Social Security and the Racial Gap in Retirement Wealth

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How Large is the Racial Wealth Gap?

- Traditional definition of wealth:
  - Assets minus debt
  - Assets:
    - Housing assets
    - 401(k)s, IRAs
    - Business assets
    - Bank accounts

- Assets typically do not include Social Security
How Large is the Racial Wealth Gap?

Median Household Wealth by Race/Ethnicity, 2013

Source: Rakesh Kochhar and Richard Fry, "Wealth Inequality Has Widened along Racial, Ethnic Lines since End of Great Recession," Pew Research Center,
Estimated Social Security and Pension/IRA Wealth for Typical Households Aged 47-64, by Race/Ethnicity, 2013

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Social Security Wealth</th>
<th>Pension/IRA Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whites (non-Hispanic)</td>
<td>$223,416</td>
<td>$105,600</td>
</tr>
<tr>
<td>Blacks (non-Hispanic)</td>
<td>$107,811</td>
<td>$10,300</td>
</tr>
<tr>
<td>Hispanics</td>
<td>$145,034</td>
<td>$0</td>
</tr>
</tbody>
</table>
## Housing wealth

### Homeownership and Home Equity for Typical Households Aged 47-64, by Race/Ethnicity

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Homeownership Rate</th>
<th>Median Home Value (among homeowners)</th>
<th>Median Home Equity (among homeowners)</th>
<th>Median Home Equity (for all households)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whites</strong> (non-Hispanic)</td>
<td>79%</td>
<td>$195,000</td>
<td>$97,000</td>
<td>$67,000</td>
</tr>
<tr>
<td><strong>Blacks</strong> (non-Hispanic)</td>
<td>53%</td>
<td>$100,000</td>
<td>$40,000</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Hispanics</strong></td>
<td>73%</td>
<td>$150,000</td>
<td>$72,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations from 2013 Survey of Consumer Finances.
People of Color Rely on Social Security Wealth in Retirement

Reliance on Social Security for Half or More of Income, (Aged units aged 65 or older)

People of Color Rely on Social Security Wealth in Retirement

Reliance on Social Security for 100% of Income
(Aged units aged 65 or older)

Social Insurance is Valuable to People of Color

- Universal Coverage
- Mandatory Contributions Build Assets
- Asset Value Increases with Need
- Insures More than Just Retirement
- More Redistributive than Other Vehicles for Building Retirement Wealth
- No Leakage or Fees, Optimal Decumulation
- Strengthens Asset Building across Generations
Social Insurance is Valuable to People of Color

- **Universal Coverage**
  - 18% of Black, 14% of Hispanic HH 45-64 are unbanked
  - Only 4 in 10 Black, 3 in 10 Latino HH owned 401(k)/IRA retirement account in 2013
  - Social Security coverage is near-universal

- **Mandatory Contributions Build Assets**
  - Typical HH of color has less disposable income to save
  - Incentives to save are skewed toward higher earners
  - Social Security mandatory, also for employers

- **Social Security more effective asset-building tool than private accounts for people of color**
Social Insurance is Valuable to People of Color

- **Asset Value Increases with Need**
  - If seniors live to 100 …
  - Retirement benefit can increase by 50% for retired spouse
  - Keeps up with inflation
  - Benefits replace higher share of prior earnings for low earners
  - If worker becomes disabled …
  - If worker dies prematurely …

- **Because insurance that pools risk, Social Security is valuable to low and moderate income workers**
Social Insurance is Valuable to People of Color

- **Insures More than Just Retirement**
  - If workers become disabled or dies prematurely, Social Security kicks in
  - People of color suffer higher rates of poverty, disability, morbidity than Whites
  - Makes disability and survivors protections particularly valuable, particularly if tragedy strikes in mid-life before savings accumulated
Social Insurance is Valuable to People of Color (cont.)

- More Redistributive than Other Vehicles for Building Retirement Wealth
  - higher monthly benefits for lower earners
  - Gini for SSW 0.31, vs. 0.76 for pension/IRA wealth (2010 SCF)
  - As long as income inequality persists, inequality in retirement wealth will persist.

- No Leakage or Fees, and Optimal Decumulation
Social Insurance is Valuable to People of Color (cont.)

- **Strengthens Asset Building across Generations**
  - Makes it less necessary for younger workers to support their retired parents.
  - Widespread reality in communities of color
  - Ford convening of experts of color:
    “Wealth is more than what an individual is able to accumulate … well-being of the (extended) family … community. The individual is not perceived as wealth if his or her family is not wealthy.”

- **Importance of intergenerational solidarity** in facilitating asset-building among people of color