Mortality Differentials and the Racial Retirement Wealth Gap

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Abstract. One of the principal manifestations of structural racism is in the mortality differential between blacks and whites. This is due to more limited access to health care, lower quality health care, higher poverty, less education, neighborhood effects, and life style differences. While the racial mortality gap has lessened over time, from the 1980s to 2019 according to CDC figures, the most recent evidence (for 2020) indicates a sharp widening of the differential during the Covid-19 Pandemic – indeed, to 6.0 years between whites and Blacks. Disparities in mortality rates play a key role in accounting for the gap in defined benefit pension wealth and Social Security wealth since in their calculation future benefits are weighted by survival rates in each year. As shown in Wolff (2018), the racial gap in augmented wealth is much smaller than that in net worth. Augmented wealth is defined as the sum of net worth, defined benefit pension wealth, and Social Security wealth. Defined benefit pension wealth is defined as the present value of expected future pension benefits weighted by the survival probability and analogously Social Security wealth is defined as the present value of expected future Social Security benefits the family may receive upon retirement weighted by the survival probability. In 2016, while the ratio in mean net worth between Blacks and whites was 0.14 and that in median net worth even lower at 0.02, the ratio in mean augmented wealth was 0.27 and that in median augmented wealth was also 0.27. The ratio in mean defined benefit pension wealth and mean Social Security wealth were even higher, at 0.50 and 0.60, respectively. So whereas the racial gap in retirement wealth is notably smaller than that in net worth, it is still quite large by any reasonable standard.

As noted above, disparities in mortality rates play a key role in accounting for the gap in defined benefit pension wealth and Social Security wealth. The other factors are the individual's coverage status and earnings history. This project will first update estimates of defined benefit pension wealth and Social Security wealth to 2019 and then to the current year based on the most recent CDC estimates of mortality rates by race during the Pandemic. Its main contribution will be to analyze how much of the differential in these two key wealth components and augmented wealth in general are ascribable to racial disparities in life expectancies. A decomposition analysis will be performed of the racial wealth gap into (i) mortality differentials, (ii) differences in earnings history; and (iii) the coverage gap. The analysis will be done for three age groups (i) under age 47, (ii) ages 47-64, and (iii) ages 65 and over. It will use the Survey of Consumer Finances for years 1989 to 2019 to make the calculations. It will also consider the effect of the lessening of the mortality gap from 1989 to 2019 and its recent sharp increase in 2020 on the trend in the wealth gap over time, as well as changes in lifetime earnings and coverage rates. On the policy front, one possible amelioration for the differential in Social Security wealth is to adjust the calculation of AIME (the formula used to compute the benefit level) to reflect racial differences in mortality rates. This project will simulate different options and evaluate them from the standpoint of reducing the wealth gap.

Edward N. Wolff, "The Decline of African-American and Hispanic Wealth since the Great Recession," NBER Working Paper 25198, October 2018. http://www.nber.org/papers/w25198

Focal Program Areas: (1) structural barriers that may contribute to disparities by race and ethnicity; (2) the impact of COVID-19 on SSA programs and the populations they serve, and (3) disparities by race and ethnicity