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Leveling the Retirement Savings Playing Field

As the U.S. population becomes more diverse, providing benefits that meet the needs of today's workforce has never been more important. In our latest topical retirement article, we offer a few ideas to help plan sponsors level the retirement savings playing field.

Disparities in retirement savings between minorities and Whites and between women and men are a significant concern for today's retirement plan sponsors. In fact, according to the National Institute on Retirement, workers who identify as a person of color—especially Latinos—are significantly less likely than White workers to have access to an employer-sponsored retirement plan. For those who do, the average retirement savings balance is one-fourth that of White households.

A separate report published by the U.S. Government Accountability Office indicates that women, on average, contribute 30 percent less to retirement accounts than their male counterparts. For women of color, this disparity is even greater.

Moreover, a survey conducted by Greenwald and Associates recently scored employees' self-reported sense of overall financial well-being. Researchers found that, among White employees with access to a workplace retirement savings plan, about 10 percent had financial wellness scores that need attention. Among Latino employees, that number doubles. Among Black employees, it more than triples.

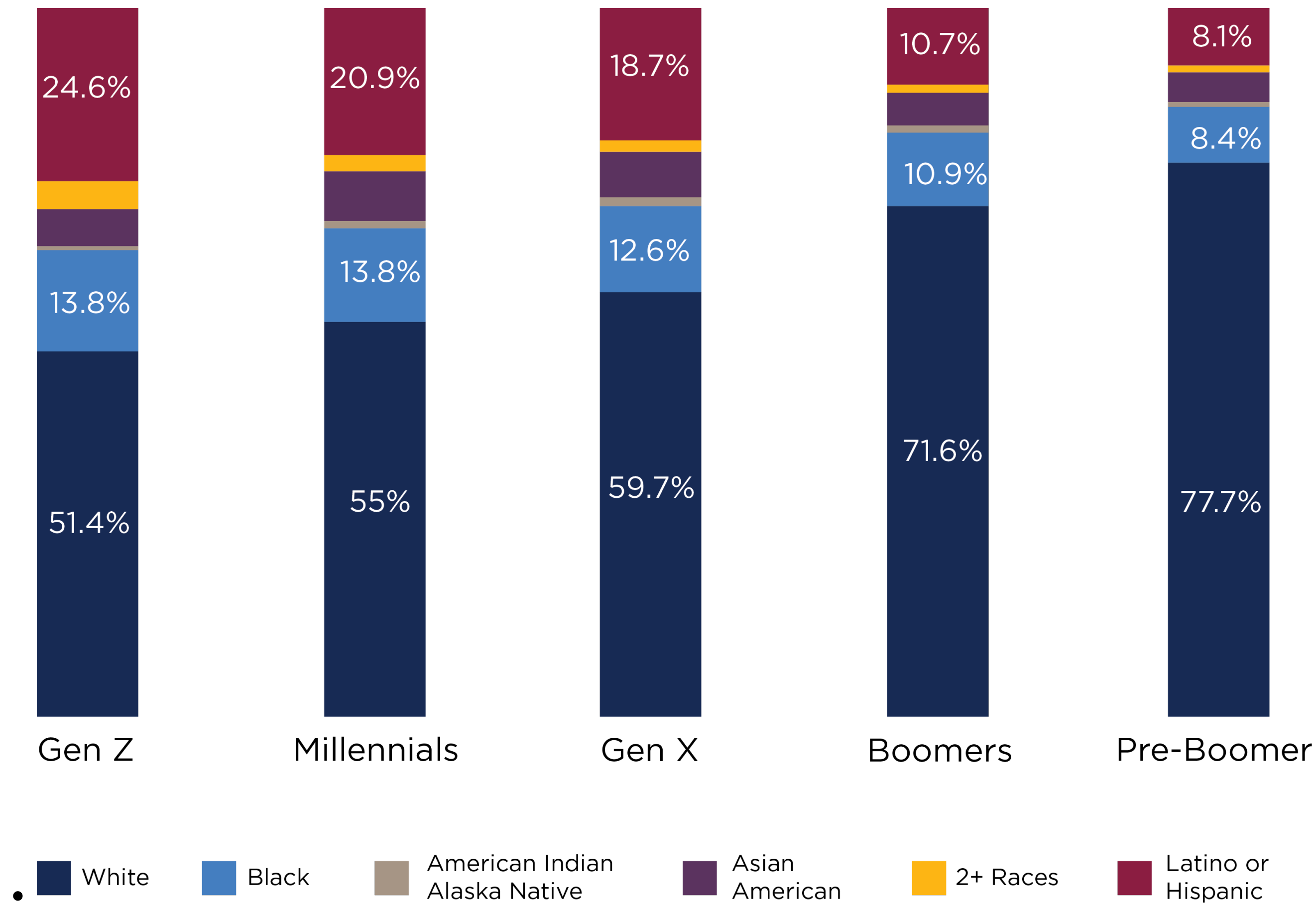
Black Americans are also less likely to have the same earning and spending power as White Americans, further affecting their ability to save for retirement. For example, the average Black family earns less than $60,000 in pre-tax income, versus White, non-Hispanic families, who earn $122,500, on average.[1]

However, there is some good news: Plan sponsors are finding new ways to step up to the plate and level the retirement savings playing field. And for today's blended workforce, change cannot come fast enough.

Evaluate Financial Needs for Your Workforce

Many employers are looking to ensure that the benefits they are offering are just as diverse as their workforce. And for good reason. Today, five generations of various demographic and socioeconomic backgrounds are working side by side. This includes gen z, the most racially diverse group yet, with nearly half of workers identifying as non-White. Figure One shows a racial breakdown by generation.

Figure One: The U.S. Workforce Is Becoming More Diverse



Source: [Brookings.*edu*](Brookings.edu)

For employers looking to establish more inclusive benefits, one of the first things they should consider is analyzing their existing workforce demographics, says CAPTRUST's Mike Webb, an institutional financial advisor located in New York City.

"A needs assessment can help determine what type of benefits offering and plan design to consider based on the needs and wants of the employees," Webb says. These assessments include questions about employees' perceptions of current benefits and needs. For example: Do the benefits offerings align with employees' traits, priorities, and values? Are benefits missing that employees value? Are employees aware of all the benefits available?

"Many plan sponsors use a needs assessment to help find out where there are gaps—and just as important, where there aren't," Webb says. Employee inquiries in the form of personal interviews, simplified questionnaires, or sophisticated research methods can also help gather data on employees' needs and wants, as well as visible and invisible characteristics.

Another option for employers is to conduct a utilization review of their current financial wellness offering. Knowing how often a particular benefit is used, by who, and to what extent may help the employer determine the best benefits selection and design to meet the needs of their diverse workforce.

Design for Inclusivity

Employers who want to create a more equitable and inclusive offering can take action. For example, Webb says, a lot of employers start by focusing on plan design features that benefit minorities and women and encourage savings. "Specifically, consider implementing auto-enrollment and auto-escalation features," he says.

Auto-enrollment is particularly important for low-income Blacks and Hispanics. According to a recent Vanguard study, with voluntary enrollment, these individuals participate in a defined contribution plan at 35 percent and 36 percent. With auto-enrollment, participation jumps all the way to 93 percent and 94 percent!

Coupling auto-enrollment with auto-escalation can move the needle even further. Because auto-escalation increases the default deferral amount each year up to a predetermined maximum, "it can help mitigate differences in minority savings rates over time," Webb says.

Employers may also want to reexamine loan provisions and lending policies. According to the U.S. Government Accountability Office, 401(k) plans that offer loans have higher participation rates and participants tend to contribute more when loans are available. Furthermore, research shows extending the amount of time a terminating employee has to pay off a loan may improve overall retirement savings. For example, Webb says, "Instead of requiring departing employees to pay off a loan within 60 days of termination, they could be given a longer period of time, perhaps up to six months."

Some plan sponsors use stretch matches to encourage higher employee savings rates. With a stretch match, employers withhold the full match until employees reach a certain savings threshold, which is higher than normal. However, those who do not have the ability to save to the higher threshold do not receive the full match. For plans with vesting schedules, plan sponsors may want to consider shortening them to allow more widespread access to employer contributions.

Other options to consider are allowing for immediate eligibility and shorter vesting periods.

Reap the Benefits

Providing financial wellness support that is inclusive of various ethnic backgrounds, gender identities, ages, sexual orientations, cultures, and religions brings a lot of benefits to an organization, Webb says. "Employers who prioritize inclusion and diversity in their financial wellness offerings are the most likely to attract and retain candidates with a variety of perspectives and knowledge of diverse markets." Moreover, a study from the Boston Consulting Group found that the revenues of companies that attract and retain a diverse workforce were 19 percent higher than those of companies that didn't prioritize diversity.

While there is no quick fix in place, evaluating the identities and financial needs of employees, finding gaps in current offerings, and working to address them is a very good start.

[1] “Financial Insecurity in Retirement for Black Americans,” Fidelity Investments, 2021

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