Policy Options to Reduce the Black-White Gap in Retirement Security

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Abstract

The racial gap in retirement security is profound. Black people aged 65 and older are four times as likely as their White peers to live in poverty, and on average hold only one-fourth as much household wealth. This deficit has not changed much over the past two decades, but various policy options could help narrow the gap. Shoring up Social Security's finances, boosting Social Security payments to low-income beneficiaries, and expanding Supplemental Security Income would improve financial well-being for many older Black adults. Other policy options, including boosting employment and earnings, facilitating homeownership, and promoting savings could help many younger Black workers build wealth over their lifetime, leaving them more financial secure when they eventually retire.

Keywords: discrimination, income, wealth, inequality, financial status

Opciones de política para reducir la entre negros y blancos en la seguridad de jubilación

Resumen

La brecha racial en la seguridad de la jubilación es profunda. Las personas negras de 65 años o más tienen cuatro veces más probabilidades que sus pares blancos de vivir en la pobreza y, en promedio, poseen solo una cuarta parte de la riqueza familiar. Este déficit no ha cambiado mucho en las últimas dos décadas, pero varias opciones de política podrían ayudar a reducir la brecha. Apoyar las finanzas del Seguro Social, aumentar los pagos del Seguro Social a

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los beneficiarios de bajos ingresos y expandir la Seguridad de Ingreso Suplementario mejoraría el bienestar financiero de muchos adultos negros mayores. Otras opciones de políticas, que incluyen aumentar el empleo y los ingresos, facilitar la propiedad de vivienda y promover el ahorro, podrían ayudar a muchos trabajadores negros más jóvenes a acumular riqueza durante su vida, dejándolos más seguros financieramente cuando finalmente se jubilen.

Palabras clave: Brecha racial, jubilación, seguridad social, bienestar financiero

减少黑人-白人退休保障差距的政策选项

摘要

退休保障的种族差距影响深远。65岁及以上的黑人的生活贫困可能性是同龄白人的四倍，并且平均持有的家庭财富仅为后者的四分之一。过去二十年里这种（财富）赤字情况并未发生大的改变，不过，不同政策选项能帮助缩小差距。支持社会保障制度的资金、提高低收入受益者的社会保障金、并扩大社会安全生活补助金（Supplemental Security Income），将改善许多老年黑人的财务状况。其他政策选项，包括提高就业和收入、促进住房自有、提高储蓄，能帮助许多年轻黑人工作者建立财富，当他们最终退休时能拥有更多财务保障。

关键词：种族差距，退休，社会保障制度，财务状况

Financial insecurity at older ages is a growing policy concern. Retirement income largely depends on earnings received at working ages, which determine Social Security benefits, any employer pensions that retirees receive, and the capacity to set aside additional funds for retirement. Although earnings have been growing for women, bolstering their future retirement income, earnings have stagnated over the past few decades for men in the bottom three-fourths of the earnings distribution (Machin, 2016; Rose, 2015), threatening their retirement security. The pillars of the U.S. retirement income system are also under threat. Social Security faces a long-run financial shortfall that could necessitate significant benefit cuts within the next 15 years unless program revenues increase (Board of Trustees, 2020). Traditional employer-provided pensions that provide lifetime annuities to retirees are disappearing, especially in the private sector (Munnell & Sunden, 2004). Spending needs are also increasing at older ages. Retirement savings must last longer as life expectancy increases (Bosley, Morris, & Glen, 2018), more older adults are increasingly entering retirement with significant debt (Butrica & Karamcheva, 2018), and out-of-pocket health care costs are growing at older ages (Hatfield et al., 2018).

Many Black people face special financial challenges in later life. Workers of color generally earn less than their White counterparts, limiting their future Social Security benefits and their ability to save for retirement. Educational deficits reduce wages received by Black workers, but people of color also face systemic racism that limits their employment opportunities and suppresses their earnings (Bertrand & Mullainathan, 2004; Daly, Hobijn, & Pedtke, 2017; Darity & Mason, 1998; Hamilton & Darity, 2012; Penner, 2008; Reid & Rubin, 2005). Black workers also tend to have shorter careers than White workers. Black people's limited employment histories result from health problems, driven at least partly by racism, and caregiving responsibilities that interrupt employment and lead to early retirement (Centers for Disease Control and Prevention, 2013; Feagin & Bennefield, 2014; Fuller-Thomson et al., 2009; Kail, Taylor, & Rogers, 2020; Murphy, Johnson, & Mermin, 2007). Black people are especially likely to serve as primary caregivers for their grandchildren, which can interfere with paid work, raise spending needs, and reduce retirement savings (Chen et al., 2014; Ellis & Simmons, 2014; Minkler & Fuller-Thomson, 2005).

Many people of color also face challenges using their earnings to build wealth. Black workers are less likely than White workers to participate in employer-sponsored retirement plans, an important component of retirement savings, and those who participate contribute less, on average, to their plans (Ariel Investments and Hewitt Associates, 2009; Butrica & Johnson, 2010). Homeownership is an important way to amass wealth, yet rates of homeownership are quite low for people of color (Charles & Hurst, 2002; U.S. Census Bureau, 2020). Moreover, Black homeowners are more likely than White homeowners to hold high-cost mortgages (Bayer, Ferreira, & Ross, 2018), and they are often subject to higher property tax rates (Avenancio-Leon & Howard, 2020). Black people also hold much more student loan debt at ages 25 to 55 than other racial groups (Braga, 2016). The need to service high debt levels, including mortgages and student loans, reduces the availability of resources that can be set aside for retirement (Elliott, Grinstein-Weiss, & Nam, 2013; Rutledge, Sanzenbacher, & Vitagliano, 2016). Black people are less likely than White people to be married (Johnson, Haaga, & Simms, 2011), which allows households to economize on living expenses; to receive inheritances (Hamilton & Darity, 2010), which can help finance home purchases and fund retirement; and to have access to banks, which facilitates saving (Federal Deposit Insurance Corporation, 2018). Consequently, Black families generally hold much less wealth than White families (Dettling et al., 2017; Hou & Sanzenbacher, 2020; Wolf, 2018).

This article documents the financial challenges facing older Black adults and discusses various policy options to improve their financial well-being. We begin by comparing household income and wealth and poverty rates by race and Hispanic origin for adults aged 65 and older. The analysis also reports two-decade trends in income and wealth at older ages, shows how income sources vary by income level, and describes how poverty rates vary by personal characteristics. We then report the share of workers aged 51 to 64 with employer-sponsored retirement plan coverage on their current job.

The tabulations report findings in 2019 inflation-adjusted dollars and use data from the Health and Retirement Study, a nationally representative longitudinal survey of older adults conducted by the Institute for Survey Research at the University of Michigan. When we completed our analysis, the most recent available data were collected in 2016. Because the survey asks respondents about income received in the previous calendar year, our income estimates run through 2015. We adjust for differences in household size by dividing income and wealth estimates for married couples by the square root of 2 (or 1.41). This adjustment factor is commonly used to reflect the higher costs incurred by larger households as well as the savings that result from shared living arrangements (National Research Council, 2005).

The second half of this article discusses policy options that could narrow the racial gap in retirement security. Because many older Black adults rely heavily on Social Security, shoring up the program's finances and boosting payment to low-income beneficiaries would improve their financial well-being at older ages. Expanding Supplemental Security Income (SSI), a federal program that provides cash benefits to needy older adults and people with disabilities, would help many Black retirees. Other policy options, including boosting employment and earnings, facilitating homeownership, and promoting savings, could help younger Black adults build wealth over their lifetime, leaving them better prepared for retirement. Successful implementation of these reforms will require sustained commitment from policymakers and other stakeholders.

The Racial Gap in Economic Well-Being at Older Ages

Older Black adults receive less income than older White adults. They also hold much less wealth, which older adults can draw down to cover living expenses if their incomes fall short. Additionally, Black workers are less likely than White workers to participate in employer-sponsored retirement plans.

Income

Among adults aged 65 and older, median 2015 household income is barely half as much for Black people as White people ($22,100 versus $40,200, measured in 2019 inflation-adjusted dollars) (Table 1). Latinos' median 2015 household income of $17,100 is less than half as much as the median for White people. Within all three groups, about 9 in 10 older adults received Social Security income, but labor earnings, pension income, and asset income were more common among older White people than older people of color. About two-thirds of older White adults received asset income in 2015, for example, compared with less than one-third of Black people and Latinos. Except for other income, which includes means-tested government benefits, the median amount of each income type received was lower for Black people and Latinos than for White people.

The relative importance of different income sources varies with income levels. For all racial groups, Social Security accounted for about four-fifths of 2015 income received by older adults in the bottom third of the income distribution (Table 2). Social Security is less important at higher income levels. Nonetheless, in the middle third of the income distribution it accounted for 80 percent of the income received by older Latinos and 68 percent of the income received by older Black adults (but only 47 percent of the income received by older White adults). In the top third of the income distribution, labor earnings and employer pensions are important sources of income for all groups, and asset income is important for White people.

The racial income gap at older ages has not changed much over the past two decades. At ages 65 to 70, Black median income as a share of White median income increased from 53 percent in 1997 to 61 percent in 2009, but then declined to 49 percent in 2015 in the wake of the 2008 financial crisis and the deep recession that accompanied it (Table 3). For Latinos at ages 65 to 70, median income as a share of White median income fell from 47 percent to 35 percent between 1997 and 2015, with most of the decline occurring after 2009. The racial income gap narrowed slightly between 1997 and 2015 at ages 71 to 76 and ages 77 to 82.

Older Black people are more than four times as likely to be impoverished as older White people. Among adults aged 65 and older, 22 percent of Black people and 28 percent of Latinos had incomes below the federal poverty level (FPL) in 2015, compared with 5 percent of White people (Table 4). The poverty rate was particularly high for older people of color with limited education, adults aged 80 and older, and divorced, widowed, and never married adults. Older women were also more likely than older men to live in poverty, mostly because they were less likely to be married.

Wealth

On average, older Black people and Latinos hold only about one-quarter as much wealth as older White people. In 2016, mean total household wealth, measured in 2019 inflation-adjusted dollars and including the value of housing, other real estate holdings, businesses, automobiles, other modes of transportation, and financial assets minus any outstanding debt, was $159,200 for Black people aged 65 and older, $171,700 for Latinos, and $647,300 for White people (Table 5). Because the wealth distribution is skewed, most older adults hold much less wealth than the average amount. Median household wealth was only $50,600 for older Black adults, $49,600 for older Latinos, and $269,500 for older White adults. One-quarter of older Black people and Latinos had less than $2,500 in wealth.

Most older adults of color hold much of their wealth as home equity. For older Black people, median housing wealth net of outstanding mortgages and other housing debt was $32,000, or 63 percent of their median total wealth. Median net housing wealth equaled 86 percent of median total wealth for older Latinos, but only 39 percent of median total wealth for older White people. Racial wealth disparities are especially pronounced for financial wealth. On average, older Black adults held only 14 percent as much financial wealth as older White adults in 2016, and older Latinos held only 11 percent as much as older Whites. More than one-quarter of older Black people and one-half of older Latinos held no financial assets, and one-half of older Black people had no more than $500 in financial assets. These shortfalls in financial wealth are problematic because most households can easily liquidate much of their financial assets to meet emergencies.

The racial gap in household wealth at older ages has not improved much over the past two decades. Between 1998 and 2016, median total household wealth for Black people as a share of median total wealth for White people fell 4 percentage points at ages 65 to 70, increased 4 percentage points at ages 71 to 76, and fell 7 percentage points at ages 77 to 82 (Table 6). The gap in household wealth between older Latinos and White people narrowed slightly over the past two decades. Latinos' median total household wealth as a share of Whites' median wealth increased 5 percentage points at ages 65 to 70 and ages 71 to 76, and increased 2 percentage points at ages 77 to 82.

Our wealth estimates exclude the expected value of future Social Security benefits. A beneficiary's Social Security wealth can be estimated by summing expected future benefits and discounting those payments that will not be collected for many years because current payments are more valuable than future payments. Social Security is an important asset for most lower-income families, including many Black people, because it replaces a larger share of preretirement earnings for beneficiaries with limited lifetime earnings than for those with more earnings. Expanding household wealth measures to include Social Security reduces the racial gap in wealth, although differences remain substantial (Hou & Sanzenbacher, 2020; Wolff, 2018).

Retirement Plan Coverage

Workers of color are less likely than White workers to participate in retirement plans at work, an important vehicle for amassing retirement savings. Among employed workers aged 51 to 64 in 2016, 52 percent of Black people and 37 percent of Latinos were covered by an employer-sponsored retirement plan, compared with 60 percent of White people (Table 7). Coverage rates are higher among full-time workers, but the racial gap is similar. Racial disparities in retirement plan coverage have grown over time. In 1998, coverage rates were similar for Black and White employed workers, whereas the coverage rate for Latino workers lagged only 12 percentage points behind the rate for White workers. For all groups, defined-contribution plans are more common than defined benefit plans, which have become less common over the past two decades.

Policy Options

Various policy options could narrow racial gaps in retirement security. Possibilities include boosting employment and earnings, protecting and improving Social Security, expanding SSI, facilitating homeownership, and promoting savings.

Improve Employment Outcomes

Narrowing racial gaps in the workplace could substantially improve Black people's financial well-being at older ages, which depends largely on how much people earned earlier in life. More than 50 years after the passage of major Civil Rights legislation intended to reduce racial barriers in employment and education, Blacks continue to earn much less than Whites (Daly, Hobijn, & Pedtke, 2017). Because of these earnings shortfalls, most policies designed to help lower-income workers would disproportionately help Black workers. Options include increasing the minimum wage, expanding apprenticeships, devoting more public funds to workforce development programs, and strengthening labor unions. Labor unions have been declining for decades, but they could be revived by federal policies that facilitate worker efforts to create collective bargaining units, create meaningful penalties for employers who violate labor laws by firing workers who are trying to organize, and overturning state right-to-work laws, which allow employees in unionized workplaces to opt out of union dues.

Other policies and practices would focus more specifically on increasing lifetime earnings for Black workers. Local laws that forbid employers from questioning job applicants about their salary history, which can perpetuate past discrimination and other inequities, have been shown to increase salaries for workers who change jobs, especially women and Black workers (Bessen, Denk, & Meng, 2020). Extending these laws could reduce the racial wage gap. Employers could provide more career mentoring for Black workers and invest more in programs to root out implicit bias in the workplace. To limit unconscious bias in promotion decisions, the U.S. Army no longer shows candidates' photos to officer selection boards (Rempfer, 2020). Eliminating the mass incarceration of Black men would also promote retirement security, because people cannot earn wages, accumulate Social Security credits, or save for retirement when serving time in prison.

Bolster Social Security

Because Social Security accounts for a disproportionate share of the income received by older Black adults, increasing program payments to low-income beneficiaries could substantially improve their financial security. Numerous policymakers, advocates, and policy organizations have advanced proposals to raise Social Security benefits, but they often approach benefit increases differently, affecting the impact on Black beneficiaries. Moreover, Social Security's looming financial problems complicate efforts to increase benefits.

Improve Program Finances

Social Security faces a long-range financing gap driven by reduced fertility and increased life expectancy that has lowered the number of workers supporting each retiree. The program trustees' 2020 intermediate projections indicate that under current rules, Social Security's 75-year shortfall totals 3.21 percent of taxable payroll, and program costs will exceed revenues in 2020 and every subsequent year for the foreseeable future (Board of Trustees, 2020). A large trust fund that built up after 1983, when Congress last addressed Social Security financing, can cover the shortfall for the next decade and a half, but the trustees project that fund reserves will be depleted in 2035. When that happens, the system will be able to cover only about four-fifths of scheduled benefits.

Closing Social Security's long-range financing gap would prevent or at least delay the depletion of the program's trust funds and the need to implement substantial across-the-board benefit cuts. Consequently, steps to bolster Social Security's financial status could prevent or forestall a significant deterioration in the financial security of older adults, including people of color. Policymakers could close the financing gap through some combination of raising revenues and cutting costs. The approach they choose could shape the financial well-being of older Black adults.

Increase the Taxable Maximum. Social Security is financed mainly by payroll taxes.[1] The current payroll tax rate is 6.2 percent, levied on both covered employees and their employers. Self-employed workers pay 12.4 percent of their earnings to the system. However, only earnings in covered employment below the program's contribution and benefit base are subject to taxation each year. That cap, which increases with the growth in the average national wage, was set at $137,700 in 2020.

Many Social Security reform plans, including those proposed by the Bipartisan Policy Center (2016), the National Commission on Fiscal Responsibility and Reform (2010), and many of the 2020 Democratic presidential candidates (Smith, Johnson, & Favreault, 2020), would increase the cap on annual earnings subject to Social Security payroll taxes. Although the program's

1 For example, the Social Security 2100 Act (H.R. 860), introduced by Rep. John Larson (D-CT) in 2019, and the Social Security Reform Act of 2016 (H.R. 6489), introduced by then-Rep. Sam Johnson (R-TX), both include minimum benefit provisions.

taxable maximum grows with the average national wage, the share of covered earnings subject to the Social Security payroll tax decreased from 90 percent in 1983 to 83 percent in 2018 because earnings have increased more rapidly for high-wage workers than for moderate- and low-wage workers (Johnson, 2020b). Raising the taxable maximum would move the share of earnings subject to the payroll tax closer to its past level and improve Social Security's financial status.

The financial impact of increasing the taxable maximum would depend on how high the cap is raised, the tax rate applied to higher earnings, and whether workers would receive additional benefit credits for their additional taxes. Some proposals, for example, would eliminate the taxable maximum so that all earnings would be taxed, others would increase the maximum so that the payroll tax covered about 90 percent of earnings, and others would impose additional taxes only on workers with annual earnings above some level, such as $250,000 or $400,000. The Social Security actuaries estimate that removing the taxable maximum in 2021 and later years would eliminate about three-quarters of Social Security's long-range financing gap if the program did not provide benefit credits for those additional taxes and would eliminate only about one-half of the gap if the program provided benefit credits for the additional taxes (Social Security Administration, 2020b). About one-fifth of Social Security's long-range financing shortfall would be eliminated, according to the actuaries, if the taxable maximum were increased to cover 90 percent of covered earnings and benefit credits were provided on those contributions. These proposals would not raise taxes on many Black workers because they are much less likely than White workers to earn more than the existing taxable maximum (Favreault & Haaga, 2013).

Other revenue-enhancing proposals for Social Security include raising the payroll tax rate and taxing additional income sources to help finance the program. During the 2020 Democratic presidential primaries, Senator Bernie Sanders (I-VT) and Senator Elizabeth Warren (D-MA) proposed taxing investment income and crediting those revenues to Social Security (Smith, Johnson, & Favreault, 2020). Raising the payroll tax rate would reduce take-home pay for all covered workers, but taxing new income sources might not affect lower- and moderate-income Black workers much if the tax were levied on income sources that mostly go to higher-income workers, such as earnings on investments.

Cut Costs. Another approach to closing Social Security's long-range financing gap is to cut program costs by trimming benefits. One often-proposed option is to trim payments to beneficiaries with high lifetime earnings, which would protect low- and moderate-income Black beneficiaries from benefit cuts.

Another common cost-containment proposal would raise the program's retirement age. In 1983, President Ronald Reagan signed legislation to gradually increase Social Security's full retirement age from 65 to 67. This increase cut benefits by boosting the actuarial reduction for claiming benefits early and reducing the bonus for delaying benefit take-up. Advocates of further raising the full retirement age, which was included in the Social Security Reform Act of 2016 (H.R. 6489), argue that benefits should be cut because most people are living longer. Social Security's actuaries project that increasing the full retirement age to 69 and then increasing it one month every two years thereafter would eliminate slightly more than one-third of the program's long-range financial shortfall (Social Security Administration, 2020c). However, life expectancy has not grown as rapidly for Black people as for White people (Olshansky et al., 2012), so raising the retirement age could disproportionately harm Black people. On the other hand, beneficiaries who first began collecting because of a disability are not subject to actuarial reductions. Those beneficiaries, who are disproportionately Black, would not be harmed by an increase in the retirement age (Mermin & Steuerle, 2006).

Enhance Benefits

Enhancing Social Security benefits could improve retirement security for many people of color. The effectiveness of any such changes would hinge on how policymakers increase benefits.

Create a Meaningful Minimum Benefit. Perhaps the most effective approach would be to increase Social Security's minimum benefit, which would target benefit increases to those with the smallest benefits (Favreault & Smith, 2020). Social Security currently includes a minimum benefit, designed to support retirees who spent many years working at low wages, but the minimum is too low to help many beneficiaries. At the end of 2019, only 32,100 Social Security beneficiaries received the special minimum, less than one-tenth of 1 percent of all Social Security beneficiaries (Social Security Administration, 2020a). No new Social Security awards have included the special minimum since 1998, except for a few retirees receiving government pensions that reduced their Social Security benefits (Feinstein, 2013). Yet in 2003, 21 percent of Social Security beneficiaries aged 64 to 73 received family Social Security benefits that fell below the FPL, including 43 percent of Black people (Favreault, 2010).

Many prominent Social Security reform proposals would create a meaningful minimum benefit, including proposals from both Democrats and Republicans.[2] The proposed minimum benefit is usually tied to the FPL and years of employment. The Social Security 2100 Act, for example, would set the minimum equal to 125 percent of the FPL for beneficiaries with 30 or more years of covered employment, 100 percent of the FPL for beneficiaries with 26 years of covered employment, and 50 percent of the FPL for beneficia-

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ries with 18 years of covered employment. One limitation of these proposals, however, is that many older adults with limited Social Security benefits did not have long careers; in 2003, about 9 in 10 beneficiaries aged 64 to 73 receiving benefits below the FPL worked fewer than 30 years in covered employment (Favreault, 2010). Consequently, most beneficiaries who would qualify for the full minimum benefit would fall into the second quintile of the lifetime earnings distribution, not the bottom quintile.

Other Benefit Increases. Other proposals to expand Social Security include across-the-board benefit increases, the introduction of caregiver credits, and increased payments to the survivors of beneficiaries and long-term beneficiaries. The Social Security Expansion Act (S. 478), introduced by Sen. Sanders in 2019, would adjust the Social Security benefit formula to boost payments to all beneficiaries. The benefit formula is progressive; for workers turning 62 in 2020, it replaces 90 percent of their first $960 of average indexed monthly earnings ($11,520 annually), plus 32 percent of the next $4,824 in average monthly earnings, and 15 percent of covered earnings above $5,785 ($69,420 annually), up to the taxable maximum. The Sanders plan would increase the amount of earnings subject to the 90 percent rate.

Another option would supplement the earnings histories that factor into Social Security benefit calculations for workers who take time out of the paid workforce to care for children, dependents with disabilities, or aged family members. The Social Security Caregiver Credit Act of 2019 (S. 2317), introduced by Sen. Chris Murphy (D-CT), would credit workers with one month of earnings equal to one-half of the national average wage for every month that they provided at least 80 hours of care.

Boosting Social Security payments to the survivors of deceased beneficiaries could improve financial security for widows, who are much more likely to live in poverty than married beneficiaries (Johnson, 2020a). Social Security currently offers survivor benefits equal to 100 percent of the deceased spouse's benefit, which would replace the surviving spouse's existing benefit if it generated a larger payment. This survivor benefit is not very valuable when spouses receive similar payments; in those cases, the death of a spouse can reduce household Social Security payments as much as 50 percent. During the 2020 Democratic presidential primary, several candidates, including former Vice President Joe Biden, proposed providing survivors with the option of collecting 75 percent of the total benefit received by the household before the deceased spouse died, as long as that payment did not exceed the benefit received by a two-earner couple with average career earnings (Smith, Johnson, & Favreault, 2020).

Many long-term Social Security beneficiaries receive relatively low payments because their benefits are based on earnings received many years earlier. Social Security's annual cost-of-living adjustment raises payments to offset inflation, but because wages typically grow faster than prices, beneficiaries who began collecting recently generally receive larger benefits than those who began collecting earlier. Moreover, out-of-pocket spending on medical care and home and residential care typically surges after age 80 (Cubanski et al., 2019; Hatfield et al., 2018), exacerbating economic hardship for many long-term beneficiaries. Some Social Security reform proposals would provide a bonus to long-term beneficiaries to improve their financial security. The 2010 plan put forth by the National Commission on Fiscal Responsibility and Reform, for example, would provide a bonus equal to 5 percent of the average benefit to beneficiaries who had collected payments for 20 years; the bonus would phase in, beginning with a 1 percent boost for beneficiaries who had collected for 16 years (Favreault & Karamcheva, 2011).

Boosting payments to widowed beneficiaries would likely help more Black retirees than creating caregiver credits or providing longevity bonuses. Black women are more likely to become widowed than White and Latinx women, even though Black women are less likely to marry (Angel, Jimenez, & Angel, 2007). Caregiver credits tied to average earnings could help people with low earnings, but it could also help higher-income groups who can afford to drop out of the labor force to raise children. Black mothers with young children are more likely to work for pay than White or Latinx mothers (Women's Bureau, U.S. Department of Labor, 2016). Boosting payments to long-term beneficiaries would help White retirees more than Black retirees, because White people tend to live longer (Olshansky et al., 2012). Changing the benefit formula to increase payments to all beneficiaries would not target benefit enhancements to Black people or other groups who may need more help.

Expand Supplemental Security Income

Designed to help people who do not collect Social Security or receive very small payments, SSI provides only limited benefits and enrolls relatively few older adults. The 2020 Federal SSI benefit for an individual is $783 per month, although many states supplement those payments. Recipients without any earnings who do not collect a supplement are left with an income that falls $280 below the FPL. In 2019, only 1.2 million adults aged 65 and older received SSI benefits (Social Security Administration, 2020a), just 2 percent of the U.S. population in that age group. Between 1975 and 2019, as the number of adults aged 65 and older increased by more than 30 million, the number of aged SSI beneficiaries fell by 1.1 million. However, about 8 percent of Black adults aged 65 and older collect SSI, more than twice the rate for White older adults (Favreault, forthcoming).

Expanding SSI could improve Black people's financial security at older ages. Boosting enrollment by simplifying the application procedure and reaching out to potential participants would amplify SSI's impact. Only about one-half to two-thirds of eligible participants enroll in the program (McGarry, 1996; Rupp, Strand, & Davies, 2003). Policymakers could also ease eligibility standards by relaxing SSI's resource test, which permits enrollees to hold no more than $2,000 in countable assets if single and $3,000 if married. Those levels have not increased since 1989, and the resource test excludes only the value of a residence, vehicle, burial plot, household goods, and personal effects. Another option to improve SSI's impact is to increase benefit levels. During her 2020 presidential campaign, Sen. Warren proposed increasing the Federal SSI benefit for individuals to 100 percent of the FPL (Smith, Johnson, & Favreault, 2020).

Facilitate Homeownership

Homeownership helps people build wealth and improve their financial security in old age as they pay off their mortgages. It also often allows people to live in communities with better amenities, including higher-quality schools (Dietz & Haurin, 2003) that can help students obtain good-paying jobs, and it provides families with an important asset that can be passed on to future generations. However, Black people are much less likely than White people to own a home. In the second quarter of 2020, the homeownership rate was 47 percent for Black households, compared with 76 percent for White households (U.S. Census Bureau, 2020). The Black-White homeownership gap narrowed during the 1990s and the first half of the 2000s, as the 1968 Fair Housing Act and subsequent federal legislation outlawed race-based discrimination in access to credit and homeownership, but it increased in the wake of the 2007 financial crisis (Acolin, Lin, & Wachter, 2019). Black households are now only about half as likely as White households to transition from renting to owning a home (Brown & Dey, 2019).

Racial disparities in income, credit scores, and marital status account for much of the Black-White homeownership gap (Acolin, Lin, & Wachter, 2019; Choi et al., 2019). Racial discrimination also appears to play a role, including the legacy of past racist government policies that segregated neighborhoods and restricted Black access to financial credit and homeownership (Rothstein, 2017). The Federal Housing Administration, established in 1934, guaranteed mortgages for homeowners but imposed restrictive covenants in deeds that forbade home sales to Black families. Similarly, the GI Bill, first enacted in 1944 to help veterans returning from World War II buy homes, used the same restrictive practices as the Federal Housing Administration to block homeownership by Black veterans. The impact of these policies continues to linger. By helping to deny the wealth building opportunities that come with homeownership, these policies limited the ability of a generation of Black people to transfer wealth to future generations, making it harder for Black families to buy homes today. The racial homeownership gap today is larger for low-income families, possibly because low-income Black people are less able to count on family help than their White counterparts (Choi et al., 2019). Racial discrimination is not merely a relic of the past. When looking to buy homes, people of color are told about and shown fewer homes by realtors than White people (Turner et al., 2013). Acolin, Desen, and Wachter (2019) find evidence that discrimination may be worsening, as the share of the racial homeownership gap that cannot be explained by differences in financial resources grows.

Policymakers can take several steps to promote Black homeownership (McCargo, Choi, & Golding, 2019). A more equitable housing finance system would help Black people obtain the credit most people need to buy a home. Mortgage credit has become more difficult to obtain after the 2007 global financial crisis (Brown & Dey, 2019), and Black people face higher interest rates than White people (Bartlett et al., 2019). Reforming zoning and land-use regulations could increase the supply of housing, especially at the low end of the market, and make homeownership more affordable, particularly for first-time homebuyers. More outreach to Black renters and counseling on credit building, saving strategies, and the home-buying process could also ease the transition to homeownership.

Promote Savings by Lower-Wage Workers

Changes to the federal income tax code that better reward low- and moderate-income savers could encourage more Black workers to save for retirement. Most retirement savings accumulate in employer-sponsored 401(k)-type accounts that allow workers to deduct their account contributions from their taxable income. These tax deductions are worth more for higher-income savers in high tax brackets than lower-income savers in low tax brackets, and they provide no financial benefit to the estimated 11 percent of working-age adults who do not pay any federal income tax (Fullerton & Rao, 2019). Replacing the tax deduction for saving in tax-qualified retirement accounts with a flat-rate refundable tax credit would strengthen savings incentives for lower-income workers (Butrica et al., 2014).

Another way to help lower-income savers would be to expand the federal Saver's Credit, which currently provides a nonrefundable income tax credit of up to $1,000 ($2,000 if married filing jointly) for low- and moderate-income taxpayers who contribute to a retirement savings account. The credit equals 50 percent, 20 percent, or 10 percent of contributions, depending on taxable income, for those with incomes up to $32,500 (or $65,000 if married filing jointly) in 2020. Making the tax credit fully refundable and raising the income eligibility thresholds would allow more people to benefit from the Saver's Credit.

Saving for retirement is especially challenging for the nearly half of Black workers who lack access to an employer-sponsored retirement plan. Automatic payroll deductions, typically supplemented by employer contributions, allow many workers with 401(k) plans to accumulate significant retirement savings. Several states have recently enacted programs requiring employers that do not provide a retirement plan to automatically enroll their workers in individual retirement accounts (IRAs) and make payroll deductions on their behalf while allowing workers to opt out if they choose (Georgetown University, 2020). Early results from Oregon's plan show that relatively few workers opt out of the plan (Quinby et al., 2019). Expanding these programs to more states or creating a national auto-IRA program could boost retirement saving for many Black workers.

Lack of access to banking services, which limits one's ability to save and obtain credit and raises the cost of financial transactions, also contributes to the racial wealth gap (Altonji & Doraszelski, 2005; Baradaran, 2019). In 2017, 17 percent of Black households were unbanked, meaning that no one in the household had a checking or savings account at an insured institution, compared with only 3 percent of White households (FDIC, 2017.) Another 30 percent of Black households were underbanked, meaning that they had a bank account, but also obtained products or services from an alternative financial services provider. Allowing the postal service to provide simple banking services, such as checking accounts and small loans, could help many Black families save and obtain lower-cost credit (Baradaran, 2019).

Conclusions

Many older Black adults face significant financial challenges. Black people aged 65 and older receive only about half as much income as their White counterparts, and they are more than four times as likely to be impoverished. Average household wealth, including the value of a home, other real property, and financial assets minus outstanding mortgages and other debt, is about four times higher for older White adults than older Black adults. Disparities in financial wealth, which include bank accounts, mutual and money market funds, and stocks and bonds and can generally be easily liquidated in an emergency, are even larger. On average, older White people hold about seven times as much financial wealth as older Black people. The Black-White gap in economic well-being at older ages has not narrowed over the past two decades.

Various policy changes could improve the financial security of older Black adults. Because Social Security accounts for the majority of income received by most Black retirees, shoring up the program's finances may be the most pressing priority. Under current benefit and tax rules, the Social Security trustees project that in 2035 the system's trust funds will run out and Social Security will be able to pay only about four-fifths of scheduled benefits (Board of Trustees, 2020). Those projections were completed before the COVID-19 pandemic plunged the U.S. economy into a deep recession and slashed Social Security revenues, so the program's trust funds may run out sooner. Increasing Social Security revenues, such as by taxing high earnings, could delay or reduce required benefit cuts for Black and other beneficiaries. Social Security benefit enhancements, such as the introduction of a meaningful minimum benefit and increased benefits for the survivors of deceased beneficiaries, and SSI expansions, would also help many Black older adults.

Other policy initiatives could help Black workers accumulate wealth over their lifetimes and improve the financial security of future generations of Black retirees. A more equitable housing finance system that improves access to credit and zoning reforms that increase the supply of affordable housing could enable more Black people to purchase homes and build home equity. Policymakers could promote retirement savings for lower-income workers by expanding the Saver's Credit and incentivizing saving through tax credits instead of tax deductions. Widespread use of auto-IRAs could facilitate retirement savings for workers without access to employer-sponsored retirement accounts. Increasing the minimum wage, expanding apprenticeships, devoting more public funds to workforce development programs, and strengthening labor unions could increase employment and earnings for many Black workers, allowing more to save for retirement and accumulate additional Social Security credits.

These initiatives could help level the playing field for Black workers and savers, helping them overcome the legacy of racist government policies and ongoing racial discrimination that obstruct wealth building and limit retirement security for many Black people. Some of these policy initiatives would require additional public spending. Expanding Social Security, increasing SSI payments, and investing more in workforce development programs could be expensive and divert resources from other public priorities. Other efforts, such as ensuring that Black people are treated fairly in credit, housing, and labor markets, would not require much funding. Successful implementation of any of these reforms would require sustained commitment from federal, state, and local policymakers and other stakeholders.

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Table 1. Adjusted Household Income by Source, Race, and Hispanic Origin, 2015

Adults aged 65 and older

	Black	Latinx	White
Median adjusted household income ($)	22,100*	17,100*	40,200
Percentage with income			
Social Security	90*	89*	93
Labor earnings	24*	19*	28
Pension income	36*	27*	54
Asset income	31*	23*	66
Other income	41	37	38
Median amount among those receiving income ($)			
Social Security	13,800*	13,400*	18,500
Labor earnings	24,400	22,100*	31,500
Pension income	12,900	10,800*	13,800
Asset income	700*	2,600	2,400
Other income	4,000*	2,300*	1,200

Source: Author's calculations from the Health and Retirement Study.

Notes: Financial amounts are reported in 2019 inflation-adjusted dollars. The analysis divides reported household income by the square root of 2 for married adults, to reflect the greater spending needs of couples relative to single adults. Asset income includes business or farm income, self-employment earnings, rent, dividend and interest income, and income from trust funds and royalties. Pension income includes income from employer-sponsored pensions and annuities. Other income includes income from alimony, unemployment insurance, workers' compensation, other government benefits, and lump sums from insurance, pensions, and inheritances.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)

Table 2. Composition of Adjusted Household Income by Income Tercile, Race, and Hispanic Origin, 2015 (%)

Adults aged 65 and older

	Black	Latinx	White
Bottom third			
Social Security	79	82	80
Labor earnings	2	2	2
Pension income	3	3	9
Asset income	1	2	4
Other income	15	12	4
Middle third			
Social Security	68	80	47
Labor earnings	6	4	11
Pension income	13	5	26
Asset income	4	1	10
Other income	10	9	6
Top third			
Social Security	23	25	13
Labor earnings	33	32	28
Pension income	26	17	15
Asset income	9	19	31
Other income	9	8	13

Source: Author's calculations from the Health and Retirement Study.

Notes: The analysis divides reported household income by the square root of 2 for married adults, to reflect the greater spending needs of couples relative to single adults. Asset income includes business or farm income, self-employment earnings, rent, dividend and interest income, and income from trust funds and royalties. Pension income includes income from employer-sponsored pensions and annuities. Other income includes income from alimony, unemployment insurance, workers' compensation, other government benefits, and lump sums from insurance, pensions, and inheritances. Income terciles are estimated separately for each racial group.

Table 3. Trends in Median Adjusted Total Household Income by Age, Race, and Hispanic Origin, 1997-2015 ($)

	Dollar Amount			As a Percentage of White Income	
	Black	Latinx	White	Black	Latinx
Aged 65-70					
1997	21,100*	18,900*	40,000	53	47
2003	25,000*	20,300*	43,500	57	47
2009	27,000*	19,600*	44,000	61	45
2015	27,600*	19,800*	55,900	49	35
Aged 71-76					
1997	18,900*	15,400*	32,800	58	47
2003	19,200*	16,700*	34,600	55	48
2009	21,500*	16,000*	36,400	59	44
2015	24,300*	21,400*	39,600	61	54
Aged 77-82					
1997	18,900*	15,400*	32,800	58	47
2003	19,200*	16,700*	34,600	55	48
2009	21,500*	16,000*	36,400	59	44
2015	24,300*	21,400*	39,600	61	54

Source: Author's calculations from the Health and Retirement Study.

Notes: Financial amounts are reported in 2019 inflation-adjusted dollars. The analysis divides reported household income by the square root of 2 for married adults, to reflect the greater spending needs of couples relative to single adults.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)

Table 4. Poverty Rates by Personal Characteristics, Race, and Hispanic Origin, 2015

Adults aged 65 and older

	Black	Latinx	White
All	22*	28*	5
Education			
Did not complete high school	33*	38*	13
High school graduate	19*	15*	5
College graduate	13*	16*	3
Age			
65-69	19*	31*	4
70-74	17*	19*	3
75-79	23*	24*	5
80 and older	32*	37*	8
Gender			
Male	18*	21*	3
Female	25*	32*	6
Marital status and gender			
Married	6*	19*	2
Not married	32*	39*	10
Men	34*	26*	8
Women	31*	44*	11

Source: Author's calculations from the Health and Retirement Study.

Notes: Table shows the share of adults aged 65 and older with incomes below 100 percent of the federal poverty line.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)

Table 5. Adjusted Household Wealth by Type, Race, and Hispanic Origin, 2016

Adults aged 65 and older

	Dollar amount			As a Percentage of White Adults	
	Black	**Latinx**	**White**	**Black**	**Latinx**
Total household wealth					
Mean	159,200*	171,700*	647,300	25	27
25th percentile	2,100*	2,400*	86,600	2	3
50th percentile (median)	50,600*	49,600*	269,500	19	18
75th percentile	154,400*	177,100*	675,400	23	26
Net housing wealth					
Mean	75,900*	94,500*	158,600	48	60
25th percentile	0*	0*	26,600	0	0
50th percentile (median)	32,000*	42,600*	105,500	30	40
75th percentile	95,900*	117,200*	207,700	46	56
Financial wealth					
Mean	44,900*	37,000*	323,400	14	11
25th percentile	0*	0*	5,300	0	0
50th percentile (median)	500*	0*	76,800	1	0
75th percentile	8,800*	7,500*	323,900	3	2

Source: Author's calculations from the Health and Retirement Study.

Notes: Table reports wealth in 2019 inflation-adjusted dollars and divides household wealth by the square root of 2 for married adults, to reflect the greater spending needs of couples relative to single adults. Total household wealth includes the value of housing, other real estate holdings, businesses, automobiles and other modes of transportation, and financial assets, minus any outstanding debt. Net housing wealth includes the value of the primary residence minus any outstanding mortgages. Financial wealth includes the value of stocks, mutual funds, money market funds, checking and savings accounts, certificates of deposit, bonds, individual retirement accounts, Keogh plans, annuities, and other financial assets.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)

Table 6. Trends in Median Adjusted Total Household Wealth by Age, Race, and Hispanic Origin, 1998-2016

	Dollar Amount			As a Percentage of White Wealth	
	Black	**Latinx**	**White**	**Black**	**Latinx**
Aged 65-70					
1998	49,900*	34,200*	240,800	21	14
2004	56,500*	60,800*	290,600	19	21
2010	69,800*	42,300*	284,000	25	15
2016	46,800*	52,700*	283,300	17	19
Aged 71-76					
1998	44,400*	45,500*	225,700	20	20
2004	54,100*	46,700*	281,400	19	17
2010	59,500*	51,400*	264,200	23	19
2016	67,100*	70,800*	281,000	24	25
Aged 77-82					
1998	46,300*	31,400*	199,800	23	16
2004	35,300*	76,600*	268,000	13	29
2010	62,700*	7,000*	274,600	23	3
2016	45,200*	49,600*	278,000	16	18

Source: Author's calculations from the Health and Retirement Study.

Notes Table reports wealth in 2019 inflation-adjusted dollars and divides household wealth by the square root of 2 for married adults, to reflect the greater spending needs of couples relative to single adults. Total household wealth includes the value of housing, other real estate holdings, businesses, automobiles and other modes of transportation, and financial assets, minus any outstanding debt.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)

Table 7. Retirement Plan Coverage on the Current Job, by Type, Race, and Hispanic Origin, 1998 and 2016 (%)

Workers aged 51 to 64

	Black	**Latinx**	**White**
All employed workers			
Any coverage			
1998	56	46*	58
2016	52*	37*	60
Defined-benefit plans			
1998	36	23*	33
2016	19*	16*	27
Defined-contribution plans			
1998	26*	27*	37
2016	38*	21*	43
Full-time workers			
Any coverage			
1998	64	54*	67
2016	61*	44*	69
Defined-benefit plans			
1998	41	28*	40
2016	23*	20*	31
Defined-contribution plans			
1998	30*	32*	44
2016	45*	25*	50

Source: Author's calculations from the Health and Retirement Study.

Notes: The analysis defines full-time work as 35 or more hours per week.

* indicates that the estimate differs significantly from the corresponding estimate for White people ($p < .05$)