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Latinos' Low Pension Coverage and Disenfranchisement from the US Financial System



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Table of Contents

About IUPLR	4
About the Researchers	5
Introduction.....	6
Where the Latino Elderly Obtain Retirement Income	6
Data – The SIPP Explores Reasons for Noncoverage	8
Low Pension Coverage and Latino Labor Market Characteristics.....	9
Logistic Analysis of Latino Pension Coverage	17
Policy Recommendations and Conclusions	19
Appendix	22
References	23



The Inter-University Program for Latino Research (IUPLR) is a nationwide consortium of 18 Latino studies centers with its headquarters at the Institute for Latino Studies, University of Notre Dame.

IUPLR's purpose is to strengthen its centers' capacity, expand the pool of Latino scholars and leaders, increase the availability of policy-relevant, Latino-focused research, and advance the national intellectual presence of Latino scholarship.

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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).

About the Researchers



Wei Sun, research associate, received her PhD in economics from the University of Notre Dame. She has been involved in many research projects within and outside the Institute, including the Institute's annual Census Workshop, Chicago Fact Finder, and the Chicago Area Survey. She has been working with Professor Ghilarducci for many years on several pension projects funded by the Retirement Research Foundation. Her research interests include household savings behavior, retirement income security, employment benefits, and health economics.

Teresa Ghilarducci is an associate professor of economics and director of the Higgins Labor Research Center at the University of Notre Dame. She is now writing a book, *The Attack on Retirement*, for Princeton University Press and investigating the effect of pension losses on the recent increase in work among older Americans. Her book *Labor's Capital: The Economics and Politics of Employer Pensions*, published by MIT Press, won an American Publisher Association's award for business books of 1992. In 1995 Ghilarducci coauthored, with Jeff Petersen and Peter Phillips, a study of multiemployer pension plans, *Portable Pension Plans for Casual Labor Markets*, published by Greenwood Press. She publishes articles in referred journals and testifies frequently in the US Congress on issues of retirement income security.



Introduction

Improving the living standards of older Americans represents a significant victory for US social policy over the past thirty years. Real incomes of the elderly doubled and poverty rates plunged—from over 30 percent in the early 1960s to under 10 percent in 2000 (Census Bureau 2001a)—mainly due to the expansion of the Social Security and employer pension systems. Despite these accomplishments there are serious concerns about the economic prospects of vulnerable groups, including elderly Latinos whose 2000 poverty rates were among the highest at over 20 percent, according to Census 2000. All of the studies on Latino retirement readiness¹ share concerns that the fragility of Latino workers' connection to the American employer pension system makes Latino retirees vulnerable to low income and poverty.

This study highlights recent findings that even when Latinos succeed in finding jobs with high rates of pension coverage, they are less likely than whites and blacks to participate in pension plans. Section 1 discusses Latino workers' relative exclusion from the employer pension system. Section 2 describes the Survey of Income Program Participants (SIPP) data used in this study and compares them favorably to more limited data available elsewhere. Section 3 addresses two key questions: One, why are Latino workers less likely to work for employers who sponsor pensions? And two, why, even when Latino employees are working for an employer who sponsors a pension plan, are they less likely than whites and blacks to be included and more likely to opt not to participate when they can be included? Section 4 uses logistic regression analysis to support the contention that immigrant status and country of origin explain why Latinos would voluntarily opt out of participating in their employer's pension plan. Promising policy reforms to improve Latino retirement income security include encouraging plan coverage of part-time and seasonal workers, offering refundable tax credits to low-income workers, requiring automatic enrollment, and enfranchising Latinos into the US financial and Social Security systems.

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

Where the Latino Elderly Obtain Retirement Income

Employer pensions are a crucial component to maintaining retirees' living standards. Unfortunately, coverage rates haven't budged from 1970s levels when just under 50 percent of the labor force was covered by pensions. According to the 1996 SIPP data, 42 percent of Latinos worked for employers who offered pension plans, compared to 61 percent of blacks and 59 percent of whites (see Figure 1, page 7). 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 role in retirement income security for Latinos, is

income from personal assets including, savings, businesses and home equity. To reiterate, 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 the 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 2000).

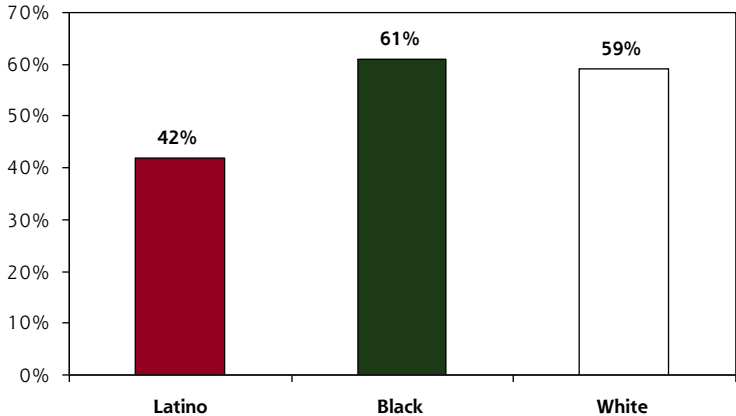
Latinos are less likely to be covered by pensions, and when they are fortunate enough to collect benefits their benefits have less value. Even and Macpherson (1999) report the average pension wealth for Latinos as \$16,784, compared to \$38,226 for whites and \$34,527 for blacks.

There are three possible reasons for a worker’s lack of employer pension coverage: his/her employer doesn’t offer a pension; s/he is not eligible to participate in the plan offered at work; or s/he voluntarily chooses not to participate in an employer’s plan. This last is not currently a primary reason for lack of coverage, but it is potentially worrisome because more employers are turning to voluntary-type, tax deferred savings plans as their main pension offering. Since Latinos are more likely to choose not to be covered, the nations’ dramatic shift to voluntary 401(k) plans may impact Latino retirees seriously and more than other ethnic groups. Latinos are more exposed than others to all three reasons for noncoverage.

Analysis of the Survey of Income Program Participants (SIPP), which is described in detail below, reveals that working for an employer who doesn’t sponsor a pension plan (having no coverage) is the most common reason Latinos have fewer employer pensions. Furthermore, even if an employer does sponsor a pension plan, Latinos are less likely than others to be eligible for it: 28

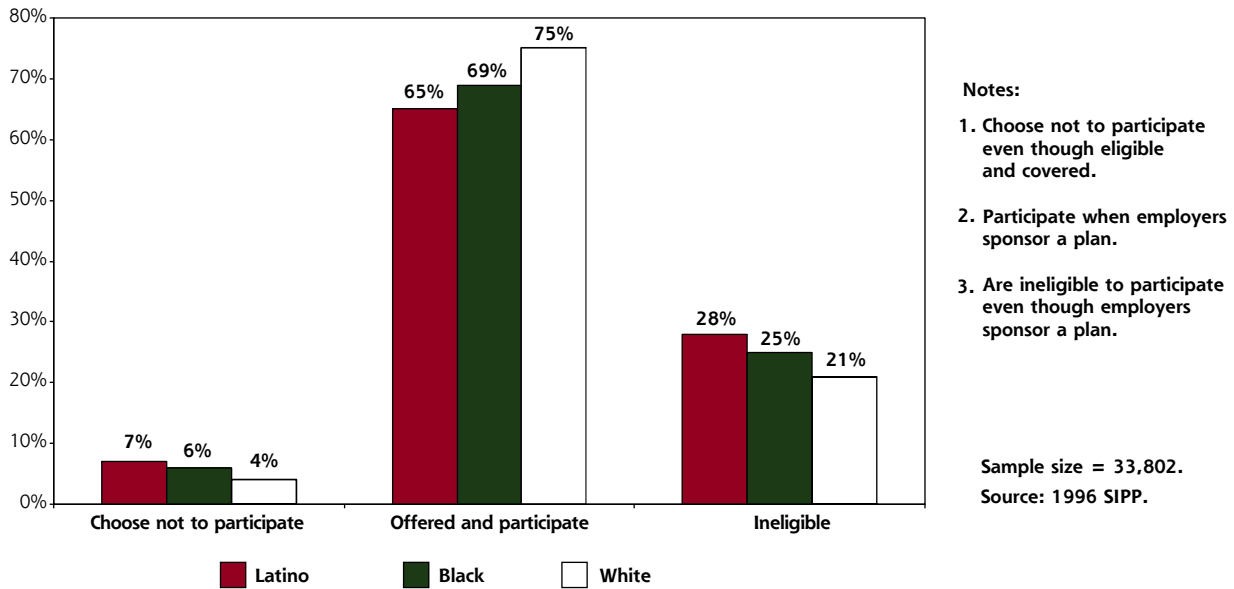
percent of Latinos were ineligible to participate in their employers’ pension plans, compared to 25 and 21 percent of blacks and whites respectively. Lastly, Latino workers are also more likely to say no: Among workers whose employers sponsor a voluntary pension plan for which they are eligible 7 percent of all Latino workers choose not to participate, compared to 6 percent and 4 percent of black and white workers (see Figure 2, next page).

Figure 1
Percent of Workers Whose Employers Offer Pension Plans



Source: 1996 SIPP.

Figure 2
Pension Status for Workers Who are Offered Pension Plans



In sum, working for an employer who does not sponsor a pension and being ineligible to join plans that are offered are the main reasons why Latinos have low pension coverage. Yet Latinos also distinguish themselves in opting out of contributing to a voluntary 401(k)-type plan at almost twice the rate of whites. 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) plans that don't allow opt outs.² This study aims to fill the research gap recognized by economists Santos and Seitz (2000) in their statement that we don't know why Latino workers are more likely to opt out of participating in an employer sponsored pension than other ethnic groups.

² Defined benefit plans are based on a specified formula including final and average earnings and years of service on the job. They require that workers stay long enough with employers to qualify for pension plans. Employees can't 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 Noncoverage

The best data available to examine the reasons for Latinos not being covered and not participating in pension plans are in the 1996 SIPP Wave 7 ("Retirement Expectations and Pension Plan Coverage"). The 1996 SIPP Wave 7 is a unique data source because it included (for the first and only time to date) detailed questions on types of pension plans, pension benefits, and pension contributions. Most importantly, it asked employees whether their employers sponsored pension plans, whether employees participated, and why they did not participate when pension plans were

offered. To correlate the answers with demographic characteristics SIPP Wave 7 is merged with 1996 SIPP core data and 1996 SIPP Wave 2 data, which contain general demographic information from respondents and immigration history for Latinos.

This study overcomes the severe data limitations faced by previous scholars (Rogers 1982; Even and Macpherson 1999; Santos and Seitz 2000). Data available elsewhere often lump Latinos together with blacks in the analysis. Moreover, only the SIPP parses out why some workers are covered, eligible, and opt not to contribute to a pension plan when participating is the worker's choice.

Pioneer studies by 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 didn't differentiate among whites, blacks, and Latinos. In an ambitious effort to confront the data limitations in identifying Latinos, Even and Macpherson (1999) used three data sets to assess the racial and ethnic differences in pension coverage: the Census Department's Current Population Survey (CPS), the Survey of Consumer Finances (SCF), and the Health Retirement Survey (HRS). Instead of separating Latinos from the rest of the population, however, they used an indicator of a person's race and ethnicity to examine how differences in socioeconomic characteristics among different groups contribute to differences in pension coverage. Chen (2001) used 1988 and 1993 CPS data and found that ineligibility alone cannot explain the disparity between Latino and other racial groups in pension participation in voluntary salary reduction plans and called for further research that could.

This study delves more deeply into ethnic identity and country of origin. We are particularly concerned about how Mexican workers' estrangement from US banking services and Social Security may be affecting their relationship to the US employer pension system, especially to 401(k)s. Although this report studies all Latino workers regardless of their citizenship status, 50 percent of this SIPP sample are foreign-born Latinos who will be less likely to participate due to a lack of reciprocity and attachment to the US pension system. We take advantage of the foreign birth information in our statistical analysis.

Low Pension Coverage and Latino Labor Market Characteristics

US Latinos are less likely than their white or black counterparts to receive employee benefits (these include the following: training and education, life insurance, flex-time, health insurance, and pensions), mainly because Latinos workers are less likely to be in circumstances conducive to employee benefit coverage (Santos and Seitz 2000). When focusing on pensions, Latinos' reasons for lower than average coverage are clear: Pension coverage is higher among high earners; those with union contracts; those who work for larger employers (100 or more employees); employees in specific industries—manufacturing, government (especially), transportation, communication

and utilities; those who hold professional and managerial occupations; and those who have a long attachment to their employers. Latinos are under-represented in all of these pension-friendly situations. The National Council of La Raza (Perez 1998) concluded that the latter factor explaining pension coverage—employer attachment—was the most important distinction explaining the differences in pension coverage between Latinos and other workers. Non-Hispanic whites have worked for their present employer for an average of 8 years, blacks for 8 years, and Latinos for 6 years. Older workers are also more likely to be covered and Latino workers are, on average, younger (age 36 compared to age 39 for whites), and job tenure and age are, of course, related. Low earnings, not working in government, and being younger are all important in explaining low pension coverage.

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

	Latinos	Blacks	Non-Hispanic Whites
Industry			
Agriculture, mining, construction	11.0%	3.0%	6.8%
Manufacturing	17.0%	15.0%	16.0%
Communication, transportation, utilities	5.0%	8.5%	6.2%
Personal services	12.0%	9.6%	7.0%
Wholesale and retail	20.7%	17.0%	18.9%
Financial services	4.0%	5.3%	5.5%
Public sector	4.5%	8.6%	5.2%
Health care and education	12.6%	20.0%	16.8%
Social services	2.8%	5.0%	3.0%
Professional services	1.4%	1.4%	3.0%
Occupation			
Management and professionals	14.0%	20.3%	31.0%
Sales and office occupations	22.2%	26.4%	24.4%
Services	18.9%	20.4%	11.0%
Farming, fishing, and forestry	4.8%	1.1%	1.6%
Construction, extraction, and maintenance	21.0%	14.1%	14.4%
Production, transportation, and material	11.7%	12.9%	7.7%
Moving, machine operator			
Average Earnings	\$18,610	\$21,191	\$25,722
Average age	36	38	39
Years of working for current employer	6	8	8

Source: Authors' calculations from 1996 SIPP data.
Note: Latinos n = 3,378; Blacks n = 3,169; Whites n = 27,255.

Let's look closely at how the differences in labor market behavior and circumstances between Latinos and non-Latinos explain some of the differences in pension coverage. Latinos are 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 also more likely to work in occupations that are less likely to be covered by pensions. Latinos are under-represented in professional and managerial positions and over-represented as operators, production workers, and construction workers.

Blacks are more likely to be employed in the public sector compared to whites and Latinos, and pension coverage rates are well over 70 percent in this sector (Census Bureau 2001c). Public sector employers practice less racial discrimination than private employers; however, federal employment requires US citizenship, which may be a barrier for Latino workers. Whatever the reason, Latinos are not employed in this pension-rich industry; only 4.5 percent of Latinos are employed in the public sector. 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.

Latinos have relatively lower average earnings (\$18,610), and higher earners have higher pension coverage rates. Researchers have argued that Latino workers do not have benefits such as health insurance, pensions, life insurance, and on-site training, because they are not in long-term employment relationships, for example, primary sector positions (Osterman 2000) and their workplaces are not unionized (Santos and Seitz 2000). Primary sector jobs are usually in larger, more stable workplaces, in which benefits are provided to all workers at lower cost. See Table 1 for a summary of the key differences in the labor market outcomes that relate to pension coverage for whites, blacks, and Latinos.

It is uncontroversial to say that Latinos have low pension coverage because their employers don't generally offer pension plans. Another disturbing factor is that even when their employers do offer a plan, Latinos are more likely to be excluded because of ineligibility. A 1980s study (Rogers 1982) found that among workers within the same labor force categories (such as the same industry, union status, or size of employers) and who were of similar ages, Latinos were still less likely to be covered by their employers' pension plans because they were either ineligible or chose not to participate. Above we examined the labor market characteristics of a worker that best explain whether a worker will work for an employer that sponsors a pension plan and how those characteristics differ by ethnicity.

The analysis below does something different. We select job categories that have a relatively high pension sponsorship rate and compare the differences in the pension participation rates of the Latinos, whites, and blacks in those selected job categories. The categories with a relatively higher pension sponsorship rate are the manufacturing industry, professional occupations, full-time

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

	Latinos	Blacks	Non-Hispanic Whites
Industry			
Manufacturing	36%	49%	64%
Occupation			
Professional and managerial	50%	58%	62%
Firm size equal to or more than 100	45%	53%	63%
Average earning equal to or more than \$20,000	44%	54%	84%
Covered by union	67%	68%	77%
Full-time work status	31%	47%	51%
Number of years working for the current employer 5 years or more	38%	53%	56%
Homeowner	27%	29%	40%

Source: Authors' calculations from 1996 SIPP data.
 Note: Latinos n = 1,430; Blacks n = 1,942; Whites n = 16,011.

jobs, union-covered jobs, larger firms (firms with more than 100 employees), higher earning jobs, and workers with longer job tenures. Pension participation for Latinos is less than for whites and blacks in all of these categories (see Table 2). 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. 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.

One of the many reasons Latinos have lower rates of coverage even where we would expect them to be covered is that Latinos are more likely to be ineligible for inclusion in their employers' pension plan. Eligibility requirements for participating in pension plans leave many workers who are young, mobile, or with short job tenure uncovered. Halprin 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

³ Vesting means pension participants generally attain nonforfeitable and nonrevocable rights to pension benefits after satisfying specific service or age and service requirements.

⁴ 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.

Employee Retirement Income Security Act (ERISA) and its amendments require that employers vest workers in their pension plan if they have worked more than 1000 hours per year for five consecutive years or vest them 20 percent after each year of service until 100 percent vesting is reached (EBRI 1997). Latinos disproportionately do not meet these minimum standards since they tend to have short job tenure and jobs in high turnover industries. This would imply that the workers did not have a chance to vest in their pension plan.³ These service requirements exclude many part-time and seasonal jobs that are more prevalent among Latino workers.

The average number of working years for nonparticipants is only half of the working time for participants. (See appendix table “Selected Characteristics for Pension Participants and Nonparticipants”). In 2000 the National Longitudinal Survey⁴ showed that 45 percent of Latino employees age 33–36 had worked for one employer for less than a year, and 62 percent worked for one employer for less than two years (Bureau of Labor Statistics 2002). The rate of return migration for foreign-born Latino immigrants was as high as 25 percent and their average time of staying in the United States was only 14 to 16 months (Reyes, Johnson, and Swearingen 2002). But, again, Latinos who report more than five years of employment with their employers are still less likely to be covered than whites and blacks. Other factors play into the lower pension coverage.

Age has a negative impact on pension participation in terms of both eligibility and desire to opt in. Younger workers are less likely to think about saving for retirement. In 1998, 7 percent of 16- to 20-year-old workers participated in a pension plan while 60 percent of 41- to 50-year-olds did so (Copeland 2002). The minimum service condition for participation in pension plans is another age-related factor that limits pension participation (that is, completing one year of service and attaining age 21). Three percent of Latinos responded to the question “Reason respondent not covered by pension plan” with the answer “too young.”

Latinos were much more likely than black and white workers to claim that “no one in my type of job is allowed” 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 are not covered by pension plans their employers sponsor (see Table 3). Although differences in eligibility for coverage cannot explain all of the disparities in pension coverage among Latinos, blacks, and whites, eligibility for pension participation does play a significant role in determining whether Latino workers are covered in pensions or not, especially in DB plans.

As noted above, however, workers may not be in a pension plan because they don’t want to be. Only defined contribution plans (DC) provide an opt-out. They are structured as an individual account plan that allows both the employee and employer to contribute a certain percentage of the employee’s salary; when the DC plan is a 401(k) the employee does not have to contribute or collect the employer’s matching amount. The DC plan only guarantees the employer’s contribution for

the specified time; there is no guarantee of investment rates of return. Therefore the DC plan shifts financial risk towards employees; it is portable. Since DC plans require employee contributions and, in order to participate, workers must voluntarily reduce their take-home pay, low-income workers may be relatively unwilling to participate.

A large proportion of Latinos workers whose employers offer pension plans choose not to participate: 36.7 percent compared to whites and blacks at 28.1 percent and 26.7 percent opt-out rates respectively. 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, whites, and blacks. The most often cited reason for not contributing to a pension for all workers is that "Contributing is too expensive. I can't afford it" (Reason #5 in Table 3). Since Latinos are more likely to opt out, a greater percentage say affordability is a reason they don't contribute, 15.6 percent versus 14.5 percent and 11 percent for blacks and whites respectively (Table 3). This makes sense: low-wage workers are more likely than high earners to decline participation in voluntary pension plans and Latinos are more likely to be low wage earners (Hinz and Turner 1998). Perez (1998) speculated that Latinos have unusually high levels of expenses that other groups do not, which make retirement saving more remote. Latinos are particularly likely to lack affordable housing, so they pay a disproportionate amount on rent. Similarly, Latinos spend a larger proportion of income for medical purposes, and Latinos, especially Mexicans, also send significant portions of their salary back to their home countries. In 2003 US-Mexico money transfers reached a record \$13 billion, more than \$1,500 per Mexican worker (Orozco 2004). These factors could reduce Latino workers' demand for pension plans because of low income and high expenses.

Significantly, there is a large difference between Latinos and whites and blacks in citing "don't want to tie up money" as the reason for not participating: 14.8 percent of Latino workers did not participate in pension plans because they didn't want to tie up money compared to just 4 percent for blacks and 8.4 percent for whites. We propose that, in addition to Latinos' disadvantaged position in the labor force determining low pension coverage, a situation that especially affects Latino migrants may explain growing disparities in pension coverage rates. We suggest that the large share of Latino workers who are disenfranchised from many ordinary financial services—54 percent of Mexican immigrants don't own either a checking account or a savings account (Newberger, Rhine, Chiu 2004)—explains a major part of the differential in opt-out rates.

In addition, a major source of disenfranchisement pertains to retirement income security, which would suggest that Latino migrants are likely to be disenfranchised from many kinds of pensions. Mexico and the United States do not have bilateral reciprocal agreements called totalization agreements, whereby countries recognize each others' pension credits. 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

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

	Latinos	Blacks	Non-Hispanic Whites
INVOLUNTARY REASONS			
1. Haven't worked long enough for this employer	36.9%	32.0%	37.0%
2. Don't work enough hours, weeks, or months per year	23.8%	29.5%	32.0%
3. No one in my type of job is allowed	18.9%	12.0%	15.0%
4. Too young	3.0%	3.8%	5.0%
VOLUNTARY REASONS			
5. Too expensive, can't afford	15.6%	14.5%	11.0%
6. Don't want to tie up money	14.8%	4.0%	8.4%
7. Haven't thought about it	8.0%	10.8%	5.0%
8. Don't plan to be in job long enough	4.0%	2.0%	3.5%
9. Don't need it/Have other plans	3.5%	4.0%	4.5%
10. Employer doesn't contribute or doesn't contribute enough	3.4%	2.3%	1.7%

Source: Authors' calculations from 1996 SIPP data.

Note: Latinos n = 484; Blacks n = 576; Whites n = 4,354.

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, which are prorated to reflect actual work under each system. 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 and doubt about a promise to pay pensions in the future.

Next, we refine the data to examine an even smaller group of workers, those who work for employers who offer DC or tax-deferred retirement plans, which include 401(k) plans, salary reduction plans, and 403(b) plans. These allow employees to make voluntary salary reduction contributions that are exempt from income tax at contribution time. Table 3 and the discussion above referred to reasons workers weren't in either their employers' DB and or DC plans. The

same patterns we saw above roughly hold, except the voluntary opt-outs are much higher and the differences between Latinos and other groups are more muted.

As predicted from its voluntary nature, participation in a tax-deferred retirement plan is largely affected by income and attitudes toward saving: Workers opt out because the plan is “too expensive,” or “I can’t afford” to contribute, and large percentages of workers still say they do not participate because they “don’t want to tie up money.” Since some tax-deferred plans have employer contributions that match employee contributions, whether an employer contributes or how much an employer contributes also affect participation.

Please note that the eligibility reasons (#1 through #4) become less important in determining tax-deferred retirement plan participation and the voluntary, opt-out, subjective reasons more important. Latino workers distinguish themselves from blacks and whites in two areas: Latinos are more likely to say that participating in a plan is too expensive, 30 percent, versus 27.8 percent and 24.3 percent for blacks and whites respectively. In answering that they don’t need the plan

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

	Latinos	Blacks	Non-Hispanic Whites
INVOLUNTARY REASONS			
1. Haven’t worked long enough for this employer	11.7%	14.7%	13.1%
2. Don’t work enough hours, weeks, or months per year	11.4%	13.5%	10.5%
3. No one in my type of job is allowed	7.7%	4.3%	6.8%
4. Too young	—	—	1.0%
VOLUNTARY REASONS			
5. Too expensive, can’t afford	30.0%	27.8%	24.3%
6. Don’t want to tie up money	18.0%	17.5%	18.2%
7. Haven’t thought about it	12.0%	11.1%	10.8%
8. Don’t plan to be in job long enough	1.8%	1.9%	1.6%
9. Don’t need it/Have other plans	4.7%	9.4%	9.1%
10. Employer doesn’t contribute or doesn’t contribute enough	2.4%	2.6%	1.8%

Source: Authors’ calculations from 1996 SIPP data.
 Note: Latinos n = 484; Blacks n = 576; Whites n = 4,354.

because they have others, only 4.7 percent of Latinos cite this as a reason, while 9.4 percent and 9.1 percent of blacks and whites respond in this way. Latinos are slightly more likely than blacks to say they don't want to tie up their money, 18 percent versus 17.5 percent, and slightly less than whites, 18.2 percent.⁵ Overall Latinos opt out of tax deferred plans at the same rate as whites and blacks, except that whites and blacks are more likely to opt out on the ground that they don't need to save in the tax deferred plan because they have other plans. When this reason is subtracted Latinos opt out at a higher rate, 64 percent compared to 57.7 percent and 60.9 percent for whites and blacks respectively (Table 4).

⁵ A recent report from the General Accounting Office shows that employees are more likely to choose not to participate in DC plans because employers may not match employees' contribution and the plans are not mandatory. In the SIPP sample 2.4 percent of Latino workers chose not to participate because their employer didn't contribute at all or enough, which wasn't very different from blacks or whites.

Logistic Analysis of Latino Pension Coverage

We explore why Latinos are less likely to be covered using a statistical technique that allows us to isolate the effects each factor has in explaining the differences in pension coverage among workers. Specifically, we want to explain how the probability of pension participation among Latino workers changes if a worker has different characteristics. Therefore, the dependent variable in the logistic model is whether or not employees are covered in pension plans (1 = Yes and 0 = No). The explanatory variables in the model are in the following categories. 1) Demographic characteristics: age, citizenship status, and country of origin if they were not born in the United States. The model doesn't include gender since the pension participation rate is not significantly different between Latino male and female (Even and Macpherson 1999; Chen 2001). 2) Job characteristics such as industry, firm size, earnings, length of service with the same employer, full-time/part-time job status, and whether the job is paid on an hourly basis 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). The variables relevant to pension eligibility are age, number of working years, job tenure, and work status. An earnings variable is used to capture affordability of pension participation and liquidity constraints. An interaction variable of citizenship and Mexican origin measures the degree of attachment and reciprocity in the 'pension contract' and the engagement with the US financial system.

The results (see Table 5) indicate that if a worker is older, has more earnings and job tenure, has full- rather than part-time status, this raises the probability that he or she will be covered by a pension plan. All these results are expected. Being an hourly worker has a negative effect on pension coverage, which suggests that rank-and-file workers are less likely to be covered by pensions due to ineligibility. Being in the retail industry negatively affects participation in a pension plans. The variable of interest here is that the interactive variable indicating citizenship and Mexican

country of origin is significant and positive, suggesting that foreign-born Mexicans are less likely to participate in pension plans which is consistent with our hypothesis of disengagement.⁶

⁶ 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 0.4 percentage points. One more year of service at the mean will increase probability of participating in a pension plan by 2.7 percentage points.

Table 5
LOGISTIC Regression Estimates with Interaction Variable

Independent Variable	Coefficients	Chi-Square
Intercept	-2.1	21.0
Age	0.04	19.0**
Native born	-0.13	00.3
Mexican origin	-0.28	1.0
Interaction term of native-born Mexican origin	0.64	3.3*
Job tenure (length of working time for current employer)	0.14	44.9***
Earnings	0.0002	9.9*
Job status (full time)	0.83	11.7**
Job rank (hourly-paid job)	-0.45	4.7*
Industry: Agriculture	-0.31	0.2
Industry: Construction	0.29	0.4
Industry: Manufacturing	-0.04	0.03
Industry: Retail	-0.88	15.9**
Industry: Services	-0.27	0.8

Source: Authors' calculations from 1996 SIPP data.

Notes: Dependent Variable is probability for pension participation, N = 969.

* Significant at $\alpha = 0.995$ level.

** Significant at $\alpha = 0.5$ level.

*** Significant at $\alpha = 0.005$ level.

Policy Recommendations and Conclusions

The descriptive statistics and the logistic model reveal that the primary reason Latinos have relatively low pension participation rates even when their employers do sponsor a pension plan is that Latino workers are more likely to be ineligible for participation. Latino workers are younger, have shorter job tenure, and are more likely to 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, a disadvantaged status in the labor market makes Latino workers less eligible for employer-sponsored pension plans in comparison to white and black workers. When Latinos are offered pension plans and decline to participate, it seems they opt out because they can't afford to participate or do not want their wealth held in this financial asset. We interpret the rather strong and positive coefficient on the interaction term of citizenship and Mexican country in the logistic regression explaining pension coverage as the relative disengagement from the US pension system, resulting in low pension participation. This implies that the idiosyncratic issues workers from Mexico face with the US Social Security and financial systems 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.

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

Policies to enable greater pension participation among Latinos are the following:

(1) Changing the pension rules to include currently ineligible workers such 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 plans⁷ or current 401(k) plans may be a better choice than traditional defined benefit plans because the contributions are not related to final pay. Current nondiscrimination rules need to be modified to include rank-and-file workers. In order to have qualified pension plans,

employers should cover all employees instead of having a certain ratio percentage of non-highly compensated employees versus highly compensated employees.

⁷ A cash balance plan is a defined benefit plan but has many defined contribution characteristics. For example, each participant has an individual account with employer contributions that are determined as a percentage of pay.

(2) Attracting low-income employees to participate in pension plans and developing the ‘pension idea’ among Latinos. Orszag (2001) argues that incentives for employees to participate in pension plans can make a powerful difference in raising saving rates and reducing poverty among the elderly. Because lower earnings and family income are barriers to Latinos’ participation in pension plans, increasing Latinos’ access to housing and medical assistance programs may help them save for retirement. To encourage low-wage earners to participate in pension plans, employers, financial institutions, and government agencies should create incentives for them such as raising employer matches on contributions or creating a universal saving account (USA) for low-wage workers, in which the government can make contributions in the form of refundable tax credits. Under this 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 USA plan will totally remove employers’ responsibilities and obligations to include low-income workers in their plans. Moreover, it is not possible for low-wage employees to participate in both the USA plan and employer-sponsored plans due to low income. 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 on contributions, which directly raise the participation rate of employer-sponsored plans. In addition, cash balance plans with features of traditional DB plans don’t “depend on employees’ willingness to participate” (Davis 2001), which attracts low-wage employees since employees do not make contributions.

Many Latinos prefer not to tie up their money in pension plans because pension assets are considered difficult to liquidate. Relaxing policies on borrowing against pension plans might therefore lure more participants. Currently, 401(k) plans increasingly offer loans and withdrawals in order to encourage participation. Although there is concern about inadequate retirement income with borrowing, no findings indicate that household net worth is negatively affected by pension loans and borrowing.

Automatic enrollment once employees become eligible for the plan could be useful in increasing participation rates because employees often follow “the path of least resistance.”⁸ 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.

⁸ Some behavioral economists (for example, Choi et al. 2001) argue that employees are likely to do whatever requires the least current effort, which means employees will take no action unless employers ask them to choose whether to participate or not.

(3) Cultivating engagement in the pension and financial systems can be achieved, albeit indirectly, by addressing the problems Mexican workers have with banks and with reciprocity in the Social Security system. Engagement in the pension system may be addressed through language and culturally targeted education on retirement saving and financial literacy. The fact that foreign-born Latinos are less likely to be engaged in the pension system might be corrected by creating a bilateral Social Security agreement between the United States and Mexico, though how to do this is beyond the scope of this study. Before such an agreement is reached, having pension plans integrated with Social Security may cause more disengagement than trust among Latinos, since employees pay higher payroll taxes in integrated defined contribution plans and employers subtract more than one-half of the total pension benefit in integrated defined benefits plans. We must recognize that researchers have not found strong or significant effects of financial education on retirement savings. There is some indication that it might be slightly more effective for foreign-born Latino workers: We found that, in 1996, 8 to 12 percent of Latinos indicated that they hadn't thought about pension plans. The EBRI survey (2000) also showed that only 20 percent of Latinos know how much they will need to save for retirement. These rates are higher than for any other group. As far as financial literacy is concerned, company level data on pension education is needed for further research.

In order to expand Latinos' pension participation, a more inclusive, flexible and non-final-pay-related pension plan is suitable for Latino workers, especially for low-wage and low-rank workers. Since immigrants compose a majority of Latino workers, nonparticipation in pension plans is often accompanied with disenfranchisement from other parts of the US financial system. Pension reform that emphasizes enfranchising Latinos into the Social Security system and US financial system could be effective in boosting pension coverage rates.

Appendix

Appendix Table
Selected Characteristics for Pension Participants and Nonparticipants

	Latino Participants	Latino Non-participants	Black Participants	Black Non-participants	White Participants	White Non-participants
Occupation						
Management and professionals	25.4%	16.4%	27.9%	19%	43%	28%
Sales and office occupations	25.1%	30.5%	28%	28%	23.5%	33.3%
Services	15.4%	21%	14.6%	23.4%	6.6%	14%
Construction, extraction, and maintenance	21%	15.6%	15.7%	14%	17%	13%
Production, transportation, and material moving	10.3%	13.3%	11.7%	14.2%	6.8%	9.7%
Hourly paid job	64%	83%	60%	78%	48%	72%
Average Earnings	28,440	17,460	28,860	19,344	37,500	20,100
Average Age	39	31	42	33	41	34
Union member	28%	12%	27%	12%	22%	8%
Job status (full time)	92%	73%	93%	75%	92%	69%
Number of years working for the current employer	9.1	4.4	10	5	10	5

Source: Authors' calculations from 1996 SIPP data.
Notes: Whites n = 16,011; Blacks n = 1,942; Latinos n = 1,430.

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