RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

Who Should Read This Insight:
Consumers, annuity plan providers

Institute Research Agenda Topic:
Understanding differences in consumer behavior and decision-making

Definitions of **bold key terms** are at the end of this article.

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Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Alicia H. Munnell, Wenliang Hou, and Geoffrey T. Sanzenbacher. 2018. "Trends in Retirement Security by Race/Ethnicity." Center for Retirement Research at Boston College, Boston, MA.

Alicia H. Munnell is Director of the Center for Retirement Research (CRR) at Boston College and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Wenliang Hou is a Senior Research Advisor at the CRR. Geoffrey T. Sanzenbacher is Associate Director of Research at the CRR.

Insight: TRENDS IN RETIREMENT SECURITY BY RACE/ETHNICITY

IDEAS IN THIS INSIGHT YOU CAN PUT INTO ACTION

Consumers can protect against retirement risk by creating steady income streams—such as annuities—to mitigate financial downturns. Annuity plan providers can encourage more Americans to annuitize their retirement savings, particularly those who do not have home equity due to lower home values or who do not own a home.

PRINCIPAL INSIGHTS

Retirement security decreased during the 2009 global financial crisis and throughout the recession that followed. Before the Great Recession, 44 percent of Americans were at risk of depleting their retirement income. By 2016 that number had increased to 50 percent, despite the economic recovery during the intervening years. This article addresses how retirement security varies by racial group (Black, white) or ethnicity (Hispanic), and discusses ways the crisis and recovery contributed to the six-point higher **retirement risk** in 2016.

From 2007 to 2016 retirement risk for white, Black, and Hispanic Americans increased. And although the gap in retirement risk between white and Black Americans decreased during this same time, Hispanic Americans fell farther behind both racial groups. This article uses a risk index to measure both the retirement preparedness of today's working-age households and the risk that a retired household will not be able to maintain its preretirement standard of living.

Differences in wealth contribute to the disparity in retirement risk. Wealth for all households remains lower in 2016 than it was in 2007, meaning the value of household assets has not recovered fully from the 2009 financial crisis. But the 2016 risk index financial data also show that white households now hold roughly six times as much wealth as Black or Hispanic households hold.

Moreover, differences in earnings contribute to the inequities in retirement risk. In 2016 white households earned almost twice as much as Black or Hispanic households; this difference in earnings is lower than the difference in wealth but is still substantial. By 2016 white household median earnings had recovered from the 2009 financial crisis, but earnings for Black and Hispanic workers were still below their 2007 levels, and were at roughly the same level as they had been in 2007. By 2016 median earnings in Hispanic households had increased 10 points over their 2007 values while Black households had recovered only slightly.

Munnell, Hou, and Sanzenbacher's article discusses three factors that may explain the disparity in retirement risk across white, Black, and Hispanic households. First, the researchers consider, then reject, the reasoning that employer-sponsored retirement plans are likely to explain the differences in retirement risk of Black and Hispanic Americans. In fact, Black workers participate more than Hispanic workers in employer-sponsored retirement plans, making the former more exposed to losses during a financial crisis. In addition, any decreasing effects of the global financial crisis on retirement assets had dissipated by 2016.

Second, the authors suggest that housing values and rate of homeownership may explain some of the inequality in retirement risk. Unlike employer-provided retirement plans, which typically are available to higher- and middle-income households, households along the income spectrum own housing assets. And the higher the home value, the more cash a household can extract from home equity and convert it into **annuitized** income. During the financial crisis, the collapse of home prices hurt households of all races and ethnicities; by 2016 home prices had still not returned to their precrisis levels.

When the housing bubble burst, it hit Hispanic households much harder than white or Black ones. Hispanic Americans saw their housing values drop by 41 percent between 2007 and 2016 because the burst hit some states harder than others. According to the Federal Housing Finance Agency and the Census Bureau, about 40 percent of all Hispanic households in the United States reside in Arizona, California, Florida, and Nevada, which were among the states hardest hit by the drop in housing values.

Because households that do not own a home do not have home equity, the decline in home ownership from 2007 to 2016 also harmed home equity values and the potential for an additional retirement income stream. During this time, the decreases in home ownership have been larger for Black and Hispanic households than for white ones: by 2016 fewer than half of Black and Hispanic households owned homes.

The third factor the authors propose is that the fall in wage growth also contributes to the ethnic and racial disparities in retirement security. The unemployment rate among white, Black, and Hispanic workers all increased between 2007 and 2010, as expected. And although Black workers had the highest unemployment rates out of these three groups at 17 percent, they were buffered more from retirement risk than were Hispanic workers. Social Security benefits, which are calculated using a progressive benefits formula, likely protected Black households from some retirement risk. Importantly, this does not mean that Black Americans fare well in retirement, but merely that their preretirement standard of living was lower in 2016 (due to lower earnings) than it had been in 2007.

To learn more, visit the Retirement Income Institute at
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KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

Annuitize: *When you turn your current account balance into a series of periodic income payments, either for a specific period of time or for your whole life.*

Retirement risk: *Retirement risk refers to the likelihood that a retired household will not be able to maintain its preretirement standard of living.*

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