



# Racial Wealth Disparities: Thinking about Pensions, Human Capital and Inheritance

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Disclaimer: The views expressed here are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.

Thanks to Hope Bodenschatz for Research Assistance.

# Overview I

## ▶ Highlighting themes covered in recent work:

- ▶ “A New Look at Racial Disparities Using a More Comprehensive Wealth Measure” (with Volz), FRBB 2021
- ▶ “Racial Wealth Disparities: Reconsidering the Roles of Human Capital and Inheritance” (with Sabelhaus) FRBB 2022
- ▶ “The Limited Role of Intergenerational Transfers for Understanding Racial Wealth Disparities” (with Sabelhaus) FRBB 2023
- ▶ “Retirement Assets and the Wealth Gaps for Black and Hispanic Households” (with Suarez and Volz), forthcoming Wharton Pension Research Council

## Overview II

### ▶ Pension Wealth

- ▶ Why it matters for (1) measuring wealth, (2) understanding racial disparities, and (3) developing wealth-building policies

### ▶ The Dynamics of Wealth

- ▶ How wealth accumulates and decumulates over a lifetime

### ▶ Human Capital or Lifetime Earnings

- ▶ Lifetime earnings, not just educational attainment

### ▶ Decomposition

- ▶ Which are the most important factors that can account for the wealth disparities that we observe?

### ▶ Policy Implications

# 1. Why should we care about Pensions?

- ▶ Traditional “Defined Benefit” (DB) pensions are NOT included in most household wealth data (SCF, SIPP, PSID)
- ▶ DB pensions account for 15 percent of all household wealth; equivalent to combined “Defined Contribution” (DC) plan assets
- ▶ DB pensions are particularly important for Black households
- ▶ Better measurement of retirement assets (DC + DB) leads to better understanding of the wealth accumulation process
- ▶ All of these elements jointly carry potentially important policy implications

# Defined Benefit Pensions – They’re Not Dead Yet!

## Coverage

Vs.

## Assets

Pension Coverage from Respondent Current Job  
(Heads age 40-59)

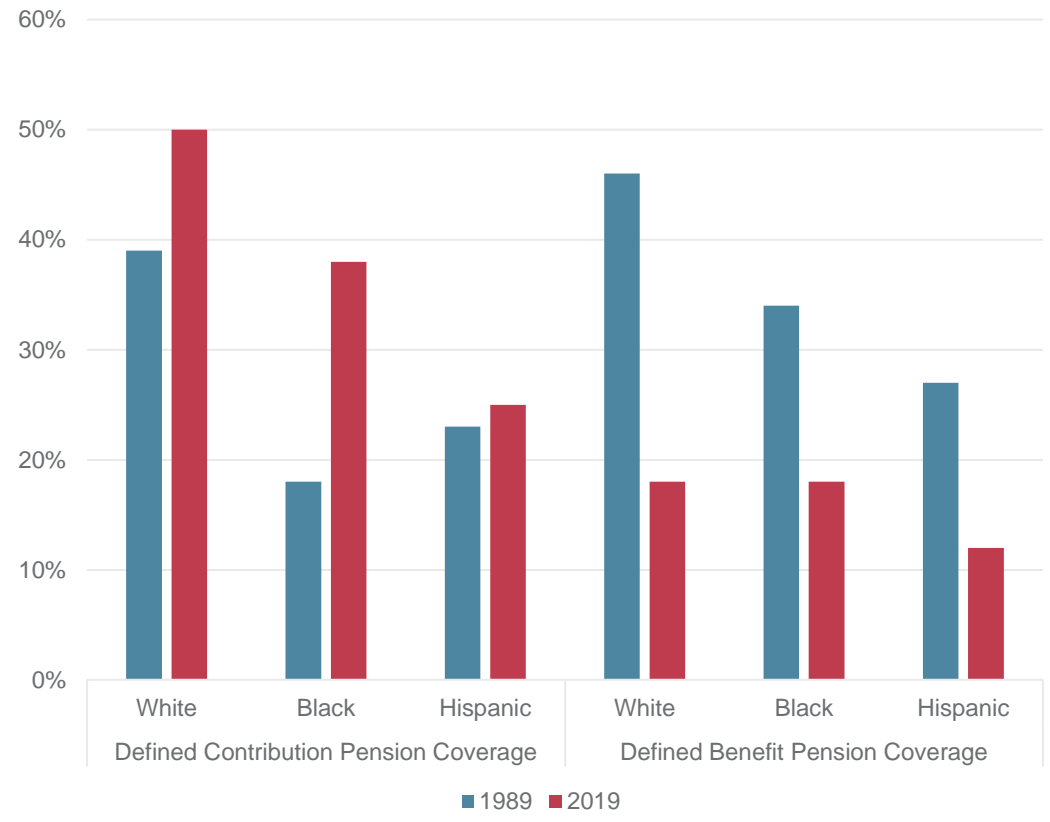
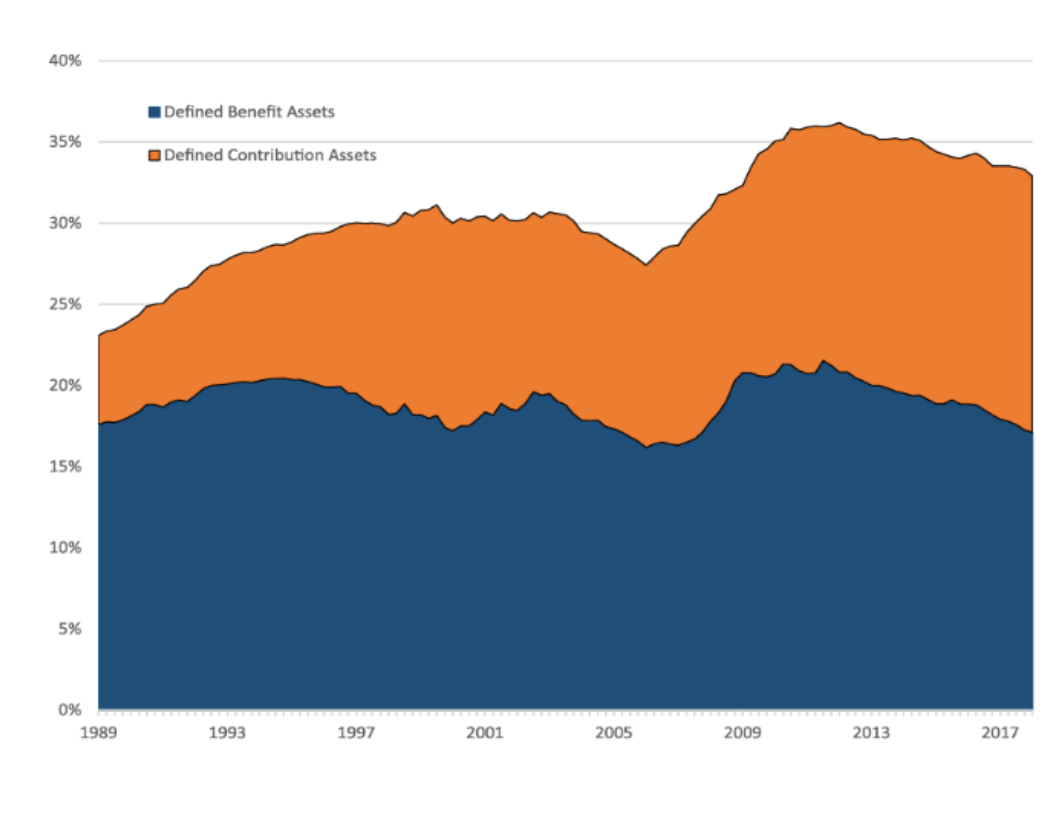


Figure 2: Fraction of household net worth accounted for by retirement assets



Note: Key identifies regions in order from bottom to top.

Source: Financial Accounts of the United States, Tables B.101 and L.117.

# Asset Composition by Wealth Percentile Group

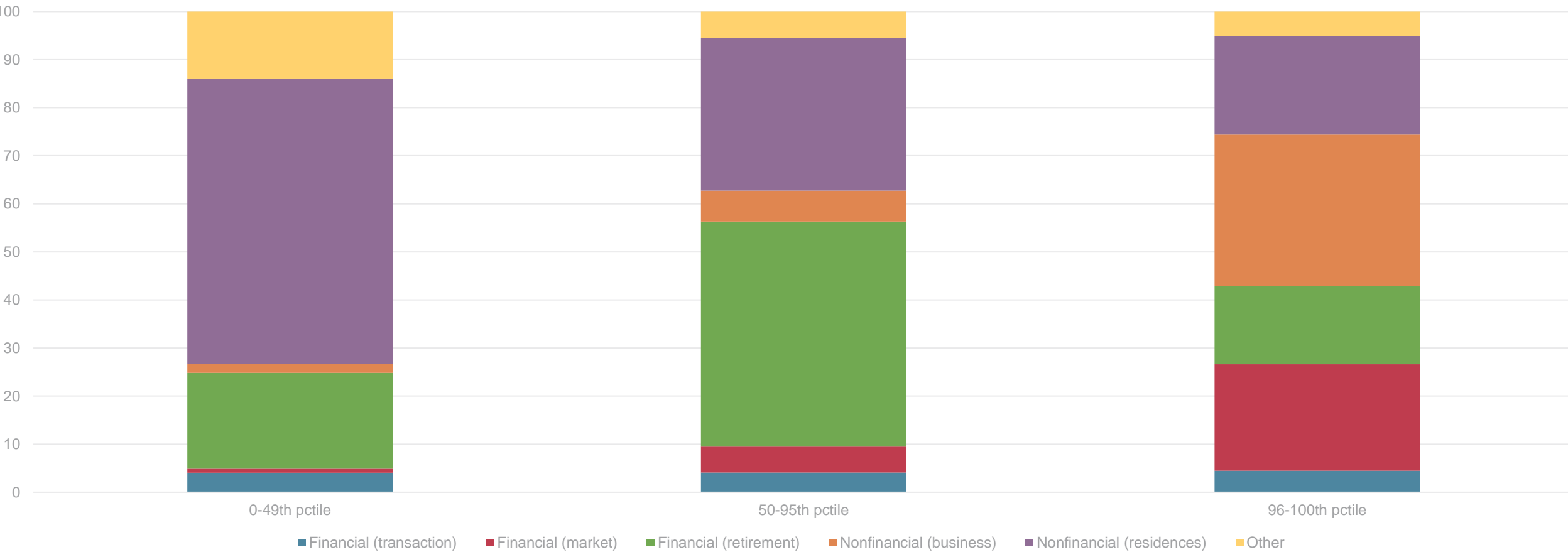


Figure 11 from Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance"

Source: Authors' analysis of Survey of Consumer Finances, 2016-2019, respondents ages 45-65

Wealth percentiles are based on 5-year age bins. P50: \$258,000; P95: \$4,800,000

# Distribution by Race

## Average

	White	Black	Hispanic
Total private wealth	1,305,664	343,064	340,157
DB pension assets	211,645	147,321	92,953
Conditional on plan coverage			
DC pension	302,672	145,952	143,743
DB pension	790,125	617,840	509,347

### Addendum

#### Composition of Private Assets (%)

Housing wealth	0.26	0.30	0.44
Non-housing/non-retirement	0.46	0.20	0.24
DC pension assets	0.13	0.15	0.11
DB pension assets	0.14	0.35	0.21

*Note:* Includes households with heads age 40 to 59, with spouse/partners (if present) aged 30 to 65.

Survey of Consumer Finances

## By Wealth Quintile: Coverage and Pension Wealth

### A. Pension Coverage by Race and Private Wealth Quintile (%)

	Defined Contribution			Defined Benefit		
	White	Black	Hispanic	White	Black	Hispanic
1	0.24	0.15	0.12	0.03	0.01	0.03
3	0.74	0.45	0.27	0.20	0.08	0.11
5	0.90	0.67	0.65	0.55	0.76	0.51

### B. Average Pension Wealth by Race and Private Wealth Quintile

	Defined Contribution			Defined Benefit		
	White	Black	Hispanic	White	Black	Hispanic
1	3,985	1,881	1,645	740	1,555	618
3	97,075	16,363	14,629	38,597	5,922	5,853
5	657,952	242,727	178,821	770,166	694,055	437,959

*Note:* Includes households with heads age 40 to 59, with spouse/partners (if present) age 30 to 65. Private wealth quintiles are race-specific. *Source:* Authors' analysis of 2019 Survey of Consumer Finances.

## Public Sector Employment by Race

**Table 1. Public Administration Employment Share (Workers aged 40 to 59) by Race and Education (2018-2019)**

	Public Admin*	Teachers**	Federal Gov't	State & Local Gov't (excluding teachers)
All Workers with a BA	18.3	11.1	4.2	2.7
Black	25.2	11.6	8.5	4.5

Source: Authors' analysis of American Community Survey

\*Public Admin is the sum of Teachers, Federal Gov't, and State & Local Gov't

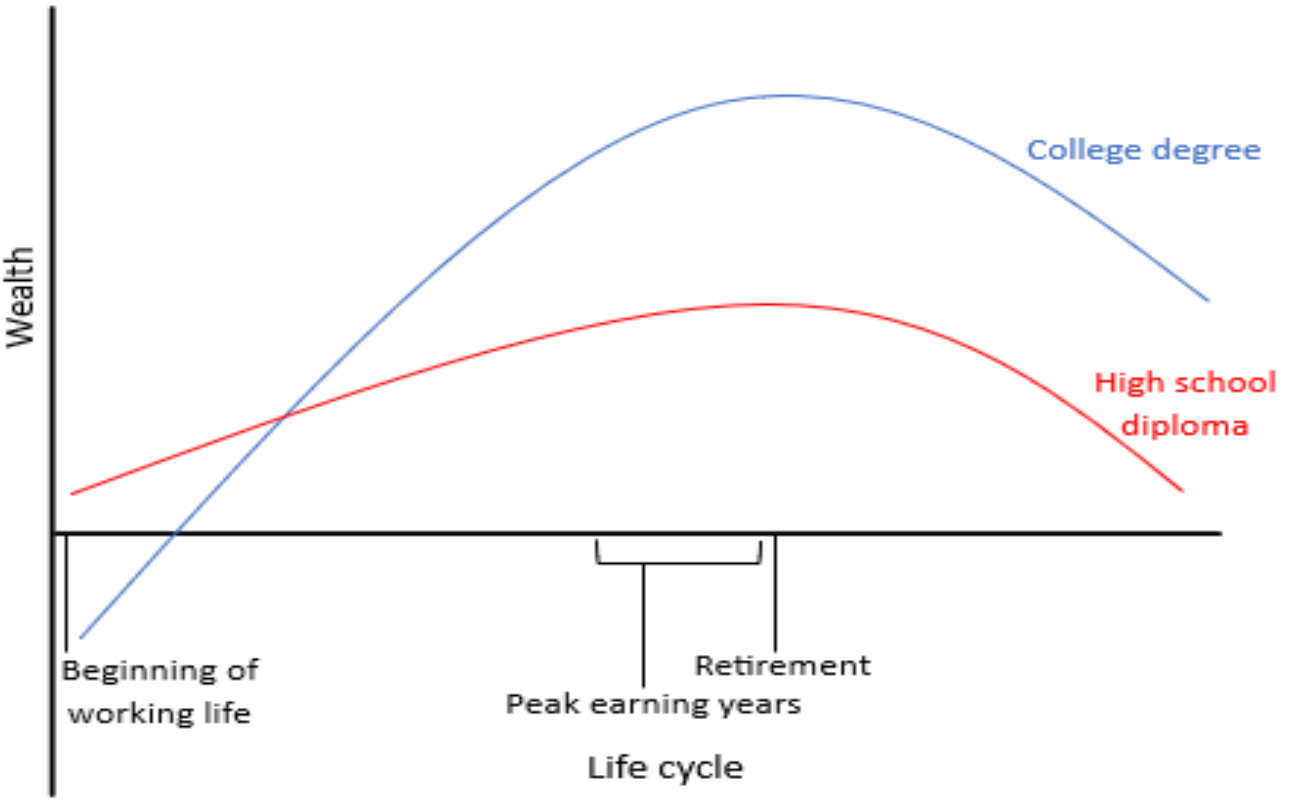
\*\*Cannot determine whether a teacher works at a public school, this represents ALL teachers



## 2. Lifecycle Wealth Dynamics

- ▶ Wealth (on average) builds across a household's working life and is drawn down in retirement
- ▶ Most wealth is consumed by the households who save/inherit it
- ▶ Relatively few households leave bequests or receive them

# Stylized Lifecycle Wealth Dynamics



# The Gradual Accumulation of Wealth - Housing

Age-Homeownership Rate Profile (2013-2019)

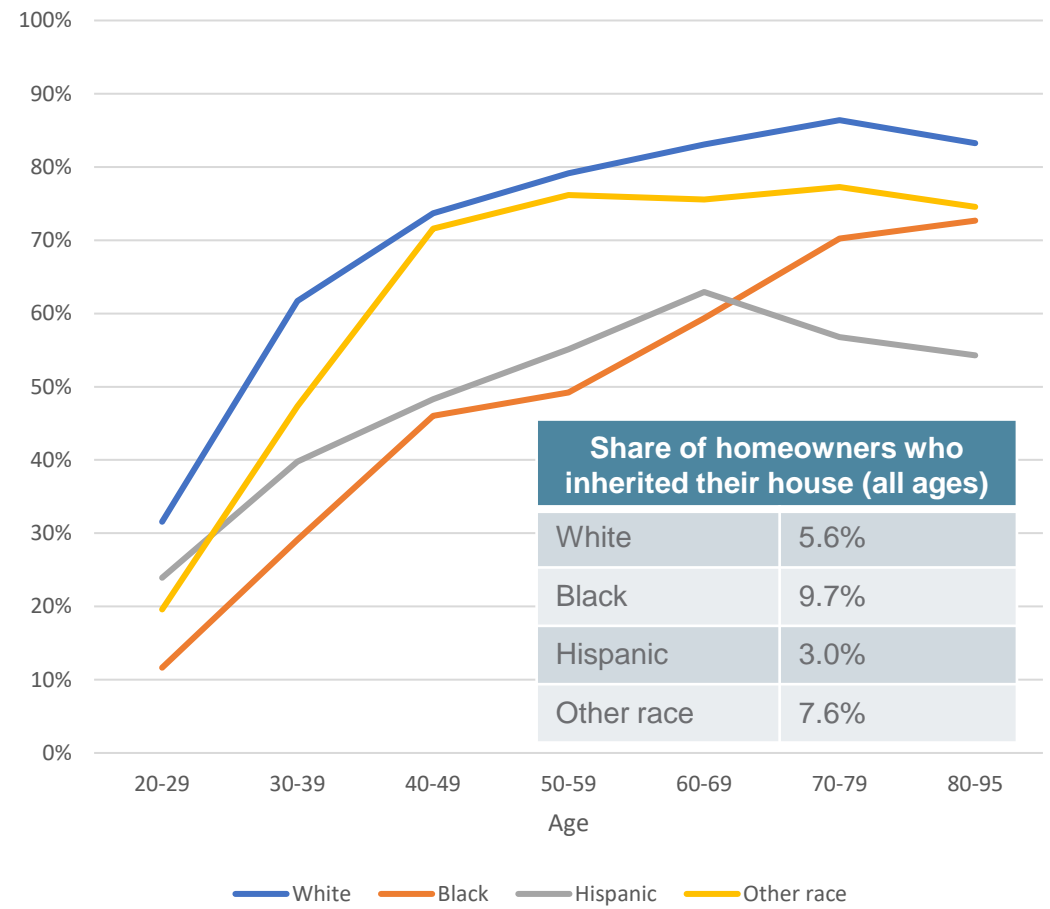
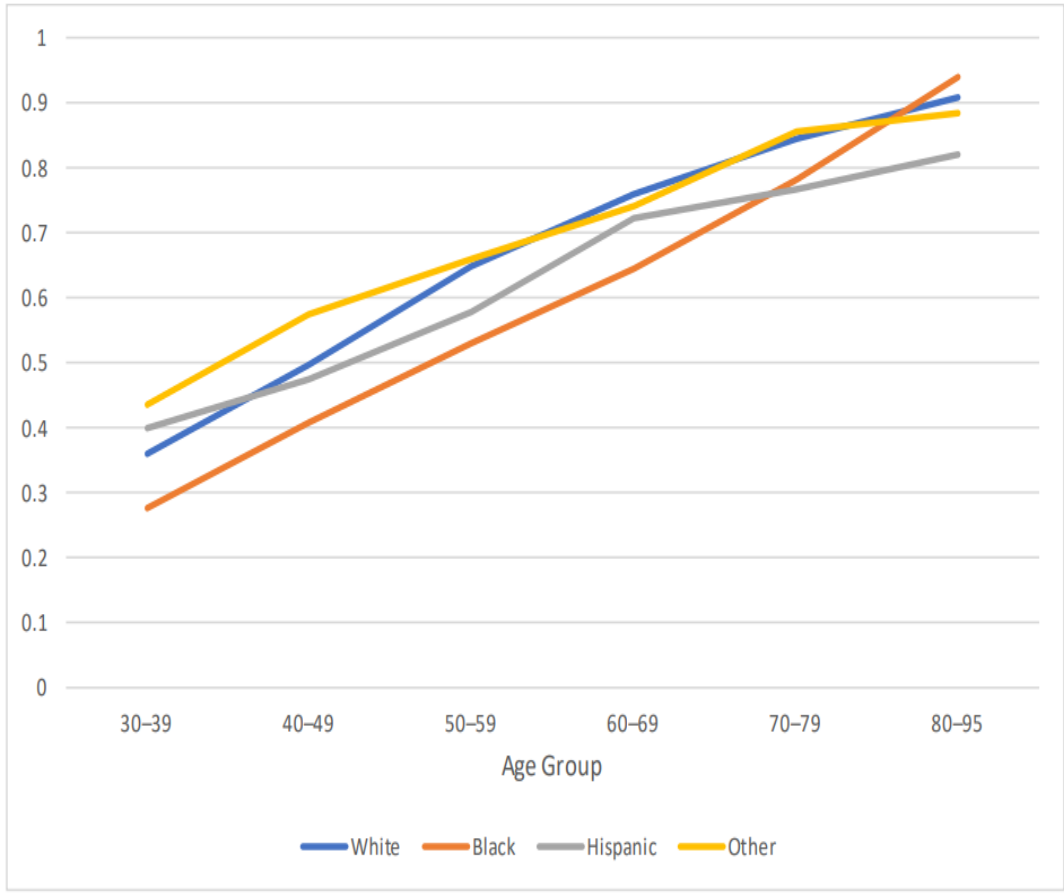


Figure 6. Home Equity-to-Value (EV) Ratio by Race and Age, Respondents Aged 30+ (2013-2019)



# Mean Value of Asset Category by Respondent Age

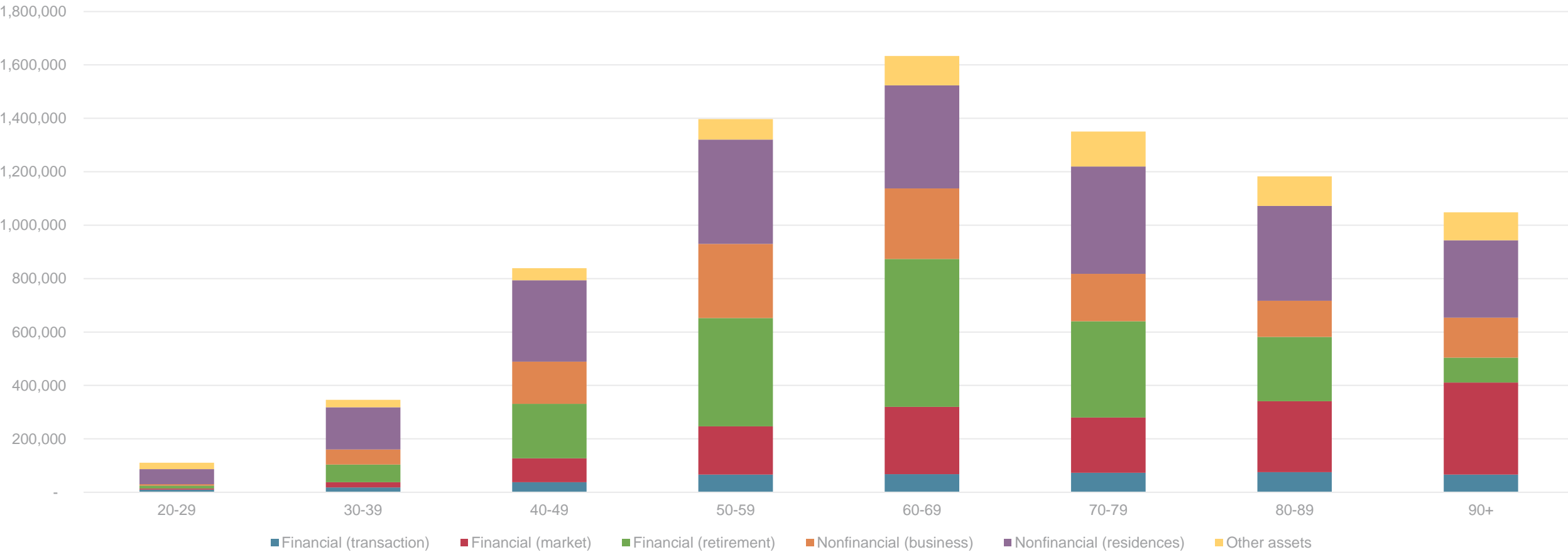
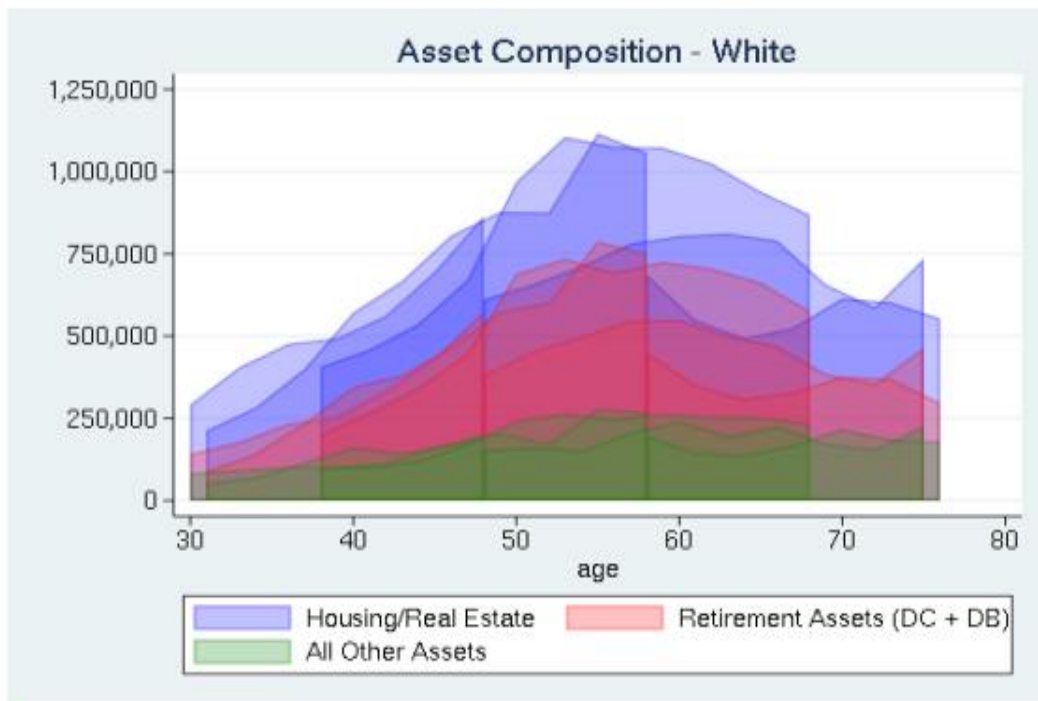


Figure 10 from Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance"

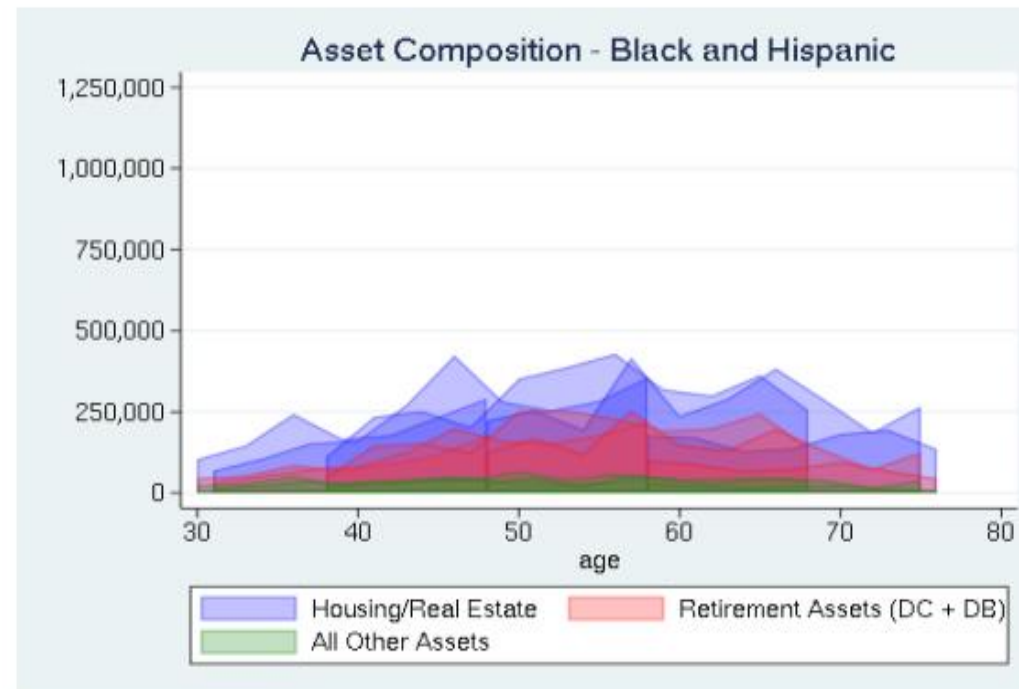
Source: Authors' analysis of Survey of Consumer Finances, 2016-2019

## Lifecycle Asset Composition – bottom 95% by Race (pseudo panels in SCF)

5a. White Families

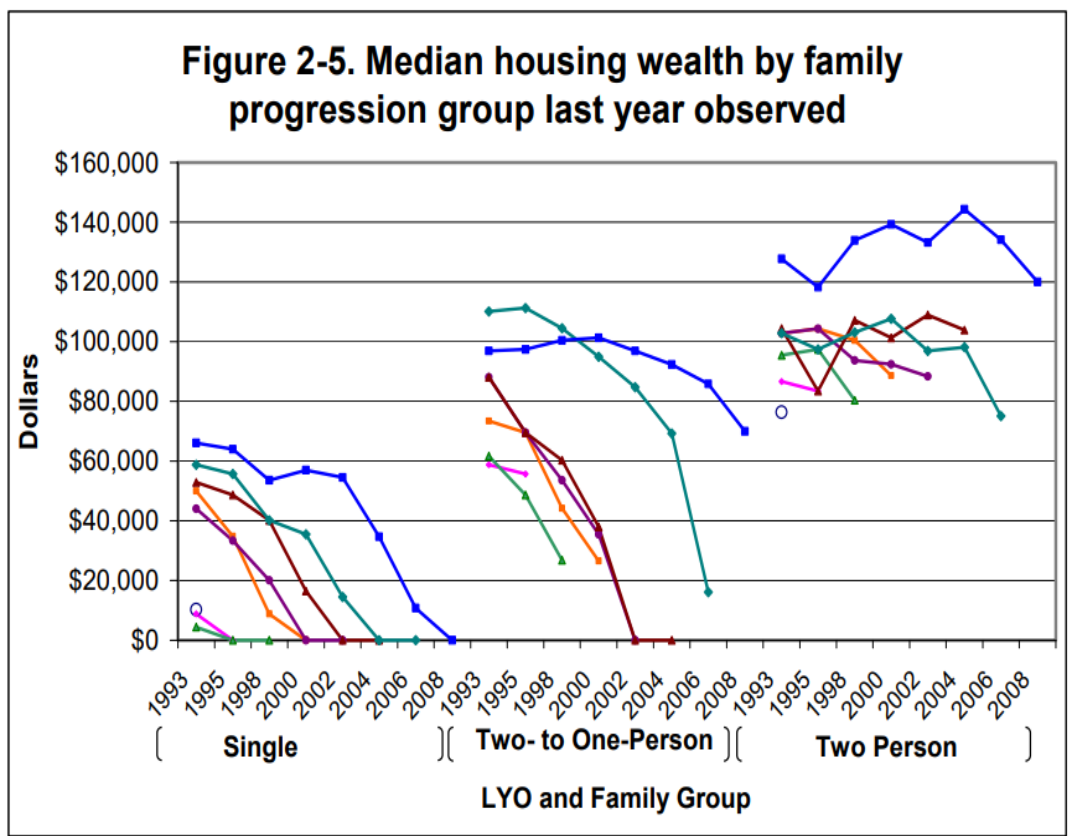
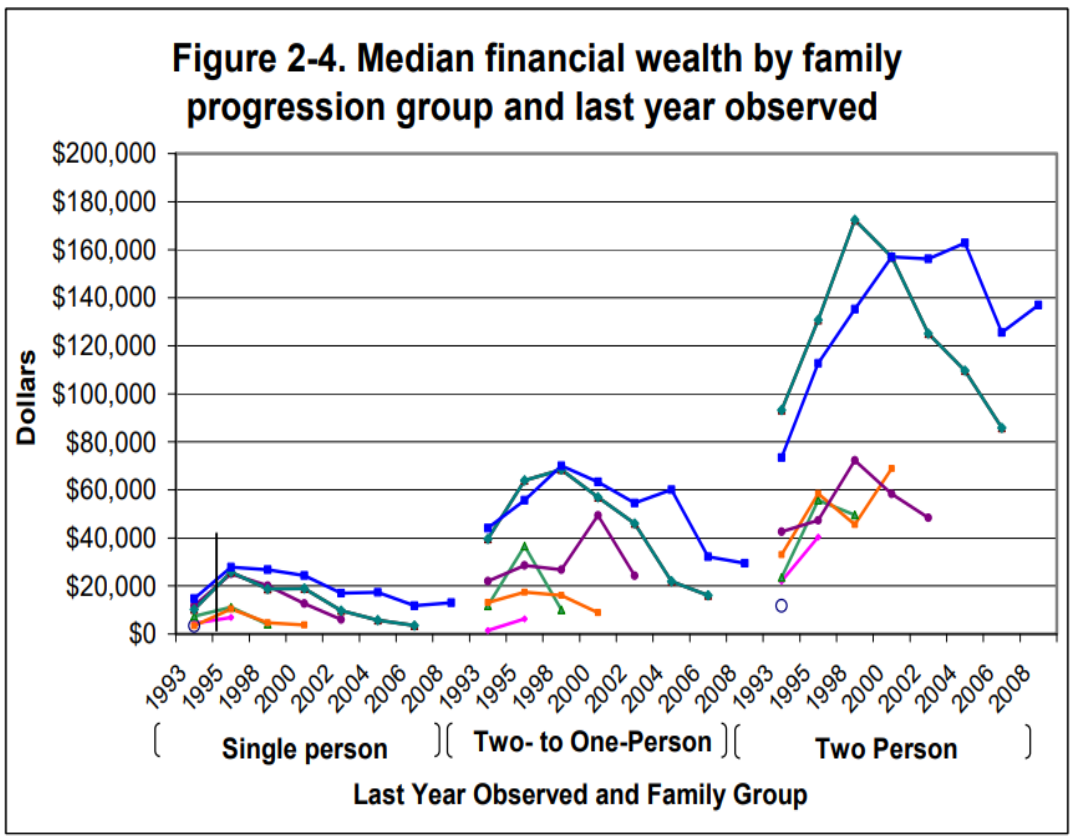


5b. Black and Hispanic (Combined) Families



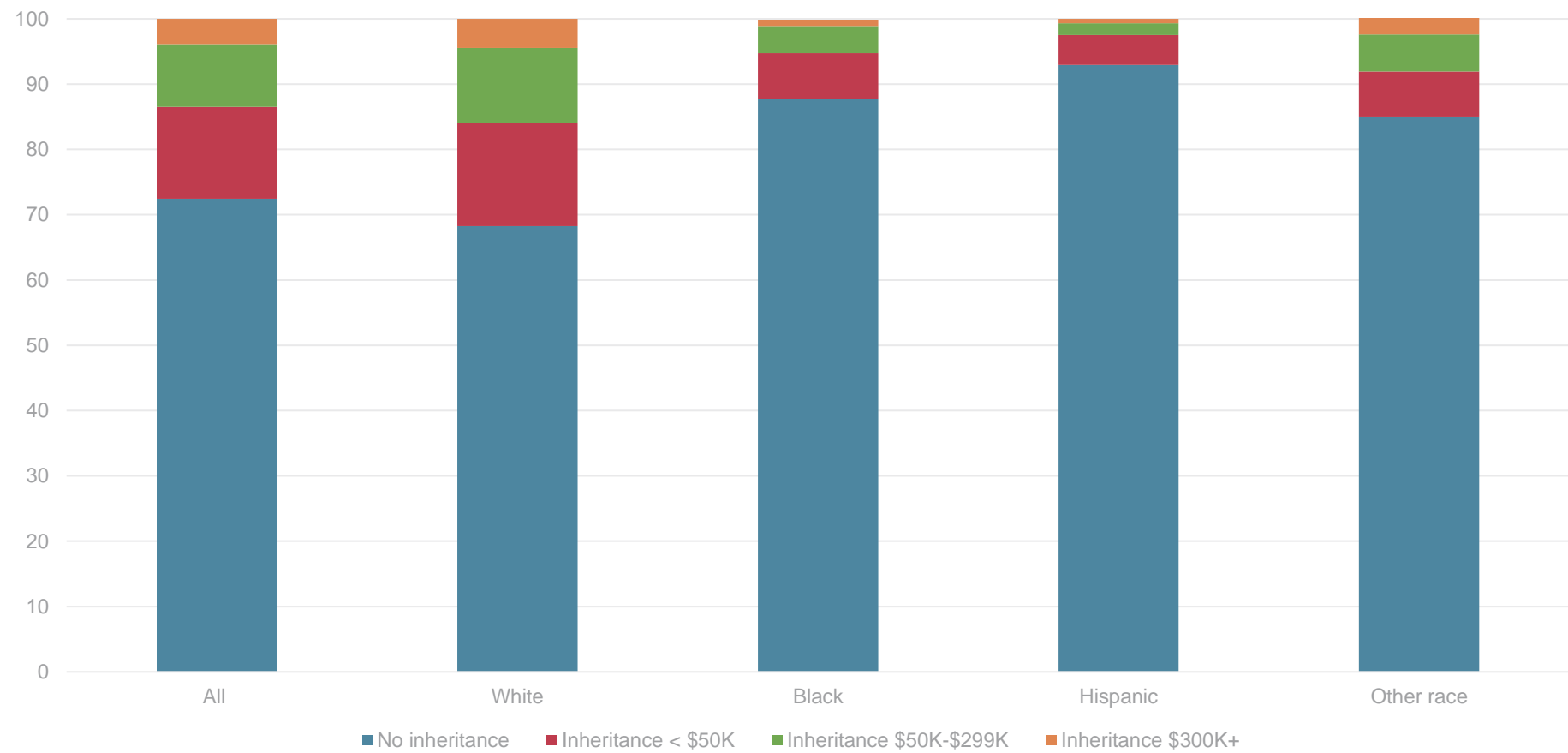
Source(s): Authors' analysis of Survey of Consumer Finances, 1989–2019.

# Wealth Dynamics of Older Households Leading up to Death (last observed)



Share with <\$10k financial assets final year: single - 57%; 2 to 1 - 46%; two person - 32%

# Size of Inheritance Ever Received by Race (Age 55+, 2001-2019)



Plan to leave “sizeable” inheritance (age 55+, 2001-19): 29%

### 3. Human Capital and Lifetime Earnings

- ▶ The set of skills and capabilities that enable workers to generate greater earnings by accessing higher wage forms of employment
- ▶ Human Capital > Employment > Wages > Lifetime Earnings > Wealth
- ▶ The path to relatively broad-based accumulation of reasonably prosperous wealth levels:
  - ▶ Sustaining high wages across a full working life with limited interruptions at an institution that includes pension compensation
    - ▶ Multiple earners amplifies wealth generation
    - ▶ Sustained higher earnings enables the acquisition, maintenance, and protection of other appreciating assets (housing)
    - ▶ Balance consumption, saving
- ▶ Before we assess the case for human capital and lifetime earnings in building wealth, a small detour...
  - ▶ Educational attainment not same thing as human capital



## Wealth and Basic Characteristics of “Typical” Families by Race

	Mean private wealth	Share married or with partner	Mean age of respondent	Mean years worked full-time (combined R and SP)	Highest Educational Attainment in Household		
					BA/BS or higher	Associate’s degree or some college	High school or GED
White	246,263	62%	55	40.5	48%	34%	15%
Black	35,024	24%	50	27.6	22%	31%	29%
Hispanic	44,299	70%	40	23.5	27%	37%	18%
"Other"	214,929	84%	46	31.6	55%	28%	16%

Table 3 from Sabelhaus and Thompson (2021), “Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance”

Source: Authors’ analysis of Survey of Consumer Finances, 2019

“Typical” indicates the mean among households in the 45-55<sup>th</sup> percentiles of the race-specific distribution of private wealth.

# Education and Wealth by Race and Household Composition, 2016/2019

## Panel A. Mean Market Wealth by Race, Education

	White	Black	White/Black Wealth Ratio
Less than HS	254,694	53,253	4.8
HS	372,840	80,190	4.6
Some college	451,989	141,243	3.2
Bachelor's degree	1,501,663	260,156	5.8
Advanced degree	2,302,466	319,574	7.2

## Panel B. Mean Market Wealth by Race, Household Structure and Highest Degree Earned (for selected education levels)

High School			
....Single	227,402	53,100	4.3
....Married (2 HS)	427,485	99,604	4.3
Bachelors			
....Single	618,762	184,608	3.4
....Married (2 BA)	2,226,842	570,094	3.9

## Panel C. Mean Private Wealth by Race, Household Structure and Highest Degree Earned (for selected education levels)

High School			
....Single	274,498	122,611	2.2
....Married (2 HS)	545,036	212,878	2.6
Bachelors			
....Single	744,499	277,731	2.7
....Married (2 BA)	2,445,142	800,910	3.1

## Earnings growth by major field of study among employed BA holders

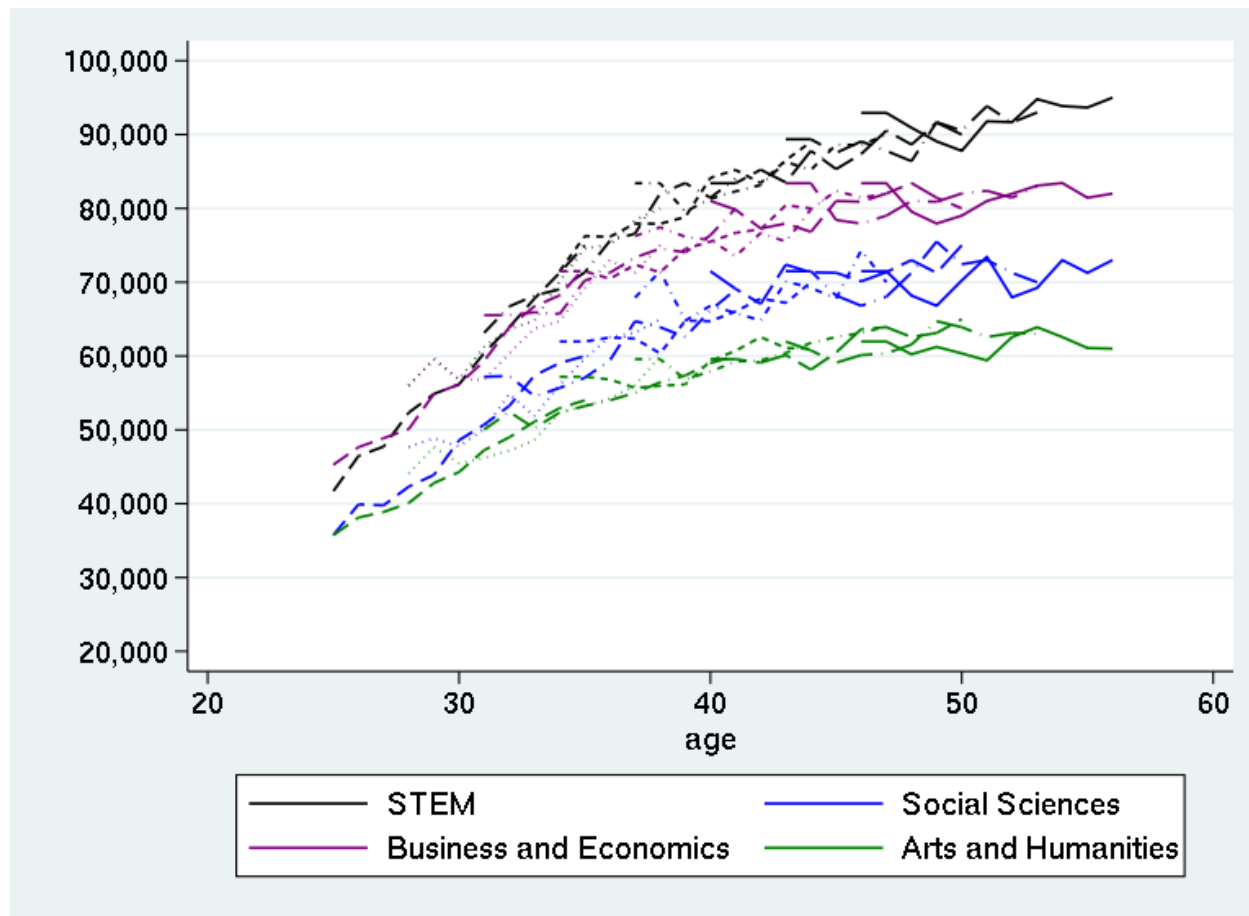


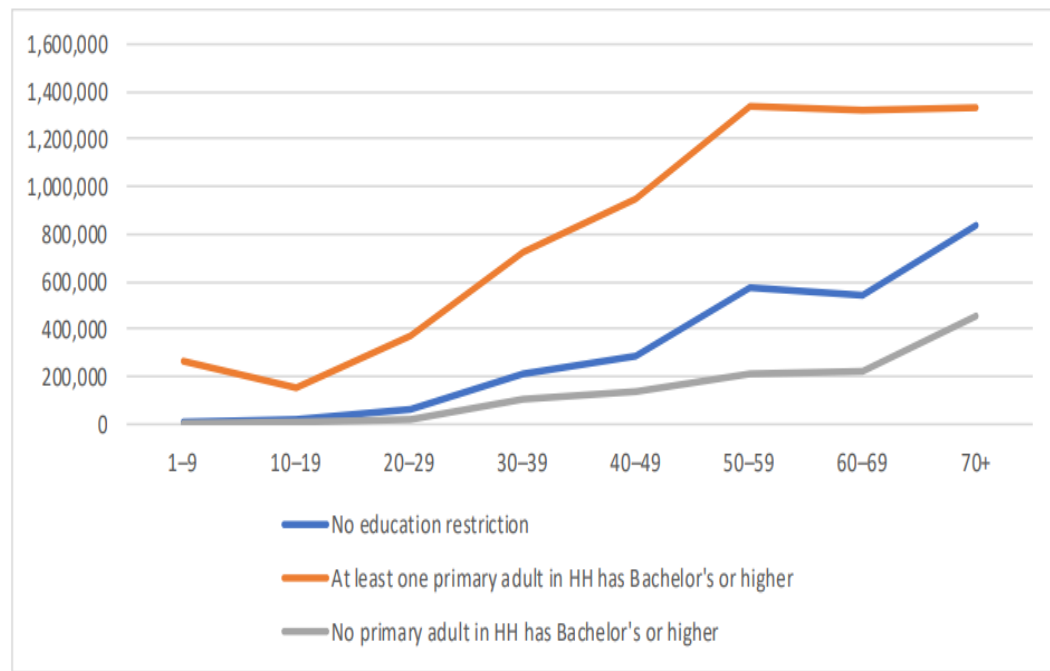
Figure 7 from Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance"

Source: Authors' analysis of ACS 2009-2019 data from IPUMS USA.

Includes individuals ages 24-56 in 3-year cohorts. Restricted to employed individuals with a bachelor's degree or higher and positive wage and salary income. Annual earnings are measured as median total pre-tax wage and salary income for the previous year in 2019 dollars. Field of study categories were created using the field of degree variable.

# Sustained Earnings and Pensions Key to Wealth

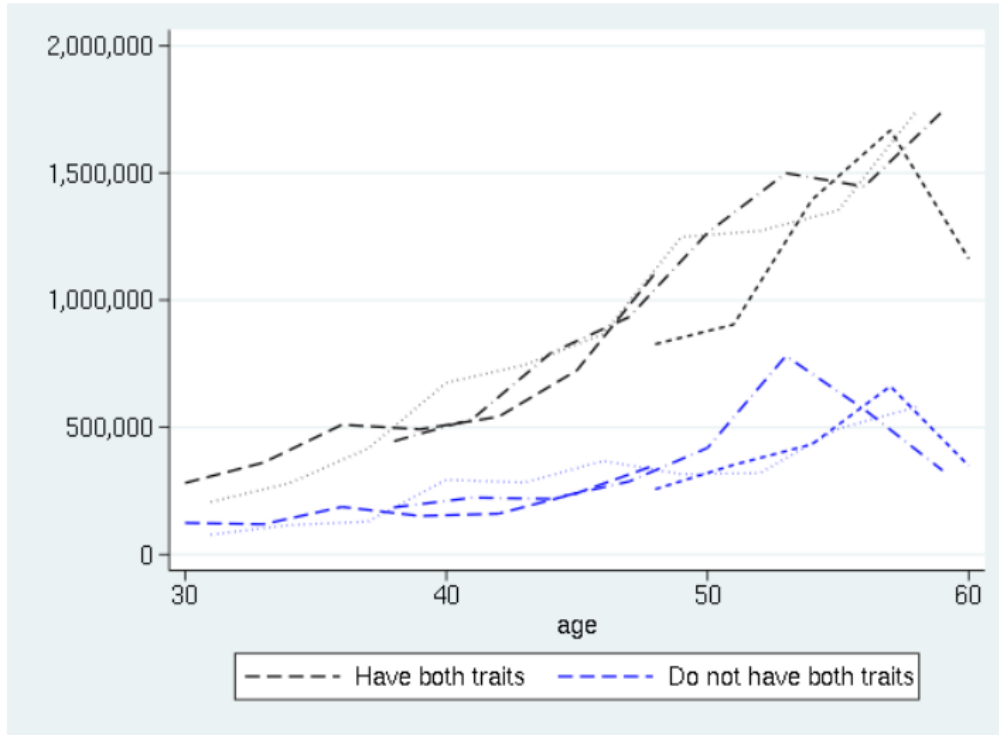
Figure 8. Median Private Wealth by Years of Full-Time Work and Presence of College Degree (Aged 50–65), 2016–2019



Source(s): Authors' analysis of Survey of Consumer Finances, 2016–2019.

Note(s): For married/partnered households, years of full-time work are combined for the respondent and spouse/partner.

Figure 7. Synthetic panel growth in median private wealth for BA+: Comparing families with funded pensions and high full-time work effort (>=90%) to those without



Source(s): Authors' analysis of Survey of Consumer Finances, 1989–2019.

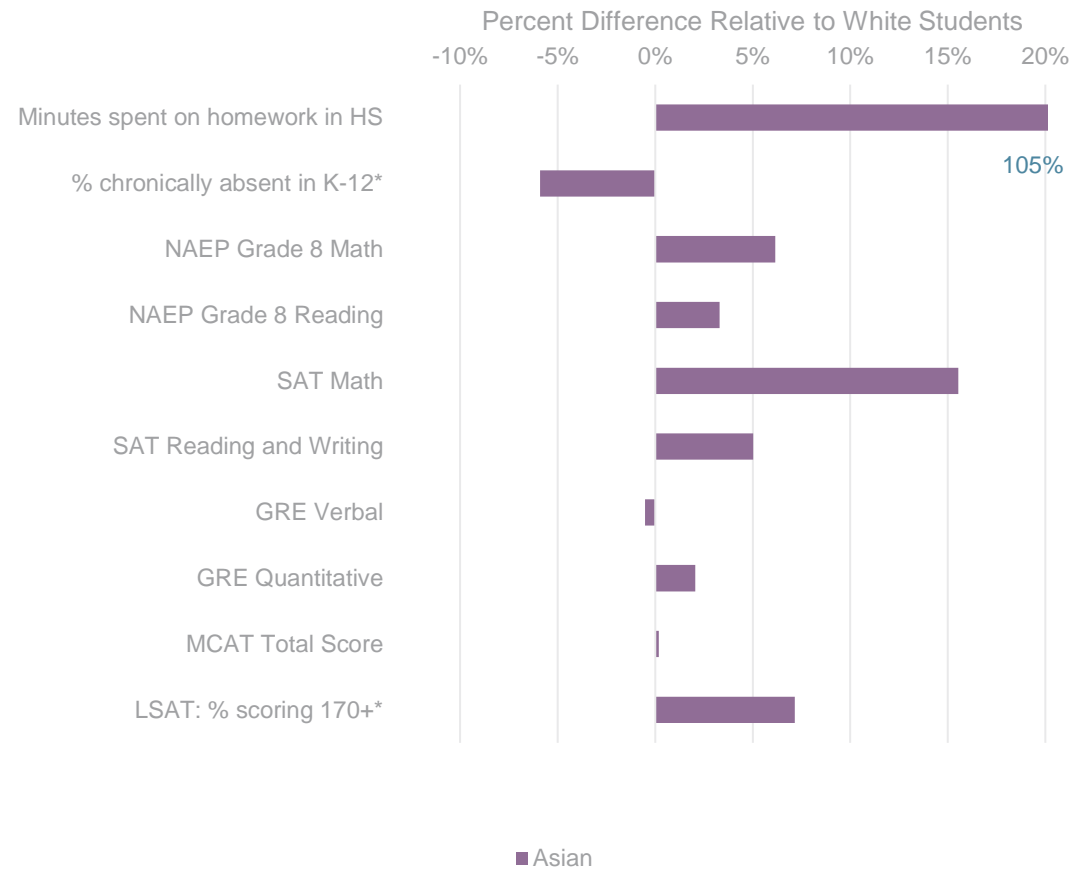
Note(s): Synthetic panel uses 10-year cohorts based on birth year. Restricted to households with at least one primary adult with a bachelor's degree or higher.

# The role of human capital in generating interracial wealth differences

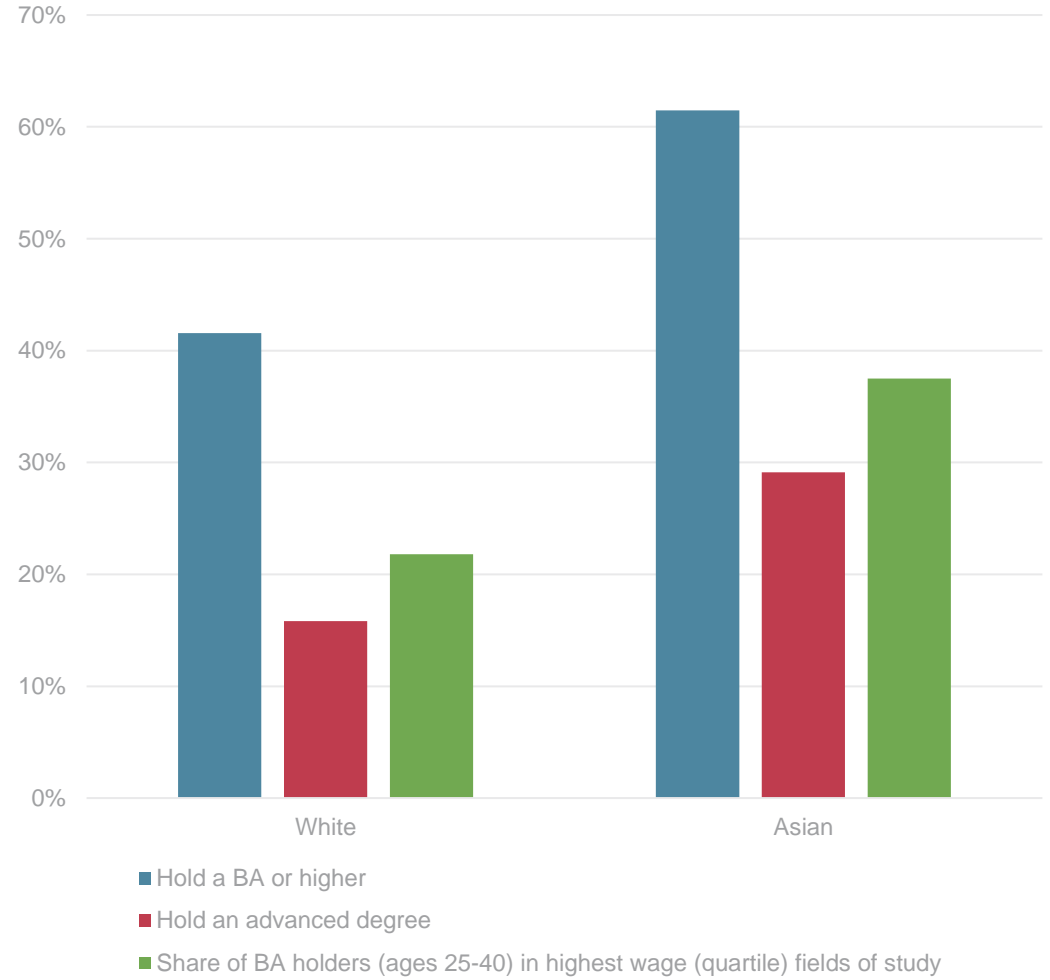
▶ First, the Asian/White case

# Asian – White Differences in Human Capital

## Education Performance

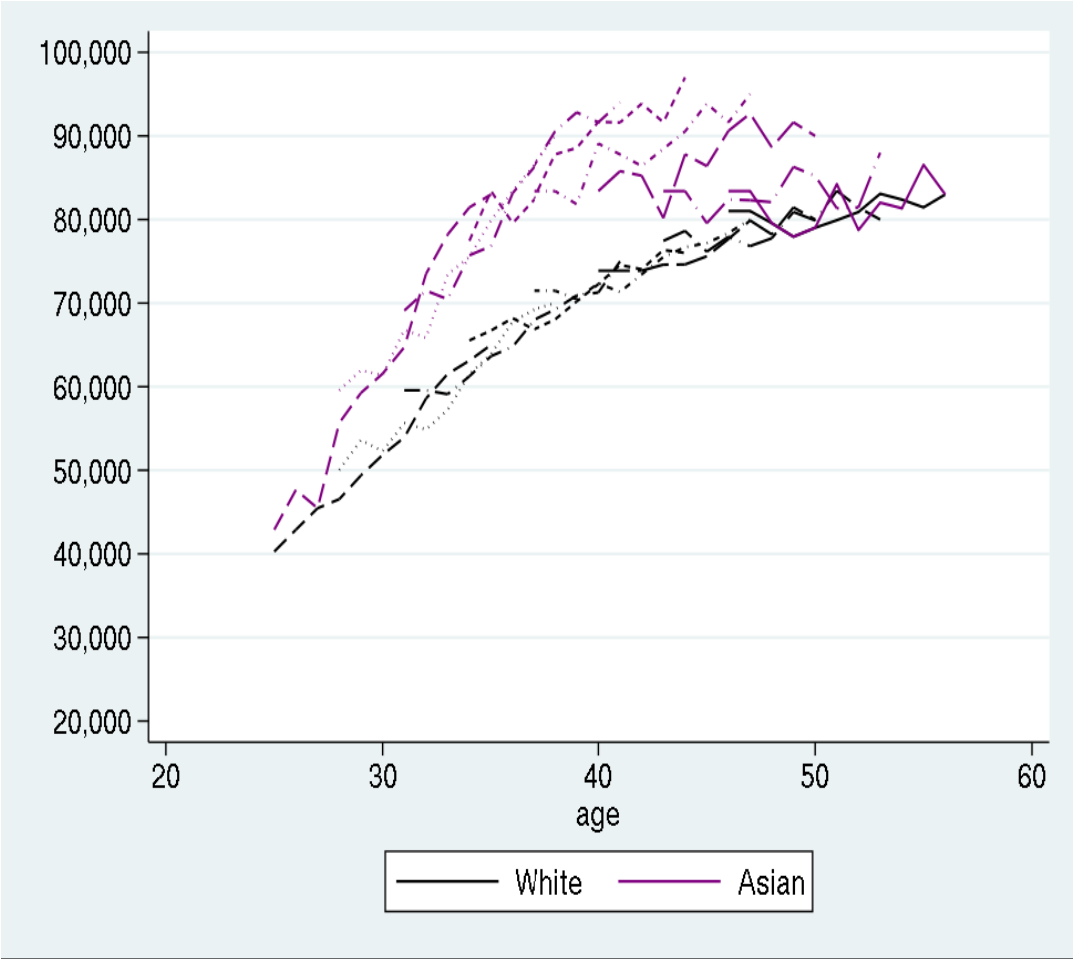


## Attainment and Fields of Study

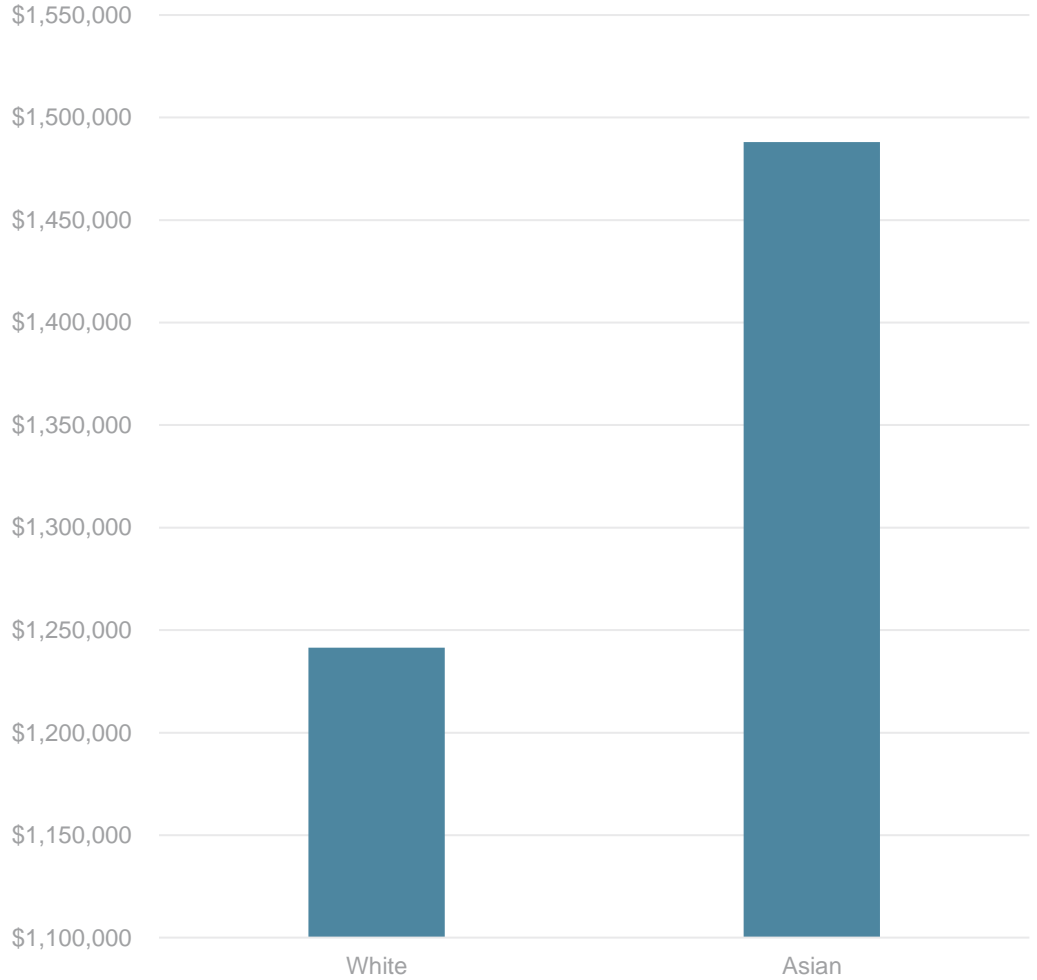


# Asian – White Differences in Earnings and Wealth

## ACS Pseudo-Panel of Median Earnings



## SCF Private Wealth – White and Asian



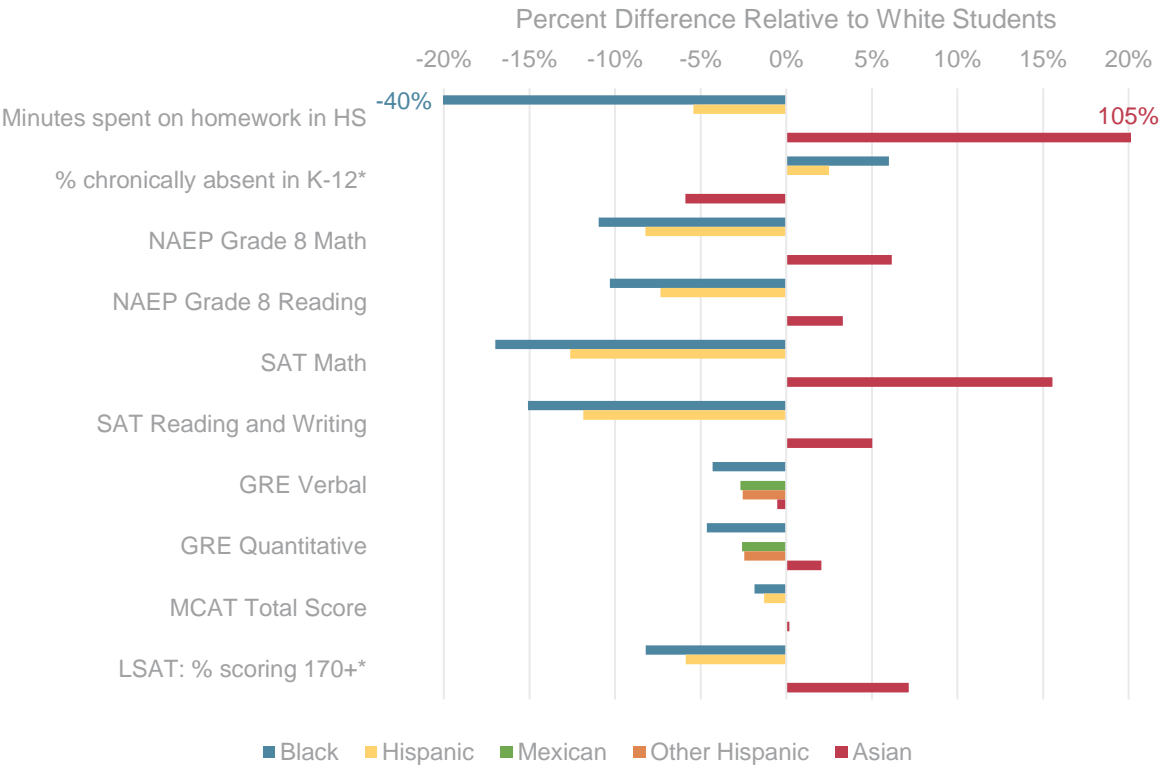
## The role of human capital in generating interracial wealth differences

- ▶ Next, all groups considered



# Human Capital Formation and Wealth Accumulation by Race

## Panel A. Racial Minority Student Academic Performance Relative to White Students



## Panel B. Educational Attainment by Race

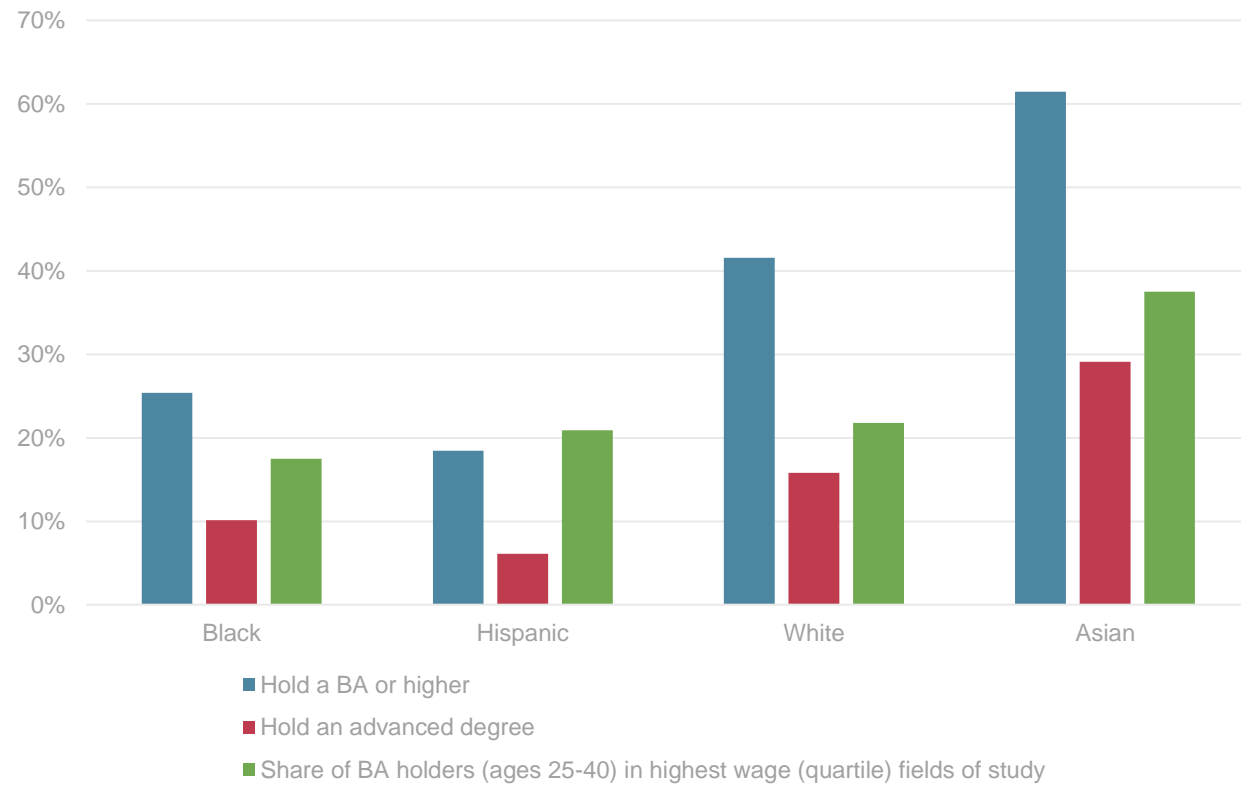
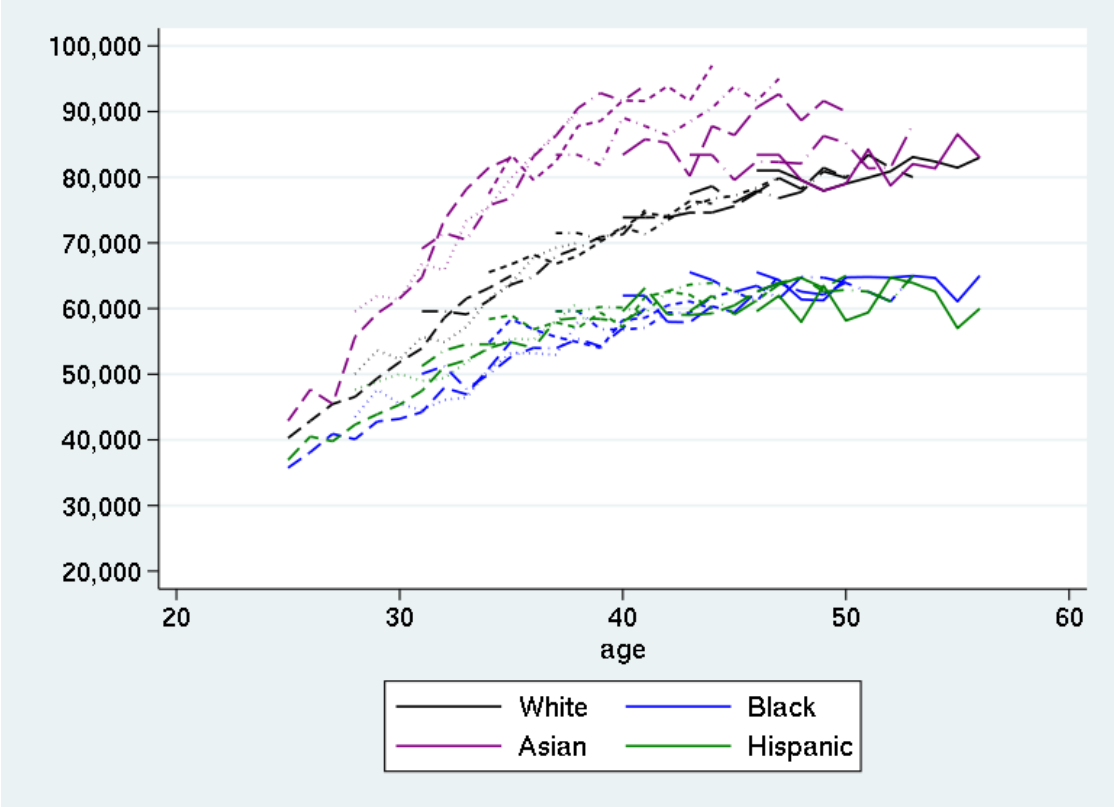


Figure 6 from Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance"

Source: See Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance," footnote 39

# Human Capital Formation and Wealth Accumulation by Race (Continued)

### Panel C. Average Earnings Trajectory by Race – Synthetic Panel of Workers in ACS, 2009-2019



### Panel D. Average Private Wealth by Race, 2016-19 (Household Heads 30 to 62)

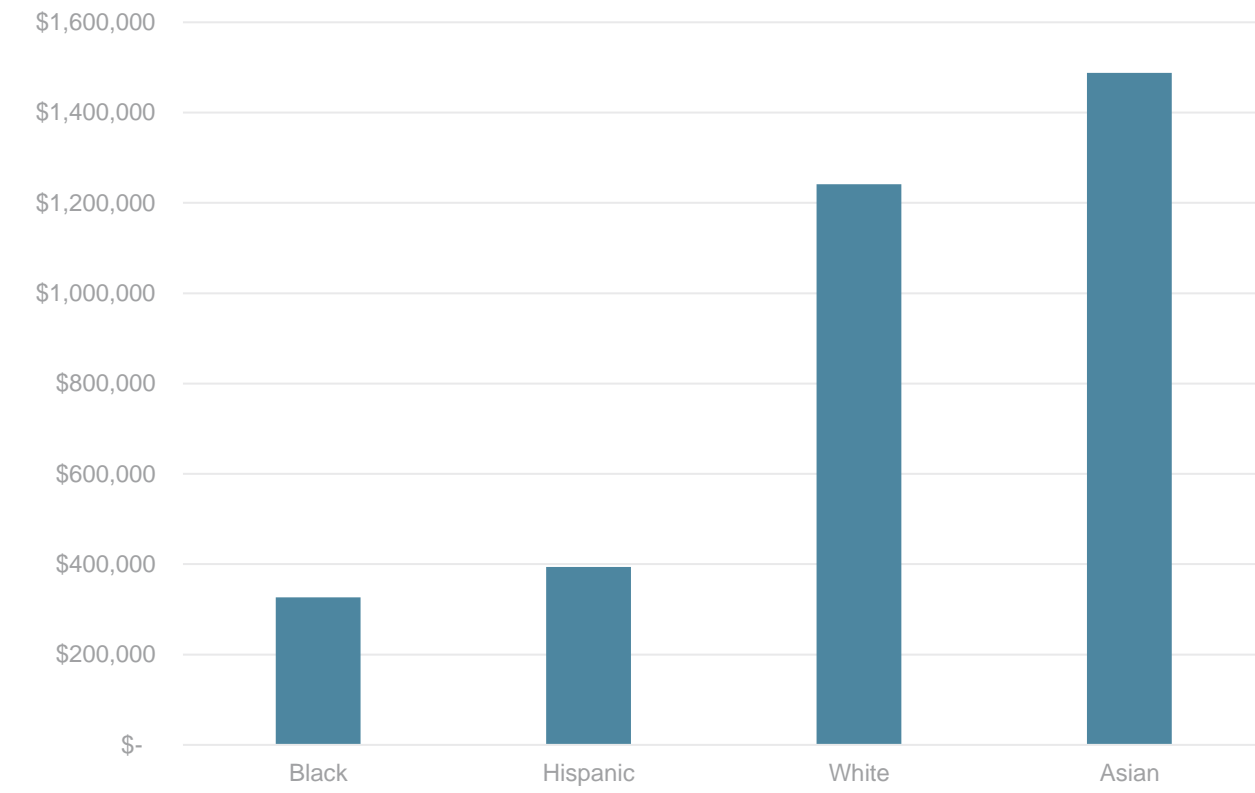
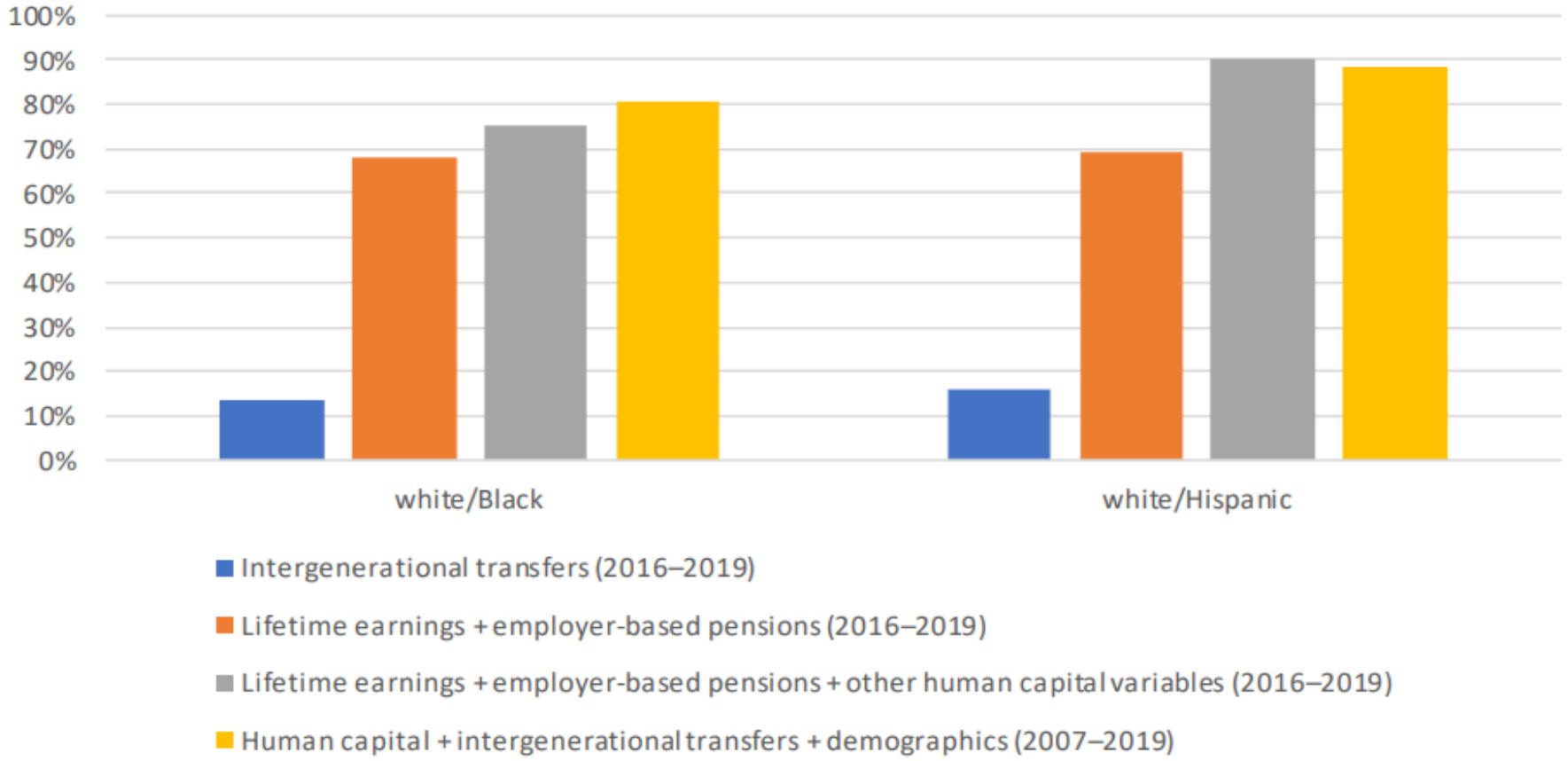


Figure 6 from Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance"

Source: See Sabelhaus and Thompson (2021), "Racial Wealth Disparities: Re-considering the Roles of Human Capital and Inheritance," footnote 40

# Decomposition – Share of Median Wealth Gap Explained

(Sabelhaus & Thompson 2023)



**Figure 9. Share of Median White/Non-White Private Wealth Gaps Explained by Various Factors. Nonparametric Decomposition of White/Non-White Private Wealth Disparities—Controlling for Human Capital and Intergenerational Transfer Variables; Reweighting White Sample to Match Trait Distribution of Non-White Sample**

## What is missing from our decomposition?

- ▶ Geography
- ▶ Fields of study; test scores
- ▶ Other types of intergenerational support
- ▶ Discrimination
- ▶ ????

## Looking ahead..... A changing world and policy ideas

### ▶ Population trends that will affect wealth by race

#### ▶ Immigration:

- ▶ <5% population in 1970, up to 14% in 2019

#### ▶ Interracial marriage:

- ▶ 1960 – 0.5% marriages interracial, 2019 – 11%;
- ▶ 20% unmarried partnerships interracial in 2019.

### ▶ Policy to build wealth

#### ▶ Already existing policy

- ▶ Social Security – largest source of retirement income for most households

- ▷ Net asset value of SS > market wealth for half of white families and 2/3 of Black, Hispanic families
- ▷ White/Black median wealth gaps (2019): market wealth: 5.8; + DB pension; 5.6; + SS wealth: 3.0; adjust for # adults: 2.1

# Looking ahead..... A changing world and policy ideas

## ▶ Future policy considerations

### ▶ Pensions

- ▷ Currently covered workers: plan adequacy/health; improved incentives
- ▷ Uncovered workers: innovative approaches to expand pension coverage – public & private

### ▶ Education

- ▷ Math & science competency at K-12 level
- ▷ Increase pursuit of high-earning fields in college
- ▷ Programs/Schools/Approaches to promote participation and attachment at lower-end

### ▶ Criminal Justice

- ▷ Addressing non-participation at lower-end

▶ Thank you