Barriers to Building Wealth among High-income Black Workers

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Acknowledgement

Introduction

Historical Challenges and Modern Impacts

▶ Black wealth has faced systemic challenges throughout history, influencing modern financial experiences and behaviors.

▶ Discriminatory policies and exclusion from financial industries have left lasting impacts, creating unique barriers for Black individuals.

▶ Unfair practices led to a deep mistrust in financial institutions, making many people rely on friends and family for financial advice.

Introduction

Motivation

- ▶ Financial planning research predominantly focuses on general demographics, overlooking specific groups.
- ▶ There is a noticeable gap in research concerning high-income Black individuals.
- ▶ This study seeks to address this gap in the literature by highlighting the dynamics of financial advice-seeking and planning behaviors among an understudied demographic: Black high-income earners, using a mixed methods approach.

Introduction

Research Question

- ▶ What are the factors that influence the engagement of high-income Black individuals with financial advisors?
- ▶ What specific behaviors and strategies are prevalent among high-income Black individuals when seeking financial advice and planning their finances?

Introduction

Overview

Income and Asset holdings based on SCF data:

▶ High-Income Blacks: in the context of our study refers to Black households earning an annual income of $100,000 or more.

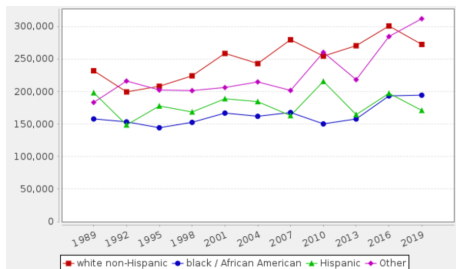▶ The mean income of high-income Blacks has been systematically below that of Whites over the past two decades.

Figure 1: Mean Income for High-Income Earners over Time by Race/Ethnicity

Introduction

▶ The asset holdings of high-income Whites substantially surpass those of high-income Blacks at the highest level, i.e., greater than $300,000 in household assets (53.2% versus 36.5%)
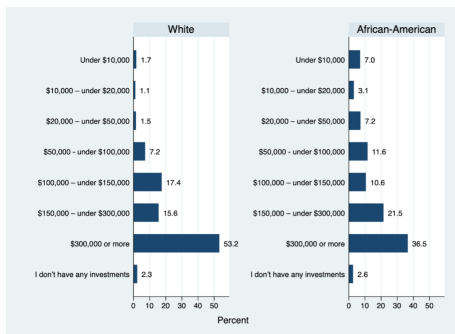

Figure 2: High-Income Earners by Assets

Literature Review

Financial Attitudes and Patterns

- ▶ Winchester et al. (2013): Black clients less likely to refer advisors.
- ▶ Hudson et al. (2021): Financially literate Black women more likely to invest.
- ▶ Hudson and Young (2023): Black homeowners and investors less likely to be low-wealth compared to Whites.

Data and Methodology - Mixed Methods Approach

Approach Overview:

- ▶ We utilize a mixed methods approach for comprehensive analysis.
- ▶ Combining quantitative data analysis with qualitative insights.
- ▶ We are using SCF data to understand how financial usage differs among various racial and demographic groups.
- ▶ Winchester et al.'s study reveals that Black clients are less likely to refer advisors, indicating that trust is a major factor in the utilization of financial services.
- ▶ Due to the lack of trust data in the SCF, using a qualitative methodology helps to understand this issue by directly gathering insights from the target population.

Data and Methodology

Quantitative Data and Empirical Strategy:

- ▶ 2019 Federal Reserve Board's Survey of Consumer Finances (SCF).
- ▶ Has information on 5,777 U.S. households, totaling 28,885 observations.
- ▶ Use of Repeated-Imputation Inference (RII) for robust and reliable results.
- ▶ Use of Proprietary data from MassMutual (MM) to investigate how trust and conflicts of interest influence the decision to use a financial planner.
- ▶ Analysis stratified by income thresholds: $70,000, $85,000, and $100,000, both weighted and unweighted, reflecting the income distribution of Blacks in the sample.

Data and Methodology: Model Specification

$$\log\left[\frac{P(Y_i)}{1 - P(Y_i)}\right] = \beta_0 + \alpha_1 \text{Black}_i + \alpha_2 \text{Hisp}_i + \alpha_3 \text{Other\_Race}_i$$
$$+ \sum_{j=1}^{k} \phi_j X_{ij} + \sum_{j=1}^{k} \gamma_{jr}(X_{ij} \times \text{Race}_{ri}) + \epsilon_i$$

- $\log\left[\frac{P(Y_i)}{1 - P(Y_i)}\right]$: Log-odds of using a financial professional for individual i.
- $\alpha_1 Black_i, \alpha_2 Hisp_i, \alpha_3 Other\_Race_i$: Black, Hispanic, or Other Race, respectively, for the individual i.
- $\sum_{j=1}^{k} \phi_j X_{ij}$: The sum of k other independent and control variables X_{ij} (Risk Tolerance, Financial knowledge, Stock Ownership, Education, Gender and Marital status).
- $\gamma_{jr}(X_{ij} \times \text{Race}_{ri})$: Interaction term between variable X_{ij} and race category r. This term allows the model to capture how the effect of X_{ij} on the outcome varies across different racial groups
- ϵ_i: Error term for individual i.

Data and Methodology

Qualitative Methodology:

▶ **Initial Steps:**
- Pilot focus groups conducted to refine study protocol.
- Insights on trust and "safe spaces" for financial discussions gained.
- Adjustments to study questions based on pilot feedback.

▶ **Main Focus Groups:**
- Total of nine groups: Two in-person, seven virtual.
- Participants: 30 to 69 years old, employed or retired.
- Education: Bachelor's to doctoral degrees.
- Income Range: 90,000 to over 150,000.
- Recruitment: Non-probabilistic methods, diverse sources.

▶ **Data Analysis:**
- Software: NVIVO for thematic coding.
- Core Themes: Identified by content and frequency.
- Method: Analysis of responses, supplemented by de-identified quotes.

Results

Quantitative Findings: Logit Regression Results

	70,000 or more		85,000 or more		100,000 or more	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Black	-2.266	-1.797	-1.288	-0.732	-0.807	-0.237
	(9.231)	(9.249)	(7.498)	(7.596)	(8.048)	(8.104)
Hispanic	0.001	1.849	-1.247	2.162	-2.539	-0.013
	(4.694)	(4.880)	(7.050)	(7.252)	(5.731)	(6.004)
Other	0.395	0.727	1.480	1.753	0.916	1.393
	(3.290)	(3.289)	(8.358)	(8.273)	(8.347)	(8.537)
Female	0.574***	0.762***	0.612***	0.717***	0.583***	0.743***
	[0.159]	[0.183]	[0.188]	[0.234]	[0.196]	[0.273]
Married	0.448***	0.399***	0.435***	0.377***	0.418**	0.362
	[0.136]	[0.163]	[0.154]	[0.175]	[0.165]	[0.221]
Black*Female	-1.082**	-1.077**	-0.945	-0.996		
	[0.451]	[0.490]	[0.576]	[0.684]		
Black*Married	-0.648*	-1.010**	-0.490	-0.741	-0.330	-0.439
	[0.377]	[0.431]	[0.473]	[0.513]	[0.442]	[0.433]
Observations	3058	3058	2366	2676	2676	2366
Pseudo R-squared	0.0448	0.0444	0.0424	0.047	0.0378	0.0488

Notes: Standard errors in brackets. Statistics derived from analysis of data pooled from all five implicates with RII techniques. Reference group for Black is White. *$p < .10$, **$p < .05$, ***$p < .01$

Results

Quantitative Findings

▶ Black females with incomes of $70,000 and above are significantly less likely 94% to use financial professionals as a source of information in comparison to their counterparts.
  - At or above $85,000 income, likelihood matches that of counterparts.

▶ Black individuals earning at least $70,000 and married are 92% less likely to use financial professionals compared to other married individuals in this income range.
  - No significant difference observed above this income threshold.

▶ While our results show a difference in Black females' use of a financial professional (including lawyers and accountants), when we narrow our focus to financial planners, we find no significance.

Results

Qualitative Findings

key findings from the focus group analysis:

- ▶ **Purpose of Wealth:**
  - Most participants defined wealth as intergenerational accumulation, emphasizing its purpose for securing their children's future.
- ▶ **Perceptions about Risk:**
  - Almost all respondents viewed investments as risky due to unpredictable market fluctuations.
  - Age and level of responsibility - key factors influencing participants' risk tolerance.
- ▶ **Attitudes Towards Financial Advisors:**
  - Distrust due to perceived lack of client focus, poor listening, and non-customized solutions.
  - Lack of clarity on advisors' compensation and risk sharing led to perceptions of financial advisors as "shady".
  - linked distrust to historical harm to the Black community, including land removal and redlining practices.

Results

- **Financial Literacy:**
  - A perceived need for more financial education among participants.
  - financial literacy gap among African Americans, attributing it to limited openness and knowledge-sharing within the community.

- **Conflict of Interest Concern:**
  - Participants skeptical of financial advisors' intentions and potential hidden motives.

- **Reliance on Family and Friends:**
  - Preference for financial advice from trusted personal networks and referrals.

- **Community-Centric Guidance:**
  - Importance of advisors from community centers or religious establishments in other groups.
  - Call for similar community-based financial guidance in Black communities.

Summary

- A significant finding is that Black females and Black married exhibit varied patterns in their use of financial professional services, depending on income levels.
- While differences exist in the broader category of financial professionals, Black females show no statistical distinction in their likelihood to engage financial planners.
- The key findings from the focus group analysis shed light on the financial decision-making and perceptions of wealth among high-earning Black adults across the U.S.
  - It underscore issues like financial distrust and a preference for advice from personal networks, reflecting unique challenges and perspectives within the Black community.

Thank You!

Questions and/or feedback are highly appreciated.
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