

The Racial Wealth Gap as a Barrier to Middle-Class Security

By Danyelle Solomon and Jamal Hagler

Buying a home, putting a child through college, and saving for retirement—all hallmarks of the middle class—are now out of reach for many American families and, in particular, African American and Latino families.¹

The wealth gap between white families and African American and Latino families is astonishing. In 2013, the average wealth of the middle 60 percent of white families was almost five times as much as the average wealth of the middle 60 percent of Latino families and an astounding 25 times more than the middle 60 percent of African American families.²

Income gap and wages

One reason for the racial wealth gap is the income gap. The average income of the middle 60 percent of African American or Latino families in 2013 was less than half of the average income of the middle 60 percent of white families.³ These income disparities make it more difficult for African American and Latino families to accumulate savings, which in turn creates barriers to homeownership and retirement. At the same time, lower incomes also make it harder for families to afford necessities such as quality child care and health care.

Wages are the primary source of income for African American and Latino families. However, these groups have historically had higher rates of unemployment compared with their white counterparts. For the past

six decades, unemployment rates for African Americans have been twice the rates for whites.⁴ In July 2016, the unemployment rate for African Americans and Latinos was 8.4 percent and 5.4 percent, respectively, compared with 4.3 percent for whites.⁵

Not only are both African Americans and Latinos less likely to obtain work, but they are also less likely to be paid as much as their white counterparts.⁶ Starting at the bottom of the 2015 hourly wage distribution—or the 10th percentile—African Americans and Latinos earned just \$8.20 and \$8.49 per hour, respectively, while white workers earned \$9.25 per hour.⁷ The disparity is even higher at the 50th percentile: African Americans earned \$14.22 per hour, Latinos earned \$13.48 per hour, and whites earned \$19.01 per hour.⁸ And the wage gap between the 50th percentile for whites and the 50th percentile for African Americans was larger in 2015 than it was in 2000.⁹ In fact, wages for African Americans in the 10th to 60th percentiles have fallen between 2000 and 2015, while white and Latino workers have seen minute wage gains during that same period¹⁰.

Employment benefits

In addition to lower wages and less access to employment, African American and Latino workers are also less likely to receive employment benefits such as employer-sponsored health plans, retirement programs, paid sick leave, and vacation time.¹¹ In the absence of these employer-sponsored benefits,

African American and Latino workers are forced to pay for these benefits themselves, which in turn reduces the share of their income that is available for saving.¹² This lack of access also increases the number of African Americans and Latinos who are uninsured in America. The current uninsured rate for Latinos and African Americans is 21 percent and 13 percent, respectively, compared with just 9 percent for whites.¹³

The overall impact of the racial employment, wage, and benefit gaps for African American and Latino families resonates in other aspects of their daily lives. For example, every additional dollar of income earned by a white family returns \$19.51 in wealth, compared with \$4.80 for African American families and \$3.63 for Latino families.¹⁴ The disparity in return on income yields additional negative effects on African American and Latino workers, such as lower rates of homeownership and lack of retirement savings.

Home ownership

The inequities in employment and wages are compounded with historic discriminatory policies in home ownership. In 1934, Congress passed the National Housing Act, which allowed mortgage lenders to draw lines—also known as redlining—around areas they deemed risky and where they did not want to make loans.¹⁵ This happened in the majority of African American neighborhoods across the country. In addition to being excluded from white

neighborhoods, African Americans were systematically prevented from purchasing homes even within their own communities because they were denied access to loans.¹⁶ It was not until 1968—after the passage of the Fair Housing Act—that redlining was made illegal, but the remnants of this discrimination are still relevant today.¹⁷ The disparity in homeownership is stark: Approximately 73 percent of white families in the United States own their home, while only 47 percent of Latinos and 45 percent of African Americans do, according to data from the most recent iteration of the 2008 Survey of Income and Program Participation, or SIPP.¹⁸

In cases where African American and Latino families have the money to purchase a home, they still incur higher costs and ultimately face greater risks of foreclosure or losing their home than their white counterparts. African American and Latino borrowers are also still more likely to face discriminatory lending practices: Mortgages they are able to secure are often at higher interest rates.¹⁹ A recent study revealed that even when African Americans and Latino families are able to purchase homes, the homes are more likely to be in low-income neighborhoods than the homes of their white middle-income and low-income counterparts.²⁰

The impact of the 2006 subprime mortgage crisis—continues to depress the wealth of African American and Latino families. For homeowners with loans originating between 2004 and 2008, 9.8 percent of African American homeowners and 11.9 percent of Latino

homeowners had their homes foreclosed, compared with only 5.1 percent of non-Hispanic white homeowners.²¹ The consequences of these foreclosures extend beyond the owner of the foreclosed home, as a foreclosure affects the housing values of the surrounding neighborhood, leaving many with less home equity. In fact, as of 2013, nearly \$1.1 trillion in home equity had been lost in neighborhoods during the crisis from 2007 to 2012 that were predominately made up of people of color.²²

In addition to the challenges of purchasing a home, African Americans and Latinos face a disparity in the amount of equity accumulated in the home. For example, the median home equity amount for white home owners is \$86,800, compared with \$50,000 for African Americans and \$48,000 for Latinos, according to 2008 SIPP data.²³ This disparity puts African American and Latino families at a great disadvantage when it comes to wealth accumulation, as home ownership has long been a tool for families to grow their wealth.

Credit

This disparity also speaks to larger inequities in how African American and Latino families are treated in credit markets: They are more likely than their white counterparts to be considered credit invisible or to possess underscored credit reports, meaning that they have little or no credit history. According to a report by the Consumer Financial Protection Bureau, 15 percent of both African Americans and Latinos were credit invisible, and 13 percent and 12 percent of African American and Latinos, respectively, were underscored; whites, on the other hand, were only 9 percent credit invisible and 7 percent underscored.²⁴ As a result, many African American and Latino families have limited access—if any at all—to credit markets. These families may be pushed into expensive—

and at times exploitative—credit products that can trap them in perpetual debt, making it difficult to accumulate wealth.²⁵

Retirement

The combination of low wages, lack of available jobs, obstacles to accessing and participating in retirement savings vehicles, as well as other debts makes it harder for middle-class African American families to save for retirement. In 2013, according to an analysis conducted by the Urban Institute, white families had \$130,472 in liquid retirement savings, compared with \$19,049 for African American families and \$12,329 for Latino families.²⁶ In that same year, African Americans participated in employer-sponsored retirement plans at a rate of 40 percent, compared with the 47 percent rate for white workers participating in similar retirement plans.

In addition to lower wage rates and participation in employer-sponsored retirement plans, African Americans and Latinos have less access to retirement vehicles. Fifty-six percent of African American workers and 38 percent of Latino workers have access to an employer-based retirement plan, while approximately 63 percent of white workers have access to similar plans.²⁷ Furthermore, African American families are more likely to carry student loan debt—another challenge to accumulating retirement savings. Due to less family wealth, African Americans and Latino families are more likely to take out loans to pay for college than their white counterparts. For example, 42 percent of African Americans aged 25 to 55 have student loan debt, compared with 28 percent of their white counterparts.²⁸

Racial inequality in the economy perpetuates wealth inequality, leaving many African American and Latino families struggling to make ends meet.

Endnotes

- 1 Due to a lack of disaggregated data, it is difficult to assess the economic well-being of the various Asian American populations in the United States, as there are significant differences for each subpopulation. Jennifer Wheary and others, "Economic (In)security: The Experience of African American and Latino Middle Classes" (New York: Demos and Waltham: Institute on Assets and Social Policy, 2008), available at https://iasp.brandeis.edu/pdfs/2008/Economic_Insecurity_AA_Latinos.pdf; Karthick Ramakrishnan and Farah Z. Ahmad, "State of Asian Americans and Pacific Islander Series" (Washington: Center for American Progress, 2014), available at <https://www.americanprogress.org/issues/race/report/2014/04/23/87520/state-of-asian-americans-and-pacific-islanders-series/>.
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