

Do Financial Support and Inheritance Contribute to the Racial Wealth Gap?

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Why do wealth disparities persist between white and minority families in the United States? Private transfers—financial support to and from family and friends, large gifts, and inheritances—may be part of the reason. We studied how private transfers differ by race, ethnicity, and immigration status and how much those differences help explain the wealth gap.

Private transfers can affect wealth building. Financial support received can be saved or invested in an education or a home and it can be used to cover unexpected costs, helping families remain stable through financial emergencies. On the other side, giving financial support can reduce a family's wealth.

For this study, we analyzed wealth and private transfers given and received across households in the Panel Study of Income Dynamics, a longitudinal survey of roughly 5,000 families. Looking at family net worth (assets minus debts), we found large wealth gaps by race and ethnicity. Over the period of 1999–2007, the median net worth of black families (\$18,181) is one-sixth that of white families (\$122,927). And the median net worth of Hispanic families (\$33,619) is about a quarter of white families' net worth. These gaps stem from lower asset holdings for minorities, not higher debt.

Likelihood of Giving and Receiving

We found that black families are more likely to receive support from family and friends outside their household than white families (15.9 percent versus 10.4 percent), though they receive much smaller amounts. Hispanic families are less likely than white families to receive support (6.5 percent versus 10.4 percent)—and when they do, the amounts are smaller. In fact, Hispanic families are more likely to give than to receive support. Specifically, they are five times as likely as white

families to support their parents (9.5 percent versus 1.7 percent).

Financial Support

Controlling for characteristics of givers and recipients, white families per year receive greater net support—what they get minus what they give—than Hispanic immigrants (\$589), Hispanic nonimmigrants (\$383), and black families (\$278). Hispanic immigrants receive \$208 less per year in support than white families and give \$1,078 more per year. This large amount of support might go to their parents or relatives who lack income or social support in their home country. Hispanic nonimmigrants receive \$126 less per year in support than white families and give \$363 more. Black families receive \$365 less in support and give \$520 less than white families.

Large Gifts and Inheritances

Turning to large gifts and inheritances, we find that black families and Hispanic families are five times less likely to receive large gifts and inheritances than white families. As measured over a two-year period, Hispanic immigrants receive \$2,123 less in large gifts and inheritances than white families. Non-Hispanic immigrants receive \$1,772 less. Black families receive an astounding \$5,013 less in large gifts and inheritances than white families. These average differences add up to substantial amounts over time.

Family Characteristics

We find evidence that financial support goes to people with greater need, with a few exceptions. Families with heads of household or spouses who have lower

income and are unmarried, younger, disabled, or in school receive more support than their counterparts. One notable exception is that families with a less-educated head of household are less likely to receive support.

We also found that families with more children are no more likely to receive support than their counterparts and that higher-income families receive more in large gifts and inheritances than lower-income families. Living with extended family or adult children reduces monetary private transfers across households, because the transfers are happening within households. The more siblings the head of the household or spouse has, the fewer private transfers a family receives, suggesting that siblings share parents' assistance.

Private Transfers' Influence on Wealth

Our finding that blacks and Hispanics receive less in private transfers than whites suggests that private transfers help explain the racial wealth disparity, but how much? We found that large gifts and inheritances received over the past 10 years account for 12 percent of the difference in wealth between whites and blacks. We do not find evidence that the wealth disparity between Hispanics and whites can be attributed to differences in large gifts and inheritances or that net support received has any effect on wealth. These transfers of support are likely being used right away, not saved or invested, so they may be important in alleviating immediate economic hardship but not increasing wealth in the short term. However, these transfers may have long-term effects on family stability and asset building.

Policy Implications

These findings suggest that programs providing low-income families with additional income (such as cash welfare benefits or the earned income tax credit) will help poor minorities but will not close the racial wealth gap. More than income-based policies are needed to overcome racial wealth disparities.

Large gifts and inheritances play an important role in perpetuating the racial wealth gap. The large intergenerational transfers that the baby boom generation is going to provide may exacerbate racial differences in the absence of an estate tax.

Large gifts and inheritances may have a larger effect on wealth than smaller support transfers because they are often used to finance higher education or to make a down payment on a house. Therefore, legislators should consider policies beyond an estate tax to reduce wealth gaps over time. Public policies that subsidize education, for example, could enable families without sources of large gifts to go to college, boosting their earning capacity and, with it, their ability to accumulate wealth. Down-payment assistance targeted to minorities, savings programs for low-income families, and strategies to reduce barriers to homeownership also could help reduce the wealth gap. These policies move beyond income to address the wealth-building benefits many families miss out on.

Note

This factsheet draws from "Private Transfers, Race, and Wealth" by Signe-Mary McKernan, Caroline Ratcliffe, Margaret Simms, and Sisi Zhang. Serena Lei contributed to this factsheet.

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Given the chance, many low-income families can acquire assets and become more financially secure. Conservatives and liberals increasingly agree that government's role in this transition requires going beyond traditional antipoverty programs to encourage savings, homeownership, private pensions, and microenterprise. The Urban Institute's Opportunity and Ownership Project policy fact series presents some of our findings, analyses, and recommendations. The authors are grateful to the Annie E. Casey Foundation and the Ford Foundation for funding the Opportunity and Ownership Project.

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