FINANCIAL SECURITY IN OLD AGE FOR LATINOAMERICANOS

A Preliminary Literature Review

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Summary

On average, people around the world are living longer and having fewer children. The average ages of national populations are increasing. Population growth is fastest among the elderly. The U.S. is no exception. In the State of Colorado, for example, the number of people over 65 years of age is expected to increase by 125% between the 2010 and the 2030 census.

The number of Latinos over 65 is growing even faster. In Colorado, the population of Latinos over 65 will more than *triple*, increasing 220% between 2010 and 2030. Relatively rapid growth of older Latino populations is an international trend occurring throughout the western hemisphere.

That trend affects health disparities, both directly and indirectly. Direct effects are increased incidence of infirmities associated with old age combined with Latinos' relative lack of access to prevention and treatment services. Indirect effects involve social determinants of health. When compared to older non-Hispanic whites, older Latinos in the U.S. continue to experience persistent disparities in wealth, income, literacy, formal education, eligibility for U.S. citizenship, recency of immigration, occupational health risks, retirement savings, and political influence.

Those disparities are attributable in large part to Latinos' relatively low income and higher rates of poverty. However, most Latinos in Colorado do *not* live in poverty. Cultural differences in financial behavior are also a factor. When compared to non-Hispanic whites, Latinos of middle or upper income are more likely to invest in younger family members' education and well-being, including their own children and other extended family members. Latinos are more likely to contribute to savings accounts. And Latinos are less likely to use mortgages and other forms of debt as strategic financial resources.

Latinos invest less in individual retirement savings. They tend to assume instead that younger family members will care for them in old age. Today, that cultural tradition is eroding. Younger generations of Latinos in the U.S. are having fewer children and acquiring more formal education. As their employment opportunities increase, younger Latinos are more likely to move away from home. Latinos' traditionally large, multi-generational households are gradually being replaced with smaller, geographically mobile, nuclear family households. Latino elders' assumptions that they will be cared for in old age by younger generations are becoming less realistic. Younger Latinos in smaller households are increasingly constrained and stressed by their working hours and the opportunity costs of caring for elders at home. Older Latinos are increasingly at risk of living alone in poverty without adequate care in old age.

Latinos in the U.S. tend to rely more heavily on family help and Social Security benefits in old age. Both those resources are likely to diminish during the next two decades, thus exacerbating current disparities. Other national governments in the western hemisphere assume that private investment and public-private partnerships can provide income security for their aging populations. Those strategies appear less workable for aging Latinos. Canada, Nicaragua, Peru, and El Salvador guarantee paid leave for workers to care for elderly parents' health needs. The U.S. guarantees *unpaid* leave. Growing market demand for commercial nursing homes and assisted living is less likely to include Latinos and lower income populations in general. Public subsidy of such services appears economically unsustainable as the ratio of disabled elders to current taxpayers becomes more problematic. Relying instead on subsidizing family care-givers might be more economically efficient in the long run. However, the political feasibility of such policies at present is doubtful.

Financial Security in Old Age for Latinoamericanos

Introduction

Are Latinos in the United States adequately prepared for *la tercera edad* (the third age), a time of life when Latino elders traditionally receive needed care, love, and respect from their families and communities? How should U.S. society respond to aging among Latinos as the nation's entire population grows older?

The average age of all the nation's people is increasing. Over the past thirty years, median age in the U.S. has risen from 30 years to 37 (U.S. Census Bureau, 2011, p. 11). Between 2000 and 2010, when the U.S. population increased by 9.7 percent, the population over 65 years of age increased 15.1 percent. The population over 85 increased 29.6% during the same decade, and will more than double during the next three decades (U.S. Department of Health and Human Services; Administration for Community Living; Administration on Aging (AoA), 2013; Werner, 2011, p. 1 & 9).

Adults in the U.S. are living longer. Young parents are having fewer children. Thus, the percentage of elderly in the U.S. will increase for decades to come. The nation's public and private sectors will be challenged—socially and financially—by the growing proportion of U.S. residents considered too old to work. For example, demand for affordable rental housing for non-employed older adults will soar (Bloom, 2012, 2014).

The nation's Latino minority is aging even faster. In Colorado, for example, between 2010 and 2030 when the number of all Coloradans over 65 will increase by 125%, the number of Latinos over 65 will more than triple, growing by 220% (Colorado State Demography Office, 2013; DeGroen, 2014; Garner, 2012).

Researchers have been slow to notice the high rate of growth of Latino elders.

> Current demographic developments create a strong case for studying minority aging in the United States. The population growth of the minority elderly (aged 65 and over) as a percentage of the overall elderly population is projected to increase rapidly: between 2010 and 2050, the Asian elderly population will increase from 1.3 % to 7.5 %; for African Americans, from 3.4% to 10.5 %; and for the Hispanic elderly from 3.4% to 17.5% (J. Angel, Torres-Gil, & Markides, 2012). Through much of the 1980s and 1990s, however, minority aging research was secondary to traditional research in gerontology and geriatrics, whose research focused on aging in the Anglo-Saxon population (Torres-Gil, Suh, & Angel, 2013, p. 217).

A growing body of research suggests that Latinos experience aging in America somewhat differently from the rest of the country. This paper reviews some of that literature and its future implications for society, the economy, and public policy.

This paper considers Latinos in the U.S. in relation to the rest of the Western Hemisphere's Latin American populations. Latin Americans have cultural roots in common, despite significant differences within and between their respective countries. This preliminary review of literature explores those commonalities and differences by comparing research findings on how Latinos age in the U.S. and in Latin America, with closer attention to aging in México and Uruguay.

Latinos in the U.S.

Much of the literature on Latino aging in the U.S. focuses on linguistic and socio-economic differences between Latino and other older Americans. Research finds significant disparities in wealth, income, formal education, U.S. citizenship, recency of immigration, occupational health risks, health care, and retirement savings (Jacqueline L. Angel, Mudrazija, & Benson, 2015, p. 125).

What causes those disparities? Is it simply economic inequality? Are cultural differences a factor? Do the disparities result from bias and discrimination against racial and ethnic minorities in U.S.? Are today's disparities a cumulative consequence of over two centuries of social and political constraints, discrimination, and bias against Latinos native to the U.S. (R. J. Angel & Angel, 2009, pp. 77-81; Barrera, 1979; Hansen, 1981)?

The relative importance of bias and cultural diversity for future policies concerning aging is subject to debate. Former U.S. Assistant Secretary for Aging Fernando Torres-Gil argues that focusing on minority groups can lead to overgeneralizations about them.

> Perhaps we should no longer look at race or ethnicity minority status but rather . . . income, socio-economic level, and disability (Torres-Gil in Kauffman, 2002, p. 76).

If government is supposed to promote equal economic opportunity, remedy injustice, and "promote the general welfare," then public policy arguably should offset or compensate for disparities that leave Latino elders at greater risk in old age. Policy solutions might involve improved income transfer programs, subsidies, and direct services benefiting all low-income or disabled older Americans in need of assistance, regardless of ethnicity. For example, instead of merely reporting that "poor people received worse care than high-income people for about 60% of quality measures" (Agency for Healthcare Research and Quality, 2014, p. 14), public policy might do more to rectify the disparity.

Policy proposals to do more for Latino elders are driven in part by increased availability of data. The U.S. Census has compared Latinos to the rest of the populace since 1970 (Cohn, 2010). Disparities mentioned above are findings from census data, health data, and other empirical research (Jacqueline L. Angel et al., 2015, p. 131).

Most disparities between Latino and other older Americans are correlates of poverty. For example, Latinos' lower average levels of formal education are associated with lower average income. Should public policy do more to compensate for past unequal economic opportunities that left today's elders at a disadvantage, while improving economic opportunities for younger low-income Americans in the future?

Differences between Latino and other older Americans might be more than economic. Although Latino poverty rates are relatively high, most Latinos in the U.S. are not poor. Therefore, we should also consider whether cultural and other reasons help explain why Latinos experience aging differently.

Disparities in Retirement Savings

Some research suggests that cultural differences between Latinos and others affects economic behavior, at least among some segments of the Latino population. A national survey commissioned by Prudential Research explored reasons why middle-income Latinos are less likely to have retirement savings. Latinos surveyed were between 25 and 70 years old earning at least $25,000, with a median annual income of $40,400 (Prudential Research, 2014, pp. ii-1).

Cultural Differences in Saving Goals

Prudential's findings suggest that cultural factors help account for differences between Latino and non-Latino savers. Latinos are less likely to prioritize saving for retirement. Compared to non-Latinos, Latinos expect to retire at a later age and to continue working part-time after retirement. Compared to non-Latinos, Latinos are more likely to want to save for their children's and grandchildren's education, save to purchase a home, pay off all debts as quickly as possible, and provide financial support to parents and other elderly family members, both in the U.S. and in immigrants' countries of origin (Prudential Research, 2014, pp. 2-7).

Effects of Immigration on Retirement Savings

Those findings are stronger among Latino immigrants than among U.S. born Latinos (Prudential Research, 2014, p. 5). The reasons are unclear. Prudential's survey does not tell us whether findings about savings priorities reflect Latino culture, tendencies toward family devotion and self-sacrifice among immigrants in general (regardless of ethnicity), or both.

Research at the University of Michigan Retirement Research Center concludes that immigrants' low wages, limited eligibility for Social Security benefits, government assistance, and employer retirement plans, all combine to put immigrants at risk in old age, while benefiting others in the U.S.

> Existing literature suggests that immigrants receive lower wages than U.S.-born workers with similar characteristics. This could imply that immigrant households would enter retirement at a significant financial disadvantage. In this paper, we examine the retirement resources available to immigrant families by examining Social Security benefits, pension coverage, and private wealth accumulation. Our results suggest that although immigrant families may be financially better-off in the U.S. than in their native countries, they do enter retirement at a significant financial disadvantage relative to native born households with similar characteristics (Sevak & Schmidt, 2007, p. ii).

Andrés Tapia, chief diversity officer for the management consulting firm Hewitt Associates (now Aon Hewitt) suggests that immigrants' prior experiences in less stable countries limit their confidence in long-term financial planning.

> Ethnic and racial groups approach saving and investing differently, said Hewitt's Tapia, who was raised in Peru. For instance, "long-term," suggests a shorter time horizon to immigrant Latinos accustomed to political instability and high inflation that made long-term planning seemingly impossible . . . (Sorid, 2007).

Lack of Employee Retirement Benefits

Prudential finds that most Latinos have a poor understanding of retirement plans offered by their employers. In addition, Prudential finds that companies who hire more Latinos are less likely to offer

employer-sponsored retirement plans. When their employers do offer retirement plans, Latinos are less likely to contribute. One reason those Latinos give for not contributing is that they hope to spend part of their retirement living outside the U.S. (Prudential Research, 2014, pp. 2, 13-14).

> During retirement, 23% of respondents intend to divide their time equally between the United States and another country, while 7% intend to live primarily in another country. One in 10 Hispanics not contributing to a workplace-based plan cite "not knowing what will happen to my money if I retire outside the U.S." as a barrier (Prudential Research, 2014, p. 2).

Limited Demand for Private Investment Services

Prudential also found Latinos less willing to purchase retirement investment products on their own, outside of work.

> Surveyed Hispanics most often describe themselves as savers (versus investors), although many indicate they are neither savers nor investors. This is reinforced by low and conservative ownership of financial and insurance products. Twenty percent of respondents indicated they did not have any of the products surveyed. Among Hispanics who owned at least one of the financial products listed in the survey, a savings account is by far the most popular product (Prudential Research, 2014, p. 2).

It is unclear whether greater distrust of large financial institutions leaves Latinos less likely to purchase investment and insurance products.[1] If so, higher income might help overcome that distrust.

> Hispanics earning more than $75,000 more closely resemble the general population when it comes to ownership of retirement and insurance products. For example, half of higher income Hispanics have a workplace-based retirement plan, one-third have an IRA, and one-third have an individual life insurance policy (Prudential Research, 2014, p. 12).

Potential for Financial Planning Services and Sales

In any case, Prudential concludes that Latinos are an under-developed market segment for the industry (Prudential Research, 2014, pp. 11-17).

> When compared to the general population, Hispanics are half as likely to currently have a professional financial advisor and significantly less likely to have been contacted by a financial advisor, regardless of income levels. Despite this disparity, survey respondents are equally likely to work with a financial advisor, if contacted. Hispanics, like many other groups, often have very clear financial goals but may be unsure about how to achieve them, especially when family is ranked as the top source of financial information for current financial decisions. Given these factors, tremendous opportunity exists for financial advisors and financial services firms to engage the Hispanic community through increased community involvement and financial literacy opportunities (Prudential Research, 2014, pp. 2-3).

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[1] I have argued elsewhere that historical events and prejudice in the U.S. against some Latino subgroups tend to discourage Latinos from making charitable gifts to large non-religious institutions (M. Cortés, 1995, 1999). It is unclear whether that history and prejudice also would affect Latinos' willingness to invest in large institutions.

Middle Class Wealth Disparities

Survey results reported by Prudential Research exclude Latinos living in poverty. Focusing just on Latinos earning over $25,000 annually, Prudential reports on differences in wealth-building over time.

In addition to disparities in income and retirement savings, Prudential reports that Latinos lag behind other U.S. population groups in building total personal assets during their lifetimes. This is true even for Latinos with above-average income. Prudential Research concludes that lagging asset growth reflects not only income disparities, but also Latinos' preoccupation with immediate short-term financial goals and challenges, at the expense of long-term wealth-building strategies (Prudential Research, 2014, p. 14).

Financial Planning for Extended Families

Prudential's research leaves another potential reason for lagging asset growth unexplored. Latinos traditionally give high priority to the aggregate welfare of their multigenerational extended families. Financial planners in the U.S. ordinarily focus instead on goals for individuals, married couples, and nuclear families. In Latino extended families, relatively affluent members might place higher value on maximizing current liquidity, so they can help less fortunate relatives when unpredicted needs arise. Consequently, Latinos might face greater uncertainty about when and how much they will need to dip into liquid savings. If so, that would discourage investing in less liquid assets offering higher rates of return in the long-run, as research reviewed by Sevak and Schmidt at the University of Michigan Retirement Research Center suggests.

> Data from the EBRI Retirement Confidence Survey indicate that Hispanic-Americans who immigrate to the U.S. exhibit different savings behavior than other Americans. They tend to save more for short-term goals such as education or a home purchase rather than retirement, and are extremely risk averse, placing greater importance on safety than rate of return on investments, relative to others (Kamasaki & Arce, 2000). In addition, they are more than twice as likely as natives to have provided financial assistance to family members (both in and out of the U.S.) and they are more likely to expect their retirement years to be financed by income of other family members (Kamasaki & Arce, 2000). These transfers to family members can be viewed as a form of investment or risk pooling (see, for example, Rosenzweig (1998); and Foster & Rosenzweig (2001)). Although it may be unobservable in standard data sets, for many households these intergenerational transfers may be a major component of retirement saving and planning (Sevak & Schmidt, 2007, p. 4).

Sevak and Schmidt (2007) summarize other published research finding that immigrants save less because they earn less, even when doing the same jobs as U.S. citizens. By analyzing data from the Social Security Administration, Sevak and Schmidt find that immigrants have fewer resources for retirement, not only because they were paid less at work, but also because they qualify less for Social Security benefits, they are less likely to receive pensions from employers, and they are less likely to own their own homes. In the case of Latinos, statistical analysis shows that part of the disparity results from being immigrants, and part of the disparity is caused by disadvantages experienced by Latinos in the U.S. in general, whether immigrant or U.S. born.

Whatever the reasons for lagging personal asset growth among Latinos, Prudential observes the following disparities in wealth.

> With a stronger focus on near-term goals, general asset building has been a challenge for the Hispanic community. In every category of assets—total financial assets, employer retirement plans and home equity—Hispanics trail the general population, even in higher income groups . . .. Like the African American community, there is also an income gap when compared to the general population; however, for the Hispanic community that gap is even greater. The median annual household income for Hispanic respondents earning $25,000 or more is $58,300, making it lower than the African American community ($60,500) and the general population ($77,700). Hispanics earning at least $25,000 in household income reported having $33,000 in total financial assets compared to $97,000 among the general population. Even in high-income households ($75,000+), total financial assets lag behind the general population by $133,000 . . . (Prudential Research, 2014, p. 8).

Reliance on Social Security

Slower growth of their financial assets leaves Latinos with less investment income for retirement. Prudential found that Latinos rely instead on Social Security benefits while planning to continue working past normal retirement age.

> Of the non-retired Hispanics surveyed, 29% believe only one funding source for retirement is needed versus 19% of the general population. At 62%, Social Security is the highest expected source of funding during retirement, followed by personal savings (52%) and workplace retirement plans (51%). However, all three categories show results lower than the general population. Because 73% plan to continue working at least part time once retired, it is not surprising that 26% of non-retired Hispanics plan to fund their retirement with supplemental income from a job (Prudential Research, 2014, p. 14).

The Social Security Old Age and Survivors Insurance (OASI) program is meant to provide retirees with income that is only a fraction of what they earned before retirement. In its "citizen's guide" explaining financing problems facing Social Security, the Center for Retirement Research at Boston College describes Social Security benefits as follows.

> Social Security provides a basic income, not enough to maintain our standard of living. The average worker who retired at 65 in 2013 gets 41 percent of pre-retirement earnings—$18,500 a year. So most people need to supplement Social Security with employer pensions, 401(k)s, and individual savings (Sass, Munnell, & Eschtruth, 2014, p. 4).

In light of Prudential's findings, Latinos' heavier reliance on Social Security appears to place them at greater risk of financial insecurity in old age.

Cultural, Economic, and Demographic Reasons for Behavioral Differences in the U.S.

To sum up, survey data finds that Latinos tend to have distinctive financial goals and planning assumptions for old age. Latinos tend to be concentrated in occupations where employers do not offer workplace retirement savings plans. When employers do offer retirement plans, Latinos in the U.S. are less likely to participate.

Latinos do save for the future but tend to save differently. Research suggests that rather than save for post-retirement living expenses, Latinos are more likely to save for education and other needs of children, grandchildren, nieces, nephews, or other extended family members. Latinos appear more likely to lend or give money to extended family or kin in need. Latinos are less likely to live in debt. They are more likely to pay off their mortgages and other debts early. They tend to avoid using debt as part of their long-term financial strategies.

Those findings suggest that Latinos tend to assume that family members will look after them during old age. Compared to other U.S. residents with comparable incomes, Latinos are less likely to invest in annuities, insurance, mutual funds, and other financial industry products for their future income security. Instead, Latinos appear more likely to expect the financial assistance they give family and kin to be reciprocated when needed later in life.

Arguably, extended family and kinship networks are vehicles for risk pooling and social investment for financial security. Latino families tend to treat their elders as leaders, authorities, and sources of help and wisdom. Family members seem expected to reciprocate by giving their elders love, respect, and personal care and assistance during the infirmities of old age (Beyene, Becker, & Mayen, 2002, p. 156).

Such expectations are hardly unique to Latinos. Reliance by elders upon extended family and kin is found in many cultures. Nevertheless, the extent and persistence of such reliance could vary as a function of culture, social policy, demography, and structural trends in segmented labor markets in which Latinos are concentrated in certain occupations.

Importance of extended family is a prominent characteristic of Latino culture in the U.S. However, the future of that tradition appears uncertain. We don't yet know how Latino family structure will be affected as younger Latinos become more educated, achieve labor market mobility, and have fewer children.

Reliance on extended family was more common among all U.S. citizens in centuries past. When the U.S. economy was primarily agrarian, large families, higher birthrates, and local family and kinship networks helped supply the agricultural workforce needed by family farms.

To a large extent, farming families have been displaced. Family structure has evolved in the U.S. as industrial, commercial, and government labor markets have grown and developed. The U.S. population became predominantly urban and industrial during the late nineteenth and early twentieth centuries. Farms grew larger as ownership consolidated and private corporations invested in farm ownership.

Population shifts from rural to urban communities were facilitated by public policy and technological change. The Federal government sponsored and disseminated research to promote agricultural productivity and efficiency. The Morrill Land-Grant Agricultural and Mechanical College Act of 1862 facilitated westward expansion of farming in the U.S. During the twentieth century, the U.S. Department of Agriculture and participating land grant colleges and universities promoted replacement of labor intensive farming methods with mechanized, capital intensive farming (Cargill & Rossmiller, 1969; Fusfeld; Hightower, 1972; Taylor, 1983, pp. 200-201). Federal policy also facilitated greater reliance on interstate and international migratory labor—instead of traditional reliance on local labor—for seasonal thinning and harvests (M. E. Cortés, 1975, p. 118; Galarza, 1964; García, 1980; García y Griego, 1988, pp. 519-827; Hoffman, 1974).

Today's predominantly urbanized labor markets rely on a more educated and highly trained national workforce. As investment in education and other forms of human capital has increased, so has labor market mobility. Geographic mobility has increased as well, thanks to increased job specialization, new communication technologies, and recruitment of employees on a regional and national scale by large employers. Traditional family roles and structures have shifted as women participate more in formal labor markets.

Consequently, some economic functions of traditional extended family and kinship networks have diminished. Family life in the U.S. now emphasizes relatively autonomous, self-sufficient nuclear families. Elders' family relations have become less reciprocal; as average duration and cost of post-retirement life have increased, elders' contributions to family have diminished and changed.

Changing labor markets, longer life spans, declining birth rates, increased mobility, and greater individual autonomy from relatives outside the nuclear family have helped alter economic roles within the family. As the proportion of elders increases, the proportion of children decreases, and working adults find employment elsewhere, extended families have more difficulty finding family members who can afford to care for disabled elders instead of participating in the paid workforce. The role of available family members—generally women—who try to simultaneously earn income, raise young children, and care for aging parents are themselves at greater risk of stress-related illness, disability, and reduced lifetime earnings.

Nationally, the ratio of taxpaying workers to retirees is becoming more problematic. Social Security tax rates have not increased enough to guarantee long-term solvency of the Old Age and Survivors Insurance program. Saving for retirement has become more of an individual responsibility. Longevity has increased the total cumulative cost of living during retirement. Thanks to life-saving advances in medicine, the likelihood of long-term disability before death has increased.

As the nation struggles to come to terms with the increased personal and national costs of supporting the growing population of older Americans, younger Latinos have made considerable progress. Young Latinos' educational opportunities and achievements are increasing, even though their high school dropout rates remain above-average. Younger Latino adults are gaining labor market mobility and economic opportunity. They are having fewer children of their own. Consequently, financial security and care for Latino elders may be at risk as extended family ties lose strength (Brown, Herrera, & Angel, 2013; Torres-Gil & Rudinica, 2012).

Will Latino traditions of extended family and respect and support for elders continue? Will distinctive aspects of Latino aging persist for cultural reasons? For example, how will new generations of Latinos provide for income security for themselves in old age? Will Latinos continue avoiding the financial services industry as a resource for income security in retirement? Or will that reluctance merely be a transient tendency among recent immigrants? Will traditional extended family care for elders shrink as adult children continue gaining labor market mobility? Will Latinos' higher rates of poverty and dropping out of high school persist? Will Latino dropouts help preserve extended family ties, at least in lower income families and communities? Will Latinos' increasing longevity and decreasing birth rates isolate needy elders as younger Latinos feel compelled to seek paid employment instead of caring for their elders?

Latinoamericanos in the Western Hemisphere

Latinos might experience aging in America differently from most U.S. residents due to a combination of cultural, economic, and demographic reasons. The implications for public policy are unclear. Given our uncertainties about the future of distinctive aspects of Latino aging in the U.S., we turn now to experiences of aging in other Latin American countries, in hopes of greater understanding.

Hopefully, literature describing the economics and social policies of other Latin American nations will suggest how the U.S. might better support its own growing population of Latino elders. For example, practices in other countries might suggest how new markets could be developed in the U.S. for culturally competent supportive services for Latino elders, as more of their adult children seek paid employment. We will also consider whether social policies in other Latin American nations might be adapted to help Latino elders at risk in the U.S.

International Aging Trends

Demographic trends in the U.S. are found in the rest of the world. Improved public health in many nations is increasing longevity. Greater access to education and nonagricultural employment is helping to reduce birthrates. Consequently, the average age of national populations around the world is increasing. The ratio of workers to elders in need of care is shrinking. The trends have advanced furthest in industrialized nations. Caring for and supporting the aged is becoming an international challenge to governments, as a textbook edited by Kunkel, Brown, and Whittington describes.

> Population aging is now a universal phenomenon. In fact, for the first time in human history, people age 60 and older now outnumber children younger than age 5. We can foresee a day when older adults will be more numerous than children younger than age 15. This truly revolutionary situation—expected to occur within the next four decades—will demand a completely different political, economic, and social response from all national governments (Kunkel, Brown, & Whittington, 2014).

Income Security in Old Age

Public Sector Retirement Plans

The governments of most high-income countries in provide elders with a combination of contributory and non-contributory pensions. The WORLD Policy Analysis Center at UCLA defines the two types of pensions, as follows.

> Contributory pensions are a benefit that individuals are entitled to when they have paid into the country's social insurance, social assistance, provident fund, or equivalent system. Benefits are often determined based on the individual's prior level of earnings.
>
> Non-contributory pensions are benefits that individuals are entitled to without having paid into a retirement fund. Benefits are usually a fixed amount meant to ensure a minimum level of income for the elderly (UCLA Fielding School of Public Health, n.d.-a).

The governments of most middle- and low-income countries, including those in Latin America, do not offer both contributory and non-contributory pensions. However, the two Latin American countries—México and Uruguay—on which the following pages focus, do offer both types of pensions (UCLA Fielding School of Public Health, n.d.-a).

Both types of public pensions rely primarily on current government revenue, as opposed to past savings. Contributory pensions are like the U.S. Social Security Old Age and Survivors Insurance (OASI) program.

Contributory pensions are known as "pay as you go" (PAYGO) programs, in which current benefit payments are covered by current revenue. For example, in the U.S. in any given year, the cost of Social Security benefit payments is covered primarily by current wage earners' payroll taxes during the current year. Social Security is not designed to be a retirement savings program. Rather, it is an income transfer program, often referred to as social insurance, in which taxes paid by current workers help support retired workers.

Social Security OASI did accumulate savings while the post-World-War-II surge of baby boomers (born between 1946 and 1964) were in the work force. That has resulted in an accumulated surplus of OASI payroll taxes which the Social Security Administration set aside in an interest-earning trust fund. Now that baby boomers are entering retirement and claiming OASI benefits, current payroll taxes and trust fund interest are becoming insufficient to pay for all boomers' retirement benefits. The trust fund will be drawn down over a period of years as benefits for retired boomers and their surviving spouses are paid. Unless OASI payroll taxes are increased and other changes are made to the program, the trust fund is projected to be depleted by 2035 (Board of Trustees, 2016, p. 4). Unless the Social Security Act is changed, the law requires that OASI benefits for current retirees be reduced so that spending doesn't exceed OASI revenue from payroll taxes and trust fund interest. The prospect of benefit cuts to all retirees in 2035 is a result of growth of the retiree population in relation to the working-age population in the U.S. (Sass et al., 2014). If it weren't for OASI payroll taxes paid by undocumented workers who are ineligible for Social Security benefits, the trust fund would be drawn down even sooner (Goss et al., 2013; Porter, 2005).

Non-contributory pensions are also funded by current taxes (such as income taxes, as opposed to a special OASI payroll tax earmarked for Social Security benefits). In the U.S., benefit payments would be called discretionary spending on entitlements covered by general revenue.

In other countries, growth of seniors eligible for public sector retirement plans are also beginning to destabilize public pension finances. Some countries have responded by changing public policies concerning pension plans, usually by relying more on the private sector for new retirement savings products and services.

Private Sector Retirement Plans

In addition to government-provided contributory and non-contributory pension programs, public policy in many countries allows the private sector to offer additional employee retirement products and services. In the U.S. and elsewhere, private pension plans have broadened the range of services offered, including defined benefit retirement plans, defined contribution plans, and various forms of life insurance and annuities.

Defined benefit retirement plans have been offered by employers and labor unions throughout the twentieth century, and perhaps earlier in some cases. Typically, employers, employees, or both contribute to such plans during the worker's years of employment. After contributing for a fixed number of years, employees become vested in the plan. Vesting makes them eligible for a predetermined amount of monthly pension payments for the rest of their lives after they retire and leave employment. The employer, union, trustees, or financial services company administering or

sponsoring the plan bear the investment risks and responsibilities for keeping the pension financially solvent. Occasional insolvencies have led to increasing government regulation of pensions, to assure that promised benefits are actually paid when employees retire.

Defined contribution retirement plans are also funded by contributions from employers, employees, or both. Typically, employer contributions are responsible for paying predetermined contributions as a fringe benefit. Employee contributions are deducted from their wages or salaries on a pre-tax basis, thus reducing employees' income taxes during employment. However, the employee bears the investment risk, as returns on invested funds vary in response to investment market fluctuations over time. The amount of retirement benefits employees will receive is uncertain, and generally vary in response to investment market fluctuations. The employee is responsible for saving adequately for retirement.

Individual retirement accounts (IRAs) are another way for individual workers to save for retirement. In the U.S., IRAs are regulated by the Federal government, but are offered and administered by private financial services firms. Like employer defined contribution plans, employees make contributions on a pre-tax basis, bear the investment risks, and remain responsible for the adequacy of their savings.

Life insurance and *annuities* are among other private sector investment products offered in various forms by the financial services industry. They come in various forms. Some—like fixed annuities—offer defined benefits (in which insurers bear investment risk, if they remain solvent). Others, such as variable annuities, can be considered defined contributions products, in which the individual purchaser pays a price or premium for investments with variable returns (so the purchaser bears most of the risk).

Increasing Reliance on Private Sector Defined Contribution Retirement Plans

Government operated pensions (contributory and non-contributory) are defined benefit plans. So are older forms of private pension plans, as well as some insurance products and fixed annuities. Historically, defined benefit pension plans were well suited for employees and union members who spent their entire careers in one or very few employments. However, a relatively small number of occupations had access to pension plans.

In recent decades, the number of defined benefit retirement plans has declined, defined contribution retirement plans have become more common. Calvo and Williamson (2008) refer to that transition as "pension reform." They argue that progress at pension reform in various nations has been uneven, for economic and cultural reasons. The following pages discuss cultural factors complicating efforts at pension reform in Latin America.

Trends in Latin America

International aging trends and challenges are especially evident in Latin American countries (Jacqueline L. Angel, Hayward, Markides, & Vega, 2013; Navarro, 2013; Torres-Gil et al., 2013). Trends in the United States described above are occurring even faster in Latin America. The United Nations Economic Commission for Latin America and the Caribbean estimates that, "Within the next 40 years, the number of Latin Americans aged 65 and over will more than treble to 180 million while the total population increases from 603 million at present to a projected 750 million (Oxford Analytica, 2012).

Daniel Cotlear of the World Bank summarizes aging in Latin America as follows.

> The past half-century has seen enormous changes in the demographic makeup of Latin America and the Caribbean (LAC). In the 1950s, LAC had a small population of about 160 million people, less than today's population of Brazil. Two-thirds of Latin Americans lived in rural areas. Families were large and women had one of the highest fertility rates in the world, low levels of education, and few opportunities for work outside the household. Investments in health and education reached only a small fraction of the children, many of whom died before reaching age five. Since then, the size of the LAC population has tripled and the mostly rural population has been transformed into a largely urban population. There have been steep reductions in child mortality, and investments in health and education have increased, today reaching a majority of children. Fertility has been more than halved and the opportunities for women in education and for work outside the household have improved significantly. Life expectancy has grown by 22 years. Less obvious to the casual observer, but of significance for policy makers, a population with a large fraction of dependent children has evolved into a population with fewer dependents and a very large proportion of working-age adults (Cotlear, 2010, p. 1).

If, as expected, the birthrate continues to decline while the current cohort of youngsters ages into the workforce, there could be savings in public education costs. Those costs could be offset, however, by the increased needs of seniors as older workers age out of the workforce. Different Latin American countries are at different stages of that demographic transition. Cotlear estimates that governments of Latin American nations will be pressured to increase spending.

> Against a backdrop of declining mortality and fertility, Latin American countries are set to experience both increased income (as the proportion of the population in productive ages increases), but also substantial increases in public costs (as population aging ultimately leads to increases in demand for pensions and health care) (Cotlear, 2010, p. 234).

Demographic change is occurring rapidly in Latin America. Growth in the senior population (as a percentage of the working-age population) has not caught up with western Europe and the United States, at least not yet. On average, Latin America's population of seniors is about 14% the size of its working-age population, compared to more than 20% in the U.S.

Growth in the relative size of the senior population varies between countries. The trend has advanced further in some Latin American countries than in others. Uruguay's senior population is much larger—25%--in proportion to Uruguay's working-age population. In that respect, Uruguay faces a greater challenge in supporting its elders. Uruguay's challenge is comparable to that faced by more economically developed nations like Austria, Finland, Spain (although less than Japan, whose senior population is one-third the size of its working-age population). In contrast, the proportion of México's senior population is relatively small—roughly 11% the size of its working-age population. Thus, the economic burden imposed by seniors on México's workforce appears lighter, for the time being (Cotlear, 2010, pp. 241-242).

Pension Reform, Privatization, and Public-Private Partnerships in Latin America

Accelerated growth of the proportion of seniors in the population of Latin America has been rather sudden. Historically, public pensions awarded to more affluent members of Latin America's retired workforce have been relatively generous. Cotlear predicts that with rapid growth of the over-65 population that depends economically on the working-age population, generous tax-supported pensions will become unsustainable.

> Dependency ratios are set to more than double in most of the 10 countries. Brazil and Mexico will see the steepest growth, while Argentina and Uruguay, which are further along in the demographic transition, will see less-severe increases. For the Latin American group, the average senior population will reach 37 percent of the working-age population by 2050, exceeding the proportion currently observed in Japan, the oldest OECD country. If current pension generosity were maintained, these demographic changes would lead to large increases in GDP devoted to public pensions. But many countries in Latin America have introduced pension reforms with the introduction of prefunded contributory systems (Cotlear, 2010, p. 243).

Calvo and Williamson describe how pension reform is progressing in Latin America.

> Latin America is a pioneer with respect to the shift from old-age pension schemes based on pay-as-you-go (PAYG) defined benefit models to schemes based all or in part on funded individual accounts. In 1981, Chile became the first nation to make the shift with the introduction of mandatory full-funded privately managed individual retirement accounts (IRAs). Today there are 12 Latin American countries that have shifted to schemes influenced by the Chilean model (Calvo & Williamson, 2008, p. 74).

Calvo and Williamson argue that current approaches to pension reform have worked better in western European nations, for economic and cultural reasons.

> Comparison [of pension reform in other nations] to Western European nations helps to uncover some of the underlying assumptions of these pension reforms that do not entirely hold for Latin America and China. In a somewhat oversimplified formulation, these assumptions are: (1) preeminence of formal-institutional support systems of the elderly, (2) emphasis on individual responsibility for financial planning, (3) zealous attachment to the law, and (4) perception of old-age poverty as an isolated problem (Calvo & Williamson, 2008, p. 75).

They contrast those economic and cultural characteristics with those found in Latin America.

> We argue that the eight selected Latin American countries . . . are strong traditional cultures and low-income economies characterized by the centrality of: (1) the family, (2) reciprocal relationships, (3) rules of loyalty, and (4) poverty. Our analysis highlights the role of these factors in shaping the unfolding of the pension reform process with respect to four areas: (1) coverage, (2) compliance, (3) transparency and (4) fiscal stability (Calvo & Williamson, 2008, p. 75).

They argue, for example, that when Latin Americans value loyalty more than western European zeal for rule by law, corruption is more likely to impede progress at pension reform. "Although a traditional

culture may have a formal legal system, the social order may be less based on these laws than in Western [European] countries (Calvo & Williamson, 2008, p. 76).

They further argue that economic differences impede pension reform in Latin America.

> "In contrast to Western countries, Latin America . . . [is] also facing the challenge of rapid population aging before reaching high levels of national income. . . . In Latin America, one-fifth of the total population lives in extreme poverty and almost half in poverty (Calvo & Williamson, 2008, p. 76).

They conclude that a cultural emphasis on family, reciprocity, loyalty, and poverty distinguishes Latin America from western Europe in ways that impede pension reform. They contrast traditional cultural emphasis on family, reciprocity, and loyalty with a theoretical concept of "rationalized culture" developed by Max Weber (1961) associated with secularization and belief in reason, and organized around institutions, planning, and legality (Calvo & Williamson, 2008, pp. 76, 79).

> Only after becoming rational and affluent societies do the Western countries start facing the challenge of a rapid population aging and the associated need for pension system reform. Clearly this is not the case of Latin America and China, which have much stronger traditional cultures and have not yet reached the Western European level of economic development (Calvo & Williamson, 2008, pp. 76-77).

Calvo & Williamson report that in Latin American countries, "a substantial fraction of the population is left without coverage" under pension reforms. In México, 37% of the working population had pension coverage before the reform, which dropped to 33% after the reform. In Uruguay, 32% were covered before reform, which increased to 45% afterwards (Calvo & Williamson, 2008, p. 79).

> Examination of recent pension reform efforts in Latin America suggest that the family performs a crucial function as a source of support and protection for the elderly, given the limited coverage of the pension system in the region and the centrality of the family in Latin American culture. . ..
>
> Closely related to the coverage problem are low compliance rates and low contribution densities. One goal of the pension reform in Latin America has been to improve incentives for workers to participate in the system and to increase personal contributions to their funded [IRA] accounts. A strengthened "equivalence principle" (a linkage between contributions and pension benefits) was expected to get workers to view their contribution as investments or savings rather than as a tax. This in turn was expected to increase the incentive for participating and contributing to the system. However, the evidence from Latin America does not point to any such trend. . .. Compliance rates have actually decreased in Latin America suggesting that IRAs are not having the expected impact on the incentive to contribute. . ..
>
> Some segments of the population are particularly reluctant to contribute. For example, workers in rural areas, workers in the informal sector of the economy, and low-wage workers choose savings options other than IRAs, such as housing and the education of their children. . ..

> The preference for the education of one's children and housing over IRAs is a "rational" behavior for an individual in a traditional culture and in a low-income economy, where the family is a strong social unit organized around reciprocity and affected by poverty. . ..
>
> Numerous studies in Latin America conclude that contributing to the IRAs is too costly particularly for low-income workers who struggle to meet immediate needs for survival and face the pressing consumption needs of their families. . .. We see that compliance rates tend to increase as GDP per capita increases, despite evidence of some variation between nations in similar GDP per capita ranges (e.g. Mexico versus Uruguay). At the cultural level, contributing to an IRA could disrupt the cycle of reciprocity inside a family. By investing in housing and childhood education wealth is shared and transferred among generations in a permanent cycle of giving, receiving, and returning, a dynamic that assures family support at older ages. Summing up, in a low-income economy and a culture where reciprocity has primacy over individual financial planning, a strengthened equivalence principle is likely to have little impact on a worker's propensity to contribute to the system (Calvo & Williamson, 2008, pp. 80-81).

Implications for Public Policy and Future Research

This preliminary literature review suggests that a combination of economic, demographic, and cultural factors account for Latinoamericanos distinctive strategies for financial security in old age. Those strategies persist in the United States, México, Uruguay, and the Western Hemisphere in general, despite changes in the labor market in recent decades. Calvo's and Williamson's frank exploration of cultural traits—which they seem to disparage as backward and irrational—might offend advocates for Latinos, especially today as Latinos face greater political hostility and intolerance from other political subcultures in the U.S. Nevertheless, the traditions reported in Latin America are consistent with those attributed by other research to the Latino minority in the U.S. More importantly, Calvo and Williamson admit the rationality of Latinos' adherence to cultural traditions concerning elders. Traditional reliance on norms of loyalty and reciprocity, and investment in intergenerational extended family and kinship networks, have provided more security in old age than public and private institutions involved in pension reform, especially in Latin America where only a minority of retirees receive publicly mandated pensions. Implicit in many of the research findings discussed in this paper is Latinos' appreciation for people they can trust.

As Fernando Torres-Gil reminded us near the beginning of this paper, over-generalizations about Latinos are an occupational hazard in this sort of comparative literature review. Many of the findings we discussed are averages and other statistical indicators of central tendency. Latinos, like all human beings, are varied and diverse. Research on group differences should help us think about making public policy more effective, equitable, and inclusive, while avoiding temptations to stereotype.

A recurrent theme in the research discussed above is the strategic importance of family, especially for Latinos facing the rewards and perils of *la tercera edad.* Politicians, policymakers, and business interest groups might be too enamored of privatization and public-private partnerships when considering how to improve financial security in old age when demographic change destabilizes existing safety nets. The public sector has a vital role to play when markets fail to serve the public interest, especially if the public

sector's democratic integrity is intact. The failures of public-private pension reform ventures in Latin America are a warning to policymakers in the U.S. Latinos' reluctance to trust the financial services industry is well founded. Information asymmetries between investment firms and individual consumers make reliance on inadequately regulated industry for financial security in old age a dubious proposition. In the U.S., Social Security has done a more efficient job of it. The Social Security Administration OASI program has lower administrative costs than retirement plans offered by the for-profit financial services industry. It would be in the public interest to raise OASI payroll taxes as needed, and fix OASI to assure continued payment of promised benefits after 2035 for future all current and future retirees, including Latino workers and retirees who rely so heavily on Social Security.

In addition, Latino cultural traditions should remind us that the family sector, as well as the public, private, and nonprofit sectors, is a potential resource for policy.

For example, in the Americas, paid leave for working women and men to care for elderly parents' health needs is guaranteed only by the governments of Canada, Nicaragua, Peru, and El Salvador (UCLA Fielding School of Public Health, n.d.-c). The United States is the only western hemisphere nation guaranteeing *unpaid* leave (UCLA Fielding School of Public Health, n.d.-b). The World Policy Analysis Center notes that terms of paid and unpaid leave vary among Western Hemisphere nations.

> Leave for elderly parent's health needs includes leave specifically designated to care for adult family members' health needs. Leave for adult family members' health needs also includes cases where leave is available only for serious illnesses, hospitalization, or urgent health needs. In some cases, this leave may be limited to family members living in the same household as the worker. (UCLA Fielding School of Public Health, n.d.-c)

Conclusion

A preliminary review of literature suggests that public policies in the U.S. and other nations throughout Latin America will not address the economic and cultural consequences of rapidly increasing populations of Latino elders.

The U.S. can ill-afford to rely exclusively on expensive private sector nursing homes and assisted living enterprises as the elderly population continues its rapid growth, and the ratio of disabled elders to paid breadwinners becomes more problematic. Extended family and kin are efficient but underpaid sources of care. The public interest might be better served if lower-cost community-based small businesses were subsidized to augment family care, especially if those businesses were owned and staffed by well trained, culturally competent Latino workers.

This paper did not answer the question of what the future holds for Latino families. As educational and employment opportunities increase for young Latinos, implications for family roles and structure remain unknown. Family is important for Latino elders today, and public policy should make better use of the opportunities families can offer their elders. But questions raised earlier in this paper about Latinos' continued educational progress, expanded participation in an evolving labor market, and resultant effects on Latino family traditions remain unanswered. Thus, rigorous and defensible research is prerequisite to sound public policy concerning income security for future generations of Latino elders.

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