In the current high-stress economy, American workers are growing more and more concerned with their retirement.

According to a new Pew Research study, without changes, the retirement-savings gap, or the difference between the amount of money needed for a comfortable retirement and individuals’ actual savings, could create a $1.3 trillion dollar economic burden through 2040. Many Americans simply aren’t able to save enough for retirement — 61% of elderly households are projected to have an annual income below $75,000 in 2040, putting the average income shortfall to be roughly $7,050. Plan sponsors are also expressing doubts about their savers in this inflationary environment, with 69% of sponsors reporting that they are concerned about inflation cutting into the retirement savings of their savers.
Ultimately, these disparities in saving for retirement are appearing disproportionately in underrepresented groups. In a 2022 AARP survey of private sector employees, “more than 53% of African Americans and about 64% of Latinos do not have access to a workplace retirement plan, compared with about 42% for white workers and 45% for Asian Americans.” According to a T. Rowe Price survey, Black and Hispanic workers are falling behind in both plan participation and savings. When compared with the average overall retirement participation rate of 50.2% of those surveyed, Black workers averaged a 40.5% rate and Hispanic workers at 31.9% rate. There are several factors that contribute to this gap in retirement savings, including a greater range of current competing financial priorities outside of setting aside money for the future and the racial pay gap.

How these diverse groups feel towards retirement varies as well. Worries about outliving retirement income savings also disproportionately affect diverse groups, according to the 2022 BlackRock Read on Retirement. When surveyed, 75% of Black/African Americans expressed concern about outliving their retirement savings, compared to 67% of Hispanic/Latinos, 61% of whites, and 71% of Asian/Pacific Islanders.

When met with this large problem, an organization should assess and evaluate its current retirement plan and practices to increase its overall equity. There are several ways that plan sponsors can look to address these issues, depending on where an organization is along its DEI journey, but a combination of these solutions is key to helping close this gap.

1. Checking for Unconscious Bias

Starting at the source of information can be a critical step in understanding andremedying the DEI retirement gap. Plan sponsors should review all communication materials provided by retirement plans for unconscious bias or prejudice in favor of or against one thing, person, or group compared with another, usually in a way considered to be unfair. Sponsors should look for areas that need to be changed and update the methodology of communication to improve participation in plans based on the findings.

2. Leveraging Employee Resource Groups

Employee resource groups that bring together employees in the workplace based on shared characteristics or life experiences offer a perspective on retirement and financial needs with representatives of diverse groups. Utilizing employee resource groups can help plan sponsors gain insight into savings challenges and potential limitations for each group in retirement planning — 48% of surveyed plan sponsors reported to Callan that they plan to leverage employee resource groups. Conducting additional financial wellness training or promoting more resources to the employee resource groups can also help close the gap.

3. Utilizing Employee Segments

Examining financial wellness across an organization by different segments is necessary to understand and grasp the gap in retirement planning. By measuring successful financial planning with segmentation, there is a potential to see which groups need further attention, communication or a different approach.
4. Examining the Diversity of Asset Management

Another way to increase retirement plan equity is to review the diversity of the plan’s asset managers. This can help identify potential avenues for improvement. Gaining more information about the breakdown of your equity within the plan’s asset managers could explain the lack of participation among certain areas or employee segments.

5. Expanding Participation and Savings Opportunities

Changing plan provisions to expand participation and savings opportunities may be another option to explore for some organizations. For example, plan sponsors may seek to add a brokerage window that allows participants with religious prohibitions to save in the plan. Once the gaps in participation have been identified, a general push for increased financial literacy across an organization can also provide a boost to each employee segment.

Automatic enrollment plan designs are a key solution to this lack of participation across the board. In a recent Vanguard study, “58% of Vanguard plans permitting employee-elective deferrals had adopted components of an autopilot design,” and plan adoption steadily increased participation year over year since 2006.

Conclusion: Taking Steps Forward

When surveyed by Callan, **57% of plan sponsors were interested in expanding DEI efforts.** Putting resources into this expansion is a critical next step in offering equitable retirement plans and increasing your organization’s ESG (environmental, social and governance) efforts. By investing in your equity, you can amplify the intent to have a measurable social and economic impact across historically underrepresented groups.

While there may not be a single simple solution that addresses the multifaceted issue of the growing retirement savings gap, there are several ways to increase equity across the retirement plan in place for your organization. Attending to these issues with a thoughtful plan design, increasing wellness and education programs and improving data-sharing practices will benefit both your people and your business — attracting and retaining a diverse workforce opens your organization to unique perspectives and sets you on the path to becoming a talent destination.

If your organization is interested in introducing automatic enrollment or other features to improve retirement outcomes for all employees across your workforce, reach out to an NFP retirement plan expert today.

For more information, visit NFP.com.

Sources
1. State Automated Retirement Programs Would Reduce Taxpayer Burden from Insufficient Savings | Pew
2. The Cost of Doing Nothing: Federal and State Impacts of Insufficient Retirement Savings | ESI
3. The 2022 Read on Retirement | BlackRock
4. Payroll Deduction Retirement Programs Build Economic Security | AARP
5. Race, Retirement, and the Savings Gap | T. Rowe Price
7. How America Saves 2023 | Vanguard
8. How to Improve DC Plans with DEI | Callan
About NFP

NFP is a leading property and casualty broker, benefits consultant, wealth manager, and retirement plan advisor that provides solutions enabling client success globally through employee expertise, investments in innovative technologies, and enduring relationships with highly rated insurers, vendors and financial institutions.

Our expansive reach gives us access to highly rated insurers, vendors and financial institutions in the industry, while our locally based employees tailor each solution to meet our clients’ needs. We’ve become one of the largest insurance brokerage, consulting and wealth management firms by building enduring relationships with our clients and helping them realize their goals.

For more information, visit NFP.com.