Racial, Ethnic, and Gender Differentials in Employer-Sponsored Pensions

Statement of

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INTRODUCTION

Ms. Billings, Ms. Clark, and members of the 2010 ERISA Advisory Council, thank you for the opportunity to discuss disparities for minorities and women in retirement benefits. According to our tabulations of data from the Census Bureau's Current Population Survey (CPS), one in ten adults age 65 and older was poor in 2008, but poverty rates varied widely with race and marital status. They ranged from 7.6 percent for non-Hispanic whites to 19.3 percent for Hispanics, to 19.9 percent for non-Hispanic blacks.[1] Only 5.6 percent of married women were poor, compared with 15.4 percent of widowed women, 18.1 percent of never-married women, and 20.6 percent of divorced or separated women.

Social Security was designed to supplement employer-sponsored pensions and other savings, not be retirees' sole source of income. Yet, it accounted for 90 percent or more of family income for about a quarter of beneficiaries age 65 and older in 2008 (Social Security Administration 2010b). Pension and other sources of retirement income were even less common for minorities and unmarried women. About a third of blacks and Hispanics relied on Social Security for nearly all of their income. Social Security also accounted for at least nine-tenths of income received by 27 percent of older divorced women, 30 percent of older never-married women, and 37 percent of older widows.

American women and minorities have always been economically vulnerable—at both younger and older ages. However, the insolvency of the Social Security Trust Fund, the shift from defined-benefit (DB) pensions toward defined-contribution (DC) plans, and the stock market crash have heightened concerns about retirement security, especially for women and minorities. Social Security benefits are an important source of income for retirees and should be preserved, but other sources of income, such as pensions and retirement accounts, are equally important. By supplementing Social Security, pension benefits can significantly improve economic well-being in retirement. Yet pension coverage is far from universal, and many workers offered retirement plans by their employers choose not to participate. The importance of racial and ethnic disparities in pension incomes is growing as the older population becomes more diverse. By 2040, non-Hispanic whites will make up just two-thirds of the population age 65 and older, down from about seven-eighths in 1980 (U.S. Census Bureau 2004). Between 1980 and 2040, the share of Hispanics age 65 and older will grow from 3 to 14 percent.

What ultimately matters for retirement income security, of course, is how much pension wealth individuals accumulate by the end of their careers. For workers in DB plans, pension wealth is the present discounted value of the stream of future pension benefits. For workers in DC plans, it is simply the plan's account balance. Pension wealth hinges on whether employers offer retirement plans, whether workers choose to participate in these plans, and how long they remain enrolled in the plans. Workers with DB pensions, especially those in traditional plans that base future benefits on earnings received near the end of the career and years of service, must generally remain with a single employer for many years to amass substantial pension wealth. Those who leave their DB-covered job in mid-career usually forfeit substantial pension wealth, even if they participate in a DB plan on the new job, because their benefits from the first job will

[1] For ease of exposition, we use the term "whites" to refer to non-Hispanic whites and "blacks" to refer to non-Hispanic blacks.

be based on the relatively low salary they received years before retirement. For workers in DC plans to accumulate substantial pension wealth, they must typically make sizable contributions and invest their accounts wisely. They must also withdraw their funds prudently once they retire, since DC plans do not require participants to annuitize their balances. Finally, both DB and DC plan participants must resist the temptation to spend their pension wealth when they change jobs before retirement.

Differences in employment and earnings, pension offer and participation rates, contribution rates, investment behavior, and plan leakage all contribute to the wide racial, ethnic, and gender differentials in pension wealth observed among adults on the verge of retirement. Continued efforts to encourage employers to automatically enroll workers into retirement plans could boost overall coverage rates, but they won't reduce these disparities much. Blacks and especially Hispanics have limited pension wealth because relatively few work for employers that offer retirement benefits and because they tend to earn less than whites. Many women have limited pension wealth because they have shorter work histories than men and generally earn less. Efforts outside of the employer-sponsored system, such as automatic individual retirement accounts (IRAs), might offer more promise.

DIFFERENCES IN PLAN COVERAGE

Retirement plan coverage depends on whether employers offer plans to workers and whether workers choose to accept. Substantial coverage differences persist among whites, blacks, and Hispanics, but gender differences have disappeared.

Racial and Ethnic Differences

Offers. According to the 2009 CPS, nearly three in five wage and salary workers age 25 to 59 were given an opportunity to participate in their employer's retirement plan. However, access to employer-sponsored retirement plans varied significantly by race and ethnicity.

White workers are most likely to work for employers that offer retirement plans, while Hispanic workers are least likely. In 2009, 64.6 percent of white wage and salary workers were offered employer-sponsored retirement plans (table 1). In contrast, only 55.7 percent of black wage and salary workers and 38.4 percent of Hispanic wage and salary workers worked for employers with retirement plans. The share of workers offered employer retirement plans also increased significantly with age for most racial and ethnic groups. Among white workers, offer rates ranged from 56.2 percent for those age 25 to 29 to 68.0 percent for those age 55 to 59. Among Hispanic workers, rates ranged from only 33.1 percent for those age 25 to 29 to 45.8 percent for those age 55 to 59. These age differences may reflect differences in jobs typically held by younger and older workers, or a lower tendency by employers to offer retirement plans to new employees—who are disproportionately young—than to their more experienced counterparts.

These offer rates apply only to employed adults, of course. Those who do not work are not eligible to participate in employer-sponsored retirement plans. Yet, Blacks and Hispanics are

Table 1. Percentage of Wage and Salary Workers Age 25 to 59 Offered and Participating in Employer-Sponsored Retirement Plans, by Race and Ethnicity and Age, 2009 (%)

	Percentage Offered	Percentage Participating	Percentage of Workers with Offers Participating
All (Age 25 to 59)	59.1	49.5	83.8
Non-Hispanic White	64.6	55.1	85.3
Non-Hispanic Black	55.7	44.5	79.9
Hispanic	38.4	30.2	78.6
Other Non-Hispanic	56.5	46.0	81.4
Younger (Age 25 to 29)	50.2	36.7	73.1
Non-Hispanic White	56.2	42.0	74.7
Non-Hispanic Black	44.9	30.5	67.9
Hispanic	33.1	23.9	72.2
Other Non-Hispanic	52.5	34.5	65.7
Older (Age 55 to 59)	65.0	58.0	89.2
Non-Hispanic White	68.0	61.2	90.0
Non-Hispanic Black	62.8	54.3	86.5
Hispanic	45.8	38.6	84.3
Other Non-Hispanic	59.3	51.9	87.5

Source : Authors' calculations from the 2009 March Current Population Survey (CPS).
Notes : Sample includes civilian wage and salary workers age 25 to 59 in 2009. All results are weighted.

much less likely than whites to be employed. According to our estimates from the March 2009 CPS, 20 percent of blacks and Hispanics age 25 to 59 did not participate in the labor force, compared with only 15 percent of whites. These differentials persist throughout the lifecourse. Among adults age 55 to 59, for example, 34 percent of blacks and 29 percent of Hispanics were not in the labor force, compared with 22 percent of whites. Minorities are also more likely to be unemployed, i.e., in the labor force but out of work. The 2009 unemployment rate was 8.5 percent for whites, 14.8 percent for blacks, and 12.1 percent for Hispanics (Bureau of Labor Statistics 2010).

Participation. Some workers offered retirement plans choose not to participate, especially those in DC plans that require participants to deposit a portion of their pay into their retirement accounts. Differences in participation rates ultimately translate into the disparities we observe in retirement incomes.

Overall, about five in six wage and salary workers offered retirement plans opt to participate. Participation rates among workers with pension offers are somewhat higher among whites than blacks and Hispanics, and increase with age. About 9 in 10 workers age 55 to 59 with pension offers participated in 2009, compared with about 7 in 10 workers age 25 to 29.

Because black and Hispanic workers with pension offers are somewhat less likely to participate than their white counterparts, racial and ethnic differences are more pronounced for

Table 2. Percentage of Wage and Salary Workers Age 25 to 59 Offered and Participating in DB and DC Plans, by Race and Ethnicity, 2009 (%)

	Percentage Offered		Percentage Participating		Percentage of Workers with Offers Participating	
	DB Pensions	DC Plans	DB Pensions	DC Plans	DB Pensions	DC Plans
All	30.5	54.8	28.8	40.1	94.4	73.2
By Race						
Non-Hispanic White	32.8	59.6	31.2	45.1	95.1	75.7
Non-Hispanic Black	31.8	51.4	29.3	31.9	92.1	62.1
Hispanic	20.1	36.8	18.3	23.2	91.0	63.0
Other Non-Hispanic	27.9	53.6	26.0	40.5	93.2	75.6

Source: Authors' calculations from the Survey of Income and Program Participation (SIPP).
Notes: Sample is restricted to civilian wage and salary workers age 25 to 59 in 2009. All results are weighted.

pension coverage than pension offers. Overall, half of workers (49.5 percent) participated in employer-sponsored retirement plans in 2009. Participation rates were much lower among Hispanic workers, who were barely half as likely as whites to report pension coverage. Blacks also exhibited lower participation rates than whites. Only 30.2 percent of employed Hispanics and 44.5 percent of employed blacks participated in retirement plans, compared with 55.1 percent of employed whites. Racial and ethnic differences were somewhat smaller at older ages.

Pension type. Although DB pension coverage is slowly eroding in the private sector, DB plans still dominate in the public sector, and many workers retain coverage. Overall, about 29 percent of civilian wage and salary workers age 25 to 59 participated in DB pension plans in 2009, and about 40 percent participated in DC plans (table 2). Hispanics were much less likely to report DB pension coverage than other groups, but DB coverage rates did not differ much between blacks and whites. Blacks were less likely than whites to work for employers that offered DC plans, and Hispanics were substantially less likely than blacks. Fewer than two-thirds of blacks and Hispanics with DC plan offers participated in 2009, compared with about three-quarters of whites. Combined, low offer rates and low participation rates for those with offers result in much lower overall DC participation rates for blacks and Hispanics than for whites.

What drives racial and ethnic differences in pension plan coverage? Racial and ethnic differences in pension coverage are partly driven by differences in work hours, earnings, and other job characteristics. For example, large employers are much more likely than small employers to offer workers retirement plans. Yet, firms with 1,000 or more employees employ only about a third of Hispanic workers, compared with slightly more than half of black workers and more than two in five white workers (table 3). In contrast, firms with fewer than 100 employees employed nearly half of Hispanic workers, compared with only about a quarter of black workers and a third of white workers. Government jobs offer more generous benefits than most private-sector jobs. Black workers are significantly more likely than white and Hispanic workers to be employed by local, state, and federal governments, which explains blacks' relatively high rates of DB pension coverage. Hispanics are more likely than blacks and

Table 3. Employment Characteristics of Wage and Salary Workers Age 25 to 59, by Race and Ethnicity, 2009

	Non-Hispanic White	Non-Hispanic Black	Hispanic
Employer size			
Less than 100 employees (%)	35.2	27.7	47.7
More than 1000 employees (%)	42.9	51.4	32.9
Employed by public sector (%)	17.3	21.1	11.4
Employed part-time (%)	25.4	26.6	29.2
Median annual earnings ($)	40,000	30,000	25,000

Source: Authors' calculations from the March 2009 Current Population Survey (2009).
Notes: Sample is restricted to civilian wage and salary workers age 25 to 59 in 2009. All results are weighted.

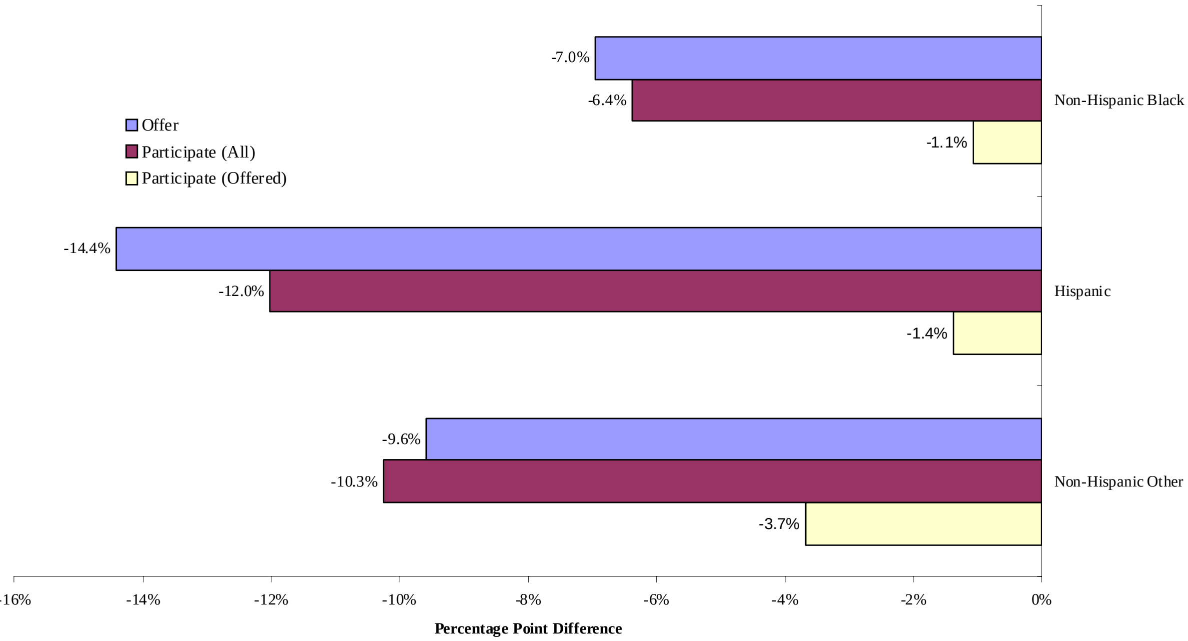
especially whites to work part time, which often disqualifies workers from receiving employee benefits.

Pension coverage also varies by industry and occupation. Our analysis of CPS data shows that less than 50 percent of workers in the leisure, hospitality, and construction industries had pension coverage in 2009. Hispanics dominate these industries, which employed 23 percent of all Hispanic workers but only 13 percent of white workers and 11 percent of black workers. Fewer than half of workers in service, farming, fishing, forestry, and construction occupations were offered pension benefits in 2009. These occupations employed 39 percent of Hispanic workers and 26 percent of black workers, but only 18 percent of white workers.

Low-paying jobs, which are held predominantly by blacks and Hispanics, are less likely to offer retirement benefits than high-paying jobs. Median 2008 earnings for white workers were a third higher than those for black workers and three-fifths higher than those for Hispanic workers. Not only are workers in low-paying jobs less likely to receive employer benefits, but among workers with pensions, those in low-paying jobs will receive smaller benefits than those in higher-paying jobs. DB pension benefits are tied to earnings, and low-paid workers in DC plans generally contribute less to their retirement accounts than higher-paid workers.

Differences in earnings, work hours, and other job characteristics explain only part of the racial and ethnic difference in pension coverage, however. Even after we control for differences in jobs, hours, and earnings, black and Hispanic workers were significantly less likely than white workers to be offered pension plans in 2009 and were significantly less likely to participate when offered plans. Our regression models show that Hispanic workers are about 14 percentage points

Figure 1. Percentage Point Difference in the Likelihood of Having Employer-Sponsored Pensions, Relative to Non-Hispanic White Workers, With Other Factors Held Constant



Source : Authors' calculations from the 2009 March Current Population Survey (CPS).
Notes : Sample is restricted to civilian wage and salary workers age 25 to 59 in 2009. Regressions control for age, sex, education, marital status, government employment, full-time employment, employer size, earnings, household income, industry, and occupation.

less likely than white workers to have jobs that sponsor retirement benefits and 12 percentage points less likely to participate in employer retirement plans (figure 1). Black workers are 7 percentage points less likely than otherwise identical white workers to be offered a retirement plan and 6 percentage points less likely to participate. Racial and ethnic differences in the probability of participating in employer-sponsored retirement plans are much lower (but still significant) among those offered these benefits.

Male-Female Differences

Pension coverage rates are almost identical today for men and women employed as wage and salary workers. In 2009, 50.2 percent of working men participated in an employer-sponsored pension plan, compared with 48.7 percent of women (table 4). Among workers age 25 to 29, women were slightly more likely than men to participate in pension plans (38.7 vs. 35.0 percent). Overall, women are slightly more likely than men to be offered a pension plan by their employers, but they are slightly less likely to choose to participate when offered.

There are virtually no differences between men and women in pension plan type. Slightly fewer than 3 in 10 working men and women participate in DB plans, and about 4 in 10 participate in DC plans (table 5).

Table 4. Percentage of Wage and Salary Workers Age 25 to 59 Offered and Participating in Employer-Sponsored Retirement Plans, by Sex and Age, 2009 (%)

	Percentage Offered	Percentage Participating	Percentage of Workers with Offers Participating
All (Age 25 to 59)			
Men	58.7	50.2	85.5
Women	59.5	48.7	81.8
Younger (Age 25 to 29)			
Men	47.2	35.0	74.2
Women	53.7	38.7	72.1
Older (Age 55 to 59)			
Men	65.1	58.6	90.0
Women	64.9	57.4	88.4

Source : Authors' calculations from the 2009 March Current Population Survey (CPS).
Notes : The sample is restricted to civilian wage and salary workers age 25 to 59 in 2009. All results are weighted.

DIFFERENCES IN CONTRIBUTIONS

Participating in a retirement plan is not enough to guarantee meaningful pension benefits in retirement. For workers participating in DB plans, future pension benefits depend critically on years of service with the employer and earnings received near the end of the career, key inputs of the typical DB plan benefit formula. Workers participating in DC plans must consistently make large contributions to their accounts to accumulate pension wealth. Blacks, Hispanics, and women generally fall short of white men in earnings and 401(k) contributions, undermining their retirement security. Women also tend to have shorter job tenures than men.

Table 5. Percentage of Wage and Salary Workers Age 25 to 59 Offered and Participating in DB and DC Plans, by Sex, 2009 (%)

	Percentage Offered		Percentage Participating		Percentage of Workers with Offers Participating	
	DB Pensions	DC Plans	DB Pensions	DC Plans	DB Pensions	DC Plans
Men	30.9	54.9	29.5	41.1	95.5	74.9
Women	30.2	55.0	28.0	39.1	92.7	71.1

Source : Authors' calculations from the Survey of Income and Program Participation (SIPP).
Notes : Sample is restricted to civlian wage and salary workers age 25 to 59 in 2009. All results are weighted.

In 2009, the average years of service for women age 25 to 59 participating in DB pension plans was 10.4 years, compared with 12.0 years for men, according to our estimates from SIPP data. Among workers age 25 to 59 in DC plans, women averaged 9.2 years on the job, compared with 10.3 years for men. Years of service in 2009 were similar for blacks and whites in pension-covered jobs, but lower for Hispanics. Among workers age 25 to 59 participating in DB plans, for example, Hispanics averaged 10.0 years of completed service, compared with 11.5 years for whites. Additionally, blacks are significantly more likely than whites to lose their jobs, when other factors are held constant, and more likely to develop work disabilities in the years immediately before retirement (Johnson and Mommaerts forthcoming; Johnson, Mermin, and Murphy 2007). For example, 31 percent of black workers age 51 to 55 developed health-related work limitations before age 62, compared with 25 percent of whites and 22 percent of Hispanics. These employment disruptions substantially reduce DB pension wealth.

As noted earlier, black and Hispanic workers earn substantially less than white workers. Women also earn much less than men, partly because they work fewer hours and partly because they earn less per hour. In 2007, for example, median annual earnings were $29,711 for employed men but just $20,338 for employed women, only 69 percent as much (Social Security Administration 2010a). The gap was smaller but still substantial at younger ages. Among workers age 25 to 29, the median female worker earned only four-fifths as much as her male counterpart. Encouragingly, the overall male-female earnings gap has declined. In 1980, for example, median earnings were twice as high for working men as working women. However, the growth in younger women's relative earnings has stagnated. Among workers age 25 to 29, for example, women's median earnings relative to men's median earnings increased from 63 percent in 1980 to 80 percent in 1995, but did not increase at all between 1995 and 2007. It is unlikely, then, that the gender gap in earnings will disappear any time soon, keeping women's DB pension wealth relatively low.

Partly because women, blacks, and Hispanics tend to receive relatively limited earnings, those in 401(k) plans contribute only about two-thirds as much to their plans, on average, as men and whites participating in 401(k) plans.[2] However, blacks and Hispanics also contribute relatively low shares of their earnings to their 401(k) plans. A study based on tax records covering the period from 1990 to 2001 found that blacks in 401(k) plans contributed 4.2 percent of their earnings to their plans and Hispanics contributed 4.5 percent, whereas whites contributed 5.5 percent (Smith, Johnson, and Muller 2004). (Male-female differences in contribution rates were small.) A more recent study using 2007 401(k) records from 57 large U.S. employers found similar results: contributions averaged 6.0 percent of earnings for blacks and 6.3 percent for Hispanics, compared with 7.9 percent for whites (Ariel Investments and Hewitt Associates 2009).

[2] Between 1990 and 2001, average annual 401(k) contributions by workers making contributions were $3,429 for whites, $2,154 for blacks, and $2,332 for Hispanics (Smith, Johnson, and Muller 2004). Average contributions were $3,818 for men and $2,630 for women.

LEAKAGE FROM PENSION PLANS

Participating in an employer-sponsored retirement plan and making substantial contributions is not enough to ensure economic security in retirement, because savings sometimes leak out of these plans before retirement. Employees usually can withdraw funds from their 401(k)s when significant financial needs arise or cash out their plans when they leave their jobs. These withdrawals are especially common among blacks.

Most employer plans allow workers to withdraw savings to meet pressing financial needs (principal home purchase, unreimbursed medical costs, postsecondary school tuition, or prevention of home foreclosure). Plans usually limit withdrawals to employee contributions (excluding earnings on these contributions). Federal rules require employees and employers to wait six months after withdrawing funds before contributing again. Withdrawals before age 59.5 are subject to a 10 percent tax penalty (as well as regular income taxes). Tax penalties do not apply to withdrawals related to total disability, death, or medical costs that exceed 7.5 percent of adjusted gross income.

About half of employer plans allow employees to borrow from their 401(k) accounts for any reason. Loans must not exceed the greater of $10,000 or half the vested balance up to $50,000 and must be repaid within 5 years (or 15 years for home purchase). About 18 percent of eligible employees had an outstanding loan in 2007 (Holden, VanDerhei, and Alonso 2009).

The federal government sets additional rules for participants who leave their jobs. Employers may compel departing employees to cash out retirement accounts with less than $1,000, but must roll over balances between $1,000 and $5,000 to an IRA or another employer 401(k) plan unless the employee requests a lump-sum payment. Employees must submit written requests to cash out balances over $5,000. New regulations require employers to alert departing employees about the consequences of preretirement cashouts.

Black 401(k) participants are significantly more likely than white participants to withdraw funds from their accounts or borrow from them. For example, 11.8 percent of blacks in 401(k) plans withdrew funds between 2004 and 2005, compared with 9.0 percent of Hispanics and 7.4 percent of whites (Butrica, Zedlewski, and Issa 2010). Much, but not all, of the racial differences in 401(k) withdrawals can be explained by differences in education, income, and other wealth. Interestingly, two-fifths of withdrawals could be linked to adverse events (such as the onset of poor health or a lost job) or investments in human capital (college tuition payments) or other real assets (home purchases). Contrary to conventional wisdom, only 10 percent of withdrawals occurred at job change.

Blacks are also more likely to have outstanding 401(k) loans than whites. Among 401(k) participants at 57 large U.S. employers, 39 percent of blacks had outstanding loans in 2007, compared with 29 percent of Hispanics and 21 percent of whites (Ariel Investments and Hewitt Associates 2009).

INVESTMENT DECISIONS

How retirement account holders invest their funds can substantially affect how much pension wealth they end up with at retirement. Those who invest very conservatively will generally accumulate less wealth than those willing to invest in equities, because stocks have outperformed fixed-income investments in the long run. Some evidence suggests that blacks, Hispanics, and women are often conservative investors, but this tendency does not appear to explain much of the differences in pension wealth.

According to our recent analysis of the 2007 Survey of Consumer Finances, the nation's premiere survey of wealth accumulation, 59 percent of employed Hispanics and 43 percent of employed blacks reported that they were unwilling to take any financial risk. By contrast, only 26 percent of employed whites reported such high risk aversion. Women also reported more risk aversion than men. However, it's not clear whether these conservative investment tendencies reflect innate preferences or merely blacks' and women's relatively limited wealth holdings (Bajtelsmit and Bernasek 2001; Schubert et al. 1999). People are generally more willing to assume risk as their economic status improves.

Blacks and women are also less likely than others to invest their 401(k) funds in equities. According to one recent study, blacks invested 66 percent of 401(k) funds in stocks in 2007, compared with 72 percent for whites and 70 percent for Hispanics (Ariel Investments and Hewitt Associates 2009). Women invested 68 percent of their 401(k) funds in equities, whereas men invested 73 percent of their funds in equities.

Women's conservative investment style may protect them from imprudent investment choices. Most 401(k) investors devote little effort to managing their portfolios. In a recent two-year period, for example, 80 percent of workers in DC plans did not initiate any trades, and only 9 percent initiated more than one trade (Mitchell et al. 2006). Men appear more confident than women in their trading ability, although their confidence may be misplaced. Barber and Odean (2001) found that men were 45 percent more likely than women to make trades in their accounts, and that their increased activity reduced their annual returns by nearly 1 percent per year. Overall, these racial and gender differences in investment behavior appear to be relatively small, and likely explain only a small part of gap in pension wealth.

DIFFERENTIALS IN PENSION WEALTH

Differences between men and women and across racial and ethnic groups in employment and earnings, pension offer and participation rates, and contribution levels generate large differentials in pension wealth. Our estimates from the Health and Retirement Study, a large nationally representative survey of older Americans designed by the University of Michigan with primary funding from the National Institute on Aging, show that about two-thirds of adults age 51 to 61 had some employer-sponsored pension wealth in 2004, either in their name or their spouse's name (table 6). However, blacks and Hispanics were much less likely to have any pension wealth than whites. Only 55 percent of blacks and 43 percent of Hispanics had pension wealth in 2004.

Table 6. Differences in Pension Wealth among Adults Age 51 to 61, by Race, Ethnicity, and Sex, 1992 and 2004

	Pct. with Wealth		Median Pension Wealth (Thousands of 2009 dollars)	
	1992	2004	1992	2004
Household Pension Wealth				
All	63.0	66.5	194.2	178.3
Non-Hispanic White	65.9	71.2	196.3	186.6
Non-Hispanic Black	54.5	54.8	163.0	168.0
Hispanic	40.2	43.0	148.4	103.5
Pension Wealth in Own Name				
All	46.2	49.5	152.2	130.4
Men	54.2	53.8	195.7	159.5
Women	38.5	45.2	103.3	96.2

Source: Authors' estimates from the Health and Retirement Study.
Notes: Estimates assume a 3 percent real interest rate.

Overall, adults age 51 to 61 were more likely to hold some household pension wealth in 2004 than 1992, but those with pension wealth had less wealth on average. In 2004, median household pension wealth for households with wealth totaled $178,000 (in inflation-adjusted 2009 dollars), down about 8 percent from 1992. Median inflation-adjusted household pension wealth fell for whites and Hispanics, but increased for blacks. Nonetheless, median 2004 household pension wealth was only 90 percent as high for blacks as whites, and only 55 percent as high for Hispanics as whites.

Having pension wealth in one's own name provides additional economic security in the event of widowhood or divorce. About half of Americans age 51 to 61 had accumulated pension wealth in their own names. Between 1992 and 2004, the share of women age 51 to 61 with pension wealth in their own name increased from 38.5 to 45.2 percent. For men, the share remained nearly unchanged over the 12-year period. Median pension wealth declined over the period (in inflation-adjusted dollars) for both women and men. The gender gap in pension wealth narrowed over time but remained large. In 2004, women's median pension wealth was 60 percent as high as men's, up from 53 percent in 1992. Earlier research showed that the entire gender gap in pension wealth could be explained by women's limited earnings and years of service (Johnson, Sambamoorthi, and Crystal 1999).

POLICY IMPLICATIONS

It is unlikely that today's racial, ethnic, and gender differentials in pension wealth will disappear quickly on their own, because the factors that drive them will likely persist. Blacks and Hispanics continue to earn substantially less than whites, and women earn less than men, partly because they work fewer hours and partly because they earn less per hour. These gaps are not disappearing.

Auto-enrollment is generally seen as one of the most promising approaches to boosting pension coverage. Many workers eligible for 401(k) plans do not participate, often simply because they don't bother to enroll. Increasingly, employers are overcoming this inertia by automatically enrolling new employees into retirement plans. The impetus behind automatic enrollment comes from many studies documenting higher participation in pension plans where participation is the default rather than an opt-in choice (Beshears et al. 2009; Choi et al. 2004; Madrian and Shea 2001). The available evidence shows that plan participation rates increase significantly when firms introduce automatic enrollment.

However, this approach won't boost pension wealth for blacks and Hispanics working for employers that don't offer retirement plans. And it won't eliminate pension wealth disparities for workers with pension offers, because blacks and Hispanics generally earn less than whites. It also won't raise pension wealth much for women with low earnings, many of whom are already enrolled in their firm's retirement plans.

The best approaches to narrowing racial, ethnic, and gender differentials in retirement wealth can be found outside the current employer-sponsored benefits system. For example, President Obama's 2011 budget calls for employers with more than 10 workers that currently do not offer pension plans to set up automatic IRAs for their employees. Employers would automatically deduct 3 percent of workers' pay and deposit the money into their IRAs, but employers would not be required to contribute themselves. Employees could opt out of this retirement savings deduction or change the amount deducted. Efforts to raise wages earned by blacks and Hispanics could also improve retirement income security. More federal funding for training and workforce development programs could prepare minorities for better-paying jobs. Better educational opportunities could lead to higher wages for future generations of workers. And more financial education, for both workers and students, would raise awareness among blacks, Hispanics, and women of the importance of preparing for retirement.

If the policy goal is to help retirees be financially independent without having to work at very old ages, then it is important for policymakers to protect those sources of retirement income that retirees rely on most. Our priority should be protecting their Social Security benefits, which account for the majority of their income (Social Security Administration 2010b). Policymakers working to improve the financial solvency of Social Security should consider options that do not hurt low-income seniors. Raising the maximum taxable Social Security earnings or reducing Social Security replacement rates for higher-wage workers are preferable to broader benefit cuts. A new Social Security minimum benefit, enacted alone or as part of a larger reform package, also could protect low-income retirees (Favreault et al. 2007).

Beyond this, policymakers could take additional steps to strengthen the social safety net. One option would be to reform and strengthen the Supplemental Security Income (SSI) program. Increasing the asset limit (set in 1972) to reflect cost-of-living changes and increasing the maximum benefit to the poverty threshold would allow more seniors to qualify for SSI and raise their annual benefits. Expanding SSI would enable the program to fulfill its mission of protecting older and disabled adults from economic hardship.

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