

## Determinants of Retirement Savings among Black Americans Nearing Retirement

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### Abstract

Using data from the 2006 Health and Retirement Study (HRS), this study examined retirement savings behavior of Black Americans as they neared retirement. This study further investigated how economic and demographic factors were associated with the levels of savings and the likelihood of holding IRAs among Black Americans. The total sample for this study included individuals between the ages of 51 and 64. The study sample was 4,452 near retirees and the sub samples consisted of Blacks (n=680), Hispanics/Asians/others (n=375), and Whites (n=3,397). To measure retirement savings behavior, two main dependent variables in the empirical models were the levels of net worth and the likelihood of Black Americans holding Individual Retirement Accounts (IRA).

Descriptive results show that the Black Americans reported much lower values in all financial assets such as CDs, stocks, bonds, and other savings than the White and Hispanic/Asian/other Americans nearing retirement. The results also indicate that only 19.1 percent of Blacks and 19.3 percent of Hispanics/Asians/others reported dollar values in IRAs, while 45.9 percent of Whites reported dollar values in IRAs. All three groups reported a small proportion of bonds in their asset holdings, from a low of 0.7 percent for Blacks to a high of 4.3 percent for Whites. The ownership of a primary home was a little higher for the Hispanic/Asian/other group than for the Black group; i.e., 65 percent for Blacks, 70.1 percent for Hispanics/Asians/others, and 83.7 percent for Whites.

The OLS results reveal that the effect of being Black on the level of net worth was statistically significant and negative, indicating that all else being equal, Black Americans held significantly lower levels of net worth than White Americans. It is interesting to note that household income, being female, education, job tenure, marital status, and health status of near-retirees were statistically significant in predicting the level of net worth. Black Americans with higher levels of education and longer period of job tenure reported significantly higher levels of net worth than those with lower levels of education and shorter period of job tenure. In addition, Black Americans who were divorced, widowed, and never-married reported significantly lower levels of net worth than did married Black Americans.

The results of the Logistic regression analysis indicate that the ethnic racial background was strongly associated with IRA ownership. Compared to White Americans, Black Americans were about 67% less likely to own IRAs and Hispanic/Asian/Other Americans were 57% less likely to own IRAs. Household income, gender, family size, education, job tenure, marital status, and health status were significant predictors of the likelihood of owning IRAs among Americans nearing retirement. Black Americans who reported lower household incomes were 45% less likely to own IRAs than Blacks with higher than median household incomes. Highly educated Black Americans and Blacks with longer job tenure were more likely to own IRAs than other Black Americans.

Based on the findings of this study, educating Black individuals with financial knowledge and providing a financial literacy program that targets subgroups of Black families is essential. For example, providing retirement planning education for Black families with characteristics such as low income, lower levels of education, and shorter period of job tenure should be considered by financial educators and consumer educators. In addition, other programs that would help Black families to obtain formal education, job training, and financial literacy might need to be included through different educational workshops.

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