

Understanding Trends in Hispanic and African American Retirement Preparedness in the US (Wolff)

Gaps in Retirement Wealth Facing Black and Hispanic Families: Lessons from the Survey of Consumer Finances and Recent Extensions (Thompson, Suarez, & Henriquez Voltz)

Discussion

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Research Objective

- Use the Survey of Consumer Finances during the same period 1989-2019 (Wolff: uses only 1989, 2007, 2019), looking at a similar age group (Wolff: 47-64 yrs old; Thompson et al.: 40-59 yrs old)
- Estimate retirement income/wealth similarly, based in 4 components:
 1. standard non-pension wealth holdings
 2. defined contribution (DC) pension holdings
 3. Actual/expected defined benefit (DB) pension entitlements
 4. Actual/expected Social Security benefits (SSB)
- Help us understanding the racial and ethnic wealth gaps in the context of retirement resources (DC, DB, SSB)
- Show interesting differences among Whites, Blacks and Hispanic households

Relevant Findings for Future Policy

While method of estimations and approach are similar but different, Wolff and Thompson et al. agree that:

- DB and DC plans help to equalize wealth disparities – but minorities have less access to DC plans
- SSB are the most successful equalizing source of wealth
- Decrease on DB and increase in DC has implications for the racial/ethnic wealth gap

They also find that

- Minorities made progress in terms of mean and median retirement income between 1989 and 2007, but Blacks fared worse in 2019 (Wolff)
- For the “typical family” (at the middle of the inc. distribution), retirement wealth is dominated by DC plans (few have access to DB plans, Thompson et al.)
- Wealth racial disparities declined modestly between 2019 & 2022 (Thompson et al.)

Reflections about Retirement Knowledge

- Minorities show lower levels of retirement income/wealth, where they have lower participation in DC plans
 - Lower participation in DC plans explained by:
 1. Lack of access to an employer retirement account
 2. Lack of income to contribute to a retirement account
 3. Lack of knowledge about retirement accounts
 4. Other behavioral barriers (time, interaction/trust on financial institutions, etc..)
- There are significant racial and ethnic disparities in retirement knowledge (Blanco and Hays, 2022)

Reflections about Retirement Knowledge

- Using data from the Health and Retirement Study, 2020 wave, among adults 51 years old or older from the Retirement Knowledge experimental module 1
- Retirement Knowledge Scale (RKS) measures 3 dimensions:
 1. Reflection about retirement plans
 2. Engagement with information retirement
 3. Evaluation of retirement preparedness
- ➔ Whites report greater RKS than Blacks and Hispanics of 0.35 and 0.64 of a standard deviation, respectively.
- ➔ Differences statistically significant of small (W vs B) and medium (W-H) magnitude

Racial and Ethnic differences in the RKS

	White – Black	Eff. Size	White – Hispanic	Eff. Size
RKS	8	0.4	15	0.6
RKS – Reflection	9	0.3	19	0.5
RKS – Engagement	4	0.2	10	0.4
RKS – Evaluation	15	0.5	22	0.8

All differences statistically significant at least at the 5 percent level

Reflections for future work

- **Years of analysis** – how would this analysis change in the post-pandemic years (Wolff analysis using different years)
- **Age groups** – what would this analysis show if we are to use younger or older cohorts?
- **Intersectionality of race, ethnicity and gender** – how would this analysis look like if we are able to distinguish between female and male workers from different racial/ethnic groups?
- **Impact of great recession/pandemic** – could we be more specific to see the direct impact and whether there were changes in trajectories?
- **Magnitude of differences and significance** – can we be more specific about whether the differences across groups are significantly different and more provide more context of the magnitude of the differences?
- **Underlying mechanisms** – what are the factors that lead to racial/ethnic disparities in retirement income/wealth (social determinants of financial wellbeing)?

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More on the Retirement Knowledge Scale (RKS) below

HRS website information:

<https://hrs.isr.umich.edu/documentation/modules>

Working Paper:

Blanco, Luisa R. and Hays, Ron D., Racial, Ethnic and Gender Retirement Knowledge Gaps in the United States (December 16, 2022). Available at SSRN: <https://ssrn.com/abstract=4305160>

Racial and Ethnic differences in the RKS

10 Scale Items

Reflection: What age to retire

Reflection: How much money for retirement

Engagement: Print source

Engagement: Web

Engagement: Family/friend

Engagement: Financial professional

Engagement: Workshop/class

Evaluation: How retirement saving accounts work

Evaluation: Different types of retirement savings

Evaluation: Financial preparedness for retirement