

Retirement Assets and the Wealth Gaps for Black and Hispanic Households

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The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors or the Federal Reserve Bank of Boston

Overview

- Explore retirement wealth among white, Black and Hispanic families between 1989 and 2019
- Families with heads between 40 and 59 with Survey of Consumer Finances (SCF)
- We augment Defined Contribution (DC) assets in SCF with household-level estimates of:
 - Defined Benefit (DB) pension wealth (Sabelhaus and Volz, 2022)
 - Net Social Security wealth (SSW) (Jacobs et al, 2022)
- Extend Distributional Financial Accounts (DFAs) to explore how COVID-19 pandemic has affected retirement wealth disparities for near retiree households.
 - DFAs are quarterly estimates of the distribution of household wealth from 1989 through the most recent quarter.

Analysis

- Measure of household wealth:

$$\text{Private wealth} = \text{SCF wealth} + \text{DB pension}$$

- Two ways of comparing racial groups:
 - Average comparison: using the average of all the households.
 - Typical family: using the average of families in the middle quintile of race-specific private wealth distribution

Mean differences across race

Racial gaps smaller than overall wealth, though still stark.

<u>Wealth component/concept</u>	<u>Mean wealth</u>			<u>Ratio of White to Non-white</u>	
	White	Black	Hispanic	White/ Black	White/ Hispanic
Housing wealth	\$382,386	\$126,458	\$195,584	3.0	2.0
Non-housing, non-retirement assets	\$680,059	\$86,565	\$107,037	7.9	6.4
DC pension assets	\$196,254	\$62,029	\$46,643	3.2	4.2
DB pension assets	\$211,645	\$147,321	\$92,953	1.4	2.3
Debt	-\$164,680	-\$79,309	-\$102,060	2.1	1.6
Total private wealth	\$1,305,664	\$343,064	\$340,157	3.8	3.8
<i>Conditional on plan coverage</i>					
DC pension	\$302,672	\$145,952	\$143,743	2.1	2.1
DB pension	\$790,125	\$617,840	\$509,347	1.3	1.6

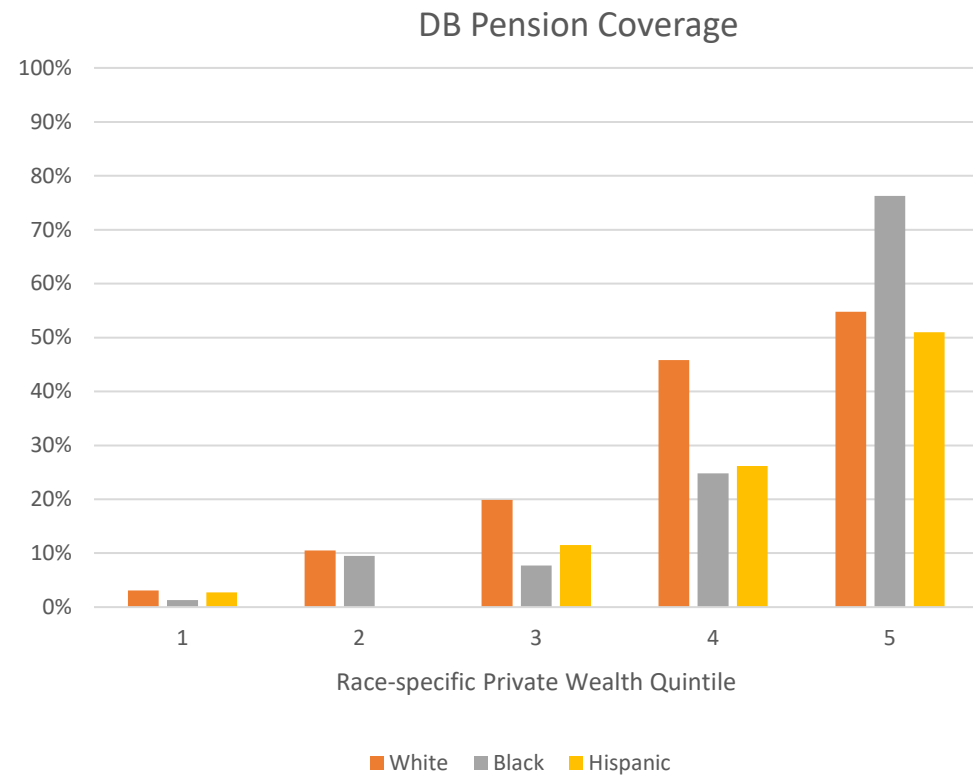
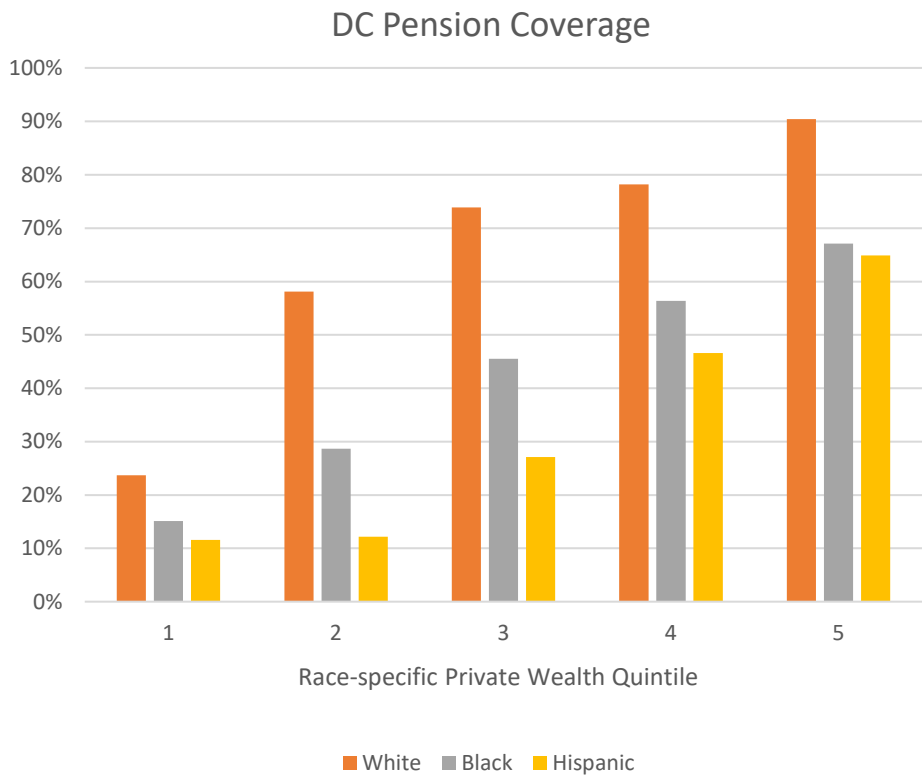
Typical differences across race

Between typical families, racial disparities larger for retirement assets

<u>Wealth component/concept</u>	<u>Mean wealth</u>			<u>Ratio of White to Non-white</u>	
	White	Black	Hispanic	White/ Black	White/ Hispanic
Housing wealth	\$232,850	\$99,721	\$109,790	2.3	2.1
Non-housing, non-retirement assets	\$88,081	\$23,835	\$38,101	3.7	2.3
DC pension assets	\$97,075	\$16,363	\$14,629	5.9	6.6
DB pension assets	\$38,597	\$5,922	\$5,853	6.5	6.6
Debt	-\$133,654	-\$77,968	-\$73,443	1.7	1.8
Total private wealth	\$322,949	\$67,874	\$94,930	4.8	3.4
<i>Conditional on plan coverage</i>					
DC pension	\$131,358	\$35,971	\$53,977	3.7	2.4
DB pension	\$194,344	\$76,866	\$51,031	2.5	3.8

Distribution of retirement assets by race and private wealth quintile

Pension participation does not become prevalent until at least median household for non-white households



Distribution of retirement assets by race and private wealth quintile
 Pension assets does not become substantial until the 4th or 5th quintile

Race-specific, private wealth quintile	<u>Average DC Pension Wealth</u>			<u>Average DB Pension Wealth</u>		
	<i>white</i>	<i>Black</i>	<i>Hispanic</i>	<i>white</i>	<i>Black</i>	<i>Hispanic</i>
1	\$3,985	\$1,881	\$1,645	\$740	\$1,555	\$618
2	\$28,899	\$3,920	\$1,717	\$6,615	\$1,858	\$0
3	\$97,075	\$16,363	\$14,629	\$38,597	\$5,922	\$5,853
4	\$194,173	\$46,156	\$36,691	\$242,833	\$35,377	\$20,910
5	\$657,952	\$242,727	\$178,821	\$770,166	\$694,055	\$437,959

Distribution of retirement assets by race and private wealth quintile
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Race-specific,
private wealth quintile

Average DC Pension Wealth

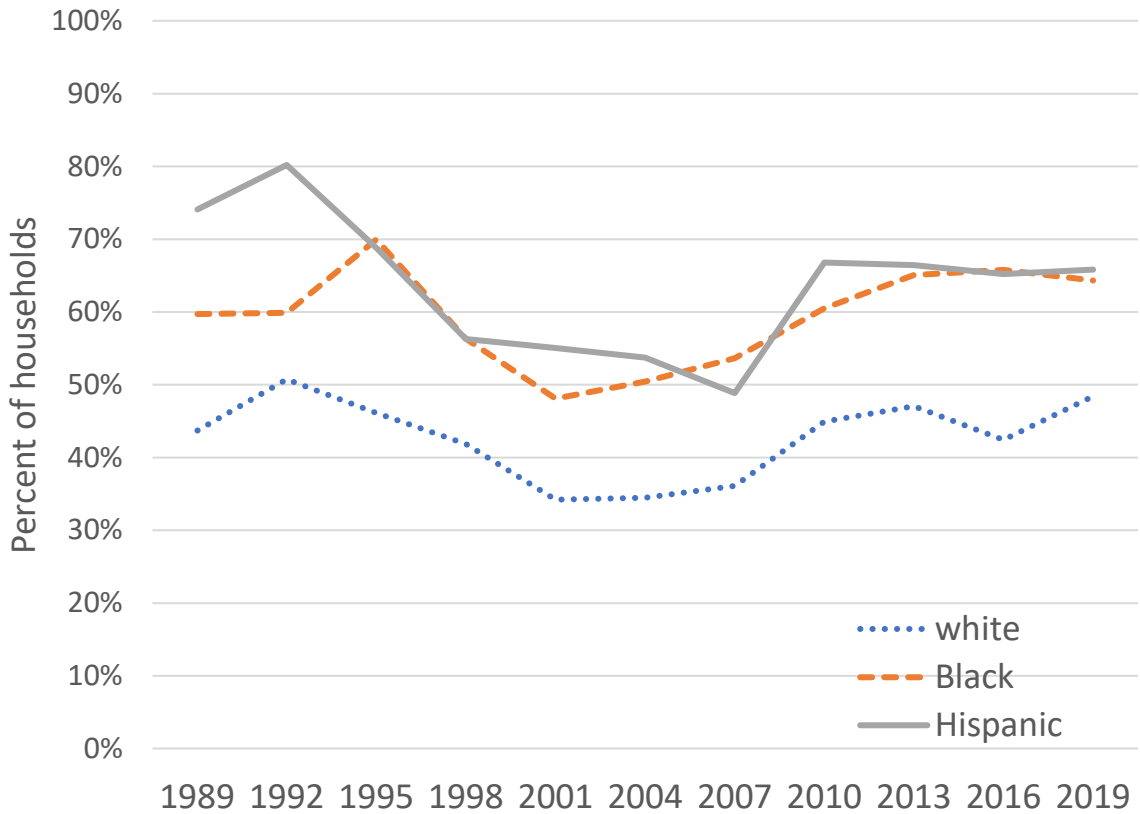
Average DB Pension Wealth

	<i>white</i>	<i>Black</i>	<i>Hispanic</i>	<i>white</i>	<i>Black</i>	<i>Hispanic</i>
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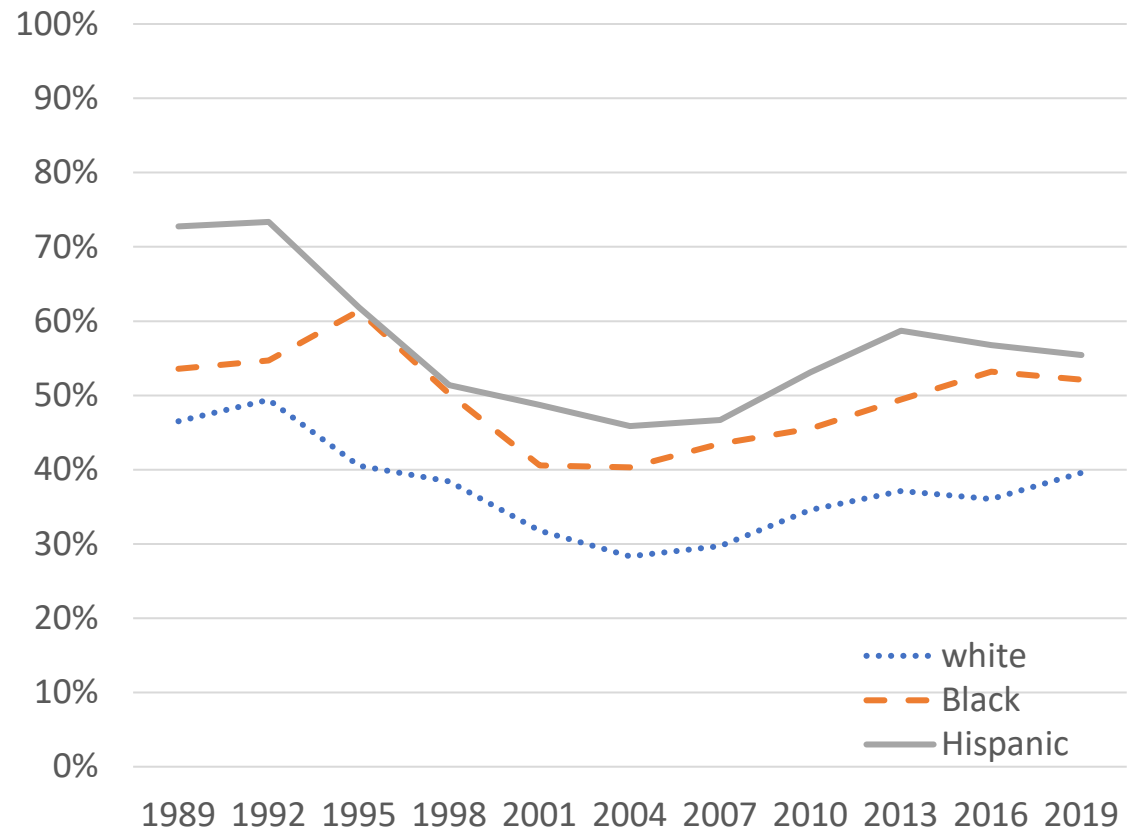
Role of Social Security

Social Security dominates other household assets, particularly for non-white households

Percent of Households with SSW > SCF wealth, by Race



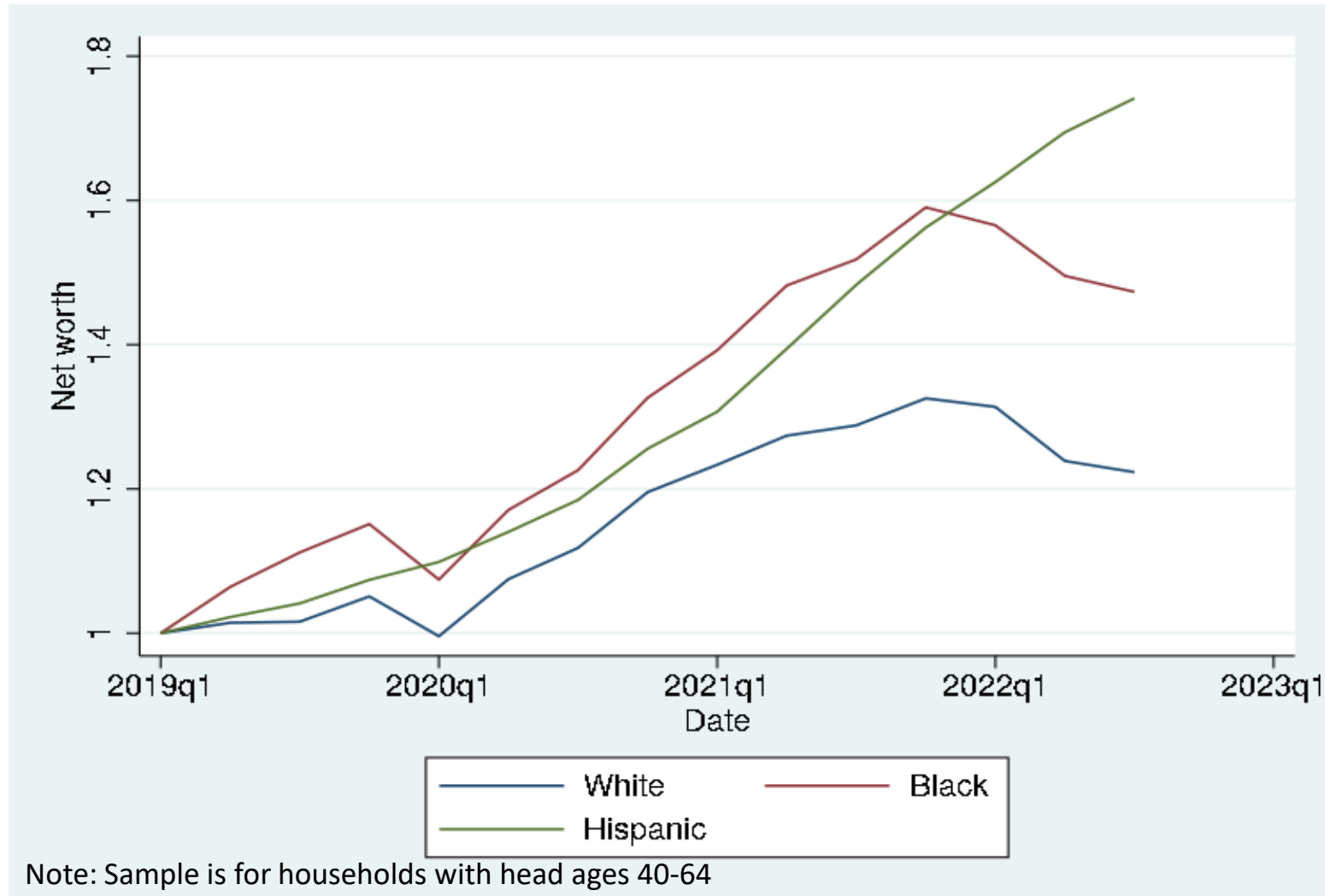
Percent of Households for whom SSW is the Largest Asset, by Race



Note: SSW compared to housing, financial, business, DB and DC assets

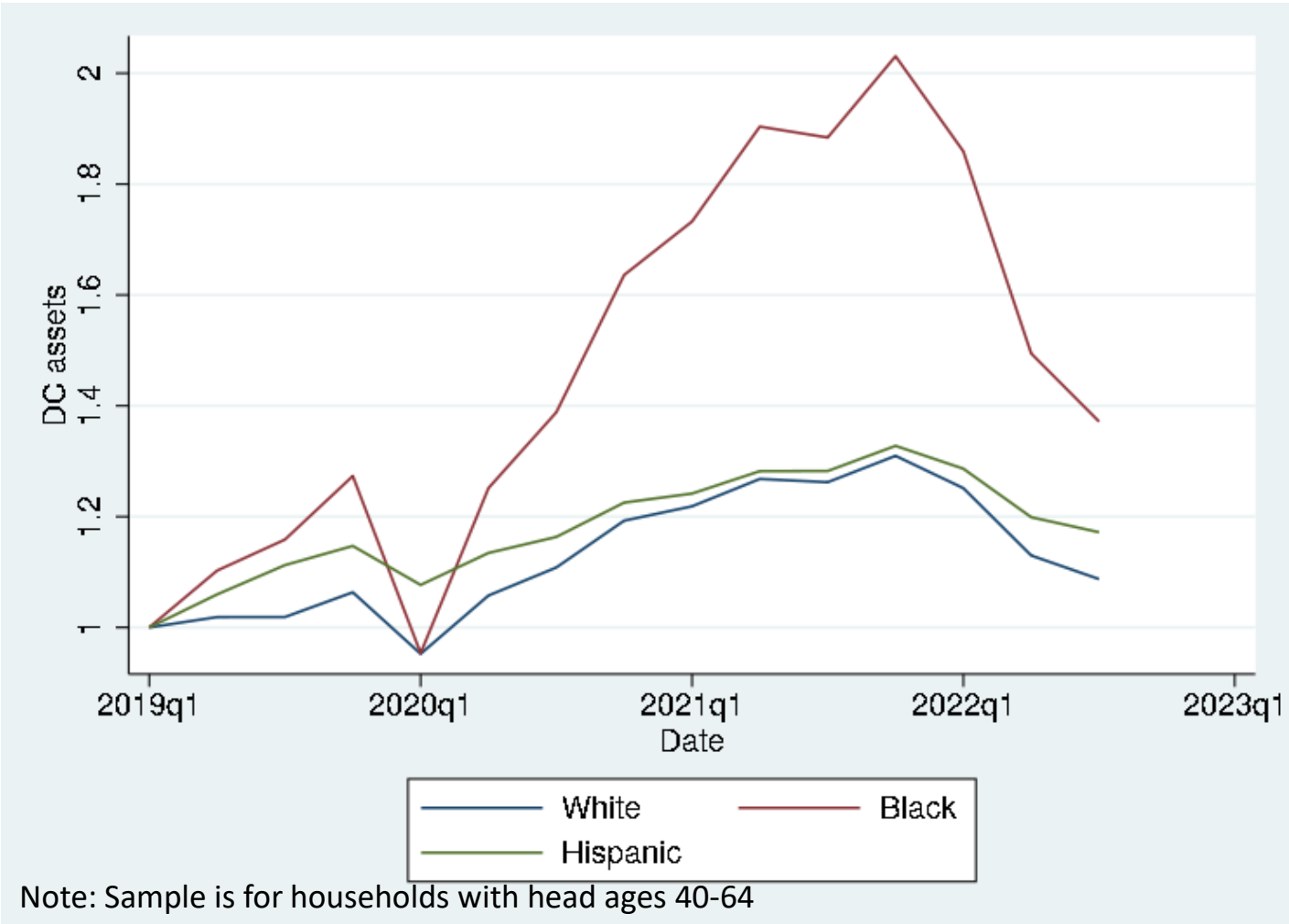
Distributional Financial Accounts

Overall Private wealth is higher than pre-pandemic levels across all races



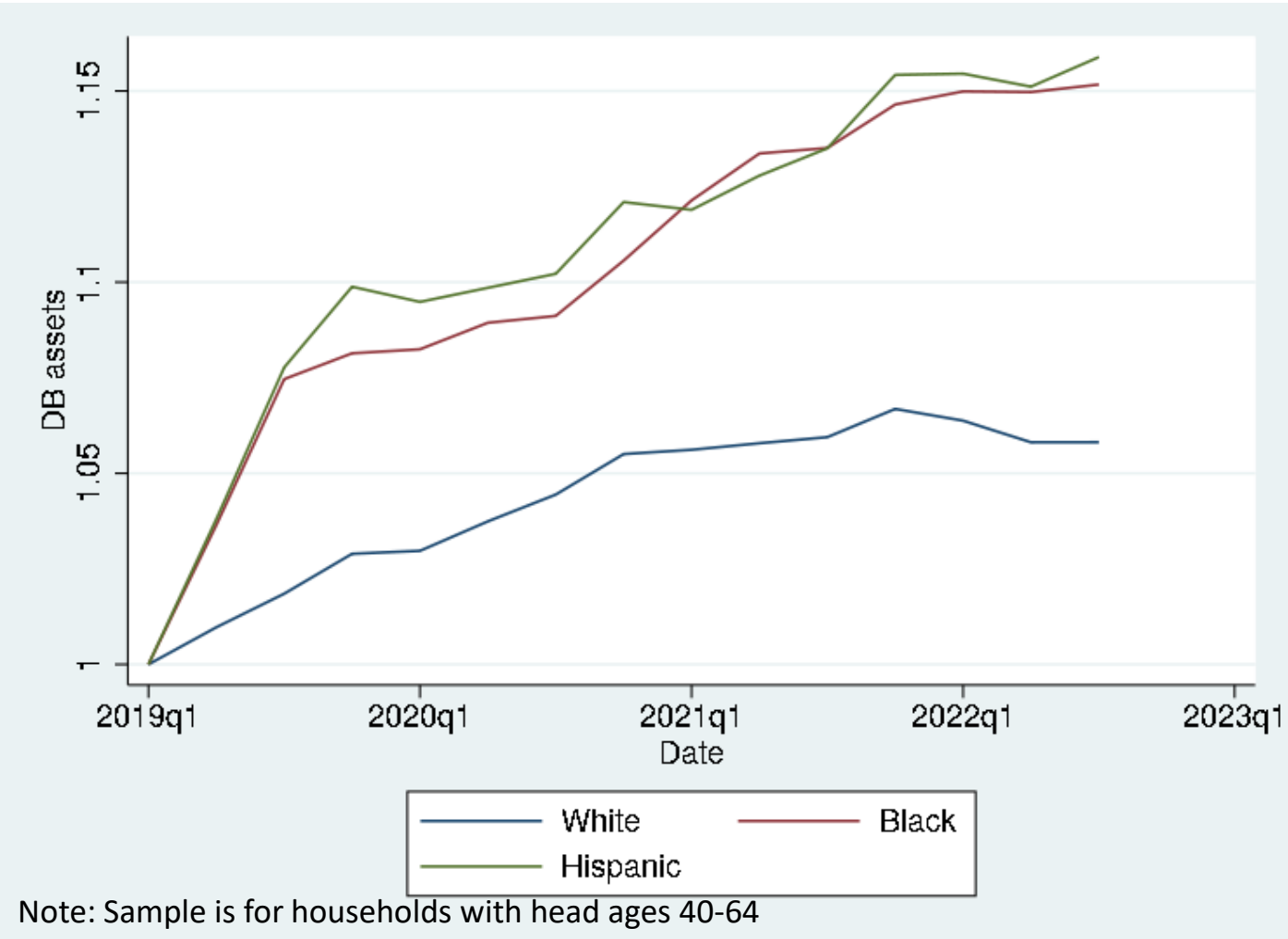
Distributional Financial Accounts

DC wealth rose and fell with stock market but is still higher than pre-pandemic levels for all race groups



Distributional Financial Accounts

DB wealth continuing to rise through pandemic as valuations not dependent on equity markets



Conclusions

- Retirement wealth distributed unequally by race
- DB wealth is of particular importance for Black families, but only for those in top quintile of Black private wealth distribution
- Social Security is a critical resource for all families, but especially Black and Hispanic families
- Racial disparities declined modestly during the Covid-19 pandemic