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## DISPARITIES FOR WOMEN AND MINORITIES IN RETIREMENT SECURITY

*By Anna M. Rappaport and Mary Nell Billings*

*This article focuses on disparities for women and minorities in retirement security with emphasis on issues that may be of particular interest to actuaries. The 2010 ERISA Advisory Council (council) studied disparities for women and minorities as it relates to retirement savings. This article draws on the authors' experience, the work on the council, and also references the Society of Actuaries Living to 100 and Retirement 20/20 projects. It reflects the personal views and perspectives of the authors. The views of the authors do not represent the views of the ERISA Advisory Council. Both of the authors served on the council in 2010, both were authors of papers for Living to 100, and both were participants in Retirement 20/20.*

### INTRODUCTION

There are major challenges facing the retirement system in the United States and many different ways to view the challenges. In addition to major questions about system structure and who will provide benefits, there are substantial differences in retirement savings and benefit levels between men and women and by ethnic group. The work of the council offers insights into the levels of disparities, their causes, and some of the related challenges. The report can be found at <http://www.dol.gov/ebsa/publications/main.html#section16d>.

The council's project focused on identification of the causes of the existing discrepancies with regard to retirement readiness for women and minorities and determining what actions the secretary of labor could take to mitigate these discrepancies. The council's study focused on:

- Identifying existing disparities for women and minorities in retirement savings

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- Identifying possible causes
- Identifying the stakeholders who can influence possible remedies
- The role of the Department of Labor in addressing the issues and in influencing key stakeholders
- Identifying additional educational opportunities for plan sponsors, service providers, and individuals that would decrease existing disparities
- Benefit plan designs that positively impact these groups
- Guidance to plan sponsors regarding the collection and utilization of data by race and gender to help identify problem areas
- The appropriateness of costs to the plan and potential liability for the plan sponsors to facilitate such collection and utilization of plan data

Other projects that consider related issues and take different perspectives include Living to 100 which focuses on the implications of long life and Retirement 20/20 which looks at future structures for the retirement system. Neither of these projects is specifically focused on disparities, but the issues discussed are interwoven with the issues uncovered in the disparities study.

#### WHAT ARE THE CHALLENGES

In general, the council found that disparities do exist and are due to a number of factors. Many minority workers are employed in industry segments that traditionally do not offer retirement plans—such as non-union construction, services, and daycare. For many women, moving in and out of the work force to care for children and other family members reduces their overall earning capability and the ability to build their "human Investments" in the job market, often leading to fewer promotional opportunities and lower paying jobs. Breaks in service and lower average salaries often result in much lower benefit accruals. Employment choices, including part-time work and the types of jobs women choose, are added contributors to the disparities. Less access, uneven workforce participation patterns, job choice, and lower wages combined often lead to lower account balances. The burden of lower account balances is greater for women because of their longer life spans and the need to finance more years in retirement. Minority women tend to have even lower retirement incomes than white women and many older women of all races rely solely on Social Security benefits.

The decline of the defined benefit system has negatively impacted many lower income individuals, regardless of race or gender. Leakage from the existing retirement system compounds the issue of low balances for those having no or inadequate emergency reserves, creating a need to draw on accumulated retirement assets. This lack of financial preparedness results in a large portion of the American population relying on Social Security as the primary or sole source of retirement income.

There are many far reaching policy issues that need attention that go well beyond the scope of the work undertaken by the Council. The council report stated that its recommendations anticipate these underlying issues, and root causes will not be resolved in the near term. Actuaries may wish to consider what they can do to help address some of these issues, as individuals, as a profession, and as advisors to their clients.

#### WHAT ARE THE SOLUTIONS

Enhancing retirement security for any group may depend on a combination of individual action, employer action, policy changes, efforts by financial services organizations, and action by government bodies. The efforts of these groups interact and except for governmental programs, the systems to provide retirement security are voluntary. Witnesses testifying at the council presented a wide range of ideas to the council. The authors suggest that actuaries may wish to study the summaries of individual testimony and the testimony. The council's recommendations to the Department of Labor were in four areas—public outreach and education, encouragement with respect to certain plan designs viewed as helpful in reducing disparities, encouraging better data bases, and addressing family related issues. The recommendations on outreach include:

- focus on Summary Plan Descriptions
- recognition of the importance of using Spanish language translations for some groups
- recognition of the importance of starting financial education in school
- targeted education to various groups about the implications on benefit security of death and divorce
- outreach to business on the importance of offering retirement plans

The recommendations on access to plans focus on encouraging designs and plan structures that reduce disparities, focusing on break-in-service rules, and thinking about new models. The council also asked for guidance about targeted communications provided to specific groups. The

recommendations with regard to family issues focused on clarifying rules with regard to the delivery of information to spouses. The recommendations with regard to data focused on facilitating and encouraging the development of data bases and providing guidance about whether plan funds could be used to develop such data. The council report documents the recommendations and the rationale supporting them, as well as providing summaries of the testimony it received. The discussion of the recommendations links them to testimony. Note that there was an article in the last *Pension Section News* by Elizabeth Wells on the family issues and challenges related to them.

A significant factor in the existing disparities relates to employment patterns—both types of employment and years in the workforce. There are limits as to what can be done within the retirement system to address disparities due to different employment patterns.

Other groups have provided more far ranging recommendations about retirement security. For example, WISER has prepared a blueprint for women's retirement security. This is another source on policy recommendations to improve retirement security for women. These issues should be considered in the context of a growing national debate about what retirement means and who should provide retirement security and how. Actuaries are encouraged to participate in that debate. The Society of Actuaries Retirement 20/20 project offers many other ideas for addressing broader challenges in the retirement system. That debate goes far beyond the work of the council, but often the issues raised in the council report are not considered during the discussions. The authors recommend utilizing the council report as a valuable perspective.

#### BASIC FINDINGS FROM THE COUNCIL STUDY

Data from a study by Ariel Investments and Hewitt on 401(k) [Saving & Investing Behaviors by Race and Ethnicity](#) shows the results for a group of large plans:

| Group            | Part Rate | Cont Rate | % with Equity Investments | % with Loans | % Using Hardship Withdrawals | 401(k) Balance for Employees Earning \$30,000–\$59,999 |
|------------------|-----------|-----------|---------------------------|--------------|------------------------------|--|
| African-American | 66%       | 6.0%      | 66%                       | 39%          | 7.8%                         | \$21,224   |
| Asian            | 76%       | 9.4%      | 73%                       | 16%          | 2.0%                         | \$32,590   |
| Hispanic         | 65%       | 6.3%      | 70%                       | 29%          | 3.4%                         | \$22,017   |
| White            | 77%       | 7.9%      | 72%                       | 21%          | 2.1%                         | \$35,551   |

The Ariel study is based on 57 large 401(k) plans with 3 million participants. This study shows that disparities exist for people participating in large plans. On a population basis disparities are greater, and the council report explores this issue. As it studied the data and testimony, the

council found that:

- Significant disparities exist for women and racial minorities.
- After age 65, older women alone are much more likely to be poor than married women, and women of color are much more likely to be poor than white women. Divorced women and widows have special issues.
- For about four out of 10 women alone, Social Security is their only source of retirement income. Generally, working women receive a lower benefit from Social Security based on their work records due to lower wages or uneven work patterns.
- The council heard different results about whether there are disparities related to ethnicity once you control for income. Ariel/Hewitt and the Urban Institute studies demonstrate that even after controlling for income, disparities remained. The Center for Retirement Research study suggests disparities based on race are no longer a determinant factor once you control for many other variables. Regardless, there are significant disparities in retirement preparedness.
- More Blacks are out of the labor force at ages 55–64 than the other groups in part due to higher rates of disability.
- Most of the studies referenced in the testimony did not address Asian Americans. However, the issues this segment of the population face were documented in the testimony and a study by Prudential. This group of workers tend to be employed in small family-owned businesses where the responsibility to save for retirement falls directly to the worker. Many individuals in this group were aware of the need to save and had very high goals in retirement. Yet, worker savings behaviors were generally insufficient to attain the high goals they set for themselves regarding retirement preparedness.
- Native Americans have both high rates of unemployment, much higher than other groups, and higher rates of poverty. They are least likely to be employed where there is an employer-sponsored plan except for governmental employment. This group has special issues that are beyond the scope of the council work.

#### BENEFIT LEVEL/PLAN ISSUES

- Differences in benefits are consistent with differences in employment histories, incomes, and types of employment. The

study did not identify any discrimination in the structure of plans, but it did identify opportunities to reduce disparities by looking at the employment patterns and plan designs.

- Many individuals have not accumulated sufficient funds for emergencies. Many Americans live paycheck-to-paycheck. For many, the 401(k) plan also serves as an emergency fund. Changing loan repayment options or allowing repayment of hardship distributions could prove to be helpful in enhancing retirement security.
- Modifications can be made to plan designs to produce very good results for women and minorities. Testimony from McDonald's Corporation demonstrated this. While McDonald's did eliminate automatic enrollment for a broader cross section of its workforce, it did redesign the 401(k) plan and re-implement automatic features for managers. McDonald's found that these plan changes have made a positive difference in the turnover rate and retirement security for their workers among all ethnic groups. This case study shows how one employer was able to analyze its workforce, identify a problem, design a solution and show that the solution addressed the problem.

#### INSIGHTS

- Trusted sources of information/advice and peer groups can be important. Trusted sources vary community by community and group by group. Particularly for minorities, trusted sources may not be what we would expect, according to information provided by the Women's Institute for a Secure Retirement (WISER).
- Culturally appropriate communication is important. Information should come from a trusted source. For people with longer-term employment in organizations they trust, the employer is an excellent trusted source. However, for many Blacks, Hispanics and women, the employer may not be a trusted source. In those cases, the community may be a resource in locating trusted sources which can vary by group. If there is a union or professional association (e.g., nurses), it can be a trusted source. For actuaries working with plan sponsors and providers of services to plans, this is an important insight.
- There is generally an inadequate understanding of the financial products relating to product solutions and retirement income. This is a key insight.
- While ERISA offers protection for pension benefits upon divorce,

some plans do not have ERISA protection and different requirements may apply. Many attorneys are not knowledgeable about pensions and pension rights and therefore spouses are not always treated equitably.

#### RELATED ISSUES: UNBANKED AND UNDERBANKED

Many people are unbanked or underbanked and have additional challenges to adequately participate in the retirement savings system. The council was informed that being unbanked was more common for Hispanics, American Indians, and Native American groups. Actuaries supporting benefit plans should consider the implication of this type of employee population.

#### DATA AND ISSUES SURROUNDING DATA

To be able to document the disparities and monitor any progress, the availability of data is very important. Securing data can be a major challenge in studying disparities. In some cases, if data is available, it can be embarrassing. Actuaries working with plan sponsors who are seeking to address these issues will want data to understand the issues, identify the problems specifically, and measure progress. Benefit plan data does not normally include ethnicity, and insurers are prohibited from discriminating and may not have such data, but employers normally have such data about their workforces. Data sets that include a sample of the total population are helpful in identifying that there are issues, but not enough to measure progress within plans or the success of specific features in those plans in terms of improving retirement preparedness of women and minorities. They include information about the unemployed and those without access to plans and offer a different and important perspective.

The council focused on the importance of data in identifying issues, measuring the problem and measuring progress in addressing an issue. It also discussed the cost to collect data, and plan sponsor concerns and challenges related to data which could be embarrassing or used against an organization.

#### DIFFERENCES IN LIFE SPAN AND MORTALITY PATTERNS

An area of significant disparity not included in the council work is the difference in life spans. Women live longer than men, and if they retire at the same ages, their money will need to last more years. This is very well known among actuaries and most mortality tables include data by sex. Whites in the United States live longer than blacks, and this is documented in population mortality tables but not usually in pension insurance company mortality data. Mortality also varies by socio-economic

status. Mortality differs by ethnic group as well. The differences in mortality by ethnic group were discussed at the [2011 Living to 100](#). Jay Olshansky talked about the MacArthur Foundation [studies of aging in America](#) and the importance of differences in life spans by ethnicity. Concerns about differences in life span by ethnicity are often mentioned in debates about Social Security.

#### WITNESSES AND THE WORK OF THE ADVISORY COUNCIL

Witnesses are a key part of the work of the council. The council members assigned to work on a specific topic after defining the scope statement identify the types of information needed to understand the issues and hear ideas from various perspectives. The testimony is very important to the work of the council. Written testimony is part of the public record and copies are posted on the website while the project is active. Summaries for each witness are included in the council report of the topic and full copies of testimony can be obtained from the council. For this topic, witnesses included:

- Representatives of Hispanic, Native American, and Black communities, as well as Women's Institute for a Secured Retirement (WISER), an organization that has worked with women on retirement security issues
- McDonald's Corporation that provided insight from the perspective of an employer who has taken steps to address some of these issues
- Representatives from organizations that have conducted extensive research focused on disparities, including Ariel Investments and its partner, Hewitt Associates, the Urban Institute, and Prudential
- A representative of the Ford Foundation who presented research and insight on how the Foundation has addressed the challenges of reducing disparities for women and minorities in the area of retirement security

Actuaries may be particularly interested in the testimony of Ariel Investments, Hewitt Associates, Urban Institute, Ford Foundation, WISER, and McDonald's. The testimony and the report are full of data and ideas, many of which were not supported by the council and therefore, they are not reflected in the council's recommendations. They offer a valuable resource to understand how different stakeholders are thinking about some of these issues. Highlights from one witness summary in the council report are included here. The authors hope that this will encourage readers to look at the council's report and more of the witness summaries.



Barbara J. Hogg, FSA, principal and senior retirement consultant, Hewitt Associates LLC was the only actuary among the witnesses on this topic. She reviewed results of a recent study entitled: *Retirement Income Adequacy at Large Companies: The Real Deal 2010*. Here is an excerpt from the report section summarizing her testimony and including several ideas about 401(k) plan design:

*Key findings of that study were reviewed:*

- *Employees contributing to their plan over a full working career are on track to have retirement resources of 13.3 times pay at retirement age, 15% short of their retirement needs of 15.7 times pay*
- *The shortfall grows to 32% when including all employees (both those who are contributing and those who are not contributing).*

*Ms. Hogg noted that only about 18% of workers included in this study, again, primarily representing workers of large employers, were on track to achieve the goal of meeting their retirement needs. The 2.4 times pay shortfall varied by gender—3.1 times pay for women, 1.8 times pay for men. Adding to the disparity, Ms. Hogg noted that women are more likely to earn less, live longer, save less, invest less aggressively, as well as have an increased likelihood of leakage due to breaks in service for care giving purposes.*

*Ms. Hogg also recommended changes in loans, including:*

- *Making loans portable*
- *Extending the "cure period" for loans upon involuntary termination*
- *Encouraging plan sponsors to allow loan repayment after termination*

*Ms. Hogg also recommended changes to withdrawals, specifically:*

- *Allowing participants to re-contribute hardship withdrawals to their accounts*
- *Modifications in hardship withdrawal availability*
- *Restrictions on the availability of other in-service withdrawals*

## CONCLUSIONS

Disparities for women and minorities add additional dimensions to the

many challenges facing the retirement landscape. In the face of other challenges, many of these issues are largely not considered. We hope that many actuaries will take an active role to improve the retirement system in America and will emphasize these important issues. The authors thank the council for addressing these issues, making recommendations to address disparities, and providing a valuable set of information to help others who wish to address these challenges.

#### ABOUT THE AUTHORS

Anna Rappaport is an actuary. After retiring from a career as a pension consultant with Mercer, she started Anna Rappaport Consulting. She chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks. She is a past-president of the Society of Actuaries.

Mary Nell Billings is currently director, retirement benefits at the Americas for Hilton Worldwide. She chaired the DOL ERISA Advisory Council topic "Disparities of Women and Minorities in Retirement Security" and was co-chair for the topic "Phased Retirement."

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