

# Employer-Based Pension Plans: How Latinos Fare

## Background

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Participation in employer-sponsored pension and retirement savings plans\* is one of the three primary methods that a worker uses to prepare financially for retirement. In 2006, more than 55% of wage and salary workers ages 21-64 worked for an employer that sponsored a retirement savings plan and about 59 million employees participated in an employer-sponsored retirement savings plan.<sup>1</sup>

The two main types of employer-sponsored pension plans are defined benefit and defined contribution. Defined benefit plans promise a lifetime monthly payment to a worker upon retirement. The payment is typically based upon a formula that factors

in salary history and years of service to an employer. The plan sponsor takes on the risks and rewards associated with the plan.\*\*

Defined contribution plans build savings through contributions from the employee and, sometimes, the employer into tax-deferred individual accounts. Upon retirement, the value of the account is based on the performance of the investment. Benefits are usually paid out in a lump sum, requiring recipients to manage the funds throughout their retirement. The employee takes on the risks and rewards of the investment.\*\*\*

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\* The terms "employer-sponsored pension plan" and "employer-sponsored retirement savings plan" are used interchangeably throughout this document to refer to retirement benefits provided by an employer.

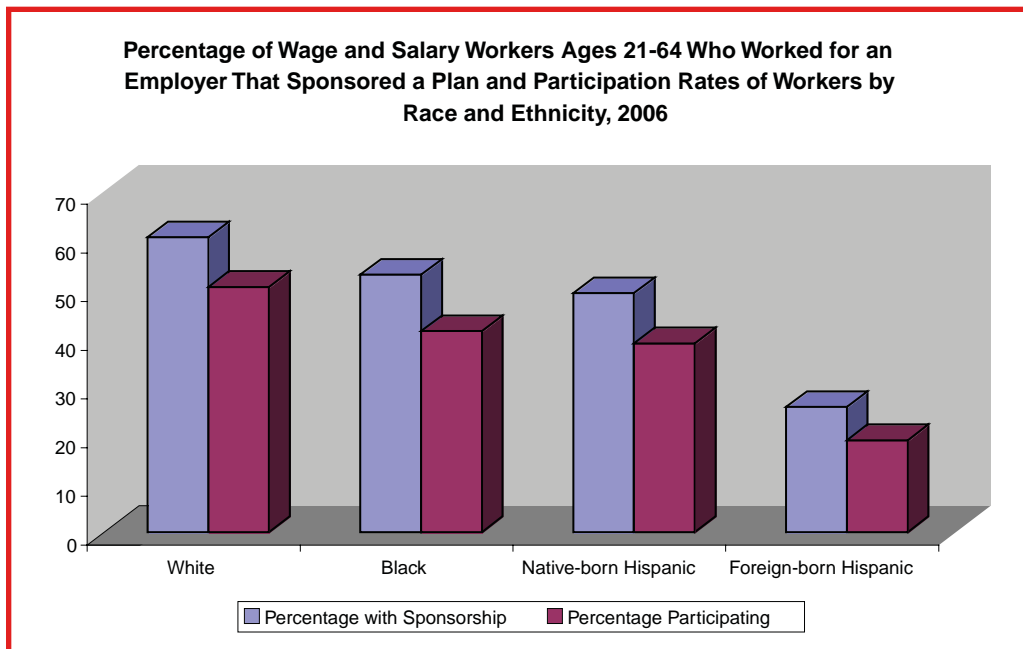
\*\* Defined benefit plans are more frequently offered in the public sector and by larger employers. In addition to the traditional defined benefit plan, the cash balance plan is also one of the more prevalent types of defined benefit pension plans. The cash balance plan is often referred to as a hybrid plan, as the plan defines benefits in terms of a stated account balance, thereby combining a classic feature of defined contribution plans.

\*\*\* Defined contribution plans tend to be more mobile and are popular in the private sector. Plan sponsors have a broad range of types of plans to choose from that offer employees savings incentives, such as tax advantages and matching contributions. Different types of defined contribution plans include SIMPLE (Savings Incentive Match Plan for Employees) IRAs, SEP (Simplified Employee Pension) IRAs, SARSEP (Salary Reduction Simplified Employee Pension) IRAs, ESOPs (Employee Stock Ownership Plans), Profit Sharing Plans, Money Purchase Pension Plans, and 401(k)s. Different types of 401(k) plans include the traditional, SIMPLE 401(k), and Safe Harbor Plans. The 403(b) and 457 plans are defined contribution plans designated for public employers and tax-exempt organizations. Thrift Savings Plans provide members of the uniformed services and Federal civilian employees with retirement savings and tax advantages similar to 401(k) plans.

Overall, the Latino\* community has relatively less access than their peers to employer-sponsored retirement savings plans, and also participates at lower rates when the plans are offered. The Employee Benefit Research Institute (EBRI) reports that in 2006, less than one-third (31.9%) of all Latino workers worked for an employer that sponsored a retirement savings plan, yet less than one-quarter (23.6%) of all Latino workers participated in such a plan.<sup>2</sup> The following data highlight inequalities in access and participation

that Latinos face in use of employer-sponsored retirement savings plans.

- Access to employer-sponsored pension plans is a significant challenge for many Latinos, especially foreign-born workers. EBRI reports that in 2006 60.6% of White wage and salary workers ages 21-64 and 34.6% of Latino wage and salary workers ages 21-64 worked for an employer that sponsored a retirement savings plan.<sup>3</sup> Specifically, nearly half (49.1%) of native-born Latino workers ages 21-64 worked

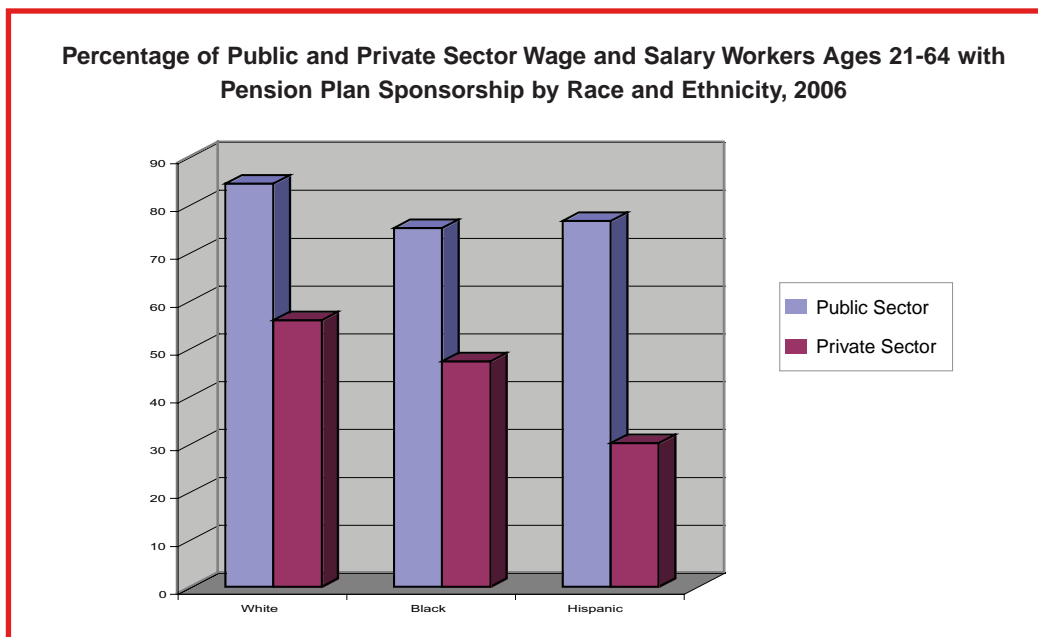


\* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

for an employer that sponsored a retirement savings plan, compared to 25.7% of their foreign-born Latino worker counterparts.<sup>4</sup>

- Hispanic workers tend to participate at lower rates than their peers do and the disparity in participation is wide between native- and foreign-born Latinos. EBRI estimates indicate that in 2006 White wage and salary workers ages 21-64 participated in employer-sponsored retirement savings plans at a rate of about one in two (50.4%). However, EBRI also reports that Latino wage and salary workers ages 21-64 participated in employer-sponsored retirement savings plans at a rate of about one in four (26.5%).<sup>5</sup> In 2006, 38.8% of native-born and 18.9% of foreign-born Latino wage and salary workers ages 21-64 participated in an employer-sponsored retirement savings plan.<sup>6</sup>

- Public sector workers are more likely than private sector workers to have access to an employer-sponsored pension plan and compared to their peers, Latinos are less likely to work in the public sector. EBRI reports that in 2006 81.8% of wage and salary workers ages 21-64 in the public sector worked for an employer that sponsored a retirement savings plan, compared to 50.6% of those in the private sector.<sup>7</sup> In 2006, 8.4% of Latino wage and salary workers ages 21-64 worked in the public sector compared to 17.7% of White wage and salary workers ages 21-64.<sup>8</sup>
- Even among public sector workers, Latino public sector employees experience lower pension plan participation rates. In 2006, 67.9% of Latino public wage and salary workers ages 21-64 participated in a retirement savings plan, yet overall public sector workers had a



participation rate of 73.3%.<sup>9</sup> That same year, White public sector workers had a sponsorship rate of 84.3% compared to a 76.5% sponsorship rate for Latino public sector workers.

- Barriers in eligibility contribute to lower rates of Latino inclusion in employer-sponsored retirement savings plans. In 2006, of Latinos that worked for an employer that sponsored a retirement savings plan, more than 1.5 million Latino wage and salary workers ages 21-64 were not included in the plan.<sup>10</sup> Results from the Survey of Income and Program Participation reveal that there are various reasons why Latinos working for employers who sponsor a retirement savings plan, were

not included in the plan. The top reasons reported were: that they had not worked long enough for their employer (26.7%); that they did not work enough hours, weeks, or months per year (26.5%); and that no one in their type of job is allowed in the plan (14.4%).<sup>11</sup>

- Latinos are experiencing a reduction in retirement benefits. According to results from the 2007 Minority Retirement Confidence Survey, 20% of employed Latinos reported a reduction in retirement benefits offered by their employer within the last two years. More than one in five (22%) African American workers and 16% of non-Hispanic Whites reported experiencing a reduction in benefits.<sup>12</sup>

## Endnotes

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1. Craig Copeland, *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2006*. Washington, DC: Employee Benefit Research Institute, Issue Brief No. 311, November 2007, Figure 1.
2. *Ibid.*, Figure 2.
3. *Ibid.*
4. Unpublished EBRI estimates from the U.S. Census Bureau Current Population Survey, March 2007.
5. *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2006, op. cit.*, Figure 2.
6. *Ibid.*, Figure 7.
7. *Ibid.*, Figure 1.
8. *Ibid.*, NCLR calculations based on Figure 2.
9. *Ibid.*, Figures 1 and 2.
10. *Ibid.*, NCLR calculations based on Figure 2.
11. NCLR's calculations based on U.S. Census Bureau, "Survey of Income and Program Participation (SIPP) Data," *SIPP 2001, Wave 7*. Available at <http://www.bls.census.gov/sipp/>.
12. "2007 Minority Retirement Confidence Survey," Mathew Greenwald & Associates, Inc. and Employee Benefits Research Institute, Washington, DC: Employee Benefits Research Institute, June 2007.

