

Retirement Security For Latinos

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The Retirement Security Project

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This policy fact sheet is based on *Retirement Security for Latinos: Bolstering Coverage, Savings, and Adequacy* by Peter R. Orszag and Eric Rodriguez, available at www.retirementsecurityproject.org and www.nclr.org. The larger report contains additional information and recommendations, as well as sources for the statistics cited here.

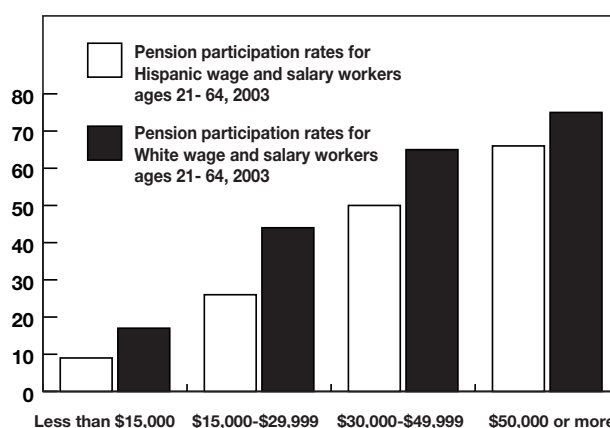
Too many Americans — and too many Latinos in particular — are not saving adequately for retirement. When surveyed, 43 percent of Latino workers described their personal knowledge of investing or saving for retirement as “knowing nothing,” compared to 12 percent of all workers.

According to the U.S. Census Bureau, Hispanic Americans are the fastest growing segment of the population at or near retirement. The number of Hispanics aged 65 and over will increase from 1.7 million in 2000 to a projected 15.2 million by 2050. As a share of the retirement age population, Hispanics will increase from 4.9 percent in 2000 to a projected 17.5 percent in 2050.

Millions of Latinos Lack the Savings They Need for a Secure Retirement

- Only about a quarter of Hispanic workers participated in an employer-provided pension plan in 2001, compared to about half of the overall workforce. The lower rate of Hispanic pension participation persists even within earnings, age, and firm size categories.
- Half of all households nearing retirement have only \$10,000 or less in an employer-based 401(k)-type plan or IRA. More than half of Hispanic households aged 55 to 59 have no accumulated assets in a 401(k) or IRA.
- Among all U.S. households, the median balance held in IRAs and 401(k)-type plans was \$600; the average was \$53,670. Among Hispanics, the median was zero and the average was only \$10,480.

A growing body of empirical evidence suggests significant benefits, in particular for Latino families, if we make it easier for middle- and lower-income households to save for retirement and increase their incentives to do so.

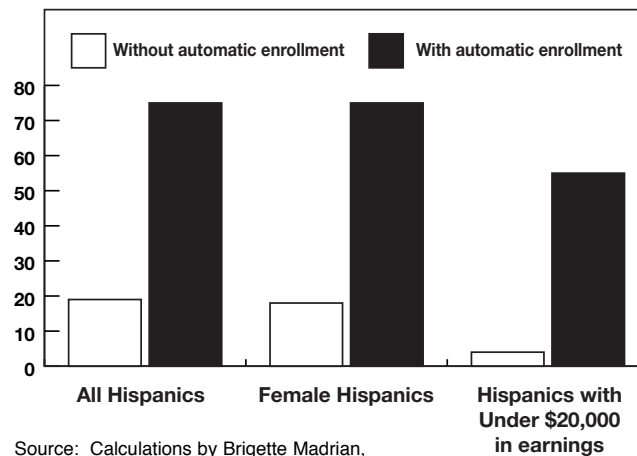


Source: Craig Copeland, “Employment-Based Retirement Plan Participation: Geographic Differences and Trends,” Employee Benefit Research Institute, Issue Brief No. 274, October 2004

Making It Easier to Save: The automatic 401(k) changes the default option at each phase of the 401(k) savings cycle to make sound savings and investment decisions the norm for busy families.¹

- Studies suggest that automatic enrollment is particularly effective in boosting participation among Hispanics: Among new Latino employees, automatic enrollment has increased participation from 19 percent to 75 percent.
- Even among the lowest-earning Hispanic workers, for those with earnings below \$20,000, automatic enrollment raised participation from 4 percent to 55 percent.

Increasing Financial Incentives to Save: The evidence shows that even middle- and lower-income households will contribute more if presented with a transparent and effective financial incentive to do so. The existing Saver's Credit, which can be claimed by middle- or lower-income households who make voluntary retirement savings contributions, was created to increase the financial incentives to save. The credit as enacted, however, has several shortcomings.² For example, it does not extend incentives down far enough, which means that it offers no incentive to save to the millions of lower-income households with no income tax liability — a disproportionate number of whom are Latinos. Reforms to the Saver's Credit — including redesigning it as a matching contribution to a retirement account, extending it beyond its current sunset of 2006, and providing it to middle- and lower-income households without income tax liability — could significantly benefit Hispanic families.



Source: Calculations by Brigette Madrian, University of Pennsylvania

- Over 45 percent of the benefits from the current credit accrue to filers with cash income between \$10,000 and \$30,000 and a disproportionate share of Latinos are in this income bracket.
- Fifty-three percent of all Hispanic workers reported less than \$25,000 in earnings in 2001.

Another reform that would boost financial incentives involves removing *penalties* on those who do save. The asset tests in many means-tested benefit programs, in particular, penalize low- and moderate-income families who save for retirement by disqualifying them from participation.³ Disregarding savings in 401(k)-type retirement accounts when applying the tests would allow low-income families to build retirement savings without having to forgo means-tested benefits at times when their incomes are low during their working years. Latino families would substantially benefit from being able to accumulate retirement savings without suffering from the steep implicit tax imposed under the current asset tests.

¹ To read more about the automatic 401(k), see RSP discussion paper 2005-1, "The Automatic 401(k): A Simple Way to Strengthen Retirement Savings" (March 2005; available at www.retirementsecurityproject.org).

² To read more about the Saver's Credit, see RSP discussion paper 2005-2, "The Saver's Credit: Expanding Retirement Savings for Middle- and Lower-Income Americans" (March 2005; available at www.retirementsecurityproject.org).

³ To read more about the asset tests, see RSP discussion paper 2005-6, "Protecting Low Income Families' Savings: How Retirement Accounts Are Treated in Means-Tested Programs And Steps to Remove Barriers To Retirement Savings" (June 2005, available at www.retirementsecurityproject.org).

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