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# Pension Coverage: A Missing Step in the Wealth-Building Ladder for Latinos

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## INTRODUCTION

Pension issues have received a great deal of public attention in recent years, prompted in large part by events in the corporate world. Workers within major private firms collectively have lost billions in pension assets, effectively eroding the retirement security of hundreds of thousands of American workers. Policy-makers and lawmakers have eagerly responded by proposing measures that purport to strengthen and protect the pension plan assets of workers and restore confidence in one of the nation's leading economic security and wealth-building systems. Yet, despite the intensity of public interest and attention, for the most part Hispanic** Americans have remained on the sidelines of this debate. One important reason is that Hispanic workers remain the least likely of all

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

Americans to have access to – or participate in – employer-provided pension plans. To illustrate, 26.3% of Hispanic workers in 2001 participated in an employer-provided pension plan, compared to 43.2% of all U.S. workers.[1]

Low rates of pension coverage and participation for Latinos mean meager levels of financial and retirement security for a large and growing segment of the nation's workers and families.[2] Perhaps more importantly, lack of active participation and coverage in pensions for Latinos specifically, means that American workers are not evenly sharing in the asset-building benefits associated with pension plans. Employer-provided pension plans and retirement savings products have emerged as a particularly important means of building financial wealth and security for American workers and families. The total number of participants in private sector, tax-qualified retirement plans rose from 45 million to 99 million* between 1975 and 1998.[3] For Latinos, however, overall pension coverage has remained low and, similarly, the financial and retirement wealth of Latino families is inadequate. If home equity is excluded, Hispanic families in 1998 had a median financial wealth of zero compared to $37,600 for the average non-Hispanic White family.[4]

Accordingly, the bridge to greater financial opportunity, economic security, and wealth for Latino workers is built, at least in part, on the ability of more workers to access and participate fully in employer-provided pensions. Insofar as pension coverage remains a critical means of establishing a healthier financial position for workers over time, raising coverage and participation levels could translate into a greater number of Hispanic workers moving into the ranks of the middle class. Furthermore, given the changing dynamics of the workforce, without ensuring that more Latino workers are actual stakeholders in the pension security policy debate, efforts to gain universal coverage or measurably improve retirement security for American workers may flounder.

In view of this, an examination of the pension coverage and participation challenges facing Latino workers may shed some light on how best to evaluate new policy proposals and provide some direction for those seeking to enhance access to, and participation in, pension plans by Hispanic workers. This issue brief presents data and summarizes research on pension coverage and participation issues for Latino workers, reviews national trends in coverage and the current public policy debate, and highlights promising strategies or measures that could narrow the pension coverage and wealth gaps between Latino and other American workers considerably over the next decade. As a note, data on pension participation and coverage levels for workers are limited and, when available, are not as precise as data on overall American workers.[5]

## THE ROLE OF PENSIONS IN RETIREMENT PLANNING

Pensions are critically important for American workers and families, helping to ensure that a

* This number includes participants who are active workers, separated vested, survivors, and retirees.

## National Pension Coverage: Brief History and Status

Private pension plans emerged in the late 1800s but gained greater prominence in the mid-1900s. The 1921 Revenue Act provided tax incentives for employers to establish retirement income benefits for their workers. By 1940, 15% of private-sector workers were covered. By 1950, after passage of the Taft-Hartley Act and the creation of a pension plan for workers at General Motors, 25% of American workers were covered.

In 1974, the Employee Retirement Income Security Act (ERISA) was passed and is still considered the most significant pension legislation ever enacted. In addition to provisions designed to protect pension benefits with detailed rules covering disclosure, vesting, participation, and funding, ERISA also attempted to encourage individuals with no private pension to save for retirement by deferring taxation of money invested in an Individual Retirement Account (IRA). IRAs marked the beginning of a broader policy movement in the retirement security market in which the responsibility for building up retirement savings in the private sector increasingly shifted to workers rather than employers.*

The 1978 Retirement Act included section 401(k), which allowed companies to set up "defined contribution" pension plans. These plans allow employees to defer taxation on the portion of earnings they choose to set aside for retirement. Under these plans the benefit payout size is based on contributions by the employee and employer and how well the investment has performed in the stock market. More traditional plans, so-called "defined-benefit," were for the most part based on the worker's salary and years of service.** The introduction of defined contribution plans intensified the movement within private industry to place greater responsibility on workers to build their retirement nest egg. With most defined contribution money invested in stocks, many working Americans were first introduced to the stock market through their pension plans. By 1999, almost half of the $3 trillion invested in stock mutual funds was held by retirement accounts.[6]

Coverage by at least one type of pension plan among U.S. private-sector workers peaked in 1980 at 46%, and declined to 43% by 1990 due to bankruptcies, mergers, and changes in rules governing pensions.[7] By 2000, about half of all private-sector workers 25-64 years of age were participating in a pension plan.[8]

* IRAs have not been successful in reaching the uncovered population, particularly low-income workers. Studies show that low-income workers have the lowest rate of IRA savings, largely because they have a small share of disposable income for saving and they obtain the least tax savings from tax-deferred treatment, because they pay the lowest marginal tax rates.

** With a defined contribution plan the employee bears the investment risk; unlike the termination insurance provided by the Pension Benefit Guaranty Corporation for defined benefit plans, defined contribution plan participants have no termination insurance.

worker can live comfortably during retirement and to serve as an important wealth-building pathway for families. Income from pension plans has long been considered one of three "legs" in the retirement income security "stool." Social Security benefits and individual private savings constitute the two other "legs." These "legs" are essential to ensuring that a worker has sufficient income security, meaning about the equivalent of 75-80% of pre-retirement earnings, to maintain his/her standard of living and economic well-being when s/he leaves the workforce. In 1999, for those 65 years and over who received income from a private pension, this income constituted approximately 26% of their total annual income.[9]

For many Latinos, Social Security benefits and pensions are considerably more important income sources during retirement because accumulating private personal savings during their working years is often a serious challenge. Hispanic workers are less likely than other American workers to say they have put money aside for retirement and report much less confidence in retirement security than others.[10] Because of the low retirement savings rate, pension income during retirement is critical for elderly Latinos, making up closer to 30% of average annual income for those who receive such benefits (compared to the 26% cited for all retirees above). However, because few Latinos had access to pension plans during their working years, Social Security is the sole source of income for nearly 40% of Latinos who receive benefits while the same is true for only 16% of their White counterparts.* Fortunately, about three-quarters of today's Latino workers are covered by Social Security.[11]

Inasmuch as pension coverage is crucial to retirement security for American workers and families, and especially important in this respect for Latinos, participation in pension plans is equally vital in building wealth and financial security for families. For a worker currently entering the labor force, a pension plan can mean much more than simply locking away cash for retirement 40 years later. The value of a pension plan itself is a measure of economic security, net worth, and wealth because it can be transformed into immediate cash** to cover unexpected financial emergencies or be used as a means of acquiring other financial assets either through loans or lump sum distributions.[12]

That aside, by some reports, 80% of personal savings nationwide is through pension plans. Moreover, preferential tax treatment of pension investments and retirement tools helps workers and families not only to build retirement security and an asset, but also to reduce their federal income tax burden. Accordingly, participation in pension plans has far-reaching economic and financial benefits for workers and families, but such benefits have not been shared equitably across the nation due to coverage and participation remaining uneven across groups of workers.

## Pension Coverage Rate

Of all U.S. wage and salary workers in 1999, about 50% were covered by an employer pension plan. The share of private-sector wage and salary workers covered, excluding government workers, was about 44% that year.[13] Among uncovered private wage and salary workers, over 70% worked in jobs in which the employer did not offer a pension plan. Other uncovered workers were with firms that sponsored a pension plan in which the worker did not participate.[14]

* Dependency on Social Security is generally associated with income status; Social Security currently provides 38% on average of total income of the aged, and the dependency on Social Security in the lowest quintile of income is much higher, where 82% of income is derived from Social Security.

** There are rules with regard to drawing down pension funds, but workers are given ample opportunity to access pension assets prior to retirement. These resources can be used to increase wealth with the purchase of other assets or elimination of personal debt. In 1999, about 18% of eligible participants in 401(k) plans had an outstanding loan associated with their account. Other ways of leveraging pension assets include savings associated with lump sum distributions when a worker terminates employment with a firm.

These broad figures have remained relatively steady over time; in 1979 nearly half (48.7%) of workers were covered by a plan.[15] But research reveals that the indicators mask some underlying changes in coverage and participation over this period. For example, pension coverage has increased for women and declined for men since 1979, though coverage and participation gaps still remain.[16] Furthermore, the gap in pension coverage between White and Hispanic workers has grown. In 1979, 49.9% of White workers had coverage, compared to 37.7% of comparable Hispanic workers, a 12.2 percentage point difference.[17] By 1999, this gap had widened significantly; 47.3% of White workers had coverage compared to 27.1% of Hispanic workers, a 20.2 percentage point difference.[18]

The decline in overall coverage for Latino workers may be explained in part by several dynamic factors. Undoubtedly, the shift by employers away from defined-benefit to defined contribution plans has played an important role in falling coverage for Latinos. Defined contribution plans depend more heavily on the active participation of the worker, and the level of engagement is often dependent on other factors such as age and occupation. In 2002, the typical U.S. White worker was 40.4 years of age compared to 34.0 for Latinos. Moreover, the disparity in median age between White and Hispanic workers has grown over time and doubled since 1988 when median ages stood at 36.1 and 32.6 years of age, respectively.[19]

Age corresponds to coverage not only because of personal lifetime savings behavior of workers but also because pension plan rules allow the exclusion of workers under age and with limited work tenure.

All told, while the pension coverage rate for all U.S. private-sector workers may be static over time, the composition of covered American workers has changed. On the other hand, the notable improvements in coverage for women workers over this time suggests that overall coverage for U.S. workers need not be improved dramatically in order to increase coverage and participation for selected workers such as Latinos.

## PENSION COVERAGE: MAJOR FACTORS*

There are sensible reasons to have workers in the labor force without pension coverage. Limited duration in a job and/or constant change among employers can make sustained pension coverage difficult and less appealing for both employers and employees. Preference among workers is a factor in lower pension coverage, especially among younger workers who may prefer higher wages over pension access. That said, many U.S. workers with steady work, a stable employer, and the desire to participate in a pension plan do not have the opportunity to do so.

In 1999, among the 12.5 million Latino wage and salary workers** nationwide, more than

* Data from the Contingent Worker Survey are prominently featured in the next two sections, and these data have limitations given the small sample sizes. That said, the findings are still suggestive and broadly illustrative of the pertinent issues in coverage for Latinos.

** According to the Bureau of Labor Statistics there were over 15 million Latino workers in the labor market in 1999; however, about 12.5 million were workers who receive wages, salaries, commissions, tips, or payment in-kind. This group includes employees in both the private and public sectors. Wage and salary workers tend to be the most appropriate grouping of workers for analysis related to employer-provided pension coverage.

four million participated in an employer-provided pension plan. Of those Hispanic workers with coverage, over 1.5 million worked in the public sector where the pension coverage rate exceeded 70% for Latinos. However, among private wage and salary Hispanic workers the numbers drop precipitously. In 1999, nearly 11 million Latino workers were in private wage and salary employment and less than three in ten (27%) were covered by an employer-provided pension plan as shown in Table 1.[20]

have pension coverage even within these categories.

- *Industry*. According to 1999 data from the Department of Labor, 73% of workers in communications and utilities were covered by pension plans, compared to 65% in manufacturing (durable goods); 62% in mining; and 57% in finance, insurance, and real estate. That same year 1.9% of Hispanics were employed in the communications and utilities industry; 10.1% in manufacturing (durable goods); .05% in the mining industry; and 5.8% were in finance, insurance, and real estate. By contrast, 28.2% of Hispanics worked in the service industry, in which 40% of all workers but only 25% of Hispanic workers had pension coverage.[23] Therefore, while industry is a factor, the data reveal some differences between Latino and other workers within the same industrial sectors.

Table 1

**Pension Coverage For Workers in Private Firms**
**Hispanic and Non-Hispanic White 1999**

| | All Workers (In thousands) | Covered by Plan | Not Covered by Plan | Don't Know |
|---|---|---|---|---|
| Hispanic | 10,930 | 2,966 (27%) | 6,101 (56%) | 1,862 (12%) |
| White Non-Hispanic | 72,543 | 34,345 (47%) | 29,729 (47%) | 8,469 (17%) |

Source: Current Population Survey, February 1999 Contingent Work Supplement
Note: Excludes self-employed incorporated workers

Of all private U.S. workers without pension coverage, 14% were Latino in 1999.[21] That year, six in ten (60%) Hispanic private wage and salary workers were employed by firms that did not sponsor a pension plan, compared to 38% of all White non-Hispanic U.S. workers.[22] This can be explained, in part, by the following factors:

- **Labor Market Status.** Workers in high-pay industries and in firms of considerable size are most likely to be in firms sponsoring pension plans. Latinos were less likely to be employed in these industries and firms, and were less likely to

- *Firm Size*. The data reveal that small employers are less likely to sponsor pension plans;* 82% of persons working for a firm with less than 25 employees did not have a pension plan in 1998.[24] Other data reveal that 32% of employees aged 25-64 in firms with fewer than 100 workers participate in a pension plan, compared to 72% for firms with more than 100 employees.[25] The low level of pension coverage in small firms is an important policy concern since 41.8% of all workers and 47.7% of Hispanic workers are employed in firms with fewer than 100 workers.[26]

- **Market Restructuring.** Growth of high-tech industries, including telecommunications, computer software, and a service sector that caters to the needs of the "knowledge workers," changed the relationships between employers and workers. With the reduction in manufacturing and unionization, collective bargaining has had much less influence over the availability of benefits in recent years. The new economy also brought an increase in the number of part-time and contingent workers, which includes temporary employees hired to complete short-term projects and who do not generally have access to benefits.[27]

  - *Employee Type*. Nearly 80% of employees working part-time and part-year had no pension coverage in 1998.[28] The likelihood of lacking pension coverage is 20 percentage points higher for part-time workers than for full-time workers.[29] Particularly in the case of high-income employees, pension coverage is often offered as an incentive to encourage employees to stay with an employer. In general, there is less of an incentive to retain part-time workers and, therefore, pension access is not typically provided to these workers. Consistent with their high labor force participation rates, 16.1% of working Hispanics worked part-time in 2001, compared to 17.7% of Whites and 13.7% of Blacks.[30] In 1999, only 12% of all part-time Latino workers reported coverage in a pension plan compared to 16% of all U.S. workers.[31]

  - *Unionization*. The share of American workers in unionized jobs has declined significantly since the 1950s to less than 14% of wage and salary workers in 2001. In 1999, among unionized workers, 70% participated in a pension plan compared to 41% of non-unionized workers. Hispanics remain the least likely to report union membership; 11.3%, compared to 17.0% of Blacks and 13.1% of Whites in 2001.[32] Moreover, in 1999, slightly more than two in five (43%) Hispanic

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* Small businesses may face greater uncertainty, especially with regard to profitability, and may face cost pressures that can affect their ability to offer compensation packages that compare favorably with those offered by larger, more stable firms.

workers covered by a union contract reported having pension coverage.* [33]

In addition, educational attainment is associated with access to pensions. For instance, since income and job prospects rise with education, educated workers tend to work in firms that sponsor plans and realize a tax advantage when investing in their pension plan.** That said, in 1999, 38% of college-educated private Hispanic workers were not covered by a pension plan compared to 62% of all college-educated workers in the U.S.***[34]

Taken together, the data show that factors associated with lower pension coverage for U.S. workers generally exacerbate the large and growing gap in pension coverage between Latino and White workers. However, the research and data reveal that, even after considering job characteristics, which explain the bulk of the problem for workers overall, disparities remain between Latino and White workers. This suggests that other factors, including participation issues, may be playing a role in explaining these differences.

## Pension Participation Issues

As noted above, the vast majority of uncovered workers are employed in firms that do not sponsor a pension plan. This is the case for six in ten Latino private wage and salary workers and for almost two in five similar White workers. Yet, the remaining share of workers on the whole does not actively participant in pension plans, even though they are employed by firms that sponsor plans.

In 1999, 40% of Latino private wage and salary workers worked in a firm sponsoring a pension plan but only 27% participated. Factors that influence participation for Latinos, therefore, are important to understand if coverage rates are to improve.

Over one-quarter of those who chose not to participate in pension plans in 1999 reported that it was a voluntary decision.[35] In the case of Latino workers, a 2001 survey found that 28% of Latino workers employed by firms that sponsored a retirement savings plan did not contribute to them.[36] Though not actively contributing to an employer-provided plan does not signify lack of participation precisely, it does suggest a high level of disengagement or lack of information/knowledge among Latino workers specifically.

Low levels of participation for workers in general and Latinos in particular are commonly associated with both worker and pension plan characteristics. Specifically:

- **Income Levels.** A study by the General Accounting Office (GAO) revealed that more than eight in ten (81%) employees with incomes of less than $20,000 lack

* The data also revealed that 29% of Hispanic workers covered by a union contract reportedly did not know if they were covered by their firm's pension plan.

** Another change that may amplify the education-related difference is the shift of employment due to changes in the economy away from large and unionized firms that have high coverage rates.

*** According to data from the Census Bureau, in 1999 only 14% of private Hispanic workers with less than a high school education were covered by a pension plan while the same was true for 18% of all comparable U.S. workers.

pension coverage. In 1999, almost one-third (31.3%) of Hispanic households had incomes of less than $20,000 compared to 20.7% of non-Hispanic households. However, the pension coverage rate increases gradually with income. In 1999, more than seven out of ten (73%) Latino private wage and salary workers earning $1,000 or more weekly had coverage compared to 76.1% of all workers.

- **Age.** Young workers are more likely to spend income on immediate consumption needs rather than save for retirement.* In 1999 only one-quarter (24.5%) of all, and 16.8% of Hispanic, private wage and salary workers under age 30 reported having pension coverage.[40] Yet, while coverage rates tend to increase with age, disparities in pension coverage between Latino and White workers within the same age cohort remain. For example, in the age group 25-29, 39.1% of all workers had pension coverage, compared to 24.3% of Hispanic workers in that age group – a 14.8 percentage point difference. In the age group 30-34, coverage for Hispanic workers increased but only to 28.9%, while coverage for all private workers increased to 48.8% – a 19.9 percentage point difference. In the 50-54 age group, coverage for all workers peaks at 56.3%. Coverage for Hispanic workers also peaks in the 50-54 age group, but at 41.4%, well below that of their counterparts.[41]

- **Financial Dependents.** Hispanic workers tend to have more financial dependents, both in and outside of the household, than other American workers. Almost three in ten (29%) Latino workers surveyed in 2001 reported being financially responsible for three or more people other than themselves, while the same was true for 21% of all workers surveyed.[42] Furthermore, more than one-third (34%) of Hispanic workers in 2001, compared to 15% of all workers, reported providing "significant" financial support for persons not living in the household.**[43] Undoubtedly, a large number of these workers are financially supporting aging relatives. According to a recent survey, one-third (33%) of Hispanics provide care for parents and elderly relatives, compared to 19% of Whites.[44]

- **Plan Structure.** The different types of pension plan options and provisions may influence participation levels of employees

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* While there is no definitive research that explains these data this may be employee-driven, with spending preferences tending toward current consumption, child rearing, education, and mortgage expenses which may seem more important than saving for a retirement in the distant future.

** A recent study found that there are ten million Hispanic immigrants in the United States involved in the cash remittance process. Younger immigrants (18 to 34 years of age) and those from the lowest socioeconomic group (annual income below $20,000) are much more likely to send cash remittances than older immigrants or those who have achieved middle-class status. The average Latin American immigrant sends cash remittances to his family seven times a year, in the sum of approximately $200 per remittance. Today's total remittances from the U.S. to Mexico, Central America, and the Caribbean are estimated to be at least $15 billion annually. These contributions to their families abroad have a direct impact on their ability to save for their future.

in private firms and businesses. For example:

- *Employer Matching Contributions.* A recent study by the GAO found that employees were 12% more likely to choose not to participate in their firm's defined contribution plan when the firm did not provide matching contributions.[45]
- *Salary Reduction Option.* Most defined contribution 401(k) and 403(b) plans are also known as salary reduction plans, which allow workers to contribute automatically from their paychecks into an account. Salary reduction features are associated with participation in employer pension plans. According to the Current Population Surveys (CPS) in 1988 and 1993, salary reduction plans were more likely to be available to White workers than to their Black or Hispanic peers, and White workers were more likely to participate in such plans. In 1993, salary reduction plans were available to 36% of White workers, but to only 26% of Black workers and 18% of Hispanic workers. Of those, 70% of Whites chose to participate, compared to 53% of Black and 58% of Hispanic workers.[46]
- *Automatic Enrollment.* Recent studies confirm that workers tend to exhibit a high degree of inertia with respect to pension plan participation. Firms that have instituted automatic enrollment options, whereby a worker must opt-out of participation, have been shown to significantly increase participation by workers.[*] One study found that the participation rate of Hispanic employees at a firm that instituted automatic enrollment increased from 19.0% to 75.1%.[47]
- *Loan Option.* The ability of workers to access pension assets via loans is associated with higher participation in pension plans and is particularly important for low-income workers who may need to cover expenses related to unexpected financial emergencies. A GAO report found that participation rates in 401(k) plans increased by six percentage points from previous levels due to the loan provision.[48]

- **Pension Plan Rules.** IRS rules allow the exclusion of employees on the basis of "objective business criteria." Private-sector employers who sponsor plans can exclude workers with less than one year of tenure, work less than 1,000 hours during

* A cautionary note is that a GAO study found that employees who were automatically enrolled in a defined benefit plan, to which workers need not actively save or contribute, were less likely to choose to participate in the firm's complementary 401(k) plan. In addition, the studies on automatic enrollment have emphasized the need to examine closely the firm's "default" plan settings because workers, out of convenience, tend to utilize these settings heavily. Low-default settings on items such as employee salary contributions could mean slower accumulation of pension assets and more limited wealth-building over time.

a year, and/or those under 21 years of age.* In addition, rules permit employers to exclude between 30% and 80% of non-highly-compensated workers from the plan.[49] More than half of those who are not part of their employer's pension plan report that they do not meet the age and service requirements or do not work enough to qualify for the plan, and another 6% were excluded because their job was not eligible for pension coverage.[50] Given employment status, age, and income levels, arguably these rules disproportionately impact Latino workers.

In addition, several studies have noted that participation rates in 401(k) plans by employees may vary by firm size. One such study found that employees of large firms (those with 100 plus workers) were 11% more likely than employees of small firms to choose not to participate in their firms' defined contribution plan. Though the reasons are not well understood, this phenomenon could explain, at least in part, why increased employment by Latinos in larger firms sponsoring plans has not resulted in corresponding increases in participation levels.[51]

Finally, studies find that employees are far more likely to participate in an employer-provided 401(k) plan when retirement education is offered and that the effects are more prominent among low savers or those workers less inclined to participate.[52] A recent survey of workers found that only 32% of Hispanic workers reported that in the last 12 months an employer provided them with educational material or seminars about retirement planning and savings.[53]

## Improving Pension Access and Participation for Hispanic Workers

In 1999 over six million Latino workers in the private sector did not have access to an employer-provided pension plan, while 1.5 million did work for private firms that sponsored a plan in which they did not participate. Today about 14% of all uncovered U.S. private wage and salary workers are Hispanic and nearly 60% of Latino workers say they have never used an Individual Retirement Account (IRA). Pension coverage levels for Latino workers are problematic, and this is a leading factor in explaining low levels of financial and retirement wealth among Hispanics nationwide.

On the surface, the pension coverage and retirement security problem for Latino workers may appear to boil down to basic demographic and job characteristics. But, the data show a more complex picture. To begin with, though the characteristics of Hispanic workers without coverage reflect broadly that of all uncovered U.S. workers, the reasons underlying lack of access and participation may differ. For example, Latino workers who did not

* Firms that seek to take advantage of the tax preference for pension plans must abide by "nondiscrimination" rules designed to make sure that a firm provides reasonably equitable access and fair benefits to all employees, not simply to the higher paid. Despite these rules, a significant share of a firm's non-highly-compensated employees can still be excluded from a plan.

contribute to their employer pension plans were the least likely to report affordability as the reason; only 16% reported that as a reason compared to 29% for all comparable workers surveyed. Conversely, Latino workers were three times as likely as their counterparts (13% vs. 4%) to report lack of understanding about the plan as a reason for non-contribution.[54]

Moreover, the data note that even an Hispanic worker with the "right" demographic and job characteristics that are correlated with pension coverage is less likely than his or her peers to have pension coverage. For instance, unionized, older, and college-educated Hispanics are more likely to lack pension coverage and participate in plans at lower levels than other workers with these same basic characteristics. At least one implication of this is that rising educational attainment and improved job prospects for Hispanic workers may not be sufficient to solve the pension coverage and participation problem over time.

Given these findings, understanding the distinct issues and challenges for Hispanic workers in the private market is perhaps the only effective way to identify policy remedies that may work. In the context of pension policy deliberations, specifically, the issues of Hispanic workers have been either marginalized – particularly with respect to pension security questions – or placed instinctively into the framework of massive reform efforts, which has yielded little in the way of serious and/or practical opportunities to improve measurably the pension status of Latinos.

NCLR's analysis points to several areas that warrant greater attention as a means of increasing pension coverage and participation levels for Hispanic workers.

- **Pooled Employer Plans.** One method of increasing pension coverage for Latino workers is by increasing the sponsorship rate among firms in industries that employ large numbers of Latinos. In general, pooled employer strategies aim to increase the number of firms sponsoring plans by decreasing the administrative burden on employers; a third-party centralized administrator is engaged. There are several different variations on this model largely dependent on the composition of employers and employees (e.g., trade associations or collectively bargained plans). The multi-employer collectively bargained plans have been in existence for decades and operate in industries such as construction with large numbers of unionized members. The plans are flexible and may cover one or many occupations within an industry or a skilled trade area in many industries.[55] Participants can negotiate plan characteristics that are jointly governed by management and labor representatives. Some examples of industries that use this model include the United Food and Commercial Workers fund in Northern California and sheet metal workers. Multiple-employer plans, on the other hand, are typically associated with and administered by trade groups. The most notable such plan is for education and research professions, the Teachers Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF). There are a host of tax measures being proposed that would enhance the creation of such plans among small employers, trade associations, and other targeted entities. Given the concentration of Latino workers in selected industries and occupations, a well-targeted approach may increase access to plans by Hispanic workers.

- **Small Business.** Small businesses are the least likely to offer a plan. By some estimates there are over 1.5 million Hispanic firms across the nation and about 86% are sole-proprietorships.[56] In addition, 31.6% of Latino workers (five million) in 2000 were employed by firms with fewer than 25 employees. Among these workers, only 12% worked for a firm that sponsored a pension plan.[57] There were several new measures included in the most recent tax legislation enacted in 2001 to encourage small businesses to sponsor pension plans. For instance, a new tax credit of up to 50% of the cost of starting a retirement plan (maximum of $500) was enacted for small employers. However, surveys show the relief from many requirements and the benefits offered by such alternatives may not be sufficient to offset the cost or burden of offering them, and small businesses may still be unwilling to sponsor plans given business conditions.[58] More time will be needed to evaluate the effectiveness of the newest pension provisions for small employers, but efforts to promote these measures among employers ought to consider tailoring messages to Hispanic small businesses as well.

- **Savers Tax Credit.** A tax credit of up to 50% of the contributions made to IRAs and 401(k) plans by low- and moderate-income workers was created in the recently enacted Economic Growth and Tax Relief Reconciliation Act of 2001. The money set aside is also tax-free. Unfortunately, the structure of the credit results in the exclusion of the vast majority of lower-income workers and provides a very small benefit to others. Given that the credit is not refundable, those families who have no income tax liability – including more than half of Latino families – do not benefit. For those with liability, the benefit is so small that it is likely to generate little incentive; a married couple earning $45,000 a year receives only a $200 tax credit for depositing $2,000 into a retirement account.[59] Though likely ineffective in its current form, this tax credit could be restructured in a manner that creates a powerful incentive for low-income workers to contribute to pension plans.

- **Individual Development Accounts (IDAs).** Individual Development Accounts (IDAs) are a financial product designed to provide strong incentives for savings and asset accumulation among low- and moderate-income people. These matched savings accounts are facilitated through a partnership between government, industry, and community-based agents. Preliminary evaluation research reveals that Latinos are especially successful participants in IDA programs.[60] There is growing interest in developing employer-based IDAs, and some community entities have begun to develop IDAs that focus on retirement savings. These strategies may lend some important lessons to firms and government on how to provide stronger incentives for Latino employees to participate in pension plans or other retirement savings vehicles, such as IRAs. However, IDAs remain modest in size, are not designed to facilitate

## Financial Education

Among those who save through their company's retirement programs or on their own, large shares do not fully understand important elements of their employer plan or retirement savings tool.

In recent years there has been explosive growth in the number of employers with financial education programs in place. The rise in programs is due to a range of factors including: 1) the growth in the number of plans, such as 401(k), that require decision-making on the part of employees; 2) a need to stay in compliance with nondiscrimination rules and generate more activity among low-income employees; and 3) a desire to market pension benefits more efficiently to increase contributions and participation and boost employee morale. According to a study on the subject, among those with access to retirement education in the workplace, 77% report using this benefit, and such information does influence employee behavior and affect financial choices. Moreover, the study revealed a rise in 401(k) participation with the presence of educational activity.[61]

In 2001, one-third (32%) of Latino workers, compared to 35% of all workers surveyed, reported that an employer provided them with educational materials or seminars about retirement planning and savings over the previous 12 months. Among the types of educational activities and products provided by an employer, a large share of Latino workers rated both direct investment advice (42%) and individual access to a financial planner (42%) as "very effective." The most highly-rated educational product among all workers and Hispanic workers was employee benefit statements (48% of Hispanics rated as "very effective" compared to 43% of all workers), while videos, online services, and computer software received low marks among Latino workers. In addition, there are some notable disparities regarding "effectiveness" among Hispanics of some commonly-used educational activities in the workplace. For example, a substantial segment of Hispanic workers that reported exposure to educational activities in the workplace rated newsletters (35%), brochures (29%), and seminars (30%) as "very effective," while notable shares also reported that they did not utilize these activities at all (25%, 22%, and 29% respectively). As these data indicate, financial education programs that have not recognized the significant, distinct characteristics of Latinos may not be effective. A "one-size-fits-all" approach to pension plan education is not likely to resonate fully with a firm's employees, Latino or otherwise.

In addition, many times the content of promotional and educational materials fails to appeal to Latino workers. For instance, employers usually present 401(k) plans as a way to shelter income and avoid taxes, but many low-wage Latino workers have limited tax liability, so such advantages may not attract them. Moreover, most investment literature emphasizes the direct financial value to the employee of investments, whereas a more pressing financial concern for Latinos tends to be the well-being of their families. Demographic and other characteristics suggest that for these materials to resonate with Hispanics, they should by marketed as a way of providing security for one's family. Because the substance of financial education materials and programs does not appear relevant or appeal to many Latino employees, simple translations of materials directly from English to Spanish often fail to elicit the hoped-for response.

Specific and sophisticated employer-based financial education approaches may address participation issues for Latino workers in firms sponsoring plans. If all Latinos in firms sponsoring plans were eligible and would participate, 750,000 Hispanic workers would become new active pension plan participants, increasing the Hispanic coverage rate by 6 percentage points.

retirement savings specifically, can be expensive to administer, and far too few Latino workers are participating at this time. A greater investment and modest restructuring of the federal program can significantly widen the wealth-building and retirement security doorway for Latino workers and families.

- **Automatic Enrollment, Salary Reduction, and Payroll Deduction IRAs.** To encourage participation in 401(k) plans and retirement savings, firms can adopt rules and policies that facilitate easy enrollment and participation. Employees would need to make affirmative decisions not to participate in retirement savings if they so desire. Recent studies support this policy; participation is significantly higher if workers are enrolled in a savings plan unless they specifically opt out of the plan, relative to the participation rate if workers are not enrolled in the plan unless they specifically opt in.[62] Recognizing the success of this strategy, the Internal Revenue Service has recently extended automatic enrollment options to a wider array of defined contribution plans. As an interim step, researchers suggest instituting an automatic payroll deduction to be contributed to an IRA. Research has shown that those currently not saving are more likely to save if they can automatically set aside a small amount each month. At a minimum, firms with more than 25 employees should be required to automatically deduct a uniform amount each month, transfer it to the employee's financial institution, and include the deduction amount on the face of the employee's W-2 form. Congress should also consider a tax credit for small businesses which would fully offset the cost of administering a voluntary payroll-deduction IRA program open to all employees.[63]

There are also several other policy areas worth mentioning. First, nondiscrimination rules, which are attacked during each debate on pension policy, must be strengthened to ensure that all workers have a chance to participate and that firms cannot circumvent the rules. Second, pension policy measures that allow greater investments by implementing exemptions from contribution limits for workers with no financial assets may help Latino workers build pension security over time, though any such measures should be carefully tailored to prevent exploitation and minimize costs. Third, targeting tax incentives for employers who make higher contributions to the accounts of their low-wage or asset-poor workers if done carefully is worth some consideration. Lastly, there are a host of proposals that would establish new structures that provide universal coverage and retirement savings for workers. These plans may hold real potential for Latino workers. For example, under the Universal Voluntary Accounts plan a single centralized system would be developed so that every worker in the country would be able to contribute from their paycheck subject to the same rules as the existing 401(k) plans. Under this proposal workers would participate on a voluntary basis, it would not be tied to an employer and therefore portable, and employers would have the option to contribute. These and other plans that are open to all workers and flexible enough to respond to the increasingly mobile U.S. workforce may yet prove to be the most effective and efficient means of addressing these challenges for Latinos. That said, support for any measures, plans, or proposals ought to be weighed carefully against the costs to the government, workers, and employers. In addition, measures and provisions that have a high likelihood of fostering "gaming" of the pension system by firms and employers should be rejected.

## CONCLUSION

As this issue brief notes, participation in employer pension plans, and retirement savings more generally, is central to the economic and financial lives of American families. The active engagement of U.S. workers in employer pension plans builds assets that offer the promise of greater financial wealth now as well as a stable source of income during retirement years. Uneven pension coverage and participation levels between groups of American workers have contributed to the persistent and serious gap in wealth levels. The wealth gap has implications not only for a Latino worker in terms of less economic opportunity and financial security but it also has far-reaching implications for a nation that is arguably becoming more polarized economically and socially as it undergoes major demographic change.

Policy-makers who purport to have an interest in opening the doors of economic opportunity for Latinos should ensure that the U.S. pension system works for all American workers and take steps to create more avenues for Hispanic workers to participate. Though some policy experts might argue this, the road to economic prosperity and greater retirement security for Latinos is not inextricably linked to major restructuring of the Social Security program, an approach that may only exacerbate the wealth gap in the end. Rather, there are many avenues to wealth-building that American families pursue today and that many Hispanic families have yet to utilize fully. With targeted policy interventions these pathways to prosperity can be enhanced for Hispanic workers, and only then will we begin to constructively address the disparity in wealth between Latino and other American families.

## ENDNOTES

1. Unpublished data tables from Annual Demographic Survey 2002, Bureau of Labor Statistics.
2. Currently, over 38 million Hispanics reside in the U.S., and the population grew by 58% between 1990 and 2000. Today there are more than 16 million Hispanics in the U.S. workforce and a larger share in selected states, and the number of Latino workers in particular is projected to grow by 36.3% during this decade.
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4. Wolff, Edward, "Recent Trends in Wealth Ownership, 1983-1998," New York: Jerome Levy Economics Institute, April 2000.
5. NCLR maintains that the information contained in this brief is sufficient only to provide a general understanding of the dimensions of the issues for Latinos but much more in-depth research and policy analysis work is needed.
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7. "The 2002 National Summit on Retirement Savings: Delegate Resources," Washington, DC: International Foundation of Employee Benefit Plans Inc., February 2002.

8. Munnell, Alicia, Annika Sundén, and Elizabeth Lidstone, "How Important Are Private Pensions?" An Issue Brief, Center For Retirement Research at Boston College, Number 8, February 2002.

9. *Income of the Population 55 or Older, 1999*, Washington, DC: Social Security Administration, 2001.

10. *2001 Minority Confidence Survey,* Mathew Greenwald & Associates, Washington, DC: Employee Benefits Research Institute, February 2001.

11. *Income of the Population 55 or Older, 1999, op.cit.*

12. Holden, Sarah and Jack VanDerhei, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1999," Washington, DC: Employee Benefit Research Institute, Issue Brief No. 230, February 2001.

13. Nearly 80% of public-sector wage and salary workers in the U.S. were covered in 1999 according to unpublished data tables from the Contingent Work Supplement to the February 1999 Current Population Survey.

14. "Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage," Washington, DC: General Accounting Office, GAO/HEHS-00-131, August 2000.

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17. "The Widening Gap Between White and Minority Pension Coverage," *op.cit.*

18. Calculation done by NCLR based on unpublished data tables from the Contingent Work Supplement to the February 1999 Current Population Survey, Bureau of the Census.

19. Unpublished data tables from Current Population Surveys for 2002 and 1988, Bureau of Labor Statistics.

20. Data from the Contingent Work Supplement to the February 1999 Current Population Survey, Bureau of the Census.

21. Calculation done by NCLR based on unpublished data tables from the Contingent Work Supplement to the February 1999 Current Population Survey, Bureau of the Census.

22. Data from the Contingent Work Supplement to the February 1999 Current Population Survey, Bureau of the Census.

23. *Ibid.*

24. "Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage," *op.cit.*

25. "Private Pensions: Coverage and Benefit Trends," *op.cit.*

26. Data from CPS Annual Demographic Survey, March Supplement, 1999.

27. "Are the New Pension Plans Fair to All Workers?" *op. cit.*

28. "Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage," *op.cit.*

29. *Ibid.*

30. Annual Average Tables from the January 2001 Issue of "Employment and Earnings," Current Population Survey, Bureau of Labor Statistics.

31. Data from the Current Population Survey, February 1999: Contingent Work Supplement.

32. "Union Members in 2001," News Release, U.S. Department of Labor, Washington, DC: January 17, 2002.

33. Data from the Current Population Survey, February 1999: Contingent Work Supplement.

34. *Ibid.*

35. Fact Sheet prepared by the U.S. Department of Labor based on data and findings from the Contingent Work Supplement to the February 1999 Current Population Survey.

36. *2001 Minority Confidence Survey, op.cit.*

37. "Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage,"*op.cit.*

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39. Data from the Contingent Work Supplement to the February 1999 Current Population Survey, Bureau of the Census.

40. Calculations done by NCLR based on data from the Contingent Work Supplement, February 1999.

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45. "Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage," *op.cit.*

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61. "The Determinants and Consequences of Financial Education in the Workplace," *op.cit.*

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# NCLR Issue Briefs

### Hispanic Families and the Earned Income Tax Credit (EITC) Issue Brief
Brings attention to the importance of the EITC to Hispanic and other low-wage workers and outlines several important steps toward improving the credit for families. **Issue Brief No. 1**

### Financial Services and Hispanic Americans
Raises awareness of the financial service needs of the broader Latino community. The brief presents data that show lower participation by Latinos in critical asset-building areas like home-ownership and brokerage services. The brief highlights the barriers to financial services that many Hispanics face, including lower household income and discrimination on the part of the financial services industry.
**Issue Brief No. 2**

### Welfare Reform, TANF Caseload Changes, and Latinos: A Preliminary Assessment
Highlights changes in Temporary Assistance for Needy Families (TANF) caseloads nationwide between 1996 and 1999 and offers a preliminary assessment of welfare reform's impact on Latino families and children. The paper also outlines areas for additional research and provides policy recommendations for policy makers to consider during welfare reauthorization in 2002.
**Issue Brief No. 3**

### The Latino Vote in the 90's
Examines Latino voting trends in the 1990's. In 1996, Hispanics were the only group of American voters whose turnout at the polls increased. In 1998, Hispanic voters provided the margin of victory in races across the country, especially in California and New York. With every election, this Hispanic mobilization is likely to increase; in coming years it is expected that the Hispanic vote will have a significant impact at all levels, including the Presidential election. **Issue Brief No. 4**

### Financial Insecurity Amid Growing Wealth: Why Healthier Savings is Essential to Latino Prosperity
Examines the low savings rate of Latinos, what that has meant in terms of their wealth, and how it has negatively affected their overall financial security. The brief also discusses the barriers Hispanics face in saving and lays out promising strategies and recommendations for policy-makers and financial institutions to help increase Latino savings.
**Issue Brief No. 5**

### Safe Roads, Safe Communities: Immigrants and State Driver's License Requirements
This brief explores the issues involved in current proposals to restrict immigrant access to driver's licenses, arguments in favor of increased accessibility, and steps that can be taken to ensure that driver's licenses remain authentic and prevent unauthorized drivers from making U.S. roads less safe. **Issue Brief No. 6**

### Increasing Hispanic Homeownership: Strategies for Programs and Public Policy
Reviews the most recent data on homeownership and analyzes the factors associated with the low homeownership rate of Latinos. The brief also proposes specific recommendations and lays out a strategy for the private sector, community-based programs, and public policy to increase the number of Hispanic homeowners by two million over the next two decades. **Issue Brief No. 7**

### The No Child Left Behind Act: Implications for Local Educators and Advocates for Latino Students, Families, and Communities
This issue brief examines how the No Child Left Behind Act may impact Latino students, families, and communities. It paints a broad picture of what state and local educators must consider as they attempt to implement this legislation. Specifically, this paper provides a short, recent history of the standards movement in Congress, discusses challenges in implementing these reforms as they relate to Hispanic students, and provides recommendations for state and local policymakers. **Issue Brief No. 8**

### IMMIGRATION ENFORCEMENT BY LOCAL POLICE: THE IMPACT ON THE CIVIL RIGHTS OF LATINOS

Enforcement of immigration laws has always been the responsibility of the federal government. However, following the September 11, 2001 terrorist attacks, the Department of Justice initiated new counterterrorism policies, one of which has been to enlist state and local law enforcement officers in antiterrorist activities. While the safety and security of the United States is a priority, this document points out how new policies that would allow local police departments to enforce federal immigration law may actually hinder terrorist and other criminal investigations and is likely to have a serious negative impact on Latino communities. The report also documents how involving local police officers in federal immigration enforcement contradicts decades of federal case law and policy, and how delegation of immigration authority is likely to result in racial profiling, police misconduct, and civil rights violations. The publication also points out that such efforts erode trust between local police and the communities they serve and protect. **ISSUE BRIEF NO. 9**

### COUNTERTERRORISM AND THE LATINO COMMUNITY SINCE SEPTEMBER 11

Immigration and national security have become intermingled in the U.S. in unprecedented ways since the terrorist attacks of September 11, 2001. This Issue Brief documents the impact of counterterrorism measures and policies implemented since September 11 on the Latino population. First, it provides background on the post-September 11 environment. Second, it examines the new anti-terrorist policies that have had harmful consequences for U.S. Latinos. Third, it looks at other new immigration enforcement activities that have had a negative impact on the Latino community. Forth, it focuses on the need to return to the affirmative immigration reform agenda.

Finally, it offers conclusions and recommendations about the future of U.S. immigration policy.
**ISSUE BRIEF NO. 10**