

**STATEMENT OF:**

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**ON BEHALF OF:  
THE HISPANIC INSTITUTE  
AMERICANS FOR SECURE RETIREMENT**

**TO THE:**

**U.S. DEPARTMENT OF LABOR  
U.S. DEPARTMENT OF TREASURY**

**Joint Hearing on Lifetime Income Options for Retirement Plans**

**September 14, 2010**

## Executive Summary

Many policymakers and experts are looking at the issue of retirement security with increasing concern. As 77 million Baby Boomers begin to enter their retirement years, the nation is facing an unprecedented time of economic volatility. Traditional sources of retirement income – pensions, Social Security, and employer-based plans – will not be enough for many Americans to provide for themselves and their loved ones during their retirement years. Longer life spans, historically low savings rates and shifting work patterns in the economy have changed traditional approaches to retirement. In addition, recent market volatility has brought renewed attention to the importance not only of the accumulation of retirement savings, but also the management of these assets. As a result of market downturns, more Americans will have to do more with less, and pay close attention to making their savings last throughout their retirement years.

Hispanics in the United States face an especially difficult challenge in maintaining their standard of living throughout their retirement. This is due to several factors. On average, Hispanics in the U.S. today have lower levels of educational attainment, less earning power, and a lower level of savings than non-Hispanics. Hispanics in the United States are less likely than non-Hispanics to have an employer-sponsored retirement plan, which puts them at a disadvantage for accumulating retirement income. In addition, many Hispanics work in service jobs or small businesses that do not provide retirement plan options to their employees. Compounding these trends is the fact that many Hispanics in America today lack the financial literacy necessary for sound retirement planning.

Although Hispanics share a common language, they are a diverse group with distinct cultures and unique circumstances. Hispanics represent a wide range of educational attainment, occupations and income levels. Many families can trace their heritage to the continental United States, while others are recent immigrants with limited work experience and a lack of savings or access to retirement savings vehicles. All of these factors greatly impact how effectively Hispanics are able to provide for their retirement needs.

There are actions that can help Hispanics better prepare for retirement. Increased access to retirement savings vehicles that provide a steady stream of reliable income during retirement is vital if Hispanics are to provide for themselves and their families during their golden years. In addition, employer-based financial education will make it easier for Hispanics to better connect their current income to their future retirement. The development of employee awareness programs that encourage Hispanics to develop savings habits that direct money toward long-term goals is also important. And finally, helping Hispanics learn to use tools that will both encourage them to accumulate and invest for retirement, and help them better manage that money during their retirement years.

Indeed, members of the Hispanic community will increasingly need to look for a variety of solutions to ensure a comfortable retirement. Education, diversification of employers, access to retirement planning vehicles and increased retirement savings will all play an important role in this critical national challenge. Moreover, because of the great challenges Hispanics face in accumulating savings due to lower incomes, lower participation in employment-sponsored

retirement plans, and lower overall savings rates, it is all the more important that their savings are managed and invested in a manner that will assure income that will last throughout their retirement years.

### Statement

I am Arnoldo Mata, Director of Research at The Hispanic Institute, a nonprofit organization committed to providing an effective educational forum for an informed and empowered Hispanic America. On behalf of The Hispanic Institute, I am grateful for the opportunity to submit testimony for this joint hearing on Lifetime Income Options for Retirement Plans.

The Obama Administration and the Departments of Treasury and Labor (the “Agencies”) should be commended for working to address the increasingly difficult retirement challenge facing Americans. The Hispanic Institute strongly supports encouraging and providing incentives for Americans to secure a steady stream of guaranteed income in retirement.

In 2009, I was the author of a report entitled “Hispanics and Retirement: Challenges and Opportunities,” which was commissioned on behalf of Americans for Secure Retirement (ASR), a broad-based coalition of 70 member and affiliate organizations – of which The Hispanic Institute is a member - committed raising awareness of the difficult challenges Americans face to enjoy a secure retirement.

Our two organizations authored this report to empirically demonstrate that Hispanic Americans face greater challenges in obtaining a secure retirement than the average population, including a general lack of retirement preparation, less access to employer-sponsored retirement plans, lower levels of personal savings and inadequate financial literacy. What follows is a summary of what we found, an assessment of the state of retirement for Hispanics, as well as a number of recommendations that will encourage lifetime income for Hispanics.

### HISPANICS AND RETIREMENT: CHALLENGES AND OPPORTUNITIES

Many policymakers and experts are looking at the issue of retirement security with increasing concern. As 77 million Baby Boomers begin to enter their retirement years, the nation is facing an unprecedented time of economic volatility. Traditional sources of retirement income – pensions, Social Security, and employer-based plans – will not be enough for many Americans to provide for themselves and their loved ones during their retirement years. Longer life spans, historically low savings rates and shifting work patterns in the economy have changed traditional approaches to retirement. In addition, recent market volatility has brought renewed attention to the importance not only of the accumulation of retirement savings, but also the management of these assets. As a result of market downturns, more Americans will have to do more with less, and pay close attention to making their savings last throughout their retirement years.

Hispanics in the United States face an especially difficult challenge in maintaining their standard of living throughout their retirement. This is due to several factors. On average, Hispanics in the U.S. today have lower levels of educational attainment, less earning power, and a lower level of savings than non-Hispanics. Hispanics in the United States are less likely than non-Hispanics to have an employer-sponsored retirement plan, which puts them at a disadvantage for accumulating retirement income. In addition, many Hispanics work in service jobs or small

businesses that do not provide retirement plan options to their employees. Compounding these trends is the fact that many Hispanics in America today lack the financial literacy necessary for sound retirement planning.

Although Hispanics share a common language, they are a diverse group with distinct cultures and unique circumstances. Hispanics represent a wide range of educational attainment, occupations and income levels. Many families can trace their heritage to the continental United States, while others are recent immigrants with limited work experience and a lack of savings or access to retirement savings vehicles. All of these factors greatly impact how effectively Hispanics are able to provide for their retirement needs.

### **Hispanics in the U.S. – a growing demographic**

There are more than 48 million Hispanics in the United States, with approximately 75 percent concentrated in seven states: California, Texas, Florida, New York, Illinois, Arizona and New Jersey.<sup>1</sup> U.S. Census Bureau projections indicate that there will be 132 million Hispanics in the U.S. by 2050, accounting for nearly 30 percent of the total U.S. population.<sup>2</sup>

As a group, Hispanics are younger than the United States population overall. The median age for Hispanics is 27.3 years of age, compared to 39 years for non-Hispanic whites and 36.4 years for the U.S. as a whole.<sup>3</sup> More than 25 percent of Americans are in their pre-retirement years (age 45 to 64), compared to just 16 percent of the Hispanic population. The age gap widens for those who are already in their retirement years. More than 12 percent of the total U.S. population is aged 65 and older, while less than 6 percent of Hispanics fall into this range.<sup>4</sup>

Demographics are important for retirement considerations in several respects. First, statistics indicate that Hispanics are likely to have a longer life expectancy than non-Hispanics. Hispanic men who were age 65 in 2005 can expect to live to age 85, compared to age 81 for American men overall. Hispanic women who were age 65 in 2005 can expect to live to age 88, compared to age 85 for all women.<sup>5</sup> Because Hispanic Americans have a longer life expectancy, their retirement savings will need to last longer than many have predicted and thus may have a greater need for options to manage retirement assets.

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<sup>1</sup> 2006 American Community Survey, U.S. Census Bureau.

<sup>2</sup> U.S. Census Bureau, Projections of the Population by Sex, Race and Hispanic Origin for the United States: 2010 to 2050

<sup>3</sup> U.S. Census, 2006 American Community Survey

<sup>4</sup> U.S. Census, 2006 American Community Survey

<sup>5</sup> Social Security Administration, 2006.

Secondly, Hispanics will comprise a substantial segment of future retirees. Hispanics today skew younger than the overall U.S. population, leaving more than 77 percent of U.S. Hispanics decades away from their retirement. With the U.S. Hispanic population projected to triple over the next 40 years, Hispanics will make up a significant number of those Americans entering retirement in the future. Today, public policy discussions center on the economic pressures of the Boomer generation. It is clear that the Hispanic demographic must be central to the debate, especially with respect to how aging Hispanics will provide for themselves and for their families during their retirement years.

## **Education, Income and Occupational Trends**

The lower educational attainment of Hispanics in the U.S. creates challenges when it comes to saving for retirement, as lower educational attainment often correlates with lower income levels.

### *Education*

Hispanics tend to have lower educational levels than the U.S. population overall. Almost one quarter of Hispanics over 25 years of age have less than a ninth grade education, compared to less than 7.41 percent of non-Hispanics in the U.S.<sup>6</sup> Hispanics also lag behind the general population in post-high school education levels. Only nine percent of Hispanics have a bachelor's degree, compared to 17 percent of the U.S. population.<sup>7</sup>

### *Income*

Educational attainment has a direct impact on the earning power of Hispanics in the U.S., and this educational differential is reflected in median household income levels. In 2006, the average per capita income for Hispanics was \$14,736 compared to \$25,267 for the general population and \$27,951 for non-Hispanics.<sup>8</sup> At the same time, however, numbers show an increasing number of middle-class Hispanics in the U.S. Between 1979 and 1999, middle-class Hispanic households increased nearly 80 percent.<sup>9</sup> Hispanic households earning an annual income of \$40,000 to \$140,000 grew to include about one-third of total Hispanic households nationwide.<sup>10</sup>

Slightly more than 20 percent of Hispanics live in poverty, compared to 13.3 percent for the general population.<sup>11</sup> The percentage of Hispanics living in poverty is less than it was two

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<sup>6</sup> U.S. Census, 2006 American Community Survey

<sup>7</sup> U.S. Census, 2006 American Community Survey

<sup>8</sup> U.S. Census, 2006 American Community Survey

<sup>9</sup> S. Trejo, Capps, R. and Tyler, M. "The Latino Middle Class: Myth, Reality, and Potential," Tomás Rivera Policy Institute, 2001.

<sup>10</sup> Ibid.

<sup>11</sup> U.S. Census, 2006 American Community Survey

decades ago, but recent data indicate that poverty levels have increased somewhat since the year 2000. In 1990, 25 percent of Hispanics were living in poverty, but by 2000, this number had dropped to 19.2 percent, an average decrease of 0.7 percent per year. From 2000 to 2006, the percent of Hispanics living in poverty increased, rising from 19.2 percent to 20.6 percent, an average annual increase of 0.2 percent.<sup>12</sup> Lower income levels during working years means that there is less disposable income to save for retirement spending.

A comparatively lower net worth also affects Hispanics' capacity to prepare for retirement. The median net worth of Hispanic households in 2002 was \$7,932 – slightly more than the median African-American household's net worth at \$5,988, yet just nine percent of \$88,651, the median wealth of white non-Hispanic households in the U.S.<sup>13</sup>

Due to statistically lower income and net worth, Hispanics typically have a lower retirement income than non-Hispanics. The mean annual income for non-Hispanic white retirees is \$24,351, compared to \$16,947 for Hispanics.<sup>14</sup> Hispanics also spend a greater percentage of their retirement income on fixed costs and essential expenditures. On average, Hispanics spend more than half of their retirement income – 54.4 percent – on food and housing, compared to expenditures of just 11.4 percent for non-Hispanic white retirees.<sup>15</sup>

Hispanic females face even greater challenges regarding the circumstances leading to their retirement. Sixty-three percent of Hispanic female retirees said they retired due to illness, disability, company closure or other reasons not of their choosing. This figure is almost twice as high as for the general population, 35 percent, and more than double the rates of African-American and Asian-American women, 28 percent and 31 percent respectively (Source: Nationwide Financial study, 2007). These types of traumatic changes lead to drastic reductions in income for Hispanic females and put added pressure on what limited retirement income they may have accumulated.

### *Occupational Trends and Impact on Retirement Savings*

Although Hispanics work in all sectors of the economy, they are more heavily concentrated in lower-paying blue collar jobs. Roughly two-thirds of Hispanics are employed in service-related jobs, while just 17 percent work in traditionally higher-paying jobs in the management sector and other traditional white-collar industries.

The types of jobs Hispanics hold have an impact not only on their immediate income, but their retirement income as well. Hispanics, on average, have less access to employer-sponsored retirement plans and a decreased likelihood of participating in employer-based retirement benefits. Only 25.6 percent of Hispanics are covered by employer-sponsored retirement plans,

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<sup>12</sup> U.S. Bureau of the Census, 2008 Statistical Abstract, Income, Expenditures, Poverty, and Wealth section

<sup>13</sup> Kochhar, Rakesh. "The Wealth of Hispanic Households: 1996-2002," Pew Hispanic Center, 18 October 2004.

<sup>14</sup> U.S. Bureau of the Census, 2008 Statistical Abstract, Income, Expenditures, Poverty, and Wealth section

<sup>15</sup> Bureau of Labor Statistics, Monthly Labor Review, June 2003

compared to 42.5 percent of whites and 40 percent of African-Americans.<sup>16</sup> Overall, 60 percent of American workers have access to employment-based retirement benefits such as pensions and 401(k) programs.<sup>17</sup> Yet, U.S. Bureau of Labor Statistics data show that access to employment-based retirement benefits is not uniform across industries. Although 73 percent of workers in goods-producing businesses, such as manufacturing and mining, have access to such benefits, only 56 percent of workers in service-producing businesses, such as retail sales and health care, have access to employer-sponsored retirement benefits. At the same time, 64 percent of the workers in goods-producing and 47 percent of workers in service-producing businesses participated in the retirement benefits program offered by their companies. More than 45 percent of Hispanics are employed in service industries, which traditionally pay less than other industries. This gives Hispanics less disposable income to invest in traditional retirement plans. Additionally, service industries are less likely to provide access to traditional retirement plans.<sup>18</sup>

Twenty-six percent of Hispanic workers participate in an employment-based retirement savings plan compared to 60 percent of Americans overall.<sup>19</sup> Compounding this difference is the fact that the lower the income, the less likely Hispanics are to take part in employment-based retirement plans. More than 60 percent of Hispanics with an annual income of over \$75,000 participate in employer-sponsored retirement plans, compared to a mere six percent of Hispanics with incomes of less than \$20,000.<sup>20</sup>

Recent trends indicate that Hispanics have actually become less prepared for retirement over the past few years. Between 2002 and 2006, the share of Hispanics who participated in an employer-sponsored retirement plan in the private sector declined by an average annual rate of 0.9 percent.<sup>21</sup>

## **Other Issues**

### *Banked vs. Unbanked*

One challenge for Hispanics when saving for retirement is the lack of bank accounts for some, particularly those who are in the lower income brackets. According to the Federal Reserve Board, slightly more than nine percent of American families overall and approximately one-quarter of Hispanics are among the “unbanked,” meaning those workers who do not have

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<sup>16</sup> National Compensation Survey, U.S. Bureau of Labor Statistics, August 2006

<sup>17</sup> National Compensation Survey, U.S. Bureau of Labor Statistics, August 2006

<sup>18</sup> National Compensation Survey, U.S. Bureau of Labor Statistics, August 2006

<sup>19</sup> National Compensation Survey, U.S. Bureau of Labor Statistics, August 2006

<sup>20</sup> 2007 Minority Retirement Confidence Survey, the Employee Retirement Benefit Research Institute.

<sup>21</sup> *Current Population Survey* data as analyzed in Purcell, Patrick. 2007. “Pension Sponsorship and Participation: Summary of Recent Trends.” Washington: Congressional Research Service.

established bank accounts for a variety of reasons.<sup>22</sup> The most common groups of unbanked individuals in the United States include those with low income and low education levels, households led by single females or young adults, those in rural communities, and recent immigrants.

Generally speaking, the lower the income, the greater the likelihood that an individual will be unbanked. This is also true for the Hispanic demographic. More than 50 percent of unbanked Hispanics in the U.S. have an annual income of less than \$15,000 a year, and 25 percent of unbanked Hispanics have an annual income of \$15,000 to \$30,000.<sup>23</sup> Without access to bank accounts and related financial services, it is difficult for unbanked Hispanics to set up retirement savings tools and adequately plan for their retirement years.

### *Health Care*

Health care issues also play an important role in when and how Hispanics retire. As previously noted, Hispanics tend to have longer life expectancies than the overall U.S. population.<sup>24</sup> The combination of longer life spans and lower average retirement savings means Hispanics are less prepared for long-term medical needs. In 2006, more than a third of Hispanics (34.1 percent) were not covered by health insurance, compared to 15.8 percent of the general population.<sup>25</sup> As a result, Hispanics may be more likely to delay retirement and continue working in order to have access to employer-based health insurance services or to generate sufficient income to pay for out-of-pocket medical expenses. Furthermore, managing limited retirement savings carefully over time takes on even greater importance.

### **Hispanics and Retirement Savings Vehicles**

Social Security, employer-based retirement plans, and personal savings represent the traditional three-legged stool of retirement savings for Americans. As this paper has noted, income, demographics, educational levels and occupational trends create significant obstacles for Hispanics when it comes to saving for retirement. These factors combine into greater difficulty in making ends meet once Hispanics enter their retirement years, especially during times of economic volatility.

Since they have less access to, and participation in, employer-sponsored retirement plans, Hispanics are more dependent on Social Security for retirement income. Almost 75 percent of older Hispanics receive Social Security benefits, and Social Security represents the largest single source of retirement income for older Hispanics.<sup>26</sup> Of those Hispanics age 65 or older receiving

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<sup>22</sup> Survey of Consumer Finances, Federal Reserve Board, 2001.

<sup>23</sup> Survey of Consumer Finances, Federal Reserve Board, 2001.

<sup>24</sup> Social Security Administration, 2006

<sup>25</sup> U.S. Bureau of the Census, Historical Health Insurance Tables

<sup>26</sup> Research Report, AARP Public Policy Institute, 2007

Social Security benefits, slightly less than 80 percent rely on these benefits for 50 percent or more of their income. Nearly 85 percent of older Hispanic females receive half or more of their income from Social Security benefits while more than 50 percent depend on the program for 100 percent of their income.<sup>27</sup> In addition, Hispanics are at a disadvantage when it comes to receiving Social Security benefits. Among persons age 65 and older, 76 percent of Hispanics receive Social Security benefits, compared to 91 percent of whites and 85 percent of African-Americans.<sup>28</sup> Additionally, among persons age 65 and older who receive Social Security benefits, Hispanics receive an average \$8,497, compared to \$10,621 for whites and \$8,828 for African-Americans.<sup>29</sup>

Hispanics are also at a disadvantage when it comes to employment-based retirement plans (qualified retirement plans). As noted previously, Hispanics are more likely to work for companies that do not offer employer-sponsored retirement plans such as pensions and 401(k) programs. Only 33.5 percent of employed Hispanics work for employers that sponsor a retirement plan, compared to 55.7 percent of whites and 51.6 percent of African-Americans, and only 25.3 percent of Hispanics participate in an employer-sponsored retirement plan, compared to 45.3 of whites and 39.3 percent of African-Americans.<sup>30</sup> Only 29 percent of Hispanic wage and salary workers aged 29-64 participated in an employer-sponsored pension plan, compared to 53 percent of white workers in the same wage and age brackets.<sup>31</sup> Hispanics are less likely to participate in employer-sponsored retirement plans than whites in all wage and salary brackets ranging from less than \$15,000 to more than \$50,000. And, like other low-income employees, the on-average lower income of Hispanics means less disposable income and less money to set aside for retirement.

The third major source of retirement income (personal savings and investments) plays a critical role for retirees. Given that Hispanics are less likely to participate in employer-based retirement plans, and given the lower income they can expect from Social Security, Hispanics must take an active role in developing their personal savings and investments in order to have a financially secure retirement.

Yet, savings levels indicate that Hispanics are less prepared than their non-Hispanic counterparts, and that personal savings have actually decreased over the past few years. The personal savings rate (the percent of after-tax income left after household bills are paid) has dropped from a peak of 15 percent in 1975 to a negative rate in 2002 and 2006; however, the rate has slowly increased to slightly above one percent.<sup>32</sup> More than half of Hispanics have less than \$10,000 total saved

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<sup>27</sup> Research Report, AARP Public Policy Institute, 2007

<sup>28</sup> Hispanics and the Social Security Debate, Pew Hispanic Center, March 2005

<sup>29</sup> EBRI Issue Brief No. 332, Employee Benefit Research Institute, October 2008

<sup>30</sup> Hispanics and the Social Security Debate, Pew Hispanic Center, March 2005

<sup>31</sup> Retirement Security for Latinos, National Council of La Raza, July 2005

<sup>32</sup> Federal Reserve Bank of St. Louis Review, November/December 2007

for retirement.<sup>33</sup> The figures for those who do have employer-sponsored plans are also troubling. Just 20 percent of Hispanics with an employer-based retirement vehicle have funds saved outside of their employer's plan, compared to 32 percent of all workers.<sup>34</sup> Further, Hispanic retirement savings rates are falling, placing future retirement preparedness in jeopardy. In 2007, 41 percent of Hispanic workers say they have saved money for retirement (outside of their work or otherwise), compared to 60 percent in 2003.<sup>35</sup>

A lack of financial planning further compounds the challenges Hispanics face when it comes to saving for their retirement. Less than one-quarter of Hispanic workers have calculated how much money they will need to save for a comfortable retirement, compared to 42 percent of non-Hispanics.<sup>36</sup> When asked, half of Hispanics said that they need more information to help them plan their retirement.<sup>37</sup> Only 25 percent of Hispanics said they learned about retirement planning from a financial institution, and 64 percent said they learned on their own.<sup>38</sup>

## **Recommendations**

Hispanics face many challenges when it comes to saving for retirement. Longer life spans combined with lower educational and income levels, less access to employer-sponsored retirement plans, lower levels of personal savings and less financial literacy all contribute to the lack of retirement preparedness. There are actions private and public employers can take to help Hispanics better prepare for retirement. The Agencies should encourage employers to provide the following option:

- Provide access to retirement savings vehicles that provide a steady stream of reliable income during retirement is vital if Hispanics are to provide for themselves and their families during their golden years.
- Provide employer-based financial education to make it easier for Hispanics to better connect their current income to their future retirement.
- Develop employee awareness programs that encourage Hispanics to develop savings habits that direct money toward long-term goals.
- Work their human resource to help Hispanics learn to use tools that will both encourage them to accumulate and invest for retirement, and help them better manage that money during their retirement years.

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<sup>33</sup> 2007 Minority Retirement Confidence Survey, the Employee Retirement Benefit Research Institute

<sup>34</sup> 2007 Retirement Confidence Survey, the Employee Benefit Research Institute

<sup>35</sup> 2007 Minority Retirement Confidence Survey, the Employee Retirement Benefit Research Institute

<sup>36</sup> Issue Brief No. 292, the Employee Retirement Benefit Research Institute, April 2006

<sup>37</sup> Hispanic Retirement Study: Financial Matter, AARP, March 2007

<sup>38</sup> Hispanic Retirement Study: Financial Matter, AARP, March 2007

There are other key policies that can make it easier for Hispanics to develop their retirement resources.

Lifetime annuities are a type of financial product that is designed to provide a continuous stream of income during retirement. When used in conjunction with income from employer-based retirement plans, Social Security benefits and personal savings, annuities can provide Hispanics the necessary income to cover basic living expenses. Because annuities are a form of insurance, annuities combine, or pool, the risks of large groups of people and provide individuals a means to both accumulate retirement savings and guarantee income that will last as long as they live.

Given the decreased likelihood that Hispanic workers will gain access to retirement vehicles through employers, it is important for policy makers to consider savings vehicles and incentives beyond those tied to employers. This policy view was reflected in the 110<sup>th</sup> Congress when many bills, including the *Retirement Security for Life Act*, sought to encourage savings and guaranteed retirement income by creating tax incentives for personal savings vehicles not associated with employers. This diversity of approach can benefit Hispanics and other groups that are at a disadvantage when it comes to preparing for a secure retirement.

Members of the Hispanic community will increasingly need to look for a variety of solutions to ensure a comfortable retirement. Education, diversification of employers, access to retirement planning vehicles and increased retirement savings will all play an important role in this critical national challenge. Moreover, because of the great challenges Hispanics face in accumulating savings due to lower incomes, lower participation in employment-sponsored retirement plans, and lower overall savings rates, it is all the more important that their savings are managed and invested in a manner that will assure income that will last throughout their retirement years.