

# The Racial Wealth Gap: African Americans



Center for  
Global Policy  
Solutions



**T**he growing racial wealth gap occurring in the United States is crippling communities of color, especially African American families. This gap is a result of systemic and social barriers that keep people of color from achieving and enjoying economic success. This fact sheet highlights racial disparities in some fundamental economic areas.

A person's wealth (or "net worth") is the value of all their assets minus their debt. Asset accumulation is the foundation of economic mobility for low- and middle-income families. Common private assets include bank accounts, home, land, stocks, bonds, life insurance, pensions, cash-on-hand, and retirement plans. Common public assets include Social Security, Medicare, and Unemployment Insurance. Investing in assets and limiting debt helps build wealth and improve financial security.

Most African American families lack access to the necessary savings and investments to climb up the economic ladder.

## Facts At A Glance

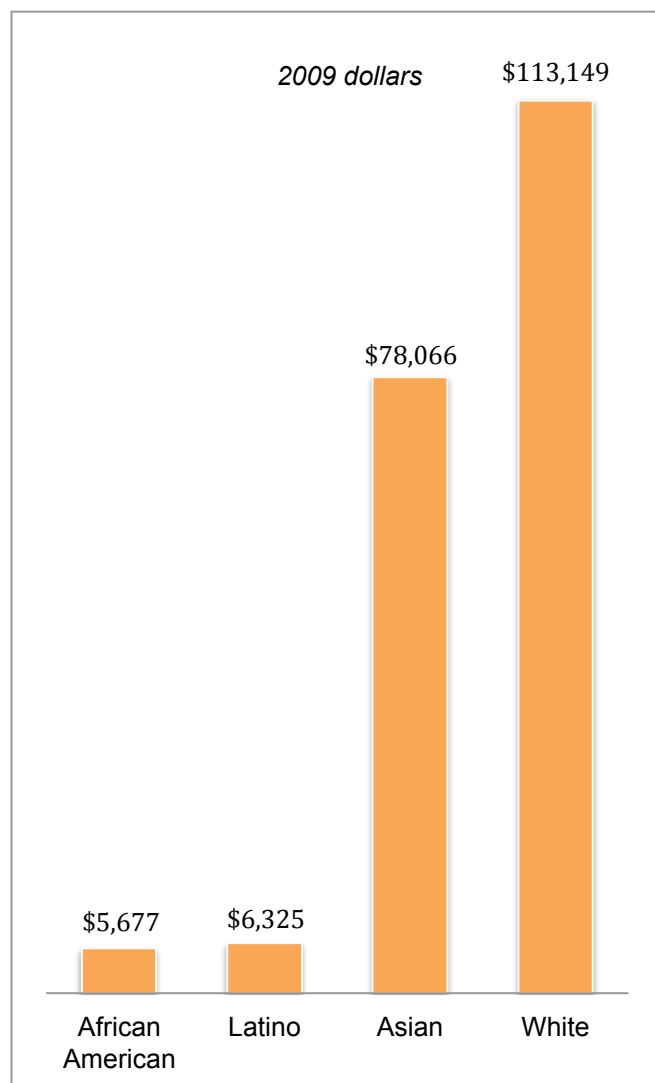
- The median wealth of White households is 20 times that of African American households.
- African Americans are almost three times less likely to have a bank account compared to the general population.
- Nearly 44 percent of African Americans own a home compared to 73.5 percent of Whites.

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The median wealth for White households is 20 times that of African American households (Figure 1). In 2005, median African American household wealth was \$12,124; by 2009, this figure had declined to \$5,677. This is a loss of 53 percent of wealth among African American families; White families only lost 16 percent of their wealth during that same time period.<sup>1</sup>

In 2009, 35 percent of African American households had zero or negative net worth; this is an increase from 29 percent in 2005.<sup>2</sup>

Figure 1 | Wealth by Race



Pew Research Center, 2011

The wide wealth gap between African Americans and White families is a reflection of systemic and social barriers that have long existed and have limited economic mobility. Communities of color face obstacles obtaining reliable jobs to generate consistent and adequate income or accessing banking services in order to save for future investments.

African Americans often lack the resources to invest in a diverse asset portfolio. These families face obstacles in the labor market and financial industries, leading to inadequate levels of savings and poor, or nonexistent, investment strategies. We need to explore why these families start, and remain, at a disadvantage.

## Income Inequality and Poverty

Income inequality is a major contributor to the growing wealth gap. In fact, 20 percent of the racial wealth gap is due to low household income.<sup>3</sup> African American families earn a little over half the income earned by White families (\$33,321 compared to \$57,009), partly because of discrimination in getting hired, trained, and promoted (Figure 2).<sup>4</sup> Many settle for manual-labor and service sector jobs that often pay low wages, come with limited prospects for advancement and have few, if any, fringe benefits.

Lower incomes lead to a higher poverty rate among African Americans, which is 2.8 times higher than that of Whites (Figure 2).<sup>5</sup> Low earning levels leave many African American families struggling, as the combination of low incomes and the cost of living prevents them from accumulating assets.

### The Importance of Public Assets

Many African American families rely on public assets as a source of income, including Social Security. For example, 49 percent of African American seniors over age 65 rely on Social Security for at least 90 percent of their income, compared to 35 percent of Whites.<sup>6</sup>

African American families also rely on public assets as a source of benefits, including Medicare and Medicaid. For example, 24.3 percent of African Americans under the age of 65 lack health care coverage, compared to only 17.0 percent of Whites.<sup>7</sup> Benefits from public health care programs are crucial for African American families in maintaining a healthy lifestyle.

Efforts to cut or eliminate these programs will harm the economic stability of families of color. Public assets are important for African American families and must, therefore, be protected and expanded.

African Americans make up 13.1 percent of the U.S. population but are 22.6 percent of the “long-term unemployed” (which is defined as an individual suffering from a period of unemployment lasting longer than 27 weeks).<sup>10,11</sup> The long-term unemployed face substantial difficulties moving back into the workforce. The longer an individual remains unemployed, the more difficult it becomes for him or her to rejoin the workforce.

Unemployment and underemployment inhibit asset building, as they create an unstable and unreliable income source, placing additional burdens on the wage earners in the home who maintain employment. Less income is devoted to asset and wealth building as more income is dedicated to providing for basic family needs.

## Unemployment and Underemployment

Despite a 61.1 percent labor force participation rate, as of April 2014, 12.4 percent of African Americans remain unemployed compared to just 5.8 percent of Whites.<sup>8</sup> A further 20.1 percent of African Americans are underemployed, compared to 10.3 percent of White workers.<sup>9</sup> African Americans are also more likely to fall into the “involuntary part-time” category, or those workers who are available and willing to work full-time but are unable to find full-time employment.

## Savings Disparities

The savings rate of African American families is lower than that of White families, and they are also more likely to accumulate debt. This lower income, higher debt combination poses a long-term problem because families are unable to invest in wealth-building assets, such as a home, a business, or the stock market.

Figure 2 | Barriers to Asset Ownership

	Median Income <sup>1</sup>	Poverty Rate <sup>1</sup>	Unbanked <sup>2</sup>	Fully Banked <sup>2</sup>
African American	\$33,321	27.2%	21.4%	41.6%
Latino	\$39,005	25.3%	20.1%	48.7%
Asian	\$68,636	11.7%	2.7%	77.1%
White	\$57,009	9.7%	4.0%	77.0%

<sup>1</sup> US Census Bureau, 2013

<sup>2</sup> FDIC, 2011

Limited or no access to credit and higher rates of low credit scores make African American families more likely to fall victims to discriminatory and predatory lending practices perpetuated by alternative financial services providers, such as payday lenders.

For White families participating in the mainstream financial system, opening a checking or savings account at a federally insured financial institution is second nature. However, African Americans use banking accounts at a much lower rate when compared to Whites. Twenty-one percent of African Americans are unbanked, meaning they do not own a deposit account at an insured bank, compared to only 4 percent of Whites.<sup>12</sup> On the other hand, 41.6 percent of African Americans are fully banked, meaning they have a bank account and do not rely on alternative financial institutions, compared to 77.0 percent of Whites.

### Savings Disparities Among Communities of Color

Families of color are over five times more likely than Whites to be unbanked.<sup>13</sup> Additionally, only 44 percent of families of color, compared to 56 percent of White families, save some of their income, regardless of whether they own a bank account. The average amount saved by families of color is \$1,600, compared to \$5,000 for White families.<sup>14</sup>

Communities of color are more likely to accumulate debt because they do not have sufficient income or savings. Not only are they more likely to have zero or negative wealth due to high debt, they also have a very high debt-to-asset ratio (29.1 percent compared to 14.4 percent for White households).<sup>15</sup> This high ratio limits their access to credit because financial institutions view families of color as financial risks and either deny them credit or impose inordinately high interest rates.

Income and savings inequities are significant barriers to economic prosperity for families of color. These issues must be addressed, but achieving wealth equity must also include investments in a diverse assets portfolio.

## Homeownership

Buying a home is the single largest investment any family can make. African American families are at a disadvantage when purchasing homes, due to a history of redlining, reduced access to credit, and lower incomes.

The homeownership rate for communities of color is 25.8 percent lower than the homeownership rate for White families. Specifically, the homeownership rate for African Americans is 44.6 percent compared to 73.5 percent for White families.<sup>16</sup>

For those African American families who do own a home, the crash of the housing and mortgage markets hit very hard. Sixty-two percent of African American wealth lies entirely in home equity.<sup>17</sup> Therefore, the crash resulted in a significant loss of wealth for African Americans due to falling housing market prices, higher rates of foreclosures, and low property values. For example, home equity decreased by half among African Americans, from \$76,910 in 2005 to \$59,000 in 2009.<sup>18</sup>

## Property Foreclosure

About 8 percent of African American borrowers lost their home to foreclosure during the recession, compared to only 4.5 percent of Whites. Twenty-two percent of African American borrowers remain at imminent risk of foreclosure; this accounts for \$194 billion in losses for the African American housing community overall.<sup>19</sup> This loss of equity has significant impacts for those families who lose the ability to borrow against their equity, a secure place to live, and the capacity to pass to future generations any wealth gained in home equity.

In 2005, homebuyers of color were 30 percent more likely to receive the highest cost subprime loan than were White subprime loan borrowers. This is another reason why African Americans and Latinos were disproportionately affected during the recession, with many losing their homes due to foreclosure.<sup>20</sup>

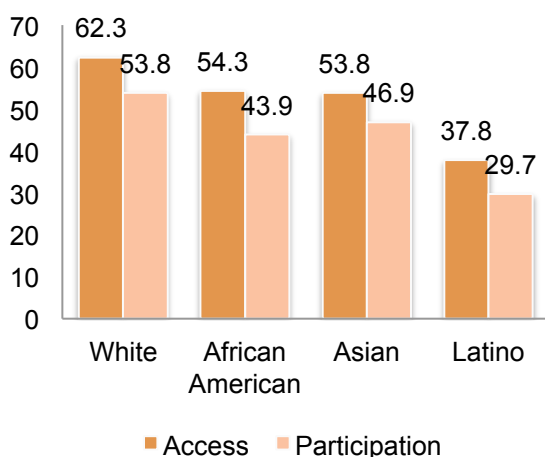
## Business Ownership

African Americans often lack access to capital that would allow them to start their own business. About 5.5 percent of African Americans own a business compared to 11.3 percent of Whites.<sup>21</sup> This discrepancy is due in part to lower loan rates, lower principal loan amounts, and higher interest rates.

## Retirement Security

African American workers are less likely to work in fields that offer pensions or retirement accounts like 401(k)s. Only 54.3 percent of African Americans work for an employer who offers a retirement plan, compared to 62 percent of White workers.<sup>22</sup>

Figure 3 | Access and Participation Rates in Workplace Retirement Plans



National Institute on Retirement Security, 2013

When African American workers do enroll in a workplace retirement plan, they contribute less per pay period than their White counterparts. Experts recommend accumulating retirement savings of eight to 11 times one's income at retirement, but 74.4 percent of African Americans have less than \$10,000 in total retirement savings, compared with 48.6 percent of White households who have saved less than that amount.<sup>23</sup>

A striking 62.0 percent of African American families have no retirement savings, compared with 36.6 percent of White families.<sup>24</sup>

## College Enrollment and Completion

Access to quality education from childhood through adulthood is important for financial competency. Post-secondary and financial education may help communities of color achieve financial equity.

The rate of African Americans who have not graduated from high school has fallen from 15 percent in 2000 to 10 percent in 2012, while 8 percent of all individuals of any race aged 18-24 do not graduate from high school.<sup>25</sup> Despite these very encouraging declines in high school dropout rates, African Americans are still disproportionately under-represented in college and university settings.

African Americans are not only less likely to enroll in college; they also graduate at lower rates. The lack of college education contributes to 5 percent of the racial wealth gap.<sup>26</sup>

While 44.7 percent of 18- to 24-year-old Whites are enrolled in a degree-granting institution, only 37.1 percent of 18- to 24-year-old African Americans are currently enrolled.<sup>27</sup> The disparity in college enrollment rates continues in college graduation rates as well: 62.1 percent of Whites graduate college within six years while only 39.9 percent of African Americans graduate within that time period.<sup>28</sup>

## Financial Education

Financial education is another important component in solving the racial wealth gap. It can help families understand the importance of creating a budget, saving for emergencies, and investing in a diversified portfolio. Financial education strategies can be implemented through school curricula, community-based organizations and financial institutions.

## Moving Forward

After years of systemic and social discrimination reinforced by public policy, there is no single solution to closing the racial wealth gap. Wealth-building policies must be structured to ensure that multiple variables are interconnected. The racial wealth gap should be addressed with policies that control the various factors exacerbating the disparity.

A comprehensive policy approach that addresses inequities from childhood through old age is needed to help close the racial wealth gap. Policy solutions may include increasing educational attainment among communities of color by providing equitable education quality in public schools. Policies that help bring people into the mainstream financial system are also important, including the need to expand access to low- and no-cost financial services. Universal savings accounts with a match component may also give families the vehicle to invest in wealth-building assets. Finally, Social Security expansion is critical for people of color.

The racial wealth gap is not going away, and neglecting it has only made it worse. The sooner we address these issues, the sooner we will become a more economically prosperous nation where all families can reap the rewards for their hard work.

Dr. Maya Rockeymoore and Elvis Guzman authored this fact sheet.

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