
# Retirement security starts with retirement equity

**Chapter 1**

*In this series, we will unpack the nuances of retirement security and its implications for both individual savers as well as the overall economy. Here, and in future installments, we will explore the current state of the US retirement savings gap and the underlying factors that leave many Americans underprepared for retirement. We will also look at opportunities for industry players—providers, plan sponsors, and policymakers—to pursue more equitable outcomes and take a holistic, accommodating approach to individual savers.*

## Introduction

As it stands today, most Americans are not sufficiently prepared for retirement. This fact can be illustrated in many ways, but perhaps most notably through the Employee Benefit Research Institute's (EBRI) finding that Americans currently have a $4 trillion shortfall in retirement savings.[1] The sheer magnitude of that number constitutes a crisis that needs to be addressed.

The implications of this crisis are already being felt by the millions of Americans who are at or approaching retirement age. Nearly half of these individuals have no retirement savings and roughly 5.3 million people aged 65 and older, or about 10%, live in poverty.[2] Distressingly, many Americans expect to outlive their retirement savings, and nearly 30% believe retirement will never be a financially viable option.[3]

$4 trillion
**—Americans' retirement savings shortfall**

This statistical snapshot offers just a glimpse of the scale and complexity of this issue. In this series, we will unpack the nuances of retirement insecurity and its implications for both individual savers and the overall economy. Here, and in future installments, we will explore the current state of the US retirement savings shortfall and the underlying factors that leave many Americans underprepared for retirement. We will also look at opportunities for industry players—providers, plan sponsors, and policymakers—to pursue more equitable outcomes and take a holistic, accommodating approach to individual savers.

## The gap and why it needs to be closed

The retirement savings gap highlights a general sense of insecurity across the country, for both individuals and the economy at large. For individuals inadequately prepared for retirement, this insecurity becomes reality as many are left with limited options to support themselves in retirement, such as extending their working years or relying on assistance from public funding, family, or friends—something historically underrepresented communities are already familiar with.[4] As the challenges stemming from these options compound, they place greater strain on the systems in place that may already fall short of serving those in need. The plight of many Americans and the potential resulting economic impacts signify a collective need to address the savings gap.

Individuals have not been shy in voicing their concerns on the state of their retirement readiness. Eighty-one percent of non-retired Americans indicate that they are at least *somewhat concerned* about retirement, which represents the lowest level of confidence since 2012. When asked about their eight top financial concerns, saving enough for retirement was identified as the concern Americans worry about most.[5] Their fears are valid; many people are on a path to finding that their savings will either fall short of their desired standard of retirement living—or even fail to cover basic expenses.[6]

**Roughly**
5.3M
**people 65+ live in poverty**

Naturally, these challenges are not felt equally across all individuals. Hidden within the savings gap are the impacts of long-standing societal, structural, and policy issues that put marginalized groups at a disadvantage before and during their retirement savings years. As a result, many individuals become overwhelmed before they even begin saving. Women, for example, not only have lower incomes compared to men, but they are more likely to work part-time jobs that provide limited or no access to retirement plans.

Women also have a higher debt burden than men across credit cards, student loans, car loans, medical debt, payday loans, and personal loans—all major categories other than home equity.[7] When observed through the lenses of race and ethnicity, these inequities persist in the United States, as Blacks and Hispanics—who collectively make up 31% of the workforce[8]—combined hold less than half of the wealth of White households.[9]

The options to combat this reality are limited, especially for those nearing retirement. While working longer and increasing one's reliance on government support are common defaults for those unable to afford retirement, even these options are not secure, as they assume an individual will be fit enough to work in retirement or the current system will be able to support increased strain.

Even for those who *are* physically able to work, post-retirement employment may still not be a viable option. While employers acknowledge that older workers can remain productive, they also find them relatively expensive, often limiting the number of positions available to older workers. With the number of workers over the age of 75 expected to increase 96.5% over the next decade, these jobs will be harder to come by, resulting in fewer options for Americans to support themselves in retirement.[10]

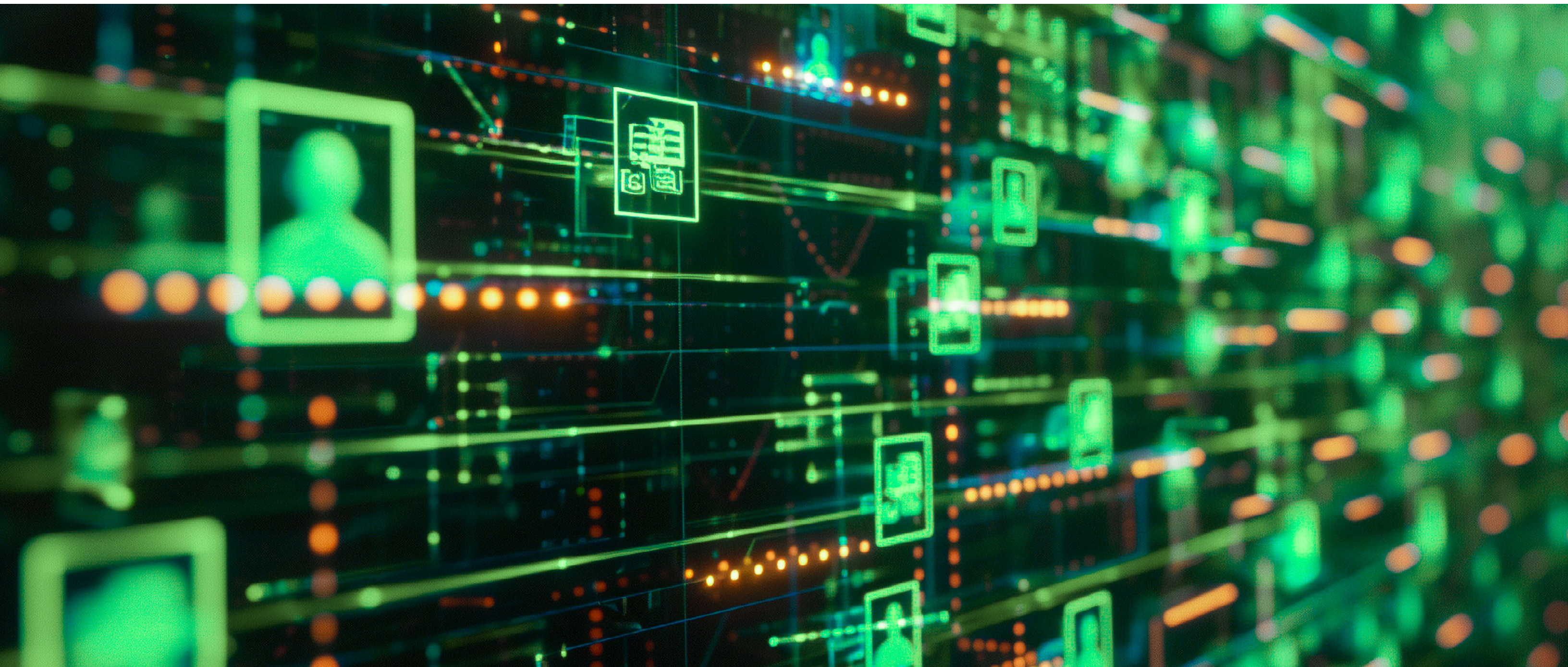
Furthermore, if current trends affecting Americans' retirement security continue and compound, government services[11] may not be able to fully meet the needs of all who rely on them, as a growing number of older adults lack the income they need to live without assistance. By 2040, more than 32.6 million households of people aged 65 and older will have less than $75,000 in annual income, the threshold for financial vulnerability. That represents a 43% increase from 2020.[12] Consequently, more Americans will rely on Social Security, which already provides more than half of the annual income for 37% of men and 42% of women aged 65 and older today.

The solvency of the Social Security program and other social programs is in question, making it uncertain whether there will be funding to support those who currently rely on these programs, as well as the expected influx of Americans that will continue to rely on them. To add further complications, the share of households with people aged 65 and older will also continue to rise, as noted in a recent Pew Charitable Trusts study:[13] "In 2020, there were 37 households ages 65 and older for every 100 working-age households. That ratio [is expected to] increase to 54 older households for every 100 working-age households by 2040. As a result, the additional spending needed, for example on Medicaid and other assistance programs, would be borne by a smaller portion of the working-age population." In short, more people are likely to be drawing from a system with fewer contributors.

By 2040,
**more than 32.6 million households of people 65+ will have less than $75,000 in annual income—a 43% increase from 2020.**

As a recent study noted, "It becomes really hard for those who start with less to escape. Because they cannot afford to save, they don't get the subsidies, which means that the next generation is also going to face the same type of hardship."[14] The retirement preparedness challenge does not exist in a vacuum—it affects more than the individual facing it and has the potential of creating a ripple of effects into future generations and the economy at large.

What will this mean for the economy? A recent Pew study estimates that the current retirement savings gap will cost state and federal governments an estimated $1.3 trillion over the next 20 years.[15] This cost will be evidenced by increased public assistance costs and decreased household spending that will be the reality for some Americans.[16]



## Where to next

Thankfully, the retirement industry has invested greatly in programs to help address the retirement savings shortfall and the general inadequate preparedness of many Americans through individual programs such as automatic enrollment, matching contributions, and financial literacy education; and institutional programs like multiple employer plans (MEPs) and pooled employer plans (PEPs). While a step in the right direction, these efforts have not fully closed the retirement savings gap for millions of Americans, leaving some less motivated to engage in these well-intentioned programs.

A key to help solve the problem is to gain a deeper understanding of the unique challenges individuals face while evolving to a more equitable system. Incorporating this understanding in its solutions and efforts, the retirement system can consider the differences between simply "saving more," which suggests savings is something anyone could simply choose to do, and "engaging more," which requires a shift in the conversation we have with individual savers. From there, individuals can feel more empowered to chart a path that considers and helps meet both their near-term needs and longer-term goals.

Getting from "where we are" to "where we want to be" will involve a greater emphasis on:

1. Understand the biases that exist in current systems, programs, and thinking.
2. Addressing existing gaps in financial literacy.
3. Broadening engagement in the guidance, advice, and other retirement products that providers are developing.
4. Recognizing that contributing to a retirement savings plan is only one aspect of preparing for retirement.

Placing a greater emphasis on these focus areas cannot be achieved by a single action or entity; rather, the complexity of the challenge requires policymakers, plan sponsors, and providers—collectively—to commit to retirement savings as a system-wide goal and align on new, enhanced strategies to address the savings challenges Americans face. Equity arises from the interplay of factors across public policies, workforce behaviors, and marketplace actions, all working toward a shared goal.

## Here's a look at how some players in this space are actively working to achieve this goal.

### In policy

Through legislative policy, government institutions play a significant role in determining a framework for the US retirement system—most recently, through the SECURE 2.0 Act (SECURE 2.0), which aims to address savings disparities by reducing friction points associated with saving and expanding options to meet participants where they are in their savings journeys. The legislation includes programs that seek to expand access and increase participation by easing or expanding provisions related to distributions, catch-up contributions, employer matching programs, and more.[17] Some of these changes could make retirement more accessible for long-term, part-time workers, while helping others balance long-term savings with other financial priorities, such as student loan debt and emergency expenses.

While SECURE 2.0 and its predecessor, the SECURE Act (SECURE 1.0), have shown some effectiveness in addressing these barriers, provisions—and what they mean for individual savers—can be complicated to understand, presenting challenges for those who want to participate.

One example is the new Saver's Match legislation in SECURE 2.0 that comes as a replacement to the underutilized Saver's Credit, which offered a tax credit for low- and moderate-income taxpayers who contributed to a retirement savings plan. Although well-intentioned, this incentive was ineffective for individual taxpayers due to limited education and a filing process that was, ultimately, too complicated and tedious to complete.

The new Saver's Match will offer qualified individuals who are participating in a retirement plan or contributing to an IRA with a match equal to 50% of IRA or retirement plan contributions, up to $2,000 per individual.[18] In theory, this program takes steps toward addressing savings gaps for lower-income individuals. However, there are operational challenges and programmatic bottlenecks—primarily how money and data requirements will move between the government and the recordkeeper—that threaten engagement and effectiveness of this program as well.

Fortunately, there is still time to address many of these issues prior to the Saver's Match effective date for taxable years after December 31, 2026.[19] However, it means the federal agencies responsible for implementing the Saver's Match will need to work with retirement recordkeepers, plan sponsors, industry experts, and policymakers to align on a collective solution.

### In the workforce

Fueled by changes in the workplace, customer expectations, and technology advancements, the employee benefits and retirement experience are changing at a rapid pace. While there are short- and long-term connections between health and wealth, most workplace solutions operate completely independent from each other—failing to capture the interdependencies between health care, insurance, retirement, and day-to-day expenses—leaving many employees feeling confused, overwhelmed, and ultimately uncertain about their financial picture. In some cases, competing priorities (e.g., insurance premiums, child/health care costs) may directly have an impact on how much an employee is able to contribute to their retirement savings. These trade-offs, often associated with the benefits decision process, are amplified for historically marginalized groups who may be particularly vulnerable to financial shortfall.

As a result, it has become increasingly clear that empowering employees' overall financial well-being will require helping them engage with tools and resources that allow for a 360-degree view of their finances. Whether the issue is personal budgeting, selecting the right benefits for their family situation, or saving for retirement, plan sponsors have an opportunity to help employees strike a balance between present-day decision-making and planning for the future by offering personalized benefits packages that care for the unique financial, family, health, and living needs of each individual.

### In the marketplace

For employers to help their employees save for retirement, providers should continue prioritizing their efforts and investments in this area. Whether they're aware of it or not, employees who participate in their employers' plans are ultimately interacting with the retirement provider, which means they are directly affected by the provider's approach to retirement savings. Because of this, retirement providers are uniquely positioned to help address the challenges faced in preparing for retirement and advance retirement savings equity.

A key element of this will be shifting the current approach to be more cognizant of the populations being served. From our observations, the "if you build it, they will come" and one-size-fits-all approaches seem to be driving many of today's financial wellness and engagement solutions. Despite good intentions, these products and services can leave many participants disempowered in their own financial journeys as their unique needs and challenges are not always represented. As these programs evolve and mature, it is increasingly clear that a more nuanced approach is required—one that considers and supports an increasingly diverse participant base and engages those who may have previously felt left out of the savings conversation altogether.

Through a deeper incorporation of individual differences in solution design and communication, providers can enhance current financial wellness programs, drive proactive hyper-personalization, and—ultimately—deliver equity-centered product outreach strategies. As a result, solutions can be more impactful, messaging more meaningful, and needs better considered and met. This can also help evolve the conversation from what may feel like a distant issue to an ongoing, dynamic interaction on building overall wealth—whether in a specific retirement account or other investment vehicles that can help bolster retirement preparedness.

## Conclusion

There is both a human and financial imperative to progress toward equitable retirement savings outcomes in the United States—but that doesn't make it an easy obligation to meet. The $4 trillion retirement savings gap is a staggering number that affects millions of individuals. It is natural to react with measures that address the symptom by expanding opportunities to save. But to make meaningful progress, the issue itself needs to be addressed, which means digging deep into the factors that hamper equity in what drives retirement savings in the first place.

To do its part, Deloitte will continue to engage and share perspectives in this series. In future articles, we will explore different facets of this issue, such as the role retirement providers can play in driving equitable savings outcomes; improving outcomes through equity-centered designs that use data to meet the wants and needs of historically marginalized individuals; and taking a deeper look at ways the retirement industry can reflect on progress while preparing for further action. We will also continue to highlight emerging trends and relevant actions by leading society, marketplace, and workplace organizations. What we learn, we will share and help implement across the ecosystem.

Americans, especially those in marginalized groups, need to actively participate in their financial futures by taking smart steps to save and create wealth. They cannot do this alone, and to engage in earnest, they need to engage with trust. When industry, public sector, and other organizations work to understand the reasons different groups have different experiences with retirement savings, they put themselves in a position to bring more equity to the system. That can be the moment when the gap begins to close.

**For more information, please contact:**

**Dan Rosshirt**
**Principal**
Retirement Services Leader
drosshirt@deloitte.com

**Jack Farris**
**Manager**
Retirement and Wealth
jfarris@deloitte.com

**Hailey Salden**
**Consultant**
Retirement and Wealth
hsalden@deloitte.com

**Shreya Chatterjee**
**Consultant**
Retirement and Wealth
shreychatterjee@deloitte.com

# Endnotes


1. Jack VanDerhei, "Impact of five legislative proposals and industry innovations on retirement income adequacy," Employee Benefit Research Institute (EBRI), January 20, 2022.

2. Nancy Ochieng et al., "How many older adults live in poverty?," KFF, May 21, 2024.

3. David H. Montgomery, "Who's not working? Understanding the U.S.'s aging workforce," Federal Reserve Bank of Minneapolis, February 27, 2023.

4. Mark Miller, "America's retirement race gap, and ideas for closing it," New York Times, updated November 30, 2023.

5. Megan Brenan, "Americans' outlook for their retirement has worsened," Gallup, May 25, 2023.

6. Judith Graham, "'True cost of aging' index shows many U.S. seniors can't afford basic necessities," CBS News, July 27, 2022.

7. Sudipto Banerjee, "Closing the Gender Gap in Retirement Savings," T. Rowe Price Insights, March 2023.

8. US Bureau of Labor Statistics (BLS), "Labor force characteristics by race and ethnicity, 2021," BLS Report 1100, January 2023.

9. Board of Governors of the Federal Reserve System (FRB), "DFA: Distributional financial accounts," updated June 14, 2024.

10. Geoffrey T. Sanzenbacher, "Can employer demand support older workers today...and tomorrow?," Issue in Brief 24-6 (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2024).

11. Alicia H. Munnell, "Social Security's financial outlook: The 2024 update in perspective," Issue in Brief 24-11 (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2024).

12. John Scott and Andrew Blevins, "State automated retirement programs would reduce taxpayer burden from insufficient savings," Pew Charitable Trusts, updated June 2, 2023.

13. John Scott and Andrew Blevins, "State automated retirement programs would reduce taxpayer burden from insufficient savings," Pew Charitable Trusts, updated June 2, 2023.

14. Betsey Vereckey, "How retirement saving incentives amplify wealth gaps in the U.S.," MIT Sloan School of Management, February 1, 2024.

15. John Scott and Andrew Blevins, "State automated retirement programs would reduce taxpayer burden from insufficient savings," Pew Charitable Trusts, updated June 2, 2023.

16. John Scott and Andrew Blevins, "State automated retirement programs would reduce taxpayer burden from insufficient savings," Pew Charitable Trusts, updated June 2, 2023.

17. US Senate Committee on Finance, Secure 2.0 Act of 2022, accessed August 2024.

18. US Senate Committee on Finance, Secure 2.0 Act of 2022, accessed August 2024.

19. US Senate Committee on Finance, Secure 2.0 Act of 2022, accessed August 2024.