Indianapolis Neighborhood Housing Partnership

# RESEARCH BRIEF

# Wealth Gap

**SEPTEMBER 2021**

## STATE OF THE RESEARCH

The existence of a racial wealth gap, the aggregate difference in household wealth—a household's net assets less liabilities—held by households of color (particularly Black households) relative to white households, has been well documented in the popular press and academic literature. Much of the research examining the racial wealth gap notes the long history of disparate treatment of Blacks that pre-dates the nation's founding, continuing through various means and methods to the present day.

## BACKGROUND

The causes of the disparities in wealth between white and Black households can be traced throughout history to various forms of *de jure* and *de facto* segregation. At the same time, the very existence of the wealth gap is likely to contribute to sustained future differences in wealth, as the wealthier have greater opportunities to grow their wealth (through purchasing assets, investing in retirement and/or education, starting a business, etc.) while those without wealth have more limited chances to do so. Thus, the wealth gap, once established, sustains itself through the opportunities and challenges allotted to a household.

Because wealth is not consistently reported across publicly available datasets (similar to the way income is reported through taxes and/or the American Community Survey), data is somewhat limited on wealth disparities, particularly at the local level. Nevertheless, at the national level, the triennial *Survey of Consumer Finances,* most recently conducted in 2019, provides insights into wealth disparities. The 2019 survey found, similar to previous surveys, that the typical white family has eight times the wealth of the typical Black family and five times the wealth of the typical Latinx family.

A team from the Federal Reserve system analyzed wealth disparities by race and ethnicity to quantify the wealth gap, assess trends, and examine distinct contributors to the wealth gap. For the latter, because the survey only provides a snapshot in time, the researchers examine tangible contributions to the wealth gap (e.g., homeownership, receiving an inheritance, etc.,) rather than structural causes of the gap.

## SUMMARY OF RESEARCH FINDINGS

The Federal Reserve team examined the breadth of the wealth gap among the average and median families, and then examined individual factors—specifically the life cycle, inheritance and family support, homeownership, retirement accounts and plan participation, and emergency savings—to illustrate the wealth gap and identify those components' contributions to wealth.

The median net worth of a white family in 2019 was $188,200, while Black and Latinx families' median wealth were $24,100 and $36,100, respectively. As a ratio, the median net worth of a white family was 7.8 and 5.2 times higher than Black and Latinx families, respectively. On a percentage basis, Black and Latinx families have seen higher rates of growth since the end of the recession in 2009; however, due to previously existing disparities, the wealth gap remains largely unchanged.

While wealth generally increases with age, wealth disparities between races persist across the life cycle. For those families with a householder 35 and under, the typical white family holds $25,400 in wealth compared with $600 for a black householder. The authors suggest differences in parental resources may contribute to early life cycle gaps, which translate into assistance with education expenses, purchasing a home, or other sizable gifts. As one example, as it relates to student loan debt, white students may be more likely to have the costs of higher education paid for by parents, while students of color may be more likely to assume student loan debt and—once a degree is earned—contribute to their families' economic wellbeing while also servicing their debt. Further, white families are far more likely to expect to receive (and/or receive) an inheritance; and among those who expect to receive an inheritance, white families generally expect to receive more.

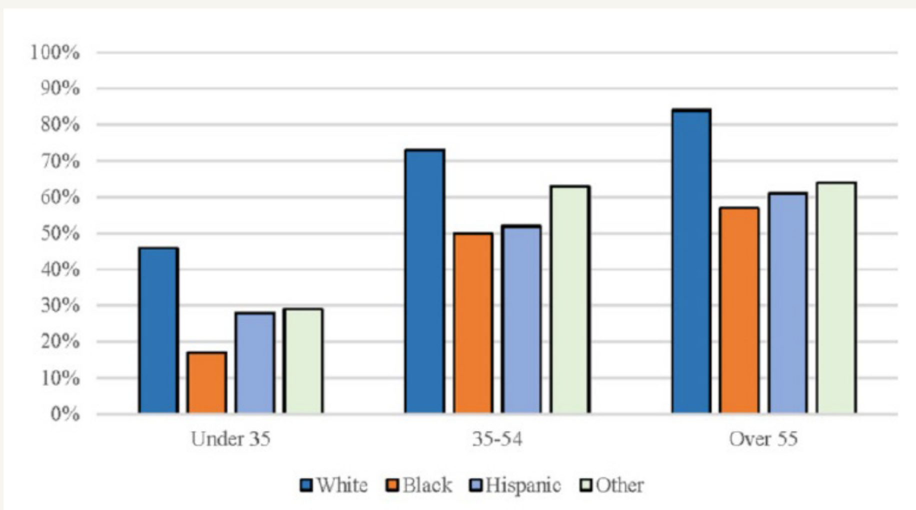
In comparison, among those age 55 and older, on a percentage basis, the Black-white wealth gap narrows—where white families hold nearly six times as much wealth (as opposed to more than 40 times among those 35 and younger); nevertheless, the actual dollar difference of $261,200 is substantial ($315,000 for white families versus $53,800 for Black households). Such may suggest white families' earlier entry into homeownership and asset-accruing retirement plans.

For most families, housing is the biggest component of wealth. The ability to purchase a home is a reflection of their own wealth and/or their parents' wealth, as a not inconsiderable amount of resources are necessary for down payments and closing costs. Homeownership has also generally been shown to yield strong financial returns, and thus represents a key avenue through which wealth is accumulated.

The typical white family's house is valued substantially higher than typical Black family's home: $230,000 versus $150,000. While these differences may reflect real differences in housing size and quality, other research suggests homes in majority-Black communities are undervalued relative to similar homes in communities with few or no Blacks (see research from the Brookings Institute examining the devaluation of assets in Black neighborhoods). White families are far more likely to enter homeownership at a younger age which provides them with additional time to accumulate wealth and leverage that wealth to secure additional assets, be it a larger home or increased investments in equities or other asset building vehicles. The chart below shows homeownership by race and age group; white families under 35 years of age have a homeownership rate of 46 percent relative to a homeownership rate among Black families in that age group of 17 percent.

White families are also more likely to participate in retirement accounts, which may reflect differences in types of employment. White families tend to have greater access to these wealth accumulating vehicles—as a result of their types of employment—and appear to have higher rates

**FIG 3. HOMEOWNERSHIP RISES WITH AGE REGARDLESS OF RACE OR ETHNICITY, THOUGH THERE ARE SIGNIFICANT DIFFERENCES IN HOMEOWNERSHIP BETWEEN WHITE AND NON-WHITE FAMILIES THROUGHOUT THE LIFE-CYCLE.**




Source: Federal Reserve Board, 2019 Survey of Consumer Finances.

Notes: Figures displays homeownership rates by age group and by race and ethnicity. Race categories are displayed in order from left to right.

of participation among those with access. Outside of retirement accounts, white families are more likely to own equities—60 percent for whites versus 33.5 percent for Blacks. Among those holding equities, the value of equities held are greater among whites. Lastly, while most families have some form of liquid savings (98.8 percent for whites versus 96.8 percent for Blacks), whites tend to have a higher amount of liquid assets. The survey found the typical white family has just more than $8,000 in savings, while a typical Black family held around $1,500.

As noted above, publicly-available local data on net worth is not readily available due, in part, to it not being commonly reported through any public source. As such, there is limited or no data on Marion County. However, an analysis of Indiana data reported by *Prosperity Now*, sought to provide insights in the wealth gap in Indiana. Their analysis—conducted by Marin Economic Consulting, based on data from 2014 and 2015—found Blacks to have a higher rate of asset poverty[1] than whites (56.8 percent versus 23.9 percent, respectively), higher liquid asset poverty rates[2] (65.0 percent versus 29.4 percent, respectively), and a higher proportion of households with zero net worth[3] (47.2 percent versus 16.8 percent).

### *Potential Solutions*

McKinsey & Company estimate that closing the racial wealth gap by 2028 could contribute to a 4 to 6 percent increase in US GDP in 2028; or put differently, there is a per capita economic opportunity cost of $2,900 to $4,300 in not closing the racial wealth gap. In examining the economic impact of the racial wealth gap, McKinsey identifies a four-part framework that contribute to the wealth gap (and need to be addressed in resolving it): 1) community context, 2) family wealth, 3) family income, and 4) family savings. They suggest the interaction between those four elements can promote family and community economic stability, or likewise, the interaction between those elements can contribute to challenges a family faces in achieving progress in wealth-building.

Many solutions listed in the available research and public discourse tend to be beyond the scope of individual actors to address, requiring structural systemic policy changes: examples include reform to tax wealth, policies to promote educational attainment, promoting "postal banking" to make financial services more widely accessible, policies around reparations and other policy solutions. Nevertheless, with housing and homeownership serving as an important vehicle for accumulating wealth—alongside other asset-building strategies such as strategies—promoting accessible and affordable opportunities to achieve homeownership remains an important avenue in promoting wealth building.

[1] Percentage of households without sufficient net worth to subsist at the poverty level for three months in the absence of income.
[2] Percentage of households without sufficient liquid assets to subsist at the poverty level for three months in the absence of income.
[3] Percentage of households with zero or negative net worth.

## RELATED RESEARCH & COMMENTARY

***Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*** (FEDS Notes): https://doi.org/10.17016/2380-7172.2797.

***The economic impact of closing the racial wealth gap*** (McKinsey & Company) Available at https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap

***Examining the Black-white wealth gap*** (Brookings) https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/

***Eliminating the Black-White Wealth Gap Is a Generational Challenge*** (Center for American Progress) Available at https://www.americanprogress.org/issues/economy/reports/2021/03/19/497377/ eliminating-black-white-wealth-gap-generational-challenge/

***Ten Solutions to Bridge the Racial Wealth Divide*** (Inequality.org) Available at https://inequality.org/great-divide/ten-solutions-bridge-racial-wealth-divide/