La Vida Robo

By Kerry Pechter *Thu, May 10, 2018*

After MIT and a stint at Merrill Lynch, Carlos Garcia decided to start Finhabits, the first bilingual English and Spanish robo-advisor and savings tool. It's for first-time savers. It's also one of the first options available on the Washington State retirement plan marketplace.

Not long after Carlos Armando Garcia graduated from MIT with a bachelor's degree in electrical engineering, he was hanging out with other quantitative analysts at Merrill Lynch in New York when somebody mentioned the company's 401(k). Garcia remembers thinking: "What's a 401(k)?"

That was a wake-up call for Garcia, the son of a chemical engineer, a soccer-player and president of his high school class back in El Paso, Texas. If he was clueless about retirement planning, he figured, the same must be true for millions of other Hispanics in the US.

Turning that realization a business took awhile. But in 2016, after co-founding and selling two B2B fintech startups, Garcia launched **Finhabits**, a bilingual B2C mobile-friendly savings tool that sits on an Apex Clearing platform. Similar to **Stash**, but with a Spanish spin, Finhabits helps financial neophytes open a Roth or traditional IRA with as little as $5 a week.

"The difference between us and a **Betterment** or a **Wealthfront** is that they're interested in capturing the upper tier of the workforce," Garcia told *RIJ* recently. "A lot of their clients already have investments and know a stock from a bond. Ninety-five percent of our client base has never had an investment account. It's a different market."

This spring, Finhabits, along with Principal Financial and **Saturna**, become available on Washington State's new online retirement plan **marketplace**, where workers and employers can find simple, low-cost IRAs or 401(k)s. Still only a seven-person operation located in a WeWork co-working space in Manhattan's Soho district, Finhabits claims to be on-boarding about 1,000 new clients each week at an average weekly contribution rate of $40 per client. "By the end of 2018, we expect to have close to 55,000 accounts and have about $55 million under management," Garcia said.

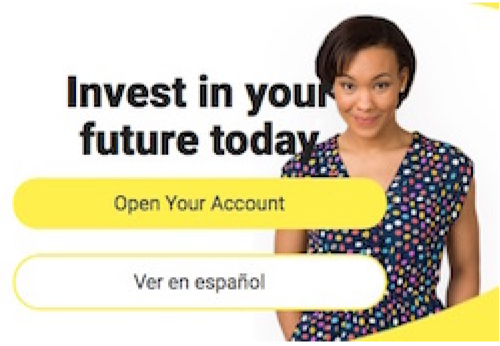
From El Paso to Wall Street

Garcia's parents emigrated from Juarez, Mexico to El Paso, Texas, where he was born and grew up. The region is dense with maquiladoras, the assembly plants that sprouted on the border with the passage of NAFTA in 1995. The prospect of a factory job draws people toward the border, creating a market for all kinds of small ventures. El Paso, where 73% of the businesses are Hispanic-owned, is known for entrepreneurship.

"A border town breeds entrepreneurship," he said. "There's a constant influx of people from the south, which creates a transient society. They come for a few months and then continue. It creates an opportunity society for the people who cannot cross."

After graduation from MIT in 2002, Garcia worked as a quantitative analyst for Merrill Lynch Investment Services. He left in 2009 to co-found Fundspire, a hedge fund analytics and reporting service. In 2012, he sold Fundspire to eVestment and started Madison Quant Labs, a hedge fund.

Proceeds from the sale of those firms helped kickstart Finhabits. Outside money followed. "We have funding from New York financial industry executives that support us on their own tab. We have external investors, so we need to produce results. But we're looking at it long-term," Garcia told *RIJ*.



From the Finhabits website

Finhabits' homepage, like many B2C fintech sites, feels as safe and colorful as the playground in a McDonald's franchise. "We believed that we could make the savings process simpler and easier. We started by simplifying the message. We shortened the enrollment process to less than 10 minutes," Garcia said.

The website text emphasizes saving more than investing. A visitor has to plumb the FAQs to learn that portfolios are composed of up to 11 Vanguard or BlackRock exchange traded funds (ETFs), covering stocks (U.S. and international) and bonds (corporate, government, tax-exempt and inflation-protected).

“You just connect your bank account and decide how much you want to contribute each month,” Garcia said. “You can pause it if you have three months with no income. There’s an app for mobile phones.” When clients change jobs, nothing changes, because the contributions don’t go through an employer’s payroll plan.

For Finhabits clients outside the [Washington State] marketplace, Finhabits charges $1 a month for balances under $2,500, and 50 basis points a year for investments. The investment cost is capped at 50 basis points. The average ETF expense ratio is 12 basis points a year.

Sending money home

As for marketing, “We’re on all the important digital platforms such as Facebook, Google, YouTube. We also have TV ads on select networks,” Garcia said. “We have a direct to consumer effort and we have partnerships. We work with credit unions. We’re not talking just about the ‘gig’ workforce.

“There’s only a 10% chance that any worker in a small business has access to a retirement benefit. We have a lot of clients from states with heavy non-white workforce, including California, Texas, Georgia, New York, Illinois, and now in Washington State,” he said.

For the Washington State marketplace, Finhabits clients with balances under $1,500 pay only the fees on the available Vanguard target date fund or balanced fund. The annual wrap fee on balances higher than $1,500 is 50 basis points a year but never more than one percent.

In his search for Latino clients, he has crossed paths with Cindy Hounsell, the director of WISER, the Women’s Institute for a Secure Retirement. Hounsell recently received a $150,000 grant through AARP’s Latina Savings Project to work with **MANA**, a national Latina organization, to develop and implement a Latina Retirement Savings Project in Topeka, Albuquerque, and Baytown, Texas.

Because the Trump administration killed the federal MyRA program, an Obama-era effort to auto-enroll people into Roth IRAs at work, she found a replacement for it in Finhabits, which has participated in a series of Retirement Savings Workshops with WISER. “What Carlos is doing is great. People in Texas, even if they weren’t Hispanic, thought that what he was doing was wonderful,” Hounsell said.

It’s not that Latinos in the U.S. don’t save. Collectively, they send an estimated $69 billion in savings back to their home countries in Mexico, the Caribbean and the rest of Latin America, according to a 2017 report from **Inter-American Dialogue**.

A 2007 study, “**Causes of Latinos Low Pension Coverage**,” suggested that by “the high priority placed by many Latinos, especially Mexicans, on sending money back to their countries of origin tends to crowd out other kinds of spending, like saving for retirement.”

Latinos are also less likely to have a pension plan where they work. “In manufacturing, 39.3% of Latinos participate in a pension plan at work compared to 58.6% of blacks and 67.8% of whites,” said the paper. “In 2001, 44% of Latinos worked for employers who offered pension plans, compared to 64% of blacks and 63% of whites.”

Finhabits’ own research shows an inverse relationship between the Hispanics presence in a city and the share of small business workers with retirement plans. Minneapolis’ population, for instance, is 6% Latino and 39% of small business employees are covered. In Laredo, Texas, the population is 96% Hispanic and only 8% of small business employees have a plan.

But the demographic future could look very different. The trend is Finhabits’ friend. According to the Census Bureau, the Latino population of the U.S. will double by 2060, to 119 million. That’s almost 30%. “The Hispanic population is growing,” Garcia told *RIJ*. “If current population trends continue, Latinos will eventually become a majority.”