

Understanding Retirement Security Gaps by Race, Ethnicity, and Gender

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Overview

Current State of Retirement Security: Race and Gender Gap

- Racial gaps in retirement savings
- Gender gaps in retirement savings
- Factors that contribute to inequality

Race and Gender Inequality in ERISA Plans: Contributing Factors

- The benefit of defined benefit pension plans and union participation
- Race, gender, and mortality
- Weighing anti-discrimination claims and the recent focus on actuarial assumptions in ERISA participant suits
- Leakage

Possible Steps for Administrators, Attorneys, Sponsors, and Trustees

- Prioritizing high-quality actuarial assumptions and the benefit to all participants
- Annuity design and the impact on mortality differential outcomes
- Legislative solutions and advocacy

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- ▶ Thank you to Monique Morrissey for her assistance with her research
- ▶ Check out the 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.” found here <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/about-us/erisa-advisory-council/2021-gaps-in-retirement-savings-based-on-race-ethnicity-and-gender.pdf>



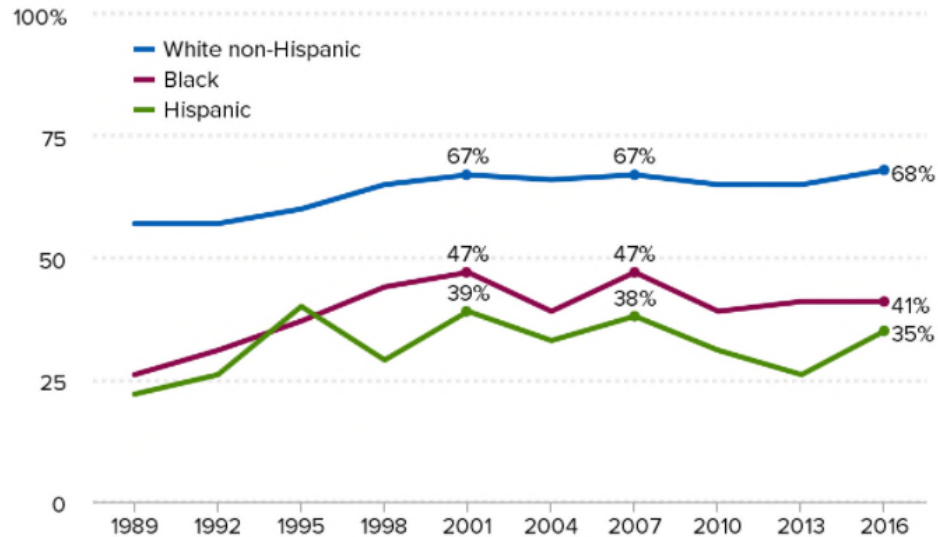
Current State of Retirement Security

Racial and Gender Gap

Racial Gap in Retirement

Most black and Hispanic families have no retirement account savings

Share of families age 32–61 with retirement account savings by race, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

Source: EPI analysis of Survey of Consumer Finance data, 2016.

- ▶ Most Black and Hispanic households have no retirement savings at all only 1/3 of White households are the same
- ▶ Median retirement savings:
 - ▶ \$23,000 for Hispanic Americans
 - ▶ \$29,200 for Black Americans
 - ▶ \$79,500 for White Americans
- ▶ 401(k) participation:
 - ▶ 50% of White families
 - ▶ 37% of Black families
 - ▶ 26% of Hispanic families

Racial Gap in Retirement Savings Cont.

- ▶ Post 2008 Effect:

Median Account Balance	2007	2016
Black families	\$36,000	\$31,000
Hispanic families	\$30,000	\$24,000
White families	\$77,000	\$85,000

- ▶ The median account balance for White families with savings in 2019 was \$83,000 and remains relatively steady

Gender Gap in Retirement Savings

- ▶ Average Social Security benefit:
 - ▶ \$16,268 for women
 - ▶ \$20,302 for men
- ▶ Annual Income vs. 401(k) balance
 - ▶ ♀ : \$57,900 annual income; \$48,300 401(k) balance
 - ▶ ♂ : \$85,500 annual income; \$84,600 401(k) balance
- ▶ Women are overrepresented in highly indebted retirees

Highly Indebted Retirees: 10.3%

72% Female
(vs. 55% of typical retirees)

35% Divorced
(vs. 20% of typical retirees)

85% saved less than needed for retirement
(vs. 46% of typical retirees)

63% Less than \$50,000 in financial assets
(vs. 27% of typical retirees)

50% Income less than \$30,000
(vs. 38% of typical retirees)

90% have credit card debt
(vs. 30% of typical retirees)

40% Worked during retirement
(vs. 31% of typical retirees)

70% Say current spending higher than they can afford
(vs. 17% of typical retirees)

83% are spending down retirement assets to pay health care expenses
(vs. 69% of typical retirees)

72% Say standard of living is lower in retirement
(vs. 37% of typical retirees)

Factors that contribute to Retirement Security Inequality

▶ Wage Gap

- ▶ Race:
 - ▶ Black workers earn: 73 cents per \$1 earned by White workers
 - ▶ Wage gaps persist at every level of education and throughout the wage distribution
 - ▶ Black top earners earn: 65 cents per \$1 earned by White workers
- ▶ Gender:
 - ▶ Women earn: 76 cents per \$1 earned by men
 - ▶ Median household income for retirement-aged women: \$47,000; for men: \$57,144

▶ Retirement Access

- ▶ Disproportionately represented in low-wage jobs. The number of workers with workplace retirement plans:
 - ▶ Workers in the bottom income quartile 42%
 - ▶ Workers in the top income quartile 88%
- ▶ Full-time workers without access to employer-sponsored retirement plans with other retirement: 28%

▶ Wealth Gap

- ▶ Almost half of White families have gotten or expect to get a large financial gift or inheritance from family members compared: 13% of Black families; 11% of Hispanic families
- ▶ If received: White family average inheritance \$300,000; Black family \$100,000, Hispanic family \$200,000

Factors that contribute to Retirement Security Inequality Cont.

Divorce is a major factor for women

- ▶ Women workers with \$250,000 or more in assets
 - ▶ Married: 34%
 - ▶ Divorced: 7%
 - ▶ Never Married: 17%
- ▶ Women workers with \$1000 or less in assets
 - ▶ Married Women: 14%
 - ▶ Divorced: 38%
 - ▶ Never Married: 42%





Race and Gender Inequality in ERISA Plans

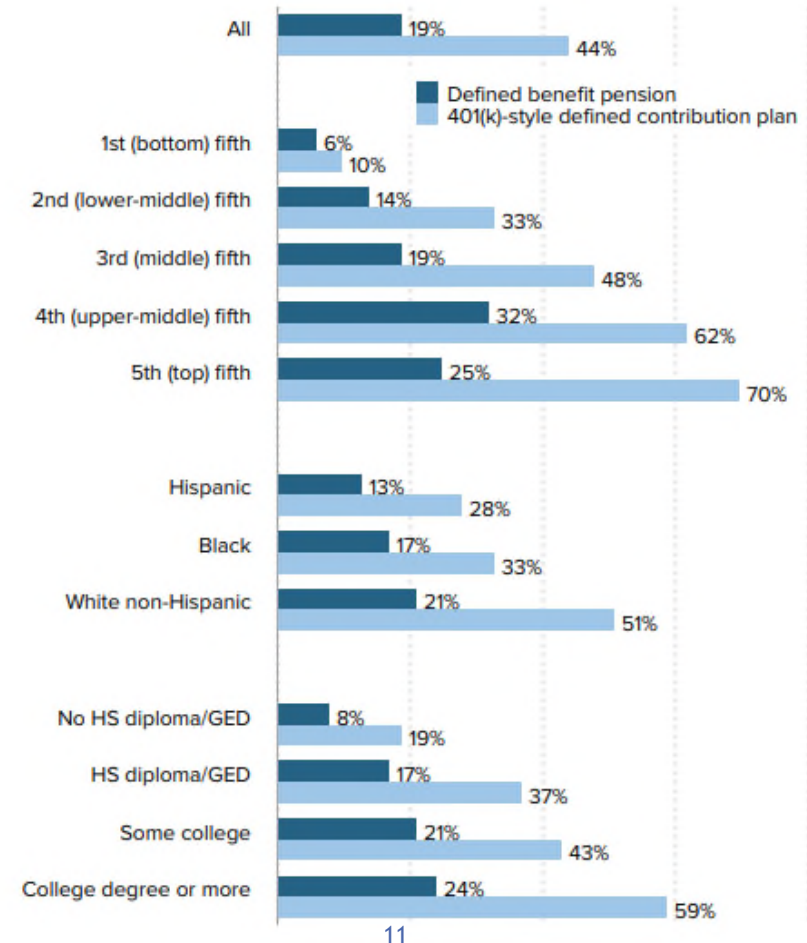
Contributing Factors

Good News: Defined Benefit Plans, Union Participation Produce Retirement Equality

- ▶ 2019, access to private-sector retirement benefits:
 - ▶ 91% of union workers
 - ▶ 65% of nonunion workers
- ▶ Access to defined-benefit plans:
 - ▶ 79% of union members
 - ▶ 17% of nonunion workers
- ▶ Participation in defined benefit plans is more equal across education, race, and income groups (see chart)

More people have 401(k)s, but participation in traditional pensions is more equal

Retirement plan participation of families age 32–61 by family income, race and ethnicity, education, gender, and marital status, 2016



Note: "College degree" includes associate degrees.

Source: EPI analysis of Survey of Consumer Finance data, 2016.

Contributing Factor: Mortality Differences By Race

- ▶ 2018, all-cause mortality rate among Black Americans 24% higher than among White Americans
- ▶ The rates among Black populations were significantly higher than those among White individuals in 29 of the 30 biggest cities:
 - ▶ Closest in Jacksonville: 1.06
 - ▶ Most divergent in Washington DC: 2.32
 - ▶ Overall, the racial inequities were greater in the 30 big cities than in the United States as a whole
- ▶ 74,402 excess Black American deaths

Mortality Differences and Pension Payments

- ▶ DB plans may transfer from high-mortality risk groups to low-mortality risk groups (race, gender, and education)
 - ▶ Race and gender: The average Black man could expect to lose ≈ 14 percent of his account balance
 - ▶ Education:
 - ▶ Low-educated Black men \$0.80 on the dollar for their annuity
 - ▶ Well-educated white women will receive \$1.11
- ▶ Mortality differences play a significant role in shaping the value of a retirement benefit
 - ▶ For example, combined with other features of the U.S. Social Security benefit rules, group mortality differences are “sufficient to eliminate the progressivity of the current system on a lifetime basis.”*
- ▶ Interest Rates vs. Survivor Benefits
 - ▶ \uparrow discount rate \downarrow disparity
 - ▶ Pre-retirement benefits can also offset this disparity BUT the benefit goes to the beneficiary rather than to the participant

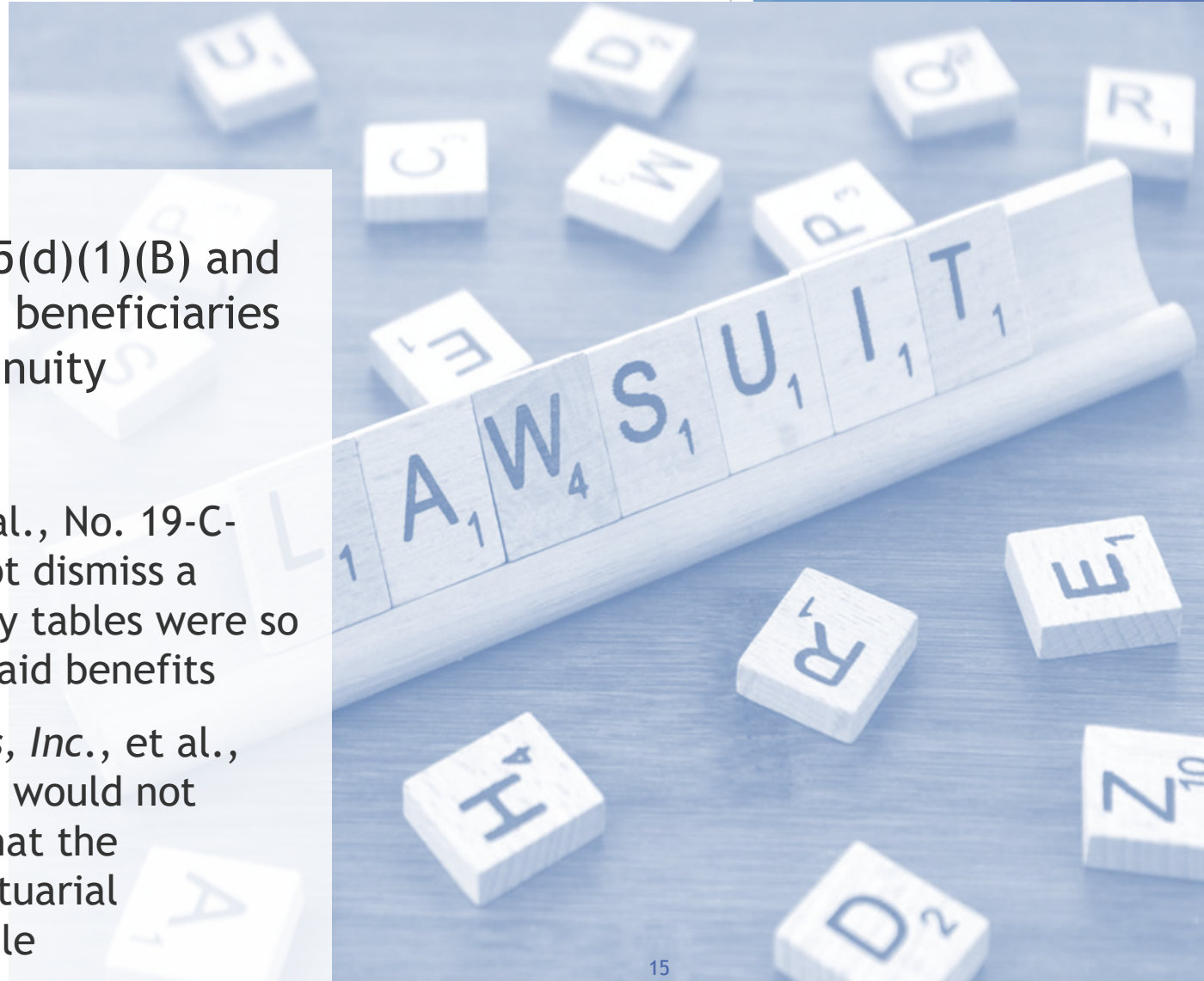
Contributing Factor: Mortality and Anti-Discrimination

Anti-discrimination Concerns

- ▶ In *City of L.A. Dep't of Water & Power v. Manhart*, 435 U.S. 702 (1978), the Supreme Court barred plans from requiring women to contribute more than men to pensions to receive the same benefits even though women live longer, finding it violated the Civil Rights Act of 1964
- ▶ In *Arizona Governing Committee v. Norris*, 463 U.S. 1073 (1983) the Supreme Court followed *Manhart* by holding that plans also can't give men a higher monthly benefit than women based on mortality differences
- ▶ Pension benefits, and the contributions that maintain them, are "compensation" under Title VII. Cf. *Peters v. Missouri-Pacific R. Co.*, 483 F. 2d 490, 492 n. 3 (CA5 1973), cert. denied, 414 U. S. 1002
- ▶ The history of race-based mortality differentials in insurance has been a bad one
 - ▶ An official NAIC Mortality Rates Study published in 1940 separated mortality rates by race. Early in the 1960s, mortality tables based on race integration were approved by industry professional organizations. In low-income markets for life insurance, race-based pricing structures were common.
 - ▶ In *Lange v. Rancher*, 262 Wis. 625, 56 N.W.2d 542 (1953) the court found that state insurance cannot exclude Black applicants based on race-based mortality assumptions but did not find the practice illegal for private insurance companies

Actuarial Assumptions and ERISA Litigation

- ▶ Under ERISA (29 U.S.C. §§ 1054(c)(3); 1055(d)(1)(B) and (2)(A)(ii)) plans must pay participants and beneficiaries the actuarial equivalent of a single life annuity
- ▶ Mortality Assumption Accuracy Litigation:
 - ▶ In *Smith v. Rockwell Automation, Inc.*, et al., No. 19-C-0505 (E.D. Wis.)(2020), the court would not dismiss a complaint alleging that the plan's mortality tables were so outdated that their use resulted in underpaid benefits
 - ▶ In *Herndon v. Huntington Ingalls Industries, Inc.*, et al., No. 4:19-cv-52 (E.D. Va.) (2020), the court would not dismiss a class action complaint alleging that the defendants violated ERISA by relying on actuarial assumptions based on a 1971 mortality table



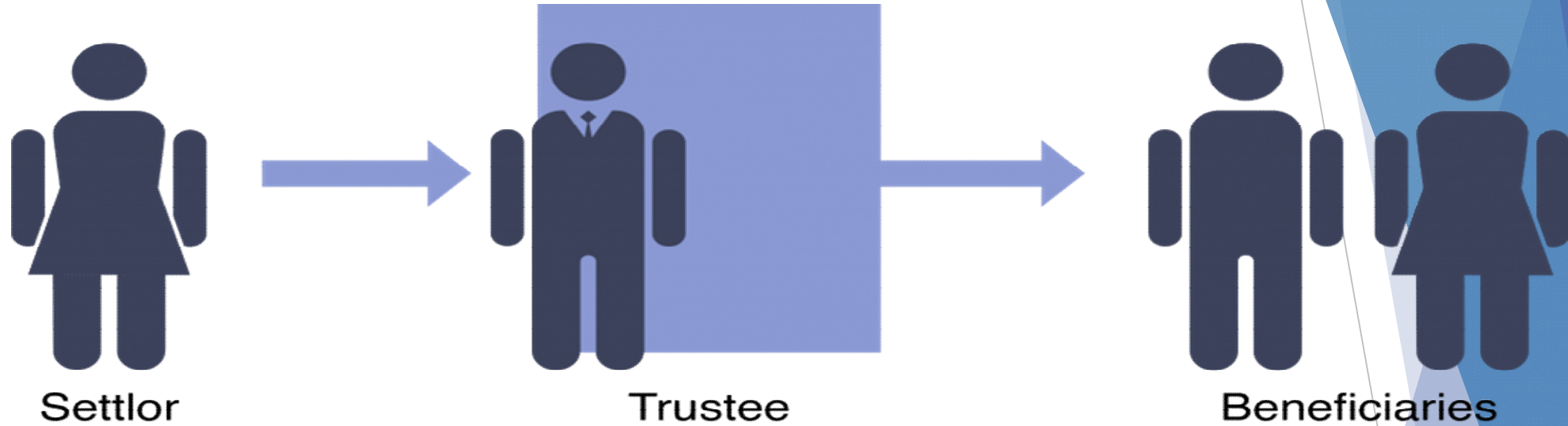
Other Factors: Defined Benefit Plans and Leakage

- ▶ **Job Changes:** People of color and women are more likely to change jobs more frequently leaving retirement benefits
 - ▶ As of May 2021, 24.3 million 401(k)s holding approximately \$1.35 trillion in assets were left unclaimed. Leaving behind a 401(k) account can cost an individual up to an average of \$700,000 in foregone retirement savings
 - ▶ Even if they don't leave benefits on the table, frequent job-changers are more likely to receive small-dollar benefits that are cashed out and subject to the 10% withdrawal tax
 - ▶ Plan provisions that ease rollovers can help alleviate this problem
- ▶ **Plan Loans:** Over the last year, a third of Americans have taken money out of their retirement plans or borrowed from them. Over 60% of those people who took money out of retirement were doing so to cover their day-to-day living expenses.



Conclusion: What Can Retirement Plan Professionals Do?

Conclusions



- ▶ **Plan administrators, sponsors, union leaders, and attorneys can:**
 - ▶ Prioritize accurate actuarial assumptions
 - ▶ Consider impact of plan design on your diverse participant populations

Actuarial Assumptions

- ▶ Invest in quality assumptions including engaging in experience studies if possible
- ▶ Consider population-specific mortality changes due to concerns like the opioid epidemic and Covid 19
- ▶ Use most relevant mortality tables for your plan

Adjustable benefits and other equalizing Plan Design Factors

- ▶ Post-PPA most multiemployer reform has begun with a focus on cutting back
- ▶ Inflation-indexed annuities result in transfers from men to women as well as from lower education groups to higher education groups
- ▶ joint and survivor annuities, period-certain or refund options, or "front-loading" in annuity payments, these expected transfers can be reduced
- ▶ Benefit floors with survivor benefits can help
- ▶ A strong QDRO program can make sure women are protected after divorce

Legislative Solutions

▶ **Securing a Strong Retirement Act of 2021**

- ▶ Automatically enrolls workers in workplace retirement plans,
- ▶ Automatically increases participant contributions (auto-escalation up to a maximum of 10%)
- ▶ Allows employer retirement payment match when employees pay student loans
- ▶ Overpayment protection for widows

▶ **Women's Retirement Protection Act of 2021**

- ▶ Expands spousal protections and QDRO support for defined benefit plans
- ▶ Expands part-time worker minimum participation standards
- ▶ Increases access to information about retirement through community organizations

▶ **Protecting the Right to Organize Act of 2021** - encourages collective bargaining which usually comes with enhanced retirement savings opportunities

▶ **Social Security Expansion Act** - expand social security benefits

Questions?

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