Financial Wellness

Retirement and the Savings Gap

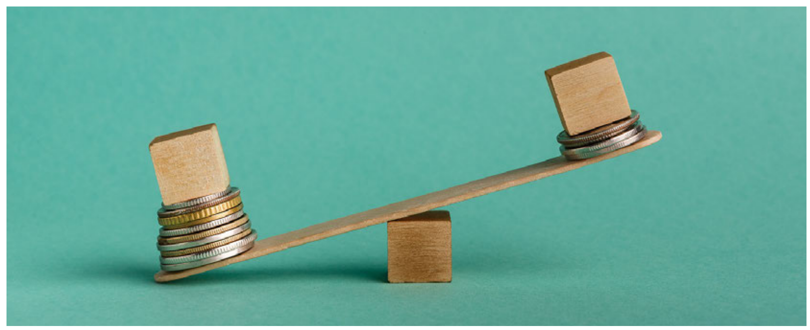
A recent PSCA webinar discussed the racial savings gap and steps plan sponsors can take to address it.

By Hattie Greenan

It is well known that there is a retirement savings gap between white workers and non-white workers. A recent PSCA webinar addressed what that gap looks like, reasons for the gap, and ways that plan sponsors can help address it for their employees. The webinar was presented by Uche Enemchukwu, JD, Co-Founder and CEO of NELU Diversified Solutions (and former plan sponsor) and Sudipto Banerjee, PhD, VP, Retirement Thought Leadership at T. Rowe Price.

Dr. Banerjee presented some research highlighting the breadth of the savings gap as well as some recent research by Transamerica looking at retirement savings behaviors by race, while Ms. Enemchukwu provided some context around the data, looking at the savings gap through a social-environmental lens, and offered some concrete steps that plan sponsors can consider and implement to help address the savings gap among minority workers.

To understand the racial savings gap, and to address it in a meaningful way, you first need to understand systemic barriers to saving faced by minority workers. There are three barriers covered in the webinar — access, income, and other behavioral factors.



The Access Gap

Retirement plans are the major source of wealth creation for Americans, but if you look at median wealth rates by race, white Americans have nearly eight times the wealth of Black Americans — which begs the questions of why the number one wealth creator for Americans is not creating wealth equally.

Forty percent of private sector workers do not have access to a retirement plan at work, and we know this is size correlated with small employers less likely to offer a plan. According to Dr. Banerjee's calculations based on the Current Population Survey, nearly 60 percent of white private sector workers participate in a plan (of all workers regardless of if a plan is offered) versus 40.5 percent of Black workers and 31.0 percent of Hispanic workers.

When adjusted for only employers that offer a plan, the gaps narrow but are still there — 90.4 percent of white, 81.0 percent Black, and 82.2 percent Hispanic workers participate. The participation gap — those that don't participate when offered a plan — is highest among Black workers, suggesting there is more at play here than "just" access to a plan.

The Income Gap

The income gap also is at play — participation lags among lower-paid workers and Black and Hispanic workers are overrepresented in this group. The median income for Black and Hispanic workers is 73 percent that of white workers.

The savings gap, however, is bigger than the income gap — the median 401(k) balance for Black workers is 58 percent that of white workers, and for Hispanic workers, the median is 53 percent that of white workers. This indicates that there are factors other than access and income suppressing plan participation by minority workers.

Behavioral Barriers

Even correcting for those two (very large) barriers, some other differences appear which may be more easily addressed at the micro level, with concrete things that companies can do to help.

The first is the age at which employees start savings — minorities start savings later than white workers with 38 percent of white workers starting before age 30 verses 18 percent of Black workers. As we know the power of compounding over time, an early start on retirement savings can make a *big* difference down the road in account balances and wealth generation. Perhaps it has to do with Black workers entering jobs that offer plans later in life than white workers (there is some research that it takes minorities longer to finish college, largely due to some of the other factors mentioned below).

The second is the burden of debt — we know that debt is a barrier to savings, and minorities, on average, carry more debt across the board: student loans, medical debt, and credit card debt.

There are differences across race in financial priorities as well. Though all races cited saving for retirement as a top priority (in a survey of workers with access to a plan) more than 60 percent of Black workers cited saving for emergencies as a priority versus 40 percent of white workers. Some of the legislation floating around in Congress right now about emergency savings may help minority workers, in particular, to build personal savings that will then allow them to then save for retirement.

Another contributing factor is lack of a safety net and/or being a safety net for other Black friends and family. Not having a safety net puts one at higher risk of snowballing issues (no emergency savings, higher debt, delayed saving in a plan).

Closing the Gap

Access to plans is the number one thing we need to do to close the gap, and many states are already implementing steps to provide plans when companies do not. For companies that do already offer a plan, you may want to look to see if there is an income gap — take a look at your employee demographics and your salary information — are there gaps your company can address? People in low wage jobs, even with access to plans, won't/can't afford to participate in them.

After accounting for the top two barriers (access and wages) — Ms. Enemchukwu says there are three other main types of barriers that the plan sponsor should consider: participant-level, plan-level, and vendor-level barriers. Participant-level barriers include social determinants, perceived costs, mistrust, stigma, and financial literacy. There is a history of mistrust among minority workers, particularly Black workers, towards financial institutions that have a long history of financial discrimination (particularly around mortgages), and there is mistrust in asking them to put money into something they don't understand. Education aiming to increase financial literacy is key to helping them understand how a plan works and understanding the perceived cost of participating. There is also a stigma around asking and accepting advice form HR, particularly white staff. Representation goes a long way towards building trust — having HR staff that is diverse and who understand some of these systemic issues that form a barrier to savings can be key to unlocking this particular barrier.

Plan-level barriers include plan design features and plan communications. Features like automatic enrollment, which has been touted as a way of increasing participation among all workers, does benefit white workers more than minority workers, mostly due to the income gap. A plan design feature that can help is a non-elective contribution to low-wage workers. It can be weighted to years of service, age, and/or income and can help pass non-discrimination testing while helping low-wage earners bridge the income gap — at least within the retirement plan — and help with retirement savings and but also wealth generation over time.

Vendor/advisor level barriers include a lack of representation, a lack of minorities in the industry, which goes back to trust, as well as bias (intentional or unintentional) that can come from white advisors working with minority employees.

Conclusion

Understanding the systemic and socio-environmental frameworks that impact your participants is key to helping them overcome the barriers to savings. What it generally comes down to are systemic issues — lack of a safety net due to social economic factors, less generational wealth, mistrust of financial institutions, and the access and income gaps. In order to "solve" the racial savings gap problem, Enemchukwu says you need to "get to the core of the issues and not put a band-aid on it, get to the core cause — the plan is a system, it is not going to get fixed if you don't get to the core issue."

Looking purely at the numbers without taking into account the systemic, social- environmental factors that contribute to the gap misses most of the story. Many plan sponsors are aware of these issues, but the issues often feel "too big" and too systemic to fix "at home." There are some specific things that companies can do to help, if they want to: acknowledge the gap, address the income gap, design the plan with equity in mind, and then provide the supports to help address the behavioral barriers by providing education to increase financial literacy (and get workers into the plan early), provide financial wellness programs, and make an effort to increase diversity among HR staff and vendors/advisors.

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