

RACE/ETHNICITY, SAVING, AND POSTRETIREMENT OUTCOMES

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ABSTRACT

This paper seeks to summarize the existing literature on racial and ethnic differences in retirement outcomes, starting with preretirement saving behavior and its effects on postretirement standards of living and happiness.

INTRODUCTION

While significant research is needed in this area, we can use existing sources to start outlining the core dynamics at work. Namely, there are large and well-documented gaps in preretirement savings and wealth among Black and Hispanic households, compared to White households.¹ Those gaps are driven by a complex set of factors, including lower income among median Black and Hispanic households, which leads to lower rates of saving and significantly slower wealth accumulation. Lower preretirement wealth then directly translates into

lower postretirement wealth: families that have wealth entering retirement tend to retain it, and those who do not tend to remain without retirement wealth. With lower wealth come lower postretirement income levels and lower standards of living. Lower wealth and income are also correlated with poor health and lower life expectancy in retirement; both lower wealth and lower income appear to translate, on average, to lower levels of happiness for the median Black and Hispanic household in retirement. This model of pre- and postretirement wealth is a gross approximation, and one that would benefit from further thoughtful data collection, nuanced theoretical development, and rigorous statistical modeling. It is, however, a starting point. When we look at postretirement financial choices, especially among racial and ethnic minorities, there appears to be so little literature that it is difficult to develop a gross approximation of what is occurring. Detailed data with sufficient sample size on postretirement choices is scarce, and research on it is an open frontier. Similarly, there appears to be very little research that considers practical, empirically grounded interventions to help close postretirement gaps in happiness and standards of living, beyond the excellent but narrow research documenting the impact of Social Security benefits. Again, there is much work to be done but at least we have a starting point—especially in preretirement analyses.

1. Throughout this paper I use “Black household” as shorthand for a household headed by (or where the primary respondent is) a self-identified African American non-Hispanic person; I use “Hispanic household” for a household headed by (or where the primary respondent is) a self-identified Hispanic person; and I use “White household” for a household headed by (or where the primary respondent is) a self-identified European American person. This convention is imprecise, since it poorly handles mixed-background heads of household and/or primary respondents, and does not take into account the background of the non-head of household or non-primary respondent when present. It nevertheless reflects the sources that I draw on here, and those on which the researchers I cite had to rely on. I do not discuss other minority groups: in most of the existing literature, and the data sources they draw on, there is not a significant sample size for Asian American adults, for example. Finally, the term “head of household” comes from data sets such as the Panel Study of Income Dynamics (PSID), which have historically labeled (without consultation) the male partner in heterosexual two-adult partnered households, or the adult of any gender in single adult households, as the head of household. This term has recently changed to “primary respondent,” but the historical bias in the data, and thus the research built on it, remains.

PRERETIREMENT WEALTH ACCUMULATION

Statistics on preretirement wealth by race and ethnicity are easy to find, and indeed a variety of recent reviews have well covered those statistics (e.g., Francis and Weller 2021; Wendel 2021). Rather than repeat those existing reviews, a few summary points can help ground the discussion. First, we can think of the existing research as covering three related, but distinct, questions:

1. How much wealth do different racial and ethnic groups accumulate for retirement?
2. At what rate do different racial and ethnic groups save or accumulate wealth?
3. What are the potential causes of observed differences in wealth and in savings?

RETIREMENT WEALTH

Francis and Weller (2021) provide perhaps the clearest recent summary of preretirement wealth by race. Using data from the 2019 Federal Reserve Board of Governors' Survey of Consumer Finances, they offer the following statistics:

"The average retirement wealth for white near-retirees amounted to \$593,047 from 2010 to 2019. In comparison, it amounted to \$262,786 for black near-retirees, \$193,908 for Latino near-retirees, and \$418,799 for near-retirees of other and multiple races and ethnicities. The median amounts for those households that had any retirement wealth show similar gaps by race and ethnicity. ...While 76.0% of white households near retirement had any retirement wealth, only 54.9% of black households, 42.4% of Latino households, and 62.1% of households of other or multiple races or ethnicities did. The data thus illustrate massive retirement inequality near retirement by race and ethnicity." (Francis and Weller 2021, 85)

Their calculations of retirement wealth include the value of 401(k)s, individual retirement accounts (IRAs), and similar defined contribution vehicles, plus the imputed value of pensions.² If we look more broadly at wealth accumulation by race and ethnicity, regardless

of whether the assets are in retirement accounts, the disparities are even more pronounced: as of the 2019 Panel Study of Income Dynamics (PSID), the median White household held eight times more in wealth than the median Black household, and seven times more than the median Hispanic household (Wendel 2021).

RETIREMENT SAVING

In terms of savings rates, there is ample documentation of differences in savings rates by race and ethnicity within defined contribution retirement accounts. For example, researchers at Ariel Education Initiative and Aon Hewitt (2012) found that both Black and Hispanic households were less likely than White households to participate in a workplace retirement plan in 2010, and to have lower contributions rates when they did participate. In their study, 68 percent of Black households, 66 percent of Hispanic households, and 79 percent of White employees with access to a plan participated, and the average contribution rate was 5.6 percent, 5.9 percent, and 7.2 percent, respectively. Differences in contribution rates remained after controlling for salary, tenure, and age. Rhee (2013) documents how a similar gap exists in *access* to workplace savings plans—both for defined contribution plans and for defined benefit plans.

People may use other assets for retirement above and beyond their defined contribution accounts, and information on saving behavior in other assets is strictly limited: the data that are required to conduct that analysis across asset classes from business to brokerage accounts are extensive. A few researchers have conducted analyses, and their general finding is similar to the finding for retirement savings. Gittleman and Wolff (2004) first estimated broad savings rates by race, and found that, from 1984 to 1994, the average savings rate of Black households was 3.9 percent (median 0.5 percent) and for White households was 7.6 percent (median 3.6 percent). Wendel (2021) replicated and extended their analysis, and calculated a median all-asset savings rate among Black households of 0.6 percent in 2019, compared to 6.7 percent for White households and 2.3 percent for Hispanic households. Lamas, Thompson, and Wendel (2021), building on the same PSID data from 2019, delved deeper into saving behavior among Hispanic households, documenting

2. Their calculations do not appear to include the future value of Social Security benefits.

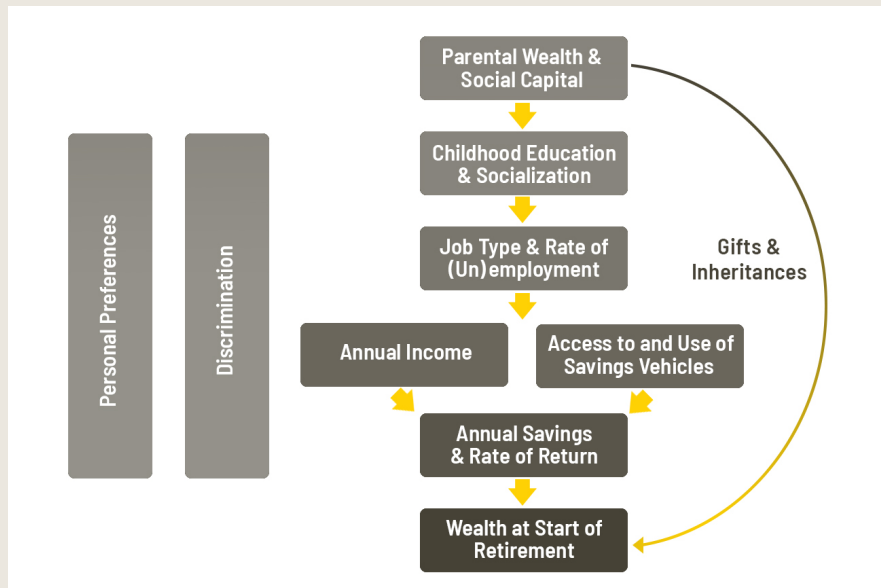


FIGURE 1. *A Dynamic Model of Wealth Accumulation and Disparities by Race*

disparities in participation, retirement account ownership, and contribution rates.

CAUSES OF DISPARITIES

The proximate explanations for disparities in preretirement wealth tend to focus on lower rates of saving, as mentioned above: lower access to retirement savings vehicles among Black and Hispanic households, combined with lower participation rates and lower contribution rates given access, all lead to lower effective savings rates among Black and Hispanic households. Researchers have examined other near-term financial causes, such as smaller inheritances among Black households (Avery and Rendall 2002), and lower investment allocations to equity with subsequently lower rates of returns (Ariel Education Initiative and Aon Hewitt 2012; Boshara, Emmons, and Noeth 2015).

These explanations for reduced retirement savings wealth are largely mathematical and unilluminating: if people save less and earn smaller returns over time, all else being equal, they will have less in retirement savings. Researchers have started to examine deeper situational, psychological, behavioral, and historical reasons that might underly these financial disparities, including commitments to support other family

and community members (Francis and Weller 2022), income differences caused by education disparities and workplace discrimination (Darity et al. 2018), and differences in saving preferences (Choudhury 2002).

LIMITATIONS

What this research generally lacks is a careful analysis of the *relative importance* of each of these factors. Individual papers generally examine one or a few factors, substantiate that they have an effect, and move on. Research reviews in the field similarly reference the range of potential factors, and how they might overlap or compound to create even greater disparities, but do not systematically analyze the overcounting inherent in multiple, independent measurements of the same phenomenon's causes.

While no unified causal model has been agreed on in the field, we can reasonably posit the following relationships between the various causes of racial and ethnic disparities in retirement wealth, building on a framework first presented in Wendel (2021) (see figure 1).

Further work is needed on such dynamic models of accumulation; some of the most exciting work on preretirement savings by Aliprantis and Carroll (2019),

Berman, Ben-Jacob, and Shapira (2016), and others uses new dynamic models to better represent the complex interaction of factors over time. Preliminary research by Wendel (2021) and Lamas, Thompson, and Wendel (2021) demonstrate how these multifaceted and dynamic models can provide greater statistical and conceptual clarity. For example, when these authors simultaneously analyze the effect of income, asset allocation, gifts and inheritances, and other factors, the racial differences in savings rates vanishes. Instead, it appears that the racial differences in income are the driving factor, and that savings rates (driven by income) drive wealth accumulation overall. Again, however, further work is needed in this area.

POSTRETIREMENT WEALTH AND STANDARDS OF LIVING

While not as extensive as the research on preretirement wealth, three lines of research can help us triangulate standards of living in retirement by race and ethnicity. In particular, researchers have directly estimated the gap in retirement, have provided broader lessons that can be applied to the racial wealth gap in retirement, and have forecast postretirement wealth based on preretirement wealth.

MEASUREMENTS OF POSTRETIREMENT WEALTH

A few sources look specifically at postretirement wealth by race, including Johnson (2021) and Smith (1995). Johnson, in particular, provides direct measurements of the racial wealth gap in retirement, drawing on the 2015 Health and Retirement Study (HRS). According to his research, he finds the following:

- The median Black household over age 65 receives income (from Social Security, labor, pensions, and assets) that is 54 percent of the income received by the median White household; the median Hispanic household receives 43 percent of the median White household.

- Black-headed households over age 65 are more than four times as likely to live in poverty, and Hispanic-headed households are five times as likely, as are White-headed households.
- Total household wealth shows a larger disparity than income. In Johnson's estimation, median Black household wealth in retirement stood at 19 percent, and median Hispanic household at 18 percent, of median White households, not including the imputed value of Social Security.³

These estimates roughly align with the near-retirement analyses of the HRS by other authors, such as Hou and Sanzenbacher (2020). Those authors find median Black household wealth to be roughly 14 percent of the median White household's wealth, and median Hispanic household wealth to be 20 percent. This gap appears to have continued for decades. Using HRS data 25 years earlier, Smith (1995, 168) finds, "For all practical purposes, the average middle-aged black or Hispanic household has no liquid assets at their disposal" for participants in the HRS ages 50 or older. The racial wealth gap among older Americans was large, even then: Black households had 27 percent, and Hispanic households had 35 percent, of median White household wealth.

A key element of postretirement standard of living is Social Security. Social Security benefits are far more likely to be the primary means of income for Black and Hispanic households, as Dushi, Iams, and Trenkamp (2017) document using the 2015 Current Population Survey: 32.5 percent of African Americans and 31.2 percent of Hispanic Americans over age 65 relied on Social Security for 90 percent or more of their income, compared to 24.1 percent of European Americans.

A variety of researchers have also noted the likely distributional effects of Social Security on retirement wealth, both to decrease inequality across income bands (e.g., Devlin-Foltz, Henriques, and Sabelhaus 2012) and across racial and ethnic groups in retirement (e.g., Bridges and Choudhury 2009; Hou and Sanzenbacher 2020; Smith 1995).⁴ In the Hou and Sanzenbacher (2020) analysis, median wealth ratios increase

3. Caution should be taken with these statistics, however: they are not directly comparable to preretirement wealth calculations because of nonstandard assumptions and the approach used in the analysis.

4. Bridges and Choudhury (2009), however, note that Social Security has two contrasting effects on retirement income distribution: income replacement rates are higher for Black and Hispanic households, but total payouts are higher for White households, due to both higher preretirement income and longer life expectancy in retirement.

from 14 percent (Black-White) and 20 percent (Hispanic-White), to 46 percent and 49 percent, respectively, after the imputed value of Social Security is taken into account. Like Hou and Sanzenbacher (2020), Smith (1995) found that the gap diminished, but remained, after the value of Social Security was accounted for, at 46 percent and 43 percent of median White household wealth, respectively. The impact of Social Security benefits on the racial wealth and income gap in retirement are complex, however, as Hendley and Bilimoria examined in their 1999 report: certain features disproportionately benefit Black and Hispanic households (progressive benefits schedules), while others arguably disproportionately benefit White households (total benefits based on the duration of one's life).

BROADER LESSONS TO APPLY

A second approach to understanding postretirement wealth is to draw inferences from analyses across the entire population that are not race-specific. Specifically, Poterba, Venti, and Wise (2018) find that end-of-life wealth is strongly predicted by start-of-retirement wealth. Those who had little at the start of retirement had little at the end. They, and others (e.g., Banerjee 2018; Haider et al. 2000), find that decumulation is not the norm during retirement—families with start-of-retirement wealth often do not systematically draw it down, and those who had little start-of-retirement wealth have little that they could draw down (e.g., Poterba, Venti, and Wise 2017, 2018). This appears to be the predominant finding among empirical researchers in the field, though it is worth noting that at least one recent paper seeks to temper that assessment (VanDerhei 2021).⁵

While this body of work does not directly comment on racial and ethnic differences, we know from the prior section that preretirement wealth is significantly lower for Black and Hispanic households than it is for White households. We can reasonably expect postretirement patterns of decumulation (and their lack) to apply here as well: lower preretirement wealth among Black and

Hispanic households would translate into similarly lower postretirement wealth throughout retirement.

FORECASTS AND SIMULATIONS OF POSTRETIREMENT WEALTH

Another approach we can use to examine postretirement wealth and standards of living is to look at projected replacement rates in retirement—in other words, the *expected* standards of living. For example, Munnell, Hou, and Sanzenbacher (2018) project that a significantly larger proportion of Black and Hispanic households are at risk of being unable to maintain their standard of living in retirement. The researchers find that, from 2007 to 2016, 6 to 11 percent more Black households, and 9 to 20 percent more Hispanic households (depending on the year), have been at risk of retirement inadequacy.⁶ Similarly, preliminary analyses at the Employee Benefits Research Institute (2021, 6) using their Retirement Security Projection Model (RPSM) find significant projected gaps: “For households age 35–39 ...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 ...their average estimated retirement savings shortfalls are estimated to be higher too: \$57,000 and \$55,000, respectively.” There is an active debate in the field on how to calculate the absolute dollar amount a household needs in retirement (e.g., Blanchett 2013; Kotlikoff 2018). However, this debate should not distract us from the relative comparisons that Munnell, Hou, and Sanzenbacher (2018), the Employee Benefits Research Institute (2021), and others make between racial and ethnic groups—comparisons that should hold regardless of which approach is used to calculate retirement sufficiency.⁷ In these relative comparisons, the picture is consistent—Black and Hispanic households are far more likely than White households to risk having insufficient funds in retirement.

5. However, this new research examines an importantly different issue: expense patterns and whether people could spend more in retirement and not run out. This approach, like those used in most papers that examine retirement sufficiency, requires a significant assumption: they assume that the ideal expenditure for individuals (without constraints) is precisely what it has been historically for individuals (with budget constraints).

6. Subjective, self-reported projections of retirement preparedness also show such gaps (White et al. 2022).

7. As long as Social Security benefits are incorporated; as noted above, it has a significant equalizing effect, though gaps remain even with Social Security.

LIMITATIONS

There are two main challenges with the existing literature on postretirement wealth and standards of living by race and ethnicity. The first is a lack of direct empirical measurement—a few researchers such as Johnson (2021) have conducted their own analyses of the HRS by race and ethnicity, but such work is relatively uncommon and suffers from a limited sample size.

The second limitation is more fundamental: there is no consensus in the field on what the target standard of living should be in retirement. As noted above, one can reasonably make broad statements using the existing literature, such as, “Regardless of what standard we use, clearly Black and Hispanic households are less likely to meet it.” These broad statements do not resolve the underlying conceptual unclarity, however. Researchers too often assume (explicitly or as a consequence of their methodology and data sources) that the desirable standard of living in retirement is measured by how much prior retirees have spent; that approach underlies much of the work on income replacement ratios. The problem with this approach is that retirees, like anyone else, adapt to their circumstances: they spend at or near what they have available. Thus, such estimates of postretirement sufficiency and standards of living are actually estimates of deviations from the status quo, not an independent assessment of appropriate standards of living in retirement, and whether or not they are being met.

Practically speaking, this makes it difficult for researchers and policymakers to be clear and precise about the consequences of postretirement wealth disparities by race. We can clearly state that Black and Hispanic households have (or are projected to have) less money in retirement. We have difficulty translating that financial disparity into an understanding of the real human cost that families face, and into appropriate policy responses. It may be that there are impactful, cost-effective ways to improve the lived experience of Black and Hispanic households in retirement—such as removing anxiety around running out of money with certain financial products—that do not require a complete reversal of the preretirement wealth inequality that our country struggles with. However, it is difficult to have that conversation when there is neither agreement nor a common language around ideal standards of living in retirement.

One approach to solving this problem would be to leave the financial domain altogether and examine self-reported happiness in retirement.

POSTRETIREMENT HAPPINESS

An extensive body of literature examines subjective well-being: a person’s cognitive and emotional evaluation of their lives (e.g., Diener 2000). As with savings rates, the literature on postretirement happiness literature finds that the relationship between subjective well-being and race is complicated. The average subjective well-being among Black households is clearly lower than that of White households (e.g., Barger, Donoho, and Wayment 2009; George 2010), and the difference persists but may shrink with age (Yang 2008). However, the difference appears to disappear after controlling for other factors such as health and social support; it may even turn positive for Black households (Tang et al. 2019). Earlier work also found that race has no clear *independent* relationship with subjective well-being (Larson 1978), and specifically that the effect of race is mediated through health status (McKenzie and Campbell 1987).

Similarly, research on race and happiness across all age groups finds that Black and Hispanic Americans report lower life satisfaction than White Americans (e.g., Hughes and Thomas 1998). Yet, those differences often dissipate when health, socioeconomic status, and social interactions are controlled for (Barger, Donoho, and Wayment 2009). Another way to describe these results is this: subjective well-being is often found to be related to health, marital status, social interaction, and socioeconomic status (Barger, Donoho, and Wayment 2009; Larson 1978). Those factors are, in turn, negatively correlated with race: Black Americans tend to be less healthy and to have lower incomes, for instance.

The specific role of income and wealth in happiness is less clear. There is a longstanding debate on the overall effects of income on happiness—at any age, and within any racial or ethnic group. The broad finding is that, at any given point in time, there is a strong relationship between income and self-reported happiness—both across countries (Stevenson and Wolfers 2008) and within countries (Easterlin 1974; Stevenson and Wolfers 2013). Most of the research on the economics

of happiness research focuses on income; the limited work available shows that wealth is similarly important (Headey and Wooden 2004). Despite this broad agreement, there is a heated debate spanning decades about the effect of *changes* in income and happiness, referred to as the Easterlin Paradox.⁸ This debate should warn researchers and policymakers about the inherent complexity of trying to address the happiness gap in retirement between racial and ethnic groups. Increasing postretirement income and wealth might not have a clear effect on happiness. For example, when we look at a recent *negative* change, Fichtner (2019) finds that debt-to-asset levels have generally increased among near-retirees between 1992 and 2016. However, he finds no correlation between debt and self-reported retirement satisfaction at any given point in time, and little apparent relationship between aggregate *changes* in debt and retirement satisfaction.

While current levels of income (and wealth) are correlated with happiness, they do not appear to be cleanly causal. Instead, happiness has complex determinants, ranging from genetics (a predisposition to depression) to health (itself correlated with income and wealth) to *relative* wealth (financial comparison between people). Lower preretirement wealth among Black and Hispanic households translates directly into lower levels of postretirement wealth and indirectly into lower postretirement subjective well-being. But, as with savings rates and standards of living, the causal pathways by which this occurs, and viable solutions to these issues, need significant development.

Existing analyses of happiness and (pre- or postretirement) wealth are primarily *observational*: they are based on observing existing relationships and broad changes over time. Separately, a body of literature has looked at *experimental* changes to happiness; in other words, researchers have looked at systematically changing people's (perceived) wealth or use of that wealth. What they have found is encouraging. In short, people can learn

to use the money that they have more effectively to support happiness (e.g., Dunn and Norton 2013). While happiness has complex determinants, at least one factor—the psychological impacts of how people use their resources—appears to be mutable.

POSTRETIREMENT FINANCIAL CHOICES

To understand how race/ethnicity, wealth, and postretirement financial choices intersect, we should first look to the use of Social Security benefits. In particular, we can examine three main sources of information. First, we can look at how Social Security benefits affect the postretirement racial wealth gap; we also covered that topic above. Second, we can look at the choices that different ethnic and racial groups make around Social Security, especially at when they first claim benefits. Third, we can draw from the broader literature on Social Security, and at the design of Social Security benefits by race and the incentives that design generates.

With respect to claiming choices, we can examine both optimal and actual claiming behavior. Researchers use a range of approaches to analyze optimal behavior, from simplistic break-even calculators (e.g., Lake 2022; Moraif 2021), to optimizing the expected present value of benefits, to a nuanced analysis of the risks facing a family, their individual preferences, and their personal liquidity constraints—using an implicit or explicit expected value framework (e.g., Fichtner et al. 2020).⁹

Sanzenbacher and Ramos-Mercado (2016) analyze optimal claiming ages (in terms of the expected value of benefits) by race, gender, and education, and find complicated effects:

- “Non-Hispanic men, both black and white, who do not hold a college degree maximize their EPV [earnings power value] of benefits by claiming before the full retirement age.

8. There are multiple versions and interpretations of the Easterlin Paradox. The easiest one to refute, and one that Easterlin himself says was never his intention (Easterlin and O'Conner 2020), is that income and happiness are not related; this version is a misinterpretation of the original Easterlin Paradox. Similarly, there is another misinterpretation known as the Modified Easterlin Paradox that states that income and happiness are not related past a certain point. In both cases there is strong empirical evidence that happiness and income are strongly related, at any point in time, among people both within countries and across countries. The paradox that Easterlin pointed out in 1974 is that changes in aggregate income do not follow the same pattern: the world has not gotten happier over the centuries as income has increased. Instead, he argued that happiness is a relative phenomenon, and that a general rise in income has no effect. For policymakers interested in racial disparities in retirement, this means that partial moves to equalize retirement income would likely have much less effect than anticipated. Relative comparisons would rescale the remaining inequality. It is a psychological and distributional problem.

9. In Fichtner et al. (2020), the authors also discuss the challenges with a common break-even analysis, and how it can distort participant behavior and trigger cognitive biases.

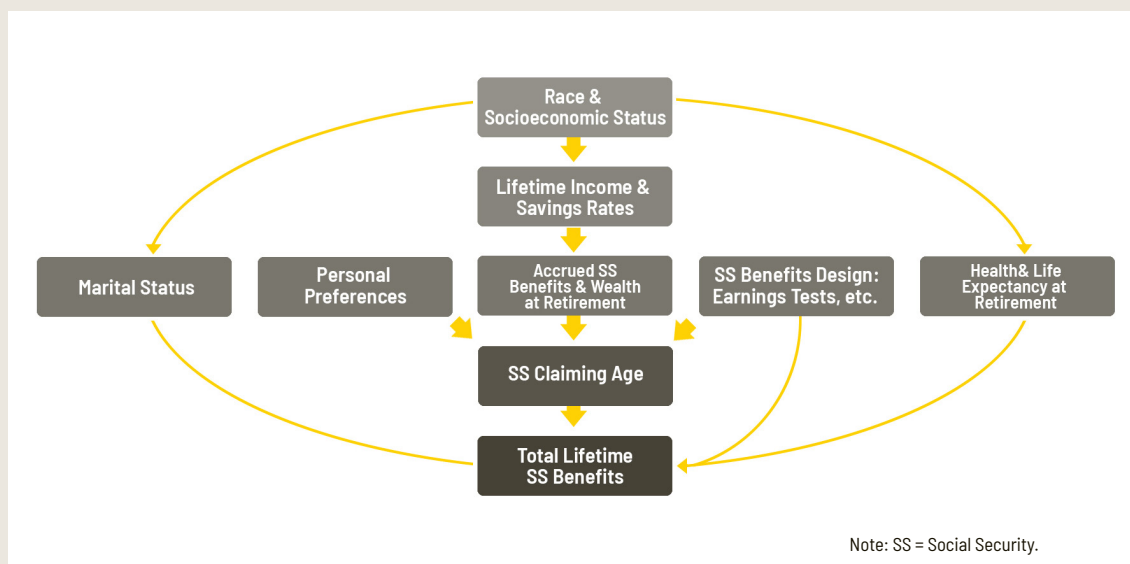


FIGURE 2. *A Rough Model of the Indirect Influence of Race on Social Security Claiming and Lifetime Benefits*

- “White men with a college degree and white women with at least a high school degree maximize the EPV of their benefits when claiming after their FRAs [forward rate agreements].
- “More educated workers have more incentive to delay claiming than less educated workers, and non-blacks have more incentive to do so than blacks.” (3)

Research on actual claiming behavior among different racial and ethnic groups appears to be quite limited. The Social Security Administration (SSA) stopped providing race data about the Old Age, Survivors, and Disability Insurance program after 2009 due to data quality issues, but researchers such as Martin and Murphy (2014) have sought to supplement SSA data with the American Community Survey and other sources. They find that Black Social Security beneficiaries tend to be younger, though this appears to be because of higher rates of preretirement disability and of children receiving survivorship benefits. It might be possible to estimate the percent of eligible individuals ages 62 or over who were claiming eligibility from the SSA’s Annual Data Supplement,¹⁰ prior to 2009, but no such analyses were found for this review.

EXTENDING BROAD, NONRACIAL ANALYSES OF SOCIAL SECURITY

While there is a limited body of work specifically on Social Security claiming by race and ethnicity, we can draw on the broader literature on Social Security claiming both to make reasonable inferences and to establish an agenda for future research. In particular, a host of research studies have looked at the effects of social design plan design on both incentives to claim and actual claiming behavior; Brown et al. (2020) provide a summary of one such body of work. In addition, researchers have examined the role of health (poorer health leads to earlier claiming), life expectancy (expected longevity leads to later claiming, e.g., Shu and Payne [2013]), accumulated non-Social Security wealth (more wealth delays claiming).

For example, one of the important aspects of Social Security benefit for older Americans especially is that marital status allows partners to receive benefits through their spouse. However, marriage rates differ strongly by race: marriage rates among African Americans are significantly lower. That leaves older African

10. For example, see SSA (2008, table 5.A1) and SSA (2009, table 5.A1.1, “Number and average monthly benefit for retired workers, by sex, age, and race”) in at least the 2008 and 2009 data.

American women, especially, less likely to qualify for Social Security benefits through spousal or widow benefits. As of their 2005 research, Meyer, Wolf, and Himes (2005) found that 64 percent of women age 62 or older received spousal or widow benefits instead of benefits from their own, often smaller, earnings. As the authors highlight, “This makes marital status more important than employment status in shaping old-age financial security for many older women” (145).

We can use this general knowledge about Social Security claiming to extend the dynamic model of preretirement wealth accumulation presented in figure 1. In particular, we can posit likely causal pathways between race and Social Security claiming behavior (see figure 2). These relationships are speculative, in that the non-racial links are well established but their role in mediating racial differences has not been properly studied. Nevertheless, they can provide a starting point for further work.

OTHER LIFETIME INCOME OPTIONS

There appears to be very little work on racial differences on the choice to purchase and use lifetime income products—if for no other reason than because of a lack of available data. Government sources such as the PSID do include the use of annuities, but the small number of minority households in retirement (or even before retirement) with annuities in the PSID and other such sources appears to have limited their use for rigorous analyses. A recent Retirement Income Institute literature review by Liu (2020) found two papers that touch on the topic (Brown 2001; Hurd and Panis 2006), with no race-based effects in the first paper¹¹ and potential differences in pension cash-out behavior in the second.

There is a small body of work analyzing what would be the *optimal* use of lifetime income products by different racial and ethnic groups. For example, Wettstein et al. (2021) find, “Annuitization is more valuable for Blacks than for whites ...[and] the wealth equivalence of the annuity is worse for whites” (17). Their analysis does not help us understand whether the differences in the relative value of annuities translate into differences in purchase and usage, however.

Given the limited insight the current literature can provide, significant new work could be conducted in this area. This work would first require an appropriate data set, such as a large enough survey with demographic information, household finances, and use of lifetime income products. Even this data set would allow us to understand only current patterns, though, and would shed little light on the circumstances under which current patterns might change. For that, the most feasible would likely be experimental: to create a panel of Americans with an oversample of minorities, measure their current situation and behavior, and test various scenarios, building on prior experiment analyses of lifetime income (e.g., Agnew et al. 2008; Brown et al. 2008).

LOOKING FORWARD

While the evidence is limited, a simple high-level picture appears to emerge about the status quo: racial and ethnic differences in income drive differences in savings rates and subsequent wealth accumulation, preretirement wealth continues postretirement, postretirement wealth is correlated with standards of living and life-satisfaction. This picture is incomplete, however, and our understanding is especially limited in terms of postretirement financial choices and outcomes. One of the paths forward should take us toward further empirical research in this important area.

In the face of these pre- and postretirement disparities, we can hope that another path forward entails working to *address* these disparities. The limited research available to us warns of likely challenges on that path. If the emerging high-level picture described above holds true, then postretirement outcomes by race and ethnicity are deeply linked to preretirement inequality, and especially to inequality of income. These are not easy problems to solve; while policy tools exist to address them, we should be prepared for a long and difficult process.

Interestingly, we also see hints of other opportunities in the literature. For example, there appear to be many factors involved with subjective well-being and the lived experience of retirement that are *not* directly correlated with income and wealth: a mix of psychological, genetic, and behavioral factors interweave to drive people’s

11. Brown (2001) uses 1992 data from the HRS, with 869 observations—the lack of statistical significance could easily be because the sample size was too small to detect a relationship, or there was none to be found.

experiences. There may be opportunities for new products and services to alleviate some of the *psychological* stresses of postretirement finances in the near term, despite the existing distribution of income and assets, even as a society, work toward greater equity overall. As we have seen with the experimental literature on happiness and money (e.g., Dunn and Norton 2013), even with a consistent financial constraint, one's life experience with that constraint is not necessarily fixed. Such approaches would not address the fundamental differences of income and wealth, but they might provide benefits to their users nevertheless.

AUTHOR

Dr. Wendel is an applied behavioral scientist who helps organizations understand and apply behavioral science. He currently serves as a Vice President at the Busara Center for Behavioral Economics, where he is responsible for technical excellence and growing Busara's presence in new domains. He previously founded and led the teams at Morningstar and HelloWallet, developing and field-testing hundreds of interventions. Stephen has authored three books on applied behavioral science and founded the non-profit Action Design Network, educating the public across fifteen cities on how to apply behavioral insights.

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