Family Financial Resources among Boston Residents: Flow by Race and Ethnicity

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Summary

This issue brief examines the extent to which family financial transfers occur among Boston residents of color. New data collected for the Boston metro area, as part of the National Asset Scorecard for Communities of Color (NASCC) survey, for the first time provide detailed information on financial assets that allow analysis to be broken down beyond the traditional black-and-white divide at the metropolitan-area level. Targeting U.S.-born blacks, Caribbean blacks, Cape Verdeans, Puerto Ricans, and Dominicans, findings show that households of color consistently receive fewer financial transfers than whites, while at the same time providing more financial assistance to their families and relatives. Particularly striking are differences in parental payments toward higher education expenses and financial support for the down payment of a home. Immigrant status further explains differences between white and nonwhite households as well as between households of color.

Introduction

The importance of wealth for family economic well-being and upward mobility through investment in education, business creation, and home purchase has been widely documented as have growing racial and ethnic disparities in household wealth holdings (Shapiro, Meschede, & Osoro, 2014; Kochhar & Fry, 2011; Conley, 1999). Research also points to the importance of financial transfers among kinship and social networks on household wealth holdings (Gale & Scholz, 1994) and their impacts on racial wealth inequities (Thomas et al., 2014; McKernan et al., 2014; Shapiro, Meschede, & Osoro, 2013; Chiteji & Hamilton, 2002). While most of these studies have been conducted at the national level, comparing white, black, and in some instances Latino households, new data collected in the NASCC study provide for the first time detailed information on financial assets at the metropolitan-area level that allows analysis to be broken down beyond the traditional black-and-white aggregates. This issue brief focuses on the survey conducted in the Boston Metropolitan Statistical Area (MSA).

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Mirroring national trends, residents in the Boston MSA increasingly identify themselves as nonwhite. While still a majority white area, the white share of the population declined slightly to 74 percent in 2012, Hispanics account for 10 percent, and blacks and Asians account for 7 percent each. A breakdown of these broad racial and ethnic categories further shows that close to half of the blacks residing in the Boston metropolitan area were not born in the United States; the largest group among them traces their roots to the Caribbean. Among Boston Hispanics, the largest groups are Puerto Ricans and Dominicans (for more details, see Muñoz et al., 2015). In this paper we study the extent to which financial transfers among family members occur in households residing in the Boston MSA, focusing on differences by race and ethnicity as well as immigrant status.

Why Study Family Financial Transfers?

Extended family wealth plays a critical role in providing economic assistance across and within generations (Gale & Scholz, 1994; Chiteji & Hamilton, 2005). It can be transmitted in the form of a change in ownership of financial or other assets (for example, homes, business), typically from the older generation to younger family members. These transfers can occur at the time of death (inheritance) or while those who are giving are still alive (*inter vivo* transfers). Another form of family financial transfers is remittances, also known as international money transfers, which resources are sent by immigrants or foreign workers to family members residing in their native countries. According to the World Bank (2014), in 2013, $516 billion went to developing countries (a new record) with overall global remittances totaling $581 billion.

Family financial transfers provide the recipient with investment options that promote economic opportunity and upward mobility. Throughout the life course, these transfers can take different forms, ranging from financially supporting a young adult's college attendance to leaving a substantial inheritance that provides financial security in retirement. Ample evidence documents the relationship between family financial transfers and household wealth. Not including college expenses, estimates show that financial gifts from parents to their adult children are the source of at least 20 percent of total wealth and that inheritances can account for half of total wealth in the United States (Gale & Scholz, 1994). In comparison with other similar industrialized nations, the intergenerational wealth elasticity, estimated at 40 percent, is highest in the United States (Charles & Hurst, 2003), indicating a strong connection between wealth of family of origin and current wealth holdings.

Scholars began documenting the extent of racial wealth disparities in the United States ever since data on household wealth holdings became available in the early 1980s (Oliver & Shapiro, 1995; Hurst, Luoh, & Stafford, 1998). While it is estimated that blacks earn roughly 60 cents for each dollar a typical white person earns, it has been estimated that a typical black household has about 5 to 10 cents for each dollar a typical white household owns. A considerable portion of racial wealth disparities can be traced to the wealth effects of intergenerational transfers. White households are not only more likely to receive financial gifts and inheritances than their black and Latino counterparts (Jayakody, 1998; Lee & Aytac, 1998), they also receive larger monetary amounts (Shapiro, Meschede, & Osoro, 2014). In addition, research estimates that the transfers of family wealth (not including payments for higher education and down payments for a home) account for up to between 12 and 20 percent of the average explained difference in the black-white wealth gap, which in most studies accounts for more of the gap than demographic and social economic indicators (McKernan et al., 2014; Chiteji & Hamilton, 2002; Menchik & Jianakoplos, 1997). Thus, personal networks that include poorer kin, parents or siblings, explain a critical portion of the gap between the amounts of wealth accumulated by black and white families (Chiteji & Hamilton, 2002).

Immigrant status is another critical variable when examining racial and ethnic wealth disparities. Overall, immigrants have lower levels of wealth (Osili & Paulson, 2007). While it takes on average about two decades for immigrants to catch up with wealth holdings of native households, analyses conducted on wealth data collected in the early 1990s show that the racial and ethnic wealth disparities are similar for immigrants (Hao, 2004).

Project Goals

This issue brief depicts differences in various types of kinship financial transfers by race/ethnicity and discusses their impact on household wealth. Specifically, this paper extends our knowledge of racial and ethnic family wealth disparities by providing data on subgroups within broader constructs of race and ethnicity. Our analysis seeks to answer the following research questions:

1. To what degree do private financial transfers in Boston differ by race and ethnicity?
2. What is the role of immigrant status in explaining private financial transfers in Boston?

The Boston National Assets Scorecard and Communities of Color (NASCC) Survey

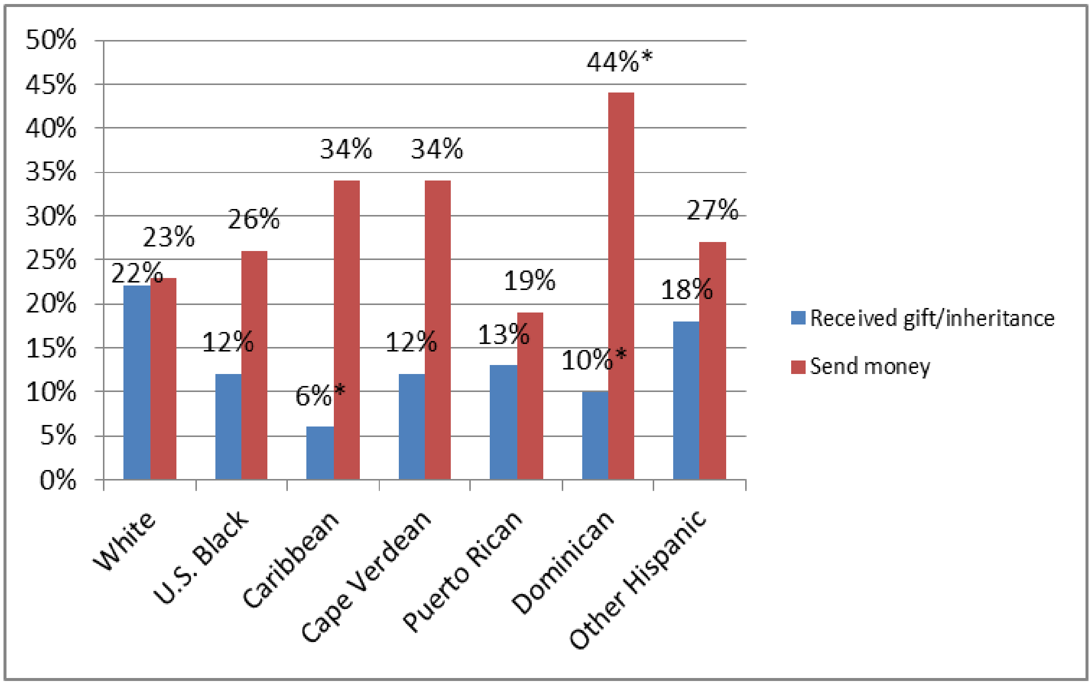
This paper focuses on NASCC data collected in early 2014 for the Boston MSA where 403 households were surveyed, targeting U.S.-born blacks and Caribbeans (including Haitians), Cape Verdeans, Puerto Ricans, and Dominicans. The survey also includes other Hispanic, Asian, and white households. Respondents self-identified their race and ethnicity identity. [1]

The following analyses depict age and income-adjusted percentages of receiving and giving financial transfers among family members,[2] which varied greatly by national origin (for more details see Meschede et al. 2015). White households reported receiving substantial gifts and/or inheritances more often than any of the other race/ethnic and ancestral origin groups. Controlling for age and income, Caribbean and Dominican households had a significantly lower likelihood of receiving such financial boosts when compared to white households. While 22 percent of white respondents reported having received a major financial gift, only 6 percent of Caribbeans and 10 percent of Dominicans did (see Figure 1).

[1] William A. Darity Jr. (Duke University) and Darrick Hamilton (The New School) serve as NASCC primary investigators. NASCC–Boston project manager is Ana Patricia Muñoz (Federal Reserve Bank of Boston). For more details about NASCC methodology see Muñoz et al. (2015). Due to the small sample size of Asian respondents in the Boston NASCC study, results for this group are not discussed in this paper.

[2] The presented percentages were estimated in logistic regression analysis that included dummies for each of the race/ethnic groups in reference to white respondents. Age and income controls were selected by their relationship with receiving or providing financial transfers. Older households tend to be more in a position to provide financial support to younger extended family members, and vice versa, younger households tend to be more likely to be the recipient of financial gifts. Households with higher incomes are in a better position to give, in contrast to households of lower incomes. Significant differences with white study respondents are depicted throughout.

Figure 1: Percentage of Respondents Receiving Large Financial Gift/Inheritance and Sending Money in Support of Family Members by Race/Ethnicity



Source: NASCC survey, authors' calculations.*p<.05

In contrast to receiving intra-family financial transfers, there were noticeable differences in sending money to other family members, whether within the United States or abroad. Among all communities of color in Boston, only Puerto Ricans showed lower levels of sending money when compared to whites, with all other race/ethnic groups of interest reporting higher levels than their white counterparts.[3] However, only among Dominicans did significantly[4] more households (44 percent) send money to their families when compared to whites (23 percent, see Figure 1). Regardless, all communities of color in this study reported a higher percentage among them sending money in support of family members, including remittances, than receiving financial support when compared to white respondents. This net difference between receiving and sending was highest for Dominicans (33 percent), followed by Caribbeans (28 percent) and Cape Verdeans (22 percent).[5]

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[3] In Chiteji and Hamilton's (2002) analysis of the role of poverty in explaining the racial wealth gap for middle-income families, they find substantially higher levels of poverty of extended family kin for black families in comparison to white families.

[4] Due to the low sample size, it is less likely to achieve statistical significance in analyses of the Boston NASCC data.

[5] For a more complete analysis see Meschede et al. (2015)

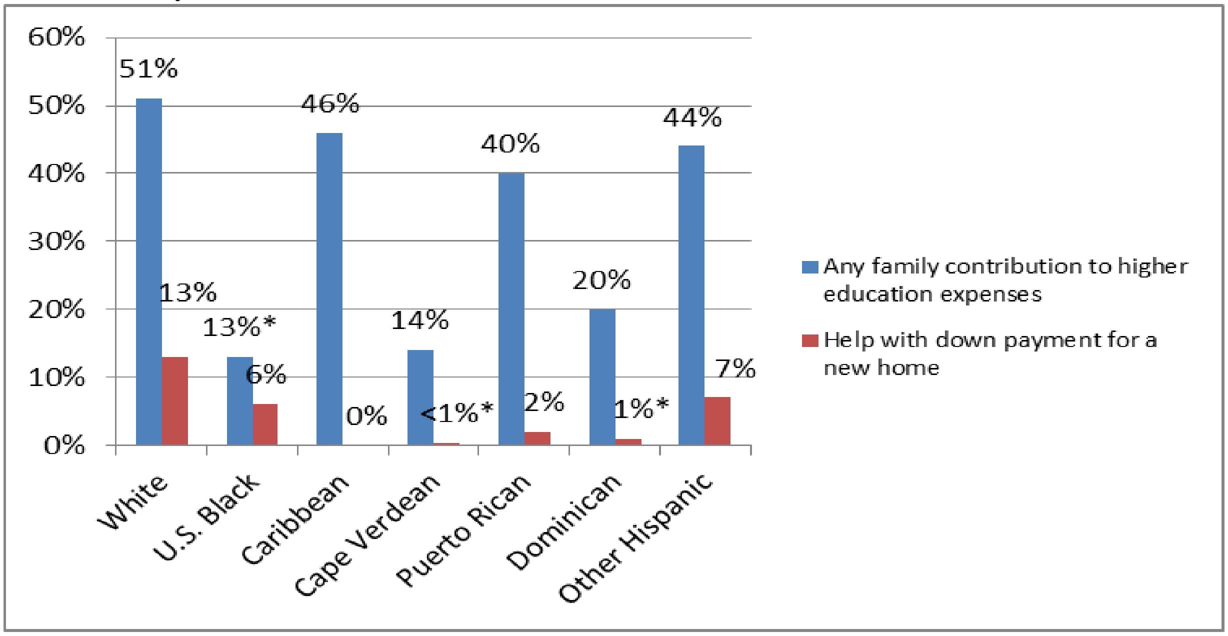
Family Financial Transfers for Higher Education and Home Purchase

Another path for sharing family wealth with the next generation is paying for college expenses and contributing toward the down payment for a first home. Differences in college attendance and completion by race and ethnicity are substantial, as are differences in the extent of student debt and the degree to which a family is able to financially support college attendance. College completion is significantly higher for whites and Asians than for any other racial and/or ethnic groups. In the Boston area, 55 percent of white respondents reported a bachelor's degree or higher, as compared to just 11 percent among Dominicans and 17 percent among Puerto Ricans. About four in ten among Caribbean blacks, U.S. blacks, and other Hispanics had completed college (Muñoz et al., 2015).[6]

Respondents in the Boston NASCC study who attended institutions of higher education were asked to estimate the percentage of their tuition bills paid by their parents, grandparents, or other family members. Overall, white parents paid significantly more toward college tuition bills, with one-third of white respondents reporting that their parents paid between 75 and 100 percent of their tuition bills. U.S.-descendent blacks, Cape Verdean, and Dominican respondents were the least likely to have received contributions to their higher education expenses from their families (see Figure 2). It is not surprising, then, that U.S. blacks and Cape Verdeans were among those with the highest level of student loan debt (Muñoz et al., 2015). Regardless of race, ethnicity, and age, having family financial support for higher education expenses was correlated with significantly higher incomes, indicating the long-term advantage such payments have for the recipient.

[6] Educational attainment data are based on the Boston NASCC sample.

Figure 2: Percentage of Respondents with any Family Financial Contribution to Higher Education Expenses and Purchase of a New Home



Source: NASCC survey, authors' calculations *p<.05

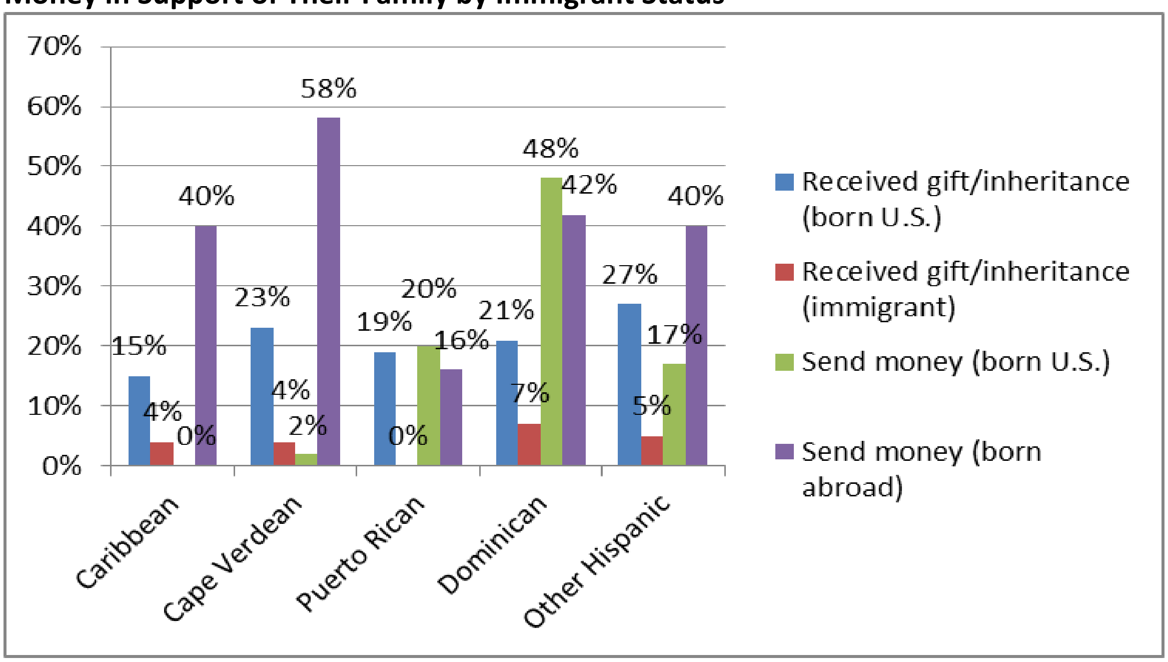
Financial transfers at the time of purchasing a home directly add to the wealth holdings of the recipient by adding to the home equity of the recipient and lowering the mortgage loan and subsequent mortgage payments. In the Boston NASCC survey, of the 191 homeowners, including those who are in the process of purchasing a home, only 7 percent (adjusted for age and income) reported either inheriting or receiving a financial gift or personal loan from a family member at the time of the purchase. More white respondents benefited from family financial support when purchasing a home, with an adjusted 13 percent reporting such a significant wealth transfer; however, only the very low rates for Cape Verdeans (< 1 percent) and Dominicans (1 percent) were found to be statistically significant from whites.

The Role of Immigrant Status

With most immigrants arriving in the United States with little if any wealth, this section of the paper turns to the role of immigrant status in receiving or giving family financial transfers. The Boston NASCC provides a good data source to test the role of immigrant status. By design, it oversampled immigrant households, resulting in a sample in which 39 percent of respondents were not born in the United States. We examine the role of immigrant status on the likelihood of financial transfers within kinships. As to be expected, immigrant status varied greatly based on race and ethnic identification. The largest immigrant groups were found among Caribbeans (89 percent), Dominicans (79 percent), and Cape Verdeans (75 percent).

Overall, receipt of a large financial gift and/or inheritance was substantially more common among U.S.-born respondents. For example, in all five race and ethnic groups with sufficient numbers of immigrant respondents[7] as shown in Figure 3, between 15 and 27 percent of U.S.-born respondents of color reported having received a financial gift, compared to just 0 to 7 percent among immigrants of color. Controlling for age and income, immigrants had a significantly lower likelihood (by 76 percent) of receiving a substantial family financial transfer, regardless of race or ethnic group. Among Caribbeans, Cape Verdeans, and other Hispanics, the proportion of households sending money in support of their family was substantially higher than having received a large financial gift. The proportions of receiving and giving were more equal only for Puerto Ricans and Dominicans.

Figure 3: Percentage of Respondents Receiving Substantial Gift/Inheritance and Sending Money in Support of Their Family by Immigrant Status



Source: NASCC survey, authors' calculations

[7] The sample sizes for immigrants among Cape Verdeans and Puerto Ricans was very low with just 13 respondents in each group.

Regardless of race and ethnicity, immigrant status is also significantly related to the likelihood of receiving financial support for college attendance from parents, grandparents, or other family members. Almost three-fourths of immigrant respondents reported that their family did not contribute any funds to their college education, compared to just over half for U.S.-born respondents. On the other hand, 20 percent of U.S.-born respondents had 100 percent of their college expenses paid for by their parents or other family members, whereas only 14 percent of college-attending immigrants had their complete college bill paid for by their family. However, only U.S. blacks and immigrants had a significantly lower likelihood of having received any financial support from their families for college attendance when compared to white households.

Finally, immigrants are also disadvantaged when counting on financial help for the down payment of a new home. Only 3 percent of immigrant homeowners received family financial help when purchasing their home, as compared to 10 percent among U.S.-born homeowners. Other Hispanics and Dominicans were the only ethnic groups in which home-owning immigrants reported having received family financial assistance when purchasing their home.

Discussion

Thanks to new data collected in the NASCC study, we can for the first time portray race and ethnic differences in sharing family financial resources among households residing in the Boston area, highlighting subpopulations specific to the Boston MSA. As expected, the data show large financial advantages of white households who, on average, had the highest level of receiving financial support and the lowest level of sharing financial resources with family members. The negative net financial support (less likely to receive and more likely to send money) was most pronounced in the Dominican, Caribbean, and Cape Verdean communities with a difference of over 30 percent between receiving a financial gift and providing financial support. This deficit in flow of financial resources has negative effects on wealth-building trajectories of members of these communities, lowering their chances to achieve economic security for themselves and their families.

Particularly striking are the differences in parents or other family members' financial support of college attendance. Not only did fewer nonwhite study participants attend higher education institutions and receive a college degree, those who did could not count on family financial assistance. U.S.-born blacks, Cape Verdeans, and Dominicans were the groups with the least amount of family financial support for financing their college education; they were also among those who were heavily burdened by student loan debt (Muñoz et al., 2015). Such differences in human capital investment have long-lasting impacts. With little or no family resources, young adults of color may decide to forgo attending college, leading to significantly lower lifetime earnings. Others who may decide to attend college may face much higher student debt, facing greater wealth losses over their lives than those who have little or no student debt (Hiltonsmith, 2013).

Immigrants, for the most part, face a number of challenges that native-born respondents do not face. With little, if any, family kin residing in the United States, they cannot count on family financial resources for support from within the United States. Among immigrants, Cape Verdeans and Caribbean blacks had the lowest levels of support for college and/or home purchase. In addition, immigrant households tend to send money to provide financial support to their family in their native countries. Squeezed by the greater need to support their families abroad while simultaneously working toward improving their own economic well-being in the United States, these immigrant groups face greater hurdles as they have few means to build a foundation of economic security for themselves and their families.

The challenges of having weak financial networks and supporting families overseas are numerous. In addition to lacking financial support for college and/or a home purchase, there are many other areas where family financial assistance can help a family avoid depleting their financial resources when facing a crisis. For example, when faced with an income loss due to unemployment or illness, family wealth can greatly enhance the family's opportunities by injecting financial resources, thus helping the family to stay on course with their ambitions and trajectories for their children (Thomas, Meschede, et al., 2014). Nonwhite families in Boston face these financial challenges to a much larger degree than white families, thereby impeding their chances of economic security and opportunity for themselves and their families.

Conclusion and Policy Implications

This brief is designed to provide an understanding of the flow of financial resources in kinship and social networks and the relationship of family financial transfers, either in the form of receiving or giving, on household wealth holdings. While limitations of the wealth data in the pilot NASCC study for Boston do not allow detection of a direct link to current wealth holdings for each of the race and ethnic groups in the study, a plethora of prior research clearly establishes the link of financial transfers to household wealth, passing on the advantage or disadvantage from one generation to the next. In the absence of family wealth, many groups in Boston, among them immigrants of color and U.S.-born black families, face enormous challenges to better their lives and those of their children. A number of policy interventions hold promise for low-wealth families, in particular families of color, to access better economic opportunities for themselves and their children. These include instituting children's savings accounts (CSAs) and making higher education more affordable as well as revisiting the U.S. tax code on home mortgage interest deductions and tax of inherited wealth.

CSAs have gained a lot of traction recently in the United States. In New England, the Alfond Scholarship Foundation in Maine began in 2009 to award each child born in the state $500 to be used for investing in that child's future education expenses. Parents or grandparents may contribute to these accounts, thus adding to the funds and encouraging these children's college education. Other New England states have begun to establish similar mechanisms.[8] As these accounts are relatively new, evaluations tracking their impact are not yet available.

Racial and ethnic disparities in the need for college loans due to a lack of family wealth are pronounced in Boston, as they are in the nation. With college tuition ballooning, discouraging some to ever attend, and adding massive debt level to those who do attend with no or few family resources to support them, there is a great need to make higher education affordable to anyone who desires to go to college. In conjunction with CSAs, policies are

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[8] A brief description of CSA initiatives in New England, summarized by Poore & Quint (2014), can be found at www.nebhe.org/thejournal/baby-talk-childrens-savings-accounts-mark-new-frontier-in-paying-for-college/.

needed to reduce reliance on college loans while at the same time support college completion, especially targeting those with low wealth backgrounds.

Finally, if reducing the racial wealth gap is a policy goal, revising the tax code could be another way to achieve this goal. For example, instituting a cap on home mortgage interest deductions which provide most benefits to high income citizens would be a way to equalize benefits for lower income owners and renters, among them predominately households of color (Sharp & Hall, 2014).

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