CAUSES OF LATINOS' LOW PENSION COVERAGE

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ABSTRACT

This study advances the current literature on Latinos' pension participation by separating voluntary exclusion from the involuntary exclusion. Logistic regression analysis of the 2001 Survey of Income Program Participants (SIPP) reveals that immigrant status and country of origin explain why Latinos would voluntarily opt out of participating in their employer's pension plan. Policy reforms that would bolster Latino retirement income security include encouraging plan coverage of part-time and seasonal workers, offering refundable tax credits to low-income workers, requiring automatic enrollment, and enfranchising Latinos into the US financial and Social Security systems.

Introduction

Improving the living standards of older Americans represents a significant victory for US social policy over the past 30 years. Real incomes of the elderly doubled and poverty rates plunged—from over 30 percent in the early 1960s to under ten percent in 2006 (Congressional Research Service 2007; Census Bureau 2001a)—mainly due to the expansion of the Social Security and employer pension systems. Despite these accomplishments, the economic prospects of vulnerable groups, including elderly Latinos, whose 2006 poverty rates were among the highest at over 20 percent, according to the Library of Congress and the Census Bureau of the United States are not good. The research on how well Latinos are prepared for retirement[1] share concerns that the weaker connection Latino workers have to the American employer pension system makes Latino retirees vulnerable to low income and poverty.

Even when Latinos succeed in finding jobs with high rates of pension coverage, they are somewhat less likely than whites and blacks to participate in pension plans. Section One discusses Latino workers' relative exclusion from the employer pension system. Section Two describes the Survey of Income Program Participants (SIPP) data set and compares it favorably to more limited data available elsewhere. Section Three addresses 1) Why are Latino workers less likely to work for employers who sponsor pensions? 2) Why, even when Latino employees are working for an employer who sponsors a pension plan, are they less likely than whites and blacks to be included and more likely to opt not to participate when they can be included? Section Four uses logistic regression analysis to support the contention that immigrant status and country of origin explains why Latinos would voluntarily opt out of participating in their employer's pension plan. Section Five presents four policy recommendations based on the findings of this study.

I. Where the Latino Elderly Obtain Retirement Income

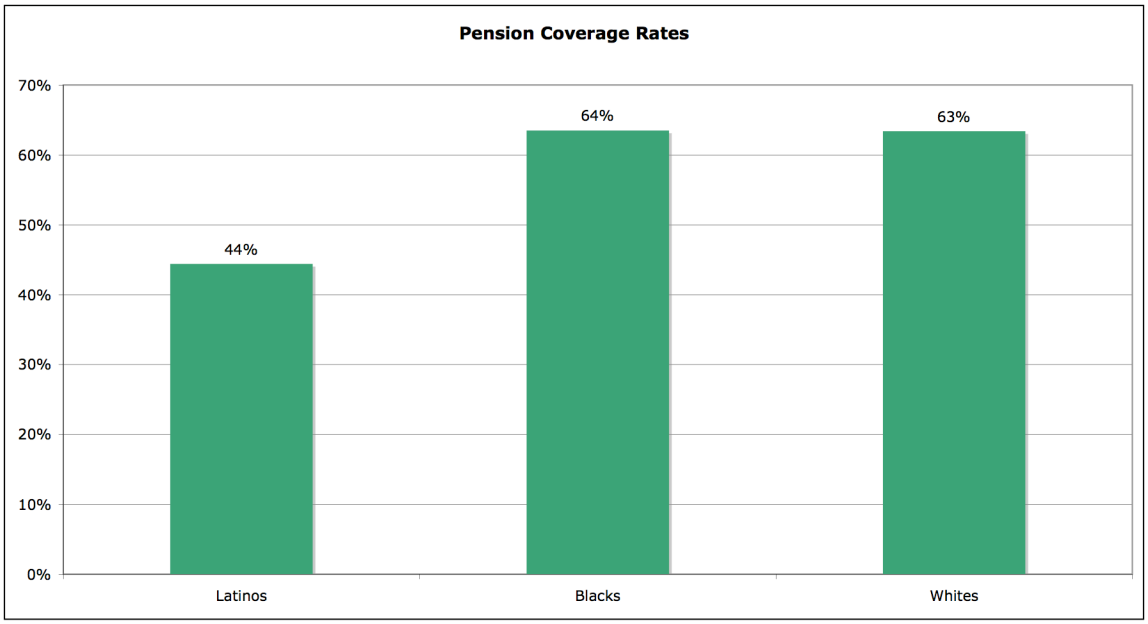
Employer pensions are a crucial component to maintaining retirees' living standards. Employer pensions help middle class workers become middle class retirees and help keep low income workers from a destitute retirement. Unfortunately, employer pension plan coverage rates have not budged from 1970s levels when just over 50 percent of the labor force was working for an

[1] There would be more studies on the retirement prospects of Latinos if the data were better. Latinos are an under-researched population because they are often not recorded as a separate demographic group.

employer who sponsored a pension plan. According to the 1996 Survey of Income Program Participants (SIPP), which is described in detail below, 42 percent of Latinos worked for employers who offered pension plans, compared to 61 percent of blacks and 59 percent of whites. The situation worsened slightly in absolute terms and Latinos were even further behind by 2001 (the latest SIPP data available).

In 2001, 44 percent of Latinos worked for employers who offered pension plans, compared to 64 percent of blacks and 63 percent of whites (see Figure 1). Therefore, it is not surprising that Social Security benefits are the most important source of retirement income for Latinos. Employer-provided pension income is next in importance, and third, but hardly playing a strong role in retirement income security for Latinos, is income from personal assets, including savings, businesses, and home equity. In other words, Latinos stand apart from average retirees by relying more on Social Security benefits; 47 percent of the annual income of Latino elderly comes from this source, compared to 38 percent for whites and 44 percent for blacks. For 38 percent of Latino elderly, Social Security is their only source of income, compared to 37 percent of blacks and 18 percent of whites. In 2000, Latinos ages 65 and older received 15 percent of their total income from pensions, compared to 18 percent and 23 percent for whites and blacks, respectively (Social Security Administration 2004). Latinos are less likely to be covered by pensions, and when they are fortunate enough to collect benefits, their benefits have less value. It should be noted that since a larger share of Latinos' retirement income comes from Social Security, and only Social Security is automatically indexed, the gap between Latinos and other groups would be reduced as people grow older and the non-indexed pension income erodes its purchasing power over time.

Figure 1. Percentage of Workers Whose Employers Sponsor Pension Plans



Source: SIPP

There are three reasons why a worker would not have access to a workplace pension plan or a retirement savings plan: 1) a worker's employer may not offer a pension, 2) a worker may not be eligible to participate in the employer's plan, and 3) a worker may voluntarily choose not to participate in an employer's plan when participation is optional as in defined contribution plans (DC), also known as 401(k) plans and, more generally, as tax-deferred savings plans. DC plans are voluntary because they are structured as individual accounts.

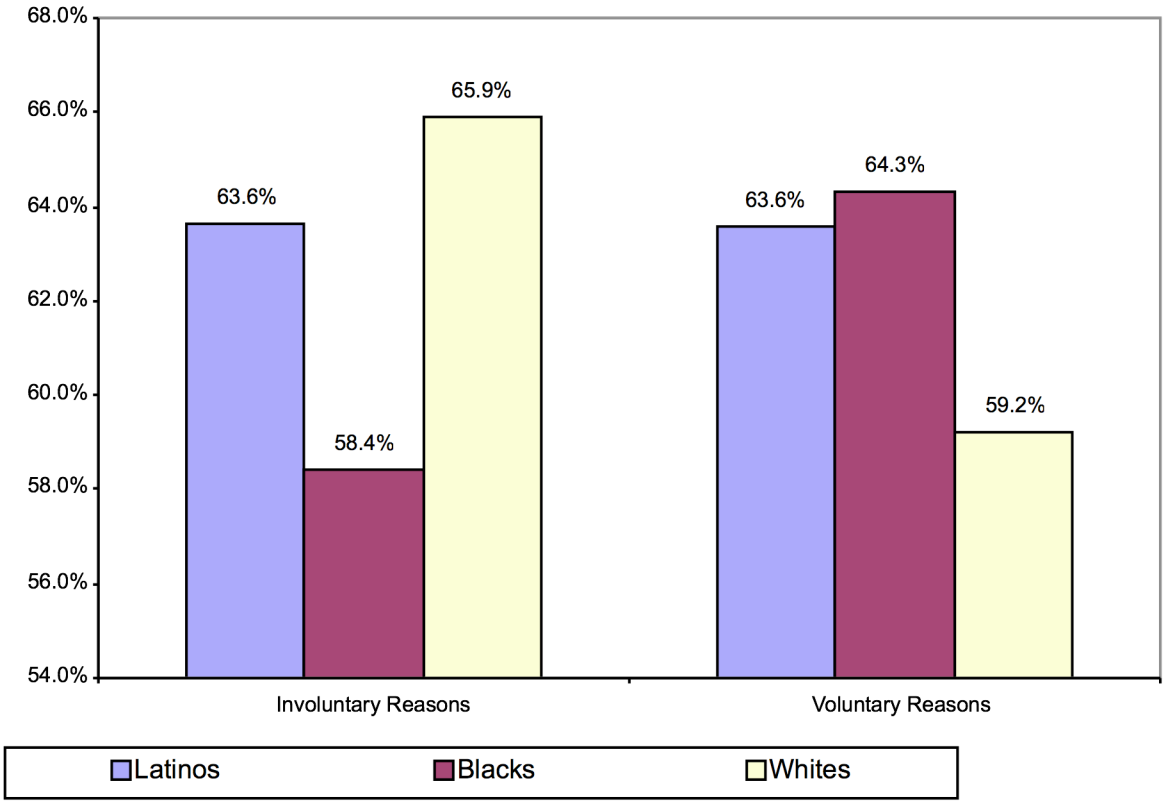
Latinos are more at risk than other groups of not being covered by a workplace pension in large part because they are less likely to be working for an employer who sponsors a pension plan. Voluntary non-participation is not currently the primary reason for lack of pension coverage among workers, including Latinos. It is potentially worrisome, however, because more employers are turning to voluntary, tax-deferred savings plans (most of these are 401(k) plans) and presenting them as the pension. Since Latinos are more likely to choose not to be covered when they can, the nation's dramatic shift to voluntary 401(k) plans will likely adversely affect Latino retirees more than other ethnic groups.

Furthermore, even when an employer sponsored a pension plan, Latinos were less likely than others to participate in it: 72.2 percent of Latinos participated in their employers' sponsored

plans, compared to 76.6 percent of blacks and 80.1 percent of whites who did. A non-participating worker can be either ineligible to participate or eligible to participate but opts not to. (Again, this is only possible in the case of defined contribution plans such as 401(k)-type plans.) Although we expected Latinos to be more likely than whites to be ineligible to participate in their employer's sponsored plan, we found that the share of Latinos who said they were ineligible to participate was actually smaller than whites: 63.7 percent compared to 65.9 percent.

Latino workers were, however, more likely than whites and only slightly less likely than blacks to cite voluntary reasons for not participating in the DC plan. Among workers whose employers sponsor a pension plan, 63.6 percent of Latino workers cited voluntary reasons they choose not to participate compared to 64.3 percent and 59.2 percent of black and white workers (see Figure 2). These are not huge differences, but non-participation in a retirement savings can keep pension income low and inadequate.

Figure 2. Involuntary and Voluntary Reasons a Worker Cites For Not Being In Their Employer's Pension Plan (all non participants whose employers sponsor a plan.)



Source: 2001 SIPP; see Table 3 for more detail.

In sum, working for an employer who does not sponsor a pension and being ineligible to join plans that are sponsored by one's employer are the main reasons why Latinos have low pension coverage. But even when they are eligible to participate, Latinos opt out of contributing to a voluntary 401(k)-type plan at slightly higher rates than whites (see Table 4). Discovering the reasons Latinos are more likely to opt out of pension coverage is particularly important now that these types of voluntary plans are replacing traditional defined benefit (DB) plans that do not allow opt outs.[2] Economists Santos and Seitz (2000) found Latino workers are less likely to participate in an employer-sponsored pension than other ethnic groups but did not explore why.

II. Data: The SIPP Explores Reasons for Non-coverage

The 2001 SIPP Wave 7 ("Retirement Expectations and Pension Plan Coverage")[3] uniquely includes (for the first and only time to date) detailed questions on types of pension plans, pension benefits, and pension contributions. Most importantly, it asks workers whether their employers sponsor pension plans, whether they participated in them, and why they did not participate when they were eligible to. In order to correlate these reasons with demographic characteristics of 1996 and 2001, SIPP Wave 7 is merged with SIPP core data and SIPP Wave 2 data, which contain general demographic information from respondents as well as immigration history for Latinos.

This technique overcomes the severe data limitations faced by previous scholars (Rogers 1982; Even and Macpherson 1999; Santos and Seitz 2000) that required combining Latinos with

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[2] Defined benefit (DB) plans are based on a specified formula, including final and average earnings and years of service on the job. They require that workers stay long enough with employers to qualify for pension plans. Employees cannot choose to opt out of a DB plan if they meet minimum requirements; the "opt out" reason for not being covered by one's employer's pension plan is only relevant for 401(k)'s and other tax-deferred plans.

[3] Calculations by Ben Zipperer from the Center for Economic and Policy Research (CEPR) Uniform Extracts of the 2001 Survey of Income and Program Participation (SIPP) panel. Analysis performed using STATA 10.0. SIPP Uniform Extracts, Version 2.0. Washington, DC. http://www.ceprdata.org. StataCorp. 2007. Stata Statistical Software: Release 10. College Station, TX: StataCorp LP. http://www.stata.com. The CEPR Uniform Extracts of the 2001 panel of SIPP were merged with additional core and topical module variables from the BLS: http://ceprdata.org and http://www.bls.census.gov/sipp/. The largest universe analyzed contained all observations ages 18–64 who held a job or owned a business and participated in the pensions topical module (module 7), conducted February–May 2003. Values for all non-pension module variables are therefore taken from the 4th reference month of Wave 7. The single exception is citizenship status, which is taken from topical module 2, conducted June–September 2001. Logistic analysis performed using the -logit- command, where the dependent variable is pension participation.

blacks in one category. Moreover, only the SIPP parses out why some workers are covered and eligible, yet opt not to contribute to a pension plan when participating is the worker's choice.

Halperin and Munnell (1999) and Hinz and Turner (1998) provided a research framework to address the question of why some workers who were eligible for pension plans nonetheless opted not to participate. Unfortunately, their work did not differentiate among whites, blacks, and Latinos. In an ambitious effort to confront the data limitations in identifying Latinos, Even and Macpherson (1999) used three data sets to assess the racial and ethnic differences in pension coverage: the Census Department's Current Population Survey (CPS), the Survey of Consumer Finances (SCF), and the Health Retirement Survey (HRS). Instead of separating Latinos from the rest of the population, however, they used an indicator of a person's race and ethnicity to examine how differences in socioeconomic characteristics among different groups contribute to differences in pension coverage. Chen (2001) used 1988 and 1993 CPS data and found that ineligibility cannot explain the disparity between Latino and other racial groups in pension participation in voluntary salary reduction plans; Chen called for further research that could.

This study delves into how people's ethnic identity and country of origin may affect their willingness to participate in a financial institution that requires a long-term perspective and trust that the money will be there and handled well until they retire (see Section IV). We are particularly focused on how Mexican workers' well-documented estrangement from US banking services (see Federal Reserve 2004) and the lack of reciprocity agreements between the US and Mexican Social Security systems may affect their relationship to the U.S. employer pension system, especially to 401(k)-type plans. All Latino workers, regardless of their citizenship status are included and 50 percent of these in the SIPP samples are foreign-born Latinos and almost two thirds are Mexican. We expect foreign-born workers will be less likely to opt to participate less in their employer's plan because foreign-born people are more likely to be "unbanked" and when there is no Social Security reciprocity—there is none between Mexico and the United States[4]—the motive to save in pension plans is lower because people are not as attached to the first level of the pension system, the Social Security program. For these reasons we are taking into account whether a person was born outside of the United States to explain some of the differences in pension coverage between people after controlling for all other important factors.

[4] The US has reciprocity agreements (ie, a pension credit earned in this country gets applied to the Social Security credit in another country and vice versa) with many other nations.

Thus, we hypothesize that workers of Mexican origin (because Mexicans will not get any Social Security credit if they work less than 40 quarters) will be less likely to engage in the US retirement system.

III. Low Pension Coverage and Latino Labor Market Characteristics

Latinos are less likely than their white or black counterparts to receive employee benefits—life insurance, health insurance, *and* pensions—mainly because Latino workers are less likely to be in circumstances conducive to employee benefit coverage: Latinos are less likely in long-term employment relationships; i.e. in primary sector positions (Osterman 2000; Melendez 2004) and their workplaces are not unionized (Santos and Seitz 2000). Primary sector jobs are usually in larger, more stable workplaces, where benefits are provided to all workers at lower cost. Latinos are under-represented in all pension-friendly situations. The National Council of La Raza (Perez 1998) concludes how long workers have been working for his or her current employer is the most important distinction explaining the differences in pension coverage among Latinos and other workers. Non-Hispanic whites have worked for their present employer for an average of eight years, blacks for eight years, and Latinos for six years. Older workers are more likely to be covered and Latino workers are, on average, younger (age 36 compared to age 39 for whites); job tenure and age are, of course, related.

Latinos are also more likely to be employed in low–pension coverage rate industries: agriculture and construction, wholesale and retail, and personal services (see Table 1). Latinos are under-represented in professional and managerial positions and over-represented as operators, production workers, and construction workers. About one-fifth of all US employees work for government entities—the federal government, state government, schools, etc. Pension coverage rates are well over seventy percent in this sector (Census Bureau 2001c). Blacks are more likely to be employed in the public sector compared to whites and Latinos. Only 12.2 percent of Latinos work for government entities while 21 percent of blacks and 16.5 percent of whites are public employees (author's analysis of SIPP data). Public sector employers practice less racial discrimination than private employers. However, federal employment requires US citizenship, which may be a barrier for Latino workers. Studies of Mexican immigrants in the labor force in Chicago metropolitan areas (Koval 2004) reveal that Mexicans are enormously

under-represented in education, health, social service and public administration sectors where employee benefits are more likely to be offered.

As a general rule, higher earners have higher rates of pension coverage (Bureau of Labor Statistics 2006). Blacks and Latinos have lower earnings than whites. The median weekly earnings for full-time white workers in 2006 were $690, compared with $554 for blacks and $486 for Hispanic workers. See Table 1 for a summary of the occupational distribution of whites, blacks, and Latinos. In other words, if whites or blacks were in occupations and industries that were similar to Latinos, we think there would be little difference in pension coverage.

Table 1. Selected Characteristics of the Latino, Black, and Non-Hispanic White Labor Forces

	Latinos	Blacks	Non-Hispanic Whites
Industry			
Agriculture, mining, construction	15.5%	4.7%	7.8%
Manufacturing	15.5%	16.2%	15.5%
Communication, transportation, utilities	5.7%	9.3%	6.1%
Personal Services	15.4%	12.7%	9.7%
Wholesale and retail	21.2%	18.1%	19.1%
Financial services	4.4%	6.2%	7.3%
Public administration	0.1%	0.3%	0.3%
Heath care and education	9.0%	17.9%	13.5%
Social services	3.0%	5.7%	3.9%
Professional services	1.7%	1.8%	3.8%
Occupation			
Management and professionals	14.3%	21.9%	31.9%
Sales and office occupations	19.8%	23.4%	23.7%
Services	17.6%	18.6%	9.0%
Farming, fishing, and forestry	4.7%	1.4%	1.2%
Construction, extraction, and maintenance	10.4%	4.7%	7.0%
Production, transportation, and material Moving, machine operator	24.7%	22.8%	14.1%
Average Earnings	$23,773	$25,037	$32,788
Average age	36.6	39.3	41.1
Years of working for current employer	5.0	6.4	7.4

Note: Latinos n=2,834; Blacks n=2,064, Whites n=17,334.

That Latinos have low pension coverage because they are more likely to have employers who do not offer pension plans is a well-known and obvious finding. It is less understood why when Latinos work for employers who sponsor pension plans they are more likely to be ineligible to participate, or to exclude themselves by choice. Decades ago, Rogers (1982) found that among workers who were very similar—who worked in the same industry, had the same union status, worked for employers of similar sizes, and who were approximately the same age—Latinos were still less likely to be covered by their employers' pension plans because they were either ineligible or chose not to participate. This study advances the current literature because it is the only one to use data that separates out the voluntary exclusion from the involuntary exclusion.

We select job categories that already have a high share of employers sponsoring a pension and compare how Latinos, whites, and blacks differ in their participation in employer-sponsored pensions. These job categories include manufacturing, professional occupations, full-time jobs, union-covered jobs, larger firms (firms with more than 100 employees), higher earning jobs, and jobs in which workers with longer job tenures have relatively high pension sponsorship rates, but the rates of pension participation in those employer-sponsored plans are lower for Latinos than for blacks and whites. The largest disparities in pension participation between Latinos and whites occur in manufacturing, professional, and managerial occupations where average earnings are higher than $20,000; for those who have worked for their employer more than five years; and for those working for large firms. In manufacturing, 39.3 percent of Latinos participate in a pension plan at work compared to 58.6 percent and 67.8 percent of blacks and whites respectively. The difference in rates of participation are as wide in the other categories of workers who are usually covered by pensions (see Table 2 for more comparisons). These findings emphasize the vital importance of knowing why Latinos are more likely to be ineligible to participate and why Latinos are more likely to opt out of participating even when they could.

Table 2. Pension Participation by Race and Hispanic Origin in Job Categories with High Pension Sponsorship

	Latinos	Blacks	Non-Hispanic Whites
Industry			
Manufacturing	39.3%	58.6%	67.8%
Occupation			
Professional and managerial	47.5%	54.3%	60.5%
Firm size equal to or more than 100	41.9%	55.6%	63.5%
Government employee	69%	70.4%	76%
Average earning equal to or more than $20,000	42.5%	60.3%	62.7%
Covered by union	54.1%	71.6%	77.8%
Full-time work status	31.8%	51.0%	56.9%
Number of years working for the current employer five years or more	19.5%	28.6%	31.8%
Homeowner	32.3%	46.9%	49.4%

Note: Latinos n=2,834; Blacks n=2,064; Whites n=17,334.

Halprin and Munnell (1999) found that among non-covered workers employed by firms sponsoring pension plans, thirty percent reported that they did not meet age or service requirements. But contrary to conventional wisdom, Latinos are not more likely to be ineligible to participate in their employer pension plans, despite the fact that Latinos are younger and thus more mobile and have short job tenure that it would be a major reason Eligibility standards established by the 1974 Employee Retirement Income Security Act (ERISA) and its amendments require that employers vest[5] workers in their pension plan if they have worked more than 1,000 hours per year for five consecutive years or vest workers 20 percent after each year of service until 100 percent vesting is reached (EBRI 1997). On average, workers who do not participate in a pension plan report half the number of years working for the same employer as participants do. In 2000 the National Longitudinal Survey[6] showed that 45 percent of Latino employees ages 33–36 had worked for one employer for less than a year, and 62 percent worked for one employer for less than two years (Bureau of Labor Statistics 2002).

[5] Vesting means pension participants generally attain nonforfeitable and nonrevocable rights to pension benefits after satisfying specific service or age and service requirements.

[6] National Longitudinal Surveys (NLS) are a set of surveys designed to gather information at multiple points in time on the labor market activities and other significant life events of several groups of men and women by age and race.

The rate of return migration for foreign-born Latino immigrants was as high as 25 percent and their average time of staying in the United States was only 14 to 16 months (Reyes, Johnson, and Swearingen 2002). However, again, all Latinos who report more than five years of employment with their employers are still less likely to be covered than blacks and whites.

Age has a negative impact on pension participation in terms of both eligibility and desire to opt in, regardless of ethnicity. Younger workers are less likely to think about saving for retirement. In 1998 almost no 16- to 20-year-old workers participated in a pension plan while sixty percent of 41- to 50-year-olds did so (Copeland 2002). Minimum service requirements for participation in pension plans also help explain why younger people do not participate in pensions (firms can legally exclude people who have not completed one year of service or have not reached age 21).

As emphasized above, the major reason for Latinos' low pension coverage is that Latinos disproportionately work in jobs that do not offer pensions, but other factors also play into the relatively lower pension coverage of Latinos. The SIPP is a valuable data source because it asks workers to spell out the reasons they are not covered, and are not participating, in a retirement plan or a tax-deferred savings plan.

In 2001 Latinos were much more likely (13 percent) than black (5.6 percent) and white (8.2 percent) workers to claim that "no one in my type of job is allowed [in the pension plan]" because of their job classification (part-time, hourly paid, low position). Pension eligibility factors, such as "haven't worked long enough," "don't work enough time," or "no one in my type of job is allowed" are the top three reasons Latinos, blacks, and whites are not covered by pension plans their employers sponsor (see Table 3). But differences in eligibility for coverage do not explain the disparities in pension coverage among Latinos, blacks, and whites who are eligible to participate.

Table 3. Reasons Workers (whose Employers Sponsor DB and DC Plans) Are Not Included in DB or DC Pension Plans by Race and Hispanic Origin

	Latinos	Blacks	Whites
INVOLUNTARY REASONS			
1. Have not worked long enough for this employer	28.7%	30.6%	29.5%
2. Do not work enough hours, weeks, or months per year	19.5%	21.3%	25.7%
3. No one in my type of job is allowed	13.0%	5.6%	8.2%
4. Too young	1.7%	0.7%	2.0%
5. Started job too close to retirement date	0.7%	0.2%	0.5%
TOTAL Citing Involuntary Reasons	63.6%	58.4%	65.9%
VOLUNTARY REASONS			
6. Too expensive, cannot afford	25.1%	21.5%	18.3%
7. Do not want to tie up money	11.3%	17.5%	11.8%
8. Have not thought about it	9.9%	4.9%	6.5%
9. Do not plan to be in job long enough	2.0%	3.4%	1.9%
10. Do not need it/Have other plans	2.1%	3.6%	6.2%
11. Employer does not contribute or does not contribute enough	1.1%	2.5%	2.0%
12. Some other reason	12.1%	10.9%	12.5%
TOTAL Citing Voluntary Reasons	63.6%	64.3%	59.2%

Note: Latinos n=343 Blacks n=318; Whites n=2,285

As noted above, however, workers may not be in a pension plan because they choose not to be. The data in Table 3 refer only to people covered by DC plans; defined benefit (DB) pension plans require that all eligible workers participate. DC plans often allow both the employee and employer to contribute a certain percentage of the employee's salary; when the DC plan is an actual 401(k) the employee does not have to contribute or collect an employer's matching amount. A DC plan has no rate-of-return guarantees so employees bear the risk of financial market losses, as well as the accumulation risk–that is, the risk that a worker does not save enough or withdraws the funds before retirement so that the accumulation falls short of what is needed. Since DC plans are funded primarily by employee contributions and, in order to participate, workers must voluntarily reduce their take-home pay, low-income workers, or workers with large family commitments, may be relatively unwilling to participate. When asked

why they did not participate in a savings plan, the reason cited by most people was they did not have enough money. It is a subjective question based on one's perception of whether one can afford to save and not on any measure of income and need. We hypothesize that the high priority placed by many Latinos, especially Mexicans, on sending money back to their countries of origin tends to crowd out other kinds of spending, like saving for retirement.

A large proportion of Latino workers whose employers offer such tax-deferred, voluntary plans choose not to participate in them. The plans include 401(k) plans (for the private sector) and 403(b) and 415 plans (in the education and not-for-profit sector). The rates of nonparticipation are as follows: 50.8 percent for Latinos, 49.2 percent for blacks (not much of a difference), and 42.2 percent for whites (a wider gap between whites and Latinos). (Members of these groups provided reasons why they do not voluntarily participate; see reasons 6–10 in Table 4.) Though it is not a large difference, Latinos' greater propensity to opt out of their employers' pension plans helps explain some of the current and projected disparity of pension coverage among Latinos, blacks and whites. The most often cited reason for not contributing to a pension for all workers is that "Contributing is too expensive. I can't afford it" (Reason 5, Table 4). Latinos are more likely to opt out and a greater percentage say affordability is a reason they do not contribute. Among Latino respondents, 26.5 percent gave this reason compared to 22.7 percent and 20.6 percent for blacks and whites respectively (Table 4).

Table 4. Reasons Workers (Whose Employers Sponsor Tax-Deferred Plans) Are Not Included in Pension Plans by Race and Hispanic Origin (2001)

	Latinos	Blacks	Whites
INVOLUNTARY REASONS			
1. Have not worked long enough for this employer	30.6%	33.1%	30.0%
2. Do not work enough hours, weeks, or months per year	18.0%	18.5%	22.5%
3. No one in my type of job is allowed	9.9%	4.5%	7.2%
4. Started job too close to retirement date	0.5%	0.2%	0.4%
5. Too young	2.1 %	0.0%	2.1%
TOTAL Citing Involuntary Reasons	61.1%	56.3%	62.2%
VOLUNTARY REASONS			
6. Too expensive, cannot afford	26.5%	22.7%	20.6%
7. Do not want to tie up money	11.6%	17.5%	12.9%
8. Have not thought about it	10.5%	5.5%	6.7%
9. Do not plan to be in job long enough	2.2%	3.8%	2.0%
10. Do not need it/Have other plans	1.8%	2.5%	6.2%
11. Employer does not contribute or contribute enough	1.1%	2.6%	2.3%
12. Some other reason	13.1%	11.7%	13.1%
TOTAL Citing Voluntary Reasons	66.8%	66.3%	63.8%

Note: Latinos n=253; Blacks n=243; Whites n=1,795.

Their decision to opt out makes sense; low-wage workers are more likely than high earners to decline participation in voluntary pension plans and Latinos are more likely to be low wage earners (Hinz and Turner 1998). Perez (1998) speculated that Latinos have unusually high levels of expenses that other groups do not, which make retirement saving more remote. Latinos are particularly likely to lack affordable housing, so they pay a disproportionate amount on rent. Similarly, Latinos spend a larger proportion of income for medical purposes, and Latinos, especially Mexican immigrants, send significant portions of their salary back to their home countries. In 2003, US-Mexico money transfers were more than $1,500 per Mexican worker (Orozco 2004). Remittances to Mexico are expected to reach a record $25 billion in 2007 (Ratha, Mohapatra, Vijayalakshmi, and Xu1 2007).

Ironically, this fact may indicate that Latinos have some discretionary income but choose to contribute to transnational family networks rather than fund their retirement pension. Remitting funds to help educate children, build homes, and invest in small businesses are activities that could be seen as rational and reasonable retirement planning if "investing" in transnational ties means they can rely in part on family support in old age. Remittances could be a well-informed form of planning for one's retirement future!

Furthermore, there is a large difference between Latinos and blacks and whites in citing "haven't thought about it" as the reason for not participating—10.5 percent, 5.5 percent, and 6.7 percent, respectively. However, 11.6 percent of Latino workers did not participate in pension plans because they "did not want to tie up money" compared to 17.5 percent for blacks and 12.9 percent for whites. (Only 1.8 percent of Latinos cite that they do not need the plan because they have others, while 2.5 percent and 6.2 percent of blacks and whites respond in this way.) The inability to afford to save does not seem to be the defining distinction causing the rates of voluntary participation to differ.

We propose that growing disparities in pension coverage rates may be explained not only by Latinos' disadvantaged position in the labor force, but also by a situation that especially affects Latino migrants. The large share of Latino workers who are disenfranchised from many ordinary financial services—54 percent of Mexican immigrants do not own either a checking account or a savings account (Newberger, Rhine, Chiu 2004)—may also be disenfranchised from other financial institutions, including pension plans. The disenfranchisement from pension plans may be aggravated by the fact that the United States and Mexico do not have bilateral reciprocal agreements, called "totalization" agreements, whereby countries recognize each others' credits under their government Social Security system. The lack of the agreements means that many foreign-born Latino workers, especially Mexicans, do not collect the benefits they earned in the United States upon returning to their home countries. Americans working abroad for multinational companies based in the United States may be required to pay Social Security taxes in both countries and vice versa for foreign workers in the United States. Under a totalization agreement, workers only pay Social Security taxes to the country where they are working (unless their stay is less than five years) and are able to combine or "totalize" work credits under both systems to become eligible for benefits. The purpose of totalization is to eliminate the problem that an American, for example, who worked in both the US and a foreign country, may end up

being double taxed or failing to qualify for retirement benefits in either country. Totalization agreements allow both US and foreign workers to qualify for benefits based on the combined coverage of both countries. The Government Accountability Office estimated that 37,000 Mexicans who worked legally in the United States and paid into Social Security have not been able to collect their checks. The United States currently has totalization agreements with twenty countries, only one of which (Chile) is in Latin America. This fact may lead to a general estrangement from the retirement system and general doubt among workers who are in the situation of straddling two countries about a promise to pay pensions in the distant future. One might have better things to do with one's money.

IV. Logistic Analysis of Latino Pension Coverage

Consideration of Latinos' lack of trust in complicated political and financial institutions leads to a more thorough exploration of why Latinos are less likely to participate in pension plans. We use the statistical technique logistic regression analysis, which allows us to isolate how each factor not related to ethnicity or place of birth affects differences in pension coverage. Specifically, we want to explain how the probability of pension participation among Latino workers changes—for involuntary and voluntary reasons—if a worker, among workers with otherwise similar characteristics, is strongly connected to Mexico. Therefore, the first regression only examines Latinos. The dependent variable is whether the worker participates in a pension plan, whether the worker's employer has to offer it, and whether the worker has to be included. The second model is the same except that the sample includes all workers.

Next we examine what, in particular, explains why workers who are eligible to be in a pension plan do not participate for voluntary reasons. The sample for the third regression is all workers who are employees who are eligible to be in the plan and the dependent variable is whether they have opted to participate in it. The results for the three regressions are displayed in Table 5.

The explanatory variables in the model are in two categories. The first category contains demographic characteristics: age, whether the person was born in Mexico, is Mexican-American, or born outside of the United States. We used an "interaction" variable that identifies whether a person has indicated he or she is an Mexican American or a Mexican and whether he or she was born outside the United States. This variable is meant to capture the effect of not being born in

the United States and having some identification with Mexico, which can indicate several things about a person. First, workers with ties to Mexico knows that their country does not have a reciprocity treaty with the Social Security administration. Also, research shows that workers with ties to Mexico may not use traditional US financial system services. This, of course is a major variable of interest. We do not include gender since the pension participation rate is not significantly different between Latino males and females (Even and Macpherson 1999; Chen 2001). The second category contains job characteristics: industry, firm size, earnings, length of service with the same employer, full-time/part-time job status, and whether the basis of pay is hourly or salaried. There is some correlation with industry location and Mexican origin because Latinos are over-represented in agriculture, construction, manufacturing, retail and services (Morales 2000). This correlation will cause the coefficient on these industries and on the Mexican origin indicator to counteract each other and shrink or skew the coefficient on each of the variables. Including a control for earnings captures the affordability of pension participation and liquidity constraints.

The results (Table 5) indicate that if a Latino or any other worker is older, earns more, has longer job tenure, is full-time rather than part-time, salaried rather than hourly, he or she has a higher probability of participating in a plan. These features may capture employees' concern for retirement and perhaps the amount of skill valuable to the employer. All these results are expected to increase the employer's willingness to supply a pension and the workers' desire for one.

The indicators for whether a person is identified with Mexico reveals a weak relationship between choosing not to participate in a pension plan and being Mexican-born or Mexican-American. The coefficients are not significant but they are of a sign that suggests that foreign-born Mexicans are less likely to participate in pension plans, which is consistent with our hypothesis of disengagement.[7] This is confirmed in the third regression where being born out of the country was correlated with choosing not to contribute to a pension plan. (The other two regressions examined voluntary and involuntary reasons a person is not participating.)

[7] Estimated probabilities can be calculated at specific values of independent variables. Based on coefficients in Table 5, $10,000 increases in earnings at the mean will increase the probability of participating in a pension plan by 0.1–0.27 percentage points.

Table 5. Regression Estimates of Pension Participation in Employer Pension Plans with Interaction Variable
(Standard errors in italics)

	Model 1: Participates in a Pension Plan		**Model 2 and 2b: Participates in a Pension Plan**		**Model 3: Chooses not to participate**	
Sample:	(Latino workers with Employer Sponsors)		(All workers with Employer Sponsors)		(All pension eligible workers)	
Sample size:	1258		15,820		13.944	
Intercept	0.649		0.838		-1.94	***
	0.842		*0.228*		*0.332*	
Foreign born	-0.463	*	-0.157*		0.372	***
	0.237		*0.082*		*0.102*	
Mexican or Mexican American	-0.284		-0.192		0.225	
	0.196		*0.118*		*0.156*	
Born in Mexico (interaction term of foreign-born and Mexican origin)	0.546		0.181		-0.32	
	0.299		*0.199*		*0.23*	
Age	0.0139		0.0111**		-0.0144	***
	0.007		*0.002*		*0.003*	
Length of working time for current employer	0.097	***	0.138***	***	-0.092	***
	0.017		*0.005*		*0.006*	
Earnings	0.000027	***	0.00001**67	***	-0.000017	***
	0.000000572		*0.000000138*		*0.0000008*	
Full time worker	0.774	***	0.912***	***	-0.173	
	0.217		*0.062*		*0.094*	
Hourly Paid Job	-0.376	**	-0.422***	***	0.419	***
	0.182		*0.052*		*0.0717*	
Employer has more than 100 workers	-0.204		-0.019		0.132	***
	0.161		*0.048*		*0.067*	

Notes: Industry locations are controlled for.
* Significant at =0.995 level.
** Significant at =0.5 level.
*** Significant at =0.005 level.

The more finely-tuned results in the third regression look only at the workers who decided to voluntarily opt-out. The coefficient on the indicator of the person being born in Mexico is positive, indicating that the identification with Mexico does decrease the likelihood voluntarily participating in a pension plan.[8] It shows that if a person is Mexican they are less likely to participate in the plan by a factor of 22 percent. Altogether the findings provide mild support that workers born in Mexico are less likely to participate in pension plans when they are eligible, which is consistent with our hypothesis of disengagement.[9]

V. Policy Recommendations and Conclusions

The descriptive statistics and the logistic model reveal that the primary reason Latinos have relatively low pension participation rates even when their employers do sponsor a pension plan is that Latino workers are more likely to be ineligible for participation. In fact, being ineligible is the only reason anyone can be excluded from participating in defined benefit plan. In a 401(k)-type plan people can be excluded because they are ineligible and because they choose not to participate.

What kind of worker is likely not to be in a pension plan for voluntary and involuntary reasons? The answer is: workers who are younger, have shorter job tenure, and work part-time in an hourly-paid job. These characteristics are all associated with less pension coverage and eligibility. Although pension eligibility standards apply to every racial and ethnic group equally, if Latinos are more likely to be young, to be in a part-time job, and to have less tenure with an employer, then this disadvantaged status in the labor market makes Latino workers less eligible for employer-sponsored pension plans in comparison to black and white workers.

This is hardly a startling finding. The point of our research here is to explore further to see if there are any reasons why Latinos, and in particular Mexican-Americans and Mexican-Americans born in Mexico, decide to opt out of participating in a plan after controlling for reasons other people opt out. When we explore the characteristics of people who choose not to participate we find that being born outside the US and having some identification with Mexico explains a small amount of the difference between people who choose not to save in their

[8] It is likely the multicollinearity is causing the lack of significance.

[9] We ran the same regressions stripping the variables on being Mexican-American or foreign-born and just indicated whether a worker was foreign-born and Mexican. We still did not obtain a significant coefficient on being foreign-born and Mexican. The sign was negative, indicating that their deciding not to participate was in part determined by the connection to Mexico, but it was not strong.

employer's sponsored 401(k)-type plan. We interpret these results as evidence that some lack of pension coverage is being caused by relative disengagement from the US pension system. It is suggestive that the idiosyncratic issues that workers from Mexico face with the US Social Security system may spill over to the employer pension system, making foreign-born Mexicans less willing to participate in pension plans and therefore more at risk for poverty in retirement. This means that the negotiations around a treaty for Mexican and US Social Security Totalization could affect employer-pension coverage (Government Accountability Office 2003).

Based on our research, we recommend that policy aimed toward increasing Latino pension coverage should recognize three major facts. First, Latinos are less likely to be eligible for pension participation, due to their disadvantaged position in the labor market. Second, since Latinos are more likely to be low-wage workers they are likely to be more concerned about maximizing their cash income and less willing to spend on pension security. Third, a large percentage of Latinos are foreign-born or of Mexican origin (67 percent of Latinos are of Mexican origin and 40 percent of Latinos are foreign-born) and have special reasons to be estranged from the US financial system.

We recommend the following policies to enable greater pension participation among Latinos:

1. Changing the pension rules to include such currently ineligible workers as younger workers and part-time or seasonal workers. If low pension participation is due to high mobility among Latino workers, making 401(k) plans immediately vested, reducing age requirements, or shortening the length of time before pension participants are fully vested may attract more Latinos to participate in such plans. Since most Latino workers are in low-paid occupations and relatively younger and more mobile, preserving the value of termination benefits is important (Halperin and Munnell 1999). In this case, cash balance plans[10] or current 401(k) plans may be a better choice than defined benefit plans because the contributions are not related to final pay. Current nondiscrimination rules need to be modified to include rank-and-file workers. In order to have qualified pension plans, employers should cover all employees instead of having a certain ratio percentage of non–highly compensated employees versus highly compensated employees. However, this is not expected to help in any significant way.

[10] A cash balance plan is a defined benefit plan but has many defined contribution characteristics. For example, each participant has an individual account with employer contributions that are determined as a percentage of pay.

2. Attracting low-income employees to participate in pension plans and developing the 'pension idea' among Latinos. Orszag (2001) argues that incentives for employees to participate in pension plans can make a powerful difference in raising saving rates and reducing poverty among the elderly. Because lower earnings and family income are barriers to Latinos' participation in pension plans, increasing Latinos' access to housing and medical assistance programs may help them save for retirement. To encourage low-wage earners to participate in pension plans, employers, financial institutions, and government agencies should create incentives such as raising employer matches on contributions or creating easy ways for low-wage workers to save and, in which, the government can make contributions in the form of refundable tax credits. Non-resident workers may not be eligible for this plan unless they have worked for a US employer out of the country. The concerns about reciprocity and distrust of complicated financial institutions will still cause them not to participate if they can choose to opt out.

Under this type of plan, the employees' contributions are not deductible now and the benefits will be tax-free when distributed in the future. However, no solution is perfect, and the mandatory plan, of which there are several versions, aims to remove employers' responsibilities and obligations to include low-income workers in their plans. Refundable tax credit or so-called saver's credit is designed to motivate moderate- and low-income workers to save in employer-sponsored plans in the form of government matching contributions, which directly raise the participation rate of employer-sponsored plans. In addition, cash balance plans with features of traditional DB plans do not "depend on employees' willingness to participate" (Davis 2001), since employees do not make the contributions. Obviously, a mandate will have better results than any voluntary plan.

There are a number of alternatives aimed at boosting enrollment and they are not addressed in detail here. One recent favorite reform idea is to encourage employers to include "automatic enrollment" as a plan feature, this means once employees become eligible for the plan employers would enroll them. Since people often follow "the path of least resistance" workers might stay in the plan.[11] Evidence shows that plans in which employees are automatically enrolled when they first become eligible have obtained participation rates of over

[11] Some behavioral economists (ie, Choi, et al. 2001) argue that employees are likely to do whatever requires the least current effort, which means employees will take no action unless employers ask them to choose whether to participate or not.

eighty percent for newly eligible workers (Madrian and Shea 2001). Similarly, making plans mandatory may establish a "pension idea" to encourage individuals to save for retirement. This paper has identified the small differences between Latinos and whites and blacks that may provide some insight in how Latinos view asset accumulation.

3. Cultivating engagement in the pension and financial systems can be achieved, albeit indirectly, by addressing the problems Mexican workers have with banks and with reciprocity in the Social Security system. Engagement in the pension system may be addressed through language and culturally targeted education on retirement saving and financial literacy. The fact that foreign-born Latinos are less likely to be engaged in the pension system might be corrected by creating a bilateral Social Security agreement between the United States and Mexico, though how to achieve this goal is beyond the scope of this study.[12]

Furthermore, we recognize that researchers generally have not found strong evidence of whether, or how, financial education raises retirement savings. Yet in this study we found that in 1996 about 12 percent of Latinos indicated that they had not thought about pension plans. The EBRI survey (2000) also showed that only 20 percent of Latinos know how much they will need to save for retirement. Latinos rates of being uninterested in saving for retirement are higher than for any other group. Financial literacy may have an effect on this group.

4. Explore ways to mandate participation in a savings plan. Voluntary savings will only go so far in providing enough retirement income because people do not save consistently or they withdraw the money for other needs. Therefore, instead of trying to induce people to save for retirement by making it easier to withdraw the money before retirement, requiring people to save in an individual account to supplement Social Security may be the only way to prevent leakages out of the system, and to ensure that people save consistently, and that the assets in the account are preserved for retirement.

In conclusion, in order to expand Latinos' pension participation, we conclude that a more inclusive (perhaps mandatory) and flexible pension plan is suitable for Latino workers and low-wage workers. Many of these characteristics of a suitable pension system are met by the Social Security system. Pension reform that emphasizes enfranchising Latinos into the Social Security system would go far to boost Latino retirement assets, but the relatively low rate of awareness

[12] There is a great deal of controversy about this. Although the US Social Security Administration wants the agreement, Congress is holding up the ratification of the treaty.

about retirement needs and planning suggests that financial education would have a somewhat larger effect on this population than others.

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