ECONOMIC INNOVATION GROUP

The American Worker Project

Wealth inequality, market access, and a new plan for American workers

Pavel Brendler & Moritz Kuhn

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Data on household finances shows that *high-income* households tend to become *high-wealth* households. That's no surprise. Making more money means it is easier to save more money.

Perhaps more surprising is that high-income households also accumulate more wealth *per dollar of income earned*. In other words, differences in income don't explain the whole discrepancy in wealth between high-income and low-income households.

What factors might therefore be responsible for the *income-adjusted* wealth inequality between households that earn more and those that earn less?

That is the question we seek to answer in our new research.[1]

One common assumption of the existing research on household savings is that there is a level playing field for wealth accumulation.[2] That all households who want to enter asset markets — by buying a house, for example, or starting a retirement account, or investing in a business — can do so. If this assumption holds true, then access to these options is the same regardless of income.

Our new analysis interrogates this very assumption, studying the differences in asset market access as a driver of differences in wealth accumulation.

We find that low-income households face worse opportunities for wealth building in the form of home equity and retirement accounts than their well-off counterparts. Specifically, worse access to these asset markets ends up excluding low-income households from accumulating wealth via appreciating house prices and a rising stock market.

In the second half of our analysis, we estimate the effects of the Retirement Savings for Americans Act (RSAA), a bipartisan proposal to improve access to retirement plans for workers whose employers don't offer them. We conclude that it would be a low-cost policy that would benefit low-income households, and that the earlier it becomes available in a worker's career, the bigger the benefit.

Income and Wealth Accumulation

Using data from the *Survey of Consumer Finances* (SCF),[3] we decompose total household wealth into three main components:

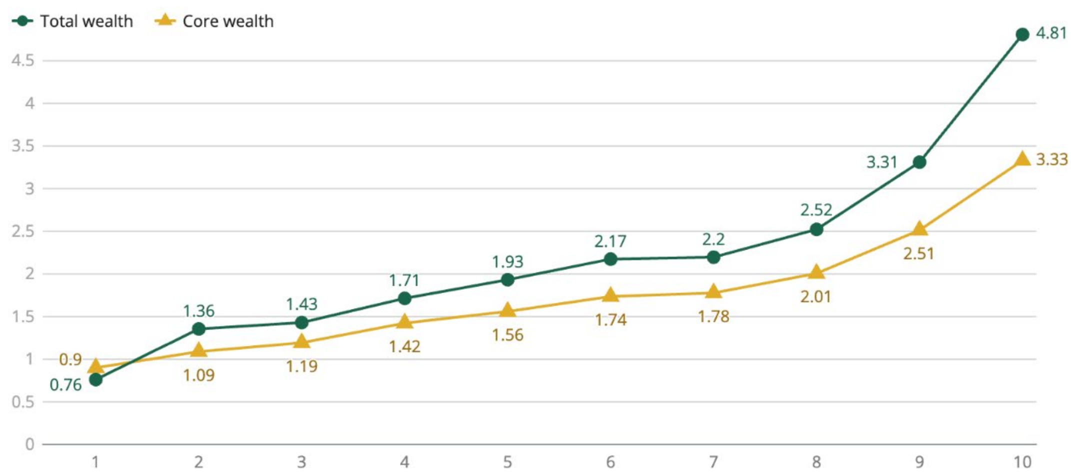
- home equity, the value of the house net of all debt on the house,
- defined contribution retirement plans, and
- private businesses.

These three portfolio components account for 70 percent of U.S. household wealth, and together make up what we call "household core wealth."[4]

In Figure 1, we show the wealth-to-income ratio (for both core and total wealth), which is the ratio of household wealth relative to a household's annual income, for ten income groups (deciles). Each income group represents 10 percent of U.S. households.

Figure 1: How does a household's wealth-to-income ratio vary by household income decile?

Wealth-to-income ratios increase with income, meaning high-income households accumulate significantly more wealth per dollar of income.



Wealth-to-income ratios by income decile based on 2011-2019 SCF data.

As is clear, the wealth-to-income ratio increases with income, confirming that high-income households accumulate significantly more wealth per dollar of income.

Whereas a household in the bottom 10 percent of the income distribution has wealth equal to roughly one times its annual income, a household in the top 10 percent of the income distribution has almost five times its (substantially higher) annual income. We find a matching pattern for core wealth: On average, households in the top 10 percent of the income distribution have almost 3.5 times their annual income in terms of core wealth.

The Role of Asset Market Participation

What accounts for the fact that the wealth-to-income ratio rises for each higher income decile? We consider two possibilities, which are not mutually exclusive.

The first possibility is that high-income households are *more likely to save and participate in asset markets* than low-income households, possibly because they have better access to these asset markets. This is known as the extensive margin.

The second possibility is that high-income households save and invest *more of their income* in each asset market than low-income households. The returns from these assets lead to the greater wealth accumulation for the high-income households. This is known as the intensive margin.

In plain English, do high-income households accumulate more wealth for each dollar they earn because they have an easier time accessing (participating in) asset markets like housing, retirement accounts, and private businesses? Or is it because they simply save and invest a greater share of the money they earn in each of those asset markets? If it is some combination of both, which is more important?

We again turn to the data in the Survey of Consumer Finances. What it shows is that higher participation rates (the extensive margin) are responsible for most of the gap — in other words, low-income households are not investing in the main asset types.

As is clear in Figure 2a, participation in asset markets for home equity, retirement accounts, and businesses increases *dramatically* with income. Participation in retirement accounts and home equity markets increases by roughly a factor of five from the lowest to the highest income deciles.

On the other hand, the wealth per dollar of income for households already participating in these markets (the intensive margin, shown in Figure 2b) lacks the same consistent positive correlation. In fact, the correlation is negative for home equity, meaning that higher-income households invest a smaller share of their income in housing than lower-income households.

Figure 2: Extensive margin and intensive margin for three main portfolio components by income decile

2a: Participation, Extensive margin *2b: Wealth-to-income, Intensive margin*

This highlights that a key driver of wealth inequality is whether households participate in asset markets.

But why are high-income households more likely to participate? If the playing field is truly level, with access to asset markets evenly spread across income groups, then why do participation rates vary by income.

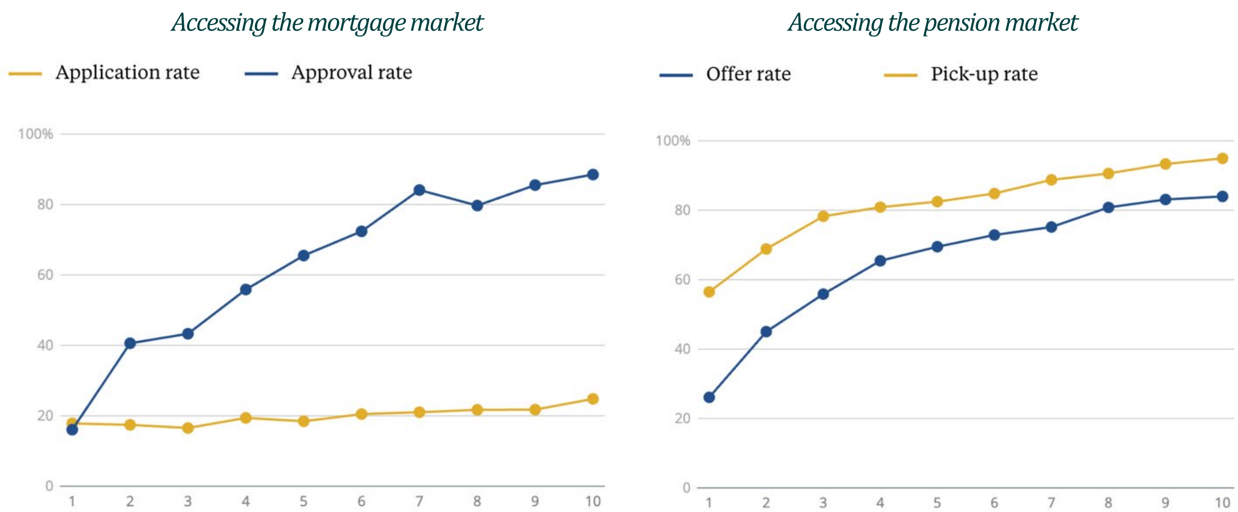
Do asset markets offer an equal playing field for wealth accumulation?

To get beneath the topline numbers, we need to find out if households typically do not want to participate in the housing market or in employer-sponsored retirement accounts, or if they are lacking opportunities to do so.

In the Survey of Consumer Finances, households are asked if they applied for a mortgage within the last 12 months and, if they did, whether the mortgage application was approved. The left panel in Figure 3 shows that, on average, one out of five American households applied for a mortgage with very different approval rates. Whereas only one out of five mortgages is approved at the bottom of the income distribution, almost nine out of ten mortgages are approved at the top of the income distribution.

Taking mortgage approval as the entry ticket to the housing market, these estimates of market access by income align closely with the documented differences in asset market participation by income (from the left panel in Figure 2 above).

Figure 3: Asset market access to the housing and pension market by income decile



The right panel of Figure 3 shows the corresponding results for employer-sponsored retirement accounts. The SCF respondents are asked if their employers offered them a retirement plan and if they are eligible to participate (offer rate). If they answer that they are eligible, they are further asked if they took the offer and participated in the plan (pick-up rate).

For those with the lowest income, roughly one out of five workers has access to an employer-provided retirement plan. For the highest income workers, more than four in five have access.

How does access and the decision to participate in the mortgage and pension market differ across income?

In the mortgage market, the application rate is largely independent of income.

For retirement plans, the bottom decile has a pick-up rate of about 60 percent on an already low offer rate, whereas the top decile has a pick-up rate of 90 percent. This translates to an increase in participation of 50 percent.

Our findings provide direct evidence that there is no level playing field for wealth accumulation: low-income households have less access to the two main asset markets for wealth accumulation.

Building Wealth Through Access: A Model Framework

In October 2023, the Retirement Savings for Americans Act (RSAA), a bipartisan policy to improve access to retirement plans, was introduced. The goal of the Act is to improve access to retirement plans for low-income Americans who currently lack employer-provided retirement plans. The Act proposes to offer a government retirement plan for all workers whose employers do not offer retirement plans to their employees.[5]

To explore the consequences of such a proposal on wealth building, we rely on a newly developed model framework that focuses on asset market participation for wealth building. We use this newly developed framework as a quantitative laboratory to study the consequences of differential access to retirement accounts and mortgage markets on wealth building. (See the Appendix for more details on our model of life-cycle wealth accumulation.)

The new quantitative model framework is ideally suited to explore the consequences of the RSAA for the wealth building of U.S. households with different incomes.

The Act includes two key provisions:

- Providing government retirement plans to all workers who lack employer-sponsored options, thereby addressing the missing access to retirement savings identified in our empirical analysis.
- Subsidizing these plans for low-income individuals without access to employer-sponsored options to incentivize their participation in the government plans.

We focus on these two main provisions and measure their effects in a simplified form within the modeling framework.

One important aspect of the policy that we include and quantify in our analysis is that access to pension plans also means that workers become *investors* in financial markets.

As investors, they receive capital income from interest payments and dividends, but more importantly they also benefit from a growing and prosperous U.S. economy when stock prices or house prices rise.

As we have shown in other research, rising asset prices have been one of the key drivers of U.S. household wealth accumulation in recent decades.[6] Better access to the retirement market under the RSAA therefore means workers have the opportunity to earn additional income and capital gains. These gains further contribute to the wealth accumulation of low-income households.

To quantify the gains from early access to the retirement plans, we decompose the worker's total contributions to the retirement plan into two components:

- Government contributions, which represent the *direct fiscal cost* of providing a government-sponsored retirement plan to a worker.
- Workers' own contributions, employer contributions (if any), and accumulated capital gains.

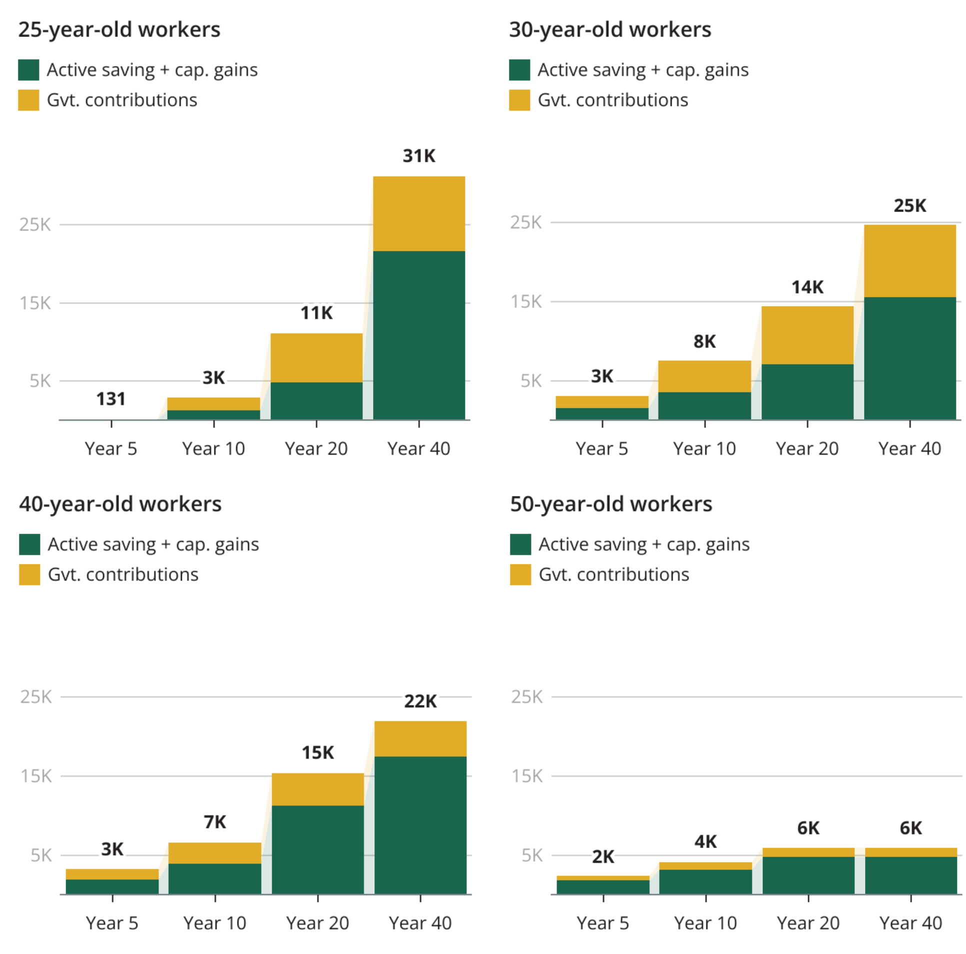
The RSAA's Impact on Wealth Accumulation by Age

We start our analysis by studying how the policy affects pension wealth accumulation across different age cohorts. We specifically focus on four age groups: workers aged 25, 30, 40, and 50 in 2024.[7]

We present results for an average American worker in each age group.[8] Our model captures the extent to which the policy enhances wealth accumulation *beyond* the savings patterns that prevail in the absence of the policy.[9]

Figure 4 illustrates the total change in retirement wealth for workers depending on the duration of the policy. For example, the top-left panel shows the wealth impact for the average 25-year-old worker up to 40 years after implementation, while the bottom-right panel reflects the impact of up to 40 years post-reform for the average 50-year-old worker in 2024.[10] All amounts are expressed in 2024 U.S. dollars.

Figure 4: Change in wealth by worker's age in 2024



Several interesting patterns emerge from the figure.

First, workers across all age groups build more wealth over time thanks to the RSAA. Even in the short run, the benefits of the reform are already substantial for most households.

Just five years after the reform, retirement wealth rises by around $2,300 for workers in their fifties and by about $3,200 for those in their forties. Meanwhile, younger workers see little immediate impact, as they are earlier in their careers. Over time, however, the benefits grow significantly, especially for those who were young when the policy was introduced.

Forty years after the reform, wealth increases by an inflation-adjusted $31,200 for the average 25-year-old worker in 2024 — above and beyond what the worker would have accumulated in the absence of the RSAA — compared to $21,900 for workers who were middle-aged at the time and are now retired.[11] Only part of the additional accumulated wealth of the 25-year-old worker will come from government subsidies, and the largest part is her own contributions and investment returns in financial markets.

Second, in the early years following policy implementation, government contributions make up a large share of the increase in retirement wealth for young and hence typically-lower-income workers (top-left panel). This is generally true for workers before age 40, many of whom qualify for the government base contribution and the co-pay. Over time, however, their wealth increasingly grows through capital gains, which gradually becomes an important driver of savings growth. Young workers who entered the market early benefit the most from investment returns (right bar in top left panel).

This shift highlights how the policy moves from offering direct government support to fostering market-driven wealth accumulation, supporting the long-term sustainability of its impact.

When it comes to pension plan enrollment, we find that the policy has only a minimal effect on participation in employer-sponsored retirement plans. Workers who have access to employer-sponsored plans are not eligible for the new government plan, so there is no notable crowd-out for employer-sponsored retirement plans.[12] The main impact of the policy is to give workers who otherwise would have no access to retirement savings the opportunity to enter the pension market.

These insights carry important policy lessons.

- An uneven playing field provides a consistent explanation for the observed differences in wealth accumulation of households with different incomes, as documented above.
- The lack of access to employer-sponsored retirement plans remains a real barrier to building wealth for low-income households.
- The Retirement Savings for Americans Act can help close that gap.
- While RSAA cannot immediately fix low wealth accumulation, it provides the entry ticket to life-cycle wealth accumulation, which also means it has to stay in place long enough to transform retirement outcomes over the long run.

Zooming in on Young Workers: The Policy's Impact Across Income Levels

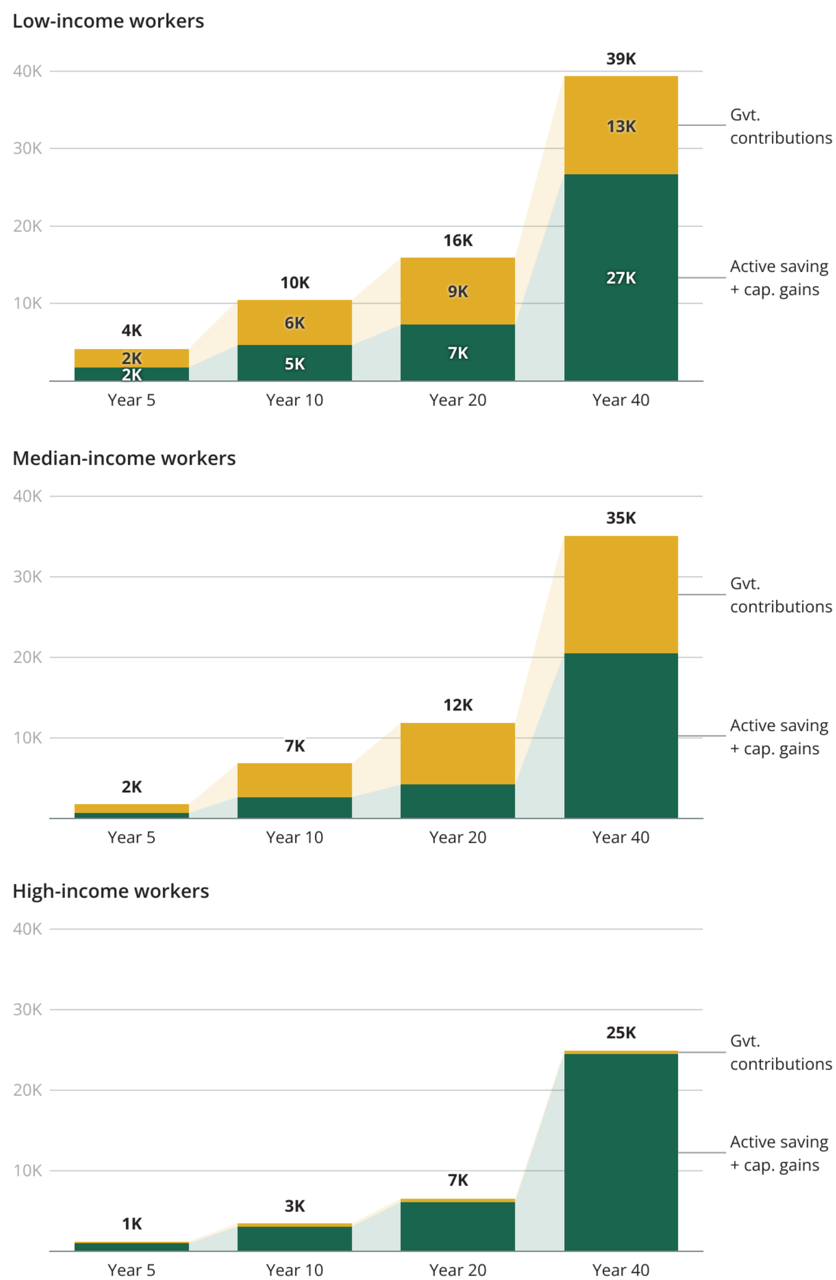
While the previous section focused on a representative worker from a birth cohort of American workers, we now turn to examining how the Retirement Savings for Americans Act affects workers within a single cohort based on their labor market situation.

To assess how the policy affects different income groups, we focus on a sample of young workers aged 25 to 30 in 2024. As shown above, younger workers benefit the most from the reform over the long term. Within this group, we consider workers in three different labor market states when the reform is implemented in 2024.

We consider a low-income worker at the 25th percentile of the 2024 income distribution, a median income worker, and a high-income worker at the 75th percentile of the 2024 income distribution. We track changes in the average evolution of their wealth over time — specifically at 5, 10, 15, and 40 years after the reform.

Figure 5 shows the results. All three income groups benefit from the policy, both in the short term and the long term. The median-income worker's retirement wealth grows by an additional $1,760 five years after the reform to $35,100 after 40 years. Low-income workers see even greater gains, accumulating an additional $39,360 after 40 years. In contrast, high-income workers experience smaller gains, reaching $24,900 of additional wealth from the reform over the same period.

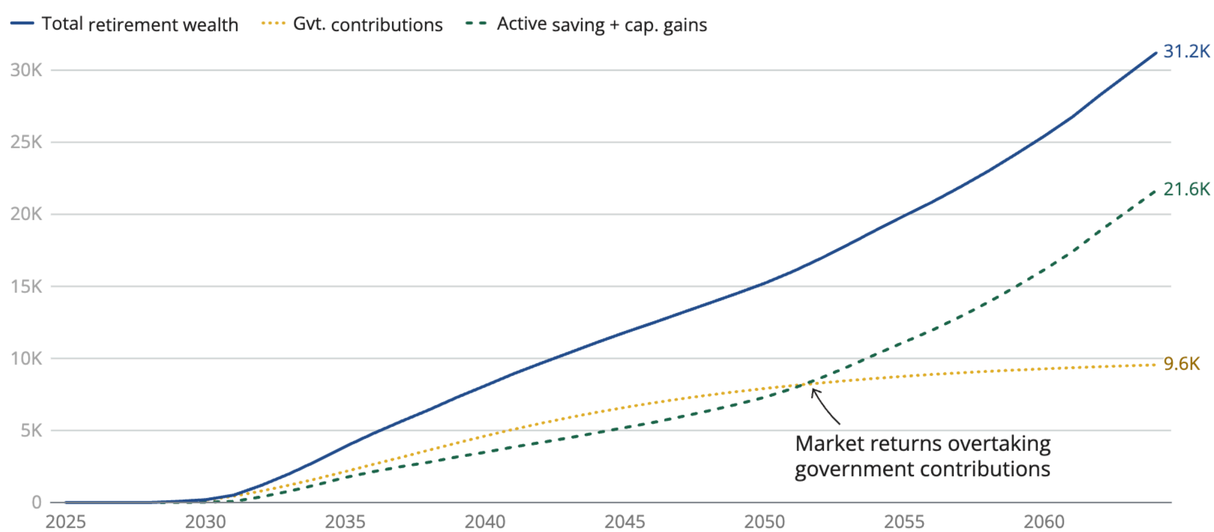
Figure 5: Change in wealth for workers aged 25-30 in 2024, by income



Again, these retirement wealth gains are relative to the savings outcomes these workers would have otherwise accrued in the absence of RSAA. The smaller gains for the high-income workers reflect the fact that they already have good access to retirement savings options even without the policy. Their employers typically offer retirement plans, so the Act has less of an impact on their overall wealth accumulation.

To illustrate the importance of providing early access to retirement savings, Figure 6 follows a representative 25-year-old worker starting in 2024, the assumed year of RSAA enactment. The figure tracks how retirement wealth accumulates over time, distinguishing the part of accumulated wealth from government contributions and private contributions plus capital gains.

Figure 6: RSAA effect on pension wealth accumulation for an average 25-year-old worker



Values in 2024 U.S. dollars.

In the early years, the additional wealth accumulation is modest, but it grows steadily and at increasing speed over time so that by the end of working life, the outcome is striking, with more than $32,000 of additional accumulated retirement wealth (solid blue line).

The yellow dotted and green dashed lines break down the increased retirement wealth into government contributions and the worker's own contributions plus the resulting capital gains. By retirement, only $9,600 of the total change in retirement wealth comes from government funding.

For every government dollar, the workers' own contributions and financial returns amount to $2.40 — a strong 240 percent return on public investment and a compelling case for early support. This is a low-cost, high-impact investment in the financial future of low-income families. With 4.9 million households aged 25 to 29 in the United States in 2024, we can expect 157 billion dollars of additional wealth for this group in 40 years if each household accumulates 32,000 dollars in addition.

Importantly, the figure highlights the government's role in providing crucial access to financial markets. During the first 15 years, government contributions consistently account for more than half of the wealth in the plan. As the worker's income grows, those contributions phase out, and market returns begin to dominate. Over time, the financial markets take over, delivering strong returns on invested funds — ultimately resulting in meaningful, low-cost wealth accumulation and improved financial security for low-income Americans.

Technical Appendix

Life-cycle model

Our framework is a model of life-cycle wealth accumulation where households' motive to accumulate wealth is to save for old age, most importantly retirement. They can do so in the main asset markets for U.S. households: 1) houses and mortgages, 2) employer-sponsored pension plans, 3) becoming entrepreneurs to build business wealth. As reflected in the data, households differ in their incomes. The differences in incomes arise from differences in career progression and good job offers by other employers. As a consequence, some workers climb to the top of the income distribution, whereas others experience little income growth over their working life.

Households who want to accumulate home equity have to first find a house, and then they also have to apply for a mortgage. Mortgages are pre-specified financial contracts with a commitment to a debt service, including repayment of the principle over time. Importantly and consistent with the evidence from Figure 3, the approval rates for mortgages differ across households. Low-income households face two problems: they have to find a house of the type they can afford, and they have to get their mortgage approved given their current labor market situation (current income).

The alternative for wealth accumulation is the accumulation of pension wealth. To accumulate pension wealth, a worker has to find an employer who is offering a pension plan. As in the case of housing, there are two issues. The first one is to find an employer, the second one is that this employer has to offer a pension plan. Consistent with the empirical evidence, employers that offer higher incomes are also more likely to offer pension plans. A pension plan is also a pre-specified financial product with a contribution rate for the worker and co-pay rate for the employer. Enrolling in the plan, therefore, implies that a constant share of income will go every year into the retirement account thereby lowering household consumption.

The third alternative to accumulate wealth is to start a business. All workers can become entrepreneurs. The key problem here is that they need a good business idea. If they come up with such an idea, they can start a business and earn business income. As entrepreneurs, they can set up a pension account on their own behalf and contribute part of their business income to the plan to build pension wealth.

Policy Costs

The RSAA program supports low-income families in two important ways: It provides access to a retirement savings plan to help them build wealth and benefit from asset returns, and it boosts their savings with additional government contributions. While these contributions require some public funding, the overall fiscal cost is modest. Our analysis shows that financing government contributions to the plans of low-income workers would require less than a 1pp increase in labor income taxes for the average worker or $600 per year.

There are two main reasons for this low cost. First, because these are low-income workers, their individual contributions — and the corresponding government matches — are relatively small compared to average U.S. incomes. Second, as workers' incomes rise, the government contributions phase out, meaning that most households eventually stop receiving direct financial support. Even so, workers continue to benefit from having access to a retirement plan and the ability to build wealth, particularly when their employers do not offer a plan.

Pavel Brendler is an Assistant Professor of Economics at the University of Nottingham, where he teaches macroeconomic and quantitative public economics. Moritz Kuhn is a professor at the University of Mannheim in Mannheim, Germany, where he teaches macroeconomics, income and wealth inequality, and the impacts of economic policy.

Explore the Economic Innovation Group's American Worker Project [here](#).

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[1] Brendler, Pavel & Kuhn, Moritz & Steins, Ulrike, 2024. "To Have or Not to Have: Understanding Wealth Inequality," CEPR Discussion Papers 19412, C.E.P.R. Discussion Papers.

[2] See the comprehensive survey by Mariacristina De Nardi and Giulio Fella. "Saving and wealth inequality." Review of Economic Dynamics 26 (2017): 280-300.

[3] The SCF is the most widely used source to study the financial situation of households in the United States.

[4] Much of the remaining wealth not accounted for by "core wealth" is in cars, checking accounts, and the stock holdings of wealthy families.

[5] The Retirement Savings for Americans Act (RSAA) would establish portable, worker-owned defined-contribution accounts for individuals lacking employer-sponsored retirement coverage, including independent and gig workers. Eligible participants would be automatically enrolled at a default employee contribution rate of 3 percent of earnings, with the option to modify the rate or opt out. Workers with earnings up to the median income would receive a refundable federal tax credit that supplies a matching contribution of up to 5 percent of pay, which phases out above the median threshold. Account ownership remains with the worker, accounts are inheritable, and contributions can be paused or resumed without penalty. Asset allocation would occur through a menu of low-fee lifecycle and index funds overseen by private asset managers selected via competitive procurement. The RSAA was recently reintroduced in the U.S. Congress by a bipartisan group of policymakers. See also a summary and endorsement of the bill from the Economic Innovation Group, plus a roundup of the latest data on the retirement savings of American workers.

[6] Kuhn, Moritz, Moritz Schularick, and Ulrike I. Steins. "Income and wealth inequality in America, 1949–2016." Journal of Political Economy 128.9 (2020): 3469-3519.

[7] We analyze the policy's impact at intervals of 5, 10, 15, and 40 years post-reform. For a worker aged 25 in 2024, this means we track her wealth at ages 30, 35, 40, and 65 (similar for other age groups).

[8] To quantify the policy's impact on the wealth accumulation of an average American worker in each age group, we simulate many possible income paths that a worker in a given age group could experience over their lifetime, considering the uncertainties and variations in earnings that can occur. We then compare the workers' projected wealth accumulation paths with and without the policy.

[9] We use data from the Macrohistory database to estimate asset price growth for the U.S. We use house price gains and, for retirement accounts, a mix of stock market and bond returns with a stock market share of 47%, which is the average of the SCF data. We also perform risk adjustment following the work of Kaplan and Violante (2014), as the model does not include aggregate risk. The resulting return on housing in our calibration is 0.53%, and the return on pension accounts is 2.88% (real returns using the CPI).

[10] We report the impact over longer horizons only up to retirement age. For workers retiring within the 20-year or 40-year period, we report the wealth impact at retirement age (age 65). This restriction explains, for example, why the 20-year and 40-year impact for 50-year-old workers is identical.

[11] The reason for this gap is straightforward: younger workers benefit from the reform for a longer period, while older workers reach retirement earlier, limiting the reform's effect on their overall wealth accumulation. Much of their wealth-building phase had already passed when the reform came into effect.

[12] Our model focuses on the worker's decision in which plan (government or firm) to enroll. So the model allows us to study the crowding out effects from the demand side. However, we do not allow for crowding out effects on the supply side, because we assume that if a firm offered a plan before the RSSA, it continues to do so after the introduction of RSSA. This prevents our model from directly assessing the risk of supply-side crowd-out.