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La Tercera Edad: Latinos' Pensions, Retirement and Impact on Families

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UNIVERSITY OF NOTRE DAME
Institute for Latino Studies

The Center for Migration and Border Studies (CMBS) furthers understanding of the increasingly significant phenomenon of transnational migration between Latin America and the United States by investigating the political, social, economic, and cultural forces that are shaping lives throughout the continent both in sending and receiving communities.

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Table of Contents

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After twenty-five years at the University of Notre Dame as a professor of economics and ten years as director of the Higgins Labor Research Center, **Teresa Ghilarducci** joined the New School for Social Research as the Irene and Bernard L. Schwartz Professor of Economic Policy Analysis in January 2008. Her new book, *When I'm Sixty-Four: The Plot against Pensions and the Plan to Save Them* (Princeton University Press, 2008), investigates the effect of pension losses on older Americans. Her book *Labor's Capital: The Economics and Politics of Employer Pensions* (MIT Press) won an Association of American Publishers award in 1992. She coauthored *Portable Pension Plans for Casual Labor Markets* in 1995. Ghilarducci publishes in journals and testifies frequently before the US Congress. She is the Wurf Fellow at the Labor and Worklife Program at Harvard Law School and serves as a public trustee for the Health Care VEBAs for UAW Retirees of General Motors and for the USW retirees of Goodyear.

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The three wavy lines shown here are a symbol from ancient times representing the human intellect in action. From *The Book of Signs,* collected, drawn, and explained by Rudolf Koch (London: The First Edition Club, 1930, page 8).

Introduction

The improving living standards of older Americans over the past four decades represents a significant victory for US social policy. The expansion of the Social Security and employer pension systems contributed to the doubling of retirees' income and the reduction of their poverty rates from over 30 percent in the early 1960s to under 10 percent in 2006. While the retirement security of most American seniors has improved, however, the situation for Latino retirees has not. At over 20 percent, the poverty rate among Latino seniors is the highest in the nation. Latino retirees rely heavily on Social Security benefits as their single largest source of retirement income. Their adult children's retirement income prospects are not substantially better. Current Latino workers are far less likely than other groups to be covered by employer-provided pensions. Current Latino workers are also less likely to be contributing to employer-based retirement savings plans. With limited individual assets, Latinos remain more vulnerable than other groups to low income and poverty.

This report contributes to our understanding of the multiple causes of Latinos' lack of preparedness for retirement with the objective of informing policies that will bolster Latinos' retirement security. The discussion begins with a description of broad trends in pension coverage since 1980 from employer-provided, or defined benefit, pensions to employee-provided, or defined contribution, plans. This shift, which has adversely affected American workers, has disproportionately hurt Latinos. They are less likely to be employed in jobs that offer defined benefit plans, and even when they succeed in finding jobs offering defined contribution plans, they are less likely than whites and blacks to participate. We will use a comparative analysis of data from the 1996 and 2000 Survey of Income Program Participants (SIPP) and other data to answer the following questions: 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 are eligible to be included? And 3) how do immigrant status and country of origin correlate with Latinos' rates of opting out of participation in their employers' pension plans?

When retirement planning and investment decision-making are largely relegated to individuals, financial literacy is essential. Financial illiteracy, however, is widespread throughout the population and is of particular concern for Latinos. Section Two disaggregates ethnic differences between Latinos, both foreign- and US-born, and non-Latino blacks and whites in the analysis of core and supplemental data from the 2004 Health and Retirement Survey (HRS) in order to explain how individual characteristics among ethnic groups affect financial literacy. The discussion answers several questions regarding Latinos' retirement planning. Do Latinos plan for retirement? Do Latinos prefer the same learning methods and retirement planning resources as whites and blacks? How financially literate are Latinos and how does this relative competence affect their retirement planning behavior? Knowing the answers to these questions is essential to the design and implementation of useful and cost-effective retirement education programs, services, and products for Latinos.

The harsh reality of Latinos' insecure retirement is presented in the third section of the paper as it moves from objective economic analysis of SIPP and HRS data to the subjective voices of Latino workers and retirees. The human face of the experience of poverty in retirement is candidly revealed

in the narrative of focus groups conducted in Chicago in 2006 and 2007. Conversations with groups of Latino retirees and Latino working adults reveal that neither the retirees nor their extended families have sufficient income to live comfortably now, let alone to prepare for the future. They help one another adapt to these difficult conditions through informal exchanges of food, childcare, transportation, and money. Latino seniors and Latino working adults are anxious about their own and their children's future retirement security. Discussions with working adults and retirees from Mexico, specifically, reveal that cultural values and practices reinforcing family interdependence influence their concepts of retirement. Elders have traditionally expected future support from their many children. The ideal of filial obligation is changing, however, as family enterprises give way to formal employment and family size shrinks. Recognition of this trend underscores the importance of supporting measures that will bolster current workers' pension participation. The final section of this paper presents policy recommendations for improving Latinos' preparation for retirement.

The Causes of Latinos' Low Pension Coverage

Trends in Employer-Based Pension Plans

Employer pensions are crucial to maintaining retirees' living standards. Employer pensions help middle-class workers become middle-class retirees and help spare 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 employer who sponsored a pension plan. The primary factor has been the gradual replacement of "defined benefit" (DB) plans by "defined contribution" (DC) plans. A defined benefit plan is provided by the employer and insured by the government and promises the participant a specific monthly benefit at retirement calculated by a formula based on final and average earnings and years of service on the job. Defined benefit plans require that workers stay long enough with employers to qualify for pension plans but do not require participants to make investment decisions, nor is the employee in the private sector required to allocate contributions. Employees in the public sector are required to contribute to their pensions.

Unlike defined benefit pension plans, defined contribution plans (also known as 401(k) plans and, more generally, as tax-deferred savings plans) require the individual participant to bear the full responsibility for making investment decisions. Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans. Participants are required to bear all of the investment risks associated with the plan, balance their own portfolios, decide how much to contribute to each plan, and be knowledgeable about the allocation of existing funds. The key difference between the two types of pension plans is that while benefits from the defined benefit plan are fixed, benefits in the defined contribution plan are affected by income, expenses, gains, and losses, nor are contribution funds insured by the government.

The use of defined contribution plans (including 401(k) plans) reduces employer pension costs per worker by 3.5 percent (Ghilarducci and Sun 2007). According to the Pension Benefit Guaranty Corporation (PBGC 2001), there are about 38,000 insured defined benefit plans today compared to a

high of about 114,000 in 1985. According to another source, between 1980 and 2004 the percentage of employees who were covered by defined contribution plans increased 43 percent, from 17 percent to 60 percent (Munnell and Perun 2006), while the percentage of employees covered by employer-provided pension plans correspondingly decreased. This shift had a marked adverse effect upon workers' retirement income. Defined benefit plans produce higher returns than defined contribution plans because they are directed by professionals and have lower costs than 401(k)-type plans. Their rate of return over the last thirty years is estimated to be 25 percent higher than defined contribution plans (McCourt 2006, 5).

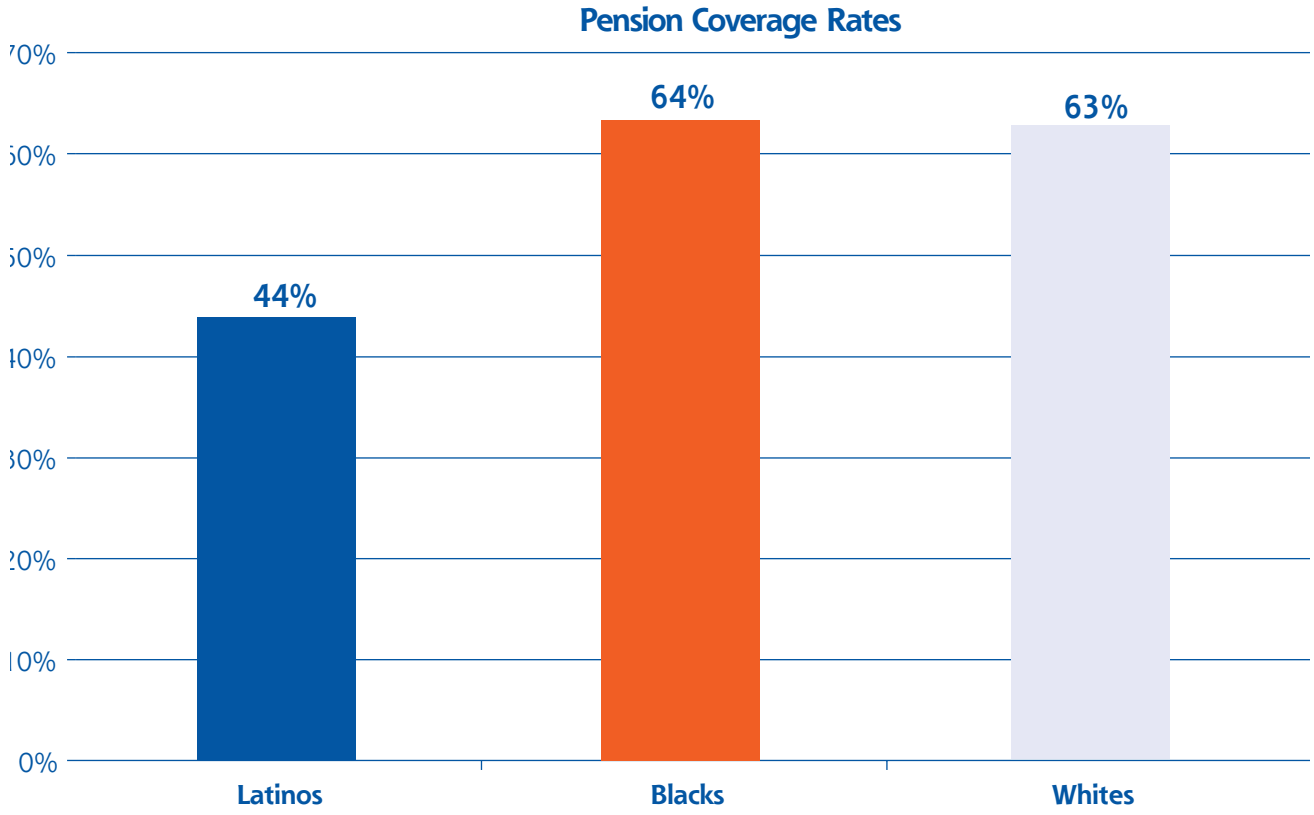
Where the Latino Elderly Obtain Retirement Income

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 age 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.

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

Figure 1
Percentage of Workers Whose Employers Sponsor Pension Plans



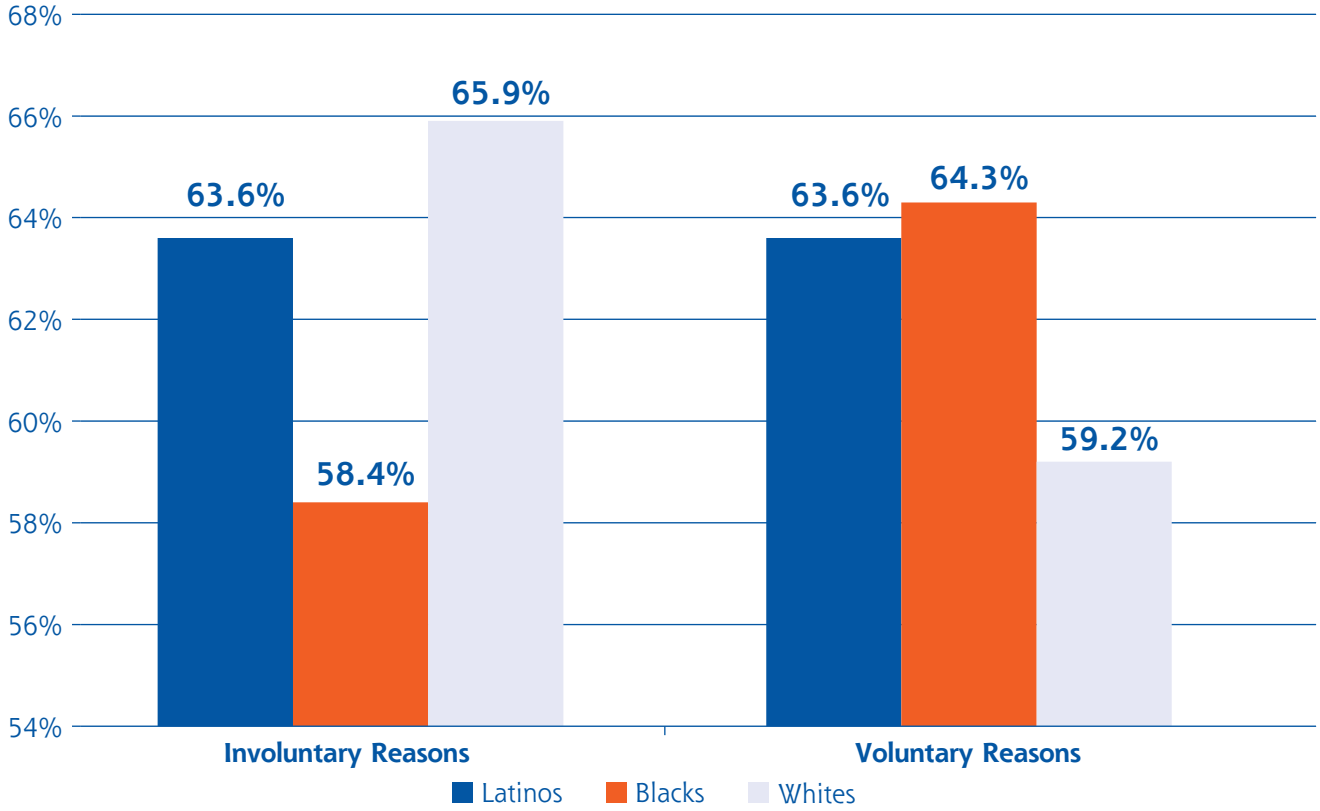
Source: SIPP

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. 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. 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 opt not to. 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: 63.6 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 plan can keep pension income low and inadequate.

Figure 2

Involuntary and Voluntary Reasons a Worker Cites For Not Participating in Their Employer's Pension Plan (all non-participants whose employers sponsor a plan)



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

Voluntary non-participation is not currently the primary reason for lack of pension coverage among workers, including Latinos. However, the trend toward presenting voluntary, tax-deferred savings plans, mostly 401(k) plans, as the pension is potentially worrisome. Since Latinos are more likely to choose not to be covered even when they are eligible, the nation's dramatic shift to voluntary 401(k) plans will likely adversely affect Latino retirees more than other ethnic groups.

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 below). 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. 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.[1]

1 Because 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.

Data: The SIPP Explores Reasons for Non-coverage

The 2001 SIPP Wave 7, "Retirement Expectations and Pension Plan Coverage," includes (for the first and only time to date) detailed questions on types of pension plans, pension benefits, and pension contributions.[2] Most importantly, it asks workers whether their employers sponsor pension plans, whether they participated in them and, if not, why they did not participate when they were eligible. 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 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 Bureau'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. 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 US 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

2 Calculations by Ben Zipperer based on 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.

foreign-born Latinos and almost two-thirds are Mexican. We expect foreign-born workers will be less likely to opt to participate 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—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.[3] 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. Thus, we hypothesize that workers of Mexican origin will be less likely to engage in the US retirement system since Mexicans will not get any Social Security credit if they work less than 40 quarters.

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 to be in long-term employment relationships, i.e., in primary sector positions (Osterman 2000; Meléndez 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 that the length of time working for an 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 7.4 years, blacks for 6.4 years, and Latinos for 5.0 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 70 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 (authors' 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.

3 The United States has reciprocity agreements (i.e., a pension credit earned in this country gets applied to the Social Security credit in another country and vice versa) with many other nations.

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 sum, if whites or blacks were in occupations and industries that were similar to those of Latinos, we think there would be little difference in pension coverage.

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

	Latinos	Blacks	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

Source: SIPP; 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. 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 Tables 2 and 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. 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, jobs in larger 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	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	69.0%	70.4%	76.0%
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%

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

Halperin and Munnell (1999) found that among non-covered workers employed by firms sponsoring pension plans, 30 percent reported that they did not meet age or service requirements. Eligibility standards established by the 1974 Employee Retirement Income Security Act (ERISA) and its amendments require that employers vest 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).[4] 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[5] showed that 45 percent of Latino employees ages 33–36 had worked for one employer for less than a year, and 62 percent had worked for one employer for less than two years (Bureau of Labor Statistics 2002).[6] However, 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

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

5 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.

6 One factor is the rate of return migration among foreign-born immigrants—as high as 25 percent—whose average length of stay was only 4 to 16 months (Reyes, Johnson, and Swearingen 2002).

almost no 16- to 20-year-old workers participated in a pension plan while 60 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 by or are not participating in a retirement plan or a tax-deferred savings plan.

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

	Latinos	Blacks	Whites
INVOLUNTARY REASONS (relevant for both DB and DC plans)			
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 (relevant only for DC plans)			
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%

Source: SIPP
Notes: Latinos n=343; Blacks n=318; Whites n=2,285
Percentages do not total 100% because participants can select more than one answer.

As noted above, however, workers may not be in a pension plan because they choose not to be. The data in Table 4 refer only to people covered by DC plans; 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, most people cited that they did not have enough money, a subjective evaluation 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 6, 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 Are Not Included in DC Pension Plans by Race and Hispanic Origin (2001)

Sample includes only those workers whose employers sponsor DC plans.	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%

Source: SIPP
Notes: Latinos n=253; Blacks n=243; Whites n=1,795
Percentages do not total 100% because respondents can select more than one answer.

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 reduces the priority placed on retirement saving. 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 Xu 2007).

This fact may indicate that Latinos do 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 planning strategy 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, and 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 United States and a foreign country, may end up being double taxed or fail 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, because the work credits earned in both countries are not combined—the technical term is "totalized"—and without the combination the worker has not earned enough credits in the US system to qualify for benefits. The United States currently has totalization agreements with 20 countries, only one of which (Chile) is in Latin America. This fact may lead to a general estrangement from the retirement system by people from Latin America 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 than add to retirement savings if one knew that one would not even get the basic Social Security payments.

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.

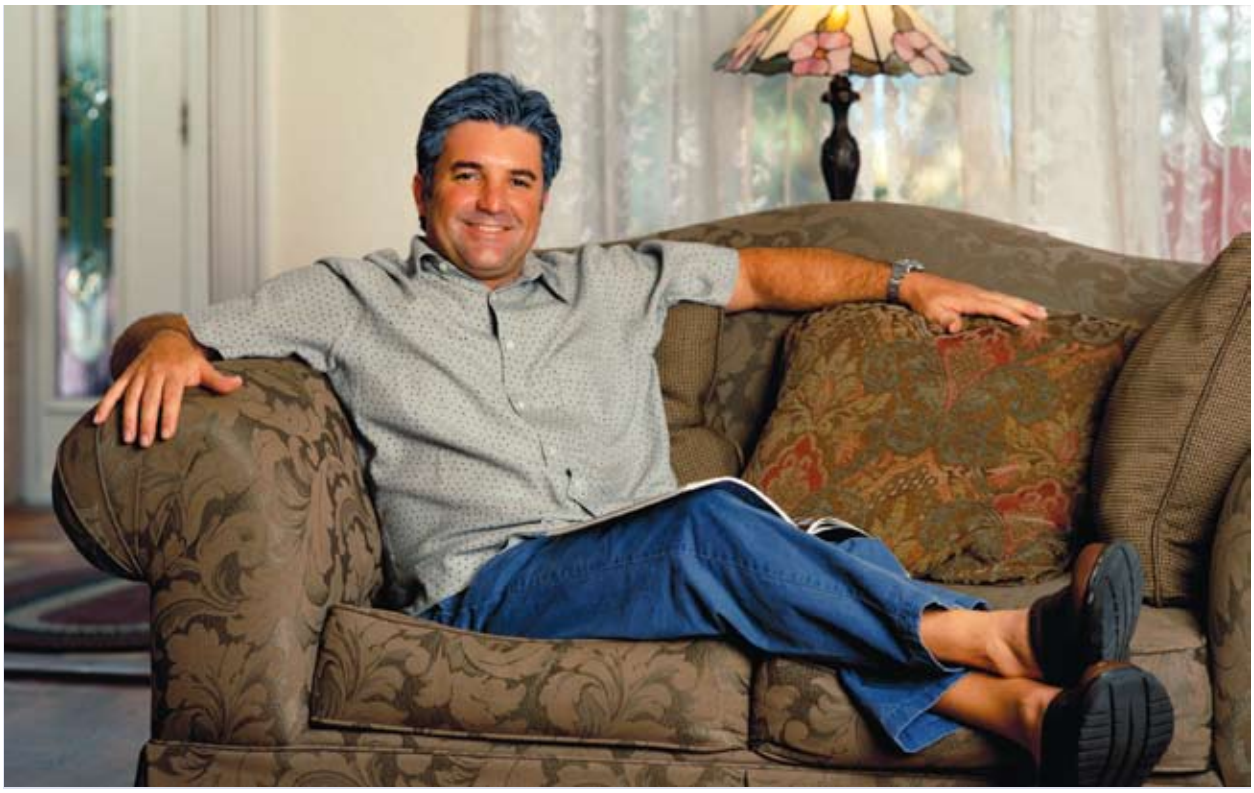
Next we examine what, in particular, explains why workers who are eligible to be in a pension plan do not participate for voluntary reasons. The sample for the third regression is all workers who are employees who are eligible to be in the plan and the dependent variable is whether they have opted to 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 a 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. Workers with ties to Mexico know 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 worker's 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.)

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 of voluntarily participating in a pension plan.[8] It shows that persons who are Mexican 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]



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.

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.

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**		**Models 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:	**1,258**		**15,820**		**13,944**	
Intercept	0.649 *0.842*		0.838 *0.228*		-1.94 *0.332*	***
Foreign born	-0.463 *0.237*	*	-0.157* *0.082*		0.372 *0.102*	***
Mexican or Mexican American	-0.284 *0.196*		-0.192 *0.118*		0.225 *0.156*	
Born in Mexico (interaction term of foreign born and Mexican origin)	0.546 *0.299*		0.181 *0.199*		-0.32 *0.23*	
Age	0.0139 *0.007*		0.0111** *0.002*		-0.0144 *0.003*	***
Length of working time for current employer	0.097 *0.017*	***	0.138*** *0.005*	***	-0.092 *0.006*	***
Earnings	0.000027	***	0.00001**67	***	-0.000017	***
Full-time worker	0.774 *0.217*	***	0.912*** *0.062*	***	-0.173 *0.094*	
Hourly Paid Job	-0.376 *0.182*	**	-0.422*** *0.052*	***	0.419 *0.0717*	***
Employer has more than 100 workers	-0.204 *0.161*		-0.019 *0.048*		0.132 *0.067*	***

Notes: Industry locations are controlled for.

* Significant at =0.995 level.
** Significant at =0.5 level.
*** Significant at =0.005 level.

Discussion: Latinos' Low Pension Coverage

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 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. The evidence suggests 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).

The Crisis of Financial Literacy and Latino Retirement Planning

In addition to the above factors influencing Latinos' lower pension participation rates, our study examined the role of financial literacy in retirement planning. Financial literacy is fundamental to today's employees' future retirement security. Never before have so many American workers been charged with the burden of responsibility for retirement savings. Saving for retirement has changed since 1980 from an insured, employer-provided benefit to an uninsured employee-provided deduction from a paycheck. Individual workers are required to bear all of the investment risks associated with the plan, balance their own portfolios, decide how much to contribute to each plan, and be knowledgeable about the allocation of existing funds.

The dramatic increase in defined contribution plans has not been accompanied by a corresponding increase in financial literacy. Individuals are not knowledgeable about basic financial concepts, particularly related to bonds, stocks, mutual funds, and the working of compound interest (Bernheim 1995; Hogarth and Hilgert 2002; Moore 2003; and Stango and Zinman 2006). Individuals are bombarded with a plethora of financial information that they are incapable of differentiating and evaluating. Choi, Laibson, and Madrian (2007, 4–5) concluded from their study of MBA students' behavior that even highly educated "investors are swayed by salient but irrelevant returns information." Thus financial illiteracy remains high across all segments of the population. But financial illiteracy is of particular concern for Latinos, whose overall education rates and wages are lower than those of other segments of the population.

The following analysis utilizes data from the 2004 Health and Retirement Survey (HRS) to disaggregate ethnic differences between Latinos, both foreign and US born, and non-Latino blacks and whites. While other analyses of data from the HRS survey deal with aggregates, this discussion explains how individual characteristics among ethnic groups affect financial literacy.

The analysis begins by exploring descriptive statistics on financial literacy, cognitive skills, and retirement planning using both HRS module and core data. In order to effectively analyze respondents' financial literacy (operationalized by the "cognitive skills" questions listed in the next section), we adopt a measure of relative performance using continuous data. In addition, multivariate analyses on HRS core data were conducted separately for Latinos, blacks, and whites to explore the link between financial literacy and retirement planning. Finally, we include a multivariate analysis on household net worth using measures of financial literacy and retirement planning as key independent variables.

This section addresses the following questions:

1) How do Latinos compare with whites and blacks on the financial literacy and retirement planning questions?

2) Are foreign-born Latinos significantly less knowledgeable about financial literacy and retirement planning compared to their native-born counterparts?

3) How does financial literacy affect retirement planning and do racial differences in planning behavior exist?

HRS Data and Methodology

This study contains data pertaining to an individual's knowledge about savings, inflation, and mutual funds. Respondents were asked three questions designed to measure their knowledge of financial matters:

1) Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow: a) more than $102, b) exactly $102, or c) less than $102?

2) Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, would you be able to buy a) more than, b) exactly the same as, or c) less than today with the money in this account?

3) Do you think that the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.

Although the number of financial literacy questions contained in the HRS is limited, economists agree that these three questions are among the most basic. The first two questions evaluate the respondent's knowledge of fundamental economic concepts for saving decisions and "competence with basic financial numeracy" (Lusardi and Mitchell 2006b, 5). For example, correctly identifying how compound interest rates function is a key component in accumulating savings: this knowledge tends to change consumer financial behavior by helping individuals save earlier and pay acquired debt sooner. The ability to distinguish the risks of investing in mutual funds and single stocks helps investors make wiser investment decisions. More specifically, this question provides a measure of informed investment decision-making by evaluating respondents' knowledge of risk diversification.

The 2004 Health and Retirement Survey has a series of retirement planning questions regarding what planning tools and resources people use by race and ethnicity. Talking to family members and friends is considered to be an informal planning tool while attending seminars, consulting with professionals, or using calculators/worksheets are defined as formal planning tools. Retirement planning includes developing a plan, thinking about how much one needs to save for retirement, talking to family and friends (nonprofessional) about retirement savings, attending retirement seminars, using calculators/worksheets, consulting a financial planner, and being able to stick to a retirement saving plan, etc.

Understanding simple mathematical concepts and competency with problem-solving techniques are two of many important skills necessary for sound money management. It is appropriate to consider how the lack of knowledge about basic mathematical concepts, such as simple percentage calculations and compound interest, affects financial behavior. The HRS provides three measures of basic quantitative and problem-solving skills that are included in our analysis. Respondents were asked to provide answers to the following three questions:

1) If the chance of getting a disease is 10 percent, how many people out of 1,000 would be expected to get the disease?

2) If 5 people all have the winning numbers in the lottery and the prize is two million dollars, how much will each of them get?

3) Let's say you have $200 in a savings account. The account earns 10 percent interest per year. How much would you have in the account at the end of two years?

Importantly, none of these questions was presented to respondents in simple multiple choice terms; instead, the respondents were asked to make the calculations on their own and to provide the interviewer with a "correct" response.

We follow Bernheim's (1998) method in departing from the standard practice of coding responses as simply "right" or "wrong." In making financial decisions there are no right or wrong answers, only degrees of wrong. Such decisions are not "all-or–nothing" but rather depend on one's level of decision-making accuracy. In other words, degrees of mathematical competency matter. In order to capture this difference in the survey data, we assigned a relative knowledge score to each of the above questions. We diverge slightly from Bernheim's method and define this score as the fraction of the population who gave answers that were as far as or further in absolute value from the true answer.

The effect of inflation on savings is a common source of misunderstanding and a good example of the relevance of relative degrees of wrong. In response, for example, to the question, "Say your savings account will earn 5 percent and the inflation rate will be 10 percent, what is the effect on your savings?" Some respondents will be more wrong than others. Many will think their return will improve. Others will conclude that their savings will decline, but may not know the exact amount. Some will answer correctly. In our analysis, those who believe that their savings will be improved would receive a lower score than those who believe it will be adversely affected. The responses are therefore used as continuous variables in our regression models. However, for convenience purposes, when reporting descriptive statistics based on these measures, we grouped the data into categories "Correct," "Incorrect," and "DK/Refused" and then performed cross-tabulations by ethnic origin group.

Analysis: Basic Descriptive Statistics

This section presents descriptive findings from the 2004 Health and Retirement Study experimental module that included $N = 951$ non-Latino whites, $N = 176$ non-Latino blacks, and $N = 103$ Latinos. We also present data from core modules that are based on a much larger sample ($N = 24{,}228$ non-Latino whites, $N = 4{,}531$ non-Latino blacks, and $N = 1{,}332$ Latinos). It is important to understand the socio-demographic characteristics of the respondents in the sample. Our analysis reveals large discrepancies in wealth and educational attainment between whites, blacks, and Latinos. The median household net worth among Latinos is $55,400, which is about 25 percent of the median household net worth of whites ($222,000). In addition, there are vast differences in educational attainment across ethnic origin groups. More than 61 percent of Latinos do not have a high school diploma compared to 45 percent of non-Latino blacks and only 22 percent of non-Latino whites (see Table 6). The sample includes a large percentage of US-born non-Latinos and a large percentage of foreign-born Latinos, most of whom have lived in the United States less than 31 years. The four age groupings represented in the sample are individuals 60 years of age or older, "baby boomers" age 47 to 59 (born between 1945 and 1957), followed by "shadow boomers" age 40 to 46 (born between 1958 and 1964), and finally those age 39 and under.

Table 6
Demographic Characteristics (HRS 2004)

	Latino %	Black %	White %
Nativity Status			
US Born	43.85	94.67	95.23
Foreign Born	56.15	5.33	4.77
Highest Degree			
No Degree	61.26	45.16	21.78
GED	3.6	4.29	4.3
High School Diploma	26.11	37.71	50.33
Two-Year College	2.45	2.67	3.77
Four-Year College	3.75	5.84	11.65
Master's Degree	2.07	3.84	5.92
Professional Degree	0.77	0.49	2.25
Gender			
Male	42.32	39.4	44.2
Female	57.68	60.6	55.8
Age Group			
Under 40	0.61	0.18	0.15
Shadow Boomers (40–46)	2.02	1.03	0.9
Baby Boomers (47–59)	25.29	18.21	16.15
Age 60 and Over	72.08	80.58	82.8
Years in US			
Less than or equal to 30	59.37		
Greater than 30	40.63		

Source: HRS 2004

Table 7 shows the distribution of responses to the financial literacy questions by ethnicity. As can be seen from the table, there are significant differences in the percentage of correct responses by ethnic origin group. Latinos are least likely to provide a correct response to any one of the three questions, but are more likely than blacks to answer all three questions correctly. More than half of Latinos provided incorrect responses to the savings account versus interest calculation compared to only 22 percent of blacks and 18 percent of whites. Latinos faired slightly better on the interest versus inflation question: 54 percent of Latinos, 48 percent of blacks, and 83 percent of whites understood that with a yearly interest rate of 1 percent and a concurrent 2 percent inflation rate they would be able to buy less with the money in the account at the end of the year. With respect to the question regarding the riskier investment—a single company stock or a mutual fund—blacks were least likely to answer correctly, whites were most likely to answer correctly, and Latinos were somewhere in between.

These results presented in Table 7 explain the variation in financial literacy across ethnic groups. The analysis goes beyond those of Lusardi and Mitchell (2006b), Bernheim (1995, 1998), Hogarth and

Hilgert (2002), and Moore (2003) by noting that the percentage of correct responses to each question will be lower when ethnic differences are taken into account. Our analysis shows that both Latinos and blacks skew the distribution of responses to be lower than they are when ethnic differences are not considered. "Race-adjusted" financial literacy scores for whites appear much higher than they are for other segments of the population.

Turning next to the joint probability of answering X questions correctly for (Table 8) we again note significant differences between Latinos, blacks, and whites. Latinos are more than twice as likely as blacks and five times more likely than whites to answer all three questions incorrectly. Not surprisingly, whites are twice as likely as Latinos and 3.5 times more likely than blacks to answer all three questions correctly.

Table 7
Distribution of Responses to Financial Literacy Questions

	Latino			Black			White			
	Correct	Incorrect	DK/ Refused	Correct	Incorrect	DK/ Refused	Correct	Incorrect	DK/ Refused	p
[JV365]: Savings Account Interest Calculation	39	54	7	60	22	17	74	18	7	.0001
[JV365]: Interest vs. Inflation	54	35	11	48	25	27	83	10	7	.0057
[JV363]: Safer return on stock or mutual fund	48	17	35	45	17	38	58	12	29	.0001

Source: HRS 2004

Lusardi and Mitchell[10] (2006b, 8) correlated the "DK" responses to each question and found that "financial literacy is systematic across all areas examined." In a similar analysis, we correlated the "DK" responses separately for each ethnic group and found similar results. The correlation coefficient for whites and blacks was comparably high but smaller across all comparison categories, thereby substantiating and extending Lusardi and Mitchells' claim that financial illiteracy is systematic across these measures.

10 Lusardi and Mitchell's analysis focused on the baby boomer generations (aged 51–56 in 2004), whereas our analysis considered the entire sample of respondents (aged 25–108).

Basic Quantitative Skills and Problem-Solving Techniques

Turning next to the "cognitive skills questions," which test respondents' knowledge of basic mathematical skills and competency with problem-solving techniques, we see significant differences between blacks, whites, and Latinos. Fifty-nine percent of Latinos answered the disease percentage question correctly compared to 88 percent of whites and 62 percent of blacks. Similarly, only 23 percent of Latinos gave correct answers to the lottery division question compared to 62 percent of whites and 31 percent of blacks (Table 8). Our analysis of the compound interest rate question showed that 44 percent of Latinos correctly applied the calculation compared to 62 percent of whites and 41 percent of blacks. If it is true, as the report by NEFE (2002) suggests, that basic mathematical skills are essential in order to take advantage of financial services, then our findings suggest all ethnic groups, especially Latinos, would derive some benefit from a financial education course that includes training in basic mathematics.

Table 8
Joint Probability of Answering X Questions Correctly for on the Financial Literacy Questions

	X = 0	X = 1	X = 2	X = 3
Latino	30	20	29	21
Black	13	31	43	12
White	6	16	35	44

Source: HRS 2004

Latinos are a heterogeneous group in terms of their nativity, country of origin, and immigration status. One benefit of using the 2004 HRS is that the large sample size of foreign-born Latinos enables us to explore discrepancies in financial literacy by nativity status. Foreign-born Latinos are only slightly less likely to give correct answers to the literacy questions compared to natives and the results are insignificant at conventional statistical levels. When told that the prevalence of a certain disease in the population is 10 percent, more than half of Latinos correctly responded that, if the population consisted of 1000 individuals, 100 persons would be at-risk for acquiring the disease (57 percent of foreign-born and 61 percent of US-born). On the division question, only about one-quarter of Latinos understood that if five people all have winning numbers in a lottery where the prize was $2 million, each person would receive $400,000: 22 percent of foreign-born Latinos answered correctly compared to 25 percent of native-born Latinos. Finally, when asked to assume that a savings account had $200 and earned 10 percent interest per year, more than 40 percent of all Latinos correctly responded that at the end of two years the account would have $242 dollars (46 percent of native-born versus 42 percent of foreign-born). The differences in the responses of foreign-born and native-born Latinos are not more than 4 percent, not a practically meaningful difference.

Table 9
Proportion of Retirement Planners By Ethnicity

	Latino	Black	White	p
[JV351]: Did you try to figure out how much your household would need to save for retirement before you retired?				
Yes	22%	23%	34%	.002
No	78%	77%	66%	
N	*105*	*172*	*964*	
[JV357]: Did you plan for retirement savings?				
Yes	35%	55%	72%	< .000
No	65%	45%	28%	
N	*22*	*40*	*318*	
[JV358]: How often were you able to stick to this plan: would you say always, mostly, rarely, or never?				
Always/Mostly	100%	50%	92%	—
Rarely/Never	0%	50%	8%	
N	*8*	*22*	*226*	

Source: HRS 2004

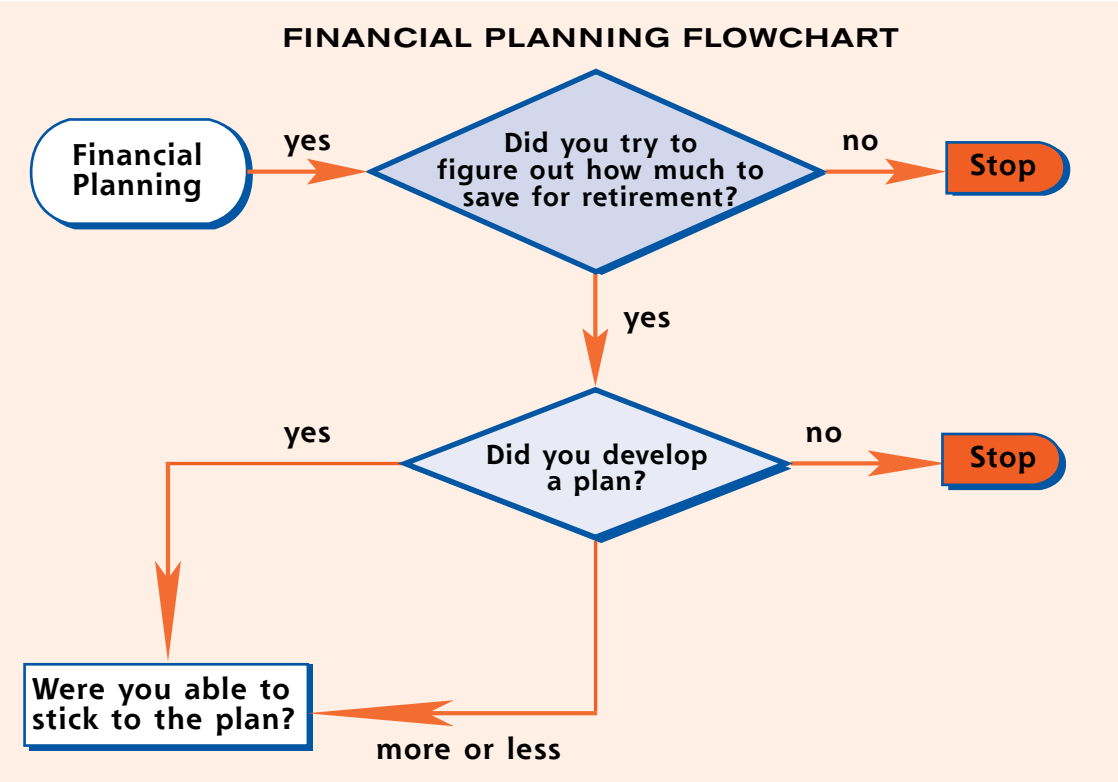
Differences in Retirement Planning Behavior: The Utilization of Retirement Planning Tools by Race and Ethnicity

Individuals who take steps to plan for their retirement are likely to have more savings. Those who report even modest planning activities have been shown to acquire more sizable wealth holdings than non-planners, who display substantially less wealth (Lusardi and Mitchell 2006a). We expect that ethnic differences in planning behavior will be correlated with savings and wealth accumulation. Figure 3 depicts how the retirement planning questions are conceptually linked.

Although the samples are small, Table 9 suggests a statistically significant difference among ethnic groups on the question of knowing how much savings are required in order to plan for retirement. For example, among the survey respondents, only 22 percent of Latinos, 23 percent of blacks, and 34 percent of whites attempted to calculate how much they would need to save for retirement before they retired. Among the Latino respondents who reported planning behavior, 35 percent developed a plan while 100 percent of Latinos who planned claimed that their planning behavior was successful either always or most of the time. Compared to Latinos, significantly more blacks (55 percent) and whites (72 percent) reported planning for retirement, with whites being nearly as successful in following the plan once it is formed (92 percent) but blacks being much less successful (50 percent).

Despite the fact that whites are more likely than other groups to possess the financial knowledge that is requisite for successful retirement planning, the percentages are low irrespective of ethnic background. Whites are twice as likely as Latinos to plan for their retirement, but both groups tend to be fairly successful once they have made the initial effort to devise a retirement plan. The fact that Latinos are more likely to stick to retirement saving plans but less likely to develop a retirement plan in the first place suggests that saving for retirement is more passive and less voluntary than it is among other groups. Latinos are

Figure 3
Conceptual Organization of Retirement Planning Questions, HRS 2004



less likely to participate in defined contribution plans even when offered by employers. Latinos are more likely to consider and take their own retirement seriously if their employers offer mandatory pension plans. Our analysis demonstrates that once they are actually enrolled in a retirement plan, Latinos are more likely to stay committed to the plan than comparable groups.

Sources of Retirement Planning by Ethnic Group

Latinos tend to rely more on informal planning resources (family and friends) than do either whites or blacks (Table 10). For example, 34 percent of Latinos talked to family members about retirement compared to only 28 percent of whites and 17 percent of blacks. On the other hand, with limited exceptions, Latinos are significantly less likely to use formal planning measures such as attending retirement planning seminars or using financial calculators and worksheets. With respect to the utilization of formal planning resources, the largest statistically significant discrepancy found was related to attending a retirement seminar: only 5 percent of Latinos reported having attended a retirement seminar compared to 42 percent of whites and 51 percent of blacks. Latinos (25 percent) are also less likely to use calculators and worksheets than whites (52 percent) and blacks (62 percent). Interestingly, however, more than half of Latinos consulted a financial planner, which is significantly different from blacks but not from whites.

In the formal planning category, we showed that Latinos are as likely as whites and more likely than blacks to consult with professionals. Moreover, about one-third of Latinos consulted with their family members, which was more than the other two groups. Latinos prefer a more individualized method of

retirement planning and are less likely to attend group meetings. This finding is consistent with Hogarth and Hilgert's (2002) assessment that individuals who are less financially knowledgeable or people who prefer flexible consulting schedules are more likely to elect individualized consulting services.

Table 10
Planning Activity By Ethnicity

	Latino	Black	White
Tried to figure out how much I need to save for retirement	37%	17%	38%
Informal Planning:			
Talked to family about retirement	34%	17%	28%
Talked to friends about retirement savings	24%	32%	29%
Formal Planning:			
Attended retirement seminars	5%	51%	42%
Used calculators/worksheets	25%	62%	52%
Consulted financial planner	52%	24%	51%

Source: HRS 2004

Financial Literacy and Retirement Planning by Race and Ethnicity

Table 11 shows that Latinos are less likely to be planners than whites and blacks. The difference is significant. Thirty-eight percent of Latinos are planners compared to 52 percent of whites and 46 percent of blacks. Less variation exists within the Latino population: compared with native-born Latinos, foreign-born Latinos are only slightly less likely to plan for retirement but the difference is not significant (Table 12). While Latino planners are more likely to give correct answers to all three quantitative questions (Table 13), Latino non-planners are more likely to give "Don't Know/Refused" answers and less likely to answer questions about compound interest correctly. These results suggest that Latino non-planners are disadvantaged relative to Latino planners and to non-planners in the other ethnic/racial groups.

Table 11
Distribution of Planner and Non-planner by Race and Ethnicity (core data)

	Latino	Black	White
Planner:	38%	46%	52%
A lot	21%	28%	26%
Some	17%	18%	26%
Non-planner:	62%	54%	48%
A little	18%	15%	15%
Not at all	44%	39%	33%

Source: HRS 2004

Table 12
Distribution of Planner and Non-planner by Latino Nativity (core data)

	Foreign-born Latinos	Native-born Latinos
Planner:	36%	39%
A lot	21%	21%
Some	15%	18%
Non-planner:	64%	61%
A little	17%	19%
Not at all	47%	42%

Source: HRS 2004

Table 13
Cognitive Skills Questions by Planner and Non-planner and Race and Ethnicity (core data)

Disease Percentage									
	Correct			Wrong			Don't Know or Refused		
	Latino	Black	White	Latino	Black	White	Latino	Black	White
Planner	66%	66%	88%	26%	31%	10%	7%	4%	2%
Non-planner	54%	60%	88%	27%	32%	10%	19%	8%	2%
Lottery Division									
	Correct			Wrong			Don't Know or Refused		
	Latino	Black	White	Latino	Black	White	Latino	Black	White
Planner	34%	28%	63%	55%	53%	30%	11%	19%	7%
Non-planner	21%	27%	55%	49%	52%	33%	30%	20%	11%
Compound Interest Rate									
	Correct			Wrong			Don't Know or Refused		
	Latino	Black	White	Latino	Black	White	Latino	Black	White
Planner	44%	48%	63%	53%	46%	34%	3%	6%	3%
Non-planner	40%	40%	60%	49%	54%	38%	11%	6%	2%

Source: HRS 2004

Discussion: Financial Literacy

As retirement savings in this country shift from defined benefit to defined contribution plans, workers and retirees are increasingly being made to shoulder the burden of responsibility for their retirement savings. Our study confirms that Americans generally, and Latinos in particular, are woefully unprepared to meet the challenge. Financial illiteracy is an important reason for this growing dilemma. If responsibility for retirement planning and saving is not combined with economic know-how, the outcome could be disastrous as the population ages. The time to take concrete steps to avert this crisis is now.

Financial illiteracy is widespread and systematic throughout the population but is of particular concern for Latinos. An important finding of our research is that improving Latinos' financial literacy will have a greater impact on retirement planning than it will for other segments of the population. Latinos are less likely to have a retirement plan, but those who do have plans stick to them. This positive indication concerning Latinos' financial behavior is relevant to programs that work to promote the financial and retirement security of this population.

As for the type of investment programs from which Latinos are most likely to benefit, Latinos respond more to informal planning methods than to formal ones. On average Latinos prefer obtaining retirement planning resources from family and friends rather than through seminars and prepared documents. Latinos' access to financial seminars is limited, moreover, by the fact that many Latinos are beyond the target audience of the providers of such seminars: large-scale employers and banks. Compared to whites and blacks, Latinos are less likely to work for large corporations and public sector employers who are more likely to provide their employees with financial education services. As for financial institutions, one in every four Latinos does not have a bank account that would serve as a bridge to the bank's financial and investment educational services.

About one-third of Latinos consulted with their friends and family members, which was larger than any other ethnic group considered here. Latinos prefer a more individualized and informal method of retirement planning and are less likely to attend group meetings. Our finding that Latinos are less likely to attend seminars has some important implications. The only formal retirement planning tool Latinos prefer is personal consultation with professionals. This observation is consistent with results of other surveys. A National Council of La Raza report (NCLA 2004) demonstrated Latinos rated both direct investment advice and individual access to a financial planner as "very effective." Latinos, according to our analysis, are more likely to consult individually with professionals than either blacks or whites. Culturally appropriate, personal methods that inspire trust will help increase Latinos' financial literacy.

Focus Groups on Latino Retirement and Families

Focus groups conducted in Chicago affirm the broad findings of national-level research on Latino workers' pension participation. Latinos in the United States are not saving enough to live comfortably in retirement. Latino retirees rely heavily on Social Security benefits as their single largest source of retirement income. Their adult children are not faring substantially better. Current Latino workers are far less likely than whites to be covered by employer-provided pensions and their low wages prevent them from contributing to individual and employer-based retirement savings plans. Limited assets further reduce Latino workers' ability to assist their aging parents or to prepare for their own retirement.

Focus group information was collected during four Spanish-language sessions between November 2006 and February 2007 among Mexican, Puerto Rican, and Cuban residents of Chicago. These discussions with both seniors and adults with retired parents reveal that neither the retirees nor their extended families have sufficient income to live comfortably now, let alone to prepare for the future. They help one another adapt to these difficult conditions through informal exchanges of food, childcare, transportation, and money. Latino seniors and Latino working adults are anxious about their own and their children's future retirement security. They want government and business policies to change in order to address this looming crisis.

Focus Group Composition and Demographics

One set of focus groups concerned Latino adults involved in the care of their retired parents (see Table 14 next page). Among the participants the average time living in the continental United States is 17.3 years. Most of the Mexican participants are permanent residents; the two Puerto Rican participants are citizens. Their average age is 45. Most are engaged in full-time employment. Their average combined household income is between $30,000 and $40,000.

Table 14
Results from Questionnaires Completed by Adults with Retired Parents

Characteristics	Descriptive Statistics	N
Sex	78% Female	9
Nativity	Foreign-Born: 89% Mexican, 11% Puerto Rican	9
Age	45.7 years old on average	9
Time in the US	17.3 years on average	6
Immigration Status	67% Permanent Residents	9
Work Status	71% in the work force	7
Hours Worked	37.2 hours per week on average	5
Income	$30,000–$40,000 range on average	5
Living Parents	67% have one deceased parent	6
Mother's Education	71% only completed primary education	7
Father's Education	71% only completed primary education	7
Parents' Retirement Income	67% receive Social Security	6
Parents' Residence	71% out of state	7
Parents' Living Arrangements	57% live by themselves	7
Parents' Homeownership	63% have house paid off	8
Support for parents	88% provide financial support	8
Support from parents	100% receive childcare[12]	2
Parents' Health Insurance	63% have health insurance	8
Healthcare support	71% contribute to parents' healthcare	7
Amount of Healthcare support	$76 a month on average	4
Rank healthcare support	83% ranked their financial contribution to their parents' healthcare "in between" other ways they help them	6

The second pair of focus groups was conducted among Latino retirees whose median age is 72 (see Table 15). Most of the eighteen participants are United States citizens who were born in Mexico, Puerto Rico, and Cuba. Most were currently or previously married. They had an average of five children. Their educational achievement tended to be low; few went beyond primary school.[12] Their housing arrangements range from ownership of single-family homes to rented apartments and from living with their spouses and adult children to living by themselves. All of the male participants and some of the female participants in the retirees' focus groups had been employed. None claimed to have worked in a job that provided a pension plan or a high-enough wage allow them to compensate for the lack of an

11 Of those whose parents live in the same state; otherwise their parents provide them no support.

12 Lack of competence in writing ability probably influenced the reticence of some to fill out our questionnaires (which were in Spanish). They claimed to have little ability in English and we did not assess their English competence.

employer-sponsored plan by saving money for retirement. Today they "do what they can" to manage with income from Social Security and with Medicare-supported health care.

Table 15
Results from Questionnaires Completed by Retirees

Characteristics	Descriptive Statistics	N
Sex	75% female	8
Nativity	Foreign-born: 71% Puerto Rican, 29% Mexican	7
Age	72.1 years old on average	8
Time in the US	39 years on average	7
Immigration Status	78% US Citizens	9
Marital Status	44% Married	9
Educational Attainment	67% only completed primary education	9
Number of Children	5.1 children on average	8
How well do they speak English?	56% said "Not at all"	9
Transportation	71% use public transportation	7
Retirement Income	89% receive Social Security	9
Residence	86% live in same state as children	7
Living Arrangements	33% live with spouse, 33% with their children, 33% other	9
Type of support from children	Varies widely, e.g., errands, translations, financial, etc.	6
Type of support for children	43% childcare, 29% transportation, 29% none	7
Support for Children or Grandchildren	8 hours a week on average	4
Health Insurance	89% have health insurance	9
Healthcare support	100% do not receive support from their children	8
Type of healthcare	71% receive Medicare	7

Focus Group Employment and Pension Participation

A comparison of the results from the two focus groups indicates that foreign-born Latino adults are no more prepared for retirement than their retired counterparts. When seniors were asked, "How did you prepare for retirement?" their response was that they worked until they reached retirement age and were eligible to receive Social Security benefits. A participant explained, "Your pay was too low to allow you to save, even with your own business. If you have good work then you are able to save. But for people like us the pay was insufficient even to pay the rent. There isn't a way to save for retirement. You have all of these bills to pay." Another senior woman elaborated. "Because the type of work that we could get paid so little, like she also said, it paid so little that we couldn't save more than a penny. I couldn't save. And that is still happening."

The question "If you had had sufficient funds to be able to save, how would you have known how to invest?" drew this reply: "There wasn't enough [money] to entertain such questions. The number one problem is we didn't have enough money in the first place."

The working adults interviewed for this study are following the same pattern. While none of these working adults are employed in jobs that offer defined benefit pension plans, some are eligible to participate in defined contribution plans through their employers. But few elect to participate because they need the income for their daily living and household expenses. Distrust of employer-based, defined contribution pension plans was the other reason cited for non-participation; some did not have confidence that their employers would safeguard their contributions. One participant expressed the cynical view that if employers do offer a defined contribution plan, "they do it to take advantage [of the workers]." With respect to individual savings, none of the participants had Individual Retirement Accounts. Most did have bank accounts, which are used to pay taxes, mortgages, and other expenses rather than to build retirement savings. As a consequence of their exclusion from formal retirement savings plans, these Latino workers will be depending upon Social Security for future support, but some are uncertain that Social Security will be solvent by the time they retire. They are anxious and apprehensive about the day when they and/or their spouses will retire from the work force. "What is awaiting us?" a participant posed rhetorically to her group. Another participant who used understatement to express his concern about his future stated, "We need a little bit of help. We'll try to manage as we do now—by paying the minimum."

Discussion of Focus Group Findings on Retirement and Families

Cultural norms influence how people evaluate their relationships and responsibilities as well as how they communicate about the support they provide to others. The Latino seniors and adults who participated in the focus groups take for granted a culture of familial interdependence and mutuality. The Latino working adults who participated accept that they have an obligation to support their elders. Significantly, one participant stated that her parents thought of their many children as "their retirement." It is culturally inappropriate to complain about one's duty to give back to parents. As a result, none of the Latino adults involved in the care of their parents were willing to represent their obligation to help their parents as "a burden." Adult participants reported that they feel guilty that they are not able to do more for their parents.

While the focus group findings corroborate evidence that Latino seniors do not have adequate retirement income, the findings contradict the assumption that adult Latino children financially support their parents to the extent that their parents are a substantial burden to them. Instead we found evidence of considerable reciprocity between Latino seniors and their children, who are themselves hard-pressed to work and raise families. Several retirees in fact asserted that their children are worse off than their parents. Seniors assist their

working children by taking care of their grandchildren and preparing meals. Adult children help their parents with grocery purchases, money, and transportation. Such "generalized reciprocity" is a typical strategy for adapting to poverty in domestic minority communities as well as in Mexican and Puerto Rican societies (Lewis 1975; Stack 1997).

Latinos' cultural ideas about children as resources for their parents' retirement have a transnational dimension since many families are spread across national boundaries. Mexican workers in the United States sent an estimated 23 billion dollars to Mexico in 2006 (Mohapatra, Ratha, and Xu 2007). Puerto Rican migrants remitted approximately one billion dollars to the island in the same year (Berenshteyn 2007). One focus group participant explained, "We send money home. It is [our] custom." As long as they have family members "back home," these focus group participants intend to remain involved in transnational networks. They intend to continue going back for visits rather than returning permanently because their American children are settled in the United States. Yet, as the literature on Mexican transnational families suggests, men in the focus groups who are fathers were somewhat more likely than women to express a desire to return. Men expect to recoup some of the status they lost immigrating to the United States, while women anticipate the opposite outcome (Hondagneu-Sotelo 1994). For women as well as men, however, homes in Mexico and Puerto Rico nonetheless symbolize a refuge, or "little corner," as one female participant described her family home, against the insecurity they feel in the mainland United States. The prospect of losing this material and symbolic anchor, however seldom visited, is extremely unsettling.

The participants in these two focus groups demonstrated acute awareness of tensions between two cultural systems, the one valorizing interdependence and the other individualism. Several participants wondered out loud about what they can expect from their US-born children when they enter retirement. One woman was unwilling or unable to describe her duties toward her own elderly mother as a burden, but she nonetheless stated that she did not want to be a burden to her daughter when she can no longer support herself. And her daughter in effect warned her not to expect much devotional support; her daughter allegedly said, "Mommy, I love you, I adore you, but I'm not going to do for you what you are doing for grandmother."

In their responses, a clear contrast was drawn between norms of obligation inculcated in Mexicans who are now parents and the norms of independence internalized by their school age and young adult children. When asked, "Do you expect your children to help you?" one participant responded, "I don't think so—I don't know." Another added, "We can't expect help from our children." The facilitator queried, "Don't you help your parents?" and several answered, "Of course." A woman in the focus group explained, "The children of today aren't like us. They have different ideas."

Several people expressed concern for their American descendents. One person said, "They are in for a big crisis." Another said, "They are individuals who isolate themselves. They don't know how to relate to others anymore. They relate to their electronics. Look how the children are alienating themselves on their computers and video games." Later, however, a participant offered a more nuanced understanding of their modern children, to which others concurred. "They do help. The difference is they aren't responsible for us the way we were brought up. They are good children (after all)."

Table 16
Changing Perceptions of Family and Retirement among Focus Group Participants

	Raised in Mexico or Puerto Rico	Raised in the United States
Children symbolize	Retirement insurance and support	Independent individuals
Family size	Large	Small
Family structure	Extended	Nuclear
Expected sources of retirement support	Children Investments in real estate, small business, livestock	Employment based (including Social Security)
Location of expected sources of retirement support	Transnational or transregional	Domestic (in United States)
Supporting parents represents	Obligation	Burden

The Latino working adults' fears about their future retirement is bound up with their concerns about the erosion of the value of filial obligation. As these adults consider the day when they and/or their spouses can no longer work, they do not believe they will be able to count on help from their children to the degree that their parents counted on them. They also have fewer children than did their parents, further reducing the potential pool of future support. The working parents' sense of insecurity is exacerbated by their belief that Social Security pensions will be inadequate to provide a comfortable retirement, and they have doubts about whether even this limited source of pension income will exist in perpetuity.

Although the participants in the focus groups have been unable to save for their retirement, they urge those who come after them to do so. The seniors advise young people to pursue education and training as the only viable routes to a good job that provides retirement benefits as well as a sufficient salary to save individually for retirement. Both seniors and current workers in the focus groups also expressed their hope that government programs and business policies will change in order to address this looming crisis. Having immigrated to the continental United States from areas where poverty is widespread, these Latino focus group participants do not accept the idea that "this rich country" would neglect its senior citizens. They believe that this society is affluent enough to ensure that people who have worked hard all of their adult lives retire in comfort and dignity.

Policy Recommendations and Conclusions

Based on our research, we recommend that policy aimed toward increasing Latino pension coverage should recognize four 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. Fourth, while financial illiteracy is a problem for American workers generally, it is of particular concern among Latinos. In this study we found that in 1996 about 12 percent of Latinos indicated that they had not thought about pension plans and the EBRI survey (2000) found 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.

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. Our findings about the pervasiveness of financial literacy generally and among Latinos in particular underscore the risks of putting more responsibility for retirement investment on individual employees. We urge caution regarding initiatives to give individuals decision-making responsibility for their Social Security funds. Our findings further lead us to recommend that measures be taken to ensure that Social Security will continue to be viable for future generations. More than 20 percent of Latinos live in poverty and have such low incomes that planning and saving for retirement is not a practical option. 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 about retirement needs and planning suggests that financial education would have a somewhat larger effect on this population than others.

Recommendations to Enable Greater Pension Participation among Latinos

1. Change 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[13] 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

13 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.

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.

2. Attract low-income employees to participate in pension plans and develop the 'pension idea' among Latinos. Orszag (2001) argues that incentives for employees to participate in pension plans can make a powerful difference in raising savings 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 in which the government makes 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.[14] Evidence shows that plans in which employees are automatically enrolled when they first become eligible have obtained participation rates of over 80 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. Cultivate engagement in the pension and financial systems by addressing the problems Mexican workers have with banks and with reciprocity in the Social Security system. The fact that foreign-born Latinos are less likely to be engaged in the pension system might be corrected by creating a

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

bilateral Social Security agreement between the United States and Mexico, though how to achieve this goal is beyond the scope of this study.[15]

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, to make sure that people save consistently, and to ensure that the assets in the account are preserved for retirement.

5. Increase Latinos' financial literacy through support of programs that bolster Latinos' math competence and educational attainment, including adult education programs that boost core math skills and lead to high school equivalent diplomas. The success of policies to increase financial literacy among Latinos is and will be tied to progress in improving Latinos' overall educational levels. The foreign-born segment of this population, especially, needs formal education in math. Policies to boost Latino adults' core math skills will reap broader benefits that extend beyond financial planning. We recommend support for adult educational programs such as GED preparation. Obtaining a high school diploma is especially desirable for Latino immigrants, only 57 percent of whom have high school diplomas and 11 percent of whom have college bachelors' degrees (US Census 2004 American Community Survey). Increasing Latinos' academic levels yields an equally important economic benefit, as educational levels are directly linked to levels of earnings. Increasing Latinos' education will boost the earnings potential of workers and their income, which, as we have shown, is a basic factor in retirement saving.

6. Increasing financial literacy among Latinos will positively affect not only pension participation and but also involvement in banking. Potential benefits of strengthening Latinos' financial literacy extend beyond retirement planning. Improved financial literacy will have a positive impact on Latinos' borrowing behavior. As Raul Yzaguirre, president of the National Council of La Raza (NCLR) argues, "even a modest degree of financial literacy helps families to stay away from harmful personal debt, fight discrimination, avoid predatory practices, and invest wisely and purchase and accumulate assets" (NCLR 2002). Latinos' low financial literacy and income levels also make them vulnerable to risky home mortgage loans. Home ownership is an important method of accumulating wealth in this country and Latinos are increasingly buying homes (Ready 2006). The durability of that wealth-building asset is threatened by Latinos' involvement in sub-prime and variable rate mortgages. Improving Latinos' financial literacy is a must for sustaining Latinos' recent strides in home ownership.

7. Develop linguistically and culturally targeted education about retirement saving and financial literacy. Programs should be developed to:

- Promote financial education on university campuses through curriculum development that includes both academic learning and practical training.

15 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.

- Expand financial education resources targeting Latinos, including hiring and training bilingual staff.
- Increase investment planning programs for Latinos that provide for individual investment counseling.
- Increase Latinos' financial literacy through culturally appropriate, personal methods that inspire trust. Such approaches may include:
  - Financial literacy programs at banks and credit unions. As a model of best practice, Zions Bank Su Banco program in Salt Lake City is exemplary.
  - Partnerships with organizations that are trusted among Latinos, including churches, national Latino organizations such as LULAC, and other nonprofit agencies are also recommended for promoting Latinos' financial literacy.
  - Programming on Spanish-language radio stations, especially shows with a personable, respected host can also be effective ways of increasing Latinos' financial knowledge and literacy. Examples of such programming include Juli Stav y Su Dinero, Dra. Isabel, and Carina: Su Mejor Amiga.

Recommendations to Support Workers and Their Families

8. Institute family-friendly policies that recognize Latinos as members of multigenerational, interdependent, and geographically dispersed families. Services accessed by Latino workers and their families will be successful if the providers are trusted by the community and the programming reflects the community's cultural values and language. Flexible work schedules and arrangements, no longer exceptional in American workplaces, should be expanded. Support for employees' elder and childcare that is affordable, accessible and culturally responsive is also necessary. Intergenerational centers that combine care for elders and children are recommended; an example is at Stride Rite Corporation in Boston.

Policies that recognize the transnational scope of families whose members strive to support one another despite their geographic dispersal will also help Latino workers. A possible innovation is to recognize, for tax and benefits purposes, an individual worker's substantial support of family members outside the United States.

9. Improve communication to Latinos to educate them about available services for workers and their families. Education and communication are part of the solution, whether its source is through the workplace, the local Chamber of Commerce, local government, economic development agencies, religious organizations, or Latino media or community organizations. In the case of eldercare, there are a lot of services available; the challenge is for workers to find out about them.

10. Expand eligibility of family-friendly benefits for workers and their families to include such currently ineligible workers as recently hired, younger, part-time and seasonal workers, and workers in small firms. Small firms can consider pooling resources to offer expanded work-life benefits in the same way small firms have banded together to provide health benefits and/or more affordable health insurance coverage.

11. Remittances are an informal form of retirement savings: Policies should promote the use of banking among Latinos who are already sending remittances to family members, building homes, and making investments in their societies of origin. Communication about remittance transmission through banks can serve to promote the banking idea and have a positive impact on retirement planning and saving. Reducing the cost of monetary transactions (while increasing their security) can free up income for other purposes, including capital investment. According to the United States Census Bureau, Hispanic business ownership grew three times as fast as the national average between 1997 and 2002. Given the entrepreneurial spirit of Latinos, there is little doubt that they will seize the opportunity to increase their economic prosperity.

Financial institutions should offer incentives for senders and receivers of remittances to increase their financial incorporation into the formal banking system. Domestic banks can collaborate with foreign financial institutions to make it easier and less expensive for transnational families to share accounts. They can also offer cross-border mortgages and other loans to capitalize on the growing earning power of Latino immigrants in the United States. An example is the Denver program, *Su Casita* ("Your Little House"). Communication about the economic potential of such programs will be essential to informing immigrants about ways to transform their remittances into productive investments.

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