# The Comprehensive Wealth of Immigrants and Natives

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The 1965 Immigration and Nationality Act had a profound impact on the demographic and skill composition of immigrants arriving in the United States. A large literature has investigated the relative earnings of immigrants and natives, both at time of immigrant entry to the U.S., as well as how they might converge over time. However, much less is known about relative wealth accumulation and the preparation of immigrants for retirement.

In this paper, we use the 1998-2012 Health and Retirement Study (HRS) to calculate measures of comprehensive wealth for immigrants and natives. Comprehensive wealth is a measure of household resources that includes total financial and nonfinancial assets, plus annuitized assets such as Social Security and defined-benefit (DB) pensions. We then examine median profiles of an annualized equivalent of comprehensive wealth over the retirement period. Trajectories of annualized wealth indicate whether households are drawing down resources faster or more slowly than a simple life cycle would predict. We attempt to make sense of these patterns with a life-cycle framework that incorporates some likely suspects for explaining the observed trajectories: uncertain longevity, an explicit bequest motive, precautionary saving in retirement, and housing. Finally, we estimate descriptive regressions of levels and growth rates of annualized wealth to see whether they still differ between immigrants and natives after controlling for a large number of observable characteristics.

## COMPREHENSIVE AND ANNUALIZED WEALTH

We examine immigrant and native retirement resources using eight waves of data from the HRS from 1998-2012. Approximately 11 percent of HRS respondents are foreign-born, though the rate varies by birth cohort (10 percent of those born 1931-1941, 8 percent of those born 1942-1947, and 14 percent of those born 1948-1953). The availability of longitudinal data on multiple birth cohorts allows us to simultaneously examine wealth trajectories by age and by birth cohort. In addition to the main HRS data, we use restricted data on Social Security earnings to calculate measures of permanent income. We also use restricted data on immigrant country of origin. These two sets of restricted data cannot be linked together, so our regressions either control for the level and variability of permanent income or country of origin.

We construct a comprehensive measure of the household balance sheet that includes both conventional sources of net worth, as well as the actuarial present value of expected future streams of income derived from pensions,

Social Security, annuities, and other social insurance programs. When looking at immigrant-native differences in comprehensive wealth over retirement, two striking features are worth noting. The first is that there is a substantial gap in comprehensive wealth at all ages between immigrants and natives. However, despite the initial differences in levels, the wealth gap between the two groups converges markedly over retirement. Trajectories of annualized wealth for both immigrant and natives slope upward. In addition, the profiles for immigrants and natives tend to converge with age. Thus, while both married natives and immigrants appear to be drawing down resources at a rate slower than a simple life-cycle framework would predict, there is some evidence that immigrants are especially slow in spending down retirement wealth.

## MEDIAN REGRESSIONS OF ANNUALIZED WEALTH

In order to see whether the levels and growth rates of annualized wealth still differ between the groups after controlling for observables, we estimate median regressions of the logarithm of annualized wealth and the growth of annualized wealth on key demographic and financial covariates. These regressions are meant to be purely descriptive and should not be interpreted as implying causality.

We estimate four specifications that control for an increasing number of characteristics. The first specification includes arrival cohort and age dummies for the first and second half of retirement. Annualized wealth increases with years in the U.S., even after controlling for age and other characteristics, but even the earliest immigrant arrivals have significantly lower annualized wealth than the native-born. The second specification adds basic demographic information such as race, education, family size, and number of children, as well as citizenship and whether the respondent spoke English. With these controls, immigrants arriving prior to 1965 are no longer significantly different from natives in terms of wealth, while the more recent cohorts continue to have a significantly lower annualized wealth. The third specification controls for some of the key life-cycle variables that potentially shape wealth trajectories, including the shares of financial and non-financial wealth, the mean and standard deviation of log earnings (in the specifications using restricted SSA data), and controls for health, expected bequests, and expected longevity. The introduction of the life-cycle variables further absorbs some of the association between immigration cohort and annualized wealth. The final specifications introduce interaction terms between immigrant status and race and ethnicity, as well as indicators for the country of origin. Controlling for origins and immigrant race and ethnicity suggests that the earliest immigrant cohorts may have significantly higher annualized wealth than natives. However, the estimates on the most recent immigrant cohort remain strongly negative and statistically significant. Thus, even after controlling for a rich set of observables, including lifetime earnings, geographic origins, and other life-cycle variables, a portion of the immigrant-native gap in annualized wealth remains unexplained for the most recent cohorts. Our results suggest that the annualized resources of earlier immigrant waves are statistically indistinguishable from those of natives with similar characteristics.

## CONCLUSION

This paper examines the total resources available to immigrants and natives in retirement. While immigrants have less wealth overall than natives, they appear to be decumulating resources in retirement at a slower rate. The evidence so far suggests that the typical immigrant is relatively well situated in retirement, but that more recent immigrants have low levels of total resources and are likely to have difficulty maintaining adequate levels of spending in retirement. In this sense, the sample of households in the paper represents a potentially important transition point in the retirement well-being of immigrants. The dramatic change in the composition of immigrants following the 1965 Immigration Act will soon be mirrored in the changing face of immigrant wealth in retirement.