Written Statement of
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Council Member Harney, Council Member Ikard, members of the Department of Labor's ERISA Advisory Council, thank you for inviting me to speak with you. I would also like to thank the drafting team for putting together the issue statement which we will address.

My name is John W. Rogers, Jr. I am the Co-CEO of Ariel Investments in Chicago. In 1983, I founded Ariel as the first African American owned asset management firm in our country's history. I am also the product of two pioneering parents – my father was an original Tuskegee Airman and my mother was the first African American woman to graduate from the University of Chicago Law School in 1946.

We are here to discuss the severe and pervasive issue of the retirement savings gap. Over the past several decades, employers have gradually moved away from defined benefit plans and towards defined contribution plans, particularly 401(k)s. While there is an existing gap between Black and white workers who participate in defined benefit plans, the gap in defined contribution plans is much larger, with 49% of white workers nationwide participating in defined contribution plans compared to just 32% of Black workers, according to the Economic Policy Institute. With the power of compound interest, the gap is magnified. When Ariel first started with doing investor surveys with Charles Schwab & Associates, we sought to determine whether Black Americans had as much saved in their 401(k) plans for retirement as white Americans. The data often showed that Black Americans had half as much saved for retirement as white Americans of the same education level and job description. The Urban Institute published data showing that before the COVID-19 pandemic, white families had roughly six times the amount set aside for retirement as Black families, on average. As this shift in the way we save for retirement continues, the gap in retirement savings is only going to get wider without action by our government and the private sector.

I offer three thoughts on why Black Americans are off to such a disadvantage—Black families have had their wealth destroyed, been subjected to systemic racism in business for centuries, and are making investment decisions which do not allow them to build wealth at the same rate as white Americans. We need look no further than the Tulsa Race Massacre of 1921, where my own great-grandfather, J.B. Stradford, who owned real estate as well as the Stradford hotel, had his property burned to the ground by a white mob. That took away the chance for my mother's side of the family to build lasting generational wealth. Think of the hotel chains we know so well today. Sadly, Tulsa was not the only city impacted by destroyed wealth and stolen land. 25 years later, when my father came back from WWII, he benefitted from the GI bill which allowed him to move into the middle class. In the 1950s and 1960s, economic prospects were improving for Black Americans, and the Black middle class was growing and the wealth gap shrinking.

Fast forward to today: the economic prospects of the Black community have stalled or even gone backwards. Ray Boshara of the St. Louis Fed reports that between 1992 and 2016, college-educated white Americans saw their wealth soar 96 percent while college-educated Black Americans saw theirs fall 10 percent. The wealth gap is large – and it's growing.

The St. Louis Fed data is derived from the fact that Black Americans have started out behind on building wealth and continue to be left behind. When the Civil War ended, Black Americans were supposed to get 40 acres and a mule, which was taken off the table after President Lincoln was assassinated. That was followed by Jim Crow and lynchings and repeated efforts by resentful white Americans to destroy successful Black businesses when they appeared. When Black Americans built enough wealth to buy a home, they often couldn't secure loans or fair interest rates on mortgages. Segregation and later redlining and restrictive housing covenants meant that Black homeowners would not enjoy the same price appreciation on their homes, even if they were able to buy a home. In the last several decades, Black Americans have largely invested their money in real estate, and a lack of diversification beyond that asset class coupled with lagging rebounds in values meant that Black homeowners didn't experience the same bounce back in their home values – and by extension their portfolios – after the 2008 financial crisis like white Americans.

Our research has shown that Black Americans are far more comfortable with real estate and are more likely to take out hardship withdrawals from retirement accounts. In the 2020 Ariel-Schwab Black Investor Survey, the gap between Black vs. white Americans who currently or have owned real estate products was just 4%, whereas the gap between Black vs. white Americans who have or currently own stocks was 10%. The gap in ownership of mutual funds, our principal product at Ariel, was even larger – 15%. This points to a comfort level that Black Americans have with real estate. At the same time, the survey found that while 63% of Black Americans invested in the stock market for the first time through their 401(k) plan, they contributed 26% less on average to their 401(k) plans than white Americans. Black Americans were also more than twice as likely to borrow from their retirement accounts and almost twice as many Black Americans dipped into an emergency fund as white Americans. This helps explain why Black Americans have roughly one-sixth the amount of retirement savings as white Americans.

In past decades, defined benefit plans allowed Black workers, as all workers, the chance to retire with dignity and economic security. However, as wealth inequality and the racial wealth gap increased in the last 40 years, so did the number of companies using defined contribution plans in place of defined benefit plans. This has exacerbated the retirement savings gap and thereby worsening the wealth gap.

At Ariel, we try not just to admire the problem but to think about solutions. I offer financial literacy programs for students and employees, public-private partnerships in state IRA programs, and increasing diversity among Certified Financial Planners as solutions to the issue of the retirement savings gap.

The fact is that defined benefit plans are a far more effective solution than defined contribution plans in combatting the retirement savings gap and ensuring that Black Americans can retire with dignity. Unfortunately, defined benefit plans are no longer the norm and are limited to public sector workers and a small number of large companies. Additionally, it is unreasonable to expect 21st century companies to shift back towards the 20th century model of defined benefit plans as the relationship between employee and company has changed significantly. GI bill recipients like my father often worked at the same company their whole career. Today, that is exceedingly rare. Most Americans today will work many different jobs throughout their career, often switching jobs or companies every couple years. With that in mind, it is important that we find a way to adapt retirement savings strategies to the 21st century work environment.

If we want to increase participation in the defined contribution plan system, we need to ensure that our education system stresses the importance of financial literacy education, and ensure that education places a particular emphasis on equities and building wealth through the stock market. Financial literacy programs can also expose kids to the stock market at a young age. By exposing kids and students in communities of color to financial literacy program and the stock market, we can set them up for success and provide them with the tools needed to build wealth later in life. That's why when I chaired President Obama's Advisory Council on Financial Capability for Young Americans we provided the recommendation to the President to encourage corporate America — in particular, financial services companies— to partner with urban public schools and expose kids to this great industry. We must encourage financial service companies, local businesses, nonprofit providers, foundations and other professionals to foster partnerships with schools to strengthen learning opportunities and provide mentors and role models for children.

We have seen the effectiveness of financial literacy education and exposing kids in urban public schools to the stock market in our own Ariel Education Initiative and Ariel Community Academy, the public school we started on the South Side of Chicago. In the 1990s, Former Secretary of Education Arne Duncan, while working at Ariel, ran the Ariel Education Initiative, where he helped to develop a curriculum which teaches elementary school students financial literacy as a key pillar of their education. In 1998, Arne Duncan and I founded Ariel Community Academy, where we set out to put that curriculum to work. Students at Ariel Community Academy take classes on personal finance, economics, entrepreneurship, and investing. However, lessons in investing aren't just limited to books.

Starting in the first grade, students are part of the Ariel Investment Program, which gives each first grade class $20K to invest in a portfolio which they will help manage until they graduate 7 years later. Through this program, they receive opportunities to work with seasoned investment analysts and portfolio managers and when they reach the 6th grade, the students get to pick their own stocks. When the class graduates, that 8th grade class divides half of the profits evenly either as cash or as seed money for a 529 college savings account, with the other half of the profits going back to the school as a class gift. The original $20K is given to the incoming first grade class so the program can be sustained in perpetuity.

Another fantastic educational program which provides students with the opportunity to start saving, investing, and learning about the stock market at a young age is the NYC Kids RISE program, which was launched in 2017. Currently, the program is helping more than 13,000 students in 39 public schools in Queens. Every student in participating schools receives a scholarship account invested in the NY 529 Direct Plan with a starting deposit of $100 and up to $200 in early rewards. The families can then connect their own separate college savings accounts with the scholarship accounts to build a greater pool of savings.

One example of the success of the NY Kids RISE program is the enrollment of every student who lives in the Astoria Houses public housing project. School aged children who live in Astoria Houses receive financial education in school and their parents and guardians have the option to participate in financial empowerment workshops and learn more about the scholarship accounts in which their children are enrolled. The average savings for students are projected to be roughly $3K in assets by the time they graduate high school.

Every American should have the opportunity to receive a financial literacy education. Empowered kids can take their financial futures into their own hands, which will allow them to attend college, invest their money, and build not only retirement savings, but generational wealth. That is why it is time that Congress appropriate money for financial literacy programs in schools. However, financial literacy alone is not enough – not everyone can be their own asset manager.

We should also look at the work that Kathleen Townshend has done on providing an alternative to the standard defined contribution plan. Congress currently gives a generous tax credit to employers that auto-enroll their employees into 401(k) plans. However, Congress does not provide tax credits to employers for enrolling their employees into state IRA programs. State IRA programs could function as the 21st century version of defined benefit plans not just for public sector workers, but for private sector workers as well. If a state does not want to set up their own state IRA, then they can participate in one set up by another state, as is the case with 529 college savings plans. Every American should be able to enroll in a state IRA plan, and every employer should be able to put their employees on one of those plans. While defined benefit plans as they existed in the 20th century, where individuals work for one employer their entire careers and receive a pension for retirement from that employer are not realistic in today's private sector, the state IRA model could provide an effective and reasonable alternative. With Americans switching jobs with much higher frequency than several decades ago, state IRAs could provide a secure and transferable way for workers to save for retirement across the span of their career.

Another important piece of the puzzle is increasing participation in defined contribution plans among workers who currently have access to them. In my work on the board of McDonald's, we began by examining the participation gaps in the company 401(k) plan by race among the employee base. By disaggregating the data and breaking down participation by race, we were able to see that participation among Black employees in the company savings plan was significantly lower than that of white employees. In conjunction with Chief Human Resource Officer Rich Floersch, the members of the board, and other management teams at the company, we began to address the issue by changing our design of the program and our internal company communications strategy. The first and most successful step we took was to change the setup of the plan so that all employees were auto enrolled. Second, we changed our communication efforts to better reach employees of color, who were less likely to participate, by conducting outreach to affinity groups and empowering restaurant managers to discuss the savings plan with their teams. This took participation among restaurant managers alone from the high 40 percent range to roughly 90% participation in the company plan. Transparency in data is key. When I have discussed this issue with other CEOs and C-Suite executives, many have assumed that there is little to no participation gap, until they disaggregate and examine the data.

While not everyone can be their own asset manager, but one of the ways that we can increase Black participation in retirement savings accounts is by increasing the number of Black Americans who work with Certified Financial Planners. One of the reasons that this gap still persists is that CFPs are still almost exclusively white. While, according to Barron's, the rates of Black CFPs have improved significantly in the last two years, Black CFPs comprise just 1.7% of all holders, while Black Americans make up 13.4% of the population. At the same time, there is a trust deficit towards financial institutions on the part of Black Americans. In the 2020 Ariel-Schwab Black Investor Survey, we found that only 35% of Black investors feel that they are treated with respect by financial institutions and that 95% of Black Americans surveyed said that they felt that racial diversity was somewhat or very important when choosing a company with which to open an investment account. By increasing racial diversity among Certified Financial Planners, we can begin to make those services more accessible and welcoming to

Black customers. CFPs can help move Black investors away from low-yield equities like property and bonds and towards higher-yield equities like 401(k)s and IRAs, which serve as a vehicle for Black investors to start investing in the stock market.

In closing, the retirement savings gap is broad issue which will require more than one solution to fix. We need to provide financial literacy education to kids from low-income and communities of color so they can build wealth, facilitate greater retirement savings vehicles so Americans regardless of race or income can build retirement savings, and work to close the gaps in retirement savings participation by disaggregating the data and increasing diversity in financial services. As Dr. King predicted, African Americans could only be liberated from the "crushing weight of poor education, squalid housing and economic strangulation" by being "integrated with power into every level of American life."