Session: Policies to Narrow Racial Wealth Inequalities

Paper #1 "Tax Policy to Reduce Inequalities" Carl Davis & Brakeyshia Samms

Paper #2 "Enhancing Wealth and Reducing Inequalities: ESAs and Beyond" David John, Mark Iwry and Bill Gale

Discussant Comments for RRC Conference March 31, 2023

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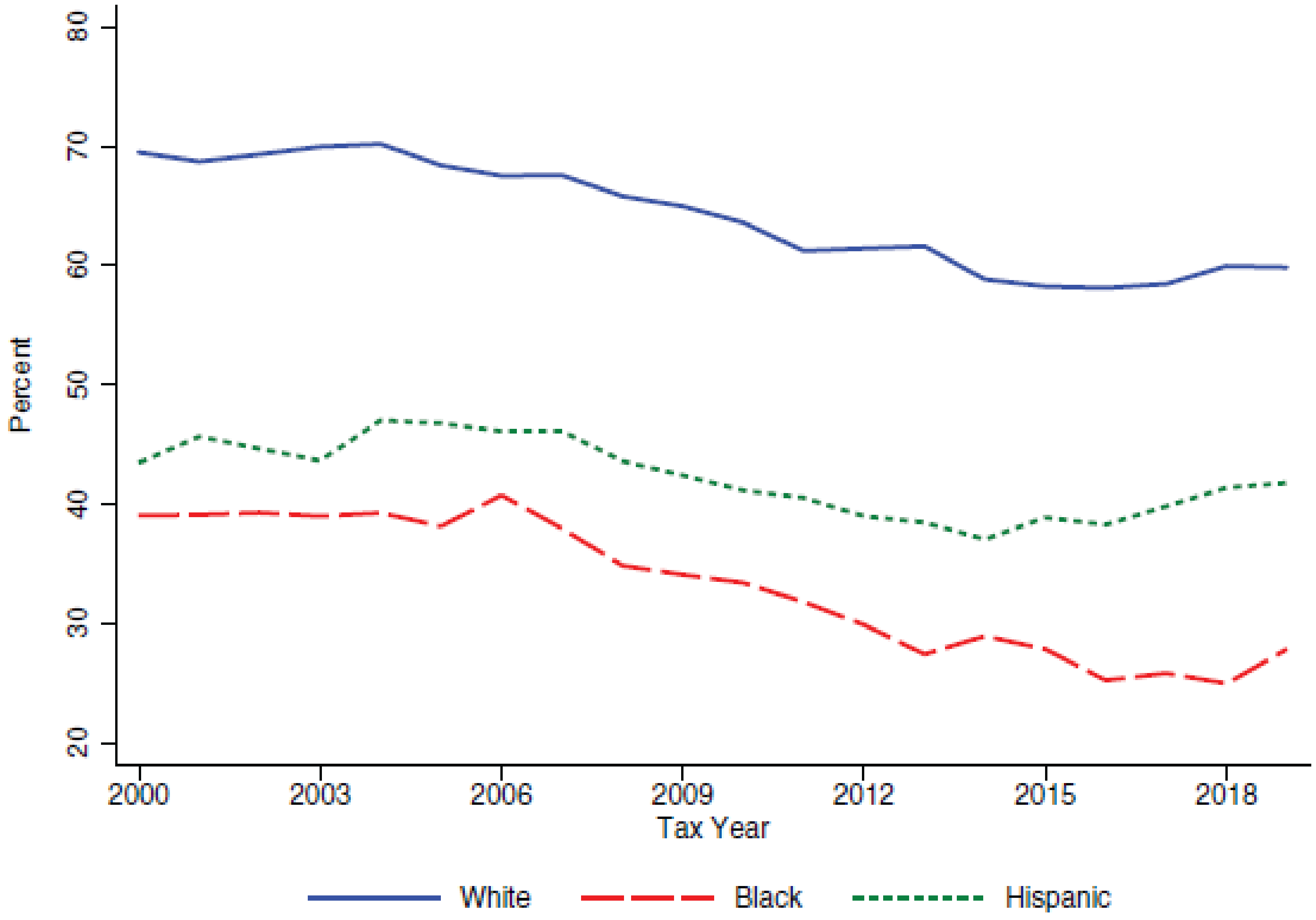
Research / *Training* / *Policy* / *Practice*

Openers : from debts to assets, intragenerational asset accumulation & fungible retirement assets

- Most minority families face barriers to wealth accumulation
- Why (beyond the obvious racial legacies) ?

1. Enduring debts, including legal debt, medical debt and child support debt, on top of credit card debt, auto loan debt and student debt, especially as they affect black men who have been imprisoned, students who borrowed for private colleges, and single parents
2. Racial home ownership deficits widened in the recovery from the Great Recession due to foreclosures during the GR (next slide)
3. Longer term outcomes from poor & unsteady employment , unstable families, leave racial gaps in jobs, pay and incomes

FIGURE 9
Trends in Homeownership by Race and Ethnicity



SOURCE: Author's calculations of data from survey years 2001 to 2020 of the CPS Annual Social and Economic Supplement.

Note differences in **home ownership** trends by race and ethnicity, 2000-2019

Source: [Ziliak(2021)]

Question: what are personal and family priorities in accumulating assets ?

- Wealth accumulation begets assets and facilitates transfers across generations, but what are one's priorities ?
- Where do retirement savings come in ?
- What are the ordered preferences ?

1. eradicate unsecured debt which limits access to credit markets,
2. build precautionary / emergency savings to avoid more debt,
3. downpayment for homeownership,
4. business start up funds ? ,   and finally then--
5. retirement savings   ?

Some progress—but not enough

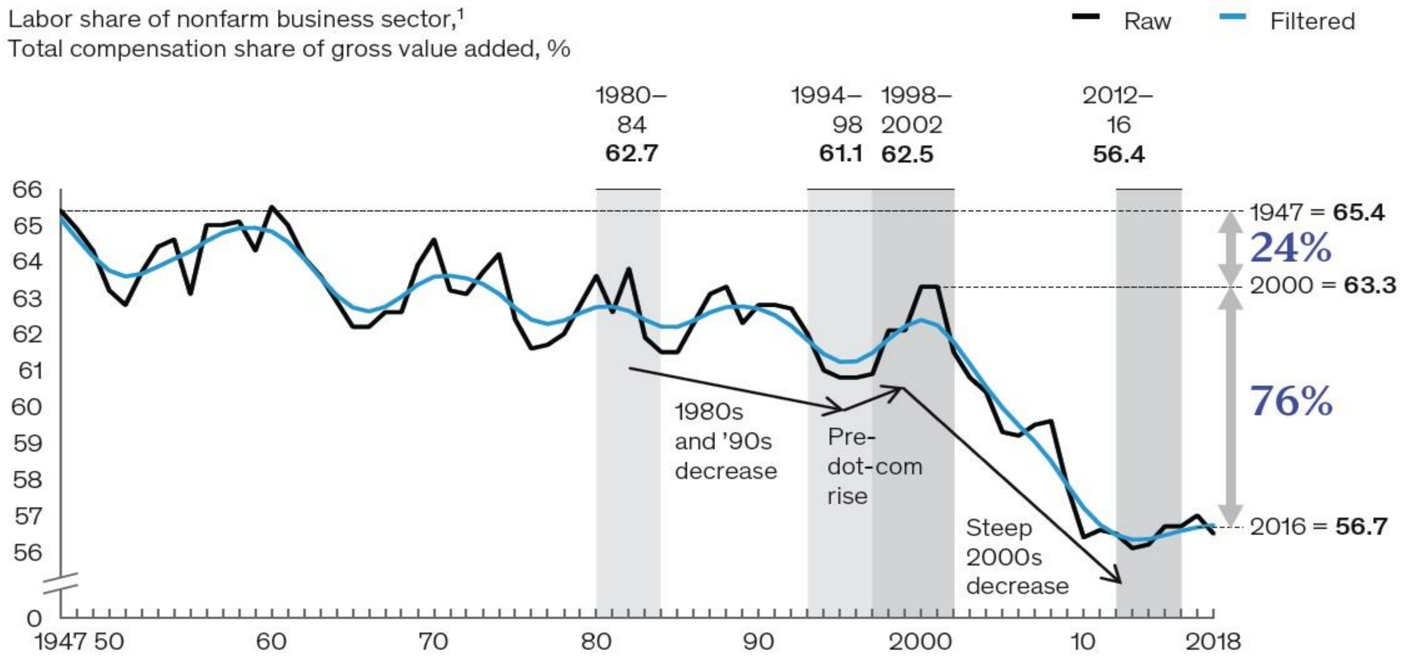
- Recent labor market tightness has raised earnings at the bottom of the distribution and led employers to cater more to worker's needs
- Fewer blacks in prison and more in college now (big 10-year change)
- Pension wealth has not increased greatly for a large number of reasons– mostly lack of incentives and low incomes, and possibly low on scale of preferences (previous slide) ?
- Social Security is increasingly valuable for DI & SI as well as OAI
- Private pensions add another leg to old age security and especially as technological change and the rapid rise of both robotics and AI call for a wider ownership of capital assets via pension funds

Who owns the robots ?

Exhibit 2

Three-fourths of the decrease in labor share in the United States since 1947 has come since 2000.

The accelerating decline in labor share in the United States



[1] Detrended using Hodrick-Prescott filter (restriction parameter = 6); adjusted for self-employed income (non-farm business sector, 75% of total economy), from Labor Productivity and Costs database, Bureau of Labor Statistics.

Factor Shares—labor share of national income, *falling* in USA and elsewhere. Was more than 65 % in 1970's-1990s , now 56 % ; K (capital share) rising and those who own the capital ("robots") are winning !!

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So what to do about retirement wealth inequality ?

- Need to build emergency savings (ESAs); portable DC pensions; auto IRAs; use savers credits; and more
- Enter in December 2022, "Secure 2.0" -- a good start, even with the devil in the details (as seen below)
- Two nice papers that agree & address the issues and solutions:

1. Tax Policy to Reduce Racial Retirement Wealth Inequality (Davis & Samms)

2. Enhancing Retirement Wealth and Reducing Retiree Inequality: Emergency Savings Accounts and Other Policy Options (John, Iwry and Gale)

"Tax Policy to Reduce Retirement Savings Inequalities": Davis and Samms (DS)

- **Good on principles and big picture of limits to tax policy ; on increasing incentives for lower-and middle-income workers and families; on real estate taxes (assume homeownership ?)**
- **One thorny issue is their dislike of tax-preferenced savings**

-- Consider the discussion of credits vs deductions. While one prefers (limited) refundable credits to start/build a DC plan, untaxed earnings until withdrawal at retirement leads to a *larger percentage accumulations for Blacks & Hispanics than Whites* according to simulations in JIG paper !

-- Agree that there should be limits to amounts of tax preferred savings, like pensions and 529s (and conversions of 529s to pensions !)

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"Enhancing Wealth and Reducing Inequalities: ESAs and Beyond" John, Iwry and Gale (JIG)

- Starts with great point that ESAs are very complimentary to accumulation and not decumulation of retirement savings; without precautionary ESAs, DBs are depleted for emergencies
- ESA aids are auto-enrollment, payroll deduction, employer match, portability and assurance against garnishment (capped and aimed at lower income earners with employer and government matches)
- Many possible ways to get there , eg payroll card accounts for the underbanked ?

Then building portable retirement wealth comes in concert or next

- Pension accounts are very limited amongst those earning under $31,000 per year
- Need access to simple, *portable* retirement plan, with auto payroll deduction– e.g. (universal ?) auto-IRAs
- Portability issue is key in the eyes of the account owner, the employer-sender, and the new employer-receiver, with tracing of lost amounts that are somehow forgotten
- Enter Secure 2.0 where pensions benefit from targeted refundable 50 percent "savers credits" up to $1,000 per year

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The new vehicle on the block : Secure 2.0 – what else is needed ?

- Good to have specific attention paid to this issue by IRS with incentives for employers and employees to build accounts
- BUT the devil is in the details, many of which are not yet worked out, per JIG paper and DS paper
- Added policies to promote savings and asset accumulation ?

-- pension fund managers with low overhead and limited plan choices

-- abolish asset tests for SNAP, SSI

-- auto - 529's at children's birth (changes optics and incentives for longer run thinking on asset building)

--$10,000 tax credit for first time home buyers

Finally, another open preference question

- In a tight labor market with lots of vacancies and with employers' concerns about reducing turnover (as well as increasing automation), what do mobile workers value from an employer ?
- Again, what are worker preferences ?

-- health insurance

-- at least partial work at home days ?

-- employer subsidized ESAs and subsidized pensions ?

(THANKS for having me)

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