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The Recession's Impact on Racial and Ethnic Minority Elders: Wealth Loss Differences by Age, Race and Ethnicity

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Summary

The 2007-2009 recession in the United States had dramatically different effects on older households compared with younger households. Wealth levels for retirement-age households—headed by an individual who was 65+ in 2005—dropped less between 2005 and 2009 than the wealth of younger households. Wealth decreases for retirement-age households that were headed by racial or ethnic minorities, however, were large. This was especially true for households headed by retirement-age Hispanics, which lost 30% of their wealth. Since most of racial and ethnic minority households' wealth was from housing and relatively little was invested in stock market-based accounts, they will have a more difficult time than non-Hispanic white households in trying to regain their pre-recession wealth levels.

The 2007-2009 Recession

The recession that hit the U.S. economy from December 2007 through June 2009 had devastating consequences. Housing markets dropped by 30%, stock markets fell by over 50%, and unemployment more than doubled. However, the effects of the recession were not felt equally by all U.S. households. A study by Pew Research Center pointed to sharp disparities by race and ethnicity.[1] African American and Hispanic households, which had lower levels of wealth before the recession compared to non-Hispanic white households (9% and 14%, respectively), saw vast proportions of their wealth erode during the recession: African Americans lost 53% of their wealth and Hispanics lost 66% of their wealth, while non-Hispanic whites lost just 16%.

Changing Financial Outlook Across the Lifespan

This research brief extends the Pew Research Center findings by adding an important component to the comparison: householder age. Different age groups have different exposure to various financial markets and instruments, partially by design and partially due to different durations in the workforce and housing market. Younger individuals are less likely to be homeowners, and due to the extended outlook until retirement, are better served by placing their assets in riskier investments that have a greater potential to grow. By contrast, older individuals are more likely to own their homes and have considerable equity in them, and due to their impending or current retirement status, should shift their assets to lower risk, income-generating investments that are sure to retain their value. As a result, we can expect that people of different ages would have been affected differently by the recession, even within racial and ethnic groups.

Figure 1. Wealth Levels, 2005

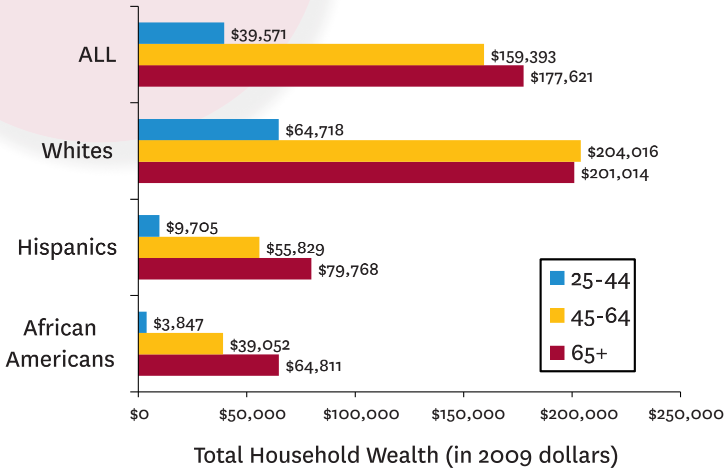


Figure 2. Wealth Levels, 2009

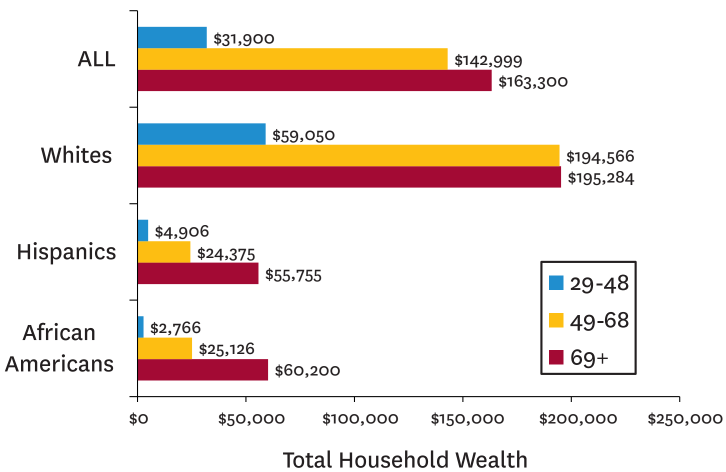
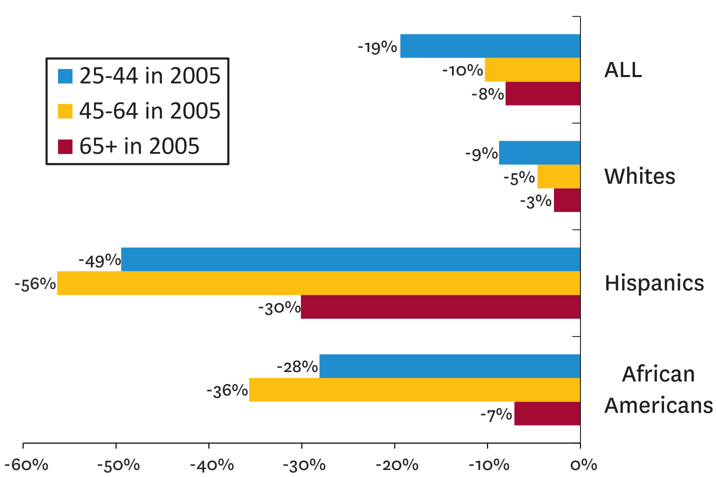


Figure 3. Percentage Change, 2005- 2009



Using the same data sources and methods as were employed by the Pew Research Center in their report, this research brief compares the wealth in 2005[2] held by three age groups: young (25-44), middle-aged (45-64), and retirement age (65+). Wealth levels for these three groups are then presented after the recession ended in 2009, when they were aged 29-48, 49-68, and 69+, along with the percentage change over this time period for each group, broken down by race and ethnicity. Information on where wealth was held in 2005 is also reported, to shed more light on potential reasons behind changes in value.[3]

Recession Consequences for Different Age Groups

As reported by Pew's researchers, the median net worth of all households in 2005 was $96,894. Broken down by age group, retirement-age households (65+) had the highest median net worth, at $177,621 (see Figure 1), followed closely by middle-aged households (45-64) at $159,393. Young households (25-44) had a much lower median income in 2005, at $39,571. By 2009, the median income for all three of these age groups' households had dropped. For retirement-age households, median household wealth fell by 8% to $163,300 in 2009, when they were headed by individuals aged 69+ (see Figure 2). Even greater decreases were seen among the younger groups, with median wealth dropping by 10% by 2009 for middle-aged households and by 19% for young households (see Figure 3).

Differences Between Racial and Ethnic Groups

For non-Hispanic white households, the drop in wealth seen between 2005 and 2009 was greatest for young households (9%) and considerably smaller for middle-aged (5%)

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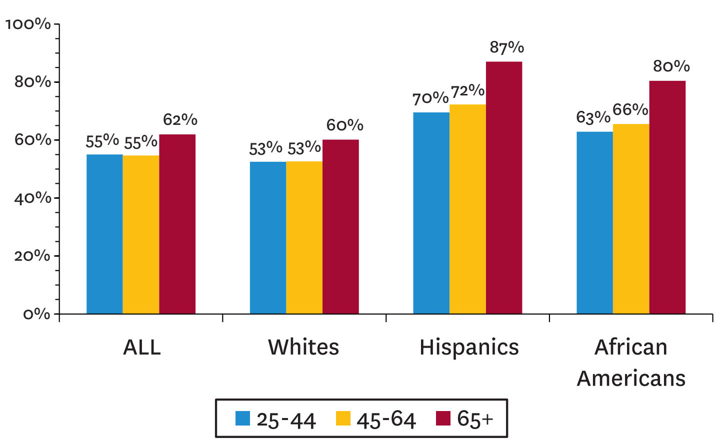
and retirement-age households (3%). Among Hispanic and African American households, however, the largest decreases in wealth were seen for retirement-age households. Hispanic households saw a 49% decrease among young households and a 56% decrease among middle-aged households. Similarly, African American households saw a 28% decrease among young households and a 36% decrease among middle-aged households.

Among retirement-age households, the decrease in wealth seen for African American households (7%) was over twice as large as that for non-Hispanic white households (3%). As with the other age groups, though, Hispanic households had the largest proportional drops in wealth, with households headed by retirement-age Hispanics seeing a 30% decline in wealth by 2009.

How is the Wealth Allocated?

Since the recession, different assets have seen different degrees of recovery. Notably, stock markets have rebounded, whereas median real estate prices have continued to drop. Therefore, the proportion of household wealth in 2005 that was in each of these two categories will dramatically affect the degree to which retirees' wealth levels can be expected to recover.

Figure 4. Proportion of Wealth in Real Estate, 2005



In 2005, a larger proportion of wealth among racial and ethnic minority households was held in real estate assets, a combination of primary residence and real estate investment properties. In the retirement-age group, 87% of Hispanic households' and 80% of African-American households' wealth was from real estate, compared with only 60% for households headed by retirement-age non-Hispanic white households (see Figure 4). Similar patterns existed for the younger age groups. For the middle-age group, 72% of Hispanics' household wealth, 66% of African Americans' household wealth, and 53% of non-Hispanic whites' household wealth came from real estate; for the young group, 70% of Hispanics' household wealth, 63% of African Americans' household wealth, and 53% of non-Hispanic Whites' household wealth came from real estate.

Conversely, racial and ethnic minority households across all age groups had a smaller proportion of their wealth invested in market-based investment accounts in 2005. Across the entire sample, 27% of household wealth was held in market-based investment accounts in 2005, including stocks, mutual funds, IRAs, KEOGH accounts, 401(k) accounts, and Thrift savings accounts. Non-Hispanic white households had generally high levels of exposure to market-based investment accounts, with young and middle-age households having 30% and 31% of their wealth held in these accounts, respectively. Even retirement-age non-Hispanic white households had 23% of their wealth in market-based accounts. African-American households had lower percentages of their wealth in market-based accounts: 25% for young households, 20% for middle-age households, and 11% for retirement-age households. Hispanic households had the lowest percentage of wealth held in market-based accounts. For young and middle-age households, 15% and 18% of their wealth was in investment accounts, respectively. Retirement-age households, however, had only 5% of their wealth in market-based investment accounts in 2005.

Implications for Public Policy

This brief shows that wealth levels for retirement-age households (65+ in 2005) dropped less than the wealth of younger households, but that wealth decreases for racial and ethnic minority retirement-age households were still disproportionately great. Due to under-exposure in market-based investments, which have largely rebounded since the recession, and over-exposure to the real estate market, which is still dropping in many areas, it will be more difficult for racial and ethnic minorities to build their wealth back up to pre-recession levels if present economic trends persist.

Lower levels of wealth will have implications for the economic security of these minorities in retirement, both for those who are currently retired and for those who plan to retire soon. Retirement-age individuals are unlikely to receive income from earnings and are more dependent on their existing wealth to support themselves in retirement (through dividends from stocks, borrowing against home equity, etc.).[4] Households that are headed by those who are retired or nearing retirement may have been relying on the prospect of a reverse mortgage to provide them with a source of income in retirement; in the wake of the recession, they may find themselves unable to secure a reverse mortgage or may find the amount they are eligible to receive is dramatically below what they expected. These pressures will be especially present in California and Los Angeles, in particular, where housing values dropped more than the nation as a whole.[5]

Due to the recession, racial and ethnic minority households are likely to face added economic burdens in retirement. To help alleviate their potential income insufficiency, support systems should be bolstered and outreach efforts must be undertaken to ensure that the groups who are most in need are aware of their options and are educated about how to access them. Additionally, economic support systems should prepare for the possibility of more racial and ethnic minority elders having to rely on their families in old age. While these supports are important for the retiree population in any economic environment, the effects of the recession have decreased their ability to provide needed support while also making them even more crucial policy priorities.

References

[1] Kochhar R, Fry R & Taylor P. (2011). Wealth gaps rise to record highs between whites, blacks and Hispanics. Washington DC: Pew Research Center.

[2] Wealth in 2005 has been adjusted for inflation. All values reported in this brief are in 2009 dollars.

[3] This report uses data the Survey of Income and Program Participation (SIPP) and provides all 2005 results in terms of their inflation-adjusted 2009 values. SIPP is a short-duration panel survey that begins every few years with a new sample. As a result, the 2009 data are from a different sample than the 2005 data making true longitudinal results impossible. However, the data from both years has been weighted to be nationally representative and therefore should provide a reasonable estimation of changes in these age groups' wealth levels across the four-year period in question. There are several other important caveats inherent in research using SIPP data; the author refers the interested reader to the appendix in Pew Research Center's report for more information.

[4] Social Security is only intended to be one source of income in retirement; traditionally, a sustainable income in retirement was said to also rely on pension benefits and on income from existing wealth (e.g., dividends from stocks, reverse mortgages). For more information on income sources of minority retirees, see: Gassoumis ZD, Lincoln KD & Vega WA. (2011). *How Low-Income Minorities Get By in Retirement: Poverty Levels and Income Sources*. Los Angeles, CA: USC Edward R. Roybal Institute on Aging.

[5] Myers D, Calnan R, Jacobsen A & Wheeler J. (2011). California roller coaster: Income and housing in boom and bust, 1990-2010. Los Angeles, CA: USC Population Dynamics Research Group.

Author Information

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Further Reading

Vega WA, Gassoumis ZD. *Impact of Social Security and Proposed Benefit Changes on the Latino Population*. Los Angeles, CA: USC Edward R. Roybal Institute on Aging, 2011.

Gassoumis ZD, Lincoln KD & Vega WA. *How Low-Income Minorities Get By in Retirement: Poverty Levels and Income Source*. Los Angeles, CA: USC Edward R. Roybal Institute on Aging, 2011.