INEQUALITY *and* INSECURITY *in* RETIREMENT

Racial disparities in retirement plan coverage, assets and adequacy in the U.S. and Massachusetts

BOSTON INDICATORS

JUNE 2024

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Boston Indicators is the research center at the Boston Foundation, which works to advance a thriving Greater Boston for all residents across all neighborhoods. We do this by analyzing key indicators of well-being and by researching promising ideas for making our region more prosperous, equitable and just. To ensure that our work informs active efforts to improve our city, we work in partnership with community groups, civic leaders, and Boston's civic data community to produce special reports and host public convenings. This report is part of the Boston Indicators Racial Wealth Equity Resource Center initiative. Learn more at www.rwerc.org.

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MEASURING WHAT WE VALUE

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OVERVIEW AND KEY FINDINGS

Employment-based retirement plans are crucial for helping families build wealth. Many families, however, have low-quality plans or lack coverage altogether. Increased retirement plan coverage and participation, alongside improved plan funding, could boost retirement security. Since retirement plan wealth is more equally distributed than many other types of assets, efforts to promote additional retirement savings also hold the promise of reducing wealth inequality.

This report focuses on how employment-based retirement plan assets contribute to household wealth accumulation and influence racial wealth disparities. The report includes analysis of national data—chiefly the Federal Reserve Board's Survey of Consumer Finances (SCF)—as well as available data for plan coverage and retirement income in Massachusetts. It then highlights a variety of policy proposals aimed at expanding access to retirement plans, helping low-wealth families build retirement savings, and diminishing racial disparities.

We've organized the report into the following three sections:

PART 1: Household Wealth and Retirement Savings in the United States

It is well-known that wealth is distributed unequally by socioeconomic status and by race. One important reason researchers and policymakers seek to better understand wealth and its distribution is to inform policies that can help economically disadvantaged households build wealth and reduce racial disparities. We argue that to understand wealth and its distribution, as well as craft effective policies to help build wealth, it is vital to use data that include the full range of retirement assets that families are accumulating and will come to rely on in retirement. So, in this first section of the report, we augment national data from the Survey of Consumer Finances to include estimates of the value of defined benefit (DB) pension plans. Key findings from this section include:

- Using this fuller measure of wealth that includes DB pension assets—referred to here as "private wealth"—reveals that retirement accounts contribute nearly twice as much to household wealth than is shown by standard data.
- Employment-based retirement assets are the largest source of wealth for families approaching retirement age, for middle-wealth families, and particularly for Black families.
- Retirement plan assets stand out as the largest source of wealth for African Americans, accounting for 41 percent of all private assets among Black households with heads ages 40 to 64.
- Using our "private wealth" measure meaningfully reduces racial disparities in wealth, but substantial disparities remain (Sabelhaus and Thompson, 2023).
- Many families lack any retirement plan coverage through their work, and often plan offerings that do exist are of low quality.

PART 2: Retirement Security and Racial Disparities in Massachusetts

The analysis in Part 1 relies on national data, as data sources on assets and retirement plan values are more reliable and granular at the national level. In Part 2 we transition to analyzing what data we do have at the state level for Massachusetts, disaggregating by race wherever possible. We begin by looking at demographics of the labor market, since most retirement plans, especially defined benefit plans, are tied to one's employer. Then we look at participation rates in different types of retirement systems. And, finally, we close with estimates of total retirement assets by race. Key findings from this section include:

- White workers in Massachusetts are the most likely to participate in most types of retirement plans, although Asian workers are a bit more likely to have a private IRA. Hispanic workers have the lowest participation rates across the board.
- Retirement plan coverage is substantially higher for public sector workers, and public pensions are an important source of wealth.
- White and Asian workers in Massachusetts hold substantially greater 401(k) assets than their Black peers, but even these gaps are smaller than gaps in other forms of non-retirement private assets.
- Racial disparities in retirement plan participation and wealth are evident among public sector workers as well, but these gaps are much smaller than among private sector workers.
- Retirees with DB pensions—either private or public sector—are more likely to experience greater economic security in retirement, with a substantially larger share of retirees receiving incomes greater than 200 percent of the federal poverty threshold.
- Black workers in Massachusetts are more likely than their White and Hispanic peers to be employed in public sector jobs that offer high-quality pensions. An exception is K-12 education, where Black workers are considerably less likely to be employed as schoolteachers. Strong representation in public sector jobs suggests that Black wealth is somewhat higher than typical estimates suggest for Massachusetts, although large gaps in overall retirement plan participation and asset values remain.

PART 3: Policy Options for Increasing Coverage, Boosting Plan Balances, and Ensuring the Fiscal Viability of Funds

This final section of the report reviews a range of retirement plan reform initiatives—at the national and the local level—that hold promise for helping lower-income households build greater wealth and potentially reduce racial disparities. These include efforts to increase access to and participation in retirement savings plans among workers and firms not presently covered, as well as plans to boost the amount and the security of retirement savings, among other initiatives.

PART I:

HOUSEHOLD WEALTH AND RETIREMENT SAVINGS IN THE UNITED STATES

One of the reasons to focus on the importance of employment-based retirement plans is to help draw attention to the fact that they are dramatically underestimated as a source of wealth in most household-level analysis of wealth and inequality.

"Account-type" or "defined contribution" retirement plan assets, such as 401(k) or 403(b) plans and Individual Retirement Accounts (IRAs), are included in the measure of wealth in each of the main sources of household-level wealth data, including the Survey of Consumer Finances (SCF), the Panel Study of Income Dynamics (PSID), and the Survey of Income and Program Participation (SIPP). None of these surveys, however, include the assets from traditional "defined benefit" (DB) pensions in their measure of household wealth.

Overview of the U.S. Retirement System

The fundamental pillars of the American retirement system include employment-based retirement savings plans or "pensions" and the Social Security system, specifically its "old-age and survivors" benefits portion.[1] The two main types of employment-based retirement plans—offered by both private and public sector employers—are either "Defined Contribution" (DC) plans or "Defined Benefit" (DB) pensions.

Defined contribution (DC) plans are "account-type" plans that include 401(k) and 403(b) plans, and the Thrift Savings Plan among others. DC plans are financed through employee contributions and, typically, a matching employer contribution.

Individual Retirement Accounts (IRAs) held by self-employed persons—as well as retirees and job-changers who roll over funds from another type of employment-based plan—are commonly considered a type of DC plan also. Plan holders have considerable control over how the funds are invested: DC plans are also highly portable, following workers who change employment. The account balance at retirement—based on total contributions and investment returns—determines the total benefit amount. DC plan holders have considerable control over how to manage these funds in retirement.

"Defined benefit" (DB) pensions are commonly referred to as traditional "pensions." DB pensions are largely funded directly by employers, and the benefit amount is typically determined using a formula based on average or final salary, years of service, and some benefit multiple.

1.5 percent of average salary for each year of service is a common formula. DB plans offer little or no control over investment type to participants, and benefits are much less portable than DC plans. Commonly DB participants who have worked with an employer long enough to qualify for benefits, or "vest," receive some cash value upon separating prior to employment, but this comes at a steep discount compared to full-retirement benefit. Benefits upon retirement are typically paid out monthly for the remaining life of the participant and are not generally adjusted for inflation.

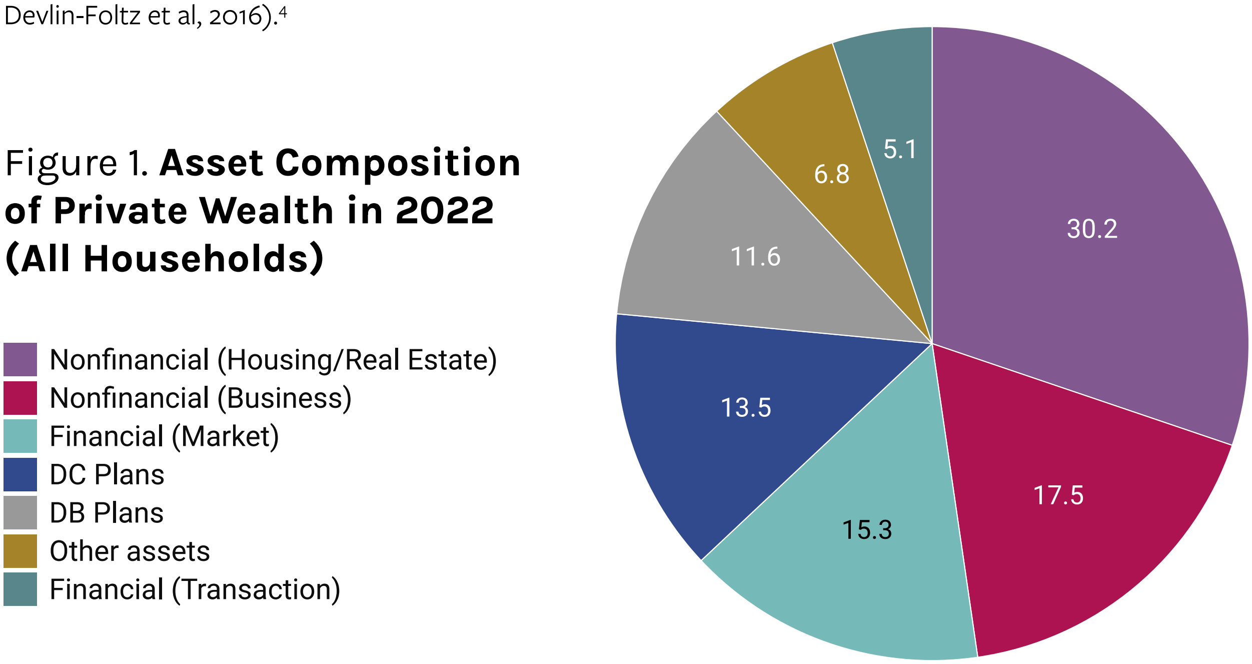
Social Security benefits are actually the single largest source of retirement income for most elderly Americans, providing a monthly inflation-adjusted benefit over the entirety of the post-retirement life of the beneficiary. The system is financed through payroll taxes (the employee and employer-side of the OASDI portion of the "FICA" tax), and all workers with at least 40 quarters (10 years) of qualified employment are eligible for some benefit in retirement. Monthly benefits are greater for those with higher earnings from work, but the benefit system is progressive overall, with a minimum benefit amount and the benefit formula replacing a higher share of pre-retirement earnings for workers with lower earnings. The anticipated stream of benefits from Social Security can be used to calculate an equivalent asset amount and this asset value can be considered a type of wealth. Researchers using the implied asset value of Social Security in wealth estimates find that it results in substantially more equal distributions—by socioeconomic status and by race—than using private wealth alone (Jacobs et al, 2020, 2022; Thompson and Volz, 2021; Sabelhaus and Volz, 2020). In this paper, however, we are focused on private wealth, and do not consider Social Security in our discussion of retirement wealth.

DB assets are excluded from household wealth in each of these surveys for a variety of defensible reasons,[2] but it comes at the cost of a full appreciation of retirement wealth since the combined assets in these plans are comparable in magnitude to that of DC plans. Some analysts rationalize the exclusion of DB assets from the measure of wealth as traditional pensions have some different characteristics from other forms of wealth. For example, DB pensions are generally less portable and cannot be used as leverage in obtaining a loan, while other assets, such as housing, can serve this function. Despite some meaningful distinctions, DB pensions are a crucial form of wealth for plan participants. Some DB pension plans allow participants to borrow against their future benefit, and ultimately one of the most important uses of wealth of any type is to finance consumption in retirement. The Federal Reserve Board's Distributional Financial Accounts (DFA) shows that total asset value of defined benefit pension entitlements was $17.6 trillion in Q4 2023.[3]

In the following analysis, we use data from the SCF augmented by household-level estimates of DB plan wealth developed by current and former members of the team of economists who oversee the survey (Sabelhaus and Volz, 2019; Sabelhaus and Volz, 2020; Devlin-Foltz et al, 2016).[4]

The standard measure of household wealth in the SCF is referred to as "net worth" and is defined as the sum of the value of all assets included in the survey less the value of all debts. Following Sabelhaus and Thompson (2023), we refer to the combination of net worth and DB plan assets as "private wealth." In **Figure 1**, we show that DC plans accounted for 13.5 percent of private wealth and DB plans nearly 12 percent in 2022.[5] Jointly, employment-based plans account for 25 percent of private wealth, compared to 30 percent for housing, 18 percent for privately-owned businesses, and 15 percent for other financial assets including directly held stocks, bonds, and other instruments such as certificates of deposit (CDs). Transaction accounts (such as checking accounts) and other assets (such as vehicles) account for much smaller shares of household wealth.[6] This demonstrates that retirement savings accounts (whether DB or DC plans) are a meaningful share of wealth for households.

Figure 1. **Asset Composition of Private Wealth in 2022 (All Households)**



Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

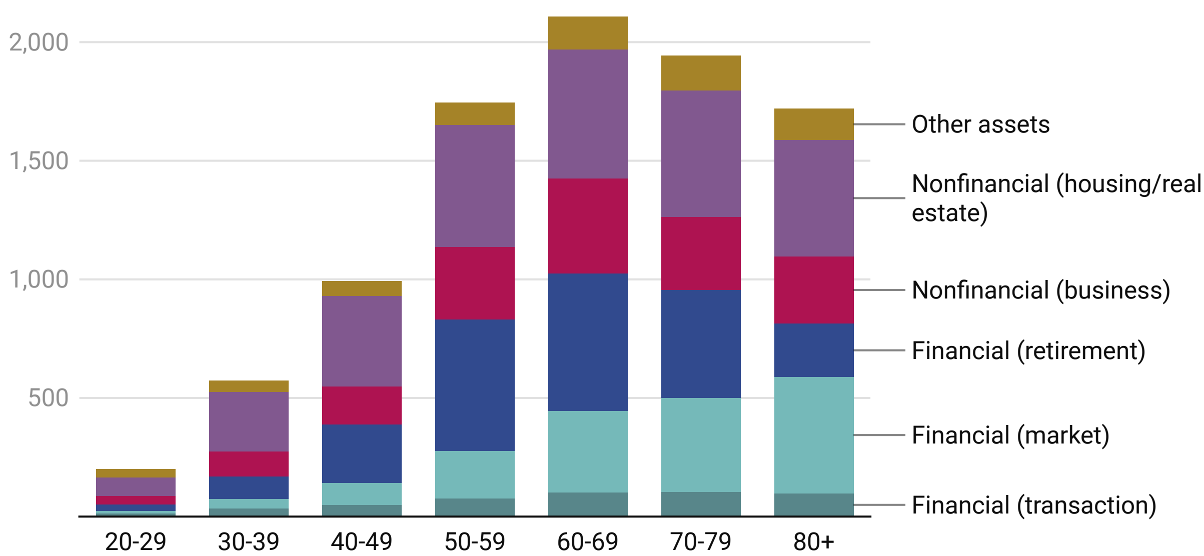
The importance of retirement wealth becomes even clearer when we look at the distribution of assets by age and the portfolios of different parts of the wealth distribution. Young households tend to own little wealth of any kind, but their retirement plan savings are particularly low due to relatively few years worked (**Figure 2**). For the youngest age cohorts and up through the forties, housing is the largest household asset category. By the time households are in their fifties, however, employment-based retirement savings emerge as the largest asset category. For households in their seventies and older, retirement assets are steadily consumed and decline as a share of the balance sheet. Figure 2 suggests that both housing and privately-owned businesses remain substantial and do not diminish even well into later life. In part, this is an artifact of the data. As households age, they face increased mortality risk, and the households most likely to live until very old ages tend to be wealthier households. As a result, in cross-sectional data, we will not be able to identify how assets are drawn down in later life.

For the youngest age cohorts and up through the forties, housing is the largest household asset category.

By the time households are in their fifties, however, employment-based retirement savings emerge as the largest asset category.

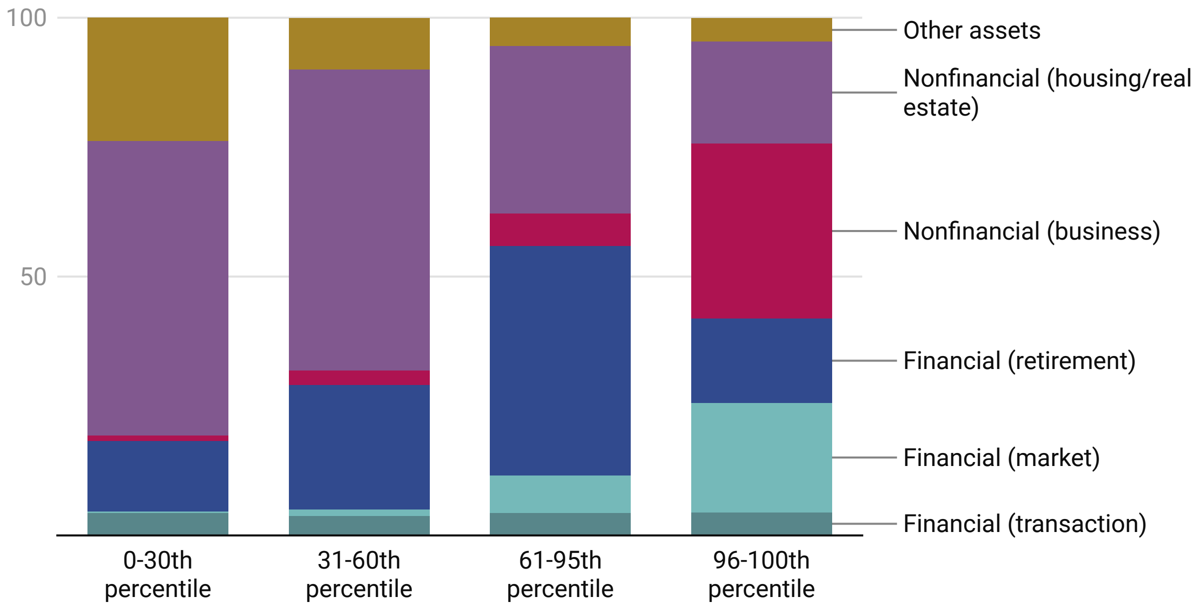
For households in their seventies and older, retirement assets are steadily consumed and decline as a share of the balance sheet.

Figure 2. **Private Asset Composition by Age Group**



Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

Figure 3. **Asset Composition by Private Wealth Group**



Restricted to households with respondents age 45-65. Private wealth percentiles based on 5-year age bins.

Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

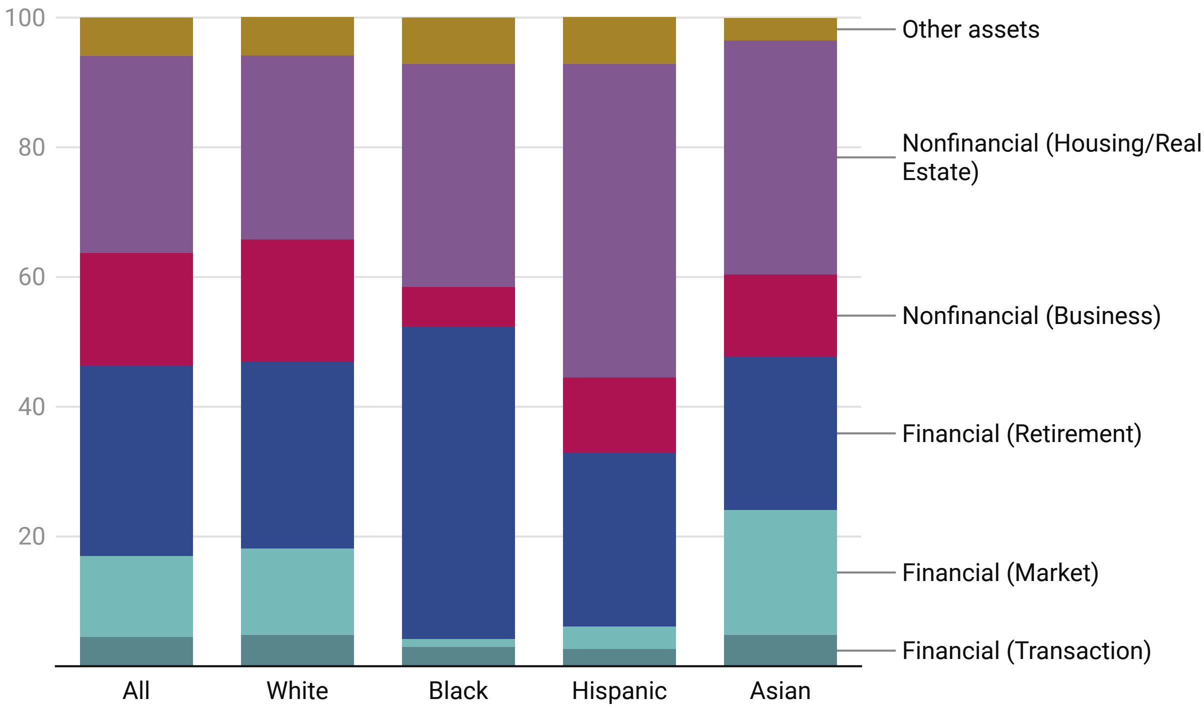
The importance of retirement plan assets also varies across the distribution of wealth. Remaining focused on households approaching retirement age (with heads between 45 and 65), above in **Figure 3** we look at the asset composition of households across the distribution of wealth. Among wealthy households (the age-adjusted top 5 percent of the private wealth distribution) we see portfolios are dominated by directly owned businesses as well as directly owned financial assets (stocks, bonds, etc.). Retirement plans account for 16 percent of these families' assets.

> Real estate accounts for six of every 10 dollars in assets for the bottom 60 percent of households ranked by wealth.

Toward the bottom of the wealth distribution (below the 60th percentile), we see that housing is far and away the most prominent asset. Real estate accounts for six of every 10 dollars in assets for the bottom 60 percent of households ranked by wealth. The bottom 30 percent of households stand out as the only group with a substantial portion of assets in the "other" category—primarily vehicles. "Other" assets account for 24 percent of wealth among the lowest-wealth households, and retirement savings plans only 14 percent. As we move up the distribution to households between the 31st and 60th percentiles, the retirement plan share of assets jumps to 24 percent.

Among households above the 60th percentile of wealth, but outside the top 5, retirement plan assets emerge as the dominant asset. Retirement plans account for 44 percent of the assets of these families compared to 32 percent for real estate, which includes primary residences, other homes and properties.

Figure 4. **Private Asset Composition by Race**



Restricted to households with respondents ages 40-64.

Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

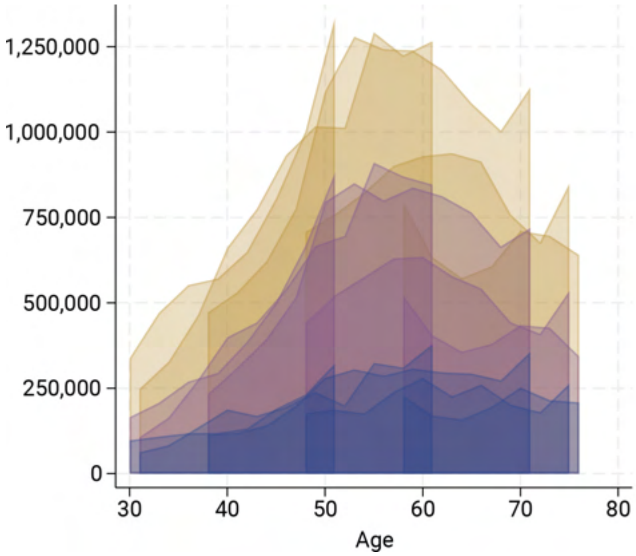
We also see that the composition of assets varies by race. As shown in **Figure 4**, the asset composition of White and Asian families (with heads ages 40 to 64) matches the overall national composition. The portfolios of Black and Hispanic families, however, look quite different. Housing accounts for 48 percent of Hispanic family assets, compared to 30 percent among all families. Black families hold 34 percent of their assets in housing, also well above the national average. Black families' assets, however, stand out as the most concentrated in retirement assets; employment-based retirement assets account for 48 percent of all private assets for Black families compared to 29 percent among all families. This further underscores the significance of retirement savings in promoting retirement equity.

Black families' assets stand out as the most concentrated in retirement assets. Employment-based retirement assets account for 48 percent of all private assets for Black families compared to 29 percent among all families.

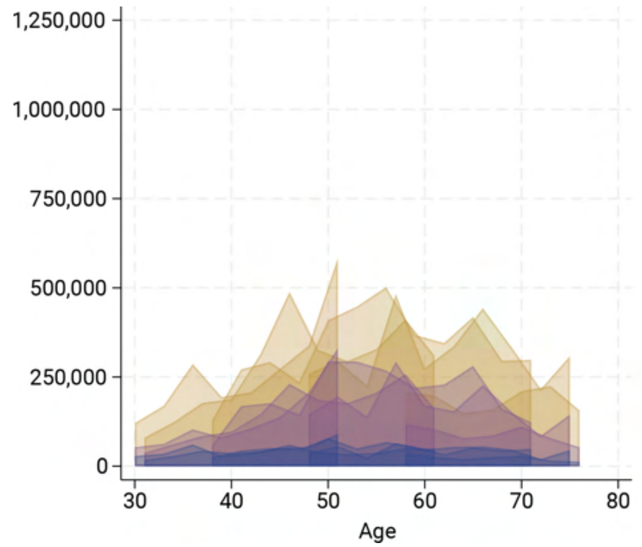
Figure 5. **Evolution of Asset Composition across the Lifecycle for Bottom 95% of Families**

Synthetic Panel Stacked Area Chart of Mean Asset Value by Race

5A. WHITE FAMILIES



5B. BLACK AND HISPANIC (COMBINED) FAMILIES



Housing/Real Estate   Retirement Assets (DC + DB)   All Other Assets

Source(s): SCF 1989-2022 supplemented with DB pension assets

Note(s): Synthetic panel uses 10-year cohorts based on birth year. The 5 percent wealthiest households by five-year age bin, survey year, and race group (Black and Hispanic combined) were dropped.

By converting the cross-sectional SCF into a "pseudo panel" by year-of-birth cohorts we can explore the evolution of wealth over the lifecycle by race, including the composition of assets and how they change as households age. Younger households have relatively few assets, but wealth accumulates rapidly over the prime high earnings years and peaks as they approach retirement age. **Figure 5** confirms the racial disparities in wealth documented elsewhere: White families hold greater wealth at each point of the lifecycle than their non-White peers (Black and Hispanic families combined here). Excluding the highest-wealth 5 percent of families (by race), we see that White families' average private wealth peaks at $1.25 million in their 50s and 60s (**Figure 5A**). For the same age ranges, non-White family wealth peaks at $500,000 (**Figure 5B**).

What the pseudo-panel perspective in these figures also reveals, however, is that White and non-White families alike are following the same lifecycle process. Both groups are rapidly building wealth during the working years, with retirement assets playing a vital role in the years leading up to retirement. Assets outside of housing and retirement plans play a tertiary role for White families outside the top 5 percent and are almost non-existent for the average non-White family at any point along the lifecycle.

Details on Retirement Plan Coverage and Wealth by Race

Retirement plan wealth is distributed more equally than many other types of assets, but even these categories exhibit disparities by race. Focusing on households headed by someone in the years leading up to retirement (40-64), **Table 1** shows that housing wealth of the average White family (at $546,000) is 2.8 times larger than that of the average Black family (at $195,000). The average White/Black wealth ratio is 8.3 for non-housing/non-retirement assets and 4.4 for DC plans, but only 1.3 for DB pensions, and 2 for total private retirement assets combined.

Among households that are covered by a retirement plan, the asset value is considerable. Among those who have DC plans, average DC assets are $420,000 for White families and $145,000 for Black families. For those with DB pensions, the average is $763,000 for White families and $563,000 for Black families. Both types of plans are equally important for the total assets of White families, with DC plans accounting for 52 percent of total private retirement wealth (**Figure 6A**). Among Black and Hispanic families, however, DB pensions account for a sizeable majority of retirement wealth, 76 percent and 64 percent, respectively. In fact, DB pension assets account for 37 percent of all private assets among Black families, compared to just 14 percent for White families (**Figure 6B**).

Table 1. **Private Asset Details by Race, 2022**

Average private wealth ($) by asset type and race

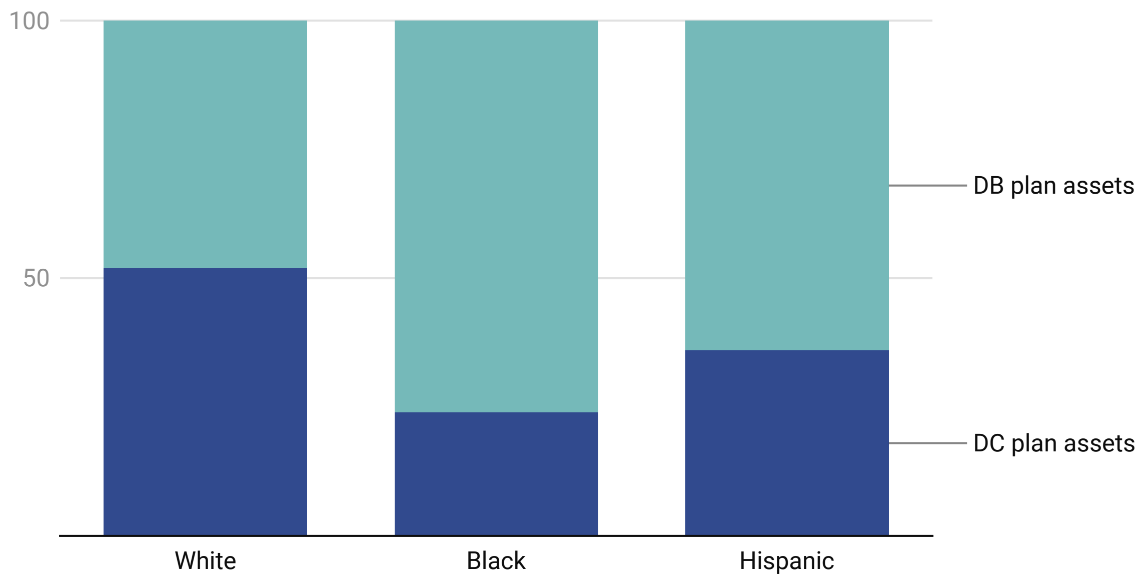
	White	Black	Hispanic	White/Black Ratio	White/Hispanic Ratio
Housing wealth	546,121	195,322	229,237	2.8	2.4
Non-housing/non-retirement market assets	823,837	99,372	116,967	8.3	7.0
DC plan assets	285,938	65,428	45,380	4.4	6.3
DB plan assets	268,921	207,329	81,970	1.3	3.3
DC and DB plan assets	554,859	272,757	127,350	2.0	4.4
Debt	179,494	110,352	97,901	1.6	1.8
Total private wealth	1,745,323	457,098	375,653	3.8	4.6
Conditional on plan coverage					
DC plan	420,079	144,804	161,133	2.9	2.6
DB plan	763,136	563,486	597,971	1.4	1.3

Includes households with heads age 40-64

Source: SCF 2022 supplemented with DB pension assets • Created with Datawrapper

Figure 6. **Private Asset Details by Race, 2022**

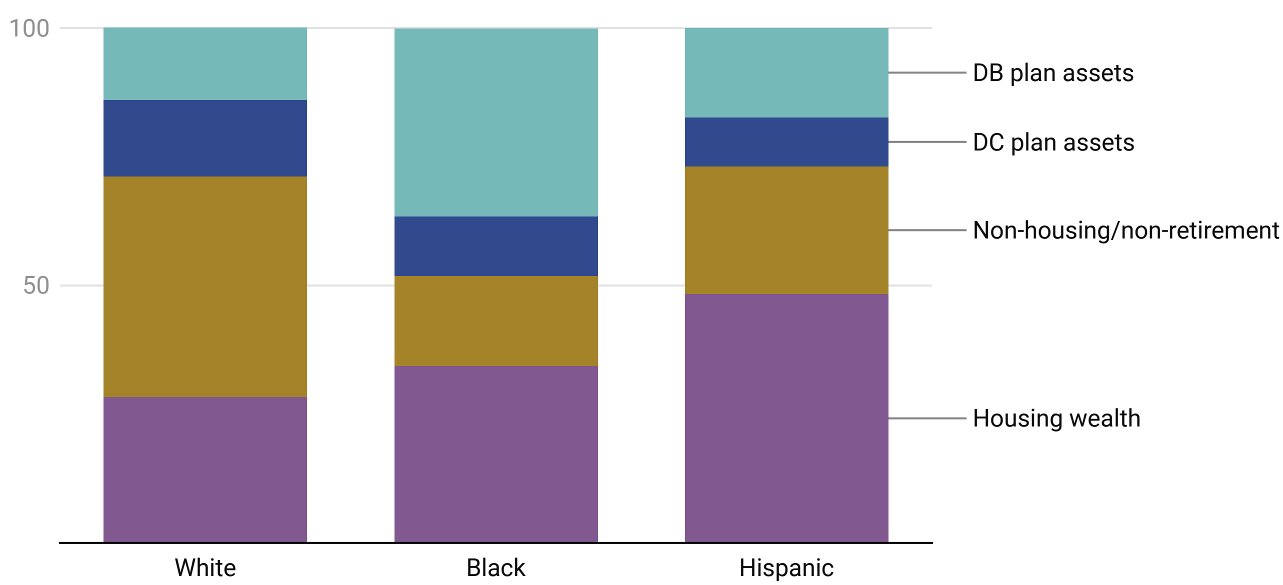
6A. RETIREMENT WEALTH COMPOSITION



Restricted to households with respondents ages 40-64.

Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

6B. PRIVATE ASSETS COMPOSITION



Restricted to households with respondents ages 40-64.

Source: SCF 2022 supplemented with DB plan assets • Created with Datawrapper

Table 2. **Household Retirement Plan Coverage from Current Job of Respondent or Spouse/Partner**

	DB Plan Coverage (%)	DC Plan Coverage (%)	Either DC or DB Plan Coverage (%)	Both DC and DB Plan Coverage (%)
Panel A. White Households				
Pooled 1989-1992 data	38.7	36.0	58.0	16.7
Pooled 2019-2022 data	25.5	49.4	61.0	13.9
Percentage Point Change	−13.2	13.4	3.0	−2.8
Panel B. Black Households				
Pooled 1989-1992 data	29.4	20.4	40.9	9.0
Pooled 2019-2022 data	27.8	36.0	51.8	12.0
Percentage Point Change	−1.6	15.5	10.9	3.0
Panel C. Hispanic Households				
Pooled 1989-1992 data	22.4	19.1	36.1	5.3
Pooled 2019-2022 data	14.5	24.4	33.8	5.1
Percentage Point Change	−7.9	5.3	−2.4	−0.2

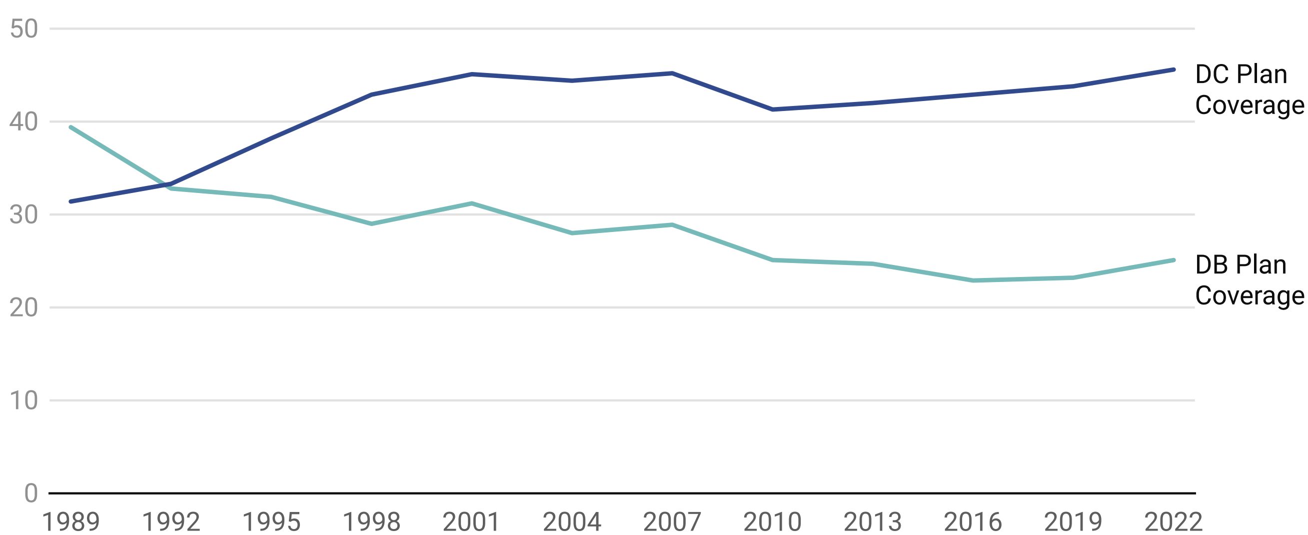
Includes households with heads age 40-64

Source: SCF 1989, 1992, 2019, 2022 supplemented with DB pension assets • Created with Datawrapper

Unsurprisingly, retirement assets are not distributed equally either across or within race groups. First of all, not all households are covered by a retirement plan, and the rates of coverage vary by group. Half of White families, with heads ages 40 to 64, are covered by a DC plan through either the respondent or the spouse/partner's current job, compared to one-third of Black families and one-quarter of Hispanic families (**Table 2**). Coverage rates for DB pensions, however, are substantially more equally distributed, with little daylight between the share of White and Black families with DB plans (26 and 28 percent, respectively). When we look to the presence of any retirement plan (either DC or DB), coverage is considerably more equal than DC coverage alone. Sixty-one percent of White families have some retirement plan coverage on current job, compared to 52 percent of Black families and 34 percent of Hispanic families (**Table 2**).

Broadly speaking, DC plans are more common now than they were 30 years ago, while DB pensions have become less common (**Figure 7**). Over the last decade or longer, however, the extent of coverage in both types of plans has by and large held steady. DC coverage rates for each race group in 2022 are very similar to levels from 2004. DB plan coverage has held steady since 2010. The modern evolution of the U.S. employment-based retirement system, which replaced many DB pensions with DC plans, failed to produce meaningful gains in pension coverage for White families, as increases in DC coverage were largely offset by declines in DB coverage. Fifty-eight percent of White families had any current job pension in 1989-1992, compared to 61 percent in 2019-2022 (**Table 2**). Coverage among Black families over that same period rose from around 41 percent to 52 percent. The disparity between White and Black families in the likelihood of being covered by both types of pensions nearly disappeared over this same period, falling from nearly eight percentage points to just under two percentage points.

Figure 7. **Household Retirement Plan Coverage from Current Job of Respondent or Spouse/Partner**



Includes households with heads age 40-64.

Source: SCF 1989-2022 supplemented with DB plan assets • Created with Datawrapper

The other dimension along which retirement plans differ is that of socioeconomic status. Even though pension wealth is distributed more equally than many other forms of wealth, high income and wealth families hold substantially greater retirement plan assets than low income or wealth families. **Figure 8** sorts households by the race-specific distribution of private wealth. Wealthier families of each race—with household heads ages 40 to 64—have higher rates of pension coverage and more substantial assets. For example, among the wealthiest 20 percent of White families, nearly two-thirds are covered by a DC pension, compared to about one-fifth of the White families in the bottom 20 percent of wealth (**Figure 8A**).[7] DB plan coverage is also higher for upper-wealth families of all races; 66 percent of Black top-quintile wealth families have DB pensions, compared to 6 percent of Black families in the bottom quintile. Comparable coverage rates for White families are 46 percent and 2 percent, respectively (**Figure 8B**). Lower-wealth Hispanic families have particularly low rates of pension coverage, with DC and DB coverage rates below 15 percent up through the middle quintile of the Hispanic wealth distribution.

Among covered families, we also see massive differences in retirement assets between high- and low-wealth families. For White families with DC plans, average plan assets were $797,000 for top-quintile wealth families and $89,000 among middle-quintile wealth families. Among covered Black families, DC assets averaged $301,000 for higher wealth families and $36,000 for middle-wealth families. Average DB pension assets were valued at $1.4 million among covered high-wealth White families and $938,000 among covered high-wealth Black families. DB assets were valued at $146,000 and $47,000, respectively, for covered middle-wealth White and Black families.

Impact on the Measurement of Racial Disparities in Wealth

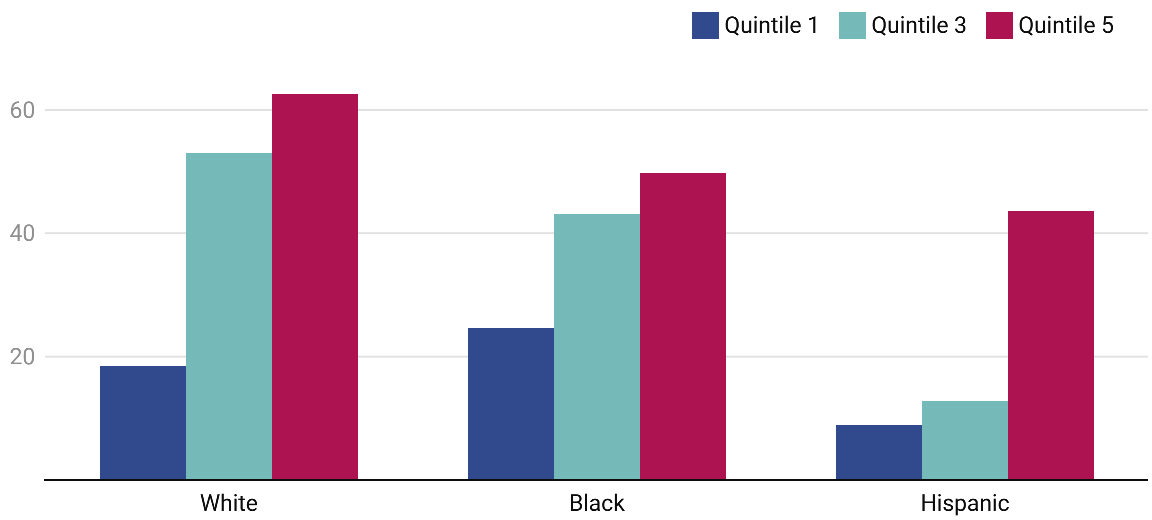
Since defined benefit pensions are distributed more equally than most other types of assets, and account for such a large share of Black family wealth, it is not a surprise to see that the inclusion of DB assets results in meaningfully lower measures of racial disparities. While the dollar gap between White and Black mean private wealth is larger than that of net worth, the White/Black wealth ratio declines for private wealth compared to net worth. Using the standard net worth variable from the SCF, the average White/Black wealth ratio was 6.4 in 2022 (**Figure 9A**). Once DB pension assets are included, the average White/Black ratio of private wealth is found to be 4.4. Over time, the White/Black ratio of average private wealth is basically flat and does not exhibit the upward trend seen in ratios of net worth. Since DB pensions add proportionally similar amount to Hispanic families as White ones, White/Hispanic ratios are largely unaffected by the inclusion of DB assets. Additionally, since DB assets are largely distributed above the median of the private wealth distribution, ratios of median wealth are less impacted than what is seen for average wealth (**Figure 9B**). For example, the White/Black ratio of median wealth in 2022 is 6.4 when using SCF net worth, and 5.3 when using private wealth.

Figure 8. **Retirement plan coverage and average retirement plan wealth in 2022, by private wealth quintile, race, and plan type**

Coverage from current job for respondent or spouse, families with heads age 40-64

8A. DEFINED CONTRIBUTION PLANS

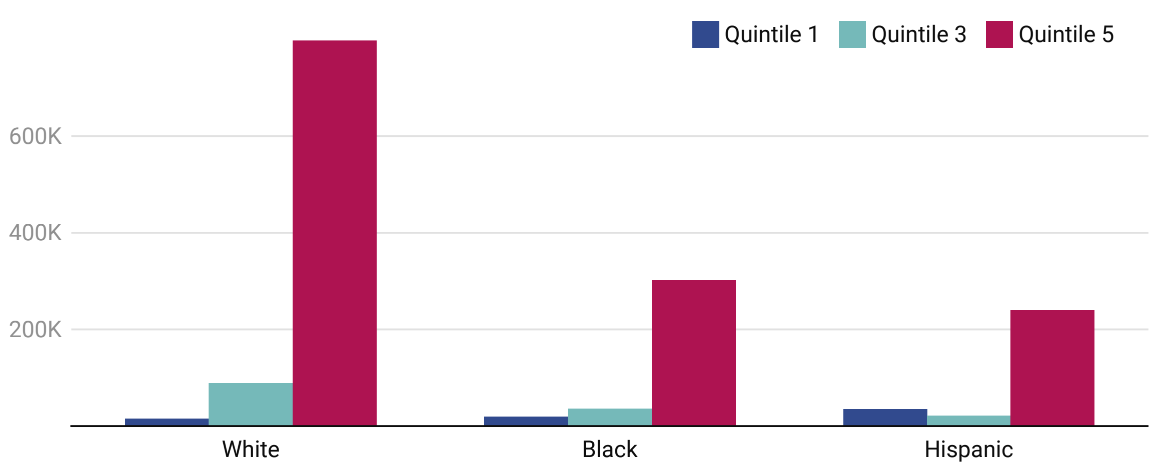
Coverage %



Includes households with heads age 40-64

Source: SCF 2019, 2022 supplemented with DB plan assets • Created with Datawrapper

Average Wealth, conditional on non-zero retirement plan wealth

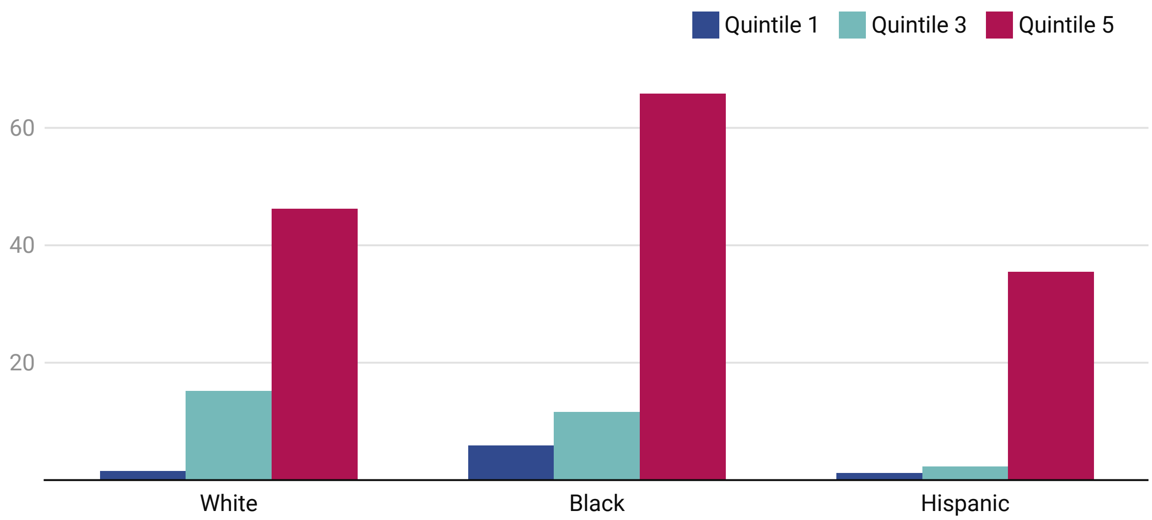


Includes households with heads age 40-64

Source: SCF 2019, 2022 supplemented with DB plan assets • Created with Datawrapper

8B. DEFINED BENEFIT PLANS

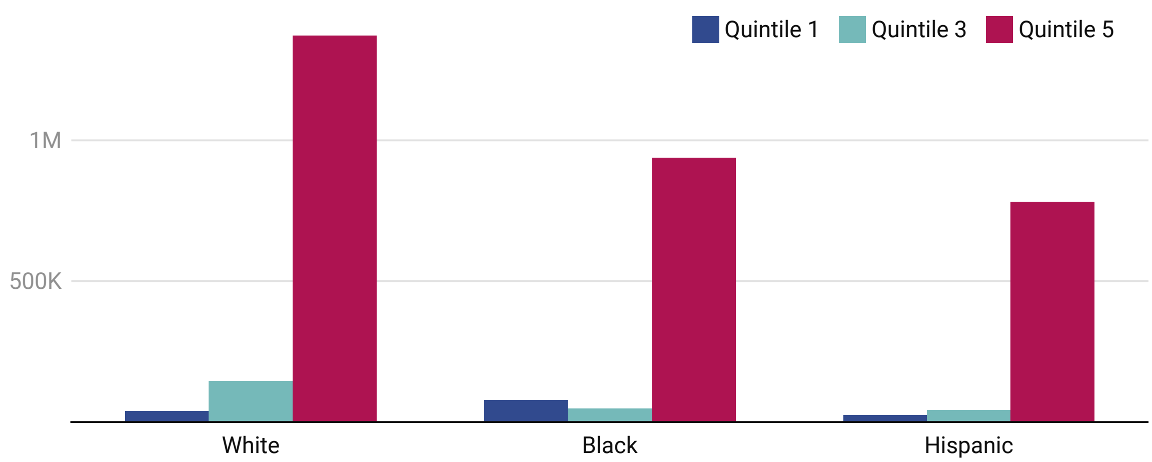
Coverage %



Includes households with heads age 40-64

Source: SCF 2019, 2022 supplemented with DB plan assets • Created with Datawrapper

Average Wealth, conditional on non-zero retirement plan wealth

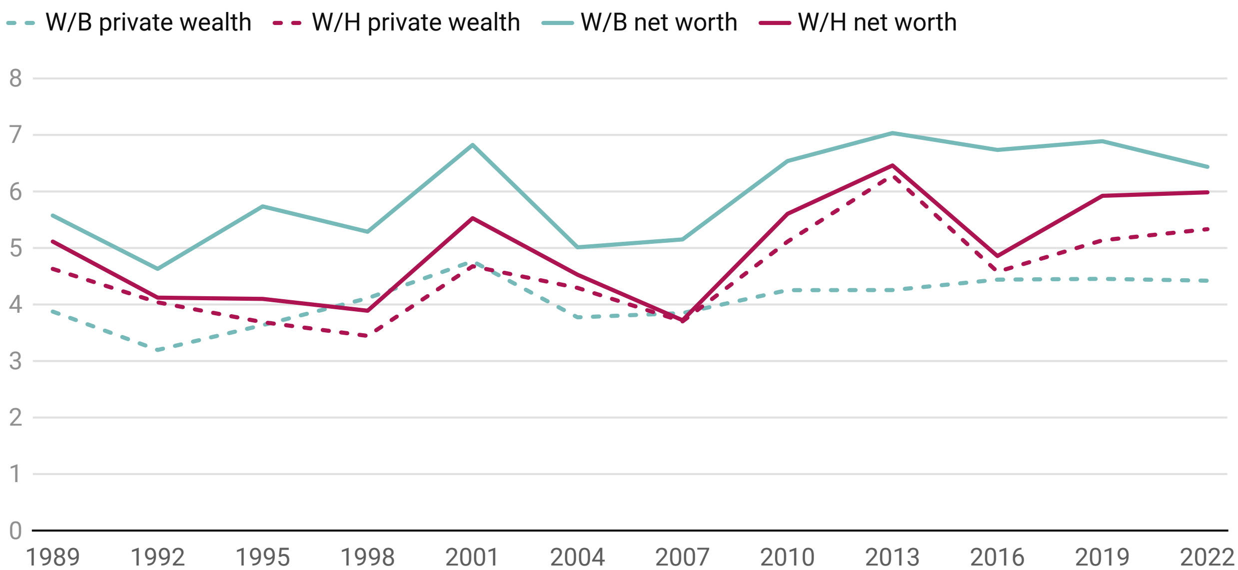


Includes households with heads age 40-64

Source: SCF 2019, 2022 supplemented with DB plan assets • Created with Datawrapper

Figure 9. **White/Non-White Wealth Ratios over Time by the Inclusion of DB Plan Assets**

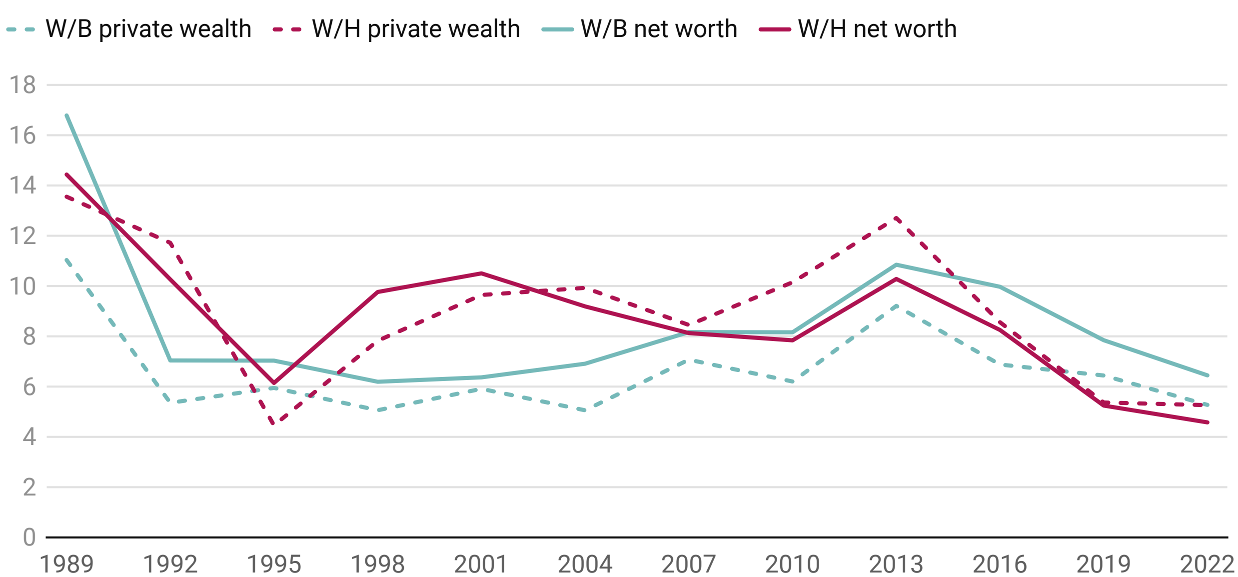
9A. AVERAGE WEALTH RATIOS



Private wealth includes defined benefit plan assets; net worth does not.

Source: SCF 1989-2022 supplemented with DB plan assets • Created with Datawrapper

9B. MEDIAN WEALTH RATIOS



Private wealth includes defined benefit plan assets; net worth does not.

Source: SCF 1989-2022 supplemented with DB plan assets • Created with Datawrapper

PART II:
RETIREMENT SECURITY AND RACIAL DISPARITIES IN MASSACHUSETTS

So far, our analysis of retirement plan coverage and wealth has focused exclusively on national data. In this section we turn our attention to state-level information for Massachusetts, disaggregating by race wherever possible.

We begin by looking at demographics of the labor market, since most retirement plans, especially defined benefit plans, are tied to one's employer. Then we look at participation rates in different types of retirement systems. And, finally, we close with estimates of average retirement assets and ratios of retirement income to poverty by race. All the national wealth and retirement plan coverage statistics presented in Section 1 using the SCF are for family units, while most of the statistics for Massachusetts discussed in this section are based on individual workers.

These state level data are far more limited, but in broad strokes, we find:

- White workers in Massachusetts are the most likely to participate in most types of retirement plans, although Asian workers are a bit more likely to have a private IRA. Hispanic workers have the lowest participation rates across the board;
- Retirement plan coverage is substantially higher for public sector workers, and public pensions are an important source of wealth;
- White and Asian workers in Massachusetts hold substantially greater 401(k) assets than their Black peers, but even these gaps are less than for other forms of non-retirement private assets;
- Racial disparities in retirement plan participation and wealth are evident among public sector workers as well, but these gaps are much smaller than among private sector workers, and;
- Retirees with DB pensions—either private or public sector—are more likely to experience greater economic security in retirement, with a substantially larger share of retirees receiving incomes greater than 200 percent of the federal poverty threshold.

Employment data show that Black workers in Massachusetts are more likely than their White and Hispanic peers to be employed in public sector jobs that offer a high-quality pension. An exception is K-12 education, where Black workers are considerably less likely to be employed as schoolteachers. Strong representation in public sector jobs suggests that Black wealth is somewhat higher than typical estimates suggest for Massachusetts, although large gaps in overall retirement plan participation and asset values remain.

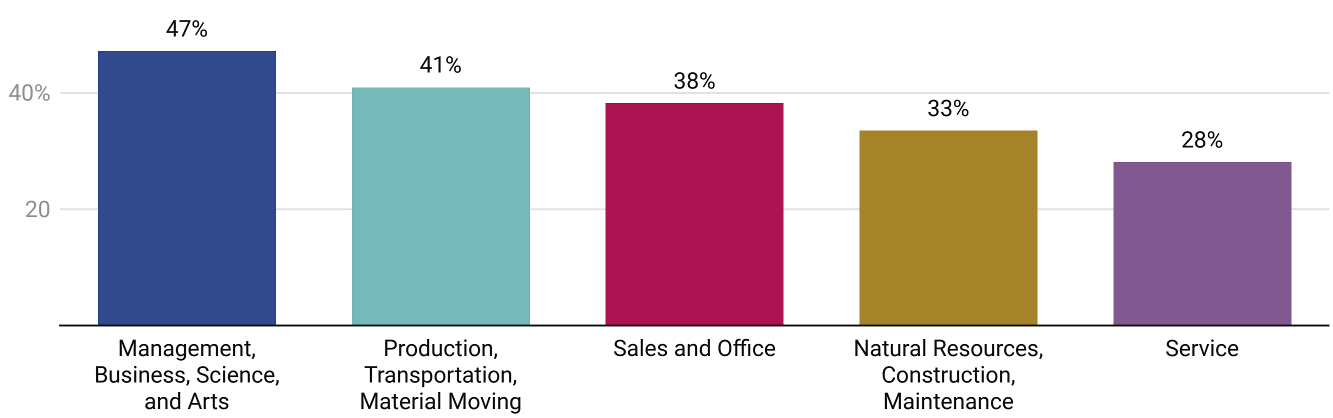
> Black workers in Massachusetts are more likely than their White and Hispanic peers to be employed in public sector jobs that offer a high-quality pension.

Massachusetts Labor Force Characteristics

Since retirement saving in the U.S. is closely tied to employment, we begin by examining coverage rates by occupation. First, we look at occupations in five major categories as classified in the Census Current Population Survey (CPS): *Management, Business, Science and Arts; Natural Resources, Construction, Maintenance; Production, Transportation, Material Moving; Sales and Office;* and *Service.* These categories are quite broad, with the first category, for instance, including jobs ranging from club DJs to medical doctors. Among all Massachusetts employees ages 15 and above, those who work in *Natural Resources, Construction, Maintenance* or *Service* occupations were least likely—at just 33 percent and 28 percent, respectively—to report that their employer offers a pension or other type of retirement plan (note: Social Security benefits are not included here) (**Figure 10**). Those employed in *Management, Business, Science, and Arts* occupations were most likely to be covered, with nearly half of all workers reporting access to an employer sponsored retirement plan.

Figure 10. **Share of employees whose job offers a retirement plan by occupation type.**

Share of employees who said their employer offers a retirement plan, by occupation type.

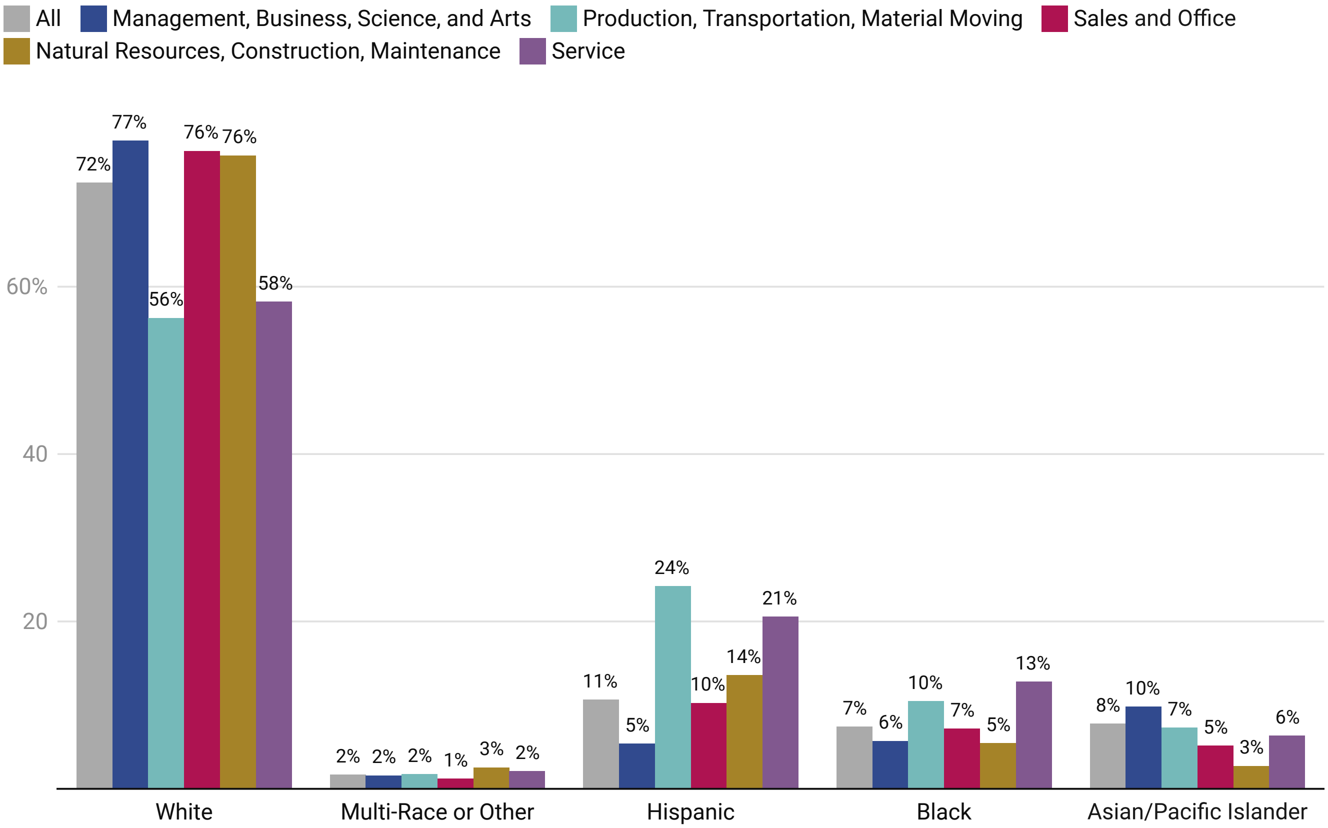


Includes MA workers ages 15 and up.

Source: CPS/ASEC 2018-23 access via IPUMS USA, University of Minnesota • Created with Datawrapper

Figure 11. **Racial composition of different occupation types**

Share of MA workers in each occupation type belonging to each racial group. CPS/ASEC 2018-23.



Includes MA workers ages 15 and up.

Source: CPS/ASEC 2018-23 access via IPUMS USA, University of Minnesota • Created with Datawrapper

Differential patterns of employment by race will influence differences by race in pension coverage. White workers in Massachusetts are disproportionately employed in occupations with higher rates of pension coverage, while Black and Hispanic workers are more likely to be employed in occupations with low rates of coverage. White workers in Massachusetts account for 72 percent of employees in the most highly covered sector, but just 58 percent in the least covered sector (**Figure 11**). Hispanic employees in Massachusetts are least likely to have access to retirement plans through their jobs. They account for one-fifth of workers in the lowest-coverage occupational group, and just one-tenth in the highest-coverage occupational group.

White workers in Massachusetts are disproportionately employed in occupations with higher rates of pension coverage, while Black and Hispanic workers are more likely to be employed in occupations with low rates of coverage.

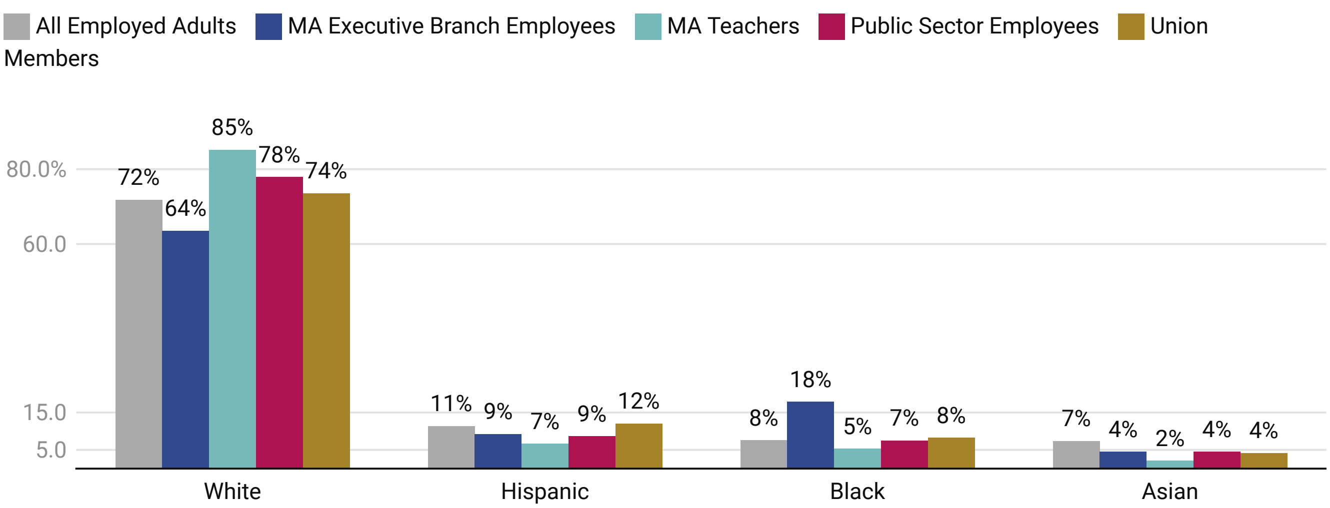
The Public Sector and Unionized Workforce in Massachusetts

When we focus on specific sectors that are known to be more highly covered by retirement plans and pensions—namely public sector employers and union members—we see substantially less variation in employment by race. In **Figure 12** below, we contrast the racial composition of all employed adults with executive branch employees, public teachers, other public sector employees, and employees who are a member of a union. At the state level, Massachusetts has two state funded public sector retirement systems, one for public employees generally (Massachusetts State Employees Retirement System, or MSERS) and another designated specifically for public school teachers (Massachusetts Teachers' Retirement System, or MTRS).

Historically, public sector jobs have been a key pathway for Black Americans to secure stable, middle-class jobs with decent retirement benefits. The Massachusetts data reflect this somewhat, as Black employees are overrepresented among executive branch employees and are proportionally represented in the public sector overall. On the other hand, employees of color in general are *underrepresented* among public teachers. The Massachusetts Teachers' Retirement System is the largest contributory retirement system in the state, so in terms of describing access to defined benefit pensions, lack of diversity among public school teachers is no small detail. Employees of color who are otherwise engaged in work for the Commonwealth of Massachusetts may, however, be able to access the Massachusetts State Employee Retirement System (MSERS) if they are full-time employees with benefits. Executive branch and public sector employees generally are a more diverse group than teachers in Massachusetts. (The data unfortunately do not allow for a breakdown of full- versus part-time employees, but many part-time employees also enjoy benefits under MSERS.)

Figure 12. **Racial composition of segments of the Massachusetts labor force most likely to offer strong retirement benefits**

HR ODEO 2023Q4, MA DESE 2023-24, CPS Basic Monthly Survey, Jan 2018-2023.



"Public sector employees" includes all workers whose first or second job was categorized as belonging to local, state, or federal government.

Source: MA HR Office of Diversity and Equal Opportunity, MA Department of Elementary and Secondary Education, U.S. Census Current Population Survey • Created with Datawrapper

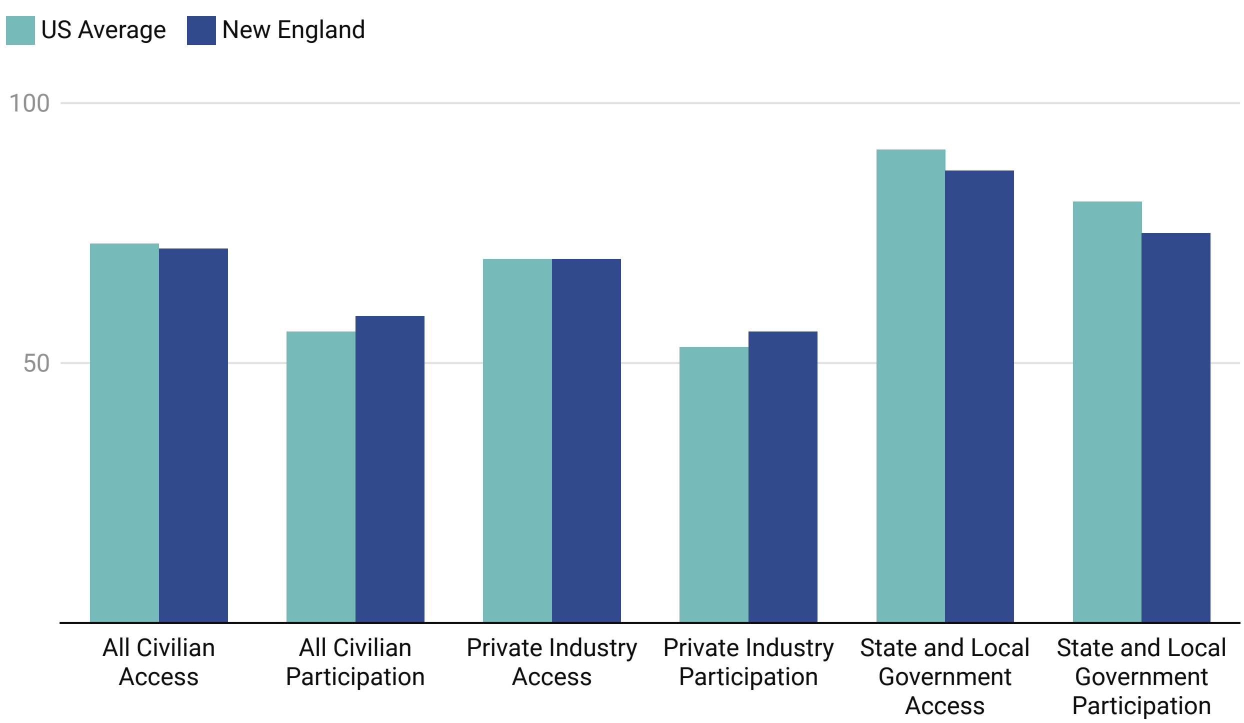
Access, Take-Up and Participation

There is a gap between the share of workers with access to plans and those who are actually covered by a retirement plan that supports their accumulation of savings, as some workers decide to not participate in plans offered to them. Non-participation can be motivated by a number of factors, including the "quality" of the plan in addition to economic and family circumstances as well as lifestyle choices (Schatz, 2020). Some workers may opt out of plans with little or no employer matching of contributions. Other workers may simply be too economically pressured to feel they can justify participating, whether it be low earnings leaving them struggling to make ends meet, or holding debt that they are prioritizing paying down. Some workers may opt out of participation if a spouse already holds a high-quality pension. Other workers, particularly very young workers, may decide that retirement saving is something they will pursue later in life.

Data from the National Compensation Survey for 2023 demonstrate that while 72 percent of workers (of all ages) in New England were offered a retirement savings plan through work, only 59 percent participated in the plan—a slightly higher rate of participation than the national average of 56 percent (**Figure 13**) (Bureau of Labor Statistics, 2023). Participation rates in New England were 56 percent for private sector workers and 75 percent among state and local government workers.

And, again, these data show that state and local government workers have access and participation rates well above those of workers in private industry.

Figure 13. **Retirement Plan Access and Participation by Sector**



Source: National Compensation Survey, BLS, 2023 • Created with Datawrapper

Access in Massachusetts by Age, Race, Education and Income

It is somewhat more difficult to obtain reliable and timely estimates of pension coverage at the state level and by race. The Bureau of Labor Statistics' National Compensation Survey (NCS) is the benchmark for measuring retirement plan coverage, but it is an establishment survey that is not available at the state level and does not provide breakouts by race and ethnicity. The Current Population Survey, particularly its Annual Social and Economic Supplement (ASEC), is regularly used to measure outcomes by race and is also representative at the state level, but since a questionnaire re-design in 2014 the CPS ASEC is widely regarded as undercounting retirement plan coverage (Sabelhaus, 2022). Researchers have devised methods, however, to leverage additional data from other surveys and administrative sources—including the SCF, the NCS, and the Statistics of Income (SOI) data from the IRS in conjunction with the CPS to produce reliable estimates of retirement plan coverage at the state level. Analysts with the AARP (John et al. 2022) have employed the methods developed by Sabelhaus (2022) in developing their "state retirement coverage fact sheets," which provide state-specific measures of retirement plan access broken out by numerous demographic groupings, including race.

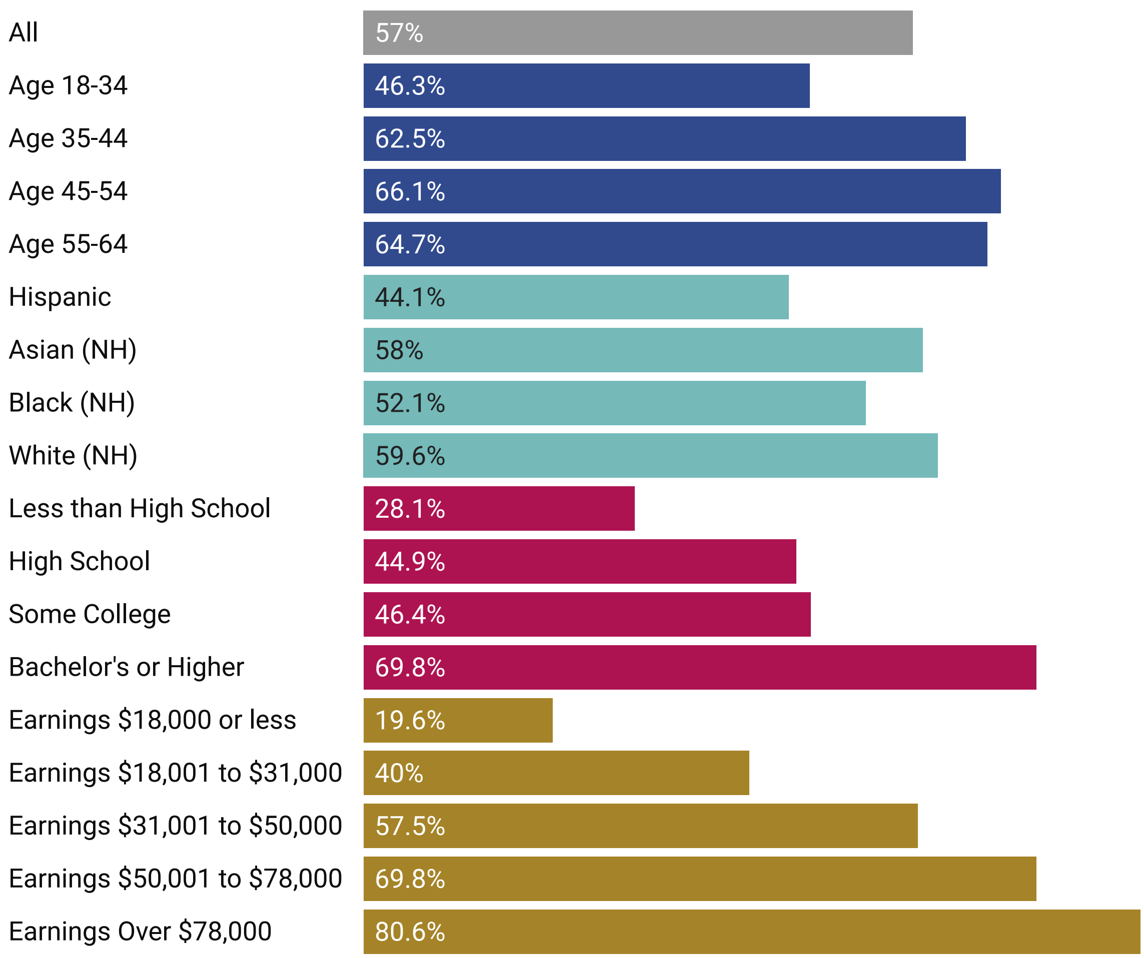
The AARP's analysis shows that in 2022, 57 percent of workers in Massachusetts ages 18 to 64 had access to retirement savings plans through their employers, including 59 percent of White workers and 52 percent of Black workers (**Figure 14**). The additional demographic elements confirm that access rates are higher for older, more highly educated and more highly paid workers as well.

These access numbers can also be cast in the reverse, showing the number of workers *without* access to retirement plans through their jobs; 1.2 million workers in Massachusetts have no access to employer-sponsored retirement plans, including 801,000 White workers and 111,000 Black workers.

57 percent of workers in Massachusetts ages 18 to 64 had access to retirement savings plans through their employers, including 59 percent of White workers and 52 percent of Black workers.

Researchers at the National Institute on Retirement Security (NIRS) have developed comparable methods, applying a variety of adjustments to the CPS ASEC data to make them more consistent with the NCS results (Rhee, 2023).[8] NIRS's evaluation of plan participation by state using data from 2018 to 2021 confirms that plan participation is greater among public sector workers than for workers in the private sector—more than 8 in 10 public sector (state and local government) workers ages 21 to 64 in Massachusetts are covered by a plan through their job, compared to fewer than 6 in 10 private sector workers. Participation is also higher among White workers than for non-White workers. Among public sector workers, 87 percent of White workers are covered compared to 75 percent of non-White workers. Sixty-one percent of White workers in the private sector participate in an employer-sponsored plan, compared to 46 percent of their non-White peers.

Figure 14. **Share of Massachusetts Workers with Access to Retirement Plan through Job**



Source: AARP Public Policy Institute, 2022 • Created with Datawrapper

There are multiple reasons for the gap in participation between private and public sector workers. Public sector retirement plans tend to be higher quality, such as defined benefit plans that guarantee income streams throughout retirement. Additionally, their enrollment mechanisms may feature automatic enrollment, which does not require employees to opt-in to retirement plan participation. Alternatively, as shown above, some private sector employers offer no retirement plan at all, and, among those who do, their benefit levels can be low or require high matching contributions by the employee. Furthermore, union jobs, especially public sector ones, tend to have higher quality retirement plans. Public sector employees are much more likely to be unionized than private sector employees. According to estimates from the Current Population Survey, about 34 percent of public sector employees in Massachusetts are a member of a union, while only 6 percent of private sector employees are. Further analysis showed these unionization rates to be quite similar across racial/ethnic groups and across gender lines.

Public sector retirement plans tend to be higher quality, such as defined benefit plans that guarantee income streams throughout retirement. Additionally, their enrollment mechanisms may feature automatic enrollment, which does not require employees to opt-in to retirement plan participation.

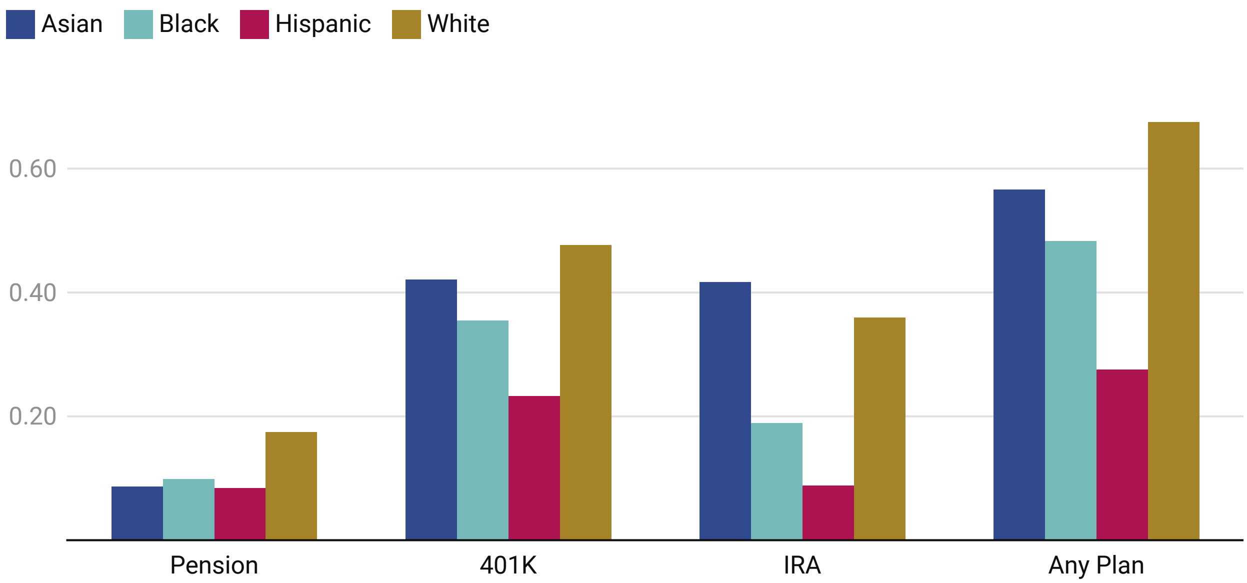
Composition of Plan Types by Race

Next, we break out participation data not by public versus private employers, but by race and by type of plan—defined benefit pension, 401(k), and IRA. To do this analysis, we use 2018-2022 five-year pooled data from the Census Bureau's Survey of Income and Program Participation (SIPP) and restrict to employed residents above the age of 25. These data reveal that pension plan participation is most equal by race, albeit at lower absolute levels. Troublingly, Hispanic workers consistently have the lowest participation rates, regardless of plan type. Black workers are not so far behind White and Asian workers on pension and 401(k) participation, but they are much further behind on IRA participation.

Nearly two-thirds of White and Asian workers participated in some type of plan through work, compared to just over one-half of Black workers and under one-third of Hispanic workers (**Figure 15**). Participation was lowest overall, and most equal by race, for DB pensions, which covered just under 20 percent of White workers and approximately 15 percent of each non-White group of workers. IRAs have the most unequal coverage, including more than half of Asian workers, but fewer than one in 10 Hispanic workers. White workers are the only group where more than half are covered by a 401(k), although nearly half of Asian workers and 40 percent Black workers had 401(k) plan coverage at work.

Figure 15. **Retirement participation by plan type and race**

Rate of participation in retirement plans among employed MA residents ages 25 or older. SIPP 2018-22



Includes employed MA residents ages 25 or older.

Source: U.S. Census Survey of Income and Program Participation 2018-22 • Created with Datawrapper

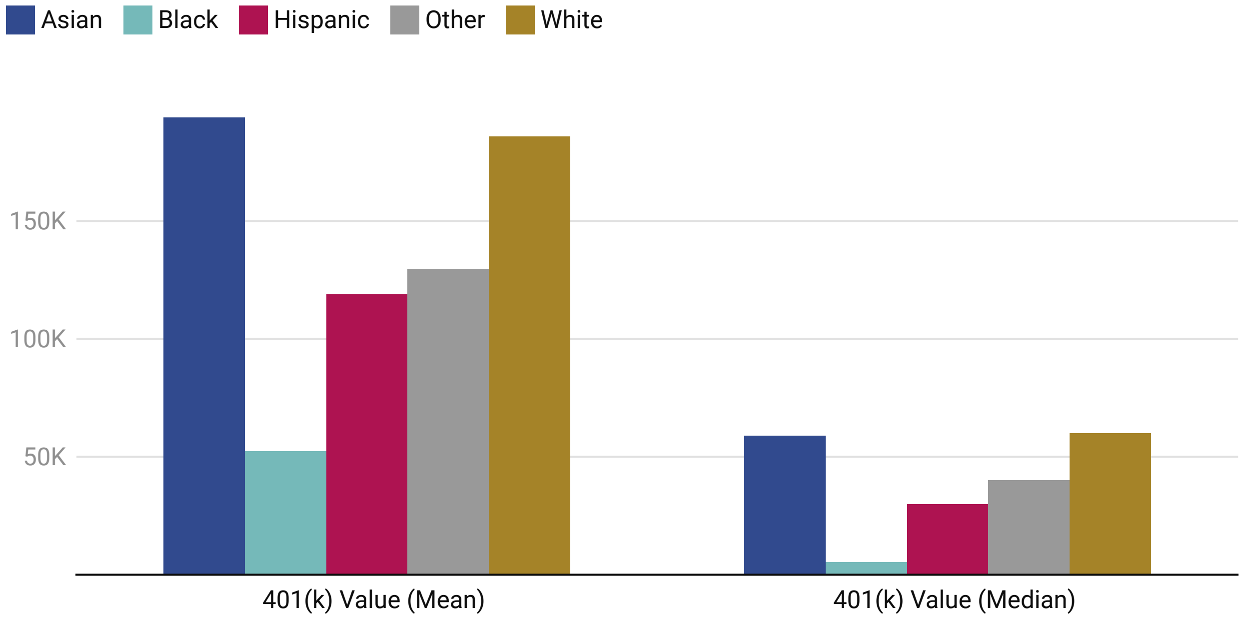
Disparities in Value of Retirement Assets

Racial disparities exist not only by rate of enrollment, but also by the value of retirement assets among those who are enrolled. We cannot analyze IRA values at the state level, but we investigate estimates for 401(k) and pension asset values. First, using the same SIPP data to analyze asset levels among those that *do* participate in 401(k) plans demonstrates a further widening of disparities. Among those that have 401(k) plans, the value of 401(k) assets are lowest among Black populations (**Figure 16**). White and Asian populations have similar 401(k) values at the mean and median.[9]

Next, let's look at estimates of wealth from public sector pensions in Massachusetts. The graph below shows estimates of pension wealth for Massachusetts pensioners ages 55 and above.[10] These estimates were tabulated as part of the 2023 *Closing the Gap* Report from the National Institute on Retirement Security. Notably, all groups have average pension values of more than $200,000, suggesting strong baseline economic security for most of these public sector workers 55 years and older. When comparing across groups, we do see meaningful gaps, but they are significantly smaller than 401(k) asset gaps. White pension assets, for instance, are about $75,000 (or 32 percent) higher than non-White pension assets (all non-White pensioners were pooled for this analysis due to small underlying sample sizes) (**Figure 17**). The largest gap on average is by education, with college-educated workers having more than twice as much pension wealth as individuals without a college degree. This latter discrepancy (college degree vs. no college degree) is likely driven by differences in job opportunities for people with and without college degrees, which may impact not only access to a pension plan in the first place, but also the dollar value of benefits received from pension plans for those who *do* contribute to one, since level of education impacts wages.

Figure 16. **Value of 401(k) assets are lowest for Black populations**

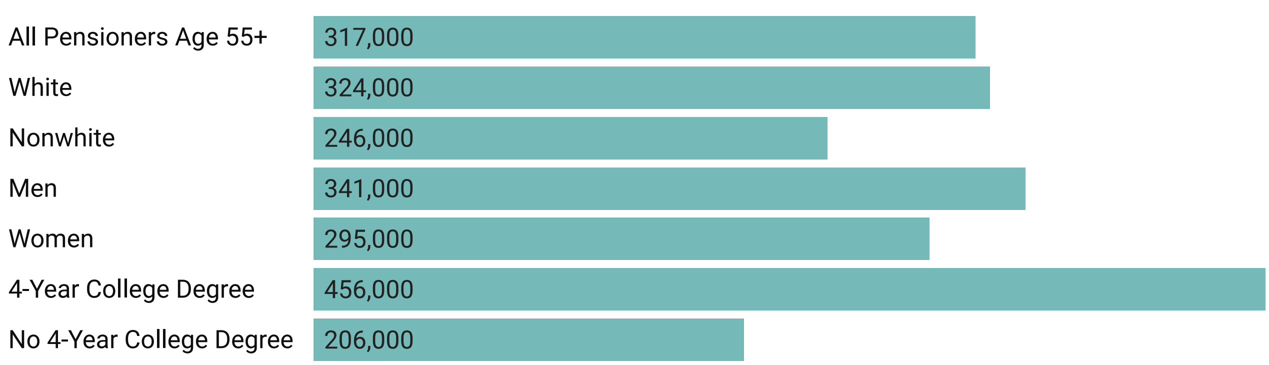
Average value of 401(k) accounts by race. SIPP 2018-22



Includes MA residents age 25 or older.

Source: U.S. Census Survey of Income and Program Participation 2018-22 • Created with Datawrapper

Figure 17. **Average Value of Defined Benefit Pension Wealth Among Massachusetts Pensioners Age 55+, 2013-21**



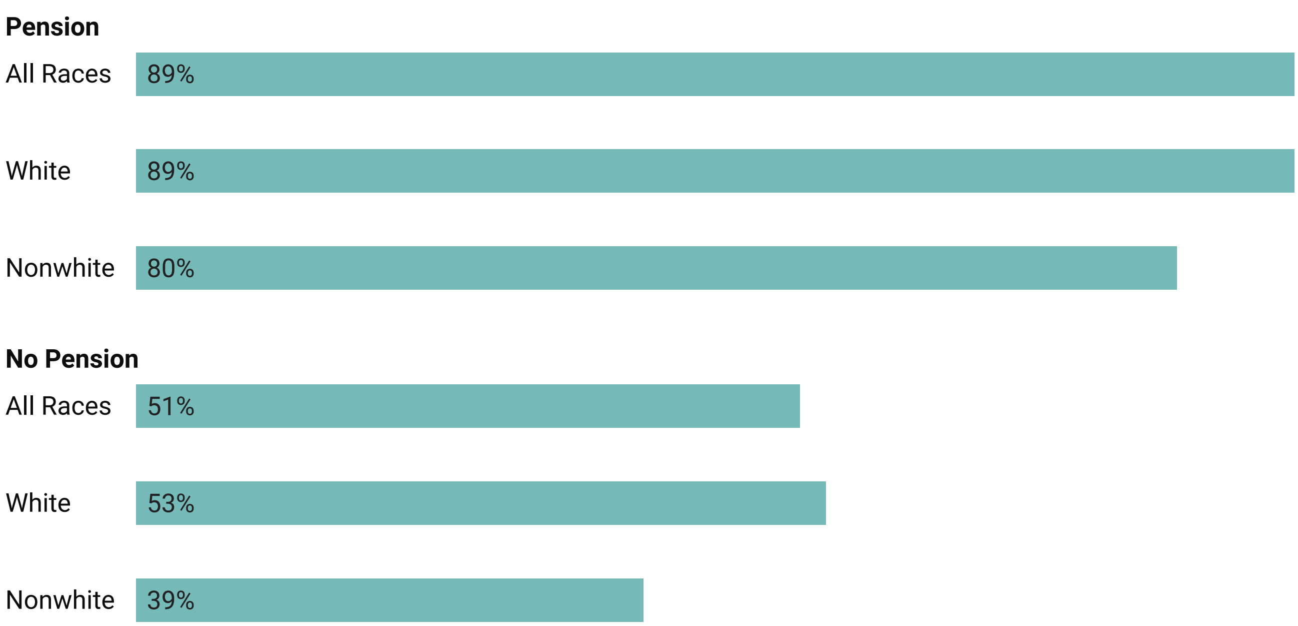
Reproduced version of graph found in MA Fact Sheet for 2023 "Closing the Gap" report, National Institute on Retirement Security.

Source: CPS/ASEC data tabulated by National Institute on Retirement Security for 2023 Closing the Gap Report • Created with Datawrapper

We also notice a gap in pension wealth drawn along gender lines. This gap can be more difficult to explain, since gender-based differences in retirement assets can be a result of many factors. Differences in educational or labor market outcomes can drive differences in retirement assets, but intrahousehold decision making can also be a part of the equation. In households where two partners make joint decisions about work, savings, and retirement, one partner may reduce or completely opt out of paid work. The partner who does not work outside the home will likely own fewer retirement assets independently of their partner. Since women are more likely than men to do unpaid work at home, we expect this pattern may explain some part of the discrepancy in retirement assets along gendered lines.

As a final related measure of retirement security, we also look at the importance of DB pensions—both private and public sector—in supporting retirees. **Figure 18** below shows the share of retirees by race and pension status whose income in retirement keeps them above 200 percent of the federal poverty line. (This measure also comes from the 2023 *Closing the Gap* report.) When we compare pensioners to individuals without a pension, we can see that it is much more likely for someone with a DB pension to have achieved at least a minimum level of financial security in retirement. Eighty-nine percent of retirees in Massachusetts with DB pensions have incomes above 200 percent of the poverty threshold, compared to 51 percent of retirees without a DB pension. There is a modest gap by race of retiree, where 89 percent of White retirees with DB pensions meet this well-being benchmark compared to 80 percent of non-White pensioners.

Figure 18. **Massachusetts Retirees above 200% of Federal Poverty Level by Race, 2013-2021**



Reproduced version of a graph found in MA Fact Sheet for 2023 "Closing the Gap report, National Institute on Retirement Security.

Source: CPS/ASEC data tabulated by National Institute on Retirement Security for 2023 Closing the Gap Report • Created with Datawrapper

PART III:

POLICY OPTIONS

For Increasing Coverage, Boosting Plan Balances, and Ensuring the Fiscal Viability of Funds

The purpose of this final section is to review a variety of policy proposals concentrated on three main areas for improvement to the current retirement savings system: increasing coverage, boosting plan balances, and ensuring the long-term fiscal viability of private and public sector pensions.

The earlier sections of this report illustrated the importance of retirement savings for building wealth and supporting retirement security, as well as addressing the disparities that persist across and within socioeconomic and racial groups. Some of those findings readily suggest policy interventions that could promote retirement saving and diminish inequities—that is the starting point for the options we discuss in this section.

Many of the reform ideas under discussion are focused on federal legislation, which is appropriate in the sphere of retirement savings. Some of the reform options under consideration, however, are potentially relevant to state and local policymakers as well.

A full discussion of retirement resources and related reforms would include Social Security—it is the largest source of income for American retirees. Thompson and Volz (2021) show that, when including the asset value of Social Security benefits in wealth, the total wealth distribution is notably more equal than when only considering private pensions and wealth. There is a rich and important discussion of policy reforms relating to Social Security, particularly related to the long-term financing of the program; all of these reforms would seek to restore long-term funding stability to the program, and some of them carry implications for the distribution of Social Security benefits by socioeconomic status as well as race.[11] In this report, however, we are focused on private pensions and private wealth.

Increasing Coverage

One primary issue for improving retirement security and addressing inequality is increasing the number of people who are covered by a retirement savings plan. Beyond the SCF-based coverage statistics provided earlier, Sabelhaus estimated that approximately 57 million private sector employees are not offered an employer-based retirement plan (Sabelhaus, 2022).[12] Given this, a number of observers have proposed mandating or encouraging plan offerings in workplaces that currently do not offer coverage. The Aspen Institute reported majority support for a federal law requiring universal access to a retirement savings program (Aspen Institute, 2021). The Automatic IRA Act of 2024 outlines a nationwide automatic IRA (or similar defined contribution plan) with default employer and employee contributions for firms with more than 10 employees and without a retirement plan (Ways & Means Committee Democrats, 2024). As of 2024, 15 states have some version of an automatic IRA program (Georgetown University Center for Retirement Initiatives, 2024); Massachusetts has a voluntary open multiple employer plan (MEP), which is a 401(k) group plan that gathers firms under a state-facilitated plan (Georgetown University Center for Retirement Initiatives, 2023). MEPs are intended to reduce the costs of offering a plan for participating employers, but in practice MEPs may be comparably or more costly than single-employer plans (Chen and Munnell, 2024). An automatic IRA system has been proposed in Massachusetts through Massachusetts Secure Choice, "a state-run retirement program that would provide coverage for private sector employees whose employers do not offer a retirement plan," with default employee contribution rates determined by a board (Iekel, 2022).

There have also been other strategies proposed to increase retirement plan coverage. Ghilarducci and James suggested creating a "Guaranteed Retirement Account" that would be required for all workers without a retirement plan (La Roche, 2018). Ghilarducci and Hassett proposed expanding the Thrift Savings Plan, currently available to federal and military employees; they believe the structure of this plan would particularly improve outcomes for those with the least wealth (Ghilarducci and Hassett, 2021). Additionally, the Aspen Institute recommended "targeting communications to employees of color and frontloading employer matches to get workers off the sidelines" (Stark, 2021).

Since retirement plans in the U.S. are overwhelmingly employer-based, switching jobs can create challenges, with fragmented retirement accounts that can be difficult to track and manage. Enhancing the portability of these retirement accounts is another challenge that retirement plan-related legislation seeks to address. An Aspen Institute survey reported broad support for required automatic portability (Aspen Institute, 2021). The SECURE 2.0 Act, passed in 2022, prevents loss of small accounts by providing "a safe harbor for automatically transferring these assets to the new employer's plan" and creates an online database of

> Approximately 57 million private sector employees are not offered an employer-based retirement plan.

previous retirement accounts (Reilly, 2023). Reilly suggested further policy actions, including harmonized data standards for ease of processing transfers and building the online database into an asset transfer system (Reilly, 2023). Other initiatives researchers have suggested include improving the rollover process, creating an online retirement dashboard to provide better information on accounts and benefits, and having a single retirement account throughout one's career, similar to Social Security (John et al, 2021). International examples of these policies include a single, career-long retirement account in Norway and an online database that helps to quickly consolidate retirement accounts in Australia (Reilly, 2023).

Building effective policy to improve retirement wealth equity will also require gathering more data. The Aspen Institute recommended that "employers and plan administrators should collect and analyze plan participation data by race, ethnicity, and other demographic characteristics" (Stark, 2021). One such effort to gather and analyze data in order to recommend solutions is the Collaborative for Equitable Retirement Savings, which analyzes administrative data to draw conclusions and simulate effects of employee behavior and policy initiatives (VanDerhei, 2024).

Boosting Plan Balances

A second critical aspect of improving retirement security and reducing inequality is promoting efforts to help individuals build adequate balances. Automating enrollment into existing plans and setting default contributions is one approach to boosting plan balances that is frequently discussed. A 2022 Government Accounting Office report evaluating international retirement plan policies determined that many of these plans feature automatic enrollment for some employees except when the employee opts out (GAO, 2022). SECURE 2.0 "requires new 401(k) s and similar plans to adopt auto-enrollment and auto-escalation of employee contributions" (Iwry et al., 2024). Auto-escalation plans are meant to further reduce the choice burdens involved with retirement plans and nudge employees to save more (The Human Interest Team, 2023). Employees are 20 times more likely to save under automatic systems, and the Aspen Institute reported that "nine out of 10 experts believe a national retirement plan should feature automatic enrollment" (Waggoner, 2021; Aspen Institute, 2021). Madrian and Shea provided evidence that automatic enrollment improves retirement plan participation and that many people use default contribution rates (Madrian and Shea, 2001). However, research from Denmark indicates that mandatory pension contributions reduce pre-retirement consumption and non-retirement savings (Larsen et al., 2023).

Employees are 20 times more likely to save under automatic [retirement plan] systems, and the Aspen Institute reported that "nine out of 10 experts believe a national retirement plan should feature automatic enrollment."

The tax system's treatment of retirement savings is another potentially useful tool to encourage workers to participate. However, tax credits are likely more beneficial for higher income individuals. The Saver's Credit, a nonrefundable tax credit for retirement account contributions, has low overall claim rates (5.7 percent of taxpayers in 2021) and particularly low claim rates for individuals with AGI below $10,000 (0.04%) (McDermott, 2023). The Saver's Credit has not increased retirement savings of low-income individuals, likely because of limited ability to save, lack of retirement accounts, lower income tax liability, and lack of awareness (McDermott, 2023). The Saver's Match (SECURE 2.0's update of the Saver's Credit) created a "federal matching contribution that must be deposited into a taxpayer's IRA or retirement plan" (SECURE 2.0). The Saver's Match addresses some shortcomings of tax credits in supporting low-income individuals' savings because it is not limited to income tax liability and the Department of the Treasury was directed to promote it (McDermott, 2023). Ghilarducci and James proposed a new federal tax credit that would offset contributions of individuals with income under $40,000 (La Roche, 2018). Additionally, retirement accounts receive tax preferences "because employees can defer taxes on compensation that they receive in the form of retirement savings," but Biggs and Munnell pointed out that retirement-related tax expenditures largely benefit the wealthiest and that they do not significantly increase saving or induce an increase in employer-offered plans (Biggs and Munnell, 2024).

Pension plans do not serve short-term workers well given they are "designed to have backloaded accumulation of benefits."

Although it operates in a different policy sphere than that of "retirement savings," education and workforce related policies to improve access of economically marginalized communities to high quality education and relatively remunerative and stable career pathways also hold promise for helping families build wealth. Some policy recommendations include initiatives to improve educational attainment among economically marginalized populations alongside steps to address student loan debt (Stark, 2021). Public sector jobs have been particularly important for Black Americans to build retirement wealth. As demonstrated in Section 2, in Massachusetts, Hispanic individuals are overrepresented in *Natural Resources, Construction, and Maintenance* and *Service* occupations, which are occupations less likely to offer retirement plans for their employees, and Black, Hispanic, and Asian employees are underrepresented among Massachusetts teachers, meaning that they have less access to the Massachusetts retirement plan for teachers.

The vital importance of long and stable careers for building adequate retirement plan balances is demonstrated in research by Moody and Randazzo (2021). They reviewed state retirement plans and concluded that individuals covered by the same retirement plan from age 25 to typical retirement age are well-served by any type of retirement plan, but the same is not true for workers with short-term tenure (10 years or less) or medium-term tenure (10-20 years). Pension plans do not serve short-term workers well given they are "designed to have backloaded accumulation of benefits," and even medium-term workers may not surpass the tenure threshold necessary to meaningfully ramp up pension retirement benefits (Moody and Randazzo, 2021). Other more portable plan types may not require high enough contribution rates, particularly early in one's career, to generate enough retirement income for short-term workers.

Alongside workforce policies that can promote higher earnings and long, stable careers, however, there remains room for financial literacy and continued innovation in policies that can help support families through financial crises without undermining their retirement security goals. A recent Aspen Institute report comparing workers with the same incomes and plan characteristics found that Black and Hispanic workers nevertheless held smaller plan balances than their White peers; this is in part due to lower employee contributions and more frequent pre-retirement withdrawals and loans (Andres and Watkins, 2024).

Some initiatives simultaneously support retirement saving and emergency saving to support household preparations for unexpected expenses. The Aspen Institute's survey indicated broad support for an emergency savings feature (Aspen Institute, 2021). In the UK, Nest Insight analyzed a pilot "sidecar saving" scheme that combines emergency saving and retirement saving: Individuals make payroll contributions to a savings account until a target amount is met, after which their contributions are added to their retirement savings; users have access to the money in their savings account as needed, and new contributions are funneled into savings to replenish lost resources until the target is met again and contributions are once again funneled to the retirement account (Kuipers et al., 2023).

Ensuring the Fiscal Viability of Funds

> Addressing the fiscal health of plans that do face longer-term funding problems is important to safeguard the retirement security of participants.

Defined benefit pensions are vital to many working families and some research argues that they not only reduce wealth disparities by race but also decrease poverty (Rhee, 2023). Data reviewed in the previous sections of this report demonstrate that DB pensions have less discrepancy in participation rates by race than other plan types and exhibit smaller White/non-White wealth ratios. However, the fiscal health of some traditional pensions—particularly state and local government plans—is a perennial concern for policy makers. For the largest 100 U.S. public defined benefit plans, funded status—the share of anticipated future benefit payments that can be covered by current plan assets—averaged 78.6 percent in February 2024 (Pension Policy International, 2024); for the three Massachusetts plans included in the Public Plans Database (Boston Retirement System, Massachusetts Teachers Retirement System, and Massachusetts State Employees Retirement System), the funded ratios range from 59 to 73 percent in 2022 (Public Plans Database).

Addressing the fiscal health of plans that do face longer-term funding problems is important to safeguard the retirement security of participants. Some approaches to resolving funding shortfalls, however, pose stiff costs for workers and their ultimate retirement income. Research analyzing changes in public sector retirement plan offerings in five states indicated that transitioning from DB plans to DC plans or cash balance hybrid plans had a number of deleterious effects, including increased employer costs, negative cash flow, and employee turnover (Bond et al., 2023).

Furthermore, the appropriate level of necessary funding is a controversial topic that we do not address in this report. Some observers view current funding levels among public pensions as perilously low and in need of urgent attention. For example, Rauh and Novy-Marx (2011) argued that rules for discounting future benefit payments underestimate the cost of state and local government pensions and that even "drastic" policy changes "do not come anywhere close to eliminating states' unfunded legacy liabilities." Others (Lenney et al., 2021, for example) consider current state and local pension funding levels to be largely manageable with modest reforms: Lenney et al. (2021) examined state and local government pension plans and found that "under low or moderate asset return assumptions...few plans are likely to exhaust their assets over the next few decades;" in most cases, only moderate fiscal adjustments are needed to achieve sustainability and immediate stabilization action produces few advantages compared to acting a decade from now. Most participants to the discussion over adequacy in funding levels of public pensions agree that some degree of increased funding (or equivalent controls on spending) is necessary to maintain long-term fiscal viability, but diverge on how much funding is necessary and how quickly it will be required. Researchers also generally agree that there is considerable heterogeneity in funding adequacy, with some state and local plans facing more pressing funding concerns while others are far better situated to meet their fiscal obligations.

In most years, the single largest source of revenue for state and local DB pensions is investment income (including interest, dividends, and capital gains) from plan assets. Over the last 30 years plan investment income has accounted for nearly two-thirds of total plan income, with current employee and public sector employer contributions making up the rest.[13] Policy conversations over fund adequacy have focused primarily on contribution rates, details of benefit formulas, and, to a lesser extent, investment rules and strategies. Among states pursuing pension reforms since 2009, 39 have increased employee contribution rates, 40 lowered benefit levels, 33 changed cost-of-living adjustments (COLA), and 11 switched to a combination DB and DC plan or a cash balance plan ("Pension Reform," n.d.). Massachusetts MSERS and MTRS plan changes post-Great Recession included reducing benefits, "adopt[ing] anti-spiking protections and increas[ing] the cost of purchasing service credits," and making "benefit improvements...to the salary cap on COLA benefit for retirees" (AARP in the States, n.d.). These common policy actions—as well as other proposals for building greater flexibility into benefits or employee contributions "based on plan funding, investment returns, or other actuarial factors," and reducing return assumptions—address the goal of improving long-term financial viability, but also carry potential adverse consequences for retirement security and benefit inequality (Draine and Oberthur, 2023).

In recent years some states have also pursued discretionary fiscal policy to address plan health. After years of underfunding its public employee pensions, New Jersey, for example, directed a portion of its state lottery revenues toward restoring plan viability starting in 2017 (Scudder, 2017). More recently, a number of states, including Connecticut and Illinois, devoted a portion of their COVID-19 era federal funding to improve the fiscal health of their public pension systems (Stark, 2021; Greising, 2023). While supporting state pension funds was outside of the intended use of COVID-19 relief funding from the federal government, Clemens et al. (2024) determined that seven cents of every dollar of federal aid to states was directed to pension funds. Due to these steps and a host of additional policy reforms, the fiscal health of state pensions has improved. As Pew's David Draine has commented, "Thanks to these changes, no state was at risk of pension insolvency as of fiscal year 2021. Yet for some states, these improvements won't be enough to provide their pension systems—and the public employees and retirees who rely on them—with long-term stability" (The Pew Charitable Trusts, 2024).

> 84 percent of private sector defined benefit pension plans (covering 21 million workers and retirees) were "underfunded" as of 2020.

Draine and other public sector pension experts have urged policy makers to continue to undertake initiatives to boost funded ratios to public plans, including "building a contribution buffer" by directing more money into pension plans during economic expansions among other steps (Draine and Oberthur, 2023).

While receiving less attention than public sector plans, the defined benefit pensions offered through private sector firms also face serious concerns over long-term fiscal viability. For example, there is wide variation in plan health alongside data suggesting broad-based underfunding. The funded ratio of the top 100 largest US corporate defined benefit pension plans, for example, was 104.9 percent for February 2024 (Wadia, 2024). At the same time, the most recent Pension Benefit Guarantee Council (PBGC) documents from 2023 indicate that 84 percent of private sector DB plans (covering 21 million workers and retirees) were "underfunded" as of 2020, with less than 100 percent of projected resources to satisfy plan benefits; 63 percent of plans (covering 11 million participants) had funded ratios below 80 percent ("2021 Pension Insurance Data Tables Installment," 2021). Recent years have seen a number of promising steps toward restoring the fiscal health of private sector DB plans. For example, after having been placed on the Government Accountability Office's (GAO) "high-risk" list in 2003 (single-employer program) and 2009 (multi-employer program), respectively, the PBGC's pension insurance programs were removed from the list denoting areas of greatest concern by the nation's auditor (GAO, 2023). The de-listing resulted from dramatic reductions in risk of bankruptcy of these programs following steady improvements in the financial position of the single-employer program and increased funding by Congress to stabilize the multi-employer program (GAO, 2023).

As with their public sector counterparts, many of the relevant reforms regarding fiscal health of private sector pension plans also focus on contribution levels and benefit formula details. At the same time, private plans are impacted quite differently by regulation (ERISA) and taxes, and the viability of these plans is ultimately tied to the economic health of the sponsoring employers. In one recent report, pension experts encouraged lawmakers to pursue additional regulatory and other policy changes to improve long-run health for private pensions, including reductions in PBGC premiums, permitting greater flexibility in the use of DB plan surpluses, and allowing pre-tax contributions by employees to private sector DB pensions, among others (Doonan et al., 2024). For more discussion of private sector DB plan fiscal conditions, interested parties can see Topoleski and Myers (2021), IMPAQ International, LLC (2017), Topoleski and Myers (2023), Boivie (2011), Dodaro (2019), and Doonan et al. (2024).

Other Avenues for Supporting Wealth Accumulation

> The earnings from which retirement contributions are drawn and built are themselves determined by the careers, occupations, wages, and employment spells that workers experience.

Policy reforms that can help enhance retirement security for economically disadvantaged populations and reduce inequality are not strictly limited to "retirement policy" and can spill over into other areas such as education and workforce development. This is obvious, as the earnings from which retirement contributions are drawn and built are themselves determined by the careers, occupations, wages, and employment spells that workers experience. In addition, policy makers concerned more broadly about wealth inequality—not just retirement security—have other options to consider. While this paper demonstrates that retirement assets are more important for wealth building than is commonly appreciated, they remain one key asset. Other arenas in which to pursue wealth building for economically marginalized populations and address inequality include housing, debt, baby bonds, and more.

CONCLUSION

In recent years, civic leaders have increasingly recognized racial wealth inequity as a critical issue facing both our region and the nation. However, policy strategies aimed at boosting assets have often overlooked the crucial role of retirement savings. This paper addresses this gap by examining how employer-based retirement plans contribute to the wealth equation.

Our analysis reveals that retirement assets constitute a significant portion of wealth for those in the middle and upper ends of the income distribution, emphasizing the vital role that retirement planning should play in any strategy to enhance family wealth.

This role becomes even more pronounced when considering the value of defined benefit pensions. Our findings indicate that defined benefit pensions have been particularly beneficial for Black workers, who are more likely to enroll in public sector pension plans nationwide. Despite this, substantial racial and income-based disparities persist. Lower-wage workers are much less likely to have access to employer-based retirement plans, and Latino workers in Massachusetts have notably low participation rates.

These findings underscore that improving retirement security is an important complement to other asset-building initiatives. We hope that this paper serves as a useful resource for efforts to increase retirement plan coverage, boost plan balances, and ensure the fiscal viability of pension funds.

APPENDIX

Appendix Table 1.

Retirement Plan coverage and average plan assets in 2019-2022, by private wealth quintile, race, and plan type: coverage from current job for respondent or spouse, families with heads age 40-64

A. Retirement Plan Coverage by Race and Private Wealth Quintile (%)

	DEFINED CONTRIBUTION PLAN COVERAGE			DEFINED BENEFIT PLAN COVERAGE		
	White	Black	Hispanic	White	Black	Hispanic
1	18.4%	24.6%	8.9%	1.5%	5.9%	1.2%
2	38.0%	7.6%	1.4%	7.9%	1.9%	0.0%
3	53.0%	43.1%	12.7%	15.2%	11.6%	2.3%
4	56.3%	40.4%	28.4%	32.6%	19.2%	9.2%
5	62.6%	49.8%	43.6%	46.2%	65.8%	35.5%

B. Average Retirement Plan Wealth by Race and Private Wealth Quintile

	DEFINED CONTRIBUTION PLAN WEALTH			DEFINED BENEFIT PLAN WEALTH		
	White	Black	Hispanic	White	Black	Hispanic
1	3,558	5,302	3,127	1,154	4,681	707
2	17,119	831	193	5,737	320	0
3	57,022	17,746	3,398	30,307	6,648	1,176
4	149,306	29,989	21,829	156,975	31,207	10,946
5	707,316	189,500	130,724	720,928	642,727	298,152

C. Average Retirement Plan Wealth by Race and Private Wealth Quintile, Conditional on Non-Zero Retirement Plan Wealth

	DEFINED CONTRIBUTION PLAN WEALTH			DEFINED BENEFIT PLAN WEALTH		
1	15,660	18,866	35,113	37,985	78,565	24,424
2	36,795	8,567	4,556	48,571	10,335	0
3	88,840	36,202	21,021	145,825	46,682	41,523
4	194,863	63,784	74,142	390,436	132,784	94,713
5	797,313	301,170	239,384	1,371,461	937,830	782,083

Source: SCF 2019, 2022 supplemented with DB pension assets

Note: Includes households with heads age 40-64.

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ENDNOTES

1. See Dodaro (2019) for a recent thorough discussion of America's retirement system and some of the issues it is facing.
2. The chief reason that household surveys do not ask respondents about their DB plan wealth is that it is very difficult for most households to estimate (Starr-McCluer and Sunden 1999). While DC plans are required to regularly provide participants with account balance statements, traditional pensions use formulas based on years of service, terminal salary, and some other elements to calculate annualized benefit amounts. The future expected benefit amount is not known by most survey respondents, and vanishingly few would be able to calculate the implied wealth of that stream of benefits.
3. Federal Reserve Board of Governors Distributional Financial Accounts accessed April 12, 2024: The Fed - Table: Distribution of Household Wealth in the U.S. since 1989 (federalreserve.gov)
4. See the papers cited above for details on the methodology for calculating household level estimates of DB pension wealth in the SCF. The basic approach, however, is to allocate defined benefit pension plan assets as measured by administrative data sources to households in the SCF in two steps. First, current retirees are assigned an asset level consistent with their reported benefit in the survey and predicted longevity. The remaining assets are allocated to current workers (who indicate DB plan coverage in the survey) based on years enrolled in plan, salary, anticipated retirement date, and predicted longevity.
5. There are some differences between our treatment of retirement assets and that contained in the Federal Reserve Board's Financial Accounts of the United States and the related Distributional Financial Accounts. The FA and DFA, for example, do not classify "Individual Retirement Accounts" as defined contribution retirement plan assets per se, and instead categorize those plans based on plan holdings, whether they be stocks, bonds, or other financial assets. Here we treat IRAs as DC plans. As a result, the DFA/FA classification shows DB assets accounting for a larger share of retirement wealth than DC plans, whereas our data suggest DC plans account for a modestly larger share of total retirement plan wealth.
6. Note(s): Financial (transaction) is the sum of all types of transactions accounts and certificates of deposit. Financial (market) is the sum of total directly held mutual funds (excluding MMMFs), stocks, and total bonds (not including bond funds or savings bonds). Financial (retirement) is the sum of defined benefit pension wealth and total quasiliquid (sum of IRAs, thrift accounts, and future pensions, including currently received benefits). Nonfinancial (business) is businesses in which the household has an active interest (value is net equity if business were sold today, plus loans from household to business, minus loans from business to household not previously reported, plus value of personal assets used as collateral for business loans that were reported earlier) or nonactive interest (market value of the interest). Nonfinancial (housing/real estate) is the sum of the value of primary residence, other residential real estate, and net equity in nonresidential real estate. Other assets are the sum of savings bonds, cash value of whole life insurance, other managed assets, other financial assets, value of all vehicles, and other nonfinancial assets.
7. For the full distribution of results, please see Appendix Table 1.
8. Differences in methodologies could result in some differences between coverage and participation estimates developed by AARP and NIRS.

9. At the national level, 2022 SCF data shows that, for households with respondent aged 40-65 and non-zero account-type pension plan value, the average value of account-type pension plans from the respondent or spouse's current job are $292,000 for White households, $129,000 for Black households, $147,000 for Hispanic households, $275,000 for Asian households, and $205,000 for other race households.

10. At the national level, 2022 SCF data shows that, for households with non-zero DB retirement plan value and with respondent aged 55 or older, the average value of DB retirement plans is $558,000 for White households, $587,000 for Black households, $522,000 for Hispanic households, $1 million for Asian households, and $323,000 for other race households.

11. For example, in her 2023 testimony before the Senate Budget Committee, Kathleen Romig recommended strategies to increase Social Security's funding by adjusting the tax code (primarily by "expanding Social Security's payroll tax base" to counter the trend of more earnings exceeding the Social Security tax cap and by raising more taxes from the wealthiest Americans) and better direct Social Security resources to those with greatest need (Romig, 2023).

12. Sabelhaus notes: "Estimates based on expanded CPS workplace coverage measures pooled over calendar years 2018, 2019, and 2020, statistically adjusted using SCF coverage conditional on retirement account ownership, and benchmarked against published administrative SOI control totals based on form W2 filings" (Sabelhaus, 2022).

13. Analysis by authors using "State and Local Backgrounders" (n.d.); US Census Bureau, Annual Survey of Public Pensions

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