Testimony of Siavash Radpour[1] and Teresa Ghilarducci[2]

Prepared for

2021 Advisory Council on Employee Welfare and Pension Benefit Plans

Gaps in Retirement Savings Based on Race, Ethnicity and Gender

The Retirement Equity Lab at The New School's Economics Department conducts research on retirement wealth inequality and uses various surveys and administrative data to measure retirement wealth inequality and the effect of DC and Social Security on gaps. Our persistent finding across data sets using different modes of analysis is that the primary cause of retirement wealth inequality is the voluntary aspect of our employer-based retirement system and the resulting lack of access to retirement plans at work.

We see wide gaps in retirement wealth by race because of gaps in coverage. The gap in coverage is correlated with race and is caused by Blacks having lower earnings, less secure jobs, and less access to plans. Here is the data: employees living in households headed by a Black person are less likely than their white counterparts to participate in workplace retirement plans (see Table 1). Only 46% of Black employees participate in employer-sponsored plans, compared to 55% of whites. Black employees are less likely to have access to workplace plans when compared to white employees (60% access rate for Blacks compared to 65% for whites). Black employees are also less likely to participate in workplace retirement plans when they have access to such plans (77% vs. 85%). Both lower access and take-up rates can be mostly explained by Blacks being in lower paying jobs.[1]

Low-wage employers are less likely to offer retirement plans. And even if they do, the lower paid employees are often pushed out of participation because these jobs

[1] Associate Research Director of The New School's Retirement Equity Lab.
[2] Bernard L. and Irene Schwartz professor of economics at The New School and the Director of the Schwartz Center for Economic Policy Analysis and The New School's Retirement Equity Lab.
[1] After controlling for differences in incomes, racial gaps in access and take-up rates between Black and white employees become much smaller and statistically insignificant.

are less secure—employers structure them to have high turnover rates—which makes many employees ineligible to participate in employer-sponsored plans.

In addition to lack of access, lifecycle events, low wages and high living expenses, and complexity of investment decisions in the absence of reliable advice also contribute to inequality.

Having access to workplace retirement plans does not mean employees can afford to participate in them. Low earners with little discretionary income and different types of debt likely are not able to contribute to voluntary plans. Perhaps even more important and a significant contributor to the retirement wealth gap is that the top-heavy government subsidies for retirement savings—the tax expenditures—are not relevant for the low earners with low marginal tax rates. If not provided with a match, lower earners may not see the necessity of participating in these plans.[2]

The Joint Committee on Taxation completed a substantial report on pre-retirement account leakages in April 2021.[3] Employment shocks are a major cause of early withdrawals from retirement accounts. Lack of job security means spending more time between jobs and dipping into retirement savings instead of saving more. It also means years of not being eligible to participate in workplace retirement plans after experiencing job loss and finding another one. Non-whites are more likely to suffer from many of these factors. Lack of job security and high risks of job loss, lack of access to credit in emergencies, and low rates of homeownership and high rents especially in cities all contribute to lower retirement savings even among workers of color who have managed to accumulate some retirement assets.

The retirement wealth inequality is the real cost of having a voluntary system that relies on employers to provide and employees to contribute to retirement plans. The effective solution to this problem is a mandatory system. Since ERISA only

[2] Toder, Eric J., Benjamin H. Harris, and Katherine Lim. (2009). *Distributional effects of tax expenditures*. Tax Policy Center Discussion Paper.
[3] The Joint Committee on Taxation. (2021). *Estimating Leakage from Retirement Savings Accounts (JCX-20-21)*. https://www.jct.gov/CMSPages/GetFile.aspx?guid=ed1c9da4-f180-41cd-b3f9-b8afb9531d18

regulates voluntary plans then EBSA can play a limited role in expanding coverage.

ERISA has already helped increase low earners access to retirement plans by requiring employers to include all employees in their plans. Any changes in ERISA that remove this important protection to “make offering plans easier for employers” will result in reduced coverage for people who need it the most and will increase inequality. Removing such protections will increase racial gap in retirement assets. Proposals to expand access to workplace retirement plans by lowering the safe harbor contributions; weakening the nondiscrimination clauses; and raising the age for RMDs in IRAs will increase inequality. On the other hand, proposals to allow rainy-day funds may help reduce inequality.

EBSA can also increase coverage, especially among small businesses and self-employed, by reducing roadblocks to State plans. This is especially important for low earning Latinx workers who have the lowest access rates among workers. These plans do not affect firms’ decision to adopt ERISA pension plans and will only increase coverage among employees of firms who would not offer a plan themselves.

Testimony from the Advisory Committee (e.g., Ariel Capital) notes the difficulty with people managing their own investments. Academic research comes to the same conclusion that 401(k) requires professional advice or else they do wrong things like go to brokerage accounts. Managing your own funds is like doing your own plumbing. The current retirement system is not built for people to navigate. While educating workers to manage their own plans is important and necessary, financial education can never replace professional management of retirement assets and financial decisions. Workers in all plans need affordable and reliable advice from fiduciary advisors, like what DB plans have.

In the absence of such advisors, EBSA can regulate what choices employees can have in their retirement plans, removing bad choices that are hardly beneficial for anyone other than providers.

Table 1: Participation, access, and take-up rates by race and usual household income quintile						
Participation rates						
	Household usual income quintile					
	1st	**2nd**	**3rd**	**4th**	**5th**	**Total**
White (non-Hispanic)	26.8%	50.5%	58.0%	67.5%	72.7%	**55.3%**
African American/Black	25.6%	50.8%	57.4%	66.9%	88.8%	**46.4%**
Hispanic/Latinx	11.3%	29.2%	40.7%	63.2%	58.3%	**30.9%**
Other	29.4%	46.8%	57.9%	74.9%	75.5%	**53.6%**
Total	24.4%	47.4%	56.5%	67.8%	73.7%	**51.0%**
Access rates						
	Household usual income quintile					
	1st	**2nd**	**3rd**	**4th**	**5th**	**Total**
White (non-Hispanic)	40.6%	63.6%	69.3%	73.6%	77.4%	**65.1%**
African American/Black	40.4%	66.8%	70.7%	74.2%	94.4%	**60.0%**
Hispanic/Latinx	19.0%	42.2%	60.1%	81.8%	63.6%	**43.3%**
Other	40.8%	64.4%	63.8%	81.4%	80.8%	**63.4%**
Total	37.1%	61.6%	68.1%	75.3%	78.7%	**61.7%**
Take-up rates						
	Household usual income quintile					
	1st	**2nd**	**3rd**	**4th**	**5th**	**Total**
White (non-Hispanic)	66.0%	79.4%	83.8%	91.8%	93.8%	**84.9%**
African American/Black	63.4%	76.0%	81.1%	90.1%	94.0%	**77.4%**
Hispanic/Latinx	59.4%	69.1%	67.8%	77.2%	91.6%	**71.3%**
Other	72.2%	72.6%	90.8%	91.9%	93.4%	**84.5%**
Total	65.7%	76.9%	82.9%	90.1%	93.7%	**82.7%**

Source: Survey of Consumer Finances 2019
Note: The sample does not include self-employed workers. Access and participation are calculated separately for each spouse in married households. Race of both spouses is based on reported values for the respondent.