# Potential Financial Impacts of the COVID-19 Pandemic on Minority Older Adults

## Learnings from the Great Recession of 2008

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In a recent data brief entitled *Economic Insecurity for Older Adults in the Presence of the COVID-19 Pandemic: What can we learn from the most recent major economic downturn?* we highlighted the impacts of the 2008 United States (U.S.) market collapse on the financial status of older adults age 60 and over. We did this in order to underline the economic costs of the pandemic that could await older Americans during the extended shut-down of the economy. We already know, for example, that more than 30 million Americans have filed for unemployment and that for the first time in six years, the U.S. economy contracted with GDP growth falling to a rate of –4.8%. We know from our previous study, as well as those of others, that older adults suffer declines in net wealth during large and unanticipated economic downturns and that, unlike younger adults, they have less time to make up such losses to bolster their retirement savings. This was demonstrated in our analysis of the Great Recession that began with the collapse of financial markets in 2008.

It is important to note, however, that even as almost everyone is expected to experience some degree of financial loss, as is the case with many social and economic indicators in the U.S., some groups are hit harder than others. Specifically, minority older adults are likely to experience particularly significant declines in financial well-being, which exacerbate economic disparities that have existed during most of their working years.

## Purpose

In this data brief, we explore the impacts of the 2008 market collapse on the financial status of **minority older adults** age 60 and over. Our purpose is to use that most recent recession experience to better understand what is at stake and the likely magnitude of financial loss that may impact minority older adults as a result of the pandemic-induced market collapse. We analyze the nationally representative, longitudinal data in the Health and Retirement Study (HRS) from 2006 to 2010 to assess the immediate pre- and post-recession impacts on three groups of individuals age 60 and over: Non-Hispanic Whites (N = 18,036), Non-Hispanic Blacks (N = 2,772), and Hispanics (N = 1,569). We also examine how the economic downturn affected various sub-populations within these racial/ethnic groups by focusing on changes in the value of assets for those in the lowest to the highest quintile of net wealth as well as changes in poverty rates over the period between 2006 and 2010.

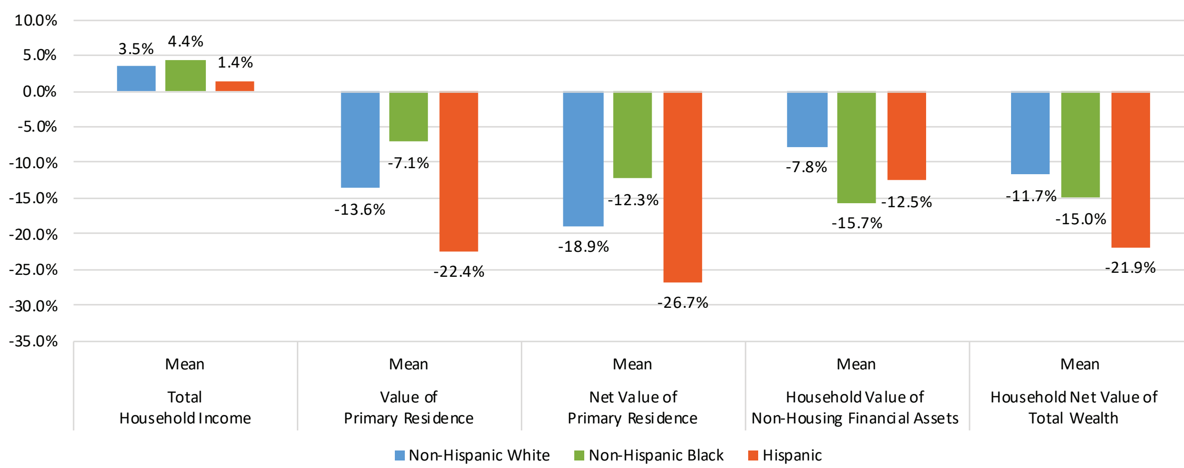
# Method

We analyze changes in the following measures of wealth: (1) Total household income is the total sum of respondent and spousal earnings, pensions and annuities, Social Security Income (SSI) and Social Security Disability (SSDI), Social Security Retirement, unemployment and workers' compensation, other government transfers, household capital income and other income for the last calendar year[1]; (2) Total value of primary residence is the current market value their primary residence would be according to the respondents[2]; (3) Net value of their primary residence is the value of primary residence without mortgages and home loans[2]; (4) Total value of financial assets is the total sum of retirement plans (IRA, Keogh accounts), stocks mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds and other savings in a household (this does not take into account debts); (5) Net value of total wealth is the total sum of housing and financial assets less debts. The housing and financial assets are their primary residence, stocks, mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds, other savings and retirement plans such as IRA and Keogh accounts. The debt components include their mortgage, home loans, credit card debts, and any other debts.

# Findings

**FIGURE 1** shows that even as each racial/ethnic group recorded slight increases in household income, there were significant declines in both housing and non-housing asset values over the period. The fact that the net value of the primary residence fell more than the value of the residence itself, suggests that across all groups, people assumed more mortgage debt over the period. It is noteworthy that Hispanics fared worse than any group across all measures. As well, African Americans showed the lowest decline in housing assets, this reflecting the fact that fewer of them own property compared to Whites and Hispanics. Hispanic property ownership was highest in areas/states that were in a steady positive development trajectory prior to the recession, but then saw the steepest housing value declines due to the recession.

Figure 1: Age 60+ Mean Percentage Change in Financial Characteristics 2006 to 2010 by Race/Ethnicity

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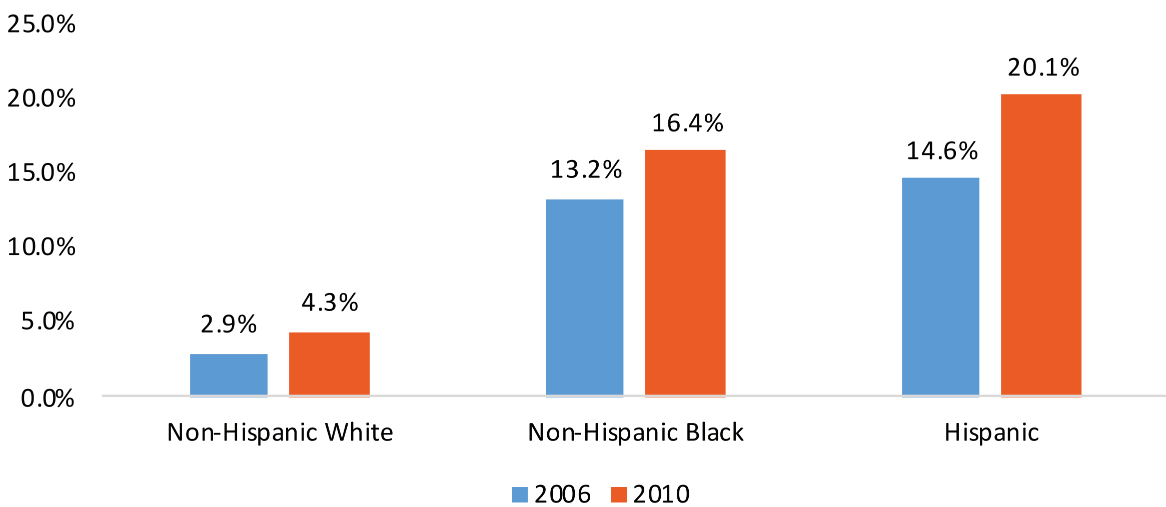
[1] Quintiles in this memo are defined based on the net value of total wealth; this approach is meaningful in terms of understanding the overall household financial circumstances of the various segments of the age 60 and older population.

[2] Pantoja, P., Bugliari, D., Campbell, N., Chan, C., Hayden, O., Hayes, J.,Clair, P., S. (2018). *RAND HRS Detailed Imputations File 2014 (V2) Documentation*. Retrieved from https://www.rand.org/content/dam/rand/www/external/labor/aging/dataprod/randhrsimp1992_2014v2.pdf.

In comparison, fewer African Americans own property, so the housing recession impact was much lower for them. And although Whites also saw some decline, it was balanced out by more widespread property ownership across various locations/markets (i.e. some Whites got hit hard, but others saw little impact depending on where they lived). Across all groups, non-housing financial asset values fell by between 8% and 16%.

Even though there may have been marginal gains in average household income, the fact that poverty thresholds are updated to reflect rising costs, and asset values declined over the period, contributed to changes in the percentage of people below the Federal Poverty Level (FPL). Indeed, as shown in **FIGURE 2**, the recession of 2008 did have a major impact across all groups. The poverty rate from 2006 to 2010 increased dramatically for Non-Hispanic Whites (48%) and for Hispanics (38%). Of course, both Hispanics and African Americans over age 60 had roughly five times the poverty rate than did Non-Hispanic Whites to begin with. While this difference did narrow a bit after the recession, the difference in rates between the groups was still very large; Hispanics and African Americans were four times more likely to be below the federal poverty line than were Non-Hispanic Whites after the recession.

Figure 2: Age 60+ Percentage of those Below Federal Poverty Level (2006 to 2010) by Race/Ethnicity

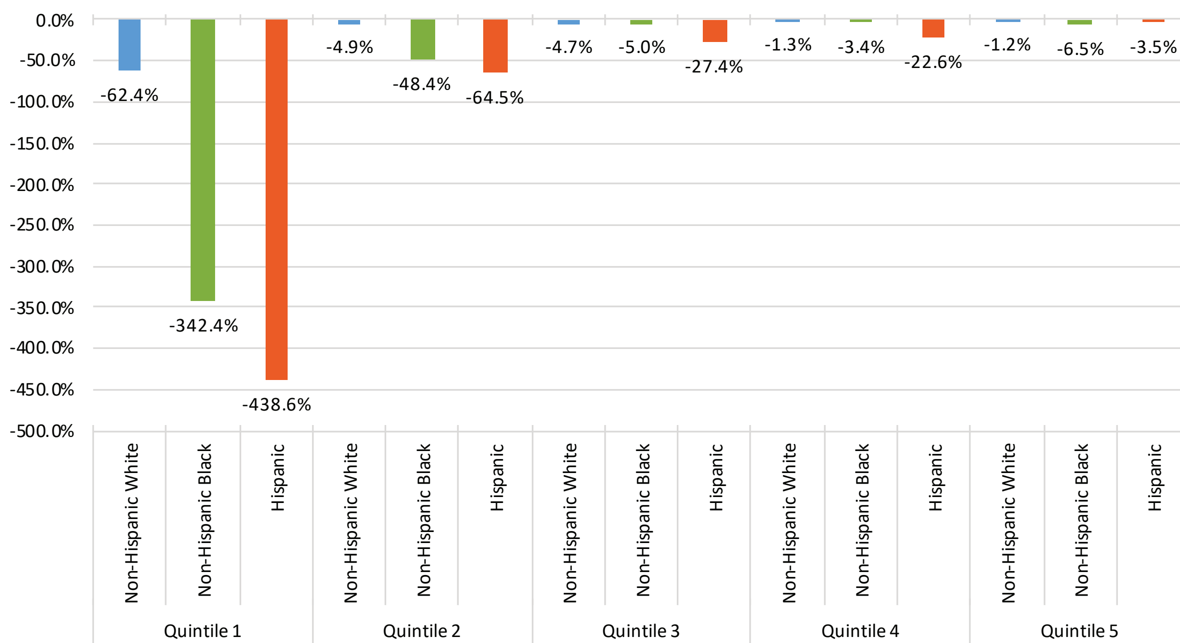



A contributing factor to what is occurring for Hispanics is that the majority of them are foreign born. Our analysis showed that 60% of Hispanics in the sample were foreign born compared to 4% of Non-Hispanic Whites and 7% of Non-Hispanic Blacks. Foreign born Hispanics have struggled most with poverty in part because of their relatively static income even in the presence of rising living costs. This is borne out by the relative modest increase in household income over the period. Also, the jobs in which they are engaged throughout their working years tend to be of lower pay and lower benefits. This means that even taking into account the redistribution aspects of Social Security payments — which are designed to dampen some of these lifetime earnings disparities — the Social Security income of retired Hispanics is likely to be on the lower side. Finally, many of them have had less time working in the U.S. to accumulate savings/assets. Not shown in the graph is that if one focuses on individuals ages 75 and over, older Hispanics show a 68% increase in the percentage living below the FPL – from 13.4% to 21.6%. Again, this emphasizes the point that being foreign born has had a particularly large impact on their financial status in retirement.

One would not expect the impacts of the recession to affect all income groups the same, even within racial/ethnic categories. In order to test this, we segmented the population into quintiles based on their net value of total wealth, which is to divide the population into five equal parts of 20%. Thus, Quintile 1 represents the lowest 20% of the group, followed by the 20-40% of the group in Quintile 2, the 40-60% of the group in Quintile 3, the 60-80% of the group in Quintile 4, and the 80-100% of the group in Quintile 5.

**FIGURE 3** shows the mean percentage change in total net wealth for each of the groups arrayed by total net wealth quintile.

Figure 3: Age 60+ Mean Percentage Change 2006 to 2010 in Net Total Wealth by Quintile and Race/Ethnicity




Clearly, individuals in the lowest quintile are hit hardest regardless of their racial/ethnic group and the impacts diminish when moving up the wealth stream. Noteworthy is the fact that even within the various quintile groups, Hispanics continue to show the largest loss in net wealth. This is because Hispanics fall predominantly in the lower household income categories. Put simply, compared to Whites and African Americans, they comprise a much smaller share of the middle class. Moreover, our analysis shows that they are more likely to be retired and have a greater share of their income deriving from Social Security, which does not guarantee a level of income that would keep them from falling below the poverty line.

**FIGURES 4** and **5** highlight the results for non-housing wealth (liquid assets) and for net housing wealth, which is the value of the home minus any mortgage or home loans. A number of patterns emerge. First, as was the case with overall net wealth, the impacts of the recession are inversely related to the value of financial assets: It strikes hardest on the lower quintiles and for the most part, its impacts diminish as one moves up the wealth stream. Second, African Americans in the lowest quintile, who are the least likely to own property, show the largest decline in the value of their liquid assets. For Quintiles 2 through 5, however, Hispanics show the largest declines in the value of liquid assets. Third, because the rate of homeownership among Hispanics is high relative to African Americans, and both groups have far less net wealth tied up in their homes than do Whites, across all quintile groups, Hispanics show the greatest losses over the period.

Figure 4: Age 60+ Mean Percentage Change 2006 to 2010 in Net Financial Assets (Non-Housing) by Quintile and Race/Ethnicity

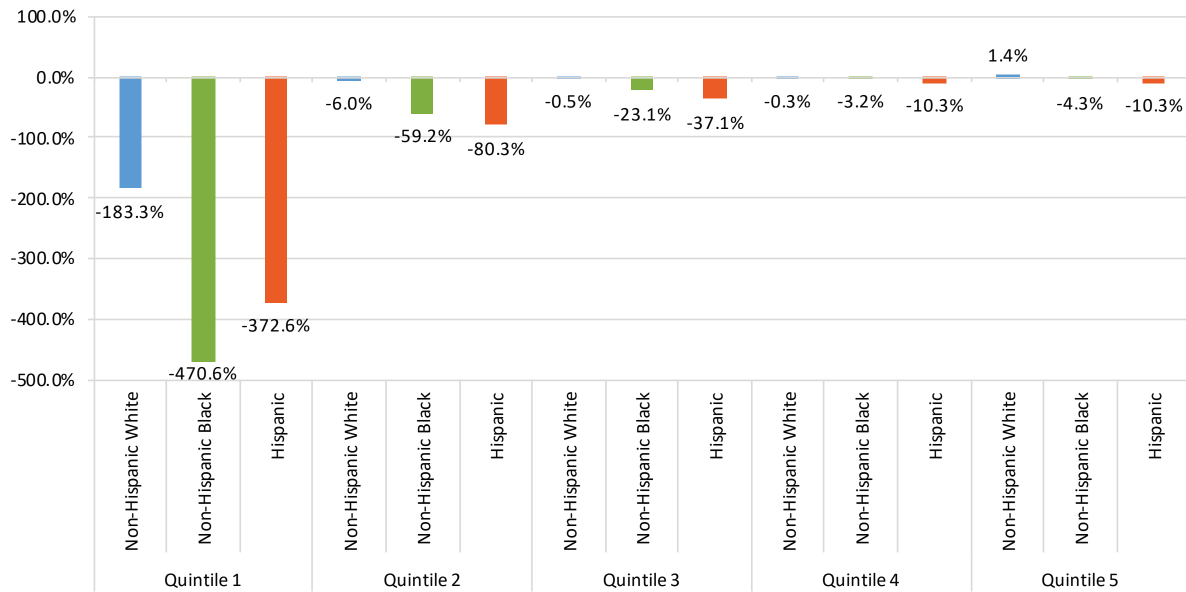
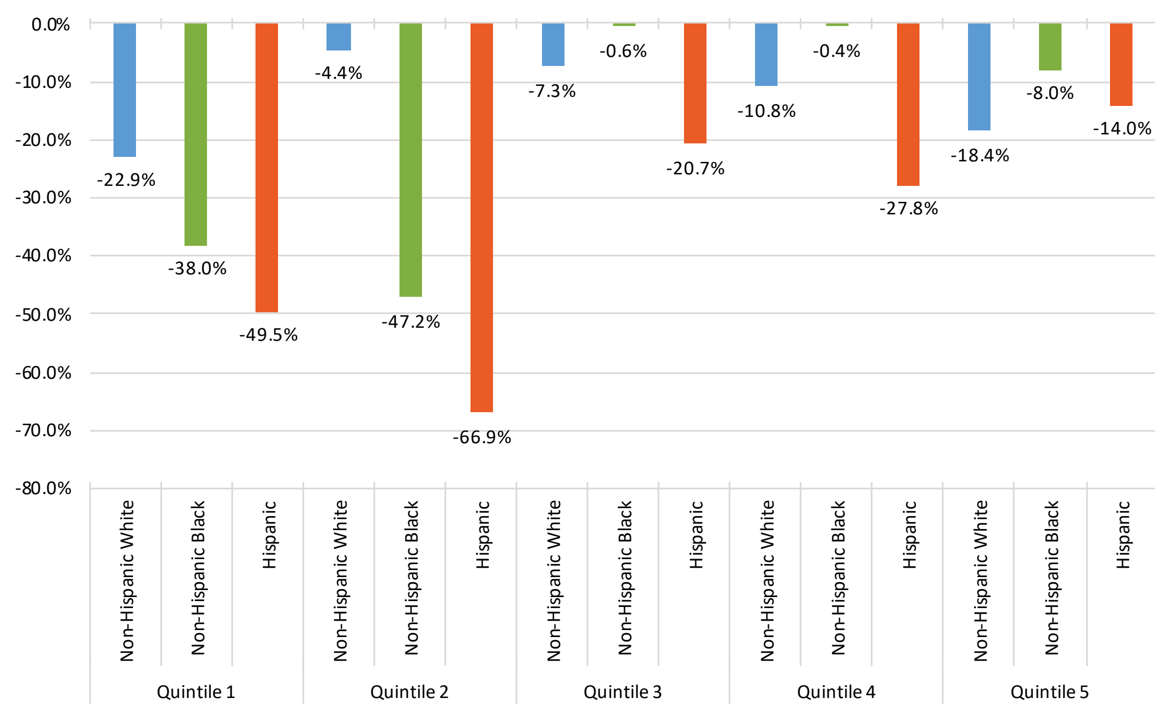



Figure 5: Age 60+ Mean Percentage Change 2006 to 2010 in Net Value of Primary Residence by Quintile and Race/Ethnicity



# Conclusions

The findings from this analysis highlight how the 2008 recession affected various racial/ethnic groups in the population over age 60. Not surprisingly, there are major differences both within and across the groups. There is every reason to assume that many of these negative impacts will be forthcoming during the current unanticipated downturn. All groups will experience significant decreases in total net wealth, but without question, the Hispanic population will experience the most dramatic declines. Their lower and relatively non-growing household income coupled with higher home-ownership rates than African Americans, make them particularly vulnerable to these economic swings. Thus, compared to other groups, they will also likely have the largest increase in the proportion who fall below the FPL after the recession.

These negative economic impacts only tell part of the story, as there are also increases in out-of-pocket expenses across the groups. In particular, while out-of-pocket medical expenses are highest for Non-Hispanic Whites, they grew the most over the period for Hispanics. In fact, these expenses grew by 10% for Non-Hispanic Whites, 11% for African Americans, and 33% for Hispanics. This puts additional strain on the financial well-being of this group. This is related to the fact that Hispanics in this age group are between 1.1 and 1.3 times more likely to have multiple chronic conditions, 1.4 to 2.1 times more likely to have depression, and while roughly comparable to rates experienced by African Americans, roughly 6 times more likely to have cognitive impairment than the other racial/ethnic groups. Thus, not only are they likely to become more financially vulnerable, their health needs and associated expenses are likely to worsen in the context of this pandemic-induced recession.

This analysis underscores the importance of looking beyond simple averages to identify those groups who may be particularly hard hit by the COVID-19 pandemic. And by hard hit, we mean in terms of both the financial and health aspects of the threat. For that reason, it is critically important to maintain a strong social safety net and ensure that people who need to access benefits are able to do so, and to undertake policies that focus on narrowing financial disparities across the racial and ethnic lines.

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