HOUSING

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Retirement Nest Eggs Don't Exist For Many

Blacks and Hispanics have a harder time than whites saving for retirement and federal policies aren't helping, the findings of a new study indicate.

"Race and ethnic disparities are huge," said the study, whose results were released last week. "The typical older black and Hispanic household has less than $20,000 in wealth. More than a fourth of the older black households and a third of Hispanics have no assets at all."

That's because some black and Hispanic families have so little money they can't afford to save for retirement, said a study by Rand, a nonprofit think tank.

"Differences in financial wealth are especially dramatic," the study said.

For example, among white households in the pre-retirement years of 51-61, the top 5 percent have saved $300,000, the typical family has $17,300 and the bottom fifth has $800 or less, Rand researchers said.

However, the typical black or Hispanic household has less than $500 in liquid assets, with four out of 10 having nothing, the study said.

"The fact that they have less money certainly means that they will save less money, but they (also) save less as a fraction of their income," said James P. Smith, a Rand senior economist, who conducted the study.

Counterproductive public policies, especially related to public assistance, add to the problem, he said.

For example, Social Security benefits actually weaken the urgency to save for retirement, Smith said.

"In promising to replace a high proportion of the income received by the poor during their working years, it discourages efforts to save for retirement," he said. "One reason that the poor don't save is that we give them every reason not to."

The government should reform the Social Security system so that it provides only "a minimum decent standard of living" in old age, Smith said.

"It should no longer be viewed as the prime source of retirement income replacement across all income levels," he said.

Advocates for the elderly said Smith ignores the fact that Social Security is a lifeline for many people.

"The problem is not to undermine Social Security; the solution is to encourage people to save," Evelyn Morton, a lobbyist for the American Association of Retired Persons.

More than 60 percent of Social Security beneficiaries still rely on Social Security for 50 percent of their income, she said. One in four beneficiaries rely on it for at least 90 percent of their income.

Smith said members of poor families are also more likely to divorce and less likely to remarry quickly, depriving themselves of a two-income household.

Marriage also encourages saving, he said. "The implication is that the decline in the institution of marriage has contributed to the secular fall in the nation's aggregate savings rate," Smith said.

And poor health among some of the poor also makes it hard for them to save, he said.

"Households in excellent health have more than four times the wealth of those in poor health," the Rand study said. "Median wealth in households where both spouses are in poor health is about $25,000, compared to a median worth of over $200,000 when both enjoy excellent health."

Some Hispanic families have a tough time saving because they're paying so much for rent, said Gilbert Moreno, executive director of the Association for the Advancement of Mexican-Americans in Houston.

"We're seeing (some) Hispanic families are paying 50 percent or greater of their disposable income toward (housing) in some cases," he said.

And some consumers literally stuff money in their mattresses because they don't trust banks, Moreno said.

Also, poor people in general haven't been taught the importance of saving, he said.

"A lot of that goes back to it's such a difficult daily struggle," Moreno said.

But the bad news isn't reserved just for blacks and Hispanics, Smith said.

"With the pension system in steep decline and Social Security's promises impossible to keep as the population ages, two legs of the retirement tier are guaranteed to fail," he said. "Loud alarm bells are ringing for the future."

Most middle-aged and elderly households have "very modest holdings at best," with large segments of the over-50 population having no net worth at all, Smith said.

One reason is that many consumers in the 50-plus group are caught in a "sandwich" generation, having to care for their own elderly parents while supporting adult children who have moved back home, said Merriott Terry, vice president of education at Consumer Credit Counseling Service of the Gulf Coast Area, which helps consumers with financial problems.

"Their children are jeopardizing their parents' retirement," she said. "They don't have the resources or the savings to come up with any extra for retirement."

Smith said in order to encourage more saving, the government should mandate that everyone allocate a portion of their earnings for retirement and substitute a consumption tax for the income tax so that returns from savings and investments aren't taxed.

House Purchasing Power Declines

Despite declines in mortgage rates, home buyers lost a marginal amount of purchasing power in the second quarter of 1995, due primarily to home price increases, according to the National Association of Realtors.

NAR's composite Housing Affordability Index, which measures affordability factors for all home buyers, was 124.8 in the second quarter of 1995, compared to 125.5 in the previous quarter and 127.2 in the second quarter of 1994.

According to NAR's President Edmund G. Woods, Jr., the home price increases that occurred during the second quarter offset declines in mortgage rates, resulting in a slight loss in purchasing power. However, he noted that housing affordability conditions remain extremely favorable.

"Overall, home buying conditions are excellent. In many cases, consumers are surprised at how much they can afford," Woods said.

When the index measures 100, a family earning the median income has exactly the amount needed to purchase a median-priced resale home, using conventional financing and a 20 percent down payment. Using the second-quarter housing affordability measurement, half the families in the nation had at least 124.8 percent — easily more than enough — of the income needed to qualify for the purchase of a home at the national median second-quarter price of $111,000. In fact, based on the second quarter statistics, the typical family could qualify for a home costing $138,300.

NAR Chief Economist John A. Tuccillo noted that, nationally, housing affordability conditions are expected to improve later this year, as interest rates keep edging downward. However, he pointed out that first-time buyers are continuing to face affordability problems that are not solved solely by favorable financing. NAR's first-time home buyer index, which shows the ability of renters who are prime candidates to qualify for a mortgage on a starter home, also fell in the second quarter of 1995 compared to the previous quarter. The first-time buyer index was 80.9 in the second quarter, down from 81.5 in the first quarter of 1995, and down from 82.4 one year ago.

According to this measurement, the typical first-time buyer had only 80.9 percent — less than enough — of the income needed to purchase the typical starter home, priced at $94,400 the second quarter. NAR's first- time buyer index showed that the qualifying income needed for conventional financing covering 90 percent of the starter home price was $30,580.

Yet the median income of prime first-time buyers was $24,735 - - a difference of $5,845. As a result, a typical first-time buyer could only afford a home costing $76,400, which is $18,000 below the typical starter-home price. The first-time buyer median income represents the typical income of a renter family with wage earners between the ages of 25 and 44.

"Lower mortgage rates don't eliminate all the obstacles to homeownership," Tuccillo said. "Purchasing still remains difficult for many entry-level buyers, because they must struggle to come up with down payment funds.

Outside of income differences, the major difference between the purchasing power of first-time buyers and that of repeat buyers is that repeat buyers have equity, which they can put into future purchases. First-time buyers don't."

How To Buy A Host Home

1. Determine your price range: The best first step is to find out what you can afford by getting pre-qualified for a loan at a bank or mortgage company. You can also call the Portland Housing Center (282-7744), a non profit organization, which provides free information to home buyers.

2. Tell HOST what you are looking for: Let us know your price range, the number of bedrooms you need and any other features you want. We will tell you about homes that are available or keep you in our file for future homes that fit your needs.

3. Tour a HOST home: If we have a house available which fits your price range and needs, we can schedule a time to tour the house. If you are interested in one that is not completed being rehabed or constructed, you don't have to wait. We can write an Earnest Money Agreement, tying up the home or you, before the home is completed.

4. Sign an Earnest Money Agreement: When you find a house you wnat to buy, we can write up an o-ooffer called an Earnest Money Agreement. It is a legally binding contract that states you agree.