



July 2012

## 401(k) Plans in Living Color II

A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups

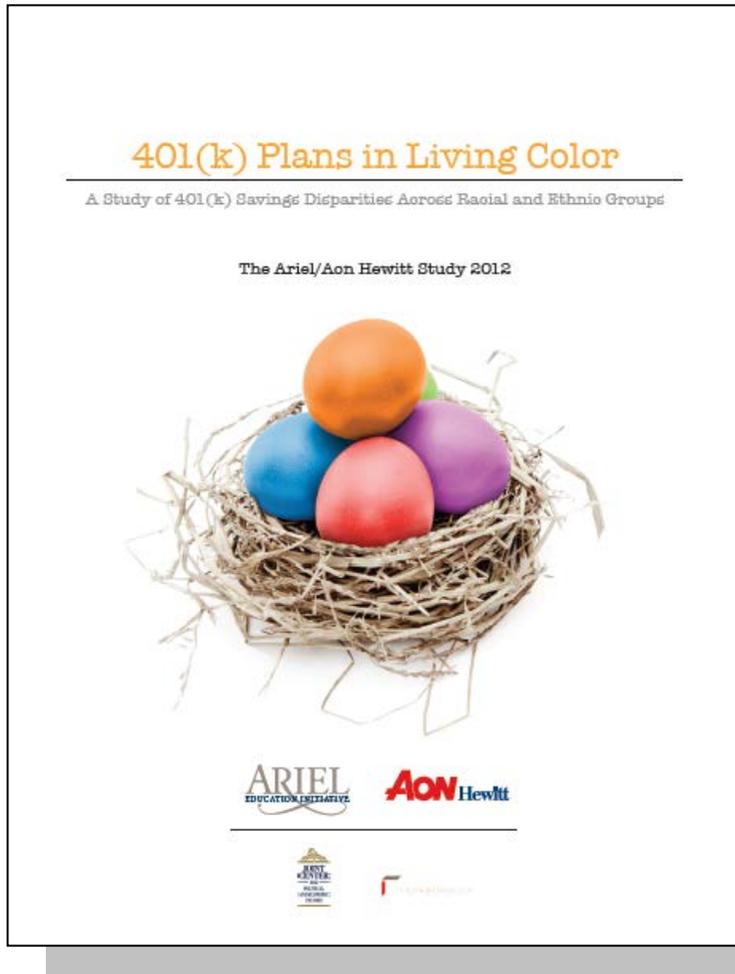
The 2012 Ariel/Aon Hewitt Study

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# 401(k) Plans in Living Color: The Ariel/Hewitt Study



- Study sponsored by the Ariel Education Initiative and Aon Hewitt and includes several partner organizations
- Groundbreaking research that uncovers the relationship between race/ethnicity and 401(k) behaviors
- Expanded data set and analysis covering:
  - Nearly 2.5 million employees
  - 60 participating employers
  - Data as of December 31, 2010
- Includes employee survey perspective, with over 19,000 online responses (deployed by three large employers to 150,000 employees). Deployed in 3Q-4Q 2011. Focused on:
  - What is happening outside the plan
  - Plan knowledge
  - Perceptions on current and potential initiatives



# Study Results: The Big Headlines

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- African-American and Hispanic retirement savings continues to significantly lag Whites
- Economic downturn exacerbated the differential, and disproportionately impacted minorities
- Even when we adjust for age, pay, and other factors, we find:
  - Significantly lower participation and savings rates
  - Dramatically higher use of loans and hardship withdrawals for both, but especially for African-Americans
- Overall, Asian employees again showed strongest plan behaviors



# Study Results: Overall Plan Usage by Race/Ethnicity

## Largest behavior changes from previous study seen among:

- Participation rates flat, given impact of auto enrollment
- Savings rates are down across all
- Loan usage is up for all, markedly for African-Americans and Hispanics (up 10 %)
- Hardship withdrawals are up across all, markedly for African Americans (up from 6.3%)

	White	African-American	Hispanic	Asian	Total
<b>Participation<sup>1</sup></b>	79%	68%	66%	80%	72%
<b>Average Contribution Rate<sup>2</sup></b>	7.2%	5.6%	5.9%	8.8%	6.9%
<b>Percentage With Loans<sup>3</sup></b>	26%	49%	40%	22%	29%
<b>Percentage Taking a Withdrawal<sup>4</sup></b>	1.7%	8.8%	3.2%	1.2%	3.0%

<sup>1</sup> Measure of active and eligible employees who made any contribution (before-tax, after-tax, or Roth) in 2010.

<sup>2</sup> Average of before-tax, after-tax, and Roth contribution rate as of 12/31/2010 among participants. Excludes nonparticipants.

<sup>3</sup> Percentage of active employees with a balance who had a loan outstanding on 12/31/2010.

<sup>4</sup> Percentage of active employees with a balance who took a hardship withdrawal during 2010.



# Balances

**Considerable differences remain in account balance across all pay ranges.**

- Influenced by other variables (age, job tenure, pay within range, etc.)
- Yet, differences still exist when you adjust for those factors

## Account Balance by Race/Ethnicity and Pay

	< \$30,000	\$30,000– \$59,999	\$60,000– \$89,999	\$90,000– \$119,999	\$120,000+
<b>White</b>	\$14,458	\$42,931	\$101,359	\$185,036	\$285,729
<b>African-American</b>	\$7,579	\$25,122	\$71,784	\$138,944	\$204,513
<b>Hispanic</b>	\$9,010	\$28,294	\$79,933	\$140,677	\$211,422
<b>Asian</b>	\$16,193	\$41,792	\$87,581	\$135,516	\$182,562



# Five Key Recommendations in the Study

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**Call to action for employers, regulators, service providers and individuals...**

## **Five Key Recommendations:**

1. Know your employees: Understand your demographics and assess participant behaviors by multiple perspectives—including race
2. Use automation to its full potential: Utilizing more compelling defaults to spur better behavior
3. Ease loan repayment and deter early withdrawals
4. Add an array of investment advisory services and support
5. Don't forget about communication opportunities



# Considerations for Participation

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## Benefits

- Better understanding of behaviors
- Improved ability to make positive change
- Recognition as an employer committed to the financial security of employees
- Recognition as an employer committed to diversity & inclusion

## Barriers

- Perceived risk of having this data
  - Litigation risk
  - PR risk
- Time and effort required to gather data
  - Not a part of standard recordkeeping reporting or data structures
  - Competing resources in lean times
- Difficulty of obtaining internal approval
  - Decision rights across payroll/ IT, benefits/ HR, legal, diversity & inclusion



# Appendix – Study Partners

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**Ariel Education Initiative and Ariel Investments, LLC:** Ariel Education Initiative, the nonprofit affiliate of Ariel Investments, was founded in 1989 by John W. Rogers, Jr. (founder and chairman of Ariel Investments, LLC) as a private operating foundation with a mission to strengthen the neighborhoods and cities in which we live and work. Ariel Investments is a Chicago-based money management firm and mutual fund company that serves individual investors through its no-load mutual funds and manages separate accounts for institutional clients.

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**The Joint Center on Political and Economic Studies** is the nation's leading African-American think tank and is focused on political, economic, and health issues.

**The Raben Group** is a D.C.-based public affairs organization. The Raben Group assists non-profit, foundation, and corporate clients with a variety of services ranging from strategic planning to policy development to strategic communications.

