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Examining Black-White Wealth Gaps

SEC Investor Advisory Committee, Panel on Minority Community Investor Inclusion

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Ray Boshara*

Director, Center for Household Financial Stability, Federal Reserve Bank of St. Louis

Senior Fellow, Financial Security Program, The Aspen Institute

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** I would like to thank my Center colleagues Ana Hernandez Kent, Lowell R. Ricketts, and William R. Emmons; unless otherwise noted, all data presented here are based on their research and analysis.*

**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

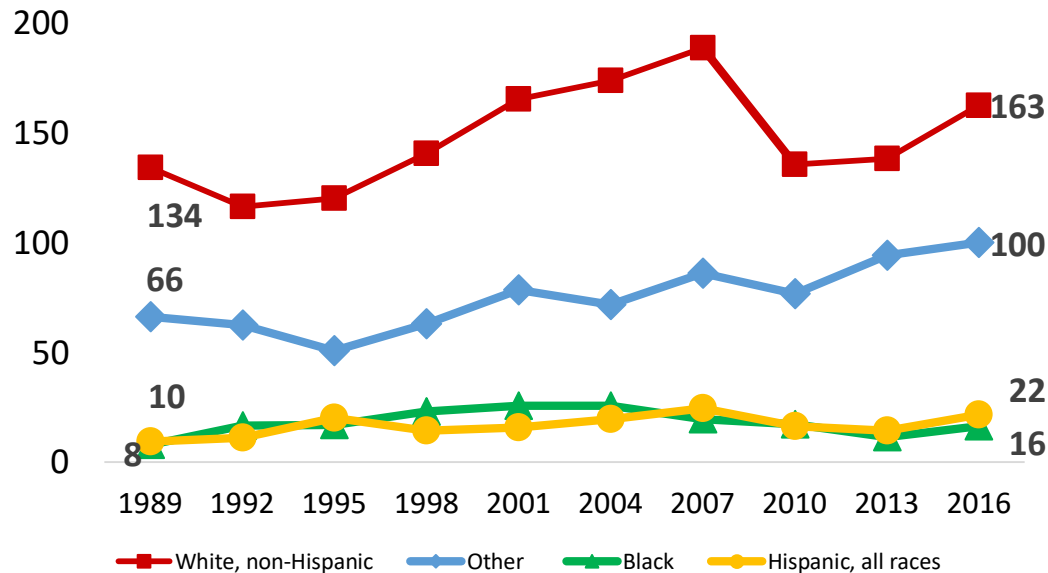
Racial / Ethnic Wealth Gaps Persist, Despite Other Progress

The Gaps are Large, Persist and...

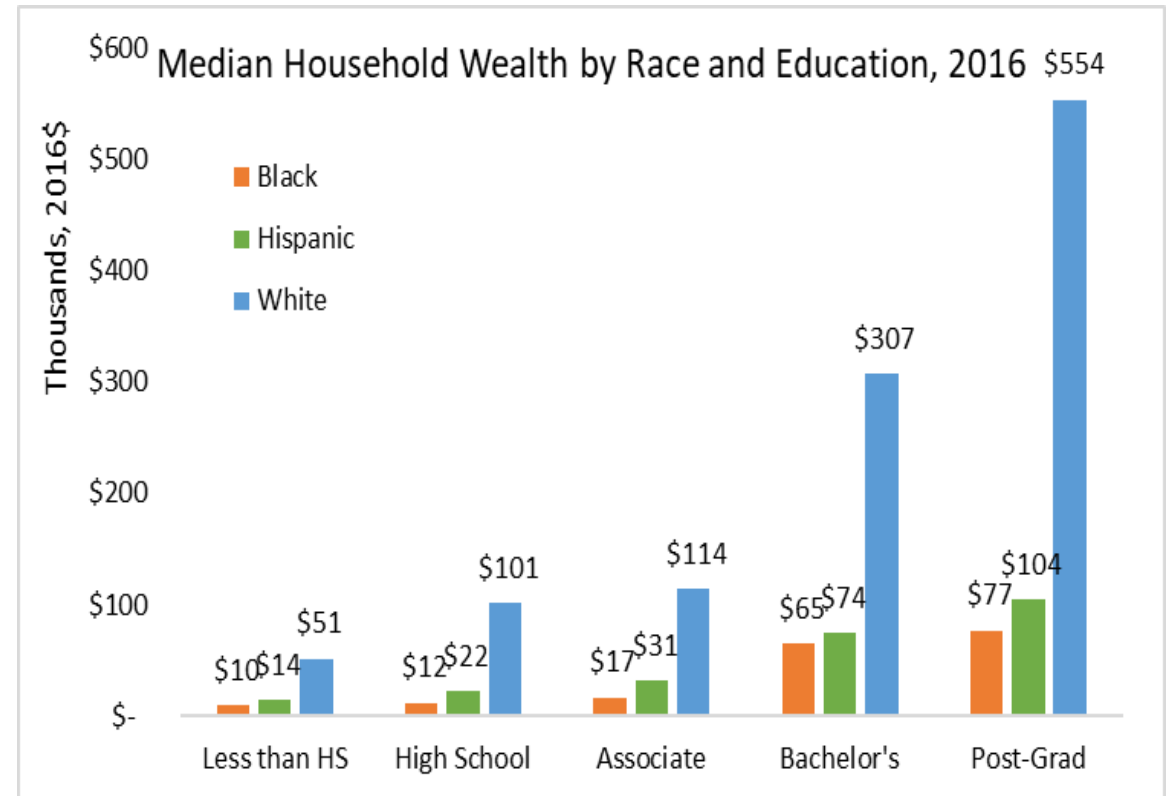
Vary at Different Levels of Education

Real Median Family Net Worth, By Race/Ethnicity

Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.



Source: [Survey of Consumer Finances](#) (2016) and Center analyst [Ana Kent's](#) calculations.

Snapshot of the Black-White Wealth Gap

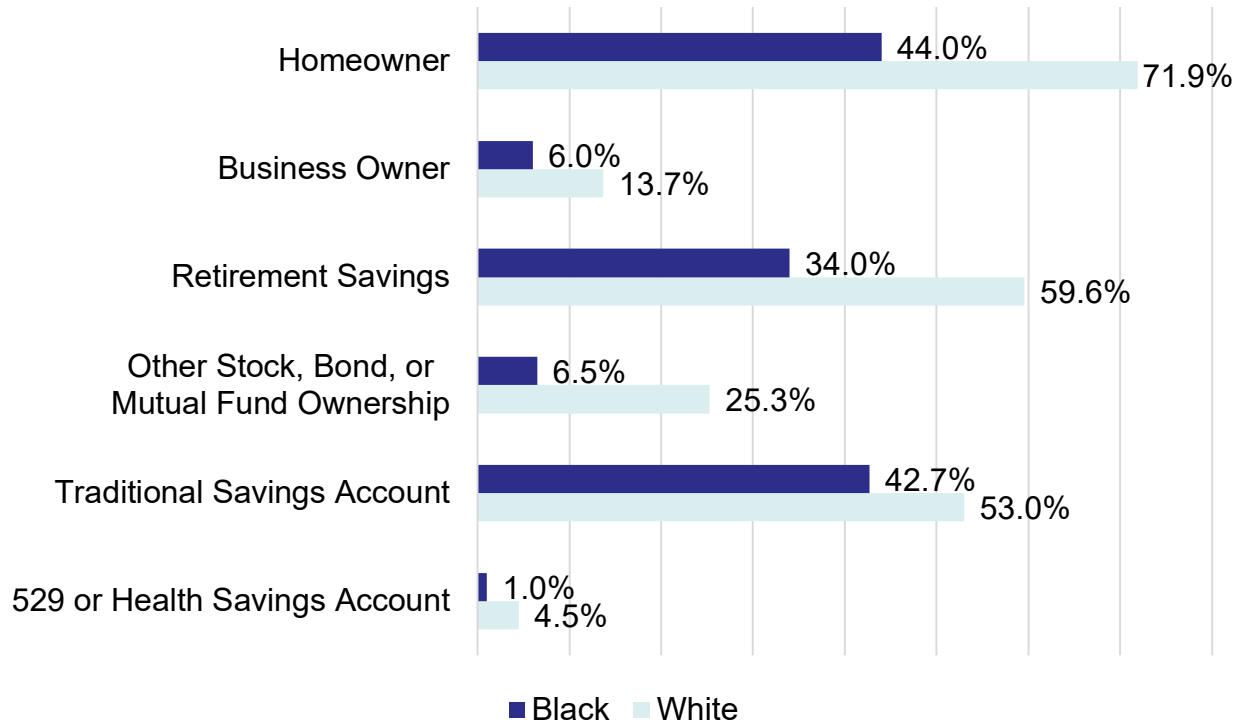
Analysis by William R. Emmons, Ana Hernández Kent, and Lowell R. Ricketts of the Federal Reserve's 2016 Survey of Consumer Finances, available at stlouisfed.org/hfs

Measure	Black Families		White Families
Median net worth (assets less liabilities)	\$16,000	10X	\$163,000
Own their home	4 in 10	Nearly 2X	7 in 10
Days could survive on emergency savings**	5	6X	31
Have zero or negative median net worth	1 in 5	2X	1 in 10
Have become a millionaire	1 in 200	28X	1 in 7

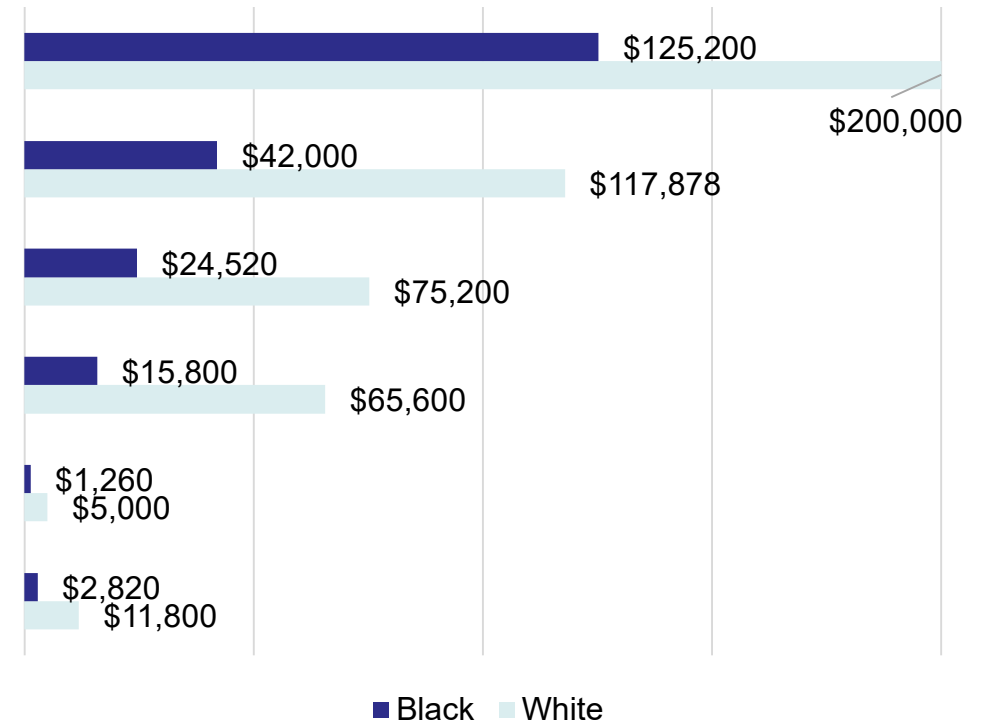
[**https://www.pewtrusts.org/~media/assets/2015/11/emergencysavingsreportnov2015.pdf](https://www.pewtrusts.org/~media/assets/2015/11/emergencysavingsreportnov2015.pdf)

Black Families are Less Likely to Own Assets, and Have Lower Amounts When They Do

Share of households with asset type



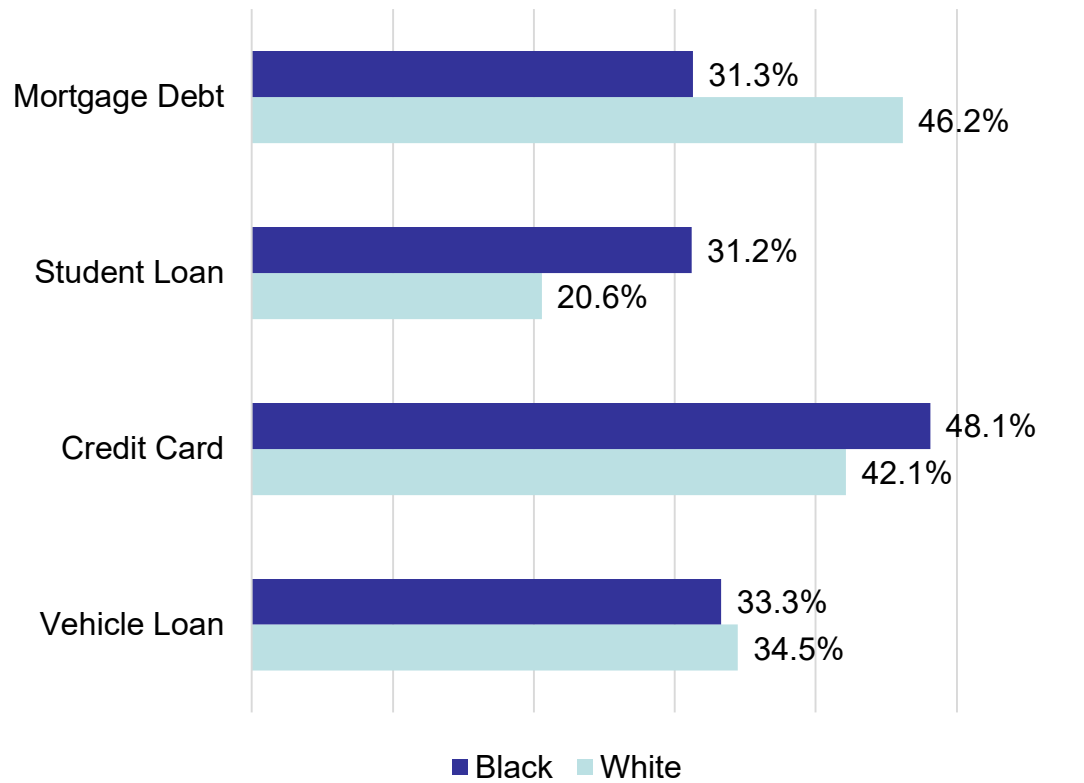
Median value of asset type for those with the asset, 2016\$



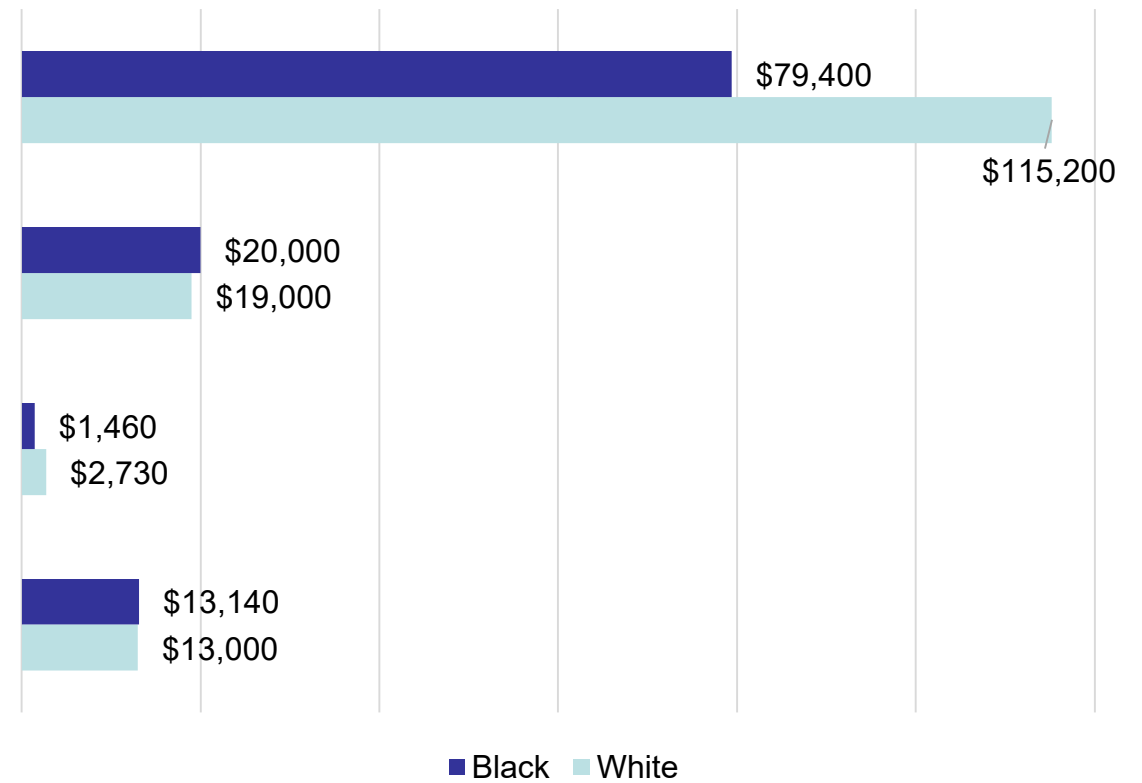
Sources: [Survey of Consumer Finances](#) (2016) and Center analyst [Ana Kent's](#) calculations.

Household Debts, White v. Black Families

Share of households with debt type



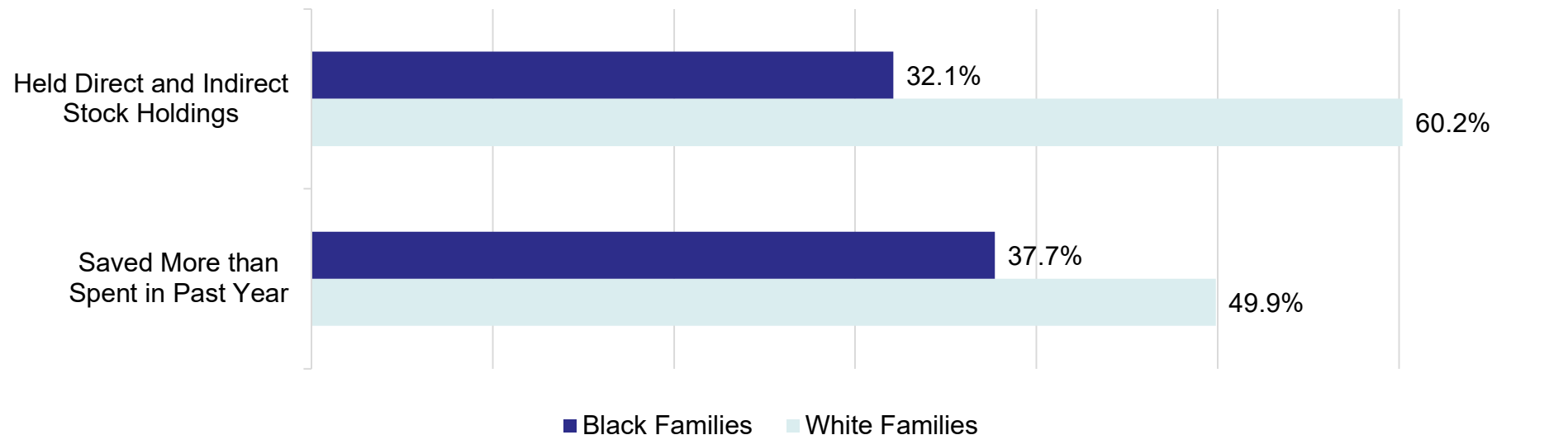
Median value of debt type for those with the debt, 2016\$



Sources: [Survey of Consumer Finances](#) (2016) and Center analyst [Ana Kent's](#) calculations.

Higher Black Debt-to-Asset Ratio Reflects Lower Asset Holdings—and Leaves Less Money for Investing

Debt-to-Asset Ratio	
Black	32
White	18



Sources: [Survey of Consumer Finances](#) (2016) and Center analyst [Ana Kent's](#) calculations; [Kent, Ricketts, & Boshara](#) (2019)

A Post-Racial America?

["College Is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps,"](#)
by William R. Emmons and Lowell R. Ricketts, available at stlouisfed.org/hfs

Myth: Hard work, personal responsibility and good choices will close the wealth gap.

Reality: An overwhelming wealth gap remains when comparing blacks and whites who made similar choices.

Overall Gap	Adjusted for Age	Adjusted for Financial, Educational, Marriage and All Other Choices
90% (\$163K v. \$16K)	Reduces gap 14%	Reduces gap 4%

"Post-racial" view: poor wealth outcomes reflect poor *choices*.

v.

"Structural" view: poor wealth outcomes reflect poor *opportunities*.

9 Ideas to Encourage More Low-Wealth and Minority Investors

1. Encourage lower minimum opening deposit requirements, as well as encourage and protect small or “micro” investors.
2. Continue to promote more simplicity and transparency in disclosures, coupled with more robust financial education efforts in schools, the workplace, and at major financial moments in life.
3. To foster greater financial and investor inclusion, consider promoting more opt-outs and defaults, especially in retirement and college savings plans.
4. Consider the potential benefits and challenges associated with investment accounts established automatically at birth, given growing adoption by cities and states nationwide.
5. Promote emergency savings (e.g., “sidecar” savings linked to 401(k)s) to promote financial stability and to reduce leakage from saving and investment accounts.
6. Strengthen target funds, especially for first-time, minority and small investors.
7. Promote adoption of the fiduciary rule; [research](#) suggests it can be effective even if the rule is not formally adopted.
8. Consider assessing the impact of COVID on minority investor inclusion, given the pandemic’s negative health and economic impacts on people of color.
9. Consider novel ways to protect investor wealth, such as “[Family Wealth Insurance](#)” proposed by Boshara & Rademacher.

References and Data Source

- Kent, Ana H., Ricketts, Lowell, R., and Boshara, Ray (2019, August). What Wealth Inequality in America Looks Like: Key Facts & Figures. *Open Vault blog*. <https://www.stlouisfed.org/open-vault/2019/august/wealth-inequality-in-america-facts-figures>
- Board of Governors of the Federal Reserve System. 1989-2016 Survey of Consumer Finances (SCF). <https://www.federalreserve.gov/econres/aboutscf.htm>