

African American Retirement Insecurity

By Elvis Guzman and Madhulika Vulimiri

African American retirees have significantly less wealth and lower incomes than White retirees. Eighty-three percent of African American seniors lack the retirement assets they need to last the remainder of their lifetimes.¹ Additionally, more than two-thirds of African Americans are liquid-asset poor, meaning that their combined assets alone are not enough to make ends meet.² These

disparities stem from a legacy of social, economic, political, and labor market discrimination, which sustains a long-standing cycle of poverty within communities of color.

Policymakers and key stakeholders must work together to craft and support policies that will ensure African Americans are economically secure and have the tools they need to adequately prepare for retirement.



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- Eighty-three percent of African American seniors lack the retirement assets they need to last the remainder of their lifetimes.
- African Americans age 62-70 have a median net worth of \$46,200 as compared to \$331,700 for whites.
- Forty-six percent of African American seniors rely on Social Security for at least 90 percent of their income, compared to 35 percent of Whites.
- African Americans have fewer opportunities to build assets over time and often lack the savings or pensions to ensure financial security after retirement.

Wealth Inequality

Racial wealth inequality extends across income groups and impedes the ability to save or invest for the future. Wealth, what you own minus what you owe, is a fundamental building block for economic security. Yet, a startling 38 percent of African American households do not have financial assets, such as bank accounts, stocks, bonds, and retirement accounts.³ For example, African Americans have a median

net worth that is six percent of Whites' median net worth (\$7,113 vs. \$111,740, respectively).⁴ When it comes to those who were age 62-70 in 2013, African Americans had a median net worth of \$46,200 compared to \$331,700 for Whites.⁵

Persistent low wealth in communities of color stems from historical and contemporary policies and practices that result

in disproportionately lower levels of employment, lower paying jobs, lower educational attainment, and lower ownership of assets such as homes or businesses. As a result, African Americans have fewer opportunities to build assets over time and often lack the savings to ensure financial security in retirement.

Homeownership

Owning a home is a crucial component of a family's ability to remain economically secure during retirement. Yet, in 2011, only 42 percent of African Americans owned a home, compared to 68 percent of Whites. Further, African American

homeowners are 86 percent more likely than Whites to have an underwater mortgage (a home purchase loan that has a higher balance than the free market value of the home).⁶ The low homeownership rate among African Americans—

caused by residential segregation, historical difficulties in accessing credit, and discriminatory mortgage lending practices—is the largest driver of racial wealth inequality.⁷

Inheritances and Generational Support

African American parents are less likely to have assets to pass down to their children, African American parents are less likely to have assets to pass down to their children, reinforcing a pattern in which inheritance remains largely absent in the African American community. Not only do White children receive about 10 times more in inheritance than their African American counterparts, but inheritances

passed down within White families more readily turn into wealth than do those received by African American children.⁸ Low levels of inheritance mean that African American families cannot offer their children the same financial footing White families do.

While inheritance is uncommon, African Americans do depend upon family networks for financial

support and advice.⁹ Living with younger generations can help ease financial difficulties for African American retirees. However, relying on children and grandchildren for retirement security has the potential effect of discouraging working adults from saving for their own retirement and hindering the younger generations' ability to save.

Labor Market

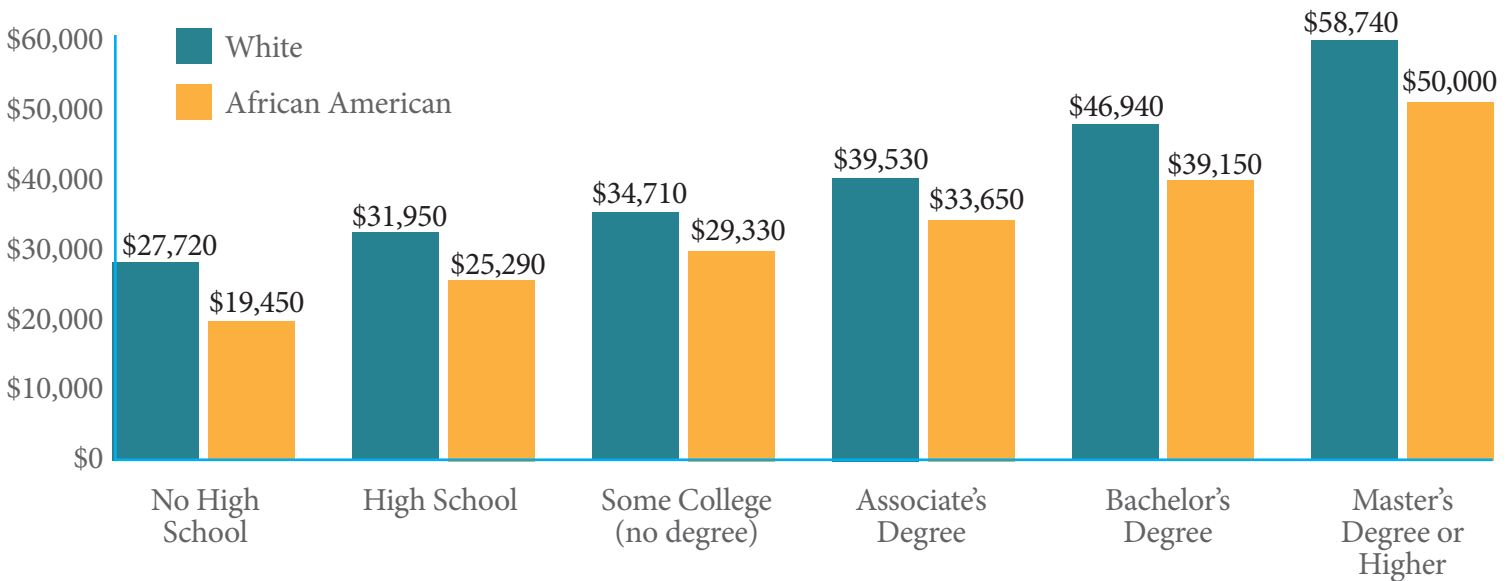
African American employment patterns, characterized by a legacy of racial discrimination within the job market, have resulted in lower lifetime earnings for families of color. Unemployment remains a critical problem, with a rate twice as high for African American workers than for their White counterparts.¹⁰ Those who do work often earn less than similarly situated whites, which contributes directly to diminished

accumulation of wealth over a lifetime. As a result, in 2013, the median annual income for African Americans was \$34,598, compared to \$58,270 for Whites.¹¹

Income is expected to reflect a person's level of education, but for every level of educational attainment, African Americans earn less than their White counterparts. An African American high school

graduate with no college education has median annual earnings of \$25,290, compared to \$31,950 for a White worker with similar characteristics. African Americans with a bachelor's degree earn \$39,150, on average, while White workers with a bachelor's degree earn almost 20 percent more—an average of \$46,940.¹²

FIGURE 1: Median Annual Earnings by Race and Educational Level



Source: National Center for Education Statistics, (2011). Table 439

Lower Retirement Savings Rates

Only 54.3 percent of African American workers have employers who offer a retirement plan. Moreover, of the African Americans with access to an employer-sponsored retirement plan, only 81 percent participate. While those with access often express optimism about relying on a workplace retirement plan to meet their financial goals, their low contributions result in below-

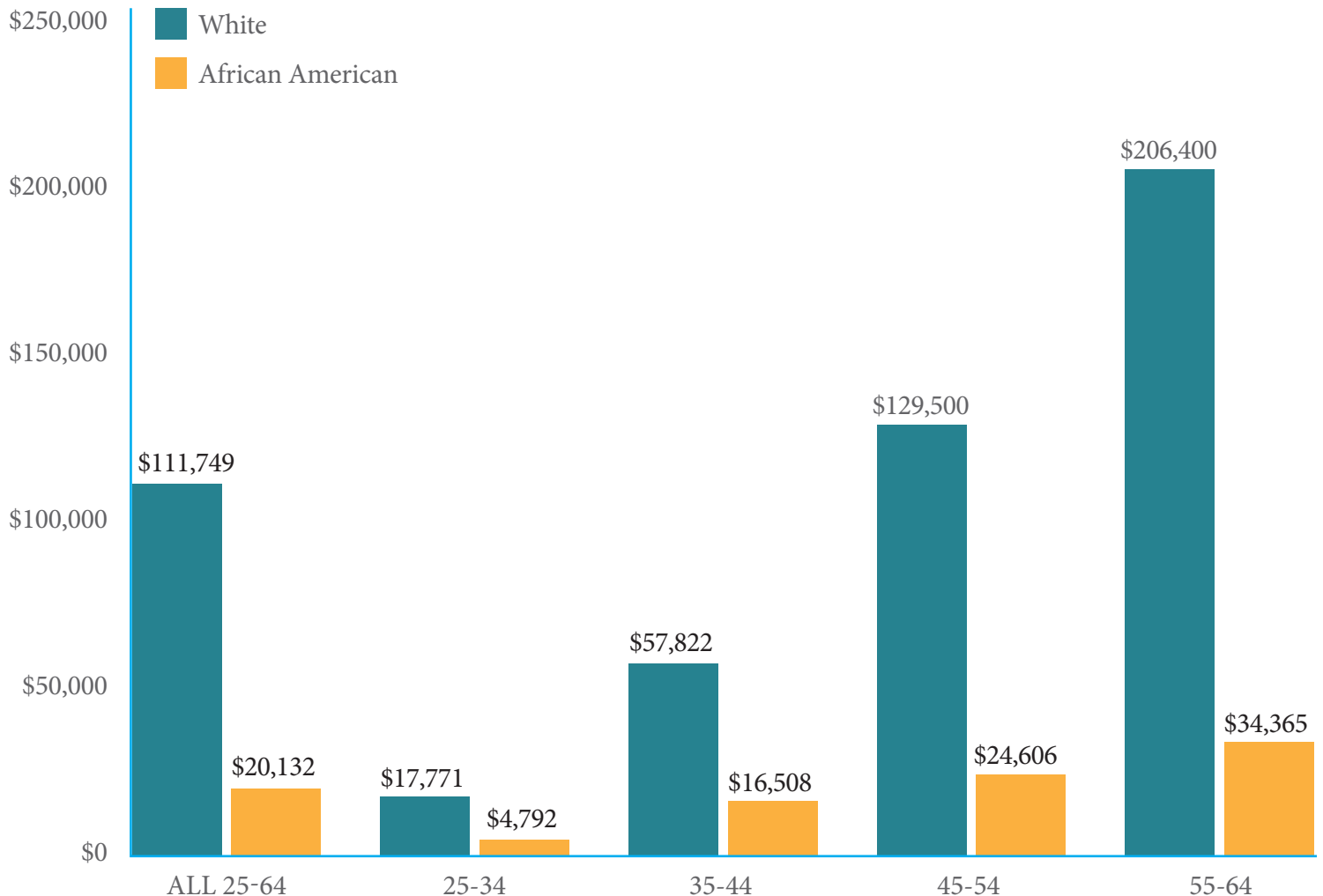
average retirement savings: Nearly three-quarters (74.4 percent) of African Americans have less than \$10,000 in retirement savings, compared to only 48.6 percent of White households.¹³

These figures are not surprising since African Americans are more likely to earn less in wages and are less able to save for retirement. Additionally, they are more likely to provide financial support to individuals outside their immediate family, including distant family members and close friends, leading

to lower potential savings for retirement.¹⁴

White households with adults between the ages of 25 and 64 have an average of 5.5 times more in retirement savings than similar African American households (\$111,749 compared to \$20,132, respectively).¹⁵ In addition, a majority of African American households—62 percent—lack retirement account savings, compared with only 37 percent of White households.¹⁶

FIGURE 2: Mean Retirement Savings of Working-Age Households, by Race and Age, 2010



Source: Rhee, N. (December 2013). Race and Retirement Insecurity in the United States

Health Insurance

Fewer African Americans have employer-sponsored health insurance than White workers, 43.3 percent compared to 64.2 percent, respectively.¹⁷ This disparity in coverage is mainly due to African Americans being more likely to work in sectors such as service and retail, which do not provide access to health insurance. For example, almost 80 percent of workers in blue-collar jobs are uninsured.¹⁸

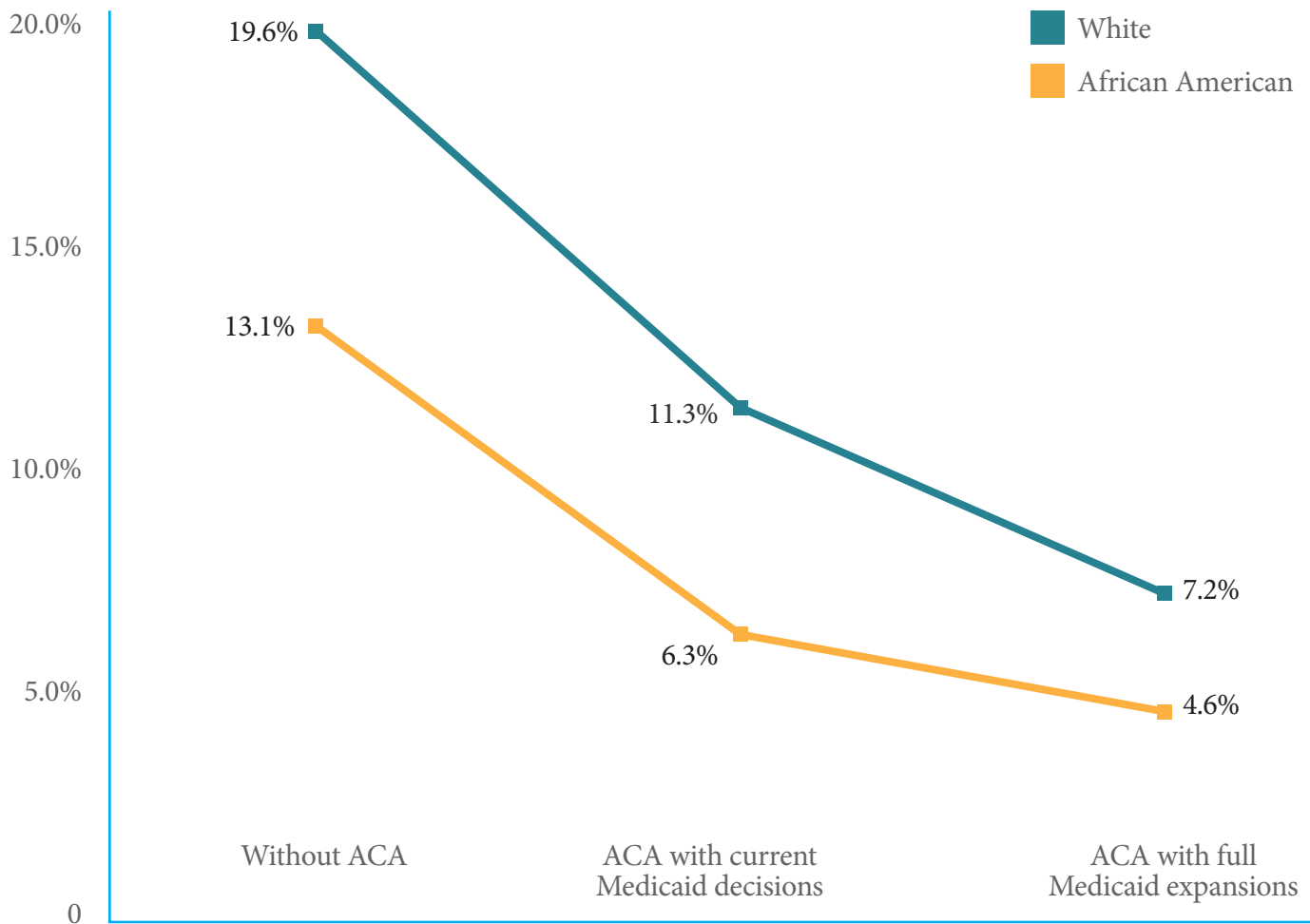
Many African Americans do not qualify for Medicaid because

their income is above the federal poverty level, which is \$24,250 for a family of four in 2015.¹⁹ As a result, African Americans are more likely to be uninsured than Whites, although the gap has decreased since the implementation of the Affordable Care Act (ACA). The African American uninsurance rate decreased from 24.7 percent in 2013 to 17.6 percent in 2014, the first year of the ACA. The White uninsurance rate decreased from 14.5 percent to 11.5 percent.²⁰ While

the Affordable Care Act may have played a role in decreasing the uninsurance rate nationally, rates may vary geographically due to the U.S. Supreme Court in 2012 giving states the ability to decide whether to expand Medicaid eligibility to more low-income adults. Therefore, the percentage of low-income adults who are covered differs among states that have made different choices.²¹ (See Figure 3.)

The disparity in health insurance coverage becomes more problematic

FIGURE 3: Projected Uninsurance Rates Under ACA, by Race



Source: Urban Institute, (December 2014). Racial/Ethnic Differences in Uninsurance Rates Under the ACA: Are Differences in Uninsurance Rates Projected to Narrow?

as African Americans grow older: Between the ages of 50 to 60, African Americans are more likely than other groups to see a decline in health, but they do not yet qualify for Medicare.²² Eligibility for Medicare begins for most people at age 65. Therefore, many African Americans must tap into limited incomes and scarce savings to pay out-of-pocket costs for health care services, placing themselves at further risk of becoming financially insecure.

When health issues are severe enough, many African Americans have no choice but to turn to Social Security Disability Insurance before

they are eligible for Medicare. Medicare coverage for people under the age of 65, typically only available after two years of disability insurance, is on the rise and a disproportionate number of those enrolled are African American. Indeed, 18 percent of disabled applicants for Medicare are African American, despite them constituting only 12.6 percent of the total population.²³

Higher disability rates and shorter lifespans also have a negative impact on the lifetime earnings of African Americans. In addition to their poorer health status, African American workers have

a higher likelihood of injury due to the physical demands of their jobs.²⁴ As a result, they often have fewer years to work and build up savings prior to retirement. This situation is exacerbated by a lower life expectancy. The average life expectancy for African Americans born in 1960 was 63.6 years of age, while the average life expectancy for White Americans born that same year was 70.6 years.²⁵ This gap has been declining over the years, but it persists: In 2010, the average life expectancy was 75.1 years for African Americans, compared with 78.9 years for the White population.²⁶

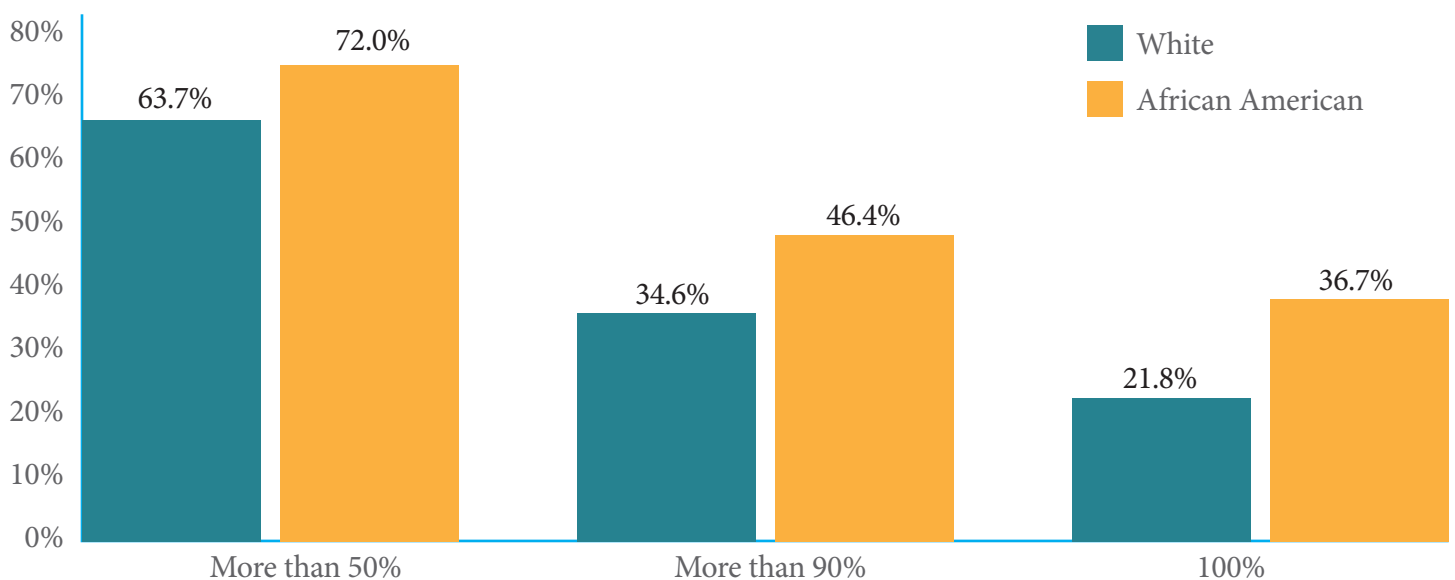
Social Security

Social Security is the bedrock of retirement security for the African American community. Forty-six percent of African American seniors ages 65 and over rely on Social Security for at least 90 percent

of their income, compared to 35 percent of whites.²⁷ Yet the average annual Social Security income for African Americans over the age of 65 is only \$14,514 for men and \$11,974 for women, compared to

\$16,814 for White men and \$ 12,950 for White women.²⁸ These figures indicate that African American retirees who rely on Social Security as a primary source of income live in or nearly in poverty.

FIGURE 4: Percentage of Social Security Beneficiaries Who Rely on Benefits for Income, by Race, 2012



Source: Social Security Administration, 2012

Conclusion

This examination of the factors that affect retirement security shows that African Americans have significantly fewer economic resources to draw on than their White counterparts.

Federal and state policymakers must address the structural inequities that reinforce this disparity throughout the life cycle, from birth to retirement. Our nation and economy

cannot afford to leave hard-working African American families behind. We must make sure that everyone can retire with dignity and peace of mind.

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