

ERISA Advisory Council Meeting on Gaps in Retirement Savings Based on Race, Ethnicity, and Gender

Submission from Morningstar, Inc.

August 27, 2021

Samantha Lamas, Behavioral Researcher, Morningstar, Inc.
Lia Mitchell, Senior Analyst, Morningstar, Inc.
Michael F. Thompson, Behavioral Scientist, Morningstar, Inc.
Stan Treger, Behavioral Scientist, Morningstar, Inc.
Steve Wendel, Head of Behavioral Science, Morningstar, Inc.

We would like to thank the ERISA Advisory Council for the opportunity to provide testimony for the August 2021 session. It is an honor to participate. We also applaud the Council for taking on the difficult, but vital, topic of gaps in retirement savings by race, ethnicity, and gender. Based on our research, we see there are indeed significant gaps that present a major challenge to the retirement security of many Americans.

During its June 2021 session, the Council received detailed information about the retirement savings gap between African Americans and European Americans from Nari Rhee of UC Berkeley, Jamal Watkins of the NAACP, and others. In these comments, we will cover two topics that complement the prior testimony:

- 1) Detailed information on the racial wealth gap and savings rates of Hispanic Americans; and
- 2) A range of potential solutions to the savings gaps that our society faces.

First, we will briefly provide context on where this information comes from and where the Council can access additional details if it wishes.

Context

Morningstar believes that the racial wealth gap—in retirement savings and more broadly in household wealth—is both real and detrimental to our society. Too many Americans will not have what they need for a comfortable retirement,¹ and lower-income, minority families are especially at risk.² This is partly an issue of current access to retirement savings programs, as Rhee³ and others shared with the Council. Access is not the only issue, though: Income disparities, differences in how families allocate their savings, and a long history of discrimination interact to form the status quo.

¹ For example, Wendel (2018: <https://www.morningstar.com/articles/869554/easing-the-retirement-crisis>) and VanDerHei (2019: <https://www.ebri.org/publications/research-publications/issue-briefs/content/retirement-savings-shortfalls-evidence-from-ebri-s-2019-retirement-security-projection-model>).

² For example, Munnell et al. (2018: <https://crr.bc.edu/briefs/trends-in-retirement-security-by-raceethnicity/>).

³ Rhee (2021: <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebbsa/about-us/erisa-advisory-council/rhee-statement-06242021.pdf>).

These issues are complex and will not be solved overnight. At Morningstar, we've sought to better inform ourselves, and others in the field, with a series of research papers that carefully analyze the causes and potential solutions to the racial wealth gap. Our testimony today draws specifically from these analyses:

- 1) Unpacking Racial Disparities in Savings Rates. A detailed longitudinal study of the how saving and asset ownership differs by race and ethnicity. To learn more, see: <https://github.com/Morningstar/PSID>.⁴
- 2) How Baby Bonds Could Help Close the Racial Wealth Gap. A longitudinal analysis of how an income based, race-blind program could help close the racial wealth gap. See: <https://www.morningstar.com/lp/baby-bonds>.
- 3) The COVID-19 Pandemic, Retirement Savings, and the Financial Security of American Households. Research into the impact of COVID-19 on the finances of Americans. See: <https://www.morningstar.com/lp/finances-during-covid>

Each of these reports is freely available at the links above.

In addition, our detailed data on savings rates derives from the Panel Study of Income Dynamics. The PSID is the longest-running detailed survey of household finances in the world, covering a nationally representative sample of Americans from 1968 to the present. Morningstar developed a process to standardize and clean the otherwise difficult to use PSID, and has made the code and data available at <https://github.com/Morningstar/PSID>. We invite the ERISA Council members and the general public to access the savings data used in this testimony for their own analyses on these important topics.

Given that context, let us dive into the first topic: savings rates and wealth accumulation among Hispanic Americans.

Hispanic Americans' Savings Rates

Hispanic Americans are a rapidly growing segment of the American citizenry, having doubled in population over the last 30 years, with continued growth expected.⁵ Studies of the racial wealth gap and differences in saving have often focused on the differences between African American ("Black") and European American ("white") households; however, owing in part to the smaller historical size of the Hispanic American ("Hispanic") community and complex internal dynamics, Hispanic Americans have diverse personal and financial experiences in the United States—often diverging based on immigration history, country of origin, income, and other factors.

We approach the issue of savings and retirement wealth accumulation among Hispanic Americans in three steps. First, we look specifically at formal retirement savings accounts held by Hispanic Americans. Second, we look at the broader wealth profile of this population, understanding that assets used in retirement may come from a variety of vehicles. Finally, we analyze what drives differences in savings rates among Hispanic Americans. In each case, we examine Hispanic Americans through two lenses: as an overall group and on whether they were born or raised abroad.

⁴ Council members: Please note that we are releasing this report, and this link will be active, on Aug. 26—shortly before the Council meeting.

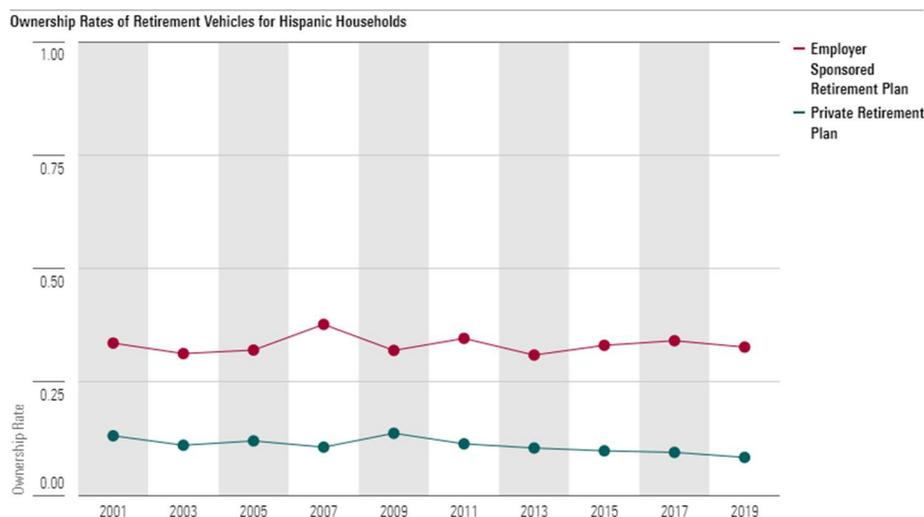
⁵ <https://www.washingtonpost.com/dc-md-va/2021/08/10/census-race-population-changes-redistricting/>

Retirement Savings Rates Among Hispanic Americans

When we look at participation in workplace retirement plans, we see that only 31% of Hispanic households⁶ with income report that they are currently participating in a plan—compared with 51% of white income-generating households and 33% of Black income-generating households.⁷ As noted by contributors to the June 2021 ERISA Council session, differences in participants' rates are a product of both differential access to workplace retirement vehicles and the individual choice to participate, given access. Combined, they have created a significant shortfall for Hispanic Americans: More than two thirds of these households aren't saving at all through workplace vehicles. Unfortunately, private retirement plans don't fill the gap, as only 8% of Hispanic households report having an IRA or similar private plan—compared with 33% of white households and 9% of Black households.⁸

These differences in ownership have remained relatively consistent over time, even as the Hispanic population has dramatically grown and changed with immigration. This is illustrated in Exhibit 1.

Exhibit 1: Ownership Rates of Retirement Vehicles for Hispanic Households



Source: Morningstar Analysis of PSID

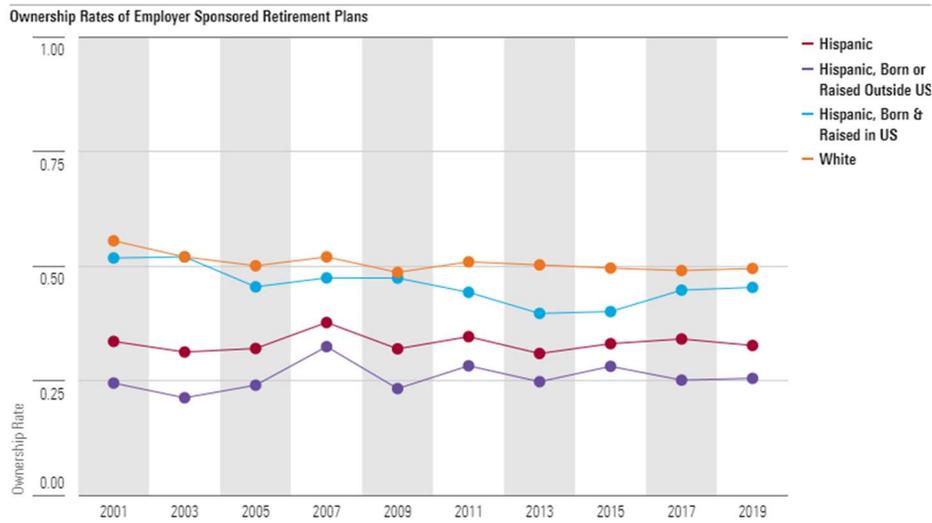
As we dig deeper and look at the results by nativity (born or raised in the U.S.), we can see in Exhibit 2 that the Hispanic households where the primary respondent was born and raised in the U.S. have higher rates of saving, but still less than for white households. The same pattern holds for the ownership of non-workplace retirement plans, as shown in Exhibit 3.

⁶ Households in which the head of household is self-identified as Hispanic American in the PSID.

⁷ All values are reported for households with average income during the period of at least a part time (half-time) job at the federal minimum wage.

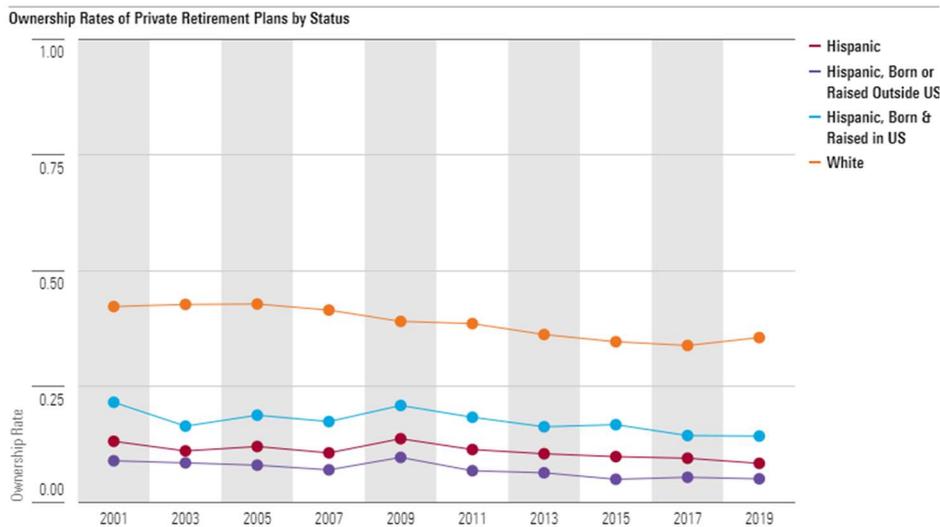
⁸ The differences by group are partially explained by their different age profiles: Older households tend to have IRAs, and white Americans have a higher average age than Hispanic Americans, for example.

Exhibit 2: Hispanic Ownership of Workplace Retirement Plans, by Nativity



Source: Morningstar Analysis of PSID

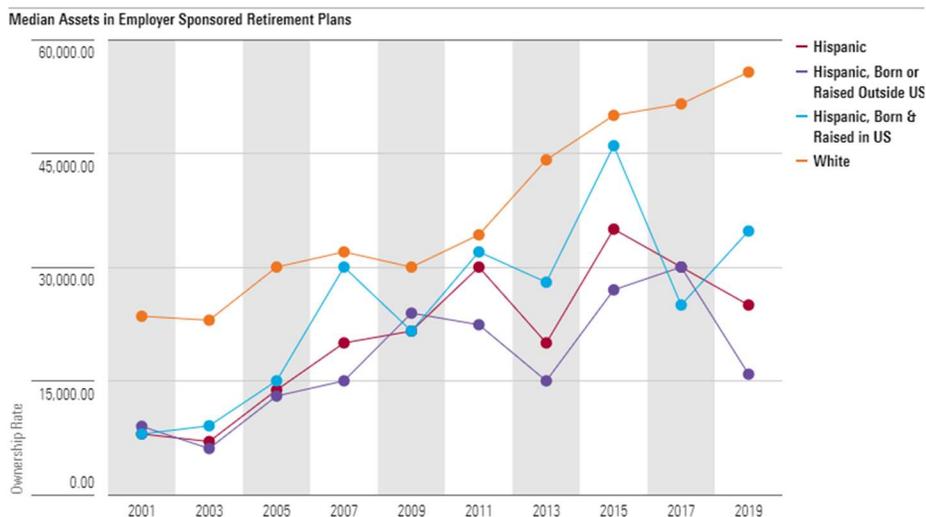
Exhibit 3: Hispanic Ownership of Private Retirement Plans, by Nativity



Source: Morningstar Analysis of PSID

When we subset the population to those who are participating in a workplace retirement plan, we find significant differences in account balances as well: The median white household shows steadily increasing retirement plan wealth, with a dip in 2009, while the median Hispanic household shows a much less consistent growth, and less overall than the median white household, as shown in Exhibit 4.

Exhibit 4: Median Assets in Workplace Plans



Source: Morningstar Analysis of PSID

The resulting narrative across these statistics is not a positive one: Hispanic Americans are less likely to use retirement accounts, and save less in those accounts than their white counterparts. However, it may be that Hispanic Americans are saving for retirement and other future needs through other vehicles—outside of workplace or private retirement plans. This can arise because of a lack of access, personal preference, or other factors. To assess this possibility, next we look at wealth accumulation among Hispanic Americans more broadly.

The Broader Profile of Wealth Accumulation Among Hispanic Americans

Formal retirement savings are a relatively small portion of the assets held by Hispanic Americans. For the *median* Hispanic household, workplace retirement savings contributes nothing to overall assets: As noted above, less than one third of Hispanic households are participating in a 401(k) or similar plan at all. If we look at the *average* value, after removing outliers and excluding ultra-high-net-worth households,⁹ we find that workplace retirement savings entails 15% of Hispanic household wealth, compared with 12% for white households (who tend to have more assets in other vehicles like brokerage accounts and businesses) and 17% of Black households. Private retirement plans cover only 6% of wealth, compared with 22% for white households and 11% for Black households.

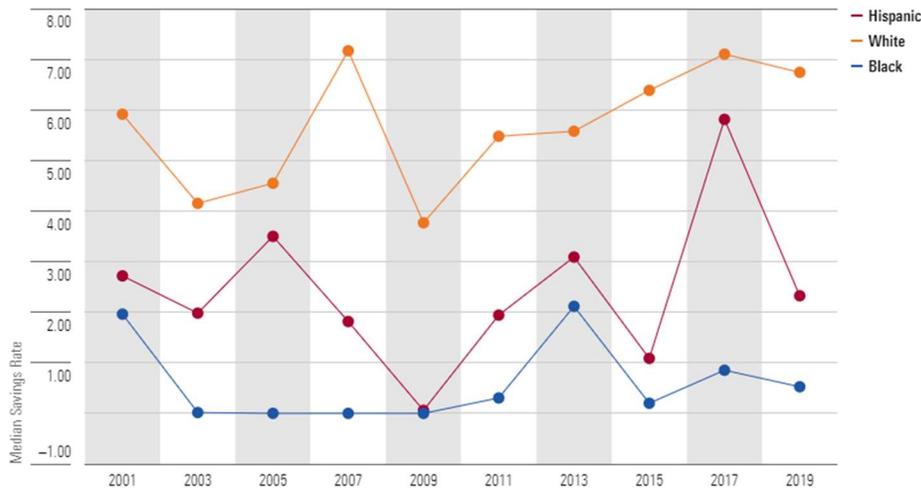
Relative to white households, Hispanic households hold more of their wealth in vehicles (11% versus 5%), and especially homes (48% versus 30%). They hold less wealth in brokerage or other nonretirement investment accounts (5% versus 11%) or businesses (4% versus 7%). Unfortunately, these statistics indicate that Hispanic households are not using other high-return vehicles to offset lower retirement savings. Equity-heavy investment accounts historically have had much higher rates of returns than

⁹ The PSID does not cover ultra-high-net-worth households; we intentionally remove the remaining households to allow us to focus on the bulk of the population in these mean-based analyses.

vehicles (negative returns) or houses (moderate returns), but Hispanic households are less likely to participate and hold wealth in these accounts.¹⁰

In addition to current wealth, we can also look at overall savings rates, above and beyond retirement savings. The PSID allows us to calculate savings rates across the household’s balance sheet—totaling 10 different asset classes from houses to retirement accounts, and separating out the effects of capital gains, inheritances, and other factors. Exhibit 5 depicts these household-level savings rates over time. We find that Hispanic households save less than their white counterparts, and have done so consistently for decades. On the whole, Hispanic households have saved slightly more than Black households.

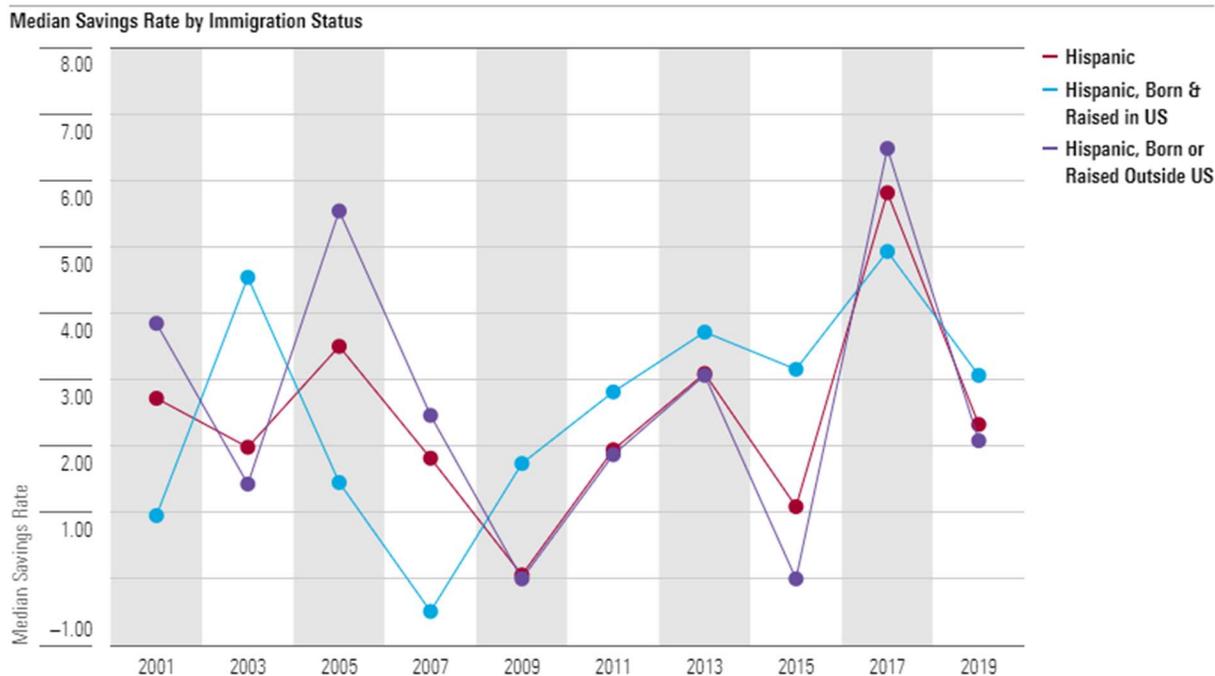
Exhibit 5: Savings Rates Across All Savings Vehicles, by Race



Source: Morningstar Analysis of PSID

As above, we can disaggregate these savings rates within the Hispanic community by looking at U.S.-born and -raised, versus non-U.S.-born or -raised, Hispanic Americans. Unlike for retirement savings (Exhibits 2 and 3) we find that savings rates haven’t differed in any consistent and clear way: Lower rates of savings among Hispanic Americans are not a function of recent immigration.

¹⁰ Four percent of Hispanic households report having a nonretirement investment account, compared with 19% of white households and 4% of black households.



What drives lower saving rates?

Stepping back from the detailed statistics, we can examine the factors that drive saving, or its lack. We can think of this as two separate concerns. First, what drives savings among Hispanic Americans? Second, what drives the difference in savings rates between Hispanic Americans and white Americans?

To understand the overall difference in savings rates between Hispanic and white Americans, we first ran what's known as a mediation analysis. Mediation is a statistical technique that examines the pathways by which a particular effect occurs. In this case, we find that *income* is especially important: Hispanic Americans save less for the future because they tend to have lower income—roughly 70% of the aggregate effect of race on savings is actually caused by lower income among Hispanic Americans. In other analyses, our research and that of others (for example, Dynan et al. 2004) have documented how lower-income households of any race tend to save less. The remaining 30% is not explained by income; after we control for income and other factors, the median Hispanic household still saves 1.3% less than the median white household.

To better understand the factors influencing savings *among* Hispanic Americans, we ran a series of regression models to predict family saving rates. These models allow us to simultaneously account for a wide variety of factors that might affect a household's savings rate so that we can focus on distinct differences based on race and other characteristics in context. Exhibit 6, below, provides the detailed results.

In terms of total household savings (summing savings across all vehicle types), we find that the median Hispanic household saves 1.3 percentage points less than a median white household, after controlling for other factors. This is shown in the first column of Exhibit 6.

We see no differences between households with two adults compared with those headed by a single female or a single male. We do find, however, that households headed by at least one adult who was

born or grew up abroad save 1.2 percentage points more than otherwise similar households led by U.S.-born and -raised adults—across all racial and ethnic groups. Other factors that affect savings rates, regardless of race or ethnicity, are age, education, region of the country, and income; for example, a 10% increase in income is associated with a 0.4-percentage-point increase in the savings rate.

In the last four columns of Exhibit 6, we look within each group, subsetting the population to White, Black and then Hispanic households. We observe that income is a more salient predictor of active savings among Hispanic households than for Black households. The outsize importance of income is largely driven by Hispanic households led by adults born and raised in the U.S. There are also important regional differences: Hispanic households who live in the Western U.S. save 2.1 percentage points more than similar households who live in the Northeast. Finally, Hispanic households in metropolitan areas save 2.3 percentage points less than similar households in rural parts of the U.S.

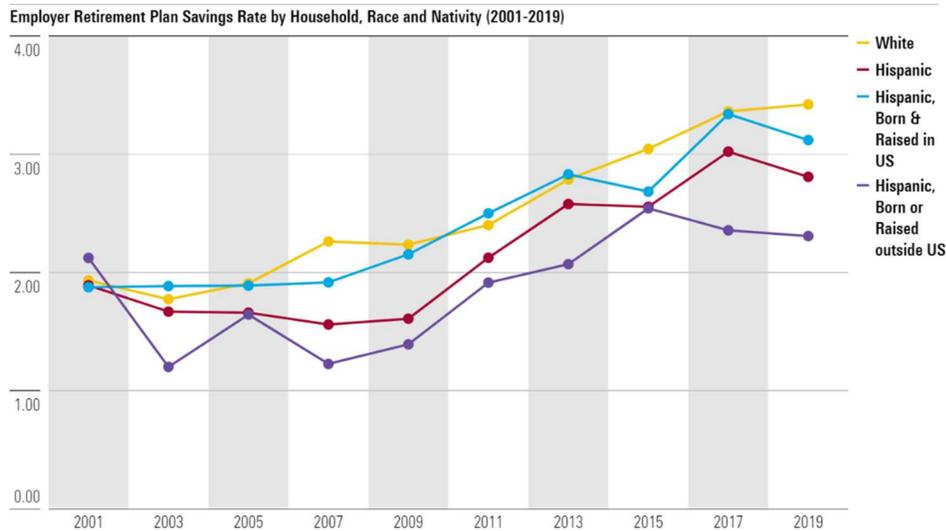
Exhibit 6: Predictors of Active Saving Rates for U.S. Households by Race and Nativity, 1989-2019 (%)

<i>Household</i>	All	Black	Hispanic	Hispanic, Born and Raised in U.S.	Hispanic, Born or Raised Outside U.S.
Race Compared With White					
<i>Black</i>	-0.519+				
<i>Hispanic</i>	-1.301**				
<i>Other Race</i>	0.556				
Household Head Structure Compared With Two Adults					
<i>Single Female Adult</i>	0.369	-0.329	-0.530	0.713	-1.006
<i>Single Male Adult</i>	-0.120	-0.104	-1.074	0.660	-1.032
Born or Grew up Abroad	1.292*	1.945	0.030		
Age	0.235**	0.106*	-0.180	-0.109	-0.183
Age Squared	-0.004***	-0.001*	0.001	0.001	0.001
Net Income Logged	3.963***	1.411***	3.174***	4.123***	2.439**
Amount Helped Others Financially (\$1,000s)	-0.076	0.385*	-0.875	0.522	-2.36
Education Level Compared With Less than High School					
<i>High School Graduate</i>	-0.712*	-0.0634	-0.590	-1.021	-0.151
<i>Some College</i>	-0.372	-0.149	-1.639	-1.144	-2.698
<i>College Graduate</i>	2.416***	2.592*	1.503	5.228	-1.011
<i>Graduate Education</i>	2.363***	4.051**	1.650	0.441	0.442
No. of Children	-0.087	0.064	-0.040	-0.092	-0.098
Region Compared With Western U.S.					
<i>Northeast</i>	-0.971*	-0.196	-2.146**	-1.829	-2.318+
<i>North Central</i>	0.158	0.002	0.326	-0.029	1.282
<i>South</i>	-0.153	0.440	0.093	1.577	0.327
Metro (MSA)	-0.551*	-0.064	-2.283**	-2.926*	-1.468
Panel Compared With 2017-19 (estimate for each panel not displayed)					
Constant	-39.92***	-15.66***	-22.79***	-36.13**	-13.55+
Observations	70295	24489	5109	2118	2991
Pseudo R-squared	0.005	0.003	0.005	0.009	0.006

Quantile regression results; symbols are p-values of t-tests: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001
Source: Morningstar Analysis of PSID

Now we turn from overall savings to retirement savings specifically. Over the 2001-19 period, we observe that a median Hispanic household saved less through employer retirement plans than a median white household. Hispanic households headed by adults born or raised outside of the U.S. have even lower employer retirement plan savings than similar households headed by adults born and raised in the U.S., as shown in Exhibit 7.

Exhibit 7: Median Workplace Retirement Savings Rates, by Race and Nativity



Source: Morningstar Analysis of PSID

Once we control for all factors in our model (Exhibit 8) nativity is no longer a significant predictor of lower employer retirement plan savings rates among Hispanic households. Hispanic households do still save 0.2 percentage points less in workplace retirement accounts than white households. A wide range of other factors also predicts savings rates, as shown below—from income, to education, to the number of adults in the household.

When we subset the population (the last four columns of Exhibit 8) we see that higher income is actually associated with *lower* contribution rates after controlling for education and other factors among Black households, but not among Hispanic households. Finally, there are hardly any differences among Hispanic households owing to nativity, although the median Hispanic household headed by adults born and raised in the U.S. has a 0.7-percentage-points lower savings rate in the Northeast compared with the Western U.S.

Exhibit 8: Predictors of Employment Retirement Plan Savings Rates for U.S. Households by Race and Nativity, 1994-2019 (%)

<i>Household</i>	All	Black	Hispanic	Hispanic, Born and Raised in U.S.	Hispanic, Born or Raised Outside U.S.
<hr/>					
Race Compared With White					
<i>Black</i>	-0.287***				
<i>Hispanic</i>	-0.177**				
<i>Other Race</i>	0.167				
Household Head Structure Compared With Two Adults					
<i>Single Female Adult</i>	0.356***	0.100	0.466**	0.273	0.771**
<i>Single Male Adult</i>	0.776***	0.572*	1.184***	1.115**	2.288***
Born or Grew up Abroad	-0.134+	-0.213	-0.157		
Age	0.031**	0.024	0.030	-0.175**	0.071
Age Squared	-0.000***	-0.000	-0.000	0.002**	-0.001
Net Income Logged	0.141***	-0.304***	0.062	0.090	0.001
Amount Helped Others Financially (\$1,000s)	-0.005*	0.011	-0.001	0.124	-0.066
Education Level Compared With Less than High School					
<i>High School Graduate</i>	0.178***	-0.161	0.245*	-0.132	0.593*
<i>Some College</i>	0.355***	0.140	0.564***	0.505+	0.431+
<i>College Graduate</i>	0.663***	0.392**	1.188***	0.659+	1.273**
<i>Graduate Education</i>	0.718***	0.406	1.389***	1.394***	0.848*
No. of Children	-0.067***	-0.044	-0.039	-0.037	0.053
Region Compared With Western U.S.					
<i>Northeast</i>	-0.285***	0.311*	-0.201	-0.695***	0.267
<i>North Central</i>	-0.149**	0.419*	0.027	0.551+	-0.212
<i>South</i>	-0.180***	0.521***	0.088	0.276	-0.065
Metro (MSA)	0.137***	0.256***	-0.198+	-0.184	0.232
Panel Compared With 2017-19 (estimate for each panel not displayed)					
Constant	0.748+	5.362***	1.002	5.019**	0.469
Observations	24139	6458	1285	681	604
Pseudo R-squared	0.082	0.077	0.102	0.151	0.091

Quantile regression results; symbols are p-values of t-tests: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001
Source: Morningstar Analysis of PSID

Private retirement plans are largely unpopular among Hispanic households, and among those who do have these plans, their savings rates are 0.7 percentage points lower than white households after controlling for other factors. Beyond this overall trend, Hispanic households' private retirement plan savings rates do not appear to be affected by many of the key overall predictors such as age and education. This may be caused by the small sample size, as there are few Hispanic households with such plans.

Potential Solutions to the Retirement Savings Gaps

Turning from our detailed analysis of saving among Hispanic Americans, let us now look at the potential solutions to low savings rates and balances overall. In particular, the current path for both Hispanic Americans and Black Americans—low contribution rates and insufficient retirement savings—is not destiny: There are a range of viable options to help boost savings. Some of these options are specific to retirement savings, but others are based on the understanding that retirement savings is deeply linked to other forms of savings.

We find the interdependence of savings especially relevant in a recent study of a representative sample of American households conducted by Morningstar, the Aspen Institute, NORC at the University of Chicago, and the Defined Contribution Investment Industry Association.¹¹ In that research, we discovered that liquid savings were instrumental in helping American households retain financial stability during the financial storm that the coronavirus pandemic brought. The amount of liquid savings a household possessed was positively related to the household's ability to manage debt and pay their bills on time, above and beyond other explanatory factors such as income. Importantly, liquid savings protected retirement savings: Our analysis showed that households tended to withdraw money from their workplace retirement funds if their liquid savings were low.

Households who had less than \$1,000 in liquid savings were twice as likely to resort to using workplace retirement savings, regardless of income level. Yet we also see racial discrepancies in emergency liquid savings, with Hispanic Americans possessing a median of approximately \$0.25 for every \$1.00 that a white household has saved. Liquid savings can be especially vital to households who had lost income directly due to the pandemic (such as through furloughs or layoffs)—including to Hispanic American households, which were approximately 32% more likely to experience an income decrease because of the pandemic compared with white and Black households.

Our results also highlight the detrimental effects of student and medical debt on households. In fact, we found that the mere *possession* of these debts was negatively associated with households' financial health during 2020, controlling for other factors such as pre-pandemic financial health and income. Alarming, possessing medical debt was associated with a 69% drop in liquid savings and hindered households' ability to pay their bills on time and manage their debt. These data show us that households burdened with medical and student loan debt are especially vulnerable to financial shocks.

Overall, we found that household savings (and the removal of debt) support retirement savings. In the retirement community, we should consider these forms of saving as deeply linked, and support proposals that boost broad financial wellness, as well as specific retirement savings initiatives.

Putting Recommendations in Context

Before we dive into proposals, it's useful to take a step back and put them in context. From our research, the most powerful solution to boosting savings rates—retirement or otherwise—for minority households is to equalize income. We recognized that this is outside of the scope of the ERISA Council, but it bears repeating: The “first best” solution to the disparities in savings rates and the resulting racial wealth gap is pay equality. To ask lower-income families, and especially lower-income minority families, to save more of their income effectively means bucking a stable trend over many decades: Lower-

¹¹ The full study can be found here: <https://www.morningstar.com/lp/finances-during-covid>

income families save less of their income. They likely do so because of real and immediate needs that should be not ignored in the name of saving for the future.

That said, low-income and minority families aren't homogenous, and some families may be willing and able to increase savings rates; programs that support that choice without moral judgement should be welcomed and encouraged. While our analysis focused on the aggregate, racial differences in savings, we also found that there is tremendous variability in individual savings rates that isn't explained by race—which is likely to be influenced by more mundane factors like the ease of signing up for savings programs, personal preferences, financial literacy, ease of setting up a savings account, and so on. These are factors we can change in both retirement specifically, and more broadly. Let us turn to those next.

Boosting Access and Use of Retirement Savings Vehicles

The pathway to increased access and use of retirement savings vehicles is well-trod territory, with new recent innovations along the path. We can assume most of these proposals are familiar to the ERISA Council and we will only cover them briefly here.

- The single most powerful technique that researchers and practitioners have found to increase savings rates is *automatic enrollment in a workplace retirement plan*. This widely, but not fully, adopted technique is the best tool we have to help those who have access to workplace plans.
- Where automatic enrollment is not possible, researchers have found that enhanced active choice—in which the participant is required to elect to participate or not, without a default, and with well-framed information about that choice—is also an effective technique for those who have access.
- More broadly, we look for techniques to reduce friction and make the benefits of saving clearer. We reduce friction by decreasing the number of steps required to enroll and making it easier to find the person or form required to do so. We make the benefits of saving more clear through matching programs (where the level of the match is not essential, but its existence is) and visualization techniques like age progression of the face and visualization of future activities in retirement.
- To increase access to retirement vehicles, the community has seen two major innovations, which we also support: pooled employer plans, or PEPs, and state-run auto-IRAs. Pooled employer plans are in their infancy but provide an alternative plan type that could encourage more employers to begin offering a workplace plan. Additionally, PEPs could prove to be a better option than a single-employer plan for some employers as the pooling of assets can provide more negotiating power to reduce costs. While state-run auto-IRAs are not subject to ERISA, the adoption of these policies could prompt employers to sponsor their own plans as they look to meet the needs of their employees.

Again, most of these proposals are familiar. The real innovation and opportunity comes from thinking of retirement savings as one interconnected activity within a broader picture of household saving and financial wellness, which both the employer and employee can support.

Innovative Ways to Improve Savings Overall

Two programs to support saving among low-income and minority families in particular deserve special attention: baby bonds and Saver's Credits.

Baby Bonds

Baby bonds are a prominent and promising option for decreasing the racial wealth gap by providing children from low-income families with access to as much as \$50,000 at age 18 to support the cost of college or other wealth-building ventures. Reintroduced this year, the American Opportunity Accounts Act¹² would create an account for every child born in the U.S. and make an initial \$1,000 contribution.¹³ For the subsequent 17 years, an annual contribution would be made of up to \$2,000. This program is race-blind but has a favorable effect on the racial wealth gap as lower incomes in Black and Hispanic households would result in higher median account balances for Black and Hispanic children as they turn 18. More specifically, we find that this program can reduce the gap between the median Hispanic and white households from 92% to 55%, and the gap between the median Black and white households from 96% to 56%. In both cases, the introduction of baby bonds almost halves the gap in resources available per child at age 18, creating more opportunities for those children.

Beyond the impact this policy could have as a child attains age 18, likely more significant is the potential for this to grow the individual's long-term wealth. In fact, the money in these accounts would be, by law, designated for "investment in financial assets or personal capital that provides long-term gain to wages and wealth."¹⁴ The bill already specifies higher education and home ownership as qualifying investments. We support creating a clear path for individuals to direct this money toward retirement savings as well, as it represents a clear investment in their long-term wealth and overall financial wellness.

The Saver's Credit: Legislative Enhancements Could Close the Racial Wealth Gap, Particularly Paired With Effective Communications on the New Benefits From Employers

Two recent proposals look to boost retirement savings by expanding an existing tax credit, the Saver's Credit. We find that two expansion proposals in the House¹⁵ and Senate¹⁶ of the Saver's Credit would reduce the gap between Hispanic and white, and Black and white, retirement contributions. This would present a major opportunity for employers to communicate the benefits of such a proposal, were it to become law. Guidance from the Department of Labor could be very helpful to maximize the benefits of such a "government match" for savings. We also find that combining elements of both proposals could reduce the contribution gap—and ultimately the wealth gap—the most. This proposal would target most of its benefit to lower-income workers and would make it available to anyone with earned income.

¹² American Opportunity Accounts Act, S. 222, 117th Cong. (2021). <https://www.congress.gov/bill/117th-congress/senate-bill/222>.

¹³ Accounts would also be created for children under 18 at the time the bill is adopted; however, our analysis evaluates the outcomes for children eligible for all 18 contributions.

¹⁴ American Opportunity Accounts Act, S. 222, 117th Cong. (2021). <https://www.congress.gov/bill/117th-congress/senate-bill/222>.

¹⁵ Securing a Strong Retirement Act of 2020, H.R. 8696, 116th Cong. (2020). <https://www.congress.gov/116/bills/hr8696/BILLS-116hr8696ih.pdf>

¹⁶ Retirement Security and Savings Act of 2021, S. 1770, 117th Cong. (2021). <https://www.congress.gov/117/bills/s1770/BILLS-117s1770is.pdf>

Designed to promote retirement savings among lower-income households, this credit currently provides up to a 50% match of the household's annual contributions to 401(k)s, IRAs or other qualified retirement plans for married households filing jointly with adjusted income less than \$39,500. The credit is capped at \$1,000 and the income thresholds are adjusted for head of household and other types of filers. The available match decreases at higher incomes, with joint filers earning over \$66,000 being ineligible.

Essentially creating a government match for retirement savings, this credit is currently lightly utilized as it is nonrefundable, meaning it is only available to those filers with a tax liability, which many low-income households do not have. Proposals introduced in the House and Senate would expand the Saver's Credit in different ways, changing a combination of elements defining the credit: increasing the maximum credit; increasing the income thresholds; adjusting the scaling of the credit for those eligible for less than a 50% match; making the credit refundable; and depositing the credit directly into the 401(k), IRA, or other account into which contributions were made. The Senate version would adjust the scaling of the credit for those eligible for less than a 50% match, make the credit refundable, and deposit the credit directly into the qualified retirement account. The House version would increase the maximum credit, increase the income thresholds, and adjust the scaling of the credit for those eligible for less than a 50% match.¹⁷

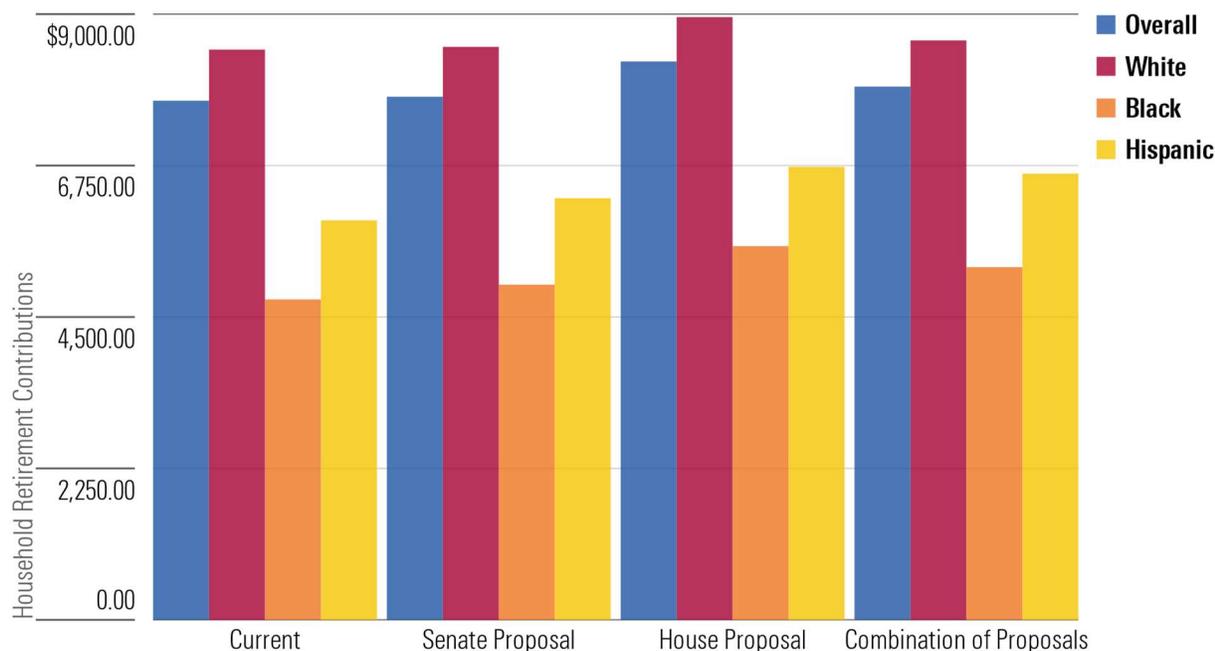
Analyzing data on household retirement contributions from the 2019 Survey of Consumer Finances, we find the median household making contributions would see an increase under either of these plans. While only 36% of households made contributions to IRAs or workplace defined contribution plans, amongst them the median contribution was \$7,710.¹⁸ Under the Senate proposal, this would increase slightly to \$7,770, but the House version would have a larger impact, pushing the median household's contribution to over \$8,290.

To understand the distribution of these changes more fully, we examine the breakdown by race and find significant variations. Currently, including employer matches, the median white household contributes \$8,470 annually, while the median Hispanic and Black households contribute just \$5,930 and \$4,760, respectively. This leaves a 30% gap in contributions between median Hispanic and white households, and a gap of 44% between median Black and white households. Both proposals would help address these gaps, though, again, the House version goes further than the Senate one. Under the Senate proposal, the gap between median Hispanic and white households would close to 26%, while the gap between median Black and white households would decrease to 41%. With the House proposal, both would shrink further, closing to 25% between median Hispanic and white households, and 38% between median Black and white households. These changes are illustrated in Exhibit 9.

¹⁷ For our analysis, we assume the House version would also make the credit refundable as there is insufficient information on each household in the 2019 Survey of Consumer Finances to accurately determine the tax liability and eligibility for the credit.

¹⁸ All dollars reported for the Saver's Credit analysis have been inflation-adjusted to 2021 dollars.

Exhibit 9: Median Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



Source: Morningstar analysis of 2019 Survey of Consumer Finances.

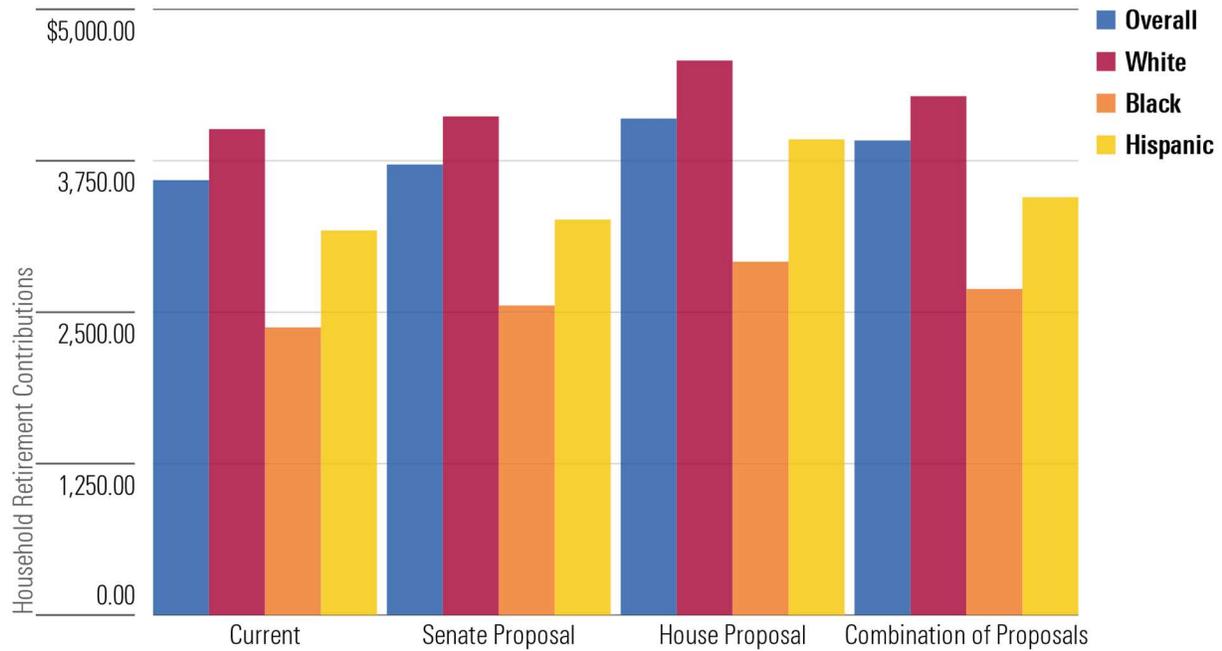
An additional scenario we consider is mixing elements of the two proposals, which closes the gap very similarly to the House proposal with a smaller increase in contributions at the median for households of all races. In the combination of proposals, we maintain the current income thresholds, maintain the current maximum credit, and make the credit refundable—per the Senate proposal—while adjusting the scaling of the credit for those eligible for less than a 50% match according to the House proposal. While both proposals adjust the scale, the House version makes a substantial change by making the decrease in match percentage proportional to the increase in the household’s income. The match would move from 50% at or below the lowest income threshold and decrease linearly to 0% as the income reaches the upper income limit. Both the current structure and the Senate version use a bucket system instead: All those at or below the lowest income threshold receive a 50% match, those in the next range a 20% match, and those in the highest range before the upper income limit receive a 10% match. The Senate version simply shifts one of the breakpoints, allowing more households to receive a 50% match that currently qualify for the 20% bucket.

The combination of both proposals that we model would reduce the gap between median Hispanic and white household contributions to 23%, and the gap between median Black and white household contributions to 39%. However, this would not increase the overall median contribution quite as much as the House version, reducing the cost of the proposal compared with the House version while directing a higher percentage to minority households than the Senate version.

We see similar trends at the 25th percentile of the distribution, but the racial gaps are not the same as at the median to start with, illustrated in Exhibit 10. At the bottom quartile of contributions, the gap between Hispanic and white households is smaller than at the median, currently at 21% compared with 30%. This would shrink to 14% under the House proposal and to 19% under our combination of proposals, but not change meaningfully under the Senate version. The gap between Black and white households at the 25th percentile of contributions is also smaller than at the median, at 41% instead of

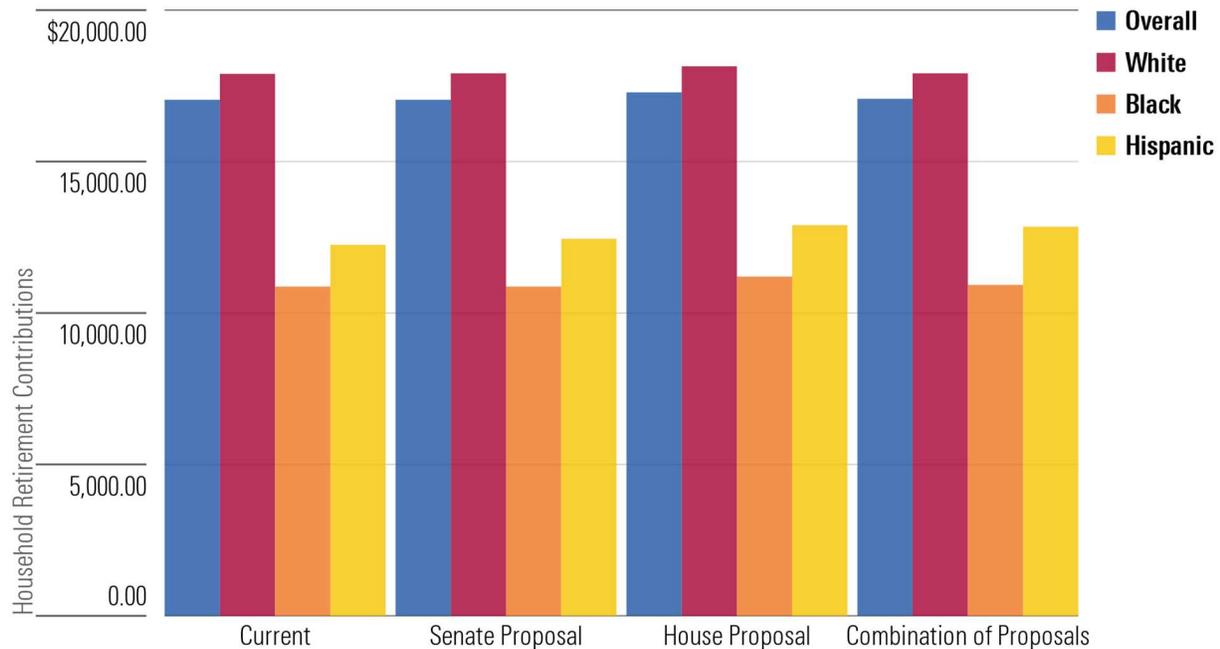
44%, and would be reduced under all conditions. The Senate version would close the gap at the bottom quartile to 38%, the House proposal to 36%, and the combination of proposals to 37%. For those at the higher end of the distribution, shown in Exhibit 11, the gap between Hispanic and white households would decrease under all proposals from the current 32%. Under the Senate version it would shrink to 30%, while under the House version it would slide to 29%, and under our combination of proposals it would drop further to 28%. On the other hand, the gap between Black and white households at the 75th percentile of contributions is currently 39% and would only be reduced under the House proposal, closing the gap marginally to 38%.

Exhibit 10: 25th Percentile Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



Source: Morningstar analysis of 2019 Survey of Consumer Finances.

Exhibit 11: 75th Percentile Household Retirement Contributions Currently and With Match From Expanded Saver's Credits



Source: Morningstar analysis of 2019 Survey of Consumer Finances.

Expanding the Saver's Credit in any of these three ways would boost overall retirement savings and help lower-income families increase their total savings rate by providing a government match. Making this credit refundable is particularly important in expanding eligibility, potentially encouraging more households to start saving. Further, the provision in the Senate proposal to directly deposit the credit into the qualified retirement account could be crucial in ensuring that the credit increases retirement savings rather than just increasing tax refunds. However, in order for households to receive any of these benefits, they will need to contribute to a retirement account. If any of these expansions were to become law, guidance from the Department of Labor could help ensure eligible households are aware of and maximizing this benefit either through their workplace plan or an IRA.

A Reflection on Saving, Race, and Ethnicity

Our suggestions to increase retirement savings, and household savings overall, are aimed at the *circumstances* facing Hispanic and Black households, and not at any inherent attribute among these groups that has historically limited saving. That is intentional. We find that income is the biggest driver of workers' decision to save for retirement. But, as we discuss, income is not the only predictor of savings rates and does not explain all the variation across groups. For concrete immediate progress, policymakers can encourage plan sponsors to step up targeted outreach in the recipients' language and with specific cultural context. Such communications may be particularly important if or when Congress passes an enhanced Saver's Credit or other changes to the tax code that direct more benefits to lower-income workers.