The Ariel-Schwab Black Paper

A Decade of Research on African-American Wealth Building and Retirement Planning

October 2007

ARIEL MUTUAL FUNDS   charles SCHWAB

An open letter to the financial services industry, government policymakers, employers and community leaders:

At the very heart of this great and wealthy nation lies a terrible irony and pressing challenge: despite our wealth and in the face of decades of social progress, we are not doing enough as individuals and collectively as a nation to assure the long-term financial security of our citizens in retirement. Few other issues touch our population as broadly, yet for some, the challenge is even greater.

For middle-class African- Americans, the march toward financial security has been an uphill journey marked by half steps, pauses and, for some, retreat. Over the last decade, Ariel Mutual Funds and The Charles Schwab Corporation have annually commissioned research comparing the saving and investing habits among middle- and upper-income Blacks and Whites. The results consistently show that Blacks save less than Whites of similar income levels and are less comfortable with stock investing, which impedes wealth building across generations and contributes to an impending retirement crisis in the African-American community. This difficult situation will be worsened by the changing state of America's pension system, which will hit middle-class Blacks especially hard because of a disproportionate dependence on traditional defined benefit pensions. In short, middle-class Blacks may not be able to realize a key part of the American dream: a comfortable and secure retirement after a job well done.

To mark the survey's tenth year, Ariel and Schwab are issuing this report on African-American saving and investing. These findings raise several critical questions for a community, an industry and a nation committed to ensuring equal access to the broad benefits of life in the world's wealthiest country. What proactive measures can our industry, government, employers and communities undertake to protect middle- and upper-income Blacks from experiencing a profound decline in their financial well-being in their retirement years? How can we foster a cultural shift toward wealth building that will lead to greater economic opportunities for future generations of African-Americans? And how can we preserve Black economic gains and shrink the wealth gap?

This research suggests that **employers** play a critical role both in educating Blacks about saving and investing and in ensuring equal participation among all employees; that **family and community** can facilitate and reinforce the merits of investing; that **government** — including the education sector — can affect future generations by introducing basic personal finance concepts into every classroom; and that the **financial services industry** can serve as the bridge connecting all of these constituencies.

Our hope is this research will spur a national dialogue on the issue of saving and investing, and encourage a collective momentum toward action. If we can elevate the level of saving and investing in one reluctant community, we can make progress in every community, and ultimately reduce poverty and promote opportunity.

Sincerely,

Charles R. Schwab
Founder, Chairman & CEO
The Charles Schwab Corporation

Sincerely,

John W. Rogers, Jr.
Chairman & CEO
Ariel Capital Management, LLC
Ariel Mutual Funds

Sincerely,

Mellody Hobson
President
Ariel Capital Management, LLC
Ariel Mutual Funds

Introduction

In the last quarter century, the American middle-class has become increasingly familiar with the stock market. The explosive growth of mutual funds, lower-cost brokerages and channels of information about the financial markets, combined with easily accessible employer-based investment opportunities, has made stock investing, once the realm only of the privileged, available to people at every income level. Furthermore, historically stocks have outperformed all other asset classes — including the American home.

But anyone new to investing in the last 20 years — as most Black investors are — would be forgiven for thinking it is a risky proposition. The stock market crash of 1987, the bull market of the 1990s, the dot-com bubble, the terrorist events of 9-11, the radically changing pension plan system and most recently, the crisis in the sub-prime mortgage market have left many investors anxious. A decade of survey research shows that not only stock market volatility, but also social and cultural factors, are among the chief reasons more than four in ten middle-class Blacks forego stock investing entirely or have retreated from the stock market, removing them from one of the great wealth creators of the American economic system.

As the largest Black-owned mutual fund company in the country, Ariel Mutual Funds has long sought to promote saving and investing among African-Americans. Ariel and Charles Schwab joined forces to establish *The Black Investor Survey: Saving and Investing Among Higher Income African-Americans and White Americans,* which has become the definitive source of information on Black investment behavior. Every year since 1998 a random sample of 500 African-Americans and 500 Whites with household incomes of at least $50,000 are surveyed by phone.[1]

In 2007, for the first time, current retirees were also surveyed to determine the specific issues they are facing in their retirement years.[2] Not surprisingly, the results show that retired Blacks have less money saved than retired Whites with similar incomes. Together, the surveys of both retirees and non-retirees paint a picture of Black America at considerable financial risk in their retirement years — a situation that creates a challenge for the entire nation and an opportunity for the financial services industry.

Survey findings

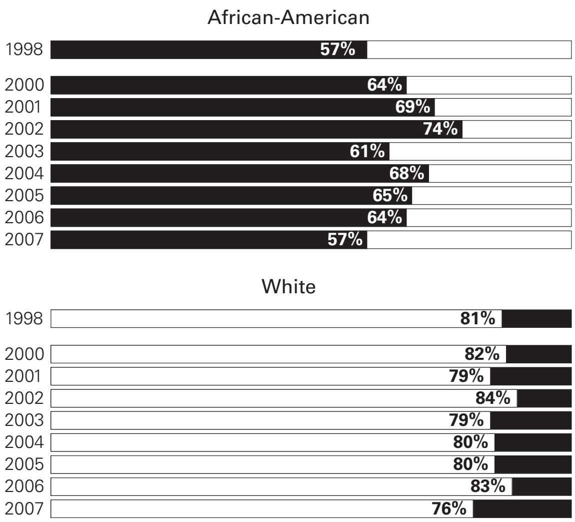
Blacks trail Whites in savings and stock market participation

Ten years of survey research indicates that middle-to-upper-income African-Americans remain underinvested in the stock market and are no more likely today to be stock investors than they were a decade ago. Whites, on the other hand, are just as likely to be investors today as when the study began.[3] Given their higher rates of involvement in the stock market, it's no surprise that Whites tend to save more on a monthly basis than their Black counterparts and therefore have accumulated nearly twice as much savings.[4] The savings gap is compounded over time, resulting in Whites having a significantly larger nest egg upon retirement. It is important to note that while Whites have saved considerably more than Blacks, the harsh reality is they, too, are underinvested and ill-prepared for retirement. Nevertheless, the large disparities between Black and White market participation and savings are consistent year over year, even when other demographic factors such as income and education are held constant.

Five years into the survey, the gap between Black and White stock ownership was narrowing just as the dotcom bubble burst and the terrorist attack of September 11, 2001 occurred. The resulting drop in stock prices in time drove many Blacks to move money away from the market. By 2003, the percentage of Black investors had dropped dramatically. One of the first surveys asked whether a downturn in the market would prompt a withdrawal of money, and considerably more Blacks than Whites said yes.[5] Meanwhile, stock market participation among middle- and upper-income Whites has remained remarkably consistent.

Question: "Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?"

Stock market participation of households with $50,000 or over in income



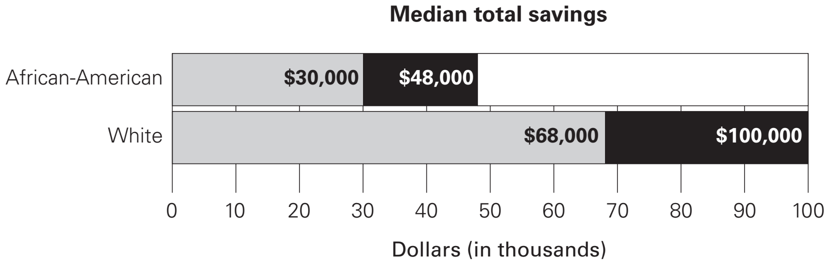
Source: *The Ariel-Schwab Black Investor Survey*

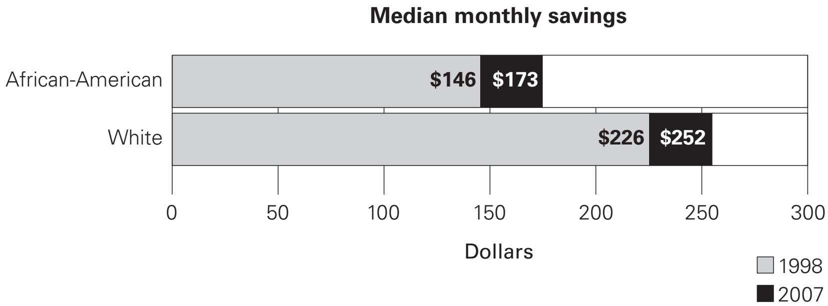
Whites tend to save more on a monthly basis than their Black counterparts and therefore have accumulated nearly twice as much savings.

Among the retirees surveyed this year, Blacks had less money saved for retirement than Whites even when controlling for factors such as peak income and education. Further straining their financial position is the fact that Blacks consistently say they plan to retire earlier than Whites, and, indeed, the retiree survey shows they did retire two years earlier in age, which means they are tapping retirement funds earlier (at 58, on average).[6]

It is important to note that a larger percentage of middle-class Blacks than Whites work for employers that tend to provide traditional pensions, such as the government. Pension plans and Social Security have traditionally played a much larger role in retirement income for African-Americans than these sources do for Whites. In this context, it is not surprising that most Black retirees surveyed say they are living comfortably despite their lower overall savings.[7]

Nevertheless, there is growing awareness that the retirement funding landscape is changing. More than four out of five working Blacks and Whites today say that a defined contribution plan, such as a 401(k), will help fund their retirement; seven years ago fewer than half of working Blacks had that expectation.[8] In fact, half of all working Blacks predict that a plan such as a 401(k) will be their most important source of retirement income. However, in the last seven years there has not been a corresponding narrowing of the gap of African-American saving and investing, suggesting that the changing perceptions among working African-Americans today about how their retirement will be funded have failed to spur changes in actual saving and investing patterns.





Source: *The Ariel-Schwab Black Investor Survey*

Despite general satisfaction, retirees within the first decade of their retirement show an undercurrent of concern: a sizeable minority of both Black and White retirees fear that they will outlive their retirement savings. About half of young retirees worry about medical issues impacting them financially with significant percentages of Blacks and Whites spending more on health care in their retirement than they expected.[9] These anxieties, not surprisingly, are correlated with the size of the nest egg — the more money saved the fewer worries people have in retirement.

So, while Blacks in the last decade have shown interest in the market (at least when it appears to be a safer option) and furthermore have come to expect that the market will be an important source of retirement funding (in the form of defined contribution plans), they nevertheless have been slow to adopt behaviors necessary for ongoing investing success. Why?

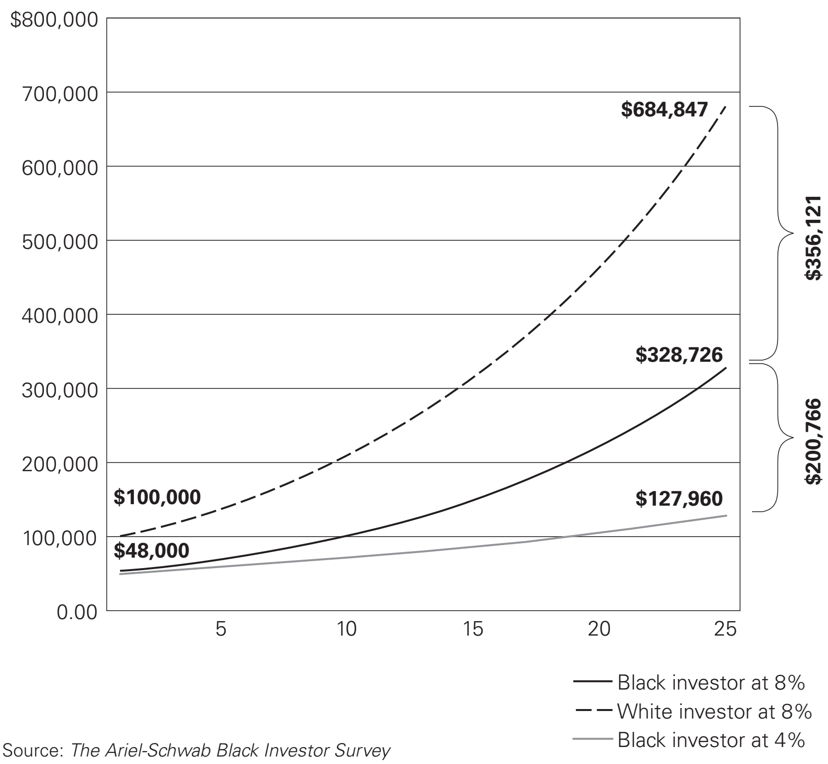
Blacks are more likely to become investors when they begin earning **six-figure incomes**, regardless of their age, whereas for Whites, becoming an investor typically occurs as they enter their thirties, regardless of income.

Attitudes about investing drive behavior

First of all, the concept of saving for retirement does not resonate in the same way in the Black community as it does among Whites. Year after year, the survey has found that fewer Blacks list "retirement" as their primary reason for saving, with higher percentages of Blacks saving for "college" or an "emergency." This is especially true for Blacks under 35, who are only half as likely as Whites under 35 to be saving for retirement.[10] In fact, all other factors being equal (age, income, etc.), Blacks are 1.5 times less likely to cite retirement as their main savings goal. And because the research shows that retirement as a savings goal is strongly correlated to investing in the market for both Blacks and Whites, it follows that fewer Blacks invest.[11]

Additionally, Blacks are more likely to become investors when they begin earning six-figure incomes, regardless of their age, whereas for Whites, becoming an investor typically occurs as they enter their thirties, regardless of income.[12] This "wage versus age" distinction means that many Blacks miss out on the benefits of compounding by waiting too long to begin.

Fewer dollars, lower expected returns:
Effect of compounding over time



Source: *The Ariel-Schwab Black Investor Survey*

Blacks are banking on real estate

One of the single most consistent findings in the *Ariel-Schwab Black Investor Survey* is that more Blacks than Whites view real estate as a better investment than the stock market. In 2007, only one-third of Blacks consider stocks and mutual funds to be the best investment overall, while nearly half feel real estate is the best investment; for Whites, these proportions are reversed.[13] Except at the very height of the bull market in 2001, real estate has outpolled stocks and mutual funds combined among Blacks, whereas Whites have generally favored stocks and mutual funds over real estate.[14]

Many Blacks think real estate is less risky, believe it can be used to earn rental income and assume it will never go down in value. In fact, nearly half of all working Blacks believe they will rely on rental income in their retirement.[15] Given these perceptions, it is not surprising that Blacks may forego investing in the stock market in favor of purchasing and upgrading real estate investments.

The retiree survey, however, tells a story that many working Blacks might find surprising. The idea that real estate is not just a nest, but also a nest egg is not borne out by real-life experience. Among retirees, far fewer Blacks choose real estate over mutual funds and stocks as the best investment, and fewer than two in ten actually rely on rental income for their retirement.[16]

Social and cultural issues play a role

Finally, in addition to behaviors and perceptions around investing that result in the Black–White gap, underlying social and cultural issues are at work, starting with the family. Middle-class Blacks tend to have greater financial burdens related to their families. Blacks are more than 1.5 times more likely to support adult children and aging parents.[17] They are more likely to have extended family living in their homes and are less likely to be married.

But the survey has found that, even when these financial burdens caused by family structure are not present, Blacks still remain less likely to invest. In fact, if one compares a Black person and a White person of the same age, income, gender, family structure and education, the White person is almost twice as likely to be an investor as the Black person — that is, all other significant demographic factors wash away, leaving race as the determinant of likelihood to invest.[18]

Broadly speaking, there is a relative lack of social and cultural attention within the African-American community focused on investment/savings matters. For example, Whites are almost twice as likely to have grown up in a household where they knew their parents were investors, giving Whites the advantage of early exposure. This trend still exists today, with Black parents being considerably less likely than White parents to expose their own children to various banking and investing activities, such as opening a savings account for a child. In 2001, just 56% of Blacks said their child under 18 had a bank savings account, compared to 68% of Whites; only 36% of Blacks had savings bonds for their children, compared to 55% of Whites; and only 21% of Blacks had bought stocks or mutual funds for their children, compared to 31% of Whites.

Less exposure to the stock market, of course, leads to less knowledge about the basics of investing. Common phrases like "bull market" and "bear market" are unclear to almost half of Blacks. Fewer Blacks than Whites know that a stock represents an ownership share of a company.[19] Adding to the general unease with financial facts and terminology is the widely held perception among Blacks that timing the market is more important than discipline in becoming a successful long-term investor — a perception that discourages investing among those who feel they are less than experts on the subject.[20]

Employers, educators and industry all play a role in empowering Blacks to invest

Both Blacks and Whites strongly believe that individuals — rather than the government or employers — are most responsible for planning for their retirement.[21] However, Blacks are more likely to believe that the government and corporate America can do more to guide them toward a secure retirement. Among Blacks who invest, employer-sponsored retirement plans have been the most significant factor in driving them toward the stock market investing. Additionally, the role of the employer has grown dramatically over the past decade, with high percentages of both Blacks and Whites saying they get investing information from their employers.[22] The 2007 survey revealed that 55% of Black investors attributed their impetus to begin investing to their 401(k) plan, versus 27% in 1998. Furthermore, among Black retirees 45% began investing through a 401(k) plan.

According to the 2007 retiree survey, fewer Blacks have gone through some of the basic steps of retirement planning, such as calculating the amount of money they need to live comfortably in retirement. But those who had sought professional advice were much more likely to have made this calculation, much more likely to have saved more than $100,000 by the time they retired and much less likely to have retired early.

The great majority of Blacks and Whites believe that financial literacy should be part of the public school curriculum. The 2001 survey showed that 90% of Blacks and 80% of Whites with teenage children agree that the stock market and investing are topics that should be taught in school.

A call to action

The trends highlighted in a decade of research by Ariel and Schwab coupled with the evolution of the pension system toward defined contribution plans present a critical challenge to the African-American community, employers and policymakers. How can we better communicate the importance of saving and investing — both to ensure a secure retirement and to be able to build wealth across generations — and provide education to those who need it? How can educators, employers and the financial services industry stimulate higher saving rates for people of all incomes? We hope the findings of these last ten years spark a myriad of ideas and answers to these questions, and that organizations and individuals take up the call to address this issue within their spheres of influence. The following are clearly important first steps.

1. Educate Our Youth

One of the most effective ways to eliminate the investment gap and savings gap in this country is to address the issues *before* they become a problem. Whether in public school classrooms or through community-based programs, educating America's youth about basic money management including saving and investing should be a top priority. In Schwab's 2007 Teens and Money Survey, only 13% of American teens ages 13 to 18 said they knew what a 401(k) plan is. Even more fundamentally, the survey results showed that only 41% of teens know how to budget their money; only 34% know how to balance a checkbook or check the accuracy of a bank statement; and only about a quarter of them (26%) understand how credit card interest and fees work. While some individual schools have made efforts to teach children the basics, there is no national investment curriculum. Likewise, many schools or organizations do not possess the materials and resources they need to help teach young people how to be educated consumers and investors.

The ideal solution would be required financial education within the school system throughout all 12 years. A mandated financial literacy exam would help assure America's children are equipped with a basic set of financial skills to make smart, informed choices. We encourage the leaders of our educational system to proceed down that path. In the short term, private enterprise can play a significant role. Another recommendation is for companies—specifically within the financial services arena—to partner with cities, school superintendents, and/or youth organizations to teach children the financial decision-making skills necessary to secure their future. Private enterprise has a critical stake here, since most of today's school-aged children will not grow up and work for an employer who offers a pension (defined benefit plan) and instead will carry the responsibility for building their own financial security largely through defined-contribution workplace retirement plans.

Following are two examples of ways in which companies have had a significant impact on increasing financial literacy.

Case Study of Ariel Community Academy

In 1996, in partnership with Ariel Capital Management, LLC and the Chicago Public Schools, Ariel Community Academy opened its doors on the south side of Chicago in a predominantly African-American neighborhood. A part of Mayor Richard Daley's Small School Initiative, the Academy is a traditional public school with classes from pre-kindergarten through eighth grade. In addition to the mandated Chicago public school curriculum, Ariel introduced the concepts of saving and investing into the classroom. The school is the first elementary school in the country to have hallways named after financial marketplaces like Wall Street and LaSalle Street and a working board room furnished with a life-size mural of a bull and bear, as well as clocks showing Chicago, New York, Tokyo and London time. Additionally, every morning a bell rings and a student announces to everyone in the building that the stock market is open and relays yesterday's closing prices for a point of reference.

Through a partnership with Nuveen Investments, a Chicago-based investment and trust company, the Ariel Nuveen Investment Program awards a $20,000 grant to each incoming first-grade class at the Ariel Community Academy. This money follows the students until their graduation.

In the first few years, the money is invested and managed by a group of investment professionals from Ariel and Nuveen. As the students advance through the school's unique investment curriculum, though, they become actively involved in making investment decisions. Ultimately, a Junior Board of Directors (made up of sixth-, seventh- and eighth-grade students) is responsible for deciding how the $20,000 is to be invested. Upon graduation, all accumulated profits made on the original gift of $20,000 are divided into two equal parts. One part is designated as a class gift to improve the school, while the other part is distributed equally among the students in the graduating class. Each graduate can choose to either receive their portion in cash or invest it in an Illinois 529 plan. Those who choose to invest in a 529 plan will receive an additional $1,000 grant. The original $20,000 gift is then turned over to the next incoming first-grade class, making the program self-perpetuating. The ultimate goal is to increase economic and investment literacy within the African-American community and to bring the topic of investing to every dinner table in Black America.

In addition to the curriculum taught by our full-time investment program director, who is a veteran of the securities industry, parents are offered financial literacy/investment dinners where speakers lead discussions on topics ranging from the differences between Roth and Traditional IRAs to large cap and small cap valuations.

This unique curriculum has had a positive impact on the academic results at the Academy. In the 2006–2007 academic year, 88.1% of the students met or exceeded state standards for math and 81.5% met or exceeded state standards on all academic areas on the state standardized tests. Moreover, nearly 40% pass out of high school algebra while in eighth grade and a large percentage of graduates are accepted at some of the most selective high schools in the Midwest.

Case Study of *Money Matters: Make it Count*[sm]

A Financial Literacy Program

Sponsored by Boys & Girls Clubs of America and Charles Schwab Foundation

Many of the nation's teenagers advance into adulthood without learning the skills that lead to financial independence and well-being. To address this important social issue, Boys & Girls Clubs of America and Charles Schwab Foundation entered into a national partnership in 2003 and collaborated to create *Money Matters: Make it Count*[sm]. The program aims to build basic money management skills and positively influence a lifetime of good financial habits for teens ages 13 to 18. Through fun, interactive activities and exercises on topics like using a checking account, learning how to budget, managing debt and saving for college, Money Matters helps teens learn practical ways to save, spend and make their money grow.

In May 2004, the program rolled out nationwide. Today, it is available to approximately 2,500 Boys & Girls Clubs across the country, reaching a large population of teens who might not normally have access to this type of education — including the large percentage of Club teens who come from disadvantaged circumstances.

In less than three years, nearly 70,000 Boys & Girls Club teens have completed *Money Matters,* and 884 Club locations across the United States have adopted the program. Since 2004, Charles Schwab Foundation has presented a total of $108,000 in college scholarship grants to 54 teens, ages 16 to 18, who have completed the program and demonstrated their newly acquired financial literacy skills.

The program components include:

- A Teen Personal Finance Guide, which includes practical tips and activities to help teens learn important money management skills, including investing for college and saving for the future.
- The *Money Matters* website, a password-protected, interactive site that contains tools to help teens learn how to balance a check-book, make budgeting and investment decisions, and start a business.
- A Facilitator's Guide to assist Club staff and volunteers in explaining

basic financial concepts. The Facilitator's Guide offers easy-to-implement small-group activities to reinforce newly acquired money management skills.

- Schwab's Employee Volunteer Program, in which Schwab professionals are encouraged to volunteer at Clubs and share their financial expertise with teenage Club members and their families.
- The *Money Matters* Scholarships and Awards program to reward and recognize teens who have successfully applied what they have learned. Older teens (16–18) are eligible for $2,000 scholarships from Charles Schwab Foundation, and younger teens (13–15) are eligible to receive rewards such as MP3 players.

Analysis of baseline and follow-up surveys conducted with teen Club members who completed *Money Matters* reveals the program is motivating teens to take positive action:

- 80% of Club members reported that they had begun to save money (versus 63% in the baseline survey)
- 64% of Club members were in the process of open a savings account (versus 43% in the baseline survey)
- 57% had started to develop a spending plan or budget (versus 32% in the baseline survey)
- 43% had initiated a search for information on financial aid for college (versus 28% in the baseline survey)
- 51% had begun to open a checking account (versus 23% in the baseline survey)

Moreover, Boys & Girls Clubs staff and teens give high ratings to the *Money Matters* program, reporting that the program has taught them the importance of setting short-, medium- and long-term goals, how to handle money responsibly and the importance of making sound financial decisions to help save for the future.

2. Amplify Workplace Education

Employers today have both a greater opportunity and a greater responsibility to provide employees with access to suitable retirement investment vehicles and to educate them about how to plan for a successful retirement. The Pension Protection Act's sanctioning of automatic enrollment as a tool to help employers increase 401(k) plan participation will help many employees begin to save for retirement who might otherwise have sat on the sidelines.

While many employers have made great strides toward ensuring their plans consist of a well-diversified menu of investment options, too few have focused on employee participation rates by race. We suggest that corporate chief financial officers, treasurers and human resources directors investigate their internal plans and analyze participation by race to determine if differences exist and, if so, take steps to narrow the gap. The few companies that have gone through this exercise have found that the investment gap uncovered by the Ariel-Schwab Black Investor Survey is mirrored within their own 401(k) plans.

McDonald's Case Study

McDonald's is the top global foodservice retailer, with more than 30,000 restaurants in more than 100 markets. In the United States, 85% of its 13,000 restaurants are franchised. As a leader in the areas of diversity and inclusion, McDonald's incorporates these two elements into every facet of its business.

At McDonald's, the employee base reflects the diversity of its customers. For this reason, McDonald's has tracked investment patterns by ethnicity in the United States for the last three years. This data played a key role in helping McDonald's drive a three-pronged strategy that positively impacted employee investment decisions. And with more than $2 billon in assets invested in its 401(k), the enhancements have led to increased participation in company savings programs among all employees, including African-Americans.

Plan Design

McDonald's made a radical change to its existing 401(k) plan, which was open to all McDonald's staff and employees of non-franchised restaurants. To encourage greater levels of participation among its most under-invested group, restaurant managers, the company instituted automatic enrollment. Through automatic enrollment, McDonald's implemented a default 1% contribution to the restaurant manager's 401(k) unless the manager chose to opt out or select a higher contribution rate.

A one-time salary increase of 1% was also given to all current salaried restaurant managers to offset the impact on their take-home pay and to demonstrate the company's commitment to helping employees save.

In addition, the 401(k) match was front-loaded to ensure that employees, particularly those at the restaurant level, would benefit from the investment they made in their future. This enhancement gave employees $3 for each $1 they contributed on the first 1% of pay and $1 for each $1 on the next 4% employees contributed, for a total guaranteed match of 7% on the first 5% employees saved.

At the same time, McDonald's instituted a discretionary match of up to 4% for all employees participating in the 401(k). When combined with the 401(k) match, the discretionary match provided a compelling investment opportunity for employees. For example, an employee contributing 1% as a result of the automatic enrollment received a total of 7% from the company when the 401(k) match was added to the discretionary match. An employee contributing 5% received a total of 11% from the company.

Investments

The selection of investment options for employees was also expanded with the addition of three new funds within the course of two years, including an aggressive stock fund, a small company index fund and a real estate fund.

McDonald's automatically enrolled restaurant managers who defaulted to the standard funds in an advice program through GuidedChoice. The program selected and monitored the appropriate investments based on a number of factors. As with the automatic 401(k) enrollment, this enabled McDonald's to play an active role in helping employees take the first step in managing their investments. Today, GuidedChoice currently manages $113 million – an 82% increase over last year.

McDonald's also added a no-cost online financial planning tool to make investment resources more accessible to those who might not be able to take advantage of the services of a financial planner.

Communications

To ensure employees understood their investment options and how to maximize the benefits available to them, branded employee newsletters and seminars were added with increased frequency. Outreach efforts also began with the various diversity employee groups at McDonald's, including African-American employees. While these efforts are in the initial stages, financial planning information was distributed at a recent national conference held by African-American employee network and additional tactics are underway.

Results

After only two and a half years, the positive impact of the plan design changes, new investment options and communications enhancements have not only affected African-American employees, but all McDonald's employees. Although the benefits of these changes are most dramatic at the restaurant level, where McDonald's has its most diverse employee population, they have also strengthened staff employee participation:

- Among African-American restaurant managers, the percentage participating nearly doubled, from 50% in 2004 to 95% in 2007.
- Aggregate account balances of African-American restaurant managers increased 41% since 2004 and African-American staff (non-restaurant) employees' account balances increased 34%.
- The percentage increase of minorities participating in the plan is more than double that of non-minorities. Minorities increased 24%, compared to an 11% increase among other employees.
- At 89%, the percentage of African-American staff employees participating in the plan is close to total percentage for all McDonald's employees.

While McDonald's is pleased with the outcome of these efforts, the company remains committed to further increasing the financial awareness of its employees and providing them with resources to make sound decisions about investing in their future.

Access is only the tip of the iceberg. Employers must give employees the tools they need to choose the appropriate investments. Even employees who are automatically enrolled at 3% in an appropriate target fund need to know the basics of asset allocation and understand that 3% will likely not ensure a secure retirement. Education and advice are crucial and data shows that the right approach can make a difference.

The 2005 survey showed that 49% of Blacks versus 42% of Whites preferred to receive information on their retirement plans through one-on-one meetings or in seminars, and 27% of Blacks versus 16% of Whites prefer using advisors. Additionally, fewer Blacks (28%) than Whites (37%) want information through e-mail. This year's retiree survey also found that, all else being equal, retired Blacks who used a financial advisor or attended seminars were twice as likely as those who didn't to have over $100,000 saved.

Blacks are also more likely to trust people who look like them and share their experience, with three quarters of Blacks surveyed in 2000 agreeing that there are "not enough African-American role models in the financial community." In 1998, the first year of the survey, 58% of Blacks said they would be more likely to have an account with a financial services company with a racially diverse workforce.

America faces an increasing challenge to boost the national savings rate and provide for a more secure retirement for workers with the kind of common-sense approaches described here in the Ariel-Schwab Black Paper. A decade of research conducted by Ariel and Schwab offers a roadmap for moving forward. It now falls to the financial services industry, government, employers and individuals to work together to meet this challenge and to build a brighter future for everyone.

End notes

[1] The sample, national in scope, is drawn randomly from census exchanges that have a median income of $40,000 or more. In order to bolster the African-American sample, additional interviews are conducted in census exchanges that have a median income of $40,000 or more and that have a population that is at least 25% or above African-American. All respondents are over the age of 18 and have a household income of at least $50,000. Additionally, all identify themselves as the primary or joint decision-maker in the household in terms of investment decisions.

[2] A sample of 300 Black and 300 White retirees were surveyed by phone. All respondents had household incomes of over $50,000 before retirement and had been retired between one and ten years.

[3] In 2007, 57% of Blacks own stocks or stock mutual funds, compared with 76% of Whites. In 1998, the first year of the survey, 57% of Blacks owned stocks or stock mutual funds compared with 81% of Whites. Over the years, the Black figure rose to as high as 74%, while the White figure has consistently hovered between 76% and 84%.

[4] In 2007, the mean total amount of savings and investments is $142,000 for Blacks and $269,000 for Whites. (The corresponding median numbers are $48,000 and $100,000.) For Black retirees, the mean total of savings and investments is $151,000, and for White retirees it is $373,000. (The median savings amount for retired blacks in the survey was $73,000 compared to $210,000 for Whites.)

[5] In 1999, 24% of Blacks versus just 10% of Whites said they would "take money out of the stock market" if there were a major downturn.

[6] In the first year of the survey, Blacks on average said they planned to retire at the age of 58, while Whites on average planned to retire at the age of 61. The 2007 retiree survey showed that in fact Blacks did retire, on average, at 58, while Whites waited until 60.

[7] When retirees were asked if they were living comfortably or having trouble making ends meet, 78% of Blacks and 85% of Whites said they are comfortable.

[8] In 2000, 47% of non-retired Blacks and 62% of non-retired Whites said they expected to rely on an employer-sponsored retirement plan, such as a 401(k), as a source of money in retirement. In 2007, 83% of non-retired Blacks and Whites expect that such a plan will help pay for retirement.

[9] The 2007 retiree survey shows that 25% of Black retirees and 22% of White retirees are worried that they will outlive their retirement savings, and 52% of Black retirees and 51% of White retirees worry that a medical issue could impact them financially. Forty-one percent of Black retirees and 29% of White retirees say they are spending more on health care in their retirement than they had expected to.

[10] In 1998, 37% of Blacks said their most important reason for saving was retirement, versus 58% of Whites. In 2007, the numbers were statistically identical: 40% of Blacks versus 56% of Whites said retirement was the most important reason. In 2000, an analysis of respondents under 35 showed this to be true for younger people as well, with half as many Blacks (21%) as Whites (42%) citing retirement as their most important reason for saving.

[11] In 2007, Blacks who say saving for retirement is their main goal are 2.1 times more likely to be in the market today, all key demographic factors being equal. Whites are 1.7 times more likely to be in the market when saving for retirement is their main goal.

[12] In 2001, we looked at "likelihood to invest" and it jumped dramatically for Blacks when they began earning over $100,000 and skyrocketed when income exceeded $150,000. For Whites, higher income was not the driver to invest, but rather age. Whites over 35 were three times more likely to be investors than Whites under 35, regardless of income, while Blacks of all ages were equally likely to be investors when incomes are held constant.

[13] In 2007, when asked which of the following — stocks, mutual funds, bonds, real estate, whole life insurance — is the "best investment overall," 45% of Blacks chose real estate, compared to 33% for stocks and mutual funds combined. Just 34% of Whites chose real estate, whereas 45% of Whites chose stocks and mutual funds combined.

[14] Whites have favored stock market investments over real estate investments in all but two years of the research — 2003 and 2004. Nevertheless, Blacks have found real estate investments more attractive than Whites have in every year of the study.

[15] In 1999, 32% of those Blacks who said real estate was the best investment cited "less risky" as the reason; 25% cited "never go down in value"; and 21% said you can "earn rental income." In 2007, 45% of working Blacks and 32% of working Whites said rental income would help fund their retirement. In fact, just 16% of retired Blacks and 13% of retired Whites have any real estate income in their retirement.

[16] The 2007 retiree survey shows that just 32% of retired Blacks say that real estate is the best investment overall, versus 29% of retired Whites. Additionally, only 16% of Black retirees and 13% of White retirees identify rental income as a source of retirement income.

[17] In 2000, 32% of Blacks surveyed said they expect to support adult children versus 20% of Whites; that same year, 45% of Blacks said they expect to support aging parents, versus 29% of Whites.

[18] In 2007, Blacks are 1.88 times less likely to invest than Whites, all else being equal. Variables included as controls are income, assets, age, gender, marital status, adults other than spouse in household, education, employment status, government vs. business employment, and self-employment.

[19] In 2004, just 39% of Blacks could correctly link a "bull" market with a rising stock market. Only 56% of Blacks (and 65% of Whites) knew that when you own a stock, you own an ownership share of a company. (Other choices on the multiple-choice question were a loan to a company, a bet on a company, and "I don't know.")

[20] The 2004 survey showed that 30% of Blacks (vs. 15% of Whites) think market timing is more critical to investor success than patience or discipline. Those Blacks believing in market timing are 2.5 times less likely to be investors than those who believe in patience or discipline.

[21] In 2006, virtually identical percentages of Blacks and Whites (87% and 89%, respectively) said that individuals should be "very responsible" for retirement planning.

[22] In 1998, just 27% of Black and White investors said that they started investing as a result of having a 401(k) plan, with the rest saying they started investing on their own, with the help of a broker or financial advisor, and with the help of a friend.