



For More Information:
Maurissa Kanter or Catherine Brandt
Hewitt—847-883-1000

Merrilyn J. Kosier,
Ariel Investments—312-726-0140

Groundbreaking Study Reveals African-Americans and Hispanics Significantly Less Prepared for Retirement Than Their White and Asian Counterparts

The Ariel/Hewitt study highlights disparities in 401(k) saving and investing behaviors by race and ethnicity

(Chicago, Illinois, July 7, 2009)—Significant differences can be found across race and ethnicity in the way U.S. employees save and invest in their 401(k) plans, according to *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups—The Ariel/Hewitt Study*. This pioneering report—the largest, most comprehensive examination of 401(k) saving and investing behaviors of African-American, Hispanic, Asian and white employees—found that regardless of age or income, African-American and Hispanic workers have lower participation rates and contribute less to their 401(k) plans than their white and Asian counterparts. As a result, their 401(k) account balances are negatively impacted and chances for a comfortable retirement significantly compromised.

The Ariel/Hewitt Study analyzed 401(k) information for nearly 3 million employees across 57 large, primarily *FORTUNE 500* companies in the U.S. It was conducted by the Ariel Education Initiative, the nonprofit affiliate of Ariel Investments, and Hewitt Associates, a global human resources consulting and outsourcing company. 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 also participated. The study was funded with a grant from The Rockefeller Foundation.

In response to the study, Melody Hobson, president of Ariel Investments, remarked, “401(k) plans are now the primary way Americans save for their golden years. Most are unaware there are significant savings disparities in 401(k) plans across racial and ethnic groups. This study reveals important differences that must be addressed if retirement security is to be a reality for all Americans.”

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The results of the study show that **African-American and Hispanic workers are less likely than their Asian and white counterparts to participate in their 401(k) plans.** Two-thirds (66 percent) of African-American employees and 65 percent of Hispanic employees participate in their company's defined contribution plans, compared to 77 percent of white workers and 76 percent of Asian workers. Even after adjusting for factors such as age and income, the disparity remains.

Additionally, **African-Americans and Hispanics contribute to their 401(k) plans at much lower levels than their white or Asian counterparts.** Among those who save, white employees contributed 7.9 percent of income, compared to Hispanic and African-American workers, who contributed 6.3 percent and 6.0 percent, respectively. At 9.4 percent, Asian workers had the highest contribution rate of all groups.

Not surprisingly, **lower participation and contribution rates lead to smaller average account balances for African-American and Hispanic workers.** The Ariel/Hewitt study illustrates this point dramatically. For example, employees who earn between \$30,000 and \$59,999 show a significant difference in 401(k) account balances: African-Americans (\$21,224), Hispanics (\$22,017), Asians (\$32,590), and whites (\$35,551). This disparity exists even at higher pay levels. For instance, African-American employees who earn \$120,000 or more have saved \$154,902 in their 401(k) plans compared to \$223,408 for white workers in the same pay range. While other factors influence account balances, the variation exists even after these adjustments.

In addition to participation and contribution rates, The Ariel/Hewitt study examined three other factors that can further impact an employee's 401(k) plan balance—equity exposure, loans and withdrawals.

The findings revealed that **African-American workers are less likely than Hispanics, whites and Asians to invest in equities.** African-Americans had two-thirds (66 percent) of their 401(k) assets invested in the stock market. By comparison, whites and Asians had 72 percent and 73 percent, respectively, of their 401(k) plan assets invested in equities. Hispanics had 70 percent of their assets invested in equities. These findings are compelling because the stock market has historically outperformed all other investment options over the long term. It is generally understood among investment experts that employees with long-term time horizons should have a significant amount of their assets invested in equities.

African-Americans are also more likely than the study population overall to have a loan and are more than twice as likely to take a hardship withdrawal from their 401(k) plans. Nearly two of every five African-American workers and almost a third of Hispanic workers borrowed from their retirement accounts compared to just one in five 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 doing so. "These statistics are troubling because loans and withdrawals jeopardize long-term financial security to satisfy immediate needs. The impact is heightened during an economic downturn, when unemployment rises and withdrawals and loan defaults increase. We now realize this risk is magnified for African-American and Hispanic workers based on the results of our study," said Barbara Hogg, principal at Hewitt Associates and co-leader of The Ariel/Hewitt Study.

401(k) Saving and Investing Behaviors by Race and Ethnicity

	Participation Rate	Contribution Rate	Equity Investments	Loans	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

“Without a significant effort to improve savings and investing behaviors, African-American and Hispanic workers are in danger of retiring into poverty,” states Hobson.

The Ariel/Hewitt Study outlines five decisive recommendations for policymakers and employers. These recommendations include:

- ✓ **Encouraging employers to voluntarily collect and report 401(k) plan data by race and ethnicity.** Knowledge is power, and collecting and reporting data about 401(k) plan participants would enable employers to know and manage where gaps exist among their workers.
- ✓ **Modifying loan requirements to decrease the likelihood of default.** Extending the amount of time a terminating employee has to pay off a loan may improve overall retirement savings, particularly during challenging economic times such as these. Other options could include allowing loan repayments after termination or exploring new options for allowing loans to roll over from one employer to another.
- ✓ **Mandating financial education at all levels in both private and public schools to boost financial literacy.** A financial literacy curriculum would provide generations of future employees a comprehensive understanding of both the mechanics and importance of sound money management, saving and investing.
- ✓ **Designing 401(k) plans in a way that benefits a broad, diverse employee base.** Features like automatic enrollment with high default contribution rates and periodic contribution increases can go a long way, effectively driving strong, robust participation across all demographics.
- ✓ **Communicating and educating employees in a way that helps them make wise choices.** Creating user-friendly and easily understood communication enables workers to learn more about how to effectively manage and grow their savings. This communication should incorporate different cultural perspectives that resonate with diverse groups of employees.

“By taking immediate action, employers, government and employees can make a big impact in helping all Americans achieve a comfortable standard of living in their retirement years,” concludes Hogg.

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To download the *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups—The Ariel/Hewitt Study*, please visit www.arielinvestments.com or www.hewitt.com.

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