

# MIND THE GAP

## How Organizations Can Champion Retirement Savings Equity

The racial wealth gap is not a new phenomenon in the United States. The numbers are staggering though they may no longer be surprising. In 2022, the median net worth for White American households was about \$284K, compared with only \$44K for Black American households (Knueven and Acevedo, 2024).

Though many varied reasons have perpetuated this wealth gap, beginning with our country's long history with slavery, there is one key component today that is leading to an ongoing imbalance: retirement savings.

Figure 1

### ***Median Value of Retirement Accounts for Savers Ages 51-64***

|                      | White     | Black     |
|----------------------|-----------|-----------|
| Lowest Income Third  | \$ 57,101 | \$ 12,819 |
| Middle Income Third  | \$ 93,226 | \$ 34,960 |
| Highest Income Third | \$291,331 | \$139,839 |

*Note.* To determine income groups, the researchers ranked the households by income, and split them into three groups, or income terciles. Reprinted from "The racial retirement gap in 7 facts," by A. Markowitz, 2024.

The sharp gap in overall household net worth is at least partially rooted in unequal retirement savings. Black workers aged 51-64 are the least likely of all race groups analyzed to have a retirement account. When they do, their balance is significantly lower than White savers (Markowitz, 2024). Black Americans over 65 are also more likely to depend on Social Security and are twice as likely to live in poverty (Markowitz, 2024).

As a retirement plan advisor, HR representative, benefits advocate, or anyone else who works with eligible employees, what can you do to improve retirement plan savings and access? Rather than focusing only on the problems, in this article, we'll focus on key solutions that will help you provide better education, and share specific tips for increasing awareness and take-up rates among Black participants.

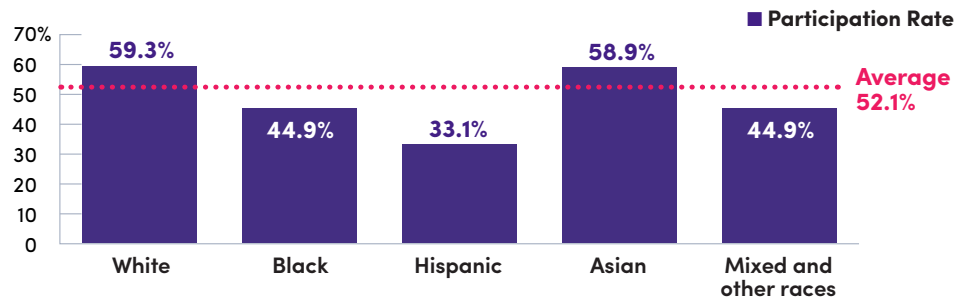
## THE ACCESS GAP

A study by T. Rowe Price that examined 21- to 64-year-old wage or salaried workers in the private sector found that Black workers lag behind White workers and behind the average in terms of retirement plan participation (Banerjee, 2024).

44.9% of Black workers participate compared to 59.3% of White workers (a 14.4% difference).

Figure 2

### ***Black and Hispanic Workers Lag in Plan Participation***



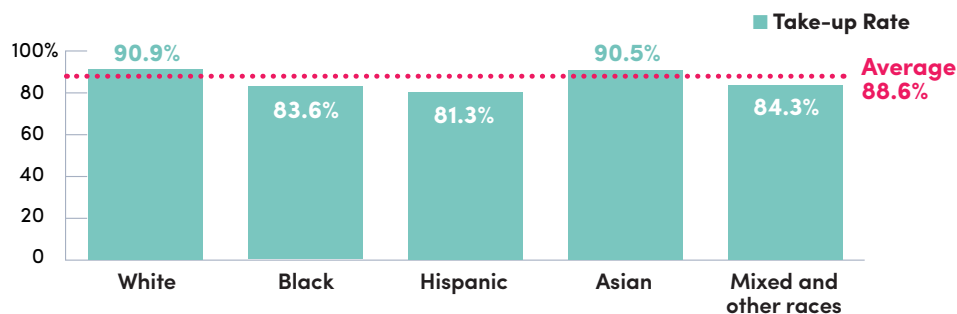
Note. Participation Rate = Share of total private sector workforce (with or without access to a retirement plan) who participate in a retirement plan. Reprinted from "Race, retirement and the savings gap," by S. Banerjee, 2024.

However, when you change the analysis and only examine take-up rates (i.e., employees who join a plan when they're given access), the gap shrinks significantly.

While 90.9% of White workers participate when given access, 83.5% of Black workers do. This represents only a 7.4% difference in take-up rates compared to a 14.4% difference in participation rates overall.

Figure 3

### ***Racial and Ethnic Gaps Narrow Among Those with Access***



Note. Take-up rate = Share of workers who decide to participate in a retirement plan if they are offered one. Reprinted from "Race, retirement and the savings gap," by S. Banerjee, 2024.

Essentially, this analysis indicates that there is a sharp disparity (14.4% difference) in retirement plan participation between Black and White workers. However, when you isolate the sample to only include workers who have access to a retirement plan at work, the gap shrinks significantly. This may indicate that many Black workers don't participate not because they are disinterested but because they are employed in jobs where they don't have access to a retirement plan at work. The take-up rate analysis suggests that participation rates may even out across demographics if access were equalized.

This underscores the basic access problem. More than 40% of private sector workers don't have access to a retirement plan at work (Banerjee, 2024). This problem is intensified for smaller employers who struggle to offer a plan due to the costs and administrative burden. This in turn disproportionately impacts people of color, since smaller companies employ a larger share of minority workers and Black Americans are more concentrated in lower-income jobs—which are also less likely to offer retirement plans (Markowitz, 2024).

In addition, one of the most prevailing and long-lasting inequities is that Black Americans are unemployed at nearly twice the rate of their White counterparts, a statistic that has persisted for many years (Wilson and Darity, 2022). Persistent unemployment will significantly undermine any retirement strategy and cause workers to lose out on the benefits of compounding interest.

SECURE 2.0 has made intentional strides towards providing equal access to everyone regardless of income level or job function. Some of the provisions included will mandate and incentivize plans for smaller employers, as well as provide expanded access for part-time employees.

### What Can You Do?



#### If you're a plan sponsor:

If you're in Human Resources or a benefits-focused role, make sure your plan complies with SECURE 2.0. Are you offering the plan to all of your lower-income workers, including long-term, part-time (LTPT) employees? Take advantage of this opportunity to include more employees in the plan. In addition, make sure you communicate openly and often with employees. The more information you share about how the plan works, the more likely you are to engage employees and interest them in saving for retirement.



#### If you're an advisor:

Consider reaching out to your plan sponsors to discuss their plan design, and check in on eligible employee populations. Make sure you introduce yourself to any new participants and offer simple resources that discuss how to adjust deferral rates or get in touch with you. The more available you are, the more you'll be able to support every demographic as they make decisions about saving for the future.

## INCOME DISPARITY AND INEQUALITY

The two racial groups with the lowest retirement plan participation (Hispanic and Black) also have the largest share of workers in the bottom two income groups. 66% of Hispanics and 60% of Black workers make less than \$50K a year (Banerjee, 2024). However, the data shows that the racial savings gap is actually wider than the income gap. Black and Hispanic families with access to a defined contribution (DC) plan at work earn 68% and 85% of their White counterparts respectively. And yet—the gap in their retirement savings is wider: on average, balances for Black Americans are 56% of their White counterparts and 62% for Hispanics (Banerjee, 2024).

This follows from income inequality: if your take-home pay can't cover your day-to-day expenses, you probably won't prioritize retirement savings. Pressing needs will always come first. Of course, everything carries a consequence, and lower lifetime earnings also means smaller social security checks and a greater likelihood of financial struggle in retirement.

## What Can You Do?



### If you're a plan sponsor:

Check in with your Employee Resource Groups (ERGs) and connect them with your plan advisor to provide retirement support. Find ways to specifically educate employees who opt out—target them with tailored education that explains the value of saving early and allows them to opt back in. Consider offering financial wellness resources that will support employees in their journey.



### If you're an advisor:

Consider partnering with an ERG or other affinity groups to offer sessions where you can provide information about retirement savings, create an easy path to get started, and provide personal question-and-answer support. Make sure you also provide information about the Savers Credit expansion, which can provide a tax break for low- to moderate-income families when they save for retirement (International Revenue Service, 2023).

## EMERGENCY SAVINGS

Even with access, some workers will still be burdened financially and will not participate in the plan. Black workers have the highest rate of eligible non-participation (8.8%) (Banerjee, 2024). In addition, Black workers are twice as likely to make an early withdrawal from their 401(k), even when compared with White employees who have the same income, work at the same firm, and have the same level of education (Holmes, 2024).

## What Can You Do?



### If you're a plan sponsor:

Don't forget, emergency savings can now be an add-on to an employer-sponsored retirement account thanks to SECURE 2.0. This provision could be a helpful way to prevent early withdrawals. Talk to your advisor about how to implement this new provision and give employees the option to save for retirement and emergencies concurrently (ADP, 2023). The more you can "nudge" your employees about savings the better: one study by BlackRock found that employees who received an early reminder to defer savings from their paycheck to an emergency fund were 4 times more likely to do so (Crothers and Boas, 2024).



### If you're an advisor:

A Federal Reserve survey in 2017 found that 39% of American households could not cover a \$400 emergency expense. For Black, low-to-moderate-income families, that percentage skyrocketed to 72% (Larrimore et al, 2018). A study by BlackRock found that those with emergency savings were 70% more likely to contribute to a retirement plan (Crothers and Boas, 2024). Consider offering a lunch-and-learn to discuss the importance of emergency savings with your participants, and how to prioritize between emergency savings and retirement goals.

## STUDENT LOAN DEBT

Black Americans are less likely to have parents who help them with college which means they are more likely to have significant student loan debt. 36% of Black workers have student loans compared to only 23% of White workers. If their income isn't growing significantly, competing priorities like student loan debt that is accruing interest can definitely crowd out the desire to save for retirement (Banerjee, 2024).

### What Can You Do?



#### If you're a plan sponsor:

Evaluate your plan. Do you offer a match? Can you? Remember, SECURE 2.0 now gives the option of providing a retirement match on qualifying student loan payments. This could be a worthwhile way to encourage more participation, especially for those who are saddled with student loan debt.



#### If you're an advisor:

Your plan sponsor will look to you for support on key plan administration details. Talk to them about the benefits of having a match, especially for student loans. This is an optional provision and will require the plan sponsor to certify student loan payments, so be ready to help with the nitty-gritty details to effect a smooth transition. For more details on this, check out this [resource](#).

## LESS LIKELY TO INHERIT WEALTH

Because Black individuals are less likely to receive help from parents for home buying or college, they often don't have the "boost" that some White counterparts have. What's more, for many Black families, wealth often moves in the other direction, with kids supporting their parents financially. College-educated Black Americans are 3x as likely to help parents financially as college-educated White Americans (Markowitz, 2024).

The differences Black and White Americans experience in early life will impact how and when they start saving. 38% of White participants say they started saving for retirement before 30, compared to only 18% of Black participants (Banerjee, 2024). Starting late has consequences because you lose much of the benefit of compounding interest.

### What Can You Do?



#### If you're a plan sponsor:

As soon as you onboard young employees, offer education on retirement savings. Make sure you teach the value of saving early, with a clear explanation of compounding interest. This is the best way to capture savers early in their career.



#### If you're an advisor:

Partner with your plan sponsors to target young employees. Segment employees by age so you can reach out with age-appropriate information about saving that clearly explains the benefits of saving early. Make sure you communicate in a way that will feel inviting and natural to this generation. For tips on communicating with a younger workforce, check out this [article](#).

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## CONCLUSION

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Employees will look to their employer and plan advisor for sound financial advice. You have a key role to play in offering unbiased education that will set them up for a successful retirement. Black Americans in particular are a core market to pursue with a lot of unrealized savings potential. Hopefully, these suggestions can help unlock opportunities for you to set yourself apart as an industry leader. You understand the issues and you have concrete solutions—why not be an agent of change?

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### About SmartPath

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