EBRI FAST Facts

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How Is Debt Different by Race and Ethnicity?

The racial financial wealth gap in the United States is an issue that has seen increased attention during 2020. The focus is generally on the asset side of the ledger, but liabilities, or debt, also play a crucial role in the financial health of all U.S. families. This *Fast Fact* addresses the differences in debt among American families with heads of different races and ethnicities based on data from the Survey of Consumer Finances (SCF).[1]

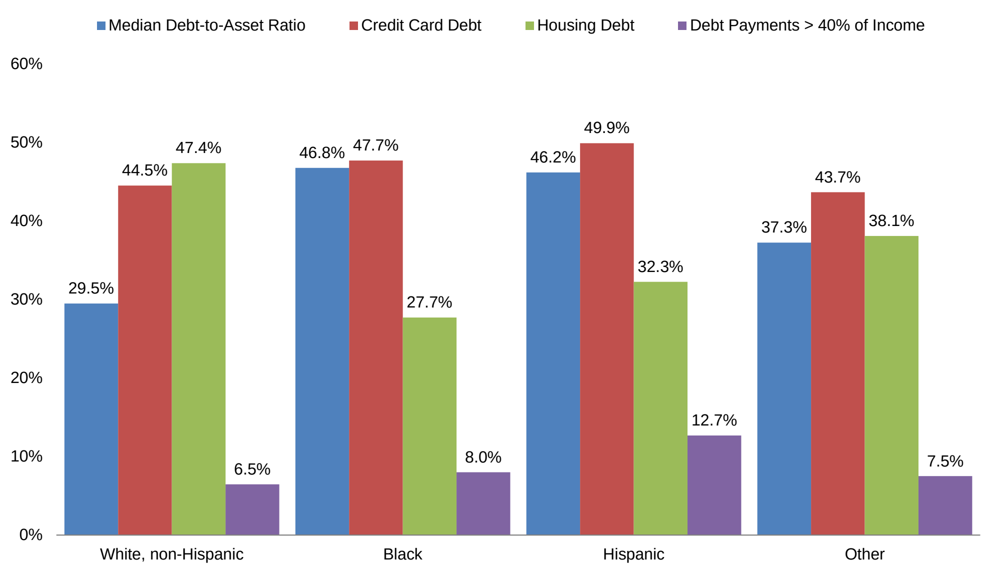
Race/Ethnicity and the SCF

Race and ethnicity are self-identified within the Federal Reserve's Survey of Consumer Finances (SCF) and include white, non-Hispanic; Black/African American; Hispanic; and other — which consists of those races/ethnicities not defined in the three prior categories, such as Asian Americans and those who identify as multiracial. The latest data from the SCF are from 2019, so they set a pre-pandemic baseline but show the differences that have persisted during other economic downturns, and they are at the family level, so the families are categorized by the family head (or reference person).

The incidence of debt in 2019 was not markedly different among families with heads of different races/ethnicities. Just over three-quarters (77.7 percent) of families with white, non-Hispanic heads reported having debt, while 72.2 percent of families with a Hispanic head, 74 percent with a Black/African American head, and 77.6 with other heads did so.

However, this is where the similarities end when it comes to debt across race/ethnicity. For example, the median debt-to-asset ratios for Black/African American and Hispanic heads were more than 50 percent higher than that of families with white, non-Hispanic heads: 46.8 percent and 46.2 percent, respectively, compared with 29.5 percent (See figure). Higher debt-to-asset ratios mean that families with minority heads had fewer resources than families with white, non-Hispanic heads to pay off debt by using assets if their income is insufficient, increasing the potential for financial fragility.

Debt Measures by Race and Ethnicity



Source: Employee Benefit Research Institute estimates from the 2019 Survey of Consumer Finances.

One cause of the much higher debt-to-asset ratios of families with Black/African American and Hispanic heads is that, while these families had a similar likelihood of having credit card debt to that of families with white, non-Hispanic heads, they had significantly lower probabilities of having housing debt. In other words, the debt of families with minority heads was less likely to come with the tangible asset of a home — an asset that can help build financial wealth.

Another alarming feature of the debt of families with minority heads: These families — particularly those with Hispanic heads — were more likely to have debt payments exceeding 40 percent of their income. More than 1 in 10 (12.7 percent) of these families exceeded this threshold compared with 6.5 percent of the families with white, non-Hispanic heads.

The bottom line is that despite families with minority heads having similar likelihoods of having debt, the nature of the debt and the proportion of that debt relative to assets is more likely to result in worse financial situations than those of families with white, non-Hispanic heads.

Fortunately, employers are increasingly tackling the issue of workers' financial wellness, including their issues with debt, through workplace financial wellbeing initiatives.[2] As these programs evolve, it will be important to take into account both behavioral and systematic barriers faced by families with heads of different races and ethnicities. Of course, the nature of these barriers and how to overcome them is still a subject in need of further research and innovation. However, one thing that is clear is that families with heads of different races and ethnicities face diverse situations and, in many cases, are starting from very dissimilar positions.

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[1] See Craig Copeland, "Who Is Most Vulnerable to the Ticking Debt Time Bomb in Retirement: Families With the Oldest, Black/African American, and Hispanic Family Heads," *EBRI Issue Brief*, no. 521 (December 17, 2020).
[2] See Craig Copeland, "2020 EBRI Financial Wellbeing Employer Survey: COVID-19 Driving Benefit Offerings and Potentially Forcing Tough Budget Decisions," *EBRI Issue Brief*, no. 515 (Employee Benefit Research Institute, October 22, 2020).

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