The Second Racial Wealth Gap

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White Millennials can often rely on their parents for financial assistance. For many black and Hispanic Millennials it's the other way around.

By Mel Jones

Helping hands: *The author and her father.*

He died on a Saturday.

My mother and I had planned to pick my dad up from the hospital for a trip to the park. He loved to sit and watch families stroll by as we chatted about oak trees, Kona coffee, and the mysteries of God. This time, the park would miss him.

His skin, smooth and brown like the outside of an avocado seed, glistened with sweat as he struggled to take his last breaths.

In that next year, I graduated from grad school, got a new job, and looked forward to saving for a down payment on my first home, a dream I had always had, but found lofty. I pulled up a blank spreadsheet and made a line item called "House Fund."

That same week I got a call from my mom—she was struggling to pay off my dad's funeral expenses.I looked at my “House Fund” and sighed. Then I deleted it and typed the words “Funeral Fund” instead.

My father’s passing was unexpected. And so was the financial burden that came with it.

For many Millennials of color, these sorts of trade-offs aren’t an anomaly. During key times in their lives when they should be building assets, they’re spending money on basic necessities and often helping out family. Their financial future is a rocky one, and much of it comes down to how much—or how little—assistance they receive.

A seminal study published in the *Journal of Economic Perspectives* on wealth accumulation estimates that as much as 20 percent of wealth can be attributed to formal and informal gifts from family members, especially parents. And it starts early. In college, black and Hispanic Millennials are more likely to have to work one or two jobs to get through, missing out on opportunities to connect with classmates who have time to tinker around in dorm rooms and go on to found multibillion-dollar companies together. Many of them take on higher levels of student debt than their white peers, often to pay for routine expenses, like textbooks, that their parents are less likely to subsidize.

“Student debt is the biggest millstone around Millennials, period, and an even larger and heavier one around the necks of black Millennials,” said Tom Shapiro, director of the Institute on Assets and Social Policy. “It really hits those doing the right thing. [They’re] going through all the hoops.” He explained that, unlike in previous decades, when college tuition was drastically lower, the risks of educational costs are now passed down to the individual.

Recent polls indicate that a large portion of Millennials receive financial help from parents. At least 40 percent of the 1,000 Millennials (ages eighteen to thirty-four) polled in a March USA Today/Bank of America poll get help from parents on everyday expenses. A Clark University poll indicated an even higher number, with almost three-quarters of parents reporting that they provide their Millennial children with financial support. Another survey saw nearly a third of Baby Boomers paying for Millennials’ medical expenses. A quarter of Boomers subsidized “other expenses” so their Millennial offspring could save money. Black and Hispanic Americans are less likely to be the recipients of this type of support.

Ironically, even though black and Hispanic Millennials are less likely to receive financial support from parents, their parents are more likely than white parents to expect their kids to help financially support them later on. According to the Clark poll, upward of 80 percent of black parents and 70 percent of Hispanic parents expect to be supported. And most studies show that a primary reason why people of color are unable to save as adults is because they give financial support to close family. This is important because when life emergencies happen, many Millennials won't have the reserve money to cover it.

A Millennial who gets regular financial gifts and support from parents will either have the money to cover an emergency themselves, or (more likely) have a parent or grandparent cover it so there's no damage to their credit. They won't have to borrow from predatory lending institutions, move into unsafe neighborhoods to save on rent, or start from financial scratch each time.

It doesn't even have to be a life emergency. If you have to decide between paying for a professional networking event or a cell phone bill, the latter is likely to win out. It should come as no surprise that Millennials who are free to choose career development activities over routine expenses are likely to benefit more in the long run. When this happens once or twice on a small scale, it's not a big deal. It's the collective impact of a series of decisions that matters, the result of which is displayed among ethnic and class lines and grounded in historical privilege.

And the help doesn't end when Millennials enter the next stage of adulthood. It's not just young, out-of-work Millennials who get help from parents or family members, according to the USA Today poll: even Millennials making $75,000 or more said they had gotten money from their parents for basic necessities. Twenty percent of parents paid for their children's groceries, and more than 20 percent contributed money for clothing. Even 20 percent of cohabitating Millennials still had a parent paying for expenses like cell phone bills, according to the poll.

Shapiro said the numbers of Millennials receiving support from family are "absolutely underestimated" because many survey questions are not as methodical and specific as those a sociologist might ask. "As much as 90 percent of what you'll hear isn't picked up in the survey," he said.

Shapiro's work pays special attention to the role of intergenerational family support in wealth building. He coined the term "transformative assets" to refer to any money acquired through family that facilitates social mobility beyond what their current income level would allow for. And it's not that parents and other family members are exceptionally altruistic, either. "It's how we all operate," Shapiro said. "Resources tend to flow to people who are more needy."

Racial disparity in transformative assets became especially striking to Shapiro during interviews with middle-class black Americans. "They almost always talk about financial help they give family members. People come to them," Shapiro said. But when he asked white interviewees if they were lending financial support to family members, he said, "I almost always get laughter. They're still getting subsidized."

These small savings add up over time. Commentary often centers on the dire circumstances Millennials inherited ("It's the recession, stupid!") or the defective attributes of recipients ("Millennials are too entitled!"). But these oversimplified viewpoints miss the point of how some Millennials and their parents are able to weather tumultuous financial terrain in the first place—and more, how intergenerational financial support contributes to these Millennials' long-term wealth-building capacity.

To many Millennials, the small influxes of cash from parents are a lifeline, a financial relief they're hard pressed to find elsewhere. To researchers, however, it's both a symptom and an exacerbating factor of wealth inequality. In a 2004 *CommonWealth* magazine interview, Shapiro explained that gifts like this are "often not a lot of money, but it's really important money. It's a kind of money that allows families to obtain something for themselves and for their children that they couldn't do on their own."

To be sure, gift-giving parents see it as a step in helping their Millennial children reach financial independence. But the bigger picture is that their support acts as a stabilizing factor now, and an inheriting factor later. The Institute on Assets and Social Policy's "The Roots of the Widening Racial Wealth Gap" found that every dollar in financial family support received by a white American yielded 35 cents in wealth growth. For a black individual, family support is much more essential to their financial trajectory: every one dollar received yielded 51 cents in wealth growth. Millennials of all backgrounds would certainly benefit from increased financial family support, but where you wind up depends a lot on where you started from.

You can't discuss wealth inequality without talking about race; within the American context, they are inseparable. So the fact that Millennials of color feel the impact of a precarious financial foundation more acutely is not a surprise. For black Millennials in particular, studies point to a legacy of discrimination over several centuries that contributed to less inherited wealth passed down from previous generations. This financial disparity stems from continuous shortfalls in their parents' net worth and low homeownership rates among blacks, which works to create an unlevel playing field.

As a result, the median wealth of white households is thirteen times the median wealth of black households. In addition, the most recent housing bust is estimated to have wiped out half of the collective wealth of black families— a setback of two generations.

"It was just incredible," Shapiro said. "It hit hardest those groups latest to becoming home buyers." Homeownership makes up a large amount of black families' wealth composition, accounting for over 50 percent of wealth for blacks, compared with just 39 percent for whites. Shapiro also pointed out that the people impacted by the housing crisis were likely to be the parents of Millennials.

Even with equal advances in income, education, and other factors, wealth grows at far lower rates for black households because they usually need to use financial gains for everyday needs rather than long-term savings and asset building. Each dollar in income increase yields $5.19 in wealth for white American households, but only 69 cents for black American households. In addition, while many Americans don't have adequate savings, the rate is far higher for families of color: 95 percent of African American and 87 percent of Latino middle-class families do not have enough net assets to meet most of their essential living expenses for even three months if their source of income were to disappear. If Millennials of color aren't getting as much financial help, it's because there's just not as much help for their families to give.

It's more than just lack of "pocket money" from parents that impacts Millennials of color. The last significant stop on life's journey is often an economically definitive one too, when parents and grandparents pass away and leave an inheritance.

According to the Institute on Assets and Social Policy, white Americans are five times more likely to inherit than black Americans (36 percent to 7 percent, respectively). And even when both groups received an inheritance, white Americans received about ten times more. "It's really a double whammy," Shapiro said. On the flipside, black Millennials and other low-asset groups are much more likely to go into debt when a family member passes away. It's not uncommon for some families to throw bake sales and engage in other fund-raising activities to bury their relatives.

A 2013 *Washington Post* article also noted that "black families rarely benefited from inheritances and gifts to help them make down payments on homes. The result was that black families typically bought homes eight years later than whites, giving them less time to build equity."

"That's an eight-year window of not paying rent and building equity," Shapiro said.

And the life cycle of homeownership-related matters is an onerous one for black Americans to begin with. The researchers Kerwin Charles and Erik Hurst found that black mortgage applicants were almost twice as likely to be rejected for a loan in the first place, even when credit profile and household wealth were controlled for.

The same study found that almost half of white Americans got money from a family source for a home down payment, while nine in ten black Americans had to came up with their entire down payment on their own—which had the effect of disincentivizing younger black renters from buying. "Even when they were able to buy a home," the *Post* article said, "the typical black family did not see that property appreciate as much as did the typical white family."

It all adds up to a slice of the racial wealth gap that's hard to grasp because it's made up of many smaller inequalities instead of one massive one. It's not the difference between a silver spoon and a dirt floor, it's the one between textbook money and a campus job. It's not the difference between the 1 percent and the destitute, it's the one between a birthday card from Grandma and paying her hospital bill. The gap in gifts, debts, and inheritances creates a vicious cycle with large ramifications for many black Millennials and their financial future—and when combined with redlining and unequal returns on income and education, the odds are stacked in a terrible way.

My father left me with many things of value: a love of creation, an affinity for literature, a deep sense of integrity, and a penchant for easily making friends out of strangers. He loved America, despite the times it relegated him to the back doors of its restaurants as a "colored man." He placed glossy graduation photos of me from high school and college in nooks around the house like prized medallions. They symbolized his version of the "American Dream," where his children—his Millennials—would accomplish more than he ever could.

For his sake and mine, I hope he's right.

Mel Jones was an intern at the Washington Monthly. She has contributed to investigations for the Washington Post and holds a BA from Bryn Mawr College and an MA in journalism and public affairs from American University.