Policy Paper

Executive Summary

Improving Retirement Outcomes: Demographic Considerations
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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 approaches to address them.

Section 1 of the paper (Observable Data) reviews numerous studies that highlight differences among various demographic groups that may contribute to retirement inequities. These differences also point to areas needing further study. Examples discussed in the paper include:

1. There are differences among demographic groups in both access to, and participation in, employer-sponsored retirement plans. Access was lower for Black and Hispanic workers than for other groups. Even when provided access, lower participation may persist due to other financial priorities. Consequently, Black and Hispanic workers may be less prepared for retirement than other workers.

2. Historically, median wealth and median income of white families has exceeded that of Black and Hispanic families. Predictably, groups with lower wealth and income may place a higher priority on using funds for current needs, leaving them with a limited ability to save for future retirement.

3. Debt in general, and student loan debt in particular, is a significant factor that may hamper the ability to participate fully in a retirement savings plan. Student loan debt usage and amounts owed are higher among Black workers than other racial groups.

4. Monies in retirement plans may not ultimately be available to produce retirement income. This can be due to leakage, when retirement savings are withdrawn prior to retirement for non-retirement purposes, including hardship withdrawals and cashing out small balances, and forfeiture, when an employee leaves prior to vesting in the employer-provided benefit. The median job tenure for Black and Hispanic employees has historically been less than white employees, and non-white employees are more likely to take a hardship withdrawal than white employees across all income categories.
It is important to keep in mind that caution is needed when interpreting differences among various demographic groups. For example, recent research, summarized in the paper, suggests that some of the differences among racial groups may be explained by other demographic differences, such as differences in average age and family composition.

Section 2 of the paper *(Retirement Plan Provisions and Features Among Different Demographic Groups)* discusses plan provisions and features that could unintentionally have a negative effect on retirement outcomes for some employees. It also describes choices plan sponsors could consider to encourage participation and improve retirement outcomes among all groups. Examples discussed in the paper include:

1. Employer matching and non-matching contributions: Typical 401(k) plans provide employer matching contributions designed to reward retirement savings. Certain groups, on average, place a lower priority on saving for retirement due to other financial demands and priorities, resulting in a loss of employer contributions. To mitigate this, plan sponsors could provide employer contributions to all employees regardless of savings behavior. Plan sponsors, however, will need to consider the cost of this approach, as well as the reduced incentive for employees to make their own contributions.

2. Form of payment options: Unlike defined benefit (DB) plans, which provide annuities as the normal form of payment, defined contribution (DC) plans typically disburse the lump sum account value. Many participants, especially those without adequate financial guidance, may have concerns about how to spend down their DC account balance during retirement. Other distribution options in DC plans that provide lifetime retirement income would be helpful.

3. In-service distribution options and ability to save for non-retirement needs: Some employees decline to contribute to their employers’ DC plans because of concerns that they might need the funds for an emergency before retirement. Emergency savings accounts (ESAs), as either separate accounts or coordinated with an existing DC plan, allow employees to use payroll deductions to save for such events. Under the *SECURE 2.0 Act of 2022* (SECURE 2.0), employers may match ESA contributions with retirement contributions. Research shows these provisions would benefit low-income workers in general and Black and Hispanic workers in particular.
Section 3 of the paper (Considerations for Future Policy Changes and Future Research) examines policy changes that may facilitate improved retirement security. From page 24 in the policy paper:

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 that may 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.

Potential approaches to expanding these policies and programs include (a) enhancements to the Retirement Saver’s/Match Credit, (b) expansion of state- and local-based programs to provide more retirement savings opportunities for workers who currently lack access, (c) extension of matching contributions for other savings needs and priorities, (d) enhancement of auto-enrollment features, education and tools pertaining to retirement, (e) expansion of retirement income options in DC plans, (f) Social Security design changes to better support lower-income and disadvantaged individuals, (g) enhanced spousal protections in DC plans and IRAs, and (h) consideration of expansion of spousal coverage to include individuals in partnerships and civil unions.

Conclusion

This policy paper discusses features of retirement plans in the United States that may inadvertently disadvantage certain cohorts in terms of the retirement benefits they receive. It makes several suggestions for addressing these features through retirement plan design and policy changes. However, many potential ways to reduce these inequities go beyond retirement plan design and 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.

Staff Contact: Geralyn Trujillo, Senior Public Policy Director—trujillo@actuary.org