SECOND PRIZE: Necessary Family Financial Support Perpetuates Racial Wealth Inequality Across Generations – Evidence from the Coronavirus Pandemic

Dania V. Francis and Christian E. Weller

Introduction and Overview

Household wealth is key to a secure retirement. Wealth is the difference between what people own – their houses, retirement accounts, pensions, savings accounts and cars, among other things – and what they owe on their mortgages, credit cards, student loans and auto loans. Older households typically own more than they owe, and they can use that difference – their wealth to supplement their Social Security benefits.

Yet, household wealth is highly unequally distributed by race and ethnicity. The latest data for 2019 from the Federal Reserve's Survey of Consumer Finances shows that the median wealth of an African American family amounted to $24,100 and that of Latino households to $36,100, compared to $188,200 for White families (Bhutta et al., 2020). African Americans owned less than one-sixth the median wealth of White families, even though the African American-White wealth gap had narrowed a little from 2016 (Bhutta et al., 2020).

People of Color More Likely to Rely on Borrowing from Friends and Family

The wealth gap by race and ethnicity is likely worse than these numbers suggest in part because of financial support between multiple generations. Households rely on wealth in an emergency such as a layoff or a health care scare. They also use their wealth to buy a new house, start and grow a business, move to a new location when better opportunities arise and support their children's education. Since African American and Hispanic/Latino households have less wealth than White households, they often need to borrow more money. However, the systematic exclusion from the formal banking sector that makes it more difficult for African American and Hispanic/Latino households to build wealth also makes it harder for them to borrow in case of an emergency or to pursue emerging investment opportunities (Baradaran, 2019). Larger shares of African American and Hispanic/Latino households, compared to White households, instead turn to their families and friends for financial support (Chiteji and Hamilton, 2002). The system that creates massive wealth inequality by race and ethnicity by erecting barriers to saving and wealth creation everywhere necessitates this kind of assistance from family and friends. In turn, this financial support from one generation to the next – parents to children and also from children to parents and grandparents – makes it more difficult for African American and Hispanic/Latino households to save (Houle and Addo, 2018).

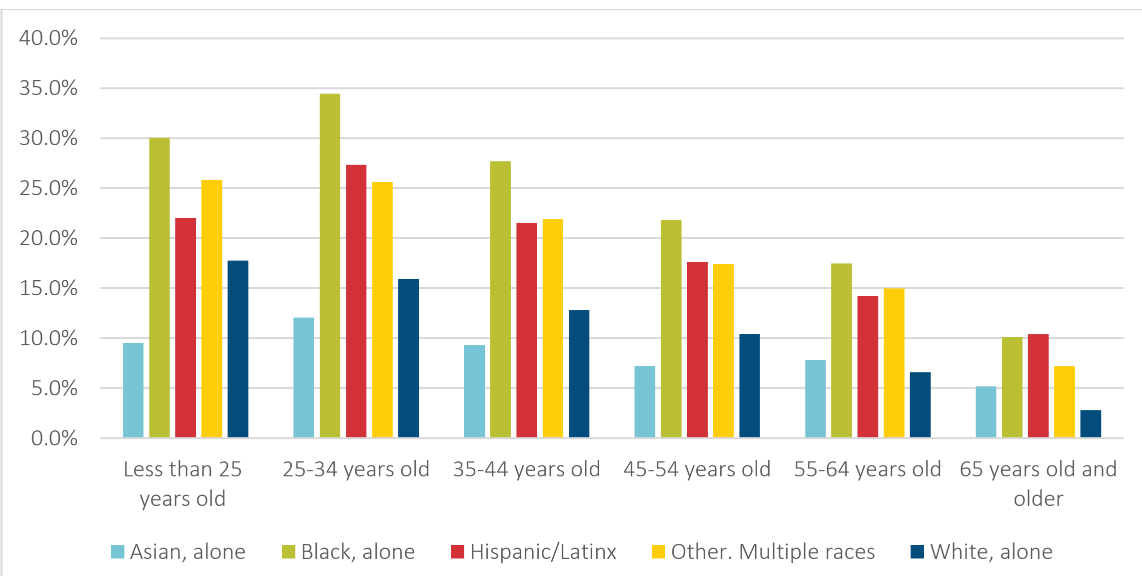
These loans to family members widen the racial wealth gap. Helping out family members with their finances is more likely to happen in communities with less wealth, typically African American and Hispanic/Latino households. This reduces the wealth of those who borrow the money. It is debt, just not a form of debt that shows up in official statistics. And, because households often take on this added debt when they are already struggling, it will either take a long time for the debt to be repaid or it will turn into a gift to the recipient. On the other side of the ledger, the debt is a cost to the lender. They will likely not receive interest on it and neither expect nor receive repayment. Helping out other family members financially thus reduces savings and wealth for those households. Another way to put this is that different households will split the expenses of one household that has too little income to pay its bills. It is a form of inter-family burden sharing. Because African American and Hispanic/Latino families have lower earnings and wealth than White families on average, this type of burden sharing more often occurs among people of color than White households (Chiteji and Hamilton, 2002).

The racial differences are readily apparent in the share of households that borrowed money from their families and friends during the coronavirus pandemic. The U.S. Census' experimental Household Pulse Survey collected data on a number of key aspects of households' finances, including sources of money for spending on regular expenses. The survey started out as a weekly data collection in late April 2020, but a major redesign of the survey methodology at the end of July – including going from weekly to biweekly data collection -- makes the later data not comparable with earlier data. We thus use data from the Household Pulse Survey from August to December 2020 for our summary statistics on households borrowing from family and friends.

The data summary show three key points about those who borrowed from family and friends to pay for their expenses during the pandemic months from August to December 2020 (Figure 1). First, African Americans were much more likely to rely on this type of debt than any other racial or ethnic group. For example, 27.7% of African American households from 35 to 44 years old borrowed from family and friends, compared to 12.8% of White households (Figure 1). Second, Hispanic/Latino households and households of other or multiple races are also more likely than White households but less likely than African American households to borrow from friends or family (Figure 1). Third, the share of households that borrowed money within their networks is substantial across all age groups, even though it declines with age (Figure 1). For example, more than one-third of African American households from 25 to 34 years old, 34.5% to be exact, borrowed from family and friends, while 10.2% of those 65 years old and older did.

Figure 1

SHARE OF HOUSEHOLDS THAT BORROWED FROM FAMILY AND FRIENDS TO PAY FOR EXPENSES BY RACE, ETHNICITY AND AGE - AUGUST TO DECEMBER 2020

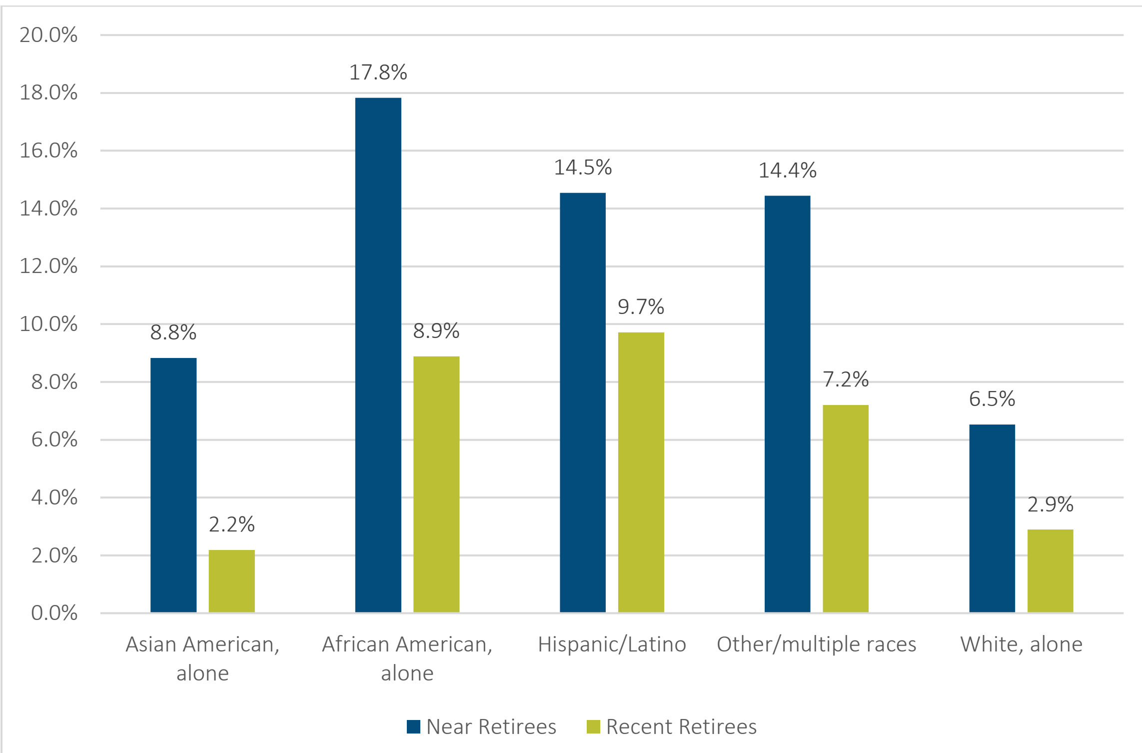


Notes: Authors' calculations based on Census (2021)

Importantly, a substantial share of older people of color took on this debt. Borrowing from family and friends correlates with retirement status among older households (Figure 2). Those near retirement, which we define as households 55 to 69 years old who are not yet retired, were much more likely to borrow from family and friends than recent retirees – households in the same age group that are retired. The data show the largest difference by retirement status among older African American households as 17.8% of near retirees and 8.9% of recent retirees borrowed money – an absolute gap of 8.9 percentage points (Figure 2). Older households have less time to repay that debt, which could then mean more burden shifting towards those who lent the money, often children and siblings.

Figure 2

SHARE OF HOUSEHOLDS 55 TO 69 YEARS OLD THAT BORROW FROM FAMILY AND FRIENDS BY RACE, ETHNICITY AND RETIREMENT STATUS – AUGUST TO DECEMBER 2020



Notes: Authors' calculations based on Census (2021)

Other data sources suggest a tentative causality between debt and retirement. Households with less wealth to begin with were more likely than wealthier households to remain in the labor market before and during the recession (Weller, 2020). Working longer was a key tool for many households with little wealth to address their retirement income shortfalls. It thus stands to reason that many of those households that counted on working longer to cover any retirement income shortfalls ended up being more likely to borrow from family and friends amid the pandemic. African American and Hispanic/Latino households in particular had low income levels, little wealth accumulated, high and persistent unemployment and elevated health risks (Ajilore, 2020; Maxwell, 2020). This meant greater pressures for older African American and Hispanic/Latino workers to stay in the labor market, looking for new jobs after being laid off and borrowing from family and friends to pay their bills. That is, low wealth before the recession contributed to both a higher chance of borrowing from family and friends and a lower chance of retirement among African Americans and Hispanic/Latino households than among White households.

Another key data point further underscores this argument. Borrowing from family and friends was often not enough for households to avoid economic hardship. Most households that incurred such family debt still had trouble paying their bills. Table 1 shows the shares of households that have difficulty paying their bills, or think that an eviction or foreclosure is somewhat, very or extremely likely in the next two months, by race or ethnicity, by retirement status – early retirees and recent retirees – and by having borrowed from family and friends. The data show that, unsurprisingly, those, who borrowed money from family and friends, were more likely to face economic hardships than those who did not take on such debt (Table 1). More to the point of the retirement question, this gap in financial hardship is smaller and levels are lower among recent retirees than among near retirees. Low wealth is both a hindrance to retirement and a pathway to even greater indebtedness, in this case to family and friends.

Table 1

FINANCIAL HARDSHIPS AMONG OLDER HOUSEHOLDS BY RACE, ETHNICITY, RETIREMENT STATUS AND FAMILY DEBT

	Near Retirees		Recent Retirees	
	Did not Borrow from Family or Friends	**Borrowed from Family or Friends**	**Did not Borrow from Family or Friends**	**Borrowed from Family or Friends**
Asian American, alone				
Difficulty Paying all Bills	30.4%	73.9%	17.5%	86.9%
Likely Facing Eviction	31.0%	68.5%	22.0%	80.0%
Likely Facing Foreclosure	33.1%	65.9%	20.2%	49.9%
African American, alone				
Difficulty Paying all Bills	39.2%	85.1%	26.0%	78.2%
Likely Facing Eviction	76.7%	81.4%	66.2%	74.4%
Likely Facing Foreclosure	52.3%	78.8%	50.3%	86.0%
Hispanic/Latino				
Difficulty Paying all Bills	38.8%	86.2%	27.3%	87.5%
Likely Facing Eviction	54.6%	75.9%	56.8%	70.5%
Likely Facing Foreclosure	37.4%	68.6%	48.0%	80.6%
Other or multiple races				
Difficulty Paying all Bills	39.2%	89.3%	21.5%	84.9%
Likely Facing Eviction	81.2%	84.1%	50.7%	81.4%
Likely Facing Foreclosure	55.3%	78.2%	37.0%	17.6%
White, alone				
Difficulty Paying all Bills	23.4%	87.7%	12.6%	79.2%
Likely Facing Eviction	71.0%	91.7%	49.4%	82.9%
Likely Facing Foreclosure	50.9%	76.8%	42.2%	60.0%

Notes: Authors' calculations based on Census (2021). Likely eviction or foreclosure includes all households that indicated that eviction or foreclosure was somewhat, very or extremely likely. Data cover period from August through December 2020. Sample includes only households from 55 to 69 years old.

The data on family debt so far highlight two key points. First, this debt is a key transmission mechanism of intergenerational wealth inequality by race and ethnicity, supporting other findings that financial interactions within kinship networks contribute to racial wealth inequality (Chiteji and Hamilton, 2002; Houle and Addo, 2018). Second, even a large share of older households, mainly near-retirees, rely on family and friends to pay their bills. Because these households almost by definition face a multitude of financial hardships, it is unlikely that they will be able to repay those loans to family and friends. That is, these payments are likely a cost to the lenders (family members), especially when the borrowers are older.

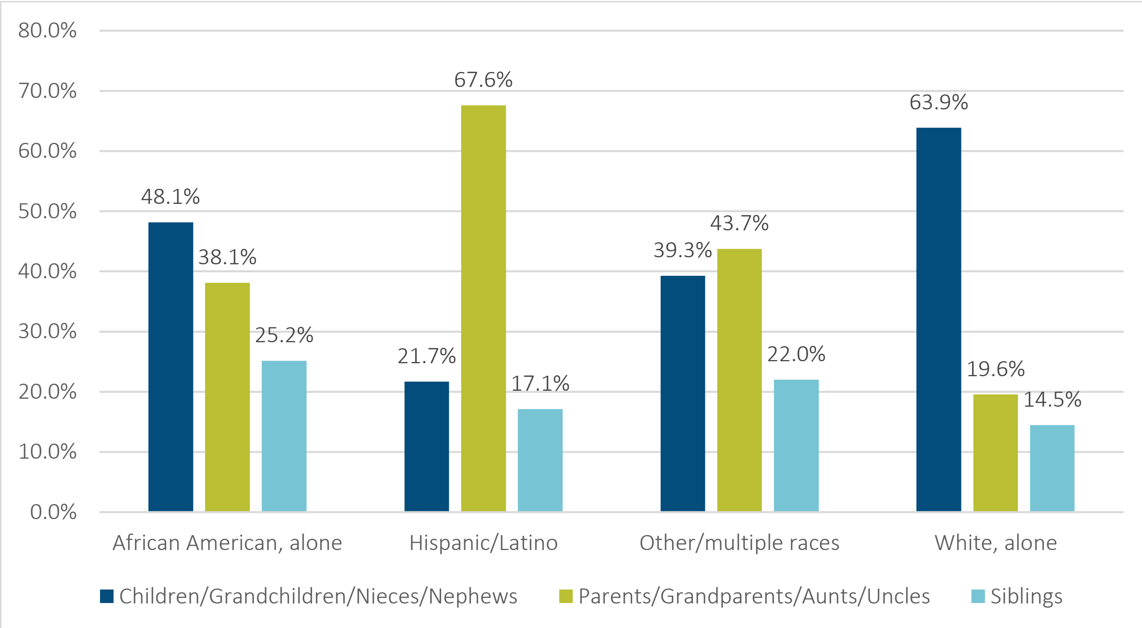
Financial Support to Family and Friends More Widespread Among People of Color

Other household financial data show that people of color, mainly in their prime earning years, are more likely to support other family members, even outside of recessions. The Federal Reserve's Survey of Consumer Finances (SCF) asks people whether they provide financial support to family members and friends, other than through alimony and child support payments. This concept of financial support most closely matches the family debt in the Household Pulse Survey since it does not include loans taken out on behalf of or cosigned with family members. This financial support thus goes mainly to cover current expenses. These payments immediately increase the costs to the lenders, make it more difficult to save, and reduce their retirement income security.

People of color are more likely to provide financial support to family and friends than is the case for White households. Data from the SCF show that, from 2010 to 2019, 16.3% of African American households, 14.1% of Hispanic/Latino households and 17.5% of households of other or multiple races and ethnicities financially supported family and friends. In comparison, only 13.1% of White households financially support family and friends. Broken down by age, the share of African American families providing financial support is highest with 21.4% among those from 45 to 54 years old. No age group of White households has a share this high. Moreover, on average, people of color supported a larger number of other families than Whites did. For instance, African American families on average supported 1.45 other families, while White households supported 1.17 other families – a relative difference of 29.5%. In the same vein, the financial support from African Americans and from those households of other and multiple races and ethnicities was more spread out among different generations, while support from White households mainly went to children and grandchildren (Figure 3). Also, people of color's financial support of their family members takes a bigger bite out of their assets. At the median, the amount of financial support relative to a household's financial assets such as checking accounts and retirement savings, was 14.0% for African Americans, 40.0% for Hispanic/Latino households and 7.0% for households of other or multiple races and ethnicities, but only 5.0% for White households. These data underscore the greater financial interdependence among families of color, who typically have less wealth than their White counterparts.

Figure 3

FINANCIAL SUPPORT RECIPIENTS BY RACE AND ETHNICITY – 2010 - 2019



Notes: Authors' calculations based on Fed (2020)

Conclusion

Families in different households often have to rely on each other for financial assistance when money is tight. This is especially true for African American and Hispanic/Latino families. They have less wealth and thus need to rely more on each other for help. This was reflected to a great degree during the pandemic, but also holds during quieter economic times. The financial burden of sharing between families, often across multiple generations, makes it harder for families to save for a secure retirement. That is, low wealth contributes to low wealth as well as a wider racial wealth gap and retirement income gap.

Dania V. Francis is with the University of Massachusetts, Boston. She can be reached at dania.francis@umb.edu.

Christian E. Weller is with the University of Massachusetts, Boston. He can be reached at christian.weller@umb.edu.

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