
Understanding the Black Investor

By Kerry Pechter Tue, Apr 26, 2011

African Americans in general have fewer assets, less faith in Wall Street and less appetite for risk than whites, but their need for financial guidance is arguably that much greater.

Beyoncé Knowles, Oprah Winfrey, Shaquille O’Neal—the wealth of these black celebrities tells us about as much about the financial lives of African Americans as the wealth of white tycoons like Warren Buffett or Eli Broad tells us about the finances of the average white person.

Not much, that is. Race-based opinion polls and academic studies don’t render a complete or vivid picture either. Surveys tend to produce averages, and averages can be misleading. But survey results, statistics and averages are sometimes the only concrete data we’ve got.

Recently, several research studies have focused on the financial attitudes and well-being of black Americans. African Americans, these studies suggest, have relatively less money, are more oriented toward saving than investing, and are even more suspicious of financial institutions than the average American.

But the research also shows that African Americans have the same aspirations to wealth, and the anxieties about growing old without it, as everybody else. Hit even harder by the Great Recession than most Americans, they need financial guidance and financial products. They represent a potential opportunity for financial service providers who take the time to understand their values and earn their trust.

A savings gap

Americans overall are under-saved for retirement. For African Americans, the picture is bleaker. For a variety of complex reasons—unemployment, a high incidence of single-parent households, lower average pay, higher risk-aversion—they lag the general population in ownership of investments and retirement accounts.

For instance, a recent survey report by Prudential Research, “[The African American Financial Experience](#),” showed, for instance, that African Americans were less likely than the general population to own individual stocks and bonds (32% vs. 43%), mutual funds (31% vs. 41%), IRAs (35% vs. 52%), or to have an estate plan, will or trust (19% vs. 26%). The results, released April 12, were based on a survey of 1,500 African Americans ages 25 to 70 with incomes of \$25,000 or more.

“While African Americans are quite confident in their ability to meet their financial goals, they also tend to hold fewer financial products, invest more conservatively, lack relationships with financial professionals, and be more likely to borrow from their company retirement plans,” the Prudential report said.

That survey pretty much confirmed what others had already found. In 2009, according to [Retirement Savings Behavior and Expectations of African Americans, 1998 and 2009](#), a report by Wilhelmina A. Leigh, Ph.D., and Anna Wheatley of the Washington-based Joint Center for Political and Economic Studies:

- 51% of African Americans but 72% of whites report having money in savings accounts, certificates of deposit, or money market accounts
- 28% of African Americans but 47% of whites report having money invested in an Individual Retirement Account (IRA) or Keogh plan.
- 27% of African Americans but 49% of whites reported owning stocks or mutual fund shares.
- 17% of African Americans but 27% of whites reported owning bonds.

African Americans also lag in the use of 401(k) plans. While race itself is not necessarily a factor in the successful use of 401(k) plans, according to a 2009 research brief, “(401(k) Plans and Race,” issued by the Center for Retirement Research at Boston College:

“African Americans and Hispanics are still less likely to have the kinds of jobs in which participation in a 401(k) plan is possible; they are less likely to have the earnings, job tenure, and other factors that would cause them to participate in a plan; and, once in a plan, they are less likely to have the taste for saving that would result in a high contribution rate.”

When it comes to pensions, many African American households have them, but less commonly than white households do, according to *Income of the Population 55 and older 2008*, published in April 2010. In 2008, for instance, about 10.6 million white households but only 860,000 African American households received employer pensions.

To put that in perspective: non-Hispanic white Americans outnumber African Americans 5 to 1 but there are 12 times as many white pension recipients as black pension recipients. The median pension for both groups was \$12,000, but white households were slightly more likely to have pensions of \$25,000 or more a year (24.1% vs. 22.3%).

In the case of government employee pensions, 3.6 million white households and 328,000 black households receive them. The median government pension was \$19,200 for whites and \$18,000 for blacks. About 38% of whites' pensions and 34.1% of black's pensions exceed \$25,000 a year.

For many African Americans—and for many white Americans—the first step toward saving for retirement will be getting out of debt. But that's a topic for another article.

Less trust and smaller risk appetite

Trust of financial services companies runs fairly shallow in America. For black Americans, it's been said that mistrust of financial institutions and financial products is especially strong, perhaps extending as far back as the failure of the “Freedman's Bank”—the Freedman's Savings and Trust Company—which cost tens of thousands of African American depositors their savings in 1874.

The trust level isn't much higher today. “Although the majority [of African Americans] say they want

financial advice, concerns about finding ‘a qualified professional they can trust and relate to’ prevent many from hiring an advisor,” said the Prudential Research report. “In fact, 58% agreed with the statement, ‘I would like advice on saving and planning for retirement, but I don’t know or can’t find a professional I can trust.’”

Church leaders and “financial ministries” are more popular. Instead of going to financial advisors, to a wirehouse broker, or to the phone reps of a direct marketer, African Americans are much more likely to turn to institutions they trust—their churches—for financial advice and inspiration. According to Prudential, “Nearly half (47%) of African American decision makers are interested in learning about investments through a faith-based organization.”

Perhaps because they’ve been burned by financial services companies, or perhaps because they can’t afford to take risk, African Americans in general shy away from risky investments. The financial crisis has apparently made that situation worse.

“Fear of losing their jobs and homes because of the financial crisis may have exacerbated an existing tendency toward risk aversion,” said the Prudential report. “Two-thirds of African Americans surveyed revealed they do not enjoy investing and describe themselves as savers. Some revealed skepticism about the idea of investing.”

The conservativeness of African American investors, in fact, was pointed out over a decade ago in a 2000 article in *Financial Services Review* called, [“Financial services and the African-American market: what every financial planner should know”](#). Business professors D. Anthony Platha and Thomas H. Stevenson of the University of North Carolina-Charlotte wrote:

“At all income, education, and age levels, however, African-American households invest a smaller percentage of their portfolios in the form of mutual funds, brokerage accounts, and outright equity purchases than Caucasian households. In addition, Black households demonstrate a distinct preference for safety and security in their investment preferences, favoring life insurance and real estate assets over corporate debt and equity securities across all levels of household income and educational attainment.”

In 1999, the same journal published a paper by three Ohio State University professors called, [“Racial differences in investor decision making.”](#) It said:

“Black households report a lower willingness to take financial risks and have a shorter investment horizon compared to White households. A significantly higher proportion of Black households (60%) than White households (42%) report they are not willing to take any risk. Similar proportions of Black and White households are willing to take substantial financial risk... Of households reporting that they are willing to take risk, 58% own risky assets, compared to only 24% of households not willing to take risk.”

The same anxieties, only more so

As of December 2010, the official unemployment rate for whites was 8.5%, and the public was outraged. But the unemployment rate for blacks, at 15.8%, was almost double that of whites. African Americans, as

much or more than other Americans, have reason to worry about their financial security, today and in retirement.

“African Americans (45%) are more likely than whites (37%) to say they are not too confident or not at all confident that they will have enough money to live comfortably throughout retirement” and while “more than half (almost 54%) of African Americans are very or somewhat confident that they will have enough money to live comfortably throughout retirement, they were less likely than white Americans (61%) to have this level of confidence,” according to the study by Wilhelmina Leigh cited above.

Shrinkage of the public sector workforce is especially threatening to African Americans, about 20% of whom work in the public sector. Blacks are “30% more likely than the overall workforce to work... as teachers social workers, bus drivers, public health inspectors,” according to [State of the Dream 2011](#), a study by United for a Fair Economy, a Boston-based advocacy group. As of last September, according to the U.S. Office of Personnel Management, 17.5% of the 2.06 million-member non-postal civilian federal workforce was African-American.

Any talk about ending Social Security or reducing the full retirement age is likely to make black Americans particularly nervous. While their average benefits are lower than whites’, they are more likely to rely on Social Security for all or part of their retirement income.

In [African-Americans and Social Security: A Primer](#), a study sponsored by AARP and published last February by the Washington-based Joint Center for Political and Economic Studies, Wilhelmina Leigh found that the average monthly Social Security retirement benefit received by African American men in 2008 was \$1,109.30; for African American women it was \$945.50. The average monthly retirement benefit for white men was \$1,333.80; for white women it was \$1,014.50.

At the same time, than a third of African-Americans expect Social Security to be their main source of income in retirement and about 40% of black Americans over age 65 rely on Social Security as their only source of retirement income, according to Leigh.

Yet fewer blacks than whites live to collect Social Security. Nearly three of every four white beneficiaries (74%), but only about half of black beneficiaries (55%), receive Social Security retirement benefits. That’s partly because African Americans born in 1950 had about six fewer years of life expectancy at birth than whites, and partly because African Americans are more likely to use disability benefits or survivor benefits instead.

A plausible market?

So should a financial services company invest the time and money that it will take to understand and gain the trust of the black community? For Prudential, it was a no-brainer to sponsor *The African-American Financial Experience*.

As a 401(k) provider, Prudential works with plan sponsors all over the world, many of whom have large numbers of African American participants. Understanding the habits, values and needs of those

participants helps plan sponsors target education programs toward certain behaviors and helps Prudential train call center personnel. Ultimately, it helps the plan retain and increase assets, helps Prudential keep assets under management, and helps the participant arrive at retirement better prepared.

“We understand that there’s a need out there for a greater understanding for what’s driving participant behavior. We’ve done similar studies on Hispanics and Asians. This allows our Retirement division to put together more targeted communications. One size doesn’t fit all,” said Michael Knowling, regional vice president, Prudential Retirement.

“With this study, we learned that African Americans are tapping into their 401(k) plans more than others to pay off loans,” he added. “We also know that they’re saving very conservatively, and in some cases not saving enough. We can work on custom education materials to preserve their retirement plan assets for retirement. If our call center receives a call about a loan or withdrawal, we can guide the caller through other options. Eighty-two percent of people surveyed say it’s critical to have enough money for retirement, but only 32% say they’re confident they’ll have enough.”

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