
LATINO PRIORITIES FOR IMPROVING THE PRIVATE RETIREMENT SYSTEM

In addition to accessing Social Security retirement benefits, millions of Americans today build additional retirement savings in company-sponsored retirement plans such as 401(k) plans. For most Latinos, however, 401(k) plans do not work well because few have access to these savings plans at work. New proposals in Washington to require employers to offer an automatic Individual Retirement Account (IRA) and to expand the Saver's Tax Credit could improve retirement security for millions of workers, including many Latino workers. Hispanic workers—who currently make up 14% of U.S. workers and are expected to represent one-third of all workers by 2050—are the fastest-growing segment of the workforce.*

Why 401(k) Plans Are Not Effective for Latinos

Low access to retirement programs. Two out of three Latinos (65%) work for employers who do not offer an employer-sponsored retirement plan to their workers. Many Latinos work in low-wage jobs and for small, private companies, or in industries where retirement savings plans are not commonly offered, such as construction, hospitality, and maintenance.

Lower participation and savings influenced by plan design. Hispanics who are offered a 401(k) retirement savings plan in the workplace have a participation and savings rate that is 6% lower than that of Whites, according to a survey of large employers. The design of the retirement program strongly affects participation; companies that automatically enroll employees into a plan typically have much higher participation rates, especially among lower-income workers.

Higher use of early withdrawals and loans against their 401(k) plans. Latinos who have access to 401(k) plans are more likely than Whites to take early withdrawals and have outstanding loans against their savings, which puts them at risk of a permanent reduction in retirement savings and subject to penalty fees. A 2007 survey of workers found that 25% of Latinos needed to take money out of personal or retirement savings to pay for a medical expense.

The President's Automatic IRA Proposal Holds Promise for Latino Savers

The president's Middle Class Taskforce proposes changes to the private retirement system that improve on the status quo and is part of a bigger set of solutions needed. The proposal requires that companies offer an automatic IRA, includes an increase in the Saver's Tax Credit, and makes this tax credit refundable so that lower-income workers can benefit. These elements—requiring almost all employers to participate, making enrollment automatic, and increasing the refundable saver's tax credit—are all positive. Yet careful scrutiny of the final design of this program is still needed to avoid creating new problems. In addition, the president's retirement proposal should be improved to reduce the likelihood of accruing penalties for early withdrawals and outstanding loans, which is of particular concern to Latinos. This effort to increase IRA usage represents a first step towards improving retirement security, and other ideas also merit attention. Lastly, the president should reaffirm our nation's commitment to Social Security, which remains the cornerstone of financial stability for our nation's seniors.

* The information in this fact sheet is based on *Insecure Retirements: Latino Participation in 401(k) Plans*, an NCLR policy report available at www.nclr.org.