ENHANCING LATINO RETIREMENT READINESS IN CALIFORNIA

NCLR
NATIONAL COUNCIL OF LA RAZA

The National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations, NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas—assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families.

Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC, serving all Hispanic subgroups in all regions of the country. It has state and regional offices in Chicago, Los Angeles, Miami, New York, Phoenix, and San Antonio.

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Foreword

Nearly six years after the worst recession since the Great Depression, the U.S. economy is finally recovering. Among the most promising signs of improvement is that the Latino unemployment rate has returned to its prerecession level of 6.5% nationally and 7.8% in California. This is good news for the Hispanic community, which places great value on hard work and self-reliance. It is also good for the country, since Latinos make up more than half of new workers entering the American workforce.

Despite this progress, economic inequality is rising to unacceptable levels. The resulting national conversation on wage stagnation and wealth inequality casts a renewed focus on ideas that can improve economic well-being and ensure that a growing economy leaves no one behind. A central question is how national and community leaders can advance solutions that reward hard work and create opportunities for more Americans to achieve financial security today and for future generations.

As a reflection of the future demographic makeup of the country, California is the ideal place to begin seeking answers to this question. One-third of the nation's Latino population resides in California. Our study shows that 3.8 million Hispanic workers in California are left out of the employer-based retirement savings system, a vital link to financial stability and upward mobility. State leaders have recognized the problem and put forward a bold idea that may improve the retirement readiness and financial security of millions of Californians, including many Latino workers.

Building on decades of research and policy analysis regarding Hispanic retirement security by NCLR, academics, policy experts, and private industry, this report documents the challenges for Latinos in California and recommends ways that state policymakers can further focus retirement readiness solutions on those workers most in need of help and economic opportunity. Given the increasing significance of the Latino workforce, improving the financial health of Hispanic workers will in turn secure the economic future of the nation as a whole.

Janet Murguía
President and CEO

Executive Summary

A growing body of evidence warns that the looming retirement savings shortfall disproportionately affects Latinos.* By mid-century, one-third of the American workforce will be Hispanic. Therefore, it is in the nation's interest to ensure that Latinos maximize opportunities to prepare for a financially secure retirement.

Using Census data and feedback from focus groups with Latino consumers, this report assesses the retirement readiness of Latinos in California and the potential for California to serve as a model for states seeking to extend retirement savings plans to private sector workers whose employers do not offer them. California was selected because it reflects the future demographic makeup of the United States and it is currently designing a statewide retirement savings program for individuals who do not have a retirement plan at work—the largest share of whom are Latino.

The main findings of the report are:

- Latinos in California are the least likely to work for an employer that offers a retirement plan.
- Even among Latinos who have access to a plan at work, participation and savings are relatively low.
- The California Secure Choice Retirement Savings Program could enhance the retirement readiness of Latinos in California.

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

Introduction

Our nation is facing a crisis in which more than half of all working-age Americans are at risk of not maintaining their standard of living upon retirement.[1] In its current form, the "three-legged stool" of retirement income—Social Security, employer-sponsored retirement plans, and individual savings—is unbalanced for millions of workers. For many, Social Security is the sole means of retirement income, which it was never designed to be. Social Security currently pays about $15,500 per year on average, just over the federal poverty threshold for a household of two.[2] In 2010, nearly 45% of Americans had no dedicated retirement savings.[3] Among those who participate in a 401(k) plan, the most common type of employer-sponsored plan, the median account balance was just $18,433 in 2013.[4] A lack of retirement security not only affects retirees but also can have a profound effect on our national economy, undermining household wealth and economic mobility, straining the federal social safety net, and slowing economic growth as retirees reduce their consumption of goods and services to make ends meet.

It is well documented that the looming retirement crisis disproportionately harms Latinos.[5] This fact is of urgent concern to the nation as a whole, given that Latinos are projected to account for the bulk of growth in the American workforce between 2010 and 2050.[6] Currently, elder poverty rates for Blacks and Latinos are more than twice that of the U.S. elder population as a whole. Labor market trends suggest that, absent intervention, these rates will grow.[7] The majority of Latinos work for an employer that does not offer a retirement plan; therefore, many rely on Social Security as their sole source of retirement income. Moreover, Latinos who have access to a plan at work do not maximize their participation at the same levels as their non-Latino counterparts, missing important tax benefits and wealth-building opportunities.*

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* The U.S. spent $100 billion in 2013 on tax subsidies for retirement plans, including traditional pensions, 401(k) plans, and IRAs. The majority (66%) of tax benefits went to the top fifth of earners, while the bottom fifth saw just 2% of benefits. The federal Saver's Credit, a tax credit designed to incentivize savings among low- and moderate-income earners, reaches only a small fraction of its target population. Making the tax credit refundable would go a long way toward incentivizing retirement savings among lower-income earners. *Sources:* Chuck Marr, Nathaniel Frentz, and Chye-Ching Huang, *Retirement Tax Incentives Are Ripe for Reform* (Washington, DC: Center on Budget and Policy Priorities, 2013), www.cbpp.org/cms/?fa=view&id=4063; and Peter R. Orzag and Eric Rodriguez, *Retirement Security for Latinos: Bolstering Coverage, Savings and Adequacy* (Washington, DC: The Brookings Institution Retirement Security Project and NCLR, 2005), www.retirementmadesimpler.org/Library/Retirement%20Security%20for%20Latinos%20-%20Full.pdf.

Policymakers and private industry are crafting responses to improve Americans' retirement outlook. In addition to strengthening Social Security, there is an intense focus on improving the effectiveness of workplace pensions, the most common source of retirement income after Social Security. Millions of workers are underserved by employer-based retirement plans due to historically low pension sponsorship rates, unprecedented personal investment risk, and the rise of nontraditional employment arrangements.[8]

At the national level, there has been bipartisan congressional support for an automatic individual retirement account (auto IRA) to reach workers whose employers do not sponsor a retirement plan. In light of slow progress on this and related proposals in Congress, executive action at the federal level and state legislation to improve Americans' retirement outlook have advanced in recent years. In early 2015 the U.S. Treasury Department launched myRA, a low-cost government-backed Roth IRA* designed as an automatic savings plan for individuals who do not have a retirement plan through their employer.[9]

Further, up to 20 states have enacted or are considering state-based programs for private-sector workers who do not have access to retirement plans at work. In 2012, California became the first state to pass legislation to set up a statewide voluntary plan—the California Secure Choice Retirement Savings Program—for private-sector workers without access to a workplace plan. Secure Choice is currently in the design phase. In addition to being the most populous state in the nation, California has one of the largest shares of workers who do not have a retirement plan at work. It is also home to one-third of the country's Latino population, making Secure Choice a useful case study for better understanding how policies could enhance retirement readiness among Latinos.

This report presents an assessment of the retirement readiness of Latinos in California and an evaluation of Secure Choice's ability to improve the retirement security prospects of Latinos. It concludes with additional considerations for policymakers. To obtain this information, NCLR reviewed existing research about racial and ethnic disparities in retirement in California, analyzed data from the U.S. Census Bureau, and conducted four focus groups with low- and moderate-income Latino workers in California in late 2014.[†]

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* A Roth IRA functions like a traditional IRA except that contributions to the account are post-tax dollars and most distributions are tax-free. Eligible contributions to traditional IRAs are tax deductible.

† NCLR contracted with Geoscape to conduct four focus groups in fall 2014. Two groups took place in Fresno, California, and two in Los Angeles. Focus group participants identified themselves as Hispanic or Latino using the U.S. Census Bureau definition, worked at least 20 hours per week, and had an active role in making household financial decisions. Participants were grouped using Geoscape's acculturation model, with two focus groups of bicultural Hispanics (one conducted in English and one in Spanish) and two focus groups of unacculturated or partially acculturated Hispanics (one in English and one in Spanish). Participants were further segmented by household income, with two groups below $39,000 (California's median household income) and two groups between $39,000 and $75,000. Both groups included participants with a diverse range of work backgrounds, family composition, and ethnic subgroups. Each group contained participants who had access to an employer-sponsored retirement plan and those who did not.

Latino Retirement Readiness in Jeopardy

While the retirement outlook is challenging for all Californians, Latinos are even less prepared for a financially secure retirement than their peers. Despite their hopes for retirement and their willingness to save, the vast majority of Latinos in California have no personal retirement savings. This is due in large part to the fact that most Latinos in California, especially immigrants, work for an employer that does not sponsor a retirement plan. Another challenge is that Latino workers who have a plan through their employers are less likely than their peers to participate (see Figure 1).

Figure 1. Latinos Have Limited Access to and Participation in Workplace Retirement Plans

Share of Latino Workers, Access to and Participation in Employer-Sponsored Retirement Plans, California, 2014

Only **29%** of Latinos in California have access to an employer-sponsored retirement plan.

Of those, only **21%** participate in the plan.

NO ACCESS 71% ACCESS 29%

Source: NCLR analysis of Current Population Survey, *Annual Social and Economic Supplement*, March 2014. Sample universe consists of private sector workers (including both incorporated and unincorporated self-employed) ages 18 and over in California.

Defining Retirement Readiness

What does it take to be ready for retirement? For most Americans, this is a complex question. Advice from family, financial advisors, and other sources can be conflicting. For the purposes of this report, NCLR defines retirement readiness in terms of three indicators:

- **Access to a retirement plan at work.** Besides Social Security, the most common source of retirement income is employer-sponsored retirement plans, either traditional pensions (known as defined-benefit plans) or the more prevalent defined-contribution plans such as 401(k) and 403(b) plans.

- **Participation in workplace-based retirement plans.** Despite the simplicity and tax advantages of saving through workplace plans, some workers choose not to participate in retirement savings plans that their employer offers.

- **Adequacy of retirement savings.** Determining how much savings is enough for a secure retirement depends on an individual's age and income. The ability to maintain one's current standard of living is a basic indicator of adequate savings.

In Their Own Words: Retirement Readiness

When asked what it means to be ready for retirement, Latinos in NCLR's focus groups emphasized a state of being rather than a specific mathematical formula. While some had dreams of traveling the world, many were content to imagine retiring debt-free without depending on other family members. When asked "What does a secure retirement mean to you?," participants responded:

"I want to not have worries of material things and more peace of mind."

"I've been saving so that when I retire I can also enjoy life. I want to go places. I don't want to depend on anyone else."

"Paying my bills off. Trying to get rid of debt. Ensuring that I have a new vehicle at that age that's paid off so there's no payment."

"I lived to help my family. Now it's time to focus more on myself."

"Being self-sufficient."

In Their Own Words: A Culture of Saving

Research shows that people of all means, including low-income families, can and do save.[10] A national survey of Latino consumers conducted by Prudential concludes that "the 'saver' mindset prevails" with Latinos. The Prudential survey, *The Hispanic American Financial Experience*, finds that while 53% Latinos think that saving for retirement is a high priority, near-term financial needs often compete for limited resources.[11] Similarly, participants in NCLR's focus groups emphasized the importance of passing on responsible savings habits to future generations. Still, they lamented not being able to save enough for long-term goals, including retirement. This is consistent with evidence from an NCLR survey in which one-third of Latinos reported having trouble paying their monthly bills.[12] Regarding saving habits, participants explained:

"It's what we were taught by our parents. They worked hard, so you work hard to earn your money and pay your bills. It's something that's taught I think."

"When we first arrived [in the U.S.], whatever we earned, we spent. There came a time when there was no work and we had to get by with the basics. From that we learned that we had to save when we work."

"I mean, everything is getting higher, the prices, the food—crazy, you know? So it's kind of hard to save. You get paid the same."

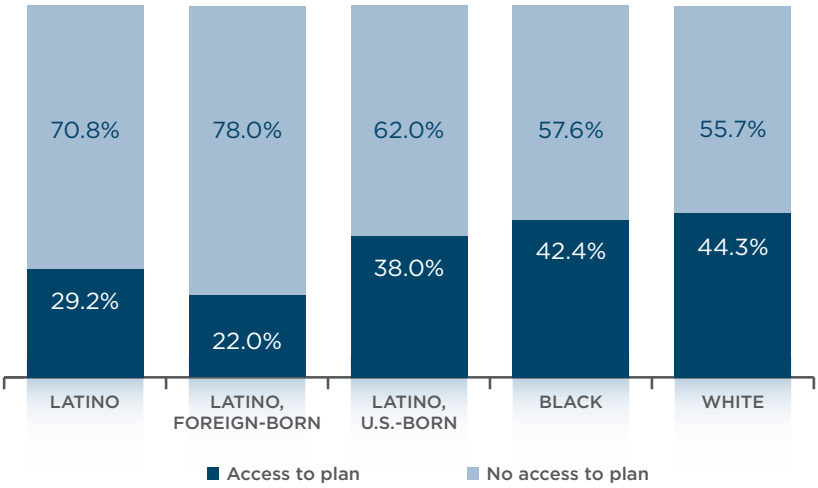
"I usually say I'm going to set this much away and it doesn't happen because of my bills or I need running shoes or something like that. Something comes up."

Low Access to Workplace-Based Retirement Plans

About 3.8 million Latinos in California lack access to a workplace plan, making up more than half of the 7.4 million California workers who lack access to a retirement plan through their employer. It is widely documented that lack of plan access at work is a major determinant of retirement insecurity among Latinos nationwide.[13] This fact holds true in California, where Latinos are more likely than Blacks and Whites to work for an employer that does not offer a retirement plan. Foreign-born Latinos face the greatest disadvantage; only 22% of Latino immigrants in California have access to a plan at work (see Figure 2). Consistent with the national experience, Latinos in California are more likely to face barriers to accessing workplace retirement plans based on their employment situation.

Figure 2. Latinos Are Least Likely to Have a Retirement Plan at Work

Access to Employer-Sponsored Retirement Plans by Race/ Ethnicity and Nativity, California, 2014



Source: NCLR analysis of Current Population Survey, *Annual Social and Economic Supplement*, March 2014.

- **Contingent workers are ineligible for benefits.** Latinos and other minorities in California are more likely to belong to the contingent workforce, which includes the self-employed,* part-time workers, and those employed by temporary staffing agencies, contractors, and other labor market intermediaries. An estimated 65% of the temporary workforce in California is Latino or another racial/ethnic minority.[14] These workers are not directly employed by the companies for which they work, and they are usually ineligible for workplace benefits, including retirement plans. Trends show that contingent arrangements are becoming more prevalent in the U.S. economy, leaving millions of workers in precarious employment arrangements and without access to a workplace retirement plan.[15]

- **Latinos are more likely to work for small businesses.** Nationally, small firms are less likely to offer employees a retirement plan.[16] In California, 68% of workers who lack access to a retirement plan work for companies with fewer than 100 employees.[17] Latinos are more likely to work for small businesses compared to the general California workforce. Nearly half (49.4%) of Latinos in California work for a firm with fewer than 100 employees, and 23.8% work for a firm with 10 or fewer employees.[18]

- **Immigrants are concentrated in industries without retirement options.** At the national level, certain industries, such as agriculture, mining, and construction, are less likely to offer retirement plans.[19] In California, roughly 10.3% of the general workforce and 8.7% of U.S.-born Latinos are employed in these industries.[20] However, nearly one-quarter (23.2%) of California's Latino immigrant workforce is employed in these industries, making this group much less likely to have access to a retirement plan based on industry alone.

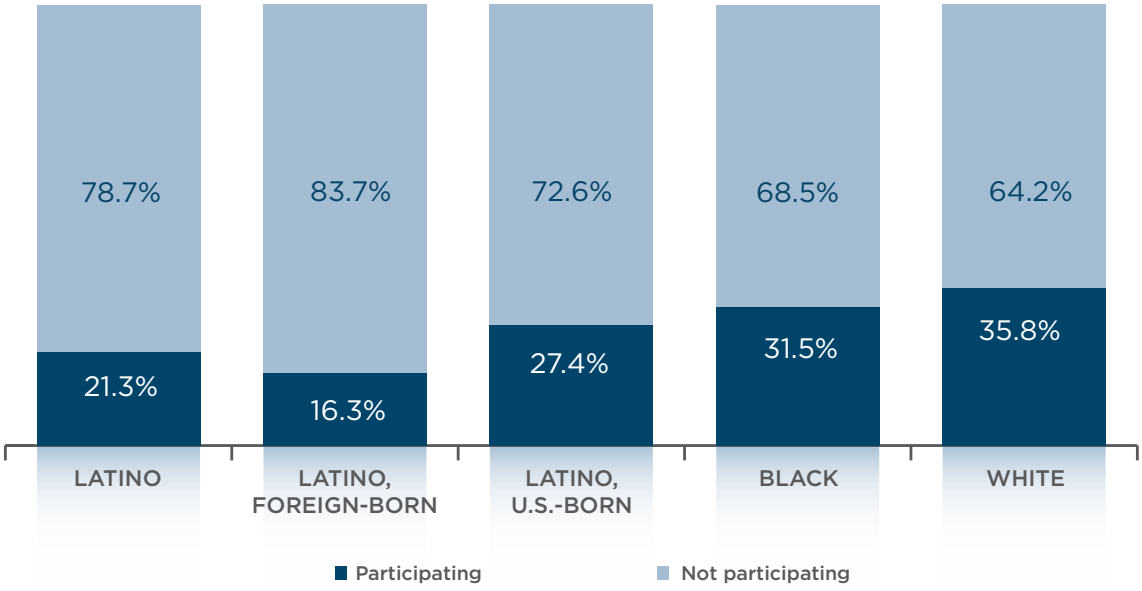
* NCLR's analysis shows that Latino immigrants are twice as likely as native-born Latinos to be self-employed, putting them at a disadvantage to save for retirement through a workplace plan.

Even When Workplace Plans Are Offered, Few Participate

Even among individuals who have access to a retirement plan at work, Latinos in California are less likely than their peers to participate in a plan (see Figure 3). Low income and difficulty building wealth are the biggest barriers to participation in employer-sponsored retirement plans.

Figure 3. Latinos Are Least Likely to Participate in Workplace Plans When They Are Offered

Participation in Employer-Sponsored Retirement Plans by Race/Ethnicity and Nativity, California, 2014

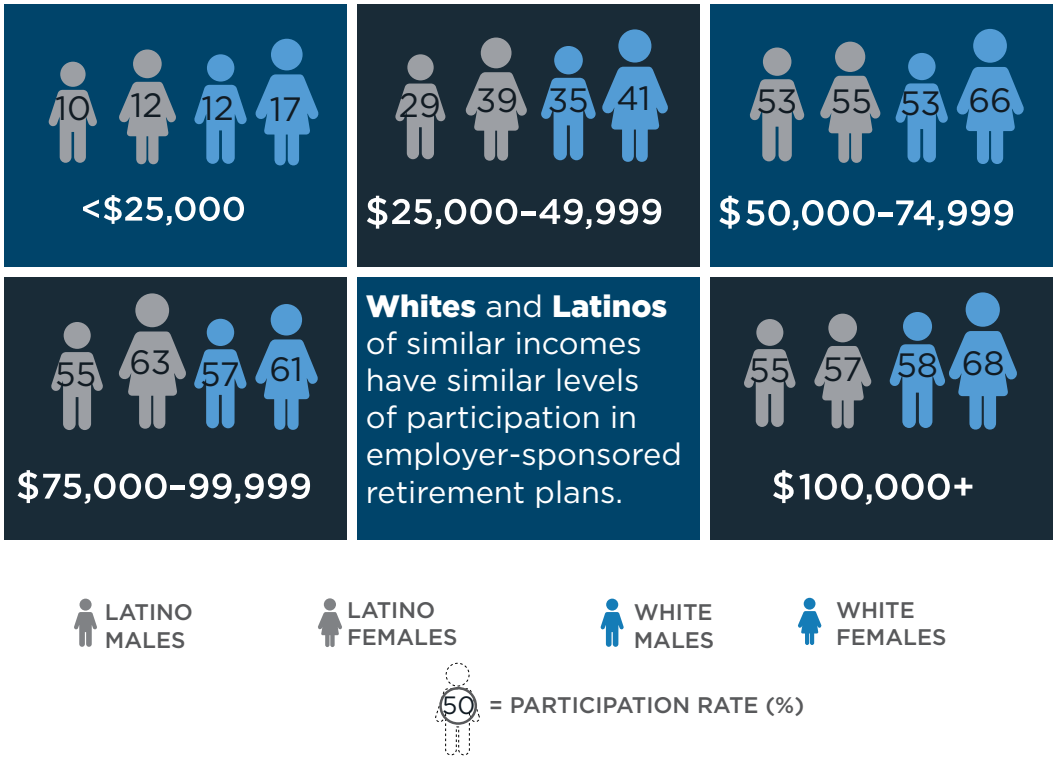


Source: NCLR analysis of Current Population Survey, *Annual Social and Economic Supplement,* March 2014.

- **Plan participation is linked to income.** As a population, Latinos in California earn about $20,000 per person, half of what non-Latino Whites earn.[21] Lower income is one reason that Latinos are less likely to participate in employer-sponsored retirement plans when offered. Consistent with national analyses, NCLR's analysis indicates that income influences plan participation, showing very narrow disparities between White and Latino Californians of similar incomes (see Figure 4).[22] In fact, among workers earning between $75,000 and $100,000, Hispanic women have the greatest likelihood of participating in an employer-sponsored plan.

Figure 4. Gaps in Participation Narrow Between Workers of Similar Income Levels

Share of Workers Participating in Employer-Sponsored Retirement Plans by Income, Race/Ethnicity, and Sex, California, 2014



Source: NCLR analysis of Current Population Survey, *Annual Social and Economic Supplement,* March 2014.

- **Lower wealth leaves little financial cushion.** Another factor that heavily influences participation in retirement plans is wealth—either personal savings or other assets. Currently, Latinos have one-eighth of the household wealth of Whites in California (see Figure 5).* Lower savings and wealth could also explain why Latinos are more likely than other workers to take early withdrawals or loans against their retirement accounts due to financial hardship, a form of account "leakage." Private retirement savings compose a small but vital portion of household wealth in California. Retirement assets, including IRAs and employer-sponsored 401(k) plans, make up only 6% of total household wealth for Latinos, compared to 15% of household wealth for Whites.[23]

Figure 5. Median Total Wealth of Individuals Age 18 and Older, California, 2011

Includes Home Equity, Business Equity, Savings Accounts, and Stocks and Bonds

Source: NCLR analysis of U.S. Bureau of the Census, *Survey of Income and Program Participation*, 2008 panel data, Wave 10. Sample universe consists of private sector workers (including incorporated and unincorporated self-employed) ages 18 and over in California

* NCLR's estimate of wealth includes home equity, business equity, savings accounts, and stocks and bonds.

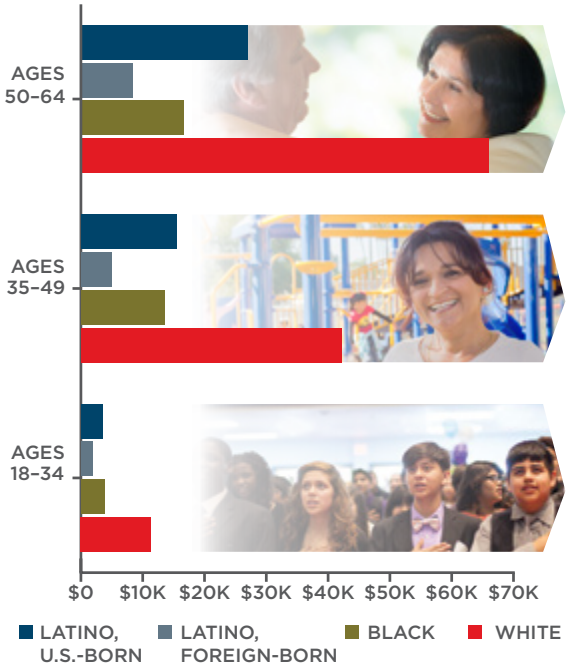
Insufficient Savings for Users of Workplace Plans

The most important components of a secure retirement are how much an individual's savings are worth and how long that amount will sustain their standard of living. Overall, Latinos in California have less saved for retirement than their peers. Due in large part to low access to employer-sponsored plans, Latinos are more likely than other workers to have nothing saved for retirement.[24] Among Californians who have a 401(k) or an IRA, Latino immigrants' retirement account balances are a small fraction of those of their peers.

- **Among those with retirement accounts, Latinos have lower balances.** Among Californians who do have retirement savings accounts, such as a 401(k) or an IRA, participants of color have lower levels of savings. The average account balance of U.S.-born Latinos in younger age groups is slightly lower than that of their Black counterparts.* Foreign-born Latinos have the lowest average retirement savings of all groups, never exceeding $10,000 for any age group (see Figure 6).

Figure 6. Retirement Savings Levels Are Lowest for Immigrant Latinos

Mean market value of retirement accounts by age, race/ethnicity, and nativity, California, 2011



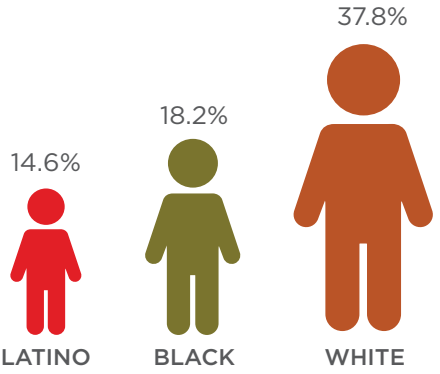
Source: NCLR analysis of U.S. Bureau of the Census, *Survey of Income and Program Participation*, 2008 panel data, Wave 10.

* It should be noted that U.S.-born Latinos over age 35 actually hold more in private retirement assets than Blacks.

- **The majority of Latinos risk retiring at a lower standard of living.** To understand how much retirement income is sufficient for financial security, it is useful to compare an individual's current earnings to their retirement savings. In order to maintain the same standard of living in retirement, experts recommend that workers save 11 times their annual pay for retirement.[25] Only 15% of Latinos who are closer to retirement age—the smallest share of any racial or ethnic group—have saved an amount equal to or greater than one year of their current annual income (see Figure 7).

Figure 7. Working Latinos Are Half as Likely as Whites to Have a Year's Pay Saved for Retirement

Share of workers age 40 and older with retirement savings equal to or greater than annual income, California

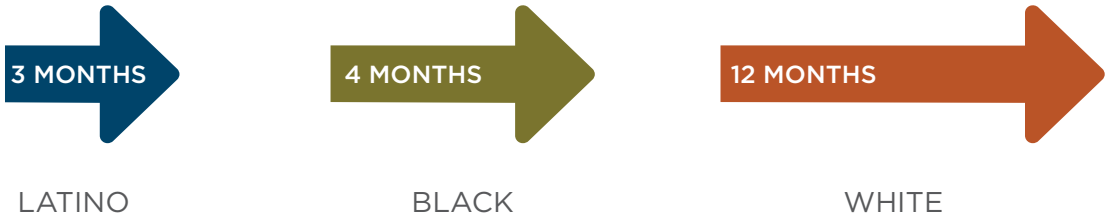


Source: NCLR analysis of U.S. Bureau of the Census, *Survey of Income and Program Participation*, 2008 panel data, Wave 10.

- **Latinos are more likely to outlive their private retirement savings.** While Social Security and personal savings make up a significant share of retirement income for most Californians, employer-based retirement savings are essential for financial security over the course of an individual's retirement. Yet if California workers lived on just their employer-sponsored retirement savings accounts, most would exhaust their savings within the first year of retirement. On average, Latinos in California would exhaust their total retirement savings in just over three months (0.26 years) of retirement. Private savings for Blacks would last only about four months, and Whites have about one year before exhausting their retirement savings. See Figure 8 for a representation of the annual wage and salary income that can be replaced by "cashing out" the market value of all retirement accounts.

Figure 8. Latinos Are More Likely to Exhaust Their Retirement Savings in Under One Year

Period of time, on average, that private retirement accounts would last



Source: NCLR analysis of U.S. Bureau of the Census, *Survey of Income and Program Participation*, 2008 panel data, Wave 10. Data are for individuals 18 years and older and do not include Social Security or other forms of saving.

California Secure Choice Could Enhance Latino Retirement Readiness

Secure Choice aims to provide a safe, affordable retirement savings account for California workers who do not have access to a plan at work. While the framework for this plan is set in statute, the plan is still in its design phase and there is some flexibility to modify features to maximize access, participation, and adequacy of savings. The following analysis of the most important features of Secure Choice indicates that the program could improve access and participation, providing an opportunity for enhanced retirement security for Latinos in California. While the focus of this analysis is on Secure Choice, these considerations can be applied to private retirement plans in general.

California Secure Choice: History and Timeline

In 2012, the California legislature passed the California Secure Choice Retirement Savings Trust Act (SB 1234), sponsored by State Senator Kevin de León and signed into law by Governor Jerry Brown. The California Secure Choice Retirement Savings Program is designed to be a safe, low-cost, portable retirement savings plan for individuals who do not have access to a plan at work.

Secure Choice would:

- Require employers with more than five employees who do not currently offer a retirement plan to arrange for employee payroll deductions to a state-based retirement plan
- Automatically enroll eligible California workers in Secure Choice
- Require a minimum contribution of about 3% of a participant's wages and the ability to increase or decrease the contribution
- Provide participants with the ability to opt out of the program

Secure Choice must overcome two major hurdles at the federal level in order to move forward. First, Secure Choice accounts must qualify for favorable tax status granted to IRAs under the Internal Revenue Code. Second, the U.S. Department of Labor must decide that the program is not an employee benefit plan under the federal Employee Retirement Income Security Act of 1974 (ERISA). The authors of Secure Choice decided that the plan must not qualify under ERISA in order to reduce the responsibility on employers. One consequence is that employers will not be required to match employees' contributions to the plan.

While these decisions are pending, the California Secure Choice Retirement Savings Investment Board, created by the statute, is charged with further developing the program's features. The board is commissioning a study of the feasibility and legality of various aspects of the program, which will inform the final design of the program before the board submits it to the state legislature for approval. If approved, Secure Choice will likely be implemented in late 2016 or early 2017.

Key Plan Features Are Likely to Improve Access and Participation

A large portion of the 3.8 million Latinos in California who lack access to an employer-sponsored retirement plan could be eligible to save through Secure Choice. Plan features such as automatic enrollment and portability are a positive step forward in enhancing plan participation among Latinos.

- **Universality.** Secure Choice could result in near-universal access to employer-facilitated retirement plans in California, if implemented as written in statute. Secure Choice has the potential to cover a significant portion of the Latino workforce because it requires companies with five or more employees to participate. Still, the self-employed and those who work for employers with fewer than five employees might not be able to access Secure Choice. Further, immigration status will not affect a worker's ability to access a Secure Choice account. This will maximize the program's reach to the 78% of Latino immigrant workers, legal and undocumented, who lack access to an employer-sponsored retirement plan.

"I like that it would be obligatory for everyone. To start with, that we would all be equal."

"The minimum company size of five employees is good. When the companies are not large, they don't offer those other programs. I think that the 401(k) is focused more in large companies."

"The majority of Mexicans who immigrated here before us never retire because they don't have papers. You can't retire because you don't have anywhere to get it."

- **Automatic enrollment.** A central feature of Secure Choice is automatic enrollment, which means that workers would participate in and contribute to their Secure Choice account unless they opted out of the program. As with employer-sponsored plans, workers who are automatically enrolled in Secure Choice would also be given investment guidance to reach their personal goals. A vast body of research shows

that, in general, people take a passive rather than an active approach to savings and investment, and automatic enrollment can help adjust for this behavior.[26] One study found that auto-enrollment increased plan participation among new hires from 37% to 86%.[27] Low-income employees are even less likely to opt out of retirement plans when they are automatically enrolled.[28] Additionally, Latino focus group respondents had favorable attitudes toward auto-enrollment.

"If you don't see it, you don't worry about it. When [the money is] in your hands, it's hard to give it. Just take it out and that way you don't see it, and then you get used to your check being a set amount."

"I mean, it's perfect working because they set it all up for you, so you just take a little bit out of your check every week and [the employer] somehow match[es] it."

- **Default contribution size and flexibility to increase.** Secure Choice would enhance participation in workplace plans because it has a default contribution level of approximately 3% of wages. This is the standard amount that automatically enrolled individuals will be required to contribute through payroll deductions. Unlike the Treasury Department's myRA, there is no lifetime cap, which is good for Latinos and other workers for whom Secure Choice may be the only retirement savings option available besides Social Security. Automatic contributions also help to keep the overall funding of the system financially viable.

"When [my husband] was at work, they were putting so much percentage of their part for his retirement…he or I should have talked to somebody and matched it. We didn't. We should have."

- **Portability.** Secure Choice accounts will be portable—that is, linked to individual workers, not employers—so that workers will keep accounts as they transition between jobs. Portability is essential to helping workers maintain participation in the program. Portability is especially important for Latino workers given their relative youth and their overrepresentation in industries where there is a higher frequency of job change for various reasons.[29] Switching jobs can cause workers to lose track of accounts or cash out instead of rolling over the funds into another retirement account, one form of what experts call "leakage." While the goal of portability is favorable from a Latino perspective, the practical aspects need to be worked out by the Secure Choice Board. For instance, the board could consider a recordkeeping entity that helps keep workers' accounts with them as they change jobs. Such a model has been projected to save $1.3 trillion over 10 years in the private 401(k) system.[30]

"Would move with me from job to job? I like the guarantee."

"You don't have to start over every time you switch jobs."

Additional Features Could Improve Adequacy of Savings

The design features analyzed above promise to expand retirement plan access and participation to Latinos in California. However, these features are not enough to maximize savings in Secure Choice accounts. Other factors such as contribution levels, investment allocation, and duration in the plan influence the adequacy of savings. The following features present additional opportunities that could help Secure Choice participants accumulate more savings over their careers.

- **Automatic escalation.** Some stakeholders who have weighed in on the plan design argue that Secure Choice's 3% default contribution rate is not sufficient to build up an adequate retirement savings and advocated for a higher default rate.[31] Setting the default contribution level higher, however, could lower take-home pay to an intolerable level and dissuade some low-wage earners from participating. In focus groups, Latino participants agreed that 3% was a reasonable default and were sensitive to small differences in how much they could set aside each month for retirement savings. An alternative to raising the default contribution level is to establish a robust escalation rate. This switch could help lower-income workers build a more adequate savings as their earnings grow.[32] However, as with a default

> ***"A regular savings [account] won't give you that kind of interest [3%]. A CD will, but you need to put like $5,000 to start."***
>
> ***"When I started working they told me, before you get your first check try to put 10% just to see how it is and then go down if you need to. So the first one I did 10% and I was like, no way, so I changed to 5% and that was fine. I don't even see it."***

contribution level, there is a point where workers might lower their contribution level or opt out altogether if they feel that too much is being taken from their paycheck. Focus group participants articulated a desire for some control over contributions based on their broader household budget.

- **Flexibility of funds.** In an effort to preserve the adequacy of savings in Secure Choice accounts, several stakeholders have urged the Secure Choice Board to prohibit workers from accessing their accounts for any reason other than retirement. However, many Latino workers might opt out of the program if access to their accounts was blocked until retirement. Latinos and Blacks are more likely to take hardship loans or early withdrawals from their 401(k) plans.[33] Lower income and wealth levels are the driving factors for using retirement savings to pay for shorter-term expenses. In focus groups, Latinos in California expressed a preference for allowing penalty-free access to Secure Choice accounts under certain conditions. The IRS allows for tax-free early distributions from IRAs to pay for health care, higher education, and the purchase of a first home.[34]

- **Simplicity and good customer service.** For a significant share of Latinos, Secure Choice could be the safest savings vehicle they own—or the only one. On a national level, 17.9% of Latino households do not own a bank account.[35] In a limited survey of clients served by nonprofit community-based organizations in the NCLR Affiliate Network, more than one in five (21%) Latinos cited barriers such as fees, identification requirements, and language as reasons for not having bank accounts. Many difficulties

"If you're only doing $50 a month, you know, if you get a better job down the line...you wouldn't be just contributing $50 a month. Like you say, you can change what you want to contribute every year, and if you're able to you can contribute more and more and more."

"You might be able to add more or you might need to put in less, so you want to be flexible, be in control."

"Are you going to able to change it, like if someone got sick, like cancer? It does happen. My husband is a survivor, and that made a big difference in life. You don't see that coming, and when it comes, if [you] are able to go in and say I have a hardship right now, can you lower it?"

"The only negative I would see about that is if someone was just living paycheck to paycheck and they're down to their last couple of bucks...it might be a little difficult."

associated with establishing and maintaining other accounts will need to be addressed to ensure a successful rollout of Secure Choice. Focus group participants with employer-based plans expressed exasperation about the complexity of those plans. If participants consider Secure Choice overly complex and do not receive necessary customer support, there is a risk that they will opt out or fail to contribute adequately over time.*

"At the moment I feel like there's too much information that all seems like a sales pitch instead of honest explanation of services."

"The small print, you never read it."

"At the school we constantly have insurance companies come by and explain things to us one by one, and it's like, 'Ah! Too much!'"

* Strong consumer protections are essential to the success of Secure Choice. In addition to clear and linguistically appropriate disclosures to workers, it will be important that Secure Choice establish a set of criteria to vet the vendors that will manage the investments and the administration of Secure Choice accounts. *Source*: Karen Friedman and Norman Stein, *Retirement Saving Policy: Consumer Protections in State-Sponsored Retirement Plans for Private-Sector Workers* (Washington, DC: AARP Public Policy Institute, 2014), www.aarp.org/content/dam/aarp/ppi/2014-10/spotlight7-consumer-protections-state-sponsored-rp-psw-AARP-ppi-econ-sec.pdf.

- **Perception of the benefits of the program.** How workers perceive Secure Choice's benefits can influence their decision to retain their savings instead of opting out, cashing out, or making early withdrawals, thus helping them build adequate savings. The Secure Choice Board has considered features that would incentivize long-term participation in the plan, including principal protection and a guaranteed rate of return. In focus groups, Latinos understood the value of these features but were more interested in their personal control over the final sum in a savings account based on how much they contribute and for how long. While it is essential that workers understand how their account balance measures up to what they will actually need for a secure retirement, it is also important to motivate participants by portraying Secure Choice as a future stream of income, rather than a slowly accumulating savings account.[36]

> ***"When they told us about the 401(k), I didn't understand very well. When it started, I began with an aggressive plan. The boss told us that he was going to put in a percent. I didn't know if at retirement I was going to receive the money I invest. They didn't explain that to us. But after three months, I saw I had earned money on what I had invested."***

Further Policy Considerations

California Secure Choice is an important first step toward addressing inequities in the employer-sponsored retirement system, yet decision-makers in California have the power to implement other policies that can also improve retirement security for Latinos and other Californians:

- **Create a refundable state saver's credit.** The U.S. tax code incentivizes retirement savings in a number of ways but tends to disproportionately subsidize higher-income earners. The federal Saver's Credit is unique in that it targets middle-income taxpayers who contribute to an IRA or 401(k). Making the credit refundable would improve its effectiveness in incentivizing retirement savings among lower-income earners who have no income tax liability, but efforts to do so are stalled at the federal level. California could lead the way in introducing a state-level refundable saver's credit that reaches lower-income savers who do not qualify for the federal saver's credit.

- **Establish retirement savings plans for the self-employed.** Secure Choice applies to businesses with five or more employees, leaving out employees of very small businesses and the self-employed. Given that foreign-born Latinos in California are twice as likely to be self-employed as U.S.-born Latinos, it is especially important for immigrants that California design a mechanism for voluntary participation in a statewide retirement savings plan.

> ***"I wanted to have a good amount to retire, but with the salaries it's not possible because the salary is too small. You can barely support your family, pay your bills, and still retire. You can only save a little."***

- **Restore the value of California's minimum wage.** Low wages are a major barrier to adequate retirement savings for Latinos. Therefore, it is in the state's interest to restore the value of the minimum wage. California's current minimum wage is $9 per hour and set to increase to $10 in 2016. However, the value of the minimum wage has eroded over the decades. A meaningful minimum wage increase should be part of a statewide retirement security strategy.

- **Engage more Latinos in the financial mainstream.** Building sufficient household savings and wealth for retirement and other purposes requires bringing more consumers into the traditional financial system. California could do more to support trusted nonprofit community-based organizations, especially those serving Latinos and immigrant communities, in providing financial coaching to help underserved families set goals and build savings and credit. Incentivizing partnerships between these organizations, financial institutions, and state agencies could go a long way toward expanding financial capability among the target population of the Secure Choice program.

- **Research effective outreach efforts to enroll Latinos.** More research is needed to identify the appropriate information delivery mechanisms to reach Latinos and others who could benefit from sustaining their participation in Secure Choice. Lessons from the financial services industry, the nonprofit sector, and other statewide plans such as California's health insurance exchange would be valuable. Specific research on how low- and moderate-income participants respond to various forms of income illustrations could inform the design of appropriate Secure Choice educational materials.

Conclusion

As the retirement crisis looms large, plans such as Secure Choice are a positive step toward enhancing retirement security for Latinos. While not a substitute for urgent reforms needed at the federal level to strengthen Social Security and enhance opportunities for low- and moderate-income workers to save for retirement, state plans nevertheless deserve attention. They represent significant progress in addressing inequities in the employer-based retirement system that disproportionately affect Latinos. By taking into account how Latinos might respond to various plan features, lawmakers in California have a unique opportunity to enhance the retirement security of millions of hardworking individuals while serving as a model for other states. Through state plans and complementary policy solutions, policymakers are positioned to encourage retirement savings and begin reversing long-standing disparities in retirement security.

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