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Gaps in Retirement Savings Based on Race, Ethnicity and Gender

Our employer-based retirement system poorly serves most workers, but especially workers of color and women. Retirement statistics are sometimes unreliable and incomplete,[1] but evidence from multiple surveys points to a consistently depressing finding: Most workers are not on track to maintain their standard of living in retirement, and workers of color and women are especially likely to face hardship at older ages.

The situation is only getting worse, as cuts implemented in 1983 are gradually reducing the Social Security replacement rate, while risky and inadequate 401(k) plans have largely replaced secure defined benefit (DB) pensions among non-union private-sector workers. These trends have especially harmed lower-paid workers, including workers of color and women who rely more on Social Security and are less likely to have other forms of wealth to fall back on in retirement.

Most households of color have little or no savings in retirement accounts, including 401(k)-style defined contribution (DC) plans and Individual Retirement Accounts (IRAs).[2] Among prime working-age households ages 32-61, only 32% of Hispanic and 44% of Black households had retirement account savings in 2019, as compared with 65% of white households.[3] (Unless otherwise noted, household statistics cited here are based on the author's analysis of Federal Reserve Survey of Consumer Finances—SCF—microdata.) Even among households with

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[1] Responses to retirement questions in household surveys, including the Current Population Survey, are prone to error because the topic is confusing. Employer surveys that serve as the basis for Bureau of Labor Statistics estimates, meanwhile, may suffer from participation bias and are not good sources of demographic information. Forms submitted to the Department of Labor, Internal Revenue Service, and other sources of administrative data may be more reliable but are also not normally matched to individual characteristics, such as race and ethnicity.
[2] IRAs are included because most funds in these accounts were rolled over from employer-based plans.
[3] Throughout, "Hispanic" refers to Hispanic workers or households of any race, and "white" and "Black" refer to non-Hispanic white and non-Hispanic Black workers or households.

retirement account savings, the median account balance was modest: $38,000 for Hispanic households, $40,000 for Black households, and $83,000 for white households, respectively.

Though it is easier for employers to offer DC plans than traditional DB pensions, the DB-to-DC shift did not increase access to retirement plans, especially among Hispanic households. Between 1989 and 2019, Hispanic households' participation in any type of employer retirement plan declined from 40% to 34%.[4] Over the same period, the participation rate for Black households edged up from 45% to 48%, while that of white households edged down from 63% to 60%, shrinking the Black-white participation gap. This narrowing was due to a slower decline in DB participation rather than a more rapid increase in DC participation among Black households relative to white households. DB participation among Black households (20%) is now close to that of white households (22%).

Household-level data can obscure differences or changes in the share of individual workers participating in retirement plans. However, evidence from the U.S. Census Current Population Survey (CPS) confirms that workers of color, especially Hispanic workers, are much less likely to participate in employer plans than white workers, in most cases because their employers do not offer a plan. Among full-time workers in 2014, only 31% of Hispanic workers and 48% of Black workers participated in an employer plan, as compared with 53% of white workers. (Unless otherwise noted, individual worker statistics are based on the author's analysis of CPS microdata for 2014, before a problematic survey redesign.)[5]

Disparities in participation largely reflect differences in access and eligibility, as opposed to workers choosing not to participate. Among full-time workers in 2014, only 10% of Black workers, 8% of Hispanic workers, and 8% of white workers did not participate in a plan even though their employer offered one. These differences account for only a third of the participation gap between Black and

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[4] This partly reflects a shift in the composition of the Hispanic workforce toward immigrants who face greater challenges securing jobs with benefits

[5] Based on the CPS, participation rates appear to have fallen across demographic groups since 2014. However, this may be due to a survey redesign that caused confusion among respondents (Craig Copeland, "Retirement Plan Participation and the Current Population Survey: The Impact of New Income Questions on These Estimates," Employee Benefit Research Institute *Issue Brief* No. 499, January 30, 2020).

white workers and cannot explain the larger participation gap between Hispanic and white workers.

Many workers who do not participate in employer plans have no choice in the matter. Employers can exclude workers who are under 21, have less than a year of service, or work fewer than 1000 hours per year.[6] As a result, 36% of full-time workers and 73% of part-time workers who do not participate in their employer's DC plan cite ineligibility as the reason, according to a Pew analysis of Survey of Income and Program Participation (SIPP) data.[7]

Pew also found that workers are less likely to participate in DC plans if there is no employer contribution. Opting out in the absence of an employer contribution may be a rational decision for many low-income workers who do not receive a tax benefit from participating in these plans yet face a tax penalty if they need to access their savings before age 59-1/2.

If anything, it is noteworthy that Black and Hispanic workers, often relegated to jobs with lower pay and worse benefits, appear as willing—or almost as willing—as white workers to participate in what are likely to be less generous plans that require worker contributions. Another indication that Black workers are at least as motivated as white workers to sacrifice current consumption for future retirement security is the fact that Black workers are overrepresented in the public sector, where pay is lower but pension benefits are more secure and generous.

Gender disparities in retirement are also stark, though they may emerge later in life than racial and ethnic disparities. Like workers of color *vis à vis* white workers, women are paid less than men and are more likely to have employment gaps or work part time, with negative implications for retirement preparedness.[8] However, in contrast to workers of color, women who work full time now appear

[6] Under the SECURE Act of 2019, some long-term part-time workers must be given the option of participating.
[7] *Employer-Sponsored Retirement Plan Access, Uptake and Savings: Workers report barriers and opportunities*. Pew Issue Brief, September 14, 2016.
[8] Tyler Bond, Joelle Saad-Lessler, and Christian E. Weller, *Still Shortchanged: An Update on Women's Retirement Preparedness*, National Institute on Retirement Security, May 2020.

somewhat more likely than their male counterparts to participate in employer retirement plans based on CPS data (51% versus 46% in 2014).

Household-level SCF data still show a slight participation advantage for men, or at least single men versus single women. Among prime working-age households ages 32-61, 39% of single women, 42% of single men, and 64% of married couples report participating in employer plans (DB, DC, or both). The sample includes all households in this age group, whether or not the householder is working full-time or working at all for pay.

Household-level SCF data also show that single men are more likely to have retirement account savings (46%) than single women (40%) ages 32-61. The median account balance for households with savings is also higher for the single men ($50,000) than for the single women ($42,000) in this age group. Married couples in this age group are much more likely to have retirement account savings (66%) than either single men or single women, with a median account balance for couples with savings of $90,000.

Despite narrowing the participation gap with men, women, especially women of color, still face greater hardships in old age. In addition to the negative impact of lower lifetime earnings, employment gaps, and part-time employment on retirement benefits and savings, women live longer and may be more likely than men to suffer financial consequences after widowhood or divorce.[9]

Despite their longer life expectancy,[10] women tend to retire at younger ages than men, often due to caregiving responsibilities that also reduce their earnings before retirement.[11] Though women increased their labor force participation in past decades, these gains stalled around the time of the Great Recession.[12] However, both men and women are now working longer into their 60s and 70s,

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[9] Teresa Ghilarducci, Martha Susana Jaimes, and Anthony Webb, "Old-Age Poverty: Single Women & Widows & A Lack of Retirement Security," Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series, 2018.

[10] Social Security Administration actuaries project that a 65-year-old woman will live 2.5 more years than a 65-year-old man in 2020 (2020 Trustees Report, Table V.A5.—Cohort Life Expectancy).

[11] AARP, *Caregiving in the U.S. 2015,* June 2015.

[12] Patrick J. Purcell, "Employment at Older Ages and Social Security Benefit Claiming," *Social Security Bulletin*, Vol. 76, No. 4, November 1, 2016.

though nearly half of women still have fewer than 35 years of covered employment in Social Security.[13] Since Social Security benefits are tied to a worker's highest 35 years of earnings, these missing years are especially damaging to women's retirement benefits, which average 80 percent of the benefits men receive despite a progressive benefit formula intended to help lower-income workers.[14]

As a result of these and other factors, 30% of women age 80 or older live in poverty or near-poverty, versus 20% of men age 80 or older based on 2019 CPS data (near-poverty describes people with incomes below 150% of the official poverty threshold). Racial and ethnic disparities compound the problem, with 43% of Black women and 42% of Hispanic women age 80 or older living in poverty or near-poverty, versus 27% of white women. Among men age 80 or older, poverty and near-poverty rates are 39% for Black men, 43% for Hispanic men, and 15% for white men. Though roughly as many Black and Hispanic men as Black and Hispanic women face hardship at older ages, men are less likely than women to have very low incomes below the poverty line.

What should be done to address these problems? It should be clear by now that low-income workers, including many workers of color and women, become low-income retirees. Does this mean we should focus on helping people *before* they retire—by, for example, raising the minimum wage, making it easier for workers to form unions, pursuing full-employment macroeconomic policies, investing in physical and social infrastructure, addressing the student loan crisis, confronting racial inequities, reducing caregiving burdens, and other policies designed to foster broadly-shared prosperity?

Yes, but this will not be enough. Our employer-based retirement system is broken. It does not simply perpetuate, but increasingly magnifies, inequality. To Americans, at least, it may seem normal that public and private retirement benefits are linked to earnings and contributions, albeit with some social

[13] Matthew S. Rutledge and John E. Lindner, "Do Late-Career Wages Boost Social Security More for Women than Men?" Boston College Center for Retirement Research Working Paper #2016-13, November 2016.
[14] Monthly retirement benefits averaged $1,671 for men and $1,337 for women in 2019 (Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2020*).

insurance provisions to reduce hardship among lower-income, longer-lived, and disabled participants. While we may accept that benefits are unequal, in a well-functioning retirement system we would not expect that even *participating* in a plan would depend so much on income. Yet households in the top income quintile are eight times as likely as those in the bottom quintile to have any savings at all in a retirement account.[15]

While parts of our retirement system do a good job converting steady contributions from employers and workers into secure benefits for retirees, Social Security and DB pension benefits replace a shrinking share of pre-retirement income. We instead increasingly rely on a system of tax-subsidized retirement accounts that was never designed to help ordinary workers achieve retirement security—and, not surprisingly, has failed at this task.

The simplest solution is to expand a system that works: Social Security. Though popular with voters and part of the Democratic Party platform, Social Security expansion has so far failed to gain traction among Republicans in Congress. However, suggestions for targeted improvements, such as a caregiver credit that would help women and others who take time out of the paid labor force, have at least prompted Republican policymakers to offer alternatives.

As Social Security expansion has entered the mainstream, and as the failures of the do-it-yourself 401(k) system have become impossible to deny, centrists, including some Republicans, have begun contemplating what they might once have considered unthinkable: mandating employer contributions to retirement plans.[16] Meanwhile, states, tired of waiting for Congress to act, have tried to address the coverage gap with plans designed to make it easy for small business

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[15] In 2019, the share of households with retirement account holdings was 11%, 31%, 52%, 72%, and 87% in the 1st, 2nd, 3rd, 4th, and 5th income quintiles, respectively (author's analysis of SCF microdata).

[16] Gary Koenig, Jason J. Fichtner, and William G. Gale, *Supplemental Transition Accounts for Retirement*, AARP January 2018; "Klobuchar, Coons Introduce Landmark Personal Savings and Retirement Bill," Press Release, April 4, 2019; Kelsey Berkowitz and Zach Moller, *Universal Private Retirement Accounts: A Lifetime of Work Should Mean a Great Retirement for Everyone*, Third Way, March 19, 2019.

employees and others left out of the system to voluntarily contribute to individual accounts.[17]

These efforts aim to address the coverage crisis, a mostly political rather than technical challenge. They also seek to make investing decisions less complicated for small savers, with less emphasis on investor choice and more on facilitating access to suitable low-cost investments. But if the goal is to reform individual account plans rather than render them unnecessary, we will eventually need to address other problems with the system that harm small savers: Individual accounts are expensive to administer; participants in these accounts still bear longevity and investment risks; and tax subsidies for retirement are upside down, favoring the wealthy rather than those who face the greatest challenges saving for retirement.

These are not trivial problems. The higher cost and risk of individual accounts requires workers and employers to contribute roughly twice as much to individual accounts as to traditional pensions to achieve a similar level retirement security.[18] But single-employer pensions are not a realistic option for most private-sector employers, and we have yet to find a permanent solution to some of the challenges facing multiemployer pensions, though practitioners are working on ways to address stability issues.

Individual accounts' administrative cost problem can be solved, at least temporarily, with pooled investment funds and passive investment strategies modeled on the Thrift Savings Plan for federal employees. Implementation and overhead costs can also be minimized with multi-employer and multi-state efforts. However, passive investment strategies can become problematic as the size of the investment pool grows, and some experts are looking into active management options for pooled funds. Ideally, this would also include mechanisms for smoothing investment returns across cohorts and converting

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[17] Georgetown University Center for Retirement Initiatives, *State-Facilitated Retirement Savings Programs: A Snapshot of Program Design Features*, State Brief, May 15, 2021.

[18] Nari Rhee William B. Fornia, *Still a Better Bang for the Buck: An Update on the Economic Efficiencies of Defined Benefit Pensions*, National Institute on Retirement Security, December 2014; Monique Morrissey, *Toward a Universal, Secure, and Adequate Retirement System*, Retirement USA conference report, October 21, 2009.

lump sums into lifetime income streams, creating hybrid plans that replicate some of the benefits of traditional pensions but with risk-sharing features designed to avoid saddling individual employers with systemic risks.

The current system of tax subsidies for retirement functions more as a tax shelter than a saving incentive. It favors high earners and investors with a higher risk tolerance because the value of the subsidy depends on taxes that would otherwise be owed on investment returns. Reforming these subsidies, which President Biden has included in his political agenda, will face political resistance from the financial industry and DC participants who are counting on the current system remaining in place until they retire. Therefore, restructuring the system to incentivize saving rather than rewarding people for higher investment returns may have to be done incrementally—for example, by giving mid-career workers the option of remaining in the current system. Though these efforts are still in the beginning stages, in the meantime we should prioritize expanding access to, and increasing the value of, the Saver's Credit, a failed initiative of the Obama Administration.

The retirement challenges facing many workers of color and women are, for the most part, the same challenges facing other low- and middle-income workers. Though there are targeted policies that should be pursued, such as adding a caregiver's credit to Social Security or expanding access to a Saver's Credit, most policies that help workers of color and women will also help other low- and middle-income workers. But we will not make progress on addressing these challenges so long as we define the problem as an individual rather than systemic one.[19]

[19] Monique Morrissey, "Policy Solutions for the Retirement Crisis," *Generations* Vol. 43 No. 3, Fall 2019.