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Studies show growing racial wealth gap

Paul Kleyman New America Media | Jun. 5, 2014

Black, Hispanic and Asian Americans face an economic "quadruple whammy," leaving them with little or no financial cushion as they age, finds a new study released May 19.

Titled "Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security," the study used 2011 Census data to examine household worth for all ages. It found that the medium net worth of households of color from 2005-2011 dropped 58 percent for Latinos, 48 percent for Asians, 45 percent for African-Americans -- but only 21 percent for whites.

"You have the racial gap in pay, the gender gap in pay, the ageism gap in pay and predominantly single-income households," says Maya Rockeymoore, president of the Center for Global Policy Solutions, which commissioned the study. "You're looking at the intersection of all of these disparities."

Explaining the study's title, Rockeymoore says, "African-American and Latino households are most likely to have zero assets or negative assets -- no assets whatsoever. So when you're in debt, that's beyond broke."

Major losses in home equity were especially hard on families of color, which have few if any of the other assets more common among white households, such as pensions and savings.

"That means if you're nearing retirement and you were counting on equity in your home to perhaps cash out to help with expenses, you don't have that to rely on," noted Rockeymoore, former research director of the Congressional Black Caucus. "You have less wiggle room, less assets that could be liquidated into something that could help support you over your retirement years."

"Beyond Broke" stresses that most black and Latino households don't have enough liquid assets to "cover their basic living expenses if they are without income for three months."

Only one-third of African-Americans and one-quarter of Hispanics can meet their short-term cash needs, compared with two-thirds of whites, according to the study, conducted by researchers from the University of North Carolina, Chapel Hill, Duke University and the New School in New York.

"The average liquid wealth of whites ($23,000 in cash reserves) is now over 100 times that of African Americans and more than 65 times that held by Latinos," said a press release announcing the study.

Put another way, for every $1 in wealth held by the typical white family, African-American and Latino households retain merely 6 cents and 7 cents, respectively.

Although Asians lost nearly half of their home equity, their major tangible asset, they averaged $19,500 in cash reserves, and were slightly ahead of whites in having checking accounts, while also trailing whites in retirement accounts and other financial assets.

Part of the study looked at ethnic subgroups and found, for instance, that in Los Angeles, Chinese and Japanese Americans held five or six times the financial assets of generally lower-income Vietnamese Americans.

The sinking of home equity affects entire families, Rockeymoore emphasized. "For the adult children, it may mean stepping up to help their parents more. For the grandparents, it may mean using everything they've got for their own consumption and not having extra to help out their children and grandchildren. It's really an intergenerational hit, when elders aren't able to maintain and grow their assets."

Rockeymoore added, "For seniors in retirement, it means relying more on Social Security. So home equity, particularly for moderate-income families, is a significant nest egg. When you lose it, you're hanging by the tips of your fingernails."

The Center for Global Policy Solutions report comes on the heels of another study from the Urban Institute, which found that the racial wealth gap is growing sharply with age.

Titled "Impact of the Great Recession and Beyond: Disparities in Wealth Building by Generation and Race," the study reports that in their 30s and 40s, whites have about 3.5 times more wealth than African-Americans and Hispanics. By the time people reach their early to mid-60s, whites have about seven times the wealth of African-Americans and Hispanics.

The Urban Institute analysis also found that "retirement wealth fell by 18 percent among white families and 31.7 percent among African American families." The disparity was similar among Hispanics.

Although the Urban Institute authors refrain from policy recommendations, they question "the effectiveness and adequacy of a range of policies." For instance, they observe that policies aimed at helping low-income families, such as food stamps (the SNAP program), tend to discourage saving, such as for college or retirement, because families can become ineligible if they build up more than a few thousand dollars.

Also, policies such as the mortgage-interest deduction and retirement savings from tax-deferred 401(k)s, IRAs and other retirement accounts "primarily go to high-income families" and do little for lower-income families.

In the long run, said Rockeymoore, the "Beyond Broke" report calls for a range of measures to strengthen Social Security, such as "boosting benefits for the very old, for the very poor, for those who have worked in low-wage jobs for most of their careers, and dependent-care credit for workers who need to come out of the workforce to care for children or elderly parents."

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