INSIGHT
CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT

FactSheet

HELPING PEOPLE AND COMMUNITIES BECOME, AND REMAIN, ECONOMICALLY SECURE

Spring 2009

THE RACIAL GAP IN SAVINGS AND INVESTMENTS

Introduction

Savings and investments are critical assets that allow families to withstand economic emergencies and plan for long-term goals such as business development, college attendance, and retirement. Money deposited in transactional accounts such as checking, savings or money market accounts, represents a source of readily available funds, while investments such as certificate of deposits, stocks, bonds, retirement, and college savings accounts are longer-term investments intended to appreciate over time. The accumulation of assets through savings and investments are critical for wealth accumulation at all income levels.

Both historically and currently whites own significantly more savings and investments than people of color. Structural factors, such as limited access to mainstream financial institutions that offer products designed for lower income people and people with different and/or traditional methods of capital accumulation, differences in inherited wealth, inadequate access to financial education opportunities, and a tax code that provides subsidies mostly to those in the higher income brackets, contribute to the racial and ethnic gap in ownership of diverse forms of financial assets.

In order to help stabilize the national economy and reverse the rapid downward economic spiral of vulnerable families and communities, policymakers and industry leaders must create and support policies, programs, and products that effectively advance asset accumulation and long term economic security for all, including people of color.

Racial and Ethnic Minorities Have Fewer Savings and Investments

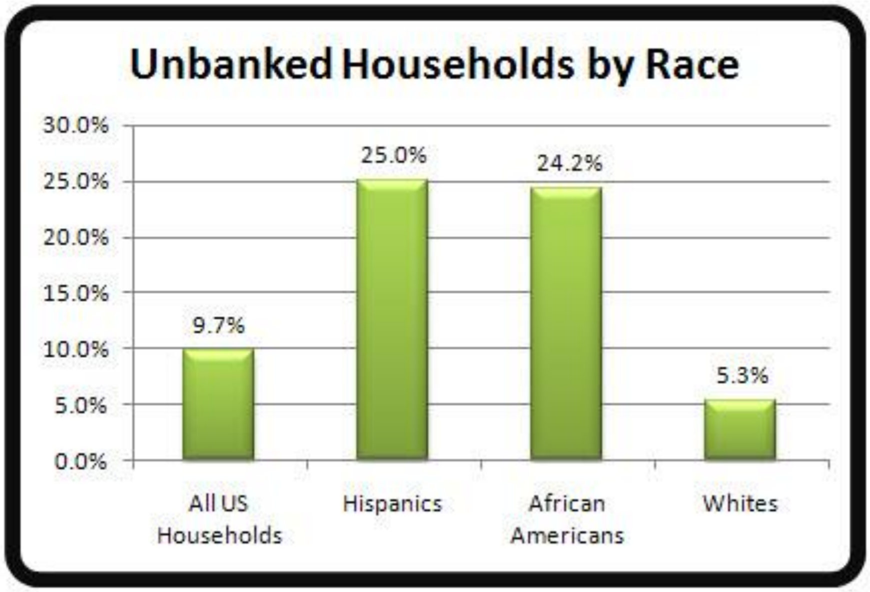
Saving is possible at every income level. Current savings and investment vehicles do not serve the financial needs of people of color.

- Forty-two percent of whites own an IRA or Keogh compared to 7 percent of African Americans and 8 percent of Latinos who own such accounts.[1]
- In 2004, the median value of retirement account holdings for white families was $41,000 and only $16,000 for nonwhite or Hispanic families.[2]
- African Americans are 23.3 and Hispanics 28.3 percentage points less likely than all families to have direct or indirect holdings of publicly traded stock.[3]
- When compared to all families, the average direct or indirect holdings of publicly traded stock were only 9.9 percent for African Americans and 15.4 percent for Hispanics.[4]
- Only 6 percent of Native American young baby boomers held stocks, bonds, or mutual funds compared to 22 percent of all young baby boomers.[5]

Institutional Barriers to Savings and Investments Exist

People of color are disproportionately "unbanked" (not in possession of a checking or savings account) or "underbanked" (possessing a bank account but relying on bank alternatives such as grocery stores and check cashing facilities for financial transactions). The rate of interest on savings accounts is low, and the costs of a bounced check is high: while being "banked" is a necessity to enter the financial mainstream, current practices of financial institutions seldom offer products and services that meet the needs of families of color.

- In 2004, only 81 percent of nonwhite or Hispanic families possessed transaction accounts (e.g., checking, savings, and money market accounts) compared to 96 percent of white families.[6]
- A 2008 study found that 53 percent of Latinos were unbanked or underbanked.[7]
- Forty-three percent of Native American young baby boomers possessed a transaction account compared to 65 percent of all young baby boomers.[8]



- With typical annual percentage rates close to 400 percent, payday loans represent a costly debt trap that threatens the financial well-being of communities of color.[9]
- Financial education has an effect on both savings and asset portfolio choice, but few opportunities exist either for children or adults.[10]
- People of color are less likely to receive inherited wealth than whites; racial differences in inheritances have been found to explain about 10 to 12 percent of the average racial difference in household wealth.[11]
- People of color are less likely to hold jobs that allow them to contribute to retirement accounts.
- Because pre-tax deductions do not benefit those with low incomes and low tax liabilities, the federal and state provisions that allow tax-free savings for college tuition do not benefit most future students of color. [12]

Saving and Investing by All Will Strengthen Our Economy

Overall, the people of this nation have not been given the tools to save, contributing to the economic insecurity of this moment. Helping people save, particularly those who have been excluded from opportunities, incentives, and subsidies to invest in their futures, will build up the private capital our nation sorely needs to get the economy moving again.

Recommendations

Recommendations to close the racial and ethnic gap in savings and investments include:

1. *Integrate universal, age-appropriate, and culturally-relevant* financial education opportunities into the K-12 curriculum and into post-secondary and community-based education settings.

2. *Improve banking services*.

    - Increase funding for Community Development Financial Institutions (CDFIs) including community credit unions that understand the populations they serve.

    - Encourage financial institutions and certified non-profit and community-based organizations to offer affordable financial products and services such as financial education, estate planning and legally enforceable wills, and financial planning.

    - Expand Community Reinvestment Act requirements to mandate that banks provide low-cost, culturally appropriate banking services to people in the neighborhoods in which they are required to make loans for home ownership.

    - Incentivize the creation of affordable and accessible financial products that meet the needs of all populations.

3. *Provide federal funding* for matched savings accounts; currently such funds are allocated for Independent Development Accounts (IDAs) for low-income people; this mechanism could also be used to provide child savings accounts (an initial government contribution for every baby born and with further matched contributions for low-income families, to be used after the age of 18 for college education or other asset building purposes) or for retirement accounts. Matched savings could be applied to communal savings accounts common to many immigrant communities.

The Insight Center for Community Economic Development is a national research, consulting and legal organization dedicated to building economic health in disenfranchised communities.

This factsheet was produced as part of our Closing the Racial Wealth Gap Initiative, a national effort to close the racial wealth gap for the next generation by injecting over 140 members of the Experts of Color Network into the national debate on America's future. Experts on this issue include Karen Edwards, Kimberly Pate, Michael Roberts, Eric Rodriguez, Trina Shanks, Ph.D., Lisa Mensah, Tracey Fischer, Robert Wynn, and Miguel Soto-Class, all members of the Experts of Color Network.

For more information please visit www.racialwealthgap.org and www.expertsofcolor.org.

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