Retiring While Black

Inequalities put many Black people on poor footing for retirement. Advice from Black seniors for a path to financial security.

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When you consider unemployment statistics, to be young, employed, and Black may seem like a victory unto itself. That's even more true if you have a job you call a career and a professional future that looks bright. Many Black people who are now of retirement age have not been so fortunate, and many pre-retirees continue to live paycheck to paycheck.

Indeed, when you look at how the Black community fares in terms of retirement readiness, the statistics give cause for alarm. Compared with whites, longstanding disparities in opportunities for Black people have led to disparities in wealth and in channels to build it, like homeownership and participation in retirement accounts. Indeed, 83 percent of Black seniors do not have the assets they need for retirement, according to the Center for Global Policy Solutions, a nonprofit think tank dedicated to advancing economic security for vulnerable populations.

The Federal Reserve's 2019 Survey of Consumer Finances, the most recent available, paints the fuller picture. Black families have considerably less wealth than white families—a median net worth of $24,100 compared with $188,200.

There are also significant differences when it comes to the intergenerational transmission of wealth, with younger Blacks less likely than whites to benefit from family money that could help, say, with the down payment for a home or provide other kinds of financial lift-off. In fact, the Federal Reserve report notes that by some estimates the differences in inheritances and other family support is the main reason for the racial wealth gap.

"The key block to retirement security for Black people is the denial and deprivation of asset accumulation for previous generations," says Sandy Darity, PhD, the founding director of the Samuel DuBois Cook Center on Social Equity at Duke University.

There are gaps, too, when it comes to vehicles for retirement savings. Blacks are less likely to have retirement savings accounts, like 401(k)s or pensions, partly because they are less likely to work for an employer that offers them, according to the Federal Reserve report. Of those who do, participation rates are also lower. Retirement accounts held by Blacks have little more than a third of the balance of accounts owned by whites, according to a 2016 analysis of Federal Reserve data.

For many Black Americans attempting to balance their day-to-day finances and retirement planning, the COVID-19 pandemic and its economic fallout have been disproportionately bad news. Forty-four percent of Black Americans said either they or a member of their household experienced job or wage loss, according to a 2020 Pew Research Center study.

All of these problems and more—systemic oppression and bias in housing, healthcare access, and educational opportunity, as well as employment and wage inequality—have combined to make retirement insecurity a pressing issue for Blacks, says Shawn D. Rochester, author of The Black Tax: The Cost of Being Black in America. “This anti-Black bias manifests itself in the form of discriminatory behavior that results in a quantitative economic cost which has an intergenerational effect on Black Americans at all levels and dramatically increases retirement insecurity,” he says.

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SANDY DARITY, PHD
Duke University

Darity and others think the idea of “baby bonds'' could help close the racial wealth gap and break generational cycles of poverty. In February, Sen. Cory Booker (D-N.J.) and Rep. Ayanna Pressley (D-Mass.) reintroduced the American Opportunity Accounts Act, which would give every child in America a savings account seeded with $1,000 when they are born. A variable amount would be added, based on the child’s household income, every year until the child’s 18th birthday, when the money could be withdrawn to fund higher education, homeownership, or to make long-term investments. The proposal calls for government funding and is expected to cost $82 billion a year.

Another bold iteration of the baby bonds idea is what Ric Edelman calls “retirement baby bonds.” Edelman, an author, radio host, and financial adviser, devised the Retirement Income Security for Everyone (RISE) plan, which he says would eliminate poverty in retirement. More akin to U.S. Treasury bonds, RISE bonds would be sold to investors who would fund deposits of $5,884 for every child at birth. Investors would be paid out after 20 years, and the remainder would be left invested for the beneficiaries to draw from monthly beginning at age 70.

Baby bonds may be a solution for those yet to be born. For workers securing their retirement now, despite the obstacles, there are other ways to finish strong. The conventional wisdom on retirement planning is that it’s a marathon, not a sprint. Many decisions made over the course of a lifetime will determine how you cross the finish line.

Consumer Reports spoke with Black retirees enjoying a standard of living undiminished by their retired status about how they navigated their way to a financially secure retirement.

Start Saving Yesterday

The saving habit is something Sharon McDougall, 67 and now three months into retirement, picked up early. When the Brooklyn resident was 16 and had gotten a $100-a-week summer job at a shipping company, she opened a savings account, defying her mother’s expectation that she’d spend all her money on clothes.

The habit stayed with her during her 38-year career, first as a social worker and later as assistant commissioner of a New York City social service agency. She was able to take advantage of a deferred compensation plan specifically for city employees that, like a 401(k), gives workers a way to save money pretax through payroll deductions.

“When you get the money coming out of your paycheck, it’s not something you have to remember to do,” says McDougall, who describes herself as financially “very conservative” and “always thinking about everyday expenses.” The convenience of automatic deductions became even more valuable to her as her career became increasingly demanding and her family grew to include a son and daughter.

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Sharon McDougall, 67
New Retiree, Longtime Saver

As a public-sector employee, McDougall, now divorced, was also enrolled in a defined benefit pension program that, in retirement, pays out a fixed amount based on an employee’s age, years of service, and previous compensation base.

Even with those two retirement plans, at age 50 McDougall began to look for other ways to bolster her retirement savings. On the advice of a colleague, she reached out to an adviser at Ameriprise, a financial services company. The adviser helped her diversify her portfolio, reduce her tax liability, and figure out how much money she would need to live when the paychecks stopped coming. Another goal: to make sure she wouldn’t outlive her savings. On his advice, she opened an IRA account to put away even more money at a tax advantage, and bought a fixed deferred annuity, an insurance product that will offer another income stream in retirement when she’s ready to tap it.

McDougall started to claim Social Security benefits at 67. With that and her other income, she’s easing into retirement secure in the decisions she made decades ago, but not without regrets. “I really could have done a lot more with my money but I didn't focus early enough,” says McDougall, who waited five years before initially enrolling in her employer’s retirement savings plan and didn’t take advantage of “catch-up” provisions that allow workers over 50 to contribute more.

McDougall says she lacked financial knowledge and didn’t know where to seek advice, a problem she thinks is endemic in Black families that have been denied opportunities to build wealth. But it’s a cycle she is intent on breaking.

After her mother’s death the responsibility of settling her affairs fell to McDougall, and the experience opened the door for her to talk frankly with her children about money. She’s advising them to have savings plans, explore ways to reduce their taxes, and seek professional financial help. “My children are much more focused on their own private annuities and things outside of their employers, which is great!” she says.

The Takeaway: Don't Wait to Get Professional Advice
While it’s true that many Black people and others haven’t traditionally sought professional financial advice because of lack of awareness, it can pay to get good guidance to work on long-term goals, like building wealth, and short-term ones, like saving up for a house, says Martin Seay, head of personal financial planning at Kansas State University and chair of the Financial Planning Association, a professional group.

“The reality is you actually need financial planning long before retirement and the sooner the better,” he says. Seay views milestones like landing your first job, having a child, or purchasing a car or home as entry moments to seek financial help.

It is also important to shop around for an adviser, Seay says. He advises meeting with at least two or three before committing. Make sure you and your adviser define success the same way: They might be more focused on maximizing returns, while you’re interested in reaching a specific goal, Seay says. Especially if you’re young and just starting out, you may be more successful finding someone who charges an hourly fee, as opposed to a percentage of your assets under management.

The Certified Financial Planner Board, the nonprofit organization which sets and enforces requirements for certification of certified financial planners, has advice about choosing a planner, and the National Association of Personal Financial Advisers can help you find a fee-only adviser to match your needs. If your budget just can’t handle one more expense, consider the FPA’s Pro Bono Program which connects people in underserved and at-risk communities with free planning services provided by qualified financial planning practitioners.

Redefine Retirement

Some people start the countdown to retirement the moment they’re first hired. Malcolm Reid, 63, from Atlanta, is not one of those people. After an 18½-year career at AT&T as a senior technical director, Reid took an early-retirement offer to accept a position as director of programs at THRIVE Support Services, a nonprofit organization for Black same-gender-loving men living with HIV, where he’d previously volunteered.

In doing so, Reid joined the growing ranks of people who retire from their main career but still work for pay, often in pursuits that are more about passion than a paycheck. Although Reid’s salary at the nonprofit is about a third of what he made in his former job, he and his husband can support themselves comfortably thanks to 401(k) savings, the proceeds from the sale of a real-estate holding, the severance pay Reid banked from his AT&T job, and Reid’s husband’s income as an independent makeup artist.

“I love what I do. As long as I have the energy I will continue to do it.”
Malcolm Reid, 63
Redefining Retirement

Reid intends to wait until he reaches full retirement age at 66½ to claim Social Security, and plans to work at THRIVE for 5 years before giving real retirement a go. “We support people living with HIV,” says Reid, who lives with HIV himself. “I love what I do. As long as I have the energy I will continue to do it.”

The Takeaway: Prepare for Act Two
Many professionals walk away from long careers but are not yet ready for full retirement. According to a 2019 survey from the Employee Benefit Research Institute, 28 percent of “retired” people continue to work for pay. While 37 percent do so to make ends meet, 89 percent work because they enjoy it, and 75 percent because they want money for extras.

But to redefine your own retirement, the first step is to know what your opportunities may be and to start preparing now so you’ll be a better candidate later, says Jacqueline Schadeck, an Atlanta-based certified financial planner. She advises her clients to periodically evaluate how their skills could transfer to other fields, or to acquire new skills, perhaps by volunteering as Reid did, or maybe by moonlighting. “It's better to plan for these things as opposed to coming in and trying to react in the middle of a crisis,” Schadeck says.

She also recommends delaying claiming Social Security, as Reid is doing, for as long as you can in your early post-retirement life—ideally until age 70. Filing for Social Security before you reach full retirement age—67 for anyone born in 1960—could mean a benefit reduced by as much as 25 to 30 percent. Currently, for those born in 1943 or later, every year a potential claimant postpones their Social Security benefit it increases by 8 percent until age 70.

Get Out of Debt

Carol Gee, 71, says she had her eye on retirement since she first started working. After, as she says, “running away from home at 20” to join the U.S. Air Force, Gee spent 8 years on active duty before being honorably discharged and joining the Air Force Reserves for 14 years.

After over 21 years of combined military service, Gee eventually became an editor at Emory University’s business school. Her husband, Ronnie, also 71 and also an Air Force veteran, was assistant director of food and nutrition at Emory Healthcare, where he worked for a little over 20 years. Their colleagues were taken by surprise when, barely into their 60s, the two announced they were ready to retire. Some wondered if they were acting rashly. “Honey, I’ve been preparing for this for 42 years,” Carol would tell them.

Part of that preparation involved paying down debt. The couple wanted to enjoy their retirement with that burden out of the picture. So years in advance, “I started to look at everything that was going out and coming in and tried to pay off what I could, which meant cutting back on expenses,” Carol says. For example, she and Ronnie took stock of their closet, which led them to realize there was no reason to spend on shoes or clothing until credit card debt was settled. In Carol’s estimation they were also “getting a little fat” so she cut back on buying snack foods. “Now we both don't eat half as much as we used to. That was quite a bit of savings,” Carol says.

They kept expenses in check in other ways, too. For example, they elected to enroll in their utility’s 12-month flat bill program that establishes a fixed monthly payment regardless of usage. The consistent bill made budgeting easier and eliminated seasonal pricing spikes. When one of their bathrooms needed renovation, they took out an 18-month zero-interest loan to settle the debt cheaply and quickly.

“When you have money you need to be able to control it."
Ronnie (and Carol) Gee, both 71
Debt Demolishers

Being budget conscious doesn’t prevent the Gees from enjoying lunch out about once a week or splashing out for a special occasion. “Because I have the best husband in the world I bought him a Jaguar for his 60th birthday,” says Carol, who paid for the car in part with money saved up from her shoe-buying moratorium, a portion of Ronnie’s 401(k), and royalties from books she authored.

With no car payments, low credit card debt, and flat utility fees, a third of the Gee's monthly outlay goes to their mortgage, which is on track to be paid off in two years. A decade into their retirement, the Gees can collectively rely on four pensions, two 401(k) accounts, and their respective Social Security benefits. The secret to their success may be knowing their individual strengths and staying in their lanes. "When you have money you need to be able to control it, and she does that very well," Ronnie says.

The Takeaway: Have a Pay-Down Strategy

By addressing their debt before retiring, the Gees sidestepped a growing problem area for retirees, especially retirees of color. Today people on the verge of retirement, as well as the newly retired, are more likely to have debt, and higher levels of it, than previous generations, according to the Employee Benefit Research Institute.

In 2019 the total debt burden for Americans 70 or older totaled about $1.1 trillion, up 528 percent from 1999, according to the Federal Reserve Bank of New York. But among Black households—long denied opportunities for asset building and subjected to wealth-stripping policies—the problem is even more severe. For white households with debt headed by someone 55 or older, that debt represents a median of 14 percent of assets. Among Blacks in the same category, the median number is 24 percent.

But not all debts are equal. Jacqueline Schadeck, the Atlanta certified financial planner, distinguishes between consumer debt (such as credit cards and auto loans) and debt from investments that can build your net worth (such as mortgages or even student loans). Good debt can pay for itself, Schadeck says, whereas debt such as credit cards, not managed carefully, can drag you down financially and could spiral out of control.

There are different schools of thought about how to pay down consumer debt.

One is what Schadeck calls the snowball method, which involves paying off small debts and getting them out of the way before moving on to big ones. Make a list of your consumer debts, from credit cards to car payments, noting the balances and interest rates, Schadeck says. Pay the minimum due on each debt and use whatever else you can spare that month to make an additional payment toward the debt with the lowest balance. Once that debt is settled, apply the cash from the eliminated debt to the next lowest debt and repeat the process until you are debt free.

It's motivating to pay down the smaller balances, Schadeck says. "It gives you a feeling of instant gratification, like great, I'm checking this off."

An alternative is what Schadeck calls the avalanche plan. After satisfying all minimum payments on debts, apply anything extra you can spare to the debt with the highest interest rate. This option will save you the most money in interest payments.

Schadeck encourages her clients to do the math and choose the plan they can be consistent with.