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Improving Retirement Outcomes: Demographic Considerations

A Policy Paper

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Contents

Introduction 1

Observable Data 2

Retirement income 2
Financial literacy and retirement preparedness 3
Access and participation in employer plans 4
Impact of wealth and income 6
Impact of debt 7
Leakage and forfeiture of retirement savings 8
Impact of research methodology 10

Retirement Plan Provisions and Features Among Different Demographic Groups 11

Plan access and eligibility to participate 12
Vesting periods 13
Behavior-based provisions 13
Access to financial wellness materials and guidance/advisers 19
Spousal protections 21
Differences between private and public sector plans 23

Considerations for Future Policy Changes and Future Research 24

Conclusion 29

Introduction

This policy paper discusses retirement inequities and how current retirement plan design elements and policies may inadvertently disadvantage certain cohorts of individuals.

Focusing on the potential disadvantages experienced by racial and ethnic minority groups, women, and the lower-income population, this policy paper explores potential adverse retirement outcomes and means to address them. This includes an examination of the *Employee Retirement Income Security Act of 1974* (ERISA), which established federal law governing U.S. private-sector retirement programs and has developed over the past half-century. Evolving legislation, regulations, and plan designs since the mid-1970s have not adequately considered the needs or challenges of various demographic groups.

This policy paper offers potential changes and actions for consideration by policymakers, think tanks, actuaries, and employers/plan sponsors to improve retirement outcomes for groups facing inadequate retirement security under common designs. The policy paper concludes with considerations for further effort, research, and studies.

Observable Data

Many articles, surveys, and studies are focused on differences among demographic groups—characteristics such as gender, race, income level, education level, sexual orientation, etc. Different groups have varied experiences, which can influence behavior, values, and preferences.

In this section, we look at relevant findings from selected representative studies that highlight differences among various demographic groups that may contribute to retirement inequities. These differences also provide insights into areas needing further study. It is important to note that aggregate results usually reflect the averages for a given group but do not address the heterogeneity within the group. If the sample size of the data is not large enough, it may not be possible to develop statistically significant results for small subgroups. Andrea Sticha's recent paper, *Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States*,[1] found that demographic differences among groups contribute to disparate results among groups. Additionally, Sticha finds that if the results are controlled for these demographic differences, the results may demonstrate less disparity among groups. While the focus of the Sticha paper is on financial vulnerability, the research may be relevant in helping to understand differences observed in other data. See the paragraph "Impact of Research Methodology" at the end of this section for more information on this paper and the possible implications on the observable data included below.

Retirement income

According to U.S. census data, women age 65 or older have lower median income[2] and are more likely to live in poverty[3] than men. According to one report,[4] these differences are caused, in part, by the following challenges women face in comparison to men:[5]

- Women are paid less (higher concentration in lower-paying jobs);
- Women are more likely to have employment gaps or work part time;
- Women live longer; and
- Women often retire earlier due to caregiving responsibilities.

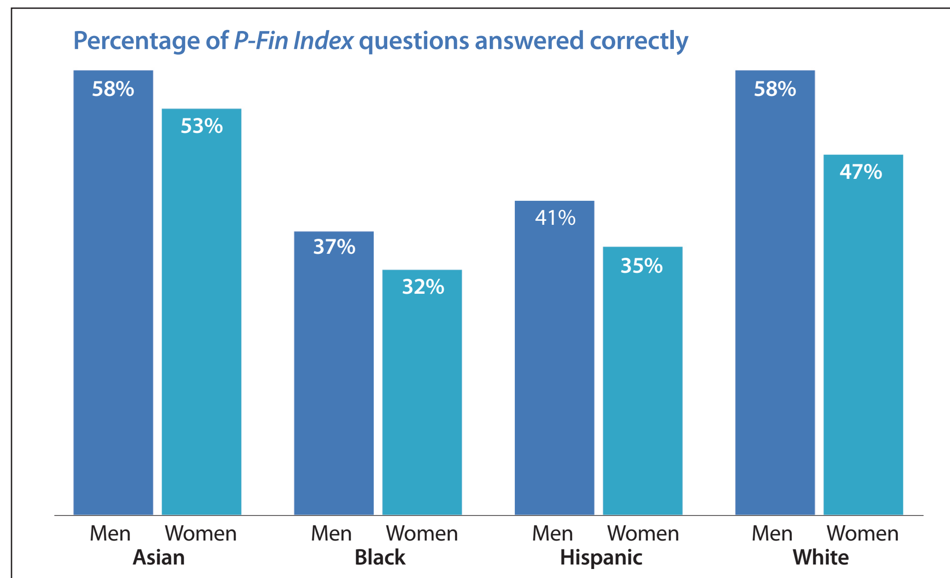
1 *Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States*. Working paper and earlier research were published under the name of Andrea Hasler.
2 Current Population Survey Tables for Personal Income; U.S. Census Bureau; 2023. Income is defined as all income (earned income, interest, dividends, Social Security, and retirement plan income) but excludes capital gains and noncash benefits.
3 *Historical Poverty Tables: People and Families—1959 to 2022*; U.S. Census Bureau; 2023. Table 7.
4 *Report to the Honorable Martin Walsh, United States Secretary of Labor Gaps in Retirement Savings Based on Race, Ethnicity and Gender, December 2021*; Advisory Council on Employee Welfare and Pension Benefit Plans; 2021.
5 Ibid.

Similarly, Black and Hispanic Americans age 65 or older are also found to have lower median incomes[6] and are more likely to live in poverty than white Americans.[7] While these groups share some of the same challenges noted for women, a variety of other factors can impact retirement outcomes within different demographic groups. We will explore some of the more known and readily observable factors below, though this list of factors is not exhaustive.

Financial literacy and retirement preparedness

Several surveys have noted differences in financial literacy between men and women, as well as among different racial groups. For example, the Personal Finance Index ("P-Fin Index"), a joint effort of the TIAA Institute and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business, surveys participants across a variety of topics to measure financial literacy. According to the 2023 survey,[8] women answered fewer financial literacy questions correctly than men, and Black and Hispanic Americans answered fewer questions correctly than Asian and white Americans.

Figure 1: Financial Literacy by Race/Ethnicity and Gender



Source: *TIAA Institute-GFLEC Personal Finance Index* (2023).

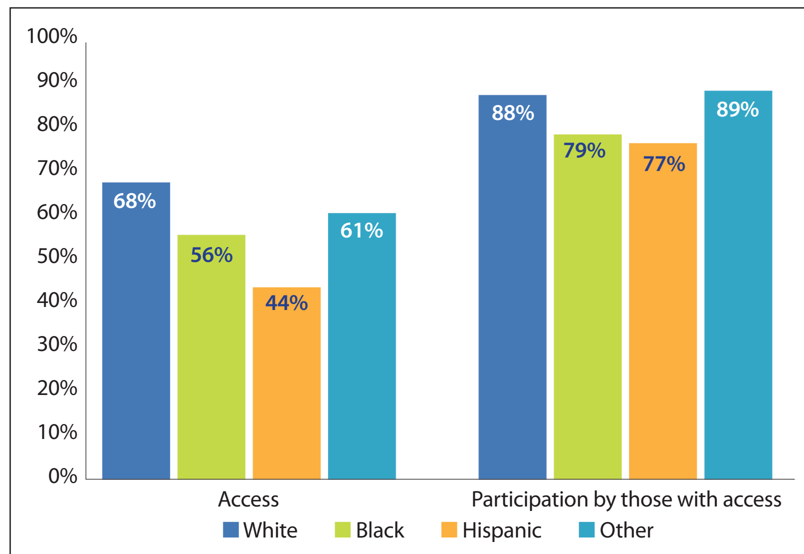
Similar differences were observed in the survey on specific topics that may directly impact retirement planning, such as investing, insuring, and comprehending risk.[9]

6 PINC-01. Selected Characteristics of People 15 Years and Over, by Total Money Income, Work Experience, Race, Hispanic Origin, and Sex; U.S. Census Bureau; 2023.
7 Historical Poverty Tables: People and Families—1959 to 2022; U.S. Census Bureau; 2023. Table 3.
8 *Financial well-being and literacy in a high-inflation environment*; TIAA Institute Global Financial Literacy Excellence Center; 2023.
9 The 2022 P-Fin Index includes a report on longevity literacy, retirement readiness, and basic financial literacy.

Access and participation in employer plans

There are clear differences by demographic group in both access to and participation in employer-sponsored retirement plans, as noted in the *2019 Survey of Consumer Finances from the Federal Reserve Board.*[10] The access and participation gaps among different racial and ethnic groups clearly contribute to the disparate outcomes when comparing various retirement readiness metrics among these groups.

Figure 2: Access and Participation in Employer-Sponsored Retirement Plans by Race



Source: Federal Reserve Board, 2019 Survey of Consumer Finances.

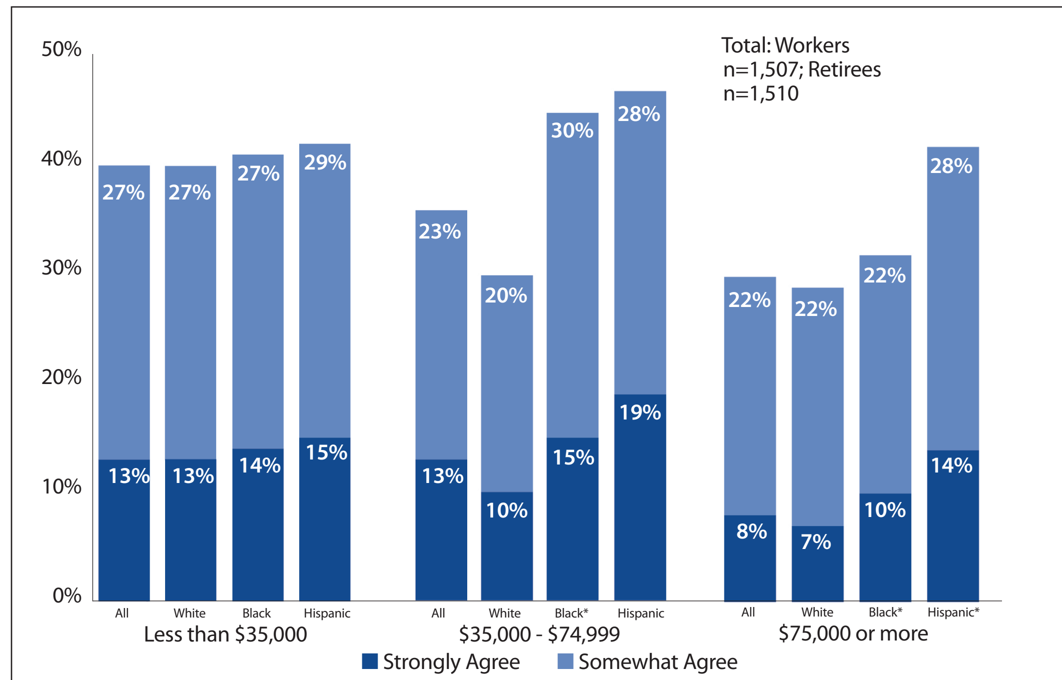
Notes:
The data used by the authors for access and participation in employer-sponsored plans in the above-referenced paper was based on families under age 55, by race and ethnicity. It is possible that inclusion of working families age 55 and older might yield different results.
"Participation by those with Access" data was not directly provided, but was calculated based upon the information provided in the above-referenced paper.

In addition, women have lower rates of access to employer-sponsored retirement plans than men due in part to women's lower workforce participation rate,[11] which is the often the result of family and other caregiver responsibilities. Women who do participate in the workforce also have slightly lower rates of access to employment-based retirement plans than men,[12] both because women are less likely to work for an employer that provides retirement benefits[13] and because women are more likely to work part time.[14] Furthermore, they may not meet the eligibility criteria to participate in their employer's retirement plan. It is worth noting that the *SECURE 2.0 Act of 2022* (SECURE 2.0), enacted in December 2022, changed the retirement plan eligibility rules for part-time employees, which is expected to improve access for part-time workers.

10 *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*; Board of Governors of the Federal Reserve System; 2020.
11 *Labor Force Statistics from the Current Population Survey*; U.S. Bureau of Labor Statistics; 2024.
12 *Emerging From the COVID-19 Pandemic: Women's Health, Money, and Retirement Preparations: 22nd Annual Transamerica Retirement Survey of Workers*; Transamerica Center for Retirement Studies; 2022.
13 Ibid.
14 *Women in the labor force: a databook*; U.S. Bureau of Labor Statistics; 2024.

Even when access to retirement plans is available, lower rates of participation may persist due to other financial priorities. As illustrated by the accompanying graphic, Hispanic and Black employees are more likely than white employees to prioritize current needs over saving for retirement. Current needs may include their own personal current financial needs, helping family, and saving / paying for a child's education.

Figure 3: **To what extent do you agree or disagree with the following?**
"Retirement savings is not a priority relative to the current needs of my family."



Source: Figure 38 of *2021 Retirement Confidence Survey: A Closer Look at Black and Hispanic Americans*, EBRI Issue Brief, June 10, 2021.
Note: Results with an "*" are significantly different (95th percentile) from the results for white Americans.

As noted in the following two sections, surveys show that Black and Hispanic workers have, on average, lower levels of wealth, lower income, and higher levels of debt. These factors may contribute to the need to prioritize current needs over saving for retirement.

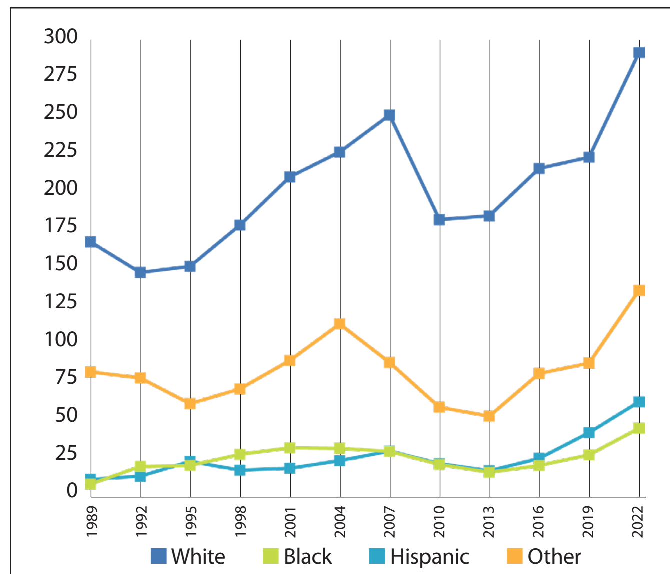
In addition, there may be cultural expectations that children financially support older family members in retirement, which likely impacts the perceived need for retirement savings in general.

Taken together, these factors suggest that Black and Hispanic workers may be less prepared for retirement than white workers. Taking this one step further, it seems reasonable that a common feature of defined contribution plans—matching contributions—could provide lower benefits to certain racial or ethnic groups should they save at a lower rate. This issue is covered in more depth later in this paper.

Impact of wealth and income

The following chart shows median net worth by race and ethnicity based on the Federal Reserve Board's Retirement Confidence Surveys from 1989 through 2022. Amounts are shown in 2022 dollars. There is a consistent historical pattern of median wealth for whites significantly exceeding that of other racial and ethnic groups.

Figure 4: **Median Wealth by Race**

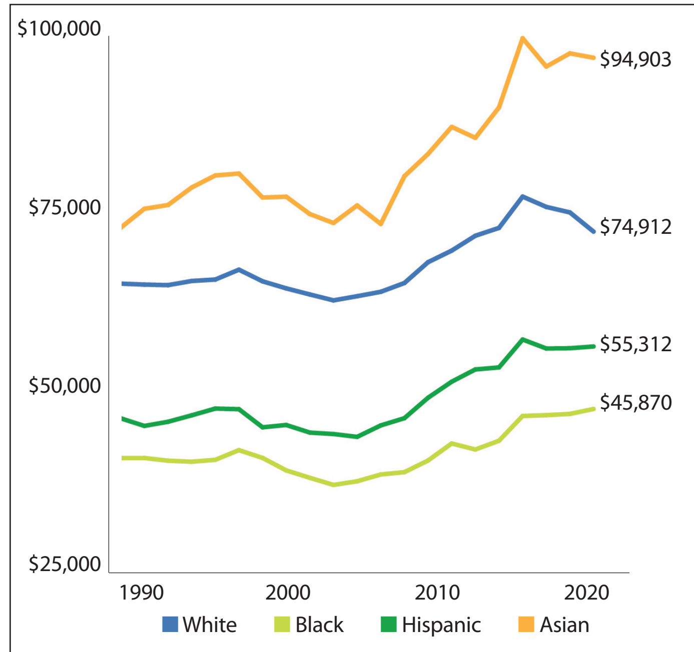


Source: *Greater Wealth, Greater Uncertainty: Changes in Racial Inequality in the Survey of Consumer Finances*; Board of Governors of the Federal Reserve System; 2023.

The next chart shows similar disparities in median household income by race and ethnicity.

Figure 5: **Racial and ethnic disparities in median household incomes have been largely persistent across time**

Inflation-adjusted median household income (2020 dollars), by race and ethnicity, 1967–2020



Source: Economic Policy Institute analysis of U.S. Census Bureau, Current Population Survey–Annual Social and Economic Supplements 1968 to 2021. "Table A-2. Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2020" Income and Poverty in the United States: 2020.

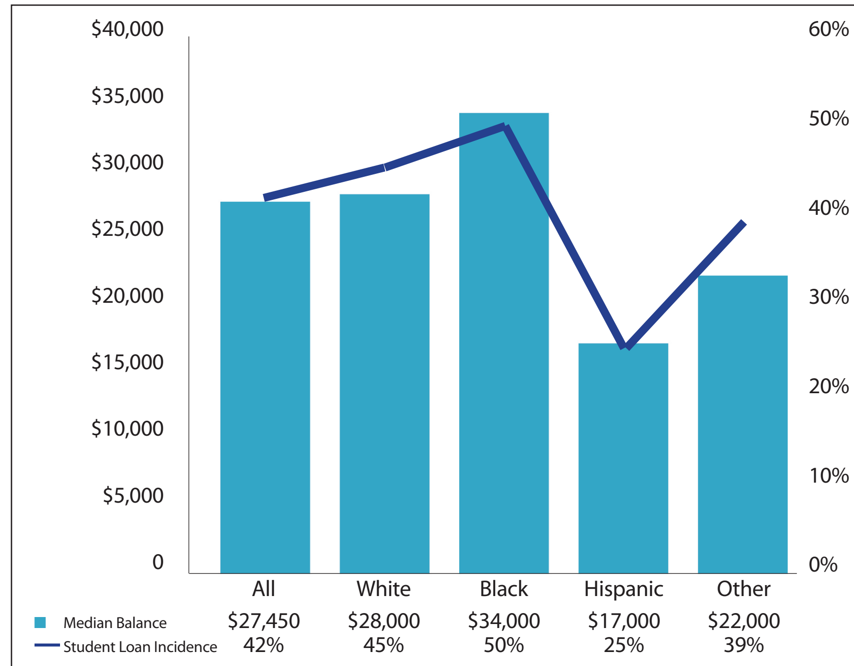
The two charts above show significant differences in median wealth and median income. It is not surprising that groups with lower wealth and income may place a higher priority on using funds for current needs, leaving them with a limited ability to fund for retirement.

Impact of debt

Debt in general, and student loan debt in particular, is another factor that can hamper a person's ability to participate fully in a retirement savings plan. Student loan debt is more common among Black Americans than other racial groups. The median value of student debt is also higher for younger (Millennial) Black Americans. The following data comes from a January 2022 webinar by the Employee Benefit Research Institute.[15]

15 "Comparing the Financial Status of Baby Boom, Generation X, and Millennial Families: How Do the Generations Stack Up?"; Employee Benefit Research Institute; 2022.

Figure 6: **Comparison of Millennials' Student Loan Median Balance and Student Loan Incidence When They Were Ages 25-36 by Race/Ethnicity of the Family Head**



Source: "Comparing the Financial Status of Baby Boom, Generation X, and Millennial Families: How Do the Generations Stack Up?" EBRI Webinar, January 19, 2022.

With higher usage and levels of student loan debt, Black Americans may find it more difficult to save for retirement because more of their disposable income is directed toward paying off their student loans.

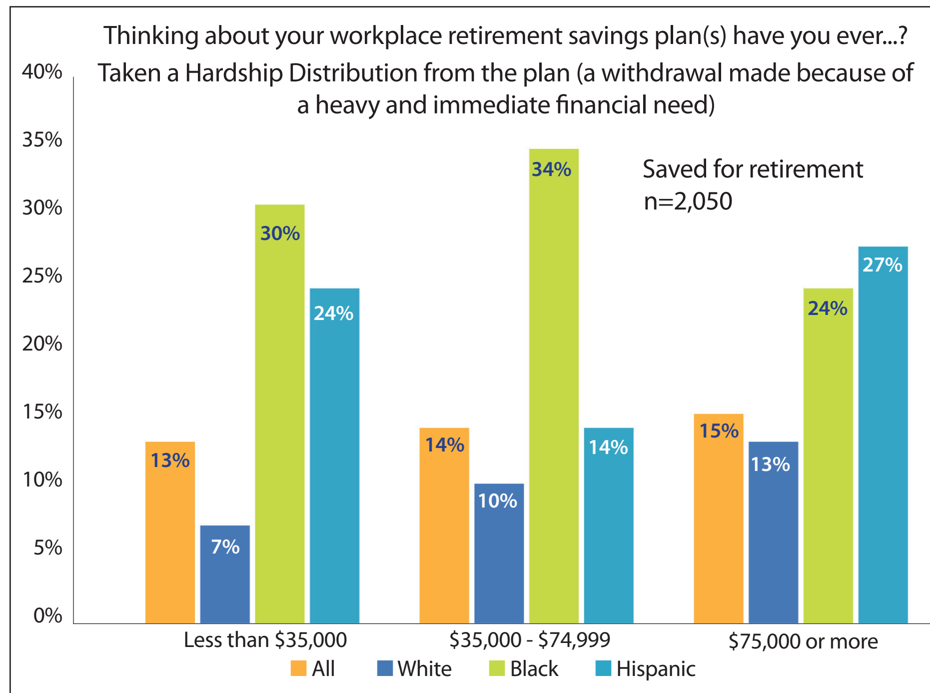
Leakage and forfeiture of retirement savings

Even for those individuals participating in employer-sponsored retirement plans or otherwise saving for retirement, these monies may not be ultimately available to produce retirement income. This can be due to leakage (withdrawing retirement savings prior to retirement for non-retirement purposes, including hardship withdrawals and cashing out small balances) and forfeiture (leaving prior to vesting in the employer-provided benefit).

Data from the *2021 Retirement Confidence Survey: A Closer Look at Black and Hispanic Americans* EBRI issue brief[16] found that Hispanic and Black employees are more likely to take a hardship withdrawal than white employees across all income categories.

16 *2021 Retirement Confidence Survey: A Closer Look at Black and Hispanic Americans*; Employee Benefit Research Institute; 2021.

Figure 7: Percentage of Those Who Saved for Retirement Who Took a Hardship Withdrawal, by Race/Ethnicity and Income



Source: EBRI and Greenwald Research 2021 Retirement Confidence Survey.

Also, vesting provisions can cause short-service employees to forfeit some or possibly all of the employer-provided portion of their retirement savings, resulting in lower or no vested balances to roll over when changing jobs.

Historically, the median tenure for women has been less than for men (in 2022, 4.7 years vs 5.1 years),[17] and the median tenure for Black and Hispanic employees has been less than for white employees (in 2022, 4.6 years, 4.5 years and 5.0 years respectively),[18] suggesting that these groups may be more likely to leave their employer before becoming vested in their employer-provided retirement benefits.

17 *Trends in Employee Tenure, 1983–2022*; Employee Benefit Research Institute; 2021.
18 Ibid.

Impact of research methodology

As noted above, most of the research we reviewed shows aggregate results reflecting averages for a given group but does not address the heterogeneity within groups. In the paper *Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States* by Andrea Sticha, Annamaria Lusardi, Olivia S. Mitchell, and Alessia Sconti, the authors applied regression analysis to additional demographic factors to see whether factors other than race and ethnicity could explain the differences in financial vulnerability results. The authors also consulted with additional experts and thought leaders from UnidosUS and National CAPACD[19] to explore factors impacting results further. Key points in their findings include:

- Blacks are more likely than whites to be single and have financially dependent children. When marital status and having financially dependent children are used as control factors (i.e., comparing those with the same marital status and consistent number of financially dependent children), the difference in the composite financial vulnerability score between Blacks and whites becomes statistically insignificant.
- Hispanics are younger on average than whites, with higher composite financial vulnerability scores. Once the results were controlled for age (i.e., groups with the same average age were compared), Hispanics and whites had the same financial vulnerability score.
- Asian respondents have higher income, more education, less debt, and significantly lower vulnerability scores than whites, Blacks, and Hispanics. However, based on discussions with National CAPACD, the authors point out that the surveys may not reflect the full heterogeneity within the Asian population, because the surveys are only available in English and Spanish. Asians who do not speak English or Spanish would consequently not be reflected in the results.

These findings indicate that additional research is needed to determine how demographic factors beyond gender, race, ethnicity, etc. may impact observed differences in retirement security.

19 National Coalition for Asian Pacific American Community Development ("CAPACD"); UnidosUS (previously known as NCLR, National Council of La Raza) is a civil rights and advocacy group supporting Hispanic Americans.

Retirement Plan Provisions and Features Among Different Demographic Groups

As noted in the previous section, many studies show how behaviors, priorities, and outcomes vary among different demographic groups. Acknowledging and understanding these differences can help sponsors of retirement plans, who play a major role in post-employment financial security, adopt thoughtful and purposeful design features to avoid creating further unintended disparities in wealth and income for retirees. We explore some of these specific design features in more depth below.

In general, there are two broad categories of retirement plans:

- **Defined benefit (DB) plans** are designed to provide guaranteed lifetime income benefits upon retirement. The benefit is generally determined using the same formula for all similarly situated employees. In the private sector, the employer generally bears all the cost and risk of providing the benefit. In the public sector, the employee and employer generally share the cost, and sometimes the risk, of providing the benefit.
- **Defined contribution (DC) plans** are typically funded by the employer and/or the employee. Employees generally make an election to participate and make a specific contribution. Employer contributions are generally the same for all similarly situated employees, most frequently as a matching percentage of employee contributions or as a stated dollar amount or percentage of compensation.[20] The employer contributions to the plan are defined amounts, while the employee generally bears all the risk regarding the investment results and the amount of retirement income that those contributions and investment earnings will ultimately provide.

  Unlike DB plans, DC plans have certain provisions where employee actions and decisions impact the retirement outcomes. For example, where an employer matching contribution is available, that contribution is dependent on employee behavior (e.g., whether the employee makes a contribution). Retirement outcomes rely on investment elections and investment results. Some DC plans, in order to encourage employees to save, have features that apply automatically unless the employee opts out, such as initial enrollment in the plan, escalation of employee contributions, and default investment options. These features are discussed in the section below on behavior-based provisions.

20 Contributions might vary by age and years of service, while meeting ERISA and the *Age Discrimination in Employment Act of 1967* rules.

Looking at plan provisions and features from the point of view of different demographic groups might reveal certain plan provisions and features that could unintentionally have a negative effect on retirement outcomes for some employees. We will look at several provisions and features and discuss how they might be changed to encourage and enhance retirement outcomes among all groups.

Plan access and eligibility to participate

Employees who work part-time or temporary jobs may not be eligible to participate in their employer's plan.[21] Two recent federal laws intend to improve these employees' access to an employer's plan. The *Setting Every Community Up for Retirement Enhancement Act of 2019* (SECURE Act) requires employers to allow the participation of part-time employees who have at least 500 hours of service for three consecutive years in their retirement plan. SECURE 2.0 further enhanced participation rules, effective for plan years beginning after Dec. 31, 2024, by reducing the number of required consecutive years with at least 500 hours of service to two. While employers may decide against making employer contributions for these employees, simply allowing access to a savings plan enables employees to save their own money for retirement via payroll deductions. For those employers who are looking for opportunities to improve access for their part-time or temporary workers, they are permitted to allow participation even sooner than legally required by the SECURE Act and SECURE 2.0.

The SECURE Act also established new Pooled Employer Plans (PEPs),[22] which may be considered by employers looking to avoid some of the administrative complexities, fiduciary liabilities, and costs that are often an obstacle to adopting plans. This option may be particularly attractive to smaller employers, helping to reduce the gaps in retirement plan access across racial and gender cohorts.

21 ERISA's participation rules allow an employer to exclude employees who did not work at least 1,000 hours per year.
22 PEPs allow multiple, unrelated employers of any size to participate in a single qualified DC plan.

Vesting periods

Plan sponsors often have competing goals when it comes to vesting requirements. Faster vesting may be a tool to attract new employees, but it leads to higher costs for the employer. Vesting periods typically differ between public and private plans (see the section below) and often differ between DB and DC plans. Plan sponsors need to consider their specific workforce and business needs to create a proper balance among costs, recruiting and retention goals, and retirement savings creation. Some employers, especially smaller ones, offer immediate vesting to meet nondiscrimination requirements. On the other hand, employers that experience higher turnover may choose longer vesting periods to facilitate program affordability. However, longer vesting periods disadvantages employees in higher turnover jobs. As mentioned above, a 2023 EBRI study[23] found that average tenure for white workers exceeds tenure for both Black and Hispanic workers, and tenures for men exceed those of women. Therefore, the disproportionate impact of accelerated vesting on certain employee groups is another factor employers may want to consider when choosing a vesting schedule and designing a retirement plan.

Behavior-based provisions

Employer matching contributions

Based on the research discussed above, members of certain racial or ethnic groups may place a lower priority on saving for retirement due to other financial demands and priorities, such as servicing debt or helping others, which will impact the amount they can save for retirement.

These differences in financial priorities and savings rates can impact retirement income adequacy. Matching contribution designs in DC plans reward the behavior of saving for retirement. Those individuals who do not participate, or participate at a low level, may forgo some, if not all, of an employer's matching contributions. Effectively, these employees are reducing their future retirement funds by more than just the value of their own contributions. Employers may want to consider whether matching contributions should reward more than one type of savings behavior, as discussed in the section, "Ability to save for non-retirement needs," below.

23 EBRI webinar "Tenure Trends of American Workers," estimates from the January 2016, 2018, 2020, and 2022 Current Population Surveys.

Employer non-matching contributions

Under DC plans, plan sponsors may make contributions that are not conditioned on employee contributions. These contributions can be discretionary on an annual basis or can be fixed and predefined. Plan sponsors may want to consider whether to provide employer contributions to all employees. Lower-income workers might benefit more from non-matching contributions. Plan sponsors, however, will need to consider the cost as well as the reduced incentive for employees to make their own contributions to their retirement plan.

The contribution allocation need not be uniform as a percentage of compensation across all employee groups. Allocation formulas can be biased toward and beneficial to certain employee groups, such as lower compensated employees, as long as they meet the nondiscrimination requirements under the Internal Revenue Code and associated regulations. One example of such a formula is the American Express 401(k) plan, which recently initiated tiered non-discretionary automatic contributions of 3% to lower-paid employees and 2% to higher-paid employees.[24]

Automatic enrollment and escalation

Automatic enrollment of all eligible employees is another effective mechanism for increasing plan participation, which may help reduce the retirement income gaps noted above. However, the automatic enrollment rules require that an employee be allowed to opt out of participation. Some employees may decide to opt out due to immediate or potential near-term financial needs. To address the needs of those employees, it may be helpful for autoenrollment contributions to be initially allocated to an emergency savings fund (as discussed below). In addition, the *Auto Reenroll Act of 2023*[25] proposed by Sens. Tim Kaine and Bill Cassidy could further improve plan participation by providing employers with a safe harbor to automatically reenroll participants every three years, with an option for employees to opt out.

Automatic escalation of employee contributions has grown in prevalence in recent years. This feature can significantly increase employee contributions to retirement savings. Like automatic enrollment, employees must be allowed to opt out of any given increase level. Consideration could also be given to allowing employees to opt for different levels of automatic escalation rather than opting out entirely.

24 2023 Plan Sponsor Awards, Corporate DC>$1B; *PlanSponsor*; 2023.
25 S.2517—Auto Reenroll Act of 2023.

Options available in plans

Several types of options may be available in DC plans, including investment options, the ability to take in-service distributions prior to retirement, and alternative forms of payment that may be elected upon retirement or termination of employment. Some of these options have been enhanced by SECURE 2.0. Appropriate design of plan options may encourage more employees to participate and save more for retirement. Such options may be especially beneficial for members of certain demographic groups who have not previously saved adequately for a secure retirement.

Investment options

Most DC plans offer a range of investment options, with one option designated as the default option should a participant fail to make a specific election.[26] The default option is typically a target-date fund tied to an assumed retirement age. If a DC plan does not have target-date funds as its default options, the sponsor may want to consider adding them. This would be especially beneficial to participants without adequate investment knowledge.

Index funds may also particularly benefit participants with lower levels of investment knowledge given their simplicity and lower fees when compared to actively managed funds.

There is great variety in the costs and fee structures associated with the investment alternatives that DC plan sponsors can select. Large plans tend to have lower fees per participant due to their larger asset size and participant count. Care should be taken to determine the split of fees between per-participant fees, which have a proportionally larger impact on participants with smaller account balances, and percent of assets fees, which charge all participants the same percentage of their accumulated account balance.

All participants benefit from plans with cost-efficient options, although this is sometimes difficult to achieve in small plans. PEPs allow plan sponsors to be part of a larger group of participating employers and benefit from economies of scale, thus possibly offering more cost-efficient options than would otherwise be available. Lowering investment and administrative fees enables participants to achieve larger accumulated account balances and enhance their retirement security.

26 *Asset Allocation: A Roadmap to Investing*; Society of Actuaries Research Institute, 2023. Discusses types of investment options including asset allocation approaches and impact of investment fees.

The investment options for 403(b) plans—DC plans offered by nonprofit organizations and public schools—are more limited and often more costly than those for 401(k) plans, DC plans for private employers. Participants in 403(b) plans with custodial accounts cannot currently invest in collective investment trusts (CITs), which are pooled investment accounts that are used in a majority of 401(k) plans and generally offer more cost-efficient options. While SECURE 2.0 amended the Internal Revenue Code to allow 403(b) plans with custodial accounts to invest in CITs, securities laws must also be amended to allow these investments. If this change were made, it could benefit participants in 403(b) plans. In March 2024, the House of Representatives passed H.R. 2799, the *Expanding Access to Capital Act*,[27] which would change the securities law to allow 403(b) plans to offer CITs. As of the publication date of this policy paper, the bill has been sent to the Senate for consideration but has not yet been enacted.

Where applicable, plan sponsors might investigate whether employees are not participating in the DC plan due to the plan's investment lineup. For example, some employees may choose not to join 401(k) plans because the available investment options under the plan do not conform to their religious or ethical beliefs. Under these circumstances, plan sponsors could consider alternatives to address these employees' concerns. Further regulatory guidance might be necessary to address these concerns and would help promote retirement security for certain groups.

Form of payment options

In DB plans, the normal form of benefit is generally a joint-and-survivor annuity for married participants and a single life annuity for unmarried participants. Optional forms of payment are often available, such as other annuity forms or non-lifetime-based forms, such as fixed-period installments and single lump sum payments. Not all DB plans provide a lump sum option, although they are often popular when offered, particularly in cash balance plans or other plans that express benefits in terms of an account balance.

Unlike DB plans, DC plans always express a participant's benefit as an account balance and are focused on the participant's accumulation of assets. As a result, participants generally think in terms of the lump sum value of their DC plan benefit. While other distribution options may be available, such as installment payments over a specified period, most DC plans do not currently provide an insured guaranteed lifetime retirement income option

27 H.R.2799 – Expanding Access to Capital Act of 2023.

(an annuity), nor an investment-based payout option designed to provide income over a predictable period. For those participants who do not wish to take a lump sum distribution, many often take the required minimum distribution under the Internal Revenue Code each year.

Many participants, especially those without adequate financial education, may have concerns about how to spend down their account balances during retirement. As noted in "Observable data" above, certain racial groups and women showed lower levels of financial literacy. More retirement planning education, which is discussed below, and additional retirement income options in DC plans may be helpful for these groups, especially for those who otherwise would not have access to qualified advisers or appropriate and well-designed planning tools.

In-service distribution options (pre-retirement access to funds)

Participants in DC plans generally cannot take in-service distributions before age 59½ without incurring financial penalties, except for certain hardship withdrawals and loans, in the event of disability, or death. Some employees decline to contribute to their employer's DC plan because of concerns that they will need the funds before retirement or before age 59½.

SECURE 2.0[28] contains several provisions allowing additional penalty-free, in-service distributions for all participants, regardless of age. These include (1) one penalty-free withdrawal of up to $1,000 per year[29] for unforeseeable or immediate financial needs relating to personal or family emergency expenses, (2) penalty-free withdrawal of up to $10,000 or 50% of the value of the participant's account for an individual in the case of domestic abuse, (3) an exception to the early withdrawal penalty for a participant with a terminal illness, which requires certification by a physician of expected death within 84 months, (4) expanded rules to permit distributions and/or loans in connection with qualified federal disasters, and (5) simplification of the process for obtaining a hardship withdrawal by allowing the plan administrator to permit participants to self-certify that they met the applicable hardship requirements.

28 Senate Finance Committee Section-by-Section Summary.
29 Only one withdrawal per three-year repayment period is permitted if the first withdrawal has not been repaid.

These provisions are intended to benefit those who would otherwise not participate in DC plans for fear of being unable to access funds in the case of an emergency. A recent study by the Society of Actuaries[30] regarding the preferences surrounding various retirement plan features found that Black Americans place a higher importance on the ability to access funds prior to retirement (No. 5 in relative importance) than the total survey population (No. 9 in relative importance).

Ability to save for non-retirement needs

Surveys show that some people do not participate in retirement savings plans because they may need the money for more immediate needs, such as emergency funds, caregiving and other family-related needs, and student loan payments. Providing for current needs of their family in lieu of saving for retirement is more common for Blacks/African Americans and Hispanics/Latinos.[31]

Allowing access to the funds in a DC plan when faced with an emergency may ease the concerns of potential enrollees and subsequently eliminate a barrier to retirement savings. For some, lacking access to these dollars, coupled with the lack of other emergency savings, forces workers to resort to high-interest debt, such as high-interest credit cards or "payday" loan programs. These options further exacerbate the financial constraints of these individuals, as well as the ability to think about future retirement concerns when immediate needs are much more compelling.

In-service distributions from retirement plans can be used for emergencies, but early withdrawals can be detrimental to achieving retirement security. Providing a way to allocate total savings towards various needs would be helpful for some employees. Recently, some employers have established separate emergency savings accounts (ESAs) so that their employees can set aside funds on a payroll-deduction basis. In addition, SECURE 2.0 allows the coordination of emergency and retirement savings, allowing plan sponsors to offer ESAs as part of a DC plan. Employee contributions to the ESA are subject to a cap, and employers will have the option of matching those contributions. In addition to ESAs, permitting after-tax savings in a DC plan offers another means for employees to save while retaining access to funds in the event of an emergency or other financial need.[32]

30 *What Retirement Plan Features Do Employees Really Want?;* Society of Actuaries; 2023.
31 Financial Perspectives on Aging and Retirement Across the Generations Report on Race and Ethnicity; SOA Research Institute; 2021.
32 There are some limitations to contributions under both ESAs and after-tax contribution accounts.

Some employees find it difficult to save for retirement while they are paying off student loan debt. As noted earlier, student loan debt is more common for Black Americans than other racial groups and is at a higher median value for younger (Millennial) Black Americans.[33] Student loan debt is also associated with higher overall debt levels, making saving for retirement even more difficult. Some employers, like Abbott Laboratories, have already implemented a provision to provide employer contributions in recognition of employees' payments toward student loans. Under SECURE 2.0, employers are now allowed to make matching contributions to a DC plan based on qualified student loan payments. This will enable employees to accumulate assets for retirement while paying off their student loans.

In addition to retirement needs and potential emergencies, employees have other savings needs and priorities, such as education for children or grandchildren, home ownership, or health care. Therefore, policymakers might consider permitting employers to make matching contributions on savings toward these other priorities.

Access to financial wellness materials and guidance/advisers

Many Americans, especially those with lower incomes and/or lower assets, may not have access to financial guidance tailored to meet their individual needs, including materials customized to particular audiences for language, cultural differences, historical concerns, and lack of trust in financial institutions. As noted below, this is especially true in certain racial and ethnic minority groups. Employers may be well positioned to fill this gap, as they are often viewed as a trusted source of unbiased and objective advice.[34]

Because financial stress can affect work performance and possibly lead to turnover, it is not only in the employees' but also in the employer's best interest to provide the support needed to manage short-term financial goals, such as budgeting, debt management, emergency savings, and insurance, as well as help in setting and addressing long-term goals, such as retirement, homeownership, education, and generational transfer of wealth.[35] There has been a significant amount of effort and research by some larger employers and advisers[36,37]

33 COVID-19 Adds to Economic Hardship of Those Most Likely to Have Student Loans; United States Census Bureau; 2021.
34 Advisory Council on Employee Welfare and Pension Benefit Plans Report to the Honorable Martin Walsh, United States Secretary of Labor: Gaps in Retirement Savings Based on Race, Ethnicity and Gender; 2021 (page 50).
35 Rethinking what we need from work: A guide to employees' most pressing needs and how your organization can meet them, based on Mercer's 2022 Inside Employees' Minds© study; Mercer; 2022.
36 Improving retirement readiness for underrepresented groups; Alight; 2022.
37 Bank of America 2021 Workplace Benefits Report: Financial wellness in an increasingly diverse workplace; Bank of America; 2021.

to develop strategies and approaches that may be used as guides in the development and deployment of financial wellness and communications initiatives. Some of the common suggestions for designing a diverse communications strategy for underrepresented groups include:

- Taking time to understand what employees need and tailoring communication strategies to the individual.
- Establishing standards for inclusive language and messaging, such as materials presented in employees' native language and using resources such as the Diversity Style Guide.[38]
- Using visual storytelling that is authentic by featuring more races, body types, ages, and physical abilities in photos and other non-text communications to better represent the intended audience, possibly incorporating actual employees rather than stock images.
- Ensuring that all content is accessible to users with disabilities and making use of 508(c) compliance tools and resources provided by the federal government.[39]
- Investing in and making use of technologies, including mobile platforms. According to 2021 research by the Pew Research Center,[40] Blacks and Hispanics are less likely to have a traditional computer and high-speed internet than whites but are just as likely as whites to own a smartphone. Furthermore, 25% of Hispanics are smartphone-dependent to access the Internet (versus 12% of whites), and 27% of low-income workers (those earning less than $30,000 per year) are smartphone-dependent to access the Internet (versus 6% of those earning at least $75,000 per year). Communications that can't be accessed on mobile devices may exclude these racial and socioeconomic groups.
- Incorporating plan design features and providing access to education and guidance to track progress, promote good habits, and enable employees to take control of their individual financial futures.

38 The Diversity Style Guide; 2024.
39 Section 508 Tools; Government Services Administration; 2024.
40 *Mobile Technology and Home Broadband 2021*; Pew Research Center; 2021.

The 2021 report from the ERISA Advisory Council to the Department of Labor (DOL)[41] included testimony from several experts to improve general understanding of the perspectives of certain employee groups:

- Sarah Raposo of Fidelity Investments noted that one important reason for lower Black and Hispanic participation in workplace retirement funds is a lack of trust in both retirement service providers and the financial services industry more broadly. Women, in general, were also less likely to trust professional plan providers, instead relying on social networks of family and friends.
- John W. Rogers Jr. of Ariel Investments, LLC, noted that Black Americans currently represent less than 2% of Certified Financial Planners and that there is a need to promote stronger financial literacy in Black communities. He suggested that employee communications match the audience to reflect their education levels, cultural differences among the various groups, and their different long-term goals.
- Rogers also stated that corporations should be encouraged to track DC data by race so that latent problems become evident. If a particular group is lagging in savings, the company can reach out with its communications. One example he cited was McDonald's Corporation, which encouraged all employees to increase savings through increased education, automatic enrollment, and front-loaded matching contributions. Black Americans' contributions increased substantially after this change in approach.

Spousal protections

Under a qualified DB plan, a married participant's default form of benefit is a qualified joint-and-survivor annuity, with the spouse as the joint annuitant. A married participant cannot elect another optional form or a different joint annuitant/beneficiary without spousal consent.

In most cases, qualified DC plans do not have the same spousal protections as DB plans. For example, a married participant can take a lump sum distribution without spousal consent. As suggested in various bills considered in Congress in recent years, including the *Women's Retirement Protection Act*, women's financial security would be improved by providing the same spousal protections in DC plans as exist in DB plans, such as requiring spousal consent for certain types of distributions and changes in beneficiary. These protections would apply equally to male spouses.

41 *Gaps in Retirement Savings Based on Race, Ethnicity and Gender*; Advisory Council on Employee Welfare and Pension Benefit Plans; 2021.

In March 2022, Sen. Patty Murray (D-WA) chaired a hearing of the Senate Health, Education, Labor, and Pensions Committee,[42] pointing out the need to expand spousal protections beyond those currently provided under ERISA and the Internal Revenue Code. Sens. Murray and Richard Burr (R-NC) also requested that the U.S. Government Accountability Office examine the need for stronger spousal protections in DC plans.

In August 2023, Rep. Lauren Underwood, D-Ill., and Sen. Tammy Baldwin, D-Wisc., introduced the *Women's Retirement Protection Act of 2023*[43] in the House and Senate. The bill includes a set of provisions that target some of the challenges that disproportionately affect women as they plan for their financial futures. As of the publication date of this policy paper, the bill has not yet been enacted.

Federal law contains language pertaining to qualified domestic relations orders (QDROs), which can be used to assign part of a participant's retirement benefit to a spouse in a divorce settlement approved in a state court. SECURE 2.0 expanded this to allow QDROs issued by Indian tribal governments to be treated the same as those issued by a state court. This provision will benefit Native Americans who wish to follow Indian tribal government procedures rather than state court procedures.

Under ERISA, a spouse generally has no legal right to a participant's DC retirement benefit or information regarding that benefit. In a DB plan, while a spouse may have a legal right to a portion of the benefit, obtaining the information necessary to exercise this right can be difficult. Some spouses, especially women, have difficulty obtaining QDROs because of this lack of information as well as the legal expenses involved in the process. Educational programs at the federal or state level, coordinating with other third-party groups, or federal legislative solutions could be established to help individuals obtain and exercise legal rights in this area, which could be particularly supportive for those facing domestic abuse.

Partner relationships, as opposed to a legal marriage, are not afforded the same spousal protections and QDRO requirements. According to the Census Bureau, marriage rates have declined since the latter half of the 20th century with a greater decrease seen in the Black community.[44] Consideration could be given to expanding protections to include legally recognized partners of unmarried participants.

42 *Rise and Shine: Improving Retirement and Enhancing Savings*; U.S. Senate Committee on Health, Education, Labor and Pensions; 2022.
43 *S.2627—Women's Retirement Protection Act*.
44 *District of Columbia Had Lowest Percentage of Married Black Adults in 2015-2019*; U.S. Census Bureau; 2022.

Differences between private and public sector plans

Public sector employers generally provide more lifetime income retirement benefits than the private sector. With greater representation in public sector employment by minorities, this may support better retirement outcomes; however, this may vary based on factors such as participation in Social Security,[45] benefit formula, and the level of required employee contributions.[46]

According to the Bureau of Labor Statistics[47] in 2022, only 15% of workers in private industry had access to a DB plan, while 86% of state and local government workers did. In contrast, 66% of private industry workers had access to a DC plan, while only 39% of state and local government workers did. Moreover, public-sector DB plans are rarely frozen or terminated, which has been the fate of many private-sector plans over the years. Public-sector DB plans also commonly provide a degree of portability not found in their private-sector counterparts via service-purchase options, which allow incoming workers to purchase eligible past service from a previous public plan, generally financed by the withdrawal of their contributions from their prior public plan. This allows workers to receive a benefit based on their end-of-career final average pay and all their service, which will usually be larger than the sum of separate benefits from different employers, assuming the worker's pay was lower at the prior employer(s). While some public retirement systems require more than five years of service for vesting,[48] the portability afforded by service purchase and the frequently offered option to continue participation in a single retirement plan, even when changing employers, provides opportunities for continuation of pension coverage that are not available to job changers in the private sector. However, this portability is not available to employees who move from public to private employment or vice versa. In addition, most public plan employees will receive their DB benefit as lifetime income because, according to the Bureau of Labor Statistics,[49] lump sum payout options are uncommon in public DB plans.

45 *Inflation Spikes, COLA Cuts, and State and Local Government Workers Without Social Security Coverage*; National Conference of State Legislatures; 2022.
46 Note that public employees in some states do not participate in Social Security and thus their public plan benefits are in lieu of Social Security benefits.
47 *Retirement benefits: Access, participation, and take-up rates for defined benefit and defined contribution plans*; U.S. Bureau of Labor Statistics; 2023.
48 A 2022 *study* published by Equable comments that some state systems increased their vesting periods for new employees after the great recession and financial crisis of 2007–2009.
49 *National Compensation Survey: Retirement Plan Provisions in State and Local Government in the United States, 2016*; U.S. Department of Labor and U.S. Bureau of Labor Statistics; 2017.

Considerations for Future Policy Changes and Future Research

There are a number of government programs, policies, and laws in the United States that incentivize, support, and subsidize individual and employer retirement savings and, consequently, individuals' financial security. Many of these programs were specifically targeted and designed to assist individuals with low and moderate incomes or small businesses. While SECURE 2.0 includes some needed updates to help members of racial and ethnic minority groups, women, and low-income workers save for a more financially secure retirement, policymakers and lawmakers may want to continue to expand and refresh these programs to address the continuing and growing retirement deficiencies we see in the 21st century. These include:

1) **Enhancements to Retirement Saver's Credit**

   The Retirement Savings Contribution Credit (Saver's Credit) currently provides for a tax credit equal to 50%, 20%, or 10% of eligible contributions made to an individual's traditional or Roth IRA or employer-sponsored retirement plan up to $1,000 ($2,000 if married), based on the individual's adjusted gross income (AGI). SECURE 2.0 changes the Saver's Credit to a Saver's Match for tax years after Dec. 31, 2026. The AGI thresholds have been adjusted each year for inflation, but the Saver's Credit limit itself has not been changed since its original implementation in 2001. Future legislation could further increase or index the amount of the Saver's Match. Policy and law changes of this nature, along with strong encouragement for employers to publish and communicate the availability of the Saver's Credit/Match, could substantially increase the awareness of, and incent participation in, retirement savings opportunities among lower-paid individuals.

2) **State- and local-based programs**

   There is no national mandate for employers to sponsor or provide retirement plans or provide access to retirement savings opportunities. Higher-paid individuals without employer-provided benefits routinely seek out and find ways to save for retirement on their own. Lower-paid and more disadvantaged groups generally do not. As of Jan. 1, 2024,[50] 19 states have enacted legislation to establish a state-based retirement program for employers that do not currently offer their own program. Seven states have some form of an employer mandate to participate in the program. Also as of Jan. 1, 2024, at least 47 states and the District of Columbia have considered programs to help their citizens save for retirement. The particular criteria, form, and provisions of the states' mandates vary greatly, but all require targeted employers to participate in their programs.

50 "State Programs 2024: Optimism More Programs Enacted While Several Newer Programs Will Partner with Existing Programs to Launch in 2024"; Georgetown University Center for Retirement Initiatives; undated.

The state retirement savings mandates go a long way to offer employees who do not have employer-provided retirement plans access to payroll deduction savings opportunities. As more states consider and adopt these mandates, the federal government may feel increased pressure from employers operating in multiple states to establish a uniform, national policy. A national mandate would generate increased interest and potentially provide broad, universal coverage. In February 2024, Rep. Richard Neal introduced a bill (The Automatic IRA Act of 2024)[51] to establish a federal auto-IRA for employers with more than 10 employees who do not currently sponsor a retirement plan. While there were legislative proposals in the past, the more recent efforts to improve access may signal a willingness to explore the option again. Another alternative may be to encourage the states operating a mandated system to expand access to their programs. States could explore broadening their programs to employers with employees domiciled in other states. In fact, as of August 2023, two states[52] have adopted an interstate partnership and two other states have, or plan to, explore various interstate partnerships. One of the benefits for these partnerships, especially for smaller states, is to reduce administrative and investments costs by forming a larger group, similar to private sector PEPs.

Research shows that individuals start or increase retirement savings when enrolled in a plan that provides automatic payroll deductions and escalation of contributions. While state retirement plans mandate automatic enrollment for small employers, expanding the existing state retirement plans to all employees, including self-employed and "gig" workers, could be beneficial. Enacting a similar plan on the national level could also greatly improve participation and offer opportunities on a broader scale.

3) **Extension of matching contributions**

SECURE 2.0 allows plan sponsors to provide matching contributions to a DC plan based on employee contributions to an emergency savings account and student loan payments. As noted above, employees have other savings needs and priorities, such as education for children or grandchildren, home ownership, or health care. Policymakers could consider permitting matching contributions on savings toward these other priorities.

51 *Federal Auto-IRA Bill for Uncovered Workers Introduced in the House*; National Association of Plan Advisors; 2024.
52 *MERIT and Colorado SecureSavings enter into first of its kind Partnership*; Maine Retirement Investment Trust; 2023.

4) **Enhancement of auto-enrollment features**

As noted above, the *Auto Reenroll Act of 2023* proposed by Sens. Kaine and Cassidy could further improve plan participation by allowing employers with a safe harbor option to automatically reenroll participants every three years, with an option for employees to opt out.

5) **Education and tools pertaining to retirement**

Additional retirement education and tools, from the DOL and other public bodies, would be incredibly impactful and support plan participants enhance their retirement security. Tools, like the DOL-issued regulations on lifetime income disclosures in 2020, as required by the SECURE Act, and the Academy's recent issue brief *Enhancing Retirement Security Through Changes in Plan Design and Related Requirements*,[53] can be incredibly helpful for employees, particularly those who work for small businesses or in the gig economy. The Academy's issue brief discusses improvements to the current lifetime income illustrations, updating the DOL's lifetime income calculator, and enhancing retirement and financial education throughout the work cycle, offering practical insights for both policymakers and employers. While large employers and their retirement plan administrators often provide modeling tools for their participants, government-provided tools are especially helpful for those inside and outside of that environment.

6) **Expansion of retirement income options in DC plans**

Many DC plan participants, especially those without adequate financial education, express concerns about how to spend down their account balances during retirement. In particular, these concerns are exacerbated for certain racial groups and women who showed lower levels of financial literacy. It might be beneficial if policymakers encouraged DC plans to provide easy to use, cost-effective retirement income options.[54]

7) **Social Security changes**

Social Security serves as the primary retirement income resource for individuals who are otherwise financially unprepared for retirement. The program must continue to focus on and serve these populations' changing natures and circumstances. Design changes that would better support lower-income and disadvantaged individuals include (i) reviewing the 40 quarters of coverage rule, (ii)

53 *Enhancing Retirement Security Through Changes in Plan Design and Related Requirements*; American Academy of Actuaries; 2023.
54 Ibid.

the capture and recognition of gig economy earnings that may not otherwise have been reported for tax purposes, (iii) providing a caregiver credit for time spent out of the workforce, and (iv) as done in some European Union countries, the sharing of income credit for non-working spouses or long-term partners.

8) **Spousal protections**

Current law provides stronger protection of spousal rights and benefits under DB plans than other types of retirement programs, such as DC plans and IRAs. However, the current protections applicable to DB plans were initially established almost 40 years ago by the *Retirement Equity Act of 1984*. While some enhancements have been made by the *Pension Protection Act of 2006*, there is still room to standardize and modernize spousal and partner protections across all types of retirement plans. The aforementioned *Women's Retirement Protection Act of 2023*, introduced in the House and Senate, includes a set of provisions that target some of the challenges that disproportionately affect women as they plan for their financial futures.

Some specific areas for further consideration include the creation of consistent requirements across all types of retirement plans for spousal/partner consent on certain forms of distribution and beneficiary designations; improving education and awareness of spousal and beneficiary rights under retirement plans; expanding ease and efficiency of enforcing spousal/partner rights in cases of divorce or death; considering how rights might be better protected in situations of domestic abuse; and expanding rights to domestic partnerships, civil unions, and other arrangements not covered under current law. The development of simplified, model standard QDRO templates by the DOL for defined contribution plans would help reduce the cost of interaction with the court system and affected participants and spouses.

9) **Lost-and-found database and leakage concerns**

SECURE 2.0 contains provisions to help address leakage from retirement plans and simplify the portability of benefits when workers change employers. The DOL will create an online database of tax-qualified plans to help plan participants and their beneficiaries locate "lost" benefits. Subject to regulatory guidance, provisions are expanded to allow plan sponsors to automatically transfer vested account

balances to an IRA or another employer-provided DC plan, applying to balances under $7,000 in 2024. While both of these changes should help limit leakage from retirement plans by simplifying the portability of benefits, it will be necessary to review experience over time and see whether further changes are needed.

10) Unisex or gender-distinct annuity rates

Under current law, the calculation of benefits from a qualified plan must be determined on a unisex basis. Data shows that women, on average, live longer than men and that it thus costs more to provide the same lifetime retirement income benefit for a woman than for a man. Converting an account balance to an annuity purchase under a qualified plan is thus generally beneficial for a woman, while a man might feel he is being overcharged and would prefer to take a lump sum if offered. Individual annuities purchased in the marketplace reflect gender in the pricing. As more thought is given to ways to provide retirement income benefits from DC plans, policymakers might want to consider whether such conversions should be made on a unisex or sex-distinct basis.

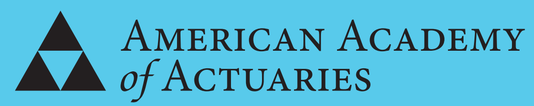
11) Need for future research

In preparing this policy paper, we reviewed numerous studies that document racial/ethnic and gender differences in wealth in general and in retirement savings in particular. Some of the differences in wealth may be the result of historical discrimination against marginalized groups. Some of the studies show that differences sometimes occur even when individuals have the same earnings or education. Further research is needed to help explain why different groups behave differently and what changes would be most helpful for members of these groups. The analysis in Sticha's paper on *Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States*, including insights from roundtable discussions with members of UnidosUS and National CAPACD, provides interesting awareness into racial and ethnic differences and how various groups could be helped. More research of this nature could be valuable. In order to conduct such research, there is a need to collect and track employee demographic data to help identify gaps in coverage or retirement program efficacy.

Conclusion

This policy paper reviews many reasons that some features of retirement plans in the United States may inadvertently result in certain cohorts being put at a disadvantage in terms of the retirement benefits they receive. It makes several suggestions for addressing these reasons through retirement policy changes. However, many potential ways to reduce these inequities go beyond retirement policy and are tied to increasing workplace participation by historically under-represented groups. Additional research is needed to help guide improvements in retirement security for all demographic groups.

The study of retirement benefits among different demographic groups is an evolving field. This policy paper is as up to date as possible at the time of its publication. We recognize that changes are likely to occur in the future.



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