Closing the Racial Gap in Retirement Security

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Honor Statement

On my Honor as a student, I pledge that I have neither given nor received unauthorized aid on this assignment.

Executive Summary

The racial gap in retirement savings is a clear and pressing policy problem. A large component of this gap is derived from racial differentials in mortality risk and the impact on retirement. Lower life expectancies faced by Black workers create disadvantages for Social Security benefits, which pay out later in life and have lower levels of accrued payouts. Additionally, the national shift towards defined benefit plans has made Black and Hispanic workers less likely to accumulate enough financial resources to ensure adequate retirement security. With Social Security quickly becoming insolvent and an increasing number of Black and Hispanic retirees below the poverty line, it is crucial that policymakers address this persistent disparity in retirement security. This report recommends pursuing federal legislation mandating an 'Auto-IRA' system to increase access to retirement plans for all private employees. This program maximizes direct effectiveness to Black and Hispanic workers restricted from beneficial employer-provided retirement savings plans while retaining a high political feasibility.

Problem Statement

There is as clear racial gap in retirement savings and outcomes. Systemic racism, barriers to generational wealth, and disproportionate life expectancies contribute significantly to this divide. Black and Hispanic life expectancies are markedly lower in comparison to their white counterparts. This discrepancy creates disadvantages for minority retirees participating in defined benefit systems and receiving Social Security benefits, affecting retirement spending and security. With an accelerated timeline for Social Security insolvency and discrepancies in retirement outcomes exacerbated by the COVID-19 pandemic, national policymakers need to understand how race and retirement intersect in purchasing behavior in order to ensure equitable retirement outcomes. Understanding the specific challenges to retirement security and how they impact savings behavior is crucial to understanding how welfare policies can improve retirement outcomes, specifically, how differentials in mortality by racial subgroups have direct implications for retirement savings policy efficacy and implementation. Studies show that though 80% of the over-65 population is current white, this proportion will drop below 60% by 2050. 6.6% of white retires are below the poverty line, in comparison with 19.5% for Black retirees and 18.3% for Hispanic retirees.[1] If this disparity in retirement security persists, an increasing percentage of our nation's elderly will be at risk of falling into geriatric poverty.

Introduction

With the disparate effects of the pandemic on Black and Hispanic workers and the societal push for social justice, there is clear national attention for how to best measure and combat racial inequities across a multitude of policy areas. The racial gap in retirement security is one such important policy problem. Before the pandemic, the average Black and Hispanic households nearing retirement held only 46% and 49% of the equivalent white household's overall wealth and savings. The onset of the pandemic has highlighted the different retirement choices, assets, and outcomes faced by minority

[1] Aka and Oko. Black Retirement Security in the Era of Defined Contribution Plans: Why African Americans Need to Invest More in Stocks to Generate the Savings They Need for a Comfortable Retirement. Rutgers J. L. & Pub. Pol'y 169 (2016-2017)

retirees. Since the COVID-19 pandemic began, Black and Hispanic workers have faced some of the highest unemployment rates, with millions of elderly workers now being forced into premature retirement with insufficient resources.[2] This downward pressure on elderly employment and retirement security has particularly accentuated the racial gap in retirement security. There is clearly a larger public policy issue underlying the differences in outcomes. Specifically, there is a significant gap in the literature surrounding how life expectancy and other related characteristics impact how retirement financial products are purchased and utilized through the resulting changes in risk and time preferences. For example, the lower life expectancies faced by Black workers disadvantage them in social insurance systems, like Social Security, which pay out benefits later in life, while they are theoretically advantaged in life insurance products, which will have lower costs relative to realized post-mortem payouts.

Retirement security is defined as a worker's financial readiness for retirement after a lifetime of earnings. Before the Global Financial Crisis of 2008, the responsibility for retirement security lay mainly with employers who retained talent through competitive benefits packages with comprehensive defined benefits programs built in. The employment shock and reduced employment opportunities caused by the financial crisis began shifting the responsibility for retirement security away from employers to individual workers. The culmination of this shift was the proliferation of defined contribution plans and a reduction in defined benefit plans. The most important difference between the two systems is whether workers know their benefits in advance or not. With defined benefit programs, or what we commonly think of as traditional pension plans, the exact payout formula and amount are known ahead of retirement, allowing employees to know how much money will be set aside for them based on tenure of service, age, and other variables. On the other hand, the now more common defined contribution plans do not allow employees to know their benefits in advance. The most common defined contribution plan, a 401(k) program, leaves the responsibility for retirement security on the employee, whereas a defined benefit program, like Social Security, places that responsibility on the employer. Individual Retirement Accounts, homeownership, and personal savings and investments, all exist outside the formal employment retirement mechanism, and require active participation and decisions from individuals, and all forms of retirement savings introduce various degrees of participation and risk-taking. Social Security is the only modern source of retirement income that requires little to no active participation. This shift towards unknown benefits and active employee participation potentially has impact on the risk calculation and purchasing behavior of Black and Hispanic workers. Compared to white workers, Black and Hispanic workers are less likely to accumulate enough financial resources to ensure adequate retirement security.[3]

The focus of this report is on the interaction of how differentials in life expectancy and risk preference interact with retirement financial products. The literature outlines that Black workers tend to put the majority of their retirement money in real estate, and low-return but more tangible products like

[2] Doshi, Martin Neil Baily, Benjamin H. Harris, and Siddhi. 2020. "COVID-19 and Retirement: Impact and Policy Responses." *Brookings* (blog). July 28, 2020. https://www.brookings.edu/research/covid-19-and-retirement-impact-and-policy-responses/.

[3] Aka and Oko. Black Retirement Security in the Era of Defined Contribution Plans: Why African Americans Need to Invest More in Stocks to Generate the Savings They Need for a Comfortable Retirement. Rutgers J. L. & Pub. Pol'y 169 (2016-2017)

Certificate of Deposits and life insurance policies.[4] Little research has been done into how retirement security fluctuates in response to structural barriers and conditions facing specific racial groups, like income inequality, access to mainstream financial products, and life expectancy. This report will focus on how life expectancy and those other characteristics amongst racial groups and racial discrimination affect returns to retirement financial products, and through those products, retirement security. It will provide key background and policy challenges, synthesize current research on potential policy alternatives, and comment on take-aways and potential policy recommendations.

Problem Background

Since the pandemic began, unemployment rates for older Black and Hispanic workers have been disproportionately higher than white workers. Recent studies also show that millions of elderly workers now have higher risk of retiring prematurely.[5] In short, the difficulties already faced by minorities to save for retirement, coupled with the disproportionate effects of the pandemic, makes these retirees especially unlikely to have sufficient resources for retirement.[6] This situation is likely to increase in the coming years. With decreased earnings and unemployment this year, the reductions in payroll taxes pulled the projected depletion of Social Security trust fund reserves forward to the late 2020s. The increased costs and decreased benefits of Social Security income and retirement savings will disproportionately affect racial minorities. Not only does Social Security act as a social stabilizer during times of economic downturn, like in our current conditions, it also seeks to address wealth gaps through a progressive benefit system. In theory, lower-income retirees universally receive a higher percentage of their pre-retirement income than higher-income ones. Excluding Social Security, the average Black and Hispanic households have less than a fifth of their white counterparts.[7] It is clear that Social Security has a tangible and positive impact on retirement security for minority households. However, Social Security has seen little to no change in the past several decades. There is good reason for treating Social Security reform with care. Many proposed policy changes involve raising the retirement age at which retirees receive full benefits in order to extend funding for the program. However, these proposals ignore the fact that minority workers tend to have lower life expectancies –the average African-American life expectancy is 1.2 years shorter than white Americans[8]– and are typically employed in more physically demanding jobs further into old age, potentially forcing premature retirement and health problems as seen this year. This increases the racial retirement wealth gap as minority households receive less implicit benefits over their lifetimes.[9] Though there have been minimal changes in the official retirement age, the growing racial disparities in life expectancy,

[4] Aka and Oko. Black Retirement Security in the Era of Defined Contribution Plans: Why African Americans Need to Invest More in Stocks to Generate the Savings They Need for a Comfortable Retirement. Rutgers J. L. & Pub. Pol'y 169 (2016-2017)
[5] Doshi, Martin Neil Baily, Benjamin H. Harris, and Siddhi. 2020. "COVID-19 and Retirement: Impact and Policy Responses." *Brookings* (blog). July 28, 2020. https://www.brookings.edu/research/covid-19-and-retirement-impact-and-policy-responses/.
[6] "Measuring the Income Older Adults Need to Live Independently." n.d. Elder Index. https://elderindex.org/.
[7] Miller, Mark. 2020a. "A Pandemic Problem for Older Workers: Will They Have to Retire Sooner?" *The New York Times*, June 26, 2020, sec. Business. https://www.nytimes.com/2020/06/26/business/retirement-coronavirus.html.
[8] Center for Disease Control. "Products - Data Briefs - Number 244 - April 2016." 2019. June 7, 2019. https://www.cdc.gov/nchs/products/databriefs/db244.htm.
[9] "Measuring Racial/Ethnic Retirement Wealth Inequality | Center for Retirement Research." n.d. https://crr.bc.edu/working-papers/measuring-racial-ethnic-retirement-wealth-inequality/.

employment, and income, have pushed Social Security towards a regressive system and away from its original progressive mandate.[10]

Disparities in Wealth and Savings Behavior

As mentioned throughout this report, the literature has established that white households hold almost double the mean total wealth of Black and Hispanic households. Interestingly, Social Security wealth is the most evenly distributed component of overall wealth among racial groups, with white households holding around 40% more Social Security wealth than Black and Hispanic households, as opposed to asset-backed wealth, which was nearly 4x the levels held by Black and Hispanic households. In addition to the disparities in private pension wealth, these trends suggest that differences in individual savings behavior have a significant impact on wealth disparity. As the shift towards defined contribution plans continues to accelerate, it will become increasingly important to participate and contribute to these programs. One major study on 401(k) savings disparities across racial and ethnic groups found that even within groups of similar age and wages, Black and Hispanic workers had lower participation and contribution rates. Black and Hispanic workers tended to avoid equity investments, take more loans from their 401(k) plans, and hold significantly lower 401(k) savings than White workers.[11] The Office of Personnel Management found similar results with a 2010 study of federal employees. Though participation rates narrowed towards the top of the income distribution, Black and Hispanic workers were more lively to invest or purchase the lowest risk products available.[12] This low risk exposure seems to be consistent with the differences in time preferences and risk aversion across racial groups. Empirically, there are significant disparities in behavior within defined contribution plans. Conditional on having access to a plan, there are inconsequential differences in enrollment decisions, however, it is important to note that racial minorities systematically have less access than White workers.[13] Regardless, there are significant differences in contribution and early withdrawals in 401(k) plans. Interestingly, researchers found that access to formal financial services may have a highly important role in preventing early withdrawals or draw downs on accumulated retirement savings assets.[14]

Time Preferences and Risk Aversion

A standard lifecycle model would support that savings rates, and a portion of wealth as a result of those rates, will vary across racial groups if time preferences are heterogeneous. If a specific group has systematically lower time preferences, they will tend to defer present consumption in favor of the future at a higher rate than other groups. Demonstrated levels of risk aversion would similarly affect the pace of wealth accumulation, with higher risk tolerances leading to higher risk and higher growth asset allocations. Several studies find that, controlling for education, age, and income, Black and

[10] "Measuring Racial/Ethnic Retirement Wealth Inequality | Center for Retirement Research." n.d. https://crr.bc.edu/working-papers/measuring-racial-ethnic-retirement-wealth-inequality/.
[11] Ariel/Hewitt (2009). 401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups, Ariel Education Initiative and Hewitt Associates.
[12] U.S. Office of Personnel Management (2010). Federal Employee Participation in the Thrift Savings Plan, Calendar Year 2007. Washington DC, United States Office of Personnel Management
[13] Yoong, Joanne, Angela Hung, Silvia Barcellos, Leandro Carvalho, and Jack Clift. 2019. *Disparities in Minority Retirement Savings Behavior: Survey and Experimental Evidence from A Nationally-Representative Sample of US Households*. RAND Corporation. https://doi.org/10.7249/WR1331.
[14] Yoong, Joanne, Angela Hung, Silvia Barcellos, Leandro Carvalho, and Jack Clift. 2019. *Disparities in Minority Retirement Savings Behavior: Survey and Experimental Evidence from A Nationally-Representative Sample of US Households*. RAND Corporation. https://doi.org/10.7249/WR1331.

Hispanic households are more likely to have shorter planning horizons and more risk aversion.[15] This may, in part, be related to differences in life expectancy. At least theoretically, it would make sense that if a particular group faced systematically lower life expectancy, they would favor present spending and investments with less longevity risk. As such, there may be non-trivial differences in the investment returns experienced by different racial subgroups. As outlined, there are many different factors that can contribute to this problem, including asset allocation, differential access to credit, and discriminatory prices and practices. Another study found that Black households have equal or even higher returns within specific asset classes, but are less likely to invest in high-risk, high yield assets than White households. Hispanic households tend to have a strong preference for housing equity and real estate investment while Black households select insurance vehicles more frequently than White households.[16] The literature suggests that Black and Hispanic workers may prefer more accessible and low-risk investments in order to successfully weather higher unemployment risk and income shocks.[17] There is a strong correlation between health status amongst racial subgroups and wealth, however, this is not a particularly straightforward relationship. Health may affect wealth accumulation, as if poor health reduces earnings, increases outright medical expenditures, and reduce life expectancy. However, the opposite causation could occur, where wealth improves access to specialist care, better education, and other factors, which increase health outcomes. Empirical studies show that major health shocks cause a mean wealth reduction of roughly $17,000 but not much research handles the connection between impacted life expectancies and savings habits.[18]

Empirical Evidence

These established differences in savings and investment behavior can be attributed to a number of different factors, including discriminatory barriers and socio-economic factors. The current empirical evidence shows that minority workers tend to be excluded from mainstream financial investments and have lower retirement savings. This could be attributed to lower average financial resources, as well as differences in financial literacy, cultural norms, and barriers to access.[19] Further research is needed to understand the degree to which disparities in savings can be attributed to specific factors. However, there is consistent evidence that the degree to which employer-provided retirement plans are provided to employees differs by race. Within defined contribution plans, studies suggest that the gaps in enrollment and contribution may be closed by policy changes which address individual withdrawal behavior and savings rates. Experimental analysis also shows that though defaults have a fairly even and strong effect across all racial groups, financial literacy programs have much more significant impacts for minority workers. Additionally, several studies propose conclusions about the efficacy of increasing patience, as it is a consistently significant predictor of savings behavior and typically varies systematically by race.

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[15] Hanna, S. D., C. Wang, et al. (2010). "Racial/Ethnic Differences in High Return Investment Ownership: A Decomposition Analysis." Journal of Financial Counseling and Planning Volume 21(2): 45.
[16] Brown, D. A. (2007). "Pensions and Risk Aversion: The Influence or Race, Ethnicity, and Class on Investor Behavior." Lewis & Clark L. Rev. 11: 385.
[17] Blau, F. D. and J. Graham (1990). black-white differences in wealth and asset composition, Working Paper, National Bureau of Economic Research.
[18] Smith, J. P. (1999). "Healthy bodies and thick wallets: The dual relation between health and economic status." The Journal of Economic Perspectives 13(2): 145-166.
[19] Aka and Oko. Black Retirement Security in the Era of Defined Contribution Plans: Why African Americans Need to Invest More in Stocks to Generate the Savings They Need for a Comfortable Retirement. Rutgers J. L. & Pub. Pol'y 169 (2016-2017)

Racial Wealth Gap and Policy Environment

Social Security does provide over $1 trillion in benefits every year, keeping more people out of poverty than any other federal program.[20] However, the program's progressive benefit ethos has been hampered by inadequate reforms and a growing racial wealth gap. Under the current American system, retirement income depends largely on a combination of earnings received in working years, any employee pensions or employer programs, and personal savings. Although the past several decades have seen earnings grow for women and medium to high earners, earners in the bottom end of the distribution have seen wages stagnate and retirement insecurity increase.[21] The lack of Social Security reform has disproportionately affected these lower-income retirees whose real incomes have decreased consistently every year. As mentioned, the American retirement system has shifted away from traditional employer pensions and towards 401k plans. This ongoing shift is a conscientious movement towards cheaper more employee-lead retirement defined contribution plans, which rely on workers setting aside a portion of their wages, making good personal investments, and resisting using their retirement funds early.[22] This puts the impetus for savings more on employees when spending needs at older ages are accelerating at an unprecedented rate.[23] As a result, we are seeing high levels of retirees entering retirement with outstanding mortgages, debt, and high out-of-pocket healthcare costs.

The pandemic is certainly highlighting deficiencies in the retirement system. The racial income gap at older ages has been consistent for the past two decades. Average median income for Black households nearing retirement peaked in 2009 at 61% of the median white household, but declined to its current levels post-recession. Older black and Hispanic adults are upwards of four times more likely to be impoverished than older white adults. This income distribution across racial groups changes the relative importance of specific income sources for Black and Hispanic households in comparison to white households. Across the board, Social Security accounts for around 80% of retirement income for all adults in the lower end of the income distribution. For Black and Hispanic retirees, it provides around 70-80% of retirement income for the lower and middle sections of the income distribution. As a result, workers of color are much more likely to rely heavily on social security and have less access to employer retirement plans. 52% of Black workers and 37% of Hispanic workers nearing retirement are covered by their employer plans, in comparison with 60% of white workers.[24] Compounded by the differences in accumulated wealth and the shift towards defined-contribution plans, the racial wealth gap has remained consistent or widened in recent years. As retirement costs accelerate and Social Security increasingly moves towards insolvency, retirees of color are more commonly forced to retire prematurely or dip into savings accounts.[25] Wealth building is systemically more difficult for

[20] Aaron, Henry J. 2020. "Because of COVID-19 Congress Should Fix Social Security Now." *Brookings* (blog). September 18, 2020. https://www.brookings.edu/opinions/because-of-covid-19-congress-should-fix-social-security-now/.
[21] Machin, Stephen. 2016. "Rising Wage Inequality, Real Wage Stagnation, and Unions." Research in Labor Economics 43: 329–54.
[22] Munnell, Alicia H., and Annika Sunden. 2004. Coming Up Short: The Challenge of 401(k) Plans. Washington, DC: Brookings Institution Press.
[23] Bosley, Tiffany, Michael Morris, and Karen Glenn. 2018. "Mortality by Career-Average Earnings Level." Actuarial study 124. Baltimore, MD: Social Security Administration, Office of the Chief Actuary.
[24] Doshi, Martin Neil Baily, Benjamin H. Harris, and Siddhi. 2020. "COVID-19 and Retirement: Impact and Policy Responses." *Brookings* (blog). July 28, 2020. https://www.brookings.edu/research/covid-19-and-retirement-impact-and-policy-responses/.
[25] Daly, Mary C., Bart Hobijn, and Joseph H. Pedtke. 2017. "Disappointing Facts about the Black-White Wage Gap." Economic letter 2017-26. San Francisco: Federal Bank of San Francisco.

workers of color. Though homeownership typically acts as a clear avenue to generational wealth accumulation, Conditional on income levels, Black homeowners are more likely than white homeowners to have higher-cost mortgage contracts, higher property tax rates, and more lingering student loan debt. Black retirees are also less likely to be married, receive inheritances, and have secure and consistent bank access for savings.[2627]

Life Insurance and Differentials in Mortality Rate

A standard economic model with heterogeneous time preferences accounting for disparities in life expectancy would support different rates of life insurance ownership between minorities and white households. In a pure utility maximization model, the differences in life expectancy would favor African American life insurance ownership, with the implicit returns to a fixed monthly payment being higher for shorter life expectancies. Considering that the average African American male after the age of 50 has a remaining life expectancy of 27.2 years, 6 years less than the average white female, the theory would expect African American insurance spending patterns to favor life insurance policies. As the calculus for retirement saving depends on expected lost earnings and incurred debt to end-of-life costs, the expectation would be for coverage size to match these expected losses for primary income-earners in a household and experience non-trivial differences in returns across racial subgroups.[28] Life insurance has the potential to be a useful tool to combat disparities in generational wealth across races. However, the theory does not account for potential racial discrimination by actuaries within pricing models. Race-based life insurance premiums were commonly implemented until 2000, when regulators brought landmark legal action against 90 prominent insurance companies. Little research has been done into the existence or prevalence of continued racial discrimination. The National Association of Insurance Commissioners has highlighted the importance of research into big-data and algorithmic-based underwriting models which can price based on race through proxy variables.[2930] Unregulated datasets on driving patterns, voting history, social media, and occupational data, have been used to produce unregulated algorithms for exclusionary underwriting and rates. There is certainly an established history of racial discrimination within the insurance industry, in particular. Beginning in 1881, Prudential announced a decision to devalue polices held by Black adults by 1/3 relative to comparable white policies while retaining the same weekly premiums. Benefits for Black children did not change while weekly premiums rose by 5 cents. Prudential's actuaries pointed to the higher Black mortality rate as a source of disproportionate payouts. As the rest of the life insurance industry began to follow suit, barriers to coverage for African-Americans grew significantly as companies began denying commissions for Black policies. Prudential statistician Frederick Hoffman's addition of race-based risk factors rested on a presupposed genetic inferiority of Black policyholders.

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[26] Johnson, Richard W., Owen Haaga, and Margaret Simms. 2011. "50+ African American Workers: A Status Report, Implications, and Recommendations." Washington, DC: AARP.

[27] Federal Deposit Insurance Corporation. 2018. 2017 FDIC National Survey of Unbanked and Underbanked Households. Washington, DC: Federal Deposit Insurance Corporation.

[28] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562

[29] NAIC. https://content.naic.org/article/notice_notice_meeting_naic_special_committee_race_and_insurance.htm

[30] Fong, J. Beyond Age and Sex: Enhancing Annuity Pricing. *Geneva Risk Insur Rev* **40,** 133–170 (2015). https://doi.org/10.1057/grir.2014.12

These explicitly discriminatory policies remained status quo well into the 20th century, with over 40% of companies refusing to accept black policyholders in a 1940 survey.[31]

Life insurance is systematically held more by household breadwinners whose death would have higher consequences on their families, with 71% of married parents holding mortgages holding policies in comparison with 27% for singles. Qualitative research shows that for Black and white households with comparable incomes, Black policyholders have less coverage. The average Haven Life white survey respondent had $150,000 in coverage, in comparison with $50,000 for the average Black respondent. The median black respondent holding one-third of average white coverage illustrates a clear gap.[32] Despite Black respondents being more likely to possess life insurance, coverage is markedly lower than white respondents. From Haven Life's survey, 81% of Black respondents signaled that they hold life insurance, in comparison to 70% of white respondents with similar income. Additionally, Black respondents were three times likely to hold life insurance in higher regard for building generational wealth. Interestingly, Black respondents overestimated the financial burden of life insurance, with those who did not hold life insurance estimating the average cost to be 30% higher than white respondents did. This contrasts the academic literature, which has historically documented disparities in life insurance ownership, with white households holding more than Black households. Haven Life's survey is quantitatively supported by Harris and Yelowitz's 2018 analysis of the Census Bureau's Survey of Income and Program Participation (SIPP) data.[33] They found that, after controlling for household structures typically differentiated between married, cohabiting, and single, that African American households do hold more life insurance on average. Household status differentiates heavily by race, with higher average divorce rates for Black households and African-Americans being twice as likely to be single parents. Existing academic literature did not account for single households, ignoring a sizable portion of the population that could be motivated to purchase life insurance. An empirical analysis of this discrepancy in the literature holds true. Restricting the SIPP sample to married and cohabitating households yields now statistical racial difference in life insurance coverage, while a more complete analysis finds a statistically significant difference. Harris and Yelowitz also find a similar result using the Survey of Consumer Finances (SCF) data with the same sample parameters. Differentials in mortality risk contribute to the racial wealth gap through two specific mechanisms. Lower life expectancy affects investment and health time horizons for individuals, as well as the reverberating impacts on households experiencing the earnings shock associated with a primary earner's death. Though Harris and Yelowitz prove the offsetting effects of higher life insurance coverage that potentially negate the impact on households, it still does not address the individual's altered risk calculations and time horizons, as well as the discrepancies in coverage amount.[34] Harris and Yelowitz show that African Americans are two percentage points more likely to purchase and

[31] Wright-Mendoza, Jessie. 2018. "How Insurance Companies Used Bad Science to Discriminate." JSTOR Daily. September 17, 2018. https://daily.jstor.org/how-insurance-companies-used-bad-science-to-discriminate/.
[32] Medine, Taylor. 2020. "Is There a Life Insurance Race Gap? | Haven Life." Blog | Haven Life. September 24, 2020. https://havenlife.com/blog/life-insurance-racial-wealth-gap-statistics/.
[33] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562
[34] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562

hold life insurance (62%).[35] African Americans are also more likely to purchase whole life insurance and less likely to purchase term life insurance. More granularly, African-American households are significantly more likely to purchase whole life insurance and less likely to purchase term life coverage, along with higher mean participation in employer-sponsored life insurance (ESLI plans). For reference, whole life insurance is typically viewed as less valuable than term coverage by the industry, as the access to the cash account affects pricing and decreases real coverage amount. These results suggest that the risk of early mortality on wealth accumulation should be mitigated somewhat by the higher coverage rates for Black households when accounting for household structure. However, their research fails to measure coverage amount, which is understood to be lower on average for Black households.

The persistence of the racial wealth gap is undeniable, but possible explanations differ throughout the literature. Several explanations center on differential saving behavior, as discussed throughout this report, however, the differentials in mortality rates is largely unexplored in this context. The 10 year mortality rate after age 50 is 70% higher for African-Americans, which can create non-trivial earnings shocks that affect household wealth accumulation and increase risk of poverty.[36] Life insurance mechanically allows households to hedge against the mortality risk associated with their primary breadwinner, receiving a payout and allowing existing debts or payments to be serviced. As such, life insurance coverage tends to be more common in households where the income shock would be more poignant.[37] The general wealth gap would be widened even further if Black and white households purchased life insurance at similar rates, due to the differences in mortality risk experienced by each respective group. This would work in the reverse as well, with the wealth gap being closed by Black households responding to increased mortality risk by purchasing more coverage.

Retirement Annuities and Differentials in Mortality Rate

Similar to life insurance, annuities are a potential means of minimizing income shocks and ensuring household stability in retirement. As retirees begin consuming assets accumulated in IRA and retirement savings accounts, annuities hedge against the risk of outliving their saved assets by providing a steady income stream after an established pay-in period until the policyholder's death. The benefits of annuities to retirement equity are clear, but pricing can often be an issue for many savers. The standard annuity would disadvantage individuals with higher mortality risk, as the payout period would be attenuated, however the advent of other annuitized structures, including deferred and indexed annuities, have added new dimensions to this asset class.

Though there has been an overall increase in life expectancy over the last several decades, which could potentially increase the present value of an annuity's future income stream, the mortality gap between racial subgroups has increased, reducing the total payout for disadvantaged groups relative to the

[35] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562
[36] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562
[37] Timothy F. Harris & Aaron Yelowitz (2018) Racial disparities in life insurance coverage, Applied Economics, 50:1, 94-107, DOI: 10.1080/00036846.2017.1319562

overall population.[38] Similarly, the decrease in global interest rates increases the present value of annuities, which may prompt insurers to alter pricing. As Wettstein and Munnell show, the general population faces stable money's worth of standard annuities, despite the effects of increased life expectancy and depressed interest rates as a result of insurers' reductions in monthly payouts. Additionally, indexed and deferred annuities both have a substantially smaller expected value. There are significant racial differences in money's worth of annuities. Volatility and uncertainty in African-American mortality also increases benefits to longevity insurance despite a systematically lower life expectancy.[39] As established, differentials in mortality are an important determinant of the money's worth of an annuity income stream. The data shows a clear pattern of increased mortality risk for African-Americans across education levels, as well as a significant life expectancy gap across educational groups within racial subgroups.[40] These differences significantly impact the lifetime payout of annuities, reducing their present value.

Money's worth represents the ratio of expected lifetime benefits to the expected costs, while wealth equivalence measures the insurance value of annuities. In this study, money's worth is calculated as the ratio of expected present value of future payouts to expected premiums, meaning that a ratio of 1 would predict consumers to receive the entirety of their premiums back with interest matching the expected discount rate. Generally, money's worth of insurance products are below 1 in order to account for costs and profit to the insurance company, as well as to account for the benefits of insurance coverage. Money's worth or expected present value is a function of interest rates, calculated on a basis of U.S Treasury bonds with an added risk premium, mortality rates, pulled directly from the Social Security Administration's data, and annuity payouts, gathered from the Annuity Shopper database for annuities purchased at age 65.5. Since interest rates have decreased in the previous several decades while overall life expectancy has increased, there is an ambiguous trend in money's worth for annuities, largely dependent on socioeconomic status, gender, and racial identity. However, expected present value does not account for the hedging against the risk of outliving assets that annuities provide. As such, an important factor is wealth equivalence, defined as the share of starting wealth an individual would need to reach the same utility levels they would reach with annuitization as they would without it. Thus, the smaller share of starting wealth needed to reach the same level, the better value received from the annuity.

The overall population receives an estimated 80% of their premiums back for immediate and indexed annuities, and 50% back for deferred annuities. Though expected value is lower for deferred products, their wealth equivalence is higher because they offer higher insurance protection. The results also confirm that racial groups with lower life expectancies experience lower expected returns from standard annuities. Those values have remained constant despite rising life expectancies and decreasing interest rates. Additionally, the wealth equivalence for each product has also remained

[38] Chetty, Raj, Michael Stepner, Sarah Abraham, Shelby Lin, Benjamin Scuderi, Nicholas Turner, Augustin Bergeron, and David Cutler. 2016. "The Association Between Income and Life Expectancy in the United States, 2001-2014." *JAMA* 315 (16): 1750. https://doi.org/10.1001/jama.2016.4226.
[39] Wettstein, Gal and Munnell, Alicia and Hou, Wenliang and Gok, Nilufer, The Value of Annuities (March 2021). CRR WP 2021-5, March 2021, Available at SSRN: https://ssrn.com/abstract=3797822 or http://dx.doi.org/10.2139/ssrn.3797822
[40] Wettstein, Gal and Munnell, Alicia and Hou, Wenliang and Gok, Nilufer, The Value of Annuities (March 2021). CRR WP 2021-5, March 2021, Available at SSRN: https://ssrn.com/abstract=3797822 or http://dx.doi.org/10.2139/ssrn.3797822

constant. Considering the overall trends, theory would suggest that the money's worth for annuities is growing as mortality and interest rates decrease, however insurers tend to adjust premiums to meet those trends. This study conducted analysis for a nominal annuity with a fixed escalation rate and payouts beginnings at age 85. The results show that across all education levels, African-Americans receive less payouts than white counterparts due to higher mortality risk. Even higher up the education distribution, African-Americans had a calculated money's worth eight cents lower than whites. However, this does not capture the insurance value of the annuities, requiring a wealth equivalence analysis. Wealth equivalence for African-Americans is 0.81 for women and 0.82 for men, in comparison with 0.85 and 0.83 for whites. The benefits of annuitization are generally higher for African-Americans, largely because wealth equivalence is more dependent on lifespan uncertainty than average lifespan length. Thus the insurance value of covering the increased uncertainty experienced by African-Americans tends to be more beneficial despite their expected lifespan being shorter. Annuities consistently have low utilization in comparison to their usefulness in ensuring retirement security. Price is the most salient barrier to take-up, with the expected return on $1 of annuity premiums being negative.[41] The spread between price and return is dependent on the individual's mortality risk, as well as other correlated variables like gender and location. There are clear implications on retirement equity from the increasing mortality gaps across racial groups.

Alternatives

Many of these alternatives are universalist by nature, as the political climate and associated limitations have made programs targeted by race incredibly difficult. Though in the wake of the 2020 racial equity movement and the demonstrated policy support from the Biden administration there is more political feasibility for racial equity policies, retirement security remains a policy area where mainly universal policy changes tend to succeed politically. As such, most of these alternatives provide universal benefits with a tilt towards the most disadvantaged populations, which, being disproportionately made up of Black and Hispanic communities, provides the closest feasible approximation of race-specific benefits.

Cost

Considering the size of reforms associated with national retirement insurance, I will measure costs as discounted present direct costs from program implementation to the relevant federal or state budget and any intangible costs. Cost will be evaluated on a scale, with federal costs <$1B receiving a 3, costs $1-3B receiving a 2, and >$3B receiving a 1.

Effectiveness

This will be measured as the direct benefits to Black and Hispanic retirees and, if relevant, intangible benefits to overall racial equity in retirement, since this policy problem arises directly from equity issues. Due to the nature of these alternatives, it is difficult to compare effectiveness on a set scale, as each alternative impacts retirees and savers of color in different ways. For example, the outcome

[41] Wettstein, Gal and Munnell, Alicia and Hou, Wenliang and Gok, Nilufer, The Value of Annuities (March 2021). CRR WP 2021-5, March 2021, Available at SSRN: https://ssrn.com/abstract=3797822 or http://dx.doi.org/10.2139/ssrn.3797822

for Alternative 1 is measured in number of workers brought onto an IRA plan, whereas Alternative 2 is measured in monthly Social Security benefit increases. As such, this criterium will be ranked qualitatively from 1 (lowest) to 3 (highest).

Political Feasibility

Low political feasibility is often cited as the primary deterrent to policy change in this area. As a prominent policy think tank, Brookings' research and recommended policy changes must balance the other listed criteria with political implementation factors in order to provide useful advice to lawmakers. In order to qualitatively scale the political feasibility of each alternative from low to high, I will assess the percentage of Democrat and Republican lawmakers holding positive views of each plan, previous votes on comparable initiatives if applicable, and provide an estimate of how many marginal votes needed. This criterium will be ranked qualitatively from 1 (lowest) to 3 (highest).

Alternative 1: Enacting a Federal 'Auto-IRA' Program

An 'Auto-IRA' program mandates employers to enroll workers not given access to employer plans in individual accounts managed by the state with similar payroll deductions. Though these are opt-out programs, very few individuals have opted to do so.[42] A federal program would expand automatic retirement savings to the millions of Americans without employer-sponsored plans. Studies confirm that specifically communities of color are less likely to have access to workplace retirement plans. As is, 52% of Black workers and 37% of Hispanic workers nearing retirement are covered by their employer plans, in comparison with 60% of white workers. [43] Considering that almost half of minority workers lack access to an employer-provided plan, this coverage gap could be significantly attenuated. Recently, several other states have passed legislation to create Auto-IRA programs, including California, Illinois, and New Jersey among them. An analysis done by the Employee Benefit Research Institute found that a federal expansion of the Oregon program would result in a $456 billion (12%) reduction in the retirement savings deficit through tax benefits and compounding asset growth.[44] Such a program could induce more long-term savings, expand enrollment, and increase personal contributions from minority workers without access to employer programs. In practice, this would be a legislative bill formed in committee that mandates all employers to automatically opt employees into this program, with employees given the option of opting out at any point.

Cost

The costs for this plan are assuming an expansion of the Oregon Auto-IRA program to all 50 states through a federal legislative mandate. There are several different models employed in Illinois, New Jersey, and other states, but this APP will assume the Oregon model due to its extensive historical cost data. This model enrolls all employees of private companies with 100 or more employees in

[42] Quinby, Laura D., Alicia H. Munnell, Wenliang Hou, Anek Belbase, and Geoffrey T. Sanzenbacher. 2019. "Participation and Pre-Retirement Withdrawals in Oregon's Auto-IRA." Working paper 2019-15. Chestnut Hill, MA: Center for Retirement Research at Boston College.
[43] Doshi, Martin Neil Baily, Benjamin H. Harris, and Siddhi. 2020. "COVID-19 and Retirement: Impact and Policy Responses." *Brookings* (blog). July 28, 2020. https://www.brookings.edu/research/covid-19-and-retirement-impact-and-policy-responses/.
[44] "EBRI Retirement Security Projection Model®(RSPM) – Analyzing Policy and Design Proposals," EBRI Issue Brief, no. 451 (Employee Benefit Research Institute, May 31, 2018).

plans. The funding for the OregonSaves program is an initial program start-up funding to establish the administration and associated legal fees, which is then phased out as the program fees begin to kick in and cover the administration of the program and the operating expenses charged by fund managers in which OregonSaves is invested. The Oregon State Treasury summarizes the total discounted appropriations for a 3 year start-up at $5,295,676, after which the 1% fees on employee assets begins to cover all expenses. The roll-out finished in January 2021, with 70,000 employees enrolled after a reported 28% drop out rate, and $58,000,000 in assets under management. After the roll-out is complete, the asset-based fee funds audits, legal expenses, outreach, and human capital costs for the program. Additionally, employers are penalized $100 per eligible employee, up to $5000 if they do not initially enroll them in the program. As of January 2021, there are 123.72 million full-time employees in the United States.[45] Operating under our assumption that 65% of the labor force has access and participates in employer-provided retirement plans, expanding this program to the federal level would be a 43,302,000 person expansion. Assuming the costs of the Oregon roll-out divided by the employees brought onto the plan, the marginal cost is $75.65 per employee brought up. Notably, this may be biased downward considering it does not account for potential cost efficiencies from the larger national scale. Applying that marginal cost to our estimated employee expansion minus the assumed dropout rate of 28%, gives us a total 3-year roll-out cost of $2,358,573,336 to the federal government, assuming that the 1% employee fee will fund operations after the initial roll-out is complete.

Cost Score: 2

Effectiveness

12.6% of the overall labor force identifies as Black, and 17.8% as Hispanic.[46] That gives us 14,846,400 Black employees, and 21,032,400 Hispanic workers. 52% of Black workers and 37% of Hispanic workers are covered by their employer plans, giving us a remaining 7,126, 272 uncovered Black employees, and 13,250,412 Hispanic workers. Assuming a uniform dropout rate across racial groups of 28%, we can applying those percentages to the total number of employees brought onto automatic retirement plans from this alternative to 5,130,915 Black workers, and 9,50,296 Hispanic workers.

Effectiveness Score: 3

Political Feasibility

Automatic IRA legislation has been introduced at the federal level every year since 2010. In the past these bills have quickly died in committee, however, the recent Democratic shift in the Senate and House increases overall political feasibility. These bills have previous died due to lobbied interests from anti-big government groups at specific chokepoints in the committee process – none have been put to a vote despite bipartisan support for the legislation. Obama's MyRA program, a non-mandatory attempt at an automatic IRA expansion, was allowed to expire under the Trump

[45] "Civilian Labor Force, by Age, Sex, Race, and Ethnicity : U.S. Bureau of Labor Statistics." n.d. Accessed April 8, 2021. https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm.

[46] "Civilian Labor Force, by Age, Sex, Race, and Ethnicity : U.S. Bureau of Labor Statistics." n.d. Accessed April 8, 2021. https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm.

administration, with extensive operating costs becoming the talking point. Oregon Senator Ron Wyden, Chair of the Senate Finance Committee, has positive experience with OregonSaves and is set to reignite the Automatic IRA Act of 2019[47], which is currently referred to his committee. Similarly, House Ways and Means Chairman Neal has publicly indicated his support for the policy, and plans on pushing for it after COVID relief is handled. As such, the vote is most likely set to fall at minimum along party lines with strong potential for bipartisan support due to the successes of previous Democrat and Republican state implementation. According to the Center for Effective Lawmaking, Senator Wyden has a historical effectiveness score of 0.927, making him the 18th most effective Democrat in the Senate.[48] Considering his above benchmark effectiveness and the new Senate democratic majority, this bill is projected to have significant momentum behind it.
Political Feasibility Score: 3

Alternative 2: Social Security Reform

Social Security is the largest share of retirement income received by older retirees of color. As a result, policy reform to Social Security has the largest direct impact on this demographic. However, current estimates predict that Social Security costs for every year beyond 2020 will exceed revenues.[49] Bolstering Social Security would prevent a significant negative impact on the older minority workers and retirees who rely most on the program and utilize the existing agency infrastructure and recognition. Ensuring security solvency is a pressing policy problem, and plans proposed by the Commission on Retirement Security and Personal Savings and the National Commission on Fiscal Responsibility and Reform raise the current 6.2% cap on annual earnings taxes in order to extend the life of Social Security. Since earnings have grown more for high-income workers than low-income workers, this change sees significant additional funding with minimal impact on low-income workers. This alternative also must focus on enhancing current benefits for workers of color. The most common policy change touted by the literature is increasing Social Security's minimum benefit. This would allow for retirees working at low-wages during their prime wage-earning years to receive livable benefits. Studies show that 43% of Black Social Security enrollees receive benefits below the minimum livable benefit and 33% rely on Social Security as their sole income. The same applies to 40% of Latinx beneficiaries.[50] Expanding the benefits allowed under the benefit calculation would increase positive retirement outcomes for workers with low-wages or limited coverage. This plan would involve a targeted expansion of yearly benefits for seniors making under a certain threshold coupled with a broader $200 a month expansion in monthly benefits for all recipients for a $2,400 annual total increase. This expansion in benefits would be funded by a proposed tax increase on the top tax bracket, which would tilt the funding structure more towards higher tax brackets and hold benefits higher than pay-in for lower tax brackets.

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[47] Whitehouse, Sheldon. 2019. "All Info - S.2370 - 116th Congress (2019-2020): Automatic IRA Act of 2019." Webpage. 2019/2020. July 31, 2019. https://www.congress.gov/bill/116th-congress/senate-bill/2370/all-info.
[48] "Center for Effective Lawmaking." n.d. Accessed April 8, 2021. https://thelawmakers.org/find-representatives.
[49] Board of Trustees (Board of Trustees, Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds). 2020. The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. Washington, DC: Board of Trustees.
[50] Favreault, Melissa M., and Nadia S. Karamcheva. 2011. How Would the President's Fiscal Commission's Social Security Proposals Affect Future Beneficiaries? Washington, DC: Urban Institute.

Cost

This course of action, originally formulated by Elizabeth Warren expands these benefits for 64 million current recipients, and all future recipients, at a total cost of around $150 billion for the first year, with costs estimated to remain roughly around there in perpetuity. This increase in funding would be offset by a $4.2 trillion tax revenue increase over the next decade, leading to a $1.1 trillion reduction in the overall federal budget deficit.[51] The tax revenue would be composed of a novel 14.8% payroll tax on earnings over $250,000 per year with the incidence split between employer and employee, and a 14.8% tax on investment income over a $250,000 threshold, including gains from trades not subject to payroll tax, for roughly the top 2% of American incomes. This plan increases benefits by $200 per month while also extending the actuarial solvency of Social Security by 20 years.[52] Despite the staggering numbers, this is a net positive to the federal budget.

Cost Score: 3

Effectiveness

With 33% of Black beneficiaries and 40% of Latinx relying solely on Social Security benefits, this program directly impacts those retirees facing geriatric poverty and extends the solvency of Social Security for future generations. There are currently 4,800,000 black beneficiaries, and 3,840,000 Hispanic, meaning a total overall monthly increase of $1,728,000,000 in benefits, $316,800,000 specifically to current Black retirees with Social Security as their sole income, and $307,200,000 to Hispanic retirees with Social Security as their sole income.

Effectiveness Score: 3

Political Feasibility

The political feasibility for this sort of tax increase is, like most tax increases, low. House Democrats have been actively considering the Social Security Act of 2019[53], which has similar associated benefit increases. However, the Trump Administration added large cuts to the Social Security Disability fund, and Republican support has tended to side with cuts to the program. Social Security polls favorably with voters, and concerns around solvency and reduced benefits are common.[54] Tax increases on higher income brackets are consistently fought by congressional Republicans and moderates from both parties, limiting the overall political feasibility of this plan.

Political Feasibility Score: 1

Alternative 3: Replace Federal Income Tax Exclusion with Refundable Tax Credit

As a result of the shift to defined-contribution plans, workers are incentivized by tax deductions from taxable income to contribute to these accounts. Since our tax system is progressive, these

[51] Kaplan, Thomas, Aliza Aufrichtig, and Derek Watkins. 2019. "How Would Elizabeth Warren Pay for Her Sweeping Policy Plans?" *The New York Times*, November 6, 2019, sec. U.S. https://www.nytimes.com/interactive/2019/11/06/us/politics/elizabeth-warren-policies-taxes.html.
[52] Kaplan, Thomas, Aliza Aufrichtig, and Derek Watkins. 2019. "How Would Elizabeth Warren Pay for Her Sweeping Policy Plans?" *The New York Times*, November 6, 2019, sec. U.S. https://www.nytimes.com/interactive/2019/11/06/us/politics/elizabeth-warren-policies-taxes.html.
[53] Larson, John B. 2019. "H.R.860 - 116th Congress (2019-2020): Social Security 2100 Act." Webpage. 2019/2020. January 30, 2019. https://www.congress.gov/bill/116th-congress/house-bill/860.
[54] Gallup. 2006. "Social Security." Gallup.Com. February 28, 2006. https://news.gallup.com/poll/1693/Social-Security.aspx.

deductions are significantly more useful to high-income workers than low-income workers in low tax brackets or the 11% of working adults with incomes under the requirements for federal income tax.[55] Research shows that replacing this federal income tax deduction with a flat-rate refundable tax credit could realign incentives so that low-income savers have comparable benefits.[56] To clarify, tax deductions affect how much of your income is subject to taxation at your highest tax bracket, whereas tax credits are direct dollar-for-dollar credits to your bottom line tax bill. Shifting to a credit and making it refundable means that low- and moderate-income savers who contribute will see tangible tax benefits regardless of tax bracket or if they pay federal income tax, which in turn encourages more workers to save for retirement. Since high-income earners use the deductions to reduce their taxation at their respective highest rates, the refundable credit will shift the tax bills of all contributors, regardless of tax bracket. Notably, it being refundable means that savings contributed at a greater amount than one's tax bill would not be reduced.

Cost

The explicit cost to the federal government of shifting the tax code is difficult to estimate, but is expected to be minimal. Beyond administrative costs to the IRS necessary to change their collection methods, this alternative does not bear any immediate costs. Additionally, it is not expected to decrease net federal income tax revenues, as refundable credits are likely to be offset by comparable tax increases on income at higher rates, potentially even increasing revenues.
Cost Score: 3

Effectiveness

The total level of benefits gained from this alternative is difficult to estimate, as the reform to incentives may influence employee and employer behavior and contributions in either direction. However, as a whole, low-income households with similar investment rates of return and savings horizons would receive a higher benefit with this implementation. Research shows that households with marginal tax rates under 25% would see reductions in their total tax bill, while households above that threshold would face increased total taxes. 1 in 5 taxpayers would receive a benefit, with less than 10% seeing increased taxes. The average tax cut benefit estimate is $400, with those in higher taxes facing an average $900 annual increase.[57]
Effectiveness Score: 2

Political Feasibility

Similar to Social Security reform, this alternative will garner significant pushback from more fiscally conservative members of Congress and private sector stakeholders. There have been no comparable bills introduced in Congress, and any change to federal tax code requires legislation. Tax reform is not high on current political priorities, and would require a difficult political battle to enact.

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[55] Fullerton, Don, and Nirupama L. Rao. 2019. "The Lifecycle of the 47 Percent." National Tax Journal 72 (2): 359–96.
[56] Butrica, Barbara A., Benjamin H. Harris, Pamela Perun, and C. Eugene Steuerle. 2014. Flattening Tax Incentives for Retirement Saving. Washington, DC: Urban Institute.
[57] Butrica, Barbara A., Benjamin H. Harris, Pamela Perun, and C. Eugene Steuerle. 2014. Flattening Tax Incentives for Retirement Saving. Washington, DC: Urban Institute.

Political Feasibility: 1

Alternative 4: Insurance Discrimination Reform

This alternative would constitute taking steps to minimize the proxy discrimination within the regulatory framework of cost-based insurance pricing. Because we live in country segregated somewhat by zip code, data brokers who sell personal information to private companies can, in practice, encode race. When models are build using racially-coded data, people of color are often disadvantaged. Insurance is regulated by commissioners in each of the 50 states, unified by the National Association of Insurance Commissioners, and legal precedent gives state law general authority over federal law. However, federal mandates can incentivize this through legislation coordinated with the NAIC. State regulators should introduce or lobby for legislation that requires insurers to audit their own use of consumer data for potential discriminatory outcomes and publicly publish the results. This would assist NAIC members and the public in recognizing discriminatory outcomes and track specific inputs to the process, as well as promote pricing transparency.

Cost

The cost of this alternative is unknown. The reform does not directly require any immediate public expenditures, however, may require additional support for the NAIC to maintain regulations.
Cost Score: 3

Effectiveness

The effectiveness of this alternative depends entirely on legislative feasibility on a state-by-state basis. NAIC commissioners generally have similar standards, however, there may be discrepancies in how the auditing process is targeted, documented, and reported. Regardless, this legislation has the potential for opening up how race factors into black box pricing models actively employed by insurance companies. This could encourage fairer coverage rates and pricing for life insurance and annuity products for Black and Hispanic workers.
Effectiveness: 3

Political Feasibility

The political and legal aptitude needed to execute this complex initiative across multiple states is high. This presents a significant political barrier to implementation.
Political Feasibility Score: 1

Outcomes Matrix

	Cost	Effectiveness	Political Feasibility
Auto-IRA	2	3	3
Social Security Reform	3	3	1
Income Tax Credit	3	2	1
Insurance Regulation	3	3	1

Implementation

After projecting outcomes for the selected policy alternatives, I recommend pursuing Option 1: Enacting a Federal 'Auto-IRA' Program. This alternative mandates employers to enroll workers not given access to employer plans in individual accounts managed by the state with similar payroll deductions. This alternative maximizes effectiveness in benefits given to Black and Hispanic workers while simultaneously maximizing political feasibility at the congressional level.

Key Stakeholders

Implementation of this alternative is restricted to a congressional bill mandating the creation of state IRA markets, similar to Oregon's OregonSaves market, and requiring employers of a specific size to opt all employees into the program as a default. As such, the stakeholders for this alternative are primarily congressional legislators, state legislators and implementing partners. At the federal level, the primary stakeholders are the House Ways and Means committee, Senate Finance Committee, and key officials within the Biden administration. Senate Finance Chairman Ron Wyden holds a high view of his stat's OregonSaves program and has indicated his support for a federal Auto-IRA mandate. His role as committee chairman allows him to reintroduce the Automatic IRA Act of 2019[58] currently stalled in his committee into the policy discussion. Similarly, House Ways and Means Committee Chairman Richard Neal introduced Auto-IRA legislation back in 2017, and has also indicated his intention to reintroduce the legislation in the House. At the state-specific level, each respective Governor will play a significant role in the formation and implementation of state marketplaces. The choices on employer size requirements, penalty amounts, and plans offered on the marketplace, will most likely rest with the state governors and legislatures. The Biden administration also has a clear agenda-setting role in this policy arena. Biden recently signaled his intention to push through legislation shifting the tax deduction from retirement plan contribution to a tax credit, and is clearly prioritizing retirement policy reform.

Steps to Implementation

The first crucial step to this alternative is passing the relevant congressional legislation. The recommendation is to focus on the Automatic IRA Act of 2019 that is already crafted and referred to the Senate Finance Committee. Bringing this to the floor for debate and a rollcall vote should be the priority for Committee Chairman Wyden. After passage of the bill in the House and Senate, the Biden administration's signaled openness to retirement policy reform will ensure Biden signing it into law. The next steps after the legislation is passed are crucial. The mandate will then fall on state governments to create and implement a marketplace for their respective labor forces. The recommendation is for the Social Security Administration and Congressional Budget Office to form a special committee on Auto-IRA implementation, which will provide detailed analysis and consultation with state legislatures and governors to ensure efficacy. Finally, state legislatures will pass legislation in accordance with the federal mandate, set employer size requirements and non-enrollment penalties, and establish a state administrative office for their marketplace to be run by.

[58] Whitehouse, Sheldon. 2019. "All Info - S.2370 - 116th Congress (2019-2020): Automatic IRA Act of 2019." Webpage. 2019/2020. July 31, 2019. https://www.congress.gov/bill/116th-congress/senate-bill/2370/all-info.

Potential Implementation Issues

There are three different possible issues with this implementation at each stage. First, there is the potential for a partisan debate in Congress regarding the federal legislation which could stall the passage of the bill. Assuming a constant dropout rate of 28%, the three year roll-out cost of this plan at a national level is estimated at $2,358,573,336. The biggest political pushback to this program will most likely focus on how the incidence of this cost will be divided between the federal and state budgets. Republican legislators will likely argue that this cost is high for a program with a nontrivial opt-out rate, and tout an argument relying on how paternalistic and limiting this program is for small business owners. Next, there is potential for differences in implementation on a state-by-state basis. The bill will most likely allow for similar elective choices on a state by state basis that currently exist in Illinois, Oregon, and other states, including the employer size requirement, size of financial penalty per employee not enrolled, and plans offered in state marketplaces. This could lead to programs with differing incentives and effectiveness in each state. Finally, there is the potential for high opt-out rates from the targeted constituents. Our cost-benefit analysis assumes a uniform and constant 28% dropout rate from the program. Though the research shows few individuals have opted to do so in existing programs[59], there is the potential that minority groups may, on average, drop out at higher rates, or that the overall dropout rate may be high enough to increase overall roll out costs and financial sustainability.

[59] Quinby, Laura D., Alicia H. Munnell, Wenliang Hou, Anek Belbase, and Geoffrey T. Sanzenbacher. 2019. "Participation and Pre-Retirement Withdrawals in Oregon's Auto-IRA." Working paper 2019-15. Chestnut Hill, MA: Center for Retirement Research at Boston College.

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