CENTERING RACIAL EQUITY AND WEALTH BUILDING IN AN INCLUSIVE RETIREMENT SAVINGS SYSTEM

A RAPPORTEUR'S SUMMARY

June 29, 2021
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ABOUT THE FORUM

In April 2021, the Aspen Institute’s Financial Security Program kicked off the fifth annual Aspen Leadership Forum on Retirement Savings. The opening session was held virtually on April 15 and was open to the public. This was followed by a series of four invitation-only, virtual, in-depth private dialogues exploring critical challenges within our retirement savings system: expanding access to retirement savings, increasing portability of retirement savings, strengthening retirement cash flow, and building a retirement savings system that produces more racially equitable outcomes. More than 400 experts from across the retirement ecosystem – from industry, government, academia, advocacy, fintech, and more – participated in our public event, and 80 more participated in one of our private dialogues to advance breakthrough solutions to America’s unfolding retirement savings crisis. To encourage open dialogue, the Forum private dialogues were governed by Chatham House Rule, under which participants are free to share what was discussed but are entrusted not to reveal the speaker’s identity.

ABOUT THIS PRIVATE DIALOGUE

On June 29, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings concluded its annual series of private dialogues among cross-sector leaders with a focused discussion about racial equity in the U.S. retirement system. Compared to white families, Black, Latinx, and Indigenous households have lower incomes and less wealth – including less retirement savings. During this dialogue, 18 diverse, cross-sector experts on wealth and savings acknowledged this country’s history of exclusionary and predatory policies as a key driver of the racial disparities in retirement savings outcomes today. Importantly, Black, Latinx, and Indigenous workers’ disproportionate lack of access to workplace retirement savings programs is working to maintain retirement savings gaps. The participants then explored multiple specific opportunities to improve both our private and public retirement savings systems and tools to better serve historically excluded communities, in an effort to imagine what true racial equity could look like in retirement savings and security.
EIGHT STATS THAT TELL THE RACIAL INEQUITY STORY

1. **When it comes to wealth, Black and Hispanic households are behind at every age.**

   Median wealth, by age:

   **Under 35**
   - White: $25,400
   - Black: $600
   - Hispanic: $11,200

   **35 to 54**
   - White: $185,000
   - Black: $40,100
   - Hispanic: $46,100

   **Over 55**
   - White: $315,000
   - Black: $53,800
   - Hispanic: $111,500


2. **Black and Hispanic households are also less likely to have retirement savings.**

   Ownership of IRAs and defined-contribution savings plans by age:

   **Under 35**
   - White: 53%
   - Black: 31%
   - Hispanic: 26%

   **35 to 54**
   - White: 65%
   - Black: 44%
   - Hispanic: 28%

   **Over 55**
   - White: 54%
   - Black: 29%
   - Hispanic: 21%

3. With more limited access to a work retirement plan, Black and Hispanic workers are less likely to participate.

Access to an employer-sponsored retirement plan:

Participation in an employer-sponsored retirement plan:

Source: Board of Governors of the Federal Reserve System, "2019 Survey of Consumer Finances"

4. Black and Hispanic households are less able to handle unexpected bills.

Adults who say they wouldn’t be able to pay some bills if faced with an unexpected $400 expense:


5. The burden of student loans is heavier for Black graduates.

Average student loan debt, four years after graduation:

Source: Economic Studies at Brookings, "Black-white disparity in student loan debt more than triples after graduation," 2016

6. In Black families, intergenerational wealth transfers more often go from child to parent, as compared to white households.

College-educated households reporting giving money to parents during the year:

7. **Retirement experts believe the retirement savings system contributes to the racial wealth gap.**

Has the U.S. retirement savings system impacted differences in wealth levels between white households and those of Black, Indigenous, and other people of color?

![Survey results chart](chart.png)

Source: Financial Security Program, Aspen Institute, "[Expert Survey on Retirement Savings](https://example.com)", April 2021

8. **Among a series of ambitious proposals to build wealth for Black households, universal retirement savings access is the second most effective policy.**

![Proposal impact graph](graph.png)

Source: Center for American Progress, "[Simulating How Progressive Proposals Affect the Racial Wealth Gap](https://example.com)", August 2019
THE BIG QUESTIONS

1. How can we address racial equity within the retirement savings system, given that inequitable savings outcomes result, at least in part, from policy choices and economic forces elsewhere in the economy?

In looking at how the retirement savings system in America could better serve workers of all races and ethnicities, participants first tackled the issue of whether racial disparities in wealth and retirement-plan access and participation could even be solved within our employer-based retirement savings system.

The current employer-based retirement system already doesn’t perform adequately for many people, including part-time and gig workers and those who come in and out of the workforce. What’s more, the racial and ethnic economic disparities can be traced to this country’s long history of exclusionary and predatory policies—from the 19th-century Homestead Act granting free land only to whites, to the denial of G.I. bill benefits to Black WW II veterans to more-recent redlining and discriminatory bank lending—has had a compounding effect, leaving Black and Latinx people more likely to work in jobs that pay less, and that are less likely to offer retirement saving benefits.

None of that means new approaches and innovative product offerings can’t help, but it does suggest that retirement savings inequality won’t be solved solely within the existing system of workplace programs or individual retirement savings accounts.

• With retirement inequality rooted in wage inequality participants agreed that the income side of retirement security has to be addressed. If you don’t have income sufficient to

OVERHEARD

“The ability of the current retirement savings system to produce retirement adequacy is dependent on so many things beyond the system. How much can we compensate for some of those externalities inside the system, and how much do we have to commit to working on dynamics that extend beyond it?”

“During the pandemic, we saw a huge portion of essential workers deplete their savings. This obviously impacts retirement because how are you going to save when you need to continue paying the bills and putting food on the table?”

Throughout this report we use multiple terms to refer to Latinx people and households. When citing statistics and official government data, we conform to the federal terminology of “Hispanic/ Latino” or “non-white Hispanic.” When discussing this demographic more generally, we use the gender-neutral “Latinx.”

In addition, we use “people of color” where applicable. In many cases we have sought to be more specific by referencing data and experience of particular racial or ethnic groups. We recognize that in many cases, there is more research to be done. For example, many of the statistics cited come from the Survey of Consumer Finances (SCF), which provides the most complete picture of wealth inequality of any long-running public survey. However, due to small sample size, it has not yet been able to disaggregate the data beyond four racial and ethnic categories: white, Black, Hispanic, and “other or multiple race.” The “other or multiple race” category merges data from households that are Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, and other races.
cover day-to-day bills and accumulate the short-term savings needed to handle emergencies, how will you be able to save for the long term while keeping intact whatever you do manage to set aside?

Investing for retirement needs to begin decades before a worker leaves the workforce. Participants thought we should be focusing as early as childhood, perhaps seeding savings accounts at birth or directing more investment into education. Without quality education for everyone, one participant noted, the balance will forever be fundamentally skewed. Others pointed out that education alone is no panacea, as the racial income gap holds even among college graduates.

Any discussion of racial retirement savings gaps also needs to include the unequal impact of student loan debt, including the higher default rates of Black and Latinx graduates compared with those of their white counterparts. Not only do Black college students borrow more than every other ethnic group, but they also take more time to pay off their loans, in part because wage disparities cause them to accumulate more interest along the way. According to a joint study by Morningstar, the Aspen Institute Financial Security Program, NORC at the University of Chicago, and the Defined Contribution Institutional Investment Association Retirement Research Center, having student loan debt was correlated with 36.4% lower retirement savings in 2020.

“What companies can do is provide individualized support that makes retirement security feasible—for instance, student loan support, as communities of color are disproportionately affected by student debt.”

Action Opportunity:
Employers could help employees tackle student loan debt by offering customizable financial coaching and student loan debt repayment matching.

• Retirement security is built upon financial stability, so strengthening the social safety net to help workers weather financial shocks should be part of any plan to support retirement saving. That could mean modifying or expanding public social-insurance programs—including Social Security, the minimum wage, and unemployment benefits—and seeding baby bonds at birth.

• One participant noted the higher disability rates among Black and Indigenous people in the U.S., suggesting it is one more interrelated issue to tackle in building retirement security for all.
2. How do we move beyond one-size-fits-all program design?

Not all workers have the same definition of “retirement security,” or even “wealth.” For some, those terms refer to tangible assets; for others, they represent the means of supporting children who may later support you. Whatever the case, how do we help everyone save and invest for the future without dismantling the existing social and cultural structures that undergird those definitions?

- After centuries of structural racism, many Black workers, including those who are highly educated, find themselves in the position of having to provide a safety net for extended family members and previous generations. In fact, research has found that college-educated Black households are nearly three times as likely to provide financial support to their parents as white college grads are. This makes it tougher to build their own savings.

- Participants referenced financial-support mechanisms that exist outside the traditional financial system. Take, for example, the savings and lending circles popular in communities around the world and in many immigrant communities in the United States, in which a group of extended-family members or friends and neighbors regularly contributes to a fund that, in turn, redistributes lump sums to members. Several nonprofit organizations have developed formal systems that enable this kind of community—or even intergenerational—assistance. Supporting these and similar programs could further assist these communities.

- The current retirement system is not well designed for those who dip in and out of the workforce as a result of family-care obligations. One participant noted that this is especially true for Latina women, where familial care for aging parents is common. Research by AARP on the out-of-pocket cost of providing unpaid care to family members found that the financial strain was heaviest among Latina caregivers because of their lower household incomes.
3. **What is the private sector’s role in creating a more equitable retirement system?**

In April 2021, the Aspen Institute Financial Security Program published the *Expert Survey on Retirement Savings*, which gauged retirement experts’ support for solutions meant to create a more inclusive retirement savings system. Two thirds of respondents said that addressing racial inequality was a top priority for their organizations. How individual companies should do that was an ongoing topic of discussion at this session.

- Affecting change begins with self-examination. Companies should be conducting regular audits of the racial and ethnic disparities in their ranks and examining how organizational practices and decisions—about worker classification, benefit access or wage levels—contribute to those gaps. One participant noted that companies may be shocked to learn how many of their employees aren’t earning a living wage and suggested that such knowledge just might spur action.

- Given that a key driver of retirement security is income, private companies could push harder to create quality jobs that pay well, rather than simply offer access to a savings plan. And individual companies can make sure they are closing the racial income gap within their firms, while ensuring the sort of foundational income that is a prerequisite for better retirement savings outcomes.

- There may be more that private companies can do to make sure every employee takes advantage of the workplace savings plan. That could include targeting communications to employees of color and frontloading employer matches to get workers off the sidelines. In general, employer matches strongly motivate workers to save: A 2017 Pew study found that plan take-up rates went from 69% of eligible workers to 85% when a match was in place. Some 21 million workers who have access to retirement plans don’t use them. What more can be done to engage them?

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**Action Opportunity:**

Employers and plan administrators should collect and analyze plan participation data by race, ethnicity, and other demographic characteristics. The more they know about who is and is not using the plan, the better able they will be to customize for various needs.

"The most important thing is income, because if you don’t have it, you can’t save. Firms need to make sure they are closing their own racial wage gaps."

"Ours is an employer-based system, yet there is no mandate that dictates that companies offer plans. That makes no sense. As managers of retirement assets, we need to be advocating for such a mandate."
• Another solution could be for private companies to rethink how they classify workers, including those who are part time, as that often affects savings-plan eligibility.

• In the Aspen Institute Financial Security Program’s 2021 Expert Survey on Retirement Savings, respondents who considered support of racial equity to be a priority focused on obvious actions like hiring, promoting and retaining diverse candidates. Some, though, also mentioned advocating for field-leveling policy proposals such as automatic enrollment in retirement savings programs.

**Action Opportunity:**

Companies should be doing more advocacy for policies that expand access to retirement plans, including an automatic enrollment requirement for employers, and that enhance the solvency of critical social services, such as Social Security.

• Private-sector support for a national savings mandate may be more palatable now that state plans, Pooled Employer Plans (PEPs) and Multiple Employer Plans (MEPs) are making it cheaper and easier for employers to help workers save.

• Participants also discussed stakeholder capitalism and to what extent racial equity should be considered in environmental, social, and governance (ESG) investing. A broader view of ESG could include employer-audit best practices with respect to wages and retirement-plan access from a racial equity perspective.

• One participant noted that building collaboration within the industry can be tricky from a competitive standpoint, and possibly even an antitrust standpoint. On the other hand, competition may also drive progress.

**Talking Point:**

Can financial education mitigate systemic inequities?

The question of whether financial education has a role in closing the racial wealth gap elicited strong reactions from participants. Some argued that companies could do more to educate employees about how to save for retirement, pointing to examples of interventions believed to be effective. However, research has found that financial education does a poor job of changing behavior, whether that means saving more or borrowing less. Further, several participants countered that trying to “fix” savers obscures the root causes of racial inequity. Low-income workers do, in fact, know how to save money, and they don’t squander funds when they have them. So, the spotlight needs to remain focused on the structural drivers of disparities. As one participant noted, just as discussions of the gender gap tend to turn on one’s choice to take a particular job, discussion of racial disparities may focus on financial choices, such as not starting a 401(k). Unfortunately, this perspective essentially pushes the subject of policy reform and institutional improvement to the sidelines.
4. What policy changes could foster greater racial equity in retirement savings?

Making the retirement system more equitable may also require new approaches from regulators and legislators. Participants discussed several avenues of action.

As the tax code creates incentives that steer individuals and companies to behave in certain ways, participants wondered if it could be used to promote racial equity too. For example, could tax breaks for sponsoring employment retirement plans be tied to achieving racial equity goals, such as reducing the racial gap in plan participation rates?

- Participants identified one more policy lever that could make sure everyone—especially employees from historically excluded groups and communities—benefits from retirement plans: the expansion of non-discrimination rules that cover high-income vs. non-high-income employees to encompass racial equity goals. This would fit well with President Biden’s executive order that committed the federal government to racial equity.

  **Action Opportunity:**

  Redesign 401(k) plan non-discrimination rules to cover plan participation by racial and ethnic groups.

- The public-sector workforce is disproportionately made up of people of color, one participant noted, so the continued strength of defined benefit pension plans is an important factor in cultivating racial equity in retirement.

  **Action Opportunity:**

  Ensure that the public employee pension system is adequately funded. States have some leeway in deploying federal stimulus monies. In Connecticut, for example, some of it has been dedicated to shoring up the fiscal health of the state’s public pension system.

- Another challenge: the retirement savings shortfalls of gig, contingent, and independent workers, who are less likely to learn about retirement options or be in a peer group that saves for retirement. How can these workers be reached, either through the private sector or new policy approaches?

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“I don’t want to presume that all the best solutions are in the employer-sponsored retirement saving system. I think we need to think about modifications to our broader social-insurance programs.”

“We have rules about non-discrimination, but they are basically with respect to high-income versus non-high-income employees. We can define non-discrimination in a completely different way.”

“The tax code is ripe for incentivizing the right kind of racial equity behavior, but we never hear that conversation.”
5. Would better data on racial disparities make a difference?

While there is a wealth of information about racial inequality generally, participants identified gaps in data collection in retirement savings and discussed the extent to which more granular data could inspire solutions.

- To address shortcomings in wealth and savings data by race, the Federal Reserve Board recently announced that it will be doing an oversampling of Black, Latinx and Asian households for its Survey of Consumer Finances (SCF) in 2022. This will allow the SCF to break out what is now an “Other” category—which includes Asian respondents—as well as track wealth accumulation by race over time.

- Another recent working paper on income inequality disaggregates the data of Asian-Americans, dividing that category into six sub-groups. But even six sub-groups can’t capture the full diversity of this community; deeper data collection is needed on AIAN (American Indian and Alaska Native Resources) and NHPI (Native Hawaiian and other Pacific Islander) groups, to name just two. Forum participants applauded the need for more nuanced data within broad race categories, noting that similar disparities exist among Latinx families.

**Action Opportunity:**

Government agencies must move to address the dire need for better, disaggregated data on racial differences, including longitudinal data.

- Another question raised by participants: Would President Biden’s racial equity order apply to data collection by the Internal Revenue Service and Social Security Administration, and would it be part of the solution?

- The need for better data by race also applies to the retirement industry, where recordkeepers and plan sponsors currently cannot connect data sets.

**Action Opportunity:**

To do the kind of work that’s called for, recordkeepers—or a centralized clearinghouse—must be able to access more demographic identifiers, a process currently in its early stages.
• Despite the broad support for the gathering of more granular data, several participants raised doubts about the effect it will have. Would a better understanding of just how bad the problems compel the industry to act or change the conversation in the seats of power? One participant noted that, to this point, any government documenting of disparities has been received with little more than nonchalance.

6. How can we encourage more innovation in the retirement space?

In the past, retirement product and program enhancements such as automatic 401(k) enrollment and auto escalation have boosted plan participation and efficacy. But as one participant noted, automatic enrollment has essentially become table stakes in the retirement-benefits game. There’s room for much more innovation, from student loan supports to emergency savings to individualized coaching and beyond. Yet, participants wondered what will be needed to produce the kind of innovation, in the public and private sphere, that will help alleviate racial inequality in the retirement system.

• Given that the retirement industry is risk averse, participants discussed whether companies needed not only incentive to try something new, you need legal cover.

• One participant noted that there’s a difference between safe harbor and empowering firms to conduct pilots in a safe, legal environment. “Safe harbor” that deals only with what is unsafe often leads companies to do no more than the minimum.

action opportunity:

Create a laboratory of innovation, with legal protections. Participants discussed what federal agencies might be involved, from the CFPB to the IRS, Treasury and Labor departments.
1 Center for American Progress, “The Continued Student Loan Crisis for Black Borrowers,” 2019
2 Economic Studies at Brookings, “Black-white disparity in student loan debt more than triples after graduation,” 2016
5 AARP Research, “Caregiving Out-of-Pocket Costs Study,” June 2021