Hispanic/Latinos, Trust and Pensions

John A. Turner

Hispanic/Latinos are the largest minority group in the United States. They account for 17 percent of the population (Unidos 2021) or approximately 58 million people, up from 6.5 percent in 1980 (Flores 2017). Retirement-age Hispanic/Latinos[1] receive less income, hold less wealth, and are more likely to be impoverished than non-Hispanic/Latino Whites of the same age group (Johnson, Mudraziga, and Wang 2016).

This paper examines pension and retirement issues faced by U.S. Hispanic/Latinos. First, it provides demographic background about Hispanic/Latinos. Second, it discusses Hispanic/Latinos' access to employer-sponsored pensions. Third, it addresses the factors that affect pension participation. It compares three demographic groups—Hispanic/Latinos, non-Hispanic/Latino Whites, and non-Hispanic/Latino African Americans, for brevity referring to the last two groups as Whites and African Americans.

Background

COVID-19 has had a large mortality toll on the United States, but disproportionately affecting Hispanic/Latinos and African Americans. Hispanic/Latinos have longer life expectancy than other demographic groups. Before the pandemic, Hispanic/Latinos lived roughly three years longer than Whites, and six years longer than African Americans (Arias and Xu 2019). However, the pandemic has reduced the average life expectancy of Hispanic/Latinos by 3.1 years to 78.8 years, compared to a reduction for African Americans of 2.1 years, to 72.8 years, and a reduction for Whites of 0.7 years, to 77.8 years (Miller 2021). In percentages, the reduction in life expectancies caused by COVID-19 has been 3.8 percent for Hispanic/Latinos, 2.8 percent for African Americans, and 0.1 percent for Whites.

Hispanic/Latinos employed full time earn less than Whites. Hispanic/Latinos are less likely to be covered by an employer-sponsored retirement plan than Whites (Johnson et al. 2016). As is typical of immigrants generally, Hispanic/Latino immigrants tend to have relatively low economic status compared to U.S.-born Hispanic/Latinos (Ambramitzky et al. 2021).

Families play a greater role in retirement planning for Hispanic/Latinos than for Whites. Hispanic/Latinos age 65 or older, like other minorities in that age group, are more likely than Whites to depend on their children for financial resources and care as they age (Parker and Patten 2013).

1 Some people prefer the terms Latinx or Latino (Cienfuegos 2019). Following the Bureau of Labor Statistics, we capitalize White and Black. Hispanic/Latinos is the term preferred by the Society of Actuaries.

Hispanic/Latinos' fluency levels in English presumably affect their labor market opportunities. In the U.S., 36 percent are bilingual, 25 percent speak mainly English, and 38 percent speak mainly Spanish. Discrimination is a related factor that could affect Hispanic/Latinos' economic conditions. Four out of ten Hispanic/Latinos say they have experienced discrimination in the past year, such as being criticized for speaking Spanish or being told to go back to their home countries. Experiences of discrimination are more likely among those who say others see them as Hispanic/Latino, African American, or another non-White group than among those who say others see them as White (Lopez et al. 2018). A separate survey finds that 22 percent of Whites report feeling uncomfortable hearing Spanish spoken in public (Cultural Marketing Council 2021). Nearly one-quarter of Hispanic/Latino workers and African American workers reported job discrimination in the past year, compared to 15 percent of Whites. Thirty one percent of Hispanic/Latino and African American workers younger than age forty reported discrimination in the last year (Gold 2021).

Access to Employer-Provided Pensions

Lack of access to employer-provided pensions varies across racial and ethnic groups, ranging from 31.5 percent of Whites to 54.9 percent of Hispanic/Latino private-sector workers (Table 1).

Table 1

PERCENT OF PRIVATE-SECTOR WORKERS WHO LACK ACCESS TO AN EMPLOYER-SPONSORED RETIREMENT SAVINGS PLAN, BY RACE AND ETHNICITY, 2016

Race or Ethnicity	Percent - No access to an employer-sponsored retirement savings plan
White	31.5
African American	36.4
Asian American	38.6
Hispanic/Latino	54.9
Other	36.0

Source: Pew (2016)

Reversing the perspective above, by focusing on pension coverage rather than lack of coverage, we see that among employees age twenty-five to sixty-four, 38 percent of Hispanic/Latinos and 54 percent of African Americans work for an employer that sponsors a retirement plan, compared to 62 percent of White employees. These racial disparities are greater in the private sector than in the public sector. Hispanic/Latinos and African Americans are, respectively, 42 percent and 15 percent less likely than Whites to have access to a workplace retirement plan in the private sector, compared to 12 percent and 10 percent less likely in the public sector (Rhee 2013). As a result of low pension coverage rates among working age households, 69 percent of Hispanic/Latinos and 62 percent of African Americans do not own assets in a retirement account, compared to 37 percent of Whites (Rhee 2013).

Mexico started a program in 2020 that helps Mexicans living in the U.S. transfer money to pension savings plans in Mexico (Explica 2021). Statistics as to the number of people participating in this type of pension are not yet available.

Participation and Trust

In 2016, for households with people age 32 to 61 (the thirty years leading up to Social Security eligibility), 13 percent of Hispanic/Latinos participated in a defined benefit plan and 28 percent participated in a 401(k)-type plan, compared to 21 and 51 percent, respectively of Whites (Table 2). In 2016, among families with retirement savings, the median White family had approximately three times more in a retirement account ($79,500) than the median Hispanic/Latino family ($23,000) or median African American family ($29,200) (Morrisey 2019).

Table 2

PARTICIPATION OF HOUSEHOLDS WITH PEOPLE AGE THIRTY-TWO TO SIXTY-ONE IN 401(K)-TYPE PLANS AND DEFINED BENEFIT PLANS, BY RACE AND ETHNICITY, 2016, PERCENT

Race and Ethnicity	401(k)-Type Plans	Defined Benefit Plans
Hispanic/Latino	28	13
African Americans	33	17
Whites	51	21

Source: Morrisey (2019)

Pre-retirement pension withdrawals can reduce retirement preparedness. These withdrawals are more likely among minorities, presumably due to economic disadvantages. In 2010, 57 percent of Hispanic/Latino workers and 63 percent of African American workers who had participated in a 401(k) or 403(b) plan, but who had left their employers, cashed out their accounts, compared with 39 percent of Whites (Ariel Investments and Aon Hewitt 2012).

A worker's income plays a role when deciding whether to participate in a pension. Low-income workers often feel that they cannot afford to contribute to a pension and have less tax incentive to do so because of lower marginal income tax rates (Hinz and Turner 1998). Their higher level of labor income risk may also be a factor discouraging participation (Mitchell and Turner 2010).

Trust in pension institutions is a less well-known factor that affects pension participation (Bielawska and Turner 2021). Workers who distrust financial institutions are less likely to participate in an employer-provided pension plan when one is offered (Scott and Watson 2018). Among Hispanic/Latino workers, 17 percent said information from their primary financial institutions is "somewhat" or "definitely" untrustworthy, compared with 7 percent of Whites and 19 percent of other respondents. Pensioners who distrust their pension plans are also more likely to prefer a lump sum withdrawal (as opposed to an annuity) than pensioners with a high degree of trust (Cruijsen and Jonker 2016).

Financial sector participation can increase worker trust in financial institutions and improve financial literacy, which can then increase savings (Agnew et al. 2012). In 2013, 46.5 percent of Hispanic/Latino households were unbanked or underbanked, compared to 19.6 percent of White households. Underbanked households have a bank account, but they also obtained financial services from alternative financial services providers, such as a check cashing service, in the prior twelve months. Among these households, 33.1 percent said they didn't like dealing with or did not trust banks (FDIC 2013). Immigrants distrust financial institutions more than native-born residents (Barcelos et al. 2018).

In a study, participant trust in financial institutions was related to levels of pension participation. Workers with low levels of trust in the pension provider were more likely to opt out of automatic enrollment (Agnew et al. 2012). A survey in the Netherlands shows that higher-educated pension participants are more likely to trust pension providers than lower-educated participants (van Dalen and Henkins 2018).

Levels of financial literacy may affect Hispanic/Latinos' levels of trust in pensions and their participation in pensions. Foreign-born Hispanic/Latinos have lower financial literacy than U.S.-born Hispanic/Latinos, who have lower financial literacy than Whites (Hasler et al. 2017).

Policy Options. Rather than discussing standard policy approaches to encourage pension participation—tax incentives, matching contributions, and auto enrollment—we highlight some innovative ideas. Financial literacy is a relatively new approach, but financial education at the level necessary to address the pension issues facing millions of workers is unlikely (Turner 2021). New communication approaches to engage nonparticipants are more feasible. For example, Benartzi (2020) finds that communicating the amount of a contribution as pennies on the dollar rather than as a percent leads to greater take-up. Communications to nonparticipants can also address issues of trust related to financial markets, pension plans, and service providers. Innovations need to be explored for workers in non-standard employment (Kwena and Turner 2013). Tergesen (2020) argues that for people who have difficulty saving for retirement, the best approach might be to start small, perhaps initially contributing only 1 percent of their salary. Starting with easy habits can make future increases possible.

Conclusions

Hispanic/Latinos are in many ways disadvantaged in retirement preparedness compared to other demographic groups. The disadvantage for some arises because they are immigrants, with some lacking English language skills. Some face discrimination in the labor market. Distrust in financial institutions might cause some to be reluctant to participate in pensions. For those individuals, encouraging them to begin with smaller contributions could help them participate in pension plans, increasing contributions later.

John A. Turner is the Director of the Pension Policy Center. He can be reached at jaturner49@aol.com.

References

Abramitzky, R., L. Boustan, E. Jacome, and S. Perez. 2021. “Intergenerational Mobility of Immigrants in the United States Over Two Centuries.” *American Economic Review* 111(2).

Agnew J.R., L.R. Szykman, S.P. Utkus, and J.A. Young. 2012. “Trust, Plan Knowledge and 401(k) Savings Behavior.” *Journal of Pension Economics and Finance* 11(1): 1-20. Trust, plan knowledge and 401(k) savings behavior* | Journal of Pension Economics & Finance | Cambridge Core

Arias, E. and J. Xu. 2019. “National Vital Statistics Reports: United States Life Tables, 2017.” National Center for Health Statistics. National Vital Statistics Report (cdc.gov)

Ariel Investments and Aon Hewitt. 2012. “401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups.” Chicago, IL: Ariel Investments and Aon Hewitt. https://www.arielinvestments.com/images/stories/PDF/ariel-aonhewitt-2012.pdf

Barcelos, S.H., J.P. Smith, J. Yoong, and L. Carvalho. 2012. “Barriers to Immigrant Use of Financial Services: The Role of Language Skills, U.S. Experience, and Return Migration Expectations.” Financial Literacy Center, Rand. https://www.rand.org/content/dam/rand/pubs/working_papers/2012/RAND_WR923.pdf

Benartzi, S. 2020. “Pennies Versus Percent.” Paper presented at the RAND BeFi Conference, October 14.

Bielawska, K. and J.A. Turner. 2021. “Trust and the Behavioral Economics of Automatic Enrollment in Pensions.” Pension Policy Center Working Paper 20-06.

Cienfuegos, S.J. 2019. “Hispanic vs. Latinx: Why Being Culturally Conscious is Important.” *Hilltop Views*, Oct. 29. Hispanic vs. Latinx: Why being culturally conscious is important | Hilltop Views (hilltopviewsonline.com)

Cultural Marketing Council. 2021. “Cultural Comfort, Siloes and Stress Impacts Gen Z Trust Circles.” *InsideNOVA*, Feb. 11. https://www.prnewswire.com/news-releases/cultural-comfort-siloes-and-stress-impacts-gen-z-trust-circles-301226573.html

Expected Expenses.” DNB Working Paper No. 535. DeNederlandscheBank. https://www.researchgate.net/publication/328526542_Pension_profile_preferences_the_influence_of_trust_and_expected_expenses

Explica. 2021. “What Changed for Pensions in Mexico at the End of 2020.”

Federal Deposit Insurance Corporation. 2013. “Unbanked and Underbanked Findings.” FDIC - 2013 Household Survey Results - Unbanked and Underbanked Findings (economicinclusion.gov)

Flores, A. 2017. “Facts on U.S. Latinos, 2015: Statistical portrait of Hispanics in the United States. Key charts.” http://www.pewhispanic.org/2017/09/18/facts-on-u-s-latinos/

Gold, S.L. 2021. “African Americans and Hispanics Report Workplace Race Discrimination.” Lawyers.com, Jan. 27. African Americans an()d Hispanics Report Workplace Race Discrimination - Discrimination Legal Blogs Posted by Sidney L. Gold | Lawyers.com

Hasler, A. A. Lusardi, and P.J. Yakoboski. 2017. "Financial Literacy Among U.S. Hispanics: New Insights from the Personal Finance (P-Fin) Index.” TIAA Institute. TIAA Institute-GFLEC Hispanic P-Fin Index Report_October 2017.pdf

Hinz, R.P. and J.A. Turner. 1998. "Pension Coverage Initiatives: Why Don't Workers Participate?" In *Living with Defined Contribution Plans*, edited by Olivia S. Mitchell and Sylvester J. Schieber. Philadelphia: University of Pennsylvania Press, pp. 17-37.

Johnson, R.W., S. Mudraziga, and C.X. Wang. 2016. "Hispanics' Retirement Security." Urban Institute, December. https://www.urban.org/sites/default/files/publication/86526/hispanic_retirement_security_1.pdf

Krogstad, J.M. and A. Gonzalez-Barrera. 2015. "A Majority of English-Speaking Hispanics in the U.S. are Bilingual." Pew Research Center. A majority of English-speaking Hispanics in the U.S. are bilingual | Pew Research Center

Kwena, R.M. and J.A. Turner. 2013. "Extending Pension and Savings Scheme Coverage to the Informal Sector: Kenya's Mbao Pension Plan." *International Social Security Review* 66(2): 79-99.

Lopez, M.H., A. Gonzalez-Barrera, and J.M. Krogstad. 2018. "Latinos and Discrimination." Pew Research Center, October 25. Latinos' experiences with discrimination | Pew Research Center

Miller, J. 2011. "Covid-19 Reduced U.S. Life Expectancy, Especially Among Black and Latino Populations." USCNews, January 14. COVID-19 reduced U.S. life expectancy, notably among Blacks and Latinos (usc.edu)

Mitchell, O.S. and J.A. Turner. 2010. "Labor Market Uncertainty and Pension System Performance." In *Performance of Privately Managed Pension Funds,* edited by Richard P. Hinz, Heinz P. Rudolf, Pablo Antolin, and Juan Yermo. Washington, DC: World Bank, pp. 119-158. https://openknowledge.worldbank.org/bitstream/handle/10986/2405/527090PUB0pens101Official0Use0only1.txt?sequence=2

Morrisey, M. 2019. "The State of American Retirement Savings." Economic Policy Institute, Dec. 10. The State of American Retirement Savings: How the shift to 401(k)s has increased gaps in retirement preparedness based on income, race, ethnicity, education, and marital status | Economic Policy Institute (epi.org)

Parker K. and E. Patten. 2013. "Financial Support Across Generations." Pew Research Center. http://www.pewsocialtrends.org/2013/01/30/financial-support-across-generations/

Pew. 2016. "Employer-Sponsored Retirement Plan, Access and Savings." September 14. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/09/employer-sponsored-retirement-plan-access-uptake-and-savings

Rhee, N. 2013. "Race and Retirement Insecurity in the United States." National Institute on Retirement Security, Dec. 2013. Race and Retirement Insecurity in the United States – National Institute on Retirement Security (nirsonline.org)

Scott, J. and H. Watson. 2018. "Trust in Financial Institutions Can Affect Retirement Plan Participation: Most Small Business Workers Say They'd Stay in Program if Automatically Enrolled—But Distrust a Factor." Pew Charitable Trusts, December 21. https://www.pewtrusts.org/en/research-and-analysis/articles/2018/12/21/trust-in-financial-institutions-can-affect-retirement-plan-participation

Tergesen, A. 2020. "Tiny Changes Can Help You Achieve Savings Goals for Retirement." *The Wall Street Journal,* Dec. 28. Tiny Changes Can Help You Achieve Savings Goals for Retirement - WSJ

Turner, J.A. 2021. "Alternatives to Financial Literacy: Helping Pension Participants to Invest." *Benefits Quarterly,* third quarter, forthcoming.

Unidos. 2021. “Building Wealth and Financial Power of Latinos.” Building wealth and financial power of Latinos | UnidosUS

Van Dalen, H.P. and K. Henkins. 2018. “The Making and Breaking of Trust in Pension Providers: An Empirical Study of Pension Participants.” *The Geneva Papers* 43: 473–491. The Making and Breaking of Trust in Pension Providers: An Empirical Study of Pension Participants (uvt.nl)