

September 19, 2019

## Memorandum

**To:** Members, Committee on Financial Services

**From:** FSC Majority Staff

**Subject:** September 24, 2019, “Examining the Racial and Gender Wealth Gap in America.”

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The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “Examining the Racial and Gender Wealth Gap in America,” at 2:00 p.m. on Tuesday, September 24, 2019, in room 2128 of the Rayburn House Office Building. The witnesses for this one-panel hearing are:

- Kilolo Kijakazi, Director, Institute Fellow, Urban Institute
- Dedrick Asante-Muhammad, Chief of Race, Wealth and Community, National Community Reinvestment Coalition
- Mariko Chang Pyle, Researcher, Author, and President, Mariko Chang Consulting, Inc.
- Sally Krawcheck, Co-Founder and Chief Executive Officer, Ellevest
- Lisa Cook, Professor of Economics, Michigan State University

### Purpose

This hearing will examine the state of the racial and gender wealth divide in America and explore policy and industry solutions to improve wealth building opportunities for women and minorities.

### Background

A 2019 McKinsey study found that the overall racial wealth gap between Black and White families widened from about \$100,000 in 1992 to \$154,000 in 2016.<sup>1</sup> Researchers at the Center for Global Policy Solutions suggested that even in the recovery period after the housing crisis, African Americans (45%), Asians (48%) and Latinos (58%) lost nearly half or more than half of their wealth compared to a 21% loss among Whites. Although wealth generally increases with income, women at every income level have less wealth than men, according to a 2015 review on women and wealth.<sup>2</sup>

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<sup>1</sup> *The economic impact of closing the racial wealth gap*, McKinsey and Company (August 2019).

<sup>2</sup> Chang, Mariko, *Women and wealth: Insights for grant makers* (2015).

A 2016 study estimated that if the wealth of the average Black family continues to grow at the same space as it has over the past 30 years, it would take an estimated 228 years to amass the same amount of wealth as White families today.<sup>3</sup> Additionally, the National Women’s Law Center estimated that over a 40-year period, the gender income gap translates into a loss of \$418,000 in lifetime income, and this gap is even wider for women of color.<sup>4</sup>

In June 2019, the Financial Industry Regulatory Authority (FINRA) found that even in the midst of economic growth and declining unemployment, there is a widening, persistent gap in resources and access between those who are struggling financially versus those who are prospering.<sup>5</sup> The report also highlighted that although all demographic groups have improved their ability to cover monthly expenses since 2009, “younger Americans, those with lower incomes, and African Americans have improved less than older Americans, those with higher incomes, and other ethnicities, respectively.”<sup>6</sup>

### **Homeownership and the Wealth Gap**

A recent subcommittee hearing on the state of minority homeownership noted that decreasing homeownership among minorities is a contributing factor to the racial wealth gap. The most recent Census Bureau data (2018) shows that the homeownership rate is 73 percent for non-Hispanic white households, 42 percent for African American households, 47 percent for Hispanic households, and 58 percent for Asian and Native Hawaiian/Pacific Islander households.<sup>7</sup> The hearing highlighted that ongoing systemic barriers to increasing minority homeownership continue to exist, such as the continued existence of predatory products that are targeted at racial minorities, policies that unnecessarily keep immigrants out of homeownership, and Federal Housing Administration (FHA) policies that unfairly burden minority borrowers with additional costs.<sup>8</sup>

A 2018 study in the *Journal of Economic Perspectives* stated that on average, owning a home allows families to build wealth, serves as a measure of financial security and can reduce financial risk in retirement.<sup>9</sup> However, a 2014 report on the racial wealth gap noted that U.S. laws historically blocked people of color from their land ownership and economic rights, including the appropriation of Native American lands, exclusionary laws to keep people of Asian origin from purchasing land and owning businesses, and the enslavement of people of African origin.<sup>10</sup> Until

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<sup>3</sup> Asante-Muhammad, Dedrick, et.al., *The Ever Growing Gap: Without Change, African-American and Latino Families Won’t Match White Wealth for Centuries*, Corporation for Enterprise Development, Racial Wealth Divide Initiative, Institute for Policy Studies (August 2016).

<sup>4</sup> *Women and the lifetime wage gap: how many woman years does it take to equal 40 man years?*, National Women’s Law Center (March 28, 2017).

<sup>5</sup> Financial Industry Regulatory Agency, *The State of U.S. Financial Capability: The 2018 National Financial Capability Study*, FINRA Investor Education Foundation (June 2019).

<sup>6</sup> Ibid

<sup>7</sup> Census Bureau data available at: <https://www.census.gov/housing/hvs/data/ann18ind.html>

<sup>8</sup> Majority Staff, “A Review of the State of and Barriers to Minority Homeownership,” House Committee on Financial Services, Washington, D.C. (May 8, 2019).

<sup>9</sup> Goodman, Laurie S. and Mayer, Christopher, *Homeownership and the American Dream*, *Journal of Economic Perspectives*, Volume 32, Number 1 (Winter 2018).

<sup>10</sup> Tippet, Rebecca, et.al, *Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security*, Center for Global Policy Solutions (2014).

the 1800's, women were similarly denied the right to own land in their own name,<sup>11</sup> and until the 1980's, women could be excluded from independent access to mortgage and business credit.<sup>12</sup>

### **Income Inequality and the Wealth Gap**

Income inequality also perpetuates the racial and gender wealth gap. Based on an analysis of Federal Reserve data, McKinsey's 2019 report suggested that "black Americans can expect to earn up to \$1 million less than white Americans over their lifetime." In February 2019, two Federal Reserve Bank economists reported that the income gap is the primary driver behind the racial wealth gap.<sup>13</sup>

Asian-Americans experience intra-racial income disparities. From 1970 to 2016, the distribution of income among Asians transformed from being one of the most equal to being the most unequal among America's major racial and ethnic groups. One study shows that in 2016, Asians at the top 90th percentile of their income distribution had 10.7 times the income of Asians at the bottom 10th percentile.<sup>14</sup>

Wage disparities and caregiving responsibilities can potentially impact a woman's ability to build wealth over her lifetime. A 2017 report on closing the gender wealth gap estimated that income for all women is about 79 cents on the dollar and that disparity is even more substantial for women of color: 64 cents and 54 cents on the dollar for African American and Latina women, respectively. Additionally, women tend to work in lower-paying job sectors and are more likely to be working part-time or discriminated against in the work place because of caregiving duties compared to men, further reducing long term earnings potential.<sup>15</sup>

### **Savings, Liquid Assets, and the Wealth Gap**

As a result of lower wages and income inequality, women and minorities also have fewer liquid assets (those that can be quickly turned into cash) for emergencies and less disposable income for savings and investments than white households. In 2017, Prosperity NOW and the Institute for Policy Studies reported that 51 percent of households of color live in liquid asset poverty compared to 28 percent of white households.<sup>16</sup> Additionally, median white families (age 32-61) had saved \$73,000 in a retirement account compared to \$22,000 saved by median Black and Latino families in 2013.<sup>17</sup> The Center for Global Policy Solutions similarly reported that "African-Americans and

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<sup>11</sup> New York Married Women's Property Law (1848), N.Y. Laws, 1848. This law became the template for laws passed in other states that allowed women to own and control property.

<sup>12</sup> Women's Business Ownership Act of 1988, Pub. L. No. 100-533, 102 Stat. 2689 (1988). This act ended state laws that required women to have male relatives sign business loans.

<sup>13</sup> Aliprantis, Dionissi and Carroll, Daniel R., *What is Behind the Persistence of the Racial Wealth Gap?*, Cleveland Federal Reserve Bank (February 28, 2019).

<sup>14</sup> Kochhar, Rakesh and Cilluffo, Anthony, "Income Inequality in the U.S. Is Rising Most Rapidly Among Asians," Pew Research Center (July 12, 2018).

<sup>15</sup> McCulloch, Heather, *Closing the Women's Wealth Gap—What it is, Why it Matters and What Can Be Done About It* (2017), <https://womenswealthgap.org/report/>.

<sup>16</sup> Prosperity NOW and the Institute for Policy Studies, *The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America's Middle Class* (2017).

<sup>17</sup> Ibid.

Latinos are nearly penniless” and “are over twice as likely as Whites to hold no financial assets at all, and to have no or negative net worth.”<sup>18</sup>

Women, especially black women and Latinas, are more likely to face poverty than men, according to a September 2018 article by the America Association of Retired Persons (AARP).<sup>19</sup> AARP noted that with women living longer than men on average, women must stretch their retirement savings farther into the future and if they worked or earned less over time, Social Security retirement benefits may also be reduced.<sup>20</sup> According to a January 2019 assessment on women and retirement savings, women age 63 end up with only two-thirds of the retirement savings and benefits of men, and the average black woman has \$43,000 less than the average white woman in retirement savings.<sup>21</sup>

Additional barriers to wealth building for women and minorities include:

- limited inheritances and transfers of generational wealth;<sup>22</sup>
- higher student loan balances;<sup>23</sup>
- mass incarceration of people of color;<sup>24</sup>
- discrimination and lower rates of professional advancement in the work place;<sup>25</sup> and,
- tax policies that disproportionately benefit wealthy—predominately white—households.<sup>26</sup>

### **How Eliminating the Wealth Gap Can Impact the Economy**

Wealth building strategies that improve the financial status of women and minorities can result in increased prosperity not only for families and communities, but also the national economy. Citigroup officials said that removing barriers for women, such as unpaid caregiver work, gender discrimination, and limited access to financial services, “could boost OECD growth by between 6 and 20 percent.”<sup>27</sup> In March 2019, the managing director at the International Monetary Fund noted that adding more women to senior management and corporate boards (while keeping the same board size) is associated with higher returns on assets, and for banks, more market stability.<sup>28</sup> McKinsey concluded that failing to close the racial wealth gap could cost an estimated \$1 trillion to \$1.5 trillion: translating into a 4 to 6 percent of projected GDP by 2028.<sup>29</sup>

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<sup>18</sup> Beyond Broke (2014).

<sup>19</sup> Ryan, Elaine, “*Women’s retirement at risk*,” American Association of Retired Persons (September 25, 2018).

<sup>20</sup> Ibid.

<sup>21</sup> Tompor, Susan, “*How the gender pay gap hurts women’s retirement, 401(k) plans*,” Detroit Free Press (January 10, 2019)

<sup>22</sup> What is Behind the Persistence of the Racial Wealth Gap? (2019).

<sup>23</sup> The Road to Zero Wealth (2017).

<sup>24</sup> Maroto, Michelle and Sykes, Bryan L., “A Wealth of Inequalities: Mass Incarceration, Employment, and Racial Disparities in U.S. Household Wealth, 1996 to 2011,” RSF Journal of the Social Sciences, Volume 5 Issue 4 (September 1, 2019).

<sup>25</sup> Closing the Women’s Wealth Gap (2017), McKinsey (2019).

<sup>26</sup> The Road to Zero Wealth (2017), Closing the Women’s Wealth Gap (2017), The Ever Growing Gap (2016).