Who Benefits from Retirement Saving Incentives in the U.S.? Evidence on Racial Gaps in Retirement Wealth Accumulation

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Abstract

U.S. employers and the federal government devote more than 1.5% of GDP annually towards promoting Defined Contribution retirement saving. We study the distributional and lifetime impact of these savings incentives across racial groups using a new employer-employee linked data set covering millions of Americans. The average contribution rate of Black and Hispanic workers is roughly 40% lower than that of White workers. The rich and the children of the rich save more; racial differences in own and parental incomes account for a large share of the racial contribution gaps. Tax and employer matching subsidies further amplify these saving differences by channeling more resources to those who save more. We estimate that breaking the link between contribution choices and saving subsidies, through revenue-neutral reforms, would significantly reduce racial gaps and intergenerational persistence in wealth.