

Racial and Ethnic Differences in Holding a Retirement Saving Motive: A Decomposition Analysis

Soo Hyun Cho, California State University Long Beach¹
Kyoung Tae Kim, University of Alabama²
Sharon DeVaney, Purdue University³

In the U.S., saving for retirement has become more important because employers have shifted from utilizing defined benefit plans to defined contribution plans. While greater responsibility has fallen to individuals to support themselves after retirement, evidence shows that Americans are not prepared adequately (Board of Governors, 2016). Retirement saving behavior is intentional and experts suggest that it should be accomplished by long-term planning such as establishing a goal and implementing a plan. Goals play central roles in purposive behavior, through the process of formation, planning action, controlling the action, and finally in attaining or failing to reach the goal (Bagozzi & Dholakia, 1999). While employer-sponsored programs help attaining adequate retirement saving, saving for retirement at an individual level largely can benefit from goal setting and striving for goals.

Given the persistent racial/ethnic gap in various financial outcomes, there is a need to understand the causes of the differences. Examining the saving motives for retirement held by various racial groups could help further understand the retirement preparedness by racial groups. This study investigated racial/ethnic differences in holding a retirement saving motive using a sample of 3,523 working households from the 2016 Survey of Consumer Finances (SCF). The decomposition analysis by Blinder-Oaxaca (Blinder, 1973; Oaxaca, 1973) was used to determine the extent to which differences in holding a retirement saving motive are explained by various household characteristics compared to those by unobserved factors.

Results from the 2016 SCF showed that households with a white respondent had the highest percentage having a retirement saving motive (57.2%), followed by Asian/others (39.8%), Black (38.3%), and Hispanic (32.8%). Decomposition analysis indicated that the significant racial differences in holding retirement saving motives can be explained by different factors. In particular, homeownership, objective financial knowledge, and age contributed to the racial/ethnic gap in the rate of retirement saving motive between Black and White households. Further, Hispanic-White differences were explained further by education and savings horizon. However, respondent's age and homeownership largely explained the gap of retirement saving motive between Asian/others and White. The results that homeownership and age consistently explain the rate of having retirement saving motives across race and/or ethnicity are in line with hierarchy of saving goals (DeVaney, Anong, & Whirl, 2007; Xiao & Noring, 1994). Retirement saving interventions targeting specific racial/ethnic group could be more effective when different factors explaining the goal setting behavior across group are taken into a further consideration.

References

- Bagozzi, R. P., & Dholakia, Utpal (1999). Goal setting and goal striving in consumer behavior. *Journal of Marketing*, 63, 19-32.
- Blinder, A. S. (1973). Wage discrimination: Reduced form and structural estimates. *Journal of Human Resources*, 8(4), 436-455.

¹ Soo Hyun Cho (soohyun.cho@csulb.edu), Assistant Professor, Department of Family & Consumer Sciences

² Kyoung Tae Kim (ktkim@ches.ua.edu), Assistant Professor, Department of Consumer Sciences

³ Sharon DeVaney (sdevaney@purdue.edu), Professor Emeritus, Purdue University and Editor, Family & Consumer Sciences Research Journal

- DeVaney, S. A., Anong, S. T., & Whirl, S. E. (2007). Household savings motives and a hierarchy of needs. *Journal of Consumer Affairs*, 41(1), 174-186.
- Board of Governors (May 2016). Federal Reserve System Report on Economic Well-Being of U.S. Households in 2015.
- Oaxaca, R. (1973). Male-female wage differentials in urban labor markets. *International Economic Review*, 14(3), 693-709.
- Xiao, J. J., & Noring, F. E. (1994). Perceived saving motives and hierarchical financial needs. *Financial Counseling and Planning*, 5, 25-44.