Retirement Benefits that Suit a Diverse Workforce

Plan sponsors have long understood that not all participants have the same needs when it comes to retirement planning. For example, a 28-year-old who earns $60,000 a year and is paying off student loan debt may be looking for different features than a 58-year-old who earns four times that amount and is preparing to retire. Yet only recently have plan sponsors gained access to tools that can help them personalize their offerings in ways that account for demographic differences beyond age and income. If thoughtfully and intentionally designed, it's possible that employer-sponsored plans can narrow the gaps in financial wellness and retirement readiness across diverse populations.

Women and people of color, for instance, face multiple challenges in building retirement wealth, primarily because of income inequality. On average, women are paid 83 percent of what men are paid, hold only 32 percent of the wealth that men have accumulated, and receive 70 percent of what men receive in retirement income, according to the American Association of University Women.The data regarding Black and Latino workers is even more striking. In 2020, the *New York Times* reported that Black men are paid only 51 percent of what White men are paid, and the median savings for Black and Latino families is less than a third of what their White, non-Hispanic colleagues have saved. These numbers show little progress toward pay equality since the 1950s. Over time, pay disparities—along with higher debt, shorter job tenure, and less financial acumen—take a serious toll on retirement outcomes.

But this isn't the only reason plan sponsors are reacting. Combined data from the Bureau of Labor Statistics shows that women and people of color now comprise more than 63 percent of the American workforce.The country is on track to have a *majority minority* population by 2044, meaning that most Americans will identify as racial and ethnic minorities or as more than one race.

Whether motivated by demographic changes or moral imperative, plan sponsors are starting to explore which plan design elements and employee benefits may be most helpful in shrinking retirement disparities. Updating plan designs to support diverse employees is one way employers can stay competitive.

Personalizing Plan Design

Reshaping retirement plans to account for diversity is part of the larger trend toward personalized retirement benefits. Employers are no longer solving for the average. They are customizing their retirement offerings to account for a wide range of individual differences. To get a grasp on what participants want, sponsors first need to understand their unique employee demographics and ask about individual participants' financial needs.

"The first step is often a data-finding mission," says Scott Matheson, head of the institutional business at CAPTRUST. Via surveys and listening sessions, employers can look for trends to understand "which demographic groups benefit most from current plan design, who is not participating, and why."

"The next step is to explore whether there are plan design elements that may support higher participation and savings rates across diverse demographics," says Matheson. If there are, it can help to put changes in order of importance, moving those with the greatest potential impact to the front of the line.

For instance, plan sponsors might conduct a pay equity analysis. In general, plan participation increases with income. Because women and people of color are paid less than their White male counterparts, they are also less likely to participate when offered a retirement plan. What's key is understanding why. When asked, both Black and women professionals cite three primary reasons: lower pay, higher debt, and competing financial duties.[6] A pay equity analysis can help employers gain a clearer picture of their internal income disparities and start to understand how these differences may be contributing to plan participation and savings rates.

Auto Features and Eligibility

Although the industry is still learning which specific plan design features are most helpful, a few have already proven to boost financial outcomes for diverse workers. The first is employer matching—a powerful motivator for participation across nearly all demographics. CAPTRUST Financial Advisor Steve Wilt names two more: "If you want to increase participation, adding automatic features and lowering eligibility requirements can make a difference."

The data regarding automatic features is especially strong. According to a recent Vanguard study, automatic enrollment can increase participation by 30 percent or more. And, when they are automatically enrolled, nearly 75 percent of participants remain invested in the default fund three years later.Wilt points out that "auto-enrollment may be particularly important for low-income Black and Hispanic workers." With voluntary enrollment, these individuals participate in a defined contribution plan at 35 and 36 percent respectively. However, Wilt says, “With auto-enrollment in place, participation jumps to 93 and 94 percent respectively. That’s an astounding increase that may make auto-enrollment more attractive.”

But automatic enrollment does not necessarily reduce disparities in savings rates. While White and Asian employees are more likely to override default deferral rates and choose a higher one, Black and Latino populations do not generally respond the same way. As Mattheson says, “The employer’s default enrollment rate has a significant impact here. When employees are enrolled at low rates—like 3 percent—they may assume that 3 percent is sanctioned by the company as a sufficient savings rate. This can lead to lower savings rates and less total savings over time.”

This is where automatic escalation can make a positive difference, raising deferral rates across the board. Automatic escalation means increasing each participant’s contribution rate by a small percentage every year until the employee reaches a specified maximum rate. Under the SECURE 2.0 Act, auto-enrollment and auto-escalation are required for most new retirement plans, but existing plans may also want to consider adding these features. Those who do should carefully consider their default enrollment rate and rate of increase.

Plan sponsors might also consider lowering eligibility requirements. “Exactly how to lower eligibility will be different for every sponsor,” Wilt says. “Some may choose to allow part-time and seasonal workers to participate, while others may shift to immediate eligibility or shorter vesting periods.” SECURE 2.0 makes a change here too, specifying that long-term, part-time employees are eligible for plan participation if they have worked for the company at least 500 hours in two consecutive years.

Financial Wellness Programs

Another way plan sponsors are supporting diversity and inclusion is by investing in financial wellness programs. Studies show that diverse professionals face higher hurdles in achieving financial wellness due to differences in financial acumen and opportunity. Debra Gates, a CAPTRUST manager of financial wellness and advice, says financial wellness programs help people make more prudent decisions. “So many people have never learned the basics of financial literacy or personal finance,” she says.

Also, in some cultures, talking about money can be taboo. Nevertheless, individuals must make financial decisions every day. “Having to make decisions with limited knowledge can cause anxiety and stress, especially when those decisions are directly connected to a person’s financial future, such as whether to put money away in an employer-sponsored retirement plan, start an emergency fund, or create a budget,” says Gates.

A financial wellness program that targets a diverse demographic can not only expand employees’ knowledge but also instill confidence. Done well, financial wellness programs teach employees how to employ critical thinking skills to weigh outcomes, or at least be comfortable enough to discuss their financial goals with a trusted advisor.

But customized content needs to be thoughtful and intentional, which will help plan sponsors avoid stereotypical and tone-deaf mistakes. “Otherwise, you risk alienating the same people you are trying to include by making uninformed and potentially offensive assumptions,” says Gates. One way to do this is to include diverse perspectives in the content creation process. For instance, tap Spanish-speaking employees to help not only translate but also interpret English content into authentic Spanish-language materials.

“Start by having a conversation,” says Gates. “Find out who is not participating in the plan, and then take the time to ask them why. The barrier might be as simple as â€˜I don’t understand how to sign up,’ or â€˜I don’t know what this jargon means.’ It is easy to assume that some employees are not interested in participating, but by digging little deeper, plans sponsors can really understand the underlying issues and do something about them.” To understand which financial topics employees want to learn about, plan sponsors might consider sending a survey that lists potential topics, including debt management, credit management, market basics, investment strategy, education savings, and combining 401(k)s from multiple former employers.

As a best practice, sponsors should be prepared to use multiple forms of communication to promote wellness services and events, like short videos, emails, in-person or virtual meetings, and webinars. Wellness and enrollment materials should be accessible in multiple languages and, when possible, delivered on-demand for employees to watch, read, or listen to on their own schedules. It is also a good idea to tie educational content to specific participant actions, like deferral changes and investment advice.

Gates attributes the recent increase in financial wellness programs to the shifting relationship between employer and employee. “Employees expect and believe that it is the responsibility of their employer to provide solutions for financial, physical, and mental well-being. The expectation of the employer’s responsibility goes so far beyond where it used to be pre-COVID-19,” she says. “People do want to be paid well, but they also want to know that they are valued and respected.”

In sum, although DEI as an institutional practice is ever evolving, and DEI trends may shift in response to changing social or institutional circumstances, it seems that the principles of diversity, equity, and inclusion are here to stay. Employers who were early adopters of DEI strategies are now learning how to align their retirement plans and employee benefit packages to their DEI missions. Specifically, they’re doing so via plan design features and financial wellness.

Those who started a bit later can learn from these peers to create more robust, effective, and efficient retirement plans—plans that not only meet the needs of the modern workforce but also work to improve disparities and narrow existing gaps in retirement outcomes. Along the way, they’re also learning how to listen and respond to employees. They’re demonstrating a long-term commitment to employee wellness and creating trust that will carry them into the future.