

Business

Why do blacks and Hispanics accumulate less wealth than whites?

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On Money

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Blacks and Hispanics have far lower wealth than whites. Income and education are not the only explanations.

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You have to have money to make money.

And while few would argue that you can enter the stock market, buy a home or start a business if you are living paycheck to paycheck, a growing body of research shows that many people with money to invest are blowing their opportunity to turn their income into something more.

That research shows that even when African-Americans and Hispanics are earning the same salaries as whites, they aren't accumulating nearly as much wealth.

At every income level — including those greater than \$120,000 — blacks and Hispanics are participating less than whites in 401(k) retirement savings plans at work, contributing less money to them and ending up with far less at retirement.

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"Their chances for a comfortable retirement are significantly compromised," said Melody Hobson, president of Ariel Investments, which along with Aon Hewitt has studied saving and investing behavior for more than a decade.

Whites earning \$120,000 or more had an average of \$285,341 in their 401(k)s in 2010, the most recent data available from Aon Hewitt. For African-Americans making the same, their 401(k)s averaged \$201,585, and for Hispanics \$206,007.

For people making between \$30,000 and \$59,999, whites had accumulated \$42,720 in their 401(k)s, African-Americans \$24,505 and Hispanics \$27,823.

Some studies have attributed those massive wealth gaps among races to lower pay, less education and discriminatory bank lending.

For example, a study by Demos and the Institute for Assets and Social Policy at Brandeis University across income levels recently showed that while the median white household has wealth (everything from home equity to retirement savings) of \$111,146, the median for black households was \$7,113 and \$8,348 for Hispanics.

That study emphasized a tremendous pay discrepancy among groups: The median white household was making \$50,400 in 2011, while blacks were making \$32,028 and Hispanics \$36,840.

While an income gap is a major contributor to wealth gap, it's not the sole reason.

Ariel's Hobson said the differences among races in saving and investing behavior "must be addressed if retirement security is to be reality for all Americans."

A study just completed by the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation had similar findings.

Often, those comfortable with investing and earning incomes over \$100,000 also have investments outside their 401(k) plans. Yet black households are 7 percentage points less likely than white households to own investments in the taxable accounts outside of retirement savings plans while Hispanic households are 4 percentage points less likely, FINRA's Financial Capability study found. FINRA compared people with similar pay and educations.

Ariel has emphasized that all races are failing to save adequately. But in a previous study conducted with Schwab, Ariel noted major behaviors that work against blacks.

White workers with 401(k)s tend to start saving in their 30s, while blacks tended to wait until they are earning high salaries — often \$100,000 or more, researchers found. Blacks under 35 were only half as likely as whites under 35 to save for retirement.

That meant they missed out on the easiest way to accumulate money for retirement. A person who invests about \$33 a week in a stock market index mutual fund starting at 25 could have about \$1 million by retirement if the fund grows as it has historically. But if the person waits to age 35, it will take about \$87 a week — and at 45, \$245 — to get to the same amount. A \$1 million nest egg provides about \$40,000 a year for living expenses.

But the Ariel-Schwab research found blacks on average were less comfortable investing in stocks

and mutual funds. Prior to the housing crisis, more blacks than whites said they thought real estate would be a better investment and they thought rental income would help pay for retirement. Yet researchers said that when they surveyed retirees in 2007, only two in 10 were relying on rental income. Other research has shown that blacks were hit more often by foreclosure during the housing crisis than whites.

The researchers concluded that the reluctance to invest was at least partially due to culture. Previous generations of blacks were less experienced investing in stock and mutual funds than whites, a likely reason for caution, researchers said.

In addition, blacks have tended to be employed more than whites in jobs with pensions, which provided cushion, but fewer employers are offering pension plans now.

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