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Latinos' Retirement Insecurity in the United States

By Jennifer Brown and Diane Oakley

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EXECUTIVE SUMMARY

Latinos lead population growth in United States, accounting for 17.8 percent of the total U.S. population and numbering over 57.5 million.[1,2] As the largest minority group in the U.S workforce, Latinos comprised 16.8 percent of the labor force in 2016.[3] The U.S. Census Bureau estimates that by 2060, the Latino population will number 119 million and will account for approximately 28.6 percent of the nation's population.[4] Additionally, the U.S. Administration on Aging predicts the Latino population that is age 65 and older will number 21.5 million and will comprise 21.5 percent of the population by 2060.[5]

As identified by Rhee in her 2013 *Race and Retirement Insecurity in the United States* report, Latinos are significantly less likely than White workers to be covered by an employer-sponsored retirement plan, regardless if it is a 401(k) defined contribution (DC) plan or a traditional defined benefit (DB) plan.[6] Rhee found that Latino households have substantially lower retirement savings than white households, and that four out of five Latino households have less than $10,000 in retirement savings, compared to one out of two white households.[7] She also found that Latino households are far less likely to have dedicated retirement savings than white households of the same age—in fact 69 percent of working Latinos do not own any assets in a retirement account, compared to 37 percent of white households.[8]

This report updates and expands upon Rhee's 2013 findings. It is based on analysis of the 2014 Survey of Income and Program Participation (SIPP) Social Security Administration (SSA) Supplement data from the U.S. Census Bureau. The report examines the disparities in retirement readiness between working Latinos aged 21 to 64 and other racial and ethnic groups. It examines the following measures of retirement security: differences in access, eligibility, and participation in employer-sponsored retirement plans between working Latinos compared to other racial and ethnic groups; retirement account ownership by generation of working Latinos compared to other racial and ethnic groups; the defined benefit (DB), defined contribution (DC), and individual retirement account (IRA) ownership rates for working Latinos compared to other racial and ethnic groups; and the average retirement savings by generation of working Latinos compared to other racial and ethnic groups.

Key Findings

- Access and eligibility to an employer-sponsored retirement remains the largest hurdle to Latino retirement security.
- The retirement plan participation rate for Latino workers (30.9%) is about 22.1 percentage points lower than participation rate of White workers (53%), because Latinos face higher access and eligibility hurdles.
- When a Latino has access and is eligible to participate in a plan, they show slightly higher take-up rates when compared to others races and ethnicities.
- For working Latinos who are saving, their average savings in a retirement account is less than one-third of the average retirement savings of White workers. Overall, less than one percent of Latinos have retirement accounts equal to or greater than their annual income.

INTRODUCTION

The Latino population is the largest growing minority group in the United States.[9] In 2016, the Latino population reached 57.5 million, making Latinos the largest ethnic minority with 17.8 percent of the total U.S population.[10] Furthermore, Latinos are the largest minority group in the U.S workforce, comprising 16.8 percent of the labor force in 2016.[11] The U.S. Census Bureau estimates that by 2060, the Latino population will number 119 million and will make up approximately 28.6 percent of the nation's population.[12] Additionally, the U.S. Administration on Aging predicts that the 21.5 million Latinos who will be age 65 and older will comprise 21.5 percent of the population by 2060.[13] Given these trends, the economic security and wellbeing of Latinos throughout their lifecycle will have a significant influence on national economic trends.

One of the more troubling economic trends is a lack of retirement security among Americans. More than six out of ten working Americans worry about running out of money in retirement, according to a survey by the Gallup organization.[14] Non-White individuals with incomes under $30,000 have even higher financial worry indices than their counterparts.[15] Most recent studies show that many Americans are ill-prepared for retirement,[16] and that they are anxious about their ability to afford retirement.[17] In fact, Rhee and Boivie found in 2013 that nearly 40 million working-age households (45%) do not own any retirement account assets and that the average working American household has virtually no retirement savings. As such, many Americans have good reason to worry about their financial security in retirement.[18]

Latinos—in particular—have additional reasons to worry about retirement security. As identified by Rhee in her 2013 *Race and Retirement Insecurity in the United States* report, Latinos face a particularly severe challenge in preparing for retirement.[19] This is due to the fact that Latinos are significantly less likely than White workers to be covered by an employer-sponsored retirement plan—either in a traditional DB pension or a 401(k) plan.[20] Moreover, 69 percent of working Latinos do not own any assets in retirement account, compared to 37 percent of white households.[21] The disparity in retirement savings between Latinos and Whites is even greater than the gap in retirement plan coverage; four out of five Latino households have less than $10,000 in retirement savings, compared to one in two White households.[22]

Latinos and Latinas of all ages face challenges to saving for retirement. Older Latinas especially experience difficulties in making ends meet without income from wages. Without income from work, Latinas age 65 and older would not be able to afford basic expenses. Older Latinas also face poverty rates three times higher than older White women, and one in five Latinas over the age of 65 live in poverty.[23] Millennial Latinos and Latinas also face significant challenges in saving for retirement, given that 83 percent of working Millennial Latinos had nothing saved for retirement in 2014.[24] Among those with access, only 19.1 percent of Millennial Latino men and 22.5 percent of Latinas participated in an employer-sponsored retirement savings account.[25]

This report updates and expands upon Rhee's 2013 findings and is based on an analysis of the 2014 Survey of Income and Program Participation (SIPP) data from the U.S. Census Bureau. It examines the disparities in retirement preparedness between working Latinos aged 21 to 64 and other racial and ethnic groups. Specifically, this report examines the differences in access, eligibility, and participation in employer-sponsored retirement plans between working Latinos compared to other racial and ethnic groups; the retirement plan access of working Latinos compared to other racial and ethnic groups looking at age, gender, income and U.S. born status; and the ownership and amount of savings in retirement accounts by generation of working Latinos compared to other racial and ethnic groups. The report is organized as follows:

- **Section I** discusses workplace retirement coverage of working Latinos aged 21 to 64, compared to other racial and ethnic groups.
- **Section II** analyzes retirement account eligibility of Latinos by type of employer, size of employer, and discusses reasons why working Latinos lack coverage in employer-sponsored retirement plans.
- **Section III** discusses retirement account balances of working Latinos aged 21 to 64, compared to other racial and ethnic groups.
- **Section IV** discusses policy options to expand retirement savings for Latinos.

SECTION I

Workplace Retirement Plan Access

Employer-sponsored retirement plans are the most important vehicle for providing retirement income for older Americans after Social Security. After declining steadily since the late 1990s, the share of private sector employees with access to workplace retirement plans has decreased to 52 percent in 2017—its lowest point since 1979.[26] Since the mid-1980s, private employers have shifted from DB pensions, which provide a secure monthly income throughout retirement, to offering employees DC retirement savings plans using 401(k)-style individual investment accounts. The structure of DC plans place the investment risk and most—if not all—of the burdens of contributing to a plan on workers themselves.[27]

Even more troubling is that a large number of American workers lack access to any type of employer-sponsored retirement plan. Numerous studies have shown that retirement plan access and participation are highly correlated with firm size and wage level, and to a lesser extent, with age.[28] Low-wage workers; women; younger workers; workers of color; single workers; part-time workers; and workers employed by small businesses are more likely to lack coverage from an employer-sponsored retirement savings plan. These workers are also more likely to have lower wealth accumulations.[29]

Inequalities in workplace retirement plan access, eligibility, take-up, and participation in an employer-sponsored retirement plan have contributed to persistent retirement gaps between Latinos and Whites. Morrissey and Sabadish identified that Latino workers have fallen further behind White workers in workplace retirement coverage since 1989.[30] In her analysis, Rhee found that only 38 percent of Latinos were employed by a firm that offered a retirement plan, compared to 62 percent of White employees.[31] This section highlights differences in retirement plan access, eligibility, take-up, and participation for Latinos as compared to other racial and ethnic groups.

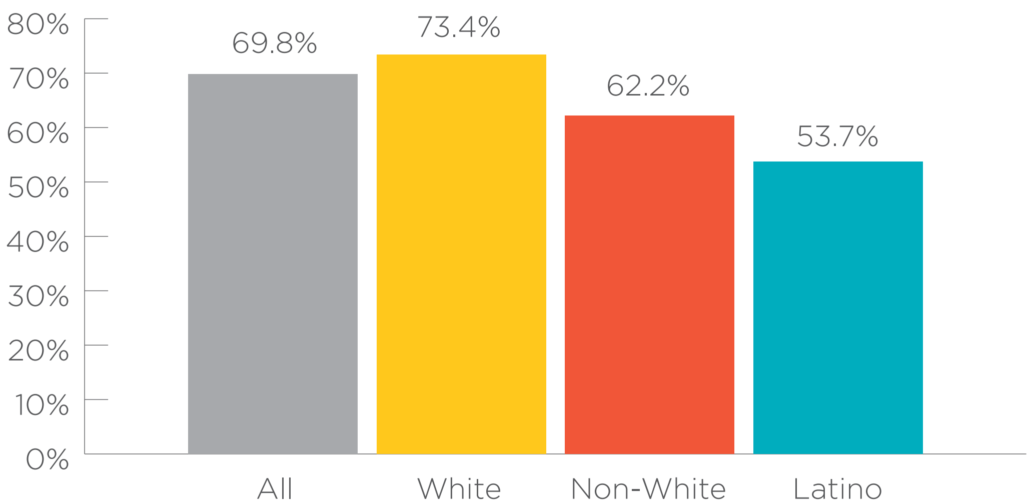
This paper uses the terms access, eligibility, take-up, and participation to describe different facets of employees' utilization of an employer-sponsored retirement plan. Access measures the proportion of employees that work for an employer that offers a retirement plan to any of its employees. Eligibility measures the proportion of employees who have access to an employer-sponsored plan and also meet employer-specified requirements to participate in the plan. Take-up measures the proportion of employees with access to a plan, who are eligible to enroll in a plan, and who choose to enroll in the plan. Participation rates are determined by multiplying the percentage of employees who have access to a plan, by the percentage of employees who are eligible to participate in a plan, by the percentage of those who take-up or actually choose to participate in a plan.

Overall, working Latinos fell behind all workers, White workers, and non-White workers in access to, eligibility for, and participation in an employer-sponsored retirement plan. Only 53.7 percent of Latinos worked for an employer that sponsored a retirement plan compared to 69.8 percent of all workers age 21 to 64 who worked for an employer that sponsored a retirement plan in 2014. That year 73.4 percent of White workers and 62.2 percent of non-White workers were employed by an employer that sponsored a retirement plan. (See Figure 1).

Figure 1

Latinos are Significantly Less Likely to Have Access to An Employer-Sponsored Retirement Plan

Percentage of workers who work for an employer that offers a retirement plan.



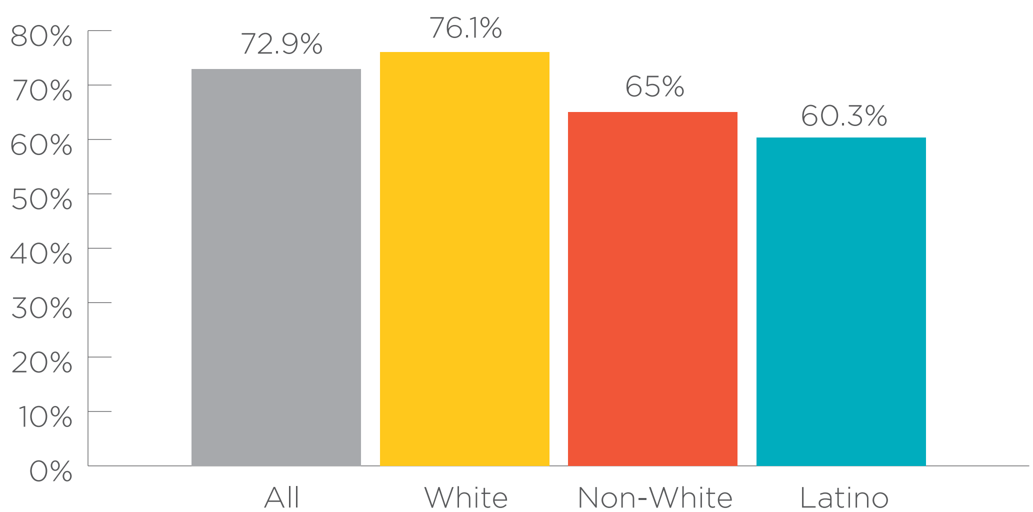
Source: 2014 Survey of Income and Program Participation SSA Supplement Data

In addition to having the lowest level of access to employer-sponsored retirement plans, Latinos also have the lowest rate of eligibility for the retirement plans offered by their employers. This could be due to the fact that many Latinos have not worked for their employer for one year, work part-time, or are under the age of 21—making them ineligible to participate in a retirement plan. Among Latinos with access to a retirement plan, only 60.3 percent also meet the eligibility requirements set by employers, compared to higher retirement plan eligibility rates for all workers (72.9%), Whites (76.1%) and all non-White workers (65%). (See Figure 2).

Figure 2

Latinos Are Also Less Likely to Be Eligible to Participate in An Employer-Sponsored Retirement Plan

Percentage of workers who are eligible for an employer-sponsored retirement plan.



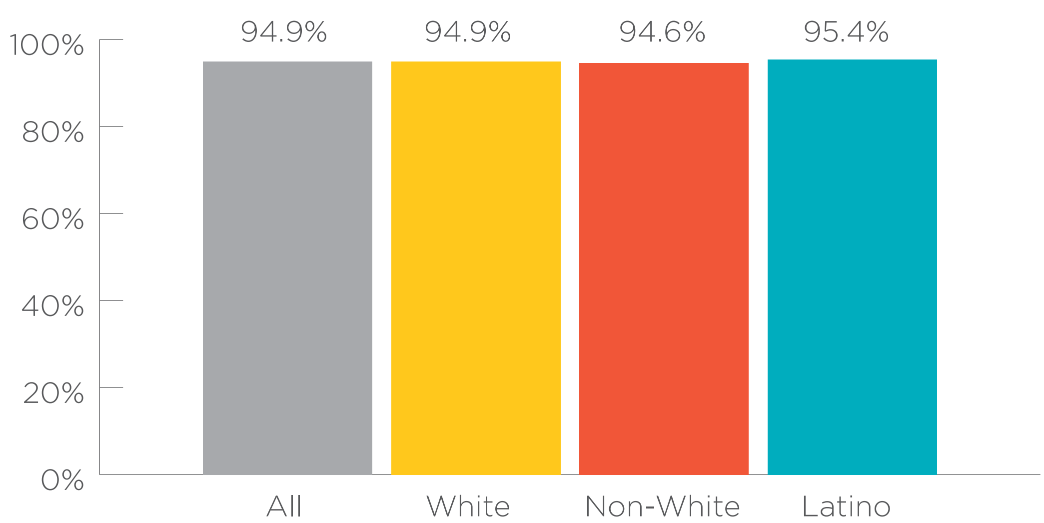
Source: 2014 Survey of Income and Program Participation SSA Supplement Data

Take-up rates are one area of retirement coverage where Latino workers and workers from all racial and ethnic groups display nearly the same behavior. When Latinos are offered and are eligible to participate in an employer-sponsored retirement plan, they take-up or choose to participate in a plan at a high rate of 95.4 percent. This is similar to the take-up rates of all workers (94.9%), Whites (94.9%) and non-whites (94.6%). The high take-up rate among Latinos—higher than all other groups—indicates that when given the opportunity to save for retirement, Latinos recognize the value of saving and participate in these plans. (See Figure 3).

Figure 3

Latinos, When Offered and Eligible for a Retirement Plan, Take-Up Employer-Sponsored Retirement Plans at High Rates Similar to Other Groups

Percentage of workers who were eligible for an employer-sponsored retirement plan and who took-up a plan.



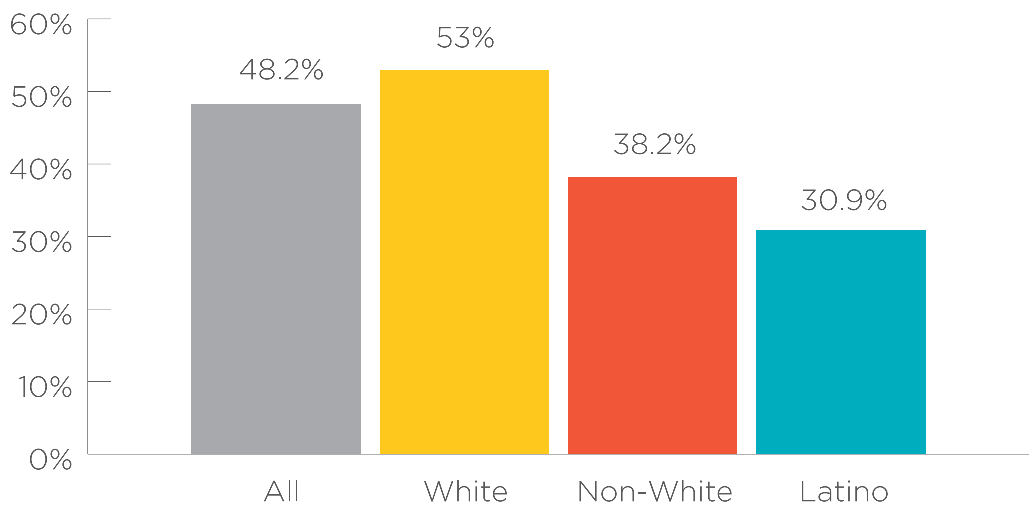
Source: 2014 Survey of Income and Program Participation SSA Supplement Data

Latinos had the lowest participation rate—the product of multiplying the access rate, the eligibility rate and the take up rate—in retirement plans. Among all workers age 21 to 64, only 48.2 percent actually participated in a workplace retirement plan. While half (53%) of White workers participated in an employer's plan, only 30.9 percent of Latino workers participated in an employer-sponsored retirement plan. Non-White workers had the second lowest level of participation in a retirement plan with 38.2 percent. (See Figure 4).

Figure 4

Latino Participation Rate is 22.1 Percentage Points Lower Than the White Participation Rate

Percentage of workers participating in employer-sponsored retirement plans.



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

Many Factors Influence Latino Retirement Readiness

The differences among groups in access, eligibility, and take-up rates may be due to labor market and socioeconomic characteristics like educational attainment, skills, wage level, occupation, and industry. Higher educational attainment contributes to higher earnings and increased access to a retirement plan.[32]

Wages

One in five Latino workers, more than any other group, earns poverty-level wages. Low earnings present a significant barrier for Latino workers.[33] Munnell and Perun suggest that earnings are a significant determinant of whether a worker chooses to participate in or opt out of a 401(k)-style plan.[34] Thus, workers earning low wages and struggling to make ends meet may very well find it difficult to set aside a portion of their income to save for retirement.

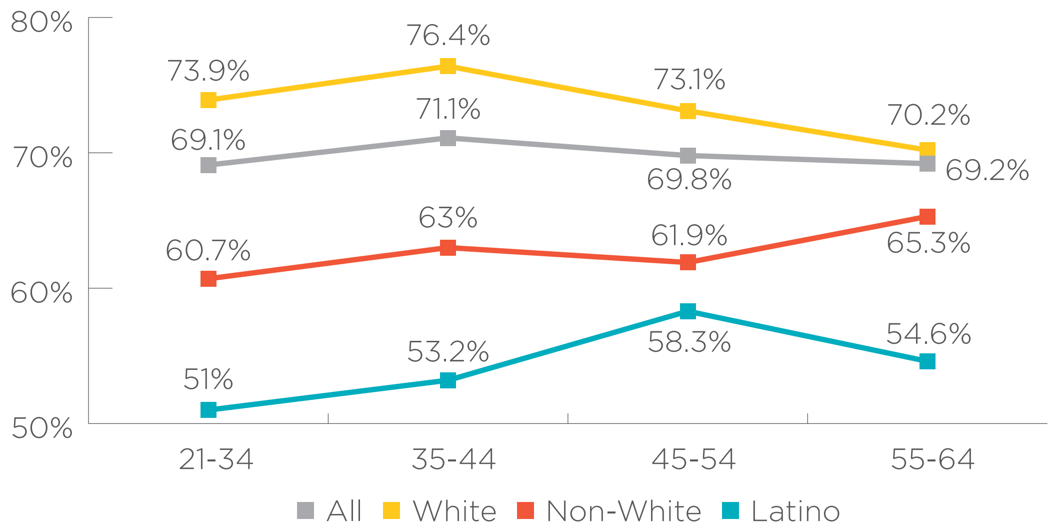
Age

Throughout their working lives, Latino workers of all ages have significantly less access to an employer-sponsored retirement savings plans compared to Whites, all workers, and non-White workers. While access to retirement plans usually decrease with age for White workers, Latino workers age 45-54 (58.3%) and 55-64 (54.6%) have greater access than Latinos age 21-34 (51%) and 35-44 (53.2%). (See Figure 5). It should be noted that the Latino population is the youngest, with a median age of 28, compared to 43 for non-Hispanic whites.[35] This means that this trend can disproportionately affect the ability of Latinos to gain access to retirement plans.

Figure 5

Across All Age Groups, Latinos Have Less Access to An Employer-Sponsored Retirement Plan

Percentage of workers who work for employers that offers retirement plans.



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

The pattern of Latinos working for employers that offer retirement plans differs significantly from the level of retirement plan access that White workers experience at all ages. Specifically, 73.9 percent of younger White workers between the ages of 21 and 34 have access to an employer-sponsored retirement savings plan. This increases to 76.4 percent for White workers between the ages of 35 and 44, but their access levels decrease to 73.1 percent for White workers between the ages of 45 and 54. As they approach retirement age—between the ages of 55 and 64—White worker's access rate declines further to 70.2 percent.

Saving for retirement at early ages is critically important, especially given the shift to DC retirement plans. In DC plans, compound interest plays a keen role in growing retirement account assets. Economist James Poterba illustrates that a worker who cannot save for retirement until age 45 will have significantly less retirement wealth at age 65 than a worker who has the opportunity to start save for retirement at age 25 and continues to save until age 65.[36] Latino workers under age 45 have significantly lower access to retirement plans (51% and 53.2%) when compared to White workers of the same age (73.9% and 76.4%). While access expands for Latino workers age 45 and older, these savings opportunities comes late in their work lives, and means having to save much more as a percent of income to reach adequate retirement wealth.

Making Up for Decades Without Access and Eligibility Requires Large Contributions that May Be Unrealistic for Latinos

Workers who gain the ability to save for retirement for the first time at age 45, as is the case with the majority of Latinos, will accumulate significantly less retirement wealth at age 65 than workers who began saving for retirement at age 25.[37] For the majority of Latinos who do not have access to a retirement plan until age 45, this delay makes saving an adequate percent of their income to reach income replacement goals by age 65 almost beyond reach. Making up for lost retirement savings after lacking access to workplace retirement plans for the first two decades of employment exerts a huge toll on disposable income.

Poterba calculates how much salary workers need to save to replace half of their pre-retirement income based on real investment returns and various periods of participation.[38] His results indicate that the impact of losing those early decades is significant. By the time a 45-year-old begins saving, they have missed out on 20 years of employer contributions and compound interest on would-be retirement savings. Specifically, a Latina who starts to save at age 25 and earns a three percent real return would have to save 11.9 percent (or 8.9 percent of her salary if her employer contributed a match equal to 3 percent) of her income to replace half of her income at age 65. In contrast, a Latino, who finally has access to a plan at age 45, would need to save 27.7 percent of his income annually (or 24.7 percent if his employer contributed a match of 3 percent) to reach the same income replacement goal.[39]

Devoting one quarter of income toward preparing for retirement is likely beyond the financial means of most middle age employees. So, the delay in access forces a choice of working well beyond age 65 or lowering living standards in retirement.

Retirement Contributions by Age

Based on earning a three precent real return

A Latina who starts to save at age 25 would have to save

11.9%

of her income to replace half of her income at age 65.*

In contrast

A Latina who starts to save at age 45 would need to save

27.7%

of her income annually.†

* Or 8.9 percent of her salary if her employer contributed a match equal to three percent.

† Or 24.7 percent if her employer contributed a match of three percent.

Sex

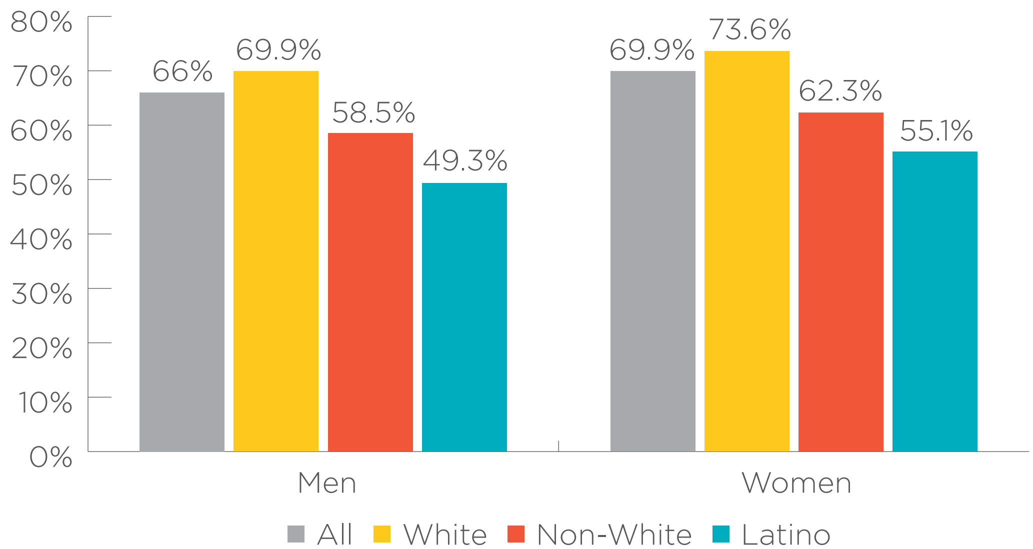
Starting in 1998, women were somewhat more likely than men to work for an employer that offered any type of retirement plan.[40] This reversed the historic trend where women generally had less access to retirement plans than men. As Brown et al. explained, an improved rate of access to employer-sponsored plans for women helped to narrow the gap in women's participation in employer-sponsored plans. Latinas, however, still fall significantly behind women of other racial and ethnic groups in access to, and participation in, employer-sponsored retirement plans.

The data shows this gender trend continues in 2013, as two thirds of all workers (66% of men and 69.9% of women), and White workers (69.9% of men and 73.6% of women) had access to an employer-sponsored retirement plan. Latino workers display similar gender patterns but at much lower levels of access. Only 49.3 percent of working Latinos had access to a plan and only 55.1 percent of working Latinas had access to a plan. (See Figure 6).

Figure 6

Latinos and Latinas Have Less Access to an Employer-Sponsored Retirement Plan Than Other Racial and Ethnic Groups

Percentage of men and women who work for an employer that offers a retirement plan.



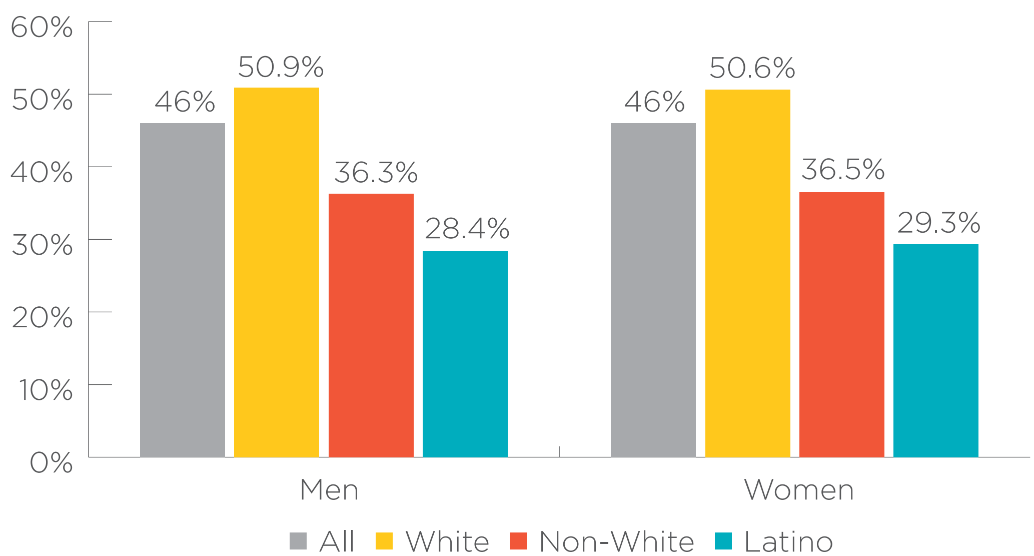
Source: 2014 Survey of Income and Program Participation SSA Supplement Data

Further, even though Latinas (29.3%) have pulled ahead of Latinos (28.4%) in participation in an employer-sponsored retirement plan, Latinos as a whole participate in an employer-sponsored plan at almost 60 percent of the rates experienced by White men (50.9%) and White women (50.6%). (See Figure 7).

Figure 7

Latinos and Latinas Participate in Employer-Sponsored Retirement Plans at Significantly Lower Rates than Whites

Percentage of men and women who participate in an employer-sponsored retirement plan.



Source: Authors' calculations using 2014 Survey of Income and Program Participation SSA Supplement Data

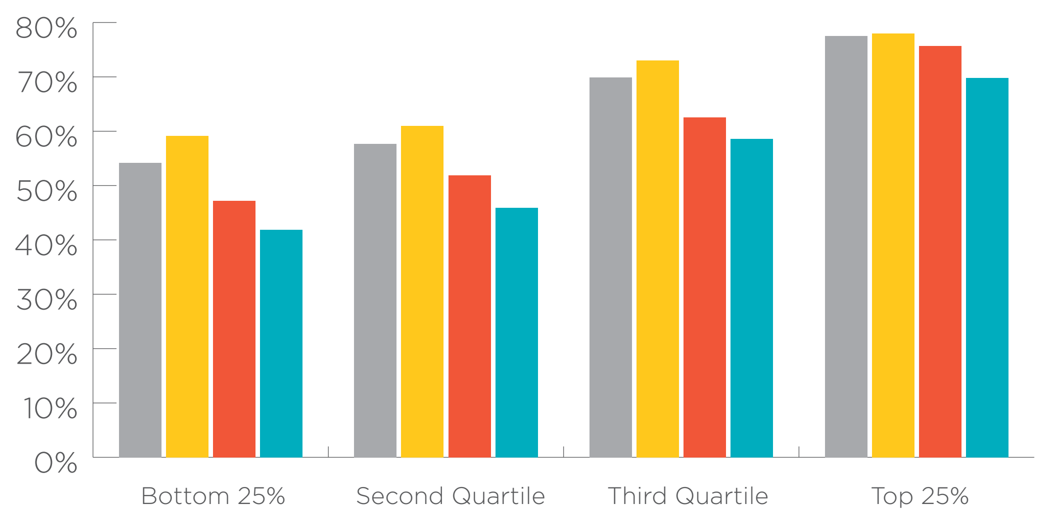
Income

Increased access to an employer-sponsored retirement plan corresponds with higher income levels. For all racial and ethnic groups of workers age 21 to 64, as income increases, access to an employer sponsored retirement plan increases. Consistent with this, only 41.9 percent of working Latinos in the first income quartile—or the bottom 25 percent of income—have access to an employer-sponsored retirement plan. Among working Latinos in the second quartile, 45.9 percent have access to an employer-sponsored plan. This trend continues upward in the third and fourth quartiles, as 58.6 percent of working Latinos in the third income quartile and 69.8 percent of Latinos in the fourth or top income quartile have access to an employer-sponsored plan. Despite Latino retirement access increasing with income, Latinos have the lowest access rates of all racial and ethnic groups in every income quartile. (See Figure 8).

Figure 8

Similar to Other Races and Ethnicities, Latino Access to an Employer-Sponsored Retirement Plan Increases with Income

Workplace retirement access by income quartile.



	Bottom 25%	Second Quartile	Third Quartile	Top 25%
All	54.2%	57.7%	69.9%	77.5%
White	59.1%	61%	73%	78%
Non-White	47.2%	51.9%	62.5%	75.7%
Latino	41.9%	45.9%	58.6%	69.8%

Source: 2014 Survey of Income and Program Participation SSA Supplement Data

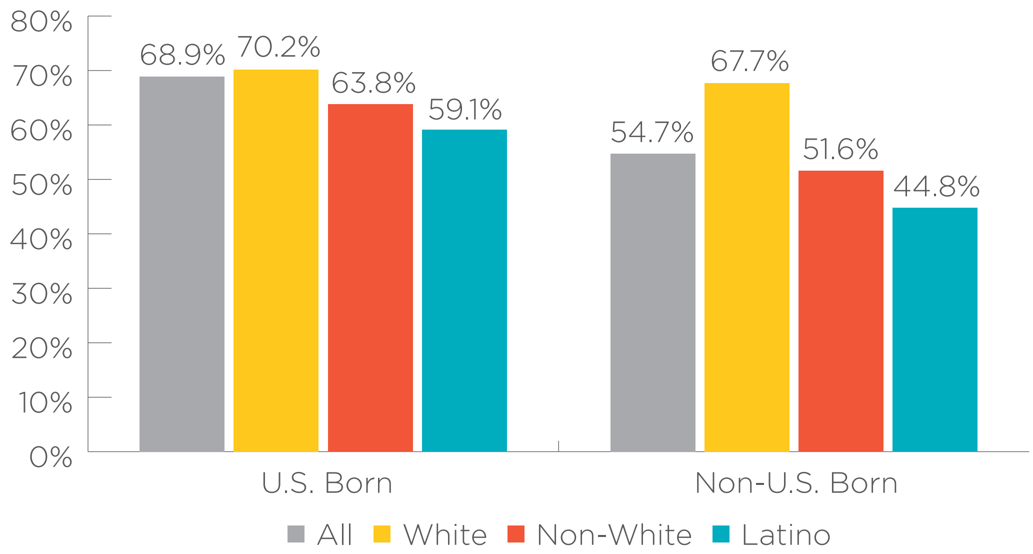
As previous studies have shown, retirement accounts are sharply concentrated at the top of the income distribution.[41] Indeed, Rhee and Boivie found that retirement account ownership rates are sharply concentrated in the top-half of the income distribution and anticipated that the disparity would only increase.[42] The difference among access rates between the top and lowest income quartiles for Latinos (27.9 basis points) is significantly higher than the spread in access rates for Whites (18.9 basis points), indicating that income disparity likely exerts a sharper impact among Latino workers. According to a report of the Joint Economic Committee (JEC), even though roughly 13 percent of U.S. households are Latino, they make up only 7.4 percent of incomes in the top fifth of the income distribution, but account for 15.3 percent of households in the lowest income quintile.[43]

Nativity

Across all races and ethnicities, U.S.-born workers have greater access to employer-sponsored retirement plans than non-U.S. born workers. Specifically, 59.1 percent of working U.S. born Latinos have access to an employer-sponsored retirement account, compared to only 44.8 percent of non-U.S. born Latinos. Notably, the gap in retirement plan is much narrower between U.S. born White workers (70.2%) and non-U.S. born White workers (67.7%). The significant difference in rates of access to employer sponsored retirement plans between non-U.S. born White (67.7%) and Latino (44.8%) workers contributes to the disparity in overall access rates between these groups. (See Figure 9).

Figure 9

Similar to Other Races and Ethnicities, U.S. Born Latinos Have Higher Rates of Retirement Access Than Non-U.S. Born Workers



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

Low access rates among non-U.S. born Latino workers are symptomatic of the persistent job quality issues Latino immigrants face. Foreign-born Latinos are highly concentrated in industries that pay low wages and offer few benefits, including access to an employer sponsored retirement account.[44] For example, the agricultural, mining, and construction industries, which have disproportionally high concentrations of Latino immigrants, are less likely to offer a retirement plan to their employees than other industries.[45] In California, the state with the largest Latino population, one-quarter (23.2%) of the non-U.S. born Latino workforce is employed in these industries.[46]

SECTION II

Latino Retirement Account Access by Employer Size and Type

Nearly half of Latino workers have no access to a retirement savings plan through their private sector employer.[47] Multiple studies have shown that retirement plan access and participation is highly correlated with firm size and wage level.[48] The Social Security Administration (SSA) found that workers in large firms are more likely to have access to a retirement plan than workers in small firms.[49] In 2018 the Government Accountability Office (GAO) found that individuals that worked for a firm with 50 or fewer employees were more than nine times less likely to have access to an employer-sponsored retirement plan, compared with workers at the largest firms.[50] In 2017, the majority (81.6%) of Latinos worked in the private sector.[51] Among these private sector workers, 29.4% worked for small businesses with between 10 and 100 employees and 19% in very small businesses with nine or fewer employees.[52] Given the overrepresentation of Latino workers in private sector small businesses, the findings on firm size point to particular challenges facing the Latino workforce.

Well-established differences in access and participation rates in retirement plans also exist between the workers in public and private sectors of the workforce. Public employers offer greater access to workplace retirement benefits, which most often include access to traditional DB pensions.[53] In terms of race and ethnicity, Rhee found that in the public sector, the chances of Latinos having retirement plans compared to Whites is 12 percent less for Latinos. In contrast, Latinos working in the private sector are 42 percent less likely to have a retirement plan than Whites. Rhee attributes this difference to the heavy representation of Latinos in low-wage jobs that are more prevalent in the private sector than in the public sector.[54]

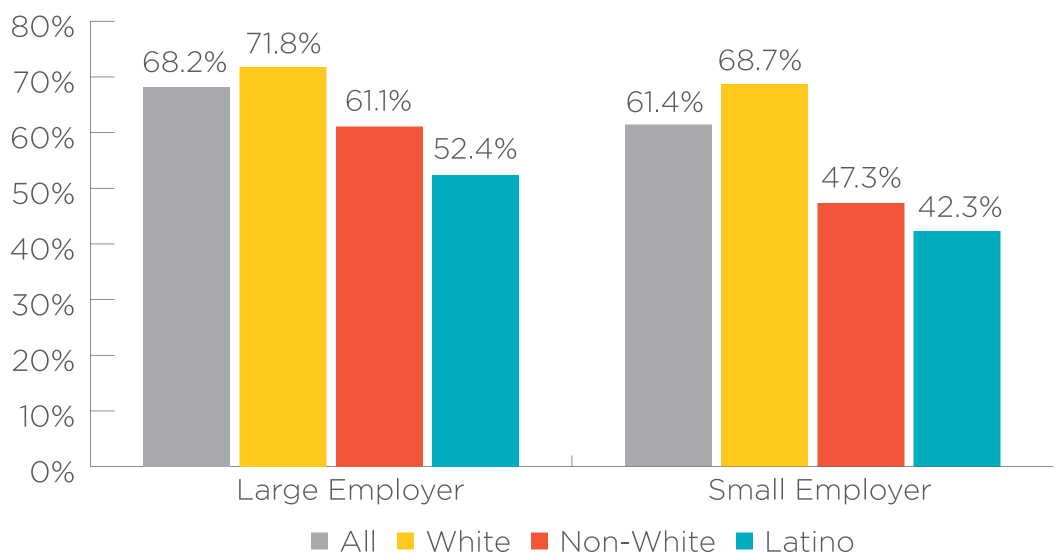
Employer Size

Access to an employer-sponsored retirement plan is lower for employees who work for a small employer (less than 100 employees), compared with employees who work for a large employer (more than 100 employees). Latinos who work for a small employer (42.3%) have lower rates of access to an employer-sponsored retirement plan than Whites who work for a small employer (68.7%). This is also true when comparing all workers (61.4%). Latinos who work for a small employer have lower access to an employer-sponsored plan than those Latinos who work for large employers (52.4%). Overall, the racial and ethnic access gap among small employers is wider than it is among large employers. (See Figure 10)

Figure 10

Latinos Who Work for Small Employers Have Substantially Less Access to an Employer-Sponsored Retirement Plan than Whites Who Work for Small Employers and Latinos Who Work for Larger Employers

Access to an employer-sponsored retirement account by race and employer size



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

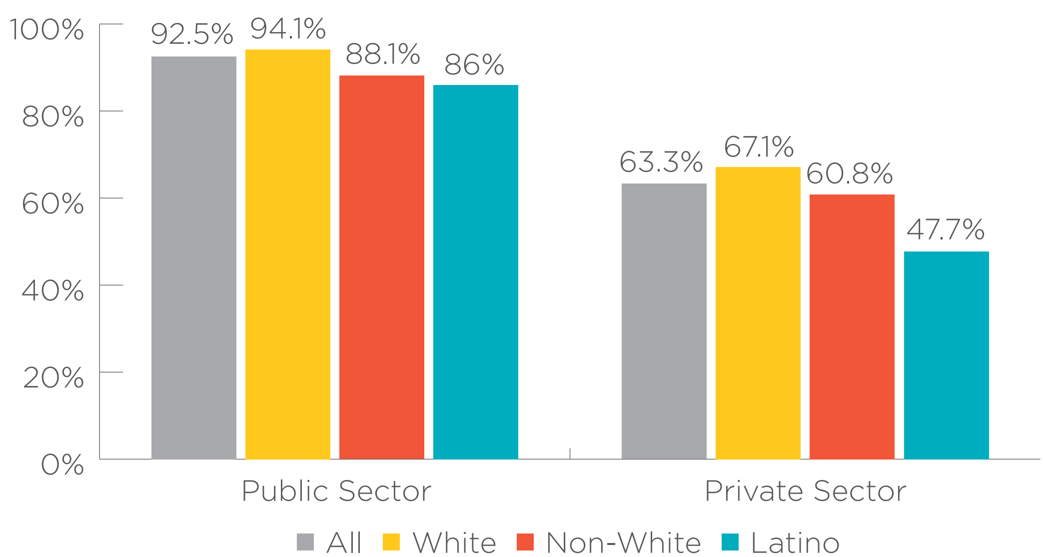
Public vs. Private Sector

Overall, 92.5 percent of public employees age 21 to 64 report having access to an employer-sponsored retirement plan, compared to 63.3 percent of private employees. The data continues to show persistent access gaps in both the public and the private sectors among Whites, non-Whites, and Latinos. However, it is important to note that Latino workers in the public sector have a significant retirement access advantage (86.0%) over Latino workers in the private sector (47.7%). In fact, the access gap is three and a half times wider in the private sector than it is in the public sector. (See Figure 11).

Figure 11

Latinos in the Private Sector Have Significantly Less Access to an Employer-Sponsored Retirement Plan than Latinos in the Public Sector

Access to an employer-sponsored retirement account by race and sector of worker.



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

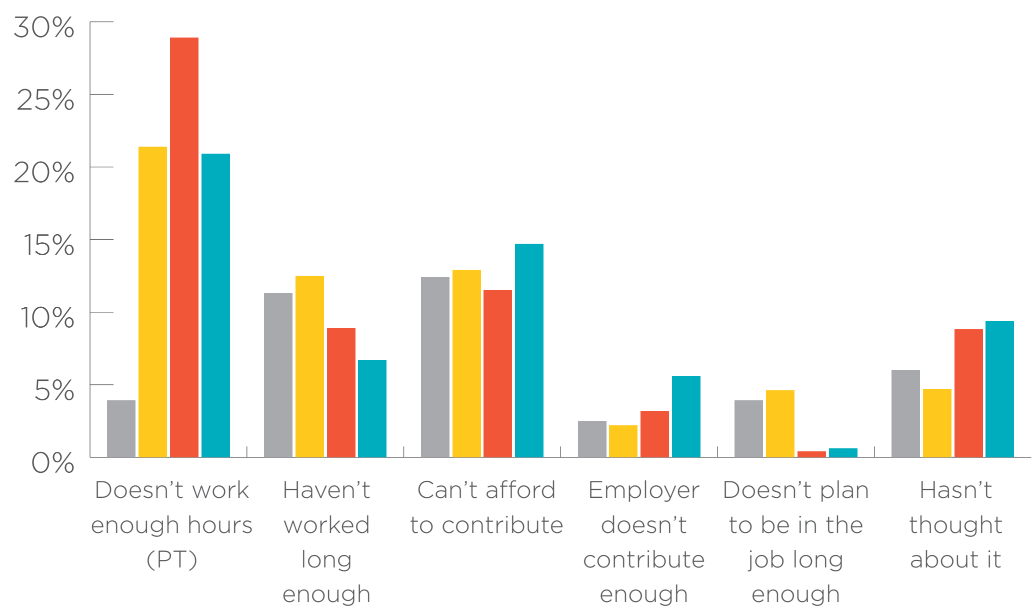
Part-time Work

Across all races and ethnicities, working part-time is the main factor as to why an employee was not eligible or decided not to participate in an employer-sponsored retirement plan. In 2017, 20.2% of Latinos working part-time were looking for full-time employment.[55] For Latinos, working part-time (20.9%) outweighed all other reasons for not participating in an employer-sponsored retirement plan, including not working long enough for an employer (6.7%); affordability (14.7%); hasn't thought about it (9.4%); employer contribution rate (5.6%); and not planning on staying with the employer (0.6%). Comparing these reasons with White and non-White workers, many of these reasons are similar, with the exception of not thinking of contributing—which was significantly higher for both Latinos and non-White workers than for White workers. (See Figure 12).

Figure 12

Part-Time Work and Inability to Afford Contributing to a Plan Greatly Impacts Latinos' Ability to Participate in an Employer-Sponsored Retirement Savings Plan

Attitudinal reasons why workers were not eligible to participate in an employer-sponsored retirement savings plan or did not participate in a plan.



	Doesn't work enough hours (PT)	Haven't worked long enough	Can't afford to contribute	Employer doesn't contribute enough	Doesn't plan to be in the job long enough	Hasn't thought about it
All	23.9%	11.3%	12.4%	2.5%	3.9%	6%
White	21.4%	12.5%	12.9%	2.2%	4.6%	4.7%
Non-White	28.9%	8.9%	11.5%	3.2%	0.4%	8.8%
Latino	20.9%	6.7%	14.7%	5.6%	0.6%	9.4%

Source: 2014 Survey of Income and Program Participation SSA Supplement Data

SECTION III

Retirement Account Ownership and Balances

As discussed in Jacob Hacker's *The Great Risk Shift*, individuals now have less retirement security through Social Security and less access to a DB pension.[56] As identified by the Government Accountability Office (GAO), this shift from DB pensions to 401(k)-style DC plans has left many Americans without a guaranteed monthly income stream in retirement that cannot be outlived.[57] In traditional DB pensions, the employer maintains the risk of investment losses while assets benefit from management by financial professionals. DC plans transfer the risk and responsibility of saving and investing to workers.[58] The shift from DB pensions to DC accounts, combined with the voluntary nature of retirement system in the U.S., has left the typical working household in America with virtually no retirement savings.[59] Even after counting a household's entire net worth, two-thirds (66%) of working families fall short of modest retirement savings targets for their age and income.[60]

Previous NIRS research has found that the typical American household has virtually no retirement savings. In their *Continuing Retirement Savings Crisis* report Rhee and Boivie found that the typical (median) value of retirement account assets counting all households, including those that do not have a retirement account, is only $2,500 for households aged 25 to 64 and $14,500 for near-retirement households.[61]

This section explores disparities between Latinos and other racial and ethnic groups in retirement account ownership among workers aged 21 to 64 based on an analysis of U.S. Census Bureau Survey of Income and Program Participation (SIPP) data from 2014. Retirement plans in this section include both employer-sponsored retirement plans, such as 401(k)s; 403(b)s; 457s; SEP IRA, and SIMPLE IRA plans—held through a current or former employer—and private retirement accounts such as Traditional IRAs and Roth IRAs. For this section, DB pensions are not included. For purposes of this section, an individual is considered to own a retirement account if their total retirement account assets are greater than zero.

Retirement account ownership varies widely by race. The data shows that among working individuals age 21 to 64, only 27 percent of non-White individuals own a retirement account, compared to 48.7 percent of White individuals. An even greater disparity surfaces between Latinos and Whites. Only 21.6 percent of Latinos have $1 or more saved for retirement. (See Figure 13).

Figure 13

A Large Majority of Latinos and Non-Whites Do Not Own Any Assets in a Retirement Account

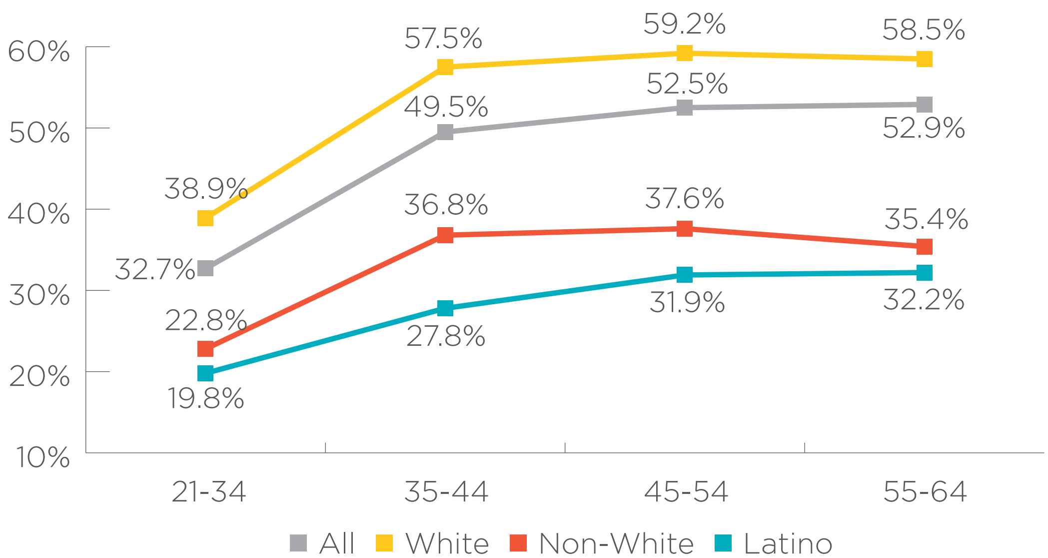
Source: Author's calculations using 2014 Survey of Income and Program Participation SSA Supplement Data

While retirement ownership generally increases with age, there is a large gap in retirement account ownership between Whites, non-Whites, and Latinos across all age groups. For individuals aged 21 to 34, the rate of retirement account ownership is 38.9 percent for Whites, 22.8 percent for non-Whites, and 19.8 percent for Latinos. Among those age 55 to 64, the rate of retirement account ownership is 58.5 percent for Whites, 35.4 percent for non-Whites, and 32.2 percent for Latinos. (See Figure 14).

Figure 14

There is a Large Gap Between Latinos and Whites of All Ages in Terms of Retirement Account Ownership

Retirement account ownership by race and age group.



Source: 2014 Survey of Income and Program Participation SSA Supplement Data

The median retirement account balance of all working Latinos aged 21 to 64 is $0. Additionally, the median retirement account balance of all working-age non-White adults is also $0, while the median retirement savings of all working Whites was only $1,000. (See Table 1).

Table 1

Typical Working Latinos of All Ages Have Nothing Saved For Retirement

Median retirement savings of working individuals aged 21 to 64, in 2014

	White	Non-White	Latino
All	$1,000	$0	$0
21-34	$0	$0	$0
35-44	$1,000	$0	$0
45-54	$8,500	$0	$0
55-64	$12,100	$0	$0

Source: 2014 Survey of Income and Program Participation Wave 1 and SSA Supplement Data

White workers are the only group for whom median balances improve with age. However, even young White workers (aged 21 to 34) face challenges to building retirement savings, given their median retirement balance of $0. As displayed in Table 1, the median retirement balance for all working Whites between the age of 35 and 44, the median balance is $1,000. For all working Whites between the age of 45 and 54, the median retirement balance is $8,500. Finally, all working Whites that are nearing retirement between the ages of 55 and 64 have a median balance is $12,100.

When limiting consideration to only workers who are saving, significant differences exist. Latinos who had positive retirement savings had an average retirement account balance of $21,861. Additionally, Latinos' average retirement savings balances increases with age; younger Latinos between the ages of 21 to 34 have an average balance of only $4,993, whereas older Latinos between the ages of 55 and 64 have a balance of $42,335. The average retirement account balances of Latinos are significantly less than Whites, who had an overall average of $76,234. All Latinos regardless of age had a lower average account balance than Whites over the between the ages of 35-44. (See Table 2).

Table 2

Latinos Who Have Retirement Accounts Have Less than One-Third of the Average Retirement Savings of Whites

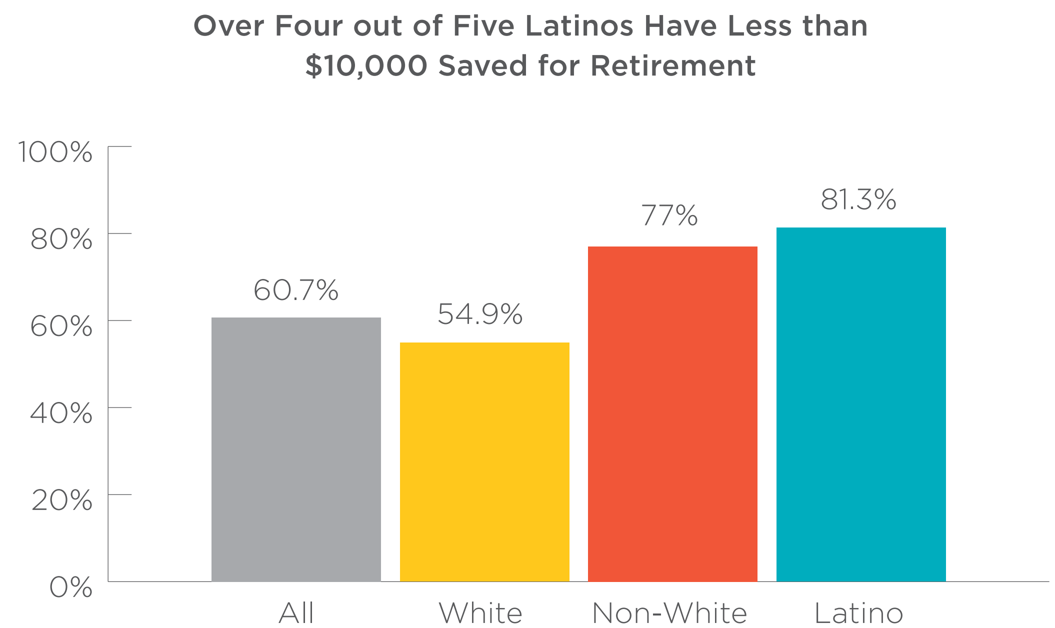
Mean (average) retirement savings balances by race and age.

	ALL	WHITE	NON-WHITE	LATINO
All	$63,904	$76,234	$29,504	$21,861
21-34	$11,584	$13,093	$8,518	$4,993
35-44	$43,428	$54,198	$21,457	$18,529
45-54	$68,249	$78,719	$37,840	$27,710
55-64	$103,526	$116,580	$50,432	$42,335

Source: 2014 Survey of Income and Program Participation Wave 1 and SSA Supplement Data

For workers of all races and ethnicities, 60.7 percent of individuals had a retirement balance of less than $10,000. Similarly, 54.9 percent of White workers between the ages of 21 and 64 had a retirement savings balance of less than $10,000. More than three-fourths of working non-Whites (77.0%) and over four-fifths of Latinos (81.3%) had a retirement savings account balance of less than $10,000. (See Figure 15).

Figure 15



Source: 2014 Survey of Income and Program Participation Wave 1 and SSA Supplement Data

Retirement savings are meant to replace the income earned during an individual's working life. The financial services firm Fidelity recommends accumulating retirement savings equal to eight times of an individuals' income at age 67—a significantly later retirement age than the current median Social Security retirement age of 64 for men and 63 for women. The human resources consulting firm Aon Hewitt recommends that the average American worker save at least 11 times their income in order to retire at age 65. Higher income individuals need more retirement savings than lower-income individuals to replace their typical expenditures.[62] Retirement savings are meant to be accumulated gradually over the length of an individual's career through contributions and investment returns. Thus, account balances need to be analyzed in relation to income, earnings, and age.

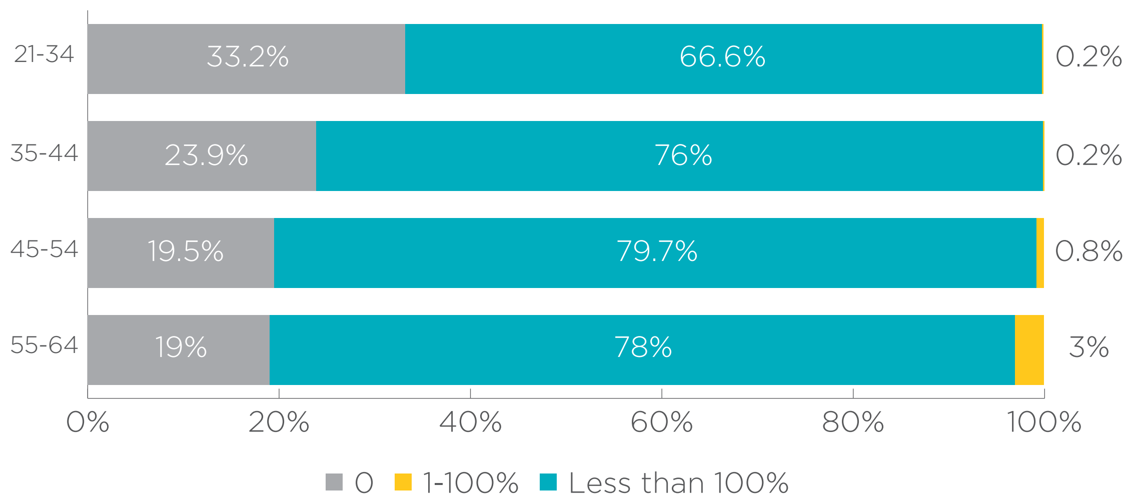
Following earlier NIRS analysis of the retirement savings of different racial and ethnic groups, this paper groups individuals into three categories: 1) individuals with no retirement assets, 2) individuals with retirement assets greater than zero but with less than 100 percent of income, and 3) individuals with retirement assets equal to or greater than 100 percent of income.[63]

The results are shown in **Figure 16a-d**

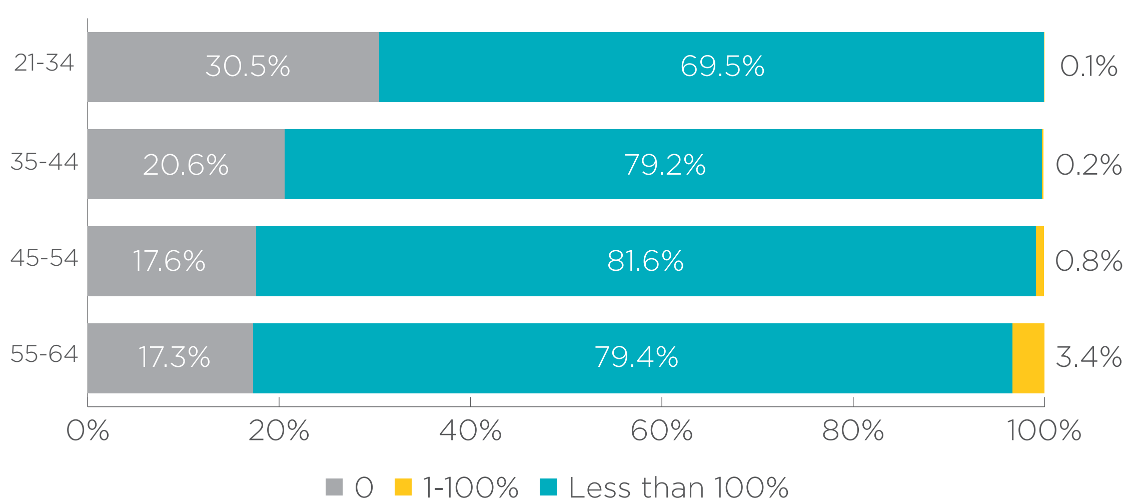
Figure 16

Working Latinos and Working Non-Whites Are Significantly Less Likely to Have Retirement Savings Equal or Greater to Their Annual Income

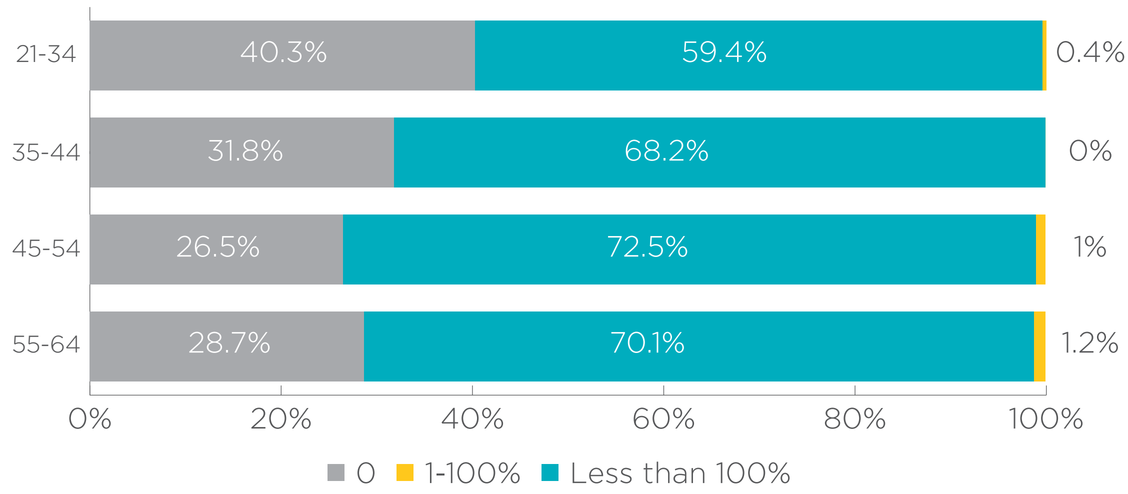
16a. All Working Individuals



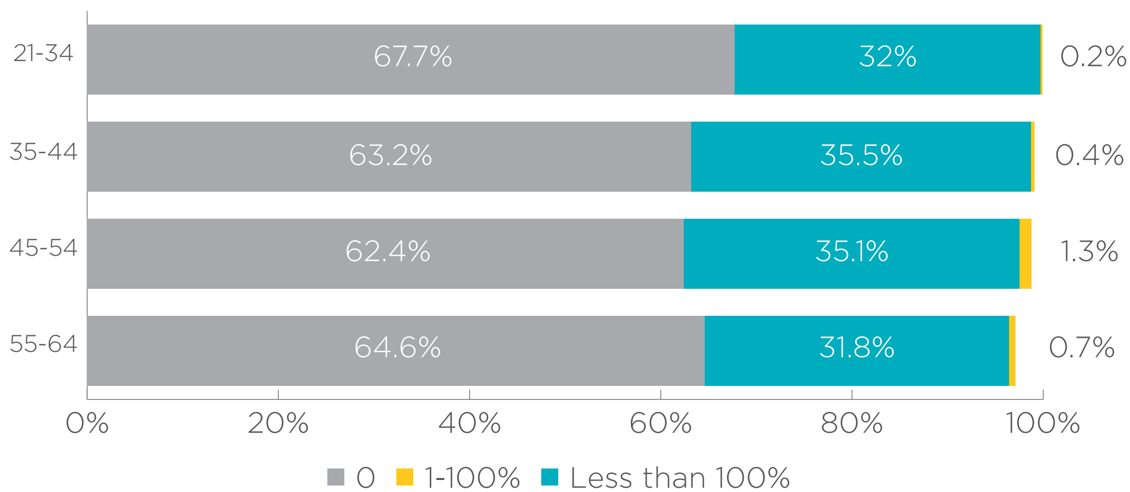
16b. White Working Individuals



16c. Working Non-Whites



16d. Working Latinos



Source: 2014 Survey of Income and Program Participation Wave 1 and SSA Supplement Data

Consistent with Rhee's previous analysis, a pattern emerges when analyzing the data contained in **Figure 16**. First, Latinos and non-White individuals have markedly less retirement savings as a percentage of their income than that of Whites. For example, for Latinos aged 55 to 64, 64.6 percent had no retirement savings, while only 31.8 percent had retirement savings equal to or less than their annual income. While only 17.3 percent of Whites aged 55 to 64 had no retirement savings and 79.4 percent of Whites aged 55 to 64 had retirement savings equal to or less than their annual income. These findings are consistent with Rhee and Boivie's previous findings that nearly four out of five working households have retirement savings that is less than one times their annual income.[64]

SECTION IV

Public Policy Recommendations

Retirement security remains a concern for all Americans, however, the data paint a clear picture of the additional layers of concern for Latinos. Policymakers at the federal and state level are positioned to provide access to and encourage retirement savings and begin reversing long-standing disparities in retirement security. Some of those policy options that would greatly benefit Latinos, and all workers, are discussed below.

Expand DC Plan Eligibility for Part-Time Workers

Retirement plan eligibility criteria can make it difficult for workers to meet the requirements to participate in their workplace plans, even if they want to save. Under the Employee Retirement Income Security Act of 1974 (ERISA), a private sector employer can delay an employee's participation in an employer-sponsored retirement plan until the employee completes one year of service and/or has completed 1,000 hours of service. Employers can also exclude groups of employees based on "reasonable classifications." This allows an employer to exclude hourly employees over salaried employees, or visa-versa.

While hourly workers may work for more than 1,000 hours during the year, they would not be eligible to participate in the retirement plan if as a class an employer's "hourly workers" were not eligible. Also, those workers who remain part-time and never work more than 1,000 in each year may never become eligible for an employer-sponsored plan because they never work enough hours to get a year of service—effectively excluding these workers from a plan.[65]

Given that the number one reason that Latinos did have retirement savings was that they worked part-time, allowing part-time workers the ability to participate in employer-sponsored retirement plans would greatly increase the number of Latinos that could save in employer-sponsored plans.

Promote the Savers Credit

The Saver's Credit is a non-refundable income tax credit for taxpayers with adjusted gross incomes of less than $31,500 for single filers and $63,000 for joint filers. The Saver's Credit provides a "match" through a non-refundable tax credit of up to $1,000 for a voluntary contribution to a traditional IRA, Roth IRA, or to contributions to Internal Revenue Code qualified plans such as a section 401(k) plan; section 403(b) plan; section 457 plan; SIMPLE plan; simplified employee pension (SEP); or a qualified defined benefit pension plan.

The Savers Credit is intended to promote tax-qualified retirement saving by moderate-and lower-income earners. Eligible taxpayers, however, underutilize this credit—diminishing its effectiveness. Few workers at qualifying income levels are aware of the tax credit and many cannot claim it since they do not have sufficient tax liability to receive the credit. In 2006, the Congressional Budget Office (CBO) calculated that 25 percent of all workers who filed tax returns were eligible to claim the Saver's Credit based on their income and tax liability. Because many taxpayers do not know about the Savers Credit, only three percent of taxpayers claimed the credit in 2002.[66]

Given that the median household income for Latinos was only $46,882 in 2016,[67] a large number of Latino households would qualify for the Federal Saver's credit if they saved for retirement. By further promoting the credit, many more Latino households could be rewarded for saving for retirement. Lower income Latino workers would be helped further if the Savers Credit became a refundable tax credit.

Promote and Further Develop State Retirement Savings Plans

In 2014, an estimated 103 million Americans between 21 and 64 did not have access to an employer-sponsored retirement account.[68] In response to this gap, a number of states have enacted state-sponsored retirement savings programs that automatically enroll individuals into a plan if they are not covered by an employer-sponsored plan. As of 2018, 10 states have enacted legislation to create such plans and all others with the exception of seven states have conducted studies or introduced legislation to create these plans.

For Latinos, these plans are especially important. As identified earlier in this report, only 51.7 percent of working Latinos have access to an employer-sponsored retirement savings plan. And, these numbers decline when looking at small employers, as only 42.9 percent of Latinos who work for a small employer have access to an employer-sponsored retirement savings plan. These state retirement savings plan can assist with providing low-cost retirement products to working Latinos and other Americans who are not covered by a workplace retirement plan. This in-turn will help to alleviate the current retirement savings crisis that Latinos and all Americans face today.

CONCLUSION

The retirement crisis affects all Americans, no matter their age, gender, race or ethnicity. The stark racial and ethnic gap in retirement savings is part and parcel of the broader problem of racial and ethnic inequality of income in the United States. There is a significant earnings and income gap between individuals of color and of Whites, and this gap is continuing to grow. The racial divide in retirement wealth further contributes to inequality in regards to overall wealth. The cumulative effect of these disparities is that many Latinos and non-Whites will have little else to depend on in retirement on besides Social Security.[69]

The fact that Latinos, when they have access to and are eligible for a retirement plan, take up as much as, if not more than all other racial/ethnicity groups, should not be lost. Most Latinos understand the importance of saving for retirement. However, with lower access and eligibility hamper participation and overall assets saved, if any. leaving Latinos financially vulnerable in retirement. As demographic trends continue to advance, Latinos will make up a significant portion of the U.S. labor force. As such, addressing the myriad retirement security challenges facing Latinos will make substantial gains toward ensuring the retirement security of all workers.

METHODOLOGY

About the Survey of Income and Program Participation (SIPP)

This report obtained information from the redesigned U.S. Census Bureau's 2014 Survey of Income and Program Participation (SIPP). SIPP is a longitudinal, multi-panel survey of adults in the United States. Each panel features a nationally representative sample interviewed over a multi-year period lasting approximately two and a half to four years. The size of the sample ranges from 14,000 to 52,000 households.

In comparison to other nationally representative surveys, SIPP fills the gaps and addresses representative concerns that surveys such as the Current Population Survey (CPS) and Survey of Consumer Finances (SCF) have, by providing data that affords a better understanding and analyses of the distribution of income, wealth, and poverty in the U.S., and of the effects of federal and state programs on the well-being of families and individuals. The core questions cover demographic characteristics, labor force participation, program participation, amounts and types of earned and unearned income received, including transfer payments and noncash benefits from various programs, and asset ownership. Additionally, SIPP is larger than comparable surveys such as SCF and CPS. Lastly, unlike the SCF which samples high-wealth households, SIPP oversamples lower-income households, which is important in accurately measuring the income and wealth of households of color, who are more often lower-income.

While SIPP has its advantages, it has limitations. As with most survey data, SIPP data is self-reported, which some suggest can be problematic for the reporting of account balances and participation. Chen, Munnell, and Sanzenbacher found that SIPP aggregate retirement income data tracked with 97 percent of IRS administrative data.[70]

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