

ACHIEVING FINANCIAL EQUITY IN RETIREMENT

Unpacking the retirement savings crisis in the Black community

On behalf of the National Association for the Advancement of Colored People, an 112 year old civil rights, policy and advocacy organization that works to disrupt inequality, dismantle racism, and accelerate change in key areas including the economy, criminal justice, health care, education and environmental and climate justice I bring you greetings.

It is our fundamental belief that economic equity is crucial to racial equity. An inclusive economy means everyone can contribute and earn with fair access to resources and opportunity.

It is also our fundamental belief that the so-called American dream is out of reach. A great deal of research confirms what we already know — investments in communities of color are paramount to mitigating racism and historic disinvestment. Existing policy is insufficient. The data shows:

- The typical white family with \$188,200 has 8 times the wealth of the typical Black family with \$24,100. This represents one of many financial gaps that result from decades of discriminatory policies and nearly three centuries of slavery.
- There are extreme disparities in employment and wages, home ownership, and housing affordability in the Black community.
- Closing the revenue gap between Black and white businesses would generate an additional \$290 billion for the U.S. economy.

The lack of racial equity in how the American economy functions severely impacts Black people, who are systematically restricted from being fully realized participants. Economic equity is a crucial part of establishing holistic racial equity for Black people. It's not just important that Black people be able to contribute to the economy as workers and consumers, but also as owners with the same access to resources and chance at success as anyone.

A popular quote from an anonymous author states, "Retirement is wonderful if you have two essentials – much to live on and much to live for." The racial retirement gap in the United States is real. If you take the baseline conclusion that there is a racial wealth gap then the logical extension is that the same racial gap exist and, in some ways is amplified, as it relates to overall savings and retirement. According to data released in 2016 by the National Retirement Risk Index (NRRRI) - a calculation from the Center of Retirement Research (CRR) at Boston College that is based on the Federal Reserve's Survey of Consumer Finances – 50% of all U.S. households were at risk of falling short in retirement while 54% percent of Black Americans, and 61% of Latinos,

shared that risk—compared to only 48% of whites. This gap exist and raises critical questions about why this is a reality. Our analysis seeks to unpack the factors that have contributed to the racial wealth gap, the shortcoming of Government interventions and the failure of private sector solutions – all resulting in a the compounded ecosystem resulting in the racial retirement gap.

The issue of pay equity is the first set of analysis that has to be explored to understand the impact on savings and retirement in the Black community. The data shows this is where the gap starts – during an individuals earning years. The Economic Policy Institute (EPI) released a study in 2019 that lifted up the following that Black workers made 14.9% less than their white counterparts. This gap that was 10.2% seven years earlier in 2012. A trend that has only gotten worse. What is more disturbing is that the gap is not closed through factors like higher education. The gap exists at every education level, and found that Hispanics also made more per hour than their Black counterparts – even when factoring in education. This reality is even more glaring when gender is factored in. Black women earn less than all other demographic groups. Black Americans constitute 13 percent of the nation's population but only possess about 2 percent of the nation's wealth.

These income gaps result in a higher debt to income ratio within the Black community and affects every aspect of financial health within the community including the ability to save for the future. The National Institute of Retirement Security (NIRS) reported in 2013 some alarming facts. The findings are based on an analysis of data from the U.S. Bureau of Labor Statistics' Current Population Survey Annual Social and Economic Supplement and the U.S. Federal Reserve's 2010 Survey of Consumer Finances. The report found that while every racial group faces significant risks, people of color face particularly severe challenges in preparing for retirement. Here are some of the most significant findings:

- Workers of color are significantly less likely than white workers to be covered by an employer-sponsored retirement plan—whether a 401(k) or defined benefit (DB) pension.
- Only 54 percent of Black and Asian employees and 38 percent of Latino employees age 25-64 work for an employer that sponsors a retirement plan, compared to 62 percent of white employees.
- These racial disparities are much more pronounced in the private sector than in the public sector. Blacks are 15 percent less likely than whites to have access to a job based retirement plan in the private sector, compared to 10 percent less likely in the public sector.

- Households of color lag behind white households in coverage by DB pensions that guarantee lifetime retirement income. While 24 percent of white households have a DB pension through a current job, only 16 percent of households of color do.
- Households of color are far less likely to have dedicated retirement savings than white households of the same age.
- A large majority of Black working age households—62 percent—do not own assets in a retirement account, compared with 37 percent of white households.
- The racial gap in retirement account ownership persists across age groups.
- Households of color have substantially lower retirement savings than white households, even after controlling for age and income.
- Three out of four Black households age 25-64 have less than \$10,000 in retirement savings, compared to one out of two white households.
- Among near-retirees, the per-household average retirement savings balance among households of color (\$30,000) is one-fourth that of white households (\$120,000).

Much of the decline in retirement security is due to the shift in the private sector from providing retirement benefits through traditional pensions, which guaranteed a lifetime stream of income at retirement, to less secure individual retirement accounts, whose benefits vary with the size of employer and employee contributions, and the volatile swings of the stock market. The report provides a picture of the current state of the US' private retirement system, breaks down why this picture bodes ill for the future of retirement in the country, and discusses why that system needs reform.

According to a report issued by Demos - employer-based retirement coverage is inadequate. Even for those who have coverage, the most common type of retirement plan, the 401k, is fatally flawed. The significant possibility of outliving retirement savings or losing them to a turbulent market, high fees, or poor investment decisions make 401(k)s and other individual retirement plans unfit to be the primary private supplement to Social Security. The high fees that 401k-type plans charge are one of the worst aspects of these plans. Every investment option in a 401k charges hidden and high fees for investment management and other services. These fees might seem small, but they can cost an average worker tens of thousands over a lifetime of saving.

The 401k needs to be replaced, not reformed. A solution such as Guaranteed Retirement Accounts, would provide a secure foundation for the dignified retirement that should be the right of all American workers.

The connection between the lack of pay equity and employer based coverage all compound to create gaps in both savings and retirement coverage. However, this creates a matrix of gaps that are racialized and create structural barriers that are interconnected. For example, Home equity is a source of retirement income through options like a reverse mortgage or sale. Both options are less in the Black community according to the Center for Retirement Research at Boston College in 2018. Their report entitled, “Trends in Retirement Security by Race/Ethnicity” reported that:

- Black Americans had a median home net value (the value of your home, minus how much you owe on it) of just \$49,000 in 2016, while for white Americans it was \$86,000.
- Homeownership rates declined from 2007 to 2016, but Black and Hispanic households have seen the largest decline.
- The report also points out that less than half of Black and Hispanic families own their homes. This is in part based upon lower income in communities of color, which results in higher income to debt ratios, lower credit scores which make it harder for Blacks to obtain mortgages. Only 21% of Black households have a FICO score above 700, compared to more than 50% of white households.

When you add up all of these factors, it is the perfect storm that results in a lifetime of racial inequities that result in Black seniors being at risk of spending their last years with declining income and virtually no savings. Enduring generations of economic racism that has resulted in lower wages, lower rates of homeownership and little-to-no savings or investments. The impact of these inequities has created a cycle of generational poverty and economic insecurity. The organization Prosperity Now predicts that the average net worth of Black Americans will average zero by 2053 if there is not a reversal of the trends we are seeing.

It should also be made apparent that Federal intervention through Social Security is not enough to shift the gap. According to the U.S. Social Security Administration, about 38 percent of minority beneficiaries rely on Social Security for 90 percent or more of their income, compared with 28 percent of white people. The average Social Security benefit is only \$1,500 a month, but if you wait until you're 70 to begin receiving payments, the payment rises to about \$3,000. Given the data, and this reality, most Black Americans who qualify for social security would have to work until age 70 to optimize the benefits of social security which is an untenable solution to a pervasive crisis rooted in structural racism.

The scope and depth of the crisis requires us to act boldly and decisively. We urge the following:

- **Economic Inclusion.** Investments in community-driven strategies support diversity, equity, inclusion, and allyship. We must work to expand access and participation in markets for Black workers, consumers, and business owners, and create more paths of entrepreneurship through building infrastructure for cooperative development, inclusive procurement, incubators, and accelerators.
- **Income Equality.** All persons deserve to earn livable wages and benefits with opportunities to build credit, acquire financing, develop assets, and create savings and other investments. We must advance policy, practice, and systems change to close the racial wealth gap.
- **Reimagine the Future of Black Workers.** Citizen-led movements help amplify the voice of workers toward growing a strong middle-class economy. We must support developing entrepreneurs and business ownership models that can create or retain jobs in our communities, while leveraging innovative partnerships to train workers for in-demand jobs and jobs of the future.
- **Implement a Federal Minimum Wage.** President Biden can issue an Executive Order raising the minimum wage for all federal contractors to \$15.00/hour, indexed for inflation. The federal minimum wage is currently \$7.25/hour, a figure that has not increased since 2009. Black workers are systematically affected by the federal minimum wage. In part, this is because we're more often employed in jobs that currently pay less than the proposed new minimum wage of \$15/hour, and we more often work in places where the state minimum wage isn't higher than the federal minimum wage.
- **Support Debt Cancellation for All Outstanding Federal Student Loans.** Forgiven amounts must be excluded from income for federal tax purposes, and eligibility not based on borrower or household income. Canceling student loan indebtedness provides immediate relief during this extraordinary period of national emergency. Priority should be given to frontline workers — people working in schools, government, healthcare, and nonprofits.
- **Fully Cover Unemployment Insurance Through Federal Funding.** Unemployment insurance is an essential financial lifeline for those who are out of work or dealing with reduced work hours. A federal Unemployment Insurance System must be established. The benefits should be increased well above current levels representing 32.7% of the average wage. All states should have the same length of coverage, a standard maximum of 26 weeks, which can be expanded when warranted. No one should be made more financially vulnerable simply because of where they live.
- **Implement Universal Paid Sick Leave.** Data reveals more than 30 million workers don't have paid sick leave. Currently, the standard practice is that workers gain access to paid sick days as their wages increase. But this approach excludes workers earning low pay from being able to use this vital security, systematically affecting them more.

This approach also harms low-income wage earners whose financial circumstances are worsened when the worker must stay home due to illness or to care for a sick family member. President Biden can call on Congress to pass legislation extending the paid sick leave benefits of President Obama's Executive Order 13706 to all Americans.

- **Institute a Direct Minority Business Contracting Requirement for All Federal Agencies.** Black-owned businesses face significant challenges contracting with the federal government. Only about 8% of federal contracting dollars are spent with minority-owned businesses each year. The Biden Administration should institute a direct minority business contracting requirement for all federal agencies of 20%
- **Increase Funding for Community Development Financial Institutions That Serve Black People.** Black-owned and minority-owned banks have long track records of serving communities with the greatest need and that funding should be increased. Funding for the CDFI should be increased and 40% of all CDFI Fund awards should be designated for minority-serving CDFIs. Increasing access to capital for Black entrepreneurs is one of the most proven ways to close the racial wealth gap.
- **Reverse Racist Housing Policies.** We recommended that the Biden administration should create a down payment assistance fund to increase homeownership rates and wealth accumulation for Black households. This support would increase homeownership rates for Black households and should also reduce lender exposure. A similar Renters Bill of Rights would ensure fair protections from evictions and the administration should aggressively enforce fair credit reporting laws. The Trump administration decimated many provisions and protections for renters from the 1968 Fair Housing Act. The NAACP believes a complete audit is warranted to include reversing the July 23, 2020 HUD rule repealing the Affirmatively Furthering Fair Housing Rule.
- **Support Black Workers and Incentivize Diverse and Inclusive Hiring and Promotion Practices.** Equal work should warrant equal pay. Federally funded projects should include provisions that fully protect workers, ensuring that they are equitably considered, hired, and paid. The federal government's role in setting a just and equitable standard to be emulated by private employers must be restored. Let's establish policies that close the wage gap between Black and white wage earners and give equal attention to addressing the gender pay gap.

If we as a Nation are serious about addressing and reversing the underlying causes for gaps in retirement security experienced by people of color, ethnic minorities, and women then we must act through a holistic approach. Accelerating an inclusive economy requires bold policy solutions, and a sustained and comprehensive multi-sector approach — working alongside community leaders, elected officials, and allies to close opportunity gaps. I wish to thank the Council for this opportunity to testify.