Improving retirement readiness for underrepresented groups

America has long been recognized as "the great melting pot" due to the vast numbers of people immigrating to our land in search of a better life. Generations of schoolchildren learned about the phenomenon through a catchy Schoolhouse Rock ditty, and we reaped the benefits of this diversity in the form of food, music, and culture from across the globe.

Employers also benefited from the diverse population, as these individuals brought unique perspectives to the workplace. Along with that diversity came a wide range of behaviors related to saving for retirement. Unfortunately, many of those behaviors have not led to a positive outcome. That leaves employers wondering what they can do to help diverse workers increase their retirement savings, so they have the confidence to retire how and when they want.

From a race and ethnicity perspective, long-term data from the Bureau of Labor Statistics shows the number of non-white U.S. workers has doubled since 1979 and currently stands at one-quarter of the workforce[1]. The Hispanic or Latinx portion grew from 5% to 18%[2]. The diversity extends beyond racial and ethnic groups:

- Over the last several decades, women increased from about one-quarter of the civilian labor force to nearly half[3].
- About 10 million U.S.-based workers have a disability[4].
- Over 5% of U.S. adults identify as LGBTQ+, including one out of every six members of Gen Z[5].

Companies that have been focusing on diversity, equity, and inclusion have realized significant benefits to their bottom line. According to McKinsey & Company, employers in the top quartile of diversity among their executive teams achieved profitability that was 36% higher than those in the bottom quartile[6].

Perhaps because of this, employers are turning their attention to reviewing their diversity and inclusion efforts. Alight research shows that eight out of 10 companies say they are very likely or moderately likely to expand inclusion and diversity efforts in their retirement and financial wellbeing plans in 2022[7].

This includes examining their financial benefits to determine if employees have an equitable opportunity to enhance their financial wellbeing. Given our experience with retirement and financial wellbeing programs, this paper outlines specific plan features and strategies that can help bolster savings for underserved workers.

1 US Bureau of Labor Statistics, *Labor force characteristics by race and ethnicity, 2019*, 2020
2 Ibid
3 Department of Labor, *Women in the Labor Force*, 2020
4 US Census Bureau, *Workers with a Disability by Detailed Occupation,* 2017
5 Gallup, *LGBT Identification Rises to 5.6% in Latest US Estimate*, 2021
6 McKinsey & Company, *Diversity Wins: Why Inclusion Matters*, 2020
7 Alight Solutions, *2022 Hot Topics in Retirement and Financial Wellbeing*

1.) Embed financial wellbeing principles within retirement plan design

No one is going to argue that saving for retirement isn't important. However, when many workers face day-to-day financial challenges, setting aside money for the future can take a back seat to paying today's bills. Even among resolute retirement savers, emergencies can throw well-laid retirement planning into a tailspin unless there are sufficient savings in place.

Unfortunately, there are wide discrepancies in the amount of emergency savings between races and ethnicities. According to the Survey of Consumer Finances, white families typically have more than four times the amount of emergency savings as families of color[8]. It's estimated that 36% of white families would be able to cover six months of living expenses, compared to just 14% of Black or African American families and 10% of Hispanic or Latinx families[9]. As a result, people of color in 401(k) plans are more likely to take a loan against their plan account, even when isolating for variables such as pay[10].

Only about half of LGBTQ+ people say that they'd be able to get by without disruption if they had a sudden expense of $500, compared to 63% of the general population[11]. There's also evidence that LGBTQ+ individuals may have a harder time getting approved for loans. According to research from Iowa State University, same-sex borrowers are 73% more likely to be denied when applying for a mortgage. Those who are approved tend to have higher interest rates[12].

From a gender perspective, only about half of women have an emergency fund, compared to more than two-thirds of men[13]. Among those with emergency funds, women tend to have less saved than their male counterparts. Roughly 55% of men say they could cover three months of expenses, while just 43% of women are confident they could do the same[14].

Employers can help workers build up savings for non-retirement needs. For some, this could be an out-of-plan dedicated program aimed at helping workers establish emergency savings. For others, it may entail adding plan features like after-tax contributions that allow workers to access their savings without as many penalties and restrictions as before-tax accounts.

8 Federal Reserve, *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances,* September 28, 2020
9 Bhutta, Blair, Dettling, and Moore, *COVID-19, the CARES Act, and Families' Financial Security,* 2020
10 Alight Solutions recordkeeping data, 2020
11 Mass Mutual, *LGBTQ Financial Security Study,* 2017
12 Sun and Gao, *Lending Practices to Same-Sex Borrowers,* 2019
13 Financial Finesse, *Research Year in Review,* 2020
14 Bankrate, *Survey: More than Half of Americans Couldn't Cover Three Months of Expenses with an Emergency Fund,* 2021

2.) Consider diversity, equity, and inclusion in the investment selection process

Only a handful of companies have examined the culture and diversity of the asset managers in their 401(k) plans, but nearly 40% of employers said they were very likely to do so in 2022[15]. While this is increasingly considered "the right thing to do," there's ample evidence that companies with strong initiatives to enhance diversity and inclusion outperform their peers[16]. The Knight Foundation found both women-owned and minority-owned firms are overrepresented in top-quartile performers among mutual funds, hedge funds, and private equity[17].

Since diversity, equity, and inclusion form the backbone of the "S" in ESG (Environmental, Social, and Governance) funds, there could be increased interest for funds that invest in companies with DE&I initiatives. In 2020, one out of every three dollars under professional management in the United States was managed according to ESG investing strategies[18]. Moreover, inflows to ESG funds doubled from their high in 2019 and achieved a level nearly 10 times what was seen in 2018[19]. This growth is expected to continue. Research from the CFA Institute shows that 85% of CFA charter holders take ESG factors into consideration and three-quarters expect the influence of ESG factors to increase in the next five years[20].

Over the past several years, there's been growth in assets under management of minority-owned and women-owned firms. However there's still a long way to go. Between 2016 and 2021, the percentage of assets under management by diverse-owned funds only increased from 1.0% to 1.4%[21].

15 Alight Solutions, *Hot Topics in Retirement and Financial Wellbeing,* 2022
16 See, for example, McKinsey & Company, *Why Diversity Matters,* 2015; Credit Suisse, *Strong Diversity and Inclusion Practices are Good for Business*, 2020; Morningstar, *How Can Investors Measure Diversity, Equity, and Inclusion?*, 2021
17 Knight Foundation, *Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry*, 2019
18 US SIF, *Report on US Sustainable and Impact Investing Trends,* 2020
19 Morningstar, *A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights*, 2021
20 CFA Institute, *Future of Sustainability in Investment Management: From Ideas to Reality*, 2021
21 Bella Private Markets, *Knight Diversity of Asset Managers Research Series: Industry,* 2021

3.) Have a diverse savings communication strategy

Benefits such as a 401(k) plan or financial wellbeing tools are only worthwhile if workers use them, so having a robust communication strategy is critical to their success. While there's no playbook on how to incorporate diversity and equity into communications, here are some helpful guidelines:

1. Speak to an audience of one by tailoring communication strategies to the individual. Incorporate everything you know about the person to craft a message that best resonates with them. You may need to translate the communication into the person's native language.

2. Establish standards for inclusive language. Online tools like the Diversity Style Guide can help by pointing out potentially offensive words and providing suggestions for words that should be used instead.

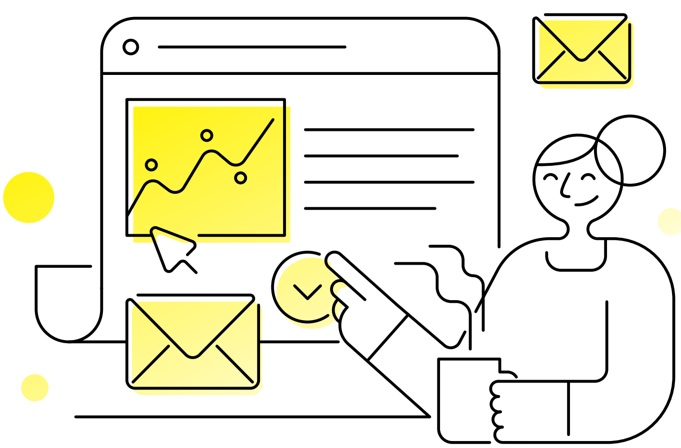
3. Use visual storytelling. Are there opportunities to feature more races, body types, ages, and physical abilities in photos and other non-text communications?

4. Be authentic. Don't use photos of people who don't represent the people you're trying to capture. In certain cases, using photos of actual workers or clients can be better than stock photographs.

5. Go mobile. People of color are less likely to have a traditional computer and home internet access than whites, but there's no difference in the percentage of people who have smartphones[22]. One-quarter of Hispanics say they are smartphone-dependent to access the internet—double the percentage of whites and notably higher than the 17% of Black people[23]. Communications that can't be accessed on mobile devices run the risk of excluding underserved populations.

6. Ensure that all content is accessible to all users and is 508(c) compliant.

None of these suggestions is a silver bullet, but they provide a starting point for thinking about how best to communicate with a diverse population.

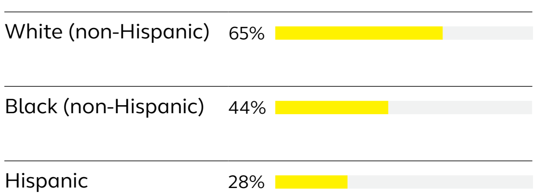


22 Pew Research Center, *Home Broadband Adoption, Computer Ownership Vary by Race, Ethnicity in the U.S.*, 2021
23 Pew Research Center, *Mobile Technology and Home Broadband,* 2021

4.) Provide benefit equity in the retirement plan

White non-Hispanic families are 50% more likely to have a retirement account as their Black counterparts and more than twice as likely as Hispanics[24]. Granted whites are more likely to have access to retirement accounts than other races and ethnicities[25], but there remains a difference in the participation rates within retirement plans as well. Since our seminal study with Ariel Investments entitled 401(k) Plans in Living Color a decade ago, Alight has found that whites and Asian Americans participate at a higher rate than Black people or African Americans and Hispanics or Latinx[26].

Percentage of families owning at least one retirement account by race/ethnicity



Features like automatic enrollment have helped close the gap, but differences remain. Currently, roughly 90% of white families with access to an employer-sponsored savings plan are participating, compared to about 80% of Black people and 75% of Hispanics[27].

Prudential finds LGBTQ+ workers are less likely to participate in their employers' retirement plan[28], while Mass Mutual research indicates 70% of LGBTQ+ workers feel they are behind on their retirement savings[29].

There are actionable steps that employers can take to diminish the differences. For example, employers can provide workers with a contribution that is not tied to a match. Currently, about one-quarter of large plans have a non-elective feature like this[30]. Employers can tweak the matching formula to help keep the costs consistent with the current program. For example, instead of offering a $1-for-$1 match on 6%, an employer can provide $0.50-per-$1 match on 6% with a 3% non-elective contribution. Plan formulas can also be tweaked to provide the non-elective contribution to only more vulnerable populations like workers earning below a specified pay threshold.

If changing the plan formula isn't an option, employers may consider implementing an automatic enrollment "backsweep." This is when employers enroll non-participants into the plan unless the individuals opt out. About one in 10 companies is planning on doing a backsweep this year[31].

24 Federal Reserve, *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*, September 28, 2020
25 Ibid.
26 Ariel Investments and Hewitt Associates, *401(k) Plans in Living Color*, 2012
27 Federal Reserve, *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*, September 28, 2020
28 Prudential, *The LGTB Financial Experience*, 2017
29 Mass Mutual, *LGBTQ Financial Security Study*, 2017
30 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2021
31 Ibid.

5.) Align retirement plan design with DE&I research

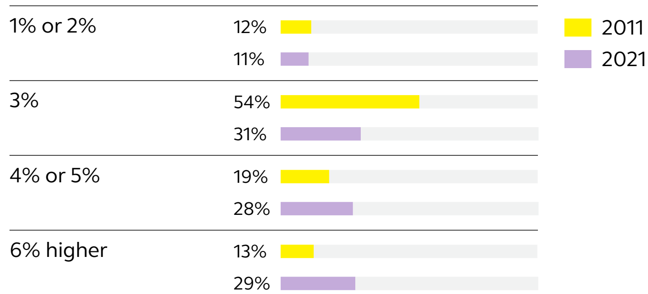
One of the great successes of the Pension Protection Act of 2006 was the widespread legalization of automatic enrollment. Over the last 15 years, we've seen approximately three-quarters of employers adopt this feature[32], which has certainly helped increase plan participation. Plans with automatic enrollment achieve an average participation rate of 88%, a full 20 percentage points higher than plans without automatic enrollment[33].

Differences in participation exist across all segments of the workforce, but they are most pronounced among groups where active enrollment has the lowest rates:

— Workers in their 20s: With automatic enrollment: 86%. Without automatic enrollment: 50%
— Workers making $20K - $39K: With automatic enrollment: 79% Without automatic enrollment: 61%
— Workers with less than one year of service: With automatic enrollment: 84%. Without automatic enrollment: 42%

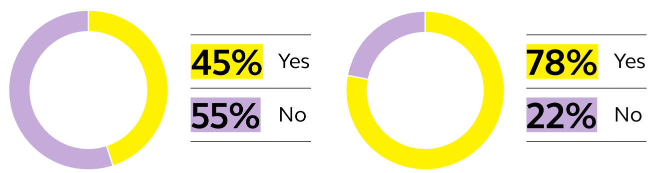
With success comes scrutiny. While automatic enrollment is good at getting workers into the plan, data shows that people who are subject to automatic enrollment save less than those who are not[34]. To help combat this, employers have changed plan provisions to increase the initial default rate, add contribution escalation, and raise the escalation ceiling[35].

Distribution of default contribution rates 2011 vs 2021

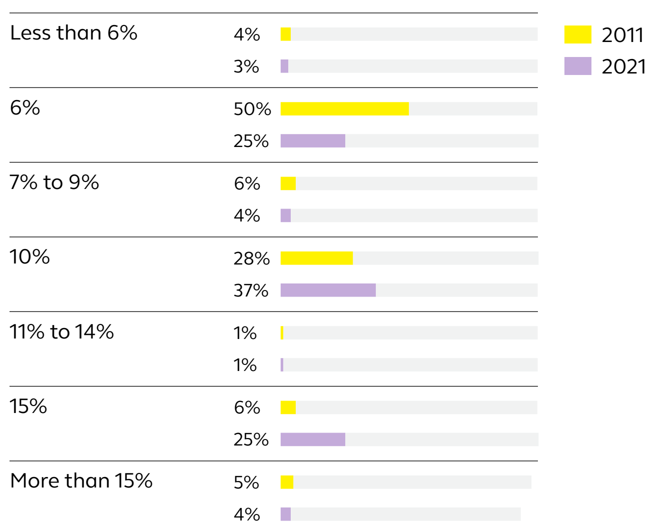


Prevalence of automatic contribution escalation with automatic enrollment - 2011

Prevalence of automatic contribution escalation with automatic enrollment - 2021



Distribution of escalation ceilings 2011 vs 2021



32 Ibid.
33 Alight Solutions, *Universe Benchmarks*, 2021
34 Ibid.
35 Alight Solutions, *Trends & Experience in Defined Contribution Plans*, 2021

6.) Facilitate financial stability during employment changes

A hallmark of retirement savings is the accumulation of assets during the working years to have sufficient income during the golden years. Unfortunately, many people cash out their retirement savings when they change jobs. According to some estimates, nearly one out of every five dollars in inactive participants' accounts gets cashed out every year[36]. The smallest balances are often cashed out at the highest rate.

Fortunately, there's a solution to help keep small balances earmarked for retirement. Auto-portability by Retirement Clearinghouse can substantially reduce the number of automatic cash-outs that occur when people change employers by linking together saving plans and having the funds automatically transfer from the former employer's plan to the current employer's plan. According to the Employee Benefits Research Institute (EBRI), the estimated impact of auto-portability for balances less than $5,000 is over $1.5 trillion[37].

The impact is most profound for marginalized groups. Although data shows race and ethnicity don't play a meaningful difference in the number of jobs someone has[38], there's a difference in what people do with their 401(k) balances when they leave an employer. While less than one-third of all DC participants cash out small balances, 57% of Hispanics or Latinx and 63% of Black people or African Americans cash out their small balances[39]. According to EBRI, auto-portability can help 67 million minority job-changers preserve savings over a generation resulting in over $600 billion of incremental savings[40].

36 Cerulli Associates, *DC Recordkeepers: Direction of Retired/Separated Participant Assets*, 2020
37 EBRI, *The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage*, 2019
38 Bureau of Labor Statistics, *Number of Jobs, Labor Market Experience, Marital Status, and Health: Results from a National Longitudinal Study*, 2021
39 Retirement Clearinghouse, *How Sponsors can Help Minorities Save More for Retirement*, 2020
40 EBRI, *The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage*, 2019

The great poet Maya Angelou once said, “Do the best you can until you know better. Then, when you know better, do better.” We believe these six steps can help plan sponsors increase savings for historically underrepresented groups. However, they’re merely a first step.

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