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Asegurando Nuestro Futuro: Creating a Stable Pathway for Latino Retirement

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Executive Summary
Latinos are one of the fastest-growing demographic groups in the United States projected to make up over 25 percent of the population by 2050. As the Latino population ages, an increasing number of older Latinos will face significant financial insecurity in retirement. This issue is particularly pronounced among older and immigrant Latinos, who are disproportionately left behind when it comes to retirement savings (Aguila, et al, 2023). Several contributing factors contribute to this disparity, including limited eligibility to participate in retirement plans, strained resources due to low wages, and access to employer sponsored plans due in part to exclusionary policies. The growing number of undocumented workers who are excluded from public benefits like Social Security further exacerbates the problem. If unaddressed, Latinos reaching retirement age face a higher chance of being in poverty and struggling to make ends meet, which has a large impact on their families and broader communities.

Background
As the Latino population continues to grow, so will the number of older Latinos. According to the 2020 Census, Latinos aged 65 and older made up 8.8 percent of the total U.S. population. This group is expected to represent more than 15 percent of the U.S. population by 2040, a significant increase that underscores the need for robust financial support systems to ensure their retirement security. As of 2023, approximately a million elderly Latinos were employed in low-wage jobs – many of which offer minimal or no retirement benefits – leaving them vulnerable to financial instability in later life (Fray and Braga, 2023). This lack of financial security in retirement is compounded by a range of systemic factors, including limited financial literacy and fewer opportunities for wealth-building.

Among the most vulnerable groups are undocumented Latino workers, who face unique challenges related to retirement savings. In 2022, nearly 100,000 undocumented workers reached retirement age, but many of these individuals have little to no savings. Due to their legal status, they are ineligible for public benefits like Social Security and often cannot qualify for other forms of government assistance (Flores and Campo-Flores, 2024). Despite their ineligibility for Social Security, undocumented workers contribute substantially to the U.S. economy. In 2022 alone, undocumented workers paid more than $96 billion in taxes, including $59 billion in federal taxes and $37 billion in state and local taxes (ITEP, 2024). However, because of their lack of eligibility for Social Security benefits, many undocumented workers must rely on family, friends, or community resources to support them in retirement, often leading to increased reliance on informal and sometimes unstable financial networks.

Another significant issue affecting the financial future of many Latino workers is their limited access to traditional banking services. A large portion of the Latino population remains underbanked, meaning they have limited or no access to basic banking products such as savings accounts, credit cards, or retirement accounts (National Low Income Housing Coalition, 2022). This underbanking is often tied to immigration status, as many undocumented workers do not have access to formal identification needed to open traditional bank accounts. As a result, these workers are excluded from employer-sponsored retirement plans and are unable to participate in other retirement-saving mechanisms such as Individual Retirement Accounts (IRAs) or 401(k) plans. This exclusion from formal financial services prevents them from saving in ways that could help secure their futures and reduces their ability to accumulate wealth over time.

Low-wage workers, regardless of their legal status, face many of the same challenges. In 2019, nearly 20 percent of all low-wage workers had a retirement account, compared to 100 percent of workers in higher-wage jobs (National Bureau of Economic Research, 2024). This discrepancy highlights the significant gap in retirement preparedness between high-income and low-income workers. Low-wage workers, who are predominantly employed in service industries or labor-intensive jobs, typically lack access to employer-provided retirement plans. Even when these workers do have access to such plans, they often cannot afford to contribute enough to make a meaningful impact on their retirement savings. Many low-wage workers live paycheck to paycheck, using their earnings to cover essential expenses such as housing, food, and healthcare, leaving little room to contribute to retirement accounts.

The lack of savings among low-wage workers is also exacerbated by the absence of financial education. Many Latinos and low-income individuals do not have the financial literacy necessary to navigate complex retirement systems (Goodman and Watson, 2024). Without the knowledge or resources to invest in long-term savings, they are more likely to rely on Social Security and family support in their retirement years. Unfortunately, even for those who do rely on Social Security, the amount they are able to collect often falls short of meeting their financial needs, especially as healthcare costs and other expenses increase with age (Aguila, et al, 2024).

In addition to these financial challenges, there are cultural and generational factors that contribute to the retirement insecurity faced by Latinos. Many Latino families have a strong culture of intergenerational support, with adult children often caring for aging parents (Flores and Campo-Flores, 2024).While this cultural tradition can be a source of support, it can also create economic strain on younger generations who are already struggling to make ends meet. This reliance on family networks to provide financial assistance can delay or prevent Latinos from building their own retirement savings.

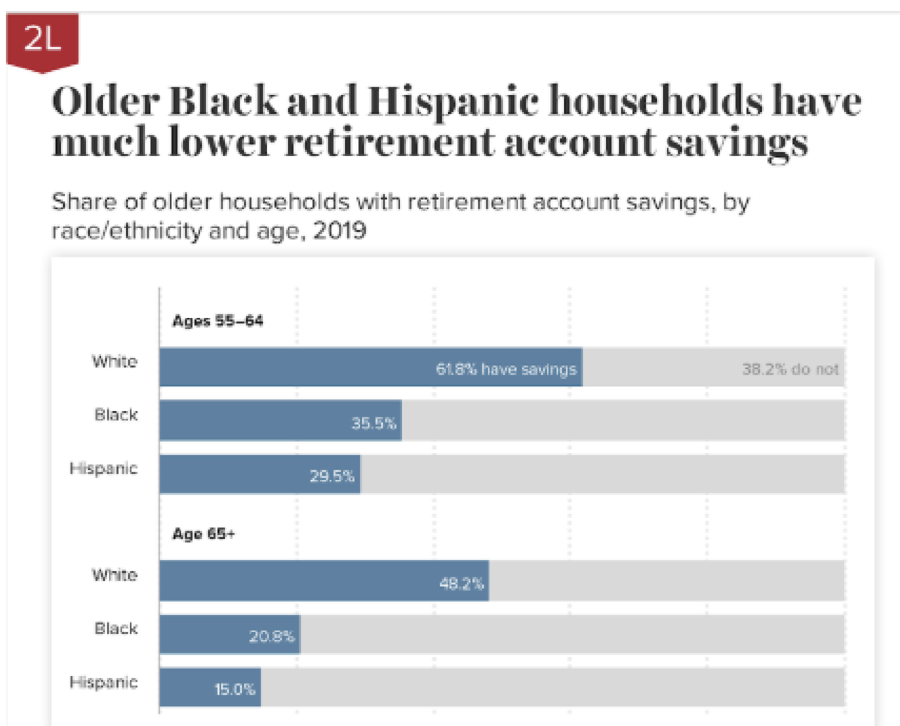
As the Latino population ages and the share of older Latinos in the workforce grows, these disparities in retirement savings will become more pronounced. Without meaningful reforms to address these challenges, the retirement security of Latino workers, especially those in low-wage and undocumented sectors, will remain precarious, contributing to a widening wealth gap and creating a future financial crisis for many older Americans.

Problem Analysis:

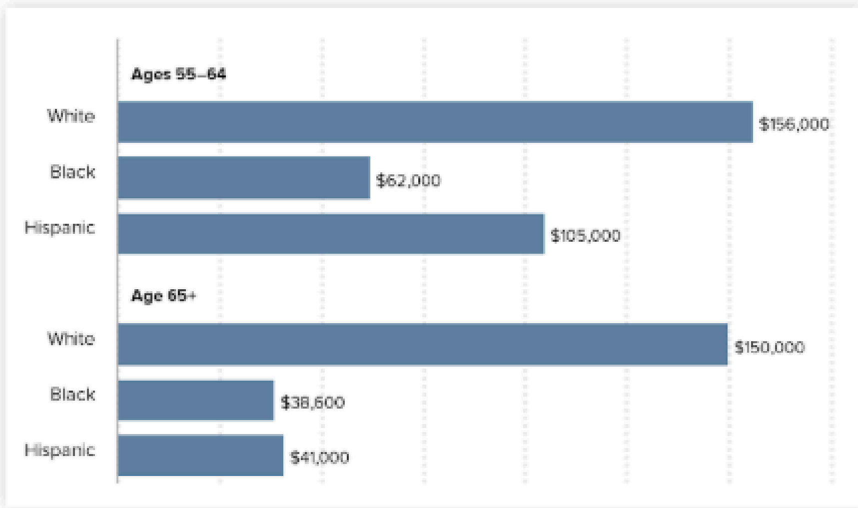
Too few Latinos can save for retirement. A common notion of the American Dream is being able to work and save up for retirement to live a meaningful and dignified life well into one's elder years. This Dream of many Latinos is rarely becoming a reality, especially for low wage and undocumented Latino workers. Policies that exclude Latinos from accessing retirement accounts contribute to this increasingly urgent issue.

In 2018, 69 percent of working Latinos did not own any assets in retirement accounts, and four out of five Latino households had less than $10,000 in retirement savings (Brown and Oakley, 2018). As Latinos approach the retirement years of their lives, many of them do not have enough savings on which to survive. Many Latinos and Latinas face higher rates of poverty during their retirement years compared to their non-Hispanic White counterparts.

According to the Economic Policy Institute, in 2019, the median account balance of Latinos ages 65 and older was $41,000 (Morrisey, et al, 2022). This is $109,000 less than the median account balance of White Americans.



Median account balance of older households with retirement account savings, by race/ethnicity and age, 2019



Notes: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs, but not in defined benefit pension plans. Hispanic refers to Hispanic of any race, while white and Black refer to non-Hispanic whites and non-Hispanic Blacks.

Source: Economic Policy Institute (EPI) and Schwartz Center for Economic Policy Analysis (SCEPA) analysis of Survey of Consumer Finances 2019 microdata (Federal Reserve 2022a).

Economic Policy Institute | The New School Schwartz Center for Economic Policy Analysis

On a national level, compared to White and Non-White workers, Latinos are significantly less likely to have access to an employer sponsored retirement plan (Brown and Oakley, 2018). On average, 73.4% of White workers have access to an employer-sponsored retirement plan. In comparison, 62.2% of Non-White workers and 53.7% of Latino workers have access to such a plan. There are barriers that prevent Latinos from being eligible to participate in employer-sponsored retirement plans such as number of hours worked, tenure with their employer, and age, but when offered and eligible for a retirement plan, Latinos take-up rates are similar to those of White and Non-White workers (Brown and Oakley, 2018).

Wages have a large impact on the ability of Latino workers to participate in an employer-sponsored retirement plan. According to UnidosUS, one in five Latino worker earns low wages, which is about $17 an hour (Brown and Oakley, 2018). When a worker is struggling to make ends meet, they more than likely find it hard to save a portion of their income for retirement. When Latinos reach an age where they can save up for retirement, which is close to 45, they have significantly less time and thus less savings for retirement compared to White workers (Brown and Oakley, 2018). Latino workers can begin to save up for retirement at 45 when they have reached an age where they have gained the skills and experience to receive higher pay and have fewer costs with raising a family and paying debt.

Like the wage disparity, the type of industries that Latinos, especially Latino immigrants, are employed in has an impact on accessibility to employer-sponsored retirement plans. Latino immigrants are disproportionately employed in low wage industries that offer few benefits and little to no access to retirement accounts (Aguila, et al, 2023). These industries include agriculture, construction, and mining. In California, one quarter of Latino immigrants are employed in these industries.

Conclusion and Policy Recommendations

Addressing the systemic issues Latinos face in saving for retirement will require a medium to long-term approach. If not tackled, it affects workers' families, communities, and the nation. Many Latinos rely on family for elder care, creating financial burdens. Additionally, undocumented and low-wage Latino workers lack meaningful retirement savings options. Without expanded retirement options, the U.S. loses tax revenue, the financial industry misses out on retirement funds, and communities lose investments from retirees.

These issues can be addressed by making policy changes to how the retirement system works in the U.S. A solution to addressing the retirement savings gap that Latinos face is to mandate access to retirement accounts for all workers and provide incentives to workers and businesses that contribute to these accounts.

Mandate Access to Retirement Accounts to all workers:
By mandating retirement accounts to all workers, regardless of age, income, or part time or full-time status. If an employee has a job with a private or public company, they should have the right to participate in an employee-sponsored retirement account. As shown earlier, when Latinos are presented the option to participate in an employee-sponsored plan, their take-up rates are like White and Non-White workers. As an incentive to both employers and

employees whose workers earn lower wages, a tax credit could be applied to both the worker and employees who participate and contribute to an employer-sponsored retirement plan.

As of May 2024, 18 states have created a state sponsored retirement savings program (Strong, 2023). The guidelines for these programs vary depending on the type of entity (non-profit, private small business) and the number of employees employed, which determines eligibility for participation. As an example, the Illinois Secure Choice retirement program, over half of the workers eligible to participate in the program are people of color (Olson, 2023). There are over 136,000 participants in the Illinois Secure Choice program; the total assets of the program have reached over $131 million.

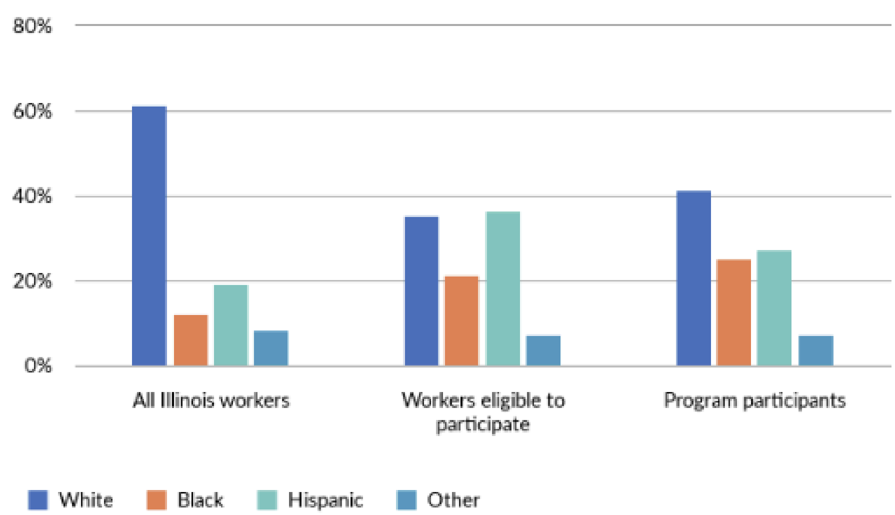
In California, employers who employ an average of five employees and wo do not offer a retirement plan are required to offer the state-mandated retirement savings program, CalSavers.Employees are automatically enrolled in an individual retirement account (IRA) and contribute five percent of their pay and invest in a fund based on their age (CalSavers). This program is voluntary, and changes can be made by participants if requested.

The retirement security of Latinos, especially low-wage and undocumented workers, is increasingly threatened by systemic barriers such as limited access to retirement accounts, low financial literacy, and cultural factors. As the Latino population continues to grow, many older Latinos will continue to face financial instability in their retirement years without significant policy reforms. This will exacerbate the wealth gap and hinder the creation of generational wealth to pass on to future generations. The federal government has both the opportunity and the responsibility to expand retirement options for all workers, including Latinos, to ensure that every individual can age without facing financial hardship.

Figure 3

Majority of Workers Eligible for Illinois Secure Choice Are People of Color

Non-White residents make up 39% of Illinois' working population, nearly two-thirds of program-eligible population



Note: Totals for individual categories may not add to 100% because of rounding.

Sources: Pew survey of Illinois Secure Choice eligible participants, spring 2020, and 2020 Current Population Survey

Endnotes

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