Race, Gender and Wealth across the Life Course

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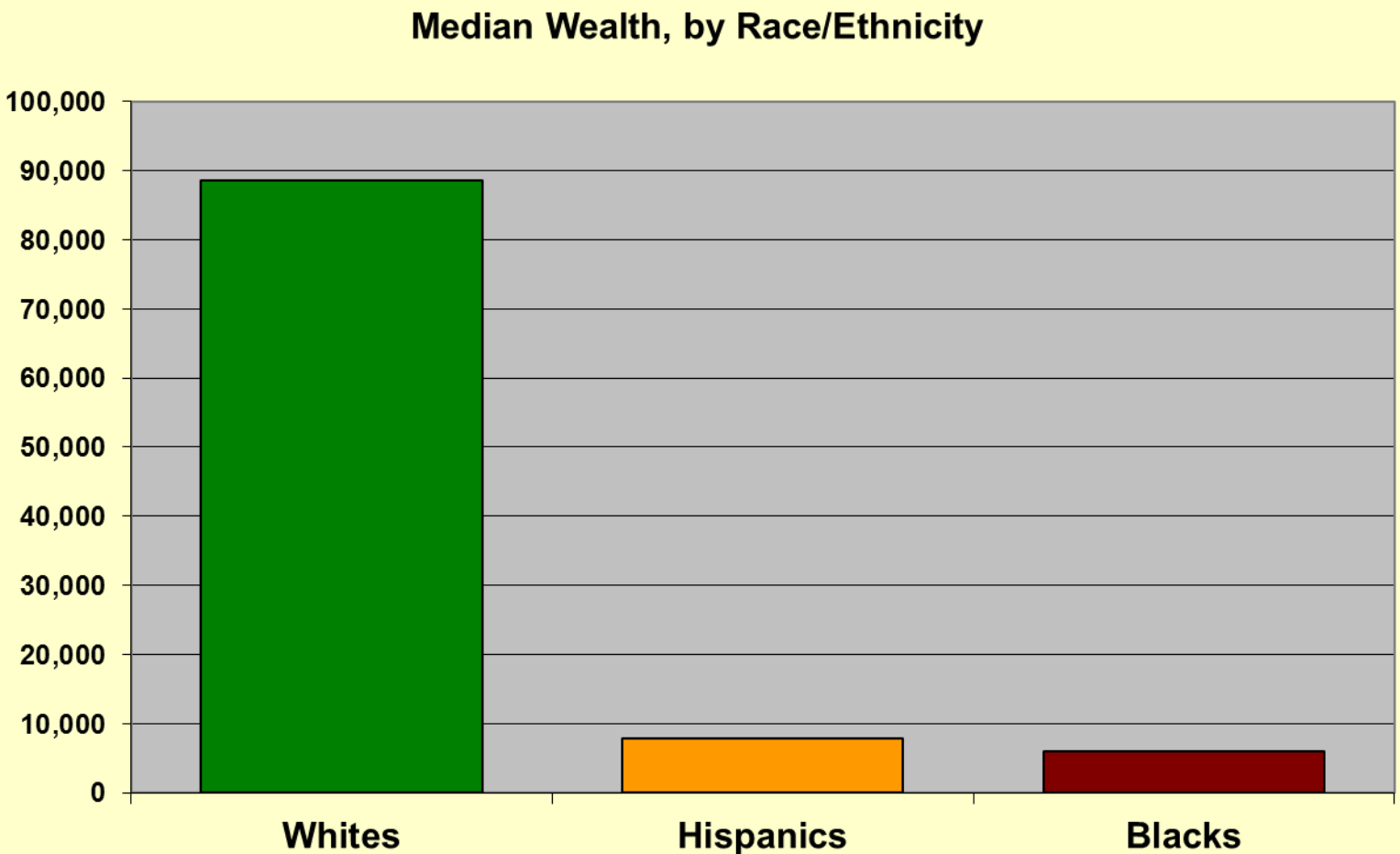
Increasing Attention to Wealth in Late Life

- Three-legged stool of economic security
- Population aging
- Broad indicator of economic well-being
- Intergenerational implications

Disparities in Levels of Net Worth

- Racial/Ethnic disparities in wealth are enormous—much larger than income inequalities (Conley, 1999; Kochhar, 2004; Oliver and Shapiro; Smith, 1995)



Explanations for Racial Disparities

- *Behavioral economic explanations*
- *Human capital & socioeconomic status*
- *Legacy of historical discrimination*
- *Present-day discrimination*
- *Social networks*
- *Health disparities*

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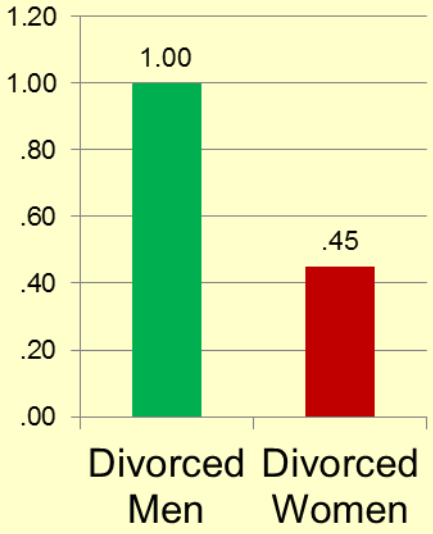
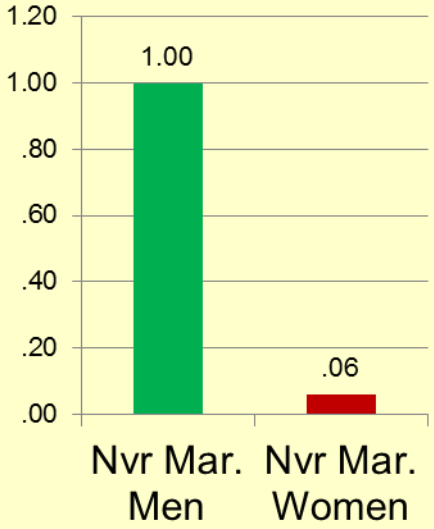
Gender Inequality in Wealth

- Large gender disparities in wealth (Chang 2006; 2010)





Explanations for Gender Wealth Inequality

- *Historical discrimination*
- *Present-day wage gap*
- *Wealth escalator*
- *Motherhood penalty*
- *Gender health disparities*

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Intersection of Racial and Gender Inequality Shape Black Women's Wealth

RACIAL INEQUALITY

- *Human capital & socioeconomic status*
- *Legacy of historical discrimination*
- *Present-day discrimination*
- *Social networks*
- *Health disparities*

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GENDER INEQUALITY

- *Historical discrimination*
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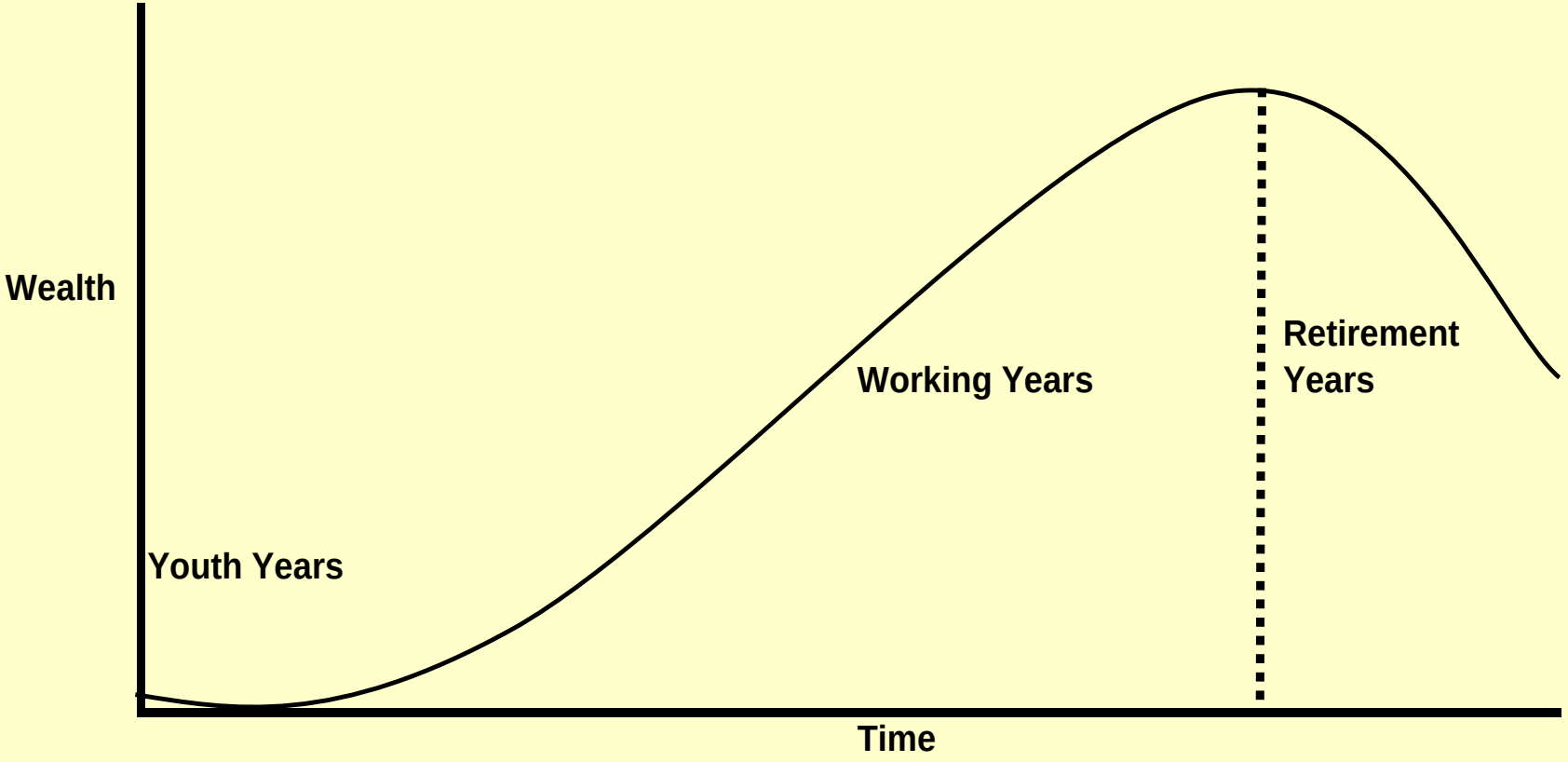
Life Cycle Hypothesis of Wealth Accumulation

(Modigliani and Brumberg, 1954)



Race/Ethnicity, Gender & Age-Trajectories of Wealth

- How do age-trajectories of wealth vary by race/ethnicity?
- What do black women's wealth trajectories look like?

- This study examines whether wealth disparities
  - 1) Decrease (*aging-as-leveler hypothesis*),
  - 2) Remain stable (*persistent inequality hypothesis*), or
  - 3) Increase (*cumulative disadvantage hypothesis*)

  - Longitudinal analyses of wealth at numerous life stages necessary to understand how the *process of wealth accumulation* varies by race/ethnicity

Data: NLSY and HRS

- 11 waves of panel data from the National Longitudinal Study of Youth (NLSY79) collected between 1985 and 2004. Core sample—Nationally representative of blacks, Hispanics and whites born b/w 1957 and 1964 (N=5,934)

- Health and Retirement Study (HRS) is representative of adults aged 51 to 61 in 1992 (1931-41 birth cohort) . 7 waves collected biannually between 1992-2004. Blacks and Hispanics oversampled (N=9,362)

2 Wealth Measures

- *Net Worth* = (home equity, real assets (other real estate, vehicles, and business equity), and financial assets (checking, savings and money market accounts, IRAs, stocks, trusts, 401ks, mutual funds, insurance policies, tax-deferred accounts, investment trusts, and bonds) minus debts.

- *Net financial assets* = financial assets – debts

- Wealth variables are logged to reduce skew

- Converted to 2004 dollars using the CPI

Methods

- Data reorganized from wave to age in order to accurately test the hypotheses

- Random coefficient growth curve models (Raudenbush and Byrk 2002)
  - A hierarchical strategy is used, where repeated observations (Level 1) are nested within respondents (Level 2)

  - Growth curve models generate individual trajectories that are based on estimates of person-specific intercepts (initial value) and slopes (rate of change) that describe intra-individual patterns of change in health as a function of age (Singer and Willett, 2003)

- Growth curve models estimate wealth trajectories from ages 21-45 (NLSY) and 51-73 (HRS)

Equation

Level 1 model:

$$Wealthti = \pi 0i + \pi 1i Ageti + \pi 2i Age2ti + eti$$

where π0i captures wealth at baseline for individual *i*; π1i is the individual- and time-specific growth rate, representing the change in number of chronic conditions with each additional year of age, and π2i is the quadratic or rate of accleration for respondent *i* at time *t.*

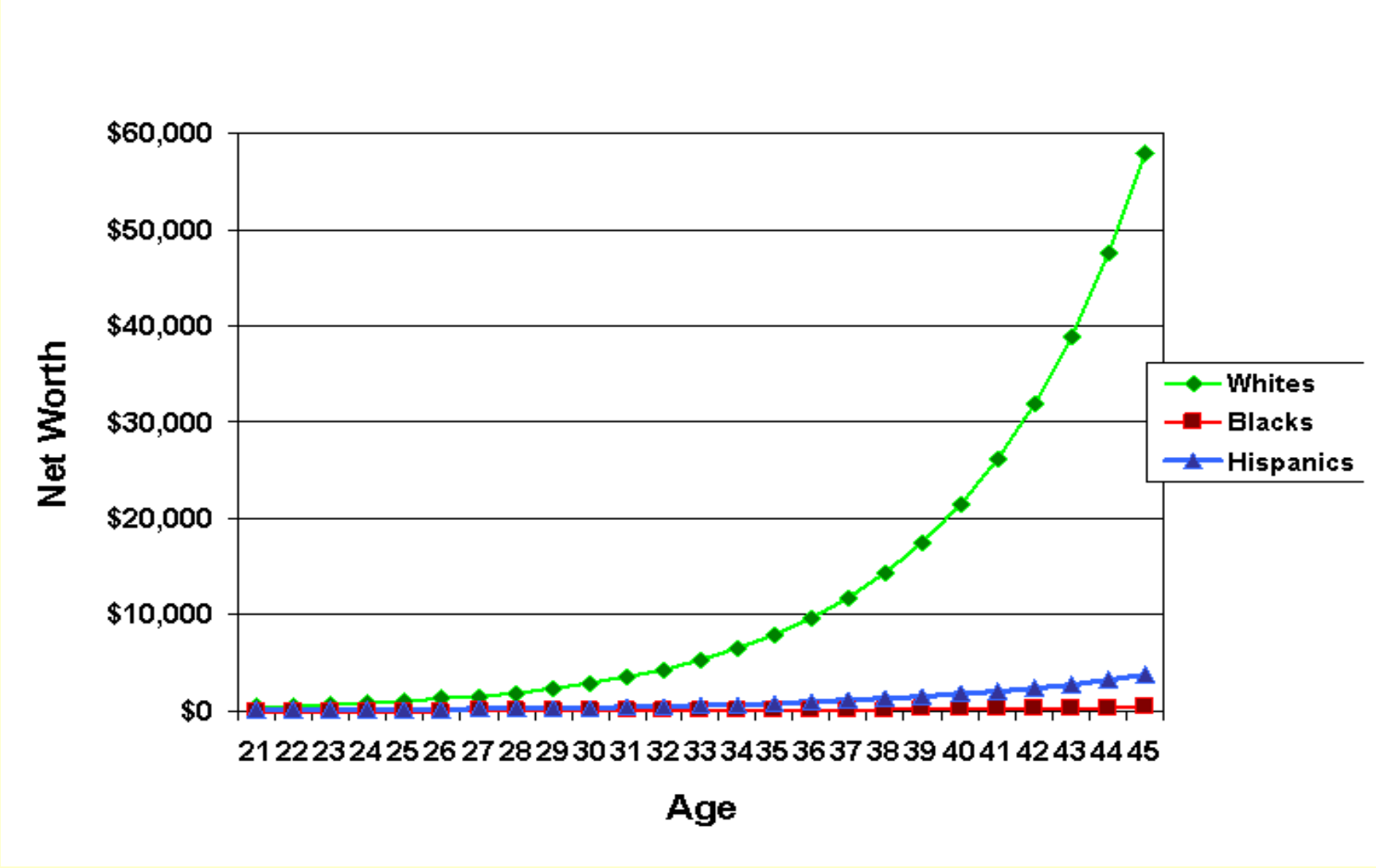
Level 2 model:

$$\pi 0i = \beta 00 + \beta 01 Blacks_i + \beta 02 Hispanics_i + \beta 03 Females_i + r0i$$
$$\pi 1i = \beta 10 + \beta 11 Blacks_i + \beta 12 Hispanics_i + \beta 13 Females_i + r1i$$
$$\pi 2i = \beta 20 + \beta 21 Blacks_i + \beta 22 Hispanics_i + \beta 23 Females_i + r2i$$

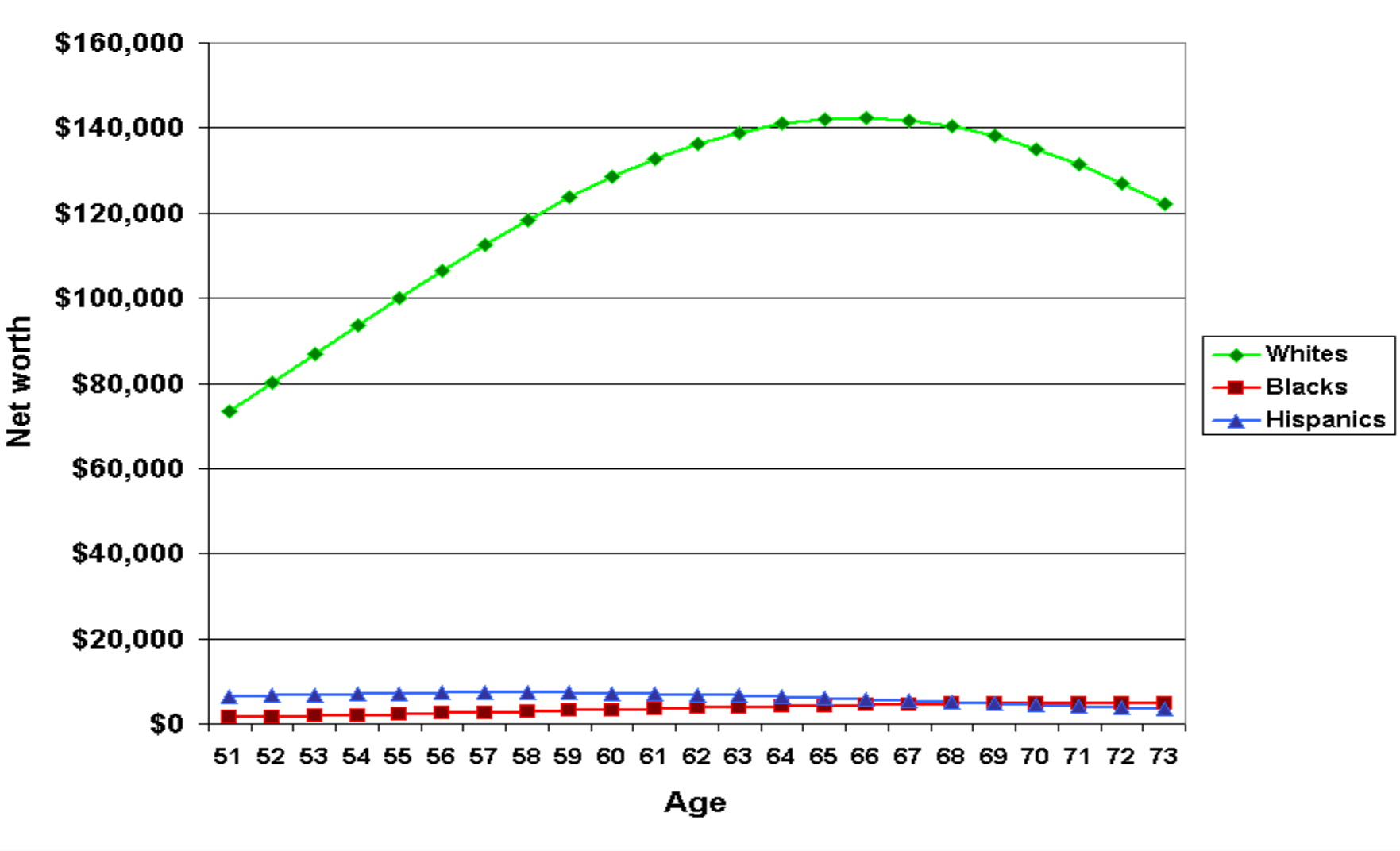
where the coefficients βpq are the effects of individiual characteristics on the π0i intercept and π1i, π2i slope parameters, and *r*pi are error terms.

Results

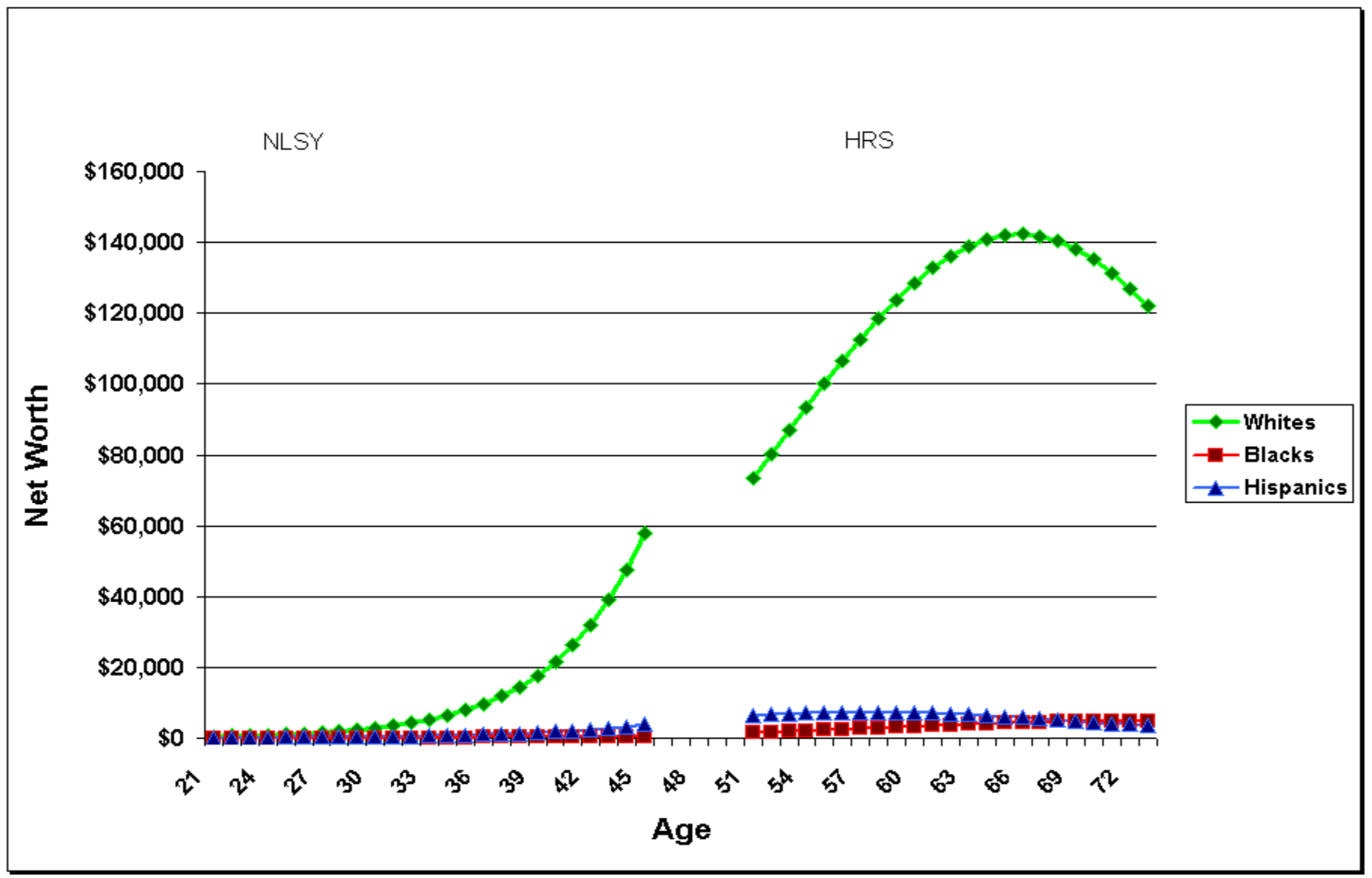
NLSY: Simulations of Estimates from Growth Curve Models of Wealth Trajectories, Ages 21-45



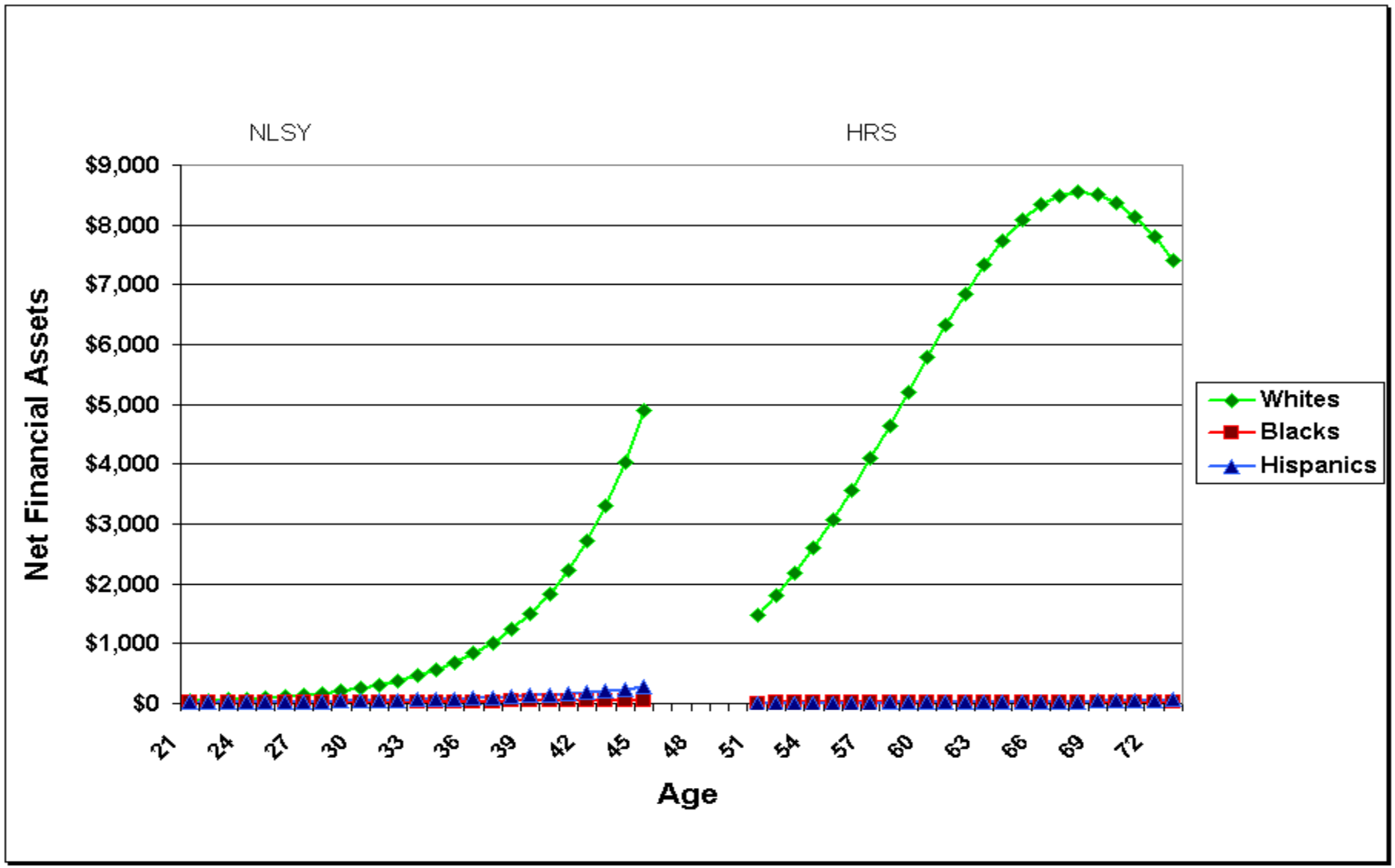
HRS: Net Worth Trajectories b/w ages 51-73



Net Worth Trajectories: NLSY and HRS

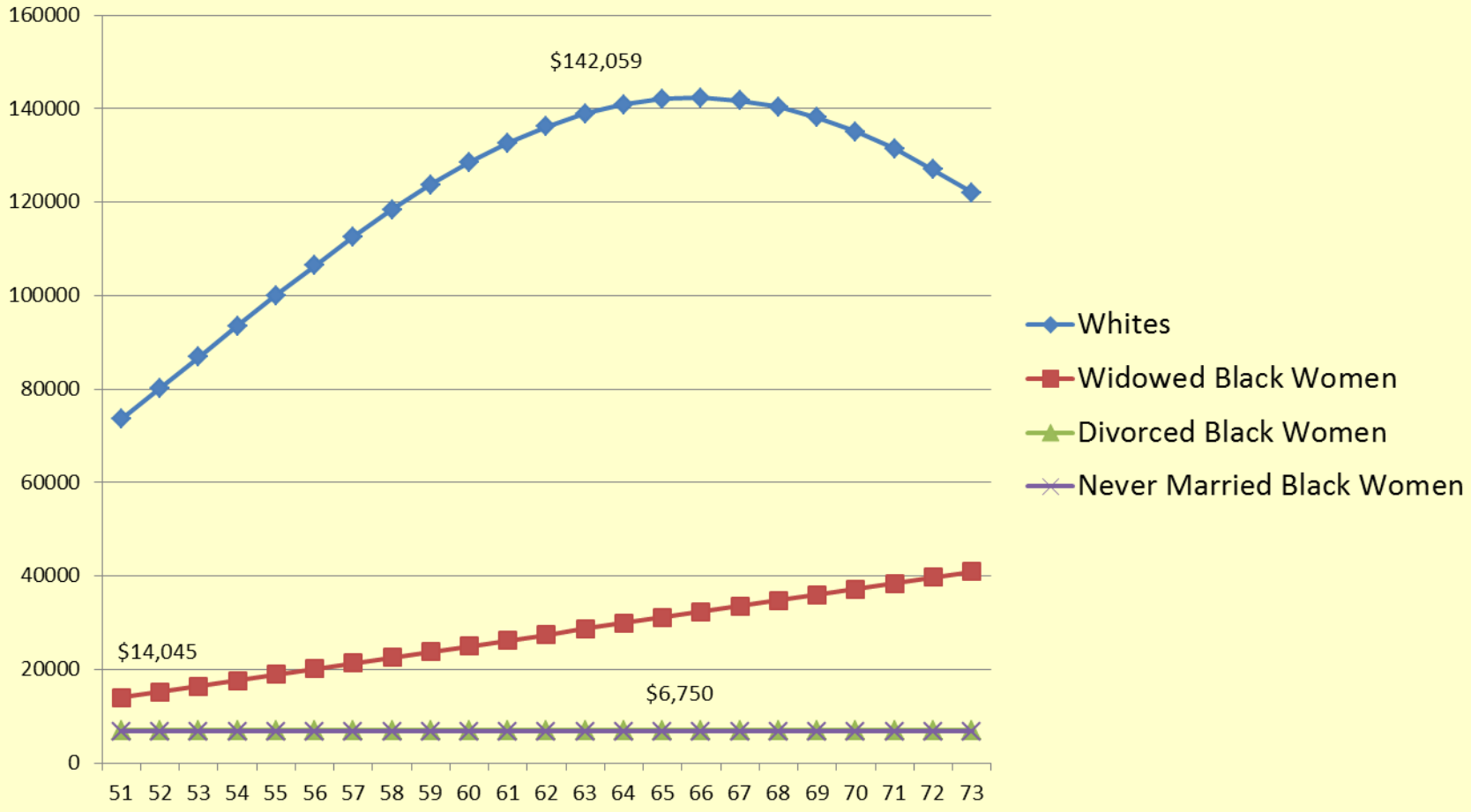


Net Financial Asset Trajectories 21-73: NLSY and HRS

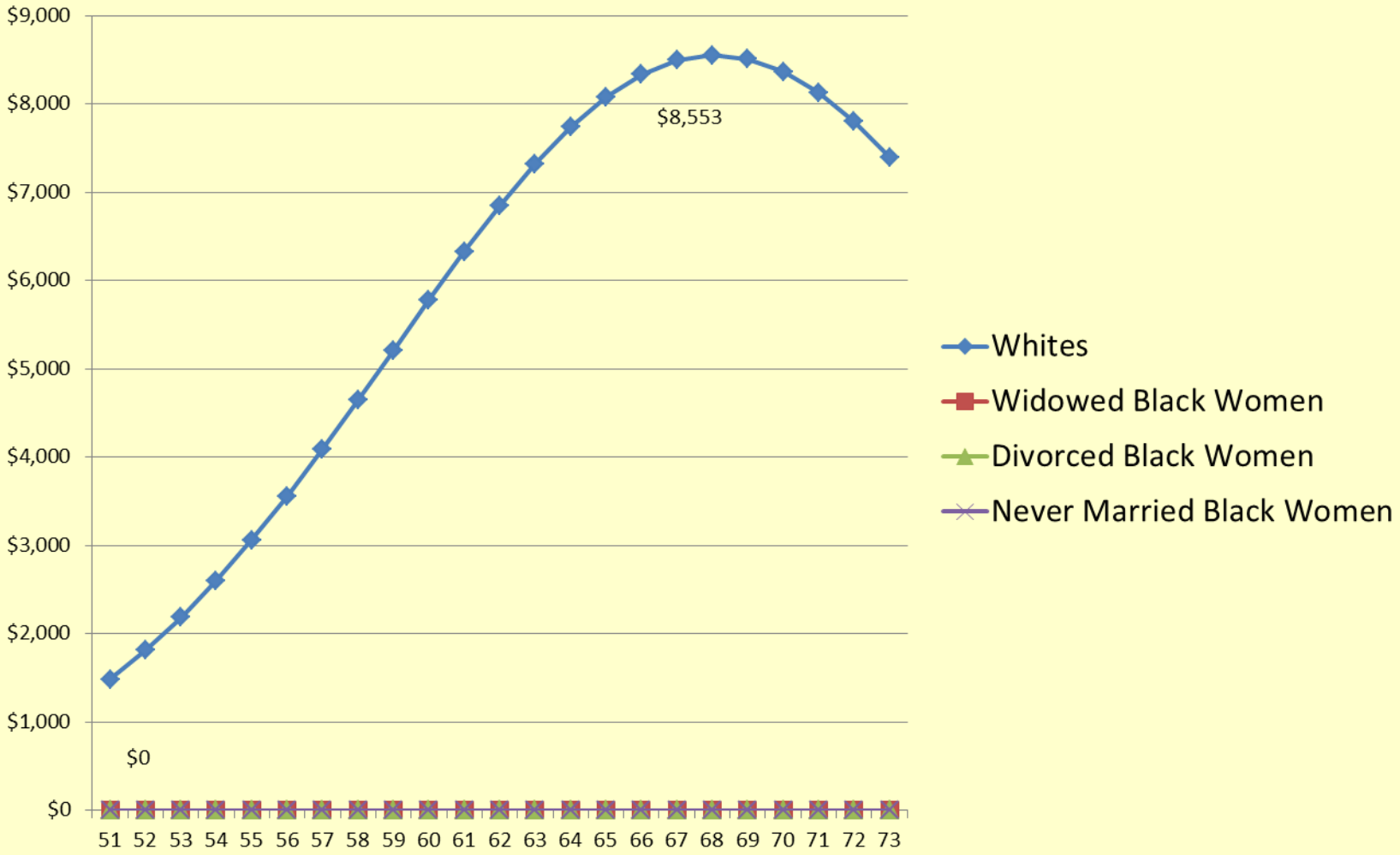


Black Women's Wealth Trajectories

Net Worth Trajectories



Net Financial Assets



Discussion

- Among first study to examine diverse wealth trajectories
- Inadequacy of the life cycle hypothesis
- Persistent asset poverty
  - Intersectionality and accumulation
- Implications for retirement (Brown and Warner 2008)
- Consequences for future generations

What can be done?

- Reparations (Darity 2008)
- Child Development Accounts
  - Race neutral; means-based, progressive benefits
- Affirmative action
- Enforcement of anti-discrimination laws
- Strengthen Social Security
  - Set minimum benefit (Chang 2010)
  - Include caregiver credits

Acknowledgments

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