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Christina Elliott  
Acting Executive Director  
California Secure Choice Retirement Savings Investment Board  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

**Re: Comments on Overture Financial Final Report to the California Secure Choice Retirement Savings Investment Board**

Dear Ms. Elliott:

The National Council of La Raza (NCLR), the largest national Hispanic civil rights organization in the United States, strongly supports the California Secure Choice Retirement Savings Program, and welcomes the opportunity to provide feedback on the final report prepared by Overture Financial. NCLR has worked to improve opportunities for Hispanics in the United States for nearly 50 years. One of our core areas of work is economic security and retirement readiness. Efforts to increase access to quality retirement savings plans, such as Secure Choice, are crucial to enhancing Latino retirement readiness, as is detailed in NCLR's 2015 report, "Enhancing Latino Retirement Readiness in California."<sup>1</sup>

**LATINO RETIREMENT READINESS**

While many Americans have difficulty saving for retirement, this difficulty is exacerbated for communities of color. Sixty-two percent of Black and 69% of Hispanic households lack any assets in a retirement account.<sup>2</sup> For those who do save, their account balances are comparatively low: three in four Black households and four in five Latino households aged 25–64 have less than \$10,000 in retirement savings, compared to one in two White households.<sup>3</sup>

The difficulty in saving for retirement is the result of a variety of factors, including low access to employer-sponsored retirement plans and lower rates of participation in those plans. Workers of color have less access to retirement savings vehicles compared to Whites: 38% of Latino employees, 54% of Black employees, and 54% of Asian American employees aged 25–64 work for an employer that sponsors a retirement plan, compared to 62% of White employees.<sup>4</sup> Of those workers who have access to an employer-sponsored plan, not all participate, and the 29.7% Latino participation rate falls well below the 53.8% rate for Whites.<sup>5</sup>

Low wages make saving for retirement especially challenging as costs for housing, health care, and education rise and wages continue to stagnate. Forty-two percent of all Latinos earn poverty-level wages, despite having the highest rate of labor force participation among all racial and ethnic groups.<sup>6</sup> Despite earning low wages, studies have shown that Hispanics value saving. A 2014 national Prudential survey of Latino consumers found that "the 'saver' mindset prevails"

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with Latinos. However, while 53% of Latinos think that saving for retirement is a high priority, near-term financial needs often compete for limited resources.<sup>7</sup>

## **CALIFORNIA SECURE CHOICE**

The implementation of the California Secure Choice Retirement Savings Program can increase retirement savings options for those without access to an employer-sponsored retirement plan in the state. Latino workers make up the largest share of workers who could benefit from California Secure Choice. In 2014, only 29% of Latinos in the state had access to an employer-sponsored retirement plan and only 21% of them participated.<sup>8</sup> The Secure Choice program has the potential to provide access to a retirement plan for the first time to 3.8 million Latinos in California. Latinos represent nearly half of the individuals who work for employers not offering access to a retirement plan. As such, the success of Secure Choice will be tied closely to its ability to reach California's Latino workers. We have reviewed the final report and are pleased to see certain key features recommended for the Secure Choice program design. Specifically, NCLR believes that the following features will be necessary to maximize access and participation in the program for the Latino community:

- **Universality.** Secure Choice could result in near-universal access to employer-facilitated retirement plans in California, if implemented as recommended in the final report. 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, under the statute, the self-employed and those who work for employers with fewer than five employees might not be able to access Secure Choice. As such, we support the recommendation to allow individuals who are self-employed or independent contractors to enroll to expand access to even more individuals.

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.

- **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. One study found that auto-enrollment increased plan participation among new hires from 37% to 86%.<sup>9</sup> Low-income employees are even less likely to opt out of retirement plans when they are automatically enrolled.<sup>10</sup> Additionally, in Latino focus groups conducted by NCLR, respondents had favorable attitudes toward auto-enrollment.<sup>11</sup>
- **Default contribution size.** Secure Choice would enhance participation in workplace plans because it has a default contribution level; NCLR recommends a 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.

However, NCLR is concerned with the recommendation for a 5% default contribution level. A higher default contribution could lower take-home pay to an intolerable level and dissuade some low-wage earners from participating. In NCLR's 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.<sup>12</sup> While some stakeholders have argued that a 3% default would not result in adequate savings for retirement, an alternative to a higher default contribution is to establish a robust escalation rate, as recommended. That said, NCLR believes that the recommended level of auto-escalation to 10% is too high, and would affect enrollment.

- **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. 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.

- **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.<sup>13</sup> Lower income and wealth levels are the driving factors for using retirement savings to pay for shorter-term expenses. In NCLR 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.<sup>14</sup>
- **Simplicity and 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.<sup>15</sup> 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 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.<sup>16</sup>

- **Perception of the individual.** 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 NCLR 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.<sup>17</sup>

## 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 longstanding disparities in retirement security.

Thank you again for the opportunity to comment on this report. Should you have any questions regarding these comments, please contact Marisabel Torres at [mtorres@nclr.org](mailto:mtorres@nclr.org) or (213) 787-9602.

Sincerely,



Eric Rodriguez,  
Office of Research, Advocacy and Legislation  
National Council of La Raza

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<sup>1</sup> Catherine Singley Harvey, *Enhancing Latino Retirement Readiness in California* (Washington, DC: NCLR, 2015), [www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf](http://www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf) (accessed January 2016).

<sup>2</sup> Nari Rhee, *Race and Retirement Insecurity in the United States* (Washington, DC: National Institute on Retirement Security, 2013), 1,

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[www.nirsonline.org/storage/nirs/documents/Race%20and%20Retirement%20Insecurity/race\\_and\\_retirement\\_insecurity\\_final.pdf](http://www.nirsonline.org/storage/nirs/documents/Race%20and%20Retirement%20Insecurity/race_and_retirement_insecurity_final.pdf) (accessed January 2016). For previous work on this issue, see Leticia Miranda, *Insecure Retirements: Latino Participation in 401(k) Plans* (Washington, DC: NCLR, 2009),

[www.nclr.org/images/uploads/publications/file\\_Latinos\\_and\\_401K\\_plans\\_Final.pdf](http://www.nclr.org/images/uploads/publications/file_Latinos_and_401K_plans_Final.pdf).

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Nari Rhee, *Race and Retirement*, 3.

<sup>6</sup> Economic Policy Institute, “Share of workers earning poverty-level wages, by race and ethnicity, 1973–2013,” <http://www.stateofworkingamerica.org/chart/swa-wages-figure-4f-share-workers-earning/> (accessed January 2016).

<sup>7</sup> Prudential Research, *The Hispanic American Financial Experience* (Newark, NJ: Prudential, 2014), [www.prudential.com/media/managed/hispanic\\_en/prudential\\_hafe\\_researchstudy\\_2014\\_en.pdf](http://www.prudential.com/media/managed/hispanic_en/prudential_hafe_researchstudy_2014_en.pdf) (accessed January 2016).

<sup>8</sup> Catherine Singley Harvey, *Enhancing Latino Retirement Readiness in California* (Washington, DC: NCLR, 2015), [www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf](http://www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf) (accessed January 2016).

<sup>9</sup> Brigitte C. Madrian and Dennis F. Shea, “The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior,” *Quarterly Journal of Economics* 116, no. 4 (2001): 1149–1187.

<sup>10</sup> John Beshears et al., *Financial Inertia Among Low-Income Individuals—Plan Carefully When Setting 401(k) Defaults* (Washington, DC: Retirement Made Simpler, February 2013), [www.retirementmadesimpler.org/Library/Plain\\_English\\_Paper\\_RMS\\_NBER\\_Paper.pdf](http://www.retirementmadesimpler.org/Library/Plain_English_Paper_RMS_NBER_Paper.pdf).

<sup>11</sup> Catherine Singley Harvey, *Enhancing Latino Retirement Readiness in California* (Washington, DC: NCLR, 2015), [www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf](http://www.nclr.org/images/uploads/publications/LatinoRetirementReadiness2015.pdf) (accessed February 2016).

<sup>12</sup> Ibid.

<sup>13</sup> Ariel/Hewitt, *401(k) Plans in Living Color*.

<sup>14</sup> Internal Revenue Code, § 72(t)(2)(E) and (F).

<sup>15</sup> Susan Burhouse et al., *2013 FDIC National Survey of Unbanked and Underbanked Households*. Washington, DC, 2014, <https://www.fdic.gov/householdsurvey/2013report.pdf>.

<sup>16</sup> 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](http://www.aarp.org/content/dam/aarp/ppi/2014-10/spotlight7-consumer-protections-state-sponsored-rp-psw-AARP-ppi-econ-sec.pdf).

<sup>17</sup> Brigitte C. Madrian, “Successful Retirement Plan Communications for Various Population Segments,” 113th Cong., 1st sess., 2013, <http://www.dol.gov/ebsa/pdf/Harvard082713.pdf>.