
A Closer Look Into the Finances of Hispanic American Households

Morningstar Behavioral Research

September 2021

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Introduction

Morningstar set out to better understand the extent of the U.S. racial wealth gap and its underlying causes. Our goal is to better inform ourselves and others in the field and to help work toward solutions to close the racial wealth gap. In this paper, we look specifically at the current state of savings for Hispanic households. Existing research finds the median Hispanic household only has \$36,100 in wealth, which is less than 20% of the median white household.¹ Our research further explores this large gap and digs into drivers of the lower savings rates for this group.

In addition to savings rates overall, we pay particular attention to retirement savings because too many Americans will not have what they need for a comfortable retirement,² and lower-income, minority families are especially at risk.³ Overall, the lower savings rates of Hispanic households seem to be the result of a combination of accessibility issues,⁴ income disparities, geographical differences, differences in how families allocate savings, and, based on existing research, a long history of discrimination, among other things.

Key Takeaways

- ▶ Hispanic households are not using other high-return vehicles to offset lower retirement savings at the same rate as white counterparts; instead, they tend to focus on low-yield assets such as homes and auto vehicles.
- ▶ Although income is a key factor that affects savings rates for Hispanic households, it seems to have less of an influence than it does among white households. Also, Hispanic household savings rates vary by geography, with higher rates in the West versus the Northeast and lower rates in urban areas.
- ▶ Education is an important factor that increases the retirement savings rate for Hispanic households, especially those led by adults who have completed at least some college or more.

1 By median household, we refer to households in the middle of the wealth distribution, where half of households have a lower net wealth (assets minus debts) and half have a higher net wealth. These figures come from: Bhutta, N., Chang, A.C., Dettling, L.J., & Hsu, J.W. 2020. "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>

2 Wendel, S. 2018. "Easing the Retirement Crisis." Morningstar, Inc. <https://www.morningstar.com/articles/869554/easing-the-retirement-crisis>;
VanDerhei, J. 2019. "Retirement Savings Shortfalls: Evidence from EBRI's 2019 Retirement Security Projection Model®." SSRN (No. 475). Employee Benefit Research Institute. Retrieved Sept. 13, 2021, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3348718

3 Munnell, A.H., Hou, W., & Sanzenbacher, G.T. 2018. "Trends in Retirement Security by Race/Ethnicity (No. 18-21; Briefs, p. 10)." Center for Retirement Research at Boston College. https://crr.bc.edu/wp-content/uploads/2018/11/IB_18-21.pdf

4 Brown, J.E., & Oakley, D. 2018. "Latinos' Retirement Insecurity in the United States." National Institute on Retirement Security. <https://www.nirsonline.org/reports/latinos-retirement-insecurity-in-the-united-states/>

Background

Hispanic Americans' Savings Rates

Hispanic Americans are a rapidly growing segment of the American citizenry, having doubled in population over the last 30 years, with continued growth expected.⁵ Studies of the racial wealth gap and differences in saving have often focused on the differences between African American (“Black”)⁶ and European American (“white”) households; thus, neglecting Hispanic households, owing in part to the smaller historical size of the Hispanic American (“Hispanic”) community and complex internal dynamics. Nonetheless, previous studies have suggested that Hispanic Americans have different savings preferences,⁷ motivations,⁸ and behaviors⁹ when compared with white households—a body of work we seek to contribute to here.

Previous research has found that Hispanic Americans have diverse personal and financial experiences based on factors such as immigration history, country of origin, and income.¹⁰ In our research, we examine how the following key factors that affect U.S. households overall impact the savings rates of Hispanic households.

- ▶ **Income:** Research by Aliprantis and Carroll (2019) finds that income is more influential on savings rates than rates of return on investments or intergenerational transfers,¹¹ and our past research has also highlighted the central role of income (Wendel 2021).
- ▶ **Household structure:** Families may have more flexibility in sharing expenses with multiple income earners than single-adult households, and each additional child may affect savings rates.¹²
- ▶ **Age:** Income-earning adults within households typically save more as their income increases following schooling but then savings rates decline gradually as they approach retirement age.¹³

⁵ Bahrapour, T., & Mellnik, T. 2021. “All population growth in U.S. driven by minorities, upcoming census data is likely to reveal.” *Washington Post*. Aug. 10, 2021. <https://www.washingtonpost.com/dc-md-va/2021/08/10/census-race-population-changes-redistricting/>

⁶ To align with common practice in the field, we use the terminology “Black” to refer to people who self-identify as non-Hispanic black, African American, Caribbean, or African on the government surveys used in this analysis, the Panel Study of Income Dynamics, called the PSID, and the Survey of Consumer Finances, especially. We refer to “white” as those who self-identify as non-Hispanic white or European American. We use “Hispanic” to refer to those who self-identify as Hispanic or Latino/a/x, whether or not they also identify as white, Black, or as of another socially defined racial group.

⁷ Plath, D.A., & Stevenson, T.H. 2005. “Financial services consumption behavior across Hispanic American consumers.” *Journal of Business Research*, Vol. 58, No. 8, P. 1,089. <https://doi.org/10.1016/j.jbusres.2004.03.003>

⁸ Fisher, P.J., & Montalto, C. 2010. “Effect of saving motives and horizon on saving behaviors.” *Journal of Economic Psychology*, Vol. 31, P. 92. <https://doi.org/10.1016/j.joep.2009.11.002>

⁹ Fisher, P.J., & Hsu, C. 2012. Differences in Household Saving Between non-Hispanic White and Hispanic Households. *Hispanic Journal of Behavioral Sciences*, Vol. 34, No. 1, P. 137. <https://doi.org/10.1177/0739986311428891>

¹⁰ Peek, M.K., Cutchin, M.P., Salinas, J.J., Sheffield, K.M., Eschbach, K., Stowe, R.P., & Goodwin, J.S. 2010. Allostatic Load Among Non-Hispanic Whites, Non-Hispanic Blacks, and People of Mexican Origin: Effects of Ethnicity, Nativity, and Acculturation. *American Journal of Public Health*, Vol 100, No. 5, P. 940. <https://doi.org/10.2105/AJPH.2007.129312>; Lara, M., Gamboa, C., Kahramanian, M.I., Morales, L.S., & Bautista, D.E.H. 2005. “Acculturation and Latino health in the United States: A Review of the Literature and its Sociopolitical Context.” *Annual Review of Public Health*, Vol. 26, P. 367. <https://doi.org/10.1146/annurev.publhealth.26.021304.144615>

¹¹ Aliprantis, D., & Carroll, D.R. 2019. “What Is Behind the Persistence of the Racial Wealth Gap? Economic Commentary, 2019–03. <https://doi.org/10.26509/frbc-ec-201903>

¹² Painter, M.A., & Shafer, K. 2011. “Children, Race/Ethnicity, and Marital Wealth Accumulation in Black and Hispanic Households.” *Journal of Comparative Family Studies*, Vol. 42, No. 2, P. 145.

¹³ Feivesom, L., & Sabelhaus, J. 2019. “Lifecycle Patterns of Saving and Wealth Accumulation” (No. 2019–010; Finance and Economics Discussion Series). Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/econres/feds/files/2019010r1pap.pdf>

- ▶ **Nativity:** Many Hispanic households have family members who immigrated to the U.S.¹⁴ and may need to support an international family, so we also consider the amount of money spent to help others.
- ▶ **Education:** Schooling may have a complex relationship with savings. On one hand, it might expose adults in households to new wealth-creating knowledge and opportunities¹⁵—alternatively, it may create higher levels of school debt.¹⁶
- ▶ **Geographic factors:** There may be distinct differences by population and government policy across the U.S., with Hispanic households far more prevalent in the Western part of the U.S. (at over 20% of the population) than the other three census regions (each under 8%). We also consider urban versus rural locations because these might affect lifestyle and spending habits.

We also briefly consider some possible societal and policy-level differences that may help explain geographic patterns we observe—namely, cost of living, sales taxes, residential racial segregation, percentage of “unbanked” households (those without checking or savings accounts), and percentage of minority-owned bank branches.

Analysis & Data

To begin uncovering how these differences appear in our data, we examine Hispanic Americans through two lenses: as an overall group and as two distinct subsets, based on whether the respondent or their spouse was born or raised abroad.¹⁷ This subset analysis allows us to better understand how acculturation may impact saving and financial behaviors.

We approach the issue of saving and retirement wealth accumulation among Hispanic Americans in three steps. First, we look specifically at formal retirement savings accounts held by Hispanic Americans. Second, we look at the broader wealth profile of this population, understanding that assets used in retirement may come from a variety of vehicles. Finally, we analyze what drives differences in active savings rates overall as well as retirement savings among Hispanic Americans by looking at many of the factors mentioned previously, such as income, nativity, and geographic factors.

While much of the analysis relies on detailed examination of trends through descriptive statistics, we also use a technique called *quantile regression* when we examine factors that might affect savings rates. These regression models allow us to simultaneously account for a wide variety of factors that might affect a median household’s savings rate so that we can focus on distinct differences based on race and other characteristics in context.

¹⁴ Gonzalez, D., Karpman, M., Kenney, G. M., & Zuckerman, S. 2020. *Hispanic Adults in Families with Noncitizens Disproportionately Feel the Economic Fallout from COVID-19* (p. 10). Urban Institute. <https://www.urban.org/research/publication/hispanic-adults-families-noncitizens-disproportionately-feel-economic-fallout-covid-19>

¹⁵ Cole, S., Paulson, A., & Shastry, G.K. 2014. “Smart Money? The Effect of Education on Financial Outcomes.” *The Review of Financial Studies*, Vol. 27, No. 7, P. 2,022. <https://doi.org/10.1093/rfs/hhu012>

¹⁶ Dorn, E., Dua, A., & Law, J. 2001. “The rising toll of student debt: More than graduates can sustain?” McKinsey. Retrieved Sept. 13, 2021, from <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-rising-toll-of-student-debt-more-than-graduates-can-sustain>

¹⁷ Panel Study of Income Dynamics, public use dataset [restricted use data, if appropriate]. Produced and distributed by the Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, MI (2021). The collection of data used in this study was partly supported by the National Institutes of Health under grant number R01 HD069609 and R01 AG040213, and the National Science Foundation under award numbers SES 1157698 and 1623684.

The key data for this analysis is from the Panel Study of Income Dynamics.¹⁸ The PSID is the longest-running detailed survey of household finances in the world, covering a nationally representative sample of Americans from 1968 to 2019. Morningstar developed a process to standardize and clean the PSID data and has made the code and data available at <https://github.com/Morningstar/PSID>.¹⁹

For our exploratory models that consider the impact of societal-level variables, we create variables for cost of living, unbanked households, sales tax, minority-led bank branches, and residential segregation through data from several publicly available data sources.²⁰

Results

Our findings indicate that, as previous research has found, Hispanic Americans are far behind white households when it comes to saving and wealth accumulation. However, when it comes to identifying the drivers of the wealth gap between Hispanic and white households in the U.S., although income is a major factor, our results show that there may be more to this story. The following sections will first take a closer look at how Hispanic households save in retirement and in other assets, followed by a review of our findings regarding the factors that may be impacting savings rates.

Lower Retirement Savings Rates Among Hispanic Americans

When we look at participation in workplace retirement plans, we see that only 31% of Hispanic households²¹ with income (of at least a part-time job) report that they are currently participating in a plan — compared with 51% of white income-generating households and 33% of Black income-generating households.²² Differences in participation may be due to a range of factors, for example, from varying access to workplace retirement vehicles, to the choice to participate given access, to the financial capability to participate. Past researchers have found that Hispanic households are less likely to have access to an employer-sponsored retirement plan for a range of reasons.²³ Our data also supports this issue. We found that Hispanic households are 17% less likely than white households to have access to a retirement plan. Given that retirement savings make up a significant portion of overall savings for everyday individuals, this lack in accessibility can have a large impact on the overall savings rates of Hispanic households.

¹⁸ Panel Study of Income Dynamics, public use dataset. Produced and distributed by the Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, MI. Data available (as of 2021) at: <https://psidonline.isr.umich.edu/>

¹⁹ For further information regarding the data, data processes, and subsetting process, refer to Wendel (2021) at: <https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Savings-Rates-Differences-By-Race.pdf>

²⁰ For cost of living estimates, we use data from the U.S. Bureau of Labor Statistics ([bls.gov/cpi/data.htm](https://www.bls.gov/cpi/data.htm)) and U.S. Bureau of Economic Analysis ([bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area](https://www.bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area)). Unbanked data comes from the Federal Deposit Insurance Corporation ([economicinclusion.gov/surveys/2019household/](https://www.economicinclusion.gov/surveys/2019household/)). Sales data comes from the Tax Foundation's Center for State Tax Policy ([taxfoundation.org/center/state-tax-policy/](https://www.taxfoundation.org/center/state-tax-policy/)). The sources for the proportion of minority-led bank branches comes from the Federal Deposit Insurance Corporation statistics depository Institutions ([fdic.gov/bank/statistical/](https://www.fdic.gov/bank/statistical/)) and minority depository institutions ([fdic.gov/regulations/resources/minority/mdi.html](https://www.fdic.gov/regulations/resources/minority/mdi.html)). Residential segregation data is from the American Communities Project coordinated at Brown University ([brown.edu/academics/spatial-structures-in-social-sciences/diversity-and-disparities](https://www.brown.edu/academics/spatial-structures-in-social-sciences/diversity-and-disparities))

²¹ Households in which the head of household is self-identified as Hispanic American in the PSID.

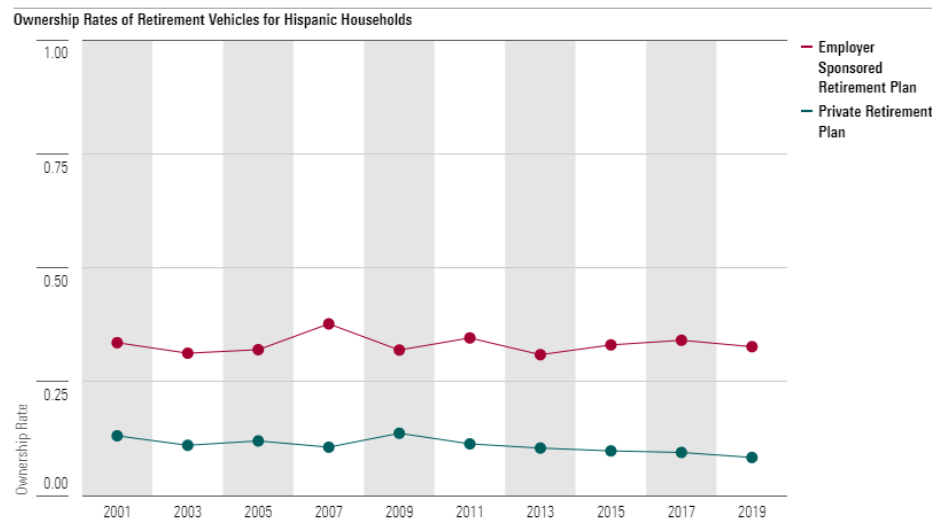
²² These statistics are often reported for the subset of households with full-time employment. Because people can save (in a business, and so on) even if they do not have a full-time job, we report values for all households with average income during the period of at least a part-time (half-time) job at the federal minimum wage. The equivalent values for households with full-time employment would be 57% of all working households, 63% of white households, 40% of Hispanic households, and 46% of Black households.

²³ Brown, J.E., & Oakley, D. 2018. "Latinos' Retirement Insecurity in the United States." National Institute on Retirement Security. <https://www.nirsonline.org/reports/latinos-retirement-insecurity-in-the-united-states/>

Overall, these factors have created a significant shortfall for Hispanic Americans: More than two thirds of these households aren't saving at all through workplace vehicles. Unfortunately, private retirement plans do not fill the gap, as only 8% of Hispanic households report having an IRA or similar private plan — compared with 33% of white households and 9% of Black households.²⁴

These differences in ownership have remained relatively consistent over time, even as the Hispanic population has dramatically grown and changed with immigration, as illustrated in Exhibit 1.

Exhibit 1 Ownership Rates of Retirement Vehicles for Hispanic Households

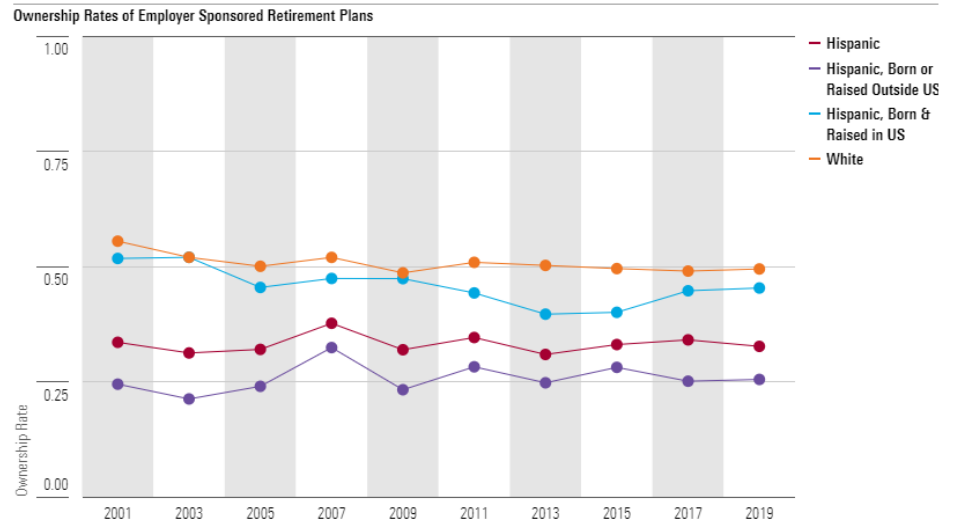


Source: Morningstar Analysis of the PSID. Data as of Aug. 5, 2021.

As we dig deeper and look at the results by nativity, we can see in Exhibit 2 that ownership rates for employer-sponsored retirement plans for Hispanic households where the respondent was born and raised in the U.S. are closer to those of white households but are still lower overall. Ownership of employer-sponsored retirement plans among households with respondents or their spouses born or raised abroad are significantly lower, thus bringing down the overall rate for all Hispanics.

²⁴ The differences by group are partially explained by their different age profiles: Older households tend to have IRAs, and white Americans have a higher average age than Hispanic Americans, for example.

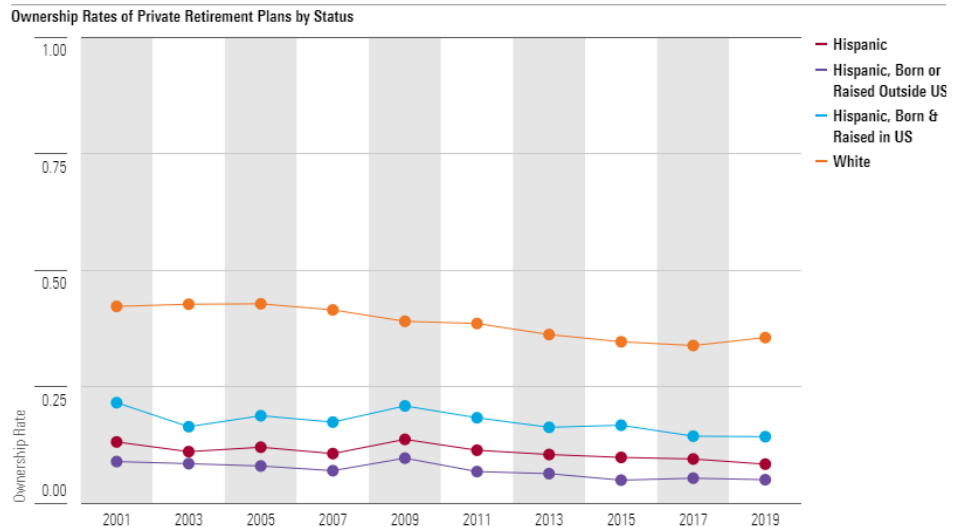
Exhibit 2 Hispanic Ownership of Workplace Retirement Plans, by Nativity



Source: Morningstar Analysis of the PSID. Data as of Aug. 5, 2021.

When looking to the ownership rate for private retirement plans, as shown in Exhibit 3, the rates for all three subgroups are significantly lower than white households and do not seem to be improving.

Exhibit 3 Hispanic Ownership of Private Retirement Plans, by Nativity

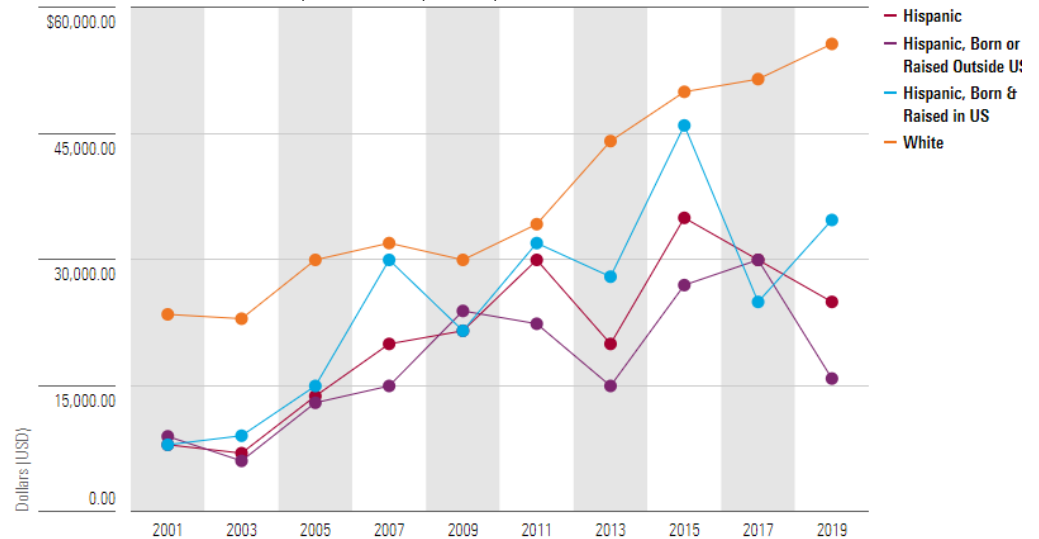


Source: Morningstar Analysis of the PSID. Data as of Aug. 5, 2021.

When we subset the population to those who are participating in a workplace retirement plan, we find significant differences in account balances as well: The median white household shows steadily increasing retirement plan wealth, with a dip in 2009, while the median Hispanic household shows

much less consistent growth and less overall than the median white household, as shown in Exhibit 4. Also, volatile account balances seem to be common for all three Hispanic subgroups.

Exhibit 4 Median Assets in Workplace Plans, by Nativity



Source: Morningstar Analysis of the PSID. Data as of Aug. 5, 2021.

The resulting narrative across these statistics is not a positive one: Hispanic Americans are less likely to use retirement accounts, and they save less in those accounts than their white counterparts. However, it may be that Hispanic Americans are saving for retirement and other future needs through other vehicles—outside of workplace or private retirement plans. This can arise because of a lack of access, personal preference, or other factors. To assess this possibility, next we look at wealth accumulation among Hispanic Americans more broadly.

Regarding Overall Wealth, Hispanic Americans Tend to Focus on Low-Yield Assets

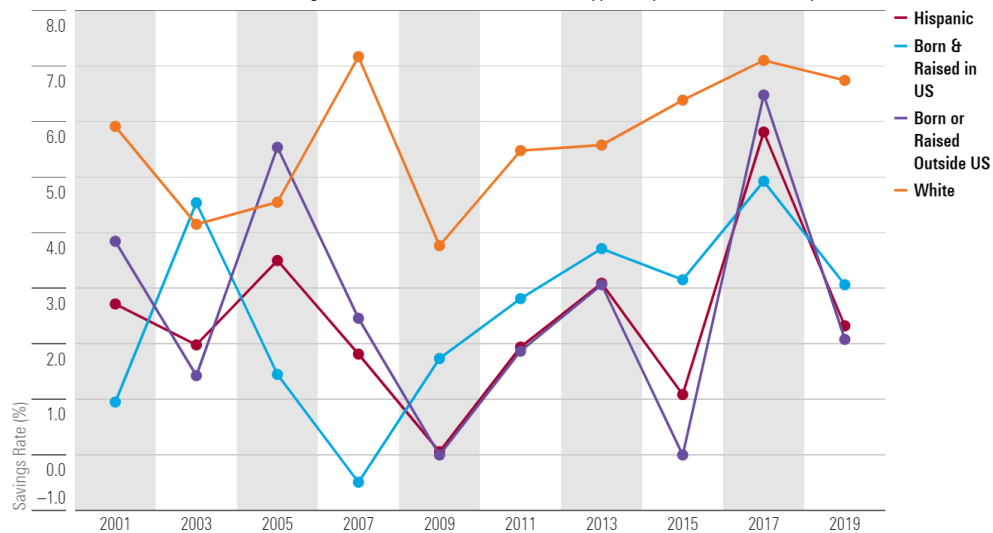
Formal retirement savings are a relatively small portion of the assets held by Hispanic Americans. For the median Hispanic household, workplace retirement savings contribute nothing to overall assets: As noted above, less than one third of income-generating Hispanic households are participating in a 401(k) or similar plan at all. If we look at the average value, after removing outliers and excluding ultra-high-net-worth households,²⁵ we find that workplace retirement savings comprises 15% of Hispanic household wealth, compared with 12% for white households (who tend to have more assets in other vehicles like brokerage accounts and businesses) and 17% of Black households. Private retirement plans cover only 6% of Hispanic household wealth, compared with 22% for white households and 11% for Black households.

²⁵ The PSID does not cover ultra-high-net-worth households; we intentionally remove the remaining households to allow us to focus on the bulk of the population in these mean-based analyses.

Relative to white households, Hispanic households hold more of their wealth in automobiles (11% versus 5%), and especially homes (48% versus 30%). They hold less wealth in brokerage or other nonretirement investment accounts (5% versus 11%) or businesses (4% versus 7%). Unfortunately, these statistics indicate that Hispanic households are not using other high-return vehicles to offset lower retirement savings. Equity-heavy investment accounts historically have had much higher rates of returns than vehicles (negative returns) or houses (moderate returns), but Hispanic households are less likely to participate and hold wealth in these accounts.²⁶ There are many potential reasons for Hispanic Households concentration on low-yield assets. For example, existing research suggests that there is a progression of assets with income, where individuals start with homes and vehicles then move on to higher-return assets as their income grows. In other words, individuals concentrate on lower-yield assets as a matter of necessity versus conscious choice.

In addition to current wealth, we can also look at overall savings rates, above and beyond retirement savings. The PSID allows us to calculate savings rates across the household’s balance sheet—totaling 10 different asset classes from houses to retirement accounts and separating out the effects of capital gains, inheritances, and other factors. Exhibit 5 depicts these household-level savings rates over time.²⁷ We find that Hispanic households save less than their white counterparts and have done so consistently for decades.

Exhibit 5 Median Household Savings Rates Across All Investment Types, by Race and Nativity



Source: Morningstar Analysis of the PSID. Data as of Aug. 5, 2021.

²⁶ Of Hispanic households, 4% report having a nonretirement investment account, compared with 19% of white households and 4% of Black households.

²⁷ The aggregate savings rates for white and Hispanic households differ slightly from prior published work on this data set (Wendel 2021), as we have used data across years of the sample to fill in additional missing values. This improvement does not affect the substantive results, however.

What Drives Lower Savings Rates?

We now examine the factors that drive saving, looking at both active savings in general and retirement savings in particular.

Few Factors Beyond Income Influence Active Savings Rates Among Hispanic Households

To understand the overall difference in active savings rates between Hispanic and white American households, we ran a series of quantile regression models. Exhibit 6 provides the detailed results comparing households by race and nativity. In the first column, we examine the drivers of savings rates across all U.S. households. Even when controlling for a range of factors, Hispanic households' active savings rate is 1.3 percentage points lower than white households. We should point out that this gap is substantially smaller than the estimated 2.9-percentage-point gap we observed without controls. We see that income is a crucial factor that affects household savings rates overall, and we estimate that a 10% increase in income is associated with a 0.38-percentage-point increase in a median household's savings rate.²⁸

The following columns subset the population by race and nativity. We find that there are surprisingly few factors that influence the savings rates of Hispanic households compared with white households, controlling for all other factors. The main factor that drives savings rates is income, across race and nativity. However, there are some interesting differences among the subsets—for example, every 10% increase in income is associated with a 0.48-percentage-point increase in savings rate for white households, whereas this results in a 0.30-percentage-point increase for Hispanic households, a 0.39-percentage-point increase for Hispanic households led by adults born and raised in the U.S., and a 0.23-percentage-point increase for Hispanic households with adults born or raised outside the U.S.

Location seems to affect Hispanic households' active savings rates more than white households. Holding other factors constant, Hispanic households in the Northeast save at much lower rates—2.1 percentage points less—than those in the Western U.S. Also, Hispanic households in urban areas save 2.3 percentage points less than those in rural areas.

To better understand these regional differences, we developed models that control for societal level factors that also vary by location: the Consumer Price Index, percentage of unbanked Hispanic households, sales taxes, percentage of Hispanic-led bank branches, and white/Hispanic residential segregation. None of these factors were statistically significant when controlling for all factors in the full model and using the shorter subset of time periods for which these societal-level data were available (2007-09 through 2017-19 only). However, the addition of these societal-level data removed the impact of location on savings for Hispanic households, suggesting there may be an underlying relationship between Hispanic savings rates and regional factors that deserves further study. For example, compared with Hispanic households in the Northeast, Hispanic households in the West have a lower cost of living, fewer unbanked households, and lower white/Hispanic residential segregation, even if they have slightly higher sales taxes and a slightly lower percentage of Hispanic-led bank branches.

²⁸ To calculate a 10% increase, we multiply the logged income estimate (3.969) by $\log(1 + 0.1)$

Exhibit 6 Predictors of Active Savings Rates (%) for U.S. Households by Race and Nativity, 2007-19

Household:	All	White	Hispanic	Hispanic, Born & Raised in US	Hispanic, Born or Raised outside US
Race Compared With White					
<i>Hispanic</i>	-1.301**				
<i>Black</i>	-0.519+				
<i>Other Race</i>	0.556				
Region Compared With West U.S.	0.000	0.000	0.000	0.000	0.000
<i>Northeast</i>	-0.971*	-0.601	-2.146**	-1.829	-2.318+
<i>North Central</i>	0.158	0.293	0.326	-0.028	1.282
<i>South</i>	-0.153	-0.298	0.093	1.577	0.327
Urban (MSA) vs Rural Location	-0.551*	-0.657+	-2.283**	-2.926*	-1.468
Household Head Structure Compared With Two Adults	0.000	0.000	0.000	0.000	0.000
<i>Single Female Adult</i>	0.369	1.280**	-0.530	0.713	-1.006
<i>Single Male Adult</i>	-0.120	0.301	-1.074	0.660	-1.032
Number of Children	-0.087	-0.192	-0.040	-0.092	-0.098
Born or Grew Up Abroad	1.292*	2.449**	0.030		
Age	0.235**	0.329**	-0.180	-0.109	-0.183
Age Squared	-0.004***	-0.005***	0.001	0.001	0.001
Net Income Logged	3.963***	5.046***	3.174***	4.123***	2.439**
Amount Helped Others Financially (\$1000s)	-0.075	-0.076*	-0.875	0.522	-2.365
Education Level Compared With Less Than High School	0.000	0.000	0.000	0.000	0.000
<i>High School Graduate</i>	-0.712*	-0.535	-0.590	-1.021	-0.151
<i>Some College</i>	-0.372	0.026	-1.639	-1.144	-2.698
<i>College Graduate</i>	2.416***	2.060***	1.503	5.228	-1.011
<i>Graduate Education</i>	2.363***	1.893**	1.650	0.441	0.442
[Control variables for each panel are included but not shown]					
Constant	-39.921***	-52.928***	-22.791***	-36.128**	-13.552+
Observations (1,000s)	70.295	39.059	5.109	2.118	2.991

Quantile regression results with p-values from t-tests: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Source: Morningstar, Inc. using data from the Panel Study of Income Dynamics. Data as of Aug. 5, 2021.

Education is a Key Factor Influencing Retirement Savings Rates Among Hispanic Households

We repeated this analysis comparing the overall differences in retirement savings between Hispanic and white American households. This analysis has the important caveat that many households do not have retirement savings plans at all, and as discussed earlier, Hispanic households are less likely to have them.

In the first column of Exhibit 7, we see that, even when we control for other factors, Hispanic households' retirement savings rate is 0.21 percentage points lower than white households. We also see that income is one of several important factors that affect retirement savings rates for U.S. households overall, along with living in an urban area, family structure, age, and education.

However, the next four columns of Exhibit 7, which subset the population by race and nativity, show that Hispanic households do not seem as affected by several of the factors that influence retirement savings rates overall. While income does have an impact on Hispanic households, this is largely due to the 0.05-percentage-point increase associated with a 10% increase in income for Hispanic households with adults born and raised in the U.S. Even so, this increase is roughly three-fourths the rate associated with white households, controlling for all other factors. Similarly, Hispanic households' retirement savings rates are not as strongly affected by the age of their heads of households and suggest a maximum retirement savings rate occurring earlier than white households.²⁹ Only when we examine education do we see strong positive effects for Hispanic households that are well above the impacts we see for white households. Hispanic households led by an adult who completed college have a 1.1-percentage-point higher retirement savings rate than those who completed less than a high school education, while this difference is only 0.3 percentage points higher among white households.

We only see a few differences in retirement savings rates due to location and societal differences for Hispanic households. While there are no regional differences for Hispanic households overall when we control for other factors, we notice higher savings rates for Hispanic households in the South compared with Hispanic households in the Western U.S.; the opposite occurs for white households, with Southern residents have lower savings rates than those living in the West. This difference remains for white households in additional models we estimated that include societal-level factors—Consumer Price Index, percentage of unbanked Hispanic households, sales taxes, percentage of Hispanic-led bank branches, and white/Hispanic residential segregation. However, adding those factors removes all locational impacts for Hispanic households.

²⁹ Note the lower magnitude of the coefficients for the age and age-squared terms and changes in the rate linked to each additional year of age are calculated as: $B_{age} + (2 \times B_{age-squared} \times age)$ where B refers to the regression coefficients. The coefficient for the age term is only marginally significant ($p < 0.1$) but is statistically significant in other models we tested that include societal-level variables.

Exhibit 7 Predictors of Retirement Plan Savings Rates (%) for U.S. Households by Race and Nativity, 2007-19

Household:	All	White	Hispanic	Hispanic, Born & Raised in US	Hispanic, Born or Raised outside US
Race Compared With White					
<i>Hispanic</i>	-0.165*				
<i>Black</i>	-0.206***				
<i>Other Race</i>	-0.075				
Region Compared With West U.S.					
<i>Northeast</i>	-0.052	-0.073	0.183	-0.495+	0.571
<i>North Central</i>	0.055	-0.006	0.082	0.429	-0.121
<i>South</i>	-0.050	-0.169**	0.325+	-0.007	0.495**
Urban (MSA) vs Rural Location	0.090**	0.075*	-0.097	-0.285	0.399+
Household Head Structure Compared With Two Adults					
<i>Single Female Adult</i>	0.316***	0.248***	0.474+	0.312	0.843***
<i>Single Male Adult</i>	0.137+	0.126	0.584	0.452	1.606
Number of Children	-0.182***	-0.210***	-0.090	-0.138*	-0.079
Born or Grew Up Abroad	-0.056	-0.168**	0.170		
Age	0.107***	0.134***	0.075+	-0.002	0.132**
Age Squared	-0.002***	-0.002***	-0.001*	-0.000	-0.002***
Net Income Logged	0.658***	0.707***	0.303*	0.551**	0.238
Amount Helped Others Financially (\$1000s)	-0.004	-0.004	-0.003	0.076	-0.002
Education Level Compared With Less Than High School					
<i>High School Graduate</i>	0.113***	0.066+	0.125	0.127	0.180
<i>Some College</i>	0.146***	0.051	0.565**	0.732**	0.408
<i>College Graduate</i>	0.420***	0.322***	1.137**	0.931*	0.807**
<i>Graduate Education</i>	0.554***	0.440***	0.971**	1.400**	-0.195
Panel Compared With 2017-19					
Constant	-6.896***	-7.877***	-2.987+	-3.516	-4.226*
Observations (1,000s)	38.523	25.793	1.889	0.990	0.899
Pseudo R-squared	0.026	0.025	0.053	0.090	0.046

Quantile Regression results with p-values from t-tests: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Source: Morningstar, Inc. using data from the Panel Study of Income Dynamics (PSID). Data as of Aug. 5, 2021.

Potential Solutions to the Savings Gap

Turning from our detailed analysis of savings among Hispanic Americans, let us now look at the potential solutions to increase savings rates and balances overall. Some of these options are specific to retirement savings, but others are based on the understanding that retirement savings are deeply linked to other forms of savings. Overall, these solutions can be grouped into two key goals: preserving current savings and boosting future savings.

Preserving Current Savings by Building Emergency Savings

The volatile account balances of Hispanic households (see Exhibit 4) may be caused by a range of issues, one of which is withdrawals. Existing research³⁰ has found that Hispanic and Black households are more likely to borrow from their retirement account compared with white households. Given that early withdrawals from retirement accounts can have a drastic impact on a household's overall savings balance, it is important to help individuals avoid making this decision. Past research³¹ indicates that the key to preserving current savings in retirement accounts is having separate emergency savings. In fact, households who had less than \$1,000 in liquid savings were twice as likely to resort to withdrawing from workplace retirement savings during 2020, regardless of income level.

At the individual level, behavioral techniques—such as building a habit out of saving and setting up automatic withdrawals from a checking to a savings account—can help one build emergency savings over time. However, on a wider scale, the expansion and promotion of employer-sponsored emergency savings accounts³² may have more of an impact. Employers can offer these accounts along with traditional workplace benefits and provide a ready-made process of automatic saving to employees. A typical program allows automatic deposits of after-tax dollars from a paycheck to a savings account that can be accessed at any time. Although this process is not unique and many individuals can re-create it on their own, providing employees with this service reduces some of the barriers to action—most notably, the need to set up automatic deposits on their own.

Boosting Future Savings with Old and New Solutions

Given that most individuals are generally more familiar with employer-sponsored retirement accounts than brokerage accounts and private retirement plans, increasing the use of employer-sponsored plans may be a promising step when it comes to increasing savings overall. The pathway to increased access and use of retirement savings vehicles is well-trodden territory, with recent innovations along the path. The following are a few notable strategies and solutions:

- **Put it on autopilot.** The single most powerful technique that researchers and practitioners have found to increase savings rates is *automatic enrollment in a workplace retirement plan*. This widely, but not fully, adopted technique is the best tool we have to help those who have access to workplace plans.

30 Ariel Educational Initiative & Hewitt. 2012. "401(k) Plans in Living Color (The Ariel/Aon Hewitt Study)." Ariel Investments; Hewitt. <https://www.arielinvestments.com/401k-Study-2012/>

31 Treger, S. & Wendel, S. 2021. "The COVID-19 Pandemic, Retirement Savings, and the Financial Security of American Households." Morningstar White Paper. <https://www.morningstar.com/lp/finances-during-covid>

32 LaPonsie, M. 2021. "Here's How Some Companies Are Helping Employees Build Emergency Savings." *US News & World Report*. April 1, 2021. <https://money.usnews.com/money/personal-finance/family-finance/articles/how-your-employer-can-help-you-build-emergency-savings>

Where automatic enrollment is not possible, researchers have found that enhanced active choice—in which the participant is required to elect to participate or not, without a default, and with well-framed information about that choice—is also an effective technique for those who have access.

- ▶ **Simplify the saving process.** The current process of signing up for an employer-sponsored retirement plan can be optimized to reduce friction. For example, employers and plan sponsors can work together to decrease the number of steps required to enroll and make it easier to find the person or form required to do so.
- ▶ **Increase accessibility.** To increase access to retirement vehicles, the community has seen two major innovations, which we also support: pooled employer plans, or PEPs, and state-run auto-IRAs. Pooled employer plans are in their infancy but provide an alternative plan type that could encourage more employers to begin offering a workplace plan. Additionally, for some employers, PEPs could prove to be a better option than a single-employer plan as the pooling of assets can provide more negotiating power to reduce costs. While state-run auto-IRAs are not subject to Employee Retirement Income Security Act of 1974, or ERISA, the adoption of these policies could prompt employers to sponsor their own plans as they look to meet the needs of their employees.
- ▶ **Use targeted communications.** Current technology makes it possible for plan sponsors and financial institutions to develop and launch targeted communications.³³ When it comes to promoting retirement savings, plan sponsors can step up targeted outreach in the recipients' language and with specific cultural context.

Conclusion

The racial wealth gap in the United States has been an enduring and seemingly intractable issue for our country. In our research, we find that Hispanic households, despite impressive population growth in the past decade, have not been able to close this gap when compared with white households. As previous research has also noted, we find that a major driver of an individuals' decision to save is income. Differences in income across ethnic and racial lines is an issue that we, as a nation, could potentially remedy through pay-parity initiatives and policy changes to limit discrimination overall. But, as we discussed, income is not the only predictor of savings rates and does not explain all the variation across groups. As such, there are steps that can be taken at every level of the financial industry to promote progress. ■■

³³ Borg, K., Lindsay, J., & Curtis, J. 2021. "Targeted Change: Using Behavioral Segmentation to Identify and Understand Plastic Consumers and How They Respond to Media Communications." *Environmental Communication*, <https://doi.org/10.1080/17524032.2021.1956558>

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