

Inequalities in Retirement Security: Unique Challenges for African American Households

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The prospect of planning for retirement is a daunting one for many Americans. A nearly universal shift to defined contribution structures in favor of defined benefits, decreasing personal savings rates, and a potential weakening of the Social Security programs all place an increasing burden on individuals to engage in retirement planning. The challenges faced in preparing for a secure and timely retirement impact many households, but African Americans face unique challenges. Financial planners and policymakers need to understand the risks of financial insecurity among African American households as they approach retirement. Among the most important factors include that African Americans have historically lacked access to retirement plans, face more employment instability and are more reliant on the Social Security system. Financial planning can play a role in narrowing racial retirement wealth gaps, but even controlling for income African Americans are less likely to work with a professional advisor.

Traditional retirement planning considers three core components: Social Security income, employer-based retirement plans, and personal savings. Roughly 50% of households 65 or older rely on Social Security benefits for at least 50% of their income in retirement (Dushi et al., 2017). This percentage is notably higher for Black households at 57%. Even more concerning, over 33% of Black households rely on Social Security benefits for at least 90% of their income, compared to 24% of white households. The 2020 Annual Report of the Board of Trustees of the Social Security trust funds estimates that Social Security benefits will only pay 76 cents on the dollar in 2034 if no changes are made to the structure of the system (note these estimates were made before the COVID-19 pandemic and may be revised negatively). Given the relative importance of Social Security benefits for retirees, these decreases would have a disproportionate impact on African American families.

Another critical issue for African American households is retirement plan availability. The Federal Reserve Board reported that only about 41% of Black households between the ages of 32-61 had savings in a retirement account in the 2016 Survey of Consumer Finances (Bricker, 2017). Whereas this percentage is higher than that of comparable Hispanic families in the United States, it is far below the nearly 70% of white households that indicated some retirement savings. Further, among households that do have retirement savings, median savings for white households are nearly four times that of Black households. Similar inequalities are noted for overall wealth by race, with Black households holding about one-tenth the wealth of white households, on average (Bricker, 2017). These data demonstrate the stark reality that many African American families are not well positioned for retirement and are at a higher risk of having a lower standard of living in their later years. In fact, the Boston College Retirement Risk Index shows that in 2016, 48% of white families were at risk of having a lower standard of living in retirement, compared to 54% of Black families (Munnell, 2018).

Evidence suggests that it is not simply a matter of African American households opting out of retirement plans from their employers. Only 47% of African Americans had access to a structured retirement plan at their employer, compared to 57% of white households based on data from the Financial Industry Regulatory Authority (FINRA, 2016). African Americans also face greater employment instability, as evidenced in the 2020 recession and COVID-19 pandemic layoffs. Whereas unemployment rose across the board during the first few months of 2020, white men faced the lowest overall unemployment rate in May of 2020 at about 11%, an increase of 8 points from 3 months prior (BLS, 2020). The unemployment rate for Black men rose from 5% in February of 2020 to over 15% in May. The increase in unemployment was even higher among Black women during the same time frame. Simply put, the types of jobs and employers that African Americans typically work in do not offer the same level of financial security.

The above issues are only exacerbated by gaps in financial literacy. Financial literacy is a global issue, but African Americans appear to significantly lag whites in this area. About 43% of white households are labeled highly financially literate based on widely used survey questions, compared to only 20% of African Americans surveyed (Deweese and Mottola, 2017). Meanwhile the current landscape of financial advising and supports do not serve all Americans equally. The general idea is that the many households lacking information could turn to financial advisors. According to our tabulations of the 2016 Survey of Consumer Finances, only 23% of Black respondents have worked with a professional financial planner related to savings or retirement. Among Black households earning more than \$100,000, as many as 39% report working with a planner. However, 49% of higher-income white households use a planner—10 percentage points higher.

In part, this gap in the use of financial planners by race even among more affluent households is likely due to the structure of the field. While there have been positive trends in the financial services industry, like growth in the number of women and minorities choosing to work in advisory roles, the industry remains dominated by planners who are older, white, and male. Out of the over 87,000 Certified Financial Planners® (CFPs), 77% are male and about 47% are over the age of 50 (CFP Board, 2020). It is notable that the current demographics reported by the CFP Board do not even include race or ethnicity. However, survey work from 2018 indicated that about 1,200 of the over 80,000 CFPs were Black (Eisenberg, 2018). Numbers were similar for Latino advisors. More troubling, 58% of prospective planners who were Black or Latino indicated that they have never seriously considered working as financial planners (Eisenberg, 2018). Greater racial diversity in the field might help more families feel comfortable working with a financial planner and might generate greater trust and shared understanding between clients and advisors. But this requires work from the ground up, beginning with financial education in middle school and high school. It also requires thinking hard about compensation models and how net worth or investable asset minimums might discourage many minority clients considering the statistics on wealth and savings gaps. Indeed, personal financial planning programs can do more to recruit and train students of color in CFP programs, as well as financial services more broadly.

The gap in financial security between African Americans and whites is stark. In 2016, the average Black household held about one-tenth the wealth of the average white household (Bricker, 2017). These patterns are the result of a long history of inequities in education, job opportunities, housing and access to high quality financial products and services. The prospect of a secure retirement is possible, however, including for African Americans. Expanding employer-based retirement savings options is one important step. Some states are experimenting with support for IRA options for workers who lack an employer-sponsored plan, further closing that gap. Meanwhile, there have been several proposals for shoring up Social Security, from changing the payroll tax, to indexing claiming ages, to recalibrating cost of living calculations. Policymakers need to recognize the importance of stabilizing Social Security benefits for many older Americans, including people of color. Finally, the financial planning profession can explore ways to make its services more accessible by not only reducing the gap in using a planner among higher-income families, but also expanding access to middle and lower income families as well. This will require real adjustments at all levels, but it is necessary if diversity is a real goal of planners and firms. The planning field itself must become more diverse, so that future generations of planners look more like the nation at large.

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