



Leveling the Retirement Savings Playing Field

For today's plan sponsors, retirement savings disparities between different demographic groups have become a significant concern.

According to the National Institute on Retirement, White employees are significantly more likely to have access to an employer-sponsored retirement plan than their racially diverse counterparts. And those who do have access end up saving roughly four times as much money for retirement. People of Latin American descent are the most likely to be left behind.

A separate report published by the U.S. Government Accountability Office shows that women contribute an average 30 percent less to their retirement accounts than men do. And for women of color, the disparity is even more pronounced.

Black Americans are also less likely to have the same earning and spending power as their White colleagues, which further affects their lifelong ability to save enough for retirement.

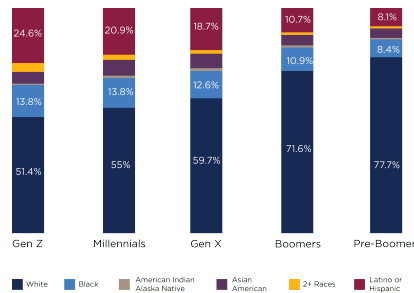
Moreover, it seems savings behavior has a significant impact on a person's sense of financial wellness. So, people with less access to retirement savings vehicles or less money to save also tend to have lower financial wellness scores. A survey conducted by Greenwald and Associates investigated this connection. Of White employees with access to a workplace retirement savings plan, approximately 10 percent had financial wellness scores that needed attention. Among Latino employees, the number doubled. And among Black employees, it more than tripled. These disparities can feel alarming, and certainly, they will require consistent commitment to overcome. However, there is some good news. Over the past few years, plan sponsors have found new ways to level the playing field when it comes to retirement savings. And for today's workforce—the most diverse in

American history—change cannot come fast enough.

Evaluate Financial Needs for Your Workforce

Many employers want to craft benefit packages that account for a wide range of employee needs, desires, and demographics. And for good reason. Today, five generations of people from various cultural and socioeconomic backgrounds are working side by side. This includes baby boomers and Gen Z. Born between 1997 and 2012, Gen Z is the most racially diverse American age group ever. Figure One illustrates the racial breakdown of the American workforce by generation.

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



Source: [Brookings.edu](https://www.brookings.edu)

For employers looking to establish more inclusive benefit packages, one of the first things to consider is analyzing existing workforce demographics, says CAPTRUST Financial Advisor [Mike Webb](#).

“A needs assessment can help plan sponsors determine which benefits and features may best meet the needs of a diverse range of employees,” says Webb. These assessments usually include questions that try to discern employee perceptions of current benefit packages. For example, an initial survey might ask: Are you aware of the company’s financial wellness and advice program? Are there additional retirement benefits you’d like to see the company offer? And, if you do not participate in the company’s retirement plan, please tell us why.

Many organizations use a combination of organization-wide surveys, listening sessions, and participant data from recordkeepers to assess usage trends by demographic groups. Recordkeeper data can help plan sponsors understand variations in plan use by age group, gender, and racial identity. Depending on the depth of data available, it may also help tease out differences between employees of different socioeconomic origins, education histories, disabilities, veteran statuses, family structures, and more.

Another option for employers is to review how employees are using current financial wellness programs, then look for usage gaps. Knowing how often a particular benefit is being used, by whom, and to what extent can help inform necessary changes. For instance, if participants are asking frequent questions about healthcare spending, the employer might consider offering a health savings



account, also known as an HSA.

Design for Inclusion

Although every employer and plan will be unique, there are a few common features that have been proven to reduce retirement savings and financial wellness gaps between demographic groups. Webb says many employers start by focusing on plan design features that benefit women and people of color by encouraging retirement savings.

“Specifically, I’d say there’s strong data to show the positive impact of auto-enrollment and auto-escalation features,” Webb says. Auto-enrollment is particularly effective for low-income workers of color. According to a recent Vanguard study, when offered only voluntary enrollment, Black and Hispanic workers participate in a defined contribution plan at 35 percent and 36 percent respectively. But 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 farther. Because auto-escalation increases the default deferral amount each year, up to a predetermined maximum, “it can help mitigate demographic differences in 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 their participants tend to contribute more.

Furthermore, research shows that extending the allowed period when a terminated employee is allowed to repay their loan may improve overall retirement savings. “Instead of requiring departing employees to pay off loans within 60 days of termination, they could be given a longer time, perhaps up to six months,” Webb says.

Some plan sponsors also use *stretch matches* to encourage higher savings rates. With a stretch match, employers withhold the full amount of their matching contribution until employees reach a certain savings threshold, which is typically higher than the employee average. Those who do not save to this threshold do not receive the full match. However, determining the right threshold is key because participants who do not have the ability to save to a higher threshold may fall farther behind.

For plans with vesting schedules, sponsors may want to consider shortening vesting periods to allow more widespread access to employer contributions. Another option is to allow for immediate eligibility.

Reap the Benefits

Providing financial wellness support that is inclusive of various backgrounds, genders, ages, sexual orientations, cultures, and religions can also help to leveling the playing field, 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 Boston Consulting Group found the revenues of companies that attract and retain a diverse workforce were 19 percent higher than those of companies that didn't prioritize diversity. Financial wellness programs can go a long way toward helping people feel welcome, respected, and empowered at work. But only if those programs account for their individual differences and use an inclusive lens when viewing each worker's unique financial picture.

When considering financial wellness services from multiple vendors, plan sponsors should consider asking specifically about each firm's perspective on diversity and inclusion and whether its frontline workers have received ample training on these topics. Relationships with money change by culture, and so, providing personalized advice means understanding cultural influence. But it also means staying sensitive to individual differences within those cultures.

Today's retirement savings playing field is certainly uneven. But it can also be leveled. 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 are three great first steps.

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