



**Testimony of Rodney A. Brooks, retirement columnist and author
Before the U.S. Senate Special Committee on Aging Thursday, July 15, 2021**

Hearing on “Building Wealth and Fostering Independence: Creating Opportunities to Save”

Good morning, Chairman Casey, Ranking Member Scott and members of the Committee. My name is Rodney A. Brooks. I am a personal finance author and veteran business journalist. I have written about retirement issues and wealth, health and income inequities for several major online and print publications, including U.S. News & World Report, the Washington Post, USA TODAY and National Geographic.

First, I’d like to thank you for the opportunity to appear before you today to discuss some of the critical retirement issues faced by all Americans, especially the issues faced by older African Americans. Black women, in particular, face huge financial challenges as they age.

First, let’s look at the retirement challenges facing all Americans. I’m sure you’ve all heard that we are facing a retirement crisis. That’s because Americans are not saving nearly enough to sustain themselves when they retire. And they worry about it.

Forty-five percent of Baby Boomers said outliving their retirement savings is one of their greatest retirement fears. That’s according to the 20th Annual Retirement Survey of Workers conducted by Transamerica Center for Retirement Studies.

There’s good reason for that concern. According to data from Northwestern Mutual’s 2019 Planning & Progress Study, 15percent of Americans have no retirement savings at all. None.

Today, Americans live a lot longer than they think they will. Since we live longer, we also need our money to last longer.

In 1950, a 65-year-old male could expect to live another 13 years, according to the Centers for Disease Control and Prevention. In 2014, a 65-year-old male could expect to live 18 more years. In 1950, a 65-year-old woman could expect to live another 15 years. By 2014, a 65-year-old woman could expect to live another 20 years. If a couple is both 62 and non-smokers, the surviving spouse would live, on average, until age 92.

In the past workers had pensions, which are known as defined benefit plans, or DB plans. Our fathers and their fathers knew that their money would not run out and that their living expenses would be taken care of. That’s one of the reasons people worked for 25 years at one company. It wasn’t just for the gold watch. It was to get the pension.

Today pensions are largely a thing of the past. In 1975, pensions covered 40 million Americans. The U.S. Bureau of Labor Statistics says only 13 percent of non-union private sector workers are

covered by pensions today. (Though those parentages are much higher in public sector jobs and workers covered by unions.)

Today pensions have been largely replaced by defined contribution plans, or DC plans, such as 401(k)s, 403(b)s and Individual Retirement Accounts (IRAs). That puts even more pressure on Americans. You are no longer depending on your company to manage your retirement money. The responsibility falls to the you, the individual workers, to figure out how much to save, what to invest in and how to manage those investments.

That's probably one of the biggest reason Americans are not saving enough for retirement and making no or poor investment decisions. Twenty-two percent of Americans have less than \$5,000 in savings earmarked for retirement, according to Northwestern Mutual's 2019 Planning & Progress Study. Five percent have saved \$25,000 or less, and only 16percent have saved \$200,000 or more. Unbelievably, 46 percent said they had no idea how much they had saved for retirement.

For Black Americans, particularly older Black women, the situation is even more dire. Many Black older Americans have endured decades of discrimination, both overt and subtle, in education, criminal justice systems, healthcare, jobs, housing and credit. As a result, Black older adults have lower levels of education, income and wealth than whites.

Additionally, Black Americans suffer disproportionately from eight of the top 13 top causes of death in the U.S. – heart disease, stroke, cancer, influenza and pneumonia, diabetes, HIV disease, kidney failure and homicides.

Black women, especially older Black woman, have especially poor health. They suffer from some of the highest levels of diabetes, hypertension, and other disabilities. This presents a number of challenges. They also have the lowest levels of income and wealth, which often means they need to continue working until late later years. Yet, their health problems limit their ability to continue working

In addition, they often end up as long-term caregivers for aging and ailing parents and spouses or caring for grandchildren, forcing them to leave jobs and cut short careers. That means they are not paying into company-sponsored retirement plans like pensions and 401(k)s. It also reduces their payments into Social Security, which means their monthly checks will be less when they do retire.

Generations of economic racism have resulted in low wages, low home ownership and no savings or investments for Black men and women. The impact of these economic inequities has reverberated into multiple generations of poverty, and predictions from Prosperity Now that the average net worth of Black Americans will average Zero by 2053.

Both the economic and health issues have been exacerbated by the COVID-19 pandemic. "The current COVID-19 public health crisis devastates both the economy and health of Americans. The burdens of this crisis are not shared equally, however. While communities across the nation have experienced tragic losses, the impacts have been especially hard for low-income and

minority communities,” according to Financial Reserves and the Racial Wealth Gap from Inequality.org. According to that report 14 percent of white households had zero or negative wealth vs. 28 percent of Black households.

Black families generally have lower incomes than white families, which makes it more difficult to save for retirement. In the Federal Reserve 2019 Survey of Consumer Finances, white families had median and mean family wealth of \$188,200 and \$983,400, respectively. The median and mean wealth of Black families is less than 15percent that of white families, at \$24,100 and \$142,500, respectively.

Black Americans often don't participate in employer sponsored retirement accounts and thus don't get the advantage of stock market growth. Only 44percent of Black Americans have retirement savings accounts, with a typical balance of around \$20,000, compared to 65percent of white Americans, who have an average balance of \$50,000, according to the Federal Reserve. And only 34percent percent of African Americans own any stocks or mutual funds, compared to more than half of white people.

Also, Black Americans have a huge dependency on Social Security. But there's a reason for that. They are typically not given the access to vehicles that allow them a better path to save for those latter years when you need the money to pay for health care expenses.

According to the U.S. Social Security Administration, about 38percent of minority beneficiaries rely on Social Security for 90percent or more of their income, compared with 28percent percent of white people.

The average Social Security benefit is only \$1,500 a month, but if you wait until you're 70 to begin receiving payments, the payment rises to about \$3,000.

Now, let me discuss some programs that may help alleviate the retirement crisis we face.

It's important to note that 50 percent of Americans do not have retirement accounts. That's largely because they work at small companies that do not offer retirement plans or they are part-time workers who do not qualify.

Any policy that seeks to address the larger problem will need to address the 55 million Americans who are falling through the cracks in our retirement system.

- **Auto-enrollment.** Companies that have instituted auto-enrollment have a much higher participation in their 401(k) plans. Basically, that means the participant would have to opt out of the plan instead of being required to opt in. Also plans that automatically increase the employees' contributions, say for example, 1 percent a year, have shown great success. According to T. Rowe Price, Auto-enrollment almost doubles plan participation and successfully gets participants who might not have otherwise saved saving. However, it can also result in participants saving less than those who voluntarily opt in and set their own deferral rate. Auto-enrollment combined with auto-escalation creates better participation and savings outcomes.

- **A number of states have approved or are considering laws that require small businesses to offer access to state-sponsored** retirement programs to employees who have no access to retirement plans. The plans would be offered at little or no cost to the small employer. As of May 2021, 12 states have enacted programs and dozens of others considering legislation. The rules of these programs vary greatly from state to state.
- **Programs that allow multiple small businesses to join together** to offer their employees defined contribution retirement plans. This reduces costs for everyone involved.
- **Financial literacy.** There's a lot that can go under this topic. But I would encourage the Social Security Administration to step up its education and outreach. Granted, most people take Social Security early, before Full Retirement Age, because they can't wait, and they need the money. But I'd question whether they knew they were locking themselves into low payments for the rest of their lives. The amount of the check would increase each year until they get full benefits at full retirement age, which today depends on the year in which you were born. If they wait until age 70 to take benefits, they'll likely be looking at monthly benefits of \$3,000 vs. the \$1,500 they'll receive at 62.

Of course, nothing is that simple. People take it early because they can't afford to wait another 8 years. And remember, Black Americans, because of a multitude of health issues, have shorter life expectancies than White Americans. Black Americans know that, and some make the decision based on their family health data.

So, committee members, please realize that these are all complicated and interrelated issues with no simple solutions. But if nothing is done, we will see more Americans, especially Americans of color, fall into cracks and the abyss of poverty.

Thank you again for the opportunity to provide testimony and for your interest in this topic. I will be happy to answer any questions the committee may have.