

# The Ariel/Schwab Black Investor Survey:

## Saving and Investing Among Higher Income African-American and White Americans

Ariel Investments, LLC and The Charles Schwab Corporation are non-affiliated entities, but co-sponsor the "Black Investor Survey"



*charles* SCHWAB

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# BACKGROUND AND OBJECTIVES

- Ariel Investments, LLC and The Charles Schwab Corporation commissioned Argosy Research to conduct the tenth wave of a primary research study comparing and contrasting higher income (\$50,000 or more) African-American and White households in terms of their savings and investment attitudes and behaviors. Ariel and Schwab have jointly conducted previous waves of this research every year since 1998.
- The main objectives of this research are the following:
  - Identify similarities and differences between high income African-Americans and Whites with regard to saving and investing.
  - Examine the factors, particularly past influences and underlying beliefs, that may impact how African-Americans and Whites think about financial matters.
  - Determine any shifts in attitudes or behaviors over time.
  - Assess the expectations and issues that African-Americans and Whites face in their financial futures.

# METHODOLOGY

- 503 African-Americans and 506 Whites were interviewed by phone between June 11 and July 13, 2008.
- All respondents were over the age of 18 and had a household income of at least \$50,000. Additionally, all identified themselves as the primary or joint decision-maker in the household in terms of investment decisions.
- The sample, national in scope, was 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 were 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.
- The survey ran for an average of 11 minutes.
- *Note: Throughout this report, a bolded number indicates a figure significantly higher from a statistical standpoint than the number to which it is being compared.*

# HIGHLIGHTS OF PREVIOUS STUDIES

## January 1998

- The 1998 study revealed a number of interesting differences between the two groups surveyed, such as how, relative to Whites, African-Americans:
  - Are underinvested in the stock market, due to several social and cultural reasons.
  - Prefer more conservative investment vehicles, including life insurance; also regard real estate as the best investment overall.
  - Have less wealth than Whites with similar incomes.

## January 1999

- The 1999 study helped identify why certain attitudes and behaviors are so divergent. The reasons for the differences were found to include:
  - African-Americans were introduced to savings and investing tools later in life.
  - African-Americans are motivated to invest in more conservative investment vehicles because of the feeling of security those investments provide.
- At the same time, this study also uncovered heightened interest in investing among African-Americans relative to Whites.
- Other areas explored included how women and men behave differently. Women are more likely than men to consider themselves beginner investors, are relatively underinvested, and are more likely to own conservative investments than men.

# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## April 2000

- The 2000 study found that family obligations, including children's education, dictate African-American savings.
  - More African-Americans than Whites expect to support adult children; also, more African-Americans expect to support aging parents.
  - African-Americans are saving as much or even more for education than Whites. In addition, more African-Americans than Whites cite education as the key to financial success.
  - On the other hand, African-Americans have considerably less saved for retirement than Whites and fewer African-Americans cite "retirement" as their most important reason for saving.

## June 2001

- The 2001 study found that even after controlling for demographic and behavioral variables, African-Americans are still 35% less likely to invest than Whites. In examining the key factors influencing investing patterns among African-Americans and Whites, we found:
  - African-Americans become increasingly more likely to invest as they earn more. Income is not a determinant of investing among Whites.
  - Regardless of their income, Whites begin investing at fairly young ages, while the likelihood of investing for African-Americans does not track with age.

# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## June 2002

- The 2002 study explored financial attitudes and behaviors in the wake of the lingering recession, a down market for much of 2001, and the September terrorist attacks:
  - Just a handful of Blacks and Whites (6% and 7% respectively) liquidated any investments as a result of the recession or acts of terrorism.
  - A sharply rising percentage of all investors agreed that, “The recent stock market volatility has shaken [their] long-term confidence in the stock market.” Blacks in agreement rose from 32% to 43% since last year; Whites went from 15% to 25%.
  - More Blacks than Whites (49% vs. 39%) felt “more anxious about [their] financial situation than [they] were a year ago,” and far fewer Blacks than Whites (46% vs. 68% respectively) thought the economy would improve within the next 12 months.

## June 2003

- The 2003 survey showed that many higher income African-Americans were retreating from the stock market. After five straight years of steady increases in the percentages of Blacks who own stocks, only 61% of Blacks in 2003 had money in the market, down from 74% in 2002 and approaching the 1998 level of 57%. White stock ownership, held steady at 79%.
- Real estate and other investments were increasingly in favor with both groups.
  - With interest rates at 35-year lows, White attitudes toward real estate investing approached Black historical preferences for real estate investing.
  - When asked which is the “better investment” -- home improvements or stocks -- 76% of Blacks and 61% of Whites chose home improvements, while only 20% of Blacks and 33% of Whites chose stocks.

# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## June 2004

- The 2004 survey further explained the gap between African-American and White investing by uncovering a misperception by Blacks that investors need to be skilled at market timing, or buying and selling stocks at exactly the right time, in order to be successful.
  - Those Blacks citing patience or discipline as an important factor for investing success are two and a half times more likely to be investors than those believing that knowing how to time the market is the most important success factor.
- The survey included a 10-question investment quiz that a majority of both Black and White investors failed, showing that many Americans, both Black and White, misunderstand or are unfamiliar with market lingo commonly used by the media and investment companies. Furthermore, many do not know basic facts about investing and the stock market.

## July 2005

- The 2005 study found that for African-Americans, employer-sponsored retirement plans have the potential to be an effective entrée into the world of investing.
  - African-Americans who are saving primarily for retirement are almost twice as likely to be stock investors as those who are saving for other reasons, such as to pay for education. Whites are equally likely to be investors regardless of their goals.
  - Fewer Blacks than Whites overall, however, consider retirement their most important goal.
  - Additionally, those Blacks who are investing regularly in retirement accounts contribute significantly less per month to their accounts, and more Black plan participants than White participants have withdrawn money from their accounts prior to retirement (36% vs. 24%).
  - Blacks who have help from a financial advisor contribute more money on a monthly basis to their retirement plans than those who do it alone.



# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## June 2006

- The 2006 study found that Black and White Americans differ in their expectations and strategies about retirement. Notably, African-Americans are significantly more reliant on employer pensions than Whites.
  - Two-thirds of employed Blacks, compared to about half of employed Whites work for employers with a traditional pension plan; however, large percentages of both Blacks and Whites (50% and 55%) believe that corporate pension funds will no longer exist in a decade.
  - All else being equal, African-Americans are twice as likely as Whites to believe government and corporations bear significant responsibility for ensuring Americans a comfortable retirement.
- African-Americans remain optimistic about retirement: fewer Blacks than Whites (24% versus 30%) say they are worried about their retirement; and more Blacks aim to retire early, with twice as many Blacks as Whites hoping to retire before the age of 60.
- However, for many African-Americans, retirement is just the beginning of a new phase of work.
  - While both groups have similar aspirations for retirement (maintain standard of living, travel more, etc.), three times the number of African-Americans versus Whites (29% versus 10%) say they plan to start a business after they retire.
  - More Blacks than Whites say they expect real estate investments to help fund retirement.
  - Twice as many Blacks as Whites (34% versus 16%) say they are currently saving to buy real estate, start a business, or both.

# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## October 2007

- In 2007, African-American stock market participation was at the same level as it was ten years prior (the first year of the survey): at a low of 57% (compared to a high of 74% in 2002). White investing was at 76% last year.
- Even when all other significant demographic factors are held constant (age, income, gender, education, and so on), Whites are nearly twice as likely as African-Americans to be investors than Whites.
- While 56% of Whites say that retirement is their most important goal for saving and investing, only 40% of African-Americans see retirement as their priority. All else being equal (income, age, etc.), Blacks are 50% less likely to say retirement is their primary savings goal.
- African-Americans continue to lag their White counterparts in monthly savings, and the average value of overall savings and investments by African-Americans is less than half of what it is for Whites.
- Of those who invest, more African-Americans (55%) than Whites (47%) report that they first started investing as a result of having a 401(k) or other employer-sponsored retirement plan.
- When asked which is a bigger worry: day-to-day expenses, or having enough money to retire, 41% of African-Americans cited expenses, and 59% cited retirement. In contrast, only 29% of Whites cited expenses and 71% cited retirement.

# HIGHLIGHTS OF THIS YEAR'S STUDY

## July 2008

- African-Americans are on equal footing with Whites when it comes to accessing and enrolling in employer-sponsored defined contribution plans, but save far less each month and have a considerably smaller nest egg than their White counterparts.
  - About nine in ten of both Blacks and Whites who are working have access to a defined contribution plan such as a 401(k).
  - Of those with such a plan, about 90% of both groups contribute regularly.
  - However, the median monthly amount that Blacks contribute to their 401(k) plan is \$169, while Whites contribute about 50% more, or \$249 each month.
  - As a result, the median total household savings for retirement reported by Black respondents is \$53,000, in contrast to Whites at \$114,000.
- For many younger African-Americans, saving for retirement is more of a dream than a priority.
  - African-American are half as likely to cite retirement as their most important goal when saving and investing (after controlling for income, education, age and other key demographics).
  - At the same time, 45% of Blacks under the age of 50 (compared to 26% of Whites) say they want to retire by age 60,
  - Among those older than 50, however, reality has set in: a far smaller 24% of Blacks and 9% of Whites still plan to retire by age 60.

## HIGHLIGHTS OF THIS YEAR'S STUDY (cont.)

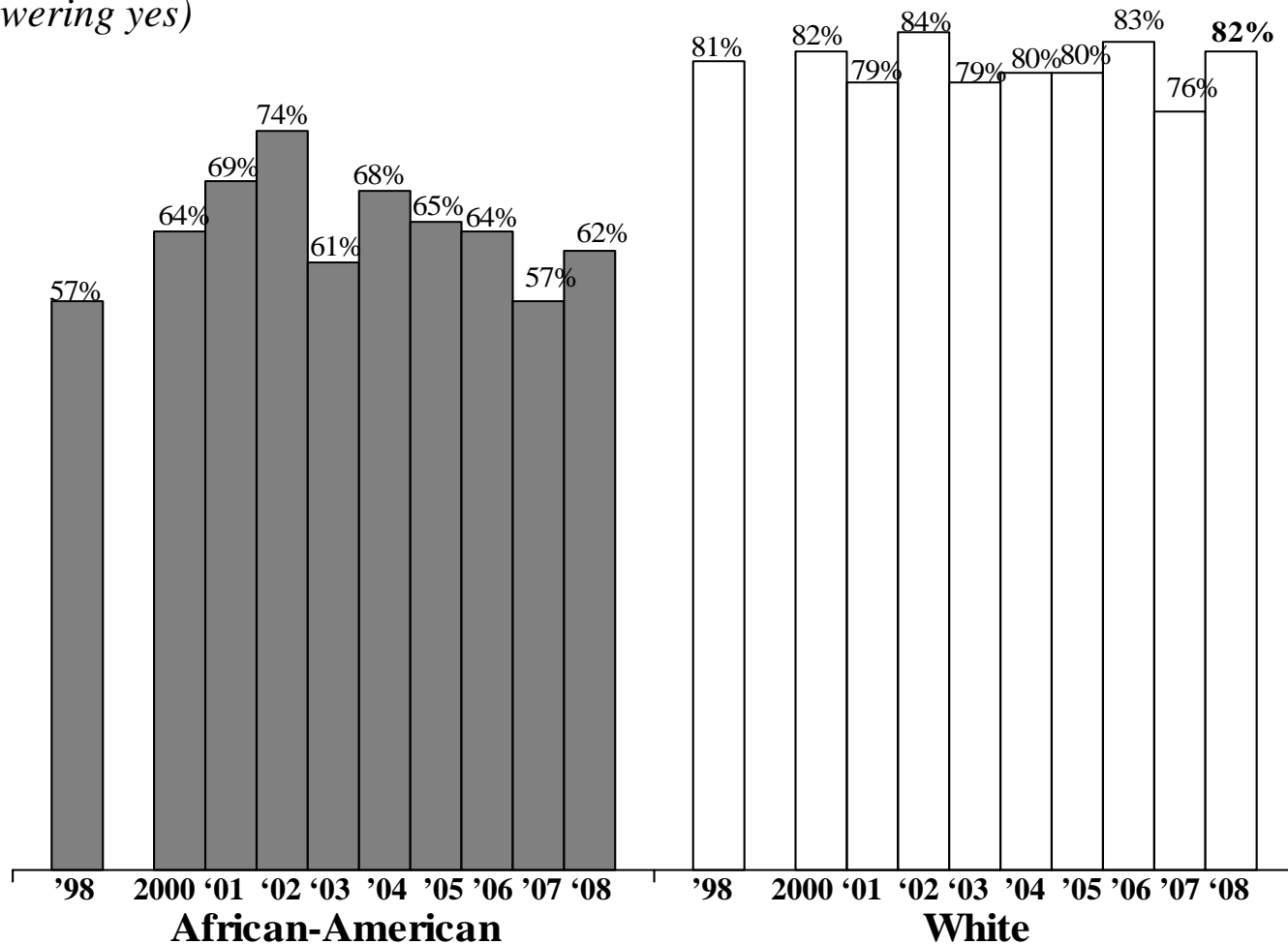
- With some help from employers, all employees, but particularly African-Americans, would be likely to ramp up their monthly 401(k) savings.
  - About two-thirds of African-Americans (compared to about a half of Whites) say they would increase contributions to their retirement plan if employers provided access to financial advisors, seminars about retirement investing, and/or education about the features of the plan.
- This year's findings show that 62% of higher income Blacks own stocks or mutual funds versus 82% of Whites.
  - Over the last 11 years, Black stock ownership has fluctuated between last year's low of 57% and a high of 74% in 2002.
  - Over the same period, White stock ownership has consistently hovered around 80%.
- While overall stock ownership among Blacks is still lagging, the historical preference for real estate among Blacks is at historic lows.
  - This year, just 39% of Blacks said real estate was the "best investment overall" compared to 37% of Blacks who picked stocks or mutual funds.
  - Among Whites, just 28% chose real estate compared to 55% who chose stocks and mutual funds.
  - In 2004, at the height of the real estate bubble, 61% of Blacks and 51% of Whites said it was the best investment overall.

# DETAILED FINDINGS

# TRENDS IN MARKET PARTICIPATION

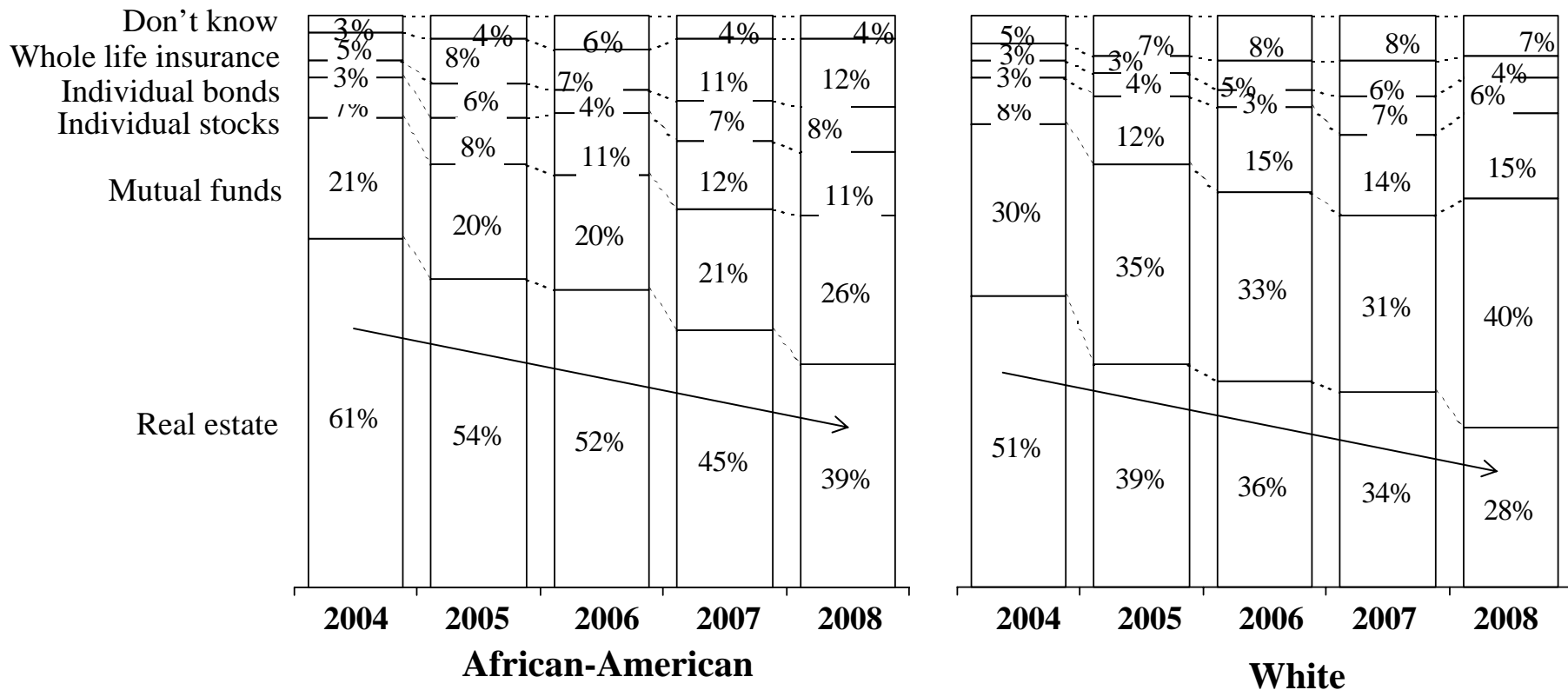
*Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?*

(% answering yes)



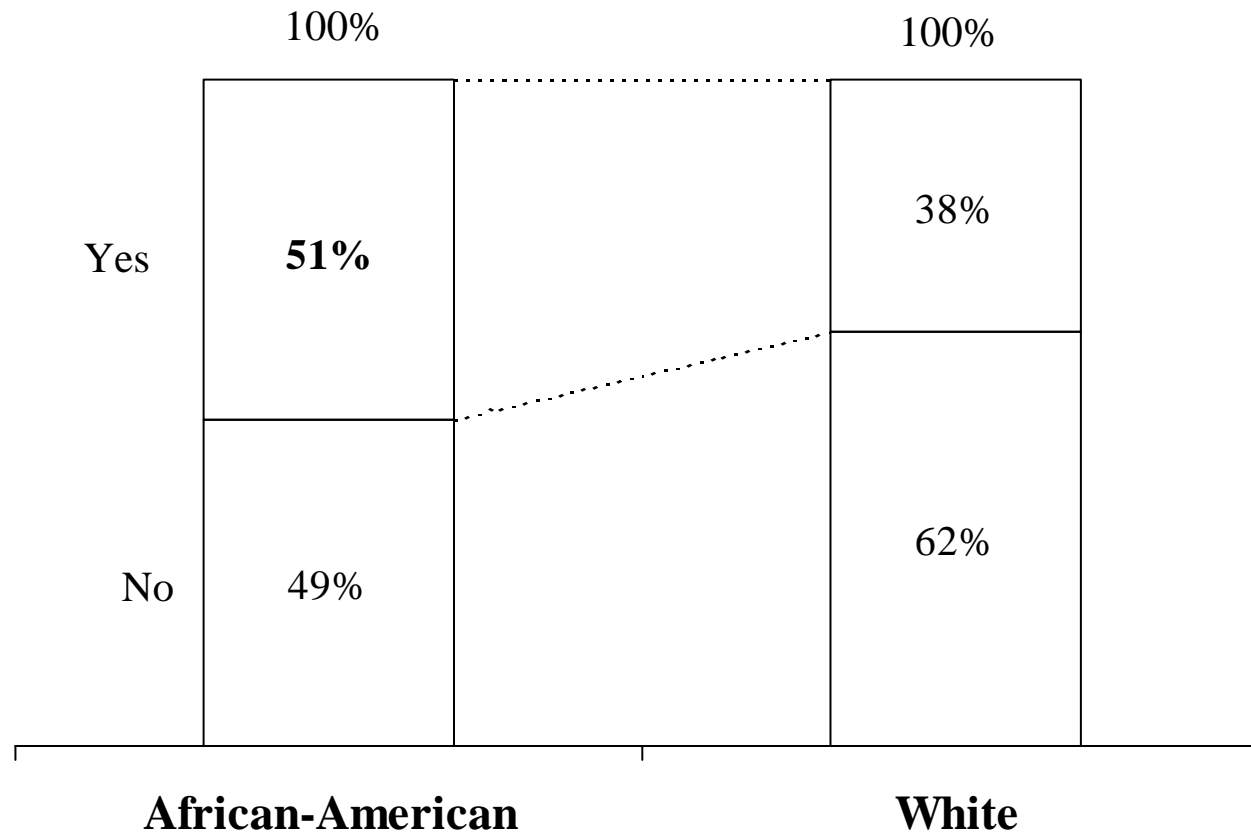
# PERCEPTIONS OF BEST INVESTMENTS OVERALL

*Which of the following do you think is the best investment overall?*



# ADJUSTED FINANCIAL ACTIVITIES DUE TO HOUSING MARKET UNCERTAINTY

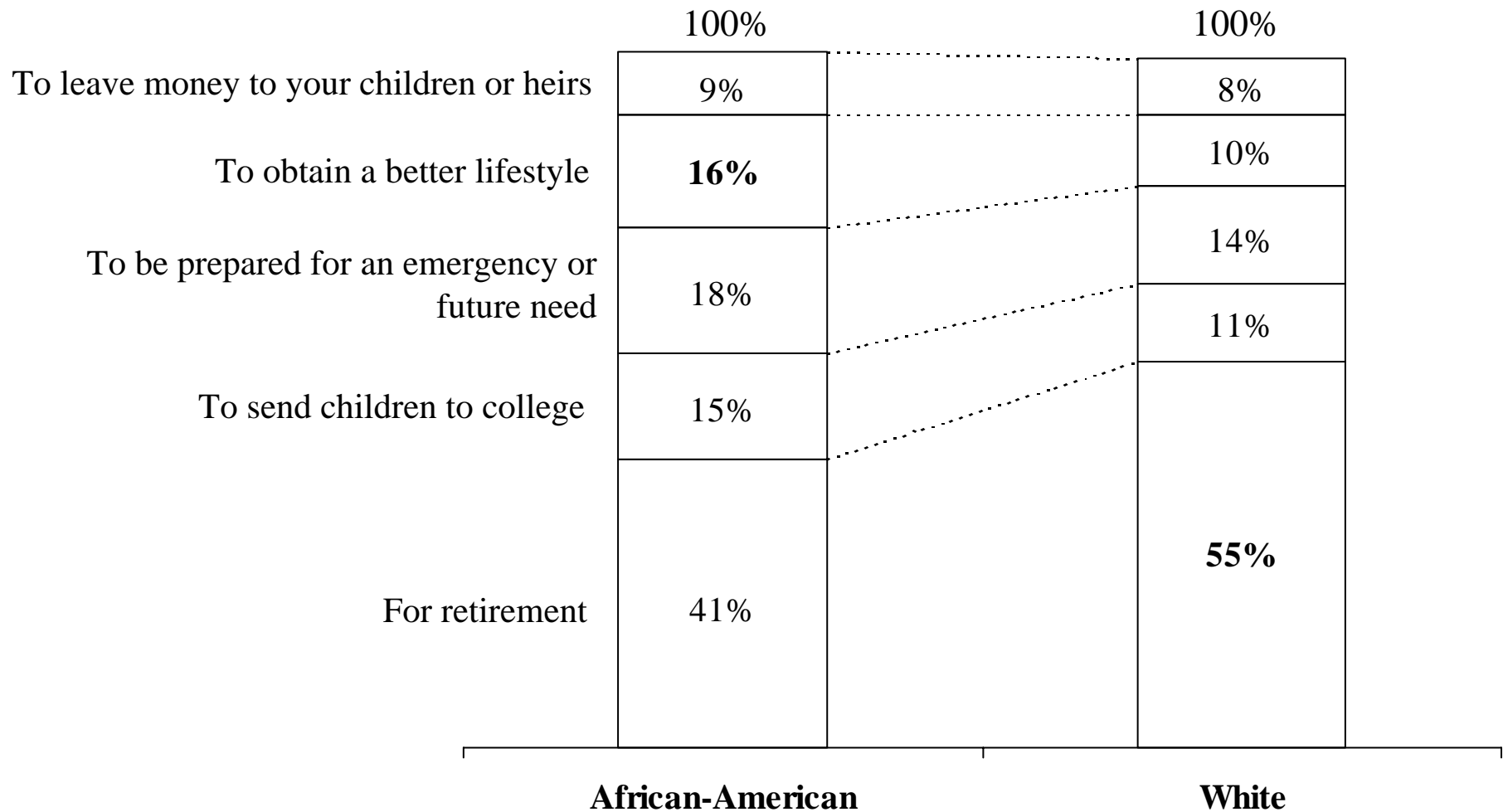
*In the last few years, the value of many American homes has dropped considerably. Have you personally adjusted your spending, saving or investing habits as a result?*





# GOAL FOR SAVINGS AND INVESTING

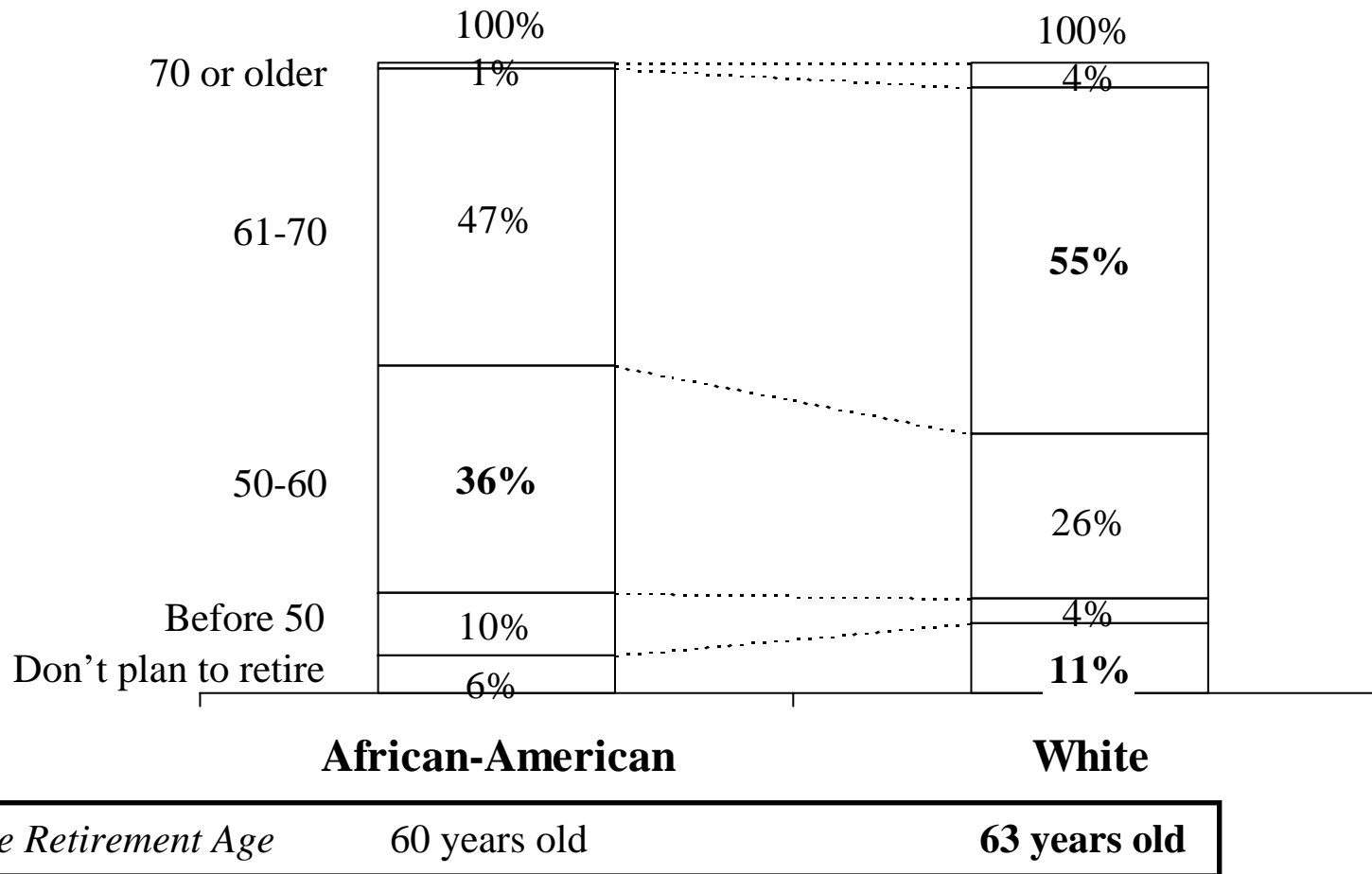
*Of the following, which would you say is your most important goal in saving or investing money?*



# ANTICIPATED AGE OF RETIREMENT

*At what age are you planning to retire?*

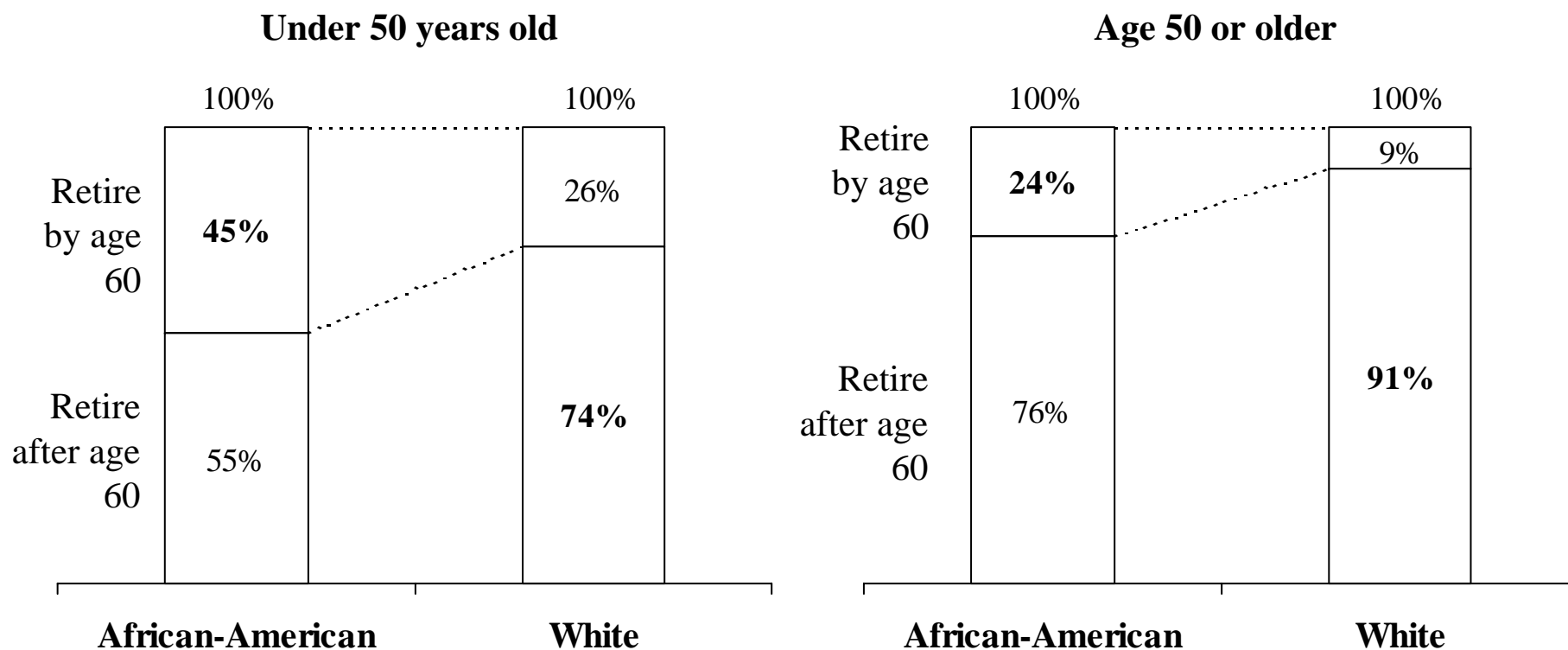
*Base: Not retired*



# ANTICIPATED AGE OF RETIREMENT BY CURRENT AGE

*At what age are you planning to retire?*

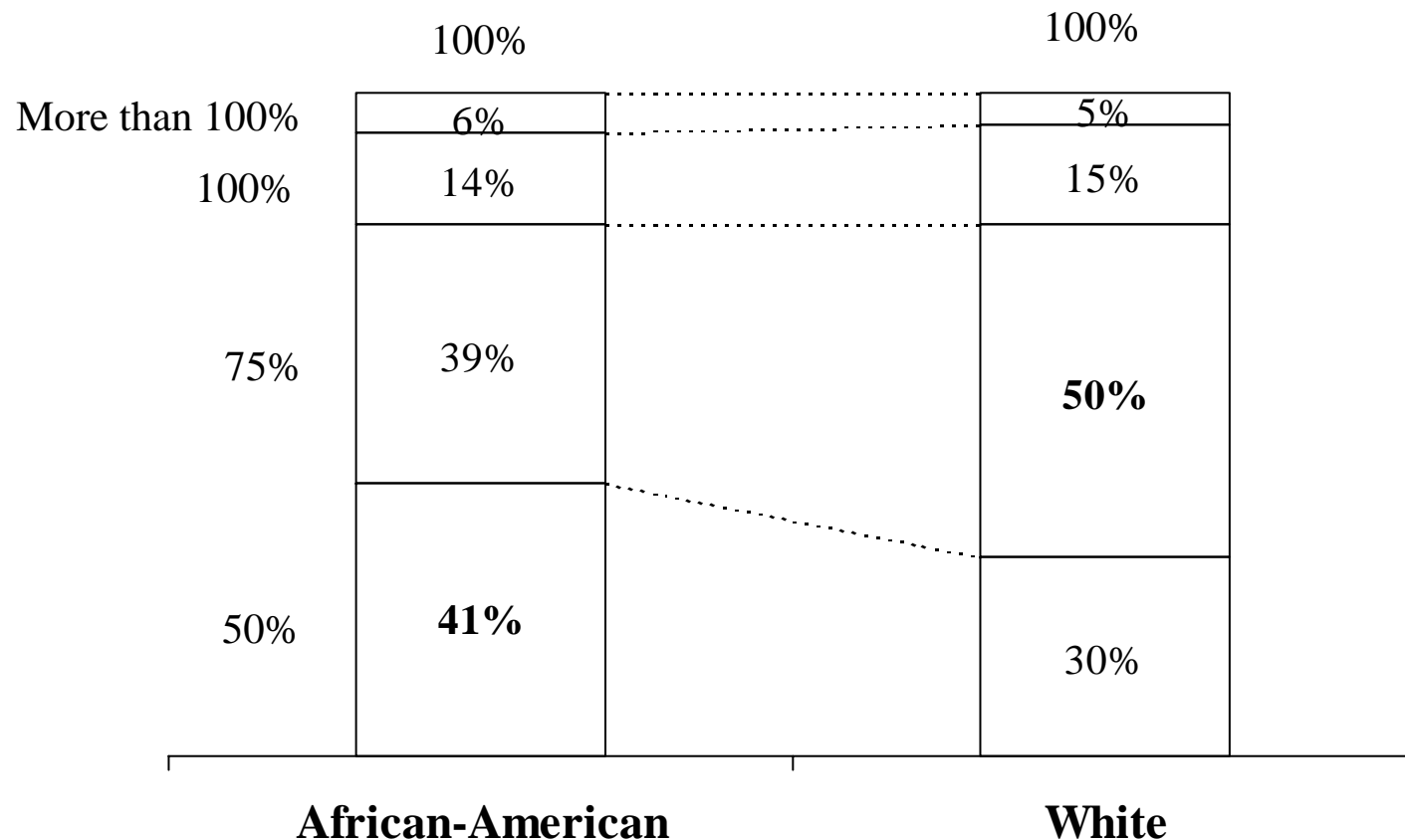
*Base: Not retired*



# PERCEPTIONS OF INCOME NEEDED TO MAINTAIN CURRENT LIFESTYLE

*When you retire, what percentage of your household income do you think you will need in order to keep your standard of living similar to what it is now? Would you say it would be closest to about...?*

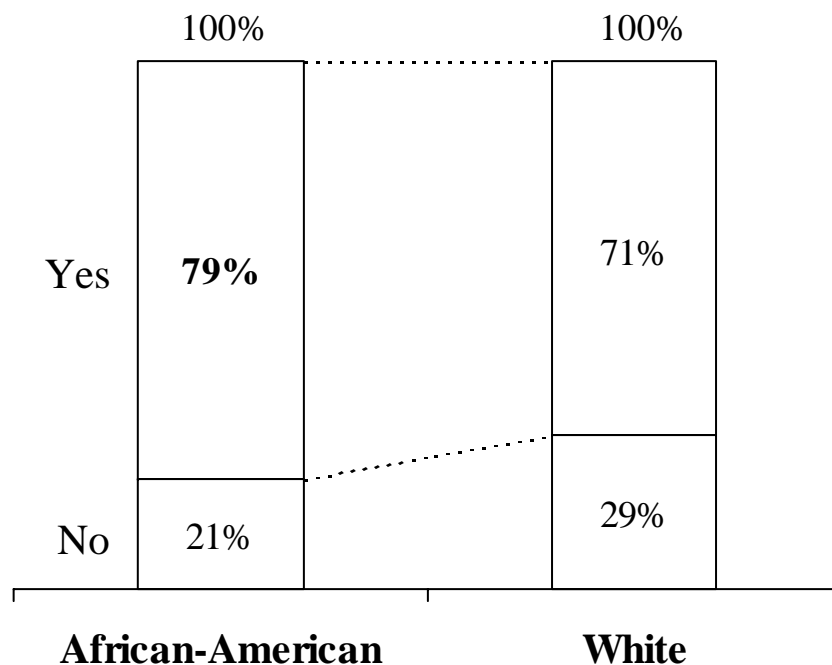
*Base: Not retired*



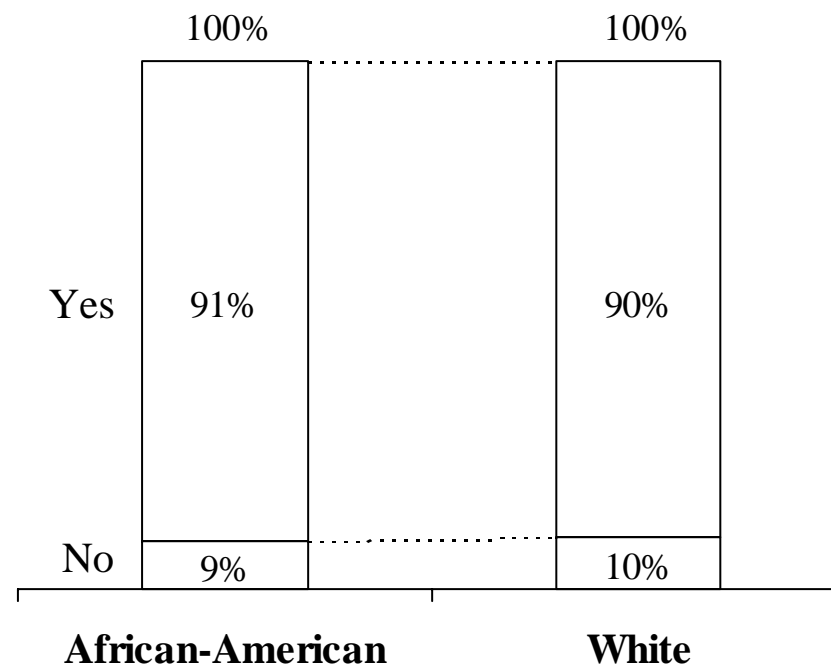
# DEFINED BENEFIT/CONTRIBUTION PLAN PARTICIPATION

*Do you have any defined benefit retirement plans, either with a current or former employer?  
Does your employer provide you with the option to save some of your earnings in a defined contribution plan? And do you participate in this plan?*

**DB Plan Participation**



**DC Plan Participation**



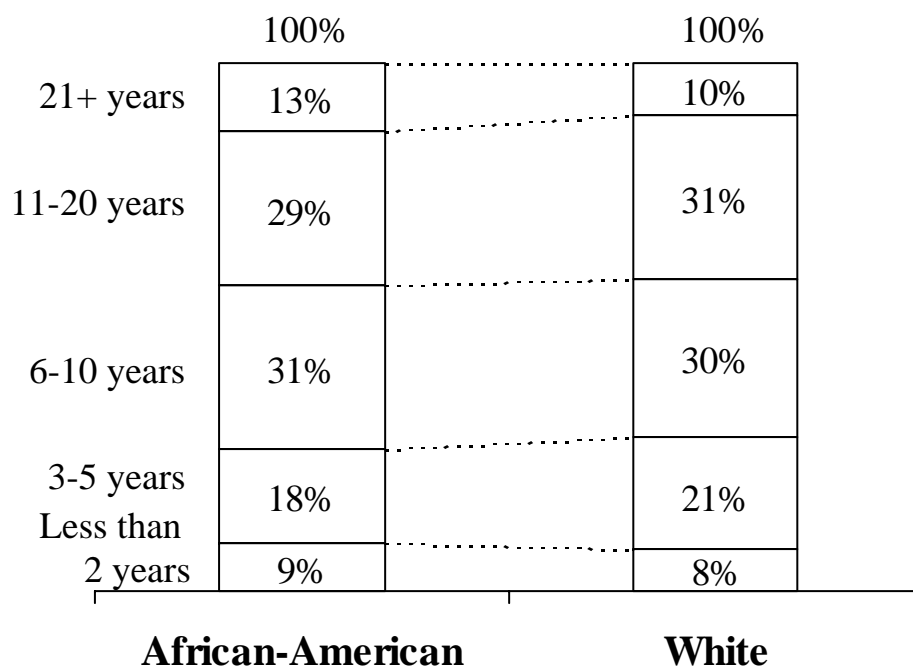
<i>Employer offers DC plan</i>	89%	87%
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# CURRENT DEFINED CONTRIBUTION PLAN HISTORY

*How many years ago did you first start participating in this plan?*

*About how much money in total have you accumulated so far in this DC plan?*

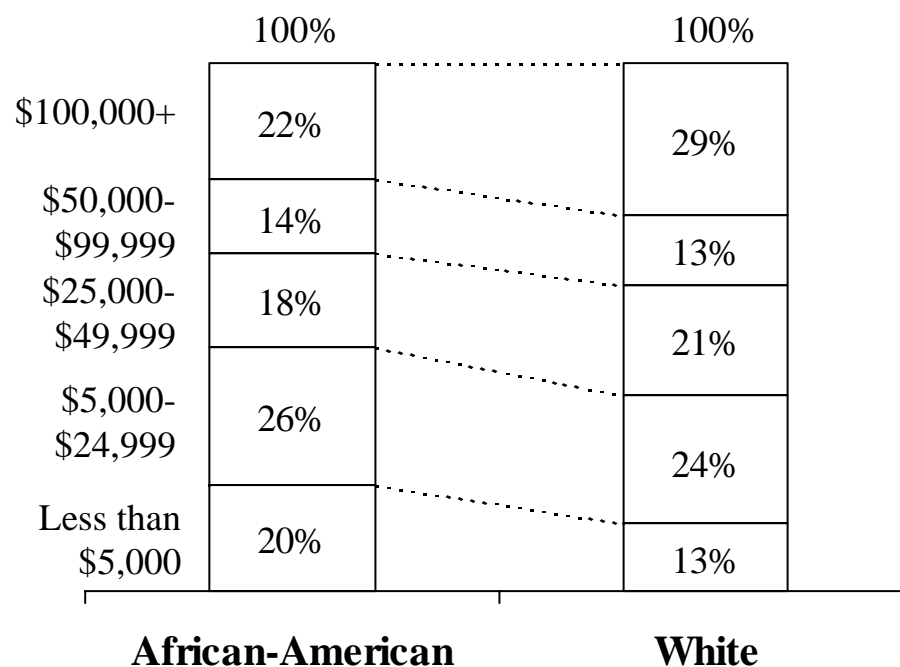
**Number of Years Participating**



*Average* 12 years

11 years

**Assets Accumulated in DC Plan**



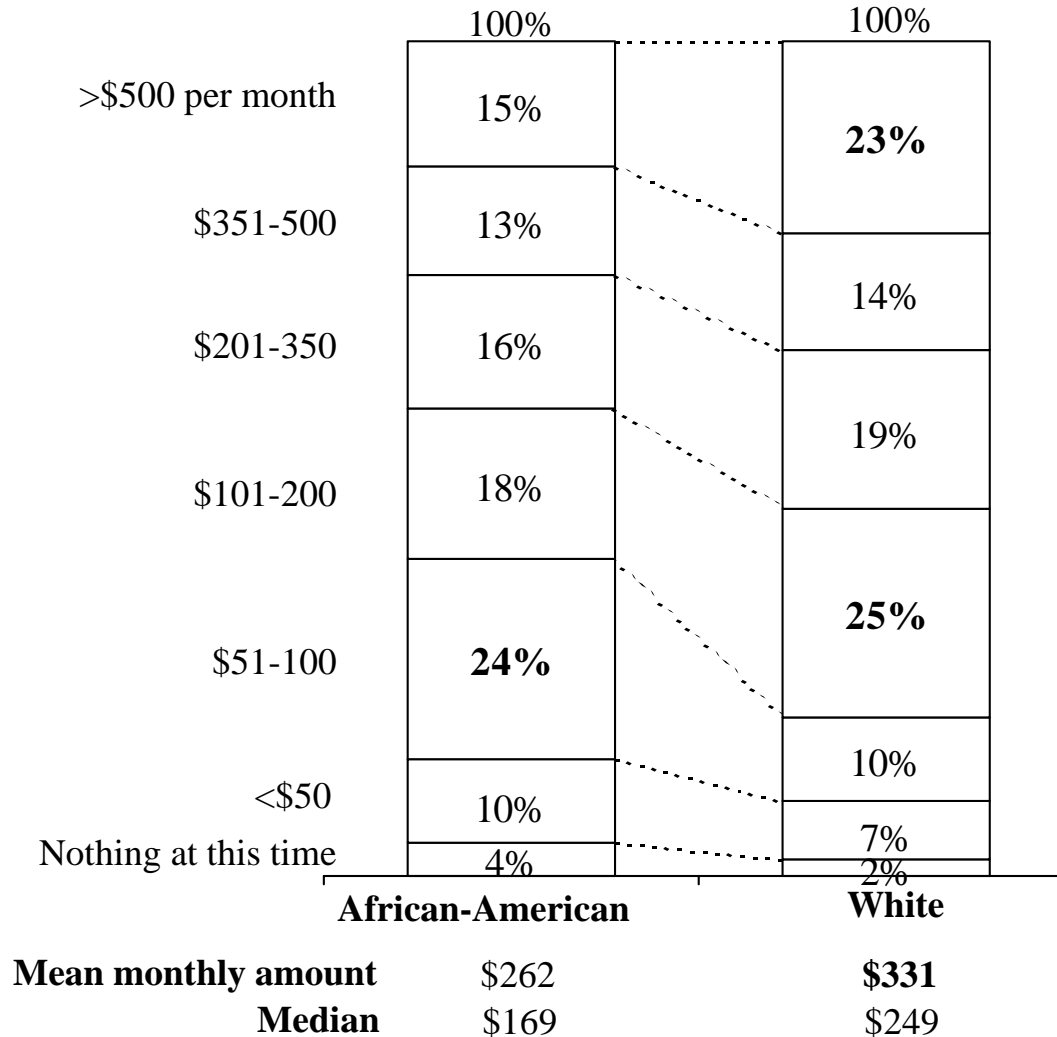
*Median* \$32,000

\$40,000

# MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

*How much money are you investing per month in any sort of retirement account, including an employer sponsored retirement plan?*

*Base: Employed and have money in a retirement plan*

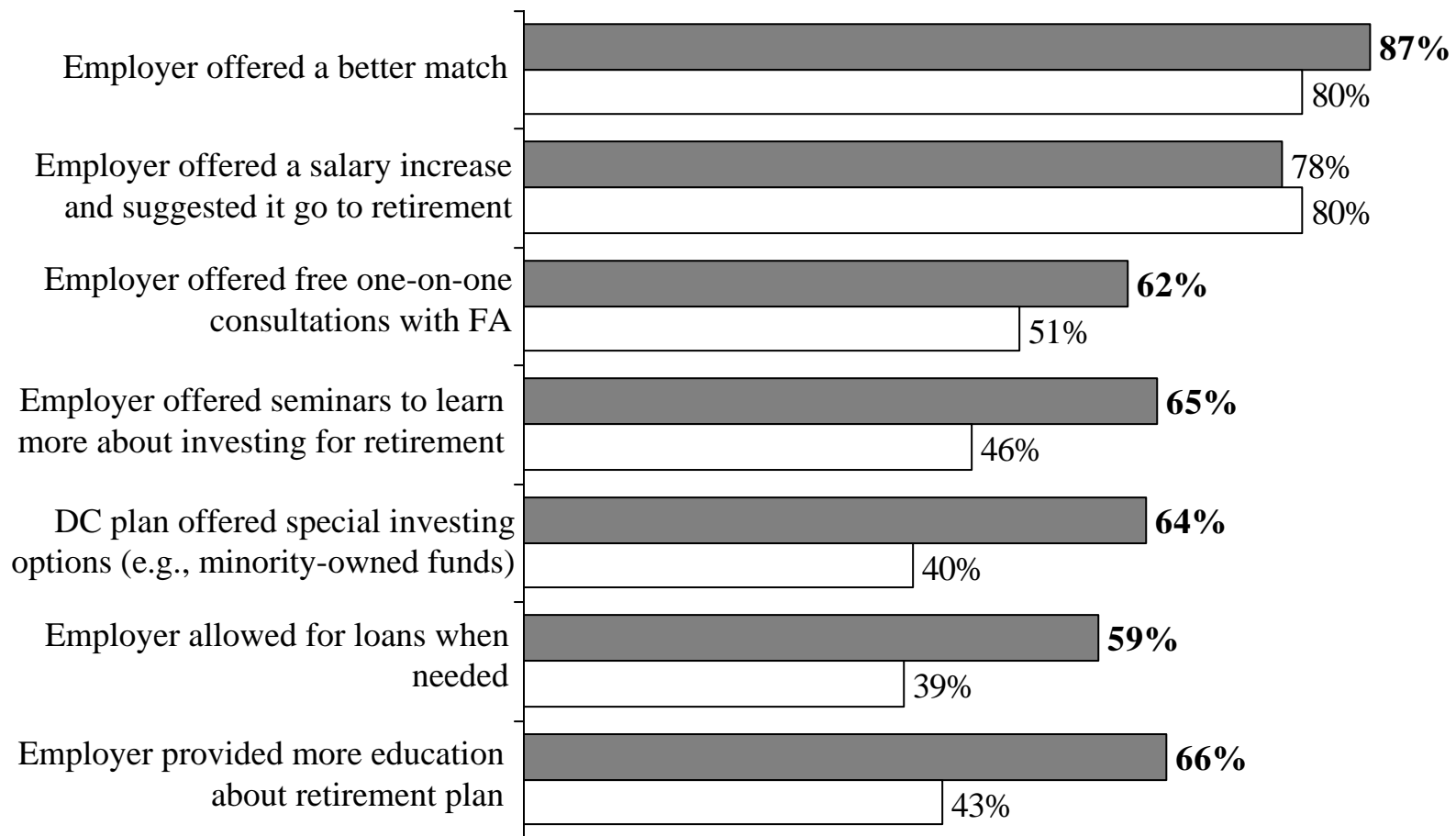


# INCENTIVES TO INVEST ADDITIONAL ASSETS IN EMPLOYER'S DC PLAN

■ African-American  
□ White

*For each of the following scenarios, please tell me if it would encourage you to invest more money in your employer's defined contribution plan?*

*Base: Not retired*



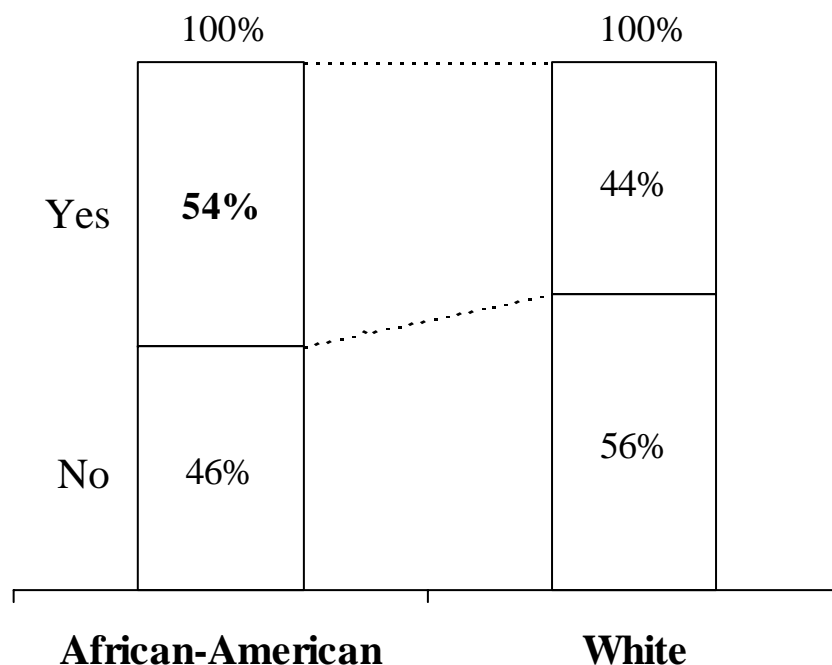


# DEFINED CONTRIBUTION PLANS FROM FORMER EMPLOYERS

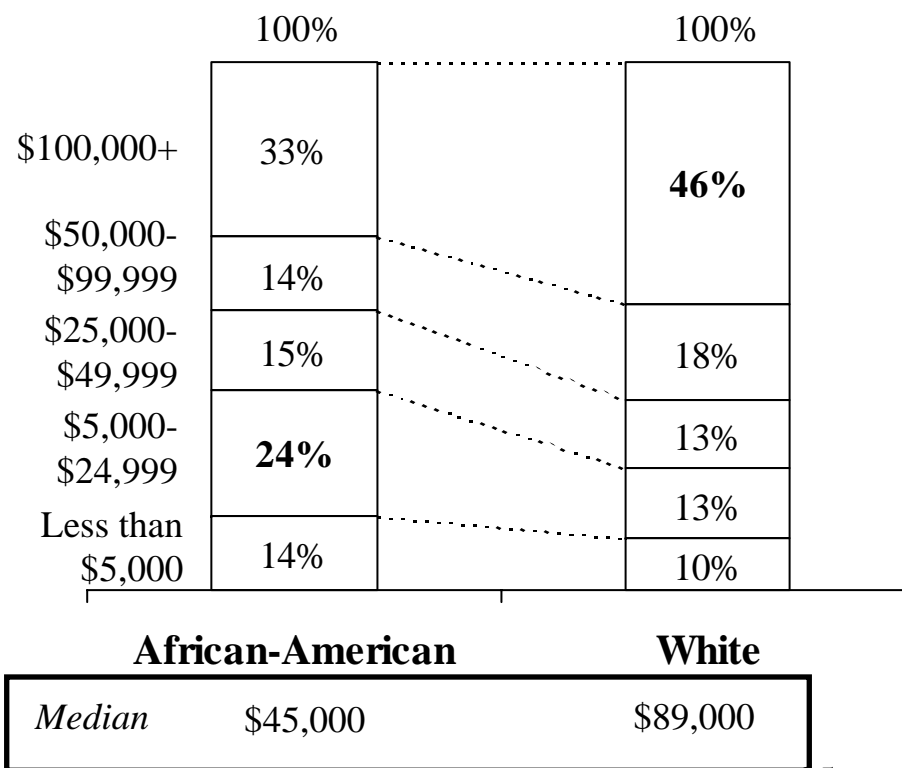
*Do have any defined contribution plans from former employers?*

*And about how much money in total do you currently have in these defined contribution retirement plans?*

**DC Plans from Former Employers**



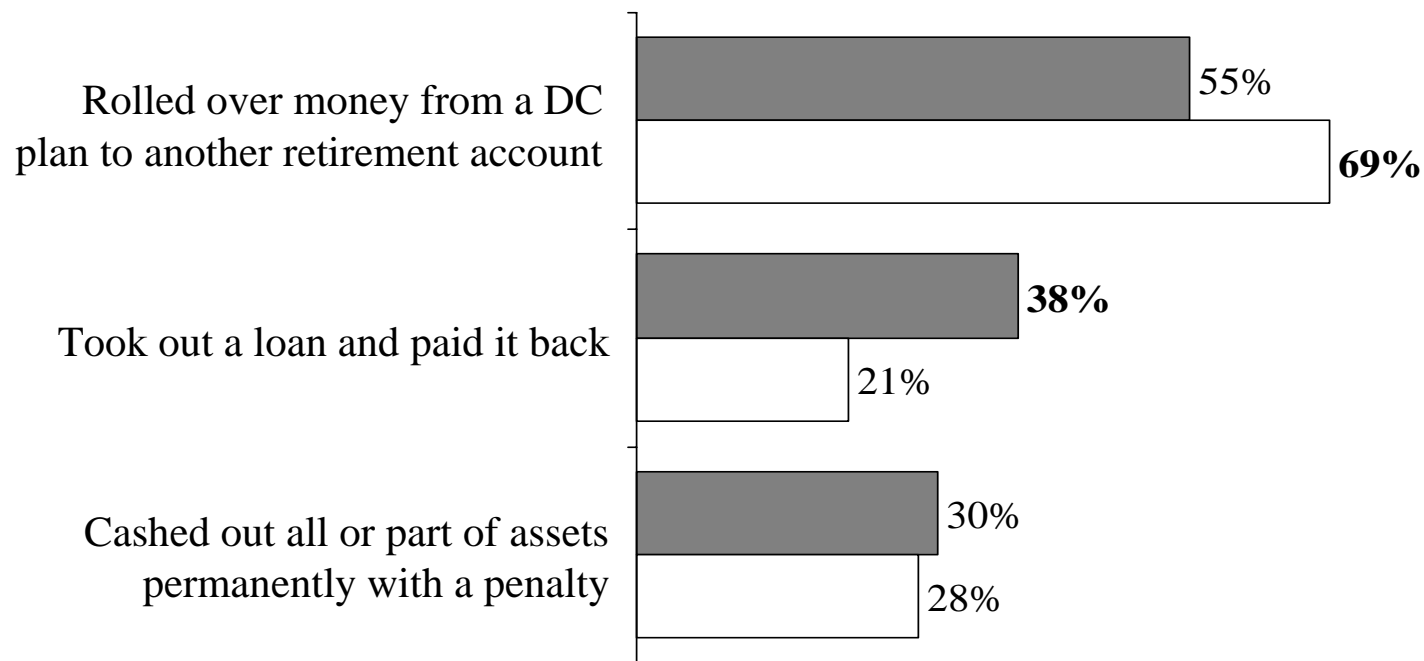
**Assets Held in Former DC Plans**



# ACTIONS TAKEN WITH DC PLAN ASSETS

*Have you ever...?*

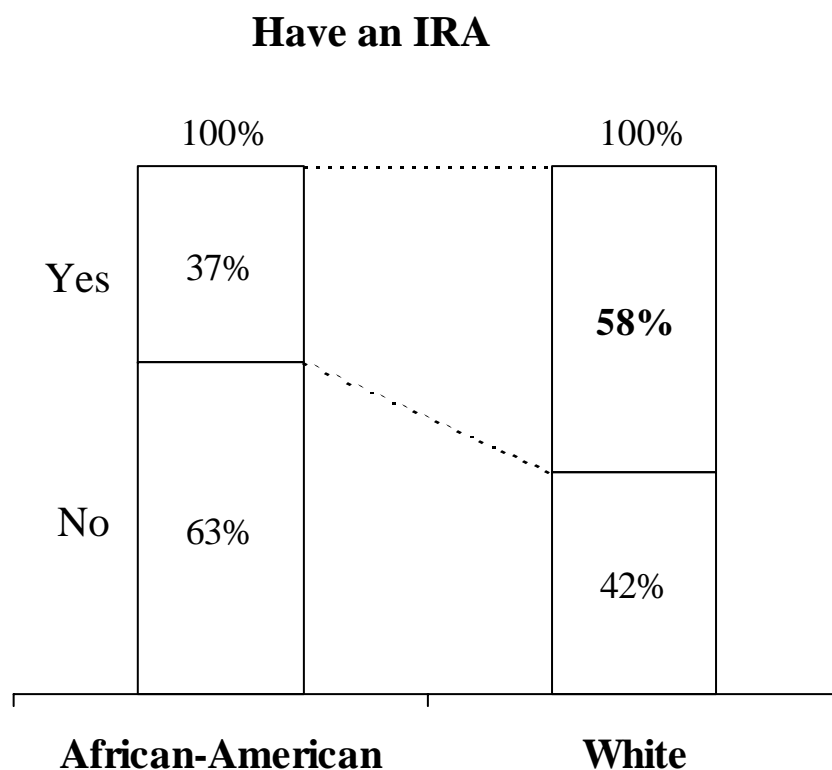
*Base: Not retired*



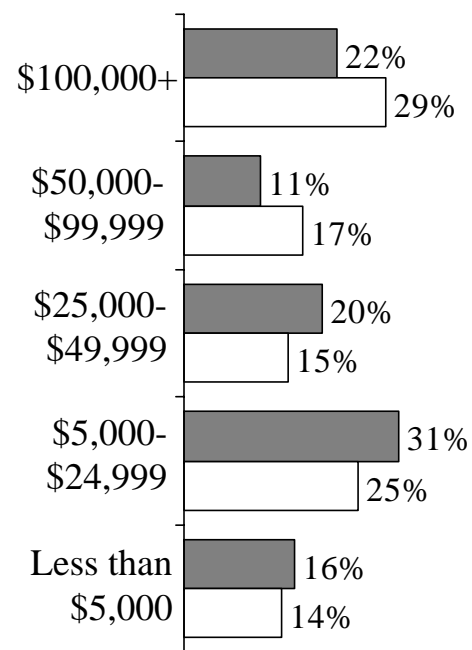
# IRA OWNERSHIP

African-American  
 White

*Do you have any Individual Retirement Accounts, commonly known as IRAs?*  
*About how much money in total do you currently have in IRAs?*



## Total Assets Held in IRA

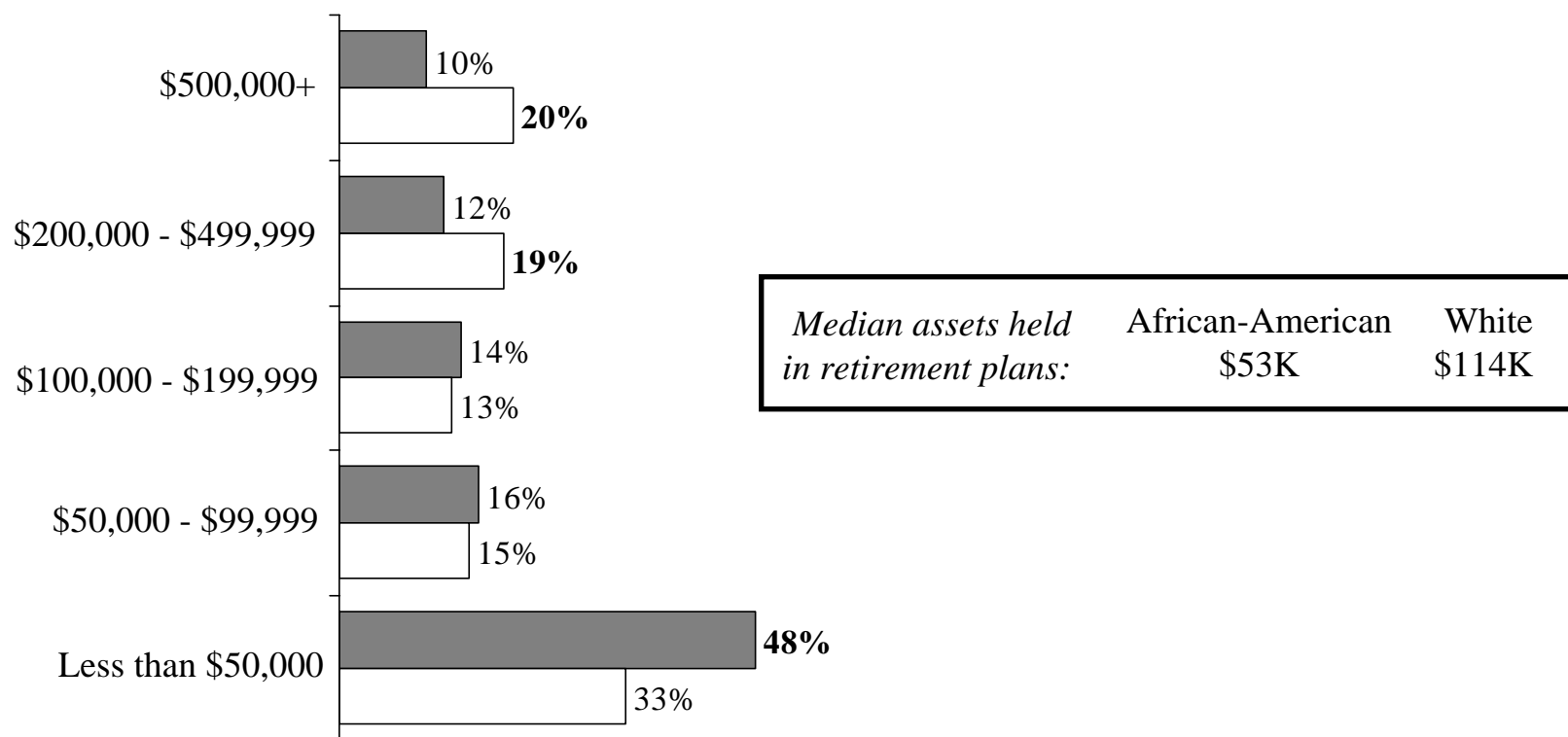


<i>Median:</i>	African-American	White
	\$28,000	\$44,000

# TOTAL ASSETS HELD IN RETIREMENT PLANS

■ African-American  
□ White

*Thinking about all the various retirement plans we have talked about, what would you say is the total amount of money you currently have saved specifically for retirement?*



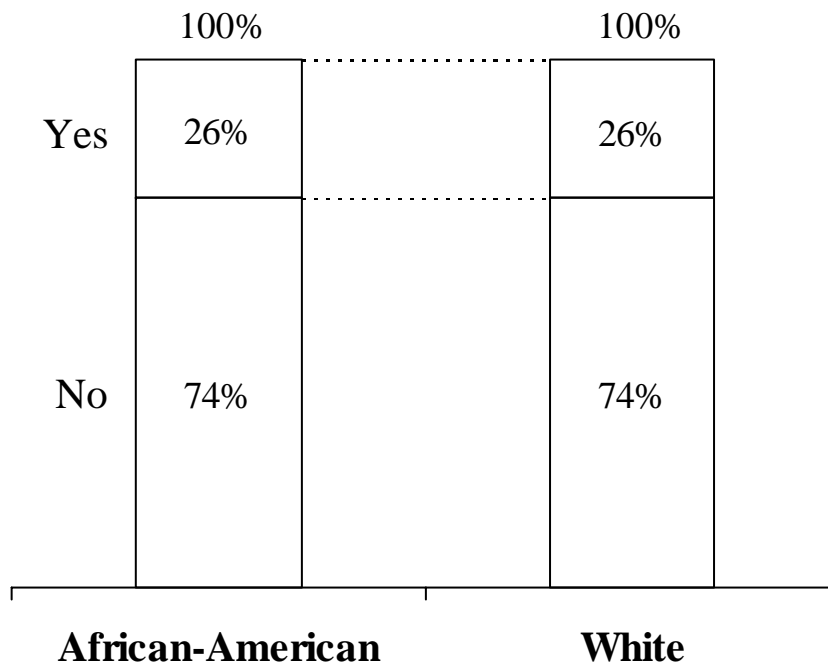
# RETIREMENT SAVINGS HELD OUTSIDE PLANS

African-American  
 White

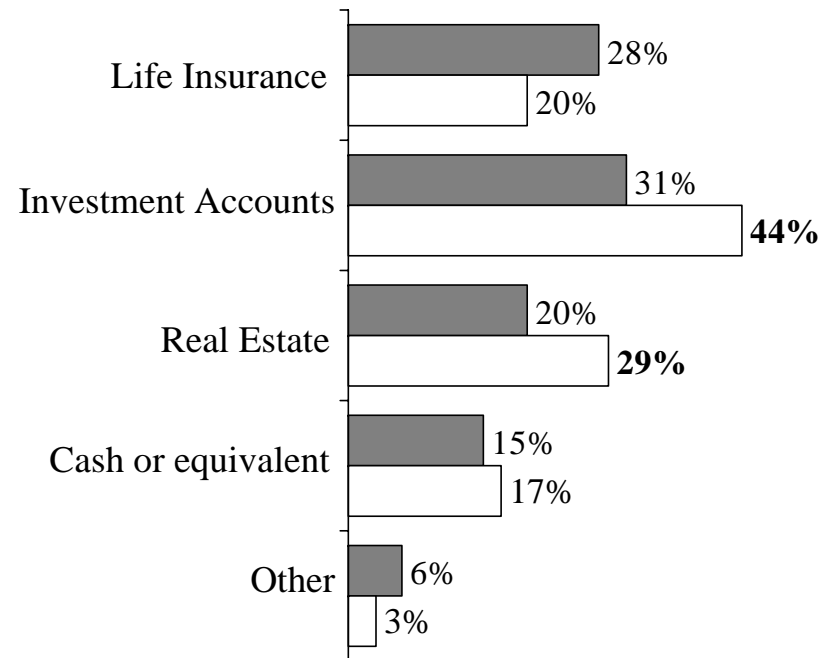
*Apart from any of the retirement plans we've already talked about, do you have any other savings earmarked specifically for retirement?*

*And what form do these additional retirement savings take?*

**Hold Retirement Assets Outside Retirement Accounts**



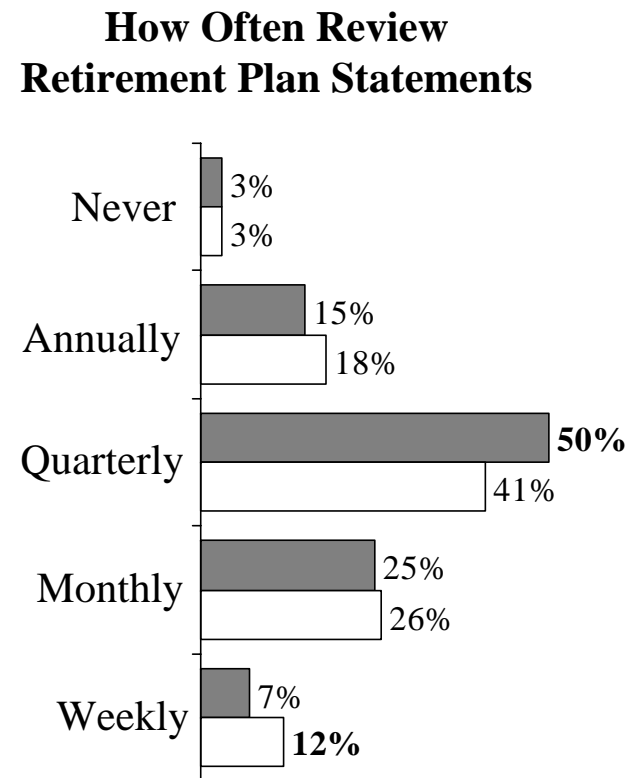
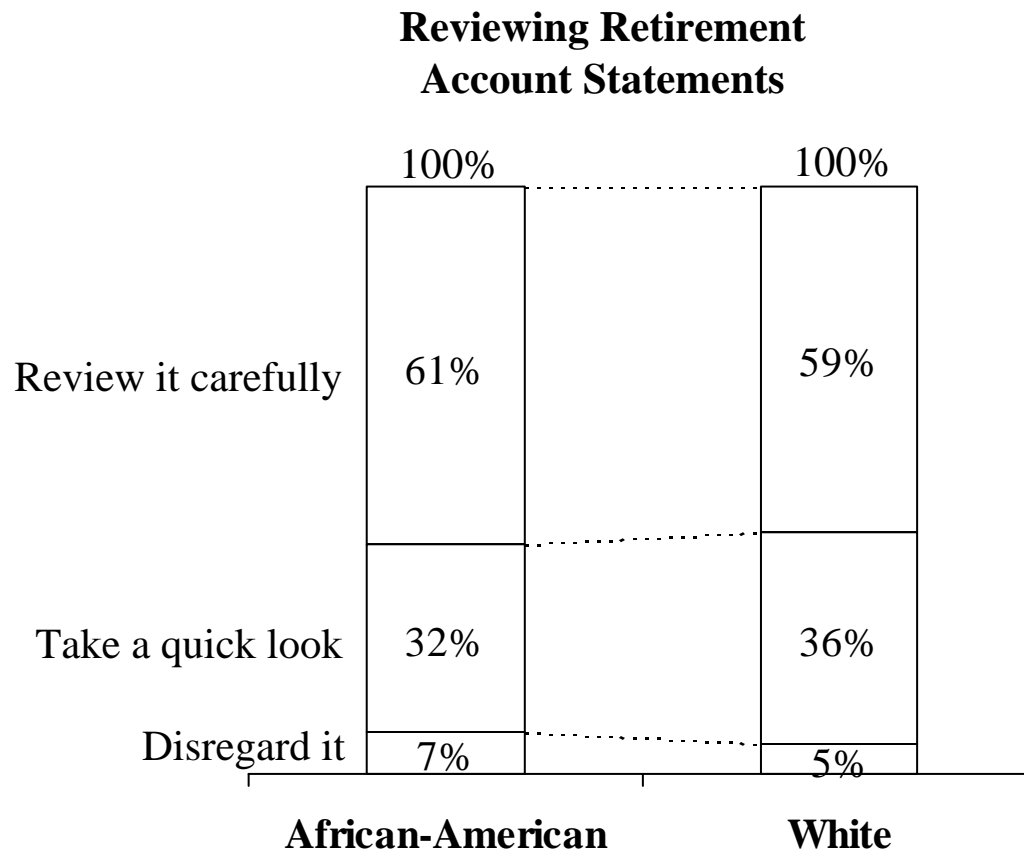
**Additional Retirement Assets Held in...**



# DEGREE OF INVOLVEMENT MONITORING RETIREMENT PLAN ACCOUNTS

*When you receive a retirement account statement, do you usually...?*

*And about how often do you review the investment in any or all of your retirement accounts?*



# DEMOGRAPHICS

# DEMOGRAPHIC/FINANCIAL PROFILE

## GENDER

	African-American %	White %
Male	39	<b>47</b>
Female	<b>61</b>	53

## EDUCATION

	African-American %	White %
Some HS or less	5	1
HS graduate	15	13
Some college	23	18
College graduate	34	<b>41</b>
Postgraduate study	23	27

## EMPLOYMENT STATUS

	African-American %	White %
Employed full time*	<b>73</b>	64
Retired	14	<b>19</b>
Employed part-time*	6	6
Unemployed	4	2
Homemaker	2	<b>8</b>
Full-time student	1	1

\*Of these, 21% of African-Americans and 27% of Whites are self-employed.

## AGE

	African-American %	White %
18-29	7	6
30-39	21	16
40-49	27	23
50-64	37	39
65+	8	16
Mean	47	<b>51</b>
Median	47	52

## HOUSEHOLD INCOME

	African-American %	White %
\$50,000-74,999	<b>43</b>	31
\$75,000-99,999	24	25
\$100,000-149,999	17	<b>26</b>
\$150,000-250,000	13	13
Over \$250,0000	3	5
Mean	\$107K	<b>\$119K</b>
Median	\$82K	\$94K

## TYPE OF EMPLOYER

(of those employed)

	African-American %	White %
Business	49	<b>57</b>
Government	<b>34</b>	28
Not-for-profit	17	15



# DEMOGRAPHIC/FINANCIAL PROFILE (CONTINUED)

## MARITAL STATUS

	African-American	White
	%	%
Single/never married	25	9
Not married/living together	3	3
Married	54	79
Divorced/separated	14	6
Widowed	4	3

## VALUE OF SAVINGS AND INVESTMENTS (ex. real estate)

	African-American	White
	%	%
>\$1,000,000	3	7
\$500,00-\$999,999	10	14
\$250,000-\$499,999	14	17
\$100,000-\$249,999	13	18
\$50,000-\$99,999	20	17
\$25,000-\$49,999	15	9
\$5,000-\$24,999	14	12
<\$5,000	11	6
Mean	\$225K	\$367K
Median	\$75K	\$156K

## NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	28	26
No other adults present	72	74

## MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
\$2,500+	6	8
\$1,001-\$2,500	7	11
\$501-\$1,000	17	18
\$351-\$500	15	13
\$201-\$350	10	15
\$101-\$200	14	11
\$51-\$100	13	9
<\$50	6	4
Nothing at this time	12	13
Mean	\$507	\$599
Median	\$276	\$338