaps

2019 Values of Key Wealth-Related Variables for Households in their 40s and 50s by Race

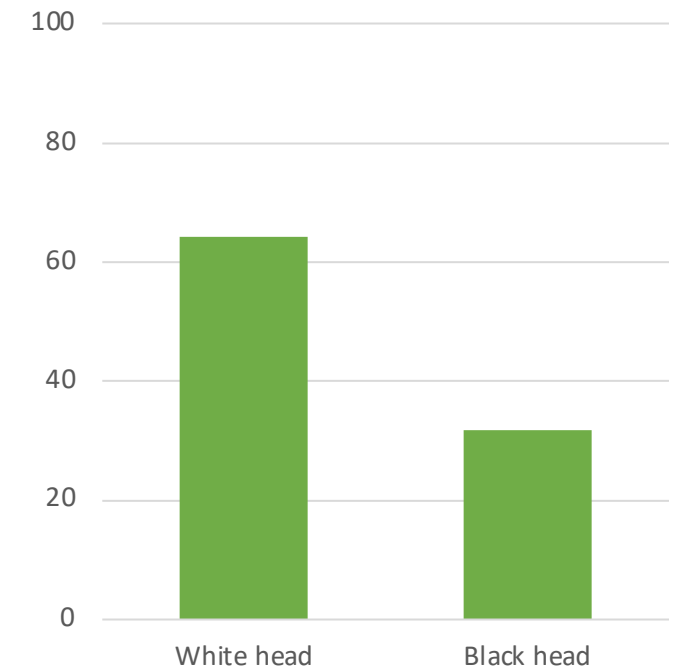
Real Money Income



Real Wealth (Conventionally Measured)



Homeownership Rate (Percent)

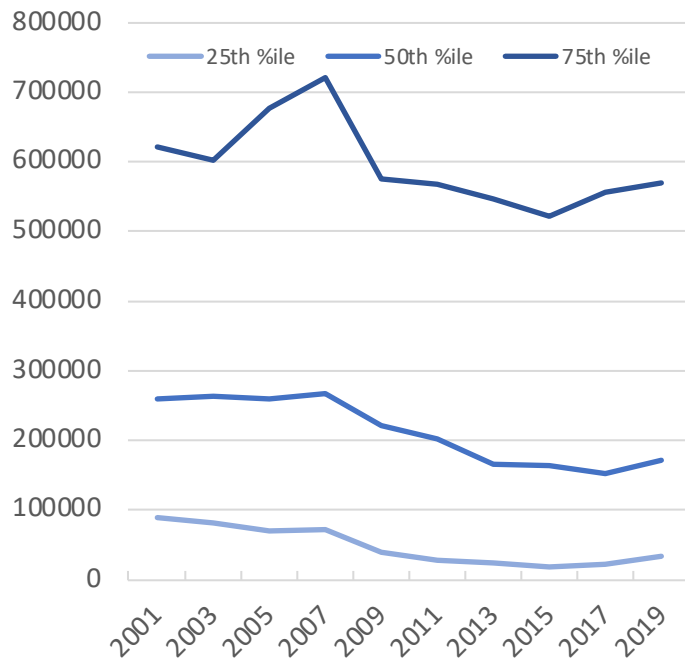


Authors' calculations based on the Panel Study of Income Dynamics using weights; real values adjusted to be in 2019 dollars using the current-methods Consumer Price Index. Money income defined as the sum of the taxable income, transfer income, and social security income of all family members. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities, not including the value of future defined-benefit pension income or Social Security income.

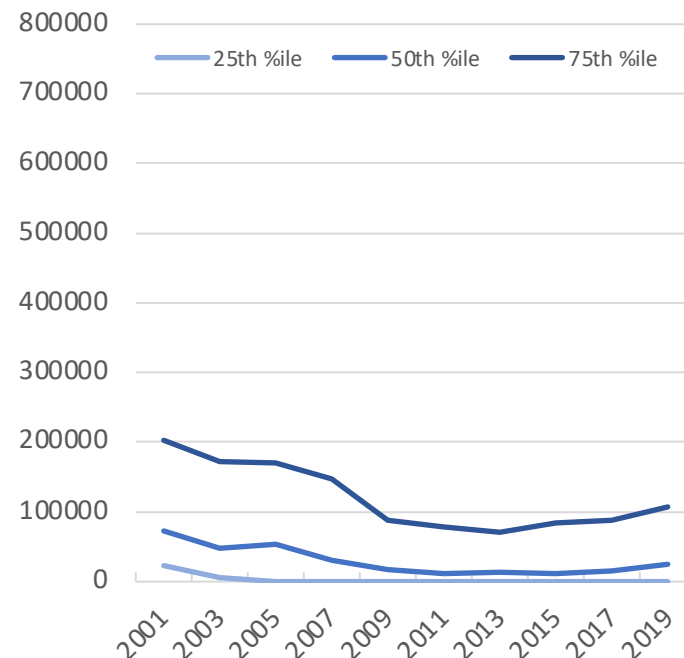
Over the past two decades, the wealth of families approaching retirement has dropped

Real Wealth (Conventionally Measured) for Families in their 50s

White Heads



Black Heads

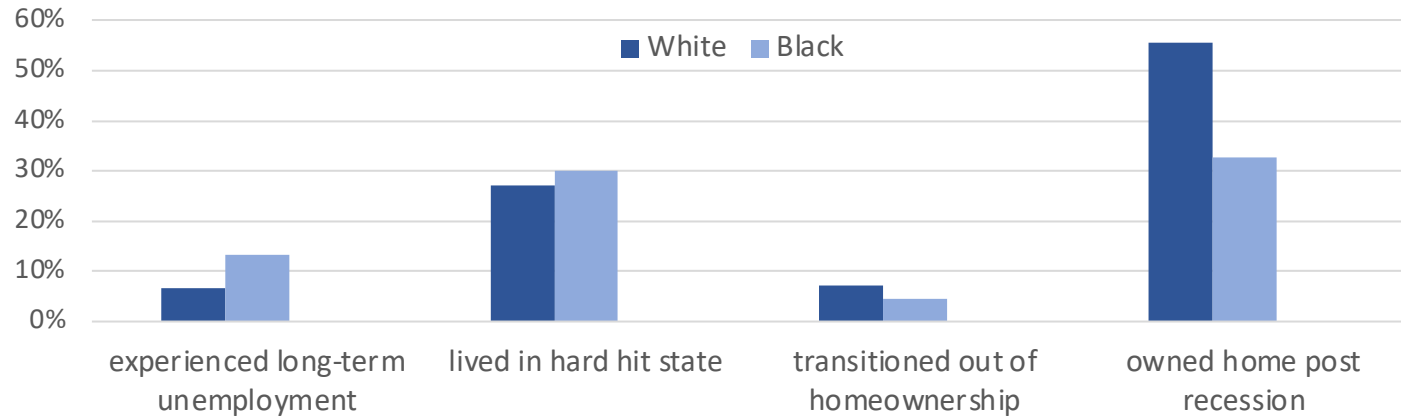


Similar patterns over time hold for households in their 40s and for wealth relative to income—with **the sharpest drop in the Great Recession period**

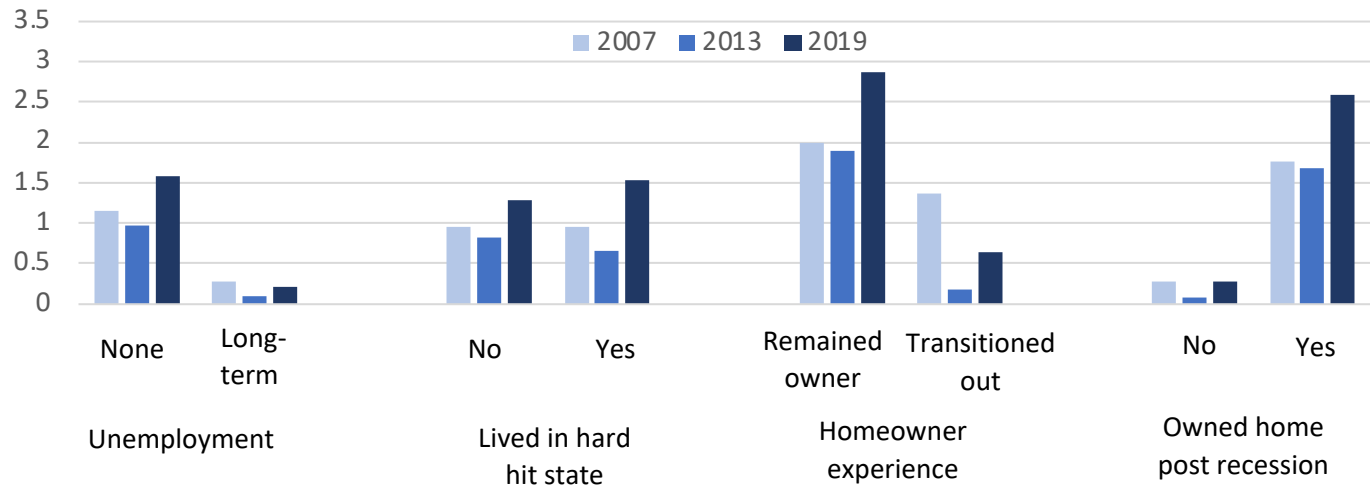
Authors' calculations based on the Panel Study of Income Dynamics using weights; real values adjusted to be in 2019 dollars using the current-methods Consumer Price Index. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities, not including the value of future defined-benefit pension income or Social Security income.

Long-term unemployment during the Great Recession and whether a family emerged from the recession with a home appears to have mattered

Shares of Families with Different Great Recession Experiences
Families with heads in their 40s and 50s as of 2019

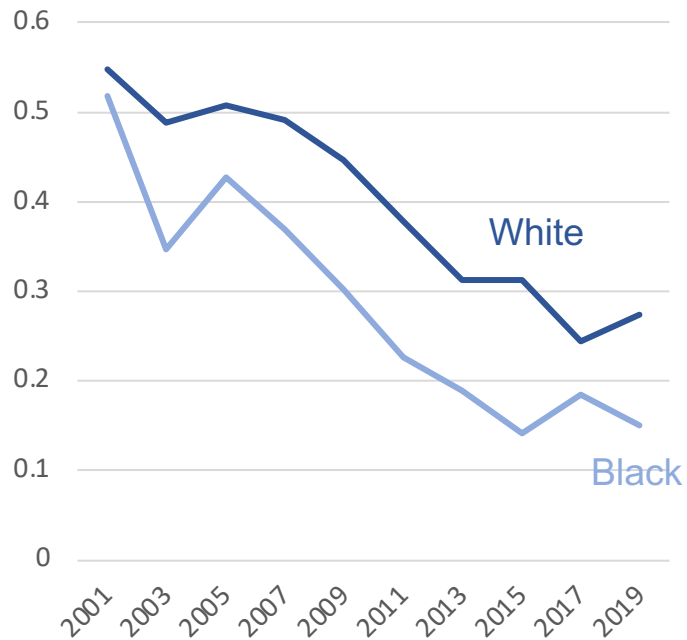


Wealth-to-Income by Great Recession Experience
Families with heads in their 40s and 50s as of 2019

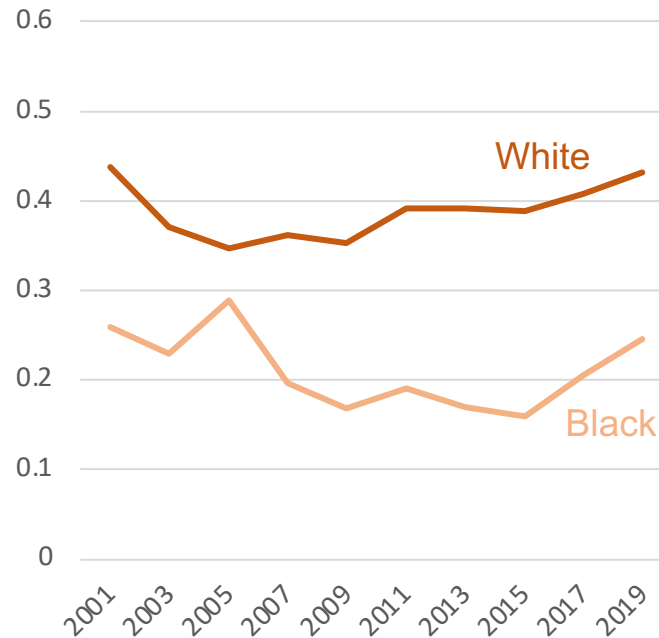


DB pension coverage has declined in the 2000s; DC prevalence has not risen

Families in their 50s Reporting DB Plan Share



Families in their 50s Reporting DC Account Share



Other results suggest:

DB/DC coverage appears to be more related to income than to race itself

Families without a DB do not save more to make up for the absence of that income

Authors' calculations based on the Panel Study of Income Dynamics using weights; includes DB/DC accounts reported by head and spouse related to current and former jobs

We do (very) rough calculations of retirement-income replacement rates for families in their 50s

Numerator for each family equals:

an estimate of the family's future annual withdrawal from wealth (for now, equal to $0.04 * [\text{financial wealth plus housing wealth}]$) + an estimate of the family's future annual DB pension income (for now, if they have a DB pension, a random draw from the distribution of DB pension income in their income tercile) + an estimate of the family's future annual Social Security income (for now, based on CBO's estimate of SS replacement rates—exhibit 11 of [this report](#))

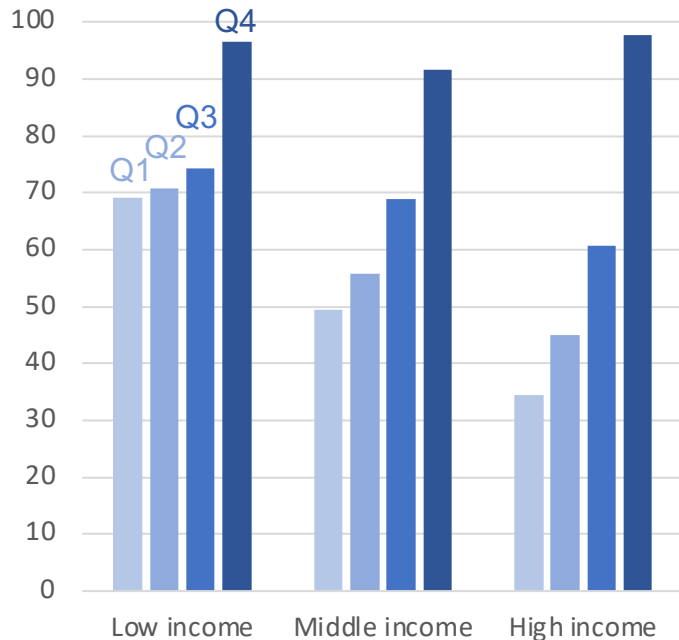
Denominator for each family is its average income thus far in their 50s

[Bee and Mitchell](#) (2017) and others have produced important evidence showing that retirement assets are underreported in surveys, implying our estimates are lower bounds; comparisons by race and over time may still be informative if the biases are not systematic

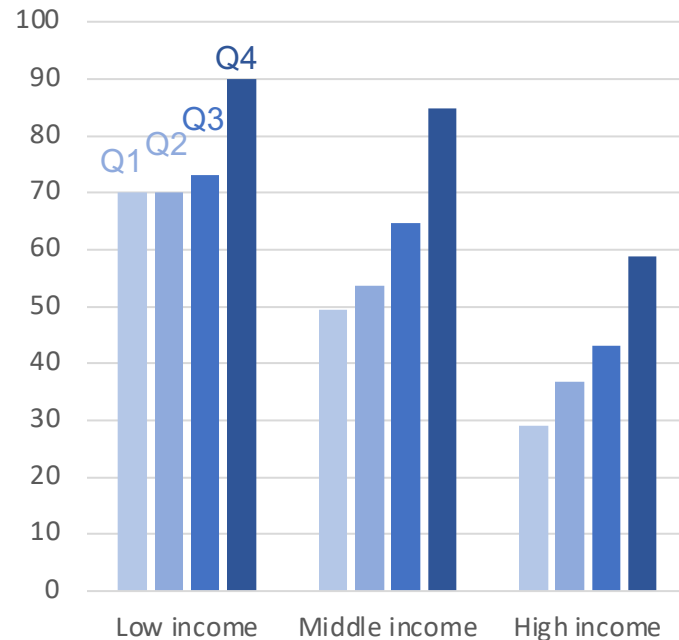
Estimated replacement rates for Black families are generally lower than for white families

Estimated Replacement Rates for Families in their 50s as of 2019
Medians for Quartiles within Fixed Income Groups

White Head



Black Head



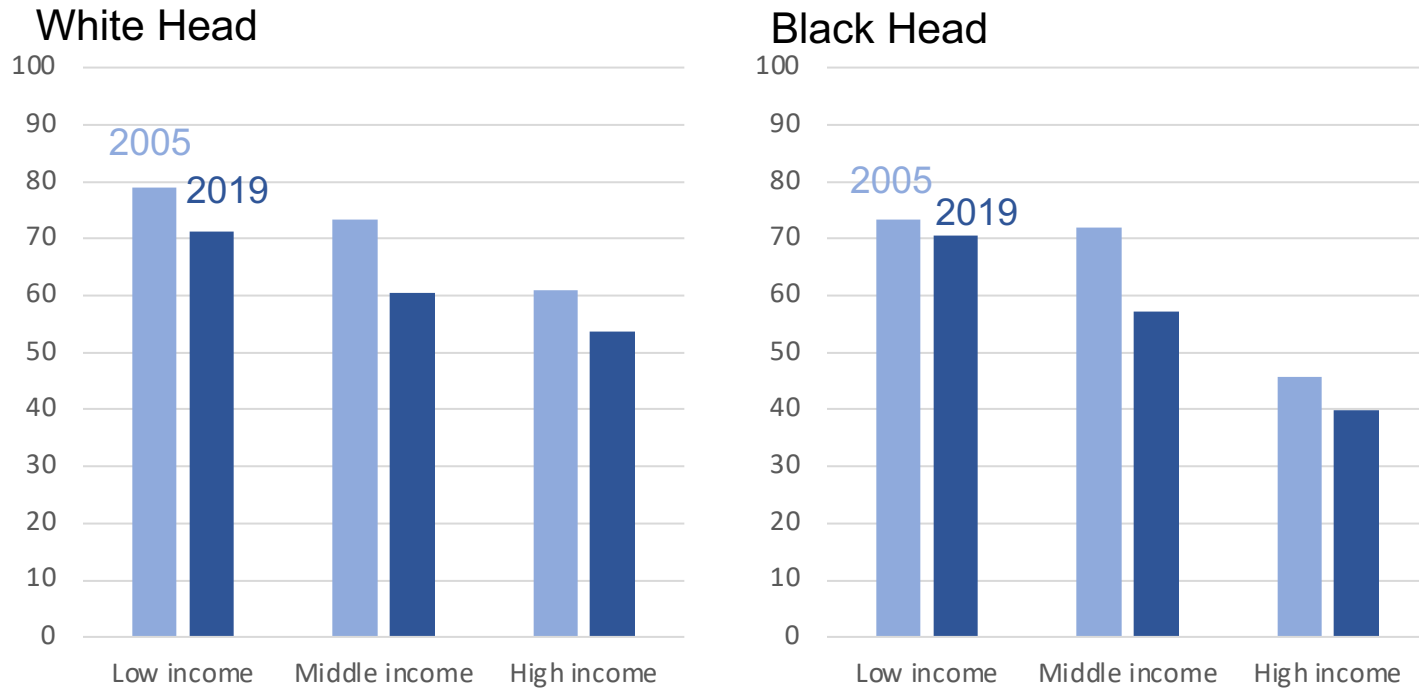
The differences are smallest for families in the lower third of the distribution, **underscoring the importance of Social Security**

Replacement rates are **concerningly low for some higher-income families**, especially those with Black heads

Calculations based on annuity value of household wealth, a random draw of defined-benefit pension income from households in their 60s with the same race and income group when they were in their 50s, and Social Security replacement rates from CBO (2019). Income terciles based on money income (as the sum of the taxable income, transfer income, and social security income of all family members) and derived on a weighted basis for each year. The four bars for each income group represent the medians for families in the lowest through highest quartiles of the group in terms of replacement rates. Statistics calculated using weights.

Estimated replacement rates for families near retirement were lower in 2019 than they were in 2005

Estimated Replacement Rates for Families in their 50s as of 2019
Medians within Fixed Income Groups



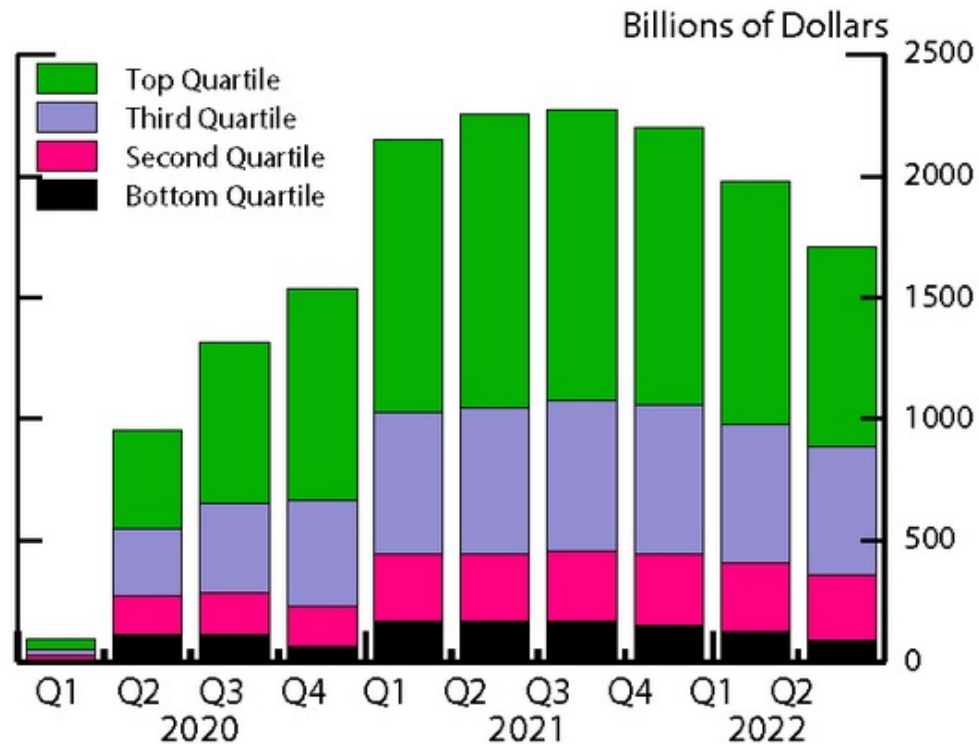
The decline occurs **in all income groups**, for both families with White and Black heads

The decline reflects **lower accumulated wealth** and **lower prevalence of DB pensions**

Authors' calculations based on annuity value of household wealth, a random draw of defined-benefit pension income from households in their 60s with the same race and income group when they were in their 50s, and Social Security replacement rates from CBO (2019). Income terciles based on money income (as the sum of the taxable income, transfer income, and social security income of all family members) and derived on a weighted basis for each year. Statistics calculated using weights.

An important open question is how household wealth has evolved across the distribution since 2019

Estimated “Excess Saving” by Income Quartile through mid-2022



Screenshot from [Aladangady, et al \(2022\)](#)

A generous fiscal response supported incomes despite massive job loss and consumption was constrained by the pandemic, leading to a large amount of “excess saving”

Even with the recent stock market decline, [aggregate household wealth as a share of after-tax income](#) is well ahead of its 2019 levels [it remains to be seen what will happen with home prices ...]

Conclusions

Declines in conventionally measured wealth over the past two decades, along with lower DB pension coverage, raise **important concerns about the retirement security of many American families**

The challenge is **especially acute for many Black families** given Black families have far less wealth, on average, than white families, and they are notably less likely to have defined-benefit pensions

Aging **Americans are likely to be even more dependent on Social Security benefits for adequate income in retirement than before** and any future reduction in Social Security benefits—even if concentrated among higher-income families—could significantly constrain consumption in retirement

Next steps

Further **refinements of the financial resources likely to be available in retirement** for Black- and white-headed families as well as the factors bearing on the evolution of these resources over time

Particularly exploiting the **unique and valuable longitudinal dimension** of the PSID

Analysis of **the full results from the 2021 wave of the PSID** once they are released to determine how Black and white-headed families fared during the COVID recession and its aftermath

Thank you!