The Howard University Center of Excellence in Housing and Urban Research and Policy (CHURP)

Barriers to Building Wealth among High-Income Black Earners

Draft Final Report to
The U.S. Department of Housing and Urban Development

Prepared by

Terri Adams-Fuller, Beza Afework, Nyanya Browne, Bethel Cole-Smith, Rodney Green, Haydar Kurban, Digna Mosquera, Tess Starman, Omari Swinton, and Angelino Viceisza

April 30, 2024

Barriers to Building Wealth among High-income Black Earners

Terri Adams-Fuller[1], Beza Afework[1], Nyanya Browne[1*], Bethel Cole-Smith[1], Rodney Green[1], Haydar Kurban[1], Digna Mosquera[1], Tess Starman[1], Omari Swinton[1], and Angelino Viceisza[2]

Abstract

This study uses quantitative and qualitative methods to investigate the factors influencing engagement with financial advisors among high-income Black individuals. Results suggest that income is a pivotal determinant of seeking financial advice, while educational background and financial literacy show no significant impact. We also find that issues of trust and conflict of interest hinder this demographic's engagement with financial advisory services. These findings highlight the need for policies addressing racial income disparities and enhancing trust and transparency in financial institutions among Black high-income earners.

Keywords

financial planning, black wealth, financial decision-making, high-income earners

Introduction

Black wealth was systematically suppressed and destroyed throughout the 19th and early 20th centuries (Darity and Mullen 2020). In the 20th century, Black wealth denial was associated primarily with racist home ownership policies, which resulted in reduced rates of Black homeownership and lower rates of appreciation for purchased homes. In the personal finance industry in particular, Blacks have historically been both excluded from the industry (as customers, employees, and owners), and have experienced a paradoxical form of predatory inclusion, where they are targeted for exploitative financial rates, services, and products such as payday loans. This mistreatment has stimulated deep suspicions of financial institutions leading to inadequate engagement with the industry. Consequently, Blacks' seeming distrust of the financial system has caused them to mostly rely on friends and family for financial socialization and advice (Hudson et al., 2017). The effect of this legacy is that Black personal finance needs go unmet.

While a significant number of high-earning Black households appear to have overcome the racial income gaps and their legacies since the civil rights gains of the 1960s, they continue to face unique challenges. A survey conducted by Prudential (2015) finds that 39 percent of the Black respondents had some form of outreach by a financial professional, but only 14 percent worked with one, compared to 46 percent and 26 percent of the U.S. general population, respectively. On the other hand, 28 percent of Blacks (and 36 percent of the general population) with an annual household income of $75,000 or more reported working with a financial professional. Gomes et al. (2021) suggest that future research gravitate towards designing appropriate regulations and interventions to address the challenges of financial advice.

[1] Howard University

[2] Spelman College and NBER

Demographic and Financial Profile of High-Income African Americans and Whites

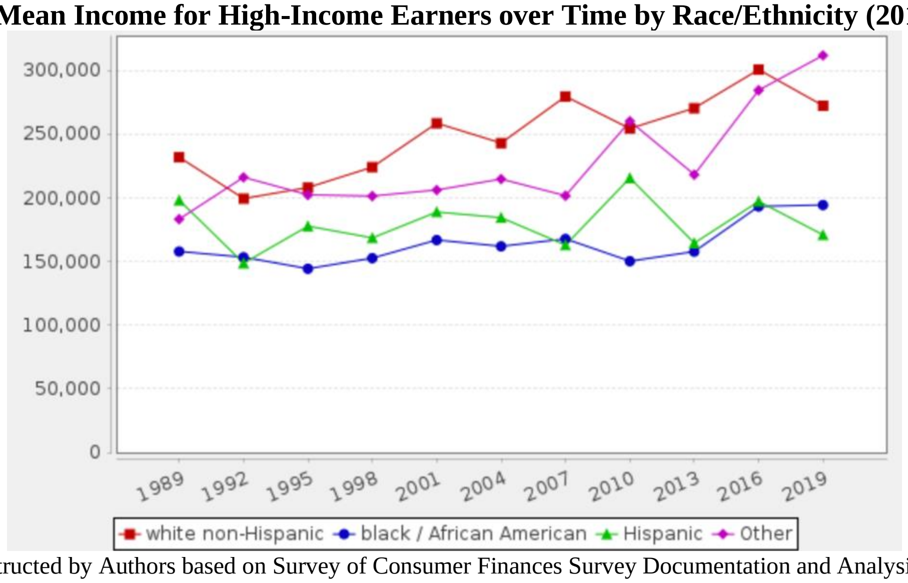
Households with annual income above $100,000 (i.e., high-income earners) form a minority among both Black and White households. The high-income share of White households (0.28), however, is roughly double that of Blacks (0.14). High-income Black households have lower median and mean values of income, indicating continuing income disparity even at high income levels. The median Black/White income ratio is 0.84, but even more telling is the mean Black/White income ratio of 0.71, showing that White high-income households skew towards very high-income households compared to Blacks (see Table 1). This disparity is not a new phenomenon. As shown in Figure 1, the mean income of high-income Blacks has been systematically below that of high-income Whites over the past two decades. These disparities may be among the underlying challenges that high-income Black households face in accessing and consuming appropriate financial products relative to high-income White households.

Table 1: Income of High-Income Households by Race and Ratios, 2019

Race	Number of High-Income Households	High-Income Households as Share of All Households	Median Income of High-Income Households	Mean Income of High-Income Households	B/W High-Income Household Ratio	B/W High-Income Median Income Ratio	B/W High-Income Mean Income Ratio
White	28,411,952	0.28	$160,863	$272,400	0.09	0.84	0.71
Black/African American	2,448,480	0.14	$134,392	$194,401			

Source: Authors' Calculations based on Survey of Consumer Finances and U.S. Census

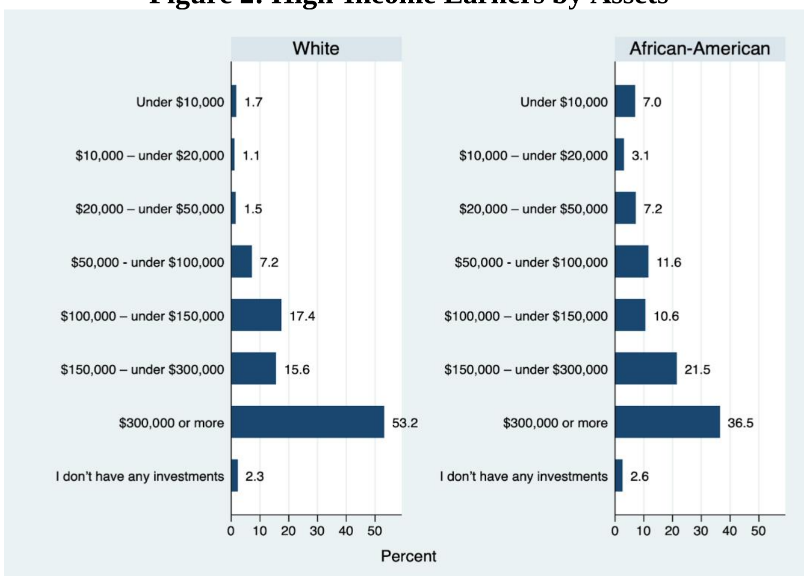
Figure 1: Mean Income for High-Income Earners over Time by Race/Ethnicity (2019 dollars)



Source: Constructed by Authors based on Survey of Consumer Finances Survey Documentation and Analysis (SDA) Tool

Demography is not destiny. Turning to the actual financial profile of Black and White high earning people, we find some disparities in access and consumption of financial products that may in turn be driven by the above-mentioned demographic differences. As shown in Figure 2, the asset holdings of high-income Whites substantially surpass those of high-income Blacks at the highest level, i.e., greater than $300,000 in household assets (53.2% versus 36.5%). This is consistent with the long-standing disparity in income among high-income earners (e.g., Banks 2019 and Bahn and Cumming 2020). A substantial portion of wealth building comes from savings from income accumulated over decades, and consistently higher incomes logically lead to higher asset accumulation. There is still substantial asset holding by Black high-income earners, so it is not clear the extent to which asset disparity would lead to substantial differences in accessing and consuming financial products. If asset ownership levels help determine accessing and consuming financial products, there is a modest but non-trivial racial gap.

Figure 2: High-Income Earners by Assets



Source: Authors' Calculations based on Survey of Consumer Finances SDA Tool

This study seeks to address this gap in the literature by highlighting the dynamics of financial advice-seeking and planning behaviors among an understudied demographic: Black high-income earners. Our study aims to identify the factors that influence engagement with financial advisors among high-income Black individuals and determine the specific behaviors and patterns prevalent amongst this demographic when seeking financial advice and planning finances. The findings will be used to suggest interventions that address the needs of this population.

Literature Review

Financial advice is frequently considered a potential solution to address financial illiteracy (Gomes et al. 2021). However, the conflict of interest (perceived or otherwise) that may arise between customers and professional advisors can turn into a daunting scenario for customers, often driving them to seek advice from informal sources (Mitchell and Smetters, 2013). Inderst and Ottavi (2012) suggest the use of mandatory commission disclosures as these not only decrease commissions themselves but also have a differential impact on the incentives of rival product providers to offer commissions.

The existing literature on financial advice has underscored significant concerns regarding the willingness of those who need it most to seek and heed advice (Gomes et al. 2021). Winchester et al. (2013) find that Black individuals who are satisfied with their selection of a financial expert are almost 92 percent less likely than their non-Black counterparts to refer their financial planners to others. Studying the impact of financial attitudes and investments on investment status, Hudson et al. (2021) find that Black women who are financially knowledgeable, have confidence in their money management skills, and have a sense of control over their finances were more likely to be investors. Reiter et al. (2022) employ an experimental design to examine the trust levels of potential clients in financial planners with particular attention to the race and gender of both consumers and planners. The authors collected and analyzed survey data from Amazon Mechanical Turk on workers aged 25 and over, encompassing both Black and White participants. Their findings revealed no evidence that race influenced the levels of trust in financial planners; however, women respondents were more likely to trust financial planners than their male counterparts.

In the mortgage market, Guiso et al. (2022) examine the operations of banks and the financial guidance they offer to their customers, who can be categorized as either sophisticated or naive. They find that sophisticated customers possess the knowledge to select the most appropriate mortgage for their needs, while naive customers rely on the guidance provided by the bank. Their findings indicate that there is a cost of distortion, equivalent to an 11 percent increase in the annual mortgage payment when customers follow suboptimal advice. Using the 2019 Survey of Consumer Finances, Hudson and Young (2023) find that Black American homeowners, savers and investors were less likely than White Americans to have low wealth. Gaudecker (2015) finds that persons who lack financial knowledge and do not seek help with their investments experience the largest losses due to under-diversification of their portfolios. Attributing this trend to overconfidence, the author suggests improving financial literacy and promoting the use of financial advice, from either personal contacts or financial professionals, could be effective strategies for reducing welfare losses resulting from suboptimal investment strategies. Similarly, documented disparities in retirement outcomes and the limited impact of retirement outreach initiatives on different racial and ethnic groups (Viceisza et al., 2023) reinforce the importance of accessing professional financial planning and advice for Black households including those with high incomes.

Data and Empirical Strategy

Quantitative Data

Our analysis draws primarily from the 2019 Federal Reserve Board (FRB) Survey of Consumer Finances (SCF, 2019). The triennial survey is the only fully representative source of information on the broad financial circumstances of U.S. households. The 2019 SCF public-use data contains information on 5,777 U.S. households and provides detailed information on sources of financial advice, risk tolerance, and knowledge of personal finances. To handle non-responses, the FRB employs a multiple imputation technique, which results in 5 complete datasets and a total of 28,885 observations.

Although the SCF data allows us to estimate the use of financial products and advisory services and the variation across different demographics, it does not allow us to investigate how trust and conflicts of interest influence the decision to use a financial planner. To do this, we use 2021 proprietary industry cross-sectional survey data obtained from The Massachusetts Mutual Life Insurance company (MM hereafter), as well as findings from focus group studies conducted by Howard University. These sources offer perspectives on how high-income Black earners perceive trust, financial planning, and potential conflicts of interest within the finance industry.

Empirical Strategy

We use logit regression models to determine the relationship between the dependent variable (a dummy variable equaling 1 if a financial professional/planner is the main source of information for saving and investment decisions and 0 otherwise) and the independent and control variables (race, education, gender, marital status, risk tolerance, knowledge of personal finances, and stock ownership). Given the complex survey design and multiple imputations of the SCF data, we apply RII (repeated-imputation inference) techniques to ensure valid statistical inference. The RII technique incorporates the variability in the data due to missing data into the estimate of the standard error of the mean (Robinson & Blanchette, 2009), thereby producing robust standard errors and reliable results.

To supplement our analyses, we apply the same logit regression technique to the MM data to examine the relationship between the dependent variable (a binary variable indicating whether the respondent is currently working with a financial professional, coded as 1 if yes and 0 if no) and the independent and control variables (levels of trust in financial institutions, gender, marital status, age, education). We analyze the impact of income levels on our variable of interest by running separate regression analyses. Specifically, we create two sets of regressions: one set uses a dummy variable that equals 1 for individuals with incomes at or above $70,000, and 0 for those with incomes below this threshold. The second set uses a different dummy variable, which equals 1 for individuals with incomes at or above $100,000, and 0 for those below this threshold. For both income thresholds, we conduct the analysis twice—once using weighted data to account for sample design or representativeness, and once using unweighted data. This approach allows us to compare the effects of being in different income brackets on the outcomes of interest, providing insights into how income levels influence these outcomes.

Qualitative Data

The focus groups cited in this study were conducted by the Howard University Initiative on Public Opinion (HIPO) under the direction of the Howard University Center of Excellence in Housing and Urban Research and Policy (CHURP). The focus groups targeted high-income earners who identify as Black or African American. The research process included nine focus groups using both in-person and virtual formats consisting of four to eight participants each. Participants included both men and women aged 30 to 69 who were either employed full-time or retired. All participants held a bachelor's, master's and/or doctoral degree, with annual income ranging from $90,000 to over $150,000. Participants were married, single, widowed or divorced. The average number of dependents in the household ranged from 0.5 to 3.25 across the nine focus groups. The research was conducted with IRB approval (IRB-2023-0905). Detailed information on focus group participants is provided in the Appendix.

Results

Quantitative Findings

We used several different logit specifications in this analysis. Table 2 presents the significant results of one such model. The significant results of the other models are briefly mentioned at the end of this section.

Table 2 presents the likelihood of using a financial professional (financial planner, lawyer, or accountant) as a source of information when making saving and investment decisions. Each specification focuses on a sample of households that meet particular income thresholds of $70,000 and above, $85,000 and above, and $100,000 and above, both weighted and unweighted. These income levels were chosen because, based on the income distribution of Blacks in the sample, the mean income was roughly $93,000, and the 75th percentile income was $71,000.

The findings suggest that Black women with incomes of $70,000 and above are significantly

94 percent less likely to use financial professionals as a source of information in comparison to White men. Additionally, the findings indicate that, as Black women's incomes reach or surpass the $85,000 income threshold, they are as likely as White men to seek financial professionals. This contrasts with Reiter et al.'s, (2022) conclusion that women are more likely than men to trust financial advisors. These findings underscore the substantial impact of income (or the lack of it) on the engagement of Black women with financial professionals. A parallel pattern is observed for Black individuals who earn at least $70,000 and are married. They are 92 percent less likely to use financial professionals compared to other married individuals in this income range. Above this income threshold, no significant difference between Black women and White men is observed. Interestingly, we find that there is no significant difference in the likelihood of using a financial professional as a source of information across individuals with varying levels of educational attainment. This suggests that educational background may not be a significant factor influencing the engagement of financial professionals. We also examined the financial factors influencing a high-income earner's use of financial professionals. The results suggest that risk tolerance and knowledge of personal finances are not significant factors that influence such individuals' use of a financial professional as a source of information.

While our results show a difference in Black women's use of a financial professional (including lawyers and accountants), when we narrow our focus to financial planners, we find no significant difference in the use of planners. This finding implies that Black women are as likely as White men to utilize financial planners as their source of information. Although we find no significant difference in Blacks' use of financial planners for information, the results show that Hispanics who earn at least $85,000 with moderate to high knowledge about their personal finances are more likely to use financial planners as a source of information than their White counterparts.

Because the SCF data lacks information on the perception of an individual's trust in the financial industry, we turn to MM data to give better insight on this dynamic[1]. Using logit regressions, we find that Black individuals earning at least $75,000 and $100,000 are more likely to work with a financial planner compared to those with lower incomes. Moreover, Black individuals who have complete trust in financial institutions are more likely to work with a financial planner than those who have no trust (Table 3).

[1] The MM dataset is not nationally representative, so the findings are only applicable to the sampled group.

Table 2: Logit Regression Results: Use of a Financial Professional as a Source of Information for Savings and Investment Decisions, SCF Data

	\$70,000 or more		\$85,000 or more		\$100,000 or more	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
	(1)	(2)	(3)	(4)	(5)	(6)
White						
Black	-2.266	-1.797	-1.288	-0.732	-0.807	-0.237
	[9.231]	[9.249]	[7.498]	[7.596]	[8.048]	[8.104]
Hispanic	0.001	1.849	-1.247	2.162	-2.539	-0.013
	[4.694]	[4.880]	[7.050]	[7.252]	[5.731]	[6.004]
Other	0.395	0.727	1.480	1.753	0.916	1.393
	[3.290]	[3.289]	[8.358]	[8.273]	[8.347]	[8.537]
Women	0.574***	0.762***	0.612***	0.717***	0.583***	0.743***
	[0.159]	[0.183]	[0.188]	[0.234]	[0.196]	[0.273]
Married	0.448***	0.399**	0.435***	0.377**	0.418**	0.362
	[0.136]	[0.163]	[0.154]	[0.175]	[0.165]	[0.221]
Education						
Reference = Less than high school						
High school	-0.286	0.298	-0.097	1.225***	-0.329	0.823
	[0.281]	[0.338]	[0.295]	[0.465]	[0.337]	[0.537]
Some college	-0.426	0.239	-0.217	1.254***	-0.601*	0.668
	[0.282]	[0.350]	[0.283]	[0.450]	[0.326]	[0.519]
Bachelor's degree	-0.052	0.565	0.156	1.545***	-0.164	1.024*
	[0.282]	[0.354]	[0.297]	[0.461]	[0.340]	[0.529]
Graduate degree	0.047	0.753**	0.219	1.706***	-0.144	1.185**
	[0.283]	[0.352]	[0.292]	[0.450]	[0.337]	[0.520]
Knowledge about personal finances						
Reference = Little to no knowledge						
Knowledgeable to very knowledgeable	0.172	0.336	0.256	0.334	0.383	0.593*
	[0.202]	[0.252]	[0.244]	[0.317]	[0.273]	[0.333]
Amount of financial risk household is willing to take						
Reference = Do not trust at all						
Substantial financial risk	0.605***	0.986***	0.673***	1.185***	0.654***	1.332***
	[0.183]	[0.244]	[0.192]	[0.239]	[0.218]	[0.261]
Above average financial risk	0.873***	0.784***	0.912***	0.811***	0.960***	0.950***
	[0.102]	[0.125]	[0.110]	[0.134]	[0.141]	[0.174]
Average financial risk	0.770***	0.630***	0.799***	0.615***	0.862***	0.779***
	[0.101]	[0.125]	[0.104]	[0.129]	[0.130]	[0.166]
Own publicly traded stock	0.248***	0.140	0.244***	0.136	0.224***	0.151
	[0.073]	[0.094]	[0.076]	[0.088]	[0.078]	[0.096]
Black*Women	-1.082**	-1.077**	-0.945	-0.996		
	[0.451]	[0.490]	[0.576]	[0.684]		
Black*Married	-0.648*	-1.010**	-0.490	-0.741	-0.330	-0.439
	[0.377]	[0.431]	[0.473]	[0.513]	[0.442]	[0.433]
Hispanic*Married	-1.159**	-1.089	-0.008	-0.183	0.641	0.741
	[0.501]	[0.668]	[0.585]	[0.737]	[0.552]	[0.827]
Observations	3058	3058	2676	2676	2366	2366
Pseudo R^2	0.045	0.044	0.042	0.047	0.038	0.049

Standard errors in brackets. * $p < .10$, ** $p < .05$, *** $p < .01$

Table 3: Logit Regression Results: Odds of Black Respondents Working with a Financial Planner, MassMutual Data

	Unweighted (1)	Weighted (2)	Unweighted (3)	Weighted (4)
Trust				
Reference = Do not trust at all				
Trust slightly	0.278	0.210	0.302	0.229
	[0.375]	[0.361]	[0.368]	[0.384]
Trust somewhat	0.258	0.279	0.169	0.213
	[0.332]	[0.320]	[0.324]	[0.346]
Trust very much	0.395	0.395	0.308	0.344
	[0.339]	[0.325]	[0.332]	[0.350]
Trust completely	0.932**	0.884**	0.884**	0.829**
	[0.368]	[0.356]	[0.362]	[0.380]
Women	-0.077	-0.068	-0.118	-0.107
	[0.128]	[0.144]	[0.127]	[0.142]
Married	-0.236*	-0.135	-0.200	-0.119
	[0.141]	[0.159]	[0.142]	[0.157]
Income of at least $75k	0.732***	0.737***		
	[0.138]	[0.141]		
	[0.157]			
Income of at least $100k			0.721***	0.744***
			[0.138]	[0.144]
Age				
Reference = Less than 35				
35-44	-0.250	-0.234	-0.262	-0.243
	[0.190]	[0.186]	[0.189]	[0.185]
45-54	-0.230	-0.145	-0.187	-0.107
	[0.196]	[0.203]	[0.195]	[0.200]
55-64	-0.086	-0.002	-0.049	0.030
	[0.201]	[0.210]	[0.200]	[0.207]
Education				
Reference = High school or less/Trade school				
Some college	0.189	0.006	0.217	0.049
	[0.234]	[0.273]	[0.233]	[0.267]
College	0.394*	0.288	0.486**	0.395
	[0.220]	[0.271]	[0.219]	[0.265]
Post-graduate	0.354	0.097	0.418*	0.191
	[0.234]	[0.271]	[0.233]	[0.274]
Observations	497	496	497	496
Pseudo R^2	0.112	0.104	0.110	0.095

Standard errors in brackets. * $p < .10$, ** $p < .05$, *** $p < .01$

Qualitative Findings

Purpose of Wealth

The focus group discussions started with participants being asked about their perceptions of wealth. Most responses across the groups highlighted wealth as fundamentally an intergenerational accumulation. Over half of the participants emphasized that wealth is about ensuring their children are set up for the future. As one participant said,

> "Wealth is generational. Like wealth lasts beyond your lifetime, beyond your

children's lifetime."

Several respondents emphasized that building intergenerational wealth is especially important to Black people due to the ways in which they have been historically and currently disadvantaged. One respondent illustrated this particularly well, saying,

> "…being from Mississippi we're many generations behind in creating wealth for our families. And so that's a big priority so that each generation has a chance to do better and kind of reclaim what was taken from our prior generations."

This sentiment coincides with that outlined in Addo and Beverly (2022). In this study, Black respondents acknowledged being "First Generation Affluent" and their "lack of exposure to financial planning concepts throughout their lives serv[ing] as a motivating factor to them wanting to get it right the first time".

Beyond their own families, a few respondents noted wealth means building a legacy for the larger Black community. These respondents reported giving back to their local community in numerous ways. For example, one respondent put it this way,

> "And so what can I do using my skillset, resource time to advocate for policies, programs opportunities to close that, that [wealth] gap in my community."

Another respondent shared,

> "You're a legacy in a way, but then there's also something about, about contributing to the separate, like even by being here towards the overall advancement of income and wealth for Black communities in in particular."

Respondents also cited wealth as necessary to make ends meet, pay bills, and live a comfortable life. Several respondents mentioned that wealth allows you to not just pay bills, but also save for things like retirement and college. One participant described this concept in a very succinct way, saying,

> "I think wealth is the backbone in family survival."

Finally, a less common theme that emerged when discussing wealth was the concept of physical health. Several respondents noted that an essential element in their understanding of wealth was health. One participant put it this way,

> "I think health plays a part in wealth,"

while another profoundly expressed:

> "There's your physical health. You don't abandon that. You make sure you go to the doctor. There's your mental health. We're more cognizant of that now, right? You don't abandon your mental health now. You'll sit down and you'll talk to somebody about it, whether it's in person or whether it's remotely. And don't forget about your financial health as well. So, it's just as important as everything else."

The United States stands out as the nation with the largest income- based health disparities worldwide, and race significantly deepens the problem (Health Affairs, 2018). Hence, it is not surprising that participants draw such a clear connection between health and wealth in this context. Extensive documentation supports the relationship among clinical, behavioral, and environmental factors and income, which, in turn, influence access to insurance, medical services, and an increased exposure to environmental risk factors. This study further underscores that the primary driver of racial health disparities is “chronic financial hardship resulting from centuries of exploitation and segregation, alongside the direct detrimental effects of discrimination on both mental and physical health.” (Health Affairs, 2018). Health, understood as an aspect wealth disparity, may well be a consequence of such discrimination for Black people. This understanding of health encompasses not only physical well-being but also factors related to mental health, emotional well-being, and the chronic stress levels.

Awareness and Utilization of Wealth Building Tools

When participants were asked about the resources they use to accumulate wealth, they responded with a wide range of sources. Most respondents noted that they used stocks, bonds, and other investments to build their wealth. Many of these respondents reported using both their employer options and options accessible to the public. Figure 3 illustrates the frequency of these financial tools mentioned by participants, with stocks and bonds being the most cited, followed by insurance and other investment vehicles. One participant reported,

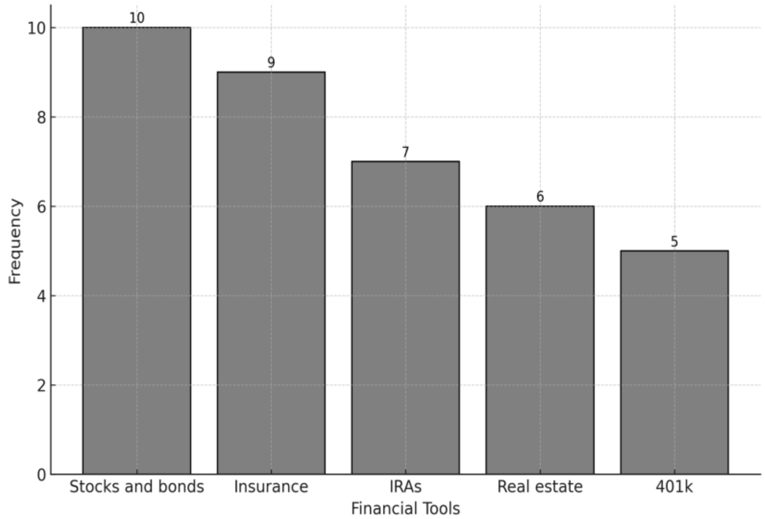
> “Dabbling in stocks, but I have retirement through my company and then I also have a Roth outside.”

Respondents elaborated on how their context and the environment in which they were raised exerted a considerable influence on their approach to financial decision-making in adulthood. This influence is observable in the types of financial instruments they choose and the risks they are willing to take, which often lean toward employee-sponsored options and life insurance. As one participant elaborated,

> “So as a young person or as a person who grew up in public housing in New York City, it wasn't so much like, even as an adult, I didn't understand, I guess I kind of grew up with a church mindset a little bit about more money, more problems.”

Although most participants initially cited stocks, bonds, and retirement savings as their primary wealth-building tools, the mention of alternative strategies, like life insurance, by some participants led others to acknowledge using similar tools. This pattern of 'echoing' suggests that group dynamics may significantly influence the responses, or it may reveal that participants only recalled certain investments when prompted by their peers.

Figure 1: Financial Tool Awareness and Utilization



Source: Constructed by Authors using ATLAS.ti

When focus group participants assessed how they build wealth, they did not always identify all the mechanisms they employ. Their awareness of tools initially was limited to investments, though with further discussion and encouragement in the focus group settings, many broadened their definitions to financial tools to build wealth and protection products. Specifically, regarding life insurance as an investment, one respondent put it this way,

> "You ask the vast majority of folks...what would they consider one of the easiest vehicles to be able to accumulate some form of wealth, but it's not an investment, it is a strategy for investment. Okay. Probably most … [do] not know that it's life insurance."

Perceptions about Risk

Participants were asked about their perception of risk regarding the tools they used to build wealth. Nearly all respondents reported that investments are risky because one can never predict market fluctuations. However, most also noted that some investments are riskier than others. One participant noted,

> "I was just gonna say with risk or with anything in particular, it's a gamble. I mean, you never know, and it's based upon . . . time, how long are you willing to risk, whatever before you decide you want to either take the money out and put it somewhere else or you wanna sit there and okay, you may lose this week, but it may go up next week and it's just a gamble and a wait and see attitude regarding time, more or less."

Notably, one of the participants emphasized that their age and level of responsibility would influence their risk tolerance. They stated,

> "I felt for myself, because of my current circumstances and factoring in the age that

> it required me to have a higher risk tolerance…I think generally the younger you are, you know, generally, you want to be more aggressive, the younger you are and you want to be more conservative the older you are."

Other factors mentioned by focus group participants include the level of disposable income (more money corresponds to a higher risk tolerance), the presence and number of children, and one's position in the family (first-born children typically have more responsibility than lastborn children). This last sentiment reinforces the findings of Addo and Beverly (2022) that some clients, being the first generation in their family to have attained or be progressing toward substantial wealth accumulation, have to provide support to other family members—a situation sometimes referred to as "the Black tax."

Several participants shared ways in which they mitigate risk. Several noted that the riskiness of the market made being informed that much more important. One person stated,

> "Oh, for me, I think that keeping a close eye on your investments and monitoring the stock market helps to be aware of news and events that could affect your portfolio."

Another participant shared that they felt the market's uncertainty emphasized the need to rely on advisors and other experts more. The person shared,

> "Yeah, I would say, well, I'm not a hundred percent sure that I know that I'm not always accurate in the risk, and that's why it's important to speak with a professional or, you know, someone with that experience to help guide me and improve my perception."

Attitudes Towards Financial Advisors

Participants were asked about their use of and attitudes towards financial advisors. Several key themes emerged from their reported experiences. Many participants expressed a sense of distrust towards financial advisors, which is reflected in Table 4.

Table 4: Mistrust in Financial Advisory Relationships

	Frequency	Category
Mistrust	21	Prevailing Sentiment
Dissatisfaction due to generic advice	7	Reason for Mistrust
Not disclosing advisor's compensation structure...	5	Reason for Mistrust
Need for personalized and trustworthy...	18	Proposed Solutions
Trust but verify	13	Proposed Solutions
Sharing track record of advisors	9	Proposed Solutions
Financial advisors with shared backgrounds	6	Proposed Solutions

Community-centric guidance in the black community	2	Proposed Solutions

Source: Constructed by Authors using ATLAS.ti

First, many participants stated that they did not believe their financial advisors, or advisors in general, always centered their investment strategies on the well-being of the client. Some said that financial advisors did not listen to their concerns, that financial advisors did not always have the client's best interest at heart, and that advisors did not provide customized solutions to their client's needs. One participant put it this way,

> "I have to respect your acumen, your understanding of things. And it is hyper important for me to feel seen and heard. And if you're offering me products that don't work with my investment style, I'm gonna have a problem. Okay. Because that means you're not listening."

This participant suggests that financial advisors often recommend investment tools that may not align with their specific needs, preferences, or risk tolerance. For instance, one participant invests heavily in art, while another prefers alternative tools such as a Solo Roth Accounts, while others prefer diversification. The key point is that financial advisors should tailor their advice to each client's individual needs and preferences.

Second, participants, both those with and without advisors, struggled with knowing exactly how advisors are paid and were concerned that advisors did not share the risks. It led to the perception of financial advisors as "shady" by a few, particularly those without an advisor. One respondent noted,

> "You don't get the sense that they're independent arbiters but instead that the purpose of why they chose that profession is to make money for themselves."

Several reported that instead of advising, it felt like financial advisors were "salesmen." A participant put it this way,

> "I'm … leery of financial advisors. Okay. you know, I'm sure they're good at what they do, but there's a part of 'em that's a salesman."

Many of those without an advisor noted this lack of transparency in compensation as the main reason they have not engaged with an advisor. One participant said,

> "my concern [is] the fees they may charge."

Third, most participants who worked with a financial advisor expressed a common sentiment of 'trust but verify.' Because they observed the lack of transparency regarding the role, stake, and gains of advisors, many participants detailed how they request their financial reports ahead of time to review, analyze, and prepare specific questions to discuss during their meetings. This approach serves two key purposes: it holds their advisors accountable by ensuring they can respond to their questions and put the advisors on notice that they are not "simply following them blindly." As one participant put it,

> "So you can't just hand over everything to someone, but you do have to have that level of trust, but trust and verify."

Fourth, there were several participants who noted that they did not feel like they had 'enough' money to engage with a financial advisor. One respondent shared,

> "but for me, I need more funds to invest in order to even consider getting a financial advisor… you can do some financial investing on your own, but if you need, if you are going with a financial advisor, I'm pretty sure at some point they're going to get a cut or they're gonna require commission or some type of, they're needing to get paid for their services. So, if I gotta pay somebody, then I need to have the money available to pay them as well as invest. So that for me would be the hold up."

In addressing the mistrust within the Black community towards financial advisors, participants proposed building closer, more personalized relationships akin to those between a patient and a doctor, or a client and a realtor. One participant suggested,

> "I would say it's probably along the lines of like a realtor or a doctor. You know, you must have somebody that you can trust and rely on and that there's a close personal relationship with them. So, I would feel like the financial advisor needs to be like that as well. Because then they would kind of dig in and kind of know your life and be able to give you the correct personal, you know, advice and things like that that will pertain to your life and what you have and not just a general statement of what people should do."

Additionally, recognizing the historical context of financial exploitation, such as redlining, participants expressed a desire for advisors who can relate to their cultural and historical background.

> "I would like them to be able, I would like a financial advisor that looks like me and understands, you know, how to build generational wealth for Black people",

one participant stated, emphasizing the importance of representation and shared experience in fostering trust.

Lastly, the discussion underscored the lack of community resources for financial education within the Black community, suggesting a need for community centers that could serve as hubs for financial advice and literacy, thereby facilitating greater accessibility and trust in financial advisory services.

Financial Literacy

Participants' perception of their financial knowledge levels varied greatly among and within focus groups; however, the majority concurred that there is always room for improvement and that their existing knowledge is never sufficient. When asked if they were satisfied with their level of knowledge, most responded negatively. The majority of participants recognized their knowledge gap, understood the reasons behind it, and acknowledged that they are not taking significant steps to address this situation. One participant expressed that their daily responsibilities take precedence over staying updated with financial tools, stating,

> “I'm preoccupied with life in general—work and other responsibilities. I am concerned about my future, but other things take precedence at the moment.”

In fact, there was a prevailing notion among participants that “time is a luxury,” and many of them did not have the time to commit to self-financial education.

Participants also addressed the longstanding financial literacy gap in the African-American community. They emphasized the necessity of tackling this knowledge gap by providing financial education tailored to their community and initiating more transparent conversations about money and wealth-building. They highlighted a lack of openness and knowledge-sharing among African Americans. One participant said,

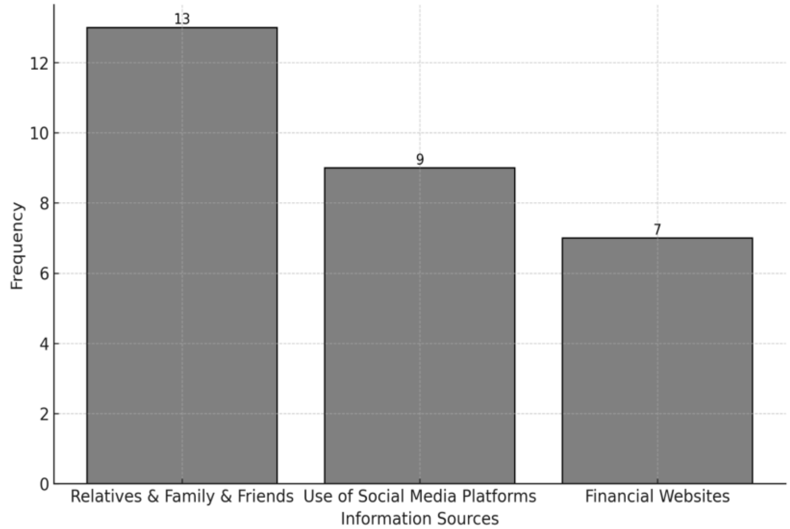
> “But I think the problem that we have in the Black community is we don't tell each other that. We don't give that information on, you know, so you can learn from their mistakes. So, it's kind of like you're starting all over learning yourself.”

Participants in this study primarily obtain information through trusted sources such as family members, friends, and co-workers. Notably, social media platforms like YouTube, Facebook, and TikTok also serve as significant channels for information gathering as shown in Figure 4. These patterns align with the observations made by Addo and Beverly et al. (2022), who highlighted the significance of word of mouth or social networks as emphasized by their respondents. Additionally, participants also consult written sources including books, financial websites, and blogs such as the Financial Times, Bloomberg, and Black Enterprise. Some also rely on government news sources to stay informed about the financial market. While many participants mentioned using these sources for self-education, one participant, a financial advisor, noted a general lack of knowledge about where to access accurate information about financial tools. They emphasized that,

> “Many of my clients are minorities, and they lack the financial structure they need to make informed decisions.”

When asked about what is missing in participants’ financial journey, almost all of them mentioned a need for more knowledge about how financial tools and instruments work to increase their overall comfort and confidence. Although many rely on close family ties for financial guidance, there is a unanimous belief in the importance of further education. Participants emphasized the importance of early exposure to financial literacy in the education system and the need for more open conversations tailored to their community to facilitate the intergenerational transfer of wealth. They also stressed the significance of tailored advice, personalized explanations, and breakdowns from financial advisors.

Figure 4: Preferred Information Sources for Financial Guidance



Source: Constructed by Authors using ATLAS.ti

Conclusion

What have we learned about the financial decision-making behaviors, especially the determinants of engagement with financial advisors, of high-income Black individuals?

Unsurprisingly, income emerges as a pivotal determinant of the decision to seek information from financial professionals by Black people, while educational background, risk tolerance, and knowledge of personal finances do not. Black women, in particular, exhibit varying patterns in their use of these services based on income thresholds. Specifically, at the lower income threshold—$70,000 and above—Black women are less likely to engage with financial professionals than White men. However, as their income reaches or exceeds $85,000, they are just as likely as White men to seek out financial professionals. When we focus solely on financial planners, we find that Black women, regardless of their income, show no statistical distinction in their likelihood to engage them, underscoring potential equity in access or decision making in this area.

Given the importance of income in the decision-making process, policies that address racial income disparities would be effective indirect actions to improve wealth accumulation through financial growth brought about by deeper interaction with financial professionals. Addressing this foundational challenge would not only facilitate wealth accumulation over time but also contribute to the overall goal of reducing racial disparities in general. Such an approach could help ensure that financial growth is both attainable and sustainable, contributing to the closing of the wealth gap in the long term.

Contrary to a popular narrative about Black ignorance of money matters, our results suggest that financial literacy deficiencies do not significantly explain disparities related to financial technology use, particularly engagement with financial advisors and planners. While financial literacy is often regarded as a critical factor in financial decision-making, its impact on narrowing the Black-White wage gap is nil. In the realm of financial technology utilization, it also appears to hold little significance.

The focus groups added some specific themes that address access to and utilization of financial planning and advice-seeking:

- The need for Black awareness and utilization of various financial tools
- Recognition among peers of a need for substantial improvement in overcoming insufficient knowledge about such tools
- Widespread mistrust of financial advisor firms, requiring reforms in those institutions
- Pitfalls and opportunities from relying on family and friends for financial information
- Maintaining a robust "trust but verify" approach to financial advice
- Overcoming knowledge deficits through more collaborative knowledge sharing within the Black community

These themes highlight the proactive use of financial tools for wealth building alongside a pronounced need for greater financial knowledge, potentially facilitated through reforms in the approach of financial planning firms in developing relationships with potential high-income Black clients. The participants' skepticism towards financial advisors, often due to unclear communication and potential conflicts of interest, results in a preference for personal networks over professional advice—a tendency that is further strengthened by a lack of communal knowledge sharing. Additionally, the focus group members emphasized the importance of personal diligence and verification in their financial advisory relationships, regardless of existing trust levels.

To overcome the identified barriers, financial firms need to directly address the trust deficits, especially those arising from potential conflicts of interest between financial professionals and high-income Black clients. A key strategy for rebuilding trust is to enhance transparency, with a particular focus on making the connection between the compensation of financial advisors and their investment performance clear and understandable. Moreover, the establishment of community-based financial guidance programs and the promotion of knowledge sharing within the Black community are critical in bolstering wealth-building efforts. These initiatives not only could lay the groundwork for increased engagement with financial professionals by high-income Black earners, but also act as a catalyst for broader financial empowerment.

References

Addo, Fenaba R., & Keith Beverly. (2022). Priorities and Challenges: Wealth Management and Financial Planning Among Affluent Black Families, *Financial Planning Review*, *5(2-3)*: e1148.

Darity, W. & Mullen, K. (2020). Black reparations and the racial wealth gap. Brookings. https://www.brookings.edu/blog/up-front/2020/06/15/black-reparations-and-the-racial- wealth gap/

Finke, M. S. 2013. "Financial Advice: Does It Make a Difference?" In *The Market for Retirement Financial Advice*, edited by Olivia S. Mitchell and Kent Smetters, 229–48. Oxford: Oxford University Press.

Gaudecker, H-M. V. (2015). How Does Household Portfolio Diversification Vary with Financial Literacy and Financial Advice? *The Journal of Finance, 70*(2), 489-507.

Gomes, F., Haliasos, M., & Ramadorai, T. (2021). Household Finance. *Journal of Economic Literature, 59*(3), 919-1000.

Guiso, L., Pozzi, A., Tsoy, A., Gambacorta, L., & Mistruilli, P. E. (2022). The cost of steering in financial markets: Evidence from the mortgage market. *Journal of Financial Economics, 143*(3), 1209-1226.

Hudson, C., Young, J., Anong, S., Hudson, E., & Davis, E. (2017). African American Financial Socialization. *The Review of Black Political Economy, 44*(3). 285-302.

Hudson, C. R., Phillips, M., Smalls, T., & Young, J. (2021). Investment Behavior: Factors that Impact African American Women's Investment Behavior. *The Review of Black Political Economy, 48*(3), 349-367.

Hudson, C. R., & Young, J. (2023). Wealth: Factors That Affect African American Wealth. *The Review of Black Political Economy, 50*(1), 97-116.

Inderst, R. & Ottaviani, M.. 2012. Financial Advice. *Journal of Economic Literature* 50 (2):494–512.

Reiter, M., Martin S., & Ajamu L.. (2022). Diversity in Financial Planning: Race, Gender, and the Likelihood to Trust a Financial Planner. *Financial Planning Review, 5(1)*: e1134.

Robinson, D. T., & Blanchette, D. (2009). RII: Stata module to perform Repeated-Imputation Inference. Statistical Software Components S457050, Boston College Department of Economics, revised 26 Feb 2011.

Viceisza, A., Calhoun, A., & Lee, G. (2023). Racial and Ethnic Disparities in Retirement Outcomes: Impacts of Outreach. *The Review of Black Political Economy, 0*(0). Winchester, D. D., & Huston, S. J. (2013). Keeping Your Financial Planner to Yourself: Racial and Cultural Differences in Financial Planner Referrals. *The Review of Black Political Economy, 40*(2), 165-184.

APPENDIX: Focus Group Study

Recruitment & Focus Group Execution

Participants were recruited via non-probabilistic sampling methods through various sources. Regardless of where the focus groups took place (in-person or virtually), the research protocol was conducted in the same manner. Additionally, as an incentive, all focus group participants received $50 gift cards for their participation in the study. The first method used to recruit participants was through Howard University alumni networks, These focus groups were held in-person on Howard University's campus on July 11, 2023.

Second, representatives of the research team traveled to the Black Economic Forum in Martha's Vineyard July 22-24, 2023, to collect data. This conference presented an opportunity to recruit study participants from a large pool of potential candidates who met the study criteria. The team conducted two in-person focus groups with seven participants in each group and recruited 14 additional participants for later virtual focus groups.

Third, using Qualtrics panel surveys, an additional 363 prospective participants for virtual focus groups were recruited. Virtual focus groups were scheduled at times that were most convenient for the study participants, generally in the early evenings. Virtual participants were asked to RSVP for a virtual focus group that best fit their schedule. Six virtual focus groups were held between September 12th and September 26th. A total of 33 people participated in the six virtual focus groups.

Data Analysis

After each focus group, audio files were uploaded to the project's secure OneDrive for record keeping. Using *Temi* transcription software, the audio files were converted into transcripts to be analyzed. Prior to analysis, a research assistant reviewed the transcripts and matched them to audio files, correcting errors, cleaning up overlapping sounds the software could not distinguish. The transcribed files were also cross checked with the audio files by the research team to ensure that all names and identifying information were redacted.

Corrected focus groups transcripts were then imported into the qualitative analysis software NVIVO to code for core themes and provide generalized findings for each group and the overall study project. Core themes emerged from the coding in response to each question in the focus group protocol. Core themes were selected not only for content, but also for frequency, noting how many respondents noted a theme and to what extent it emerged in the focus group conversations. Further, de-identified quotations were used to supplement the core themes and provided added explanations for the patterns that emerged from analysis.

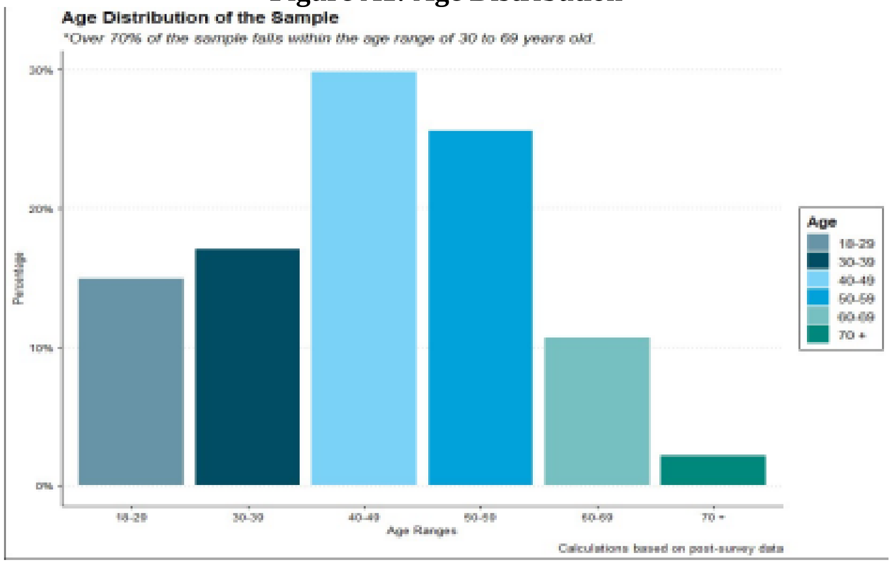
Participants

This section presents an analysis of the demographic data of the participants. The sample consisted of 47 individuals who participated in 8 different focus groups in two modalities, in person and virtual. The data utilized comes from a post-survey questionnaire administered after each focus group interview. Two individuals did not provide complete responses to the questionnaire, and as a result, the missing values were excluded from the analysis.

Age

Figure A1 shows the age distribution of our focus group participants. Most participants fell within the middle age brackets, particularly between 30 and 60 years old. 30% of the participants fall under the 40-49 age range, 26% of them are in the 50-59 age range, and 15% in the 30-39 age range.

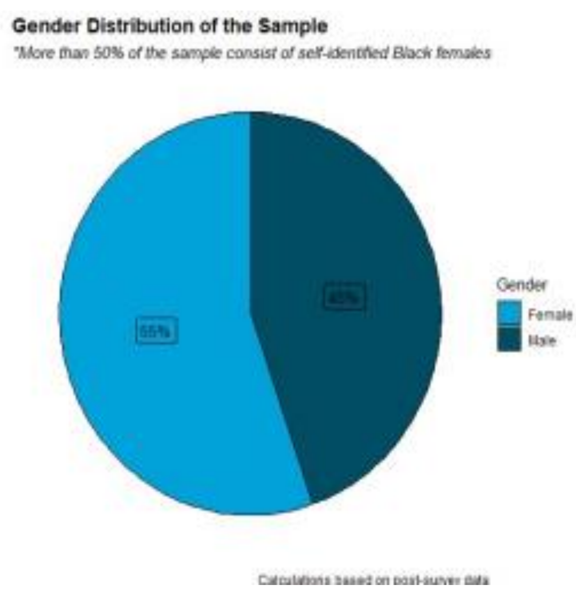
Figure A1: Age Distribution



Gender

Of the participants, 55% identified as male and 45% identified as female (Figure A2).

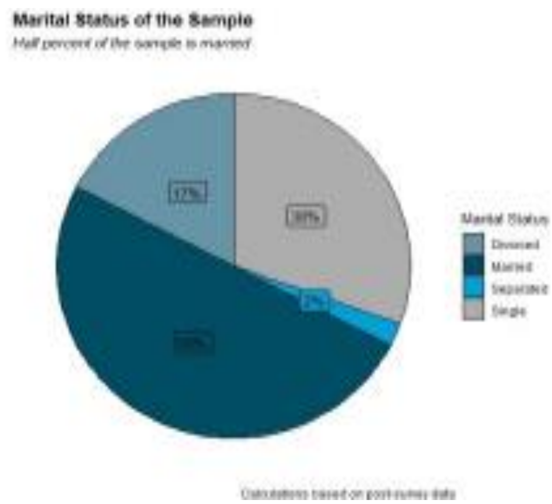
Figure A2: Gender Distribution



Marital Status

Figure A3 highlights the marital status of our participants. A majority, 50% of them, are married. Singles represent the next largest group at 30%, followed by divorced individuals accounting for 17%. Only a small proportion, 2%, are separated.

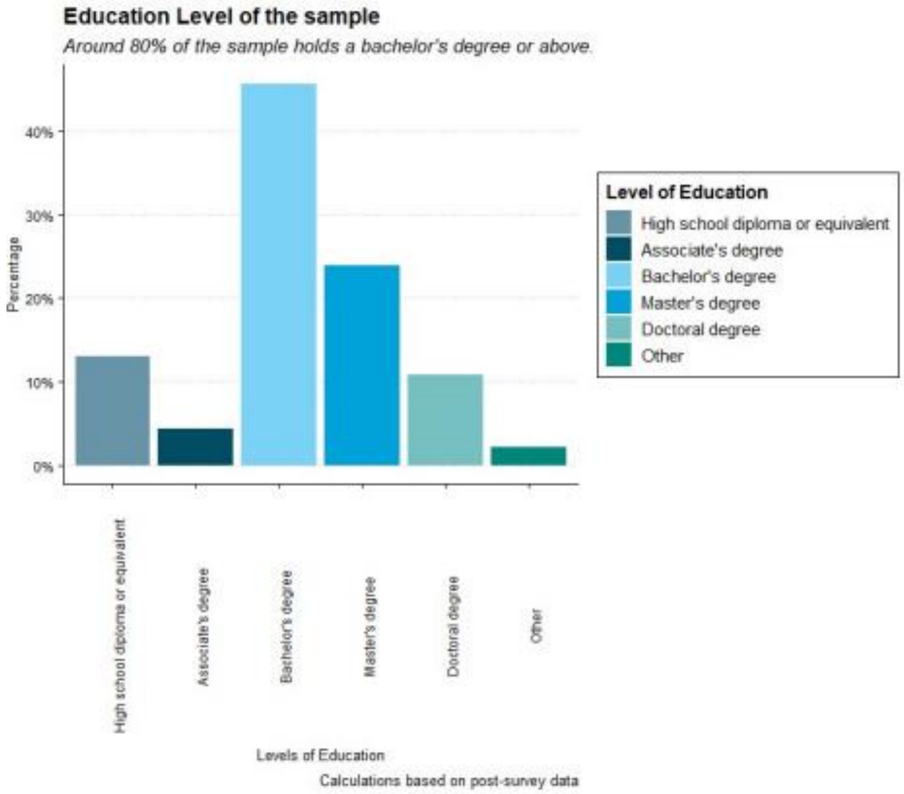
Figure 3: Marital Status



Level of Education

There is a strong concentration in higher education as shown in Figure A4. Approximately 46% of the sample have a bachelor's degree and 24% have a master's degree. Around 11% of the participants hold a doctorate degree and there is a notable presence of those with high school diplomas or equivalent.

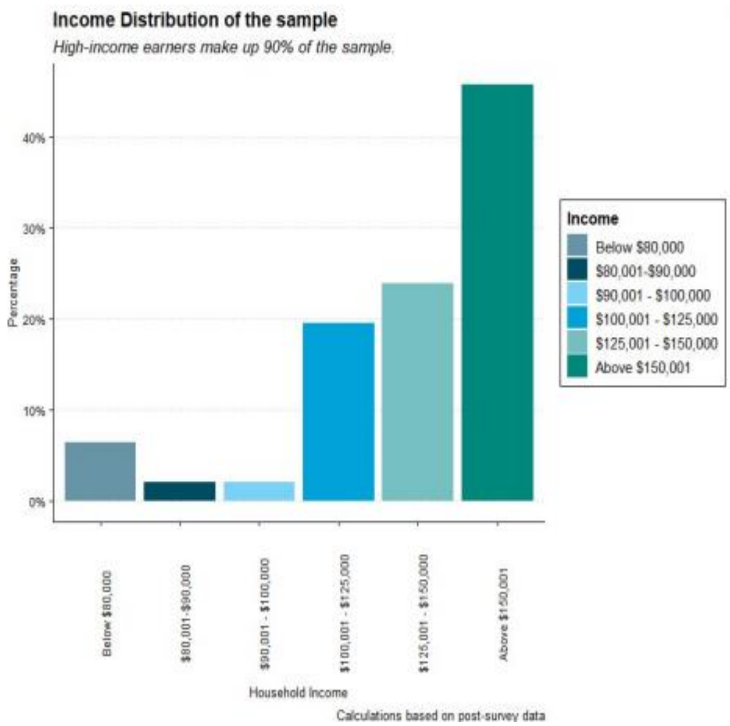
Figure A4: Education Level of the Sample



Income Distribution

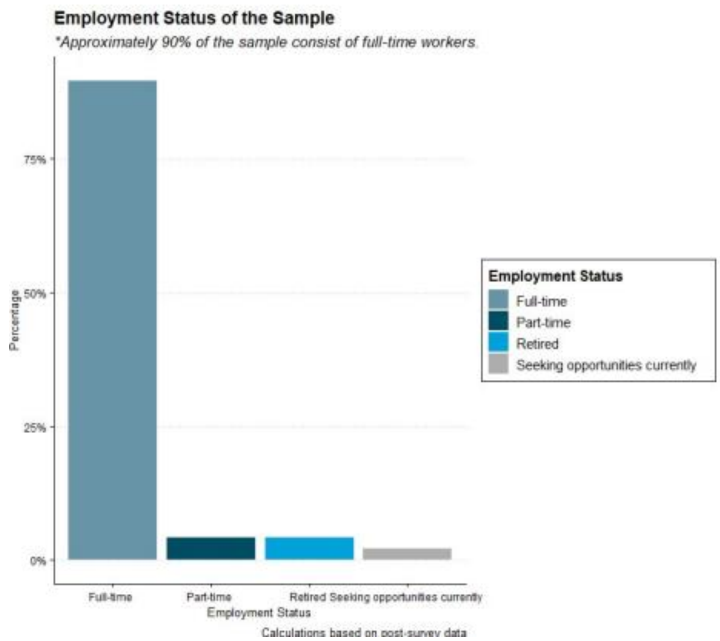
Figure A5 illustrates the income distribution of the participants. This variable skews towards the higher income brackets. Notably, individuals earning more than $150,000 annually comprise a substantial 46% of the sample, indicating a significant presence of very high-income earners. The $100,001-$125,000 and $125,001-$150,00 brackets also have a notable representation, 20% and 24% respectively. Fewer participants fall within the lower income ranges, with the lowest number in the $80,0001-$90,000 and $90,0001-$100,000 brackets, 2% each.

Figure A5: Income Distribution



Employment Status
A significant majority of the participants, approximately 90%, are engaged in full-time employment. The remaining 10% is distributed among part-time roles (4%), retirees (4%), and individuals actively seeking employment opportunities (2%) (Figure A6).

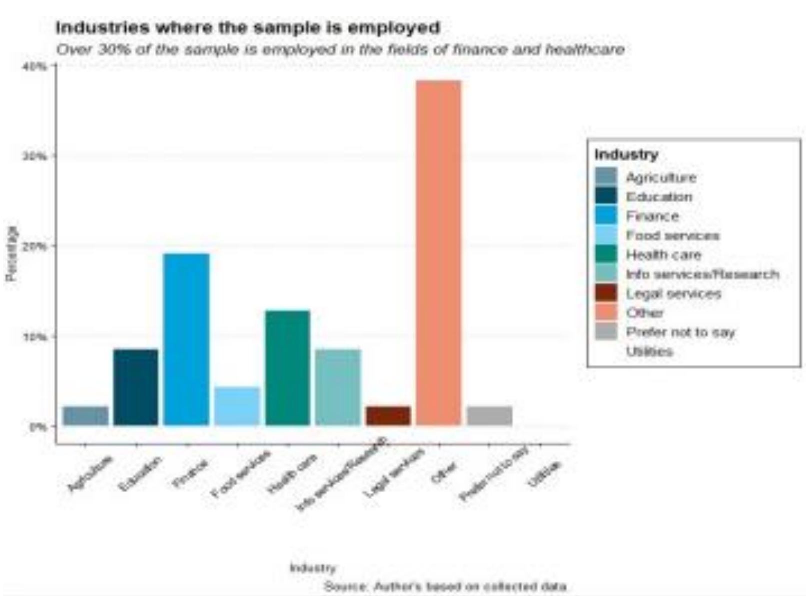
Figure A6: Employment Status



Employment Status by Industry

Our participants come from a wide range of industries. Most notably, 38% of participants chose the ‘Other’ category, showing a range of professions not listed in the post-survey including roles in government, nursing, and entrepreneurship. Both finance and healthcare sectors together make up over 30% of the sample. Education (9%) and info services/research (9%) are also well represented. Other sectors like food services (4%), agriculture (2%), and legal services (2%) have fewer participants (Figure A7).

Figure 7: Employment by Industry



Household size

The average household size among the participants was 2.8 persons per household, while the median household size was 3 persons per household. This indicates a left-skewed distribution, with most participants clustering around the median of 3 persons (Table A1).

Table A1. Household Size

Variable	Obs	Min	Mean	Median	Sd	Max
Household size	47	1	2.841	3	1.462	6

Number of dependents

The median number of dependents in each household is zero, with around 57% of participants not reporting any dependents. About 18% reported having 2 dependents, while 11% had 1 and the other 11% had 3 dependents. However, there was an outlier who mentioned having 10 dependents, and we are uncertain if this was a typographical error (Table A2).

Table A2. Number of Dependents

Variable	Obs	Min	Mean	Median	Sd	Max
Number of dependents	47	0	1.045	0	1.765	10

Interaction preferences with Financial Advisors

In response to the question about their preferred methods for engaging with a financial advisor, 25% of the participants expressed a preference for in-person meetings in the advisor's office, if it is located within 5 miles of distance. Another 14% prefer in-person meetings conducted in their own homes. Additionally, 11% opted for a hybrid interaction approach, which includes various methods with the most common choice being in-person meetings within 5 miles and phone consultations. Overall, participants lean toward face to-face interaction methods, aligning with the sentiments expressed during the focus group discussions, as outlined in Table A3.

Table A3. Interaction preferences

Status	Obs	Percent
By phone, e.g., cell, office phone, landline, FaceTime, WhatsApp	3	0.07
Email	1	0.02
Hybrid	5	0.11
In person and elsewhere, e.g., a coffee shop, library, co-working space, golf club, church	3	0.07
In person and in their office (anywhere)	3	0.07
In person and in their office (within 5 miles)	11	0.25
In person and in your home	6	0.14
Other	2	0.05
Video tutorials followed by an in-person session	1	0.02
Virtual by Zoom, Teams, or some other software	9	0.20

Source: Authors' Calculations based on Post-Survey Data