

Analysis of the wealth held by white, black, and Hispanic households points to differences in saving behavior, notably a disinclination on the part of minority households to invest in riskier, higher-yielding financial assets. This finding may account for some of the great disparities in wealth across racial and ethnic groups that cannot be explained by income and demographic factors.

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Racial and Ethnic Differences in Wealth and Asset Choices

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Summary

White households in the United States are far wealthier than black or Hispanic households, a disparity that remains unexplained even after taking into account income and demographic factors. This article uses data from the Health and Retirement Study to examine various components of aggregate wealth, including housing equity, nonhousing equity, financial assets in general, and risky assets in particular. It inspects asset choices by race and ethnicity and assesses whether differences in saving behavior—and, consequently, in rates of return on assets—are possible sources of the wealth gap. It also demonstrates the equalizing effect of pension wealth and Social Security wealth on total wealth.

Racial and ethnic differences in housing equity narrow among households in the higher income quartiles, whereas differences in nonhousing equity generally widen as income increases. The widening gap in nonhousing equity stems from differences in financial asset holdings, particularly risky assets. At every income quartile and educational level, the percentage of black and Hispanic households that own risky, higher-yielding assets is considerably smaller than the percentage of white households. Thus, some of the wealth

gap appears to be attributable to differences in saving behavior.

Understanding how people save—in particular, knowing whether certain people will be more vulnerable financially because of their saving choices—helps policymakers assess older Americans' financial preparedness for retirement and anticipate their economic well-being thereafter. Lower rates of investment in the financial market will probably result in slower wealth creation in minority households. Recognizing this, some organizations are trying to open opportunities for minority households to invest in the financial market. This is a positive step toward narrowing the wealth divide. Such efforts will become even more critical if Social Security reform places increased responsibility on individuals to manage personal accounts.

Introduction

For Americans in general, income from individually accumulated assets is second only to income from Social Security when they retire. Indeed, the fraction of people age 65 or older reporting some income from assets increased from about one-half in 1962 to roughly two-thirds in 1998 (Social Security Administration 2000). However, the proportion of older people with such income varies widely

by race and ethnicity. In 1984, the earliest year for which such data are available, 73 percent of whites age 65 or older received income from assets, compared with 31 percent of blacks and 38 percent of Hispanics.¹ That gap has persisted, with 1998 data showing that 69 percent of older whites had income from assets, compared with 26 percent of blacks and 33 percent of Hispanics. Not surprisingly, the average share of income from assets also varies: since 1990, white retirees have received about one-fifth of their income from assets, while blacks and Hispanics have received no more than one-tenth of their income from this source.

Although wealth varies substantially by race and ethnicity, little of that disparity can be explained by differences in income or demographic characteristics. In fact, the wealth gap far exceeds the income gap. The large body of empirical studies on wealth (for example, Wolff 1998, 2000; Hurst, Luoh, and Stafford 1998; and Blau and Graham 1990) shows that white households have at least five times the wealth of minority households yet earn, on average, just twice as much as minority households.^{2,3}

Several studies have tried to explain the wealth divide. Smith (1995a) reported that it is due in part to lower minority incomes, poorer health, and smaller inheritances. Even after controlling for income and demographic factors, Blau and Graham (1990) found that almost three-quarters of the black-white wealth gap could not be explained; they speculated that differences in intergenerational transfers and, to a smaller extent, barriers to the accumulation of home and business equity might be responsible.⁴ Altonji, Doraszelski, and Segal (2001), who also determined that income and demographics play a small role, have suggested that differences in saving behavior and rates of return on assets may be more important than intergenerational transfers in explaining the wealth gap.

Only a few studies have addressed how saving behavior might affect the accumulation of wealth. Hurst, Luoh, and Stafford (1998), using the 1984–1994 Panel Study of Income Dynamics, reported that a large part of the racial difference in wealth accumulation can be attributed to differences in permanent income and portfolio composition. In an examination of wealth accumulation patterns in the first two waves of the Health and Retirement Study (HRS), Smith (1995b) found that minority groups have lower rates of asset accumulation, even after controlling for income, health, bequest motive, and so on.

This article explores the question of whether differences in wealth arise from differences in saving behavior. Unlike earlier studies, it focuses on a narrow band of the population—persons who are near retirement age—in an effort to reduce the impact of age and cohort effects on

wealth. In addition, it examines broad measures of wealth, such as net worth, pension wealth, and Social Security wealth, as well as narrower measures, such as housing equity, financial assets, and risky assets. (Risky assets are defined here as the sum of stocks, bonds, individual retirement accounts (IRAs) and Keoghs, and other assets.) While employing much of the research approach Smith used in his pioneering paper on racial and ethnic differences in wealth (1995a), the present analysis uses employer-provided pension data and Social Security wealth information derived from administrative data rather than self-reports from the HRS.⁵ Finally, this article takes a much closer look at various components of wealth and at the assets in the portfolios of minority households.

Understanding how people save—in particular, knowing whether certain people are more vulnerable financially because of their saving choices—helps policymakers assess older Americans’ financial preparedness for retirement and anticipate their economic well-being thereafter. In recent years, employer pension schemes have shifted from defined benefit to defined contribution plans, and interest in reforming part of the Social Security retirement system has increased. Thus pension plans and Social Security are becoming or may become more like individual saving. Research on how people save is needed to help gauge the economic security of future retirees, inform the current debate on Social Security reform, and prevent inequalities in wealth from being perpetuated.

The next sections describe the data used in this article, the demographic and income characteristics of the people studied, differences by race and ethnicity on various measures of wealth, the distribution of wealth by race and ethnicity and income, and the composition of households’ portfolios by race and ethnicity, income, and education. Some concluding comments follow.

The Data

This article is based on data from wave 1 (1992) of the HRS, matched, when permitted by respondents, with Social Security administrative data and employer-provided pension information. The HRS is a national, longitudinal database that focuses on individuals born between 1931 and 1941. The survey asks questions that relate primarily to the respondents’ health, wealth, retirement, and economic status. The bracketing technique used by HRS to obtain wealth information from respondents results in high-quality data about wealth.⁶

Mitchell, Olson, and Steinmeier (1996) have constructed a variable for household Social Security wealth that is the present value of the Social Security retirement benefit payable in the form of an annuity from retirement

until death. The variable is calculated for respondents who are not Social Security disability beneficiaries and for whom lifetime covered earnings are available. Approximately 70 percent of HRS respondents gave permission to match information collected about them in the survey with their Social Security earnings records. When earnings information was not available for a spouse in a married household, that spouse's earnings were imputed. The Social Security wealth variable used in this analysis is expressed in 1992 dollars and reflects Social Security wealth for a respondent's household at the time of the survey.⁷

The HRS Level 1 Pension File provides information on pension wealth from defined benefit and defined contribution plans offered by current and past employers, computed under alternative scenarios. Of the persons eligible for employer pensions, about 67 percent gave permission to match their pension records with their Social Security earnings records. A household's pension wealth is valued as of 1992; this value is based on the Social Security Trustees' intermediate assumptions regarding interest rate, wage growth, and inflation. The HRS sample uses group means calculated by race, education, and status as a primary or secondary respondent to impute missing pension wealth. A primary respondent is the person most knowledgeable about household financial matters, such as housing, assets, and liabilities. Married households have a primary and a secondary respondent; single households have only a primary respondent.

Black and Hispanic households, as well as Florida residents, are overrepresented in the HRS. All of the results shown here use household weights to describe a representative population. The analysis is done at the household level (as opposed to the individual level) and excludes cases in which only one spouse in a married household participated in the survey. It also excludes unmarried persons living together and households for which no information on Social Security wealth was available. The final sample used here consists of 5,362 households, 3,895 of which are married.^{8,9}

Characteristics of the Sample

Selected demographic and income characteristics of the households in this analysis are listed in Table 1. In many wealth studies that report statistics on households of all ages, critics point out that it is hard to disentangle age, cohort, and time effects.¹⁰ Although the sample in this study is subject to these effects, they are less important in the relatively older cohort used here. The race or ethnicity of a household is defined by the race or ethnicity of the primary respondent. Non-Hispanic whites and non-Hispanic blacks are referred to simply as whites and

blacks, respectively. A household is referred to as minority if it is black or Hispanic. "All" households encompasses all racial and ethnic groups, including American Indian, Asian-Pacific Islander, and others. The latter three groups were too small to make up a separate category.

More than 75 percent of white households are married with spouse present, compared with less than half of black households. This difference can be important because marriage allows people to pool their resources and, in general, accumulate more wealth. Among primary respondents, almost 25 percent of whites are college graduates, compared with about 10 percent of blacks and Hispanics. Less than half of Hispanics have a high school diploma. Regardless of race or ethnicity, spouses have less education than primary respondents. No obvious pattern can be discerned from the data on health, although a larger proportion of minority than white households report being in poor or fair health. On the other subjective measure—respondents' expectations of their own mortality—a somewhat larger proportion of Hispanic respondents say they are certain they will not live beyond age 75.

More than 90 percent of the white and black populations were born in the United States, whereas less than half of the Hispanic population was. Immigrants who worked in other countries for many years might be expected to have less Social Security wealth than their native-born counterparts, and Hispanics, on average, do have fewer Social Security quarters of coverage than blacks or whites, as indicated in Table 1. (See Box 1 for definitions of terms.) With more education, somewhat better health, and longer earnings histories, it is not surprising that white households earned considerably more in 1991 than their black and Hispanic counterparts.

Measures of Average Wealth

Various measures of wealth available from the HRS are examined here (Box 1). Net worth excludes retirement wealth held in defined contribution pension plans (which are part of pension wealth) and Social Security wealth. Housing equity consists of equity in a primary residence only. Pension wealth is calculated from employer-provided pension data and is the sum of defined benefit and defined contribution pension plans from the current job as well as any pensions from certain previous jobs. Social Security wealth is based on a respondent's actual lifetime earnings (Mitchell, Olson, and Steinmeier 1996).

Almost all of the households have net worth in some form (Table 2). Overall, the mean wealth of white households is more than three times that of black or Hispanic households, a finding that has been well established in previous HRS wealth studies (Smith 1995a).

Table 1.
Selected demographic and income characteristics of households, by race and ethnicity (in percent unless otherwise indicated)

Characteristic	All	White	Black	Hispanic
Married	72.31	75.87	47.37	64.87
Education of primary respondent				
Less than high school	23.31	18.44	42.38	59.16
High school graduate	34.89	37.37	29.07	17.21
Some college	19.41	20.01	17.18	16.00
College graduate	22.39	24.17	11.36	7.63
Education of spouse				
Less than high school	25.92	21.93	42.92	66.99
High school graduate	39.22	41.15	34.69	20.29
Some college	18.67	20.03	11.69	8.46
College graduate	16.19	16.89	10.70	4.26
Health of primary respondent				
Poor	1.96	1.58	3.94	3.00
Fair	9.58	8.76	11.34	16.90
Good	72.65	74.37	65.67	61.73
Very good or excellent	15.80	15.29	19.05	18.37
Health of spouse				
Poor	2.07	1.90	3.95	3.12
Fair	8.00	7.46	10.22	13.92
Good	75.23	76.44	69.04	64.24
Very good or excellent	14.70	14.20	16.79	18.73
Expect primary respondent to live to age 75 or older				
No chance	5.83	4.78	8.28	15.45
Absolutely certain	20.75	19.90	27.42	21.55
Expect spouse to live to age 75 or older				
No chance	5.23	4.65	5.98	14.58
Absolutely certain	21.89	21.37	26.67	22.42
Born in United States				
Primary respondent	91.77	95.92	95.47	47.90
Spouse	90.47	94.32	91.84	48.89
Children (mean number)	3.19	3.07	3.59	3.91
AIME (mean value in dollars)				
Primary respondent	1,369	1,463	987	825
Spouse	1,007	1,041	905	643
Quarters of coverage (mean number)				
Primary respondent	100	104	90	75
Spouse	85	87	87	64
Mean household income (dollars)	52,257	55,560	34,585	33,432
Sample size (weighted)	12,515,330	10,230,244	1,184,523	810,752

SOURCE: Data are from the Health and Retirement Study wave 1 (1992) matched with employer-provided pension data and Social Security Administration administrative data.

NOTE: AIME = average indexed monthly earnings. See Box 1 for details.

Box 1: Definitions

average indexed monthly earnings (AIME): The annual Social Security taxable earnings of a worker are indexed to wages. The 35 highest indexed earnings to date are used to compute the AIME.

bonds: Bonds (corporate, municipal, government) and bond funds (other than retirement accounts).

debt: Credit card loans, medical debts, life insurance policy loans, money owed to relatives and friends, second and nonprimary home debt, and so on.

IRAs and Keoghs: Individual retirement accounts and Keogh plans.

liquid assets: Checking and savings accounts, money market funds, certificates of deposit, government savings bonds, and Treasury bills.

other assets: Other savings or assets, money owed by others, valuable collections for investment purposes, annuities, or rights in a trust or estate not mentioned elsewhere.

pension wealth: Pension wealth values are those provided in the Level I Pension File of the HRS and are based on employer-provided information regarding various pension plans. These pension values are accumulated across jobs and are aggregated in 1992 dollars. Pension plans may be a defined benefit or a defined contribution plan. The combination of inflation, interest rates, and wage growth employed by the Social Security Administration in its intermediate projections of long-term system solvency are used here. Pension values are imputed for households in which one spouse claims to have earned a pension but the pension information is missing. Group means by race, education, and status as a primary or secondary respondent were used to impute missing pension values.

quarters of coverage: To become eligible for Social Security benefits, a worker needs a certain number of credits based on work in covered employment. Credits are measured in terms of quarters of coverage (QC). In 2000, a worker can earn one QC for every \$780 in covered earnings, up to a maximum of four QCs each year.

Social Security wealth: Expected present value (in 1992) of benefits based on a respondent's projected earnings if he or she was under age 62 at the time of the survey. The values are given as household-level variables.

stocks: Stocks, stock funds, and investment trusts (other than retirement accounts).

Variables:

- **Net worth** = housing equity + nonhousing equity
- **Housing equity** = value of primary residence – mortgage(s) – home equity line of credit
- **Nonhousing equity** = financial assets + tangible assets – debt
- **Financial assets** = liquid assets + stocks + bonds + IRAs and Keoghs + other assets
- **Tangible assets** = vehicle equity + business equity + real estate other than primary residence

Home ownership rates are much higher for white households than for minority households, and white households have about twice the mean housing equity of other households. However, the proportion of all households owning homes is far smaller than the proportion owning other forms of net worth. Although most households have positive nonhousing equity, on average, the mean value of nonhousing equity is at least four times greater for white households than for black or Hispanic households—and the ratio is far more dramatic when looking at median values. Thus, the sizable difference in net worth appears to result largely from disparities in nonhousing equity. Again, these results are not surprising in light of previous wealth studies.¹¹

Nonhousing equity is made up of financial assets and tangible assets. The mean financial wealth of whites is five times that of blacks and eight times that of Hispanics. While a majority of households in each group owns liquid assets, ownership of stocks, bonds, IRAs, and other assets varies widely. About 36 percent of white households report owning stocks; the mean value of those

stocks is \$24,933. However, less than 10 percent of black and Hispanic households report owning stock, resulting in much lower mean holdings: \$3,387 and \$1,608, respectively. It is important to note that the median value of stocks, bonds, and other assets is zero for all households, regardless of race or ethnicity. Thus, even though white households report high mean values as a group, fewer than half own stocks, bonds, or other assets.

Tangible assets are larger, on average, than financial assets. Mean tangible assets of whites are more than three times those of blacks or Hispanics. Most households have equity in one or more vehicles. Relatively few households in any group own equity in a business, but among those that do, the differences are large. About one-third of white households and about one-fifth of black and Hispanic households own real estate other than their primary residence. The median household of all groups owes no debt, and the mean debt owed by all groups is roughly the same.

Table 2.
Household wealth, by race and ethnicity (mean and median values in 1992 dollars)

Measure of wealth	White			Black			Hispanic		
	Percentage ownership	Mean (value)	Median (value)	Percentage ownership	Mean (value)	Median (value)	Percentage ownership	Mean (value)	Median (value)
Net worth	99	273,847	127,000	87	78,444	30,500	87	79,751	36,000
Housing equity	84	70,621	52,000	61	29,656	15,000	58	35,606	18,000
Nonhousing equity	99	203,226	58,000	84	48,788	6,000	86	44,145	5,300
Financial assets	93	89,158	25,000	62	17,659	600	54	11,388	200
Liquid assets	91	24,367	6,100	60	6,731	500	53	5,442	100
Stocks	36	24,933	0	9	3,387	0	7	1,608	0
Bonds	8	4,005	0	2	118	0	2	127	0
IRAs/Keoghs	50	24,581	20	15	5,366	0	12	2,741	0
Other	20	11,271	0	7	2,057	0	6	1,471	0
Tangible assets	96	117,357	15,000	71	34,239	4,000	80	35,141	4,000
Vehicle equity	96	15,899	10,000	70	7,451	3,000	78	6,868	3,000
Business equity	16	45,977	0	5	7,483	0	7	8,687	0
Other ^a	36	55,481	0	18	19,305	0	22	19,586	0
Debt	40	3,289	0	47	3,110	0	36	2,384	0
Pension wealth	79	100,865	37,721	66	65,897	24,076	47	32,581	0
Social Security wealth	96	134,431	142,836	87	89,075	78,806	83	86,412	83,431
Total wealth	100	509,142	351,144	97	233,415	155,695	94	198,744	148,394

SOURCE: Data are from the Health and Retirement Study wave 1 (1992) matched with employer-provided pension data and Social Security Administration administrative data.

NOTE: IRAs = individual retirement accounts.

a. Real estate other than primary residence, which is housing equity.

Pension wealth is an important source of overall wealth, particularly for households nearing retirement. About 79 percent of white households have pension wealth, compared with 66 percent of black and 46 percent of Hispanic households. Mean and median pension wealth holdings across the three groups do not differ as much as financial assets, except for Hispanic households, whose median pension wealth is zero. Differences in Social Security wealth are not as great as those in housing or nonhousing equity. Note that the median Social Security wealth of all three groups is greater than median net worth.

Disparities in total wealth are not as great as those in net worth because total wealth is a broad concept that includes pension wealth and Social Security wealth as well as net worth. Including pension wealth reduces overall wealth differences between white and minority households. Including Social Security wealth has an even greater equalizing impact, particularly for Hispanic households—despite their shorter work histories and lower average lifetime earnings (Table 1).

Distribution of Wealth

To better understand the racial and ethnic disparities in wealth, one can examine the distribution of broad components of total wealth and the distribution of components of a narrower form of wealth, mainly financial wealth, which is thought to drive much of the observed disparity.

Total Wealth

One can examine the distribution of mean total wealth by household income as shown in Table 3. Household income is divided into quartiles at \$23,460, \$41,900, and \$66,900; the cutoff points are set for the entire sample, not for separate racial and ethnic groups.¹² Data are given for all households and for owner households only. The former group includes every household, irrespective of ownership of an asset, whereas the latter includes only households that own a given form of wealth.

For households with net worth, the mean values for white and minority households differ most sharply in the second and third income quartiles. Housing equity continues to be more equally distributed than nonhousing equity. Although racial disparities in home ownership have narrowed since 1977, the ownership rate of blacks as of 1995 remained 27 percentage points below that of whites. Racial differences in home equity, adjusted for income, have been explained by credit, financial, neighborhood, and home ownership disparities, in addition to the prevalence of discrimination among lenders.¹³ As income increases, so does housing equity; thus the greatest racial and ethnic disparity occurs in the lowest

income quartile (Table 3). Among homeowners, differences in equity by race and ethnicity generally diminish with rising household income.

Nonhousing equity, in contrast, tends to vary more widely between whites and minority groups as incomes increase. For example, a differential of 2 to 1 between whites and Hispanics in the lowest income quartile increases to 4 to 1 in the highest income quartile. The differential between white and black households ceases to widen only at the highest income quartile.

The rate of pension ownership rises with household income for all groups, as does mean pension wealth. Pension ownership is lowest among Hispanic households, particularly those in the lowest income quartile; this statistic is not surprising, given the larger proportion of Hispanics in the sample who are foreign-born and who have fewer quarters of coverage and smaller average indexed monthly earnings. Pension ownership rates of blacks and whites are about the same except in the bottom quartile.

One finding regarding pension wealth is particularly noteworthy. This analysis confirms the standard finding that, in general, white households have more pension wealth than minority households (Table 2). However, tabulating pension wealth by income reveals that, in the top quartile of pension owners, black households have, on average, slightly more pension wealth than white households (Table 3). One reason may be that in the top quartile, a larger percentage of black than white households have two members with pensions. An unexpected finding that emerges from this table is that black and white households in the sample have similar access to pensions.

Social Security wealth is more equally distributed than net worth. Racial and ethnic differences in Social Security wealth decrease with higher income, reflecting the redistributive nature of the Social Security benefit formula.

Financial Wealth

As noted earlier (Table 2), a sizable percentage of all households own financial assets, but the worth of those assets varies widely by racial and ethnic group. Several wealth studies have reported that financial wealth is even more heavily concentrated in white households than total personal wealth is (Wolff 1998, 2000).¹⁴ Taking a closer look at the particular assets held may reveal what causes those differences (see Table 4).

Because liquid assets are considered safe and include such common instruments as checking and savings accounts, it is not surprising that a very large proportion of households in every income quartile report having some liquid assets. In the lowest income quartile, a much

higher proportion of white households own liquid assets than do black or Hispanic households. Racial and ethnic differences in ownership rates decline in higher income quartiles.

The picture is different for risky assets. Stock ownership and the value of stock owned vary not only between the top and the bottom income quartiles but also between white and minority households.¹⁵ Stock ownership is known to be very skewed. Wolff (1998) states that in 1992, the top 1 percent of families in the United States, as ranked by net worth, owned almost 50 percent of corporate equity. Probably because the respondents in this study are near retirement age, even households in the

lowest quartile own some stock. Note that while stock ownership generally rises with income, it does so much more slowly in minority households. In the highest income quartile, 26 percent of black households and 21 percent of Hispanic households own stock. The mean value of stocks is less skewed across stock-owning households than it is across all households. The substantial variation in value across all households results from the patterns of stock ownership observed in the three groups: for example, the stock wealth of whites in the lowest income quartile is 13 times that of Hispanics, while the stock wealth of whites in the top income quartile is 4 times that of blacks.

Table 3.
Broad measures of wealth, by race and ethnicity and income quartile

Measure of wealth and income quartile	Percentage ownership			Mean value for all households (1992 dollars)			Mean value for owner households only ^a (1992 dollars)		
	White	Black	Hispanic	White	Black	Hispanic	White	Black	Hispanic
Net worth									
Lowest quartile	95.74	74.92	78.60	100,914	41,607	44,040	105,408	55,539	56,033
Second quartile	99.66	96.06	92.26	170,973	64,651	68,370	171,551	67,303	74,110
Third quartile	100.00	94.66	97.05	218,957	73,478	126,902	218,957	77,620	130,764
Highest quartile	100.00	99.01	100.00	551,818	247,555	182,871	551,818	250,028	182,871
Housing equity									
Lowest quartile	66.86	40.00	43.72	39,061	14,189	18,729	58,426	35,469	42,481
Second quartile	84.64	71.68	66.16	57,631	30,398	38,867	68,091	42,406	58,748
Third quartile	89.08	77.33	72.31	69,570	38,369	47,110	78,100	49,616	65,153
Highest quartile	92.32	87.23	82.40	107,503	70,751	81,559	116,441	81,110	98,981
Nonhousing equity									
Lowest quartile	94.70	71.19	76.68	61,853	27,418	25,310	65,315	38,514	33,008
Second quartile	99.55	93.91	90.25	113,342	34,253	29,503	113,852	36,476	32,690
Third quartile	99.84	91.51	97.05	149,387	35,109	79,791	149,630	38,364	82,220
Highest quartile	100.00	99.01	100.00	444,314	176,804	101,312	444,314	178,570	101,312
Pension wealth									
Lowest quartile	58.74	41.68	30.25	33,088	19,515	12,610	56,330	46,815	41,691
Second quartile	78.60	77.97	54.35	66,634	60,514	32,384	84,781	77,609	59,584
Third quartile	88.00	87.00	65.17	111,014	100,276	43,536	126,152	115,259	66,801
Highest quartile	87.74	93.29	70.61	173,882	193,223	99,499	198,170	207,110	140,912
Social Security wealth									
Lowest quartile	89.76	78.34	72.73	92,186	54,834	61,004	102,700	69,999	83,874
Second quartile	96.69	93.93	93.73	127,067	99,336	100,831	131,415	105,753	107,580
Third quartile	97.29	93.02	90.55	146,933	120,332	111,304	151,021	129,360	122,919
Highest quartile	97.59	97.06	93.18	161,369	143,943	124,245	165,353	148,298	133,338

SOURCE: Data are from the Health and Retirement Study wave 1 (1992) matched with employer-provided pension data and Social Security Administration administrative data.

NOTE: The cutoff points for the income quartiles (in 1992 dollars) are \$23,460, \$41,900, and \$66,900.

a. Owner households are those that have the specified form of wealth.

Bond ownership is much lower than stock ownership. Even within the top income quartile, less than 20 percent of white households own bonds. Across all income quartiles, the mean bond wealth of all households is smaller than the mean value of stock portfolios. Too few minority households own bonds across all income quartiles to allow further comparisons.

A larger percentage of households in all income and racial and ethnic groups own IRAs and Keoghs than own other risky financial assets such as stocks and bonds.¹⁶ Ownership rates of IRAs and Keoghs increase with

income in all racial and ethnic groups, although Hispanic households show little change from the third income quartile to the highest. In part because a larger proportion of people own IRAs and Keoghs, particularly in the two higher income quartiles, the differences in mean IRA and Keogh wealth are not as great between white and minority households as the differences in stock and bond holdings.

A sizable proportion of white households in all income quartiles and of minority households in the top quartile own some form of other assets, which include money

Table 4.
Components of financial wealth, by race and ethnicity and income quartile

Financial asset and income quartile	Percentage ownership			Mean value for all households (1992 dollars)			Mean value for owner households only ^a (1992 dollars)		
	White	Black	Hispanic	White	Black	Hispanic	White	Black	Hispanic
Liquid assets									
Lowest quartile	74.79	36.14	29.87	12,602	2,312	2,901	16,849	6,397	9,710
Second quartile	90.92	73.45	60.85	18,282	8,297	6,691	20,107	11,296	10,996
Third quartile	96.05	78.18	78.48	21,948	7,583	9,239	22,851	9,700	11,772
Highest quartile	97.35	89.42	91.69	41,189	17,988	7,736	42,311	20,116	8,438
Stocks									
Lowest quartile	14.86	1.49	1.81	7,181	2,202	553	48,321	b	b
Second quartile	28.24	11.50	5.53	11,072	1,586	1,008	39,205	13,788	b
Third quartile	39.18	10.75	14.06	18,172	1,763	3,379	46,387	16,395	24,029
Highest quartile	55.88	25.61	20.75	57,537	13,898	4,669	102,958	54,258	22,494
Bonds									
Lowest quartile	2.84	0.50	1.13	870	28	201	30,664	b	b
Second quartile	4.56	0.48	0	1,720	95	0	37,687	b	b
Third quartile	7.50	3.52	2.34	1,747	243	164	23,300	b	b
Highest quartile	16.44	5.17	6.24	10,637	308	35	64,716	b	b
IRAs and Keoghs									
Lowest quartile	23.51	3.73	6.65	6,459	685	789	27,472	18,348	11,859
Second quartile	42.57	15.50	13.61	17,309	3,409	1,668	40,661	21,985	12,256
Third quartile	55.02	23.22	21.02	24,004	4,231	7,048	43,628	18,219	33,538
Highest quartile	72.24	43.64	19.92	45,564	28,034	6,820	63,075	64,241	b
Other									
Lowest quartile	10.65	1.82	1.89	3,094	228	394	29,062	b	b
Second quartile	15.86	7.15	3.94	5,500	1,710	71	34,689	23,935	b
Third quartile	21.20	8.96	9.06	9,229	2,640	479	43,535	29,449	b
Highest quartile	29.58	19.80	23.21	24,702	8,503	10,355	93,502	42,940	44,618

SOURCE: Data are from the Health and Retirement Study wave 1 (1992) matched with employer-provided pension data and Social Security Administration administrative data.

NOTES: The cutoff points for the income quartiles (in 1992 dollars) are \$23,460, \$41,900, and \$66,900. IRAs = individual retirement accounts.

- a. Owner households are those that have the specified form of financial wealth.
- b. Fewer than 19,000 weighted cases.

owed by others, valuable collections, and annuities. However, without knowing the specific form of the assets, it is difficult to comment on the differences by race and ethnicity.

Asset Choices

One way of exploring the notion that saving behavior accounts for the differences in financial assets described above is to investigate asset choices by income and education.

By Income

Informal surveys and occasional media stories report differential saving behavior by race (Brimmer 1988;

Mabry 1999). Those reports discuss why many blacks missed out on the most spectacular stock market rally in U.S. history, noting that blacks are generally far less heavily invested in financial securities, especially stocks, and tend to favor more conservative investment vehicles, such as real estate and insurance.

How the three racial and ethnic groups studied here allocate their wealth is shown in Table 5. Consider housing equity. For most households, a home not only provides shelter but also represents its most important asset. The share of a household's portfolio devoted to housing changes across the life cycle and across income or wealth distribution. Because the sample studied here is close to retirement, life-cycle differences are not a concern.¹⁷ In general, households in the middle of the

Table 5.
Portfolio allocations, by race and ethnicity and income quartile

Asset/portfolio ratio and income quartile	All households			Owner households only ^a		
	White	Black	Hispanic	White	Black	Hispanic
Housing equity/net worth						
Lowest quartile	0.40	0.29	0.32	0.46	0.50	0.47
Second quartile	0.44	0.45	0.47	0.46	0.54	0.55
Third quartile	0.42	0.47	0.42	0.45	0.66	0.45
Highest quartile	0.36	0.38	0.35	0.35	0.39	0.41
Risky assets/financial wealth ^{b,c}						
Lowest quartile	0.23	0.05	0.07	0.30	0.13	0.21
Second quartile	0.38	0.18	0.12	0.41	0.24	0.19
Third quartile	0.48	0.25	0.24	0.49	0.31	0.30
Highest quartile	0.63	0.42	0.38	0.63	0.44	0.41
Stocks and bonds/financial wealth ^c						
Lowest quartile	0.06	0.01	0.01	0.08	0.03	0.04
Second quartile	0.11	0.06	0.03	0.12	0.08	0.05
Third quartile	0.14	0.07	0.10	0.15	0.09	0.13
Highest quartile	0.24	0.11	0.14	0.24	0.11	0.15
IRAs and Keoghs/financial wealth ^c						
Lowest quartile	0.12	0.02	0.04	0.15	0.06	0.13
Second quartile	0.21	0.09	0.07	0.22	0.11	0.11
Third quartile	0.26	0.13	0.11	0.26	0.16	0.14
Highest quartile	0.29	0.25	0.10	0.29	0.27	0.11

SOURCE: Data are from the Health and Retirement Study wave 1 (1992) matched with employer-provided pension data and Social Security Administration administrative data.

NOTES: Because only selected components of wealth are shown here, portfolio allocations do not add to 100 percent.

The cutoff points for the income quartiles (in 1992 dollars) are \$23,460, \$41,900, and \$66,900.

IRAs = individual retirement accounts.

a. Owner households are those that have net worth (for the housing equity ratio) or financial wealth (for the risky assets, stocks and bonds, and IRAs and Keoghs ratios).

b. Risky assets are the sum of stocks and bonds, IRAs and Keoghs, and other assets.

c. Financial wealth is the sum of liquid assets and risky assets.

income distribution have put a disproportionate share of their total assets into housing, whereas wealthy households own other assets as well, thereby reducing housing's share of their net worth.

Allocation patterns by racial and ethnic group are remarkably similar. Among households that have net worth, all except those in the top income quartile have tied up roughly half their net worth in their home. In the top income quartile, the share of home equity is slightly lower for all groups, enabling them to increase the diversification of their assets.

It is well known that wealthier households hold larger percentages of their assets in riskier forms¹⁸ and that blacks are generally more risk-averse than whites (Brimmer 1998). Blacks who have a margin of funds to invest are more likely to prefer safer assets such as checking accounts or real estate than are whites (Brimmer 1998). Comparable data on Hispanics are not available. Certainly, this finding is borne out by Table 5, which shows that across all households, minorities hold a smaller share of risky assets than whites. The differences are largest in the lowest income quartiles, with black and Hispanic households displaying roughly similar patterns. Even among households that own financial assets, racial and ethnic differences in the share of risky assets continue to be large.

Across all households as well as households that own financial assets, stock and bond allocations are quite dissimilar by racial and ethnic group. Minority households hold very small fractions of their financial assets in the form of stocks and bonds, even in the highest income quartile, whereas white households in that quartile hold one-quarter of their financial assets in stocks and bonds. (Table 4 shows that more white households in the top income quartile own stocks and bonds than any other group.)

A similar phenomenon can be observed with the share of financial assets attributable to IRAs and Keoghs, whether for all households or just those that own financial assets. At every income quartile, black owner households allocate a smaller share of their portfolio to IRAs and Keoghs than do white owner households, although the differences narrow in the higher income quartiles.

By Education

Researchers often find that any particular year's income is unrepresentative of a household's overall financial position. Therefore, they construct a measure of permanent income to do away with misleading temporary increases or decreases. The purpose of doing so at this stage of an analysis is to confirm some of the results. Rather than construct a specific measure of permanent income from HRS data, this analysis uses education as a

proxy measure. It examines whether similar differences in portfolio allocations are observable when viewed by amount of education, a correlate of long-term financial well-being.

Much of the difference in overall wealth appears to be caused by ownership of particular forms of wealth. But do the differences persist when looking at wealth in terms of respondents' education? For example, are well-educated minority households less likely than their white counterparts to hold risky assets?

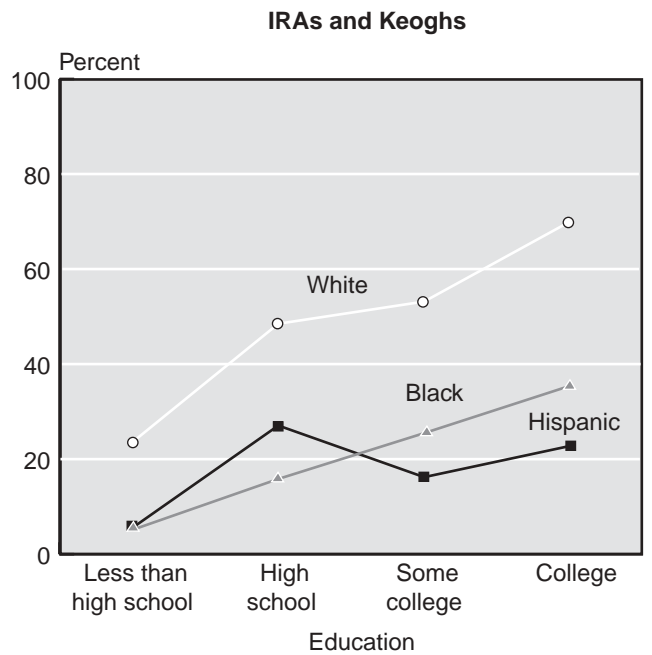
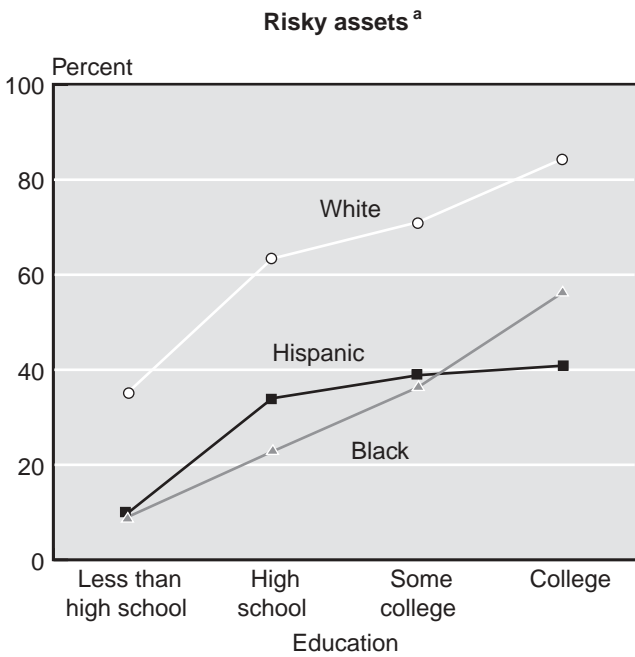
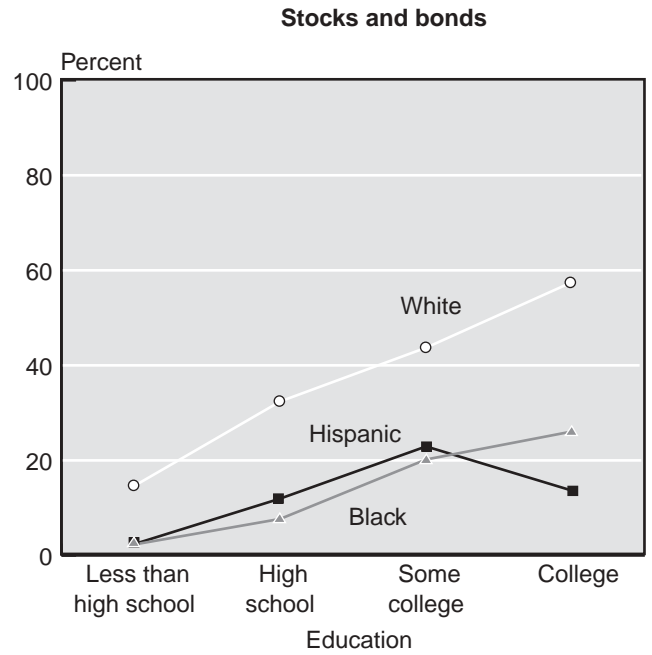
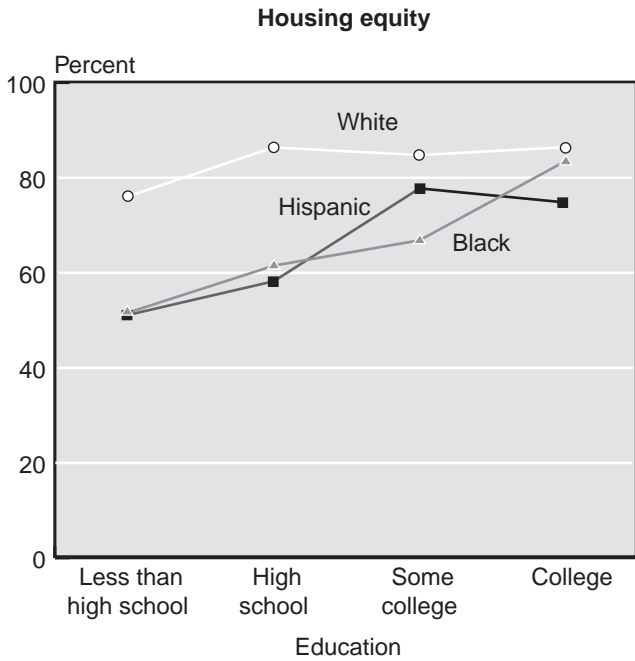
Ownership of housing, all risky assets, just stocks and bonds, and just IRAs and Keoghs is examined by educational level in Chart 1. The chart shows that home ownership patterns by education are similar to home ownership patterns by household income. Among households with less than a high school education, home ownership rates for minorities are considerably lower than those for whites, but the gap shrinks among households with a college education.

A quite different picture emerges for ownership of risky assets. Among the least educated, 35 percent of white households own risky assets, compared with slightly less than 10 percent of minority households. At higher education levels, all households show increased ownership of risky assets, but the gap does not appear to narrow as it does with housing equity. In fact, among white college graduates, almost 85 percent own risky assets, compared with barely half of black households and less than half of Hispanic households. Black and Hispanic households are consistently less likely than whites to hold risky assets in their portfolios.

Greater differences exist in stock and bond ownership by education. Among households with less than a high school education, barely 3 percent of minorities owned stocks and bonds, whereas 15 percent of white households did. Moreover, as education levels rise, white households increase their ownership of stocks and bonds more rapidly than minority households, resulting in an absolute gap between white and minority households that is greater for college graduates than for those who did not finish high school.¹⁹

Far smaller percentages of both black and Hispanic households than white households hold IRAs and Keoghs. As education increases, so do the proportions of black and white households owning IRAs and Keoghs. In contrast, IRA and Keogh ownership is lower among Hispanic households with some college education than among households with only a high school degree. The racial and ethnic gap is large and persists at the highest levels of education. Two-thirds of white college graduate households are invested in IRAs and Keoghs, while a little over one-third of black and one-fourth of Hispanic college graduate households are.

Chart 1.
Ownership of various forms of wealth, by race and ethnicity and education



SOURCE: Health and Retirement Study wave 1 (1992).

NOTE: IRAs = individual retirement accounts.

a. Risky assets are the sum of stocks and bonds, IRAs and Keoghs, and other financial assets.

Concluding Comments

Research suggests that overall differences in wealth among racial and ethnic groups are generated primarily by the financial assets those groups own. Indeed, studies have shown that the wealthier a household, the more diverse and riskier its holdings of financial assets. The present analysis finds that at every income quartile and education level, minority households are less likely than white households to own a wide variety of assets—particularly riskier, higher-yielding assets. This finding suggests that minority and white households approach saving differently. To what extent saving behavior explains racial and ethnic differences in wealth remains to be answered, but researchers have found that the lower rate of stock ownership among black families prevented them from benefiting as much as white families from the recent economic expansion (Hurst, Luoh, and Stafford 1998).

What explains the hesitancy of minority groups to invest in risky financial assets? Lack of an appropriate financial environment in the home has occasionally been put forth as a cause,²⁰ as has a lesser taste for risk, the higher information costs of acquiring newer kinds of assets, or both. Another possibility is that, by primarily targeting whites, financial brokers have created in minority communities a cultural bias against investing in riskier financial assets. Blacks have traditionally been more willing to invest in real estate and certificates of deposit because those industries have marketed their services to blacks and have agents who are themselves black. A recent article in the *Wall Street Journal* (Mabry 1999) claims that blacks have shied away from stocks in part because they mistrust Wall Street and that investment in risky assets will rise with an inflow of black investment professionals. In sum, a variety of factors may have effectively kept black and Hispanic households many years behind their white counterparts in acquiring financial expertise. Additional research is needed to understand those factors.

Lower rates of investment in the financial market will probably result in slower wealth creation in minority households. Finance professionals and community leaders have only recently focused on the possibility that black and Hispanic households are too concerned about present earned income and not concerned enough about building wealth. Some investment firms now have “relationship development teams” in major urban centers where advisers hold investing seminars and workshops (Mabry 1999). The Wall Street Project, a minority stockholders’ plan, is calculated to increase black participation and has the support of important CEOs and public policy officials (Raspberry 1998). A similar effort is being made in the Hispanic community to encourage

investing. Religious leaders, personal finance advisers, and financial firms have urged their community members to learn more about financial markets as they become part of the middle class.

Opening financial opportunities to comparatively disadvantaged minority households is a positive step in narrowing the wealth divide. It will become even more critical if Social Security reform places increased responsibility on individuals to manage personal accounts.

Notes

¹ Hispanics may be of any race.

² Minority households refers to black and Hispanic households only.

³ Using the 1998 Survey of Consumer Finances, Wolff (2000) finds that the ratio of mean incomes of non-Hispanic blacks to non-Hispanic whites is 0.49, and for Hispanics to non-Hispanic whites, 0.54. The respective ratios for mean wealth are 0.18 and 0.25.

⁴ Blau and Graham (1990) note that barriers to owning home and business equity can include difficulty in securing loans, poor information about investment opportunities, and racial differences in home ownership rates and housing values, including lower rates of return on housing in black neighborhoods than in white neighborhoods.

⁵ Authors often use slightly different definitions of the various measures of wealth. For example, Smith (1995a) includes vehicle equity but excludes the value of 401(k) accumulations in his definition of net worth, unlike Wolff (2000). Because the focus of this study is closer to Smith’s, it uses his definitions of wealth.

⁶ HRS asked unfolding bracket questions following an initial nonresponse. A bracket question asks whether a value is greater than or less than a certain amount. For example, in the case of checking accounts, a question would start with, “Are your assets more than \$1,000?” Then additional bracket questions would be asked to place the responses within brackets ranging from 0–\$1,000, \$1,000–5,000, and so on, leading to a bracket of over \$50,000. Different bracket intervals were used for different asset categories. This particular survey technique yielded an enormous amount of information—for example, Smith (1995a) reports that for many financial asset categories, nonresponse was reduced by as much as 75 percent.

⁷ That is, for persons under age 62, future earnings from 1992 until the year they reach age 62 are filled with zeros in the calculation of this wealth variable. Therefore, the coverage rates and wealth levels for this sample are lower than those for the retiree population.

Projections of Social Security wealth may also be low in two other cases. One is that of a widow(er) who expects to receive benefits based on a deceased spouse’s earnings record; earnings records are not available here for deceased spouses. The other case is that of a divorced person who expects to

receive benefits based on a former spouse's earnings history, information that is also not available here.

⁸ There were 7,702 households (2,373 single and 5,329 paired households) in the HRS wave 1. No reweighting is done to account for the households that were dropped. The income and demographic characteristics of the full sample were not substantially different from those of the sample used here.

⁹ Fewer than a dozen primary respondents in the sample were age 50 or 62, and thus barely outside the range of 51 to 61. For married persons, the sample includes spouses regardless of age.

¹⁰ For example, Gale (1998) points out that Hurst, Luoh, and Stafford (1998) are not able to disentangle age-specific, cohort-specific, or time-specific data patterns.

¹¹ Wolff (2000) shows similar results when looking at wealth differences by race and ethnicity across the whole population.

¹² Household income is defined as the sum of earnings, unemployment and worker's compensation, pensions and annuities, Supplemental Security Income and welfare income, capital income, disability income, other income, and income of other household members.

¹³ The recent narrowing of this gap is not attributable to changes in income and the demographics that explain home ownership. Segal and Sullivan (1998) point out that recent changes in housing policies and lending laws may have had a positive effect on home ownership rates of blacks.

¹⁴ Wolff (1998, 2000) states that in 1992 for the population as a whole, white households owned almost six times as much financial wealth as black households and almost five times as much as Hispanic households.

¹⁵ Some pension wealth may be invested in stocks or bonds. Indirect stockholding or bondholding of this kind is not included in the definition of stocks and bonds used here. Haliassos and Bertaut (1995) claim that equating pension membership with direct stockholding is conceptually questionable because pensions have different liquidity constraints and payoffs than direct stock and bond ownership.

¹⁶ IRAs and Keoghs could consist of a variety of assets, including stock funds.

¹⁷ Tracy, Schneider, and Chan (1999) report that housing's share of total wealth remains constant for homeowners from their mid-twenties to their early forties, then dips below 65 percent for homeowners age 44 or older.

¹⁸ Carroll (2000) finds that from 1962 to 1995, the wealthiest 1 percent in the population allocated 63 percent of their financial assets to risky assets; the remaining 99 percent of the population allocated 36 percent.

¹⁹ Stock ownership rates across the entire U.S. population are smaller than those quoted here—for example, the Investment Company Institute (1996) states that in 1990, only 31 percent of the total population owned stock directly, and 37 percent owned bonds. The households in this study belong to an age bracket with relatively higher degrees of stock and bond ownership.

²⁰ Chiteji and Stafford (1999) find that the economic environment in a child's home is important and that parental asset ownership affects the adult children's portfolio behavior. Parents can also be influential in exposing their children to financial options in adulthood.

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