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Testimony on Behalf of Segal Benz

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Gaps in Retirement Savings Based on Race, Ethnicity, and Gender

Thank you for the opportunity to appear before you today. We're honored to present to the committee once again and to participate in this discussion about effectively closing gaps in retirement security experienced by people of color, minorities, and women.

My name is Megan Yost, and I am the Engagement Strategist at Segal Benz. I am joined by my colleague Jennifer Benz, our Communications Leader. Both Jen and I are passionate about helping Americans of all backgrounds prepare effectively for retirement. Helping people make sense of their benefits is the focus of our work at Segal Benz where we specialize in employee benefits communication. It is through this lens that we'll share suggestions on how to improve the participant experience with retirement planning.

Our comments today don't detail the considerable headwinds faced by people of color, minorities, and women, as disparities in retirement savings are well documented by policymakers, academics, and industry experts. Instead, we offer considerations to the Council for increasing retirement security among these three groups. Our recommendations are based on insights from working with plan sponsors and their vendor partners, academic research, and marketing and communications best practices.

First, we must emphasize that the best marketing strategies are never as effective as broad access and optimal plan design. With that in mind, we will start with discussing two critical considerations:

- Increasing the availability of workplace savings plans to lower-income and part-time workers
- Encouraging plan sponsors to systematically reenroll non-participants and under-savers on a regular basis

With optimal plan designs in place, underserved groups could be supported with improvements to the information and education made available to them. This includes:

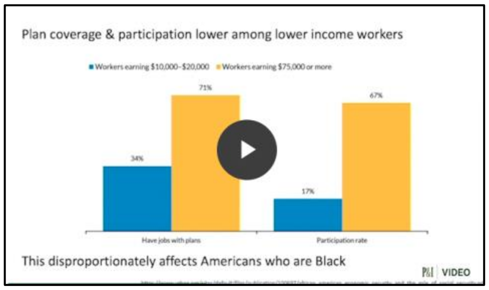
- Providing more educational resources to plan sponsors and their partners
- Simplifying required notices
- Creating safe harbor protections for plan sponsors who have the resources to send targeted and tailored education to at-risk segments of their population

We'd also like to emphasize the role that trust plays in financial decision-making. The global pandemic has severely tested institutional trust worldwide and highlighted systemic issues and inequities for people of color and under-represented groups. Employers are the most trusted source of information in today's global economy above governments, NGOs, and media. By helping bridge American workers to vetted benefits and resources, the role that employers play in facilitating retirement security on behalf of workers cannot be overstated.

Improvements to Access and Plan Design

Increasing the availability of workplace savings plans to lower-income and part-time workers

According to Jeff Brown, dean of the Gies College of Business at the University of Illinois, one of the structural problems within our current retirement system is that many lower-income and part-time workers lack access to workplace savings plans. Citing research from the Urban Institute, Brown observes that the lack of retirement plan coverage for lower-income workers disproportionally impacts black and Latino workers, which "exacerbate[s] existing inequalities in society."



Source: Jeff Brown, "Systemic Racism and Retirement Plans," Pensions & Investments, October 2020.

As we know, there are so many benefits to be gained through workplace savings plans. These include access to lower-cost investments, automatic features (including enrollment, escalation, and well-diversified, do-it-for-me default funds), employer contributions, the ability to take non-predatory loans, fiduciary oversight of investments, and more. Workers that are unable to participate in this system are at a distinct disadvantage. While many states are exploring state-based retirement plans for uncovered workers—like OregonSaves—more needs to be done at the national level to make retirement saving more accessible for all Americans.

Encouraging plan sponsors to systematically reenroll non-participants and under-savers on a regular basis

Automatic features have proven to be effective tools for boosting retirement plan participation rates. Since the passage of the Pension Protection Act in 2006, plan sponsors have steadily adopted automatic enrollment into well-diversified investment funds. Automatic enrollment and auto-escalation—helping people save more over time—have especially helped increase overall savings for people of color and under-represented groups.

Plan sponsors should be encouraged to use automated features—specifically reenrolling participants who opt out or save below the company match—on a more frequent basis. Given the power of inertia, and as a result, the long-term consequences of point-in-time decisions, extending automatic enrollment and auto escalation to all plan participants (not just new hires), could help boost participation and savings rates, particularly for lower-income workers. Nudging participants to reevaluate their savings rates, with the option to opt out, would help all workers from all backgrounds who may not be taking full advantage of the plan or employer contributions.

Encouraging workers to revisit old decisions, especially as their income levels and personal situations change over time, would also provide plan sponsors and their vendor partners with additional opportunities to reemphasize the value of retirement savings plans to workers. Financial education is most effective when delivered “just in time” and tied to specific decisions. Just like anything, people tend to forget what they’ve been taught, especially if significant time has passed since the education was provided and they haven’t brushed up on that information. It doesn’t matter how much time is dedicated to financial education at a particular point in time. This is why providing more frequent, bite-sized information that people can act on, is more likely to help people build their financial literacy over time.

Researchers have also found that within households, the individual with responsibility for financial decisions often builds more financial knowledge over time than the partner who does not engage with financial decision-making. This insight has important implications for household partnerships. Individuals who offload financial decisions to a partner, often miss out on building their financial literacy over the course of their lives.

Providing more educational resources to plan sponsors and their partners

Effectively reaching and engaging employees and plan participants of varying needs, backgrounds, and experiences requires a deep cultural competency as well as an expert understanding of marketing and behavioral science. Relevant and appropriate content varies from group to group. Unskilled marketers and financial advisors can easily miss the mark. For example, messages geared toward women about their finances can often come across as patronizing, further exacerbating frustration and feelings of injustice. Even experienced public speakers can struggle in this area. Personal finance expert Suze Orman faced backlash following a keynote speech she gave at a conference geared toward higher ed professionals. Conference organizers apologized for her culturally “tone-deaf, uninformed, and out of touch” remarks that did not address systemic barriers that have prevented many under-represented groups from building financial literacy and wealth.

Plan sponsors already have so much on their plates in terms of overseeing, managing, and administering their retirement plans. Asking them to provide more nuanced or targeted education based on their demographic data is a big undertaking, and not all plans have the resources (time, staff, and money) to address such a big topic. We suggest that the DOL undertake some of this work on behalf of plan sponsors to help ensure that all plan sponsors, regardless of size and resourcing, have equitable access to materials that they can use with their participants. This could include developing a website of educational resources, similar to the DOL’s *YouthRules!* initiative for young workers and “Know Your Rights” video series, to support participants from various cultural backgrounds and at key points of inflection during their careers. Additionally, the DOL could partner with the Women’s Bureau of the DOL and/or other non-governmental organizations to create inclusive and relevant content.

Content that could be provided might include:

- Educating plan sponsors about different attitudes people have about planning, saving, and investing, including examples of information what will and won't resonate
- Suggestions for how best to deliver targeted content, including how to foster trust, a key element in financial decision-making
- Sample multimedia materials, including video, that can be used or customized by plan sponsors and their partners, including materials geared toward English-language learners
- Case studies and helpful tips, like how to use Employee Resource Groups (ERGs) as a way to deliver relevant content to groups of workers with similar backgrounds, experiences, or concerns

Additionally, employees of all backgrounds face similar key decisions with retirement planning throughout their careers. These include navigating benefits decisions in their first job as well as what to do with their retirement savings when they switch jobs. Employers need more effective on-boarding and off-boarding materials that utilize the latest thinking from behavioral science and are easy to understand (containing minimal jargon and legalese), provided in multiple formats and potentially in multiple languages, depending on worker demographics. The consequences of financial decisions at these key points have a lasting impact on workers' financial security. Deciding what to do with your retirement savings after leaving your first job, for example, is a moment where workers are looking for help and are vulnerable to predatory practices if they don't have access to unbiased guidance. Employers, rightfully so, are cautious and fearful of providing financial advice. Providing educational resources that can be used by plan sponsors and their vendor partners could make it easier for them to help workers navigate these important moments in their careers.

Simplifying required notices

One of the unfortunate realities of required disclosures for defined contribution plans and their participants is that they are too long, uninteresting, and complicated to effectively capture anyone's attention. Plan sponsors know that participants throw these documents away or never open them, especially when delivered electronically. Many of these disclosures are treated as check-the-box moments by plans. And they're often communicated as "important disclosures"—whatever that means—by recordkeepers. While the intent behind mandated disclosures is good, all too often the disclosures fall flat and go unnoticed. Communicators have about eight seconds to capture participants' attention. In our experience, plan sponsors want to use those eight seconds as effectively as possible, communicating in direct, simple language and including clear calls to action (what you want people to do because of the communication). The participant experience with required communications—including what the notices say and how frequently they need to be provided—should be revisited to better align with policymakers' original intent. The lifetime income statements mandated by the SECURE Act are a perfect example of requirements with huge potential to make meaningful differences to plan participants. However, they are falling short in practice due to the recommended assumptions.

Plan sponsors would be better served if they were given requirements and safe harbor protections when they satisfy the intent of following those requirements.

Creating safe harbor protections for plan sponsors who have the resources to send targeted and tailored education to at-risk segments of their population

Given the highly litigious environment in which plan sponsors of defined contribution plans operate, they may be more encouraged to target and tailor education to segments of their population if they have safe harbor protections. The line between education and advice is a nebulous one for plan sponsors to navigate. The fear of providing financial advice often holds them back from sharing general rules of thumb that would especially benefit lower-paid workers who may switch jobs more frequently. For example, plans are reticent to highlight the advantages of workplace savings plans over other types of retirement savings plans. The financial costs to participants of, say, rolling over retirement savings to an IRA or, worse, cashing out are significant. It would greatly benefit all participants if the consequences of not participating, delaying participation, or rolling over a workplace savings plan to an IRA, for example, could be stated explicitly.

Conclusion

Thank you again for inviting us to share our thoughts with you today, and for championing a more equitable retirement system that makes retirement security more accessible and achievable for Americans of all backgrounds and income levels. Thank you.

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