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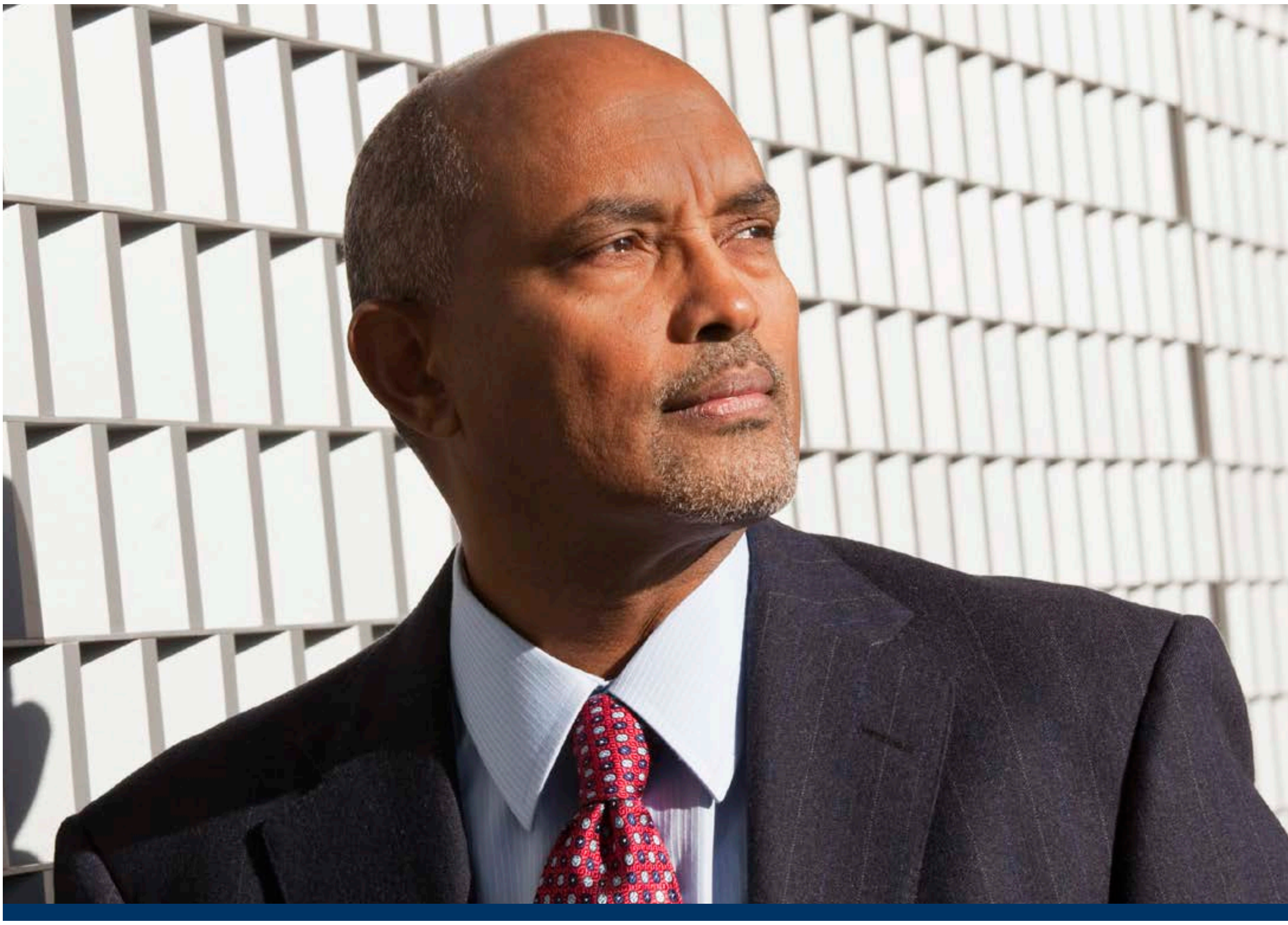
Wealth patterns among the top 5% of African-Americans



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Editorial

There has been considerable research on wealth creation in America through the lens of race and class. This report, which focuses on the top 5% of African-Americans by net worth, and which does so with more comprehensiveness than many preceding studies, addresses a number of key questions: What are the key drivers of wealth creation among this group? What makes the investment choices of this group distinctive? What brings about these distinctions?

The answers are striking. Our research, developed together with Brandeis University's Institute on Assets and Social Policy (IASP), shows that education is a key driver of wealth creation among the top 5% of African-Americans. It shows that the top 5% of African-Americans take a relatively conservative approach to financial decision-making, investing relatively high proportions of their wealth in low-risk assets like insurance, savings bonds and CDs, and relatively low proportions of their wealth in stocks, bonds and mutual funds. It shows proportionally higher investments in real estate among this group, and proportionally lower investments in business assets.

The report considers a number of drivers of these distinctions, including "wealth mobility" – the degree to which a population maintains or moves into wealth over time – as well as education, income, inheritance, and employment. Equally relevant may be historical factors, including historically limited access to capital among all African-Americans. The Commerce Department's Minority Business Development Agency, for example, has found that minority business owners receive loans less frequently, at significantly smaller sizes, and at worse rates than non-minority business owners. The impact of this data on financial decision-making is difficult to quantify – but it is arguably significant.

What's next? The report has wide-ranging implications. For banks like Credit Suisse, it will continue to shape the work we do to accelerate financial opportunity among people who represent the changing face of wealth in our country.

Pamela Thomas-Graham
Chief Marketing and Talent Officer, Credit Suisse AG
Head of Private Banking and Wealth Management New Markets
Member of the Executive Board

Introduction

Growing income and wealth inequality is a highly debated topic around the world. It has been the trigger of revolutions and social unrest and one of the major problems the Western economic model has had to face.

Stefano Natella, **Tatjana Meschede** and **Laura Sullivan**

The U.S. has been at the center of this debate, as one of the countries with the highest levels of inequality, measured as the share of wealth controlled by the top 10% of the population (see the report, titled, Credit Suisse Research Institute: Global Wealth Report 2014, published October 14, 2014). The recent volatility in both equity and real estate prices in the U.S. makes analyzing and understanding the causes of inequality difficult, but it also clearly shows the influence that households' investment and financing choices have on their level of wealth.

In this research report, written in coordination with the Institute on Assets and Social Policy (IASP) at Brandeis University, we focus on two segments of the U.S. society: white and African-American households. The income and wealth gap between these two groups has been widely researched, and reliable data have been available since the 1980s. Based on the Federal Reserve Board's Survey of Consumer Finances (SCF) data for 2010, the median income of white Americans was 70% higher than that of African-Americans and their net worth (or wealth) was 7.9 times higher.

When looking at wealth levels, racial disparities are startling. We were curious to see to what extent these disparities held true at income and wealth levels well above the median. How wide is the gap for the top 10%, 5%, or even 1% of African-Americans? And, what differentiates the top wealth groups from the rest of African-Americans or wealthier white Americans?

In seeking to answer these questions, we focused mainly on the data from the 2010 SCF for our analysis; however, we also leveraged existing research and data from the Panel Study of Income Dynamics (PSID), the Survey of Income and Program Participation (SIPP), the U.S. Census and the Ariel/Hewitt study on 401k disparities across racial and ethnics groups. The SCF data are at the core of the analysis that the IASP research team has developed for this paper. The survey includes about 6,500 households, of which 790 are African-American. The top 1% of the African-Americans included in this survey represent just 12 fami-

Table 1

Equivalent percentiles and wealth estimates for African-American and white households

Source: SCF, Brandeis Research

African-American Percentile	Net Worth Percentile (African-Americans)	Closest Percentile for Whites	Net Worth at Percentile (Whites)
1	-$114,179	1	-$78,200
5	-$24,700	4	-$21,000
10	-$5,180	7	-$5,500
25	$150	11	$40
50	$15,570	24	$16,000
75	$97,750	46	$97,200
90	$234,300	63	$237,100
95	**$356,900**	**72**	**$358,450**
99	$1,440,100	91	$1,381,800

lies, which is not enough to draw any conclusions. However, the top 5% is 48 families, which is a more substantial sample in the context of this survey. Therefore, we decided to focus on the top 5% of the African-American population.

The results of our joint research are thought provoking and show a much narrower wealth gap at the top level of the wealth distribution, even though racial disparities persist. We highlight the following main findings.

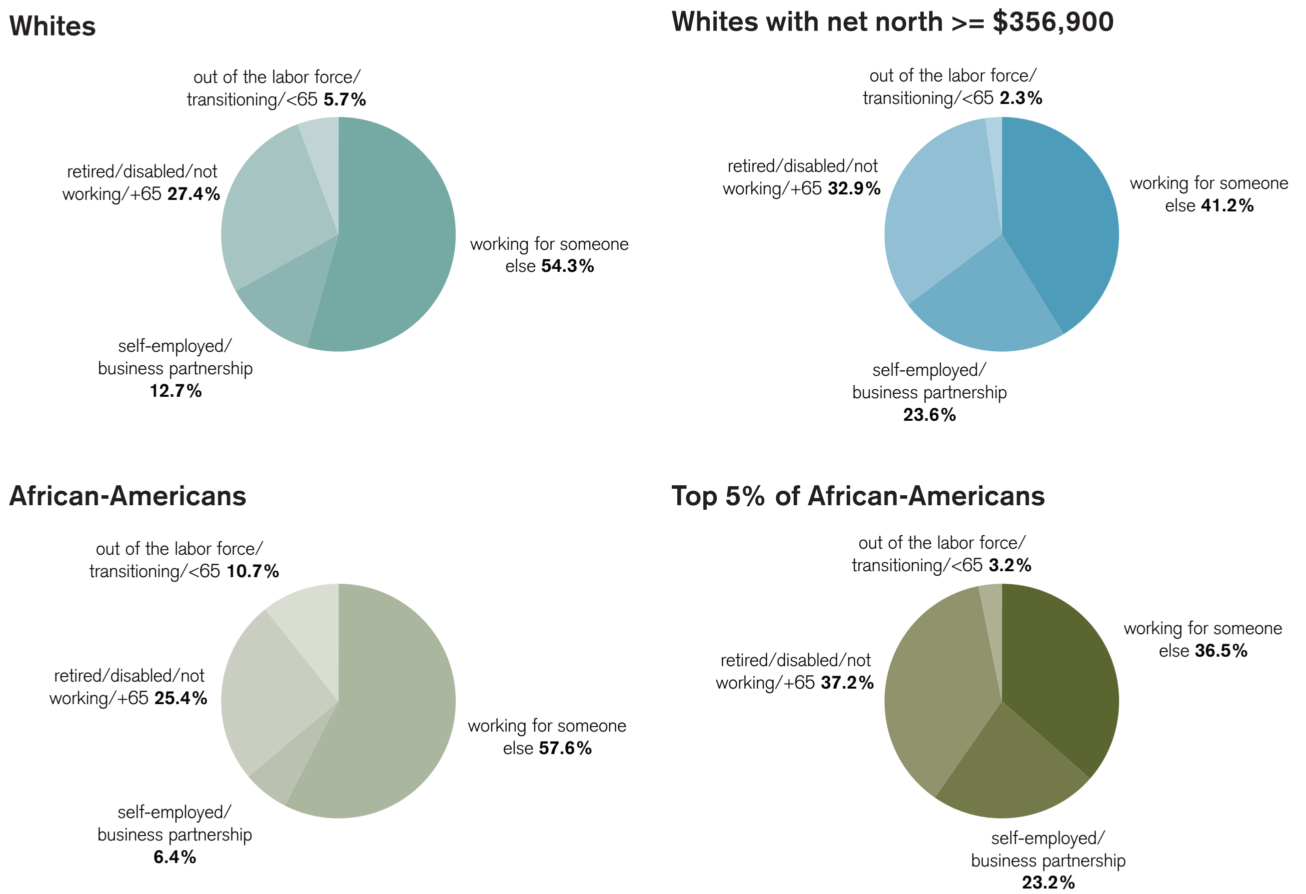
- As it is true for the overall wealth distribution, the concentration of wealth in the hands of the top segment of the African-American population is high. In 2009, the top 10% of African-Americans accounted for 67% of the wealth held by all African-Americans compared with 51% for the top 10% of white Americans, based on the Pew Research Center's analysis of SIPP data. Those same percentages were 59% and 46%, respectively, in 2005. This could suggests that, in terms of wealth, the top segment of the African-American population is probably getting closer to the top segments of white Americans and further away from the rest of African-Americans.
- How close to the top? The 95th percentile or, the top 5% of African-Americans, has a net worth equal to or greater than $357k. As we can see from Table 1, this is equal to approximately the 72nd percentile in the wealth distribution for white households. At higher wealth levels, the racial wealth gap becomes smaller, but it is still significant. The net worth for the top 1% of white Americans is 5.8 times that for the top 1% of African-Americans; for the top 5%—the group on which we focus—this ratio reaches 6.5, and it is higher (almost 8 times) when comparing both groups at the median across all wealth levels.
- While there is still a significant gap relative to the wealthier white Americans, the top 5% of African-Americans have been very successful relative to the average American. The median net worth for the top 5% of African-Americans ($739k) is 47 times greater than the median wealth for all African-Americans and 6 times greater than the median for white households.
- Is there a difference in the asset mix of the top 5% of African-Americans compared with the equivalent white American group (at or above the 72nd percentile)? Among African-Americans in the top 5%, financial assets—usually the more volatile portion of assets—account for 35% of total assets, lower than the 42% for the white comparison group. This shows a more conservative asset portfolio, with a lower proportion of financial assets (stocks, bonds, CDs, 401k, etc.).
- A more detailed analysis of the asset composition of the top 5% of African-Americans relative to the white comparison group leads to a similar conclusion: among financial assets, wealthy African-Americans own less in stocks and bonds and more in CDs, saving bonds, and life insurance. Similar conclusions can be drawn by looking at the 401K data from the Ariel/Hewitt study conducted in 2012.
- Among non-financial assets, the two main differences between the top 5% of African-Americans and the white comparison group are significantly less equity in business assets[1]—9% of non-financial assets for the top 5% of African-Americans versus 37% for the white comparable group—but a higher level of investment in real estate outside the primary home—41% of non-financial assets versus 22%, respectively.
- This more conservative approach of the top 5% of African-Americans to investing is understandable when looking at the constrained social mobility trends of the African-American population and lower levels of overall economic security. Research published in 2007 by Conley and Gruber based on PSID data shows that only 24% of the African-Americans who were in the top quartile in 1984 were still at the top in 2003,versus 60% for white Americans.
- What about debt? The top 5% of African-Americans are more likely to have debt than the wealthier white comparison group: 81% versus 70%. However, the mean and median debt levels and the actual monthly debt payments of the top 5% of African-Americans are typically lower than for debt holders among the white comparison group. Still, debt repayments account for a larger portion of income. Finally, leverage—measured as debt to total assets—is slightly higher than for the comparable white American group, but only slightly.
- There are several factors that come into play and explain the success of the top 5% of African-Americans and why—even at this level of wealth—there is still a gap relative to the comparable white group. Education, home ownership, employment, business ownership, and portfolio allocation show some marked difference with the comparable segment of the white American population.

1 Business assets are defined as the total value of business(es) in which a household has an active or non-active interest.

Figure 1

Employment status

Source: SCF, Brandeis Research



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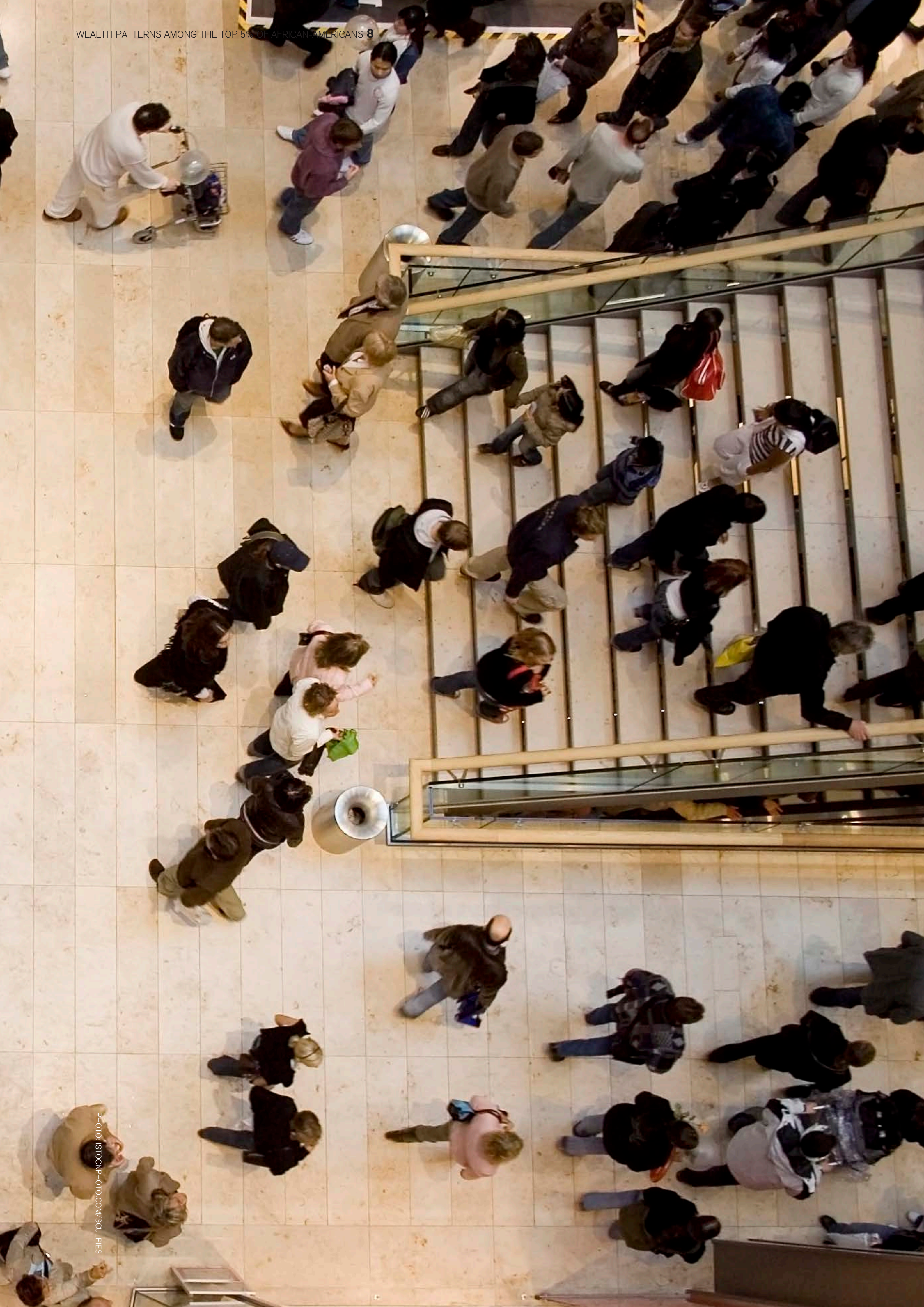


PHOTO: ISTOCKPHOTO.COM/SCULPIES

Who are the top 5% of African-Americans?

The demographics of the top 5% of African-Americans reveal interesting trends and significant differences with the rest of the population.

How wealthy?

The top 5% of African-American are those households with a net worth (financial and non financial assets minus debt) of at least $357k. We will analyze the main components of net worth in further detail later in this report, but for now, we want to understand better who is at this top level of wealth and how different or similar they are to all African-Americans, white Americans, and the comparable segment of the white American population.

A number of demographic characteristics distinguish the wealthy households in our study from their peers: age, education, marriage, and having a managerial job or owning a business are associated with more household wealth.

Employment

Labor force participation among heads in the top 5% of African-Americans, as well as that of their white comparison group, is below that of their peers overall, most likely due to both their higher ages and that wealth tends to increase consumption of normal goods, including leisure (in the form of retirement).

Household heads tend to be older among the wealthier households, with the top 5% of African-Americans and their white comparison group both having a median age of 59 for the household head. Fewer of the wealthy household heads are of working age (18-64) compared with their peers overall, and 37% of the top 5% of African-Americans and 33% of the white comparable group are retired compared with 25% and 27% for the overall African-American and white samples.

Over 23% of both the top 5% of African-Americans and the white comparison group are either self-employed or have a business partnership. This compares with 6% for the African-American population in the full SCF sample and 13% for whites overall. Yet, when we look at the actual assets owned by these two wealthier groups, the comparable white American group has a lot more equity invested in business assets—37% of mean non-financial assets versus just 9% for the top 5% of African-Americans. Business assets represent the value of businesses in which a family has an active or non-active interest.

This is an important differentiating point and might help explain the higher wealth gaps that we find as we move to percentiles of wealth distribution. It is also consistent with the research done by Altonji and Doraszelski and more recently by David Low at New York University across the whole population, based on PSID data.

Finally, 36% of the top 5% of African-Americans and 45% of the white comparable group have managerial or professional jobs versus 19% for all African-Americans and 30% for all whites. Technical, sales, and service positions (as well as manual positions in labor, repairs, production, and farming) are less common among both high-wealth African-American and white households.

Table 2

Head of household demographics

Source: SCF, Brandeis Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Head age: median	50	52	47	59	59
Heads age 65+	22.2%	25.6%	17.4%	36.3%	31.2%
Heads in labor force	73.4%	71.0%	72.9%	66.4%	62.8%
Managerial/professional jobs	27.7%	30.0%	19.2%	45.4%	36.3%
Heads who have manual jobs (production/craft/repair workers, operators, etc.)	18.9%	17.3%	17.0%	8.2%	6.5%
Female head	27.1%	24.4%	43.3%	15.0%	19.1%
Married (or living with partner)	58.1%	60.8%	39.3%	75.5%	64.2%
No kids currently in the household	56.5%	60.7%	53.7%	65.6%	66.4%

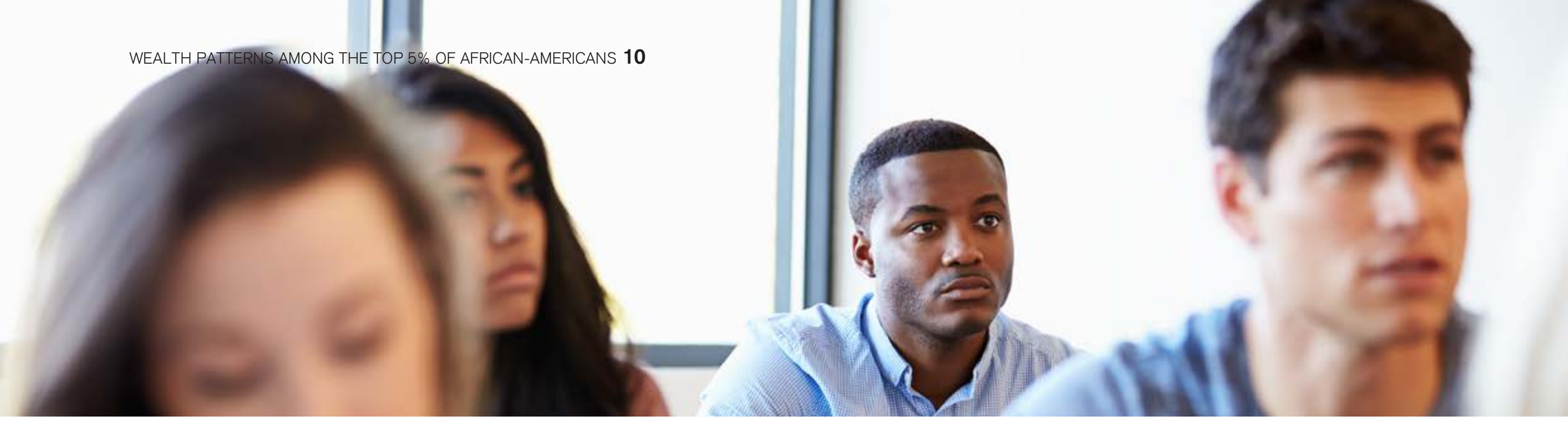


PHOTO: SHUTTERSTOCK.COM/MONKEY BUSINESS IMAGES

Family

The higher wealth households of both African-Americans and the comparable white American group were less likely to have children living in the home, likely due in part to the older age of the wealthier households. However, marriage is positively correlated with higher wealth levels: 64% of the top 5% of African-Americans are married or live with a partner versus just 39% for the African-American population as a whole.

Households with female heads are not well represented among the wealthiest households; in the top 5%, only 19% of the households are headed by women compared with 43% among all African-Americans. For the white comparable sample, 15% of households are headed by a woman versus 24% for the whole white population.

Education

Education appears to have been a key factor contributing to this group's higher household wealth. As in the SCF, we measure the level of education in two ways: completion of a higher degree, including associates and bachelor's degrees, and completion of 16 years of education (to approximate a bachelor's degree).

While educational disparities are present across the entire U.S. population, in analyzing our sample, we noticed that the educational differences between the whites and African-Americans narrow as wealth holdings increase. Across most of the wealth distribution, whites with similar wealth holdings have higher educational attainment levels to African-Americans. However, at the highest wealth levels measured at the 95th and 99th percentiles for African-Americans, the data suggest that African-Americans have slightly greater education levels than whites. Almost 69% of African-Americans at the 95th percentile of net worth and above have a higher education degree compared with 26% for the African-American population as a whole, 41% for the white American population, and 64% for the wealthier white comparable group.

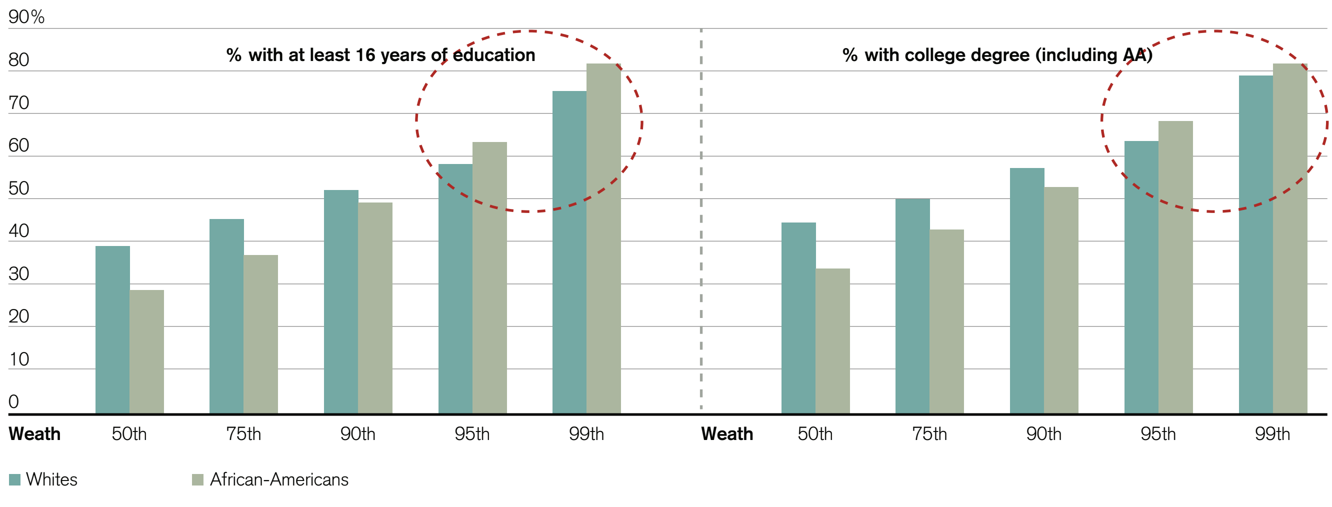
In the past 30 years, the gap between students from low- and high-income families that earn a bachelor's degree has increased from 31% to 45%, and the cost of education has skyrocketed. Against this background, higher income and higher net worth African-American families have been still able and willing to invest in education to a higher extent than the equivalent segments of the white American population, as we can see from the higher number of families with education loans: 15.2% versus 7.5% for the white comparable group. With generally fewer inheritances, and less extensive family wealth, the top 5% of African-Americans have relied on better education as a way to achieve financial security.

Therefore, the wealthiest 5% of African-American families are quite different from the average household among the African-American population in terms of both employment and education, as we would expect, but are also somewhat different from the comparable segment of the white American population.

Figure 2

Higher education by race and wealth levels

Source: SCF, Brandeis Research



What drives their wealth?

Statistical research by IASP on the racial wealth gap across the U.S. population has identified several factors that help explain close to two thirds of the gap and help understand the reasons behind the gradual and consistent widening on the gap. Household income, homeownership, and family financial support or inheritance have been three common factors highlighted in the academic and policy literature. Some of these factors also apply to our top 5% segment, but there are also other factors at play.

Income

Income is among the major factors explaining the evolution of the racial wealth gap across the whole population. Research from Brandeis attributes 20% of the widening wealth gap to household income. According to the SCF survey, the median income of an African-American family is $30,495, or 59% of that of a typical white American family. But it does not stop here.

According to a 2013 IASP study, the income multiplier effect is also different. At the median wealth level ($15,570 for African-Americans and $123,380 for white Americans in our analysis), $1 of additional income leads to a $5.19 increase in the net worth of a white family and only $0.69 for an African-American family. Adjusting for the different initial wealth levels suggests that $1 increase in income leads to an additional $4.03 increase in wealth for an African-American family. Better but not the same.

Figure 3

What's driving the increasing racial wealth gap

Source: Brandeis Research

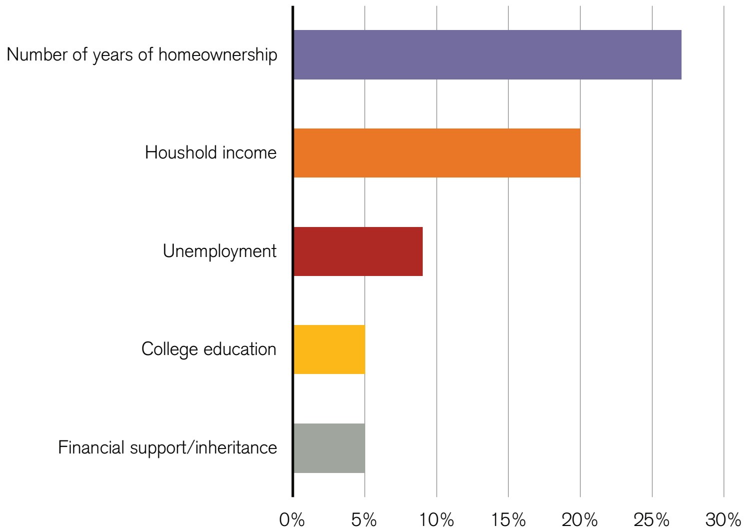


Figure 4

Top 5% African-Americans income to top 5% white Americans income (mean)

Source: U.S. Census, Credit Suisse Research

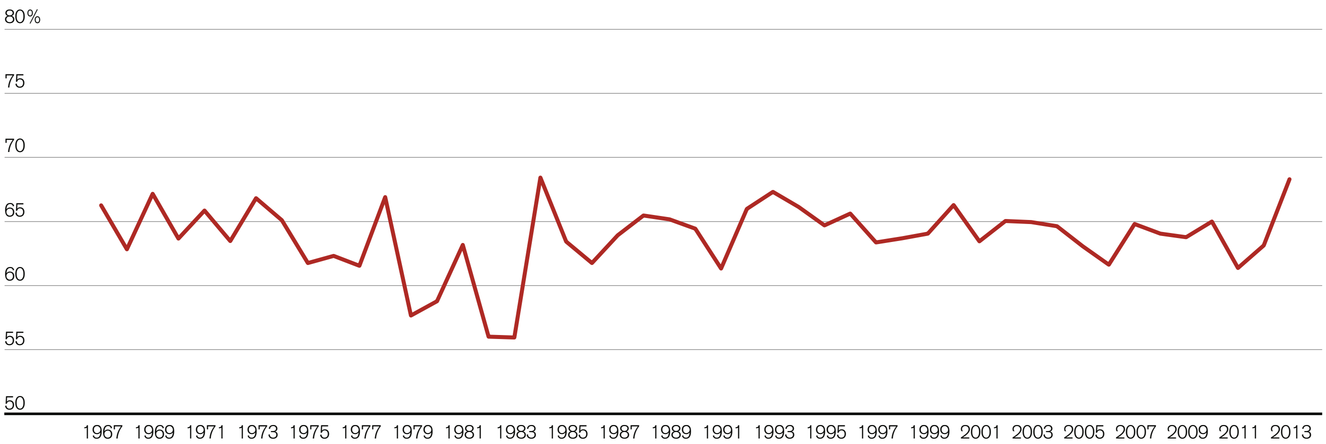
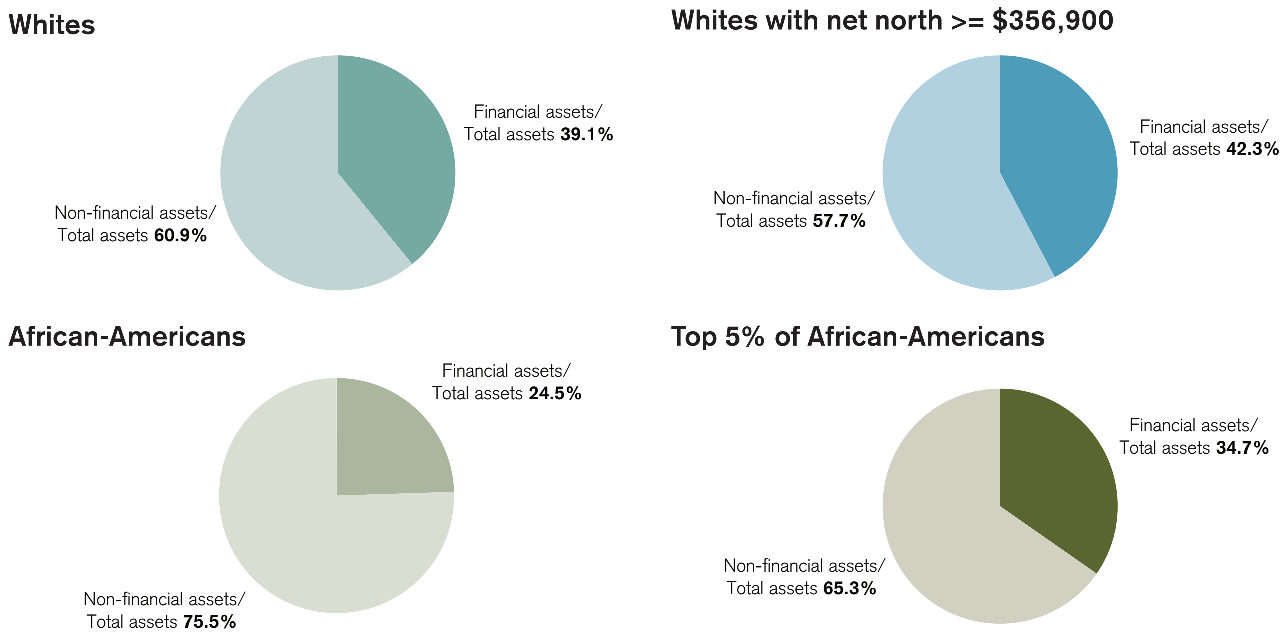


Figure 5

Asset breakdown

Source: SCF, Brandeis Research



Median and mean income for the top 5% of African-Americans by wealth are both about $100,000 ($100,634 and $103,999, respectively). The median income of the high-wealth white comparison group ($101,651) is very similar to the median income for the top 5% of African-Americans, indicating typical households in these two high-wealth groups—wealth at or above $357k—have similar annual incomes.

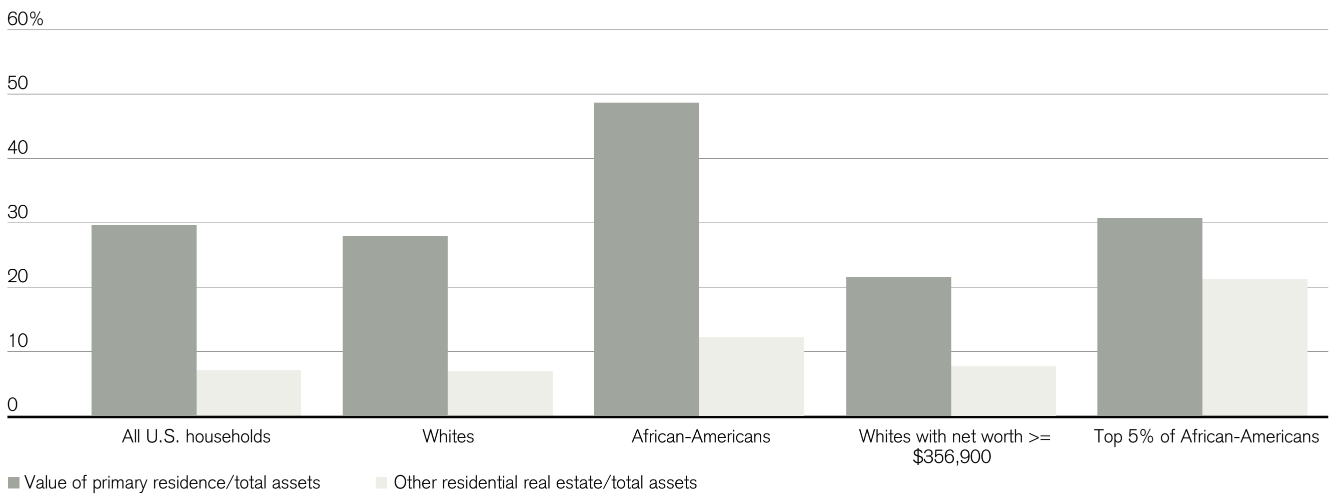
At this level of wealth—net worth higher than 357k—income itself is not the primary explanatory factor of different net-worth levels across different racial groups. A higher income allows families significant flexibility in planning the education of their children, the purchase of a home, and retirement. So, it is not surprising that income—at this level—is not a key factor. However, the mean income for the white comparison group is notably higher ($183,969), suggesting some particularly high income households among the wealthiest white households.

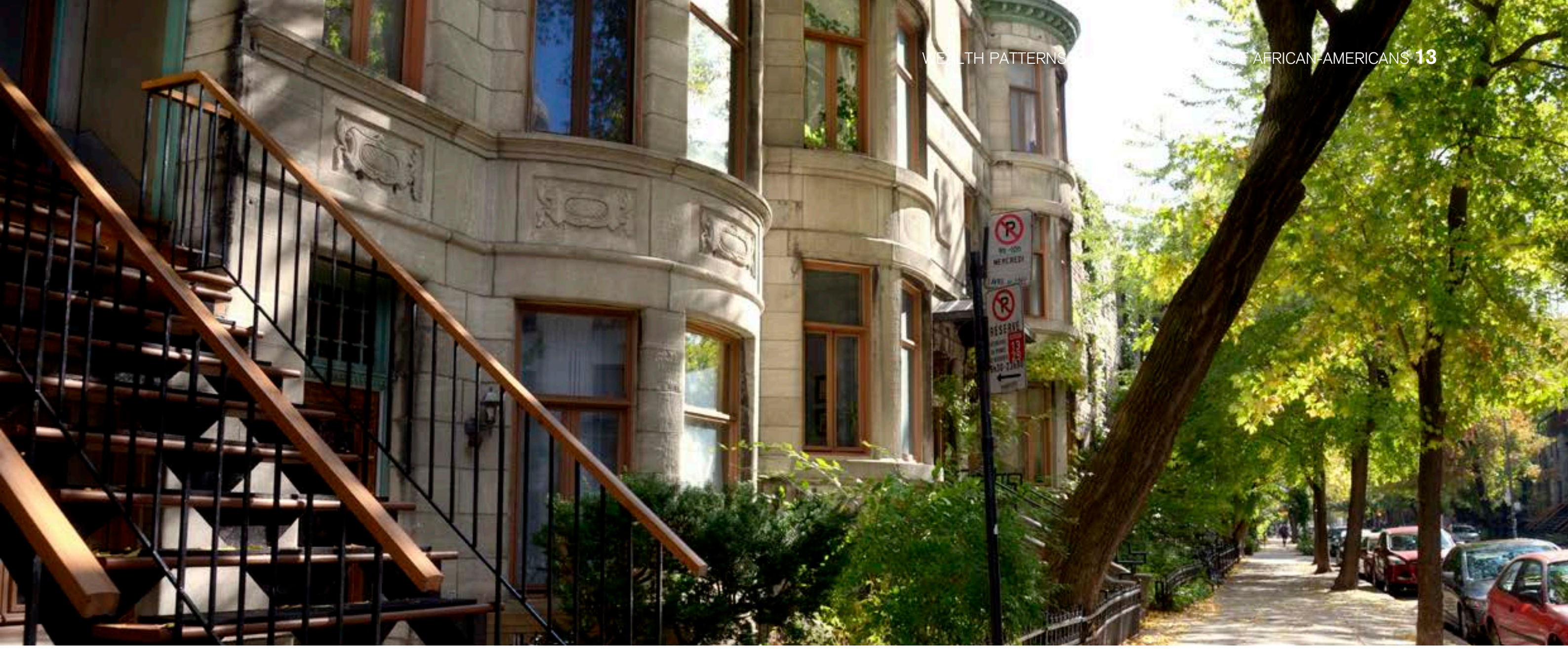
This does not mean that there is no racial income gap at the top of the income distribution. If we compare the mean income of top 5% of African-Americans by income with that for the top 5% of white Americans by income based on U.S. Census data (this is not the same as the white comparable group that we used in the report) , we find that the ratio of the two has remained pretty constant over the last 30 years in the 56–68% range. (See Figure 4.)

Figure 6

Real estate as percentage of total asset value

Source: SCF, Brandeis Research





Home and business ownership

Home ownership and particularly the years of home ownership have been important factors behind the expanding wealth gap across the whole population, as highlighted by several research papers. Home ownership is higher among the white American population—75% in the full SCF sample of 6,500 households compared to 48% among African-Americans.

A regression run by the research team at IASP in a previous study showed that time of home ownership explained over 25% of the racial wealth gap across the whole population. Keeping this in mind, it is worth noting that 51% of all white households owned a home in each of the 25 years of the IASP study, compared with only 22% of African-American households.

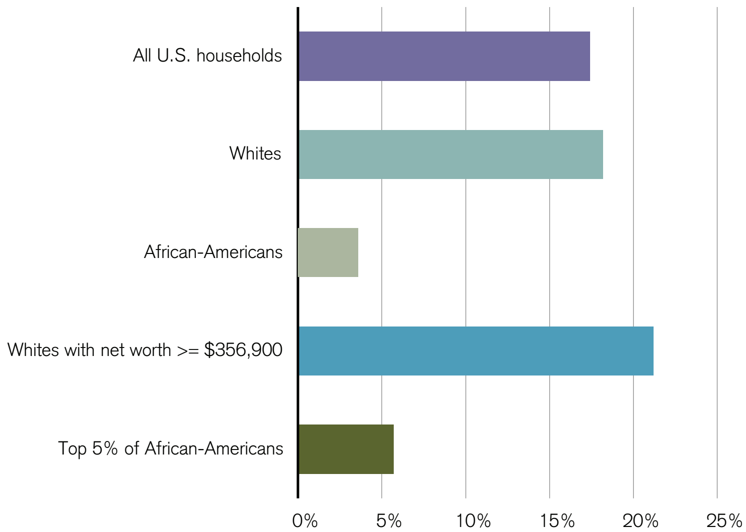
At the top of the wealth distribution, the gap in home ownership is much smaller: 89% for the top 5% of African-Americans and 97% for the comparable group of white Americans. When we look at the proportion of total assets that the primary residence represents for these two top wealth groups, we find 31% for African-Americans and 22% for the comparable white American group.

However, what really differentiates the top 5% of African-Americans is that a much larger part of assets is invested in "other" residential real estate (such as multi-family homes, rental properties, time shares and vacation homes). As a percentage of non-financial assets, real estate investments excluding primary homes account for 41% for the Top 5% of African-Americans and 22% for the white comparison group. This group is the only group in this analysis that has a median value above zero (at $60,000) for other residential real estate, indicating that more than one-half own non-primary residences. The mean value in other residential real estate for the top 5% of African-Americans is also substantially more than the mean value for the white comparison group ($245,524 versus $167,217)—21% of all assets versus 8% for the comparable white American group.

Figure 7

Business assets[2]/total assets

Source: SCF, Credit Suisse Research



There is a clear difference in the investment decisions made by the two wealthier groups we focus on in the area of non-financial assets, and this might have substantial implications for the racial wealth gap at the top of the distribution. If we add primary residence, other residential real estate, and non-residential real estate, we can see that the top 5% of African-Americans have 57% of their mean assets in real estate versus just 34% for white Americans with similar net worth. Conversely, the white American comparison group has a lot more invested in their own businesses—21% of total mean assets versus just 6% for the top 5% of African-Americans. Relative to non-financial assets, the same percentages are 37% and 9%, respectively. Given 23% of both our samples own a business, this implies that the mean equity in the business for the white comparable sample is much higher. It is actually 7 times higher: $468k versus $65k.

2 Business assets are defined as the total value of business(es) in which a household has an active or non-active interest.

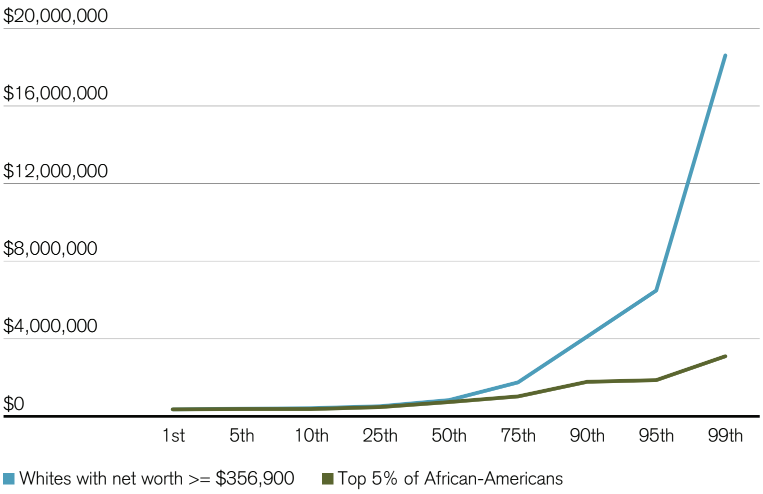
This leads us to two interesting conclusions. First, it shows a more prudent approach by the top 5% of African-Americans to investing—given the perception of real estate as a less volatile storage of value—and suggests that the growth in wealth in this segment has been closely tied to the evolution of real estate prices. Second, it might help explain why the wealth gap among these two groups widens again when we look at the distribution of wealth at net-worth levels above the $357k that we selected.

Let us look at the implications of the "overweight" in real estate assets. Despite the housing crisis, over the long term real estate has been a less volatile asset and could be considered a sensible choice for a conservative investor. In a 2011 paper based on SIPP data, The Pew Research Center showed that, between 2005 and 2009, real estate assets (own home, rental property and other real estate) showed a 5% decline in value for African-Americans as a whole, 15% for white Americans, 32% for Asian Americans (for Asian Americans, this reflects only data on own home), and 49% for Hispanic Americans.

Figure 8

Net worth divergence

Source: SCF, Credit Suisse Research, Brandeis Research



Let's understand the reasons behind the lower investment in business assets. In their 2008 book, titled, Race and Entrepreneurial Success, Fairlie and Robb highlight that only 5% of African-Americans own businesses compared with 11% of white Americans. Their research—based on the Characteristics of Business Owners conducted by the U.S. Census Bureau—shows that there is a high correlation between start-up capital and the business outcome—the higher initial capital substantially increases the probabilities of success. They also show that businesses owned by African-Americans start with much lower levels of financial capital than white-owned firms. The lower investment that we observed in owned businesses as a percentage of assets for the top 5% of African-Americans might be the result of much lower startup capital available and the resulting more challenging evolution of the business rather than a portfolio choice.

PHOTO: ISTOCKPHOTO.COM/FRANCKREPORTER

Owning a business, generally speaking, is likely to have a wealth multiplier effect much higher than that tied to real estate investment. Real estate tends to grow more steadily and might explain the wider gap that we find at the top of the wealth distribution. In Figure 8, we divided the top 5% of African-Americans and the comparable white group into percentiles of net worth (so, for example, the 75th percentile shows the net worth of the 75th percentile of the top 5% of African-Americans and the net worth of the 75th percentile of the comparable wealthier white sample that we used throughout the report).

It is interesting to notice that, up to the 50th percentile, these two groups move hand in hand, but the net worth of the white comparison group moves up a lot faster beyond that. We believe this might be largely explained by a number of factors including a much higher wealth multiplier effect experienced by white households and their greater holdings in business assets.

Inheritance and financial support

Another important factor that explains the evolution of the racial wealth gap across the whole population is inheritances, or family financial support. Data from the PSID spanning over 25 years show that 36% of white households were the beneficiaries of an inheritance versus just 7% for African-American families. The size of inheritance was also a factor, with white families outstripping African-American families 10 to 1.

Research from IASP shows that inheritances, or family support, help explain 5% of the widening racial wealth gap over a generation and that every $1 received by white American families added $0.91of net worth versus just $0.20 for an African-American family. This difference is tied largely to the lower average levels of wealth for African-Americans relative to the white population. At the average level for African-Americans as a whole, any inheritance or family support goes to sustain current living expenses rather than to build wealth.

We do not have data on how inheritances might have helped our top 5% of African-Americans, as we looked at the SCF data at just one point in time; it would be interesting to explore this further.

Investment portfolio/assets

The medians assets among the wealthiest 5% of African-Americans is 20 times greater than the median assets for all African-Americans; yet, this amount is 16% less than that of the white comparison group—$831k versus $992k—and 48% less if we look at mean assets—$1,155k versus 2,206k. (See Table 3.)

We have already shown how the top 5% of African-Americans are heavily invested in real estate assets—57% of the total—relative to the white comparable group. We mentioned that the much higher proportion invested in residential real estate beyond the primary home show a conservative approach in investing long-term money (i.e., not needed to support the daily cost of living). This approach is confirmed when looking only at financial assets.

Table 3

Investment portfolio and asset breakdown (US dollars) (mean)

Source: SCF, Brandeis, Credit Suisse Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Net worth	$494,916	$629,736	$97,995	$2,022,708	$1,017,568
Total assets	$592,554	$738,923	$149,567	$2,206,194	$1,154,995
Financial assets	$224,065	$288,582	$36,652	$933,340	$401,040
Transaction accounts (liquid assets)	$29,832	$37,672	$5,307	$115,347	$39,657
CDs	$8,838	$11,334	$3,148	$34,875	$40,536
Pooled investments (mutual funds)	$33,576	$44,520	$1,037	$155,557	$17,304
Stocks	$30,683	$40,425	$3,723	$140,499	$65,343
Bonds	$9,574	$13,359	$18	$47,170	$364
Retirement accounts	$86,071	$109,122	$17,081	$337,679	$171,545
Savings bonds	$734	$860	$752	$2,477	$8,313
Cash value of life insurance	$5,580	$6,836	$2,873	$18,711	$22,970
Other managed assets	$13,695	$17,594	$707	$58,788	$10,499
Other financial assets	$5,482	$6,858	$2,006	$22,235	$24,509

Table 4

Financial asset breakdown (%)

Source: SCF, Brandeis, Credit Suisse Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Financial assets	100%	100%	100%	100%	100%
Transaction accounts (liquid assets)	13%	13%	14%	12%	10%
CDs	4%	4%	9%	4%	10%
Pooled investments (mutual funds)	15%	15%	3%	17%	4%
Stocks	14%	14%	10%	15%	16%
Bonds	4%	5%	0%	5%	0%
Retirement accounts	38%	38%	47%	36%	43%
Savings bonds	0%	0%	2%	0%	2%
Cash value of life insurance	2%	2%	8%	2%	6%
Other managed assets	6%	6%	2%	6%	3%
Other financial assets	2%	2%	5%	2%	6%

Table 5

Investment portfolio – demographics (%)

Source: SCF, Brandeis, Credit Suisse Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Owns Savings Bond	12.0%	14.6%	8.1%	23.6%	26.9%
Own stocks directly	15.1%	18.3%	6.3%	41.0%	29.8%
Household with retirement accounts*	50.4%	57.3%	32.4%	83.3%	77.2%
Household with any type of pension	55.1%	60.0%	47.8%	72.3%	74.8%
Household with business (active or non-actively managed)	13.2%	15.7%	5.6%	33.0%	26.0%

Figure 9

CDs, savings bonds, cash value life insurance as % of financial assets

Source: SCF, Credit Suisse Research

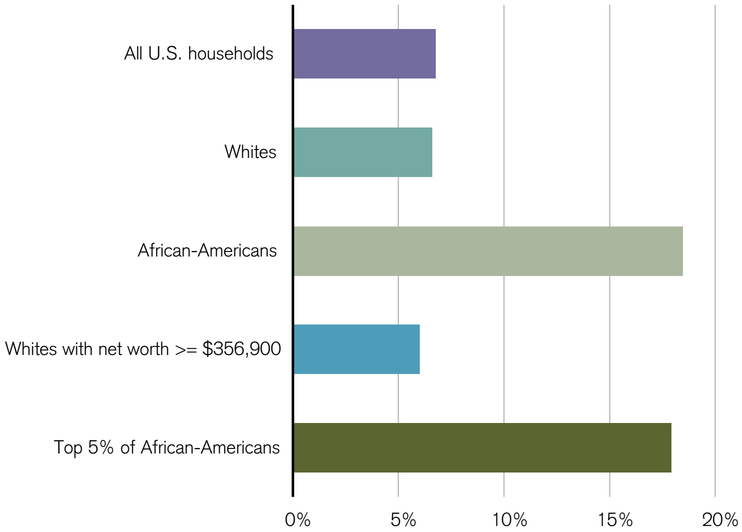
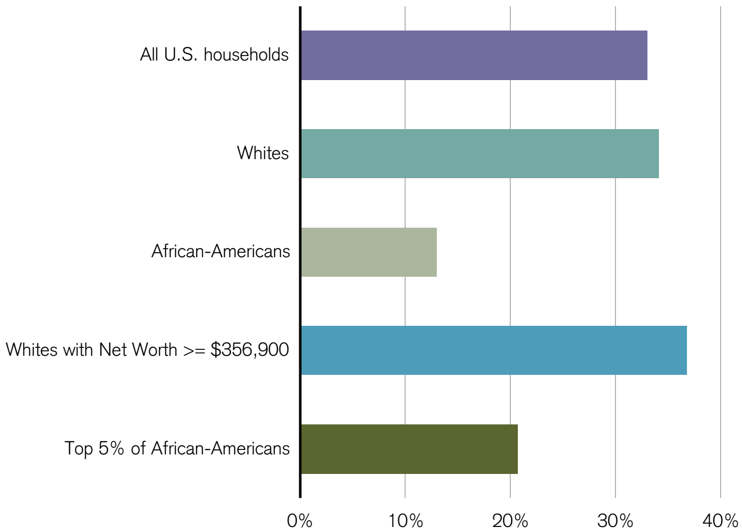


Figure 10

Stocks, bonds, mutual funds as % of financial assets

Source: SCF, Credit Suisse Research



The data reveal that the wealthiest African-Americans are more likely to hold lower-risk financial assets relative to their white counterparts with similar levels of wealth—patterns which have been documented in previous literature (Keister 2000, Choudhury 2001). Tables 3 and 4 show the breakdown of mean financial assets for the five groups that we consider, both in absolute and on a percentage basis.[3]

Comparing the top 5% of African-Americans relative to the white equivalent group reveals some interesting trends. Financial assets for the top 5% of African-Americans represent 35% of total assets versus 42% for the white comparison group, so not hugely different. However, looking at the composition of financial assets shows a lot of interesting differences between the two groups.

3 Mean financial assets are $401k for the top 5% of African-Americans and only $37k for African-Americans as a whole. The objectives of portfolio allocation differ radically between these two segments and, therefore, we do not think it is worth spending time comparing the investment patterns of these two groups.

Stocks & bonds

Focusing on the top 5% of African-Americans, we can see that stocks, bonds, and mutual funds account for 21% of mean financial assets versus 37% for the white comparable group. CDs and saving bonds represent 12% for the top 5% of African-Americans and only 4% for the white comparable group. Finally, the cash value of their life insurance at 6% is much higher than the 2% for the white comparison group.

Aside from focusing on the actual portfolios on a relative basis, we can look at the data to answer the question “do you have” rather than “how much you have.” This gives a sense of the probability of any household in one of these groups investing in that particular asset. There is a substantial difference in likelihood of stock ownership among the top 5% of African-Americans (30%) and the white comparison group (41%). The absolute numbers are also telling: median stocks ownership for the top 5% of African-Americans is $94k compared with $140k for the white comparison group, while mean differences are even greater ($185k and $449k, respectively).

In a 2002 paper, Choudhury makes the case that lower stock ownership (or risk adverse portfolio choices in general) by African-Americans reflects—among other things—lower education levels. However, this is not the case for the top 5% of African-Americans. As we have seen before in the section on the demographics of this segment, their education levels are higher than those for the white comparison group.

Retirement accounts & pensions

The largest single financial asset for both high wealth groups is retirement accounts (IRAs, 401k, Keoghs, etc.). These represent 43% of all financial assets for the top 5% of African-Americans versus 36% for the white comparable group. Looking at data from the 401k Ariel/Hewitt study and focusing on the $90–120k income segment, which is consistent with the 95% wealth level for African-Americans, we observe that only 88% of the African-Americans in this income segment participate in a 401k plan versus 92% for white Americans in the same income group; overall contribution rates for African-Americans are 11% less, and the percentage of assets into equities is 66% versus 72% for white Americans.

The combined result of these savings and investment patterns is that, at the income segment we selected in the Ariel/Hewitt study, the average 401k balance is $155k for African-Americans and $223k for white Americans. This gap is closer than the one we see for retirement accounts overall in the SCF survey at the higher net worth levels that we selected. Therefore, there must be a much wider gap in IRAs and Keoghs.

Finally, focusing on the question "do you have" a retirement account or a pension plan, rather than their values, reveals another interesting aspect when looking at the whole population. Only 32% of all African-American households have a retirement account and only 48% have a pension plan of any kind. The same numbers for the top 5% of African-Americans are 77% and 75%. It is worth noting, though, that a larger percentage of the top 5% of African-Americans have a pension plan relative to the white comparable group, and the opposite is true for retirement accounts. At the top, African-Americans appear to be very conservative in their financial planning, and both their investments and retirement plans show that financial stability is a key goal. We will see why next.

Why more conservative?

This more conservative approach of the top 5% of African-Americans to investing is quite understandable when looking at the lower wealth mobility and security among the African-American population. Conley and Glauber from New York University showed that, in 2003, only 37% of the offspring of African-American parents who were in the top quartile of net worth in 1984 remained in the top quartile; for the white American population, it was 56%. Only 7% of children of African-American parents in the bottom–net worth quartile in 1984 made it to the top in 2003 versus 12% for white Americans. Among the adults, only 24% of the African-Americans who were in the top quartile in 1984 were still at the top in 2003, versus 60% for white Americans.

The IASP reached similar conclusions more recently, dividing up the population in three rather than four segments and focusing on income. Around 57% of high-income African-American families in 1984 were still in the top segment of income in 2009, but 8% had fallen into the low income segment. For high income white American families at baseline, 73% remained in the high income segment and only 1% fell into the low income segment.

Figure 11

Percent of households with debt

Source: SCF, Brandeis Research, Credit Suisse Research

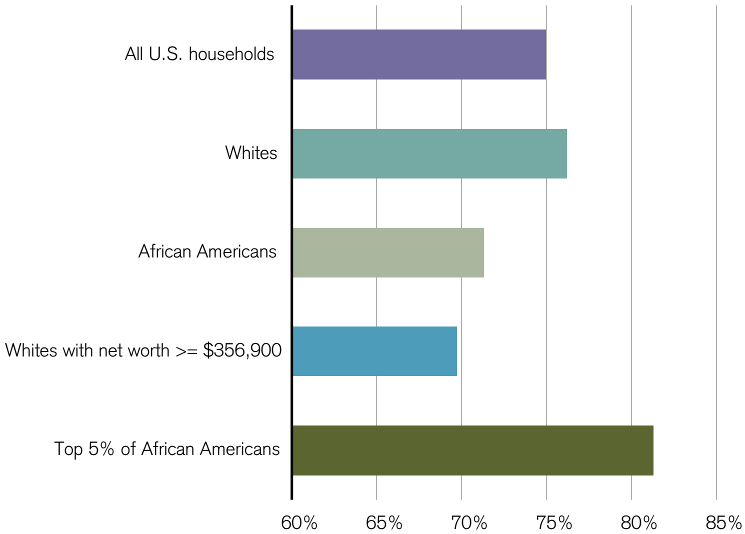


Figure 12

Mean debt value of all households

Source: SCF, Brandeis Research, Credit Suisse Research

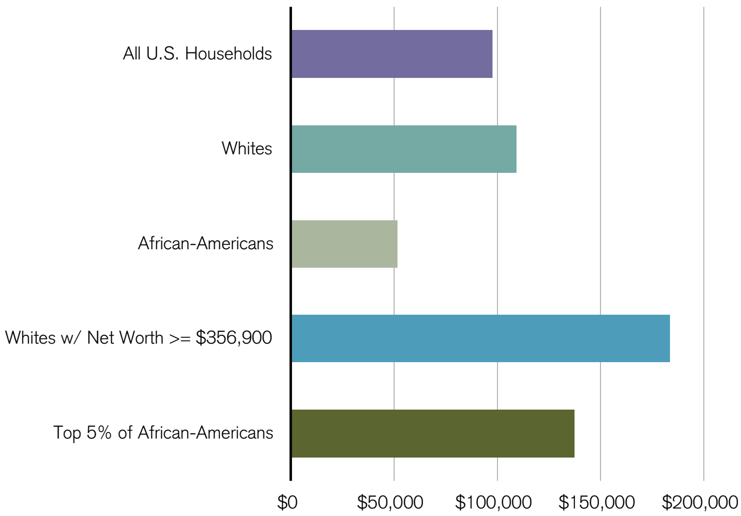


Table 6

Debt profile

Source: SCF, Brandeis Research, Credit Suisse Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Demographics					
Households with debt**	74.9%	76.2%	71.3%	69.7%	81.3%
with HELOC loan	10.3%	12.4%	3.2%	23.5%	16.1%
with credit card balances	39.4%	39.6%	39.0%	28.1%	46.5%
with education loans	19.1%	19.1%	24.2%	7.6%	15.3%
Debt levels					
Debt on primary residence/ total debt	74.2%	74.5%	64.6%	72.6%	61.0%
Debt on other residential property/ total debt	9.8%	10.3%	8.7%	18.0%	25.8%
Installment loans/ total debt	11.1%	10.0%	21.8%	4.2%	7.7%
Credit card balances/ total debt	2.9%	2.8%	3.7%	1.6%	3.5%

Figure 13

Funding products

Source: SCF, Brandeis Research, Credit Suisse Research

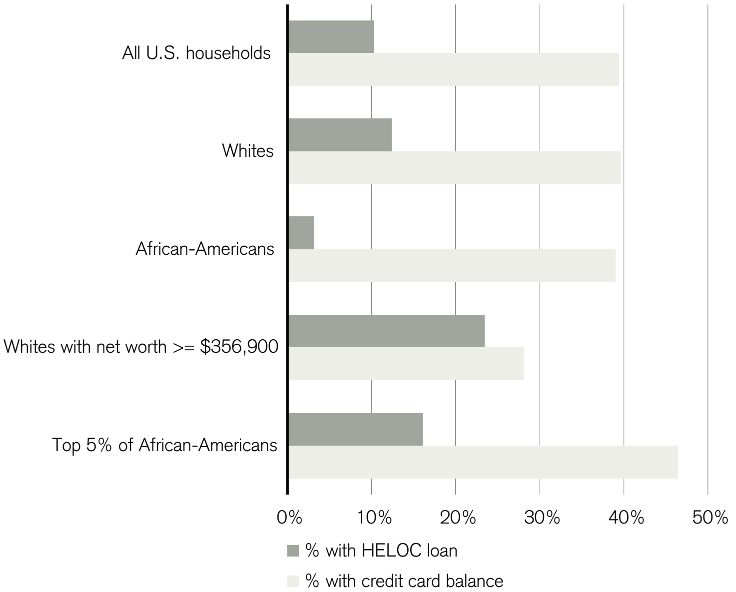


Figure 14

Debt holders' mean total monthly debt payments

Source: SCF, Credit Suisse Research

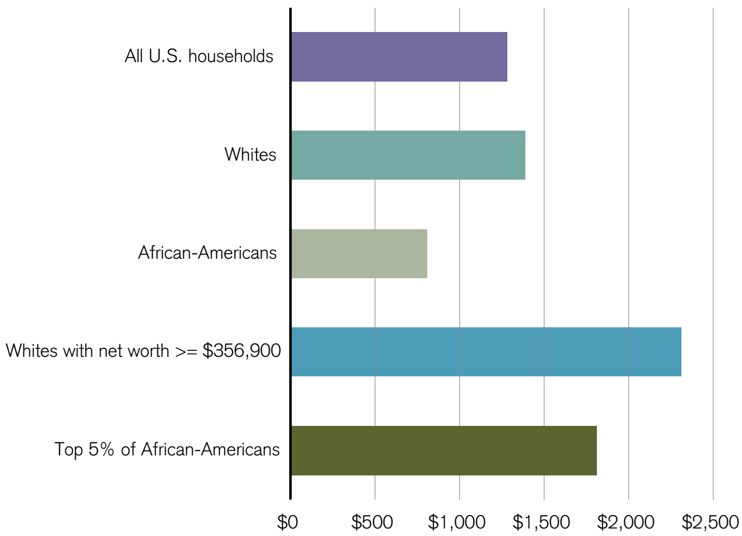
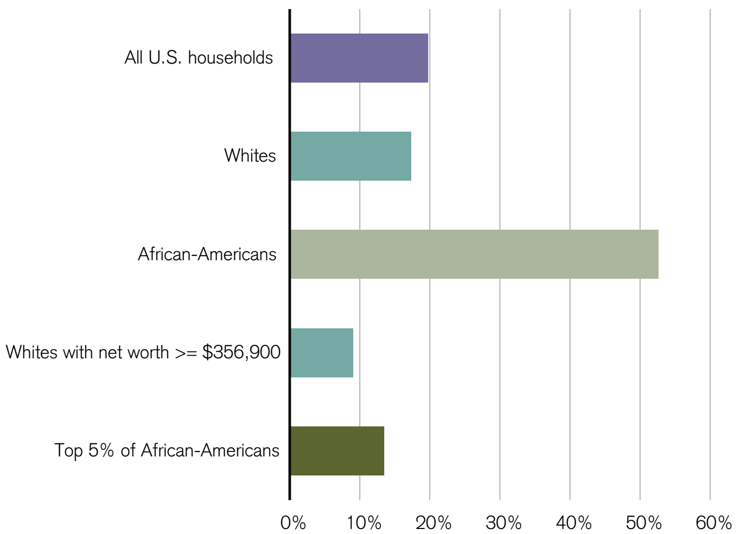


Figure 15

Debt to net worth (mean)

Source: SCF, Credit Suisse Research



Some papers have suggested that the more conservative asset allocation of high–net worth African-American families and the higher investment in residential real estate reflect more their advisor's expertise than pure and simple risk aversion. Wall Street lacks African-American representation in sales or advisor roles, compared with life insurance or real estate brokers. Higher trust and comfort levels among people from the same cultural and racial background are common and financial institutions efforts can affect both access and household interest.

Debt patterns

Home ownership is a key component of long term wealth, as we previously showed. Ownership levels for the four subgroups of the study reflect this, with homeownership rates closely associated with wealth levels: 48% for all African-Americans, 75% for all white Americans, 89% for the top 5% of African-Americans, and 97% for the white comparable group.

Not surprisingly, for all subgroups, debt on the primary residence is the largest proportion of total debts. However, African-Americans overall, including the wealthiest 5%, hold a somewhat lower proportion of total debts on primary residences: 65% and 61%, respectively, compared with 75% for white Americans and 73% of the wealthier white Americans in our subgroups.

However, investments in other residential real estate distort this picture somewhat. Adding together total debt on residential real estate, we find that real estate debts account for 73% of all debt held by all African-Americans, 85% for all white Americans, 87% for the top 5% of African-Americans, and 91% for the white comparable group.

Installment loans (car, vehicle, etc.) are a lower proportion of total debt held by the wealthiest African-Americans—7.7%—and the white comparison group—4.2%—compared with their peers overall. At 3.5% of total debt, credit card balances are also a higher proportion of overall debt for the top 5% of African-Americans than for the comparable white group at 1.6%. Also, 46% of the top 5% of African-American households surveyed had credit card balances, but only 16% held home equity lines of credit (HELOC). In comparison, only 28% of the white American comparable group held credit card balances, but 23% had a HELOC. This suggests that the top 5% of African-Americans are more dependent on traditional and easier–to-obtain credit facilities: credit cards versus home equity loans.

Given the differences in the use of credit cards, installment loans, and home equity loans for the two groups, are the top 5% of African-Americans more leveraged to debt than the comparable white sample, or can these trends simply reflect less access to credit or less familiarity with all the financing options available? We think both issues are at play.

Let us focus on leverage first. Absolute debt mean and median payments (mortgages, credit card, or installment loans) are actually lower for the top 5% of African-Americans relative to the comparable white sample among debt-holding households; however, to get a fair picture, we need to look at relative and not absolute numbers. So, we need to compare repayments relative to household income and check the level of debt to net worth. Both show that leverage is higher for the top 5% of African-Americans.

For the top 5% of African-Americans, the mean value of debt is 13.5% of net worth; for the comparable white group, this value is 9.1%. On a relative basis, we can conclude that the top 5% of African-Americans have relied on debt financing somewhat more than the equivalent white American group.

The same can be inferred by looking at debt repayments. For the top 5% of African-Americans, mean debt payments on an annual basis account for 20.9% of household income. For the comparable white sample, the mean value of debt payments represents 15.1% of income. For the whole African-American sample, this percentage is 23.1%, and for the whole white American population, it is 18.9%.

While leverage for this wealthiest group of African-Americans is higher, fair access to better credit options and terms might still be an issue. Several studies prior to the 2008 real estate crisis show that, even at higher levels of income, African-Americans had less access to prime lending than white families at the comparable income level. A survey by Willow based on HMDA data (Home Mortgage Foreclosure Act) shows that denial rates on conventional mortgage applications are 25.4% for African-Americans and 10.6% for white Americans.

Figure 16

Debt payments to income (mean)

Source: SCF, Credit Suisse Research

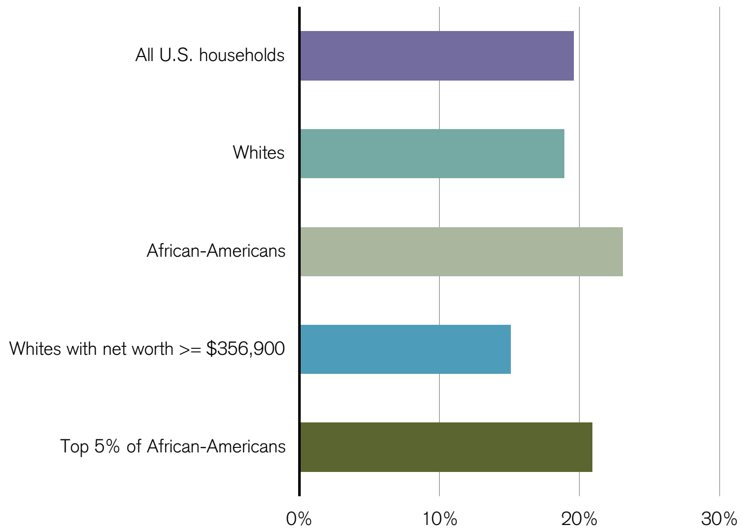


PHOTO: SHUTTERSTOCK.COM/ROB HAINER

Conclusions

This analysis of the top 5% of African-Americans has highlighted some interesting patterns. Can these trends reveal something about the outlook for the racial wealth gap at the top of the wealth distribution?

First, we believe that access to better education will remain a key way for African-Americans to increase their representation at the top segments of the wealth pyramid. Yet, for the gap at the top to narrow, we believe that we need to see some changes in portfolio allocation among the wealthier African-Americans: more equity investment in self-owned companies and more riskier assets such as stocks or mutual funds and less in CDs or saving bonds. But this is easier said than done. The question is, where should the money come from?

Should this group reduce their real estate investment and start new companies, or should they purchase less life insurance and invest more in stocks? Data show that African-American start ups have a much higher risk of failure than white owned ones. However, it also shows that one of the reasons for this is the much lower level start-up capital. Thus increasing access to capital and improved awareness of all the options available is an important step.

For African-Americans that have already retired, starting new companies might not be an option, but slightly changing the composition of their portfolio might help in the long run. Financial stability for this group is key; in this context, real estate in the long term has proven to be less volatile than several other investment options. Increasing the weighting of riskier assets in their portfolio might help advance the wealth level of this group. On the debt side, improving access to better financing options, could improve leverage and debt servicing for the wealthiest African-American households.

For African-Americans that have not retired, the task ahead is to continue investing in the education of the next generation while increasing avenues for individual to take on greater entrepreneurial activities. The cost of starting a new company is the lowest it has ever been, and opportunities exist across several emerging sectors. For the top 5% of the African-Americans that are still in the workforce, this might the best opportunity to close the gap at the top and help a whole segment of the American population improve their chances of financial success.

PHOTO: SHUTTERSTOCK.COM\AMERICAN SPIRIT

Appendix

Data

The data analysis and estimates in this report are based on data collected in the SCF, which is specifically designed to understand the assets and liabilities of U.S. households and household financial behavior. The SCF is widely understood to be the best national data source for understanding the financial lives of U.S. households.[4] Other national surveys that collect wealth and asset information, such as the SIPP, the PSID and the U.S. Census data focus on a variety of social, economic, and demographic variables and are thus less focused on the financial characteristics of households relative to the SCF.

To achieve its survey goals, the SCF sample includes a nationally representative area-probability (AP) sample as well as a list sample that oversamples households that are likely to be wealthy, which are identified with the help of the IRS. The list sample helps to better understand the high wealth households that hold a substantial proportion of overall wealth in the country and helps adjust for non-response in the survey, which is non randomly associated with wealth holdings (Kennickell, 2000). Given its emphasis on financial assets and the survey's specific efforts to better understand high-wealth households, the SCF is particularly appropriate for an analysis of the financial characteristics of wealthier African-American households. When directly comparing the datasets, researchers have found that the SIPP generally underestimates total wealth values relative to the SCF and that SIPP data had the greatest weaknesses in capturing the wealth holdings of high-income families (Czajka, Jacobson, et al. 2003/2004). Thus, a study of high-wealth households should obtain more accurate results using the SCF relative to the SIPP.

The SCF data are from a cross-sectional survey that is conducted every three years.[5] For this project, we used SCF 2010 data. The SCF surveyed approximately 6,500 households in 2010 and imputed missing data using a "multiple imputation" technique, which estimates a range of possible responses for missing data, such that each household has five sets of data in the survey (each set, or row, of data is known as an implicate; Lindamood, Hanna, et al. 2007). Given this, the survey for 2010 has 32,410 rows of data, which represent the 6,482 households that participated in the survey. All results in this analysis use survey weights included in the dataset, which make the analyses nationally representative by adjusting for the survey design and the oversampling of wealthy households, and we adjust the weights to account for the representation of each household in the dataset five times.[6]

4 The Survey of Consumer Finances is sponsored by the Federal Reserve Board and conducted by NORC, based at the University of Chicago.

5 More on the SCF can be found at: http://www.federalreserve.gov/econresdata/scf/aboutscf.htm. The SCF data are publicly available online and can be accessed in two forms: "Full Public Data" and "Summary Extract Data," which has been organized to be user-friendly for analysts. The analysis in this report utilizes the Summary Extract data.

6 Since all households are represented in the SCF dataset five times, the weight of each household must also be multiplied by 0.2 so that when using all implicates in the SCF, households are appropriately represented. Instructions for this adjustment of the survey weights are included in the codebook for the SCF available at: http://www.federalreserve.gov/econresdata/scf/files/codebk2010.txt.

Using small samples in data analysis

Understanding the characteristics of small segments of any population can be difficult using national surveys, given the primary aim of national surveys is to provide nationally representative data of the full population; many surveys still oversample population subgroups that are of interest to researchers such as racial/ethnic minorities or particular age groups. In the case of the SCF, as noted in the previous section, the survey oversamples households that are likely to be wealthy because they hold a large proportion of national wealth and, thus, understanding their characteristics is important for understanding the composition of wealth in the nation overall.

Nevertheless, while the SCF oversamples wealthy households, analysis of the wealthiest households among a minority population subgroup remains difficult. Analysis of the top few percent of wealthiest households among African-Americans alone is difficult because we took just a few households out of each hundred households in the survey. Using the 2010 SCF, the full African-American sample includes approximately 790 households from a full survey sample size of 6,482; in looking at the top 5% and top 1% of African-Americans by wealth, we have access to just 48 and 12 households, respectively. While these numbers are somewhat greater than 5% and 1% of the sample of 790 (which would be 39.5 and 7.9 households, respectively) due to the oversampling of higher wealth households, the observation numbers remain relatively low for a robust analysis.

While we can calculate point estimates for numerical data using any sample size, we know that confidence in the accuracy (efficiency) of our estimates decreases as sample sizes decrease.[7] In other words, lower sample sizes produce larger uncertainty (confidence intervals) for estimates of population parameters (such as means), leading to lower confidence regarding how close our point estimates are to the true variable values in the population. While there is no definitive threshold regarding the number of observations required for inference, study designs and goals will affect sample-size decisions and requirements. In order to assume normality in the sampling distribution of sample means for basic construction of confidence intervals, many references suggest a minimum sample size of 30 (Brase and Brase, 1999), while others suggest a minimum threshold of 100 observations (Healey, 2012). Below these levels, normal distributions cannot be assumed and estimates of confidence intervals are further widened. Given the SCF sample of 48 households in the top 5% of African-Americans and a sample of 12 households for the top 1% of African-Americans, it seems reasonable that a basic analysis of the top 5% is possible, while an analysis of the top 1% would include such great levels of uncertainty as to not be particularly meaningful.

7 Analysis of the full SCF dataset with all implicates inflates the n (or number of observations) by a factor of five to a reported number of observations of 32,410, leading to lower standard errors, more narrow confidence intervals, and a greater likelihood of finding significance in statistical tests than would be found if each of the 6,482 in the 2010 SCF were represented just once in the dataset. While analysis can be done on any one set of implicates, this does not use all of the information from all of the imputations in the dataset and can result in biased responses. Advanced techniques called “repeated-imputation inference” (RII) can be used to include all information from all implicates, while adjusting for the multiple imputation structure of a dataset providing improved variance estimates; however, this technique is not feasible for all types of analyses. Fortunately, analysis which uses the full SCF dataset (with all implicates) and adjusts the weights for the inflated sample size as done in this analysis produces the same point estimates as RII techniques; the only cautionary point is that statistical tests would be more likely to be significant than with RII. (Lindamood, S., S. D. Hanna and L. Bi (2007). “Using the Survey of Consumer Finances: Some Methodological Considerations and Issues.” Journal of Consumer Affairs 41(2): 195-214.)

Table 7

Mean assets and debts

Source: SCF, Brandeis, Credit Suisse Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Net worth	$494,916	$629,736	$97,995	$2,022,708	$1,017,568
Total assets	$592,554	$738,923	$149,567	$2,206,194	$1,154,995
Financial assets	$224,065	$288,582	$36,652	$933,340	$401,040
Transaction accounts (liquid assets)	$29,832	$37,672	$5,307	$115,347	$39,657
CDs	$8,838	$11,334	$3,148	$34,875	$40,536
Pooled investments (mutual funds)	$33,576	$44,520	$1,037	$155,557	$17,304
Stocks	$30,683	$40,425	$3,723	$140,499	$65,343
Bonds	$9,574	$13,359	$18	$47,170	$364
Retirement accounts	$86,071	$109,122	$17,081	$337,679	$171,545
Savings bonds	$734	$860	$752	$2,477	$8,313
Cash value of life insurance	$5,580	$6,836	$2,873	$18,711	$22,970
Other managed assets	$13,695	$17,594	$707	$58,788	$10,499
Other financial assets	$5,482	$6,858	$2,006	$22,235	$24,509
Non-financial assets	$368,489	$450,341	$112,916	$1,272,854	$753,955
Vehicles	$19,164	$21,436	$11,076	$36,630	$25,302
Primary residence	$175,660	$206,172	$72,745	$475,967	$354,369
Other residential real estate	$41,544	$51,073	$18,266	$167,217	$245,524
Nonresidential real estate	$24,576	$31,350	$5,116	$108,018	$61,481
Business assets	$103,389	$134,742	$5,398	$468,182	$65,460
Other non-financial assets	$4,157	$5,568	$315	$16,840	$1,821
Debt	$97,638	$109,187	$51,572	$183,485	$137,428
Debt on primary residence	$72,406	$81,367	$33,300	$133,122	$83,856
Debt on other residential property	$9,546	$11,278	$4,506	$33,077	$35,495
Value of other lines of credit	$986	$1,340	$153	$3,959	$1,460
Credit card balances	$2,791	$3,081	$1,908	$3,003	$4,782
Installment loans	$10,886	$10,920	$11,221	$7,779	$10,635
Other household debts	$1,023	$1,200	$485	$2,545	$1,199
Number of households	6,482	4,759	790	2,081	48

Table 8

Percentage of assets in specific asset types by race and wealth level

Source: SCF, Brandeis Research

	All U.S. households	Whites	African-Americans	Whites with net north >= $356,900	Top 5% of African-Americans
Transaction accounts (liquid assets)	5.0%	5.1%	3.5%	5.2%	3.4%
CDs	1.5%	1.5%	2.1%	1.6%	3.5%
Pooled investments (mutual funds)	5.7%	6.0%	0.7%	7.1%	1.5%
Stocks	5.2%	5.5%	2.5%	6.4%	5.7%
Bonds	1.6%	1.8%	0.0%	2.1%	0.0%
Retirement accounts	14.5%	14.8%	11.4%	15.3%	14.9%
Savings bonds	0.1%	0.1%	0.5%	0.1%	0.7%
Cash value of life insurance	0.9%	0.9%	1.9%	0.8%	2.0%
Other managed assets	2.3%	2.4%	0.5%	2.7%	0.9%
Other financial assets	0.9%	0.9%	1.3%	1.0%	2.1%
Vehicles	3.2%	2.9%	7.4%	1.7%	2.2%
Primary residence	29.6%	27.9%	48.6%	21.6%	30.7%
Other residential real estate	7.0%	6.9%	12.2%	7.6%	21.3%
Nonresidential real estate	4.1%	4.2%	3.4%	4.9%	5.3%
Business assets	17.4%	18.2%	3.6%	21.2%	5.7%
Other non-financial assets	0.7%	0.8%	0.2%	0.8%	0.2%
Financial assets	37.8%	39.1%	24.5%	42.3%	34.7%
Non-financial assets	62.2%	60.9%	75.5%	57.7%	65.3%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%

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