

DRAFT**Changes in Racial Gaps in Retirement Security over Time**

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Researchers have devoted considerable attention to racial wealth gaps and to changes over time in financial preparedness for retirement. This paper explores the intersection of those issues. The average American family nearing retirement today appears to be less financially prepared than its predecessors—and because racial differences in wealth accumulation are stark, the retirement preparedness of Black families merits particular attention and concern. We examine the relative preparedness of Black and white families using data from the Panel Study of Income Dynamics (PSID), a household survey that offers a comprehensive look at defined-contribution pension savings, other types of assets and liabilities, family structure, and income and work histories. Because the PSID oversamples lower-income families, it can provide more precise estimates of the retirement preparedness of lower-income Black families than can other data sets.

KEYWORDS: Racial Disparities, Retirement Security, Aging

Changes in Racial Gaps in Retirement Security over Time

This paper explores changes over time in how prepared Americans are for retirement, with a focus on differences by race. Well-documented changes such as the decline in the prevalence of defined-benefit (DB) pensions (Butrica et al, 2009) and the limited savings being accumulated by many families (Dynan and Wozniak, 2021) have raised questions about whether today's retirees and near-retirees will be as financially secure in their later years as earlier cohorts. Understanding heterogeneity in financial security is especially important as the country considers possible changes in policies related to personal saving, pensions, Social Security, and other government programs that support older Americans.

The importance of understanding heterogeneity by race has been underscored by a growing literature that documents stark differences in wealth by race. Bhutta et al (2020) report that the typical Black family in 2019 had wealth less than 15 percent of the wealth of the typical white family, and the typical Hispanic family had wealth not much higher than the typical Black family. The same study shows that the wealth of Black families—as well as the gap between the median wealth of Blacks and whites—has changed little on net since the onset of the Great Recession. The low wealth of many Black families threatens various aspects of their economic security, including well-being in retirement (US Department of the Treasury, 2022).

Yet, racial disparities in conventional wealth measures—which typically capture just financial and nonfinancial assets—do not translate directly into disparities in retirement security. Racial differences in DB pension payments and Social Security payments need to be considered as well, as do other factors such as family structure. The main data set used for our analysis, the Panel Study of Income Dynamics (PSID), is sufficiently comprehensive to allow us to consider

many of these factors, at least to some degree. In addition, the PSID oversamples low-income families, which means that it has a relatively large number of minority participants, allowing for more precise estimates of racial gaps.

We find that, over the past two decades, wealth has declined relative to income for families with white heads and with Black heads at different points in the wealth distribution. Moreover, the prevalence of defined-benefit pensions has fallen sharply. Based on rough estimates, retirement-income replacement rates appear to be under 60 percent for many middle- and upper-income families with heads in their 50s. The challenge of receiving adequate income in retirement is especially acute for many families with Black heads, as Black-headed families have far less wealth, on average, than white-headed families, and they are notably less likely to have defined-benefit pensions. Policymakers should put a high priority on addressing these problems.

Background

There is a long history of research on whether Americans are financially prepared for retirement.ⁱ A running theme in this literature is the need to reassess the situation over time, as many evolving factors influence prospects for retirement security. For example, household lifetime earnings have evolved over time due to changes in labor force participation, educational attainment, and productivity growth. Changing patterns of asset ownership and trends in financial returns have influenced how savings accumulate over the life cycle. The reduction in DB pensions and the rise of Defined-Contribution (DC) accounts have substantial effects on the financial resources that families can tap in their older years. Family structure and the cost of

living (including the cost of long-term care and medical expenses not covered by insurance) have changed in ways that shape spending needs in retirement.

In addition, the large macroeconomic shocks of the past few decades have left significant imprints on Americans' preparedness for retirement. For example, Dettling et al (2018) document the deep scars on household finances caused by the Great Recession. In 2016, nearly a decade after the start of the recession, the average wealth of working-age families in the lowest 30 percent and the next 30 percent of the income distribution was down from pre-recession highs by 31 percent and 35 percent, respectively. Dynan and Wozniak (2021) show that working-age families in the lowest three income quintiles experienced only a modest further catch-up in their net worth between 2016 and 2019, notwithstanding the strong labor market conditions of that period.

The COVID-19 pandemic presumably has left a large imprint as well, although the data needed to form a comprehensive assessment of that imprint (such as the 2021 wave of the Panel Study of Income Dynamics and the 2022 wave of the Survey of Consumer Finances) have not been released yet to the public.ⁱⁱ Other evidence that is available does not provide a clear picture.ⁱⁱⁱ Checking account balances for customers of a large commercial bank jumped dramatically in 2020 even for those near the bottom of the distribution (JP Morgan Chase Institute, 2022)—presumably because of the combination of generous fiscal support and pandemic-constrained consumption. But those balances later fell considerably from their peaks, and 2022 saw a sharp rise in the fraction of families reporting they were having difficulty meeting expenses (Gilligan, 2022). Average wage growth was strong in 2021 and 2022, but the high inflation in those years meant that the spending power associated with earnings declined on net for most workers (Dynan and Powell, 2022), making saving more difficult.

Moreover, macroeconomic, financial, and institutional developments often have differential impacts on different groups. Understanding the implications for retirement security is crucial for evaluating possible changes in policies that affect savings and pensions as well as possible changes in public programs that provide benefits for older Americans. For example, at some point in the coming decade, policymakers will need to address the looming financial shortfall in the Social Security program without harming vulnerable members of the older population.

Understanding racial gaps in retirement preparedness should be an important component of this research agenda. Recent decades have seen little progress in narrowing the vast racial gaps in conventional measures of wealth, which include financial and nonfinancial assets that are held directly. Derenoncourt et al (2022) present an analysis of the estimated Black-white wealth gap back to the mid-1800s. The authors show that the gap closed from 60-to-1 in 1860 to 10-to-1 in the 1920s to 7-to-1 in the 1950s but that there has been very little further narrowing over the last 70 years.

However, gaps in conventional measures of wealth offer only a partial picture of retirement preparedness: To fully assess preparedness, one needs also to incorporate disparities in other sources of financial support in retirement as well as differences in spending needs. Sabelhaus and Volz (2022) document the importance of considering DB pension wealth and projected Social Security benefits when evaluating heterogeneity in retirement preparation. Their findings suggest that the difference in preparation across income levels is somewhat smaller, on average, when incorporating these other sources of financial support.

The literature regarding racial gaps in pension coverage is as yet fairly limited but suggests that gaps in Social Security and DB wealth are very large but not as vast as the gaps in

conventional wealth measures. Veghte, Schreur, and Waid (2016) show that the median white family approaching retirement in 2013 had slightly more than twice as much Social Security wealth as the median Black family and about 50 percent more than the median Hispanic family. Thompson and Volz (2021) find that half of white families nearly retirement in the late 1980s were covered by DB pensions compared with about one-third of Black families and one-quarter of Hispanic families; however, with the decline in the prevalence of DB pensions, these gaps have mostly (entirely in the case of the Black-white gap) disappeared. In line with these results, Sabelhaus and Thompson (2022) find that racial disparities are somewhat smaller when conventional wealth is augmented by DB pension wealth.^{iv}

Data

Our analysis is based primarily on the Panel Study of Income Dynamics (PSID). The PSID is a longitudinal survey that has collected data on the same families (and their descendants, as well as families that have been added over time) since the late 1960s. It includes information about a wide range of family traits, including demographics, household structure, employment, income, health spending, assets, debt, financial distress, and pension coverage. Families were interviewed annually through 1997 and since then have been interviewed biennially. Our analysis will focus principally on families approaching retirement. To offer a sense of our samples, of the roughly 7000 to 8000 total families in recent waves of the PSID, we have adequate information on wealth for about 1500 to 2000 families with family heads in their 40s, and about 1200 to 1500 with heads in their 50s.

The availability of information varies by wave, with more detailed questions about some key household traits added only over time. For example, the PSID began collecting wealth data

every five years in 1984 and switched to collecting data in every wave in 1999. Some basic measures of household consumption (e.g., spending on food) are available back to the early years of the study, but more comprehensive measures of consumption can be constructed back only to the late 1990s and early 2000s.

One advantage of using the PSID to evaluate heterogeneity in retirement security is its longitudinal nature, which means that we have full histories of reported incomes for families that can be used to estimate Social Security and DB wealth (although the current version of this paper does not attempt such comprehensive estimates). This approach complements analysis of cross-sectional data sets like the Survey of Consumer Finances (SCF) that rely on respondent recall of earnings or synthetic cohort analysis. The history of earnings also allows for estimating the impact on retirement security of events such as extended job loss and macroeconomic developments. And the longitudinal structure, along with the inclusion of families of children of the original respondents when they reach adulthood, allows for a better understanding of more informal sources of financial security in retirement.

A key advantage of using the PSID to evaluate heterogeneity by race is the relatively large number of minority-headed families in the survey. Because understanding the dynamics of poverty was an original goal of the study, the PSID was designed to include an oversample of low-income families—and given the correlation of race and ethnicity with income, that oversample includes a significant number of families with Black heads. As a result, depending on the wave of the survey, our findings are based on between 750 and more than 1000 families with Black heads in their 40s or 50s. Having a fairly large number of lower-income Black-headed families means that there will be less noise in our analysis of levels and trends in their retirement security than would be the case with other commonly used household surveys.^v

(While we acknowledge that there is also a significant gap between the wealth of white families and Hispanic families that warrants attention, we do not include them in our present analysis because the number in this data set is more limited, with around 300 families with heads in their 40s and 50s.)

A further advantage of the PSID for analysis of racial trends is that the longitudinal structure ensures that we are looking at the same families over time. As Bhutta et al (2020) note, there appear to be changes over time in how survey respondents self-identify in terms of race and ethnicity, so analysis of racial trends based on repeated waves of cross-sections would be complicated by changes in the composition of the different groups.

The PSID also has limitations relative to some other data sources that are used to gauge retirement security—in particular, the PSID’s information about household wealth is far less detailed than the information available in the SCF. One issue is that wealth at the very top of the distribution is poorly covered in the PSID, as highlighted by Bosworth and Smart (2010) and Pfeffer et al. (2016); however, retirement security for the wealthiest is presumably high, so this limitation is not very important for the issue we are studying. Of greater concern is that data about DC and DB wealth in the PSID is limited (particularly in earlier years, and despite the existence of a pension module) and not easy to use. As Cooper, Dynan, and Rhodenheiser (2019) flag, the summary measures of wealth in the PSID do not include assets in DC retirement accounts.^{vi} These authors discuss how to augment PSID wealth with estimates of DC assets, producing estimates of overall financial and non-financial wealth that align well with the Survey of Consumer Finances for most of the distribution at least back to the early 2000s; we use their methods in our analysis.

More generally, families appear to underreport their retirement assets in surveys, or at least in some surveys; see, for example, Bee and Mitchell (2017). Such underreporting probably occurs in the PSID, and thus our rough estimates of retirement income replacement rates should be considered lower bounds. However, conclusions based on estimated differences in racial gaps over time would be affected only if trends in underreporting differ by race.

Results on Wealth and Income

Our findings are as follows.

Finding 1: Racial gaps in conventionally measured wealth measures are vast for families nearing retirement.

The median wealth of families with white heads is vastly larger than the median wealth of families with Black heads, as is well known and can be seen based on PSID data depicted in figure 1. We define wealth as the difference between assets (the value of the primary residence, other real estate, farms, businesses, vehicles, stocks, bonds, IRAs, 401(k)-type accounts, checking and saving accounts, and other assets) and liabilities (debt associated with homes, other real estate, farms, businesses, and vehicles as well as unsecured debt such as credit card debt, medical debt, and student debt). As noted above, the value of 401(k)-type accounts is not available in the PSID public-use wealth files, so we calculate it based on information in the PSID pension module following the methodology suggested by Cooper, Dynan, and Rhodenhiser (2019). We adjust the values of wealth to be in 2019 dollars using the current-methods Consumer Price Index. Our wealth series begins in 2001 because reliable estimates of the value of 401(k)-type accounts are first available in that year.

Finding 2: Families nearing retirement in most groups have seen a striking decline in the level of conventionally measured wealth over the 2000s.

In addition to showing a stark racial wealth gap, figure 1 depicts a striking decline in the level of inflation-adjusted wealth for most of the groups that begins around the time that the early 2000s housing bubble burst. For families with heads in their 40s, median real wealth for those with white heads declined from roughly \$170,000 in 2001 to roughly \$100,000 in 2019, while median real wealth for those with Black heads remained close to just \$12,000 throughout that period. For families with heads in their 50s, median real wealth for those with white heads fell from roughly \$260,000 in 2000 to roughly \$172,000 in 2019, while median real wealth for those with Black heads dropped even more in percentage terms—from about \$72,000 to about \$24,000 between those years. As a result, white-headed families in their 50s had median wealth about 3½ times that of Black-headed families in their 50s in 2000 and about 7 times that in 2019.

Focusing on families with heads in their 50s, the decline in median real wealth occurred across the wealth distribution, as shown in figure 2. For both white-headed and Black-headed families at the 25th, 50th, and 75th percentiles of the distributions of wealth in each group, real wealth fell, on balance, over time. Over the past two decades, white-headed families at the 75th percentile of their distribution had between 3 times and 8 times as much wealth as Black-headed families at the 75th percentile of their distribution. For families at the 50th percentiles of the respective distributions, the corresponding range is between 3 times and 17 times, and for families at the 25th percentiles, the wealth of families with Black heads was reported as zero in 2009 and later, so such ratios cannot be calculated.

Our data also show substantial disparities in income between white and Black families. For families with heads in their 50s, real money income of white-headed families is considerably

larger than that of Black-headed families, as shown in figure 3. We define money income as the sum of taxable income, transfer income, and social security income of all family members, and we adjust the values to be in 2019 dollars using the current-methods Consumer Price Index. For families at the 25th, 50th, and 75th percentiles of the distributions of income in 2001 and 2019, income of white-headed families was between 1½ times and 3 times the income of Black-headed families. Real money income fell notably between 2001 and 2019 for both white-headed and Black-headed families at the 25th and 50th percentiles of the distributions but not at the 75th percentiles.

The average declines in wealth were over the past two decades were generally larger than the average declines in income, so the median wealth-to-income ratio declined for families with white heads in their 40s and 50s and for families with Black heads in their 50s, as shown in figure 4. Between 2001 and 2019, the drop for white-headed families in their 40s was about 25 percent and the drop for white-headed families in their 50s was about 15 percent; the corresponding drop for Black-headed families in their 50s was more than 55 percent. Many families with Black heads in their 40s have such little wealth that no clear trend in their wealth-to-income ratio can be seen. The drops in wealth relative to income accentuate concerns that many families are less prepared financially for retirement today than a few decades ago, and we return to this point shortly.

Finding 3: Patterns of homeownership may be linked to both racial wealth gaps and the lack of recovery in conventionally measured wealth since the Great Recession.

At face value, the lack of recovery in wealth and wealth-to-income ratios in the 2010s might seem surprising given that home prices began to rebound in 2012 and surpassed their earlier high in the latter part of the decade. One factor contributing to this pattern may be that the

homeownership rates of PSID families with heads in the 40s and 50s, plotted in figure 5, show an ongoing decline, so fewer families enjoyed the wealth gains associated with the rebound in home prices. For families with white heads in their 40s or 50s, the net drop between 2001 and 2019 is about 15 percent; for families with Black heads in their 40s or 50s, the net drop is between roughly 25 percent and roughly 35 percent. Those drops were concentrated among lower- and middle-income families (not shown). Throughout the past two decades, homeownership rates for families in their 40s with white heads were roughly 1½ times to 2 times those for families with Black heads; for families in their 50s, homeownership rates for those with white heads were generally about 1½ times or more those for families with Black heads.

Finding 4: The prevalence of DC accounts has changed little on net since the early 2000s but the share of families nearing retirement with DB pensions has seen a sharp decline for all groups.

The trends in wealth do not appear to be linked generally to changes in defined contribution (DC) pensions, whose assets are included in the wealth measure we use (as described earlier). The prevalence of DC accounts has not expanded much, on balance, during the past two decades, with the shares of families reporting a DC account (for head or spouse, associated with current or past jobs) dipping in the 2000s and rebounding in the 2010s, as shown in figure 6. For families with white heads in their 40s or 50s, the share with a DC pension was close to 44 percent in both 2001 and 2019. For families with Black heads in their 40s, the share with a DC pension was about 28 percent in 2001 and about 36 percent in 2019, and for families with Black heads in their 50s, the share with a DC pension began and ended the period close to 25 percent. The increased share of Black-headed families in their 40s with a DC pension seems a promising sign regarding the financial condition of those families, and it may be a factor behind

the increase after 2011 in the median real wealth of such families at the 75th percentile of their distribution.

A discouraging aspect of financial preparedness for retirement is the sharp declines in the shares of families with defined benefit (DB) pensions, which traditionally have provided considerable income in retirement. As shown in figure 7, for families with white heads in their 40s or 50s and with Black heads in their 40s, the shares with DB pension fell roughly by half; for families with Black heads in their 50s, the share fell by more than two-thirds. For both age groups and throughout the past two decades, the share of white-headed families with DB pensions has exceeded the share of Black-headed families with DB pensions.

The drop in DB pension coverage cuts across the income distribution, as shown in figure 8. Unsurprisingly, the share of families with a DB pension is much higher for families with higher income—for families with heads in their 40s or their 50s—but all groups have experienced a notable decline.

One might hope that families without DB pensions would save more themselves, but that is not the case. For families with white heads in their 50s in 2019, the median wealth-to-income ratio for those with a DB pension was about 1½ times that ratio for those without a DB pension.^{vii} For families with Black heads in their 50s in 2019, the median wealth-to-income ratio for those with a DB pension was about 4 times that ratio for those without a DB pension. But, consistent with the previous figures, the median wealth-to-income ratios for Black-headed families were far below those for white-headed families.

Results on Replacement Rates of Income in Retirement

The PSID includes sufficient detail on income over time to allow for a reasonable estimate of Social Security wealth and a rough estimate of defined benefit pension wealth for each household. Combining those estimates with the data on financial wealth, one could estimate retirement-income replacement rates for each household. Such calculations would be quite complex, however, and we have done only a very rough version.

In our estimates of income replacement rates, the denominator for each household is its average income thus far while the household head is in their 50s, and the numerator for each household is the sum of:

- An estimate of the household's future annual withdrawal from wealth, equal to $0.04 \times$ (financial wealth plus housing wealth);
- An estimate of the household's future annual DB pension income, equal (if they have a DB pension) to a random draw from the distribution of DB pension income in their income tercile; and
- An estimate of the family's future annual Social Security income, equal to the estimates of replacement rates by the Congressional Budget Office (2019).

These rough estimates of replacement rates are used in figures 10 and 11.

For families with heads in their 50s in 2019, estimated income replacement rates in retirement vary between roughly 30 percent and roughly 100 percent, as shown in figure 10, depending on the family head's race, the family's income tercile, and the family's place within the distribution of retirement income.

Finding 5: Social Security is an essential component of retirement income for lower-income white and Black families.

For lower-income families, estimated replacement rates rise from about 70 percent in the bottom quartile of preparation for both Black-headed families and white-headed families to about 90 percent in the top quartile for Black-headed families and about 100 percent in the top quartile for white-headed families. The fairly high level of these estimated replacement rates and their rough similarity between white-headed families and Black-headed families reflects the importance of Social Security benefits, since lower-income families tend to have little wealth and no DB pensions.

Finding 6: Rough estimate of pre-retirement-income replacement rates for middle- and upper-income families suggest a wide variance of outcomes for both white and Black families.

For middle-income families, estimated replacement rates rise from about 50 percent in the bottom quartile of preparation for both Black-headed families and white-headed families to about 70 percent in the top quartile for Black-headed families and again about 100 percent in the top quartile for white-headed families. In the lower quartiles of preparation, the lower estimated replacement rates relative to those of lower-income families and the rough similarity between those of white-headed families and Black-headed families again reflect the importance of Social Security benefits and the fact that such benefits offer lower replacement rates at higher income levels. In the highest quartile of preparation, the difference in replacement rates between white-headed families and Black-headed families primarily reflects differences in their wealth.

For upper-income families, estimated replacement rates rise from about 30 percent in the bottom quartile of preparation for both Black-headed families and white-headed families to about 55 percent in the top quartile for Black-headed families and again about 100 percent in the top quartile for white-headed families. Once again, in the lower quartiles of preparation, the lower estimated replacement rates relative to those of lower- and middle-income families and the rough

similarity between those of white-headed families and Black-headed families reflect the importance of Social Security benefits and the fact that such benefits offer lower replacement rates at higher income levels. In the higher quartiles of preparation, the difference in replacement rates between white-headed families and Black-headed families primarily reflects differences in their wealth.

Finding 7: Both white and Black families look to have been less financially prepared for retirement in 2019 than they were in 2005.

Our rough estimates of replacement rates are lower for 2019 than for 2005, as shown in figure 11.^{viii} Declines can be seen for both white-headed and Black-headed families with lower income, middle income, and higher income. Those declines arise from the declines in wealth presented earlier and from small declines in Social Security replacement rates—painting a concerning picture of retirement preparation.

Conclusion

During the past two decades, wealth has declined relative to income for families with white heads and with Black heads at multiple points in the wealth distribution. Moreover, the prevalence of defined-benefit pensions has fallen sharply. Based on rough estimates, retirement-income replacement rates appear to be under 60 percent for many middle- and upper-income families with heads in their 50s. The challenge of receiving adequate income in retirement is especially acute for many families with Black heads, as Black-headed families have far less wealth, on average, than white-headed families, and they are notably less likely to have defined-benefit pensions.

Policymakers should put a high priority on addressing the shortfalls in retirement preparation. In particular, many families on the cusp of retirement will be even more dependent on Social Security benefits for adequate income in retirement than before. Any future reduction in Social Security benefits—even if concentrated among higher-income families—could significantly constrain consumption in retirement. The potential for hardship among retirees would be especially significant for many Black families, because the financial and nonfinancial wealth of Black families is so much smaller, on average, than that of white families.

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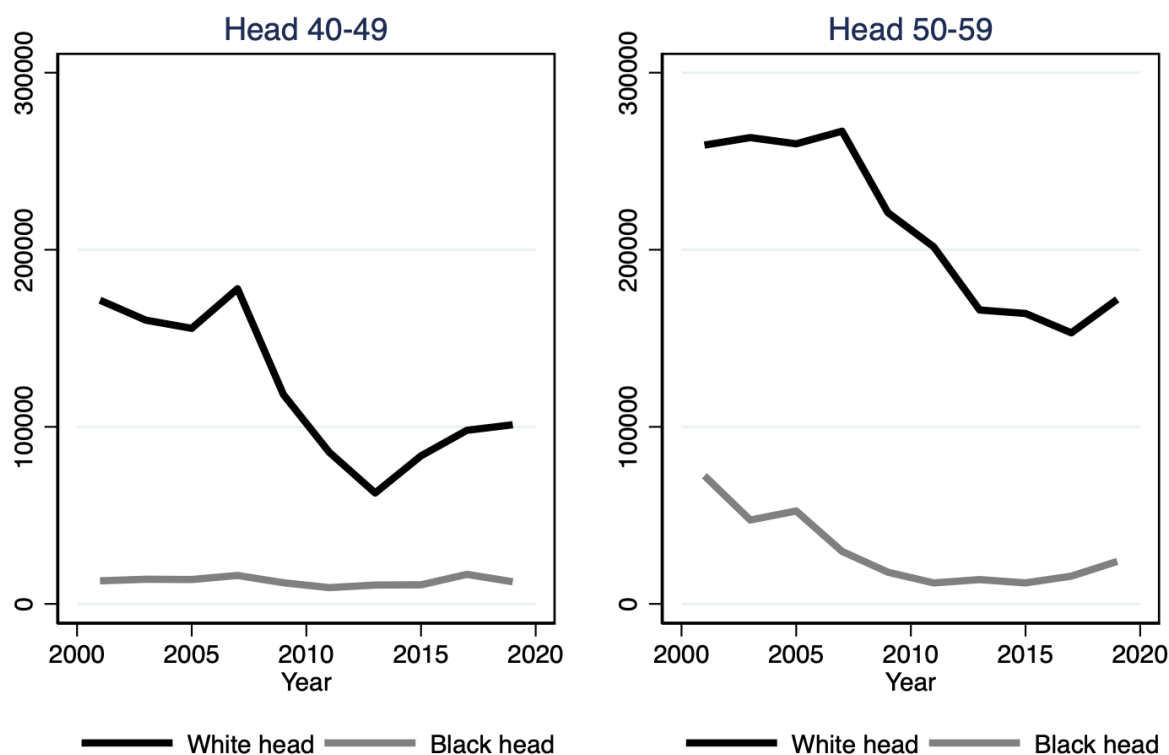


Figure 1. Real Median Wealth for Families with White and Black Heads in their 40s and 50s

Note. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities, adjusted using the current-methods CPI to be in 2019 dollars. It does not include the value of future defined-benefit pension income or Social Security income. Medians calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

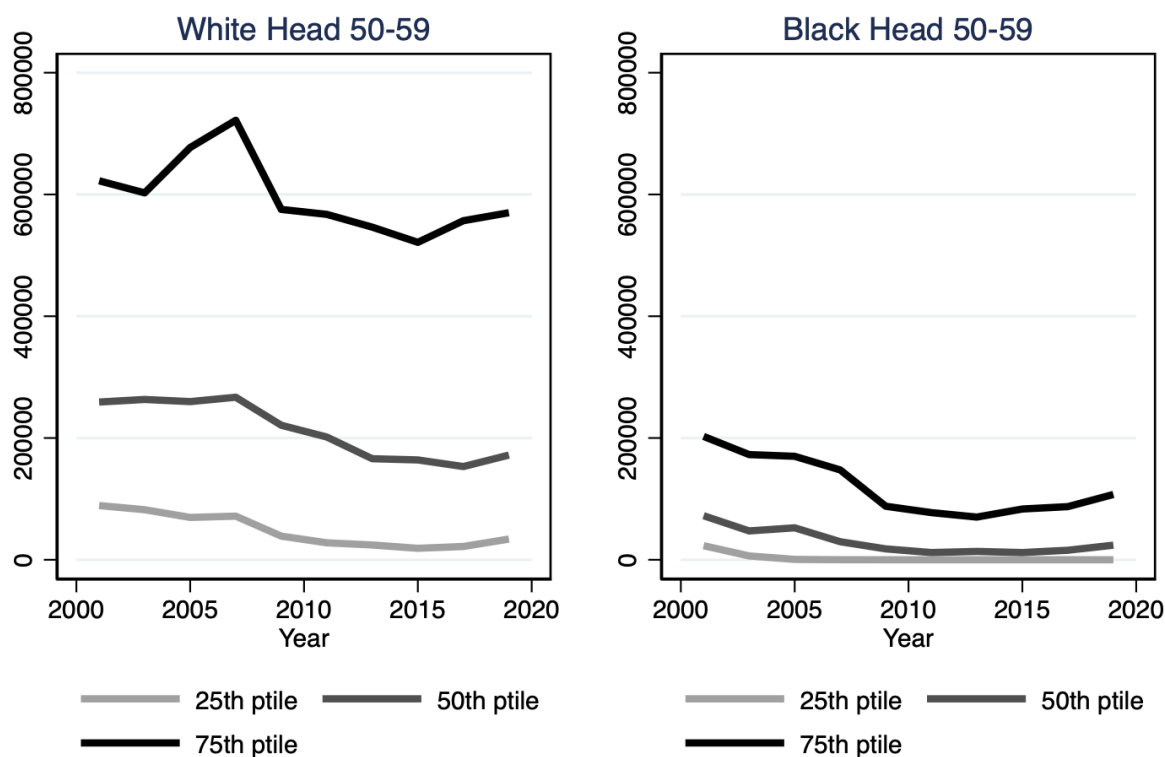


Figure 2. Real Wealth at Different Points in the Distribution for Families with White and Black Heads in their 50s

Note. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities, adjusted using the current-methods CPI to be in 2019 dollars. It does not include the value of future defined-benefit pension income or Social Security income. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

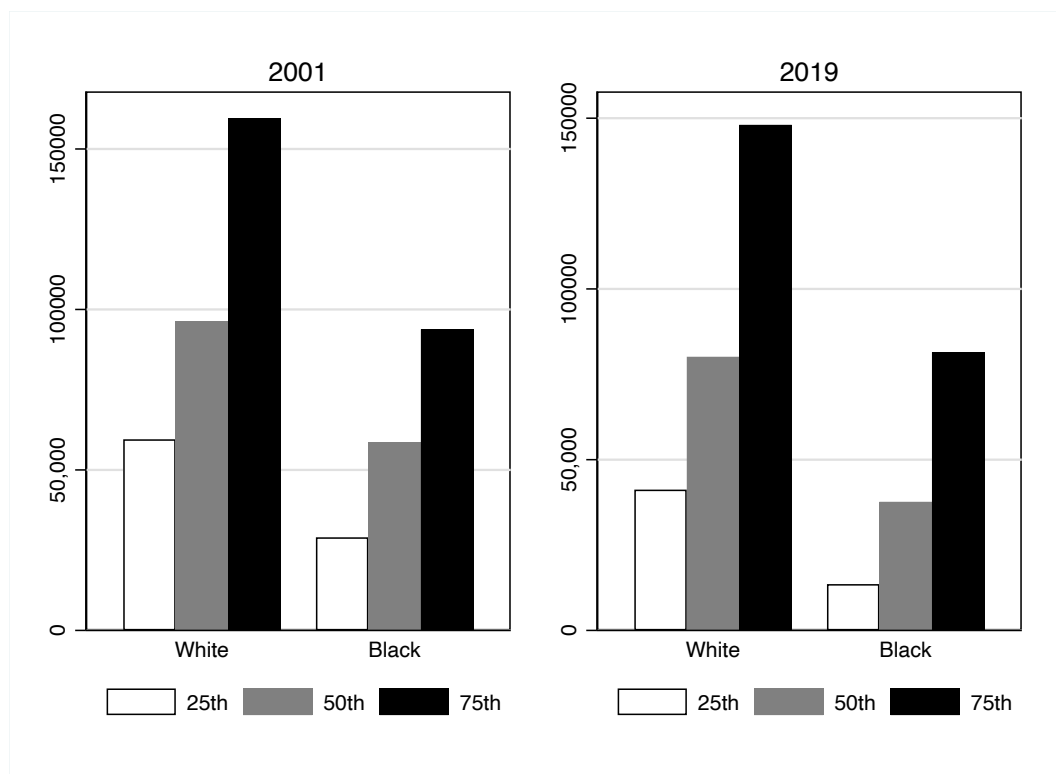


Figure 3. Real Money Income in 2001 and 2019 at Different Points in the Distribution for Families with White and Black Heads in their 50s

Note. Money income defined as the sum of the taxable income, transfer income, and social security income of all family members, and we adjust the values to be in 2019 dollars using the current-methods Consumer Price Index. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

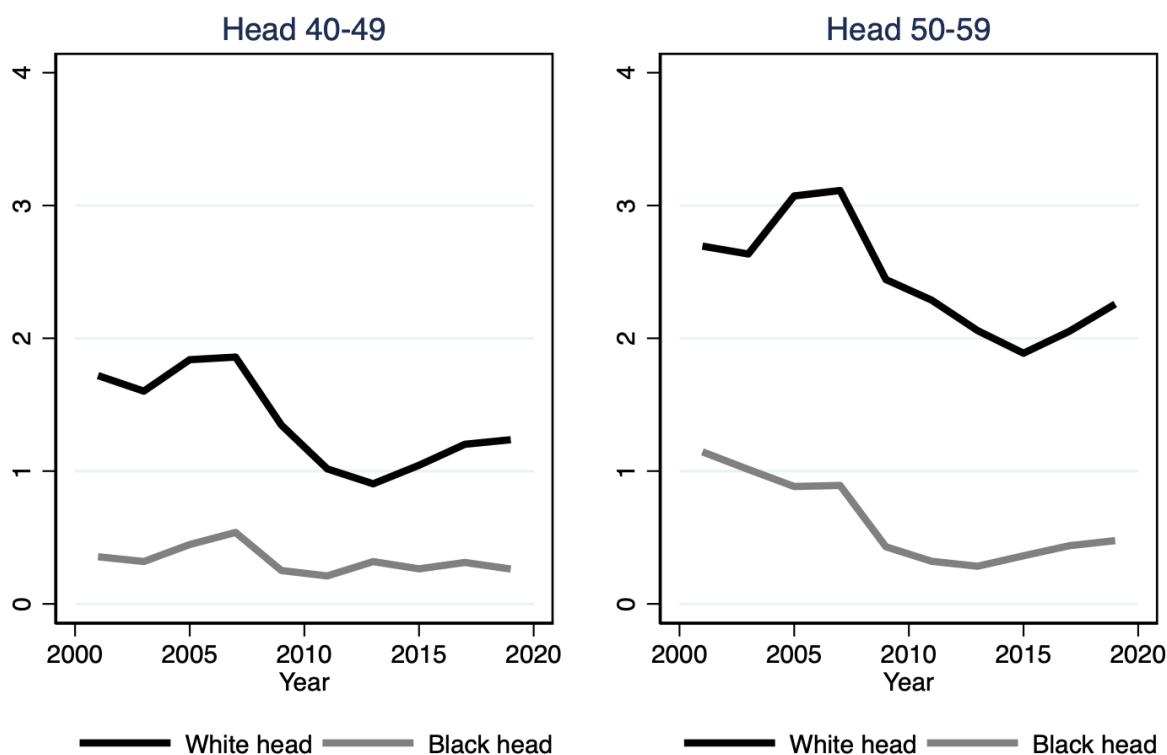


Figure 4. Median Wealth-to-Income Ratio for Families with White and Black Heads in their 40s and 50s

Note. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities; it does not include the value of future defined-benefit pension income or Social Security income. Money income defined as the sum of the taxable income, transfer income, and social security income of all family members for calendar year preceding survey. Ratios based on current wealth and average money income for the current and previous waves. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

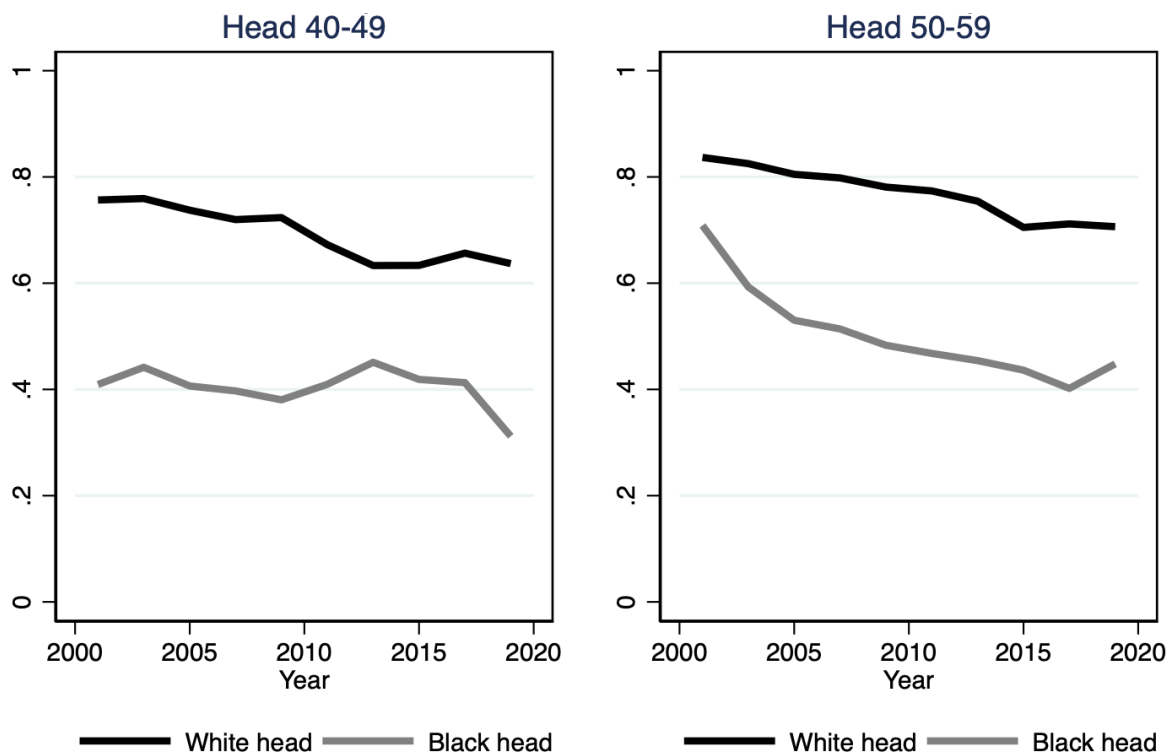


Figure 5. Homeownership Rates for Families with White and Black Heads in their 40s and 50s

Note. Homeownership rate defined as the share of families in group that own their primary residence. Shares calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

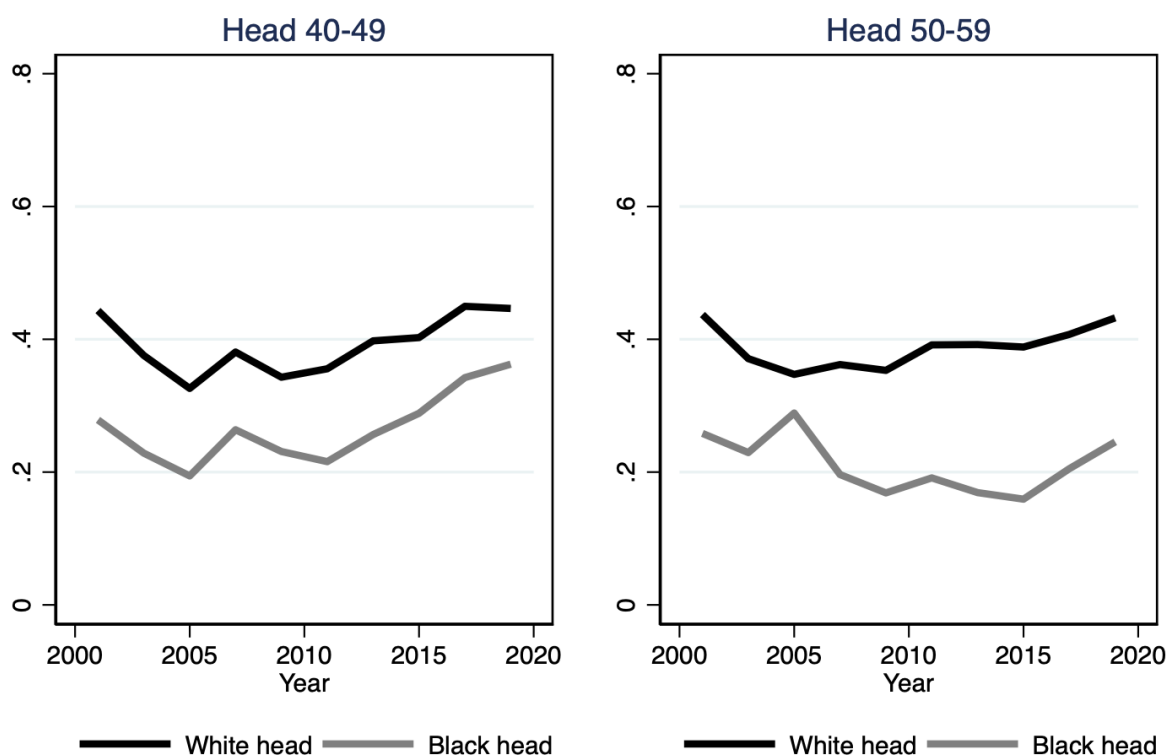


Figure 6. Share of Families with Reporting Defined-Contribution Retirement Accounts in their 40s and 50s with White and Black Heads

Note. Includes DC accounts associated with current and previous jobs for heads and spouses. Shares calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

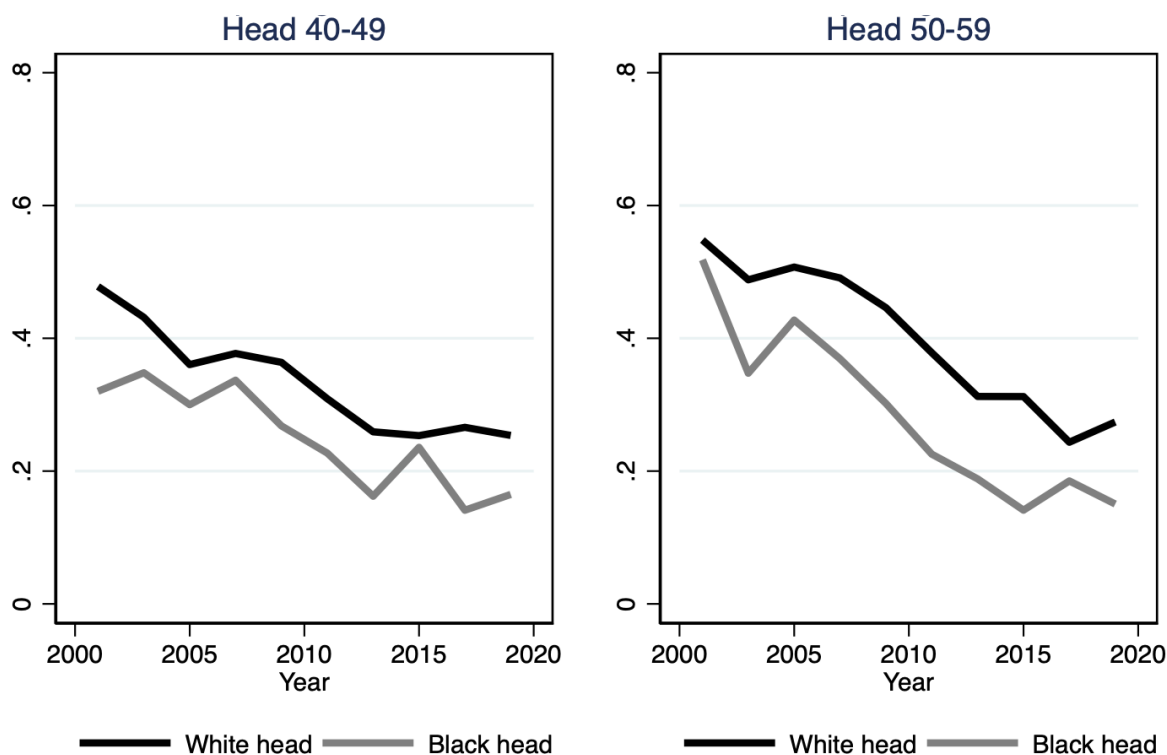


Figure 7. Share of Families with Reporting Defined-Benefit Pension Plans with White and Black Heads in their 40s and 50s

Note. Includes DB plans associated with current and previous jobs for heads and spouses. Shares calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

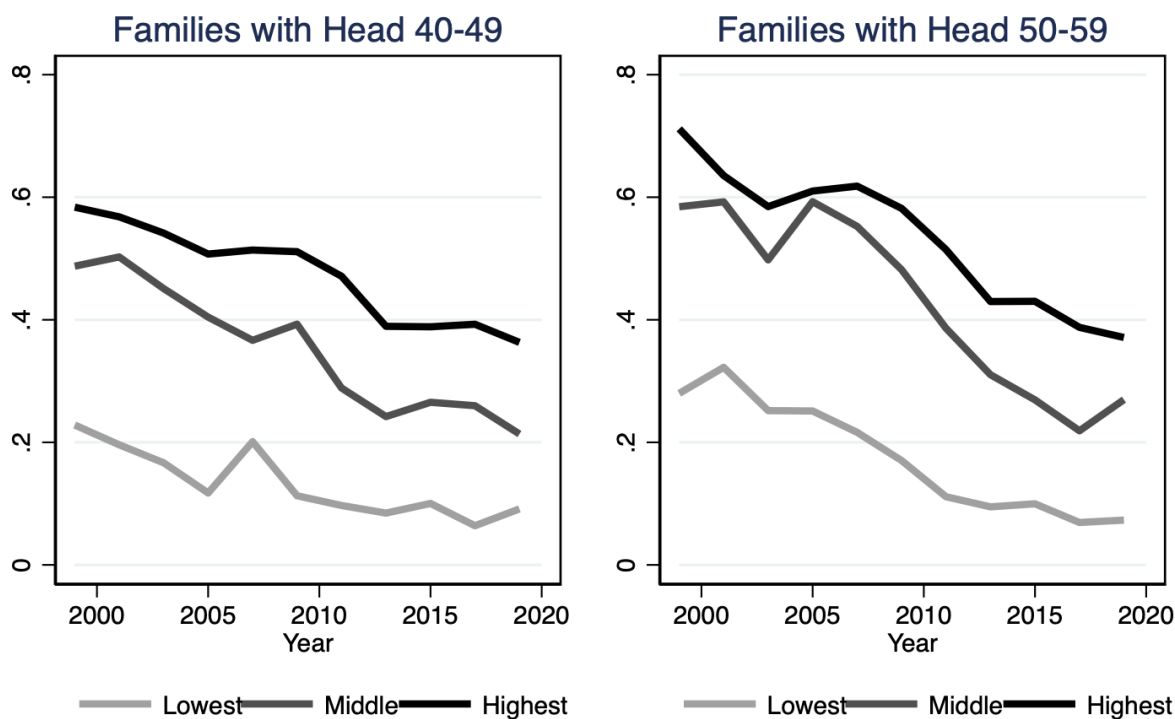


Figure 8. Share of Families in Different Income Terciles Reporting Defined-Benefit Pension Plans with Heads in their 40s and 50s

Note. Includes DB plans associated with current and previous jobs for heads and spouses. Income terciles based on money income (as the sum of the taxable income, transfer income, and social security income of all family members) and derived on a weighted basis for each age group and year. Shares calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

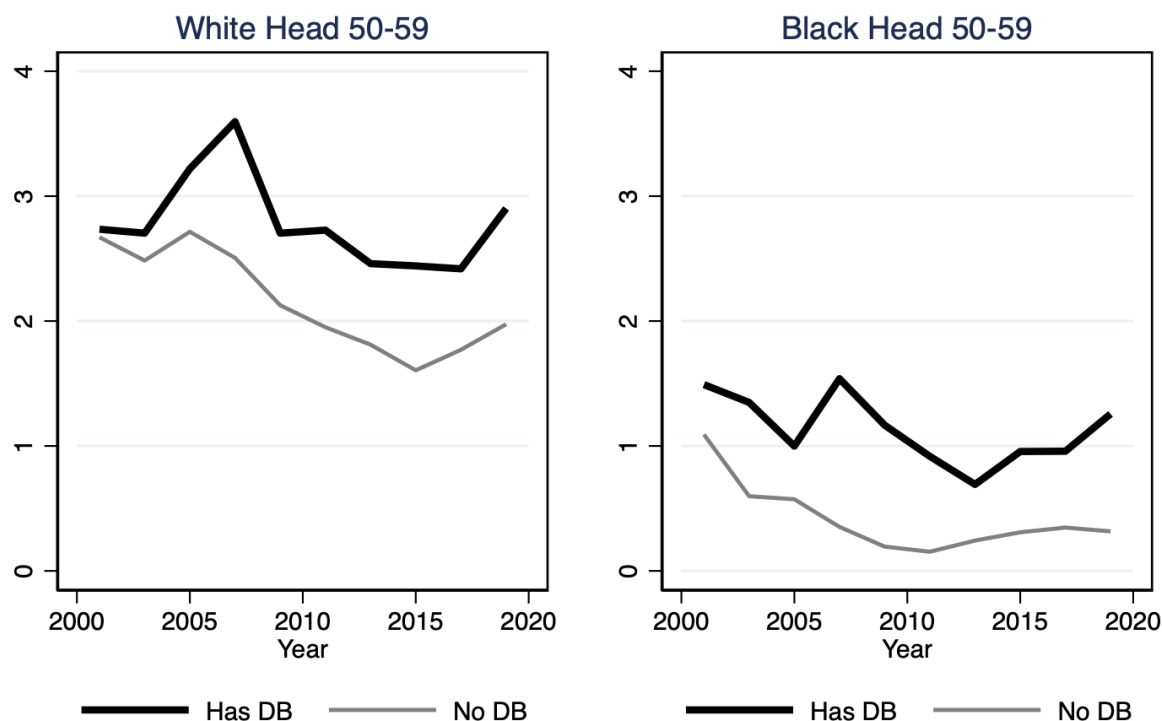


Figure 9. Median Wealth-to-Income Ratio for Families by Whether Families Have a DB for Families with Heads in their 40s and 50s

Note. DB plan status based on plans reported by head and spouse associated with current and previous jobs. Wealth defined as the sum of non-financial assets, financial assets (including the value of DC pension plans) minus liabilities; it does not include the value of future defined-benefit pension income or Social Security income. Money income defined as the sum of the taxable income, transfer income, and social security income of all family members for calendar year preceding survey. Ratios based on current wealth and average money income for the current and previous waves. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

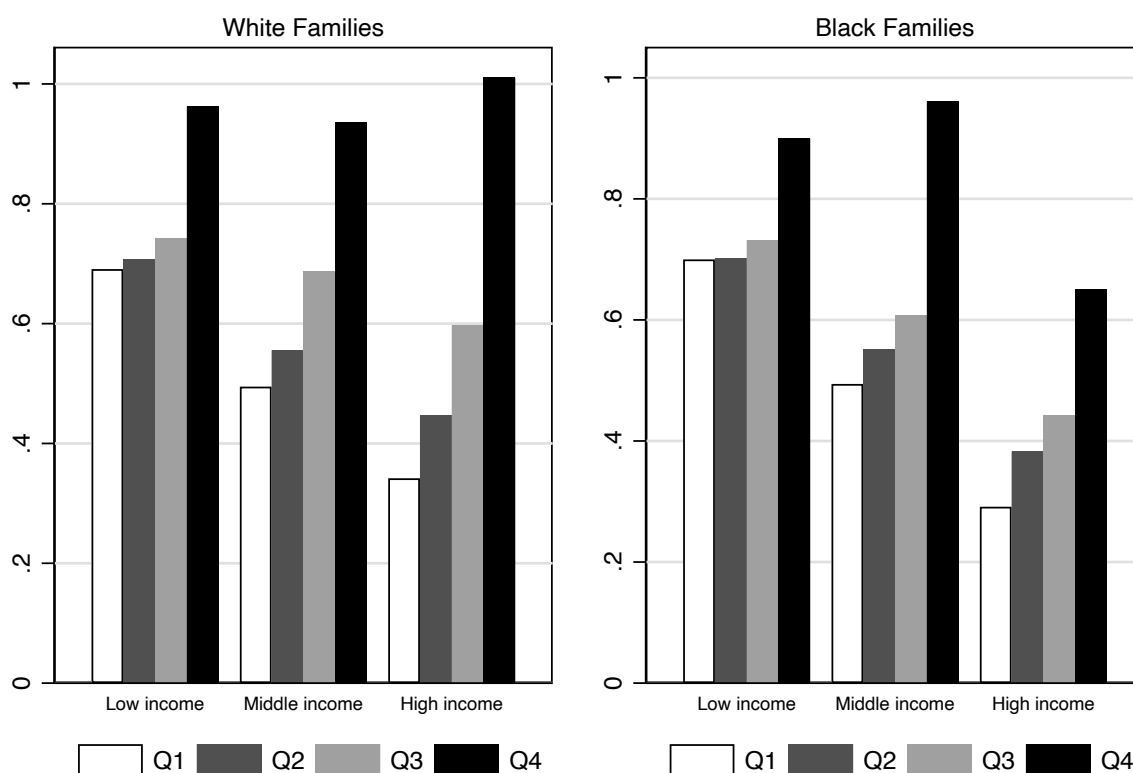


Figure 10. Estimated Retirement Income Replacement Rates by Income Tercile for Families with White and Black Heads in their 50s in 2019

Note. Calculations based on annuity value of household wealth, a random draw of defined-benefit pension income from households in their 60s with the same race and income group when they were in their 50s, and Social Security replacement rates from CBO (2019). Income terciles based on money income (as the sum of the taxable income, transfer income, and social security income of all family members) and derived on a weighted basis for each year. The four bars for each income group represent the medians for families in the lowest through highest quartiles of the group in terms of replacement rates. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

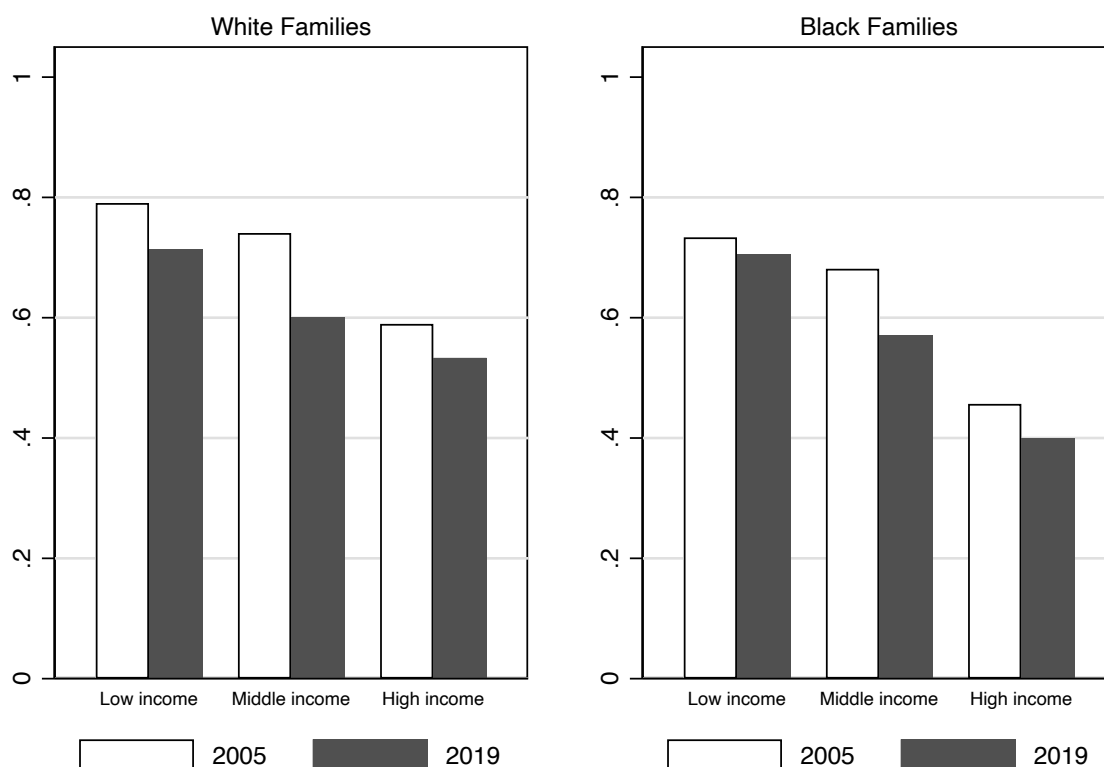


Figure 11. Median Estimated Retirement Income Replacement Rates by Income Tercile for Families with White and Black Heads in their 50s in 2005 and 2019

Note. Calculations based on annuity value of household wealth, a random draw of defined-benefit pension income from households in their 60s with the same race and income group when they were in their 50s, and Social Security replacement rates from CBO (2019). Income terciles based on money income (as the sum of the taxable income, transfer income, and social security income of all family members) and derived on a weighted basis for each year. Statistics calculated using weights.

Source. Authors' calculations based on data from the Panel Study of Income Dynamics.

ⁱ The literature is vast. For an early example, see Congressional Budget Office (1987). Congressional Budget Office (2017) cites some more recent research, as well as various measurement and conceptual considerations that can lead different studies to different conclusions.

ⁱⁱ The “early release” file for the 2021 wave of the PSID was made available to the public in February 2022. Our preliminary exploration of this file suggests that the information is limited in various ways that are likely to make analysis of retirement security unreliable.

ⁱⁱⁱ In addition to the work cited in the text, a number of papers at the 2022 Pension Research Council Symposium presented various piece of evidence related to the effects of the COVID-19 pandemic on retirement security (Pension Research Council, 2022).

^{iv} There is a growing literature on racial disparities in DC wealth. See, for example, Banerjee (2022), who explores gaps in access, take-up, and balances for different race and ethnicity groups.

^v The number of minority-headed families in the SCF has grown over time, and the SCF began to oversample minority-headed families with its 2022 wave (Moore and Pence, 2021); however, SCF waves of the 1990s and early 2000s have 200 or fewer Black families in their 40s or 50s. In the PSID, the greater precision in estimates for minority-headed families occurs only for those in the lower-income oversample, but that is the portion of the income distribution for which vulnerability in retirement is a particular concern.

^{vi} We do not know the reason for this surprising feature of the survey given that most (if not all) families would consider such assets to be an explicit component their financial wealth. One explanation is that the PSID (like most surveys) never included information about DB pension wealth in its summary measures and that DC accounts, when introduced, were viewed mostly as a replacement for retirement “saving” through DB plans.

^{vii} The gap was very small in 2001 but widened considerably thereafter.

^{viii} Social Security replacement rates and pension income in the PSID are not available before 2005.