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Demystifying the Wealth Gap to Inform Military Talent Management Decisions

The wealth gap is a complex topic replete with differing opinions and myths. This publication provides the Department of the Air Force (DAF) with an organizing structure of the underpinnings of the wealth gap experienced by gender and racial/ethnic minorities, and the intersectionality across both, to better inform human capital management decisions. Notably, discussions in this publication are relevant to all the sister services in the U.S. Department of Defense (DoD).

The purpose of this publication is to provide DAF leaders and policymakers with a cohesive framework that merges four selected lenses—generational wealth, vocational psychology,[1] wealth management, and psychological mindset—to better see and understand the wealth gap.[2]

The first lens entails a discussion of how underrepresented people are often born into a cycle of *poverty*, which can be defined in simple terms as the lack of money or material possessions to meet basic needs, such as food, clothing, and shelter. The U.S. Census Bureau measures poverty by using income thresholds that are continually adjusted for inflation.[3] Correspondingly, through the second lens, we consider that in many households—regardless of race, ethnicity, gender, or socioeconomic class—if a person is not born into wealth, then a career or vocation might represent a pathway toward generating wealth. Then, through the third lens, we look at what happens once that person has accumulated some semblance of wealth: It must be managed. Finally, using the fourth lens, we discuss the psychological factors at play across underrepresented groups that may affect wealth generation, wealth management, and the wealth gap generally.

What Is Wealth?

While acknowledging that more-technical definitions exist, we suggest that wealth can be described simply as the value of all the assets a person or household owns minus any debts or liabilities. Wealth includes financial assets, such as savings accounts and investments, as well as nonfinancial assets, such as a home or a car. Throughout this publication, when we refer to the *racial wealth gap*, we are referring to the persistent and significant disparities in wealth accumulation between White households and households of color, particularly Black and Hispanic households.[4]

Correspondingly, we join those who juxtapose wealth and poverty—meaning, there are several more-complex and more-technical definitions of poverty; however, we define *poverty* simply as the absence of wealth or the lack of money or material possessions to meet basic needs, such as food, clothing, and shelter. We also flag here the linkage between income, poverty, and wealth.

Poverty in general, as related to economic strength, is a threat to national strength and security. As we discuss later, more-impoverished individuals tend to identify with racial/ethnic minority groups, and the gaps between these individuals and their White counterparts are exacerbating the risk to national security. According to an article in *Business Insider*, "the US wealth gap is sapping economic growth."[5] With income contributing partly to this gap, the article's author further reports that the top 10 percent of earners (who tend to be White) are the only ones to have their income share grow since 1979, resulting in less overall spending and a loss of about $309 billion in yearly economic growth.[6]

Wealth and National Security

> Any threat to our economic strength is a threat to our military and our standing in the world. Attempting to maintain a robust national military without addressing domestic poverty is like building a house on sinking sand; no matter how solid the house is, it will fall without a strong foundation to support it.[7]

Economic strength is a key element of national power, and economics is one of the four original instruments of power (namely, diplomacy, information, military, and economics [DIME]) in the military's Decision Making Analysis.[8] Economic strength is essential to national security for several reasons. A strong economy provides the resources necessary to support military and defense operations, invest in infrastructure, and respond to national emergencies. A robust economy also fosters innovation, enhances job opportunities, and improves the standard of living for citizens, which can help reduce social and political unrest. Additionally, a strong economy enables a country to participate effectively in global trade, giving it a competitive advantage in the international marketplace. In contrast, a weak economy can lead to unemployment, poverty, and social instability, which can be exploited by hostile actors to undermine national security. Therefore, a strong and resilient economy is essential to ensuring a country's long-term security and stability.[9]

The racial wealth gap in the United States is a persistent and concerning issue that has far-reaching implications for the country's economic strength. Research has consistently shown that there are significant disparities in wealth accumulation between White households and households of color, particularly Black and Hispanic households.[10] This gap is not only a matter of social justice; it also has important economic consequences. A more equal distribution of wealth could lead to greater consumer spending, increased economic mobility, and higher levels of economic growth.[11] Conversely, a persistent wealth gap leads to lower levels of economic activity, reduced tax revenues, and greater income inequality. Addressing the racial wealth gap is thus essential to maintaining the United States' economic strength and ensuring that all Americans have the opportunity to share in the country's prosperity.

The racial wealth gap also has more-direct implications for the country's national security. Economic inequality between groups can lead to social unrest,[12] which in turn can threaten national security. Furthermore, a lack of economic opportunity and mobility can contribute to feelings of hopelessness and despair, which can drive some individuals toward extremist ideologies and violent actions.[13] Additionally, a persistent wealth gap can lead to an erosion of trust in government and institutions,[14] which can further undermine national security. Addressing the racial wealth gap is not only important to the economic component of national security but also is crucial for directly safeguarding U.S. national security.

Abbreviations

DAF	Department of the Air Force
DoD	U.S. Department of Defense
EITC	Earned Income Tax Credit
NDAA	National Defense Authorization Act
ROI	return on investment

Notably, DoD is already having an impact on the racial wealth gap by providing military compensation and benefits to members of racial/ethnic minorities who choose to serve. To sustain this impact, DoD should continue to do its part to attract and retain service members from racial/ethnic minorities. For example, as we later discuss, some experts link wealth to the absence of poverty, having an income, and homeownership. In 2020, researchers at the Urban Institute found that, for Hispanic and Black households, military service increases the likelihood of higher income and homeownership. These researchers further identified that military service can exert an "equalizing effect" on the gaps between service members from racial/ethnic minorities and their White counterparts.[15] However, this equalizing effect does not completely erase disparities in wealth and is relevant only for those individuals who choose to serve.

According to 2018 U.S. Census data, Native Americans had the highest poverty rate (25.4 percent), followed by Black Americans (20.8 percent) and Hispanic Americans

(17.6 percent), compared with White and Asian Americans, each with a poverty rate of 10.1 percent.[16] Such rates demonstrate the need for DoD to remain vigilant in terms of the racial wealth gap's impact both on national security and at the individual level. Notably, the U.S. Census Bureau's measures of poverty are mostly related to money income.[17] The U.S. Census Bureau reported the official 2020 poverty rate as 11.4 percent, which is a 0.9-percent increase from the 2019 rate (10.5 percent).[18] These percentages indicate that 37.2 million people were in poverty during 2020, which was an increase of approximately 3.3 million people from the previous year.[19] Between 2019 and 2020, poverty rates for Non-Hispanic White and Hispanic Americans increased to 8.2 percent and 17.0 percent, respectively.[20] Among the racial and ethnic groups included in U.S. Census data in 2020, Black Americans had the highest poverty rate (19.5 percent), and Asian Americans exhibited the lowest poverty rate (8.1 percent).[21] Notably, U.S. Census racial and ethnic demographic categories do not encompass certain demographic groups; instead, these demographic groups are included in other categorical descriptions. For example, individuals of Middle Eastern and North African descent are categorized as Non-Hispanic White.[22] Such decisions can have far-reaching effects, including obscuring racial and ethnic disparities that these groups may face.[23]

Significance of the Wealth Gap to the Department of the Air Force

In addition to the general importance of the wealth gap and its associated racial/ethnic disparities to national security, these issues are important for the DAF to understand because historical and ongoing disparities affect the DAF's (as well as DoD's) service member composition and ability to recruit. High rates of poverty negatively affect the DAF's ability to recruit the best and brightest—given the strong links between poverty-driven quality deficits in such areas as education attainment,[24] physical fitness,[25] and behavior (as noted previously)—thereby making the pool of eligible recruits smaller and in higher demand by competing employers. For example, three-quarters of young adults in the United States between 17 and 24 years old are ineligible for military service. With this reduction in the overall number of eligible recruits, the number of eligible recruits from racial/ethnic minority populations is even lower.[26]

Given the current state of the wealth gap in the United States and how it can broadly affect the future of the national security workforce, it is important that the DAF understand the nuances associated with the wealth gap and think through the role it could play in reducing wealth-related disparities. For example, researchers at the Urban Institute found that residents living in areas with large military installations have higher homeownership rates and suffer from lower racial and ethnic homeownership rate disparities than those residing elsewhere.[27]

While further research is required to understand fully the relationship between military service and proximity to large military installations and the wealth gap, DoD and national security policymakers could consider their roles in reducing the threat that the wealth gap poses to their ability to increase the service member candidate pool. This focus is critical, because the number of Americans willing and able to serve has decreased to the point where all services are concerned about meeting recruitment goals. According to retired Lt Gen Thomas Spoehr, "This is the start of a long drought for military recruiting[, and]

2022 is the year we question the sustainability of the all-volunteer force."[28]

Common Myths Confounding the Wealth Gap

Several controversial topics exist across the disciplines that seek to address the wealth gap. For example, discussions of generational wealth move into many gray areas, and many reputable sources discuss the wealth gap in various ways. To set conditions for the remainder of our discussion, Table 1 outlines common myths surrounding the wealth gap and provides counterfactuals that we identified in the literature. These myths are directly tied to the contributing factors that we discuss later in this publication.

In the rest of the publication, we examine different aspects of these myths through four lenses. First, we examine the wealth and income gap from a historical context, and then we identify how vocational choice—or lack thereof—influences the wealth gap. Afterward, we discuss how wealth management creates—and could alleviate—the wealth gap, before ending with a discussion of the psychological mindsets that drive current wealth management strategies.

TABLE 1
Debunking Common Myths About the Wealth Gap

Myth	Fact
The wealth gap would close if members of racial/ethnic and gender minorities pursued higher education and worked harder.	While a college degree *is* associated with a higher income, the median wealth among racial/ethnic minorities at every level of educational attainment is lower than that of White families, and unemployed White households have a higher net worth than working Black households. Furthermore, Black households carry more student loan debt than White households. With respect to gender, women of all races and ethnicities tend to outnumber men in degree attainment.
The wealth gap is driven by the lack of participation in homeownership by racial/ethnic minorities.	Owning a home is only one component of wealth generation. A wealth disparity still exists between White and Black households that own their homes, as well as between those households that do not. Regional variation and historical, racialized housing policies that affect home values further contribute to this disparity in homeownership.
If racial/ethnic minorities saved more, then the wealth gap would be eliminated.	Using the 2013 Survey of Consumer Finance data, Traub et al. generally found that, at comparable levels of income, White consumers spent 1.3 times more than Black consumers. The wealth gap is driven by differences in earned income, inheritances, and returns on investment (ROIs), not on falsely attributed spending patterns. However, the idea that members of racial/ethnic minorities can save their way out of the wealth gap is simultaneously popular and not supported by empirical evidence.
Increasing financial literacy among members of racial, ethnic, and gender minorities will close the wealth gap.	There are several psychological factors that contribute to the wealth gap. Even if all households had the same level of financial literacy, the fact that White households, on average, have more resources at the outset means that they have greater access to and ability to manage their wealth, which provides economic and psychological security to take more risks in their investments. Regarding gender, women tend to lag behind men in financial literacy, which affects their ability to make sound financial decisions and subsequent plans for retirement and building wealth.

SOURCES: Features information from Darity et al., *What We Get Wrong About Closing the Racial Wealth Gap*; Jackson and Reynolds, "The Price of Opportunity"; Rothstein, *The Color of Law*; Traub et al., *The Asset Value of Whiteness*; Assih, "Women's Financial Literacy Benefits Us All."

Generational Wealth and Income Inequity

In our framework, we first examine the generational aspect of wealth and income disparities. Notably, the difference between income and wealth is an important distinction to make (see Figure 1 for a breakdown of the different inputs and outputs for wealth and income). *Income* comes from such sources as wages, Social Security, and pensions, alongside other sources, such as interest and dividends on investments. Thus, income can be thought of as either earned (i.e., income from wages or salaries, business income, or farm income) or unearned (i.e., income from dividends, interest, and rent payments). Unearned income is generated from wealth in financial assets or real estate, such as interest from a savings account or dividends from a stock, which accrue passively.[29] In contrast, *wealth* is the net worth of a household (i.e., assets minus liabilities). Wealth includes all types of savings (including the value of property, such as homes and cars) less any debts. Essentially, wealth is money that an individual has available in the future, whereas income is what an individual reports on an annual income tax return.[30]

In short, *income* and *wealth* are related but not equivalent. One analogy is that income is like the amount of water flowing into and out of a lake, while wealth is like a lake's overall water level. Figure 1 outlines the key differences between these commonly conflated terms.[31]

However, while income does not equal wealth, present income can *become* future wealth when put into a savings account or invested, and present wealth can become future income when investments generate passive income streams. Therefore, time is an important aspect of wealth. Wealth acts as a reserve built up through flows of income and is depleted by spending. These financial concepts define an individual's present and future economic security.

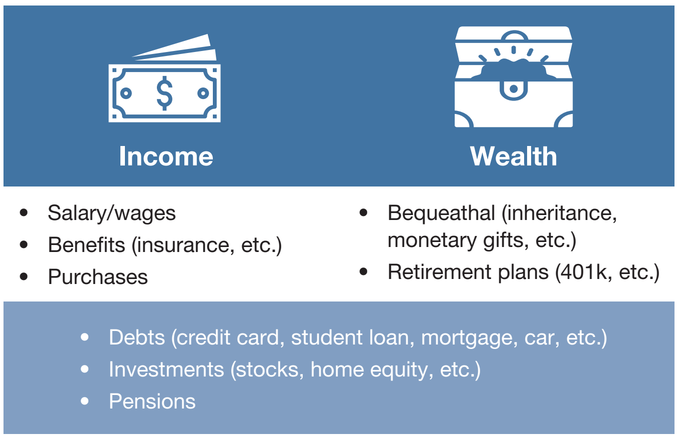
In this section, we first discuss intergenerational income disparities across racial and ethnic groups before moving into a discussion of intergenerational wealth disparities. Table 2 shows individual median incomes by race and gender from 1975 to 2018.[32]

Figure 2 adds perspective to the data presented in Table 2. It shows that, intergenerationally, median household income varies by racial or ethnic group.

In Figure 2, the vertical axis represents the mean household income rank, and the horizontal axis represents where each group's mean steady-state income ranks relative

FIGURE 1

Some Differences Between Wealth and Income



NOTE: The bottom box lists examples of factors that affect wealth beyond wages and addresses the notion of wealth being the net household worth minus debt.

TABLE 2

Median Income for Adults with Positive Earnings, by Race and Gender

Race	Gender	1975	1979	1989	2000	2007	2018
All groups		$26,000	$23,000	$26,000	$32,000	$24,000	$36,000
White	Men	$38,000	$40,000	$38,000	$42,000	$41,000	$44,000
	Women	$15,000	$12,000	$17,000	$23,000	$26,000	$30,000
Black	Men	$28,000	$28,000	$27,000	$35,000	$34,000	$35,000
	Women	$15,000	$17,000	$20,000	$27,000	$28,000	$30,000
Asian and Pacific Islander	Men	—	—	$38,000	$46,000	$46,000	$55,000
	Women	—	—	$22,000	$28,000	$32,000	$36,000
Native American	Men	—	—	$24,000	$33,000	$29,000	$30,000
	Women	—	—	$16,000	$21,000	$23,000	$25,000
Other	Men	$32,000	$33,000	$36,000	$43,000	$40,000	$48,000
	Women	$19,000	$15,000	$21,000	$27,000	$29,000	$32,000

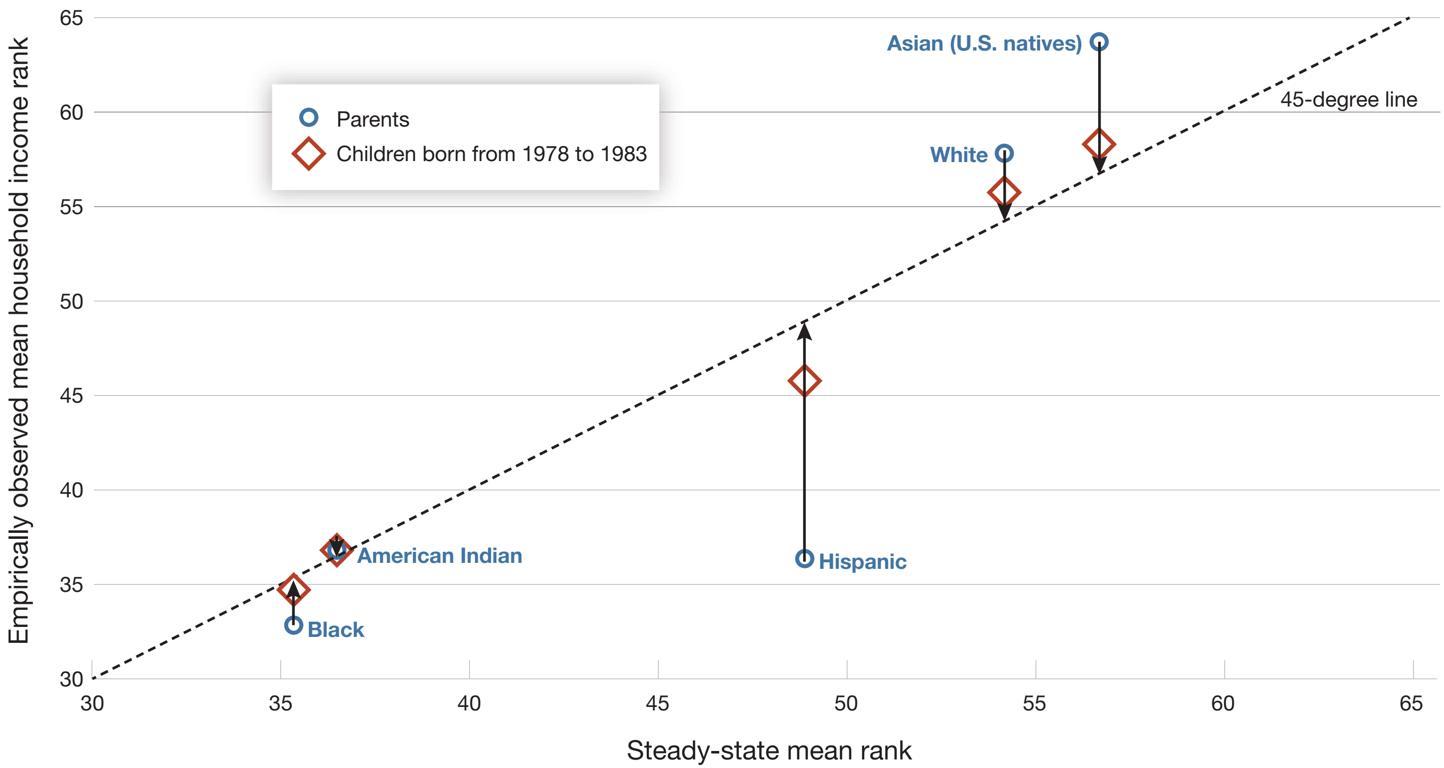
SOURCE: Adapted from Table 4b in Price and Edwards, "Trends in Income from 1975 to 2018," p. 15.
NOTE: A dash (—) denotes a lack of data. Red text indicates a decrease in median income between year ranges.

to those of the other groups. The circles represent parents, and the diamonds represent their children. If the diamond is above the circle, then the amount of the children's income has increased compared with that of their parents. If the diamond is below the circle, then the children's income has decreased, on average, relative to their parents' income.

As Figure 2 shows, only two racial or ethnic groups (Black and Hispanic) have positive changes across generations; however, it is important to note that the generational difference between the incomes of Black children and their parents is less pronounced than that of Hispanic children and their parents. Asian children (the new generation) have income levels close to those of White parents (the older generation), although differences exist in the intergenerational change in income levels. Notably, Figure 2 does not capture *wealth transfer*, the positive change in income between generations, for the Black and Hispanic racial and ethnic groups, which means that that the younger generation might not have more wealth. Furthermore, research suggests that it is harder for Black Americans to maintain their middle class status because of such factors as housing and neighborhood circumstances, educational and occupational attainment, and persistent racism and discrimination.[33]

FIGURE 2

Changes in Income Across Generations, by Racial or Ethnic Group



SOURCE: Adapted from Chetty et al., *Race and Economic Opportunity in the United States.*

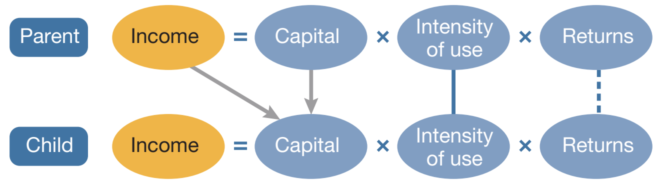
In 2019, the U.S. Census Bureau reported that the median household income grew substantially in the previous year, but income gaps persisted. Black, Asian, and Hispanic household incomes grew at higher rates than that of Non-Hispanic White households. Still, Black households earned 61 cents for each dollar that median Non-Hispanic White households earned (an increase from 59 cents in 2018). In contrast, the median Hispanic household earned 74 cents for each dollar that White households earned.[34] However, as we noted previously, generational changes in *income* do not equal generational changes in *wealth,* although the former can affect the latter (see Figure 3 for a simplified diagram of this mechanism). Indeed, across demographic groups, the concentration of household wealth is higher than income. For example, in 2016, among Black Americans, the richest 20 percent owned almost 65.0 percent of Black wealth but accounted for only 52.6 percent of Black income.[35]

The differences between wealth and income can manifest for several reasons. For example, if a household has significant debts (e.g., student loans, credit card debt, a mortgage) that outweigh or match its assets (e.g., an owned personal residence, investments, retirement accounts), then that household could have a high level of income but a low level of wealth. This distinction is important intergenerationally because it explains why no matter how high a household's income is, unless members of that household also own assets and investments, they will not have wealth to aid or pass on to their children. While *bequeathal* (the inheritance of money and property after death) is logically a major mechanism that links generational wealth to income, because high-income families are more likely to bequeath assets than low-income families,[36] wealth transfers before death may be more important. These "in vivo" wealth transfers can be more foundational because they are optimally timed. For example, a study that examined wealth formation in Denmark shows how wealthy parents are able to invest in the education of their children and the direct correlation between education attainment and income levels.[37]

In 2022, researchers at Brookings noted that the median Black household possesses at least ten times less wealth than the median White household (based on 2016 data), and this finding was confirmed by more-recent 2019 data from the Federal Reserve.[38] The historical trajectory of the racial wealth gap can be clearly seen in Figure 4. This gap persists when controlling for such

FIGURE 3

Links Between the Incomes of Parents and Their Children



SOURCE: Adapted from Figure 2.3 in Perez-Arce et al., *Inequality and Opportunity*, p. 7.

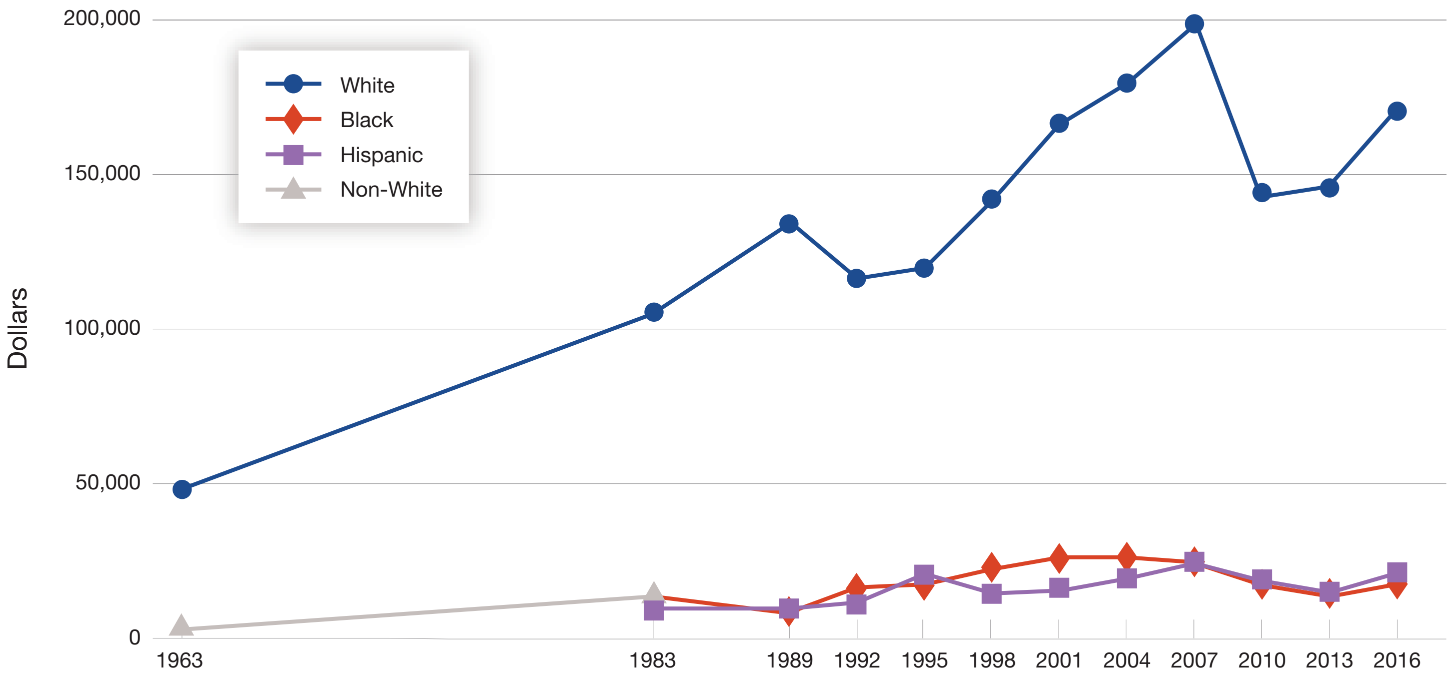
NOTE: Arrows denote causal effects. A solid line denotes correlation. A dashed line presents correlation at a certain level of locality (i.e., correlation as a result of the tendency of children to live in the same locality or state as their parents). Returns represent ROIs.

variables as education attainment,[39] age, and geographic location.[40] Policies often focus directly on the wealth gap; many programs prioritize savings, retirement income, and early investment. However, the Brookings piece suggests that a wider array of policies addressing such areas as child poverty, earnings, and education would be more effective.[41] The Earned Income Tax Credit (EITC)—which is often used to provide extra income to those who need it—is an example of such a policy.[42]

The EITC benefited 25 million families from every racial/ethnic group in the United States during 2021.[43] In addition to universally increasing both checking and savings account balances, the EITC especially benefits low-income single mothers and decreases the debt that they face. Overall, the EITC decreases income inequality for Black households by 5–10 percent per year. However, like every policy, there are trade-offs. One worry is that the EITC increases White families' wealth but does not clearly increase Black families' wealth. Accordingly, although the

FIGURE 4

Median Family Wealth, by Race or Ethnicity, 1963–2016



SOURCE: Adapted from Urban Institute, "Nine Charts About Wealth Inequality in America (Updated)."

EITC helps reduce the racial income gap, it might not help close the racial wealth gap—and it might even widen it.[44]

In this section, we discussed the difference between income and wealth and how income inequity feeds into disparities in generational wealth. While individual actions cannot solve the deep historical roots of these problems, individuals can take steps to improve their personal financial situations. In the "Vocational Psychology" section, we examine barriers to amassing generational wealth for members of gender and racial/ethnic minorities, as well as ways in which individuals can improve their personal financial situations.

Recommendations

The DAF, as well as DoD, is obligated to acknowledge and have a good understanding of the generational manifestations of wealth imbalance among various demographic

Increasing service members' understanding of homeownership and any associated inequities will enable more-effective policymaking.

groups. To understand this imbalance generationally would require accepting that certain communities have always been behind in terms of wealth because of such factors as racial segregation and lack of opportunities. The DAF should acknowledge and promote different narratives of human experiences. Such an understanding could translate to actionable items that the DAF could implement when performing formal and informal services, offering training, and designing policies.

For example, Black homeownership as an indicator of wealth is higher among service members than among the civilian population. The DAF provides housing for service members on several installations on the basis of housing availability. This approach can offset the housing shortfalls present among service members from historically marginalized communities while also setting conditions for the attainment of enough income to buy homes. The DAF should also offer instruction to service members on homeownership and on how and when to enter the housing market. Increasing service members' understanding of homeownership and any associated inequities will enable more-effective policymaking, helping eliminate inequitable programs, such as redlining and certain tax benefits and housing programs that exclude individuals of specific racial or ethnic communities.

Vocational Psychology

Vocational psychology is a specialized subset of applied psychology that examines vocational behavior—as well as the motivations of said behavior—throughout the talent management life cycle.[45] This is a useful lens through which some root causes of inequity—such as the income gap—can be observed. Many note that rates of unemployment and underemployment contribute to the wealth gap.[46] Unemployment is a well-defined concept: According to the official definition from the U.S. Bureau of Labor Statistics, being *unemployed* means that a person is "jobless, actively seeking work, and available to take a job."[47] In contrast, *underemployment* is much less concretely defined because it describes mismatches between employment opportunities and the skills and education levels of potential employees.

The national Black-White unemployment ratio provides an illustrative example of the interplay and effects of unemployment and underemployment and the disparities between underrepresented people and their White counterparts. Using an analysis of U.S. Department of Labor data from the Economic Policy Institute,[48] we note several important trends. In addition to the reported trend of the high incidence of Black unemployment in general, in the first quarter of 2022, the nationwide Black-White unemployment ratio was 2.2 to 1.0. Notably, in the geographic area of Washington, D.C., where white-collar jobs dominate the job market, the Black-White unemployment ratio was even larger (7.2 to 1.0) due, in part, to a significant decline in White unemployment (e.g., 31 percent in the third quarter of 2021). During the same period, the neighboring state of Maryland had the lowest Black-White unemployment ratio in the country (1.3 to 1.0). This contrast in the two proximately located geographic areas illustrates the difference between the unique nature of the Washington, D.C., labor market and its emphasis on white-collar federal employment and the impact that those higher-paying white-collar jobs can have on employment trends and access to income.

While full-time employment helps reduce the income gap, there are also gaps in pay and opportunities for advancement. These disparities differ across employers and career sectors and, therefore, require targeted solutions. Some of these solutions—such as obtaining credentials to qualify for better jobs—can create problems of their own. It is critical to recognize the vocational inequities that exist and the pitfalls that lie on the path to these solutions. The vocational psychology lens highlights the impetus of inequities in these areas.

Inequities in Earnings and Advancement

Earnings, in part related to underemployment because of a lack of access to higher-paying jobs for some underrepresented people, contribute to the wealth gap. Overall, White employees earn weekly wages that are more than 125 percent higher than those of their Black counterparts.[49] For example, according to the U.S. Department of Labor, in 2021, the working-age civilian labor force participation rate was 61.5 percent for White workers compared with 60.9 percent for Black workers.[50] For every dollar made by a White worker, a Black worker earned 76 cents, a Native American worker earned 77 cents, a Hispanic worker earned 73 cents, and a worker of multiracial descent earned 81 cents.[51] See Table 3 for a comprehensive snapshot of the disparities in earnings across the demographic groups.

Related to lower earnings, some underrepresented employees are less likely than White employees to secure white-collar and high-level careers, such as managerial and executive positions. In addition, there are many studies that note gaps in advancement, performance evaluations, and pay among demographic groups, even when accounting for other factors that explain such gaps as education attainment, type of job, and geographical location.[52] For example, a study that looked at the labor market outcomes for young men found that racial inequality in labor market and economic outcomes actually widened as educational attainment levels increased.[53] Both occupational differences and differences within an occupation are contributors to the racial earning gap.[54]

For DoD, the most-important gap is likely caused by differences in evaluations because other factors, such as pay grade and education requirements, are tightly regulated. The 2020 Diversity and Inclusion Report prepared by the DoD Board on Diversity and Inclusion indicates that such differences are a problem for DoD.[55] It states that multiple studies of the military's performance evaluations called out disparities among service members who identify with racial/ethnic minority groups. Those studies suggest that these disparities could be the result of raters' implicit or

TABLE 3

National Earnings Disparities Relative to White Workers

Race or Ethnicity	Number of Workers	Share of Workers	Average Weekly Earnings	Earnings per Dollar
White	97,484,953	62.67%	$1,046.52	$1.00
Black	17,781,185	11.43%	$791.02	$0.76
Native American/ American Indian	1,037,819	0.67%	$801.99	$0.77
Asian-Pacific Islander	10,071,279	6.47%	$1,168.82	$1.12
Hispanic/Latino	26,849,181	17.26%	$762.80	$0.73
Multiracial	2,318,129	1.49%	$852.18	$0.81

SOURCE: Reproduced from Office of Federal Contract Compliance Programs, "Earnings Disparities by Race and Ethnicity."
NOTE: According to Office of Federal Contract Compliance Programs, "Earnings Disparity Data," "The primary objective of the analysis" informing this table was "to measure earnings disparities by sex, race, and ethnicity at the national and state levels. By 'disparity' we mean an unequal distribution of earnings across the various participants in an economy by sex, race, or ethnicity. To ascertain where disparities exist, we used three-year estimates from the Current Population Survey (CPS). This allowed us to increase the statistical reliability of the data for less populated states (e.g., Wyoming) and small population subgroups (e.g., Asians)."

explicit biases or caused by additional factors that alter performance ratings, such as mentorship and tokenism. However, the report mentions that there are not enough data to confirm whether these disparities are due to rating bias. Instead, it suggests that this phenomenon must be further examined and that DoD should establish data-driven goals and measures.[56]

Any differences in performance ratings are exacerbated by the fact that employees who previously received a high rating are more likely to receive a high rating in the future. These differences can drive other disparities because of the links between evaluations and outcomes—such as performance ratings tied to promotion decisions. For example, a leading financial services company found that its White employees were 18 percent more likely to receive promotions than their Black counterparts and that there was a 16-percent gap in the likelihood that Black employees would leave the company compared with their White counterparts.[57]

Multiple reports indicate that racial/ethnic minorities suffer from similar disparities in the military, including disparities in developmental opportunities and promotions. For example, the 2020 Diversity and Inclusion Report states that while Black officers had equal promotion rates through the rank of O-4, they suffered disparities in promotions and retention at the ranks of O-5 and O-6.[58] Furthermore, the U.S. Air Force found that Black airmen, both officers and enlisted personnel, had a higher chance than their White counterparts of separation or retirement based on a lack of opportunities for advancement or development, as well as a lack of opportunities to work in environments with other airmen from diverse backgrounds. They were also more likely to separate or retire because of the evaluation system in place.[59]

The Balance Between Credentials and Debt

Conventional wisdom suggests that acquiring more formal credentials and education is a sure counterstrategy that can be used by those affected by racial/ethnic disparities in wages and advancement. This thinking is mistaken because some underrepresented people with esteemed pedigrees still are underemployed or not advancing in organizations, as evidenced by performance assessment and discipline data that reveal disparate treatment or outcomes. Furthermore, acquiring additional credentials often requires a person to either already have the financial means to do so (i.e., wealth) or take on debt, which can, in turn, constrain career choices. Unfortunately, the lack of generational wealth among members of racial/ethnic minorities means that acquiring student loan debt is often the only way to obtain higher education. This reality is reflected by disparities in student loan debt, which vary among demographic groups. Regarding gender, women account for 58 percent of undergraduate student loan debt and, on average, take two years longer than men to pay it off.[60] Women also take out federal and non-federal loans at higher rates than men do, and women are more likely to have graduate school debt.[61] Similarly, considering race, Black college graduates, on average, have $25,000 more in student loan debt than their White counterparts do.[62]

Additionally, Black college graduates typically owe 12.5 percent more than they borrowed four years after graduation.[63] They are the most likely racial/ethnic group to experience financial struggles due to student loans, largely because 29 percent of them have monthly payments at or above $350.[64] On average, a Black person with a bachelor's degree owes $52,000 in student loans, and 40 percent of Black Americans with graduate degrees have student loan debt compared with only 22 percent of White Americans with graduate degrees.[65] Black Americans are the most likely racial/ethnic group to put off buying a home because of this debt, and Hispanic Americans are the most likely racial/ethnic group to put off getting married and having children. It is even worse for "double minorities"—people who are subject to the compounding effects of two disadvantaged identities. For example, Black women, 12 years into repayment, typically owe 13 percent more than they originally borrowed.[66] Regardless of the demographic group or financial circumstances, these higher debt loads can make it riskier for people who have them to change jobs and leave companies where they are not valued because a shortage in income could put them at risk for defaulting on their loans.

Overcoming Inequity

Multiple strategies are put forth in the vocational psychology space as solutions to overcoming equity-related obstacles. While these strategies may be good tools, they can also be unrealistic for certain populations and have pitfalls of their own. For example, some financial firms suggest creating multiple income streams, particularly streams that create passive income—such as interest or dividends from stocks. Some firms even offer automated investing products to facilitate the management of passive income

> Although there is no one magic strategy to overcome financial inequities, understanding the obstacles and implementing targeted solutions can help minimize the impacts on an individual level.

streams.[67] Generating multiple streams of income is a frequent practice of wealthy people. Tom Corley's survey of the habits of 233 "self-made millionaires" over five years found that 65 percent of those he talked to had three or more streams of income, 45 percent had four or more, and 29 percent had more than four.[68] One major advantage to this strategy is that if one stream of income falters—for example, a person loses their job—the other streams serve as a safety net.

The multiple-streams approach also provides a stable base on which to take financial risks, such as starting a business, negotiating a promotion, or changing jobs. In turn, these risks can pay off with increased income, which can be used to build wealth. However, many of these multiple streams of income require a start-up investment. For example, if people want to invest in the stock market, they need the capital to do so. Furthermore, certain types of investments can be risky ventures, which can result in loss of that capital. Additionally, people need savings to invest in appreciable assets, which, again, could be lost in the process. We further address such problems that racial/ethnic minorities and women face with investments in the "Wealth Management" section.

Another vocational psychology strategy is choosing careers that have structured levels of pay—such as the military—where subjective determinations of what individuals should be paid are minimized and objective accomplishments are prioritized during evaluations. Although there is no one magic strategy to overcome financial inequities, understanding the obstacles and implementing targeted solutions can help minimize the impacts on an individual level. Such solutions are key to helping people take steps to improve their financial situations. Then, once people's incomes exceed their expenses and wealth starts accumulating, the challenge turns to managing that wealth effectively.

In this section, we discussed how vocational factors feed into inequities that drive the wealth gap. We examined some targeted solutions and discussed the benefits and pitfalls of such measures. In the "Wealth Management" section, we transition into discussing how the outputs of these vocational factors affect total wealth and which factors are unique to women, racial/ethnic minorities, and service members. We also examine in depth some of the pitfalls to potential solutions, and we end that section by highlighting some of the best practices for wealth management.

The DAF (and DoD) should consider programs that advance opportunities for historically marginalized people to obtain senior and technical positions.

Recommendation

The DAF (and DoD) should consider programs that advance opportunities for historically marginalized people to obtain senior and technical positions. One department-wide talent management tactic that DoD could benefit from is using lateral entry initiatives to alleviate shortfalls of candidates from racial/ethnic minorities in technological fields and senior leadership positions—thereby also reducing underemployment within the larger population of this group of historically marginalized people. Most recently, the National Defense Authorization Act (NDAA) for Fiscal Year 2019 enabled services and expanded lateral entry for the accession and promotion of competitive officers.[69] *Lateral entry* for the military refers to targeted recruiting within the civilian talent market for mid- to senior-level professionals with expertise in certain fields otherwise not available in the traditional military labor pipeline.[70] The lack of diverse leadership is a growing concern not only for military innovation but also for the inequality of advancement and earnings for minorities that is fueled by it.

There is evidence of a direct correlation between an organization's seniority policies and its compensation policies that contributes to the racial wealth gap.[71] Lateral entry can be used as a tool to ensure equal employment opportunity and equitable compensation, as well as guaranteed placement and advancement, and to recruit highly skilled civilians to fill critical positions. By strategically using the lateral entry program to attract and support qualified racial/ethnic minority candidates, the military not only enhances its diversity and brings in valuable expertise in the fields of science, technology, engineering, and mathematics but also cultivates a more-inclusive leadership team and tackles the issue of generations of disparities in employment opportunities, earnings, and advancement.

Wealth Management

The management of wealth is shaped heavily by risk. For example, a major motive for acquiring wealth is to shield against possible risks, a concept known as *precautionary saving*.[72] Precautionary saving has been shown to influence those who have uncertain earnings or own businesses to be less likely to own stocks.[73] However, precautionary saving is estimated to be relevant for only 8 percent of wealth,[74] and there are other, seemingly contradictory trends at work, such as the tendency for investors with greater wealth to be more risk averse than investors with less wealth.[75] Wealth management is not a one-size-fits-all process, and each demographic group faces unique challenges. Accordingly, we separate our discussion of wealth management into issues unique to women, those unique to racial/ethnic minorities, and those unique to service members. We then lay out the basic principles of managing wealth effectively.

Issues Unique to Women

Women experience their own unique wealth management issues. First, women control much less wealth than men. As reported by the St. Louis Federal Reserve Bank, families headed by women have just 55 cents in median wealth for every dollar of wealth owned by families headed by men.[76] To gather the amount of wealth necessary to retire, women generally need much higher ROIs and need to save a greater percentage of their incomes than men do. These steps are necessary because women not only make less money than men working in the same positions, but also, women see their earnings peak around age 40, whereas men's earnings increase well into their sixties. This disparity is further exacerbated by the fact that women typically live six years longer than men and take twice as many career breaks to provide care for family members.[77]

Despite this need for a higher ROI, more than half of women in the United States do not invest in the stock market.[78] Indeed, although women make the most money in around 50 percent of U.S. households—and control half of the total wealth—74 percent of women do not invest in the stock market.[79] Accordingly, women's money loses value to inflation, and their total retirement account balances are less than 33 percent of those of men.[80]

There are numerous factors driving this dearth of women investors. Some surveys suggest that daughters are raised to practice fiscal restraint, while sons are pushed toward wealth management.[81] Another concern, for those women who do invest, is their lack of trust in their financial advisors. Interestingly, a 2021 study from Fidelity states that, on average, women earn higher ROIs than men do.[82] However, another study shows that 67 percent of women investors reported feeling misunderstood by their financial advisors.[83] Additionally, 25 percent of women investors said that they would switch advisors if they became widowed or divorced.[84]

Consistent with this dearth of women investors is the fact that only 30 percent of financial advisors are women.[85] Furthermore, women account for only 7 percent of investment partners in the top 11 venture capital firms.[86] There are firms focused on filling these gaps, both by hiring female financial advisors at higher rates and by creating products, algorithms, and investment strategies that are tailored for women.[87] However, without substantial

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improvements in these inequities, it will be difficult to increase the number of women who invest their income and earn enough to comfortably retire.

Issues Unique to Racial/Ethnic Minorities

Although women face distinct challenges when it comes to wealth management, these challenges are somewhat similar to those experienced by racial/ethnic minorities. For example, in 2019, only 33.5 percent of Black households owned stocks.[88] That same year, the U.S. Department of Labor reported that less than 5 percent of wealth managers were Black:[89] Only around 1,200 of the 87,000 certified financial planners in the United States were Black.[90] Hispanic Americans and members of other racial/ethnic minorities also invest in stocks at lower rates than their White counterparts.[91] Black households have a higher propensity to own "safer" investments, such as bonds, life insurance, and real estate.[92] Furthermore, while 65 percent of White families own 401(k) retirement plans, only 44 percent of Black families and 28 percent of Hispanic families do.[93] Figure 5 shows the median amounts of such plans as of 2019.

One financial advisor suggests that this risk aversion is due to Black investors' deep-seated mistrust of nontangible investments given their history of having such earnings taken away from them.[94]

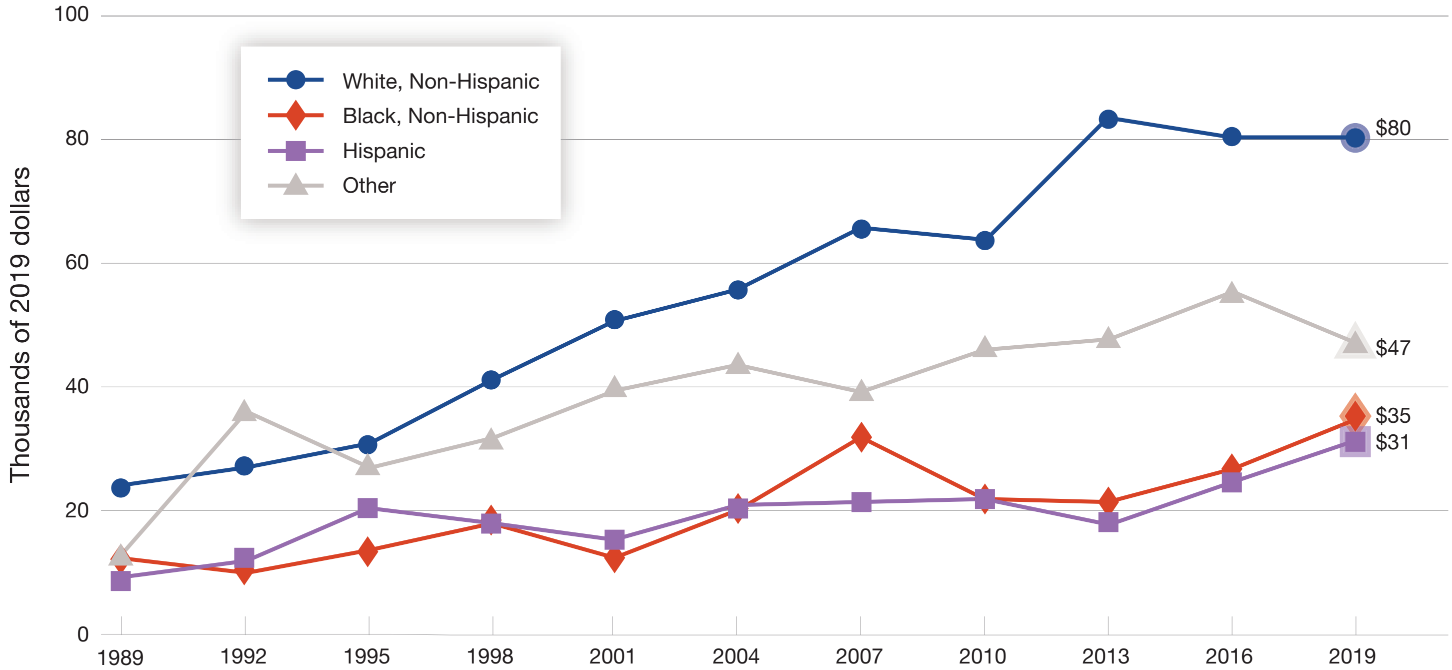
The lack of financial literacy is another area exacerbating the racial wealth gap. Financial literacy is inadequately addressed at many high schools, let alone at the middle or elementary school levels as some advocates suggest it should be. A 2017 survey from T. Rowe Price indicated that almost 70 percent of parents are reluctant to discuss household finances with their children, and only 23 percent of children said that they had regular conversations about this topic with their families.[95] Furthermore, a 2016 survey found that only 31 percent of U.S. youth ages 18–26 felt that their high school curricula provided them with the financial literacy that they needed to form healthy financial habits.[96]

This issue affects people across all subgroups of the population, but it is especially important for communities of color, given the number of racial/ethnic minority students who drop out of high school and immediately enter the workforce. Deciding whether to go to college is one of the most important decisions that people make in their lives, particularly considering the negative effects that student loans can have on individuals and their finances in the long term. When taking out student loans, students are required to go through a brief counseling session mandated by the federal government,[97] and many students say that they do not understand the information they receive in this session.[98]

Research conducted by Next Generation Personal Finance found that very few high schools (11.9 percent) require stand-alone personal finance courses. That number is lower, standing at 7.8 percent, for schools with primarily students of color.[99] Aside from a lack of financial literacy courses in school, students of color have less access to resources outside the classroom that teach wealth management best practices, such as social learning, in their neighborhoods.[100] This lack of education on how to properly manage and grow wealth perpetuates poor decision-making, thus further increasing disparities in wealth. Some firms are targeting these gaps through strategies that lower the cost of receiving investment advice or that eliminate other barriers that make it difficult for Black Americans

FIGURE 5

Median Amount in Retirement Accounts, by Race and Ethnicity



SOURCE: Adapted from Board of Governors of the Federal Reserve System, "Survey of Consumer Finances, 1989–2022."

to begin investing. The good news is that, in its 2022 Black Investor Survey, Ariel-Schwab found that the rate of investment ownership among Black Americans under the age of 40 was 63 percent, the same as their White counterparts.[101] Indeed, 29 percent of Black Americans who responded to this survey began investing in 2020, compared with only 16 percent of White respondents.[102] This finding shows that there is some hope that gaps in the use of sophisticated financial instruments are closing, but a higher percentage of Black Americans investing will not fix systemic inequities as long as the amount of their invested assets remains relatively small.

Issues Unique to Military Service Members

Further compounding the above factors for military service members and veterans is their level of risk aversion. All people have some amount of risk aversion, and investment in stocks comes with a wide range of risk. However, Veterans are more likely to be risk averse than their civilian counterparts when it comes to investment.

veterans are more likely to be risk averse than their civilian counterparts when it comes to investment.[103]

For those who earn them, military pensions represent a safe investment because they guarantee at least half, or 40 percent under the new Blended Retirement System, of a service member's highest 36-month salary and a percentage increase for each year over 20 years of service that is inflation-adjusted.[104] However, some analysts suggest that a military pension is not enough to feasibly, and comfortably, enter retirement.[105] It is also critical to note that, per our definition, money from pensions does not count as wealth. Rather, pensions are a form of income. If the money from pensions is being invested, then it might be transformed into wealth; however, any amount that is being used for living expenses or to pay off debt is not. Pensions create enormous buying power, which may feel like wealth, but that buying power does not directly translate to generational wealth because pensions cannot be inherited. Additionally, the expectation of staying in the service long enough to earn a pension can dissuade service members from saving for retirement. For those veterans who do not stay in long enough to earn pensions, such an expectation can result in little savings for retirement and no pension at the end of their military service.

Best Practices for Individual Wealth Management

Although each demographic group has different struggles in this area, the best practices in wealth management remain consistent across demographic groups. Many financial resources describe specific practices, but, from our experience, the following are some key principles:

- Invest early into a diversified portfolio. After paying down debt and building up a cushion of savings, people should invest in a mix of stocks, bonds, and other financial instruments that reflects their risk capacity.
- Take advantage of tax laws that promote wealth-building.
- Use benefits maximally, such as the contribution-matching benefits that are now part of DoD's retirement system.

However, these steps can be difficult to implement because of strong emotions and fears about wealth, which we address in the "Psychological Mindset" section.

In this section, we examined the unique factors that affect women, racial/ethnic minorities, and service members in their ability to build, maintain, and manage wealth. Such factors include disparities in the availability of financial advice and psychological phenomena that affect people's willingness to invest in riskier but potentially more-profitable investments. In the "Psychological Mindset" section, we examine the root causes of these psychological mindsets.

Recommendations

Financial literacy has become a growing concern of the American public in recent years and is especially applicable to the unique military context. To that end, the Congressional Research Service (CRS) has prioritized the topic over time and, in January 2022, provided updates to its investigative work. In a CRS report titled *Military Families and Financial Readiness*, the author Kristy Kamarck discusses how "DOD identifies *financial readiness* as one of the major components of family readiness, and ultimately operational readiness," and notes that financial readiness "has been defined as 'the state in which successful management of personal financial responsibilities supports a servicemember's ability to perform their wartime responsibilities.'"[106]

Service members may experience frequent deployments and separation from family members that removes them from day-to-day financial decisions. Service members who live on a military base also might not have as much exposure to various types of monthly bills as the average civilian does, given that housing and other services are included as benefits of living on base. All of these factors contribute to service members' lack of understanding of and exposure to wealth management best practices. However, the extent to which financial literacy training is offered across military branches differs. This training disparity has resulted in DoD providing "financial education programs and counseling to assist servicemembers in making informed decisions about pay and benefits, improving their financial management skills, and enhancing their financial well-being."[107] Furthermore, "[f]inancial literacy training requirements, as originally enacted by the FY2006 NDAA, are outlined in Section 992 of Title 10, United States Code." Notably, mandatory training topics are part of the curriculum and "include common private sector financial services and marketing practices,"[108] as well as practices that are more germane to specific basing locations.[109]

Given the existing focus on financial literacy support within DoD, it makes sense to ensure that DoD's strategic messaging to historically marginalized groups factors in their unique experiences to better reach those populations. Even with tailored training, reach can sometimes be an issue—meaning that such training might not be enough to reach all intended recipients and ensure that they retain financial literacy. A way to mitigate these concerns might be to incorporate financial literacy training in the professional military education structure. All service members pass through some form of professional military education, which is a sure way to maximize reach.

It makes sense to ensure that DoD's strategic messaging to historically marginalized groups factors in their unique experiences to better reach those populations.

The average American is likely to have some form of debt and to be more concerned with meeting immediate, basic living needs than with taking financial risks that they may not recover from.

In terms of the many offerings available, the DAF and DoD might consider evaluating existing materials and financial advising services to identify whether the instruction fails to recognize the differential treatment that racial/ethnic minorities might face when trying to take out a loan, invest, start a business, and so on and how training and financial services might address such barriers. In other words, do the materials and advisors assume that the White experience is the "normal" experience? The evaluation of current practices might also assess whether there are any types of implicit or explicit forms of bias when these services provide financial advising or coaching to racial/ethnic minorities on financial decisions, which could end up disadvantaging those populations or making them distrust financial advising resources. Finally, the evaluation might assess whether what the military provides is focusing too much on avoiding debt, bankruptcy, bad credit, and so forth and not enough on wealth-building and such other topics as budgeting, taxes, insurance, credit scores, and retirement planning. Instruction and counseling should also teach concrete skills, such as identifying financial theft and fraud and understanding consumer rights, and walk through scenarios of making major financial decisions, such as buying a house or funding higher education.

Psychological Mindset

There are many psychological factors that contribute to the vicious cycle of the generational wealth gap. Intense emotions, such as fear and anxiety, associated with the obtainment, sustainment, and growth of wealth can contribute to money avoidance, which has been defined as "the practice of ignoring our financial situations, often to our own detriment."[110] Often, feelings of fear and uncertainty are due to a lack of familiarity with and a lack of confidence in the profitability of the market. As we discussed in previous sections, many people of color do not have the financial literacy to take calculated risks, and some communities are more risk averse than others.

The average American is likely to have some form of debt and to be more concerned with meeting immediate, basic living needs than with taking financial risks that they may not recover from.[111] Hence, from a psychological standpoint, most people view wealth and wealth management as abstract concepts. Therefore, we next explore four underlying factors that may contribute to the reasons many people subconsciously fear and avoid dealing with their financial situations:

- lack of inheritance
- lack of understanding
- lack of trust
- lack of opportunities.

A person's starting point in life is crucial to their ability to develop future wealth.

Lack of Inheritance

Wealth can be obtained by various means; however, a person's starting point in life is crucial to their ability to develop future wealth. A small subsection of the U.S. population hit the jackpot in the generational lottery, whereas others are less fortunate. According to the Federal Reserve, some estimates suggest that bequests and wealth transfers (i.e., inheritances) account for at least half of aggregate wealth and account for more of the racial wealth gap than any other demographic or socioeconomic indicator.[112] Thus, those born into poverty are automatically disadvantaged at birth, and those born into wealth have advantages when generating wealth. Psychologically and financially, disadvantaged members of society often become stuck in a cycle of poverty and low-income earnings for generations. Their environment significantly contributes to this outcome. For instance, because they are born into poor communities, they are less likely to have the educational, health, and financial resources to build wealth. They also tend to obtain jobs similar to those of their parents and grandparents, which are often low-paying.[113]

The social networking theory in psychology further explains this phenomenon by emphasizing the importance of social networks and connections within a person's external environment. A person's social circle shapes their behavior and understanding of the world. Hence, low-income individuals have limited exposure and opportunities to access the networks and resources that would help them acquire and build wealth.[114]

On the other end of the spectrum, people born into wealth are not necessarily shielded from feelings of fear and anxiety when handling money. For example, even though they were born into wealth, there is no guarantee that they can efficiently maintain and grow the wealth that was obtained by their predecessors. Studies have found that 70 percent of families lose their fortunes by the second generation and 90 percent of families lose them by the third generation.[115] There are various explanations for why this loss may occur, but the prevailing theory is that prior generations do not disclose their methods of obtaining and managing their wealth to their children, nor do they teach them financial responsibility.[116] Therefore, children who grow up in affluent households are not necessarily more likely to be equipped with or use the knowledge needed to maintain the level of wealth their parents provided them.

Lack of Understanding

As mentioned previously, a lack of financial literacy among racial/ethnic minorities and low-income individuals dam-

Poverty and other hardships can result in a "short money mentality," which causes those with such a mentality to focus on their survival, and short-term considerations overwhelm any attention to long-term planning.

ages their confidence in their ability to manage money. While both minorities and low-income individuals tend to have less financial literacy, income differences explain only around half of the racial/ethnic gap in financial literacy.[117] This gap can lead to poor decisionmaking when it comes to saving, investing, and spending income. Moreover, past experiences can shape how people manage their resources.

Poverty and other hardships can result in a "short money mentality," which causes those with such a mentality to focus on their survival, and short-term considerations overwhelm any attention to long-term planning.[118] Although some of this behavior is rational and a result of precautionary saving (as we discussed in the "Wealth Management" section), this mentality can result in behavior that is not economically reasonable, such as hoarding large amounts of cash or spending money on short-term consumer goods that do not appreciate in value or increase wealth. While such decisions can seem rational when a person is not sure they will survive to see a decade from now, the mindset that drives these decisions can persist—even when a person's financial situation becomes more stable and generates wealth. This type of mindset can be easily passed down from parent to child. It is ultimately very difficult to escape family influences and habits that are inherited generation after generation. Each family has its own particular "psychology of money," which dictates how money is spent, how money is talked about, and how important money is.[119]

The U.S. Department of Agriculture provides one example of the result of this lack of financial literacy: It has called heirs' property a leading cause of Black involuntary land loss, noting that it has "contributed to land loss from 16 million to 4.7 million acres over the last hundred years."[120] Heirs' property applies to land that has been passed down through generations without a will or legal document to prove ownership. Essentially, the heirs have the right to use the property, but they do not have a clear title to the property while the estate issues remain unresolved. This situation can lead to many complications. It is extremely prevalent among under-resourced communities in the South, in the Southwest, and throughout Appalachia. Racial/ethnic minorities are especially vulnerable to being uneducated and unknowledgeable about the formal processes required to manage their assets, which leads to great losses.[121]

Lack of Trust

Along with a lack of understanding, there is significant distrust in the U.S. financial system within racial/ethnic minority communities. They perceive the associated risks as being too high because financial gains are not guaranteed. People may equate investing with gambling, and personal experiences can influence perceptions. Such perceptions can be seen by examining generational trends. A 2018 survey conducted by Bankrate found that Americans overall are becoming less confident in the stock market, and millennials (individuals born between 1981 and 1996) are the first generation to prefer cash investments over all other forms of long-term investment (stocks, real estate, gold/precious metals, bonds, and bitcoin/cryptocurrency).[122] The survey also found that 30 percent of millennials desired cash investments, whereas respondents from the preceding generations (33 percent of Gen Xers, 38 percent of Baby Boomers, and 44 percent of the Silent Generation) preferred investing in the stock market the most.[123] Unsurprisingly, this preference contributes to the 10:1 ratio in ownership of equities by value between Gen Xers and millennials, respectively, in the first quarter of 2022 despite only a 5:1 ratio in total wealth.[124]

Such hesitancy among members of this younger generation to invest in the stock market could stem from experiencing the Great Recession of 2008 and witnessing their parents lose large amounts, or even all, of their life savings. Younger generations are also burdened with large student loans and face rising home prices. According to the U.S. Department of Education, on average, students have $37,113 in student loan debt and take 20 years to repay student loans.[125] Those numbers increase with each higher degree attained. Given such statistics, college graduates or young people seeking higher education do not have excess money to make long-term investments—and even if they did, their lack of trust in financial systems might keep them from investing.

The same personal experiences that shape investment behavior among millennials could also affect the trust that racial/ethnic minorities have in financial institutions. In the lead-up to the Great Recession of 2008, financial institutions issued a disproportionate number of subprime mortgage loans to Black and Hispanic borrowers.[126] The Economic Policy Institute found that 26.0 percent of subprime mortgages were issued to White borrowers, while 47.3 percent and 52.9 percent were issued to Hispanic and Black borrowers, respectively.[127] However, subprime mortgages are by no means the only reason that communities of color distrust financial institutions: The discriminatory practice of redlining and personal negative experiences with banks also contribute to this lack of trust. A survey

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The DAF (and DoD more broadly) should offer financial therapy aimed at assisting service members in coping with issues of trust and stress related to handling money.

conducted by the Federal Deposit Insurance Corporation (FDIC) found that about 13.8 percent of Black households and 12.2 percent of Hispanic households were unbanked, compared with 2.5 percent of White households and 1.7 percent of Asian American households in 2019, and one of the most frequently cited reasons that unbanked people gave for not depositing their money in banks was a lack of trust in them.[128]

Lack of Opportunities

An overarching challenge for racial/ethnic minority and low-income communities is the lack of opportunities to create individual wealth and the lack of access to financial tools caused by discrimination and segregation.[129] People at the high end of the wealth gap benefit the most from the current system and maintaining the status quo, while people at the low end of the gap, who are desperate for change, see such change as nearly impossible.

One analogy posted to social media in 2020 by Kimberly Latrice Jones likened the historical struggle of Black Americans to playing the Monopoly board game: For the first few hundred rounds of Monopoly, Black Americans played on behalf of their opponents and were not afforded the opportunity to earn their own money (i.e., they "earn money and wealth for [the person you're playing against] and then . . . turn it over to them"). For the next 50 rounds, Black Americans can play, but they are placed at a severe disadvantage because their opponents have already established a monopoly in the game and control a majority share of Monopoly money. This setup suggests that the game is fixed, and there is no way for Black Americans to win.[130] The analogy expresses a financial insecurity that resonates not just with Black Americans but also with other racial/ethnic minorities and gender minorities: Such a state of affairs can lead to a sense of hopelessness when it comes to ever having any wealth. And this analogy highlights that the pathways for racial/ethnic minorities and low-income individuals in the United States to gain wealth are dictated by the powerful and wealthy.

Recommendations

The DAF (and DoD more broadly) should offer financial therapy in addition to the mandatory financial literacy training mentioned above. Financial therapy would be aimed at assisting service members in coping with issues of trust and stress related to handling money. The Financial Therapy Association defines *financial therapy* as "a process informed by both therapeutic and financial competencies

Most Americans do not act in ways that are likely to lead to the accumulation of wealth and, instead, focus on other priorities, such as their immediate needs for survival and emotional and physical safety.

that helps people think, feel, communicate and behave differently with money to improve overall well-being through evidence-based practices and interventions."[131] Financial therapy can be delivered in different formats, including individual counseling, workshops or seminars, and group sessions, allowing it to be tailored to the needs of service members. It simultaneously provides emotional support and concrete financial advice.

Financial therapy should be incorporated as part of the within-the-line-of-duty counseling services offered by such customary providers as the medical community, the chaplain corps, and morale and welfare services. By incorporating financial therapy, the DAF can empower and equip service members with the necessary tools to build trust in financial institutions, effectively manage money, and address many of the financial trauma and underlying psychological factors that lead to poor financial decision-making that we identified earlier. The DAF should strongly emphasize the importance of financial counseling and effectively advertise such services to service members.

Key Takeaways

The wealth gap is a complex construct with various contributing factors that perpetuate division between the general U.S. population and its top earners. We sought to form a framework from which to examine significant variables that create and widen the gap. We identified myths circulating about wealth in addition to exploring the psychological journey of wealth obtainment and growth.

Although the journey to accumulating wealth differs for everyone, there are generational advantages and self-harming mindsets that influence success. Our first takeaway is that the maximization of wealth is not at the forefront of most people's priorities. Most Americans do not act in ways that are likely to lead to the accumulation of wealth and, instead, focus on other priorities, such as their immediate needs for survival and emotional and physical safety. Secondly, our country's systems are not closing the wealth gap—whether that system is the education system that fails to teach our children how to responsibly manage money or the economic system that favors the

The disparity in wealth due to unequal pay, benefits, and access to resources can significantly affect service members' morale, retention, and overall well-being. Therefore, action needs to be taken to bridge this gap to uphold DoD's mission of equality and inclusion.

rich, or a myriad of other systems. Every life phase presents an additional challenge, and these experiences negatively affect how people think about and handle money. Lastly, inheritance is critical. Although financial circumstances change and unpredictable events happen, being born into a wealthy household gives a person a remarkable advantage. In terms of national security, the DAF and its sister services should continue to work to understand the wealth gap and to do their part to understand how their current policies and systems affect disparities.

The disparity in wealth due to unequal pay, benefits, and access to resources can significantly affect service members' morale, retention, and overall well-being. Therefore, action needs to be taken to bridge this gap to uphold DoD's mission of equality and inclusion. The actionable items that we recommend in this publication begin with the DAF (and DoD) developing a deeper understanding of the nuances and generational manifestations of the wealth gap. The understanding that, for generations, certain communities have been marginalized and the consequences of that treatment are still evident today. With a deep understanding, the DAF and DoD can better use programs to empower and support all service members through formal and informal offerings of financial literacy and financial therapy embedded in the military's educational structure across the services. The DAF can further use such programs as lateral entry to diversify its force and recruit service members from gender and racial/ethnic minorities.

To maintain the strongest security capability in the world, the DAF and DoD need to draw from a diverse population set of the highest caliber and then sustain and retain its service members and their families over time. The military services require the best possible candidates to continue to provide world-class security, and this capability will be enhanced by identifying and preventing the potential burdens associated with gender and racial/ethnic disparities.

Notes

[1] *Vocational psychology* is a specialized subset of applied psychology that examines vocational behavior—as well as the motivations of said behavior—throughout the talent management life cycle.

[2] By *lenses*, we mean different approaches and ways of looking at the wealth gap.

[3] U.S. Census Bureau, "How the Census Bureau Measures Poverty."

[4] Derenoncourt et al., "Wealth of Two Nations."

[5] Winck, "The Massive Gap Between Rich and Poor Americans Costs the US Economy More Than $300 Billion Every Year, Study Says."

[6] Winck, "The Massive Gap Between Rich and Poor Americans Costs the US Economy More Than $300 Billion Every Year, Study Says."

[7] Blunt and Monroe, "We Have a Wealth Gap, and Military Is Poorer for It."

[8] Worley, *Orchestrating the Instruments of Power*.

[9] Friedberg, "The Changing Relationship Between Economics and National Security."

[10] Aladangady and Forde, "Wealth Inequality and the Racial Wealth Gap."

[11] Stiglitz, *The Price of Inequality*.

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About This Paper

The wealth gap is a complex topic replete with differing opinions and myths. This publication provides the Department of the Air Force (DAF) with an organizing structure of the underpinnings of the wealth gap experienced by gender and racial/ethnic minorities, and the intersectionality across both, to better inform human capital management decisions. Notably, discussions in this publication are relevant to all the sister services in the U.S. Department of Defense.

Wealth and its associated gaps across gender and racial/ethnic groups are important for the DAF to consider because the citizens whom it seeks to recruit come from macroenvironments that have historic disparities. These disparities affect current and future service members and the social networks from which they come. It also is useful for the DAF to understand the nuances of the wealth gap and to think through the role it could serve in reducing wealth-related disparities. The purpose of this publication is to provide DAF leaders and policymakers with an interdisciplinary framework that merges four selected lenses to better see and understand the wealth gap.

The research described in this publication was produced as part of a RAND Project AIR FORCE (PAF)–wide diversity, equity, and inclusion effort with oversight provided by PAF's Workforce, Development, and Health Program. It was produced as part of a fiscal year 2021 concept formulation effort, "Diversity, Equity, and Inclusion (DEI) Support," in support of the DAF's "Crucial Conversations"—an open forum in which airmen and guardians across all racial, ethnic, and gender groups can gather to discuss and learn about critical topic areas.

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