

# Differences in retirement preparedness and security by race and ethnicity

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## Introduction

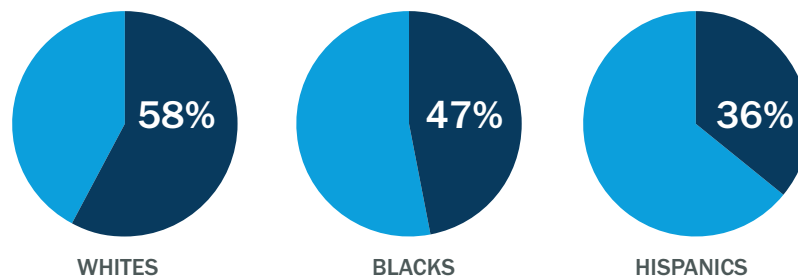
Differences in wealth and income by race and ethnicity are well established and have direct implications for retirement income security. Lower incomes mean lower monthly benefits earned under Social Security and a lower capacity to save for retirement. But because of Social Security's progressivity, lower lifetime earners need to save less than higher lifetime earners to replace a given percentage of pre-retirement income in retirement. This data brief discusses the implications of these and other factors for differences in retirement preparedness and security by race and ethnicity.

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## Access to workplace retirement savings plans

Access to a workplace retirement plan substantially affects retirement security. Outside housing, Americans hold the majority of their wealth in retirement accounts (Wolf, 2021). However, as shown in Figure 1, Blacks and Hispanics are 20% and 38% less likely than non-Hispanic Whites to be covered by a workplace retirement plan, respectively.

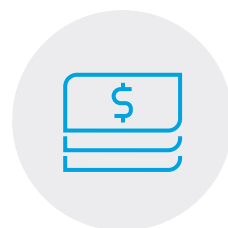
**Figure 1. Workplace retirement plan coverage by race in 2018**



Blacks and Hispanics are less likely to be covered by a workplace retirement plan than Whites

Source: Sabelhaus (2022).

**Figure 2. Percentage saving in retirement accounts by workplace retirement place coverage**



**10x**

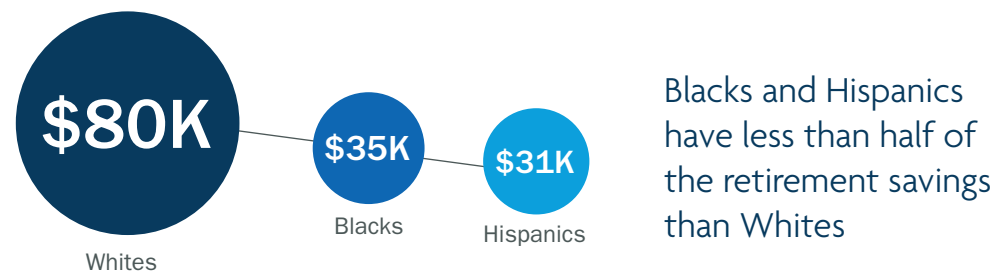
more likely to save if covered by workplace retirement plan (compared to those without coverage)

Source: Chalmers et al. (2021) and Beshears et al. (2010). Beshears et al. estimate using data for plans with automatic enrollment and no-employer match.

Workers without workplace retirement plan can save in an Individual Retirement Account (IRA). So why does workplace coverage matter for retirement savings? As Figure 2 shows, nearly everyone with access to a workplace retirement plan saves but less than 10% do when they do not. Workplace plans often have features, absent from IRAs, that benefit workers, such as automatic enrollment, default investment funds, default savings rates, automatic savings escalation and payroll deductions. Not having access to a plan with these features places a greater onus on the individual to make proactive retirement savings decisions. Financial literacy enhances one's ability to make appropriate savings and investment decisions. Blacks and Hispanics have, on average, lower levels of financial literacy relative to non-Hispanic Whites (Yakoboski et al., 2021), making it harder to navigate the retirement savings landscape in the absence of a workplace plan.

These differences in workplace coverage, in addition to differences in earnings, lead to differences in retirement accumulations. As shown in Figure 3, median accumulated retirement balances for Blacks and Hispanics is less than half of median White accumulations.

**Figure 3. Median retirement account balances by race and ethnicity**



Notes. Data are from 2019 using Survey of Consumer Finances (SCF).<sup>1</sup>

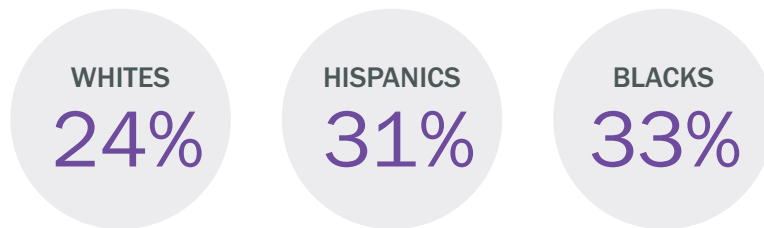
## Social Security and retirement income

Social Security is the main source of retirement income for most Americans. Figure 4 displays the percent of individuals over 65 who rely on Social Security benefits for more than 50% and more than 90% of their household income. A greater share of Hispanics and Blacks, compared to non-Hispanic Whites, rely on Social Security for at least 90% of family income; the differences are 9 and 7 percentage points, respectively. While (future) retirees expecting to rely on Social Security benefits for most of their retirement income have less exposure to investment and sequence of return risks, they have *greater* exposure to Social Security policy risk. Future levels of Social Security benefits are uncertain given that the Social Security trust fund is projected to be depleted in 2034, at which point payroll taxes will be sufficient to pay 78% of earned benefits will be payable under current regulations. Social Security regulatory changes could affect benefit amounts for current and future retirees.

<sup>1</sup> Federal Reserve Board of Governors. Survey of Consumer Finances (SCF), Retirement Accounts. [https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Retirement\\_Accounts;demographic:racecl4;population:1,2,3,4;units:median](https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Retirement_Accounts;demographic:racecl4;population:1,2,3,4;units:median).

**Figure 4. Percent who rely on Social Security for more than 90% of household retirement income**

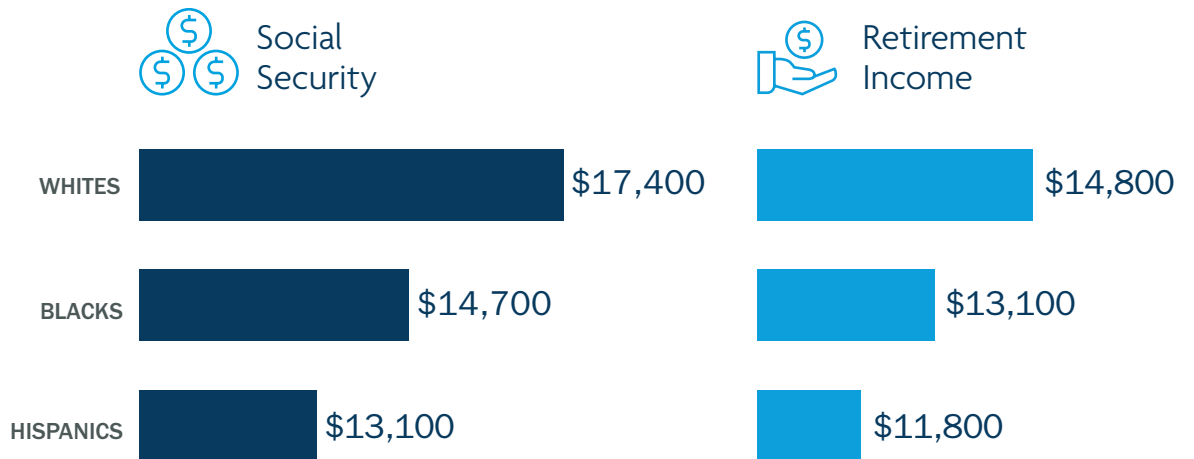
Hispanics and Blacks are more likely to rely on Social Security as their main source of household income than Whites



Source: Dushi et al. (2017).

Figure 5 displays median yearly household retirement income and Social Security benefit amounts for individuals over 65 in 2020. Median retirement income for non-Hispanic Whites exceeds that of Blacks and Hispanics by 12% and 21%, respectively. Black and Hispanic households' Social Security benefits were 16% and 25% less, respectively than that of non-Hispanic White households.

**Figure 5. Median yearly retirement income and Social Security benefits by race and ethnicity**



Source: U.S. Census (2020) Amounts rounded to nearest hundred dollar..

It should be noted that Social Security has a progressive formula, providing greater relative benefit for workers with lower lifetime incomes. So while lower income individuals have less income to save, they need less savings to achieve a target pre-retirement income replacement rate in retirement compared to their higher-income counterparts. Social Security replaces 67% of pre-retirement income for workers in the bottom 10% of lifetime income earners compared with 41% for the median lifetime income earning, and 26% for workers with lifetime earnings in the top 10% (Biggs, 2015). As a result, lower lifetime income earners workers may have higher pre-retirement income replacement rates but less retirement income compared to higher lifetime income earners.

### Social Security claiming and mortality

Social Security benefit payments can begin at age 62, but individuals can delay claiming to as late as age 70. Benefit payments are greater the later they begin. On average, Black and Hispanic retirees claim Social Security benefits earlier than non-Hispanic Whites (Webb, 2021). One likely reason for this difference in claiming is differences in the physical demands of work. For example, while 41% of Whites worked in management or professional occupations in 2019, only 32% of Blacks and 23% of Hispanics did so.<sup>2</sup>

At the same time, optimal claiming age depends on expected longevity, i.e., the number of years that benefits are received. An individual with a shorter life expectancy will maximize expected benefits received by claiming at an earlier age. At age 60, Blacks have an average remaining life expectancy of 21.4 years compared to 23.3 for Whites and 23.6 for Hispanics (Arias et al., 2020). Sanzenbacher and Ramos-Mercado (2016) find Blacks maximize Social Security lifetime benefits by claiming at age 62—the earliest claiming age—compared to age 67 for Hispanics and most non-Hispanic Whites.<sup>3</sup>

### Marital status

Two Social Security benefits are linked to marriage—survivors' benefits and retirement spousal benefits. Spousal benefits allow the spouse (or ex-spouse) to claim Social Security benefits based on their partner's earning record, receiving a maximum of 50% of what their partner would receive at their Full Retirement Age. For survivors' benefits, the widow or widower receives Social Security benefit payments equal to the amount their partner was receiving if it exceeds the benefit the widow or widower has been receiving based on their own earnings history.

These benefits are particularly important for elderly women since they are more likely than men to receive them. In 2020, women claimed nearly all new retirement survivor's (95%) and new retirement spousal benefits (85%).<sup>4</sup> Differences in marriage rates mean differences in eligibility by race and ethnicity. Among college graduates in 2016, 22% of Blacks were never married compared to 8% of non-Hispanic Whites and 9% of Hispanics (Webb, 2021). This results in disproportionately fewer Black households, and in particular Black women, being eligible for these benefits.

2 Labor force characteristics by race and ethnicity, 2019. Bureau of Labor Statistics, December 2020. <https://www.bls.gov/opub/reports/race-and-ethnicity/2019/home.htm> (accessed February 24, 2022).

3 Sanzenbacher and Ramos-Mercado (2016) examine the expected present value (EPV) of lifetime Social Security benefits.

4 Calculations from the 2021 Social Security Statistical Supplemental, Social Security Administration. <https://www.ssa.gov/policy/docs/statcomps/supplement/2021/supplement21.pdf> (accessed February 24, 2022).

## Housing and home ownership

Home equity is American's largest store of wealth. Figure 6 shows home ownership rates by race and ethnicity. Blacks and Hispanics are over 35% less likely to own their home compared non-Hispanic Whites. Non-homeowners are exposed to housing inflation risk, i.e., increasing rents, during retirement. Additionally, non-homeowners do not have access to liquidity options available through home ownership, such as a home equity loan or a reverse mortgage.

**Figure 6. Home ownership rates by race and ethnicity**



Blacks and Hispanics more vulnerable to housing inflation risks than Whites

Source: Choi et al. (2019). Data is from 2019.

## Discussion

This brief examines differences in retirement security by race and ethnicity. It documents substantial variation in access to workplace retirement plans, accumulated savings, and retirement income by race and ethnicity. This brief also discusses differences in other factors impacting retirement security, including mortality, home ownership, and family structure. Because of the progressivity of Social Security, it is important to distinguish between absolute differences in retirement income compared to retirement income replacement rates of pre-retirement earnings. Policies broadening access to workplace retirement savings plans, social insurance programs, and homeownership could aid in alleviating the gap in retirement security by race and ethnicity.

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## About the author

**Brent J. Davis** is an Economist at the TIAA Institute. His research interests include behavioral economics, behavioral finance, and household financial security. Before joining the Institute, he spent several years as a postdoctoral researcher and lecturer in the Department of Public Finance at the University of Innsbruck in Austria. Davis has taught a variety of courses and published several papers in behavioral economics. He is a member of the American Economic Association, the American Risk and Insurance Association, and the National Tax Association. He earned an M.S. and a Ph.D. in economics from Florida State University, and a B.S. in mathematics and economics from St. Lawrence University.

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