401(k) Plans in Living Color

A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups

The Ariel/Hewitt Study

ARIEL EDUCATION INITIATIVE

Hewitt

Joint Center for Political and Economic Studies
National Urban League
Chicago Urban League
NCLR
The Raben Group

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About This Study

This study digs deep into an area that has never before been examined on a large scale—401(k) plan participation by race—and analyzes whether these plans are being used to equal advantage by all. It turns out that they are not. Differences in race and ethnicity[1] significantly influence the savings gap.

The recent economic crisis has put once highly regarded 401(k) plans in the hot seat. Most 401(k) plan accounts were negatively impacted by the 2008 bear market—an unprecedented financial debacle spurred by a credit crunch that ravaged stock and bond markets around the world. Despite this recent setback, 401(k) plans are here to stay, as the long-term proposition remains sound. These plans offer individual responsibility, independent decision making, and portability, allowing for corporate contributions, continuous and automatic investing, and the power of compounding. They have become important alternatives or supplements to other sources of retirement income, such as Social Security and pension plans.

Employer-sponsored 401(k) plans were initially created to allow employees to defer, in a tax-advantaged way, a portion of their compensation for use in retirement. The current reality is that 401(k) plans have become the financial cornerstone for millions of Americans' retirements. As such, 401(k) plans are part of the landscape of the American dream: equal opportunity and financial security for this nation's workforce.

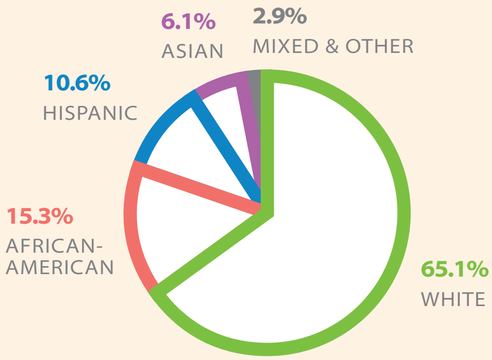
401(k) Plans in Living Color: A Study of 401(k) Disparities Across Racial and Ethnic Groups is both groundbreaking and important because of meaningful differences in 401(k) usage and outcomes between people of color and the majority. This has profound implications for the well-being of America's families, as well as for American society as a whole. This study—the largest, most comprehensive examination of the 401(k) savings behavior of African-American, Hispanic, Asian, and white employees—was conducted by Ariel Education Initiative, the nonprofit affiliate of Ariel Investments, and Hewitt Associates, along with the Chicago Urban League, the Joint Center for Political and Economic Studies, the National Council of La Raza, the National Urban League, and The Raben Group. The study was funded with a grant from The Rockefeller Foundation.

The findings in this study are based on year-end 2007 information collected from nearly 3 million eligible employees working for 57 of the largest U.S. companies

[1] The terms "race" and "ethnicity" are used together throughout this study. Use of the term "race and ethnicity" is appropriate for instances such as where people who identify themselves as Hispanic are an ethnicity but may be part of any race.

across a variety of industries and sectors. The data, collected by Hewitt Associates, include race, ethnicity, gender, salary, age, job tenure, 401(k) balances, and other account information. These data reveal meaningful and quantifiable differences in 401(k) savings behavior by race and ethnicity even when comparing groups in similar age and income brackets. Key findings, along with recommendations, are outlined in this landmark study that has the ultimate goal of enabling all workers to adequately prepare for retirement. These recommendations solely represent the views of the project collaborators and do not reflect the views or opinions of The Rockefeller Foundation or the corporations that participated in this research by generously sharing their data.

DEMOGRAPHICS FOR EMPLOYEE PARTICIPANTS



	AFRICAN-AMERICAN	ASIAN	HISPANIC	WHITE	ALL
AVERAGE AGE	39	39	37	42	41
AVERAGE TENURE	8	7	7	10	10
GENDER (% FEMALE)	60%	54%	54%	48%	51%

Executive Summary: A Simmering Crisis

The fundamental reality about retirement today is that individuals hold the keys to their own financial futures. They need to rely on their own personal wealth to support their retirement years, the duration of which is expanding due to early retirement and longer life expectancy. Accumulating this wealth is a daunting task for many American workers, and ensuring success requires foresight, planning, and intelligent decision making on several fronts.

To accomplish this daunting task, many workers look to their employers to help them with their retirement needs. A mere decade ago, two-thirds of large employers viewed their pensions as the cornerstone of their retirement benefit packages.[2] In 2007, the opposite was true: Two-thirds of large employers reported their 401(k) plans as their primary retirement vehicles. This tremendous and continuing shift shines the spotlight on the 401(k) plan as a critical component of many individuals' retirement plans. This savings would supplement Social Security, which provides a minimal baseline benefit (the average Social Security payment is approximately $1,000 a month[3]), and was never meant to be the only source of retirement funds.

This shift to individual initiative and responsibility regarding financial security for retirement has taken place in a relatively short span of time, and American workers must now grapple with many questions as they consider retirement: *Have I saved enough? How much will inflation erode my savings? Could I outlive my money?* It will be too late if they wait until retirement to ask these questions. Instead, individuals need to act long before they retire. The truth is, nearly half of all retired Americans today have little or no money saved.[4] The vast majority of employees have far less than what they will need, and are not saving and investing sufficiently to make up for the shortfall.

As if all of this were not daunting enough, even after controlling for factors such as age, salary, and job tenure, quantifiable differences are evident across race and ethnicity in how successfully 401(k) plans are used. Without intervention, these differences will magnify the impact of the retirement crisis for some segments of the population. The findings of this study are alarming and require swift, corrective action. Employers, the government, and individuals all have roles to play if there is to be real change.

[2] Hewitt Associates 2007 Survey: *Trends and Experience in 401(k) Plans*

[3] http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ shows that the average monthly benefit for all beneficiaries is $1,057. The average benefit for retired workers (not including spouses, the disabled, etc.) is $1,158.

[4] Employee Benefit Research Institute (2007): 48% of workers have less than $25,000 in savings and investments.

- **Savings and participation rates:** While age and salary have clear roles in driving retirement savings, the meaningful roles that race and ethnicity also play have been obscured until now. Regardless of age and income, African-American and Hispanic workers are less likely to participate in their company 401(k) plans, and when they do contribute, they save at much lower rates than whites. Asian employees have the highest participation and savings rates among the groups studied.

- **Stock exposure:** African-American workers are less likely than other workers to invest in equities, a behavior that may limit the long-term growth potential of their accounts, since historically, equities have been the highest-yielding investment over the long term.

- **Loans and hardship withdrawals:** African-Americans are more likely to take a loan and more than twice as likely to take a hardship withdrawal as the study population overall. Hispanics also borrow from their retirement accounts at a higher rate than whites, but not to the same degree as African-Americans. By contrast, Asian employees are the least likely to take early distributions from their 401(k) plan accounts.

- **Account balances:** Lower participation, contribution rates, and equity exposure, coupled with higher withdrawal rates, lead to smaller average account balances. Consider, for instance, individuals who earn between $30,000 and $59,999. Employees with a similar range of income show a significant difference in account balances: African-Americans ($21,224), Hispanics ($22,017), Asians ($32,590), and whites ($35,551). Naturally, these results are influenced by other factors, such as age, job tenure, and pay within the range, but variations exist, even after adjusting for these factors.

A Call to Action

The project collaborators strongly believe swift action needs to be taken to address the disparities and potential lack of retirement preparedness among many people of color. Our call to action is broad-based and can ultimately benefit all plan participants, regardless of race, ethnicity, or gender.

- **Employers:** It is important to design 401(k) plans in a way that benefits a broad, diverse employee base. Features such as automatic enrollment with high default contribution rates and periodic contribution increases can go a long way, effectively driving strong, robust participation across all demographics. Communication should incorporate different cultural perspectives that resonate with diverse groups of employees, enabling workers to learn more about how to effectively manage and grow their savings. Employers can also play a pivotal role in helping raise awareness that will lead to a better understanding of these differences by tracking and reporting data for their 401(k) plans by race and ethnicity.

- **Government:** To curb default rates and costly early withdrawals, loan rules for 401(k) plans need to be modified through legislation. Government can provide forward-thinking plan design, resources, and education programs to its employees. Finally, and perhaps most important, government should mandate financial literacy instruction in American schools.

- **Individuals:** The ultimate responsibility for 401(k) plans lies with individuals. As such, individuals need to contribute and, at the minimum, contribute enough to get any employer match that may be available to them. They should also take full advantage of the resources available to them to better understand their 401(k) plans. Further, they need to carefully evaluate the impact of short-term actions on their long-term retirement success, such as buying and selling stocks frequently in an effort to make short-term gains, or taking loans and hardship withdrawals.

This call to action is real, immediate, and important for the future of all Americans. By taking these steps now, we can narrow the racial and ethnic gap in 401(k) savings and enhance the overall financial security of American workers.

Understanding the Gap

For any individual, having an adequate 401(k) nest egg at retirement is not the consequence of a single decision, but rather the collective result of years of systematic and disciplined saving and investing. Although the process begins with a one-time action (opening a 401(k) account), contributing sufficient amounts of money, allocating that money appropriately among investments, and refraining from borrowing or withdrawing the funds are equally critical. The data show that in each of these four essential areas of building 401(k) account balances—initiating, contributing, allocating, and preserving—there are differences among participants when compared by race and ethnicity. The cumulative effect is that African-Americans and Hispanics have significantly lower average account balances in their 401(k) plans than do whites and Asians, and are thus less prepared for retirement.

Making It Out of the Starting Gate

The initial hurdle for 401(k) plans is that they are voluntary: It is an employee's choice whether to participate. These plans are different from Social Security, with its mandated payroll withdrawal, or from pension plans, where the costs are typically invisible to the employee. Participation in a 401(k) plan has historically meant the employee must make a conscious decision to subtract money from each paycheck, which can be a difficult step to take. However, it is a key step toward retirement savings and, for many plans, a prerequisite to triggering employer-provided contributions. It is also an important way for novice investors to begin learning about financial markets and to become empowered to take their financial futures into their own hands.

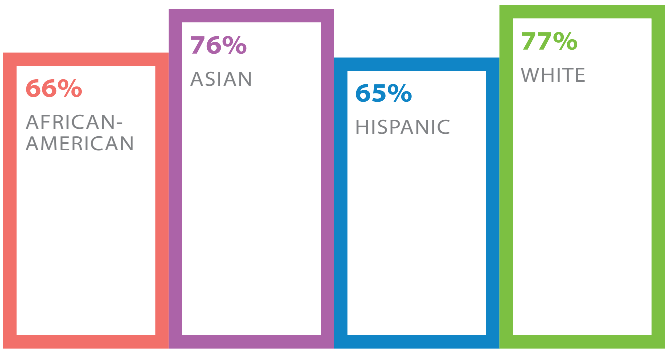
While a majority of employees choose to participate in their company's 401(k) plan, participation is by no means universal. As would be expected, 401(k) participation rates increase as salary levels go up.

PARTICIPATION RATES BY SALARY

	$0–$29,999	$30,000–$59,999	$60,000–$89,999	$90,000–$119,999	$120,000+
AFRICAN-AMERICAN	50%	75%	83%	88%	91%
ASIAN	54%	84%	92%	94%	94%
HISPANIC	50%	75%	85%	89%	90%
WHITE	56%	80%	88%	92%	92%

Overall, African-American and Hispanic employees are about 10 percentage points less likely than white and Asian employees to have a 401(k) account.

PLAN PARTICIPATION



Some of this differential can be explained by the fact that demographic and economic factors correlated with participation (e.g., salary, job tenure, age) would predict a higher participation rate among whites. However, a lag in participation by African-Americans and Hispanics is found even after controlling for these factors. As a result, significant numbers of African-American and Hispanic workers currently have little hope of finishing well in their own personal race for retirement, as they have not even made it out of the starting gate.

Contributing to the Nest Egg

Once the decision is made to enroll in a 401(k) account, the next step for an employee is to determine how much money to contribute to the plan. The contribution rate, or percentage of an employee's salary that is directed to his or her retirement plan, plays a major role in cumulative savings. Because of compounding effects, seemingly small differences in contribution rates result in large differences in the account value over time.

As salary levels increase, contribution rates also increase. But regardless of their salary levels, African-Americans and Hispanics have considerably lower contribution rates compared to whites and Asians. Whites have an average contribution rate of 7.9%, but for African-Americans, the figure is 6.0%, and for Hispanics it is 6.3%. In contrast, the Asian savings rate is much higher at 9.4%.

When the data are controlled for factors such as salary, job tenure, and age, they show that African-Americans contribute 11% less and Hispanics 6% less as a portion of pay than do whites.

WHEN ALL ELSE IS EQUAL

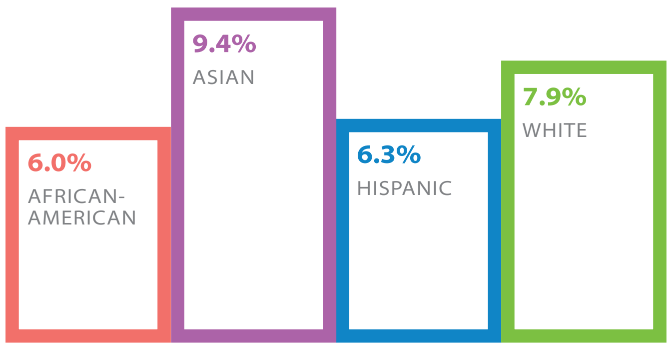
Many factors (e.g., salary, job tenure, age) influence savings plan participation, and differences associated with these factors show up when participation is compared by race and ethnicity. Even after adjusting for these factors, though, significant differences remain.

Participation rates differ when members of each racial and ethnic subpopulation are compared to whites with similar characteristics:

- AFRICAN-AMERICANS ARE **7% LESS** LIKELY TO PARTICIPATE
- HISPANICS ARE **6% LESS** LIKELY TO PARTICIPATE
- ASIANS ARE **3% MORE** LIKELY TO PARTICIPATE

Imagine four employees working side by side, doing the same job, making the same amount of money, contributing to their 401(k) plans, and expecting to retire at the same time. Chances are that the African-American and Hispanic employees are saving somewhat less per month than the white employee, and the Asian employee is saving somewhat more. Now, let that difference in today's dollars grow through compounding, and the difference at retirement is significant. These four employees will find themselves experiencing considerably different comfort levels in their retirements.

SAVINGS RATES AMONG PLAN PARTICIPANTS



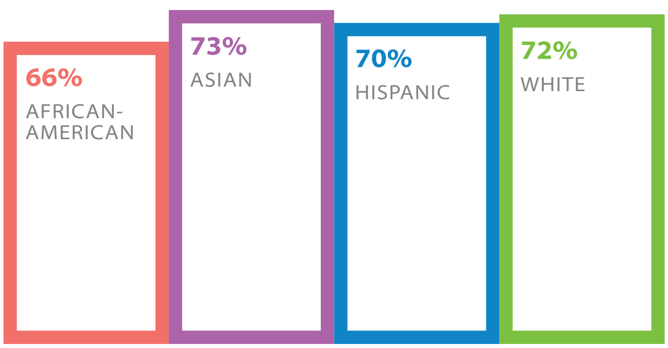
Investing for the Future

With 401(k) plans, individuals are generally accountable for their own investment decisions. As with any investment, decisions about how to allocate the money should be made with the larger picture in mind: *What does the individual's overall financial portfolio look like? How many years until retirement? What is the financial risk tolerance?* Because this study is concerned with only a piece of an individual's financial life (401(k) plans with current employers), it is futile to try to determine whether each employee in this study is allocating his or her account balance appropriately. However, it is worthwhile to make comparisons between large groups of employees and uncover systemic differences in asset allocation.

One overall gauge of investing behavior is the portion of the total account held in equity investments. Historically, equities have been the highest-yielding investment over the long term and play an important part of the typical portfolio. Overall, the data show that 71% of 401(k) monies are invested in equities. Even across very different economic and demographic categories of employees, the amount in equities tends to hover between 65% and 75%. However, these smaller variations do tell a story. In general, the proportion of money invested in equities increases as salary levels go up, though there is a slight dip again in the highest income bracket ($120,000+). We also see higher equity exposure among men (73%) compared with women (68%).

Once again, there is a difference among races and ethnicities as well. Across the board, African-Americans hold a lower percentage of their funds in equity investments: 66% compared with 71% for the general population. The differences for Hispanics and Asians compared to whites are minimal. The large proportion of African-American women included in this study influences this result, as well as other socioeconomic and demographic factors. But even after accounting for those differences, African-Americans have the lowest rates of equity investments.

PERCENTAGE IN EQUITIES



The largest gap by age is found among employees between the ages of 30 and 49, with African-American employees six percentage points less likely than all employees to invest in equities. This is a time of life when earning power is high, yet there is still considerable time until retirement—in other words, a time that could be considered a prime age for investing in equities. Yet, this is the very same period when African-Americans are, relative to others, most conservative, potentially limiting long-term growth opportunities for their accounts.

Keeping the Piggy Bank Intact

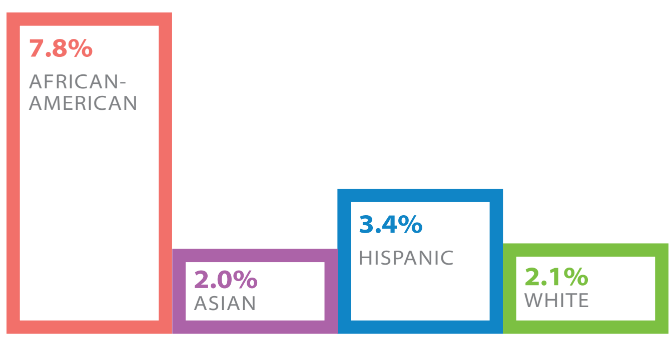
A major stumbling block in executing an effective long-term savings strategy is dipping into those savings for current needs. Employer-provided 401(k) plans have several safeguards against accessing funds before retirement, such as restrictions and penalty taxes. Yet employees can and often do access retirement money before actually retiring, primarily in the form of loans and hardship withdrawals.

Hardship withdrawals can be made long before retirement but are limited to specific needs such as medical expenses, pursuing education, or purchasing a home.

The amount requested for a hardship withdrawal to meet an immediate need is often large, which significantly hampers an individual's ability to meet his or her retirement goals. The total impact goes far beyond the dollars withdrawn from the account. An employee must often pay a penalty and lose out on the compounding value of those assets over his or her career. Additionally, these withdrawals cannot be repaid into the account at a future time, so employees once again cannot take advantage of compounding, and their retirement accounts are permanently diminished. During the 12 months of 2007, about 3% of all employees took hardship withdrawals.

African-American employees are by far the most likely racial or ethnic group to take a hardship withdrawal from their 401(k) plan accounts. In the same 12-month period as above, 7.8% of African-Americans took withdrawals, with some segments, such as African-Americans in their 30s, particularly apt to do so (11%). For most racial and ethnic groups, both genders are equally as likely to take a hardship withdrawal. Yet among African-Americans, women are driving the phenomenon, with 9% of women compared with 6% of men taking a hardship withdrawal. Hispanics are also more likely to take a withdrawal (50% more likely when compared to whites, with other differences held constant), but not to the extent of African-Americans, who are 167% more likely, all else being equal.

HARDSHIP WITHDRAWALS



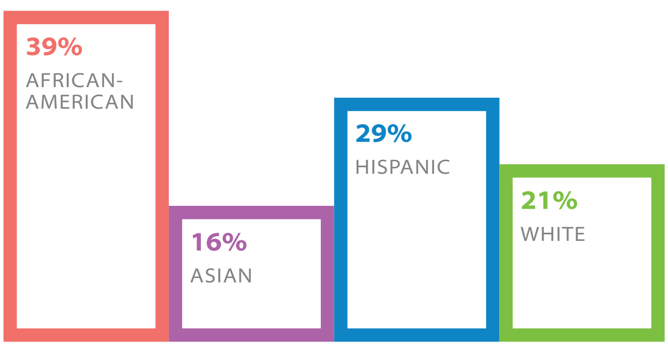
Loans can also potentially detract from retirement savings. They can be particularly poisonous to account balances when employment is terminated. This is not a statement against loans; the ability to take a loan from a 401(k) account may actually encourage plan participation (401(k) plans that offer loans have higher participation rates, and participants tend to contribute more than in other plans).[5]

[5] U.S. General Accounting Office (now the U.S. Government Accountability Office), "401(k) Pension Plans: Loan Provisions Enhance Participation but May Affect Income Security for Some," GAO/HEHS-98-(October 1, 1997), as cited by David C. John and J. Mark Iwry in "Strategies to Reduce Leakage in 401(k)s and Expand Saving Through Automatic IRAs," Testimony Before the Special Committee on Aging, U.S. Senate, July 16, 2008, p. 5.

However, a key risk to a 401(k) account balance is having an outstanding loan when employment is terminated. If this loan is not repaid promptly upon termination, it becomes a plan distribution, resulting in taxes, possible penalties, and a permanent loss from an employee's retirement savings. In today's economic environment with frequent company shutdowns and job losses, loans that become permanent account losses are a growing concern. Furthermore, because minorities experience higher rates of unemployment,[6] they are disproportionately affected by a recession compared to their white counterparts during these times.

African-American and Hispanic employees are most likely to have loans outstanding against their 401(k) account balances and are thus at greatest risk for permanent loss of these loan balances. Nearly two of every five (39%) of African-American workers and almost a third (29%) of Hispanic workers borrowed from their retirement accounts compared to just one in five (21%) white workers. By contrast, Asian workers were the least likely to take a loan against their 401(k) plans, with less than one in five (16%) doing so.

PERCENTAGE WITH LOANS



Loan frequency peaks among employees with salaries between $30,000 and $89,999. In this pay range, roughly half of African-Americans had loans outstanding as of year-end 2007. Nearly two of every five Hispanic employees also had an outstanding loan. In comparison, a quarter of whites and about one in five Asians had outstanding loans. Loans among higher-paid employees are less frequent, but a similar racial difference exists. In the highest income bracket ($120,000+), 31% of African-Americans and 20% of Hispanics reported outstanding loans; in contrast, 13% of white employees and 8% of Asian employees had outstanding loans.

[6] U.S. Department of Labor, Bureau of Labor Statistics 2008 unemployment statistics: African-Americans (10.1%), Asians (4.0%), Hispanics (7.6%), and whites (5.2%)

Adding It All Up

When all is said and done, the most critical indicator of likely financial security during retirement is an individual's 401(k) account balance. In 2007, average account balances in 401(k) plans were considerably lower for African-American and Hispanic employees—even at the highest pay levels—than for white and Asian employees. While these results are influenced by other factors, such as salary, age, and differences in job tenure (which can equate to years of savings), these other factors do not explain the full difference. Even after adjusting for factors that influence account balance, African-American and Hispanic employees trail their white and Asian counterparts in accumulating retirement savings.

AVERAGE ACCOUNT BALANCE BY SALARY

	$0– $29,999	$30,000– $59,999	$60,000– $89,999	$90,000– $119,999	$120,000+
AFRICAN-AMERICAN	$3,956	$21,224	$51,594	$98,432	$154,902
ASIAN	$6,707	$32,590	$70,393	$104,233	$161,259
HISPANIC	$4,036	$22,017	$60,782	$104,549	$150,456
WHITE	$8,184	$35,551	$79,018	$139,724	$223,408

Recognizing the Problem and Finding Solutions

The troubling racial and ethnic differences identified in savings behavior and outcomes within 401(k) plans are a wake-up call. When 401(k) account balances are so quantifiably different by race and ethnicity, it is highly likely that financial comfort levels during retirement will be decidedly unequal for different groups. This phenomenon prompts a call to action to ensure that all employees have both the knowledge and opportunity to secure a financially sound retirement for themselves.

The answer is not a simple, singular action. We need to balance the remedies with reality. Some easier solutions may be costly to implement or could put an undue burden on employers—an unrealistic outcome, especially in the current economic climate. However, failure to act could create a future in which whole categories of workers will be financially insecure, which ultimately affects society as a whole. We encourage policymakers and employers to act on the following recommendations.

Recommendation #1: Design 401(k) plans in a way that benefits a broad, diverse employee base. Employers should consider making the following changes to plan design:

- Implement automatic 401(k) plan enrollment for new employees. Additionally, do a one-time sweep to add nonparticipants into the 401(k) plan, unless they have previously opted out.
- Set a default contribution rate for employees automatically enrolled in a 401(k) plan so that employees get the full company match, and contribution rates are automatically increased over time to exceed the match threshold.
- Offer investment advice and various tools for investing to meet the needs of all participants. Investment advice can be effective at providing guidance for people with different needs, and possible tools for investing can range from simple suggestions to detailed recommendations to turning over a portfolio to an investment professional.

Recommendation #2: Provide necessary communication, education, and resources to help individuals make wise choices. For example, employers can:

- Promote greater awareness of the costs and consequences of taking loans from 401(k) plans, including strong and compelling education at the point of loan initiation.
- Provide retirement planning resources such as workshops (and company time to attend these), call centers, and online tools and education to enable individuals to make more effective use of their 401(k) plans.
- Create user-friendly and easily understood communication, enabling workers to learn more about how to effectively manage and grow their savings. Information should be made available in multiple forms, recognizing differences in the population. Effective communication that targets specific behaviors (loan usage, the need to save, and so on) should be used when gaps between categories of employees are identified in the data analysis.
- Incorporate different cultural perspectives in broad-based employer communications about 401(k) plans that resonate with diverse groups of employees. The information could be promoted via employer affinity groups.

Recommendation #3: Encourage employers to voluntarily collect and report their 401(k) plan data by race and ethnicity of participants. The federal government could:

- Encourage voluntary collecting and reporting of data about 401(k) plan participants that would enable employers to know where gaps exist among their employees. The types of data to be collected could include account balance, contribution rate, equity exposure, percentage with loans, and percentage taking hardship withdrawals.

- Provide guidelines for the data collection process, such as what measures to use, how to collect data, and the frequency for collecting data. Additionally, if these data were compiled across participating companies, they could be used for benchmarking purposes, and employers could compare their own results with others in their industry and beyond. The resulting information would enable employers to take steps to improve overall outcomes and close any gaps that may exist.

Recommendation #4: Modify loan requirements in 401(k) plans to decrease the likelihood of default when an employee terminates employment.

Though the availability of loans from 401(k) account balances makes investing in these plans attractive, taking loans is likely to reduce account balances. In challenging economic times such as these, employee terminations and loans against 401(k) accounts that are not repaid are both likely to increase.

Most 401(k) plans currently require that employees who terminate with an outstanding loan must repay the loan (often within 60 days[7]) or default. For a person who has just been laid off during a time when unemployment is high and new jobs are scarce, and who is worried about paying the mortgage and other day-to-day bills, it is virtually impossible to pay off a 401(k) loan on time. When a default occurs, the loan is considered a distribution from the plan and is thus taxable. If the employee is not yet retirement age, an additional penalty may apply. In this way, a distribution permanently reduces an employee's retirement savings.

Extending the amount of time a terminating employee has to pay off a loan may improve overall retirement savings. Modifying the current loan rules could help African-American and Hispanic employees in particular retain assets in their 401(k) accounts.

[7] The rules regarding loans are complex but do include limits on the time period a person has to repay before default occurs. Many employers simplify the process by establishing a 60-day repayment requirement.

Rules could be changed (which may require legislation) to the following:

- Provide a longer period for repayments. Instead of requiring departing employees to pay off a loan within 60 days of termination, they could be given a longer period of time, perhaps up to six months. At the end of this period, if the loan has not been repaid, it would become a distribution. Or, more narrowly, consider suspending the loan repayment requirement for a given period of time for employees who involuntarily lose their job.

- Allow loan repayments after termination. A second way to decrease defaults on loans is to allow periodic loan repayments that follow the initial timetable even after termination. Currently, most employers do not accept loan repayments after employee termination, largely because payments can no longer be made via payroll deduction. Instead, employees could be allowed to repay a loan by regular payments from their personal accounts at financial institutions.

- Make loans portable. If a 401(k) account balance, plus the outstanding loan against it, could be easily rolled over from one corporate employer to another, employees could be encouraged to roll over their 401(k) and continue loan repayments. This option would be much better than cashing out the account altogether.

Recommendation #5: Provide financial education as a mandated component of both public and private school curricula at all levels, from kindergarten through secondary school.

- Improve financial literacy by providing financial education at younger ages. While this recommendation takes a longer-term perspective, it may ultimately be more successful than other approaches, especially when it comes to closing the sizable racial and ethnic gaps in 401(k) account balances. This is a key component for long-term success.

- Implement financial literacy curriculum in schools to provide future generations with a comprehensive understanding of both the mechanics and importance of sound money management, saving, and investment. Although some schools include financial and investment education throughout their K–12 curricula, most do not. Furthermore, state school systems that offer financial and investment curricula do not uniformly mandate that students enroll in or complete these courses.

Additional Actions for Consideration

Employers

Employers are encouraged to continuously evaluate and improve their plan design and the resources they make available to their employees. An ideal plan could have the following additional features:

- Usage of 401(k) loans is curtailed by limiting the number of loans participants can take at one time and requiring a "time-out" between loans.
- An installment system for taking payouts from 401(k) plans is made available, and employees are encouraged to use this method rather than take a single, lump-sum distribution.
- When feasible, a base contribution (perhaps profit sharing) is offered to all eligible employees, regardless of whether they contribute themselves, in order to provide all workers a minimum amount of assets for retirement.

Government

Federal, state, and local governments have two distinct opportunities to boost participation in 401(k) plans and increase participants' financial security. First, government at all levels can exercise changes within its own programs. Additionally, government at all levels can encourage voluntary data collection by race and ethnicity for all retirement plans nationwide.

- At the federal level, the U.S. Congress itself, through its oversight and hearing function, can educate the public about the benefit of accurate demographic data for plan participants and encourage voluntary efforts to remedy the disparities likely to be seen in many plans. In the executive branch of the federal government, the U.S. Department of Labor and the U.S. Office of Personnel Management can perform this same function.
- Beyond encouraging and enabling voluntary reporting, the federal government could lead by direct example. For instance, data by race and ethnicity could be collected and reported for participants in its Thrift Savings Plan (TSP), the Federal Employees Retirement System (FERS), and the Civil Service Retirement System (CSRS), the federal sector's counterpart programs to corporate 401(k) plans. Similarly, the federal government could encourage or require its contractors to collect data by race and ethnicity for the retirement plans they offer. If the federal government leads by example, it could help create

an environment where it is routine to discuss issues surrounding employee participation in and benefits from employer-sponsored retirement plans.

- Collecting data about 401(k) plans in the corporate sector could also be a starting point for the collection of similar data for all tax-deferred employee retirement plans. The federal government could encourage data collection by race and ethnicity of participants in 403(b) tax-deferred employee retirement plans offered to employees in the nonprofit sector. Similarly, the providers of plans for employees of state and local governments could be encouraged to do the same for their 457 plans. Racial and ethnic differences in savings behavior and outcomes from these tax-deferred defined contribution plans may exist in all employment sectors. Knowing the pervasiveness of the issue is the first step toward lessening the racial and ethnic gaps that exist and ensuring retirement financial security for all workers in the United States.

- An additional action for consideration by the federal government would be to support voluntary compliance by providing safe harbors for employers, so their activity does not unnecessarily expose them to the risk of litigation.

Individuals

Ultimately, success depends on the individual—everyone needs to own his or her retirement. Every individual needs to put a priority on retirement savings and then take steps to ensure success, including the following:

- Participate in your company's 401(k) plan and be proactive in saving and managing your money. Actively seek out the information and tools that are offered to you. Even small, positive adjustments in savings behavior can make a significant difference in the financial health of your retirement plan over time.

- Refrain from tapping into your savings early—do not take loans and withdrawals. Before accessing your money in the short term, understand and evaluate the long-term impact of doing so.

- Avoid cashing out when you change jobs. When starting a new job, assess your options within your 401(k) plan. Whatever you do, do not take the savings in cash (and pay penalties) today when that money can work for you in the future.

- Make an annual commitment to review your retirement savings. At least yearly, assess your strategy and consider any changes that need to be made. Consider increasing your savings rate, and review and adjust your investments as needed. If you are not using a target-date fund, do not forget to rebalance your fund allocations at least annually.

Conclusions

Saving for retirement in a 401(k) starts with a decision to act that then becomes a series of actions—some seemingly small—that can have a large, positive impact over the long term. We must address the racial and ethnic disparities in 401(k) plans in the same way: by starting with a decision to act and then following through with a series of measures, both large and small, over the subsequent years and perhaps decades. It is our hope that this research, by shedding light on the inequalities in 401(k) outcomes, will provide the initial impetus for meaningful action.

Over the longer term, a resolute commitment to the entire American workforce and the combined efforts of employers, the U.S. government, and individuals are necessary to make progress. There is room for improvement in each of the four essential areas of building 401(k) account balances: initiating, contributing, allocating, and preserving. The underlying question we must ask ourselves is, *"Are we doing everything we can to make sure everyone has a fair shot at the American dream?"* It is only when every member of our society has an equal likelihood of a comfortable and secure retirement that we will be able to achieve this goal.

About the Employer Participants

This landmark study is the first of its kind to examine 401(k) plan savings behavior by race and ethnicity within a large employee population across numerous industry sectors. The 57 corporations participating are among the largest companies in the United States and generally have well-established and generous 401(k) plans.

At the time data were collected, the following was true about the retirement programs of the employer participants:

- The majority (82%) of participants also offered a defined benefit pension plan, but only about half of the firms offered the pension plan to new employees.
- Within their 401(k) plan:
  - All 57 firms provided an employer match on employees' contributions.
  - About one-third of the companies made profit sharing contributions to employee plans, with a similar proportion offering an employee stock ownership plan.
  - The average number of investment fund offerings was 12, with a large majority (72%) of the firms also making target-date or lifecycle funds available.
  - Automatic enrollment was used by nearly 60% of companies. Among the firms with plans that offered this feature, most (88%) placed automatically

enrolled employees into a target-date fund. Contribution rates were defaulted at 3% for seven in ten of these plans, and nearly two of every five companies included contribution escalation as well.

- The companies offered a variety of forms of investment education during 2007. Nearly 90% provided written materials and offered online modeling and guidance tools. Two of every three provided targeted communication or offered on-site seminars, workshops, or meetings. Forty percent offered seminars/workshops provided by outside advisory services, and 35% offered one-on-one financial counseling.

About the Study Partners

Ariel Education Initiative and Ariel Investments, LLC: Ariel Education Initiative, the nonprofit affiliate of Ariel Investments, was founded in 1989 by John W. Rogers, Jr. (Founder and Chairman of Ariel Investments, LLC) as a private operating foundation with a mission to strengthen the neighborhoods and cities in which we live and work. Ariel Investments is a Chicago-based money management firm and mutual fund company that serves individual investors through its no-load mutual funds and manages separate accounts for institutional clients.

Hewitt Associates LLC provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges.

The Joint Center on Political and Economic Studies is the nation's leading African-American think tank and is focused on political, economic, and health issues.

The National Urban League is the nation's oldest and largest community-based movement devoted to empowering African-Americans to enter the economic and social mainstream.

The National Council of La Raza is the largest Hispanic civil rights and advocacy organization in the United States, working to improve opportunities for Hispanic Americans.

The Chicago Urban League is the local Chicago chapter of the National Urban League. The Chicago Urban League helps African-Americans in Chicago achieve success and empowerment.

The Raben Group is a D.C.-based public affairs organization. The Raben Group assists public and private sector clients with various services ranging from policy development to strategic communications.

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3M Company
Abbott Laboratories - NA
Aetna Inc.
Anixter International Inc.
AT&T Inc.
Avis Group Holdings, Inc.
Baxter International Inc.
Best Buy Co., Inc.
BorgWarner Inc.
Cardinal Health, Inc.
Caterpillar Inc.
Coca-Cola Enterprises Inc.
Comcast Corporation
Dollar General Corporation
Dominion Resources, Inc.
DTE Energy Company
Exelon Corporation
GMAC LLC
Hewitt Associates LLC
HCA Inc.
Illinois Tool Works Inc.
International Paper Company
Interpublic Group of Companies, Inc.
J.C. Penney Company, Inc.
JPMorgan Chase & Co.
John Hancock Financial Services
Liberty Mutual Insurance Company
Lowe's Companies, Inc.
Macy's, Inc.
Manpower Inc.
MasterCard Incorporated
McDonald's Corporation
MeadWestvaco Corporation
Merck & Co., Inc.
The Mosaic Company
Nationwide Mutual Insurance Company
Northeast Utilities Service Company
The Northern Trust Company
ONEOK, Inc.
The Pepsi Bottling Group, Inc.
PepsiCo, Inc.
Prudential Financial, Inc.
Sherwin-Williams Company
SunTrust Banks, Inc.
Target Corporation
Union Pacific Corporation
United Parcel Service of America, Inc.
United Technologies Corporation
Unum Group
Verizon Communications Inc.
Wachovia Corporation
Wells Fargo
The Williams Companies, Inc.
Xerox Corporation
Yum! Brands, Inc.