

U.S. Hispanic Retirement Attitudes:

How does culture influence retirement savings?



Highlights

We'd like to offer a fresh approach based on the trends we're seeing. We suggest acculturation and tailored communication as the key to really move the needle with this audience. In this paper we'll share a number of ways to help these workers get engaged with their retirement goals.

Here are the top things we'll cover:

- 1 **Levels of cultural influence**
- 2 **Reasons for low participation**
- 3 **5 new standards for engagement**

Why do some workers jump at the chance to participate in their employer-sponsor retirement plans while others are reluctant? For U.S. Hispanic workers it turns out their participation may be influenced by their culture.

Research shows the segment of “unacculturated” U.S. Hispanic workers – typically foreign born with Spanish-dominant culture practices and language usage – account for the lowest plan participation rates.¹

This matters because, according to the U.S. Census, Hispanics represent the largest minority group in America. And the percentage of U.S. Hispanic employees at companies that sponsor retirement plans is rising with the percentage of Hispanics in the labor force expected to reach 75 percent in the next 20 years. If their retirement plan participation rates don't improve, it will have a significant impact on the overall retirement readiness of Americans.

In recent meetings, we've identified a positive trend with this audience. Once U.S. Hispanic workers start to participate in a company plan, they tend to embrace the concept of saving for a long-term goal. In fact, we're seeing 66 percent of the Hispanic audience take a positive action (sign-up or increase their deferral), once they've received new information.²

¹EBRI, Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013

²Launched in July 2012. Results based on 1731 participants exposed to the new Hispanic 401(k) education program offered by the Principal.

An opportunity to improve U.S. Hispanic enrollment

In recent years, low retirement-plan participation rates and low balances have prompted many plan sponsors and their financial professionals to take action as under-saved Americans of all backgrounds age their way toward a potential retirement crisis. Plan sponsors introduced automatic-enrollment features, more productive default-investment options, and better education initiatives to encourage greater participation, resulting in some improvement. But plan-participation rates, research shows, are not where they should be, particularly among unacculturated U.S. Hispanic workers — Hispanics who are foreign-born and relatively new to American cultural practices.

> Levels of cultural influence³

The following levels of acculturation refer to the degree to which a foreign-born Hispanic has adopted American cultural practices and the English language. Generally, the longer foreign-born Hispanics live in the U.S., the more acculturated they become.

Unacculturated

This market segment is defined as those 26 percent of Hispanic adults who are foreign-born and tend to be Spanish-dominant in culture and language. They have lived in the U.S. an average of 14 years and have preserved their own culture while gradually adopting elements of a second culture. Eight out of 10 use only Spanish at home or use Spanish more than English. They tend to be in the 35-49 age group.

Partially Acculturated

In contrast, partially acculturated Hispanics represent 63 percent of Hispanic adults and are a mix of U.S.-born and foreign-born Hispanics who have lived in the U.S. for 18 years, on average. About half consider themselves to be “Spanish-dominant,” and about one-third are bilingual. They have adopted a second culture while gradually losing some elements of their original culture.³

Mostly Acculturated

This segment, 95 percent of which is American-born, represents 11 percent of all U.S. Hispanic adults. Of the small percentage of this segment who are foreign-born, the median years in the U.S. is very high (36.7 years). Most use English at home and are either English-dominant (71%) or bilingual (22%).

Though U.S.-born Hispanic workers have lower plan-participation rates than white workers, these rates are in line with other minority groups. It is the low rate of participation among unacculturated U.S. Hispanic workers — those who have relocated to the U.S. — that markedly lowers the overall average participation rate for Hispanics. And it does so across all age groups and income brackets.⁴ While it’s important to improve retirement-plan participation rates in all groups, the lower level of participation among this segment of employees needs to be addressed.

“The percentage of U.S. Hispanics in the labor force expected to reach 75 percent in the next 20 years.”⁵

³Ipsos. U.S. Diversity Markets Report, 2012.

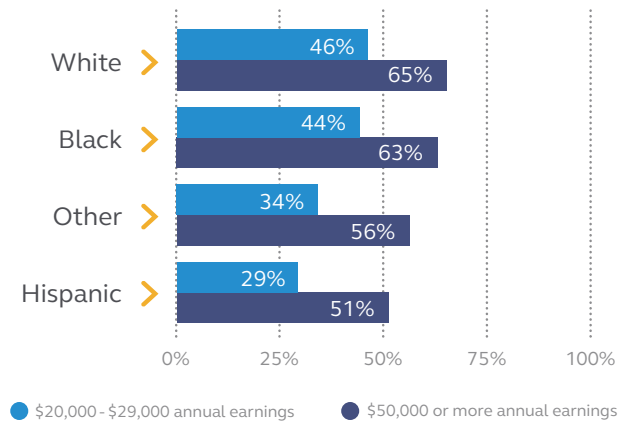
⁴New source: Employment-Based Retirement Plan Participation: Geographic Difference and Trend, 2013

⁵Source: Hispanic Immigration and US Economic Growth, HIS Economics, 2014

Room for growth in U.S. Hispanic participation

Studies find U.S. Hispanic workers account for the lowest plan-participation rate across companies of all sizes.

Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan, by Race/Ethnicity (2013)



Source: Employee Benefit Research Institute. Current Population Survey, March 2014

This participation deficit in the U.S. Hispanic market segment has the potential to compound and prolong the crisis in retirement readiness within America’s workforce. Hispanics are, after all, the largest ethnic group in this country. Hispanic population in the U.S is predicted to grow by 57% by 2050.

Therefore, despite efforts to improve participation and retirement readiness among workers, the educational efforts behind many employer-sponsored plans appear to be failing to meet the retirement needs of a significant segment of the workforce, especially at manufacturing and service companies. If these needs continue to go unmet, the effectiveness of many plans could be undermined, not to mention the financial security of many workers.



Bridge the cultural divide

“Based on our research, the key to improving plan participation among unacculturated U.S. Hispanics is to address the cultural influences that may be undermining retirement savings.”

Despite the potential impact that under-saving by the U.S. Hispanic market segment may have on a plan, many financial professionals are not focused on addressing the needs of these employees because of low plan sponsor demand for advanced services that bridge the cultural divide. As a result, financial professionals may not realize the nature of the unmet needs of this market segment or the opportunity that arises from this situation.

In this paper, we explore why finding a more effective approach to serving the U.S. Hispanic market matters. We first examine the factors that influence attitudes toward retirement and retirement planning among unacculturated Hispanics, followed by a discussion of the customized solutions that Principal is now using to address the cultural influences that may be inhibiting retirement plan participation and savings rates. These new standards of engagement aim to better serve all U.S. Hispanic workers with regard to their retirement plan decisions.

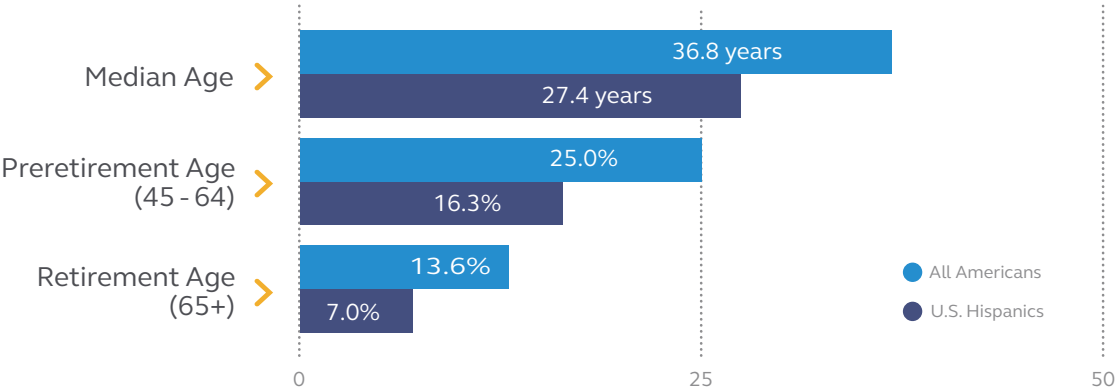
Half the Financial Professionals we interviewed in areas with concentrated Hispanic populations estimated 25 to 40 percent of their clients are businesses with significant Hispanic workforce.

Reasons why U.S. Hispanic participation is low

Regardless of the business objectives behind offering an employer-sponsored retirement plan, the general goal is to make it as effective as possible in helping everyone plan for a financially sound retirement. With this in mind, the challenges presented by culture, language, and tradition cannot be ignored, especially by companies that have a significant component of U.S. Hispanics within their workforce.

Why is this a concern? At The Principal, we found that cultural influences can significantly alter the perception of retirement and the manner in which unacculturated U.S. Hispanic workers prepare for it. Let’s examine these influences individually.

Lack of Exposure to the concept of retirement



Sources: U.S. Census Bureau. The Next Four Decades: The Older Population in the United States: 2010 to 2050, May 20, 2010. U.S. Census 2010 Profile Facts for Features, released July 15, 2010.

The U.S. Hispanic population has relatively low exposure to modern-day retirement concepts, such as 401(k) plans, because most Hispanics in the U.S. are not yet at retirement age.

In addition, when compared to non-Hispanics, U.S. Hispanics are less familiar with employer-sponsored retirement plans and tend to save in other ways, lacking an interest in the traditional retirement market. However, it appears that the more a foreign-born person is exposed to and learns about U.S. culture, the less likely their native language is to create a barrier to retirement planning.

> Factoring in family

For people of all cultural backgrounds, family is often a primary influence when it comes to retirement decisions.

This is particularly true in Hispanic culture (and in early acculturation levels), where attitudes toward retirement and money are formed within the family. The attitude toward financial planning — including retirement — has been simple and consistent: family takes care of family. There is no reliance on financial institutions or employers for assistance.

In Hispanic culture, family support is the primary driver of retirement readiness. Those with jobs take care of those without. The young take care of the old. And though some studies may find that many U.S. Hispanics do not want to rely on their children when they can no longer work, “family takes care of family” still appears to be the retirement plan they are counting on.

Of the 16.7 Millions unbanked U.S adults – those consumers who do not use banks at all – 17.9 % are Hispanic”.⁶

Only 34% of U.S Hispanic workers participated in an employed-based retirement plan. ⁷

> **Absence of financial literacy – but not financial discipline**

Many unacculturated U.S. Hispanics are still new to key financial concepts in the U.S., in part because this segment of the U.S. population is often unaffiliated with financial institutions. Yet, while some unacculturated Hispanic-Americans may not fully appreciate the role financial institutions can play in their financial well-being or the value investments in stocks, bonds or mutual funds may have in saving for long-term goals, they likely are accustomed to budgeting. In fact, sending a portion of their earnings back to family in their native country is not all that uncommon.⁸

Not surprisingly, then, U.S. Hispanics who do use banks tend to favor conservative savings products — investments easily liquidated into cash in case of a personal or national emergency.⁹

> **Distrust of politicians and institutions**

Part of this conservatism — the preference to save in cash and near-cash instruments — may reflect another cultural perspective. Possibly due to the very reasons some Hispanics left their home countries, unacculturated U.S. Hispanics tend to harbor a healthy distrust of politicians and institutions, including regulatory and financial institutions. The concept of a government-regulated retirement plan, full of risky-sounding investment choices,

may trigger these fears, which could make an employer plan seem unappealing. There may also be concern that in the case of a personal emergency, they would lack access to their savings, or their money might be subject to nationalization — confiscation by the government — during an economic crisis.

> **Distrust of employers**

The distrust first-generation U.S. Hispanics can harbor toward politicians and financial institutions may extend to concern for their employer’s solvency or integrity. It may not be the return on their money that concerns them the most, but whether the money they might contribute into a plan will be distributed as promised.

> **Plans to retire in their native country**

Retirement planning for some foreign-born workers may involve moving back to their homeland or sharing retirement funds with family members back home. Some are worried about where retirement funds held in a 401(k) plan would go during a benefit event, such as death or relocation to another country. If these fundamental concerns are left unaddressed, the appealing features of a plan, such as employer matches and “do-it-for-me” investment options, are likely to fall on deaf ears.

At The Principal, the above findings have helped shape our retirement education efforts aimed at the U.S. Hispanic market. These initiatives are based on concepts that are being tested in the market and are already showing signs of increasing the effectiveness of our education programs — helping the U.S. Hispanic market make informed decisions around their retirement savings options.

⁶Source: National Survey of Unbanked and Underbanked Households

⁷EBRI Org, Employment-Based Retirement Plan Participation: Geographic Difference and Trends, 2013

⁸The Pew Research Center

⁹2013 National Survey of Unbanked and Underbanked Households

5 new standards for engagement

The difference between translating and transcreating is the difference between deconstructing content word by word and recreating it in a way that helps to ensure the message retains its financial sense and cultural relevance.

Industry research — and our 2011 The Principal Financial Well-Being IndexSM survey — find that U.S. Hispanics generally feel financially unprepared for retirement. Like non-Hispanics, they may be held back by debt loads, low income, or job insecurity, but financial literacy seems to be a main influence. More importantly, the majority of unacculturated U.S. Hispanics seem to realize this and actually want their employers to do more to educate them.¹⁰

The Principal has developed a program designed to better meet the needs of the U.S. Hispanic market. We believe our approach is more adaptable for retirement education than traditional approaches. This gives our clients the flexibility they need to accommodate a variety of concerns and cultural influences. Using this acculturation approach, we adapt the following elements to the specific needs at each of our clients' firms:

1 Think “bicultural” not “bilingual”

Although many use these terms interchangeably, we view them differently. Being bicultural means that our education specialists can navigate seamlessly between the U.S. Hispanic and non-Hispanic cultures. It creates a comfort level that bridges gaps in understanding while addressing potential concerns. We find that by making natural cultural connections, it helps foster trust in employer plans. We also use the concept that family takes care of family to introduce workers to the idea that, ultimately, an employer-sponsored plan can be used to help take care of family following retirement.

2 Transcreate, don't translate

In our experience, educational materials that have been translated into Spanish often lack the proper context for

full comprehension by a Spanish-speaking audience. This is because they are translated word-for-word instead of taking into account the underlying meaning.

For example, our tagline at The Principal is “We'll give you an edge.” The literal translation into Spanish is “We give you a corner.” That is not meaningful or reassuring, which is why we transcreated the tagline to read “Te damos la ventaja.” This comes closer to what we intend to communicate: “We give you the advantage.”

3 Keep it simple

Simplicity is often a more effective solution for everyone. but more important when communicating new financial or savings concepts to U.S. Hispanics in the early stage of the acculturation process. U.S. Hispanic workers want to make sure they are not getting into something they may not fully understand. The need for simplicity extends to the presentation as well. What works is presenting information in a way that enables employees to comprehend their options and plan objectives.

Our experience has been that U.S. Hispanic workers become more receptive when they realize:

- A retirement plan account set up can take little time.
- Even small contributions can have a financial impact.
- Do-it-for-me investment options appropriate for more conservative-investment mindsets do exist.
- Upon a benefit event, the plans are portable—they can collect the retirement funds (for example when at the legal age of retirement) or if they relocate to another country (e.g., their country of origin).
- They may be able to access their savings through loans.

¹⁰Hispanic PR Blog. Cultural Influences Impact Retirement Planning & Decision-Making, February 3, 2012.

Culturally relevant stories and examples also seem to help, along with a conversational format that allows for questions to be asked as material is being presented.

4 Adjust explanations to the mindset

U.S. Hispanics, in general, tend to be fiscally conservative. For example, in the earliest stages of acculturation, they may be unaffiliated with financial institutions because they do not fully understand the rules such institutions operate under — cash under a mattress may seem safer. But, saving is definitely part of the culture. There is also an appreciation for accumulating wealth more slowly. Stocks, bonds, and mutual funds, however, are less familiar and also may need introduction to this segment.¹¹ It's a mindset in dire need of financial literacy.

U.S. Hispanic workers may lag in terms of retirement savings because they do not fully understand how an employer-sponsored plan works. This younger demographic — made up primarily of Gen X, Gen Y, and Millennials — may be empowered through education, which offers an opportunity to engage participation rather quickly once the right approach is adopted.

5 Incorporating the right levels of culture and language into 401(k) education

The Principal has developed a unique methodology for determining how widespread the needs are at a particular business and how best to address those requirements. We do this by analyzing the unique characteristics — acculturation stage, language preference, etc. — to build a customized and flexible program that better meets the cultural uniqueness present in the participants and employer. This enables us to offer customized solutions tailored to the way each employer serves its U.S. Hispanic employees.

¹⁰HispanicMarketAdvisors.com. Hispanic Attitudes Regarding Financial Services, 2009.

Service provider checklist

Plan sponsors and their financial professionals may want to assess how their retirement plan service provider engages the growing U.S. Hispanic market:



Are they helping these employees learn about the benefits of saving for retirement through an employer-sponsored plan? Solutions that will help this market segment become better prepared and informed about retirement include:

- ✓ Financial professionals' support in developing branded materials and individualized client programs
- ✓ Bicultural education representatives
- ✓ Transcreating message points to maintain proper context
- ✓ An education initiative to address the basics of investing
- ✓ A glossary of terms (transcreated for better comprehension)
- ✓ Simplified marketing materials that are audience-specific
- ✓ Education kits and 401(k) statements in Spanish
- ✓ An 800-number for Spanish customer service

What's next.

With the growing percentage of unacculturated Hispanics entering the labor force, it's increasingly more important to get this audience engaged in saving for retirement. If their specific needs are ignored, the retirement crisis will only continue to increase.

Various cultural and educational factors influence unacculturated Hispanics' attitudes toward retirement planning and impair their participation in employer-sponsored plans. That's why an acculturation approach will help these individuals embrace the concept of saving. Consider the five standards we covered:

- Bicultural, not bilingual
- Transcreate, don't translate
- Keep it simple
- Adjust explanations to mindset
- Incorporate the right levels of culture and language

The financial professionals who understand this market and their needs will be better able to serve their clients. By creating a program specifically for U.S. Hispanic workers, financial professionals help plan sponsors ensure this employee segment receives the information they need to make better financial decisions.

To learn more about our approach and methodology for assessing company needs, let's talk. Our dedicated Hispanic market strategy team at Principal can analyze your company plan and provide customized solutions for your plan participants. Contact your representative at Principal to get started.

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