**Literature review**

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**Ethnic differences in saving**

1. Carroll, C. D., Rhee, B. and Rhee, C. (1994). “Are There Cultural Effects on Saving? Some Cross-Sectional Evidence.” *The* *Quarterly Journal of Economics*, 109(3): 685-699.

This paper tests the hypothesis that cultural factors influence saving by comparing saving patterns of immigrants to Canada from different cultures. Using data from the Canadian Survey of Family Expenditures, the authors find no evidence of cultural effects on saving.

Problems:

* Small sample
* Possibility that immigrants do not reflect the culture that they left behind

1. Kim, K. T., Cho, S. H, and DeVaney, S. A. (2021). “Racial/ethnic differences in holding a retirement saving motive: A decomposition analysis.” *The Journal of Consumer Affairs*, 55(2): 464-482.

This study investigates racial/ethnic disparities in motives for holding a retirement savings and contributing factors to explain the gaps. Results from the 2016 Survey of Consumer Finances (SCF) indicate that White respondents were more likely to hold a retirement saving motive than were other racial/ethnic groups, even after controlling for various socio-economic characteristics. Decomposition analysis shows that homeownership, objective financial knowledge, planning horizon, and age were the most important determinants that explain the racial/ethnic gap in withholding a retirement saving motive.

1. Choukhmane, T., Colmenares, J., O’Dea, C., Rothbaum, J. and Schmidt, L. (2022). “Who Benefits from Retirement Saving Incentives in the U.S.? Evidence on Racial Gaps in Retirement Wealth Accumulation.”

Main findings:

There are large gaps in retirement saving across racial groups in America

* White workers contribute >40% more than Black and Hispanic workers
* Individual characteristics (inc. income) only explain 1/3 of this gap

Liquidity needs and family background help explain these gaps - Higher unemployment and greater income uncertainty faced by minorities may increase their demand for liquid assets

* Black retirement savers twice as likely as Whites to take an early withdrawal
* Controlling for differences in family structure and parents’ resources reduces the gap

Tax and employer matching incentives amplify these disparities

* System is regressive along multiple dimensions (race, education, family background, etc.)
* Equalizing matching contributions can raise median black retirement wealth by 22%

**Automatic enrolment**

1. Cribb, J. and Emmerson, C. (2020). “What happens to workplace pension saving when employers are obliged to enrol employees automatically?” *Int Tax Public Finance* 27: 664–693.

Examine the effect of obliging employers to enrol employees automatically into a workplace pension scheme. We exploit the phased roll-out of automatic enrolment, by employer size, in the first country to do so nationwide (the UK), to estimate its effect on pension saving among private sector employees. We find substantial increases in pension participation and a rise in pension saving. Surprisingly, many newly enrolled employees received an employer contribution substantially above the (very low) minimum default level. Automatic enrolment also caused the pension participation of those employees who were not obliged to be automatically enrolled to more than double.

Find the largest effects on pension participation for those with the lowest participation rates prior to automatic enrolment: those in their 20s, lower-paid employees, those who have joined their employer more recently, and those employed in industries with low pre-reform rates of pension participation.

1. Cribb, J. and Emmerson, C. (2021). “What can we learn about automatic enrolment into pensions from small employers?” National Tax Journal, 74(2).

Exploiting pseudorandom variation in its introduction, we find automatic enrolment increased pension participation by 44 percentage points, reaching 70 percent — still substantially lower than the 90 percent rate among those working for the largest employers. This difference cannot be rationalized by differences in a rich set of observed individual and employer characteristics, including age, occupation, job tenure, hours of work, and earnings, though we cannot rule out that there are important differences in other unobserved employee characteristics. Furthermore, while employer pension contributions are somewhat less generous among smaller employers, this difference does not seem large enough to explain the gradient in pension participation by employer size. Two other potential mechanisms that could drive the gap are differences in the way that small employers administer their pension arrangements (including differences in compliance) and the role of peer effects from other employees in the workplace.

1. Crawford, R. and O’Brien, L. (2021). “Understanding the gender pension gap.” *Institute for Fiscal Studies.* Available at: <https://ifs.org.uk/publications/15426>

Automatic enrolment fundamentally changed the nature of the gender gap in pension saving rates - rather than participation diverging at a particular age, women are now slightly less likely to be in a pension at all ages than men (but the level of participation among both is considerably higher).

1. Chetty, R., Friedman, J., Leth-Petersen, S., Nielsen, T. H. and Olsen, T. (2014). “Active vs passive decisions and crowd-out in retirement savings accounts.” *The Quarterly Journal of Economics,* 129(3): 1141-1220.

Use Danish administrative data and find that only 15% of people respond actively to automatic pension contributions (by reducing other saving), implying that, for most people, higher pension saving due to automatic contributions is not offset by reductions in other saving.

1. O’Donoghue, T. and Rabin, M. (1999). “Doing it now or later.” *American Economic Review*, 89(1): 103-124.

Examine self-control problems-modelled as time-inconsistent, present- biased preferences in a model where a person must do an activity exactly once. We emphasize two distinctions: Do activities involve immediate costs or immediate rewards, and are people sophisticated or naive about future self-control problems? Naive people procrastinate immediate-cost activities and preproperate-do too soon-immediate-reward activities.

* AE may increase pension participation as it solves the procrastination problem for naïve individuals

**UK wealth statistics by ethnicity**

1. Office for National Statistics (2020). “Saving for retirement in Great Britain: April 2018 to March 2020.” Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2018tomarch2020>

* Among working-aged people yet to retire, those who were self-employed (compared with employees), had a long-standing illness or disability (compared with no disability), or were from minority ethnic groups, had lower pension wealth on average than their counterparts because of lower participation rates and smaller pension pots.
* Median wealth held in pensions not in payment for people aged 55 years to State Pension age and yet to retire was at least three times as high in the White group as any other ethnic group
* The White ethnic group was the most likely to expect private pensions to be their main financial support in retirement (47% versus 31% to 38% across other ethnic groups). Compared with the White group, the Asian and Other ethnic groups more commonly reported property as the safest way to save for retirement (24% White, 36% Asian, 33% Other) and expected property-related sources, such as rental income or downsizing, to be their main fund for retirement.
* Proportionally more of the Asian group lived in homes that were mortgaged or owned outright (85% versus 72%) and owned property other than their main residence (23% versus 13%) than the White group.

1. Office for National Statistics (2020). “Household wealth by ethnicity, Great Britain: April 2016 to March 2018.” <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/householdwealthbyethnicitygreatbritain/april2016tomarch2018>

* Households with a White British head were approximately nine times as likely to be in the top quintile of total wealth (wealth above £865,400) as those of Black African ethnicity and 18 times as likely as those of Bangladeshi ethnicity.
* Households with an Indian, Pakistani or White British head had the highest net property wealth (medians of £176,000, £115,000 and £115,000 respectively) and were the most likely of all ethnic groups to hold net property wealth, with 80% (Indian head), 73% (Pakistani) and 69% (White British) of households having net property wealth.
* There is evidence of differing degrees of private pension participation by ethnicity with lowest participation in Bangladeshi (48%), Chinese (57%), Any other ethnic groups (58%) and Black African (59%) headed households (compared with 83% and 82% for Indian and White British ethnic groups respectively).

1. Pensions Policy Institute (2020). “The Underpensioned Index.”

BAME (Black, Asian and minority ethnic) groups have retirement incomes that are just under three quarters of that of the wider population.

1. Resolution Foundation (2020). “A gap that won’t close: The distribution of wealth between ethnic groups in Great Britain.”

Once age is controlled for, the coefficients describing the relationship between ethnicity and wealth are smaller, for most ethnic groups, meaning that a small part of the variation in wealth between ethnic groups is due to differences in their age structures, with most minority ethnic groups being younger, on average, than White British.

Households whose head was born outside the UK tend to have lower wealth, and that accounting for this factor means that ethnicity by itself is no longer necessarily significantly associated with household wealth. A likely reason for this association is that people not born in the UK have had less time to accumulate wealth since moving to the country. This helps illuminate the difference in household wealth between households headed by people of Black African and Indian ethnicity, though not the comparatively low wealth of households headed by people of Black Caribbean ethnicity.