Wealth Inequality: Beyond Morality

Opinion Snapshot

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Introduction

Economic inequality is at the forefront of a national conversation. For example, much of President Biden's $3.5 trillion Build Back Better plan is centered around potential solutions to this issue.[1] Policymakers of all political opinions have written and said a lot about this issue, proposing both governmental and private sector solutions. Wealth inequality is also an issue that college students are discussing every day. As GenZ college students who are primarily first generation and have a strong desire to begin our careers in wealth and investment management, we believe we can provide a unique, valuable, and real-world perspective on this issue.

Economic inequality is certainly a broad term, consisting of both income inequality and wealth inequality. This paper is focused on wealth inequality and how it could potentially impact the wealth and investment management industry, where we anticipate working over the coming decades. We are trying to look at this issue very simply, defining wealth as the value of a family's assets minus the value of their outstanding debt.[2] For reference, the median wealth in the United States is about $121,760.[3] This number includes a family's savings and the value of their home, but not the estimated value of someone's Social Security or pension.

For many (especially a college student), this sounds like a lot of money. But this means that half of our 123 million households – or over 61 million households – have less than this amount. Furthermore, the bottom quintile – about 30 million households – have negative wealth.[4] In other words, one in every five Americans are in debt.

The gap between lower wealth families and higher wealth families – is large and growing. This is sometimes referred to as the "wealth gap," which is also a term that can be applied to specific groups who are particularly impacted, such as the "racial wealth gap" and the "gender wealth gap." According to the Federal Reserve, the top 10% own 76% of the wealth while the bottom 50% own 1% of the wealth.[5] It is also important to note that this gap has risen dramatically in recent decades. From 2001 to 2016, the median wealth of upper-income families increased by 33%, the median wealth of middle-income families decreased by 20%, and the median wealth of lower-income families decreased by 45%.[6]

While growing wealth inequality should elicit moral responses, it is also clear that such a large gap will negatively impact our entire economy, including wealth and investment firms. An assertion that increasing economic inequality may hurt wealth and investment firms may seem somewhat contradictory, considering that these firms generally provide services to those with existing wealth. For example, the top wealth quintile owns 93% of all equities – with many of these equities being managed by wealth and investment firms.[7] It also seems likely that this concentrated ownership of higher returning equity assets has increased the wealth gap, further concentrating firms' client base in this segment.

However, we believe that it is in the long-term best interest of wealth and investment firms to help mitigate wealth inequality. Why? According to the Economic Policy Institute, wealth inequality decreases economic growth between two and four percentage points of GDP each year.[8] The slowing of economic growth that results from economic inequality should concern firms because growth and stock prices are directly related.[9] In addition, mitigating wealth inequality will, at least intuitively, increase the number of savers and investors. Finally, it has been argued that the political instability caused by rising wealth inequality increases market volatility, which could negatively impact investment firms and their clients.[10]

Wealth inequality is not going to fix itself, which is why we must begin to address it now. While most Americans desire a more equal society, our country is heavily divided on how to achieve it.[11] Certainly, the desired societal changes will not occur without dialogue. As a result, we are asking wealth and investment firms to further insert their voices in the ongoing national discussion on wealth inequality. It is important we all further engage in the fight to reduce the wealth gap, not only because it's the right thing to do, but also because it will benefit us as an industry in the long run.

In this paper, we examine three broad based approaches that firms can take to mitigate the impact of wealth inequality: Purpose, Policy and Process. First, firms can incorporate their commitment to address wealth inequality into their stated Purpose or Mission. Second, firms can engage in dialogue about Public Policy aimed at decreasing wealth inequality. Although there are many proposals, we highlight three: student loan debt forgiveness, Social Security reform, and Baby Bonds. Third, firms can adjust their business processes to provide greater opportunity and access for those below median to grow their wealth. We again highlight three examples: investing in businesses from underserved communities, engaging with their portfolio companies to encourage diversity and broadening wealth, and by creating and supporting strategies that increase access to saving, investing and advice.

As we have acknowledged, there are many approaches on how to address wealth inequality in our country – both governmental and private sector based. We are by no means seeking to oversimplify the solutions to this complex issue – and we certainly recognize that it requires inclusive, open dialogue. What we are saying is that wealth and investment firms are uniquely positioned to contribute to that dialogue – with the benefits of this dialogue being reaped over a multi-decade period.

As Gen-Z students coming into the industry, we are looking at the year 2040, when we will be in the middle of our careers, and we are asking the question: What will the industry look like if we don't address wealth inequality? We see an industry that is coming to understand and share the moral call to action as well as the economic necessity of reducing the wealth gap. And we want to be part of this progression. We need to continue to look beyond short-term quarterly earnings and examine the long-term effects that wealth inequality will have on our businesses. Doing so will help ensure our long-term growth well beyond 2040.

Summary:

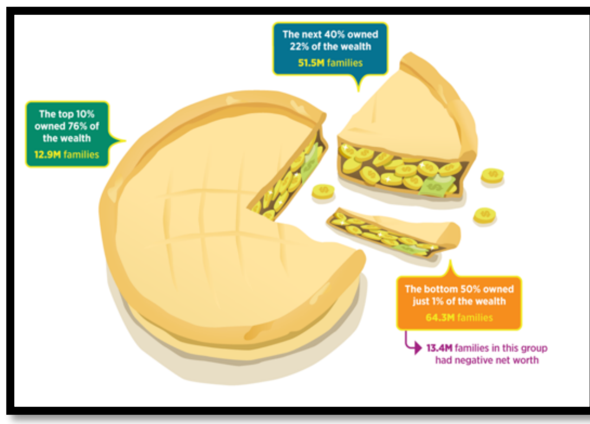
- *Wealth inequality exists, is rising, and has a negative impact on the entire economy.*
- *Wealth and Investment management firms will reap long-term benefits from the reduction in wealth inequality.*
- *Firms can include broadening wealth as part of their purpose or mission statements.*
- *Firms can engage in public policy discussions about proposals to reduce wealth inequality.*
- *Firms can make adjustments to their business processes to broaden those who are saving, investing and receiving advice – leading to and increased distribution of wealth over time.*

Wealth Inequality

We first explore some details of widening wealth inequality, before examining its ramifications.

According to the Federal Reserve Bank of St. Louis, the total amount of wealth owned by American families amounts to $96.1 trillion (see Exhibit 1).[12] This wealth is distributed unevenly, with high wealth families owning significantly more wealth than lower-wealth families. For reference, this wealth is broken out as follows: 76% is owned by the top 10%, or 12.9 million families; 22% is owned by the next 40%, or 51.5 million families; and 1% is owned by the bottom 50%, or 64.3 million families.[13] While statistics about overall wealth are helpful context, it is also important to look at how it impacts specific groups in our country. The racial wealth gap refers to the difference in wealth between Black and white families. The median Black family owns about $23,000 in wealth while the median white family owns about $184,000 in wealth – which means that Black families own 12 cents of wealth per dollar of wealth owned by white families. Similarly, women own 32 cents of wealth for each dollar of wealth men own.[14] The statistics for minority women are worse. In 2013, the median net worth of Black women was $200, and the median net worth of Latino women was $100. There is also a large wealth gap favoring those with a college education. The 39% of families that have at least one college-educated parent own 77% of total wealth.[15] Addressing the wealth gaps across race, gender, and educational attainment are a large part of addressing the overall issue of wealth inequality.

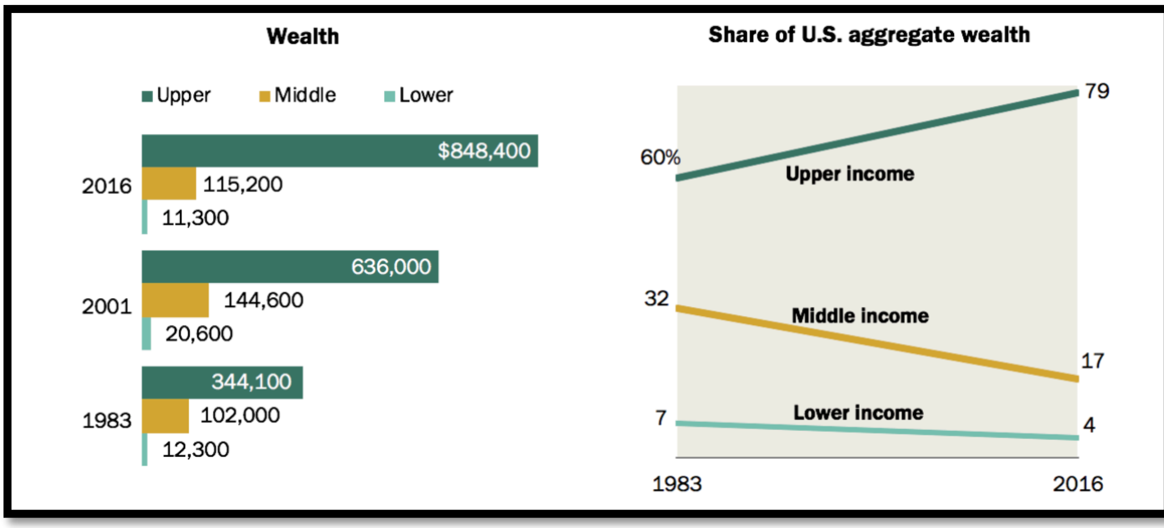
Exhibit 1: Wealth Distribution in America



Source: Federal Reserve Bank of St. Louis. *Has Wealth Inequality Changed Over Time? Here are Key Statistics*. December 2, 2020.

This wealth gap has also increased dramatically in recent decades.[16] This is because of an increase in wealth of upper-income families and a decrease in wealth of middle-income families (see Figure 2). Today, the top 1% own more wealth than the entire middle class.[17] This has not always been the case, but the disproportionate impact of the Great Recession on middle-and-low-income families and the uneven recovery from it has pushed the wealth of the top 1% well above that of the bottom 90%.[18] While the wealth of all income groups fell during the Great Recession, the bottom 60% bore the brunt of the wealth loss because middle-income families are more dependent on home equity as a source of wealth than upper-income families.[19] Recovery across income classes has also been uneven due to decreases in middle-class homeownership and stock market participation since 2007. In fact, the top 20% are the only families to recover from the Great Recession and to experience gains in wealth since 2007.[20] The Great Recession also widened the racial wealth gap because half of the collective wealth of Black Americans was stripped away due to the prominent role of homeownership in Black families' wealth portfolios.[21] Moreover, the general decline in homeownership rates since 2007 has been even more pronounced for households of color – the rate for Black households fell from 48% in 2005 to below 42% in 2016 while the rate for White households fell from 76% to 72%.[22]

Exhibit 2: Construction of Wealth from 1983 to 2016



Source: Pew Research Center analysis of the Survey of Consumer Finance. *Trends in Income and Wealth Inequality.* January 9, 2020.

Observations About the Ramifications of Wealth Inequality

Given its varied impact across demographics, wealth inequality is certainly a moral issue. In fact, it is a moral issue that is deeply embedded in our culture through the concept of the American Dream – the fundamental belief that anyone, regardless of their background, can experience upward mobility.[23] Current trends threaten this notion. First, the wealth gap in the United States is higher than in any other industrial nation.[24] According to the OECD, America is the only developed country in which the top 1% own more than 28% of the national wealth (for reference, the top 1% of the American population own 43.5% of the national wealth). Second, there is an inverse relationship between wealth inequality and social mobility.[25] For example, as the wealth gap grew from 1990 to 2011, the odds of someone in the bottom quintile moving up to the middle quintile or higher declined from 23% to 14%.[26] The people who make up the lower and middle class are increasingly poor. According to the Federal Reserve, prior to the recent Federal programs, 40% of all Americans would struggle to pay $400 in the event of an unforeseen emergency.[27] Third, wealth inequality threatens the notion of the American Dream because the racial and gender wealth gaps are preventing racial equity and gender equity, respectively. It is difficult to be seen as the land of equal opportunity when Black families own 12 cents for every dollar of wealth a white family owns, and a woman owns 32 cents for every dollar of wealth a man owns?[28]

Wealth inequality is also an economic issue. According to a study conducted by the RAND Corporation, one ramification of wealth inequality was slower GDP growth than would have occurred if wealth had been distributed more equitably. They projected that if the growth of wealth that occurred between 1975 and 2018 was distributed as equitably as it was in the first two post World War II decades, then in 2018, not only would the wealth of the bottom 90% have been 67% higher, it would have increased overall GDP by $47 trillion during that period.[29] In actuality, GDP grew $19 trillion from 1975 to 2018.[30] In other words, this research at RAND projected that our economy could have been more than double its size in 2018 if wealth inequality had not risen at such dramatic rates between 1975 and 2018.

In addition, it is estimated that every year, wealth inequality slows growth between two to four percentage points of GDP.[31] Wealth inequality slows economic growth because it limits spending and savings ability of the bottom 90%.[32] Wealth inequality also limits lower-and middle-income families' investment in their human capital because this often depends on one's ability to self-finance the investment. [33] Investment in human capital boosts labor productivity, so therefore the under-investment in human capital by lower-and middle-income families means that they are less productive workers.[34] This sub-optimal labor productivity has had economic effects – it has cost the United States economy an estimated $10.9 trillion in the past 15 years.[35] Lastly, the financial stress that wealth inequality causes also slows economic growth, as each year employers lose an estimated $250 billion due to employee financial stress.[36]

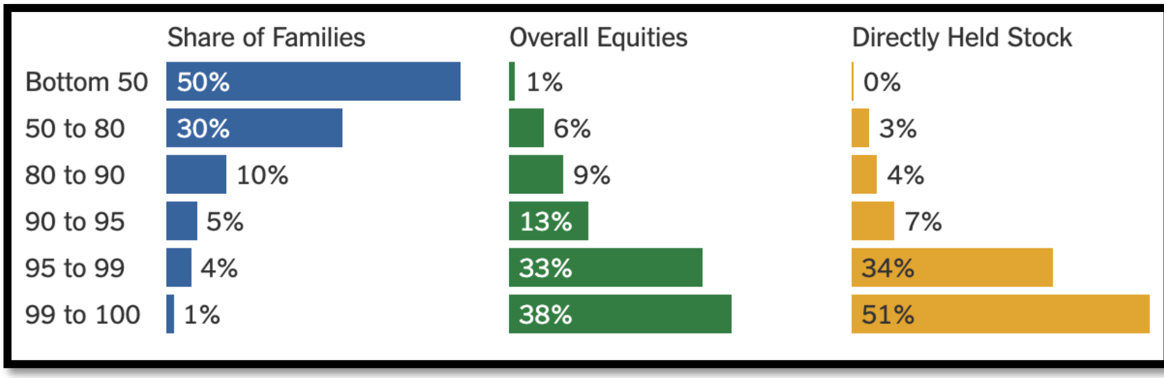
Additional ramifications of wealth inequality exist beyond the economic sphere. As previously mentioned, wealth inequality increases political instability, which in turn decreases investment and economic growth.[37] The rising wealth gap also increases political polarization.[38] Political polarization increases governmental gridlock, which comes at a high monetary cost. Consider the month-long government shutdown in 2019, which cost the economy an estimated $11 billion.[39]

Ramifications to Wealth and Investment Management Firms

Since wealth inequality is an economic issue, it makes sense that it disproportionately affects wealth and investment firms – and their clients. The decreased spending of the bottom 90% that results from wealth inequality, hurts firms because spending impacts economic growth, corporate earnings, and the markets.[40] We recognize that firms continually focus on the pace of economic growth because in general, the stock market follows the trends of the economy.[41] These firms should also be worried by the decreasing savings rates of the bottom 90% because it means that they have less money to invest.[42] While more than half of Americans own some stock, typically through a retirement account, only about 14% of families own individual stocks.[43] Furthermore, more than one in five Americans do not have the ability to save any of their annual income.[44] As a result, stock market participation is very concentrated in the top quintile of wealth (see Exhibit 3).[45]

Given the impact wealth inequality has on wealth and investment firms, we believe that it is in the firms' best interest to continue to participate in addressing the wealth gap. We outline three steps that firms can take in the following sections.

Exhibit 3: Equities Owned Across Income Groups



Source: Survey of Consumer Finances, Federal Reserve Board by The New York Times.

Action Step: A Firm's Purpose or Mission Statement

One of the first ways that firms can act to mitigate wealth inequality is to incorporate their commitment to action into who they are as a firm. Purpose or Mission statements are a great place to start. We have reviewed the Purpose or Mission Statement from some of the largest Investment and Wealth Management firms and included relevant excerpts in Tables 1 and 2 below. As you see in Table 1, a limited number of the top ten investment management firms in the United States have a mission statement or a stated purpose that reflects, directly or indirectly, their engagement with the issue of wealth inequality. The same pattern holds for the top wealth management firms in Table 2.

This does not mean that firms aren't addressing this issue, and our goal is not to be critical of any firms. Rather, we wish to highlight the opportunity for more firms to directly state the importance of their role in broadening wealth in this country. A Purpose or Mission statement helps direct a company's strategies, both short and long term, and provides accountability that the company's actions will align with their values. By stating their intent to work to decrease economic inequality within their Purpose or Mission Statement, firms will help generate the support necessary to address this issue – and therefore receive the benefits from the reduction of the wealth gap in the future.

Table 1

Investment Management Firm	Mission Statement Excerpts
BlackRock	"To help more and more people experience financial well-being" [46]
Vanguard	"To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success."[47]
Fidelity	"To strengthen and secure our clients financial well-being" [48]
State Street Global Advisors	"Our mission is to invest responsibly to enable economic prosperity and social progress"[49]
JPMorgan Chase	We aim to be the most respected financial services firm in the world"[50]
Capital Group	"For more than 80 years, our goal has remained the same: to improve people's lives through successful investing" [51]
Bank of NY Mellon	"BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle"[52]

Investment Management Firm	Mission Statement Excerpts
PIMCO	"As a premier fixed income manager, PIMCO's mission is to deliver superior investment returns, solutions and services to our clients"[53]
Prudential Financial	"Helping people and businesses worldwide with their insurance and financial needs"[54]
T. Rowe Price	"We work every day to do right by our clients, so they can invest confidently toward their financial futures"[55]

Table 2

Wealth Management Firm	Mission Statement Excerpts
Morgan Stanley	"We help people, businesses and institutions build, preserve and management wealth so they can pursue their financial goals"[56]
Merril Lynch Bank of America	"To make financial lives better"[57]
Charles Schwab	"Our purpose is to champion every client's goal with passion and integrity" [58]
Wells Fargo	"At Wells Fargo, we want to satisfy all of our customer's financial needs" [59]
Nothern Trust	"Through our expertise and dedication, we transform the plans of the world's most successful individuals, families and institutions into action so that we can help our clients reach their most ambitious goals" [60]
Edward Jones	"Our single focus in helping you achieve what's most important to you"[61]
Beacon Pointe	"We look to further enhance our client's lives and missions through the alignment of their wealth and what matters most"[62]
Ameriprise Financial	"To help people feel confident about their financial future" [63]
LPL Financial	"To help financial professionals build competitive business while they served their clients' best interests"[64]

Action Step: Engage on Public Policy Proposals

Addressing the gap in wealth overall, as well as among impacted groups, is a societal issue and will certainly involve public policy. As was noted in the Introduction, much of President Biden's budget proposal contains provisions that are intended to distribute wealth more equitably. It goes without saying that not everyone agrees with the President's approach – but, what is incontrovertible, is that policy solutions will continue to be an important part of the effort to provide the opportunity for more people to grow their wealth. Policy from both sides of the political aisle will continue to be proposed because, if enacted, they can have a widespread and, sometimes, immediate impact. This portion of the Opinion Snapshot encourages investment and wealth management firms to actively engage in policy proposals designed to improve financial security and mitigate the wealth gap.

We acknowledge that there is risk involved in investment and wealth firms taking positions on policy proposals. The risk is that there could be potential backlash from important stakeholders who do not agree with these views. And some of these stakeholders may be clients. However, for firms who rely on the financial security of Americans for the success of their business, constructive engagement may be worth the risk. Taking a stance and letting opinions be known (whether for or against certain policies) could improve these policies and make the policies that ultimately get enacted more effective. Your actions can create a constructive discourse that can be used to propel others to engage, rather than maintaining the status quo. We have chosen three examples of policy solutions that investment and wealth management firms should engage on, although there are many others as well.

Student Loan Forgiveness

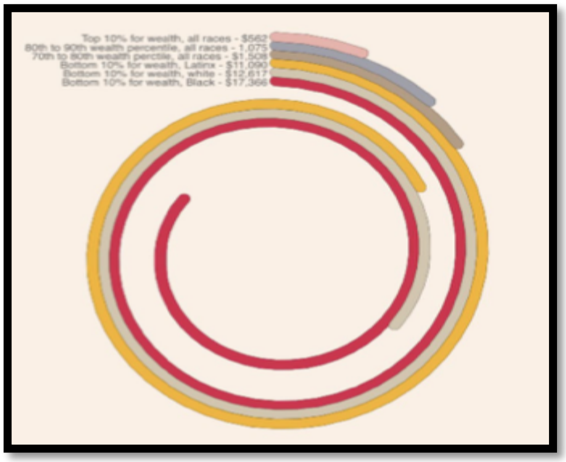
America's students are told that higher education is one of the keys to achieving the "American Dream." However, current trends in higher education threaten the accessibility of that dream. According to Bloomberg Wealth + Inequality, "Millennials with bachelor's degrees or higher earn 113% more than what they would have earned with only a high school diploma. But college-educated baby boomers made only 57% more than their peers with high school degrees."[65] The higher returns increase the demand for college education, which in turn increases the cost of tuition. Consequently, access to higher education has become unaffordable to many students who need financial support, leading them to take on more and more student loans. Now, in the United States, borrowers owe a collective $1.6 trillion in student loan debt, which is the second largest amount of outstanding debt in the country.[66]

As our colleagues from last year's Sapere Aude Internship found, student loans are intended to be a tool to combat the wealth gap but could also be viewed as having turned into a catalyst that worsened it.[67] Lower and middle-class groups, often uninformed about the college process, are more likely to take on large amounts of student loan debt, contributing to ongoing wealth inequality.[68] By recognizing and addressing the inordinate effects of student loan debt on low-income households, we can create equal academic opportunity and reduce the wealth gap.

There are various proposals centered around student loan debt forgiveness and repayment that would mathematically reduce the wealth gap. We focus our attention on wider-scale, targeted, and income-based propositions. Senate Democratic Leader Charles Schumer (D. NY) and Senator Elizabeth Warren (D. MA) recently proposed a plan to cancel up to $50,000 in federal student loan debt for all borrowers, impacting the student loan debt of 36 million people.[69] While Senators Schumer and Warren are focused more on widespread forgiveness, President Biden's proposal is more targeted. President Biden states that Congress should cancel $10,000 of student loans for specific borrowers.[70] Instead of providing wide-spread cancellation, he focuses strategically on helping those most impacted by student loan debt, including those defrauded by a college or university.[71] Another approach (which already exists in some form) is to view loan forgiveness from an income-based perspective. If student loan repayments are income based, it would allow consumers to set monthly student loan payments based on income and family size.[72]

Student loan forgiveness or cancellation is a controversial issue because of the back-and-forth debate over whether student loans forgiveness is progressive or regressive. Some say that forgiving student loan debt is "regressive", causing further inequity, because most student loan debt is held by those with college and graduate degrees, and they have higher income.[73] For example, one Brookings article states that Senator Warren's proposal only benefits those who have gone to college, and those who have gone generally fare better economic status.[74] However, the Roosevelt Institution takes the position that wide-scale forgiveness is, in fact, progressive after they analyzed the effect of $50,000 cancellation by net worth and race (Exhibit 5). They found that the impact of the average cancellation for Black individuals in the lower 10% of wealth are 30 times more than the average for the top 10% of individuals.[75] In addition, Brookings has also released articles from researchers which support this stance, stating that student debt cancellation would have the greatest effects on wealth for low-income households, as more than half of student loan debt is held by households with zero or negative wealth.[76] They also found that cancelling student loan debt has the greatest effect on Black low-wealth households.[77] These articles advocate for the distributional effectiveness of student debt cancellation, arguing that it can address intergenerational wealth accumulation that many have been denied and diminish the wealth gap.[78]

Exhibit 4: $50,000 Cancellation by Net Worth and Race



Source: The Roosevelt Institute analysis of the Data from Survey of Consumer Finances. *Correcting Empirical and Conceptual Errors.* 2019.

We are not advocating for either position. However, given the currency of the debate, and its immediate impact, we believe investment and wealth firms may wish to engage on the issue. There is only one firm that we have found that has recently engaged in the policy debate publicly. JPMorgan Chase used administrative banking and credit bureau data to estimate the benefits of differing student loan proposals based on income, time to repay debt, and borrower race and ethnicity.[79] After conducting their research, they concluded that widespread debt cancellation is regressive, advocating for a more targeted, income-based approach.[80] This is an example of how firms can use their resources to engage, recognizing the importance of a policy initiative such as how to address the impact of student loans on the wealth gap. We believe that if more firms engage on this issue and articulate their stance on the most effective policy to address student loan debt and its impact on wealth inequality, the policy solutions can be improved.

Social Security Reform

Though not normally viewed in this light, Social Security is arguably the most impactful federal program in terms of mitigating wealth inequality.

Why? Because it provides *progressive* retirement benefits to *all* Americans. Progressive means that Americans who earned less (and usually accumulated less wealth) over their lifetimes have more of that income replaced in retirement through Social Security.[81] The value of Social Security is analyzed in Professor Geoffrey Sanzenbacher and Wenliang Hou's research paper **Social Security is a Great Equalizer**, which calculates the Estimated Present Value of Social Security, and demonstrates how Social Security reduces the racial wealth gap.

Focused on calculating wealth by cohort, the professors clearly demonstrate the inordinate effects of Social Security on the wealth of our society. Exhibit 6 depicts that, without Social Security in place, retirement wealth held by white households is estimated to be seven times that of Blacks and five times more than Hispanics. When accounting for Social Security (Exhibit 7), the wealth changes dramatically as retirement wealth in white households drops to approximately 2.5 times that of Black and Hispanic households.[82] Although the numbers are still bad, they are much better. Why? Because Social Security is universal and progressive, providing higher benefits for lower-wealth retirees – who are disproportionately people of color.

Exhibit 5: Retirement Wealth (excluding Social Security) at Ages 51 to 56 for Middle Class Households within Race by Cohort

	HRS cohort				
	1992	1998	2004	2010	2016
Race	HRS	War Baby	Early Boomer	Mid Boomer	Late Boomer
White	$255,200	$292,100	$297,200	$239,600	$176,900
Black	54,500	49,000	50,400	23,200	24,300
Hispanic	43,900	63,700	75,500	43,800	35,000
Wealth ratios					
White-to-black	4.7	6.0	5.9	10.3	7.3
White-to-Hispanic	5.8	4.6	3.9	5.5	5.1

Source: Author's calculations from University of Michigan, Health and Retirement Study (HRS). *Social Security is a Great Equalizer.* (1992 to 2016).

Exhibit 6: Retirement Wealth (including Social Security) at Ages 51 to 56 for Middle Class Households within Race by Cohort

	HRS cohort				
	1992	1998	2004	2010	2016
Race	HRS	War Baby	Early Boomer	Mid Boomer	Late Boomer
White	$449,100	$525,600	$520,200	$469,500	$377,800
Black	177,200	207,100	173,700	180,800	172,700
Hispanic	155,500	248,700	226,500	194,100	186,000
Wealth ratios					
White-to-black	2.5	2.5	3.0	2.6	2.2
White-to-Hispanic	2.9	2.1	2.3	2.4	2.0

Source: Author's calculations from University of Michigan, Health and Retirement Study (HRS). *Social Security is a Great Equalizer.* (1992 to 2016).

However, Social Security's ability to act as a security net for *all* Americans is at risk, primarily due to the retirement of baby boomers and the diminishing birth rate. Acting as a pay-as-you-go retirement system, the Social Security Administration models the financial variables of the program over a 75-year period, and one of the many factors the Board of Trustees considers is the fertility rate.[83] In 1983, the last time Social Security was reformed, the Trustees estimated that the birth rate would either meet or exceed 2.7 births per woman.[84] Since then, the birth rate has significantly dropped to 1.64, creating a higher ratio of retirees to workers paying into the program.[85] Along with other factors, and without additional reform by Congress, this trend will lead to a depletion of the Social Security Trust Fund, resulting in an estimated 20% "across the board" cut in Social Security's benefits by 2034.[86] This cut in benefits will disproportionately impact lower wealth retirees.

The more quickly reform occurs, the less drastic the required actions will be to protect these critical benefits.[87] Everyone acknowledges that Social Security needs reform – it is how to go about that reform that bogs people down. And, because it is universal, there is no more "political" a policy than Social Security reform – it is called the "third rail of politics" for a reason – because if you "touch it, you die".[88]

Numerous policy proposals have been made to reform Social Security – although there are three that could be viewed as "mainstream." Representative John Larson's (D. CT) proposal is *The Social Security 2100 Act* – and is the primary Democratic alternative. This proposal seeks to achieve long-term solvency of the program primarily by increasing the revenue collected by the Social Security Administration, by raising the cap on income subject to the tax, as well as the tax rate.[89] In addition, Congressman Larson's proposal would make benefit payments more progressive, reduce the tax paid on benefits for additional lower-wealth retirees, and by increasing the minimum benefit.

The late Representative Sam Johnson (R. TX), former chairman of the House Ways and Means Committee, proposed a reform plan entitled the *Social Security Reform Act of 2016* – and this remains the primary Republican proposal to reform Social Security. This proposal seeks to achieve long-term solvency by slowing the growth of Social Security costs, the most important one of which is increasing the retirement age where one can collect full Social Security benefits. The proposal enhances benefits for certain lower wealth retirees by making benefit payments more progressive, including by means testing the cost-of-living adjustment and increasing the minimum benefit.[90]

Both parties seek to create long-term solvency, increase the benefits among the lower earners and seek reductions in the benefits of the highest earners through differing techniques. But they seek to do it in very different ways – one by raising revenues and the other by increasing the retirement age.

The third proposal is from the Bipartisan Policy Center – and as the name implies – attempts to be bipartisan.[91] It essentially draws from both the Democratic and Republican visions of Social Security reform, seeking to achieve long-term solvency by both raising revenue and slowing the growth of costs and, at the same time, making benefits more progressive.[92]

We have not found investment and wealth firms publicly engaging on Social Security reform, arguably the most impactful policy benefiting universal financial security. Why? Perhaps it's as a result of the reverberations from several proposals in the 1990's and 2000's that were labeled, "privatization" of Social Security. Essentially, the core of the proposals was to invest some of the Social Security Trust Funds in the equity markets, seeking to increase the return and compounding of the of these funds (they are currently invested only in special US Treasury bonds). In fact, one such proposal, supported publicly by State Street Bank and privately by other investment firms, was to create "private accounts" for each participant in Social Security, allowing individuals to invest "their" Social Security funds as they wish, almost like a 401(k) plan. State Street's CEO said he simply sought to "engage" on the issue and the benefits of the proposals.[93] Ultimately, a form of this proposal was floated by the George W. Bush administration, but was, with great public fanfare, killed as perceived as putting retirees at risk.

So, no major reform has been established since – leading to more difficult and expensive choices as we get closer to the depletion of the Trust Funds. And, investment and wealth firms have largely stayed quiet, perhaps for fear of touching that third rail. But should they?

We believe that it's important that firms engage on the issue of Social Security reform to help protect the benefits of all Americans and continue or enhance its impact on wealth inequality. There may be no more important policy issue for investment and wealth firms on which to engage, despite the political risks that have been evident in the past. We believe that public and private conversations and policy discussions should be prioritized by investment and wealth firms to encourage policymakers to take action. The **Bipartisan Policy Center** proposal perhaps provides a basis on which to engage. They released this statement: "We are leading the charge on advocating for policies that strengthen and improve the U.S. retirement system, working closely with relevant Congressional committees and offices to move these issues forward."[94] In 2020 and 2021, Senator Mitt Romney and a bipartisan group of Senators introduced a bill designed to protect Social Security, as well as other programs funded by trust funds.[95] The proposal and Senator Romney have received criticism – showing the power of the third rail.[96] Perhaps this is the time for investment and wealth firms to speak up and engage, not necessarily to support Senator Romney's proposal, but simply to say a broad group needs to constructively engage to take action.

Social Security is one of the most important policies to mitigate and address wealth inequality. Investment and wealth firms' engagement could help move the reform process forward.

Baby Bonds

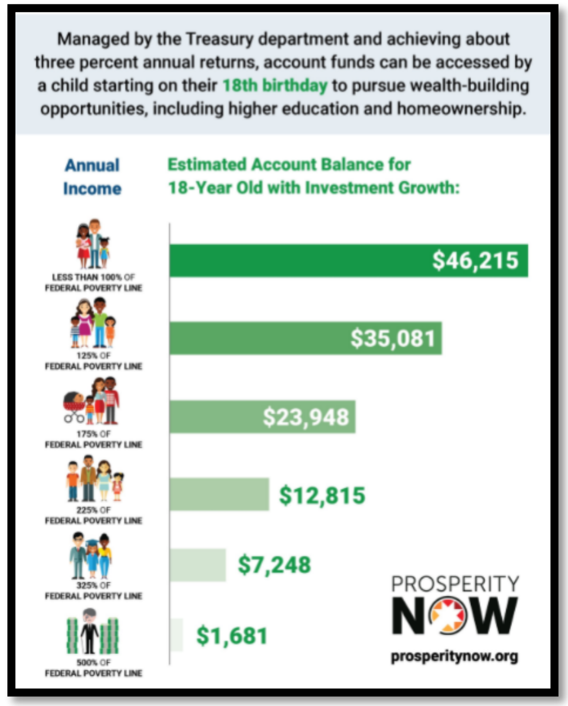
Baby Bonds is the name of a proposed policy solution that gives a set amount of money to each baby born into certain economic criteria each year. This principal amount is then added to in yearly payments, with contributions being determined based on factors such as familial wealth and overall income.[97] These funds would be held by the U.S. Treasury or a federally managed account that consists of various investments.[98] Once the child turns 18, the accumulated funds would be disbursed to the individual. The goal of these federally created trusts would be to take advantage of "compounding" to grow assets that an individual will have access to later in life, thereby setting them up for future economic success. Baby Bonds are intended to directly combat the racial wealth gap, since it will direct money to those who do not have access to it, which is disproportionately communities of color.[99]

The novelty of Baby Bonds is not something that should dissuade investment and wealth firms from engaging. Bipartisan legislation backed by Senator Charles Schumer (D.NY) and then-Senator Jeff Sessions (R.AL) aimed to form "American Birthright Accounts" that would create a $500 baby bond much like the policy above.[100] This proposal failed, but it does indicate that both parties in the Senate and others in government are aware of the potential of creating access to capital in order to drive equitable economic growth.

The most well-known "baby bond" proposal has been proposed by Senator Cory Booker (D.NJ). His bill titled "The American Opportunity Accounts Act" would create accounts for every child born in the United States.[101] Each seeded savings account of $1,000 will accumulate compound interest and have external funds added to the account based on family income. Year over year, these accounts will earn about 3% interest, as they are invested in Treasury securities. As referenced in Exhibit 4, a child that has a family income that is less than 125% of the Federal Poverty Line will receive $1,500 annually, resulting in an ending balance of over $35,000 dollars.[102] Senator Booker believes that this could potentially be life-changing money for those who get it, allowing them to enroll in higher education, put a down payment on a house, or other financial assets that "provide long-term gains to wages and wealth."[103] According to Senator Booker, Baby Bonds will cost $60 billion per year.[104] This cost will be offset by several tax increases, targeted to the wealthiest households. One challenge that could arise is the accuracy of the means-testing for Baby Bonds, being allocated based on household income and not household wealth.[105]

Connecticut was one of the first states to implement a program similar to Baby Bonds into their state laws.[106] Their program allocates over $50 million to these accounts, resulting in $3,200 for every baby born and enrolled in Medicaid.[107] Serving approximately 16,000 children, these Baby Bonds are intended to transform the lives of those they are created for, allowing them to overcome the structural barriers they face in their communities. The program intends to benefit Black and Latino residents the most, simply because they are disproportionately less wealthy.[108] The legislation is not biased, but rather its purpose is to address the inequities minorities face today due to the racial wealth gap. This is an overarching theme, that race and wealth inequality are inextricably linked. As mentioned in the introduction, when all people of society can be included in the economic system, we will see enormous growth in wealth at the median, as well as a strengthened middle class.

Exhibit 7: American Opportunity Accounts – Balances in 18 Years



Source: Prosperity Now.

As with the other two policy proposals, we recognize that this is a controversial proposal, and there is not agreement on its efficacy. As far as engagement goes, we can find one business organization that has discussed this topic. The Business Roundtable represents the interests of many of the top CEOs and business leaders, including in the financial services industry. JPMorgan Chase CEO Jamie Dimon is one of the leading members of Business Roundtable. They released this statement: "Business Roundtable urges policymakers to enact legislation that will pilot portable benefits and a program to test the effectiveness of "baby bonds."[109]

Should wealth and investment firms engage on Baby Bonds? We think they should, and they may be able to help assess their efficacy and make an impact on how they are structured. Given that these accounts would be invested over almost 20 years in Treasury securities yielding 3%, perhaps we can look at some alternatives to invest the proceeds in higher returning, longer-term investment strategies? These programs are modeled after plans such as 529s, tax-deferred plans that are used to help pay for college and other education expenses.[110] Since this manner of saving could be viewed as similar to Baby Bonds - compounding savings from birth until age 18 – a similar structure of investing could be applied appropriately. This could create access for those who want to create wealth and simultaneously give access to these firms to serve a larger client pool, managing a sizeable chunk of the population's money.

Overall, Baby Bonds could be part of a policy solution to address wealth inequality, as the proposal seeks to increase the wealth of those who struggle to become stakeholders in today's financial system and those who are not fortunate enough to have a large stream of capital passed down generationally. We believe that wealth and investment firms may wish to engage with policy makers on how to best implement bold solutions such as this one to strengthen the middle class and bridge the racial wealth gap.

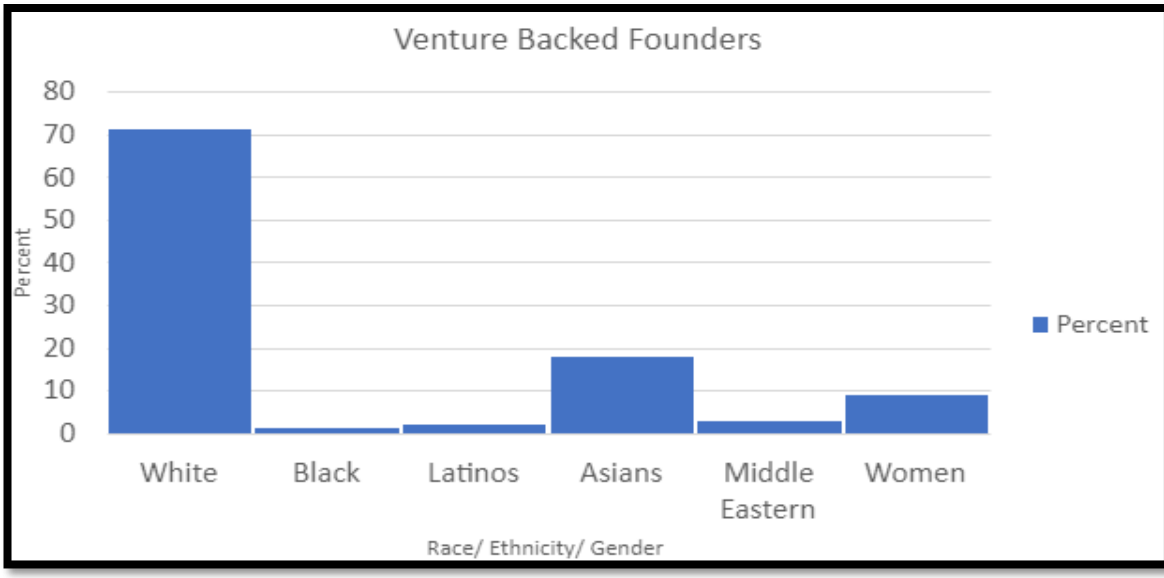
Action Step: Adjust Business Processes

This may be the hardest action to take, but it is the one we are most excited to participate in as we begin our careers. We believe that mitigating the wealth gap will, in the long term, benefit investment and wealth management firms. But it will require them to modestly change their business model to allow it to be more consistent with the Purpose and Mission Statement of broadening wealth across all groups of people. Frankly, it is often argued that investment and wealth management firms have contributed to wealth inequality by disproportionately protecting existing wealth through their policies and practices.[111] Although our intention is not to call out the industry or certainly any specific firm, we do intend to highlight some of the ways investment and wealth management firms can positively promote social mobility and broaden prosperity. This is something we believe is essential in broadening mainstream wealth for the groups of people who are often part of the bottom half, as well as in mitigating the wealth gap. While there are many actions investment and wealth management firms can undertake to address wealth inequality, the following section will discuss three changes to the business model that we believe can help achieve these objectives.

Increase the Flow of Capital for Underserved Communities

Holistically, minority entrepreneurs and business owners face detrimental barriers for financial success, the main one being access to capital. According to data from the U.S. Commerce Department's Minority Business Development Agency, minority-owned businesses are less likely than white-owned businesses to secure funding, especially for businesses with less than $500,000 in gross receipts.[112] In the start-up world, studies show only 1% of venture capital-backed founders are Black, less than 2% are Latinos, 2.8% are Middle Eastern, and 9% are women.[113] (Exhibit 8) Because a key area in narrowing the wealth gap is empowering entrepreneurs and promoting business formation, it is vital that financial capital be expanded to help underserved communities overcome one of the structural barriers that impede them from fully prospering.

Exhibit 8: Venture Backed Founders by Race/Ethnicity/Gender



Source: RateMyInvestor and DiversityVC.

Venture funds are a possible solution to reduce some of the difficulties with capital allocation. Some venture funds seek to support entrepreneurs and businesses from underserved communities with access to capital. An example of such a fund is Collab Capital: a $50 million fund that seeks to help Black owners build sustainable businesses. Collab Capital creates growth solutions for Black founders seeking capital and for those, "who value profitability, ownership, and optionality."[114] Similar financial ventures include Elevate Capital, 1863 Ventures, and CNote, who all invest to support businesses and entrepreneurs of color.

It is important to mention that some investment firms have been contributing to these types of venture funds. For example, Bank of America recently invested in three California Minority Deposit Institutions: Vamos Ventures, a Los Angeles Latinx venture capital fund; Serena Ventures, a San Francisco-based venture capital fund; and Broadway Federal, a Los Angeles based minority-owned financial institution.[115] These investments underscore Bank of America's ongoing efforts to expand capital for minority-led businesses.[116] Among other major firms that have undertaken similar initiatives include Goldman Sachs [117] and Citigroup.[118] Through these types of funds and partnerships, investors can help expand access to capital and allocate it more appropriately to empower minority-led businesses and entrepreneurs of color.

In our society, business ownership and entrepreneurship are pathways for communities of color to accumulate wealth. Nationally, the median net worth of Black and Latinx business owners is more than **ten times** higher than their peers who do not own a business.[119] In addition, Black entrepreneurs have a net worth that is **twelve times higher** than peers who work for an employer.[120] Such data is proof of why it is necessary to support minority-led businesses and entrepreneurs of color by making access to capital more accessible. This is imperative in narrowing the gap between the haves and have nots, ensuring a pathway to the kind of change that can transform entire communities and increase the chances for financial stability.[121] Although investing in minority-led businesses is a socially responsible move, it is also an economic necessity. Minority businesses generate more than $400 billion in annual revenue and actively employ more than 2.2 million people. Additionally, they contribute close to $49 billion in local, state, and federal tax revenues.[122] By investing in minority-led businesses, investors have the potential to create more jobs and promote business formation in a manner that can generate returns and revitalize marginalized communities. This will not only steer our economy in a better direction, but it will also create new opportunities.

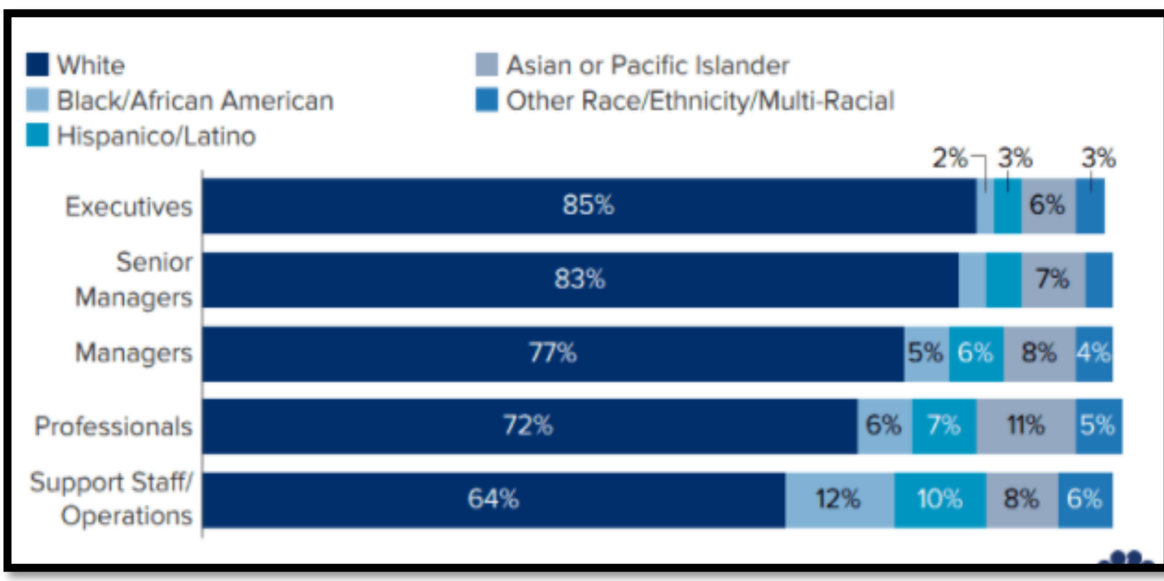
Engage with Portfolio Companies

A key area in broadening wealth is to begin to address the inequities that currently exist for underrepresented groups, who are most impacted by the wealth gap in the corporate structures of this country. Large shareholders in investment and wealth management firms are in a powerful position to address many of these inequities by engaging with their portfolio companies through proxy voting and using other shareholder engagement processes. For example, one critical element has been the push to improve the racial and gender diversity of the boards and leadership of many companies. By increasing diversity, differing perspectives on how to broaden wealth will be introduced and, potentially, actions taken to address wealth inequality. In addition, there are other ways that large shareholders can encourage portfolio companies to address this issue, which will be discussed below. These actions are all based on the underlying belief that mitigating wealth inequality, especially in underrepresented groups, will have a positive economic impact on our economy and the performance of the companies in a firms' portfolio.

Diversity

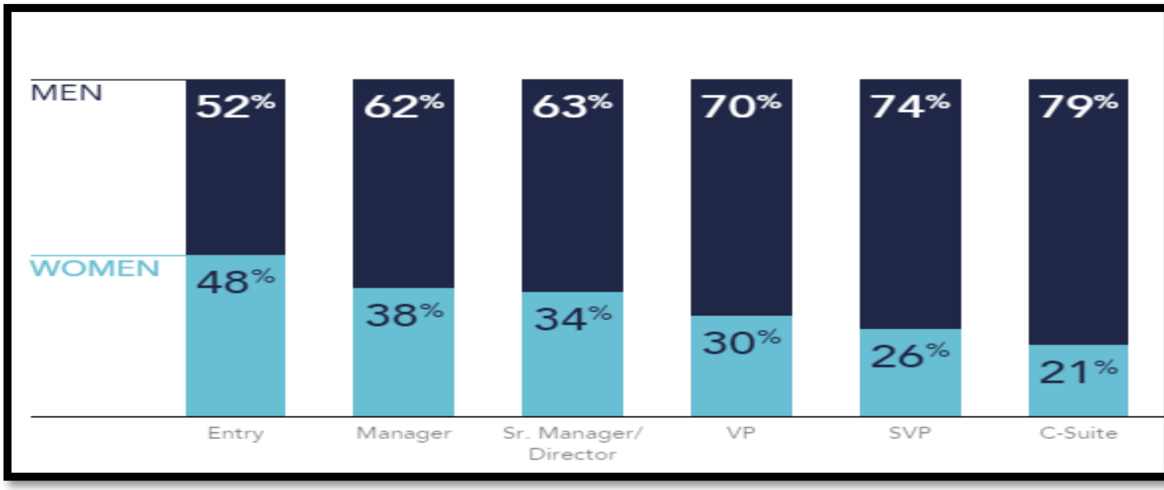
In recent years, companies have been facing more pressure from shareholders to enhance their diversity efforts. This pressure is necessary, as non-white individuals and women are underrepresented at every career level above the support staff level when compared to their representation at their general population. (Exhibit 9)[123] This is especially seen as each career level progresses, with most of the positions being dominated by white men. (Exhibit 10) [124] Here, proxy voting in favor of diversity-based proposals, such as those that propose expanding boardroom and employee representation, is essential in promoting diversity across different career levels. This can broaden wealth because if more underrepresented groups were placed in positions above the support staff level, they would earn higher salaries, as salaries generally increase with greater career level.[125]

Exhibit 9: Distribution of All Employees by Race, Ethnicity, and Career Level



Source: Mercer, United States Census Bureau.

Exhibit 10: Distribution of All Employees by Race, Ethnicity, and Career Level



Source: Lean IN 2019 Study Findings.

It is important to mention that firms have used engagement and proxy voting to encourage diversity initiatives within their portfolio companies. Boston Common Asset Management is a great example of how even smaller firms can use their leverage as shareholders to promote representation across genders and races within their portfolio companies. **(BCAM proxy voting guidelines)**

Although diversity initiatives vary for different firms, studies have found higher diversity levels can improve a company's performance. According to the McKinsey study "Why Diversity Matters," companies within the top quartile of gender-diverse executive suites were 15% more likely to generate above-average profitability than the bottom quartile of companies. Furthermore, the study found companies with higher degrees of racially and ethnically diverse employees had a 35% performance advantage over companies counting on a "culture fit" that tended to be white and monocultural.[126] Because data shows diversification is connected to performance, more shareholders should positively consider diversity-related proposals. This will help companies maintain their competitiveness and it can broaden the wealth of underrepresented groups.

Other Shareholder Initiatives

Aside from proxy voting on diversity-based proposals, shareholders should also consider other initiatives that can address the wealth gap. These could include assessing studies of executive compensation and racial equity audits. We acknowledge these are controversial issues, and that many firms do not believe that they are uniform or effective solutions to address wealth inequality. But they are being proposed by shareholder groups, and we do believe they are important to take into consideration, especially because they are connected to some of the attributes that have exacerbated wealth inequality. For example, the average CEO to worker compensation has been rising. According to the American Federation of Labor and Congress of Industrial Organizations, the gap between the salaries of CEOs and their workers grew wider in 2020, with the average CEO of an S&P 500 company making 299 times more money than the median employer from 2019.[127]

Investment and wealth management firms who integrate impact and ESG criteria into their investment processes should examine whether these differences are further exacerbating the problems they seek to solve. Most recently, Starbucks shareholders rejected a proposal that would have increased its CEO's compensation. We encourage this engagement and see this engagement as setting an example of the type of equitable environment that more firms should seek to create. Because many firms want to address wealth inequality, they must first engage in whether compensation should be allocated more equitably within their walls. Not only can this be influential in improving worker morale and productivity, but it can also broaden wealth for employees who are not at the executive level.[128]

Aside from examining executive compensation, assessing the impact of racial equity audits can allow firms to reduce some of the gaps that have exacerbated wealth inequality. According to the SOC investment group, conducting racial equity audits will allow firms to "identify, prioritize, and remedy the adverse impacts of their policies and practices on stakeholders and communities of color." **(Letter to Shareholders of JP Morgan Chase)**[129] Most recently, BlackRock announced it was launching a racial equity audit at the request of a shareholder. Additionally, companies that have conducted them include Facebook, Airbnb, and Starbucks. All three companies have conducted racial equity audits, and in the process, they were able to identify areas of improvement for their policies. Holistically racial equity audits are controversial, with many companies believing that conducting them is not the most appropriate way to move into action. However, as we have said earlier in this Opinion Snapshot, the dialogue is, at the very least, a forcing mechanism to focus on the diversity issues that we must address. This is why shareholders should carefully examine racial equity audit proposals, depending on the circumstances of their portfolio companies. This is important because taking some of these steps can help push diversity issues forward and can help promote growth for our country by mitigating some of the gaps between groups. According to a report by Citigroup, the U.S. could gain $5 trillion more of economic activity over the next five years by ending the various gaps between Black and white Americans.[130]

Overall, we acknowledge that different investment and wealth management firms have taken different stances on these issues. These include those we have just discussed and those that reside within the "S and G" of ESG. What we wish to assert is that, by engaging with portfolio companies, shareholders have the power to promote better practices that can benefit society in the long run. We advocate for shareholders to continue to use their leverage to improve firm practices to address some of the inequities unrepresented groups face today. This can help broaden mainstream wealth and stimulate economic growth for our country.

Increase Access to Saving, Advice, and Investing

Firms can help mitigate the wealth gap by increasing access to financial services. Several have found innovative ways to broaden the number of people who utilize their services – as has been demonstrated in the cases mentioned below. These examples are not an exclusive list but were chosen to reflect a small variety of initiatives that seek to increase access to savings, advice, and investing to many below the median wealth level, and to foster commercial success over multiple time frames.

Financial Technology

For years, opportunities to save, receive financial advice and invest have been seen as unattainable for lower wealth Americans. As an example, only 10% have of Americans have received financial advice at some point in their lives.[131] Making these services more accessible is critical for closing the wealth gap over the long-term. Access will lead to an increase in the number of people with savings, who can then receive advice and ultimately invest to receive the benefit of compounding. This will result in a larger pool of potential investors and clients: a win-win scenario. It is not only beneficial from a moral standpoint, but it is also an excellent way for wealth and investment firms to grow revenues and increase their profits in the long term. One of the best ways firms can achieve this goal is to embrace the increasingly digitized society through financial technology or "FinTech."

There are several different types of technology that operate through apps one can download via Apple's App Store or the Google Play store. An example is Acorns: a micro-investing service that became known because they allow users to "round up" their purchases and reinvest the additional amount.[132] For as little as $1 a month, users can have their spare change invested into a taxable investment portfolio full of diverse ETFs – automatically.[133] Since its launch only seven years ago, Acorns has garnered approximately nine million users and manages over $3 billion in assets. This is a testament to the significance of this market.[134]

The use of financial technology has already been seen to impact the wealth gap dramatically. A study conducted in 2019 found a strong correlation between the use of financial technology in a given country and a decrease in the wealth gap.[135] It also found that a 18% to 23% decrease in the wealth gap was associated with a one-point increase in the usage of fintech in a country.[136] While most Acorns' users have account balances under $100, larger banks, as well as wealth and investment firms, recognize the power of increased access and have stepped up to provide fintech options for a broader array of people.[137] Within the last five years, Goldman Sachs and Vanguard have each introduced several of their own FinTech options, which have proved to be successful in improving access, and increasing revenues. These findings underline how firms could create programs to increase access to financial services, as we believe it will come back to benefit them in the long run.

Emergency Savings: BlackRock Partners with Commonwealth

The recent COVID-19 pandemic has gone to show just how important financial security is. According to research done by BlackRock, almost half of Black Americans have tapped into their savings to make up for lost income due to the pandemic, as compared to only 30% of white Americans.[138] In addition, Americans with an emergency savings account were found to be half as likely to tap into their retirement due to lost wages.[139] This underlines the importance of making the possibility of having an emergency savings account more accessible, especially seeing how it disproportionately affects lower-income people of color.

In 2020, BlackRock created its philanthropic $50 million Emergency Savings Initiative, which aims to increase access to low-cost, low-risk savings options for low to moderate-income Americans.[140] BlackRock partnered with Commonwealth, a Boston-based nonprofit whose national mission is to build financial security and opportunity for financially vulnerable people, as well as several Fintech firms and retirement providers. The idea is to make it easier for people to save for emergencies through their workplace. Efforts like this are incredibly important, as they focus on fixing short-term issues caused by the pandemic and will go on to create long-term economic stability: a crucial part of closing the wealth gap. Over the course of the last year, several corporations, such as UPS, Voya, Best Buy and ADP, among others have joined the BlackRock Initiative.[141] This sets an example for how investment managers can innovate to increase access to save and invest.

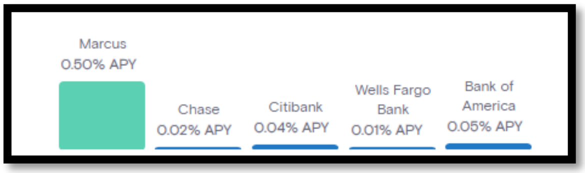
This is just one example of Commonwealth's partnership initiatives, as it partners with many other firms, including JP Morgan and many FinTech firms.[142] We encourage other wealth and investment managers to partner with nonprofits such as Commonwealth to increase access to financially vulnerable people.

Increase Access to Traditional Savings: Marcus by Goldman Sachs

Goldman Sachs has been investing in financial technology to provide greater access to savings. Marcus – an online banking platform, was introduced by Goldman Sachs in 2016.[143] While many brick-and-mortar banks like Bank of America and Chase offer mobile banking apps as well, Marcus does not offer checking options or ATMs. Rather, it focuses on savings accounts, loan servicing, and financial advisory.[144] Marcus was created to work as a savings and investment tool alongside one's primary bank.[145]

Marcus differentiates itself by its savings account options, which yield almost four times the national average.[146] Its current APY is 0.5% which is high when compared to 0.05% or even 0.02% from more traditional banks, as seen in Exhibit 11.[147]

Exhibit 11: Marcus' APY as Compared to Other Consumer Banks



In addition to offering a comparatively high return on investment, Marcus does not require a minimum deposit amount or minimum balance, setting them apart from many other high-yield online savings options. There are no fees associated with opening an account, account maintenance, transactions, or service.[148] Marcus also offers a no-penalty CD which is perfect for new investors who may be concerned with the possibility of incurring large fees if they had to remove their money early.[149] Lastly, Marcus includes easy access to loan servicing that has been highly rated by the J.D. Power Association.[150]

In the long run, as the world becomes increasingly digitized, cutting the costs of financial services mitigates the wealth gap. By allowing easier access for younger investors who do not benefit from generational wealth, firms will see that as their services help them early on, the pool of Gen Z investors will increase over the next 50 years. This will make way for a larger pool of investors who can utilize these investment firms' other services. However, Goldman Sachs did not have to wait for the long run to reap the benefits of Marcus. Marcus was initially developed as part of a plan to reduce the firm's reliance on volatile investment banking revenue and volatile trading by expanding the firm to include consumer banking options: a predictable source of income.[151] The service's revenues increased 40% from 2019 to $1.213 billion and, "generated $347 million in revenue in Q4, a 52% increase over the same quarter year prior."[152] In addition, Marcus' deposits are projected to exceed $124 billion by 2024.[153]

Increase Access to Financial Advice: Vanguard Personal Advisor Services

Considering the trials and tribulations that came with trusting either a fee-based or flat rate financial advisor, many investors began looking for a modern solution that allowed them access to hands-off yet trustworthy advice with a human touch.[154] However, after developing fintech solutions, firms like Vanguard quickly found that providing easier access to financial advice not only satisfied existing clients but lowered the barriers to entry for new investors who could afford the new, more competitive, fees and account minimums.

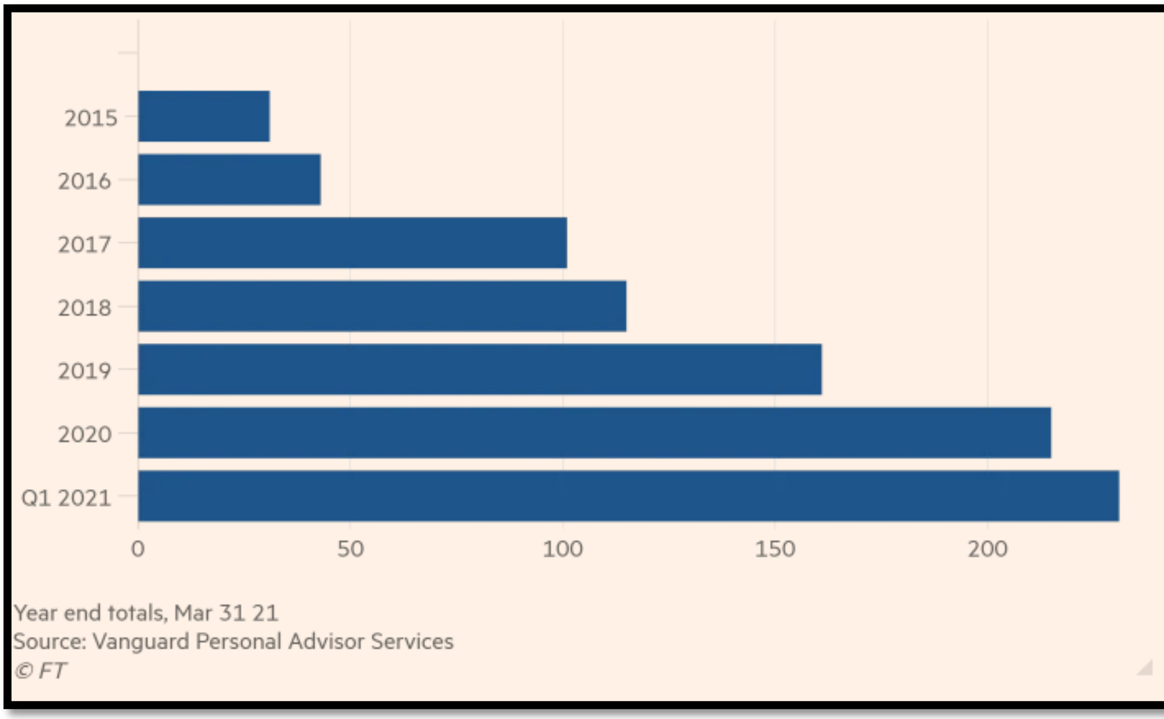
In 2015, Vanguard rolled out its first hybrid robo-advisor.

Vanguard Personal Advisor Services (VPAS).[155] After creating an account, applicants are asked to respond to a series of questions regarding their demographics, goals, asset values, risk tolerance, and experiences. An algorithm then uses their responses to curate a portfolio of Vanguard's funds, ETF's, mutual funds, and stocks.[156] While the most difficult part is completed by the software, the applicant also can speak with an advisor – mostly CFP's – over the phone before completing the process.[157]

While VPAS does require a minimum balance of $50,000, this is low compared to most non-tech based financial advising services, many of which require a minimum of seven figures.[158] The total annual fees per $50,000 are only $158,[159] given that their advisory fees are extremely competitive at 0.3% for portfolios with assets below $5 million, and 0.2% for those above this threshold (paid quarterly).[160] For an account with $50,000, that would come out to only $12.60 monthly, which is extremely competitive compared to the industry average of 1%.[161] Clearly, as stated by Greggory Warren, a Morningstar financial strategist, "Vanguard in some respects thinks there is enough low-hanging fruit among investors with less than $500,000 in assets."[162] The mix of a streamlined process via the app, the ability to connect with an advisor over the phone and low fees opens the possibility of attaining financial advice to a larger group of people.[163]

By increasing accessibility, services like VPAS could decrease the wealth gap by allowing more people to receive advice and financial planning, increasing their ability to save for retirement, and hopefully pass down assets to their children and grandchildren, creating the next generation of investors who will go on to re-invest at firms like Vanguard. A firm's investment in closing the wealth gap through increased accessibility using financial technology will create a larger pool of future investors at these same banks, increasing their profits in the long run. According to Jon Cleborne, head of VPAS, their investment in the program has led to ". . . a very significant capital allocation within the firm," which has already been seen to pay off in the short run as seen in Exhibit 12 below.164

Exhibit 12: Vanguard's PAS Earnings by Year



Vanguard has gone on to develop a second, fully digital, financial advisory app in 2020: Vanguard Digital Advisor Review.[165] Unlike VPAS, its minimum account balance is only $3,000, further expanding the opportunity to invest.[166] In 2021, Vanguard also saw nearly double the growth they did around the same time in 2020.[167] Since expanding into the United Kingdom in 2009, Vanguard has added around 280,000 new clients.[168] In the last year alone, they have been able to add 100,000 more.[169] According to the UK's Financial Conduct Authority, under 10% of adults have been able to obtain financial advice, but with the growth already witnessed from expanding accessibility, this number is expected to grow significantly, displaying the true benefit of investing in the wealth gap for the next generation, as well as investment firms.

Increase Access to Retirement Savings: AUTO IRA's

The ability to save for retirement has long been part of "The American Dream," but the reality is that many Americans cannot afford to do so without employer-sponsored plans. According to Brookings, only 30% of the lowest paid workers have access to these plans, while almost 90% of the highest paid workers do – evidence of the wealth gap within the United States.[170]

Automatic Individual Retirement Accounts (Auto IRAs) function as state sponsored retirement plans for employees whose employers do not offer retirement plans such as 401(k)s. Employees are automatically enrolled in these programs and a small percentage of their salary is automatically withheld and placed into an investment account, starting them off to saving and investing. They are also given the opportunity to opt out of the plan and change their contribution rate.[171] A beneficial feature of Auto IRAs is that they are transferable, so if an employee changes jobs, their savings will follow them.

The concept of a plan that allows lower-income workers to have automatic enrolment into an IRA is an innovative idea that has already proven to be effective. Few states have already implemented these, with Oregon's being the first state to do so in 2018. In Oregon 70% of employees have chosen to remain in the program, with 66% of them being between 35 and 44 years old.[172] Other states who have implemented Auto IRA's include Illinois and California who have required employers to have a minimum number of employees to be eligible. While these requirements vary for different states, states such as Oregon have been able to remove this requirement as seen in Exhibit 13 below.[173]

Exhibit 13

	CalSavers	Illinois Secure Choice	OregonSaves
Rollout period	2019-2022	2018-2020	2017-2021
Employer requirement	5+ employees.	2+ years with 25+ employees.	All employers.
Default employee contribution rate	Auto-escalation to 8%.	No auto-escalation.	Auto-escalation to 10%.
Employers	1,127	2,527	6,038
Workers with assets	43,376	71,568	74,333
Total assets (millions)	$14.5	$35.8	$69.2
Recordkeeper	Ascensus	Ascensus	Ascensus
Investment manager	State Street Global; Newton Investment Management North	BlackRock; Schwab; State Street Global	State Street Global
Investment consultant	Meketa Investment Group	Segal Marco	Sellwood Consulting
Administrative consultant	AKF Consulting	Segal Marco	Segal Marco

Overall, Auto IRAs will increase the wealth of lower-income workers who are less likely to have a retirement account—which will reduce the wealth gap. Investment and wealth firms can support these initiatives because it will benefit them over time, as compounding interest will provide gains for both sides, with many of these Auto IRA's transferring into wealth and investment firms. Additionally, it will increase the number of investors who invest with them – research from the National Bureau of Economic Research has shown that enrollment in Auto IRAs has significantly increased investment participation among young, minority, and lower-income workers.[174] Increasing access to retirement plans for lower paid workers would allow them to have more disposable income after retirement, which they could use to invest even more. Auto IRA's that are managed by these firms can generate additional revenue, while at the same time combating the wealth gap by providing retirement plans to lower income workers.

The section on Auto IRA's could have also been included in the Policy section, as there is legislation in Congress which would mandate that almost all companies offer Auto IRA's or retirement plans. Chairman of the House Ways and Means Committee Richard Neal (D. MA) proposed the legislation in 2017 and released a discussion draft of the Automatic Retirement Plan Act for reintroduction in 2020.[175] However, we included it in the Products section, given the existence of the State Auto IRA plans, and the ability of investment and wealth firms to support these initiatives to broaden saving and investing.

Conclusion

Wealth inequality has increased over the last two decades. This issue does not only affect those on the wrong side of the wealth divide, but also the entire population. The widening of the wealth gap has weakened our economy by slowing economic growth and action should be taken now to mitigate it over the coming decades. We believe that investment and wealth management firms can make a disproportionate, positive impact on mitigating wealth inequality and that present action will enhance the future success of firms across the financial services industry. As students looking to enter the industry, we want to build a sustainable future with these firms. For us to do so, we encourage firms to continue to look beyond short-term earnings and consider the future costs of wealth inequality. As we have highlighted above, firms can do this through investing in underserved communities, using their shareholder leverage to improve corporate practices, and increase accessibility for savings through fintech and Auto IRAs. Aside from these business process changes; firms can also engage on and seek to improve some of the possible governmental solutions that are being proposed to narrow the wealth gap. These could include student loan debt forgiveness, Social Security reform, and even a more unique program such as Baby Bonds. Perhaps most importantly, firms can also put their commitment to action into their purpose or mission statement. Gen Z students wish to work within firms that are engaged in this mission, and we are open minded about potential solutions. We look forward to working with you to help continue to grow the industry well past 2040.

Author's Note

This Opinion Snapshot is intended as a high-level examination of wealth inequality in the United States, its impact on wealth and investment management, and examples of actions that can be taken by firms to help address this issue. We do this based on our interest in becoming part of these fiduciary industries, and our belief that the broadening of wealth in the U.S. will benefit not only those whose wealth increases, but also the firms that manage and provide advice on that wealth, and our country as a whole. This relatively short Opinion Snapshot cannot possibly cover all of these issues in great depth, as they are all very complex, nuanced and controversial. There are many papers from serious organizations on all sides of the issues, that go into great depth, and we have cited many here. What we hope to do is different - which is to raise issues and ask questions from our generation's perspective. We seek to make us all think differently about wealth inequality - and raise important questions that hopefully we can begin to address together as we begin this new era in our country. We would like to thank Professor Geoffrey Sanzenbacher of Boston College, Timothy Flacke of Commonwealth and Ally McDonald of Boston Common Asset Management for meeting with us and providing invaluable guidance.

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