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U.S. DOL ERISA Advisory Council Hearing

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

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ABSTRACT

The US private sector employer-sponsored retirement system leaves out many workers, disproportionately impacting Blacks and Latinos. Rates of retirement plan access vary widely by occupation, industry, and wage level, and part-time/full-time status. The system interacts with labor market segmentation and social inequality – for instance in employment opportunity, generational wealth, and responsibility for care work -- to produce marked inequalities in retirement assets by race, gender, and income. While some states have forged their own path to try to close this coverage gap, these efforts are limited in scope by ERISA preemption. Federal policy action is necessary so that all workers are covered by a plan that effectively prepares them for a financially secure retirement.

Good morning, members of the Advisory Council. I am Nari Rhee, director of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education.

Thank you for this opportunity to appear before you to discuss race and gender inequality in retirement savings.

The US retirement system relies heavily on employer-provided retirement benefits to provide a critical supplemental layer of retirement income to complement Social Security. While Social Security is a bedrock, the current average benefit of $1,500 a month is insufficient to cover basic needs for most retirees, given the cost of living, much less to maintain the pre-retirement standard of living for middle-income households. In addition, workers face an increasing retirement savings burden due to declining replacement rates from Social Security.[1]

I'd like to make three main points related to inequalities in the current retirement system, and how to mitigate them. First, the employer-sponsored retirement system leaves out many groups of workers, in a manner that disproportionately impacts women and people of color, particularly Blacks and Latinos. The resulting gaps in coverage interact with labor market segmentation and broader social and economic inequalities – for instance in employment opportunity, generational wealth, and responsibility for care work -- to produce marked inequalities in retirement assets by race, gender, and income. Third, while some states have forged their own path to try to close this coverage gap and ultimately increase workers' retirement incomes, federal policy action is necessary so that all workers are covered by a plan that effectively prepares them for a financially secure retirement.

1. The private sector employer-sponsored retirement system has large gaps in coverage that disproportionately impact workers of color.

Ideally, close to 100% of jobs should include a retirement plan, regardless of part-time/full-time status, occupation, industry, or firm size. And all workers should participate in a retirement plan through the full arc of their earning lives, regardless of race, gender, or wage level. But the current system falls far short of universal coverage. Depending on the source, roughly one-half to two-thirds of private sector workers have access to a retirement plan. The Bureau of Labor Statistics' National Compensation Survey (NCS), an employer survey, offers the upper bound estimate of coverage: in 2019, 67% of workers in the private sector have access, and 50% participate. While higher than the estimate of roughly 55% from household surveys from the Census Bureau, this falls far short of universal coverage.

Workplace retirement plan coverage varies sharply by occupation, wage level, and part-time/full-time status. For instance, according to NCS data for 2019, 84% of management and professional workers in the private sector have access to an employer sponsored plan, compared

[1] The Center for Retirement Research at Boston College estimates that the percentage of monthly earnings replaced by Social Security will decline to 36% in 2035, from 43% in 1995 and 40% in 2015. P. 3 in A. Munnell and A. Chen, "401(k)/IRA Holdings in 2019: An Update from the SCF," Center for Retirement Research at Boston College, October 2020. https://crr.bc.edu/wp-content/uploads/2020/10/IB_20-14.pdf.

to only 41% of workers in service jobs. The bottom 25% of workers by wage level are less than half as likely as the top 25% of workers to have access (42% vs 88%). Similarly, only 39% of workers in part-time jobs have access, compared to 77% of workers in full-time jobs.[2]

The gap in take-up – the share of workers with access who actually participate in the retirement plan – is even greater than the gap in reported access. This difference is particularly stark for workers in low-wage jobs. Among the bottom 25% of workers by wage level, only 52% of those with access participate – which translates to just 21% of all workers in this wage bracket.

Workers of color are concentrated in jobs that are less likely to offer retirement benefits. Some of the above job-based disparities in access to employer sponsored retirement plans intersect with racialized labor market to result in highly unequal retirement plan participation rates and retirement wealth outcomes. Workers of color are highly overrepresented in sectors like lowest rates of retirement plan sponsorship, such as building services, restaurants, and the hospitality sector (See **Table 1**).

Table 1.

Retirement Benefit Access vs. Black/Latino Representation, Selected Industries

INDUSTRY	SHARE OF WORKERS OFFERED RETIREMENT BENEFITS	BLACK/LATINO EMPLOYMENT QUOTIENT
Construction	59%	1.7
Transportation and Warehousing	79%	1.2
Financial Activities	84%	0.7
Professional and Technical Services	82%	0.5
Administrative and Waste Services	38%	1.4
Accommodation and Food Services	33%	1.6

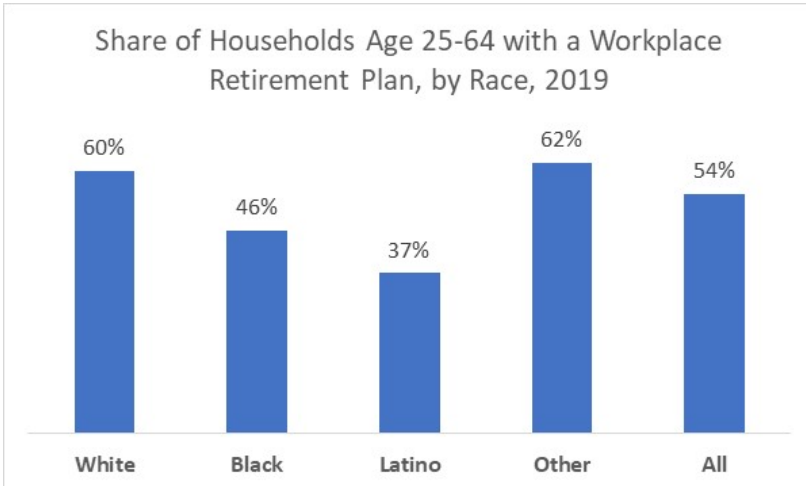
Source: Author's analysis of 2020 National Compensation Survey and Labor Force Statistics from the Current Population Survey 2020. Black/Latino employment quotient is the share of Black/Latino employment in the industry divided by their share of all employment. A quotient higher than 1 indicates overrepresentation, while a quotient below 1 indicates underrepresentation in the sector.

Consequently, among households age 25-64 with at least one employed worker, only 60% of White households participated in a defined-benefit or defined-contribution plan at work in 2019.

[2] National Compensation Survey: Employee Benefits in the United States, March 2020

The rate was significantly lower for Black households (46%), and Latinos were the worst off (37%). (See **Figure 1**.)

Figure 1



Source: Author's analysis of Survey of Consumer Finances.

2. The current system interacts with generates high levels of inequality in retirement wealth – by income, race, and gender.

In addition to having less access to retirement benefits while employed, Black and Latino workers face a number of disadvantages that make it difficult to save for retirement. First, they consistently face higher rates of unemployment than White workers.[3] They are also significantly disadvantaged in generational wealth, which is an important factor in wealth accumulation. Federal Reserve researchers found that White families were three times as likely as Black families and 8 times as likely as Latino families to receive an inheritance. White families also received larger inheritances.[4] They also found that the typical Black and Latino family has $2,000 or less in liquid savings, less than a quarter of the amount held by the typical White family. Limited liquid savings is an indicator of economic fragility and vulnerability to financial

[3] See for example N. Adjeiwaa-Manu, " Unemployment Data by Race and Ethnicity," Center for Global Policy Solutions, August 2017. http://globalpolicysolutions.org/wp-content/uploads/2017/07/Unemployment-Data-by-Race.pdf.

[4] N. Bhutta, A.C. Chang, L.J. Dettling, and J.W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, September 28, 2020. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

shocks. All of these factors constitute obstacles to saving for retirement in the context of a 401k plan.

Work-based retirement wealth accumulation poses special challenges for women, given their disproportionate responsibility for unpaid caregiving. In recent years, women workers have achieved approximate parity with male workers in terms of nominal access to workplace retirement plans. However, they still face structural barriers to retirement wealth accumulation. In addition to the gender pay gap, many women find themselves having withdraw from the labor force or reducing paid work hours in order to care for children or aging parents, which results in interrupted or truncated careers. Even before the COVID-19 pandemic, when school closures drove many mothers out of the labor force, women's employment and work hours were suppressed by the lack of affordable childcare. And an aging population means an increased aggregate need for caregiving that falls on women's shoulders. This not only results in foregone pay, but a lasting pay penalty, resulting in a significant cumulative reduction in potential lifetime earnings.[5]

This means lower Social Security benefits, as well as fewer years to participate in a pension or 401(k), and lower income from which to save for retirement. A MetLife study from 2011 estimated a loss of $120,000 in wages and $64,000 in Social Security benefits for women who reduced paid work hours due to caregiving.[6]

The 401k system produces highly unequal outcomes. The middle 50% of near-retirement households has insufficient retirement account balances, while most low-income households have no retirement assets. According to data from the 2019 Survey of Consumer Finances, only 10% of the bottom fifth of households age 55-64 (by income) have a 401(k)/IRA, and 37% of the lower-middle fifth, have any retirement assets (**Figure 2**). While retirement asset ownership rates increase with income, all but the top fifth of households in this age group have typical retirement account balances that are far below retirement income need (**Figure 3**). Even among the upper-middle (4th) income quintile households, the median account balance $63,000 will generate only about $200 per month in retirement income. Looking at just households with retirement accounts, large disparities by income persists, and typical balances among all but the top fifth fall short of providing adequate income.

Although 401(k)/IRA assets are distributed slightly less unevenly than overall wealth, they are still radically skewed towards high-income households. Among households age 55-64, the top 20% of households by income own 70% of the wealth held in retirement accounts in their age

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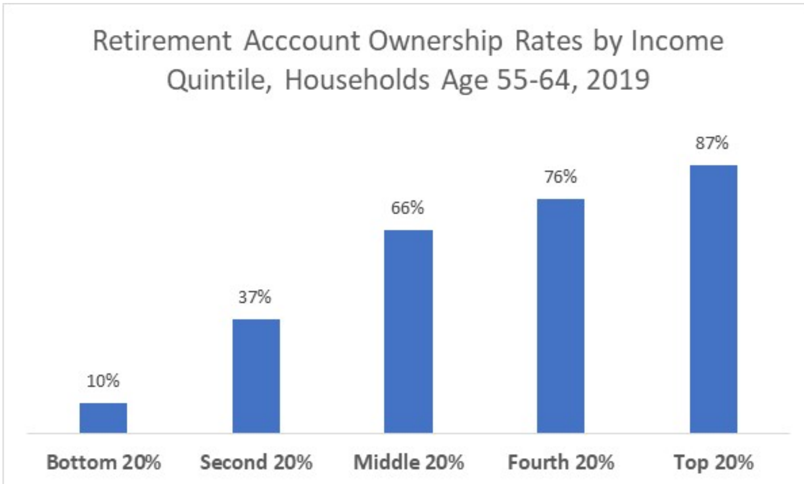
[5] On the impact of caregiving on women's wages and earnings, see S.J. Correll, S. Benard and I. Paik, "Getting a Job: Is There a Motherhood Penalty?," *American Journal of Sociology* 112(5), March 2007, https://doi.org/10.1086/511799; J.R. Kahn, J Garcia-Manglano and S.M. Bianchi," The Motherhood Penalty at Midlife: Long-Term Effects of Children on Women's Careers," *Journal of Marriage and Family* 76 (Feb 2014):56-72, https://doi.org/10.1111/jomf.12086; C.H. Van Houtven, N.B. Coe and M.M. Skira, "The Effect of Informal Care on Work and Wages," Journal *of Health Economics* 32(1): 240-252; S. Bornstein S, "Work, family, and discrimination at the bottom of the ladder," *Georgetown Journal on Poverty Law Policy* 19(1):1–42, 2012.

[6] MetLife, "The MetLife Study of Caregiving Costs to Caregivers," https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf.

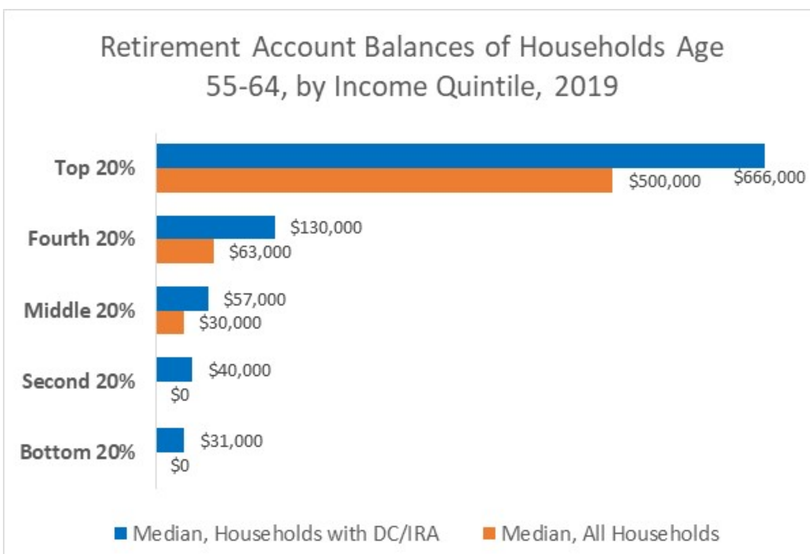
group. Across all households, the richest 20% of households control 85% of assets held in 401(k)s and IRAs.[7]

Figure 2



Source: Author's analysis of Survey of Consumer Finances.

Figure 3



Source: Author's analysis of Survey of Consumer Finances.

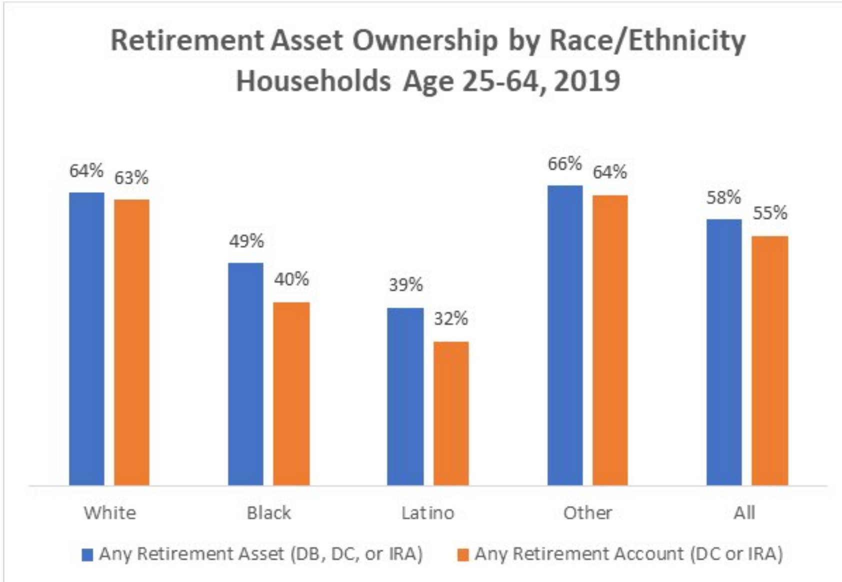
[7] Author's analysis of 2019 SCF.

Retirement wealth inequality by income is compounded by the interaction between inadequate retirement plan coverage and wage stagnation at the middle and bottom of the labor market. The average real wage has been flat since 2000 and average compensation growth has lagged far behind productivity growth[8], though wages have ticked up somewhat this year.[9] The federal minimum wage has been $7.25 for 10 years, while the cost of living has increased by 24%. The federal minimum wage for tipped workers in the restaurant sector, which has some of the lowest rates of retirement plan access, is $2.13. This has direct implications for retirement wealth accumulation for workers in low-wage sectors, where workers of color are over-represented.

Ownership of retirement assets is highly uneven by race, with Blacks worse off than Whites, and Latinos the worst off. Among households age 25-64, 64% of White households have a pension, 401(k), or IRA, compared to 49% of Black households and 39% of Latino households. If we leave out defined benefit pensions and look at just retirement accounts, the level of racial inequality is even worse: 63% of White households have a 401(k) or IRA, compared to 40% of Black households and 32% of Latino households. (See **Figure 4**.) Typical Black and Latino households with a retirement account have less than half the retirement savings of a typical White household with a retirement account ($30,000, $34,000, and $69,000, respectively) (**Figure 5**). Looking at average (mean) retirement account balances, Black and Latino households have roughly a quarter of the average (mean) retirement wealth of White households ($43,000, $38,000, and $153,000, respectively).[10]

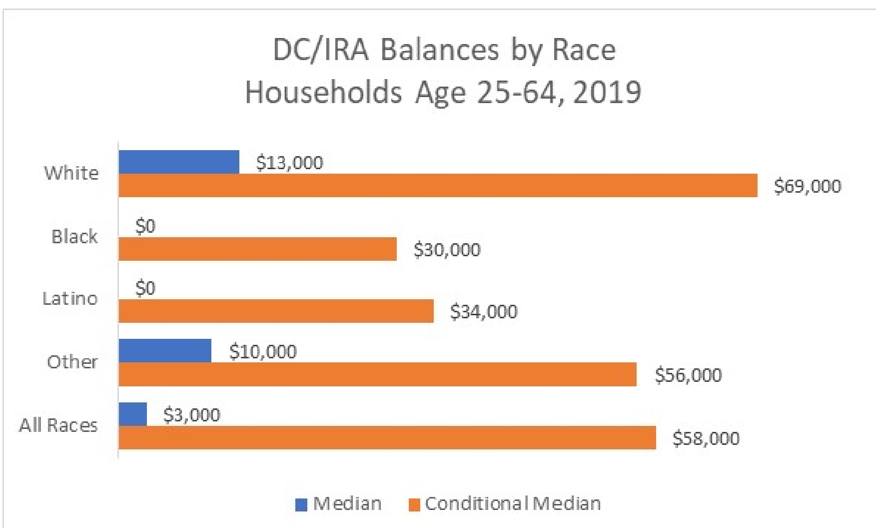
[8] E. Gould, "State of Working America Wages 2019," Economic Policy Institute, February 20, 2020. https://www.epi.org/publication/swa-wages-2019/.
[9] Ibid.
[10] Author's analysis of 2019 SCF.

Figure 4



Source: Author's analysis of Survey of Consumer Finances.

Figure 5

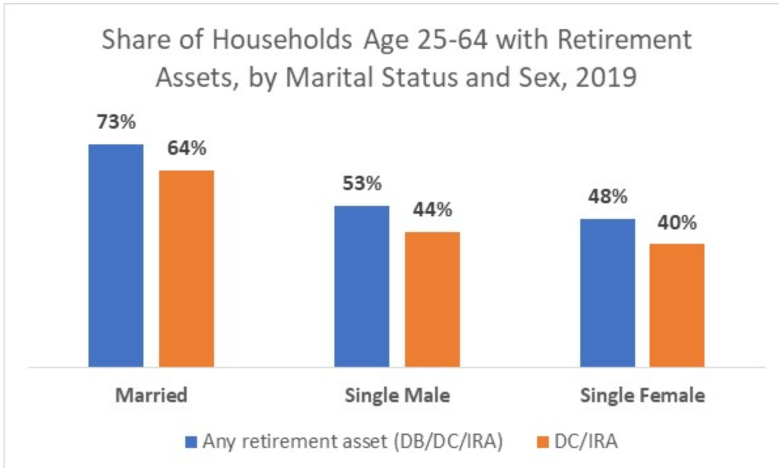


Source: Author's analysis of Survey of Consumer Finances.

Households headed by single adults – in particular single women –are significantly less likely to have retirement assets. While 73% of married households age 25-64 have a pension, 401(k), or IRA, only 53% of households headed by single men, and 48% of households headed by single women, do so. Counting only retirement accounts, 64% of married households in this age group have retirement savings, compared to 44% of single male households and a mere 40%

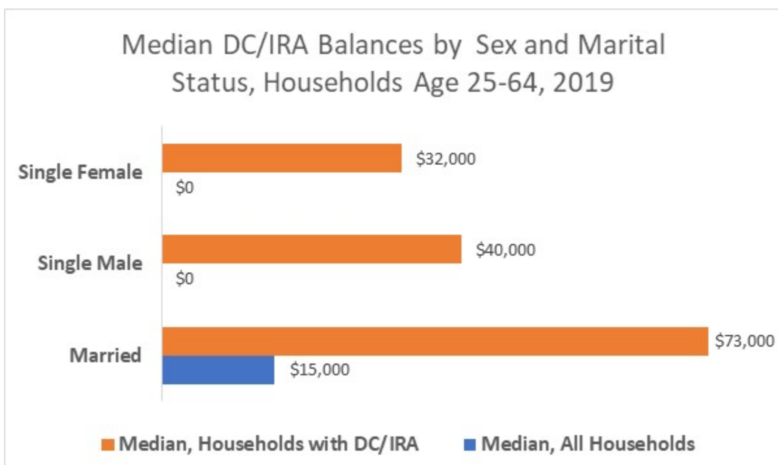
of single female households. (See **Figure 6**). Among households with a retirement account, single female households have 44% of the retirement assets of married households (**Figure 7**).

Figure 6



Source: Author's analysis of Survey of Consumer Finances.

Figure 7



Source: Author's analysis of Survey of Consumer Finances.

3. Federal policy action is necessary to ensure universal retirement security.

Public discussion of disparities in retirement wealth often devolve into speculation about whether or not certain groups of workers want to save, or prioritize saving for retirement. But surveys show that American workers of all backgrounds are worried about retirement.[11] The lack of adequate retirement assets, and the disparities in retirement wealth by income, race, and gender, are structural problems that call for large-scale policy solutions. In particular, broad retirement security requires both universal coverage and adequate contributions, including employer contributions. In the US, it will take both strengthening Social Security financing and benefits, *and* policies that provide universal access to a supplemental tier of retirement income.

Federal policies over the last two decades have done little to move the needle on coverage, and in many cases – such as the short-lived U.S. Treasury MyRA program, implemented by executive authority under the Obama Administration due to legislative gridlock -- have proven that incremental, voluntary approaches do not work. Given the complexity and cost of administering employer-sponsored retirement plans, not to mention the fiduciary liability, employer tax incentives are unlikely to move the needle much further.

The states, meanwhile, face dramatic fiscal repercussions from the retirement crisis, and have been waiting for the federal government to act. An increasing number of states have decided they can no longer wait, and are pursuing their own policies to narrow the future retirement income gap. The most potent of these are auto-IRA programs that mandate employers that do not offer their own plan to auto-enroll their employees in a state-sponsored Roth IRA. Workers can then choose to opt out. In 2017, OregonSaves launched as the first such program to be implemented, followed by Illinois Secure Choice in 2018 and CalSavers in 2019. Unfortunately, due to ERISA preemption issues, these programs cannot accept employer contributions. Some states are following the Massachusetts model, of setting up voluntary multiple employer 401(k) plans for certain sectors, such as nonprofits or small businesses. These plans have the benefit of lower cost compared to the average small employer plan, and can be used to complement auto-IRA programs. Both types of programs are administered by private recordkeepers, and investment management is also outsourced, with a public board of trustees providing fiduciary oversight. In addition to Oregon, California, and Illinois, which have thus far accumulated $250 million in assets and are rapidly growing, five other states and two large cities have passed legislation to implement similar programs.[12]

Significantly, California enacted its auto-IRA legislation in 2016 on the same day as the current minimum wage law that raises the floor to $15/hour for all workers by 2022. The wage increases, combined with the auto-IRA program, have the potential to increase low-wage workers' retirement income by 50%.[13]

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[11] D. Doonan, K. Kenneally and T. Bond, "Retirement Insecurity 2021: Americans' Views of Retirement," National Institute on Retirement Security, February 2021. https://www.nirsonline.org/reports/retirementinsecurity2021/. Insured Retirement Institute, "Millenials & Retirement 2020", Jan 2020. https://www.myirionline.org/docs/default-source/default-document-library/iri_millenial_Whitepaper_final_2020.pdf?sfvrsn=0.

[12] For the status of state retirement savings initiatives, see https://cri.georgetown.edu/states/.

[13] N. Rhee, "California's $15 Minimum Wage and Secure Choice Retirement Savings Program Can Boost Young Low-Income Workers' Retirement Incomes by 50%," UC Berkeley Center for Labor Research and Education, December 2017; N. Rhee, "What We Can Learn from the California Model for Improving Workers' Financial Security," Aspen Institute blog post, March 28, 2018, https://www.aspeninstitute.org/blog-posts/can-learn-california-model-improving-workers-financial-security/.

But even in states with auto-IRAs, large groups of workers are left out: those who cobble together a living from part-time and seasonal jobs, and those who work for the smallest employers. The employer mandate in the Illinois auto-IRA program, for instance, leaves out firms with less than 20 employees. California's mandate exempts the firms with less than 5 employees. Oregon, admirably, includes all employees regardless of firm size. None of these programs cover workers who are excluded from their employer's retirement plan by eligibility rules related to part-time status and job tenure, in order to avoid running afoul of ERISA.

In closing, I offer some recommendations for closing the retirement savings gap by race and gender:

- Tighten ERISA rules to include more workers in firms that offer a retirement plan.
- The tax incentives for private sector retirement plans give the most benefit to people who need it least, and little to those with limited incomes who need the most help. Converting the existing, regressive tax deduction into a flat refundable retirement savings credit would go a long way towards lifting retirement wealth at the bottom and middle.
- Protect and encourage state policy innovation to expand coverage in the context of a federal policy vacuum. Successive administrations have taken opposing positions with regard to them. Depending on the outcome of the ERISA lawsuit that is winding its way to the Supreme Court, legislative action may be required to protect the program.
- Finally, federal legislative action is ultimately necessary to create a national system of universal retirement plan coverage to supplement Social Security. Nothing less than this can truly ensure broadly shared retirement security across class, race, and gender divides. Having been deeply involved with the development of the CalSavers program, I offer that there's much to learn from the states, and from other national models like the UK NEST program and the Australian Superannuation program, in terms of the possible combinations of employer-and publicly-sponsored plans in a universal coverage scheme.

Thank you again for this opportunity to speak before you.