RACIAL INEQUITIES AND RETIREMENT INCOME: CONTRIBUTING FACTORS AND POSSIBLE SOLUTIONS

BY LORI LUCAS

INTRODUCTION

A critical finding with regard to wealth in the United States is the gap that persists between White Americans' financial means and resources and that of Black and Hispanic Americans, *regardless* of income level. Black and Hispanic Americans are also more likely to consider debt to be a problem for their household than are White Americans across income groups. The Employee Benefit Research Institute (EBRI) projects that Black and Hispanic American households aged 35 to 39—in other words, those with much of their career remaining to save for retirement—are significantly more likely to run short of money in retirement, and to have larger retirement shortfalls than are their White counterparts.

In this essay we will explore the racial disparities that contribute to differences in retirement preparedness by race and ethnicity, the impact of those disparities on retirement outcomes, and private sector solutions that might effectively address these disparities.

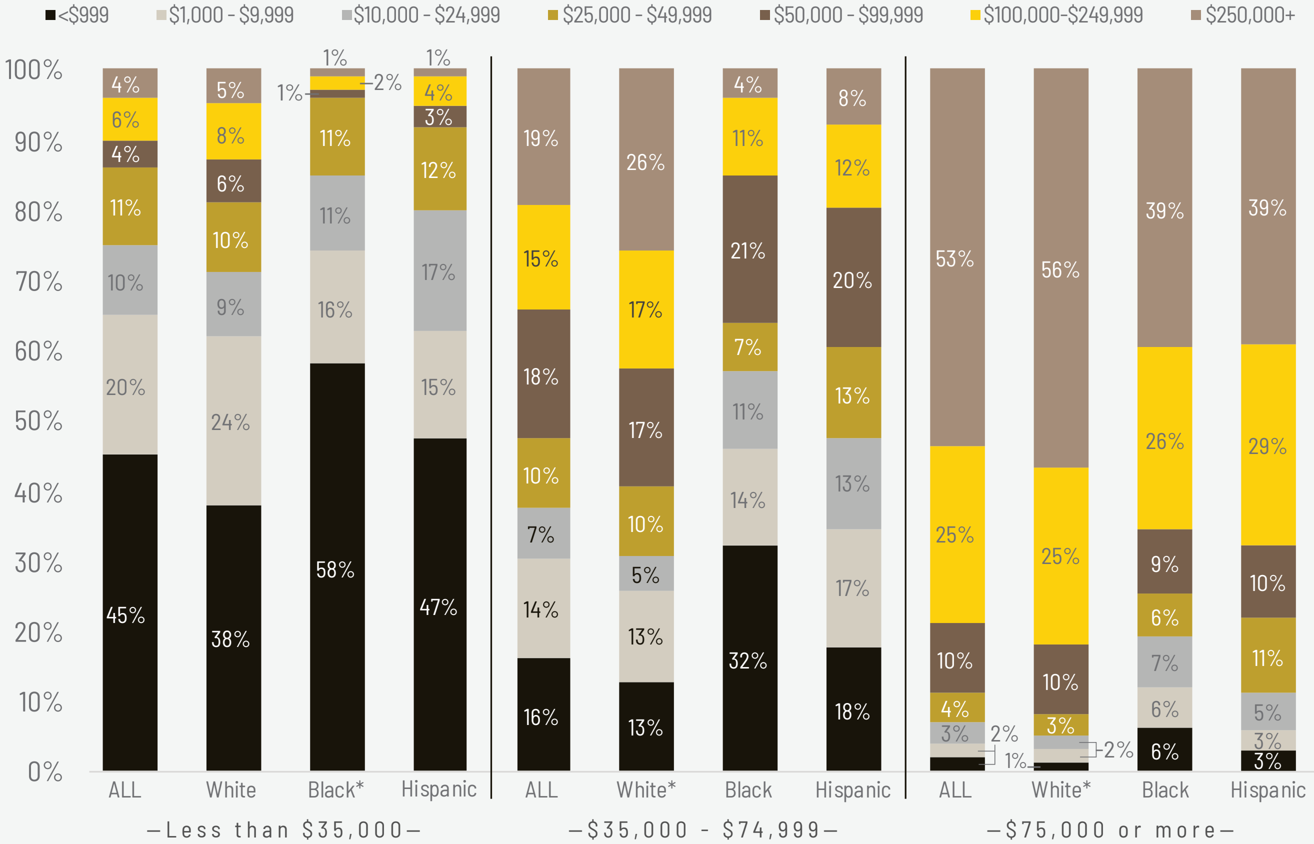
RACIAL DISPARITIES IN RETIREMENT SAVINGS AND RETIREMENT INCOME

According to the 2021 Retirement Confidence Survey (EBRI and Greenwald Research 2021), lower- and middle-income Black Americans were more likely to report having savings of less than $1,000 compared with White Americans (figure 1). In fact, 58 percent of lower-income Black Americans (earning less than $35,000 in household income) reported savings of less than $1,000 versus 38 percent of their White American counterparts, while 32 percent of middle-income Black Americans (with household income of $35,000–$74,999) had savings of less than $1,000 versus 13 percent of their White American counterparts. At the same time, the share with the highest amount of assets ($250,000 or more) was much higher for White Americans than for Black or Hispanic Americans for both middle and upper incomes: 26 percent of White Americans with middle incomes had $250,000 or more in assets, compared with 8 percent of Hispanic Americans and 4 percent of Black Americans. Similarly, 56 percent of White Americans with upper incomes had $250,000 or more in assets, while 39 percent of both Black and Hispanic Americans with these incomes had this level of assets. In other words, the wealth gap in the United States persists between White Americans' financial means and resources and that of Black and Hispanic Americans, *regardless* of income level.

1. This essay is based on testimony that Lori Lucas gave before Congress (Lucas 2021b). Lori Lucas has edited her testimony into this essay for the Retirement Income Institute.

FIGURE 1: *Amount Held in Savings and Investments, by Race/Ethnicity and Income*

In total, about how much money would you say you (and your spouse) currently have in savings and investments, not including the value of your primary residence or defined benefit plan assets?
Workers n=1,507, Retirees n=1,510

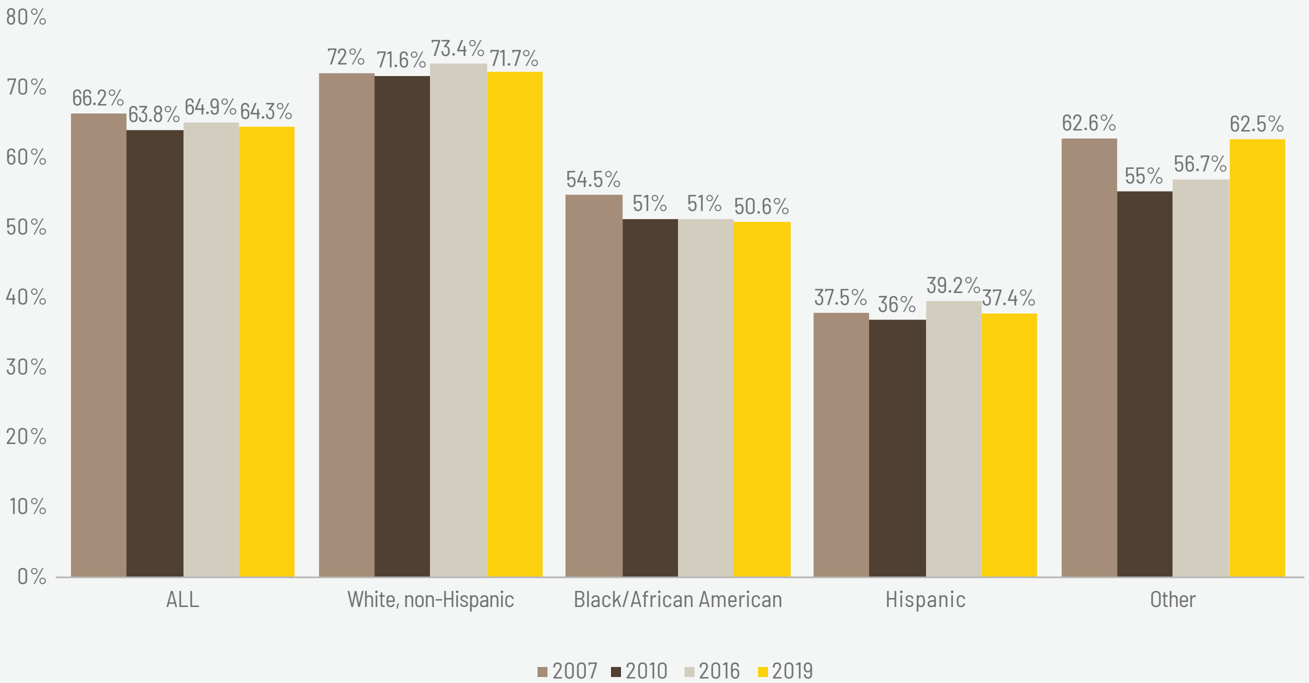


Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

THE ROLE OF WORKPLACE RETIREMENT PLANS

The Retirement Confidence Survey (EBRI and Greenwald Research 2021) further finds that having a defined benefit pension plan, being offered an employer-sponsored defined contribution plan, as well as saving in that plan are all associated with higher levels of retirement confidence. However, the likelihood of having a retirement plan—either an individual account plan or a defined benefit plan, or both—was nearly twice as likely in 2019 for families with White, non-Hispanic heads as it was for families with Hispanic heads—71.7 percent versus 37.4 percent (figure 2).

FIGURE 2: *Percentage of Families Who Have Any Type of Retirement Plan, by Race/Ethnicity of Family Head*

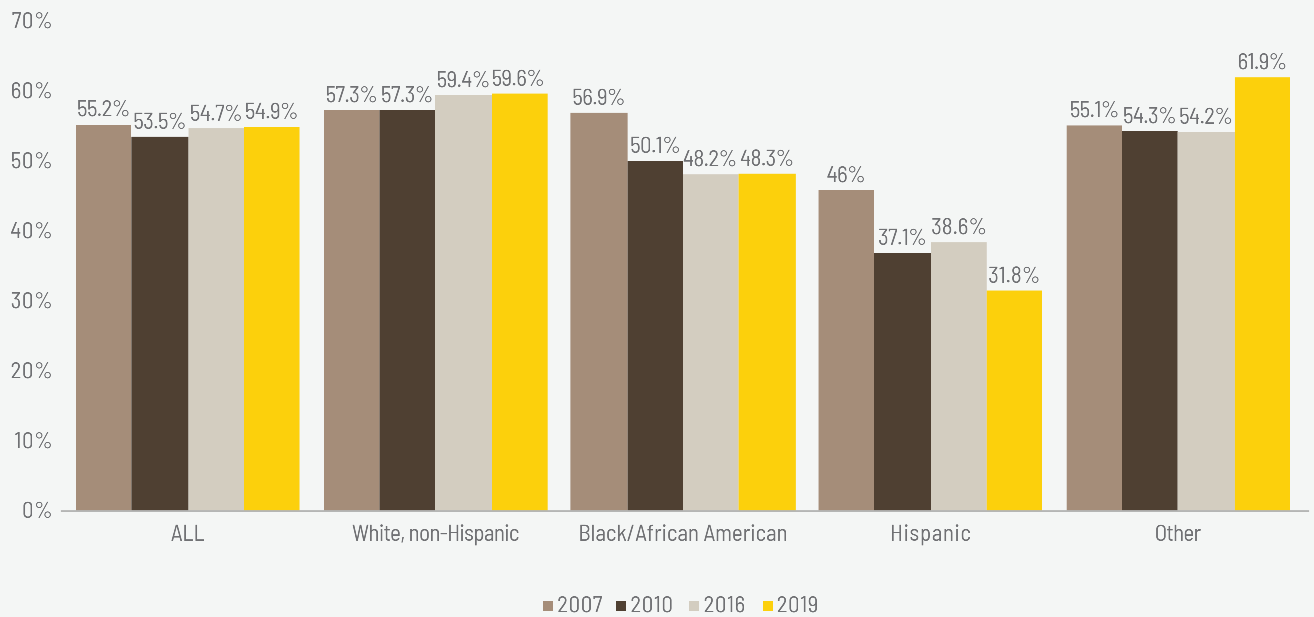


Source: EBRI estimates of the 2007, 2010, 2016, and 2019 Survey of Consumer Finances.

The percentage of families with Black heads owning a retirement plan (50.6 percent) was also significantly below that of families with White, non-Hispanic heads. However, it was not as low as the percentage for the families with Hispanic heads. These disparities have been consistent back to 2007 (Copeland 2021).

Of course, in order to have a defined contribution plan an individual must both work for an employer that offers such a plan and be eligible to participate in it. In 2019 only 31.8 percent of Hispanic working family heads and 48.3 percent of Black working family heads were eligible for a defined contribution plan, but 59.6 percent of White, non-Hispanic working family heads were eligible (figure 3). The disparities have held back to 2007 but have worsened in recent years.

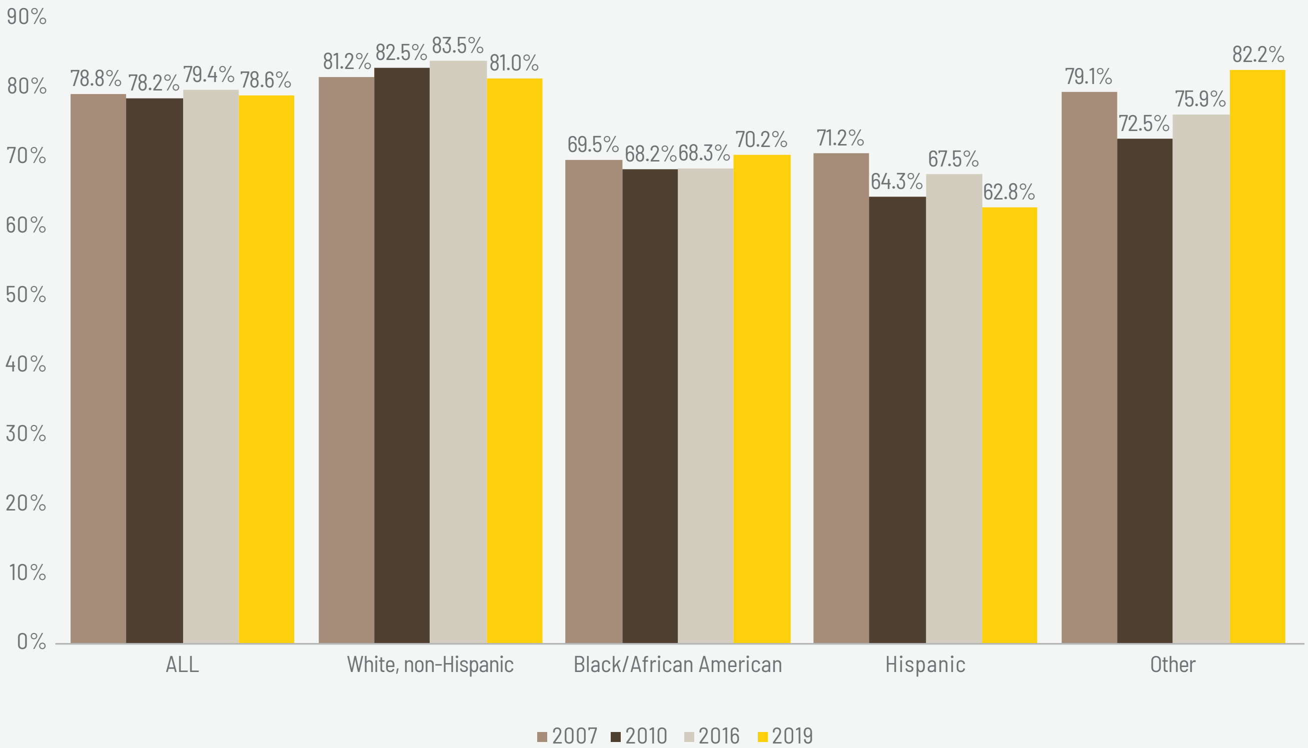
FIGURE 3: *Percentage of Working Family Heads Eligible for a Defined Contribution Plan, by Race/Ethnicity of Family Head*



Source: EBRI estimates of the 2007, 2010, 2016, and 2019 Survey of Consumer Finances.

Still, Black and Hispanic working family heads were less likely to participate in a defined contribution plan even when eligible (figure 4). In 2019 81.0 percent of White, non-Hispanic working family heads participated in a defined contribution plan when eligible, compared with 70.2 percent of Black working family heads and 62.8 percent of Hispanic working family heads.

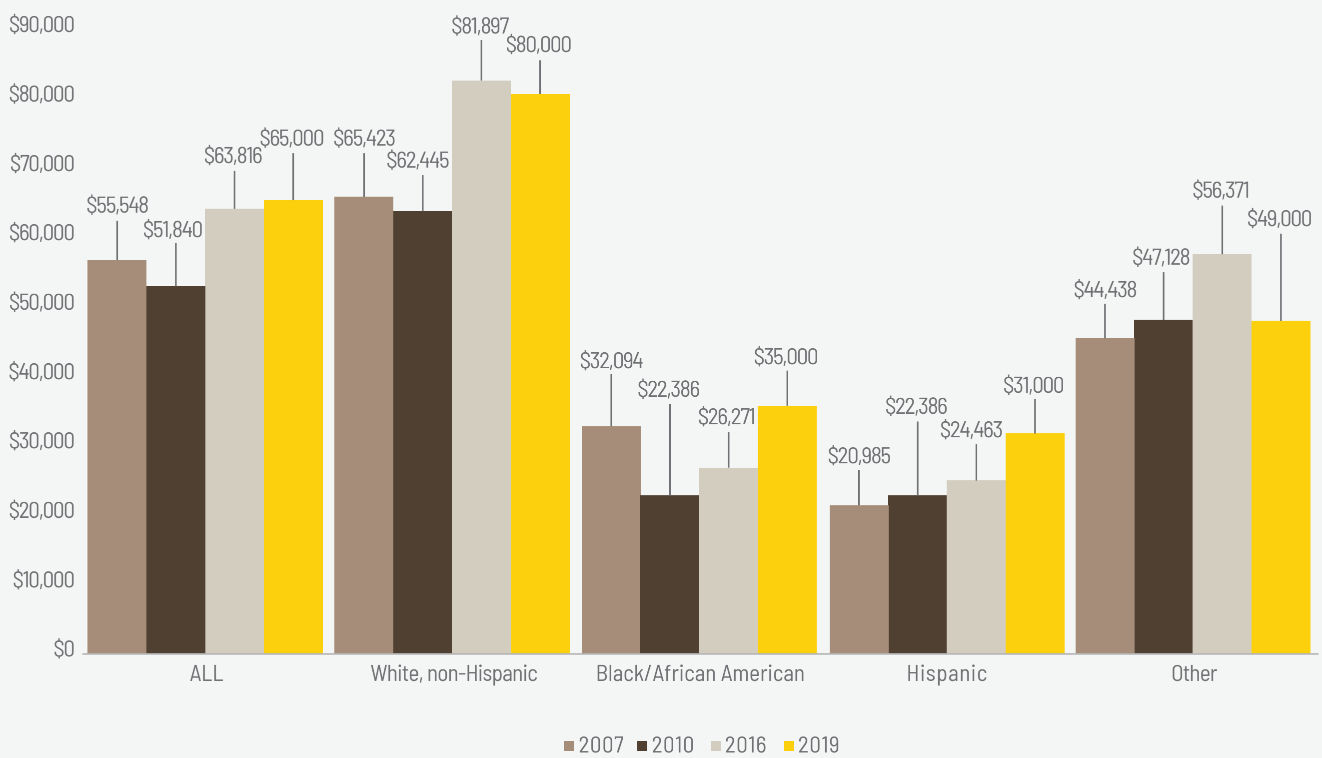
FIGURE 4: *Working Family Heads' Participation Rate in an Employment-Based Defined Contribution Plan, by Race/Ethnicity of Family Head*



Source: EBRI estimates of the 2007, 2010, 2016, and 2019 Survey of Consumer Finances.

In addition to the lower likelihood of having an individual account retirement plan, families with Black or Hispanic heads have significantly lower median account balances when they do have a plan (figure 5). In 2019 the median individual account plan balance of families with White, non-Hispanic heads was $80,000 versus $35,000 and $31,000 for families with Black or Hispanic heads, respectively. As with the gaps in ownership, the lower balances of the families with minority heads have persisted since at least 2007.

FIGURE 5: *Median Individual Account Retirement Plan Balances of Those Having a Plan, by Race/Ethnicity of Family Head*

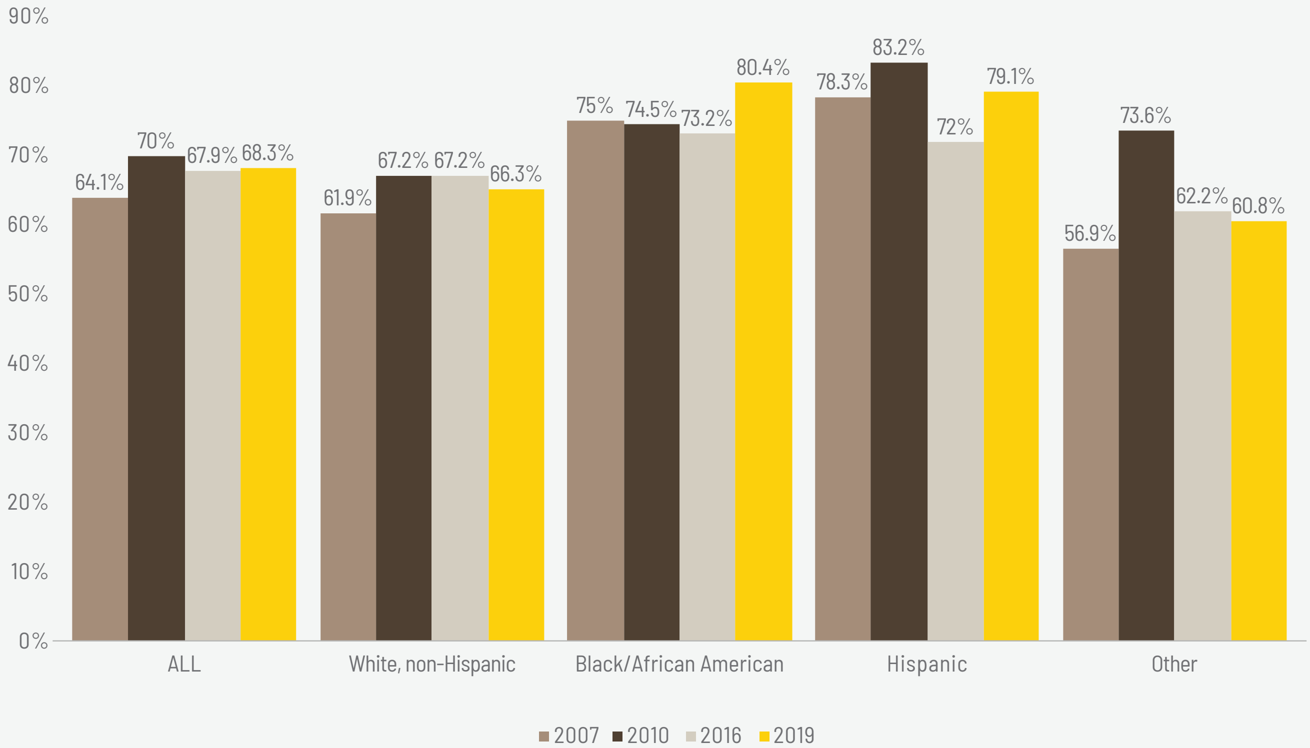


Source: EBRI estimates of the 2007, 2010, 2016, and 2019 Survey of Consumer Finances. Note: All dollar amounts are in 2019 dollars.

Furthermore, while families with Black and Hispanic heads were less likely to have individual account retirement plans and were also likely to have less money accumulated in the plans they did have, the assets in the individual account plans represented a larger share of these families' total financial assets than it did for families with White, non-Hispanic heads (figure 6).

In 2019 individual account plans represented approximately 80 percent of the financial assets of families with Black or Hispanic heads who had such plans. This compares with two thirds of the financial assets being from individual account plan assets for families with White, non-Hispanic heads.

FIGURE 6: *Median Share of Total Financial Assets Represented by Individual Account Retirement Plan Assets (of Those Having Individual Account Plan Assets), by Race/Ethnicity of Family Head*

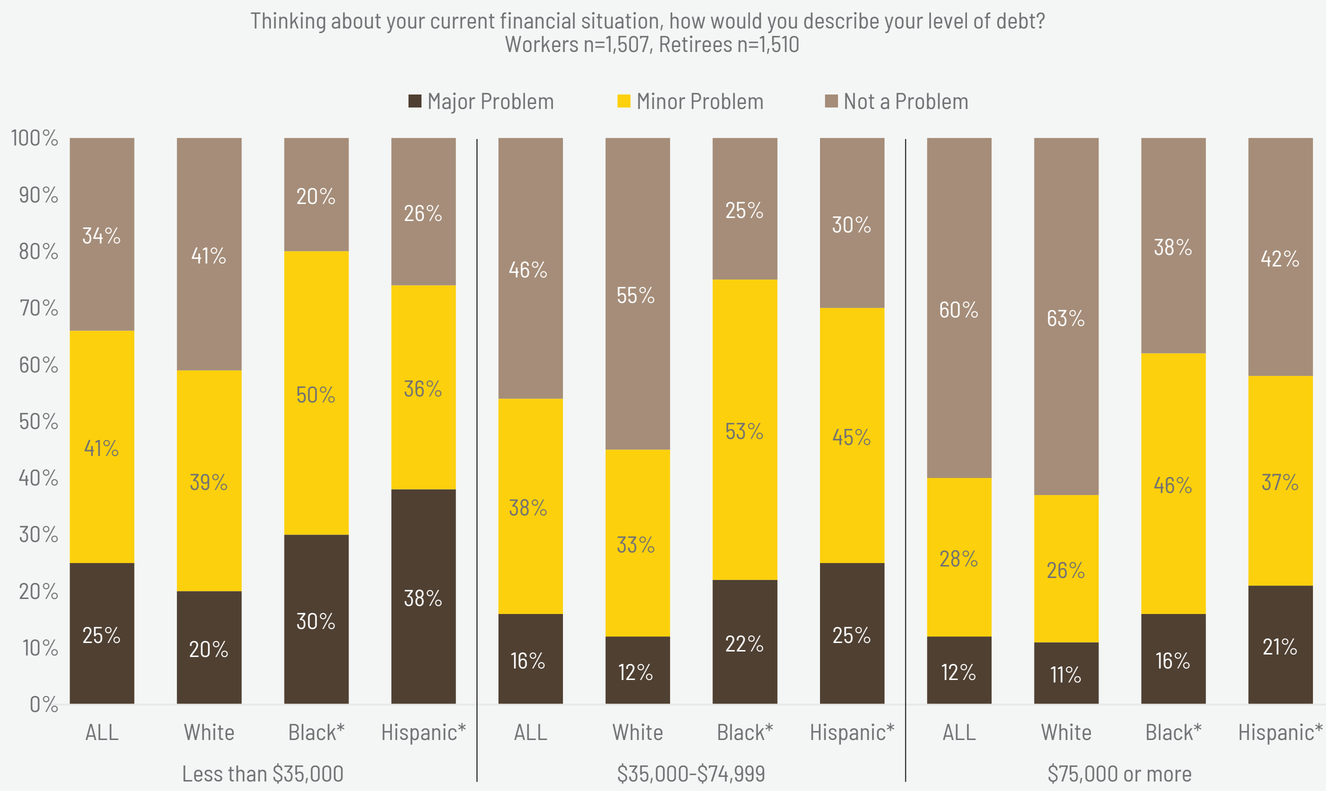


Source: EBRI estimates of the 2007, 2010, 2016, and 2019 Survey of Consumer Finances.

DEBT AS A CONTRIBUTING FACTOR TO RACIAL DISPARITIES IN RETIREMENT PREPAREDNESS

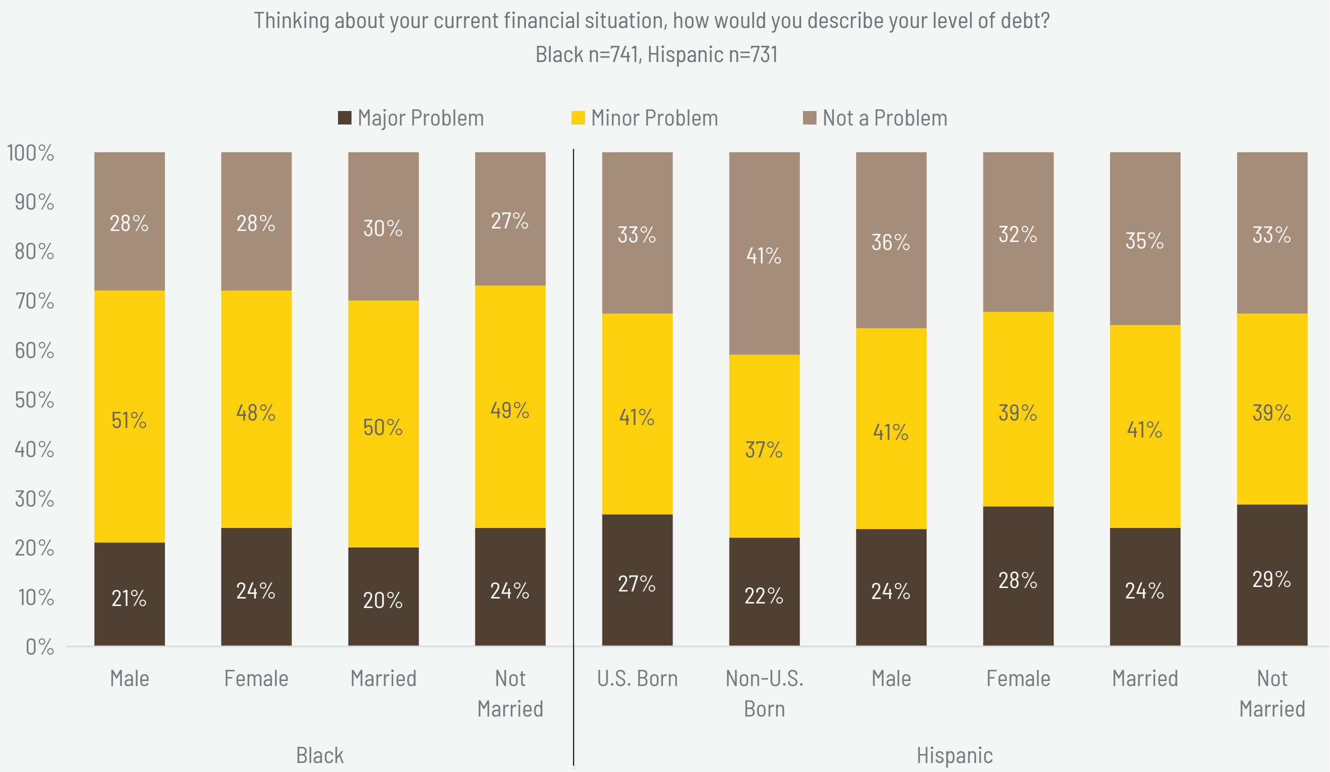
Disparities in debt exacerbate the differences by race and ethnicity when it comes to retirement preparedness. Black and Hispanic Americans were more likely to consider debt to be a major or minor problem for their household than were White Americans, across each income group (figure 7). In the upper-income group, 62 percent of Black Americans and 58 percent of Hispanic Americans consider debt a problem compared with 37 percent of White Americans. Problematic debt levels were consistent across Black and Hispanic cohorts regardless of gender, marital status, and whether US born (figure 8).

FIGURE 7: *Debt Level a Problem, by Race/Ethnicity and Income*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

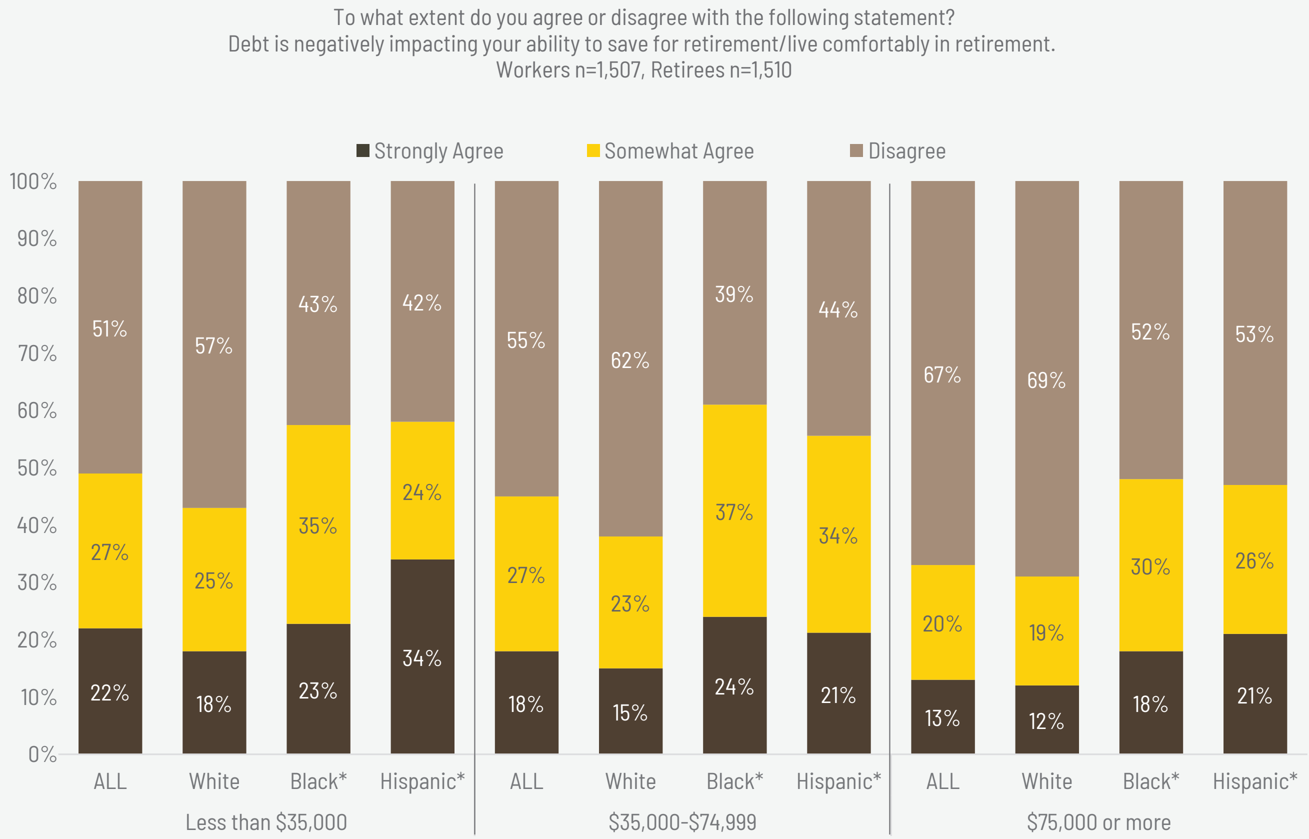
FIGURE 8: *Debt Level a Problem of Hispanic and Black Americans, by Gender, Marital Status, and Whether US Born*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

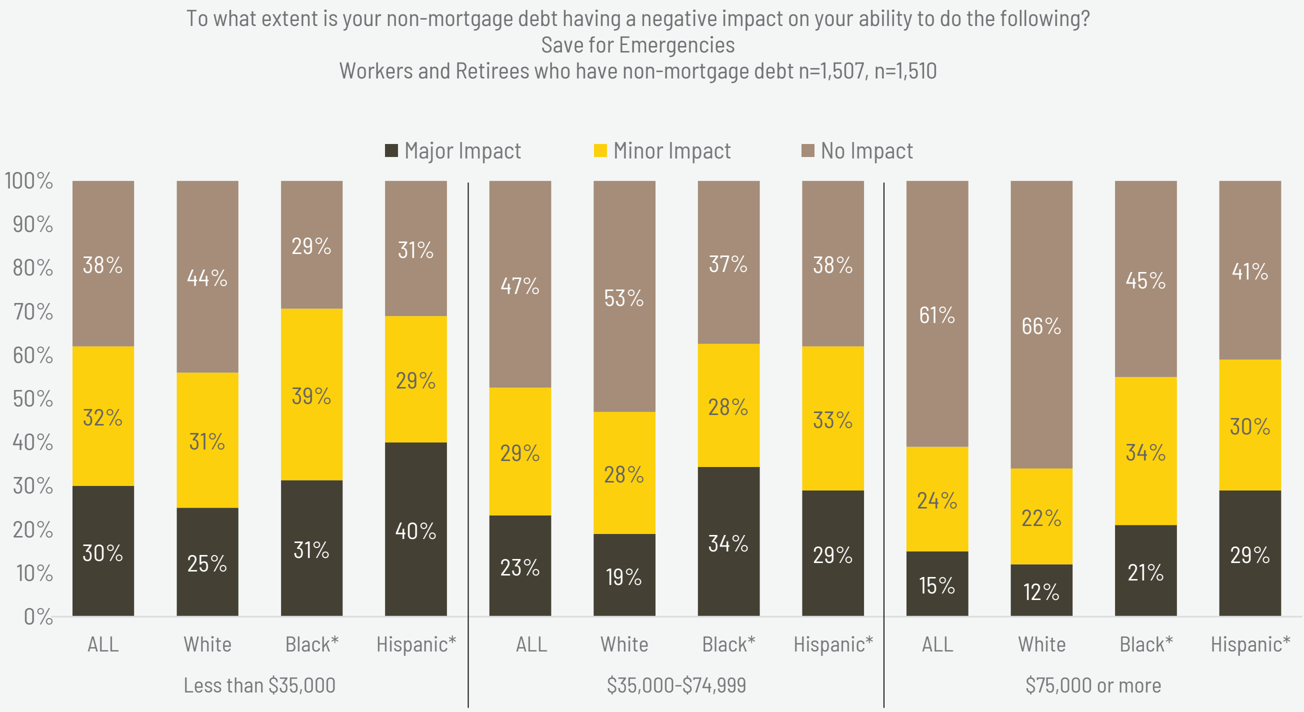
It follows, then, that both Black workers and retirees and Hispanic workers and retirees are more likely to say debt is impacting their ability to save for retirement or to live comfortably in retirement, across each income group (figure 9). For example, 38 percent of middle-income White American respondents either strongly or somewhat agreed with the statement that debt is negatively impacting their ability to save for retirement or live comfortably in retirement versus 61 percent of Black Americans and 55 percent of Hispanic Americans. A similar finding across each income group is found on debt's impact of saving for emergencies: Black and Hispanic Americans were more likely to say that their non-mortgage debt was having a major or minor negative impact on their ability to save for emergencies (figure 10). Furthermore, non-mortgage debt was also more likely to have a negative impact on saving for retirement in general for Black and Hispanic Americans across each income group than it was for White Americans (figure 11).

FIGURE 9: *Debt's Impact on Ability to Save for Retirement and Live Comfortably in Retirement, by Race/Ethnicity and Income*



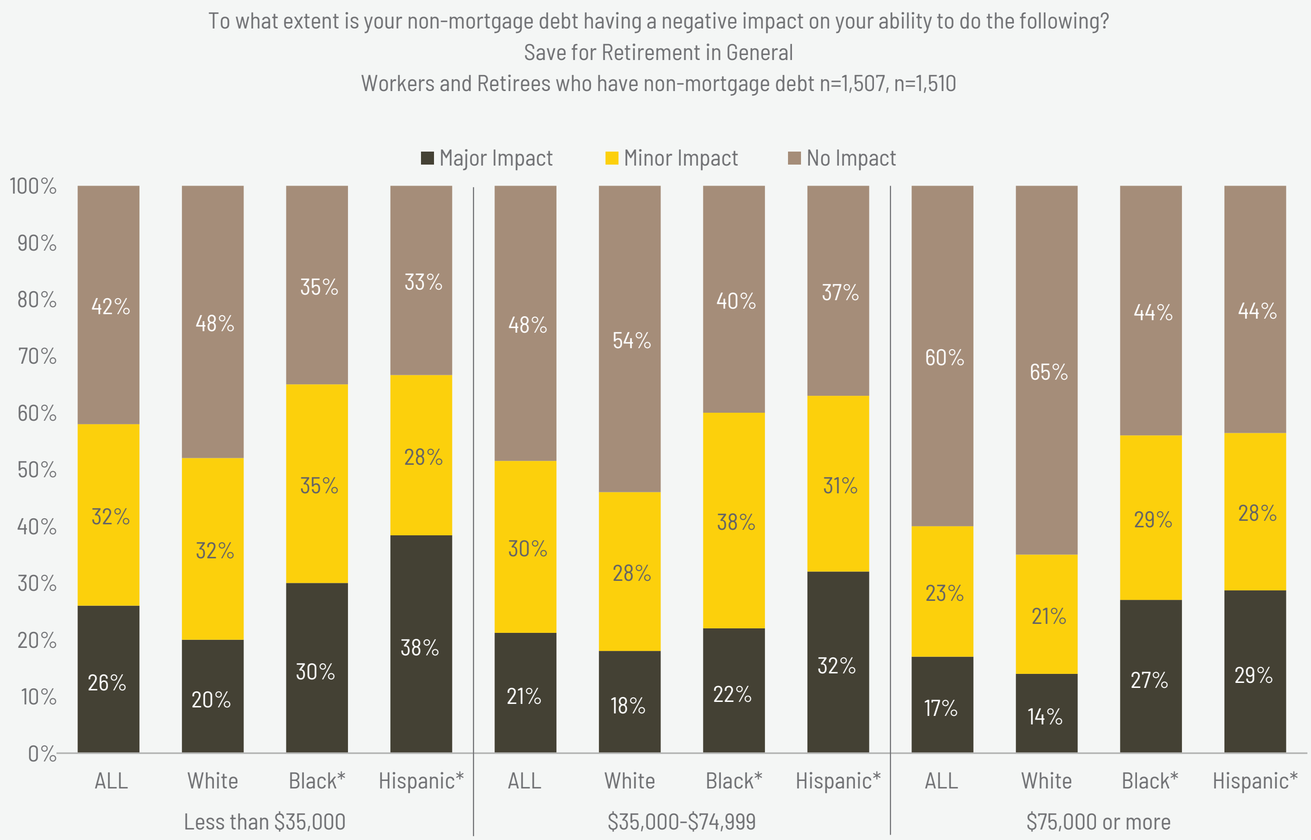
Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

FIGURE 10: *Non-Mortgage Debt's Impact on Ability to Save for Emergencies, by Race/Ethnicity and Income*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

FIGURE 11: *Non-Mortgage Debt's Impact on Ability to Save for Retirement in General, by Race/Ethnicity and Income*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

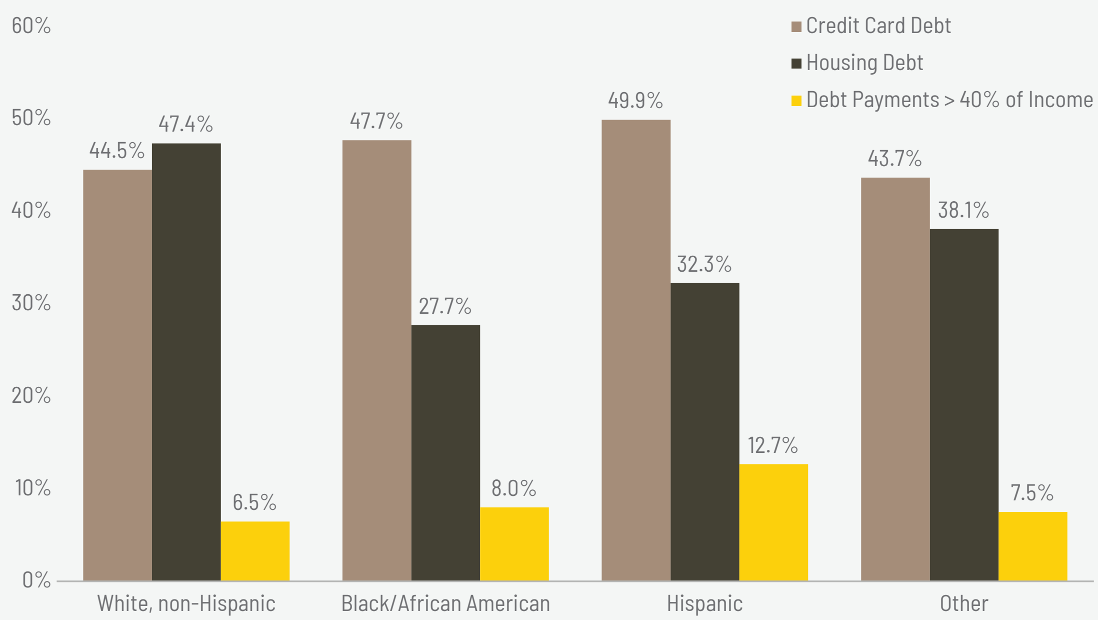
Not surprisingly, given lower savings and more problematic debt, Black and Hispanic households are estimated to be more likely to run short of money in retirement than are White households, as shown by preliminary results from EBRI's Retirement Security Projection Model (RSPM), as yet unpublished. Based on EBRI's comprehensive databases of 401(k) and IRA accounts, and taking into account other sources of income such as Social Security and defined benefit pension plans, the RSPM calculates the likelihood of households running short of money in retirement, as well as the present value of deficits for those who are likely to run short of money in retirement. For households aged 35–39—in other words, those with much of their career left to save for retirement—the RSPM predicts that, in the current system, 34 percent of White households will run short of money in retirement, with an estimated deficit of $40,500 in today's dollars. However, 48 percent of Black and Hispanic households in this age cohort are projected to run short of money, according to the preliminary results of the model—in excess of a third more than is true for White households. And their average estimated retirement savings shortfalls are estimated to be higher, too: $57,000 and $55,000, respectively, or about a third more than shortfalls of their White counterparts.

DEBT OF RETIREES

Discrepancies when it comes to debt by race persist into retirement, as well, creating additional challenges. Examining data from the Survey of Consumer Finance (EBRI 2019), EBRI finds that, for families with heads over the age of 55, the incidence of debt overall is not markedly different among families with heads of different races/ethnicities. However, types of debt were distinctly different—and more troubling—for families with Black or Hispanic heads (Copeland 2020).

Specifically, the debt of families with older Black or Hispanic heads was far more likely to be dominated by credit card debt versus housing debt compared with families with older White, non-Hispanic heads (figure 12). Housing debt, of course, can be viewed as an investment, since it could result in families building wealth through homeownership. The same cannot be said of credit card debt, putting minority households at a relative disadvantage when it comes to the debt they hold.

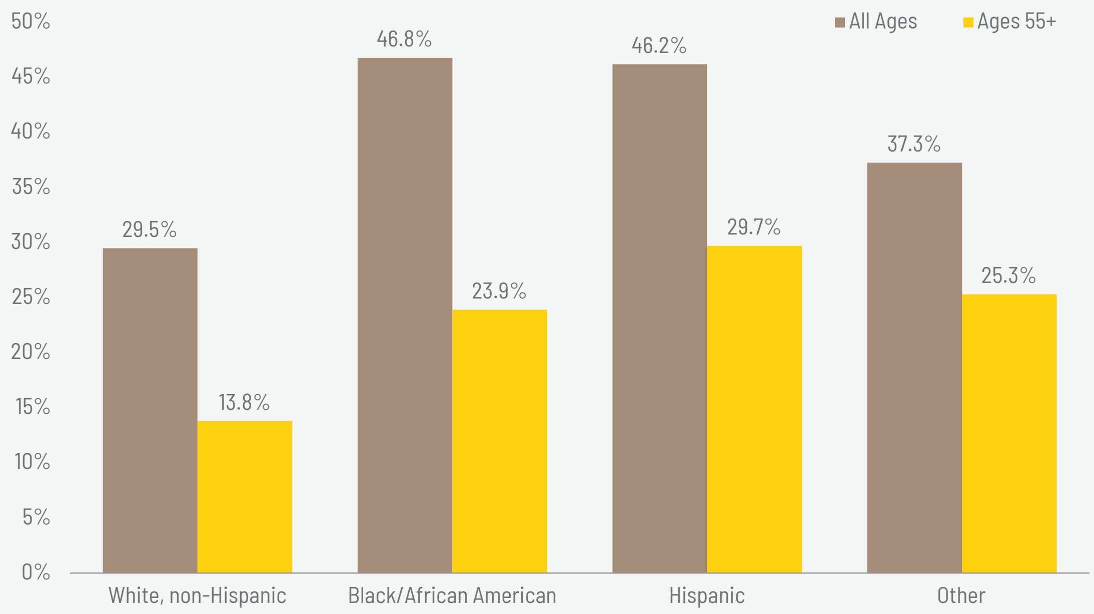
FIGURE 12: *Percentage of All Families with Credit Card Debt, Mortgage Debt, and Debt Payments Greater than 40 Percent of Income, by Race/Ethnicity of the Family Head, 2019*



Source: Employee Benefit Research Institute estimates from the 2019 Survey of Consumer Finances.

Furthermore, families with minority heads—particularly those with Hispanic heads—were more likely to have debt payments totaling more than 40 percent of their income: whereas 12.7 percent of the families with Hispanic heads exceeded the 40 percent threshold, just 6.5 percent of families with White, non-Hispanic heads did so. Likewise, the median debt-to-asset ratio for families with older minority heads was relatively higher compared to that of families headed by older White Americans (figure 13).

FIGURE 13: *Median Debt-to-Asset Ratio of All Families and Families with Heads 55-Years-Old or Older Having Debt, by Race/Ethnicity of the Family Head, 2019*

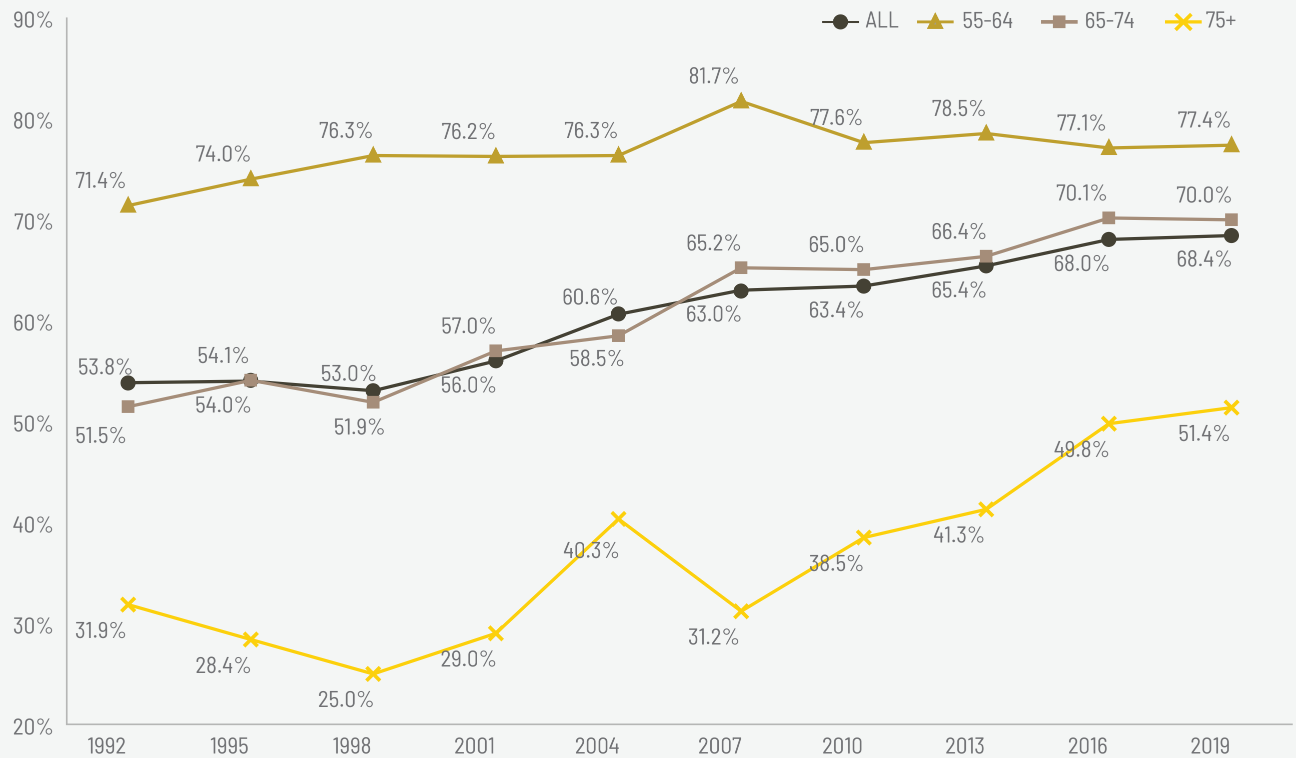


Source: Employee Benefit Research Institute estimates from the 2019 Survey of Consumer Finances.

The issue of debt in retirement is only growing more pronounced. EBRI finds that the share of American families with heads ages 55 or older who had debt increased continuously from 1998 through 2019.

Moreover, the rise in debt prevalence has been steepest for families with heads ages 75 or older between 2007 and 2019, rising from 31.2 percent in 2007 to 51.4 percent in 2019 (figure 14).

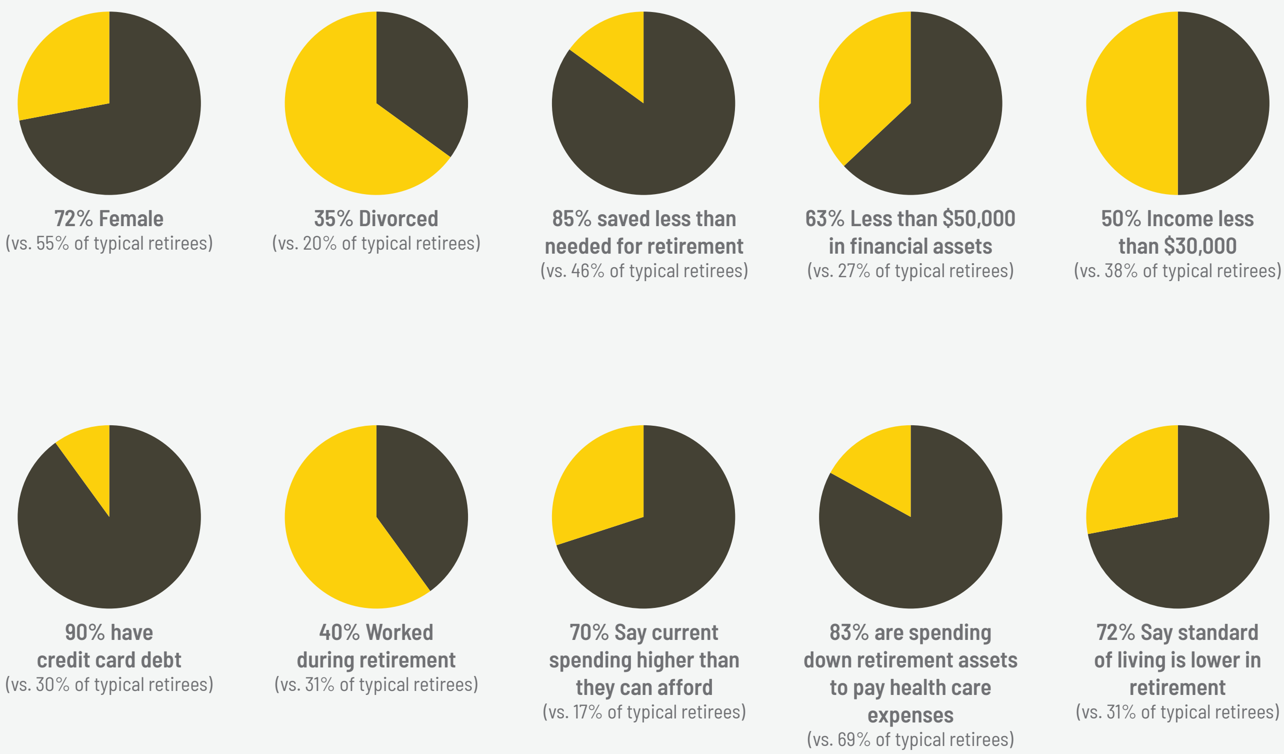
FIGURE 14: *Percentage of Families with Heads Ages 55 or Older with Debt, by Age of Family Head, 1992–2019*



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

The impact of debt can be found in several recent EBRI publications. EBRI's "A Tale of Three Retirement Lifestyles" (EBRI 2021), finds that one in ten (10.3 percent) respondents to an EBRI survey of retirees age 62 to 75 reported that their debt was either unmanageable or crushing. These highly indebted retirees are characterized as predominantly female, divorced, Black, and in poor health, with relatively low household financial assets. Indeed, one-fifth have no financial assets, compared to 6 percent of typical retirees. The retirement lifestyle they describe is fraught with challenges, uncertainty, frustration, and the sense that they are barely hanging on (figure 15).

FIGURE 15: *Highly Indebted Retirees: 10.3 Percent*



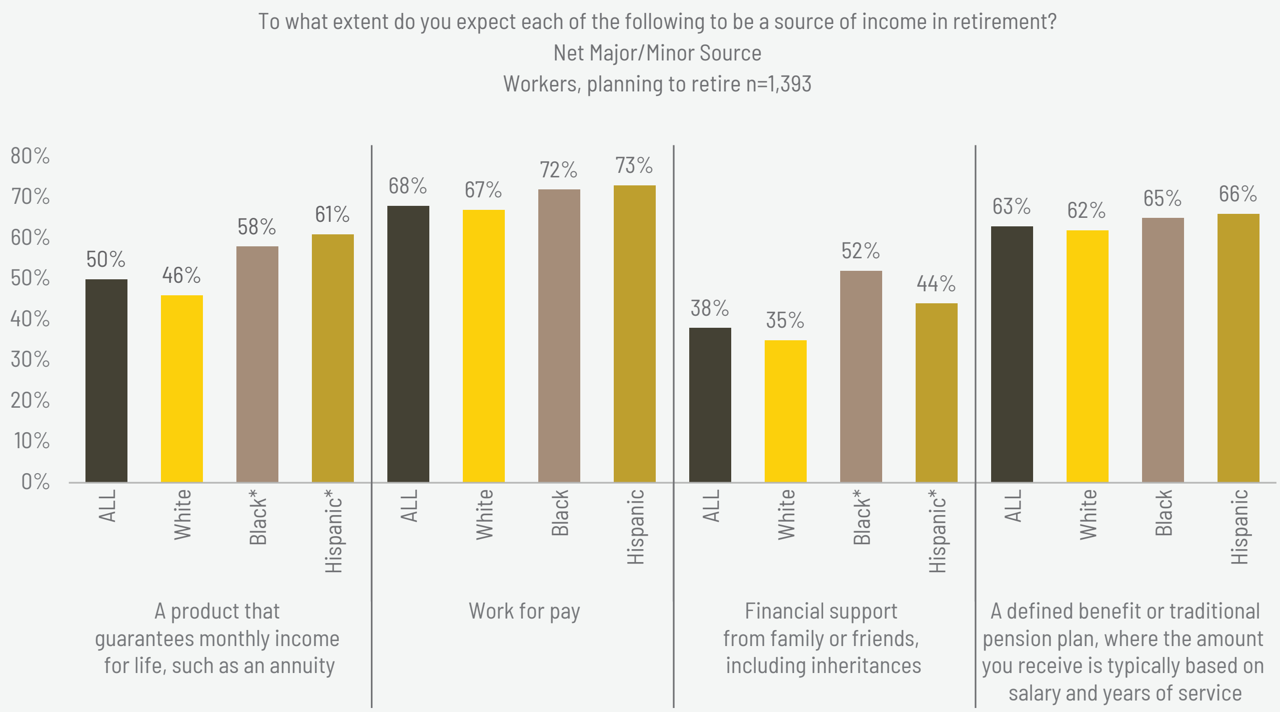
Notably, in another EBRI issue brief based on the same survey (Ebrahimi 2021), EBRI examined two sets of retirees that reported low income (less than $40,000 annually) and low financial assets (less than or equal to $99,000). The first group—Struggling Retirees—reported low incidence of owning a mortgage-free home and a high incidence of debt, including unmanageable debt. The majority of these Struggling Retirees also reported a reduced standard of living in retirement compared with when they were working, and on average rated their retirement life satisfaction rate as 5.8 on a 1-to-10 scale, with 10 being most satisfied.

In contrast, the report found that another group of retirees—Just-Getting-By Retirees—had a starkly different retirement experience. Just-Getting-By Retirees reported virtually the same low level of financial assets and income as Struggling Retirees, but reported little or no debt and a high incidence of mortgage-free home ownership. In contrast to Struggling Retirees, nearly half of Just-Getting-By Retirees rated their standard of living as consistent to when they were employed. Furthermore, the Just-Getting-By Retirees rated their retirement life satisfaction on average about 25 percent higher than their Struggling Retirees counterparts: 7.2 out of 10.

INCOME SOURCES

Another finding of EBRI's work on spending in retirement is the correlation between individuals with multiple sources of income—including guaranteed income—and retirement confidence and satisfaction. According to the Retirement Confidence Survey (EBRI and Greenwald Research 2021), Black and Hispanic workers were more likely than White workers to expect a product that guarantees monthly income for life, such as an annuity, to be either a major or minor source of income in retirement. Black workers were also more likely to expect that financial support from family or friends, including inheritances, to be either a major or minor source of income in retirement than White and Hispanic workers. Hispanic workers, however, were more likely than White workers to expect that financial support from family or friends, including inheritances, to be a major or minor source of income in retirement (figure 16).

FIGURE 16: *Extent of Workers' Expected Sources of Income (Net Major or Minor Source), by Race/Ethnicity*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

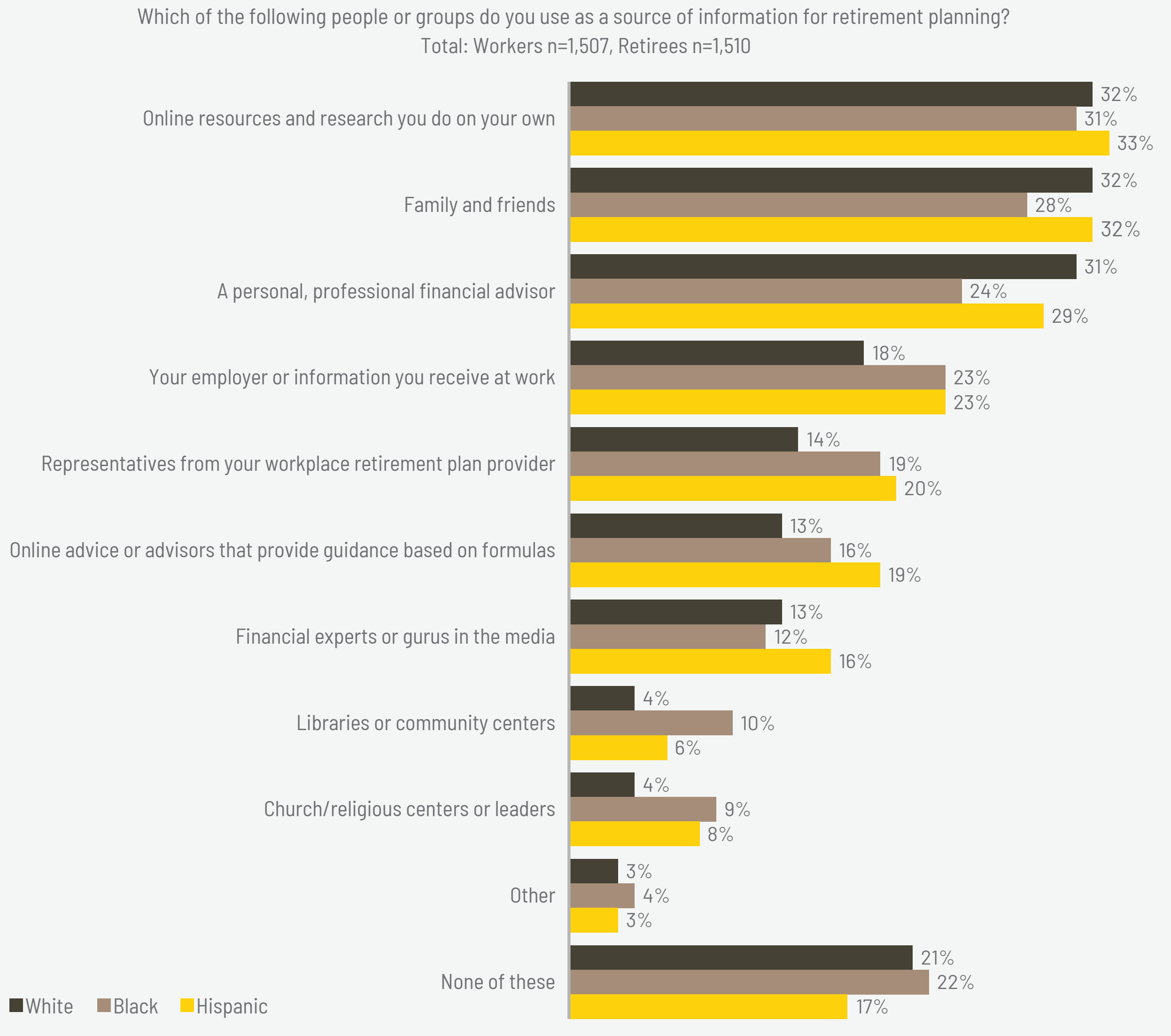
MEETING THE RETIREMENT SAVINGS NEEDS OF A DIVERSE WORKFORCE

EBRI's research has unearthed four potential areas to focus on to support Black and Hispanic workers who are preparing for retirement.

1. Identify the sources of information that different races and ethnicities are likeliest to use.

According to the Retirement Confidence Survey (EBRI and Greenwald Research 2021), Black Americans are less likely to use a personal, professional advisor than are White Americans. However, Black and Hispanic workers are more likely to use information received at work from their employer, from representatives from their workplace retirement plan provider, from libraries or community centers, and from church or religious centers or leaders (see figure 17).

FIGURE 17: *Sources of Information Used for Retirement Planning, by Race/Ethnicity*



Source: Employee Benefit Research Institute and Greenwald Research 2021 Retirement Confidence Survey.

Understanding and using the channels by which minorities are comfortable receiving retirement and savings information increases opportunities to engage workers more effectively.

2. Help Americans planning for retirement to prioritize retirement savings.

Hispanic Americans regardless of income—and upper-income Black Americans—were more likely than White Americans to agree that it is more important to help friends and family now than it is to save for their own retirement (figure 18). Furthermore, middle- and upper-income Hispanic Americans were more likely than White Americans in these income groups to agree with the statement that retirement savings is not a priority relative to the current needs of their family (figure 19). And Hispanic Americans in each income group and Black Americans in the lower- and upper-income groups were more likely than White Americans to agree that saving for a child's education or paying off a child's education is reducing how much they can save for retirement (figure 20).

A greater recognition of how supporting family and friends factor into the savings decision-making of Hispanic and Black Americans is needed in communicating the value of retirement savings to these cohorts. Familial obligations can then be weighed against the importance of saving for one's own retirement, potentially leading to better decision-making.

FIGURE 18: *Percentage Who Agree That Helping Friends and Family Is More Important Than Saving for Retirement, by Race/Ethnicity and Income*

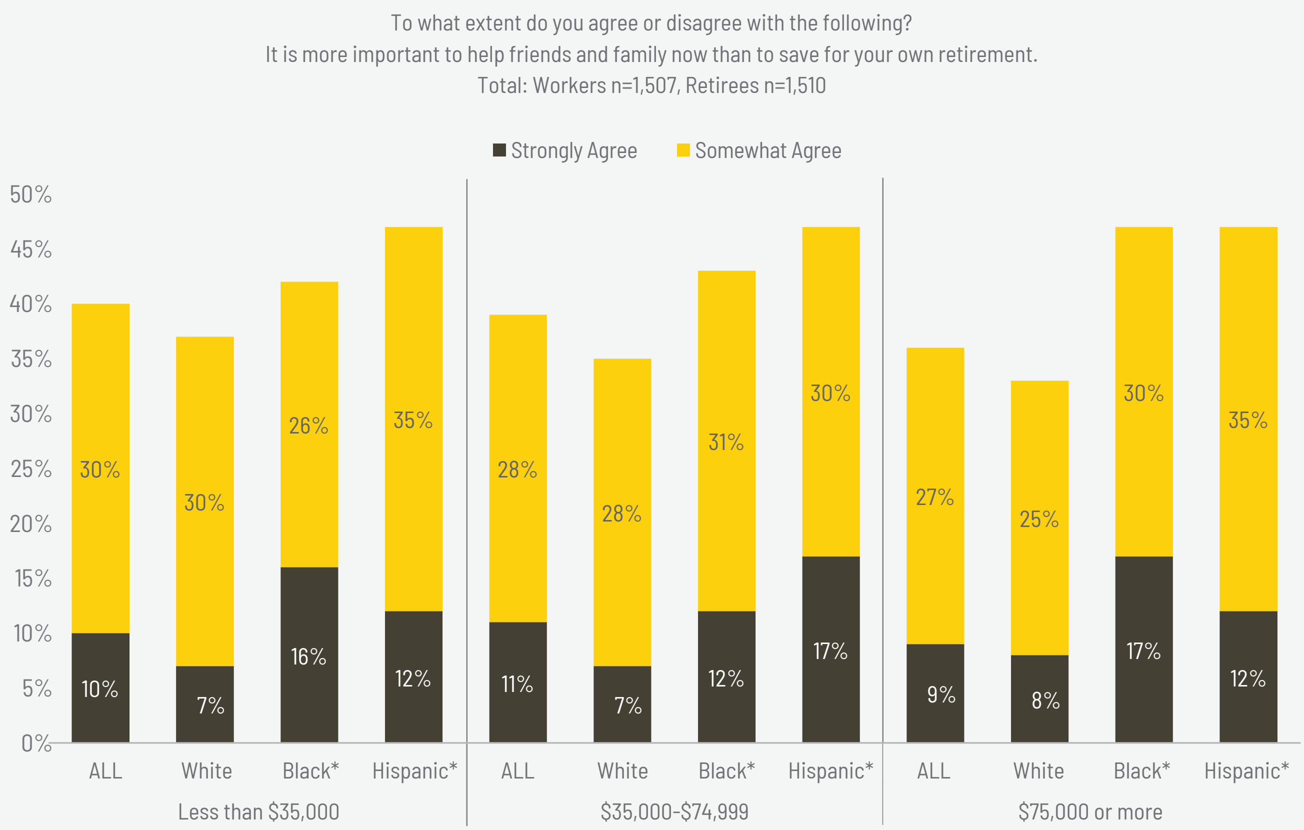


FIGURE 19: *Percentage Who Agree That Retirement Savings Is Not a Priority Relative to Current Needs, by Race/Ethnicity and Income*

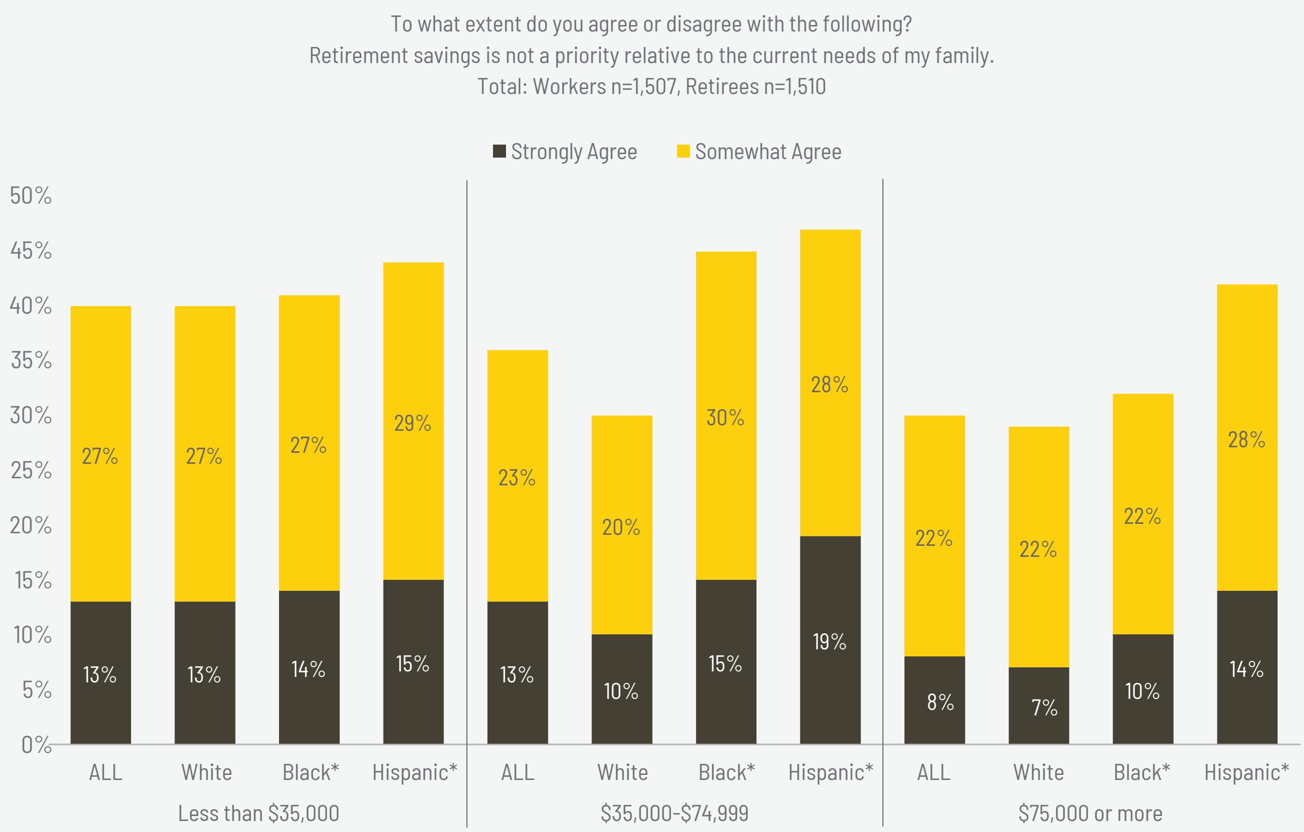
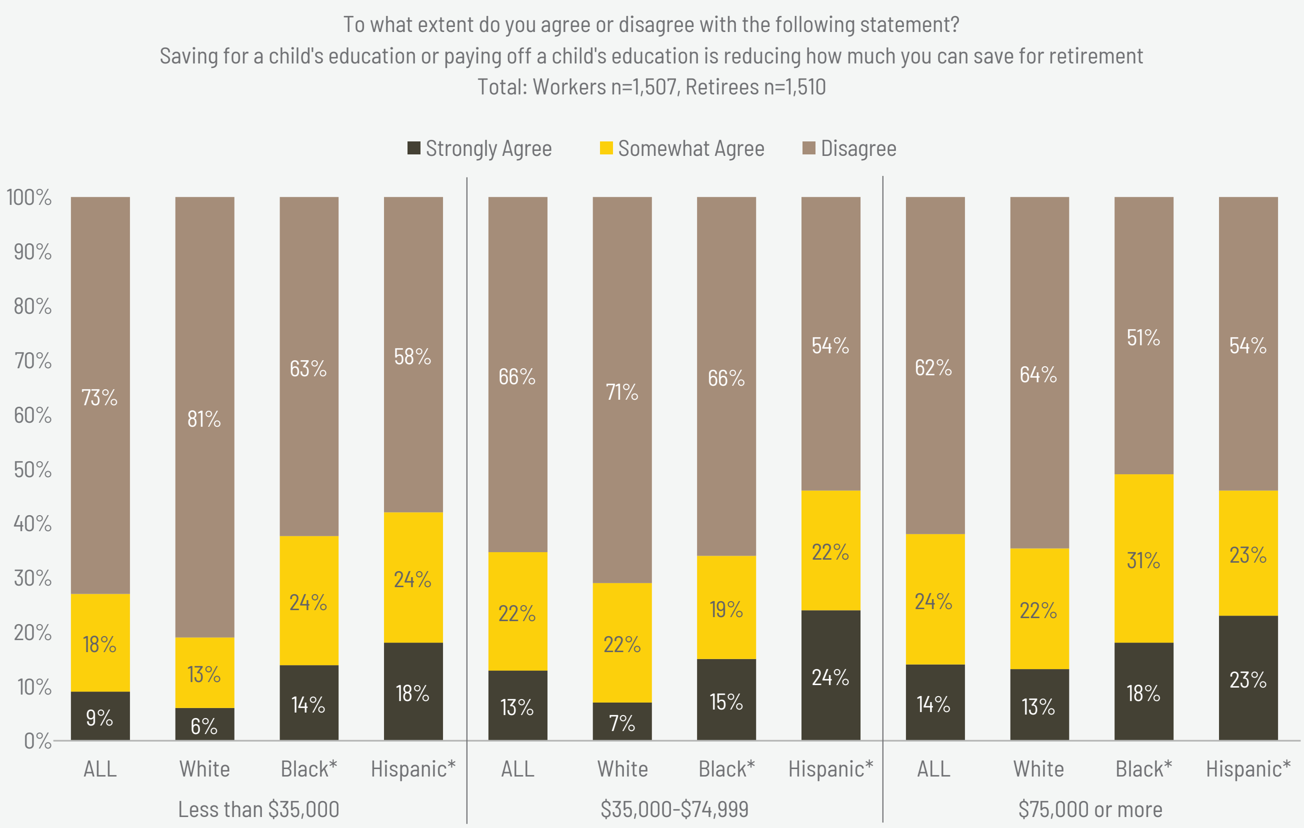


FIGURE 20: *Percentage Who Agree That Saving for or Paying for a Child's Education Is Reducing Retirement Savings, by Race/Ethnicity and Income*



3. Provide increased access to financial advisers that share a connection or commonality with Black and Hispanic Americans, and that Black and Hispanic Americans will find trustworthy.

The Retirement Confidence Survey (EBRI and Greenwald Research 2021) showed that Black Americans of all ages were equally likely to feel that they had been treated unfairly by financial service companies, whereas older Hispanic Americans were more likely to feel that they had been treated unfairly than were younger Hispanic Americans. Furthermore, Black and Hispanic Americans prefer some connection to those providing them financial advice, and so prefer either working with an advisor who has had a similar upbringing or experiences, is affiliated with their employer in some way, has a similar racial/ethnic background as them, or is the same gender as them.

Black and Hispanic workers would benefit from greater diversity among individuals providing financial help in the workplace and beyond. Also, Black and Hispanic workers express interest in one-on-one, personalized advice that builds on their comfort with having a connection to those providing them advice.

4. Help workers become good debt managers into retirement.

The Retirement Confidence Survey (EBRI and Greenwald Research 2021) results clearly underscore the importance of starting good financial habits when individuals are working, and well before retirement. Overall financial well-being programs by employers that address, among other things, budgeting and debt, are increasingly available. While these programs are in their infancy for the most part, they at least show signs of helping the individuals that engage with them. Not only could such help with financial well-being benefit workers while they work, but also the skills learned could be carried over to retirement to potentially address the growing issue of debt in older ages. These issues are even more pertinent to families with minority heads, since they have higher debt levels relative to assets than the families with White, non-Hispanic heads. With the gap in financial wealth between races coming to the forefront, these problems cannot be ignored, particularly when these groups are growing as a share of the population and are essential to an overall highly productive work force.

Understanding the incidence of and trends in debt helps to better evaluate the financial security of American families now and potentially into the future. However, further evaluation of the impact of financial well-being programs is needed to see what programs have the desired outcome of reducing or controlling debt. Also, additional research on the drivers of the differences in assets and debts between ages and races/ethnicities is needed. Finally, examination of the impact of any potential policy changes on retirement security will always be warranted.

CONCLUSION

There are both systemic and behavioral barriers that Black or Hispanic workers and retirees face when it comes to saving for retirement. These include the lack of educational or advisory resources that resonate with them, meet their unique needs, or are found to be trustworthy. By harnessing data from surveys and databases such as that of EBRI, we can better understand the forces that result in savings gaps by various cohorts, and thereby better address them.

Several clear areas for additional research include further modeling using sources such as the Survey of Consumer Finance with EBRI's RSPM to better understand the impact on retirement income adequacy of the discrepancies identified in this essay. Also, additional work understanding differences in spending patterns by minorities via sources such as the Spending in Retirement Survey (Lucas 2021a) can better inform not only the unique challenges these individuals face in navigating their retirement, but also how their savings approaches ultimately match up with retirement spending needs.

AUTHOR

Lori Lucas is president and CEO of the Employee Benefit Research Institute.

REFERENCES

Copeland, Craig. 2020. "Who Is Most Vulnerable to the Ticking Debt Time Bomb in Retirement: Families with the Oldest, Black/African American, and Hispanic Family Heads." Issue Brief 521, EBRI Education and Research Fund, Employee Benefit Research Institute, Washington, DC.

2021. "The Status of American Families' Accumulations in Individual Account Retirement Plans and Differences by Race/Ethnicity an Analysis of the 2019 Survey of Consumer Finances." Issue Brief 527, EBRI Education and Research Fund, Employee Benefit Research Institute, Washington, DC.

Ebrahimi, Zahra. 2021. "Retirees in Profile: Evaluating Five Distinct Lifestyles in Retirement." Issue Brief 529, EBRI Education and Research Fund, Employee Benefit Research Institute, Washington, DC.

Employee Benefit Research Institute (EBRI).

1992. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

1995. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

1998. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

2001. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

2004. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

2007. "Survey of Consumer Finances." Employee Benefit Research Institute, Washington, DC.

2010. “Survey of Consumer Finances.” Employee Benefit Research Institute, Washington, DC.

2013. “Survey of Consumer Finances.” Employee Benefit Research Institute, Washington, DC.

2016. “Survey of Consumer Finances.” Employee Benefit Research Institute, Washington, DC.

2019. “Survey of Consumer Finances.” Employee Benefit Research Institute, Washington, DC.

2021. “A Tale of Three Retirement Lifestyles.” Fast Facts 386, EBRI Education and Research Fund, Employee Benefit Research Institute, Washington, DC.

Employee Benefit Research Institute (EBRI) and Greenwald Research. 2021. “2021 Retirement Confidence Survey: A Closer Look at Black and Hispanic Americans.” Issue Brief 530, EBRI Education and Research Fund, Employee Benefit Research Institute, Washington, DC.”

Lucas, Lori. 2021a. “Why Do People Spend the Way They Do in Retirement? Findings From EBRI’s Spending in Retirement Survey.” EBRI Issue Brief. Employee Benefit Research Institute, Washington, DC.

2021b. “Written Testimony for the ERISA Advisory Council 6.18.21: Employee Benefit Research Institute Statement on Gaps in Retirement Savings Based on Race, Ethnicity, and Gender.” ERISA Advisory Council, Employee Benefits Security Administration, US Department of Labor, Washington, DC.