

## PLANNING FOR RETIREMENT: ADDRESSING THE RETIREMENT SECURITY GAP IN BLACK AND HISPANIC HOUSEHOLDS

The latest National Retirement Risk Index (NRRI) research explores the retirement preparedness of black and Hispanic households, with findings that are worthy of discussion and analysis. While retirement readiness has declined for many Americans over the past decade, the outlook for black and Hispanic households is substantially worse than it is for white households.

### Research Findings

The Center for Retirement Research at Boston College (CRR) recently used the NRRI to examine the retirement readiness of black and Hispanic households. It found that over the 10 years from 2007 to 2016, the percentage of black households at risk of not being able to maintain their standard of living in retirement rose to 54 percent from 52 percent. During that same period, the percentage of Hispanic households at risk of not being able to maintain their standard of living rose to 61 percent from 51 percent.

By contrast, the percentage of white households at risk rose to 48 percent from 42 percent.

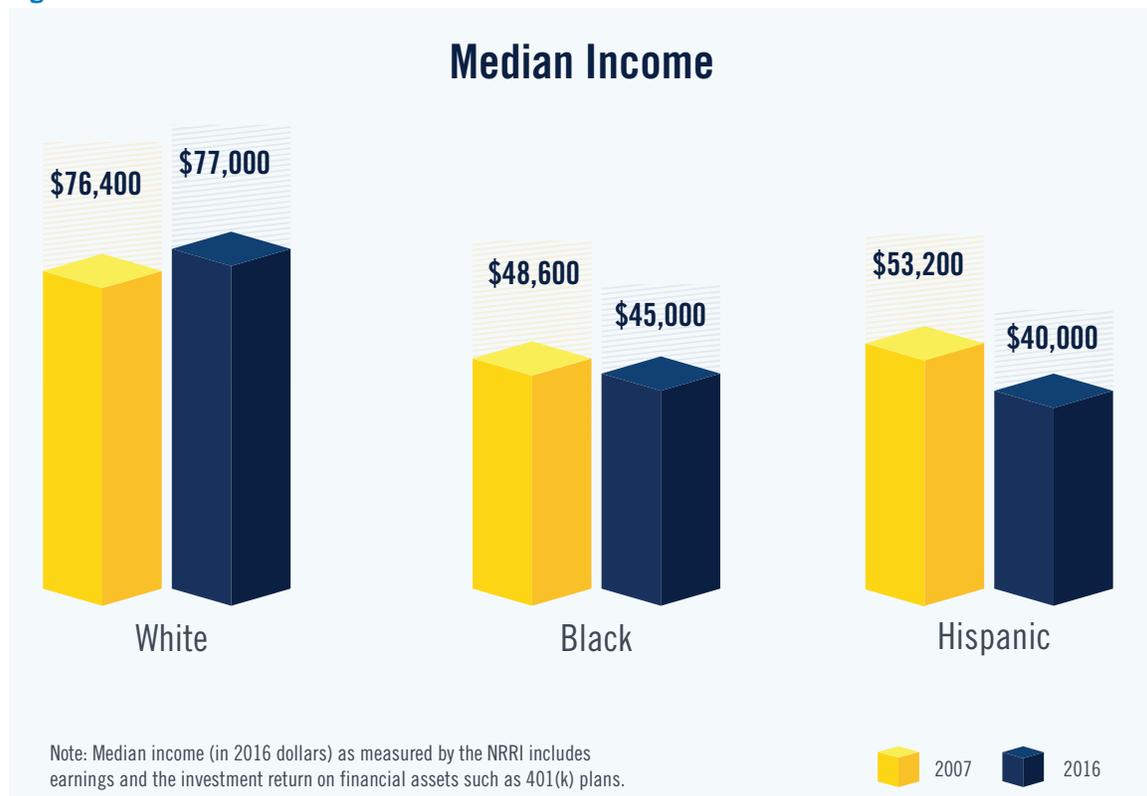
The CRR attributes much of the increase for Hispanic households to a stunning 41 percent decline in their median housing wealth during that period, noting that Hispanic households were particularly impacted by the downturn in housing prices from 2007 to 2016.

### Prudential's Perspective

While the NRRI is a valuable tool for gauging retirement preparedness, it does not fully reflect the extent of the challenges facing black and Hispanic households.

Consider that the NRRI identifies whether a household is “at risk” based on their likelihood of being able to replace a certain percentage of their pre-retirement income once retired. Now note that in Figure 1 below, median income for white households ages 30 to 59 rose to \$77,000 in 2016, up slightly from \$76,400 in 2007 (in constant 2016 dollars). By contrast, median income for black and Hispanic households was not only much lower than white households in 2016, it also was down from 2007. Among black households, for example, median income fell to \$45,000 from \$48,600 in constant 2016 dollars, while among Hispanic households it fell to \$40,000 from \$53,200. (For purposes of the NRRI, income includes earnings and returns on financial assets such as 401(k) plans.)

Figure 1



Clearly, the income gap between white households and black and Hispanic households has worsened. In 2016, median black household income was 42 percent lower than median white household income (versus a 36 percent gap in 2007), while median Hispanic household income was 48 percent lower (versus a 30 percent gap in 2007).

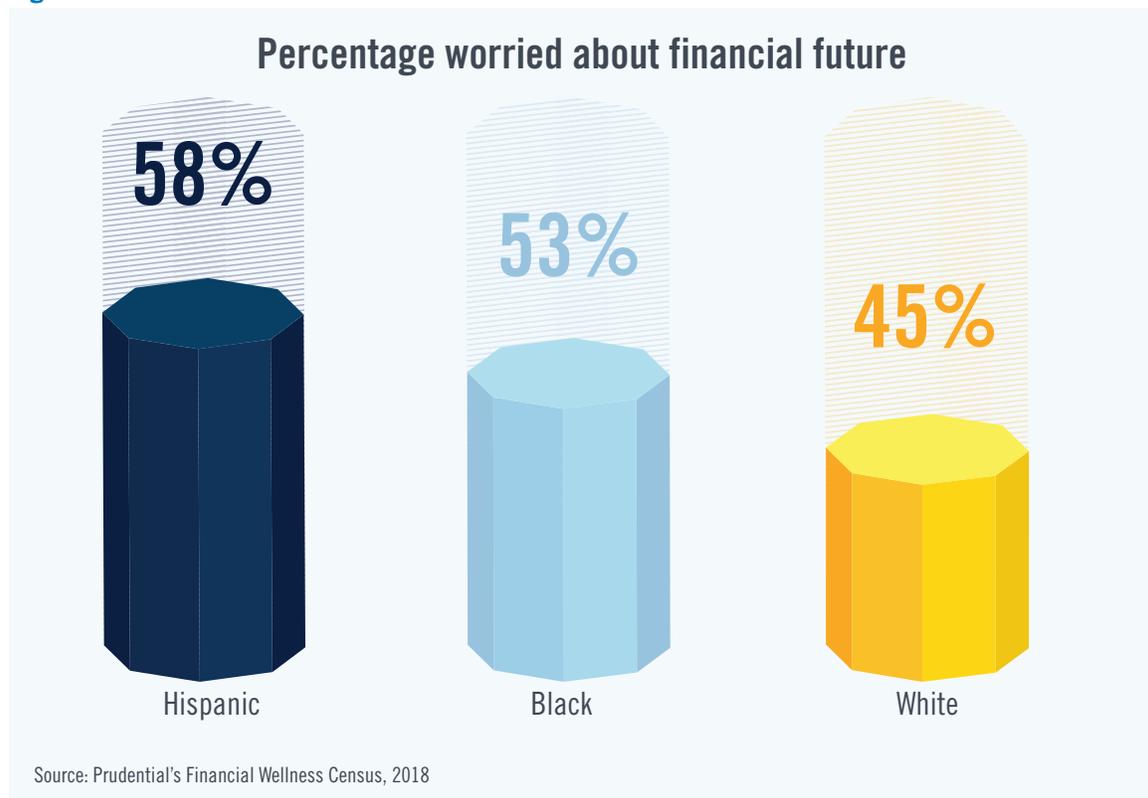
What all this means is that even though the amount of pre-retirement income black and Hispanic households now need to replace in retirement has fallen significantly, they are even less likely to be able to do it than they were in 2007.

Viewed through this lens, it is evident that there is not only a severe income gap, but also a retirement security gap, between white households and black and Hispanic households.

The findings of the CRR are consistent with many of those from Prudential's Financial Wellness Census™, which surveyed more than 3,000 U.S. adults about their financial health. In the study, blacks and Hispanics reported significantly less retirement savings (\$25,000 and \$39,000, respectively) than whites (\$176,000).

In addition, the study found that blacks and Hispanics are more likely to worry about their financial future, with 58 percent of Hispanics and 53 percent of blacks indicating they are very worried, compared to 45 percent of whites. (See Figure 2)

Figure 2



All that said, there are some bright spots for black and Hispanic households at relatively higher income levels. For example, the Financial Wellness Census indicates that among households with incomes above \$50,000, 20 percent of Hispanic households and 17 percent of black households feel they are on track to help their children with a down payment for a home—compared to just 13 percent of white households. In addition, for that same population with income over \$50,000, 25 percent of black households and 18 percent of Hispanic households are on track to reduce or pay off student loans, compared to 12 percent of white households.

One key reason black and Hispanic households lag white households in many other areas is because of a historical absence of wealth transfer across generations. Wealth transfers can take many forms. A 2017 research paper from the Federal Bank of St. Louis finds that children gain a significant economic advantage when they receive financial assistance from a parent in the form of college tuition, a down payment on a home, large gifts when those children are raising their own children, summer camp assistance, or other financial gifts.<sup>1</sup> Such gifts are much more prevalent among white families than blacks.<sup>2</sup> In fact, the research notes that black college-educated households are actually far more likely than their white counterparts to provide financial support to their parents, rather than receive it from them.<sup>3</sup>

<sup>1</sup> Meschede, Tatjana, Joanna Taylor, Alexis Mann, and Thomas Shapiro, “Family Achievements?: How a College Degree Accumulates Wealth for Whites and Not for Blacks,” *Federal Bank of St. Louis Review*, p. 135.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

Closing the retirement security gap will not be easy, as some of the problems behind it are deep-seated and systemic. Nonetheless, it is important that our country start a dialogue on how to improve retirement prospects for households consisting of people of color.

While by no means all-inclusive, here are a few things that could help:

### **Increase partnering between private corporations and nonprofit institutions**

Arguably, the most critical element of improving retirement security for people of color is to make sure good-paying jobs are available to them and that workers have the proper training to succeed in those jobs. Nonprofit enterprises such as Prosperity Now, The Aspen Institute and others are already looking for ways to improve job opportunities for low- to medium-income households and address the racial wealth gap. Now, with technology changing the way many Americans will work in the future, it is important that nonprofits and private enterprises partner in developing new ideas and programs that improve training and employment opportunities and help families reach a middle-class lifestyle. Research by nonprofits also can help demonstrate how government programs might be improved to assist the economic prospects of low- to medium-income families.

### **Improve access to workplace retirement plans**

More than 40 percent of Americans employed full-time in the private sector work for an employer that does not offer a workplace retirement plan such as a 401(k).<sup>4</sup> This is unfortunate, because employer-sponsored plans have been demonstrably successful in helping people save for retirement. The Employee Benefit Research Institute estimates that individuals are 10 times more likely to save for retirement if they have access to a payroll deduction savings plan at work.<sup>5</sup> Congress and the Department of Labor are currently considering ways to help by making Multiple Employer Plans (MEPs) more widely available. As envisioned, new legislation around MEPs would allow small businesses to band together to offer joint 401(k) plans, and would eliminate unnecessary administrative and compliance burdens currently associated with those plans.

Right now, lack of access to workplace retirement plans disproportionately impacts black and Hispanic households. Although 63 percent of white full-time workers have access to such a plan, that figure falls to 56 percent for black full-time workers and 38 percent for Hispanic full-time workers.<sup>6</sup>

### **Engage financial services firms in grassroots marketing partnerships with trusted community leaders**

Religion and spirituality play a major role in the lives of many black and Hispanic households.<sup>7</sup> Grassroots marketing partnerships with trusted community leaders and media organizations could be vital to reaching these households. Organizations that provide spiritual guidance, cultural relevance, authenticity, and inclusion are viewed as trusted sources for these consumers. Prudential's partnership with the dfree® Financial Freedom Movement—a faith-based wealth-building system—is an example of how organizations can partner to provide traditionally underserved communities with financial education and other resources that can help them achieve financial wellness.

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<sup>4</sup> The Pew Charitable Trusts, "Who's In, Who's Out: A Look at Access to Employer-based Retirement Plans and Participation in the States," p. 1, 2016.

<sup>5</sup> Employee Benefit Research Institute, "The 2017 Retirement Confidence Survey: Many Workers Lack Retirement Confidence and Feel Stressed About Retirement Preparations," Issue Brief 431, p. 12, 2017.

<sup>6</sup> The Pew Charitable Trusts, "Who's In, Who's Out: A Look at Access to Employer-based Retirement Plans and Participation in the States," p. 30, 2016.

<sup>7</sup> The Black Book Research Report, Black Entertainment Television.

## Increase access to financial wellness programs

Many companies have been creating financial wellness programs as they have begun to recognize that workers need to tend to all their finances, not just their employee benefits. Financial wellness programs are designed to help workers manage day-to-day finances, protect against key risks, and achieve important financial goals. With the growth of these programs, employers have an opportunity to help employees address pressing financial challenges that can impede wealth-building, such as poor budgeting and debt-management skills. Later, as workers progress in their careers and begin to enjoy higher incomes, financial wellness programs can provide access to education and advice on how to maximize their financial health and lay the groundwork for the next generation to secure their financial future. This is important, because the ultimate goal of financial wellness programs should be to help individuals move beyond financial stability to financial security.

## Conclusion

While there has been much discussion in the U.S. about income inequality and the wealth gap that exists between white households and those of people of color, we also must pay attention to the growing retirement security gap. Corporations, nonprofits, and government all have a role to play in closing it.

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