

INSECURE RETIREMENTS: LATINO PARTICIPATION IN 401(K) PLANS

BY LETICIA MIRANDA*

Introduction

Improving retirement security is a major policy priority for the growing Latino† community. The current retirement system in the United States—composed of Social Security, employer-sponsored retirement plans, and individual retirement accounts—demands scrutiny to uncover how we might strengthen the system to improve access, security, and adequacy for all workers. The main employer-sponsored retirement program—the 401(k) plan—does not serve most Latino workers well. The recent large fluctuations in the stock market have highlighted weaknesses in the 401(k) system, precipitating policy discussions about how to strengthen retirement security for all American workers.¹ Thus, looking at how the 401(k) retirement program serves Latinos is relevant and timely.

Latinos are the fastest-growing segment of the United States population and workforce. They currently compose 14% of the U.S. workforce and are expected to make up one-third of the workforce by 2050.² Latinos are also much younger on average than the population of the country as a whole—29 years of age compared to 37.³ While Latinos are relatively young and in the early part of their working years, the time for this group to start saving money for retirement is now. Yet much of the Latino workforce is disconnected from access to retirement programs, especially employer-sponsored retirement plans, which jeopardizes long-term retirement security. Moreover, when

low-income workers, such as many Latinos, do have access to a retirement plan, the design of the retirement plan contributes a great deal toward how well they participate.

Latinos and low-income workers are generally much less likely to work for a company that offers an employer-sponsored retirement plan. To begin, only 35% of Latino workers are employed by a company that offers an employer-sponsored retirement plan, compared to 61% of White workers. Moreover, Latinos are more likely to be low-income than Whites—51% of Latinos lie in the bottom two income quintiles, compared to 36% of Whites.⁴ This affects access to an employer-sponsored retirement plan because access and participation in an employer-sponsored retirement plan is closely associated with employee income. For example, among workers earning the highest income, two-thirds participate in employer-sponsored retirement plans; among workers earning the least, that figure drops to 13% for men and 10% for women.⁵ Clearly, the voluntary employer-sponsored retirement benefit does not work well for Latino and other low-wage workers.

Latinos who do have access to a 401(k) plan at work do not maximize this opportunity as much as their White or Asian counterparts. Numerous studies have shown that the way an employer designs a 401(k) plan can have an extremely large impact on how workers,

* Leticia Miranda is Associate Director, Economic and Employment Policy Project, at the National Council of La Raza (NCLR). Gregory Wersching, Assistant Editor, and Rodrigo Alvarez Muñoz, Graphic Designer/Production Coordinator, provided overall technical support in preparing this brief for publication. Eric Rodriguez, Vice President, Office of Research, Advocacy, and Legislation, provided substantive input. The author thanks the NCLR staff who assisted with this brief's preparation. This research was funded by a grant from the Ford Foundation. Permission to copy, disseminate, or otherwise use information from this paper is granted, provided that appropriate credit is given to NCLR.

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

especially low-wage workers, participate and save. For example, requiring employee initiative to enroll in a company 401(k) plan results in 20% participation among low-income workers; on the other hand, requiring employee initiative to opt out of a 401(k) plan leads to 80% participation among low-income workers.⁶ Given that a large portion of Latino workers are low-income, this particular 401(k) design feature has a disproportionate impact on Latino participation.

The 401(k) plan is now the most common retirement plan offered by employers, so it is important to understand how Latino workers are utilizing these plans when they are offered to them. Based on information about how Latino workers access and use the 401(k) savings system, we are able to highlight the types of policy changes that may help increase retirement security.

However, it is important to emphasize that the overwhelming lack of access to employer-sponsored retirement plans for Latinos and other low-income workers has a far greater impact on retirement security than the nuances of 401(k) plan designs, trends, or employee behavior. Furthermore, this lack of access highlights the importance of preserving Social Security and ensuring that this cornerstone of American retirement security remains strong and accessible.

This paper has three main sections. The first examines Latino access to employer-sponsored retirement programs overall. The second reviews retirement savings behaviors of Latinos who participated in the Ariel/Hewitt Study (explained below). This includes an analysis of demographics of the participants, savings and participation rates, stock exposure, and the use of loans and hardship withdrawals. The last section offers conclusions and recommendations.

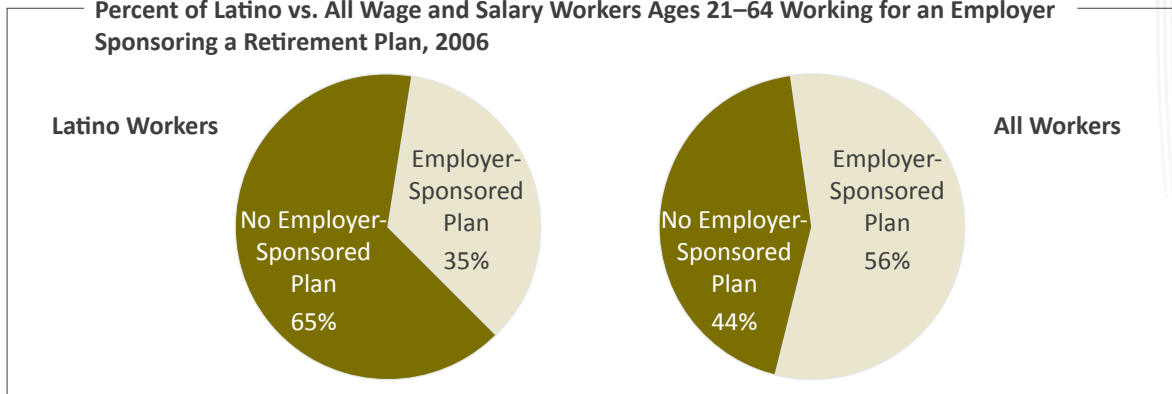
Latino Access to Employer-Sponsored Retirement Plans

Access by Race/Ethnicity and Nativity. The vast majority of Latinos work for companies that do not offer any type of employer-sponsored retirement plans. In 2006, just over one in three (35%) Latino wage and salary workers ages 21–64 worked in organizations that offer any type of employer-sponsored retirement savings program (see Figure 1.1).⁷ The experience of all U.S. workers is better, but far from ideal—slightly more than half of all workers (56%) work for an employer offering an employer-sponsored retirement plan.⁸ In addition, Hispanic adult workers overall are less likely than Whites and Blacks to be working in places that

offer an employer-sponsored retirement plan (see Figure 1.2).⁹ There are also distinctions in access to retirement plans between native- and foreign-born Latino workers. Among native-born Hispanic workers, about half (49.1%) work for firms that offer an employer-sponsored retirement plan, compared to about one in four (25.7%) foreign-born Latino workers.¹⁰ The experience of foreign-born Latinos is very important because more than half (55%) of the Latino workforce is foreign-born, while the rest is native-born.¹¹ There are 22 million Hispanics in the adult workforce representing 14.4% of the labor force.¹²

Figure 1.1

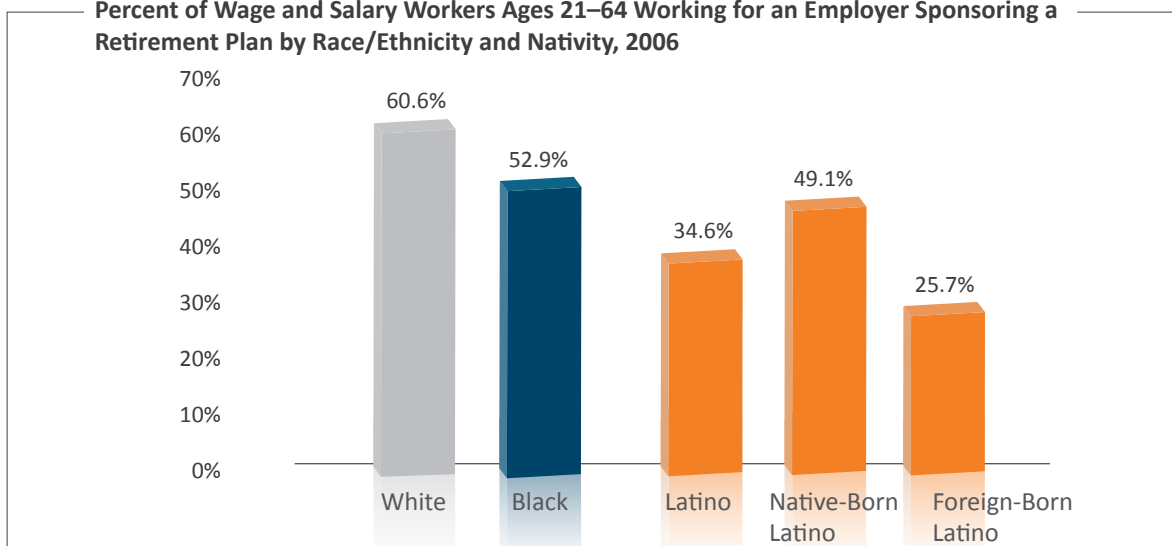
Percent of Latino vs. All Wage and Salary Workers Ages 21–64 Working for an Employer Sponsoring a Retirement Plan, 2006



Source: Unpublished Employee Benefit Research Institute estimates from the U.S. Census Bureau’s March 2007 *Current Population Survey*. Conducted by the Bureau of the Census for the Bureau of Labor Statistics. Washington, DC, 2007.

Figure 1.2

Percent of Wage and Salary Workers Ages 21–64 Working for an Employer Sponsoring a Retirement Plan by Race/Ethnicity and Nativity, 2006



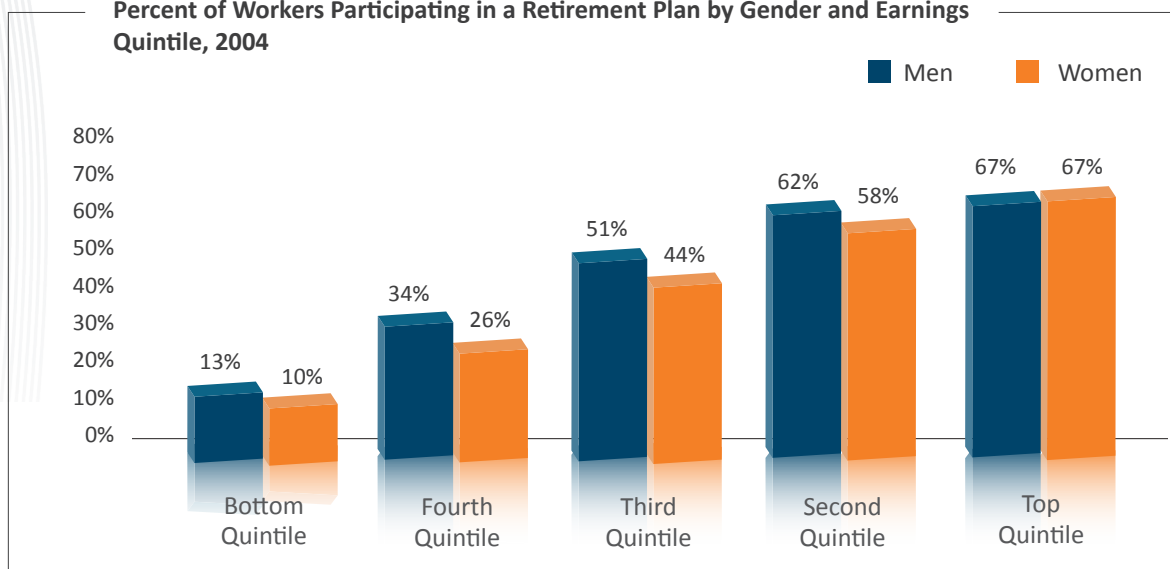
Source: Unpublished Employee Benefit Research Institute estimates from the U.S. Census Bureau’s March 2007 *Current Population Survey*. Conducted by the Bureau of the Census for the Bureau of Labor Statistics. Washington, DC, 2007.

Access by Income. Access and participation in an employer-sponsored retirement plan is closely associated with employee income—the higher the income, the higher the access and participation. For example, among workers earning the highest income (the top income quintile), two-thirds of workers participate in employer-sponsored retirement plans; among those earning the least (the bottom quintile), that figure drops to 13% for men and 10% for women¹³ (see Figure 1.3).

Latinos are more likely to be low-income than Whites—51% of Latinos are in the bottom two income quintiles, compared to 36% of Whites¹⁴ (see Figure 1.4). These data show that a voluntary employer-sponsored retirement system does not work well for Latino and other low-wage workers.

Figure 1.3

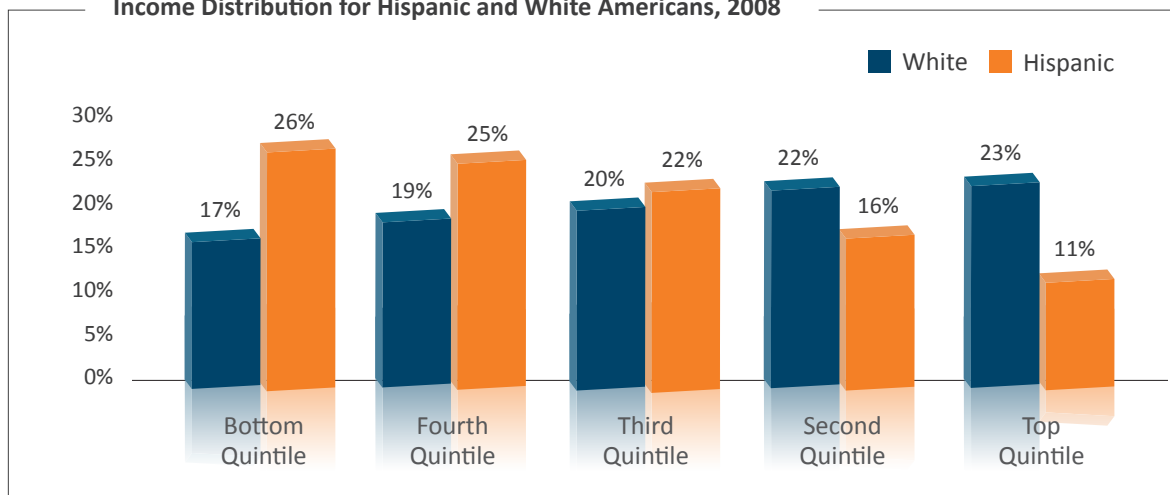
Percent of Workers Participating in a Retirement Plan by Gender and Earnings Quintile, 2004



Source: Alicia H. Munnell and Pamela Perun, *An Update on Private Pensions* (Boston, MA: Center for Retirement Research, 2006), http://crr.bc.edu/briefs/an_update_on_private_pensions.html (accessed August 2009).

Figure 1.4

Income Distribution for Hispanic and White Americans, 2008



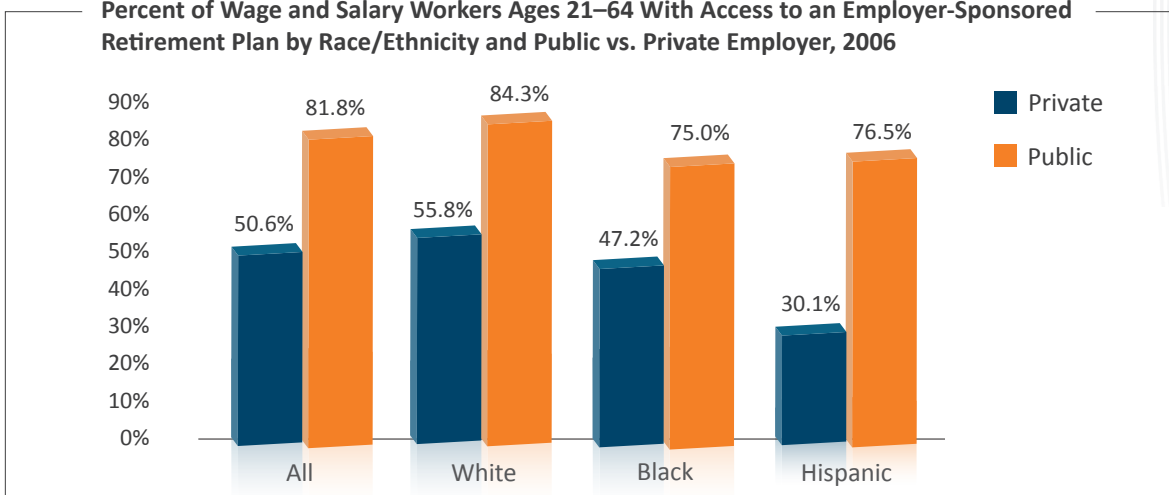
Source: U.S. Census Bureau, "2009 Annual Social and Economic Supplement." *Current Population Survey*. Washington, DC, 2009, http://www.census.gov/hhes/www/cpstables/032009/hhinc/new05_000.htm (accessed September 2009), Table HINC-05.

Access and Participation by Sector. Whether a worker labors in the private or public sector influences their access to an employer-sponsored retirement plan. Like all workers, Latinos who work in the public sector are much more likely to have access to an employer-sponsored retirement plan (see Figure 1.5). More than three-quarters of Latinos (76%) working in the public sector worked for an employer offering an employer-sponsored retirement plan, while less than one-third (30%) of Latinos in the private sector had potential access to an employer-sponsored plan. Foreign-born Latinos working in the public sector also experience high access to employer-sponsored retirement plans (69%), though significantly less than their White counterparts.¹⁵

The public sector has continued to offer defined-benefit plans (also known as “pensions”) to its workforce, while the trend among private companies has been to reduce or eliminate defined-benefit pension plans and instead offer a defined-contribution plan (the 401(k)).¹⁶ Typically, in defined-benefit plans, employees are automatically enrolled and have contributions made on their behalf throughout their careers, which is not the case with 401(k) plans. However, only 10% of Latino workers work in the public sector, compared to 20% of Black and 17% of White workers.¹⁷ Ninety percent of Latino workers are employed in the private sector with its limited access to employer-sponsored retirement plans of any kind.

Figure 1.5

Percent of Wage and Salary Workers Ages 21–64 With Access to an Employer-Sponsored Retirement Plan by Race/Ethnicity and Public vs. Private Employer, 2006



Source: Unpublished Employee Benefit Research Institute estimates from the U.S. Census Bureau’s March 2007 *Current Population Survey*. Conducted by the Bureau of the Census for the Bureau of Labor Statistics. Washington, DC, 2007.

Participation rates also vary widely between the private and public sectors (see Figure 1.6). In the public sector, where defined-benefit retirement plans with automatic enrollment are common, Latino workers are on a relatively more even footing with their co-workers in terms of retirement plan participation: 76% of White public sector workers participate in their retirement plan, as do

68% of Latinos. However, in the private sector, 22% of Latinos participated in an employer-sponsored retirement plan in 2006, compared to 45% of White workers in the private sector. Latino participation is limited by the fact that only 30% of Latino workers in the private sector worked for employers offering a retirement plan.

Figure 1.6

Percent of Wage and Salary Workers Ages 21–64 Participating in a Retirement Plan by Race/Ethnicity and Public vs. Private Employer, 2006

	All	White	Black	Hispanic
Private	40.3%	45.3%	35.3%	22%
Public	73.3%	76.3%	65%	67%

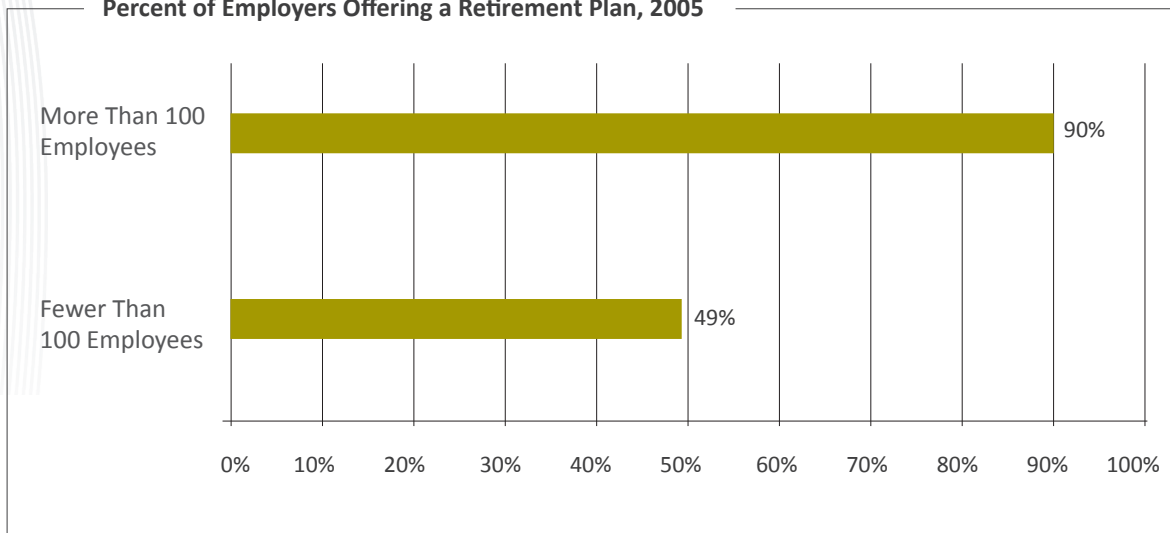
Source: Unpublished Employee Benefit Research Institute estimates from the U.S. Census Bureau’s March 2007 *Current Population Survey*. Conducted by the Bureau of the Census for the Bureau of Labor Statistics. Washington, DC, 2007.

Access by Company Size. The size of the employer is also closely associated with access to employer-sponsored retirement plans, with smaller employers being less likely to offer them. Data from the 2005 *National Compensation Survey* show that the smaller the company, the less likely it is to offer a retirement plan to its employees: 90% of establishments with 100 or more employees offer retirement benefits, while only 49% of those with less than 100 employees do so¹⁸ (see Figure 1.8).

Latinos are much more likely to work for small private businesses than other workers. In 2007, 52% of the Latino workforce was employed in small businesses with fewer than 100 employees, compared to 42% of the White workforce and 32% of the Black workforce¹⁹ (see Figure 1.7). Since Latino workers are overrepresented in small businesses, this also leads to lower access to employer-sponsored retirement plans.

Figure 1.7

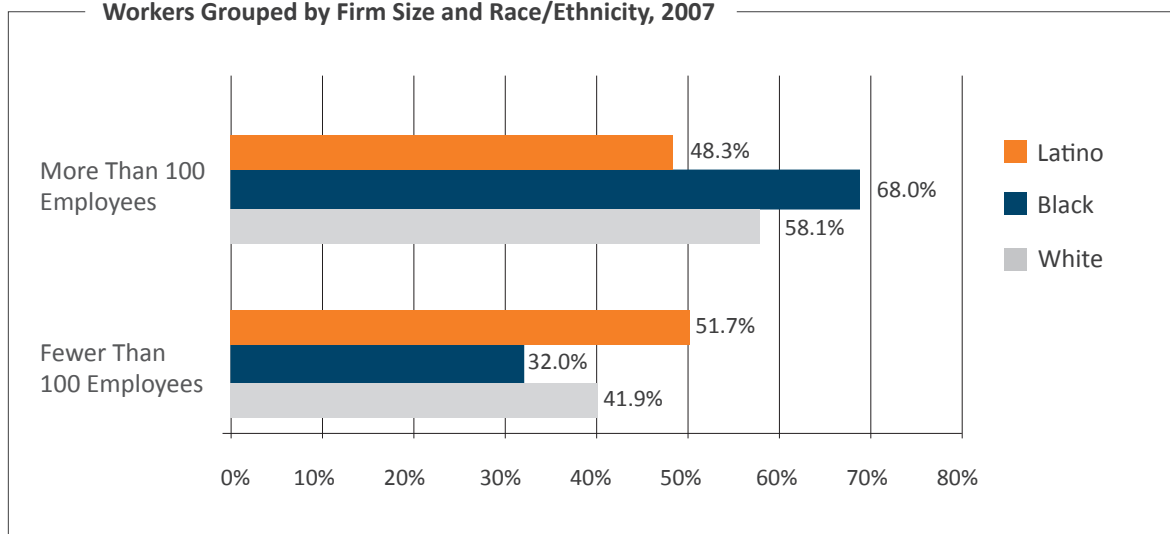
Percent of Employers Offering a Retirement Plan, 2005



Source: Alicia H. Munnell and Pamela Perun, *An Update on Private Pensions* (Boston, MA: Center for Retirement Research, 2006), http://crr.bc.edu/briefs/an_update_on_private_pensions.html (accessed August 2009).

Figure 1.8

Workers Grouped by Firm Size and Race/Ethnicity, 2007



Source: Catherine Singley, *Fractures in the Foundation: The Latino Worker's Experience in an Era of Declining Job Quality* (Washington, DC: National Council of La Raza, 2009).

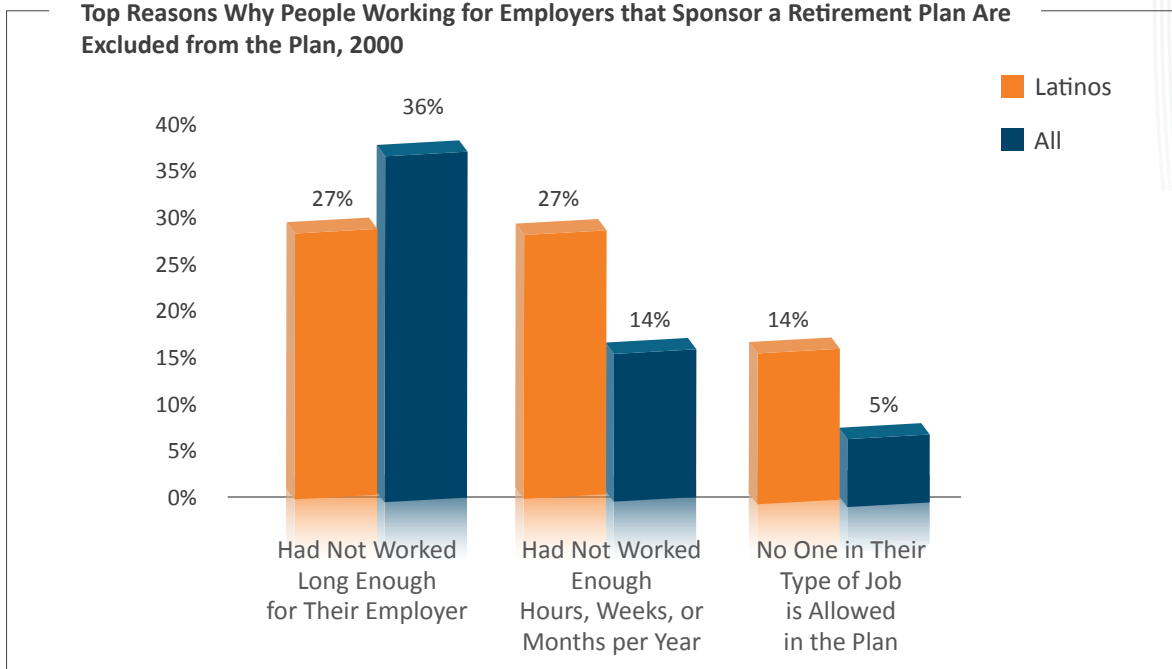
Access by Occupation Type and Industry. Access to employer-sponsored retirement plans for Latinos is also influenced by where they work. A considerable portion of the Hispanic workforce is employed in low-coverage industries, such as agriculture, construction, wholesale, and retail.²⁰ Moreover, Latino workers are overrepresented in the nontraditional employee category, which includes independent contractors, on-call workers, temporary help agency workers, and contract workers.²¹ Access to employer-sponsored retirement plans for nontraditional employees is significantly lower than for their counterparts in traditional arrangements. In 2005, only 2.6% of independent contractors, 33.2% of on-call workers, 8.9% of temporary help agency workers, and 42.6% of workers provided by contract firms were

eligible for an employer-based pension plan.²² By comparison, 61% of workers who work full-time year-round have an employer offering an employer-based pension plan.²³

Other Barriers to Participation. Studies show that employees are often barred from participating in retirement plans due to tenure, job type, and number of hours worked. Data from the Survey of Income and Program Participation reveal that Latinos are more than twice as likely as other workers to be excluded from participating in their employer-sponsored retirement plan because they did not work enough hours or because no one in their job type is permitted to participate in the retirement plan (see Figure 1.9).

Figure 1.9

Top Reasons Why People Working for Employers that Sponsor a Retirement Plan Are Excluded from the Plan, 2000



Source: *Employer-Based Pension Plans: How Latinos Fare* (Washington, DC: National Council of La Raza, 2007), 5, <http://www.nclr.org/content/publications/download/50689> (accessed July 2009); Alicia H. Munnell and Pamela Perun, *An Update on Private Pensions* (Boston, MA: Center for Retirement Research, 2006), 3, http://crr.bc.edu/briefs/an_update_on_private_pensions.html (accessed August 2009).

Ariel/Hewitt Study Data: Latinos Working for Companies that Offer a 401(k) Plan

The Ariel/Hewitt Study is a set of retirement plan data for 57 large companies in the United States that all offer an employer-sponsored retirement

plan to their employees. NCLR uses data from the Ariel/Hewitt Study because this is one of the few sources of 401(k) utilization data by race and ethnicity, including information about Latinos. It is important to note that these data are not representative of either the behavior of most private companies or of most Latino workers. Currently, there is no government data source

tracking 401(k) utilization by race and ethnicity for all American companies. Therefore, since we lack access to more complete data, this section analyzes how the Latino employees at these 57 major companies save and participate in their 401(k) plans.

Demographics of Ariel/Hewitt Study Participants.

The various racial and ethnic groups analyzed in the Ariel/Hewitt Study differ markedly from each other in important demographic characteristics that impact 401(k) savings behavior. The Latino cohort studied is five years younger on average compared to the White group, which generally means that the Latinos had less time to save for retirement (see Figure 2.1). Moreover, according to the Employee Benefit Research Institute (EBRI), youth is negatively correlated with retirement plan participation—younger people overall are less likely to participate in retirement plans compared to older people.²⁴

Latinos in the Ariel/Hewitt Study have also been with their companies for a shorter amount of time (tenure), an average of three years fewer than Whites. Tenure is significant because sometimes employers bar employees with short tenures from participating in their retirement programs. As mentioned earlier, one top reason why Latinos did not participate in their company's retirement plans was that "they have not worked long enough for

their employer."²⁵ In addition, a shorter tenure among Hispanic employees means that they have had a relatively shorter amount of time to save for their retirement at their current job.

While the Ariel/Hewitt Study did not release average salary data for each group studied, U. S. Census Bureau data show that Latinos have lower earnings compared to Whites: in 2008, average personal income was \$44,297 for native-born Latinos, \$33,703 for foreign-born Latinos, and \$57,877 for Whites (see Figure 2.2).²⁶ It is likely that the Ariel/Hewitt Study participants reflect this general trend, with Latinos in the study being very likely to have a lower salary compared to Whites in the study. According to EBRI estimates from the Current Population Survey, Latino workers who earn lower salaries are less likely to participate in employer-sponsored retirement plans.²⁷ For example, nationally, Latino workers ages 21–64 who earn \$15,000 to \$29,999 have a participation rate of 19%, while Latinos who earn over \$50,000 participate at 57%.²⁸ The income distribution information reviewed above (see Figure 1.5) shows the same trend of Latinos being overrepresented in lower-income categories compared to Whites, and access and participation in employer-sponsored retirement plans being closely associated with income. Thus, salary has a large impact on retirement security.

Figure 2.1

Demographics of Ariel/Hewitt Study Participants by Race/Ethnicity, 2007

	White	Black	Hispanic	Asian
Average Age	42	39	37	39
Average Tenure	10	8	7	7
Gender (% Male)	52%	40%	46%	46%

Source: Ariel Education Initiative et al., *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups* (Chicago, IL: Ariel Education Initiative, 2009), 2, 4.

Figure 2.2

United States Average Personal Income for People Ages 21–64 Working Full-Time Year-Round by Race/Ethnicity, 2008

	White	Black	Hispanic	Asian
Average Personal Income	\$57,877	\$42,667	\$44,297 (native-born) \$33,703 (foreign-born)	\$63,311

Source: U.S. Census Bureau, "2009 Annual Social and Economic Supplement," *Current Population Survey*. Washington, DC, 2009.

The Ariel/Hewitt Study found that Latino and Black workers in the study have lower average savings in their 401(k) retirement accounts compared to White and Asian employees. While the Ariel/Hewitt Study found that salary, age, and tenure do impact retirement savings, it also found that race alone (when all other factors are equal) plays a significant role in the lower savings levels for Latinos, though it remains unclear how much of the difference in savings levels is due to the impact of race alone (by holding all nonrace factors equal).

Savings and Participation Rates of Ariel/Hewitt Study Participants. Hispanic workers in the Ariel/Hewitt Study all work for employers that provide a retirement plan. However, they are not as likely as their White or Asian counterparts to participate in

the 401(k) savings plan offered by their companies. When they do participate, they save a smaller percentage of their salary.

Sixty-five percent of Latinos in the study participate in their company's 401(k) plan, compared to 77% of Whites and 76% of Asians (see Figure 2.3). Hispanics in the study contributed 6.3% of their salary toward their 401(k) savings plan, versus the 9.4% saved by Asians and 7.9% saved by Whites. Given the above-noted characteristics of the Latino cohort in this study, comparing participation and contribution rates by race and ethnicity therefore means that these data compare the savings behavior of younger, newer, lower-salaried employees to older, longer-tenured, higher-salaried employees.

Figure 2.3

Participation and Savings Rates by Race/Ethnicity of Ariel/Hewitt Study Participants, 2007

	White	Black	Hispanic	Asian
Participation Rate	77%	66%	65%	76%
Average Contribution Rate (excluding participants with zero balances)	7.9%	6.0%	6.3%	9.4%

Source: Ariel Education Initiative et al., *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups* (Chicago, IL: Ariel Education Initiative, 2009), 7–8.

The Ariel/Hewitt Study analyzed the impact of race alone on participation and contribution rates. When other factors such as age, tenure, salary, and gender are held constant, the study shows that

Latinos workers are 6% less likely to participate than White workers and have a contribution rate that is also 6% lower than that of White employees.²⁹

Automatic Enrollment

The 57 companies in the Ariel/Hewitt Study had differing plan designs, which impacted participation and contribution levels. For example, nearly 60% of the companies in the study had an automatic enrollment feature, while 40% of the companies did not.³⁰ Automatic enrollment means that employees are automatically enrolled in the 401(k) plan, though they can choose to opt out. Further, 70% of firms using this system enroll their employees at a 3% contribution rate by default.³¹

Academic studies by Professor David Laibson of Harvard University and others have shown that these two features—automatic enrollment and default contribution rates—have a large impact on employee retirement savings behaviors. One study by Laibson shows that participation rates under a voluntary enrollment system, which were at 20%, increased dramatically to 80% after an automatic enrollment system was implemented.³² This effect of automatic enrollment has been replicated in various types of companies by the researchers, including companies with high percentages of low-income workers. Another study by the same author shows that employees cluster at the initial default contribution rate; if this contribution rate is set too low, this may be detrimental to long-term wealth accumulation.³³ From this research, it is clear that 401(k) plan design features have the potential to significantly improve participation and contribution rates for their employees.

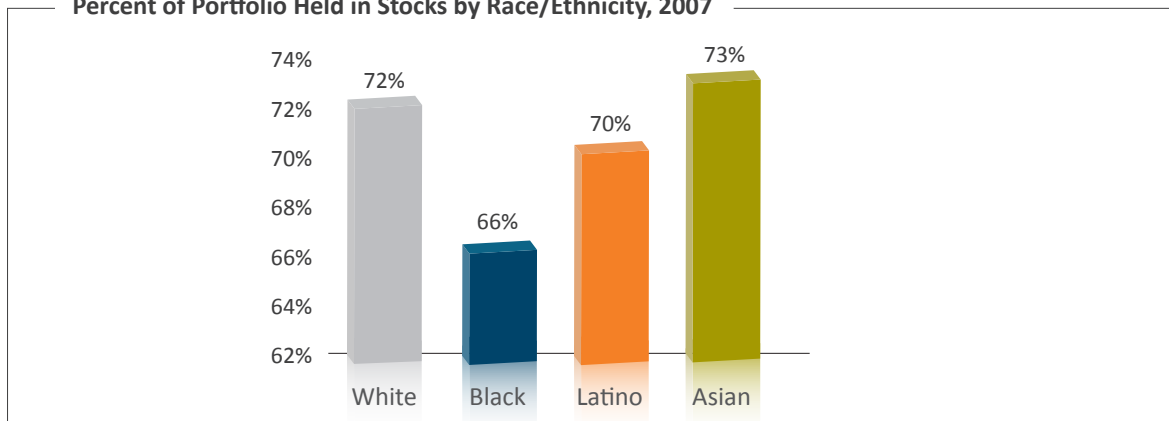
By inferring that the Laibson study findings would apply broadly, it is conceivable that the Latino participation rate—and the participation rate of all employees—in the Ariel study cohort could exceed 80% if all of the companies in the study had an automatic enrollment policy. Since Latinos have a higher rate of nonparticipation under voluntary enrollment, they would be more likely to benefit from automatic enrollment policies. The high participation rate for Latinos in the public sector (see Figure 1.6), where automatic enrollment is very common, also points to the conclusion that automatic enrollment has a powerful, beneficial impact on retirement plan participation.

Stock Exposure. Stocks generally have a higher average return over long periods of time compared to bonds (though this also depends on the condition of the market at the time of retirement). Experts in asset allocation believe that participation in stocks is important for long-term growth of assets. In the Ariel/Hewitt Study, Latino workers had similar exposure to stocks as White and Asian

workers (see Figure 2.4). Latinos had 70% of their portfolio invested in stocks, while Whites and Asians had 72% and 73% of their portfolios invested in stocks, respectively. Based on this data, Latinos are allocating a fairly similar amount into stocks as their White and Asian counterparts and therefore do not face a problem on this front.

Figure 2.4

Percent of Portfolio Held in Stocks by Race/Ethnicity, 2007



Source: Ariel Education Initiative et al., *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups* (Chicago, IL: Ariel Education Initiative, 2009), 10.

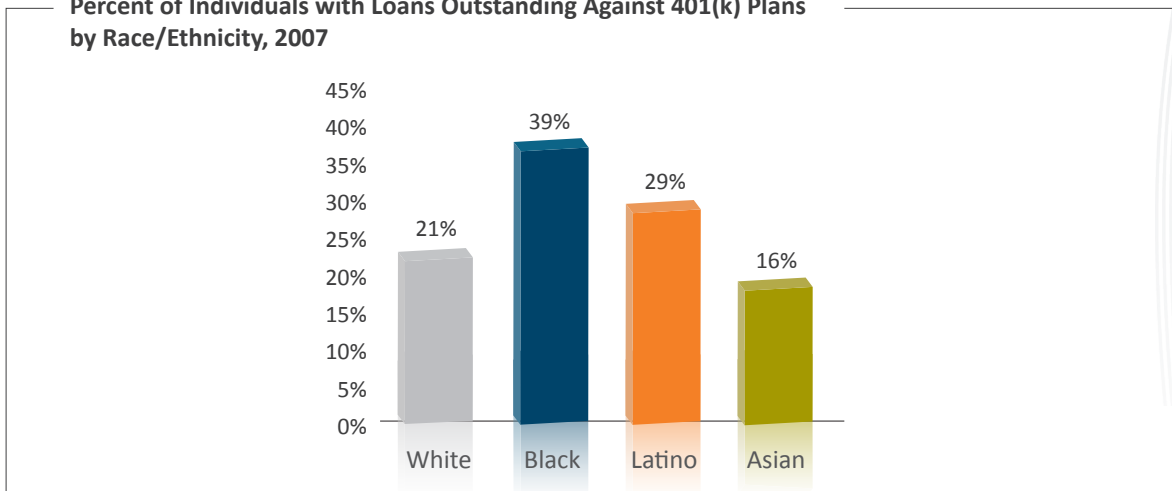
Loans and Hardship Withdrawals. Loans against 401(k) plans can be detrimental to meeting retirement goals in part because if the person is laid off or changes jobs, they must repay their outstanding loan within a short period of time (such as 60 days) or the loan will become an early withdrawal with tax penalties. Latinos are significantly more likely than Whites and Asians to have a loan against their 401(k) savings account that is outstanding; 29% of Latinos in this study

had a loan outstanding in 2007, compared to 21% of Whites, 16% of Asians, and 39% of Blacks (see Figure 2.5). Since people who are laid off are often experiencing economic uncertainty, they are unlikely to repay their 401(k) loan, which means they must then take a permanent reduction in their 401(k) savings account. These losses are often difficult to recoup and significantly impact retirement savings.*

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Figure 2.5

Percent of Individuals with Loans Outstanding Against 401(k) Plans by Race/Ethnicity, 2007



Source: Ariel Education Initiative et al., *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups* (Chicago, IL: Ariel Education Initiative, 2009), 12.

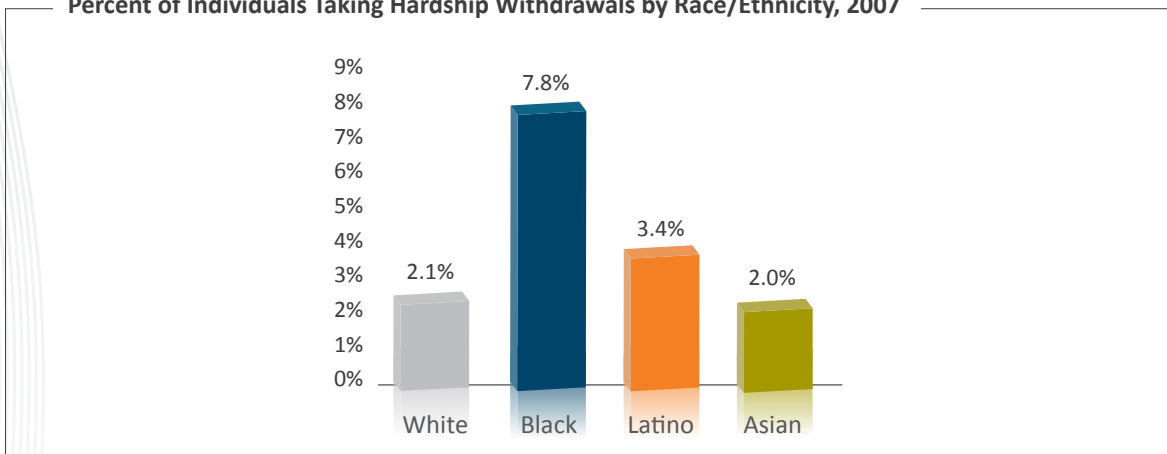
Latinos are also more likely than Whites to have taken a hardship withdrawal (3.4% of Latinos versus 2.1% of Whites) (see Figure 2.6). There is currently no mechanism to allow workers to repay

their retirement accounts after they have taken a hardship withdrawal. Therefore, retirement account reductions resulting from hardship withdrawals are permanent.

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Figure 2.6

Percent of Individuals Taking Hardship Withdrawals by Race/Ethnicity, 2007



Source: Ariel Education Initiative et al., *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups* (Chicago, IL: Ariel Education Initiative, 2009), 11.

* The Ariel/Hewitt Study does not address why Latino and Black workers are more likely to take loans or hardship withdrawals from their retirement savings. However, data from the Rockefeller Foundation American Worker Survey do show that 25% of Hispanic, 19% of Black, and 17% of White workers reported taking money from their personal or retirement savings to pay for a medical expense in 2007. This disparity presents a site for further study. The Rockefeller Foundation, *American Worker Survey: Complete Results* (New York, NY: The Rockefeller Foundation, 2007), http://www.rockfound.org/initiatives/amer_workers/american_worker_survey.pdf (accessed September 2009).

Conclusion and Recommendations

NCLR's analysis of Latino worker participation in 401(k) plans reveals three major findings:

1. **Access to employer-sponsored retirement plans is woefully inadequate for most low-income workers, including most Latino workers.** Nearly two out of three (65%) Latino workers work for an employer that does not offer any type of retirement plan.³⁴ Latinos are most likely to work in sectors of the economy where access to retirement programs is lowest—small private companies—as well as in certain industries and job types with low access.³⁵ The data in this report show that the 401(k) plan is most available to higher-income workers in large companies or the public sector,³⁶ and thus has almost no bearing on the lives of most Latino and other low-income workers.
2. **When employers do offer a retirement plan, they often do not use the automatic enrollment feature, which has a greater negative impact on low-income employees, such as many Latino workers, than on others.** Although significant data exist that demonstrate the positive impact automatic enrollment has on participation, only about half (51%) of large employers who offer a 401(k) use the automatic enrollment feature.³⁷
3. **Latinos and Blacks are disproportionately likely to take loans and hardship withdrawals against their 401(k) savings. This is the area where race and ethnicity have the greatest effect.** To reiterate the data from Figure 2.5, 29% of the Latino population in the Ariel/Hewitt Study have loans against their 401(k) savings, compared to 21% of Whites. The reasons for this disparity were not studied.

These findings lead to the following recommendations:

Enhance opportunities for low-income workers to save and increase incentives to save. With two out of every three Latino workers, as well as 44% of all workers, working for employers that do not offer a retirement plan, policy recommendations to address this issue are imperative. The new White House proposal to overhaul the nation's financial system, *Financial Regulatory Reform: A New*

Foundation, which was released June 17, 2009, includes a proposal to require employers who do not already offer a retirement plan to offer their workers an automatic individual retirement account (IRA), which would be enhanced by an expanded saver's tax credit.³⁸ Under this proposal, workers would have payroll deductions automatically directed into their IRA accounts (though opting out would be permitted), and this would be augmented by the federal savers tax credit, if the workers are eligible. This White House proposal is only one example of the many new retirement security ideas currently under discussion in the wake of the financial collapse of 2008. Lawmakers in Congress and other stakeholders concerned about retirement security have new proposals and plans that deserve attention as well.

Make it easier to save with automatic enrollment features. The main proposals that increase participation and contribution revolve around changing plan designs to include the automatic enrollment feature along with default contribution rates. Experts such as David Laibson believe that automatic enrollment has the largest impact on lower-income workers, increasing participation rates from 20% to 80% through autoenrollment.³⁹ Since Latinos are more likely to be in the low-income category, they would experience a dramatic increase in their retirement security if their employers would automatically enroll them in the company 401(k) plan. A survey conducted by Hewitt Associates shows that 51% of a sample of 150 mid- to large-sized employers had automatic enrollment as part of their 401(k) plan design in 2009.⁴⁰ If all companies would institute automatic enrollment policies, this would dramatically increase the retirement security of their lowest-income workers.

Enable workers to protect their savings. The Ariel/Hewitt Study data show that the greatest differences between Latino and White workers' 401(k) savings behavior concern loans and hardship withdrawals. Measures that can reduce the negative impact of loans and hardship withdrawals on retirement savings should be explored. For example, the authors of the Ariel/Hewitt Study recommend a proposal to make it easier or more likely for individuals to pay back loans or hardship withdrawals by extending the payback period or making the loan portable. Moreover, educational efforts to discourage the use of loans and hardship withdrawals also merit attention.

Endnotes

¹ Robert Stow England, *Retirement USA: Working for a Universal, Secure and Adequate Retirement System* (Washington DC: Creative Commons Retirement USA, 2009), 7, <http://www.retirement-usa.org/wp-content/uploads/2009/03/working-paper-031209.pdf> (accessed August 2009).

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