



Why Do African-Americans and Hispanics Save Less Than Whites and Asians?

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Financial Education in Living Color: Eliminating Ethnic Inequities in 401(k) Plan Participation

LAGUNA HILLS, CALIF. — Ethnicity is the number one predictor of saving and investing behaviors, according to *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups — The Ariel/Hewitt Study*. But the pioneering report and company representatives talking on the topic stop short of answering the basic question of *why* African-Americans and Hispanics save less.

In the wake of media attention, most commentators have jumped to the conclusion that socioeconomic differences—such as lower salaries and higher poverty rates among people of color—are the primary reason for the retirement-readiness gap. But that is a false assumption. When Hewitt and Ariel analyzed the data of 3 million eligible employees, all factors were held constant except ethnicity. And the finding was that, despite making the same amount of money, African-Americans and Hispanics had significantly lower 401(k) participation rates, lower contribution levels, lower equity exposure, and higher loan and withdrawal rates than their white and Asian counterparts.

The most frequently asked question of those reporting on the study is, Why does ethnicity influence saving and investing behaviors? **Financial Education in Living Color: Eliminating Ethnic Inequities in 401(k) Plan Participation** is a white paper designed to answer that question, as well as propose solutions to increase the effectiveness of cross-cultural financial education and communication efforts. The paper states that the following factors differ by ethnicity and influence saving and investing behaviors:

- **Target.** Contrary to what the financial services industry says, retirement is not the universal number one financial goal. For African-Americans, retirement savings are tied to saving for kids' college education, achieving lifestyle parity, and taking care of adult children and elderly parents. For Latinos, the number one financial goal is taking care of family needs.
- **Time horizon.** Planning for retirement requires a long-term focus. Generally, whites consider 30 to 40 years to be "long term," and Asians plan with a time horizon of the next century. However, Latinos are more likely to have experienced hyperinflation by either living in a country where it occurred or being raised by parents or grandparents who lived through such a time. Therefore, projecting financial decisions out 40 years may be a complete abstraction. Latinos often consider 3 to 4 years as a long-term planning horizon. African-American households also tend to have a shortened time horizon and a phased view of retirement planning.
- **Truth.** Latinos and African-Americans index faith as a higher value than do whites. However, faith orientation is different based on ethnicity and plays out differently in retirement planning. Latinos tend to be fatalistic; African-Americans tend to be evangelistic.
- **Trust.** Lack of trust plays a primary role in 401(k) saving and investing behaviors, especially among African-Americans. According to more than 10 years of Ariel Black Investor Survey data, African-Americans consistently rank distrust of financial planners and the financial planning community as a barrier to investing. Among Latinos, the trust problem is different. Latinos index higher in trusting authority figures, such as the police, financial planners, employers and government officials. But this often leaves them vulnerable to being taken advantage of.

About The Sentinel Group

The Sentinel Group is a financial education think tank in the area of diversity and investing behaviors and is a boutique financial life-planning firm in Laguna Hills, Calif. Unique in the financial services industry, The Sentinel Group's staff is 90 percent female. The Sentinel Group not only services the financial planning needs of hundreds of families and businesses, but also is expert at developing corporate solutions that bridge the retirement-readiness gap between underserved groups and the majority population, resulting in improved employee attraction, retention and engagement. For more information, please visit www.sentineloc.com.