



# PLAN FOR A NEW FUTURE: THE IMPACT OF SOCIAL SECURITY REFORM ON PEOPLE OF COLOR

A Report of the Commission to Modernize Social Security

October 2011





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## About the Commission to Modernize Social Security:

In March of 2011, the Insight Center for Community Economic Development and Global Policy Solutions convened a group of experts from or representing African American, Asian American and Pacific Islander, Latino, and Native American communities in an effort to identify proposals to extend Social Security's long term solvency while also modernizing the program to meet the needs of an increasingly diverse society. This report represents the Commission's plan for strengthening Social Security in light of the unique socioeconomic and cultural circumstances facing communities of color.

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October 2011



# PLAN FOR A NEW FUTURE: THE IMPACT OF SOCIAL SECURITY REFORM ON COMMUNITIES OF COLOR

A Report of the Commission to Modernize Social Security

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## PLAN FOR A NEW FUTURE: THE IMPACT OF SOCIAL SECURITY REFORM ON PEOPLE OF COLOR

### INTRODUCTION AND EXECUTIVE SUMMARY

**F**or more than two centuries, the United States of America has embraced an ethos that has encouraged successive generations to build on the progress of their forebears. Over time, this ideal has served as inspiration for individuals, families, and society as a whole, and has fueled greater levels of economic security for American workers.

However, the U.S. is now at a critical crossroads. A weak U.S. economy—exacerbated by skyrocketing health care costs, imprudent government spending and taxing decisions, corporate malfeasance, and the effects of an extended recession—has spurred policymakers to scrutinize budgets at every level of government. Even though Social Security cannot by law contribute to the nation's debt, the program has been continuously misidentified as a cause of the nation's budget challenges and has therefore become a target for those who want to reduce government spending.

As a part of New Deal reforms in the wake of the Great Depression of the 1930s, Social Security has become a cornerstone of American progress. In





**In exchange for modest payroll contributions, U.S. workers have been able to gain insurance that provides economic benefits for themselves and their families in the event of retirement, disability or early death; events that in previous generations would have led to impoverishment for workers and their families.**

exchange for modest payroll contributions, U.S. workers have been able to gain insurance that provides economic benefits for themselves and their families in the event of retirement, disability or early death; events that in previous generations would have led to impoverishment for workers and their families. As an economic stabilizer, Social Security also stimulates the overall economy through monthly payments to beneficiaries who, in turn, spend their Social Security wealth at local retail outlets throughout the country. These benefit checks are distributed regardless of the country's economic condition and are especially helpful in maintaining demand during economic downturns.

Throughout its 76-year history, Social Security has maintained a successful track record of performance—never missing a payment and reducing poverty among vulnerable groups. Unlike other part of the U.S. budget, the Social Security trust funds currently have a surplus and are able to fully pay benefits until the year 2036.<sup>1</sup> Extending

<sup>1</sup> Social Security Administration. (2011). *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Washington, D.C.: U.S. Government Printing Office.

the solvency of the program beyond that point will require modest programmatic changes.

Because decisions made today about the program's future will profoundly affect the next generation's ability to survive and thrive, it is the collective responsibility of national leaders to ensure that any changes are made with the best interests of the next generation as a top priority. This can only be done by understanding who these children are and what socioeconomic circumstances they are likely to face as they come of age and mature in the middle to latter part of the 21<sup>st</sup> century.

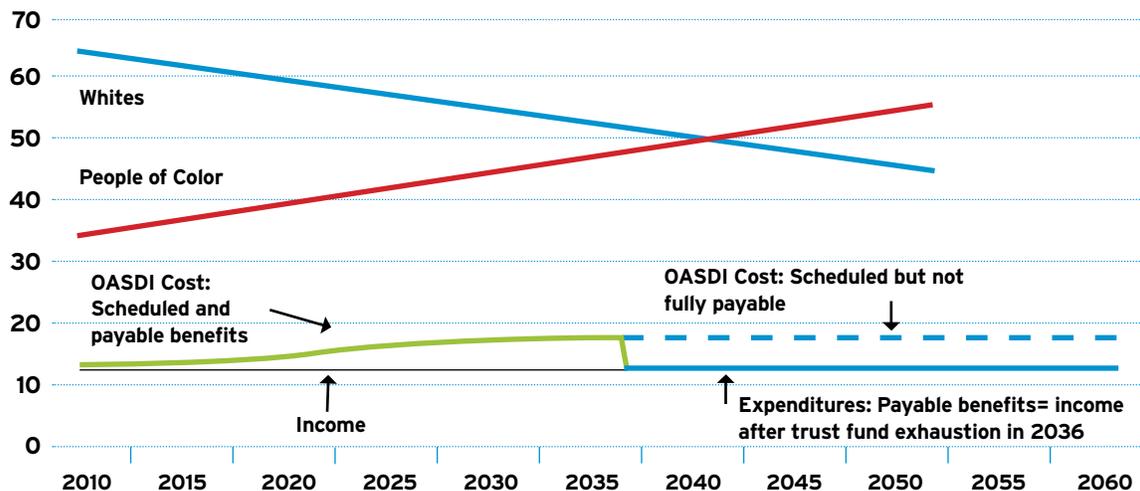
## ■ America's Changing Complexion

Three inextricably intertwined phenomena—globalization, economic instability, and changing racial and ethnic demographics—provide substantial insight into how mid-century Americans will likely view and use Social Security.

Figures from the U.S. Census Bureau paint a vivid picture. Demographic trends point to a steady growth in the number of people of color (Latino, African American, Asian and Pacific Islander, Native American) while simultaneously projecting a decline in the white population. In June of 2011, the Census Bureau reported that the majority of babies born in the U.S. are now children of color and that a majority of youth under the age of 18 would be from non-white racial and ethnic groups by the end of this decade.<sup>2</sup> If current trends con-

<sup>2</sup> Frey, W. (2011). *America's Diverse Future: Initial Glimpses at the U.S. Child Population from the 2010 Census*. Washington, D.C.: The Brookings Institution.

**FIGURE 1** | The Nation's Demographics are Changing Along With Social Security's Outlook



Source: U.S. Census Bureau Population Division. (2008, Aug. 14). Table 6. Percent of the Projected Population by Race and Hispanic Origin for the United States, 2010-2050. U.S. Social Security Administration. (2011). Figure 11.D2. OASDI Income, Cost and Expenditures as Percentages of Taxable Payroll (Under Intermediate Assumptions).

tinue, the overall U.S. population is expected to become “majority-minority” by the year 2042.<sup>3</sup>

Despite the growth of racial and ethnic populations of color, the socioeconomic outlook for this rising majority is not rosy. The vast majority of children of color are born into lower-income, low-wealth households.<sup>4</sup> This historical phenomenon has its roots in discriminatory labor market practices and social policies.<sup>5</sup> However, the current socioeconomic circumstances of families of color have also been shaped by increased economic insecurity and stagnating wages for working class

Americans of all backgrounds<sup>6</sup> and the loss of U.S. jobs due to globalization and the Great Recession. The Great Recession has led to disproportionate rates of unemployment, foreclosures, and poverty in communities of color, which has had (and will continue to have) generational consequences for the children of the recession generation.<sup>7</sup>

Indeed, a recent report by the Pew Research Center found that the wealth gap between whites and communities of color has reached its widest level in the quarter century since this statistic

3 U.S. Census Bureau. (2008). *An Older and More Diverse Nation by Mid-Century*. Washington, D.C.: U.S. Census Bureau.  
4 Shanks, T. R. (2007). The Impact of Household Wealth on Child Development. *Journal of Poverty*, 11 (2), 93-116.  
5 Oliver, M., & Shapiro, T. (2006). *Black Wealth/White Wealth: A New Perspective on Racial Inequality*. New York, NY: Routledge.

6 Hacker, J. S., Huber, G. A., Rehm, P., Schlesinger, M., & Valetta, R. (2010). *Economic Security at Risk: Findings from the Economic Security Index*. New York, NY: The Rockefeller Foundation.  
7 Annie E. Casey Foundation. (2011). *America's Children, America's Challenge: Promoting Opportunity for the Next Generation*. Baltimore, MD: Annie E. Casey Foundation.



has been measured.<sup>8</sup> From 2005 to 2009, wealth fell by 66% among Latino households and 53% among black households, and 54% among Asian households, compared with only 16% among white households.<sup>9</sup> In 2009, the typical African American and Latino household had a mere \$5 and \$6 of net worth, respectively, for every \$100 of assets held by the typical non-Hispanic white household. Racial wealth disparities have direct implications for retirement security; an estimated nine out of 10 senior households of color do not have enough economic security to sustain themselves throughout their projected lives.<sup>10</sup>

Unless effective interventions are implemented, uneven education investments and misguided education policies will also assure that a majority of children coming of age in mid-century will lack the skills and knowledge necessary to strengthen their socioeconomic outlook. This very real possibility, combined with the global competition for jobs, eroding retirement security due to diminished savings and the inadequacies of 401K-style defined benefit plans,<sup>11</sup> and inadequate access to “white collar” jobs with disability, secure retirement, and life insurance benefits, means that today’s children, like their parents, will rely heavily on Social Security.

8 Kochhar, R., Fry, R., & Taylor, P. (2011). **Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics**. Washington, D.C.: Pew Research Center.

9 Ibid.

10 Wheary, J., Meschede, T., Shapiro, T. M., & Sullivan, L. (2010). **Living Longer on Less: Severe Financial Insecurity Among African-American and Latino Seniors**. New York, NY: Demos.

11 Hiltonsmith, R. (2010). **The Failure of the 401(K): How Individual Retirement Plans are a Costly Gamble for American Workers**. New York, NY: Demos.





What is the nation's responsibility to the next generation of children in light of these projections?

## ■ The Imperative for Stronger Social Security Benefits

Given the economic outlook for tomorrow's workers, efforts to reform Social Security should not only focus on the program's solvency, they must also consider how to increase the adequacy of benefits for vulnerable recipients.

For 76 years, Social Security has helped provide economic security for American workers and their families. For families of color, Social Security has not only helped to keep them out of poverty, it also has helped them maintain a standard of living that would not otherwise be possible when they or

family members are faced with death, disability, or retirement. As people of color transition to become the majority of the U.S. workforce and eventually the majority of the older adult population, it is important to consider how these populations use Social Security and how the program can be modernized to meet the needs of an increasingly diverse and economically insecure 21<sup>st</sup> century workforce.

In recognition of Social Security's continued relevance for a new generation of diverse Americans, the Insight Center for Community Economic Development and Global Policy Solutions convened the Commission to Modernize Social Security. Comprised of experts from or representing African American, Asian American and Pacific Islander, Latino, and Native American communities, the Com-



mission was given the task of identifying proposals to extend Social Security's long-term solvency while also modernizing the program to ensure the program continues to achieve its goal of increasing economic security for all.

Building upon what currently works in the program, the group developed a reform plan that would make Social Security fully solvent for more than 75 years while also strengthening benefits for vulnerable groups such as the disabled, students, and the very old. With an interest in maintaining intergenerational equity, the Commission achieved its goal without introducing benefit cuts—like raising the retirement age, reducing cost of living adjustments, or price-indexing benefits—that are harmful to middle- and low-income Americans of all racial and ethnic backgrounds.

This report represents the outcome of the Commission's deliberations. It analyzes how communities of color interact with the Social Security program and outlines the rationale and approaches for making Social Security stronger for future generations.

## SOCIAL SECURITY AND PEOPLE OF COLOR

**T**he Social Security Act was passed in 1935 to solve a pressing problem: how to alleviate poverty among those who contributed a lifetime of labor to the U.S. economy but who, through no fault of their own, could no longer work. The program's early years focused on providing assistance to the elderly and

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**Social Security is an important program for workers and families of color who are more vulnerable to economic instability and who are the least likely to have wealth as a direct result of past racial discrimination in American life and policies.**

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their spouses. Later, eligibility was extended to dependents of deceased workers and to people who could no longer work due to long-term disability.

Since its beginnings, Social Security has proven to be one of the most enduring and effective means of protecting vulnerable people from poverty while giving them dignity and a measure of economic security.<sup>12</sup> It is an especially important asset for workers and families of color who are more vulnerable to economic instability and who are the least likely to have wealth as a direct result of past racial discrimination in American life and policies.<sup>13</sup> It is important to recognize that Social Security also serves to prevent the middle class from falling behind.<sup>14</sup>

Today, Social Security's insurance benefits are a valuable asset for vulnerable workers and families and would be unaffordable for many if purchased in the private market. For example, the value of the life insurance provided to survivors through

<sup>12</sup> Perun, P. J., & Dilley, P. E. (2011). *Social Security: The House That Roosevelt Built*. Washington, DC: The Aspen Institute Initiative on Financial Security.

<sup>13</sup> Rockey Moore, M. (2010). *Social Security at 75: Building Economic Security, Narrowing the Racial Wealth Divide*. Washington, DC: Insight Center for Community Economic Development.

<sup>14</sup> Ibid.

## Social Security is the primary source of retirement income for older minorities, with more than 25 percent of African Americans and Latinos depending on it for more than 90 percent of their family income.

Social Security is over \$433,000, and the value of disability protection for a young disabled worker with a spouse and two children is more than \$414,000.<sup>15</sup> The program's progressive structure also replaces a larger percentage of lower earning workers' pre-retirement or pre-disability income, and its steady, inflation-adjusted benefits allow families to maintain the purchasing power of their Social Security income over time.

Despite some who question the value that people of color receive from Social Security, a 2003 study conducted by the U.S. General Accounting Office (now the Government Accountability Office) found that Hispanics and African Americans receive a higher rate of return—receiving more in benefits than what is paid out in payroll taxes—than whites due to their heavier reliance on the full range of benefits offered by Social Security.<sup>16</sup>

This finding is reflected in polling data that underscore the program's popularity among people of color. According to a 2010 National Academy

of Social Insurance poll, 92 percent of African Americans, 90 percent of Latinos, and 86 percent of whites agree that Social Security's societal benefits are worth the cost.<sup>17</sup> The continued popularity of Social Security among people in all racial and ethnic groups is a testament to its effectiveness in providing economic support to workers and families facing lost income due to death, disability, or retirement of a primary wage earner.

## People of Color Use Social Security Differently than Whites

It is widely assumed that everyone uses Social Security similarly. However, it is a fact that people of color rely on Social Security differently than whites, elevating the importance of certain program features.<sup>18</sup>

While the vast majority of whites (74%) depend on Social Security for its retirement benefits, almost half (45%) of all African-American beneficiaries and a majority (58%) of persons of "other" (the Social Security Administration uses the term "other" to describe racial and ethnic groups that are not white or black) racial and ethnic groups rely on Social Security for its survivor and disability benefits.<sup>19</sup>

For people of color, their heavier reliance on survivor and disability benefits reflects socioeconomic factors, such as lower educational attainment and higher rates of poverty, disability, morbidity, and—

15 National Committee to Preserve Social Security and Medicare. (2011, August). **Social Security Primer**. Retrieved September 28, 2011, from National Committee to Preserve Social Security and Medicare: [www.ncpssm.org/ss\\_primer](http://www.ncpssm.org/ss_primer)

16 U.S. General Accounting Office. (2003). **Social Security and Minorities: Earnings, Disability Incidence and Mortality Are Key Factors That Influences Taxes Paid and Benefits Received**. Washington, DC: U.S. General Accounting Office.

17 Rockey Moore, M., & Maitin Shepard, M. (2010). **Tough Times Require Strong Social Security Benefits: Views on Social Security among African Americans, Hispanic Americans, and White Americans**. Washington, DC: National Academy of Social Insurance.

18 Hendley, A. A., & Bilimoria, N. F. (1999). Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program. **Social Security Bulletin**, 62 (2), pp. 59-64.

19 U.S. Social Security Administration. (2009). **Annual Statistical Supplement, Number and average monthly benefit, by type of benefit and race**, December 2008. Table 5.A1.

for African Americans and Native Americans—mortality.<sup>20</sup>

These usage patterns also reflect the effects of occupational segregation, with people of color more likely to work in physically challenging jobs that are more likely to lead to temporary or permanent disability.<sup>21</sup> Such jobs can also lead to early death, which may be the reason for the greater utilization of Social Security by children of color as survivors of deceased workers or dependents of disabled

workers. For example, nearly 21 percent of all children who receive Social Security disability benefits are African American, although they are only 15 percent of all children in the U.S.<sup>22</sup>

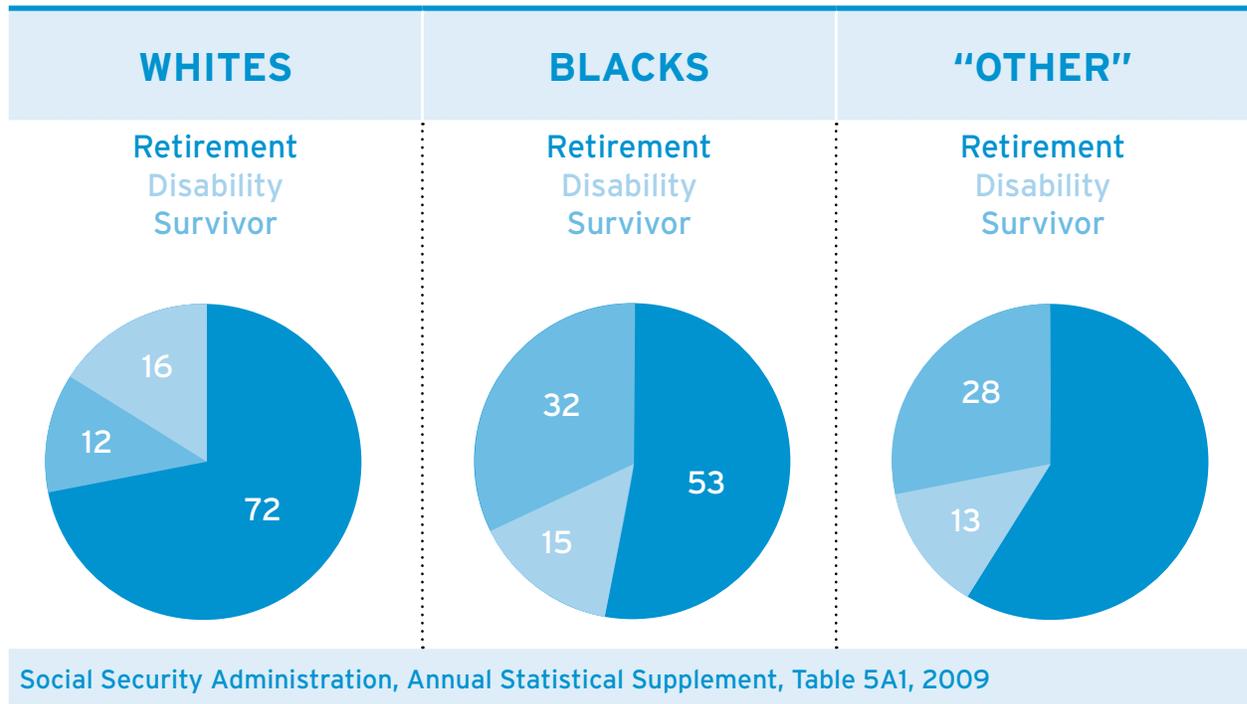
There are other important differences among racial and ethnic groups. Life expectancy is a case in point. Asians and Latinos who are 65 today have longer life expectancies than whites, African Americans and Native Americans. For example, a 65 year-old Latino or Asian man is expected to live to 85 compared to 82 for all men; a Latina woman is expected to live to 89 and an Asian woman to 88 compared to 85 for

20 Martin, P. P. (2007). Hispanics, Social Security, and Supplemental Security Income. *Social Security Bulletin*, 67 (2), pp. 73-100.

21 Rho, H. J. (2010). *Hard Work? Patterns in Physically Demanding Labor Among Older Workers*. Washington, DC: Center for Economic and Policy Research.

22 Ibid., p. 12

**FIGURE 2 | Use of Social Security by Beneficiary Type and Race/Ethnicity**



## The global competition for jobs, eroding retirement security due to diminished savings and the inadequacies of 401K-style defined benefit plans, and inadequate access to jobs with disability, secure retirement, and life insurance benefits, means that today's children, like their parents, will rely heavily on Social Security.

all women.<sup>23</sup> Given longer life spans for Asians and Latinos, the annual cost of living adjustment (COLA) is an especially important Social Security feature that maintains the purchasing power of Social Security dollars for those who are very long lived.<sup>24</sup> On the other hand, African Americans and Native Americans have lower life expectancies than whites, Asians, and Latinos. Social Security's early retirement feature, which allows workers to retire at age 62, is especially important to them.

Another important difference is that family structures in communities of color often differ. For example, Asians of all ages are the most likely to be married and living with spouses (60% for Asians vs. 49% of the total population).<sup>25</sup> On the other hand, more African American women are never married or divorced and thus are least well served by the family provisions in Social Security.

23 Vega, W., & Gassoumis, Z. (2011). **Primer: Impact of Social Security and Proposed Benefit Changes on the Latino Population**. Los Angeles, CA: USC Edward R. Roybal Institute on Aging.

24 Lui, M. (2011). **A Primer: Social Security Benefits for Asian and Pacific Islander Americans**. Oakland, CA: Insight Center for Community Economic Development.

25 Ibid.

One important similarity among people of color is that they all tend to depend on extended family networks and are more likely to share income beyond their nuclear family, which both cushions elders and disabled people, but decreases savings and investments for those providing financial help.

## Older Adults of Color are More Reliant on Social Security than Whites

Although Social Security accounts for the bulk of retirement wealth for 70 percent of Americans, people of color rely more on its benefits because they are least likely to have significant sources of wealth outside of Social Security upon retirement.<sup>26</sup> In addition to well-documented racial and ethnic disparities in income, the racial wealth gap—rooted in historical discrimination—reflects disparities in receipt of private pensions, investments, savings, and homeownership.<sup>27</sup>

Wealth data from the Federal Reserve Board provides additional insight into these disparities. In 2007, the average family of color had only 16 cents of wealth for every dollar held by the average white family. The gap was largest between African American and white families, \$17,100 versus \$170,400.<sup>28</sup> A more recent study by the Pew

26 Honig, M. (2000). **Minorities Face Retirement: Work-Life Disparities Repeated?** In O. S. McMillan, B. P. Hammond, & A. M. Rappaport, **Forecasting Retirement Needs and Retirement Wealth**. Philadelphia, PA: University of Pennsylvania Press.

27 Lui, M. (2009). **Laying the Foundation for National Prosperity: The Imperative of Closing the Racial Wealth Gap**. Oakland, CA: Insight Center for Community Economic Development.

28 Bucks, B. K., Kennickell, A. B., Mach, T. L., & Moore, K. B. (2009). **Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances**. Washington, DC: U.S. Federal Reserve Board. PA: University of Pennsylvania Press.



**FIGURE 3** | Sources of Income Upon Retirement by Race and Ethnicity



Source: Social Security Administration, Income of the Population 55 and Older, 2008, Table 2.A3, released April 2010

Research Center confirms that the wealth gap has widened as a result of the Great Recession.<sup>29</sup>

While those in the pre-retirement ages of 50-64 have the most wealth given that they are at the peak of their working years and have yet to begin drawing down on accumulated assets for post-retirement income, large racial gaps remain with single white men and women owning twice as much as single non-white men and women.<sup>30</sup> Since those are the ages in which people often lose parents, it is likely that racial differences in

inheritance play a major role in the racial wealth gap.<sup>31</sup> For example, while 1 in 4 white Americans will receive an inheritance, only 1 in 20 African Americans will; and they will receive only 8 cents to the white inheritor's dollar.<sup>32</sup>

Mostly due to continued occupational segregation by race and gender, people of color also are less likely than whites to have pensions.<sup>33</sup> For example, 78.2 percent of managerial positions are held by non-Hispanic whites, while they are 63.7 percent of the population. In comparison, 8.4 percent of African Americans, 6.1 percent of Asians, and 7.3

29 Kochar, R., Frye, R., & Taylor, P. (2011). *Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*. Washington, DC: Pew Research Center.

30 Chang, M. (2010). *Lifting As We Climb: Women of Color, Wealth, and America's Future*. Oakland, CA: Insight Center for Community Economic Development.

31 Ibid, p. 12.

32 Ibid.

33 Ibid.

percent of Latinos hold these types of positions.<sup>34</sup> In contrast, service sector occupations are the least likely of provide pensions. Accordingly, African Americans (16.3%) and Latinos (40.8%) hold a disproportionate number of the maid and house-keeping cleaner positions within the service sector compared to 5 percent of Asians and 37.9 percent of whites.<sup>35</sup> Women (56.9%) are also more likely to hold service sectors jobs and are dramatically overrepresented in areas such as healthcare support (88.9%) personal care and service (78.3%),

and maids and housekeeping cleaner (89%) occupations.<sup>36</sup>

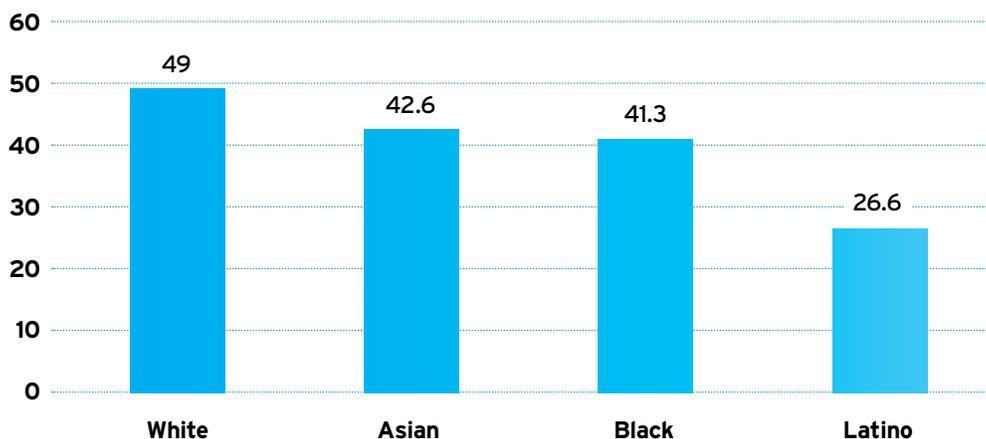
Given the disparities in access to pensions and to income from personal savings and ownership, it is no wonder that Social Security payments are more essential to beneficiaries of color than to white beneficiaries. Social Security is the primary source of retirement income for older minorities, with more than 25 percent of African Americans and Latinos depending on it for more than 90 percent of their family income. It is the ONLY source of income for two out of every five Latino and African American

34 Bureau of Labor Statistics. (2010). *Employed Persons by Detailed Occupation, Sex, Race, and Hispanic or Latino Ethnicity*. Washington, DC: Bureau of Labor Statistics.

35 Ibid.

36 Ibid.

**FIGURE 4** | Workers in employer-sponsored retirement plan, 2003-09



Source: Schmitt, John. (2011). *Workers of Color Less Likely to Have Pensions*. Washington, DC: Center for Economic and Policy Research. Retrieved on September 16 from: <http://www.cepr.net/index.php/blogs/cepr-blog/workers-of-color-less-likely-to-have-pensions>



retiree beneficiary households.<sup>37</sup> Consider the data for people of color by marital status:

In 2009, among African Americans receiving Social Security, 29 percent of elderly married couples and 56 percent of unmarried elderly persons relied on Social Security for 90 percent or more of their income.<sup>38</sup>

In 2009, among Hispanics receiving Social Security, 36 percent of elderly married couples and 62 percent of elderly unmarried persons relied on Social Security for 90 percent or more of their income.<sup>39</sup>

In 2009, among Asian Americans and Pacific Islanders receiving Social Security, 27 percent of elderly married couples and 48 percent of elderly unmarried persons relied on Social Security for 90 percent or more of their income.<sup>40</sup>

In 2009, among American Indians receiving Social Security, 45 percent of elderly unmarried persons relied on Social Security for 90 percent or more of their income.<sup>41</sup>

The following graph illustrates how communities of color rely more heavily on Social Security for the majority of their income.

37 Leigh, W. (2011). *African Americans and Social Security: A Primer*. Washington, DC: Joint Center for Political and Economic Studies. (Latino number calculated by NCLR using Social Security Administration, "Income of the Population 55 or Older, 2008," Table 9.A3.)

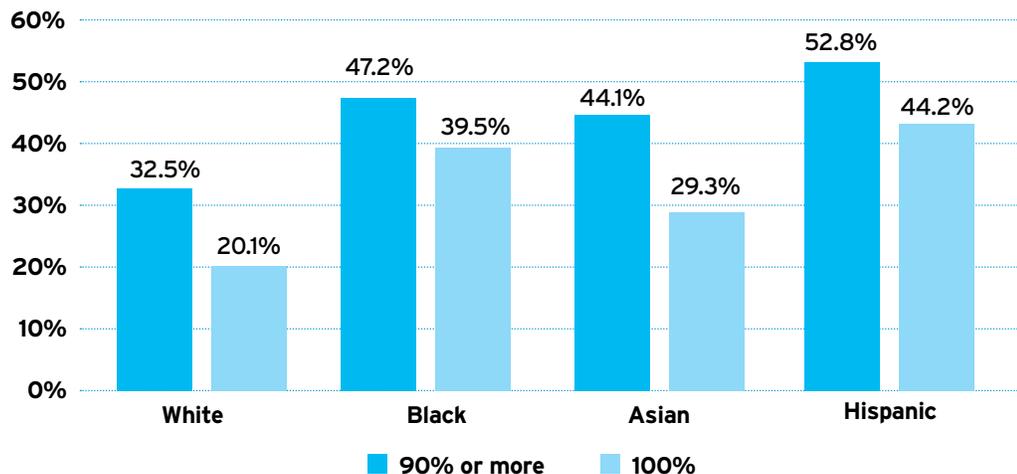
38 U.S. Social Security Administration. (2011). *Social Security is Important to African Americans*. Baltimore, MD: U.S. Social Security Administration.

39 U.S. Social Security Administration. (2011). *Social Security is Important to Hispanics*. Baltimore, MD: U.S. Social Security Administration.

40 U.S. Social Security Administration. (2011). *Social Security is Important to Asian Americans*. Baltimore, MD: U.S. Social Security Administration.

41 U.S. Social Security Administration. (2011). *Social Security is Important to American Indians and Alaska Natives*. Baltimore, MD: U.S. Social Security Administration.

**FIGURE 5** | Reliance on Social Security for 90% or 100% of income, 2008



Source: Social Security Administration, "Income of the Population 55 or Older, 2008." [http://www.ssa.gov/policy/docs/statcomps/income\\_pop55/2008/sect09.pdf](http://www.ssa.gov/policy/docs/statcomps/income_pop55/2008/sect09.pdf) (accessed August 2011), Table 9.A3



## Social Security is Important to Women of Color

As a majority of adult Social Security beneficiaries (52%), women are also heavily reliant on Social Security.<sup>42</sup> More than half (60%) of adult women receive Social Security as retired workers while the other half is split between women who rely on Social Security as widows of deceased workers and the caretakers of their dependent children, as disabled workers, as disabled dependents, and as the spouses of retired and disabled workers.<sup>43</sup>

42 U.S. Social Security Administration. (2009). Table 5.A6: Number and average monthly benefit by age, sex, type of benefit, and race, December 2008. *Annual Statistical Supplement*. Baltimore, MD: U.S. Social Security Administration.

43 U.S. Social Security Administration. (2009). Table 5.A7: Number and average monthly benefit for women by type of benefit, basis of entitlement, and race, December 2008. *Annual Statistical Supplement*. Baltimore, MD: U.S. Social Security Administration.

In general, women live longer than men, have a history of lower earnings during the course of their working years, take more time out of the workforce to care for family, and have higher rates of poverty. These factors increase their reliance on Social Security.

Women of color face unique circumstances that make them more vulnerable to extreme poverty and more reliant on Social Security as they age. Disproportionately lower earners—even more so than white women and men of all races and ethnicities—women of color are more likely to have worked in low-wage and part-time positions while in the labor force.<sup>44</sup> This continuing trend makes

44 Kijakazi, K. (2002). Low-Wage Earners: Options for Improving Their Retirement Income. In D. Salisbury, P. Larson, & P. Edeman, *The Future of*



women of color even more reliant on Social Security's progressive benefit formula.

The marital status of women of color and the earnings of the men they marry, if they marry, also contribute to their economic insecurity. While marriage often provides a step up the economic ladder for white women, women of color have no such marital advantage because they tend to marry men of color who also have lower earnings relative to whites.<sup>45</sup> One in three (31%) African-American married couples and nearly four in ten (39%) Hispanic married couples rely on Social Security for 90 percent or more of their income in retirement, compared to only one in five (20%) white married couples.<sup>46</sup>

Divorced women and women who have never married have the highest rates of poverty.<sup>47</sup> African-American women are especially disadvantaged because they are the least likely to ever be married.<sup>48</sup> Unmarried women living alone aged 65 and older are three times as likely to be living in poverty as married women aged 65 and older (16.6 % compared with 4.8 /5).<sup>49</sup> Without Social Security, more than two-thirds of unmarried elderly women would fall into poverty.<sup>50</sup>

**Social Insurance: Incremental Action or Fundamental Reform.** Washington, DC: National Academy of Social Insurance.

45 Fry, R., & Cohn, D. (2010). **Women, Men and the New Economics of Marriage.** Washington, DC: Pew Research Center.

46 National Women's Law Center. (2005). **Women of Color and Social Security.** Washington, DC: National Women's Law Center.

47 Hartmann, H., & Lee, S. (2003). Social Security: The Largest Source of Income for Both Women and Men in Retirement. In S. Lee, & L. Shaw, **Gender and Economic Security in Retirement.** Washington, DC: Institute for Women's Policy Research.

48 U.S. Census Bureau. 1998. Marital Status of Persons 15 Years and Over, By Age, Sex, Race, Hispanic Origin, Metropolitan Residence, and Region: March 1998. Table 1.

49 Institute for Women's Policy Research. (2011). **Six Key Facts on Women and Social Security.** Washington, DC: Institute for Women's Policy Research.

50 Ibid.

In contrast, Asians of all ages are the most likely to be married and living with their spouses (60% for Asians vs. 49.1% of the total population).<sup>51</sup> Eighty-four percent of Asian men over 65 live with their spouses but only 45 percent of Asian women over 65 are still living with their spouses.<sup>52</sup> This disparity reveals a gender differential in life expectancy among Asian older adults. Since more Asians are legally married and because husbands tend to die first a greater percentage of Asian women are eligible for Social Security survivor benefits, which helps Asian elderly women escape poverty.<sup>53</sup>

## ■ Social Security is Important to Men of Color

Despite their vulnerability, the needs of men of color are not usually highlighted in discussions about Social Security reform. One notable exception was when President Bush justified his effort to partially privatize Social Security by arguing that African American men get a raw deal from the program due to their shorter life expectancy.<sup>54</sup> Indeed, it is true that African American and Native American men have shorter life expectancies when compared to white, Asian, and Latino men. For example, in 2009 the at-birth life expectancy for black men was 70.9 years of age compared to 76.2 years of age for white men.<sup>55</sup> However, this should not be a justification for dismantling Social

51 Lui, M. (2011). **A Primer: Social Security Benefits for Asian and Pacific Islander Americans.** Oakland, CA: Insight Center for Community Economic Development.

52 Ibid.

53 Ibid.

54 Bush, G. W. (2005, January 9). **Presidential Statements: George W. Bush-1st Quarter, 2005.** Retrieved August 31, 2011, from Social Security Administration: <http://www.ssa.gov/history/gwbushstmts5.html#01112005>

55 Kochanek, K. D., Xu, J., Murphy, S. L., Minino, A. M., & Kung, H.-C. (2011, March 16). Deaths: Preliminary Data for 2009. **National Vital Statistics Reports**, 59 (4).

Security but for pursuing reforms that avoid harming the chances that men of color receive Social Security's full range of benefits.

In general, men of color are disadvantaged in the labor market compared to white men. When compared to white and Asian men, African American, Latino, and Native American men tend to experience higher unemployment rates and lower wages over the course of their working lives. Unemployment figures for 2010 show black male unemployment at 18.4 percent, Latino male unemployment at 12.7 percent, and white male unemployment at 9.6 percent. At 7.8 percent in 2010, unemployment among Asian men was an exception.<sup>56</sup> However, college educated Asians have higher unemploy-

ment rates than their white counterparts,<sup>57</sup> and even though lower-skilled Asians are more likely to be employed, the length of unemployment for those losing their jobs is longer.<sup>58</sup> There is evidence that Native American men have the highest rates of unemployment and poverty, with unemployment in some tribes exceeding 60 percent.<sup>59</sup> Higher unemployment rates among men of color, especially during their teens, mean that they are likely to have multiple years of zero earnings that will be counted against them in the determination of Social Security benefit levels.<sup>60</sup> The amount of Social Security income received also reflects wage

56 Bureau of Labor Statistics. (2011). **Household Data Annual Averages: Employment status of the civilian noninstitutional population by age, sex, and race.** Retrieved August 31, 2011, from Bureau of Labor Statistics: <http://bls.gov/cps/cpsaat3.pdf>

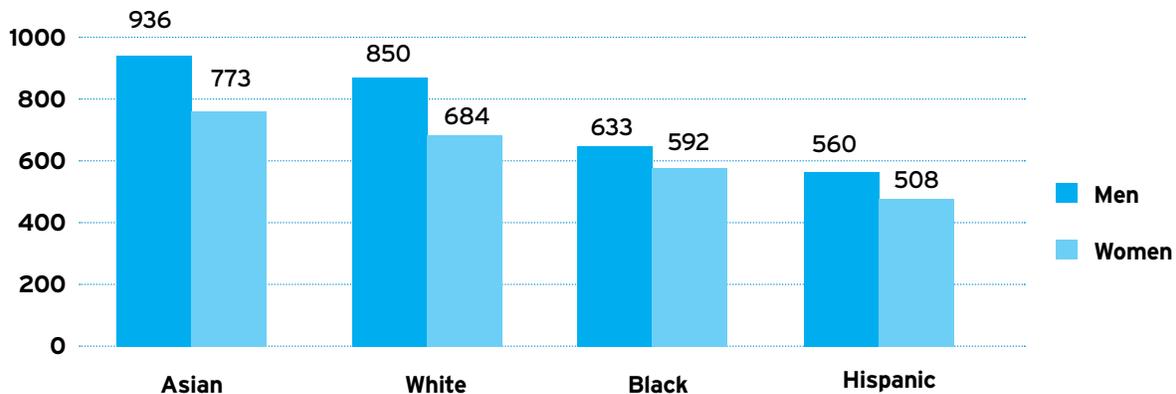
57 Austin, A. (2010). **Hidden Disadvantage: Asian American Unemployment and the Great Recession.** Washington, DC: Economic Policy Institute.

58 Semuels, A. (2010, September 7). Unemployment Lasts Longer for Asian Americans. **Los Angeles Times.**

59 Rodgers, T. (n.d.). **Native American Poverty.** Retrieved August 31, 2011, from Spotlight on Poverty and Opportunity: <http://www.spotlightonpoverty.org/ExclusiveCommentary.aspx?id=0fe5c04e-fdbf-4718-980c-0373ba823da7>

60 Spriggs, W. E. (2004, Nov/Dec). African Americans and Social Security: Why the Privatization Advocates are Wrong. **Dollars & Sense**, pp. 17-19.

**FIGURE 6** | 2010 Median Weekly Earnings of Full-Time Wage and Salary Workers by Race/Ethnicity and Gender



Source: U.S. Department of Labor, Bureau of Labor Statistics



differentials between men by race and ethnicity. For example, the median weekly earnings for male full-time workers in 2010 were \$633 for African American, \$560 for Latinos, \$850 for whites and \$936 for Asians.<sup>61</sup>

The effect of these labor market disparities are apparent in the amount of Social Security benefits received by men of color. In 2009, African-American and “Other” men comprised 8.5 percent and 11.9 percent respectively of all men drawing on Social Security **retirement** benefits.<sup>62</sup> Their average monthly Social Security **retirement** income was \$1,151.60 for African-American men, \$1,060.90 for “Other” men, and \$1,068.58 for Hispanic men, compared to \$1,434 for white men.<sup>63,64</sup> Of all men drawing down on **disability** benefits, African-American men comprised 16.3 percent, “Other” men comprised 14.3 percent, and white men comprised 68.8 percent in 2009.<sup>65</sup> The average Social Security **disability** income for black men was \$1,097 and \$1,056.70 for “Other” men compared with \$1,332.10 for white men.<sup>66</sup>

Despite their lower benefits levels, Social Security remains vitally important to men of color. The program’s progressive benefit structure helps low-wage men of color by replacing a higher percentage of their pre-retirement and pre-disability earnings.

61 U.S. Bureau of Labor Statistics. (2011, July). **Highlights of Women's Earnings in 2010: Table 1**. Retrieved August 31, 2011, from U.S. Bureau of Labor Statistics: <http://bls.gov/cps/cpswom2010.pdf>

62 U.S. Social Security Administration. (2011, February). Table 6.A3 Number and average monthly benefit by type of benefit, sex, age, basis of entitlement, and race, 2009. **Annual Statistical Supplement 2010**. Baltimore, MD: U.S. Social Security Administration.

63 Ibid.

64 U.S. Social Security Administration. (2011). **Social Security is Important to Hispanics**. Baltimore, MD: U.S. Social Security Administration.

65 Ibid.

66 Ibid.

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## Most men of color receiving Social Security disability and retirement benefits would be in dire economic straits without it due to their greater participation in physically demanding jobs and lower receipt of private pensions.

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Furthermore, most men of color receiving Social Security disability and retirement benefits would be in dire economic straits without it due to their greater participation in physically demanding jobs and lower receipt of private pensions. Additionally, unmarried men (like women) in retirement tend to have poverty rates that are two to four times those of married men; suggesting that Social Security’s income is vital for keeping these men out of extreme poverty.<sup>67</sup>

Social Security survivor and spousal benefits are also of value for men of color who receive it and those who rely on it as a life insurance policy that provides essential economic support for their dependents upon their untimely death.<sup>68</sup> It should be noted that men of color also receive Social Security benefits as the spouses of women workers. While the number of men qualifying for spousal or survivor benefits remains relatively small compared to the number that receive benefits based on their own work history, this could change if more men pursue part-time work, lower-wage jobs, and/or unpaid care giving in the future.

67 Hartmann, H., & Lee, S. (2003). Social Security: The Largest Source of Income for Both Women and Men in Retirement. In S. Lee, & L. Shaw, **Gender and Economic Security in Retirement**. Washington, DC: Institute for Women's Policy Research.

68 Spriggs, W. (2005, Mar/Apr). Children Get Social Security, Too. **Poverty & Race Research Action Council**, 14 (2), pp. 1-2, 11.

## Children of Color Rely Heavily on Social Security

Given the reasons outlined previously, children of color are much more likely than white children to receive Social Security as the survivor of a parent who has died or the dependent of a parent with a disability. Indeed, although small in number, children of color are also more likely to be supported by retirement benefits as a result of being cared for by a grandparent. The additional Social Security benefits provided for these children are vital for meeting their living expenses and keeping them out of poverty. The National Urban League estimates that Social Security benefits lift one million children out of poverty each year and that another one million are spared from falling into extreme poverty (below half the poverty level).<sup>69</sup> Furthermore, they

<sup>69</sup> Rawlston, V. (2000). *The Impact of Social Security on Child Poverty*. Washington, DC: National Urban League Research and Public Policy Department.

found that Social Security lifts four times as many African American children as white children out of poverty.<sup>70</sup> According to the Center on Budget and Policy Priorities, families' Social Security income also kept 200,000 Latino children under 18 above the poverty line in 2009.<sup>71</sup> These estimates are near comparable for "Other" children.

## Aspects of Social Security that are Not Beneficial to People of Color

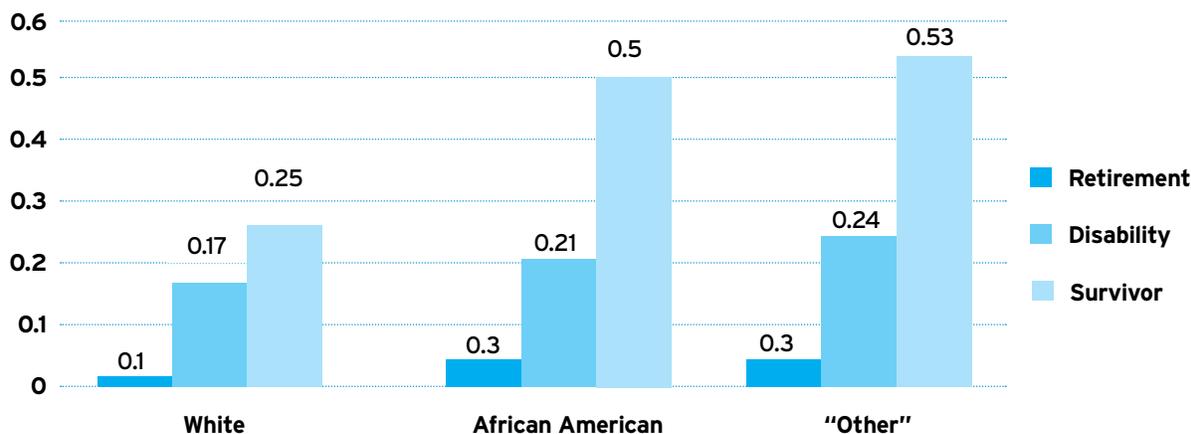
Despite its many benefits for families of color, Social Security is not perfect. Indeed, there are several aspects of the Social Security program that should be modernized to reflect changing societal

ment.

<sup>70</sup> Ibid.

<sup>71</sup> Sherman, A. (2010). *Anti-Poverty Effects of Social Security by State, 2006-2008*. Washington, DC: Center on Budget and Policy Priorities.

**FIGURE 7** | 2010 Median Weekly Earnings of Full-Time Wage and Salary Workers by Race/Ethnicity and Gender



Source: Social Security Administration, Annual Statistical Supplement 2010, Table 5.A1, Number and average monthly benefit, by type of benefit and race, December 2009



trends and to make the program fairer and more accessible to those who need it most.

**Agricultural and Household Workers:** The Social Security program as originally designed excluded agricultural and household workers—the two employment categories in which workers of color were disproportionately represented. When the Social Security Act was passed in 1935, the majority of workers in these categories were African American. Today, Latinos are disproportionately represented in these job categories, comprising 14 percent of the overall workforce but 41 percent of maids and 48 percent of farm workers.<sup>72</sup>

<sup>72</sup> U.S. Bureau of Labor Statistics. (2010). *Household Data Annual Averages: Employed persons by detailed occupation, sex, race and Hispanic or Latino ethnicity*. Retrieved September 19, 2011, from U.S. Bureau of Labor Statistics: [www.bls.gov/cps/cpsaat11.pdf](http://www.bls.gov/cps/cpsaat11.pdf)

Despite the fact that workers in these occupations are now eligible for Social Security, coverage for workers in these jobs remains spotty due to inconsistent wage reporting by employers, classification of employees as independent contractors, underpayment of wages and payment of wages in cash—all of which impact earnings history and Social Security tax payment records.<sup>73, 74</sup> Moreover, household workers face a higher income threshold before their employers are required by law to report their wages to Social Security: \$1,700 per year for household workers compared to \$1,120

<sup>73</sup> U.S. Department of Labor Employee Benefits Security Administration Advisory Council on Employee Welfare and Pension Benefits Plans. (2010). *Disparities for Women and Minorities in Retirement Savings*. Washington, DC: U.S. Department of Labor.

<sup>74</sup> Grillo-Chope, L., & Ramos, C. (2006). *Domestic Workers Working Hard to Sustain American Families, Compromising Their Social Security*. Washington, DC: National Council of La Raza.

for all other workers.<sup>75</sup> This provision makes it harder for household workers to qualify for Social Security. This hurdle is made higher by the fact that many household workers work for multiple employers, all of whom may pay them less than \$1,700. The Social Security Administration has yet to implement stronger enforcement measures, like larger penalties for wage and reporting violations, that can compel employers in these sectors to deduct and report Social Security earnings for their workers.<sup>76,77</sup> This and other actions, such as reducing the earnings threshold for household workers so that it is on par with the threshold for other workers, would substantially increase coverage and receipt of benefits by eligible workers in these sectors.

In addition, undocumented workers are heavily represented in the agricultural and domestic worker job categories and contribute to Social Security. The Social Security Administration's Chief Actuary, Stephen C. Goss, estimates that undocumented workers in all job categories have paid between \$120 billion to \$240 billion in total to the Social Security trust funds, which represents between five and 11 percent of their balance.<sup>78</sup> However, undocumented immigrants are not eligible to receive benefits from Social Security despite their contributions.<sup>79</sup>

75 U.S. Social Security Administration. (2011). **Household Workers: SSA Publication No. 05-10021**. Baltimore, MD: U.S. Social Security Administration.

76 Robles, B. J. (2009). **Strengthening Social Security for Farm Workers: The Fragile Retirement Prospects for Hispanic Farm Worker Families**. Washington, DC: National Academy of Social Insurance.

77 Miranda, L., & Torres, M. (2011). **Social Security Implications of Wage Reporting for Latino Workers**. Washington, DC: National Council of La Raza.

78 Schumacher-Matos, E. (2010, September 2). **How Illegal Immigrants are Helping Social Security**. Retrieved September 19, 2011, from The Washington Post: <http://www.washingtonpost.com/wp-dyn/content/article/2010/09/02/AR2010090202673.html>

79 Undocumented workers contribute to Social Security, often by using unauthorized Social Security numbers or by using the Individual Taxpayer Identification Number (ITIN), a system specifically designed to allow people

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**People who take time out of or never enter the paid labor force to care for family members are disadvantaged by the Social Security system because they either have more years of zero earnings that end up lowering the amount of their Social Security benefits or because they do not earn the credits necessary to qualify for Social Security benefits.**

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**Caregivers:** People, most often women, who take time out of or never enter the paid labor force to care for family members are disadvantaged by the Social Security system because they either have more years of zero earnings that end up lowering the amount of their Social Security benefits or because they do not earn the credits necessary to qualify for Social Security benefits.

**Data collection:** The Social Security Administration reports administrative data using the racial categories of "white," "black" and "other." This limited categorization disallows more detailed comparisons and understanding of Social Security use and distribution by race and ethnicity.<sup>80</sup> Given our nation's rapidly diversifying population, as exemplified by the broader racial and ethnic categories used by the U.S. Census, it is imperative

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without valid Social Security numbers to pay taxes on U.S. sources of income, to gain employment. Despite this, undocumented workers are ineligible to receive Social Security benefits. This issue is a part of a bigger conversation about the nation's immigration laws and would most likely have to be addressed through comprehensive immigration reform measures.

80 Scott, C. G. (1999). Identifying the Race and Ethnicity of SSI Recipients. *Social Security Bulletin*, 62 (4), pp. 9-20.



that the Social Security Administration develop a better data collection and reporting system that provides accurate data by racial and ethnic group and even by subgroup.<sup>81</sup>

**The Disability Program:** The Social Security disability claims process is known to result in disparate outcomes for different types of claimants. A 2003 Government Accountability Office (now Government Accountability Office) study found that African Americans, claimants in need of translators, and claimants without lawyers were less likely to be awarded benefits at the Administration Law Judge review level than were white claim-

ants.<sup>82</sup> Disparate effects by race have also been identified at the initial determination phase of the process.<sup>83</sup> Evidence of discriminatory treatment in the determination of disability benefits suggests that there are serious flaws in the process that must be addressed to ensure fairness.

**The Foreign Born:** The two fastest growing populations in the U.S. are Latinos and Asians. Eighty percent of older Asians and 52 percent of older Latinos are currently foreign-born, and those statistics are projected to grow. In fact, while in 2005, one in eight (12%) of the population was foreign born, nearly one in five will be by the year

81 It is important to understand how population subgroups fare. For example, Asian American and Pacific Islander (AAPI) populations endure classic bi-modal disparities. Because this group has a segment of its population that is doing extremely well, general AAPI population statistics hide the fact that subpopulations within this group, such as more recent immigrants from Southeast Asia, experience higher levels of socioeconomic deprivation.

82 U.S. General Accounting Office. (2003). *SSA Disability Decision Making: Additional Steps Needed to Ensure Accuracy and Fairness of Decisions at the Hearings Level*. Washington, DC: General Accounting Office.

83 U.S. General Accounting Office. (1992). *Social Security: Racial Difference in Disability Decisions Warrants Further Investigation*. Washington, DC: General Accounting Office.



2050.<sup>84</sup> Both the Latino and the Asian population are expected to double by 2050.<sup>85</sup>

While all immigrant workers with recorded wages contribute through payroll taxes, only documented immigrants can access benefits. Benefit levels for the foreign-born are usually lower than for others due to several factors: they have shorter work histories if they immigrated as adults, there is a high probability that they will have worked in the low-wage service sector, and many immigrant workers who are eligible do not collect benefits. They may not know of the program due

to language and cultural barriers and/or they may distrust government programs based on experiences in their countries of origin. In spite of these obstacles, Social Security is of major importance to qualified foreign-born beneficiaries. Because they are less likely than native-born Americans to have pensions or savings, Social Security income is particularly important. For example, an elderly Asian immigrant living in a non-beneficiary family has a median annual income of zero, while those in beneficiary families receive \$12,629.<sup>86</sup> Because many foreign-born have less than 35 years of qualified earnings, the progressive Social Security

84 Passel, J., & Cohn, D. (2008). *Immigration to Play Lead Role in Future U.S. Growth*. Washington: Pew Research Center.

85 Ibid.

86 Lui, M. (2011). *A Primer: Social Security Benefits for Asian and Pacific Islander Americans*. Oakland, CA: Insight Center for Community Economic Development.



benefit structure is helpful for the many Latino and Asian workers with low lifetime U.S.-based earnings.<sup>87</sup>

**Low-income singles:** Never-married individuals who are also low-income (or those who divorced prior to being married to their spouse for 10 years) are disadvantaged by Social Security because they are ineligible for survivor or spousal benefits, have low earnings history, have no or smaller pensions, and shoulder the cost of essentials by themselves.<sup>88,89</sup> Given the way that Social Security benefits work, a widowed spouse who has never worked could receive benefits greater than those of a single person who has worked for low wages his or her entire adult life if that widowed spouse was married to a high earning spouse. This disparity in treatment disadvantages singles.

**Same sex couples:** Social Security offers spousal benefits to retired and disabled workers and survivor benefits to the dependents of deceased workers. However, same-sex spouses are not eligible for these benefits due to the gender-specific pronouns, “she” and “he,” that the Social Security Act uses to define marriage. Despite various bills that have been introduced to change the definition, none have passed. As a result, same-sex marriages recognized as legal at the state level are not valid for the purposes of determining Social Security benefits.<sup>90</sup>

87 Vega, W., & Gassoumis, Z. (2011). *Primer: Impact of Social Security and Proposed Benefit Changes on the Latino Population*. Los Angeles, CA: USC Edward R. Roybal Institute on Aging.

88 Dilley, P. E. (2009). *Restoring Old Age Income Security for Low Wage Single Workers*. Washington, DC: National Academy of Social Insurance.

89 Tissue, T. (1979). Low-Income Widows and Other Aged Singles. *Social Security Bulletin*, 42 (12), pp. 3-12.

90 Haltzel, L., & Purcell, P. *The Effect of State-Legalized Same-Sex Marriage on Social Security Benefits and Pensions*. 2008: Congressional Research Service.

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**Never-married individuals who are also low-income are disadvantaged by Social Security because they are ineligible for survivor or spousal benefits, have low earnings history, have no or smaller pensions, and shoulder the cost of essentials by themselves.**

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**Students:** Currently, Social Security provides benefits to the child dependents of retired, disabled, or deceased workers until they reach the age 19 or graduate from high school, whichever comes first. However, the Social Security program used to provide benefits to students enrolled in college with benefits until they reached the age 22. This aspect of the program was especially beneficial to students from low-income families and students of color.<sup>91</sup> Without this benefit, students from low-income households have reduced sources of financial support to pursue and attain a college education.

**Those with shorter life expectancies:** Social Security’s retirement benefits have distributional effects that disadvantage those with shorter life expectancies: if you die at a younger age, you are less likely to receive retirement benefits or more likely to receive a smaller total amount in retirement benefits. Contrary to the claims of those who point to increasing longevity as a rationale for increasing the retirement age, research shows that all do not benefit equally from societal improve-

91 Hertel-Fernandez, A. (2010). *A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students*. Washington, DC: National Academy of Social Insurance.

ments in longevity.<sup>92</sup> Indeed, various studies show that health status and the benefits that accrue to some as a result of improvements in medical science and technology closely align with socioeconomic status; those with higher SES do dramatically better than those with lower SES.<sup>93</sup> A 2007 study found that among the male Social Security-covered worker population, the entire bottom half of the socioeconomic scale has experienced dramatically slower rates of mortality improvement than the upper half.<sup>94</sup> This finding suggests that disparities are more widespread, contradicting those who assume that the slower rates of mortality improvement are limited to those from low-income backgrounds.<sup>95</sup> Another study suggests that if trends in longevity inequality continue, “then workers in the bottom half of the wage distribution born in 1973 will still not be able to expect as long a retirement as workers born in 1941.”<sup>96</sup>

**Those with longer life expectancies:** Over time, Social Security has been successful in reducing poverty among older adults. However, there are still some groups who remain vulnerable to poverty even with Social Security. For example, the poverty rate for elderly widows is three to four times the poverty rate for elderly married women.<sup>97</sup> Similarly, older adults without pensions

92 Murray, C. J., Kulkarni, S. C., Michaud, C., Tomijima, N., Bulzacchelli, M. T., Landiorio, T. J., et al. (2006). Eight Americas: Investigating Mortality Disparities Across Races, Counties, and Race-Counties in the United States. *PLoS Medicine*, 2 (9), e260.

93 Ibid.

94 Waldron, H. (2007). *Trends in Mortality Differentials and Life Expectancy for Male Social Security-Covered Workers, by Average Relative Earnings*. Baltimore, MD: Social Security Administration.

95 Ibid.

96 Baker, D., & Rosnick, D. (2010). *The Impact of Income Distribution on the Length of Retirement*. Washington, DC: Center for Economic and Policy Research.

97 McGarry, K., & Shoeni, R. F. (2005). Medicare Gaps and Widow Poverty. *Social Security Bulletin*, 66 (1), pp. 58-74.

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## Racial and ethnic minorities will bear the burden of payments into the Social Security trust funds over the next half century, primarily for the benefit white elders and their dependents.

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or other assets are also vulnerable to extreme poverty as evidenced by their heavier reliance on Supplemental Security Income (SSI).<sup>98</sup> Their vulnerability suggests that additional measures must be taken to ensure that benefits are adequate for the very old.

Despite these well-known programmatic challenges, a national poll commissioned by the National Academy of Social Insurance underscores that Social Security remains highly popular across racial and ethnic lines. The continued popularity of Social Security among people in all racial and ethnic groups is a testament to its relative effectiveness in providing economic support to workers and families facing lost income due to death, disability, or retirement of a primary wage earner.

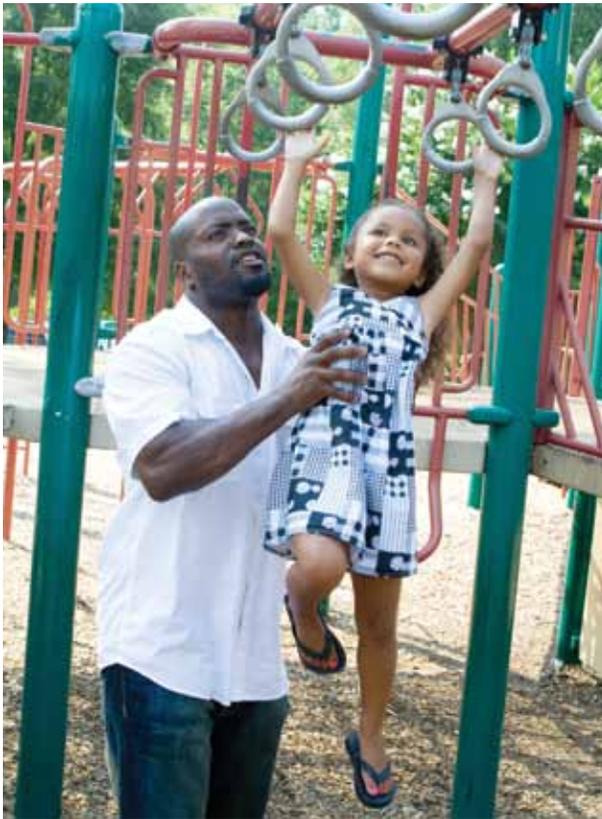
## WHY RACE AND ETHNICITY MUST BE A FACTOR IN SOCIAL SECURITY REFORM

Some argue that racial and ethnic considerations are not important when making decisions regarding Social Security's future. However, this perspective ignores

98 Nicholas, J., & Wiseman, M. (2009). Elderly Poverty and Supplemental Security Income. *Social Security Bulletin*, 61 (1), pp. 45-73.



the reality of how the program works as well as the implications of our nation's changing demographics for the program.



Although the Social Security benefit formula is gender- and race-neutral on its face, in reality the program affects people in different ways based on the interplay between program rules and demographic factors. For example, Social Security retirement benefits are calculated using a worker's 35 highest years of earnings, adjusted for inflation, to determine the "primary insurance amount" (PIA) or benefit level. The total amount a beneficiary receives from Social Security depends on a number of factors including the amount of pre-retirement earnings, marital status, number of

dependents, length of time in the workforce, and when retirement benefits will be needed.<sup>99</sup>

Because socioeconomic variables such as marital status, income, educational status, health status, and labor market attachment closely align with the lived experiences of different groups of people, they cannot be separated from interrelated variables such as race, ethnicity, gender, class, and occupation. For example, there is a significant relationship between race, ethnicity and each of the following: income, health status, and unemployment rates. National statistics consistently show that, on average, people of color have lower earnings levels, poorer health indicators, lower educational attainment levels, and higher unemployment rates when compared to whites. Gender has a similar association—with women, on average, earning less and taking more time out of the workforce than men.

So, when factors such as race, ethnicity, and gender are layered on top of Social Security program rules, there are different distributional effects. These well-documented effects can take the form of a redistribution of income, for example, from wealthy individuals to lower-income individuals, from singles to married couples, from those with short life expectancies to those with longer life expectancies, and from the healthy to the disabled.<sup>100</sup>

Because of the different importance of various aspects of the Social Security program to people

<sup>99</sup> The latter point refers to the timing of retirement decisions. If a worker retires early at the age of 62, she is subject to a reduced benefit amount. The worker will receive her full benefit amount if she waits to retire at the "normal retirement age," currently 67 for those born after 1960.

<sup>100</sup> Cohen, L., Steuerle, E., & Carrasso, A. (2001). *Social Security Redistribution by Education, Race, and Income*. Washington, DC: Urban Institute.

of color than to whites, projected demographic shifts matter. By 2019, the majority of children and youth under the age of 18 will be of color, and by 2042, the majority of Americans will no longer be white.<sup>101</sup> Racial and ethnic minority groups accounted for a staggering 80 percent of our nation's population growth between 2000 and 2010. Asians and Latinos will experience the most dramatic increases, with the Asian popula-

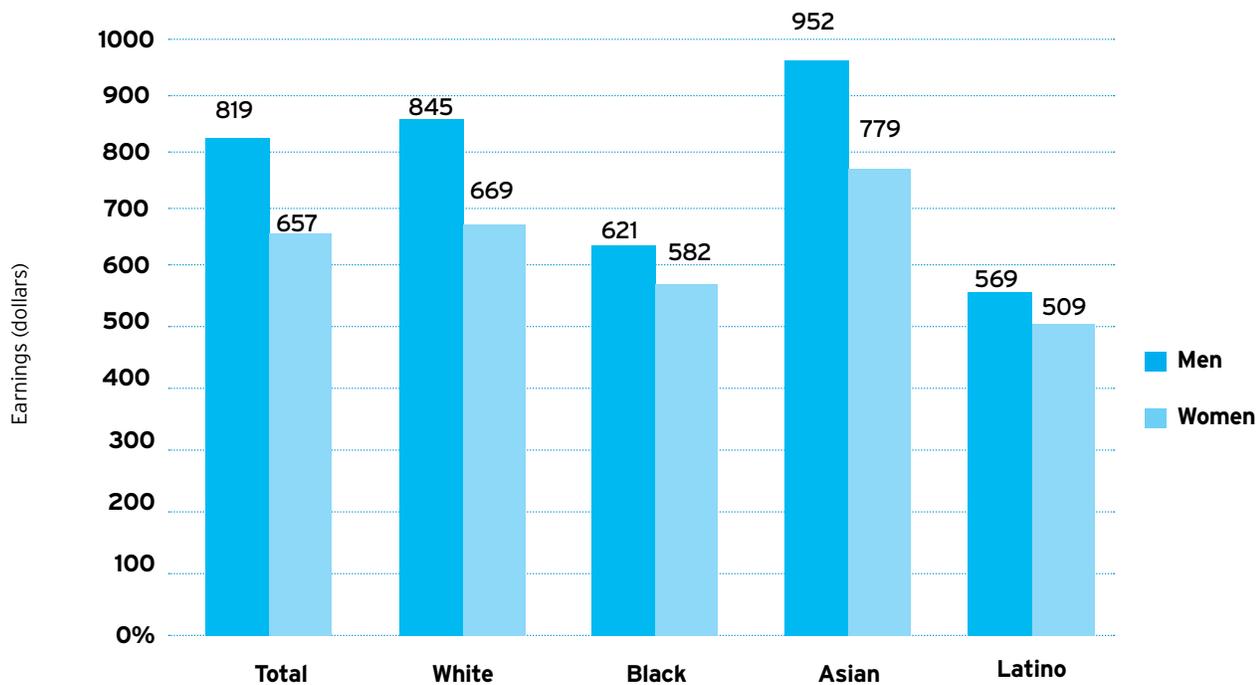
tion nearly doubling to constitute 9 percent of the population<sup>102</sup> and Latinos who will also double to become 29 percent of the total population by mid-century.<sup>103</sup> The Pew Research Center finds that immigrants and their descendants will account for 82 percent of the population increase; with nearly 20 percent of Americans projected to be foreign-

101 Frey, W. (2011). *America's Diverse Future: Initial Glimpses at the U.S. Child Population from the 2010 Census*. Washington, DC: The Brookings Institution.

102 U.S. Census Bureau. (2010, March). *Facts for Features: Asian/Pacific American Heritage Month*. Retrieved August 31, 2011, from U.S. Census Bureau: [http://www.census.gov/newsroom/releases/archives/facts\\_for\\_features\\_special\\_editions/cb10-ff07.html](http://www.census.gov/newsroom/releases/archives/facts_for_features_special_editions/cb10-ff07.html)

103 Rockey Moore, M., Abreu-Hernandez, V., Rockey Moore, M., Maitin Shepard, M., & Sager, K. (2011). *The Latino Age Wave: What Changing Ethnic Demographics Means for the Future of Aging in the United States*. San Francisco: Hispanics in Philanthropy.

**FIGURE 8** | Median weekly earnings of full-time wage and salary workers by sex, race, and Latino ethnicity, 2009 annual averages



Source: U.S. Department of Labor, Bureau of Labor Statistics, 2010




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**By 2019, the majority of children and youth under the age of 18 will be of color, and by 2042, the majority of Americans will no longer be white.**

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born by 2050 compared to 12.4 percent who are foreign-born today.<sup>104, 105</sup>

However, in 2050, 59 percent of those 65 and older will still be white, because whites are an older demographic. The implications of these trends is that racial and ethnic minorities will bear the burden of payments into the Social Security trust funds over the next half century, primarily for the benefit of elders and their dependents. By the time those younger workers of color are themselves ready to retire, the benefits may be dramatically reduced from the benefits they paid for others to receive. Moreover, because some populations of color have shorter life spans, they will receive benefits for a shorter duration than their white counterparts. As David Baldrige, executive director of the International Association for Indigenous Aging states, “the intergenerational social contract that undergirds Social Security is beginning to impact minorities more negatively than whites.”<sup>106</sup>

While it is often assumed that our nation is proceeding, albeit slowly, toward racial economic equity, in fact, the racial wealth gap has continued

<sup>104</sup> Passel, J., & Cohn, D. (2008). *Immigration to Play Lead Role in Future U.S. Growth*. Washington, DC: Pew Research Center.

<sup>105</sup> U.S. Census Bureau. (2005-2009). *USA: People QuickFacts*. Retrieved September 19, 2011, from U.S. Census Bureau: <http://quickfacts.census.gov/qfd/states/00000.html>

<sup>106</sup> Garret, M., & Baldrige, D. (n.d.). *The Colored Pyramid of the Social Security Burden*. Unpublished manuscript. San Diego State University Department of Gerontology and the International Association for Indigenous Aging.

to rise. A study released by the Institute on Assets and Social policy in May of 2010 showed that the wealth gap between black and white families quadrupled over one generation between 1984 and 2007.<sup>107</sup> The gap has been driven by policies or the lack thereof, such as the failure to protect communities of color from particularly vicious predatory lending practices, removing assets from many, including vulnerable elders swindled out of their homes, or the tax cuts of 2001 and 2003 that made taxes on investment income lower than taxes on income from work.

Social Security indeed needs modernization to meet the needs of the nation’s changing economy and population. Given that non-white populations have different occupational and health profiles, family structures, and cultures and therefore utilize Social Security differently than whites these factors need to be front and center in the reform discussions if Social Security is to continue, as it has for 76 years, to be the most effective program for alleviating poverty for American workers and their families.

## **SOCIAL SECURITY REFORM: WEIGHING THE OPTIONS**

**T**wo meta-narratives are shaping the current national dialogue about Social Security’s future. The first narrative embeds Social Security reform within a discussion about debt reduction and implies that Social

<sup>107</sup> Shapiro, T. M., Meschede, T., & Sullivan, L. (2010). *The Racial Wealth Gap Increases Fourfold*. Boston, MA: Institute on Assets and Social Policy.

**By law, the Social Security program cannot contribute a single penny to the national debt. It is highly misleading to include decisions about Social Security's future in negotiations or conversations focused on reducing the national debt.**

Security benefits must be restructured in order to help alleviate the nation's debt burden.

This narrative is false. By law, the Social Security program cannot contribute a single penny to the national debt. Social Security's benefits are paid for with the payroll contributions of workers and from interest on the bonds in the Social Security trust funds. Benefits cannot be paid if the trust funds run out of money. Thus, it is highly misleading to include decisions about Social Security's future in negotiations or conversations focused on reducing the national debt.

The second narrative focuses on how demographic shifts will affect Social Security solvency. This argument posits that as the baby boom generation retires, there will not be enough workers to support Social Security beneficiaries and the resulting imbalance drives the need to find ways to extend the program's solvency for future generations. Some also argue that increased life expectancies mean that there will be more costs to the program in the future as more people draw down on benefits for a longer period of time.

This narrative has some validity. However, demographic shifts are only part of the equation

contributing to Social Security's long term funding gap.<sup>108</sup> Experts explain that wage stagnation and rising earnings inequality account for more than half of the projected shortfall.<sup>109</sup> This is because the bulk of income earned by the wealthiest Americans, who are few in number but earn a lot more than the vast majority of workers, is exempt from Social Security taxes because it falls above the program's cap on taxable earnings, which is currently set at \$106,800.<sup>110</sup>

As has been discussed previously, the argument regarding the economic burden resulting from longer life expectancies overlooks the significant race and class disparities in terms of who experiences improvements in longevity; when coupled with projected changes in our nation's racial and ethnic composition, these disparities are likely to grow.<sup>111</sup>

Primarily as a result of the contributing factors discussed above, the Social Security trustees project that the program will begin to draw down on its significant surplus in the year 2023. If policymakers do nothing, Social Security is expected to experience a funding shortfall of about 25 cents on every \$1 in benefits by the year 2036. Congress will have to raise payroll taxes, cut benefits, or some combination of the two in order to ensure that people receive 100 percent of promised benefits after the year 2036.

<sup>108</sup> Morrissey, M. (2011). *Beyond 'Normal': Raising the Retirement Age is the Wrong Approach for Social Security*. Washington, DC: Economic Policy Institute.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid.

<sup>111</sup> Murray, C. J., Kulkarni, S. C., Michaud, C., Tomijima, N., Bulzacchelli, M. T., Iandiorio, T. J., et al. (2006). Eight Americas: Investigating Mortality Disparities Across Races, Counties, and Race-Counties in the United States. *PLoS Medicine*, 2 (9), e260.



A third narrative is missing: that explaining the relevance of racial and ethnic demographic shifts. This paper is intended to fill that gap.

National leaders have a duty to ensure that Social Security remains solvent for future generations. At the same time, Social Security benefits need to be enhanced to offset both economic inequities and the negative impact of the recent financial crisis. The economic inequities result from income disparities by race and class, racial disparities in wealth and employment rates, and occupational segregation. The financial crisis has eroded personal and retirement savings at a time when poverty rates are increasing among the most vulnerable.

In an effort to identify proposals that address Social Security's long term solvency issues while also modernizing the program to meet the needs of

an increasingly diverse society, the Insight Center for Community Economic Development and Global Policy Solutions convened a group of experts from or representing African American, Asian American and Pacific Islander, Latino, and Native American communities. Meeting over the course of several months, the group discussed the unique socio-economic and cultural circumstances facing their communities, how well Social Security meets the needs of their communities, and alternatives for strengthening the program.

## ■ Reform Goals and Underlying Principles

At the outset, participants agreed to establish a set of goals and underlying principles that would guide their deliberations and serve as an explanatory framework for the proposals considered. The agreed upon goals and principles include:



### **Strengthen and Modernize Social Security**

Social Security is one of America's most effective programs for keeping our nation's workers, their dependents, and survivors out of poverty. Given persistent labor market risks facing U.S. workers, Social Security benefits need to be strengthened and modernized for future generations.

### **Improve Economic Security for Vulnerable Populations**

The selection of Social Security reform options must carefully consider ways to improve the economic security of people of color and other vulnerable populations.

### **Maintain What Works**

Social Security is a safety net for all contributing workers and their families regardless of income. Its progressive benefit structure is effective and valued.

### **Increase Access**

Some workers—such as domestic workers, farm workers, unpaid caregivers, and those who are underemployed—have difficulty accessing adequate benefits and coverage. Social Security needs to be modernized to reflect the changing structure of work and family, and to be inclusive of all workers.

### **Achieve Intergenerational Equity**

While changes in Social Security's contribution rates are expected over time, the burden of achieving long-term solvency within Social Security should be distributed equitably across generations. This means not making today's young people bear the entire burden of achieving solvency.

### **Ensure Long Term Solvency and Adequacy**

Increased revenues will be needed to maintain solvency and strengthen Social Security benefits.



Towards these goals and in observance of their underlying principles, participants discussed the viability of Social Security reform options in three broad categories: 1) increasing benefits to ensure that they are adequate for future beneficiaries; 2) increasing trust fund income to achieve long-term solvency; and 3) reducing Social Security benefits to achieve long-term solvency. Each of these categories contained a range of detailed options that the group weighed against its established goals and principles and against the real needs of their communities.

After several rounds of proposal reviews and vigorous debate about the pros and cons of each option, the group collectively agreed on its recommendations for achieving long-term solvency while strengthening Social Security for future generations.

## ■ Recommendations for Reform

According to the 2011 Social Security trustees report, Social Security's 75-year actuarial deficit is 2.22 percent of taxable payroll.<sup>112</sup> Despite the actuarial deficit amount, the Trustee's assert that in order for the combined trust funds to remain solvent over a 75-year period, the combined payroll tax rate could be immediately and permanently increased by 2.15 percentage points or scheduled benefits could be reduced by 13.8 percent, or a combination of these two approaches.<sup>113</sup>

112 Social Security Administration. (2011). *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Washington, DC: U.S. Government Printing Office.

113 Ibid.

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## Modifying the Social Security benefit formula to make it less generous for high earners would eliminate most of Social Security's entire actuarial deficit.

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The experts compiled a set of acceptable options that would fit within these parameters. The group unanimously agreed to reject any proposals that would reduce benefits, out of concern for the impact that cuts would have on economically vulnerable populations. Participants did agree that, given the need to ensure economic security for future generations of Social Security beneficiaries, a combination of measures to increase income in the trust fund along with an increase in benefit levels would provide the most efficient and effective course of action.

The group identified a reform package that would achieve long-term, 75 year, program solvency while also improving the adequacy of Social Security benefits for future generations. The plan's options to increase Social Security income include:

- **Eliminating the cap on Social Security payroll contributions** (currently Social Security payroll taxes are capped at \$106,800 for high wage earners) and counting the additional earnings towards benefits, but modifying the Social Security benefit formula to make it less generous for high earners. The benefit formula is based on the average indexed monthly earnings (AIME) in three brackets. The formula for persons aged 62 in 2009 was 90 percent

of the first \$744 of AIME; plus 32 percent of the next \$4,482; plus 15 percent of the AIME over \$4,482. The formula might be modified to apply the 15 percent bracket up to the old cap, and then a smaller replacement level thereafter. An example of how this would work is: 15 percent of AIME between \$4,482 and \$8,900 (\$106,800 divided by 12), plus 3 percent of AIME over \$8,900. Implementing this change would mean that a person averaging \$1 million per year in lifetime earnings would receive a benefit of \$60,342 instead of \$162,000.<sup>114</sup> By itself, this option eliminates most of Social Security's entire actuarial deficit; it covers 2.17 percent of the 2.22 percent deficit.

- **Including all new state and local workers in Social Security.** Currently about 25 percent of state and local workers do not participate in the Social Security program. Extending coverage to newly hired state and local workers would reduce the 75-year deficit by .17 percent of payroll.
- **Slowly raising Social Security's payroll tax by 1/40<sup>th</sup> of one percent over twenty years.** Scheduling a gradual increase in the Social Security payroll tax by 1/40<sup>th</sup> of one percent over 20 years for both workers and employers. This option would cover .7 percent of the 75-year shortfall.
- **Treating all salary reduction plans like 401(k)s.** Currently, workers pay Social Security and Medicare taxes on their contributions to retire-

ment accounts (i.e., 401(k), 403(b), and 527 plans) but they do not pay these taxes on their contributions to flexible spending accounts (i.e., health care, transit, dependent care plans). This option contributes .25 percent towards closing the deficit.

The prescribed set of options in the plan comes to a combined total savings of 3.98 percent of taxable payroll over 75 years (See Chart of Options). The plan would close the 75-year actuarial deficit while also leaving enough surplus to strengthen benefits for vulnerable populations. Towards the latter goal, the group identified key benefit improvements that would contribute to stronger economic security for vulnerable workers and their families. This set of preferred options includes:

- **Increasing benefits by a uniform dollar amount at age 85.** Individuals who live to be very old are more financially vulnerable even with Social Security. The very old can be afforded additional protection by increasing benefits by a uniform amount (i.e., 5 percent of the average retired worker benefit in the prior year) for all beneficiaries age 85 or older in 2011 and for those reaching 85 after 2011. The cost of this benefit improvement is .09 percent of taxable payroll.
- **Paying a widowed spouse 75% of the couple's prior worker benefit.** Currently, women living alone are more likely to be poor after age 65. Widows from low-earning or wealth-depleted households are particularly at risk of poverty. This vulnerability can be alleviated by paying widowed spouses 75 percent of the sum of the

114 Reno, V., & Lavery, J. (2009). *Fixing Social Security: Adequate Benefits, Adequate Financing*. Washington, DC: National Academy of Social Insurance.



worker benefits earned by both spouses and targeting the benefit to low-income couples by capping the benefit at the benefit level for a life-long average earner. This improved benefit would cost .05 percent of taxable payroll for newly eligible and .06 percent of taxable payroll for persons already eligible for Social Security.

- **Providing five years of dependent care credits through Social Security.** Women in particular often spend part of their adult lives in unpaid work caring for children and other dependents. Time spent out of the workforce can add up to lower benefits. Providing wage credits to new parents within the Social Security benefit formula could offset this problem. This credit would be set at one half of the average wage and could be awarded for up to five years.

The cost of this new benefit would amount to .24 percent of taxable payroll over 75 years.

- **Reinstating the student benefit.** Social Security pays benefits to children until the age 18 (or 19 if still in school) if a working parent has died, become disabled, or retired. In the past, those benefits continued until age 22 if the child was a student in college or vocational school. Congress ended post-secondary student benefits in 1981. When this benefit was in place, it was shown to be particularly helpful to young adults from low-income and racial and ethnic minority families.<sup>115</sup> Restoring the student benefit would cost .07 percent of taxable payroll over 75 years.

<sup>115</sup> Hertel-Fernandez, A. (2010). *A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students*. Washington, DC: National Academy of Social Insurance.

- **Updating the Special Minimum Benefit to 125% of poverty.** People who have worked a lifetime with low pay are financially vulnerable in retirement because they are less likely to have private pensions or the discretionary income that would allow for substantial savings. To partially compensate for this problem, the special minimum benefit can be updated to pay 125 percent of the poverty threshold for those who worked at least 30 years under Social Security and claimed benefits at full benefit age. The Social Security Administration estimates that a minority (41%) of very low income earners retiring in 2050 would have worked the entire 30 years in covered earnings required to receive the full benefit, raising their income by approximately 40%. Among low income earners 87% would qualify for this benefit that raised their income by approximately 8%.<sup>116</sup> Any increase to the Special Minimum Benefit would have to be coordinated with SSI to ensure that beneficiaries did not lose access to Medicaid when their incomes rose.<sup>117</sup> The cost of this improvement is .13 percent of taxable payroll over 75 years.

- **Increasing benefits by a uniform amount equal to 5 percent of the average benefit.** The recent prolonged economic crisis has undermined the financial security of many families. It has especially increased the vulnerability of those in or nearing retirement because

they do not have time to replace lost savings. People who have worked a lifetime with low pay are financially vulnerable in retirement because they are less likely to have private pensions or the discretionary income that would allow for saving. Social Security can improve benefits for retirees who have been low-paid over their working lives by immediately increasing benefits by a uniform amount (i.e. 5 percent of the average retired benefit the year prior) for those eligible for Social Security in 2011 and thereafter. The cost of this proposal is .75 percent of taxable payroll over 75 years.

- **Implementing other administrative fixes.** There are a number of improvements that the Social Security Administration needs to implement to increase access to, the fairness of, and information about existing benefits. These include providing more administrative resources to reduce the backlog of disability claims at the Social Security Administration, equalizing the reporting threshold for earnings credits required for household workers and other workers, implementing measures that can increase fairness in the determination of disability benefits, providing comprehensive language and translation services at all Social Security offices and virtual sites, and strengthening data collection and reporting.

<sup>116</sup> U.S. Social Security Administration, Office of the Chief Actuary. (2011). **Memo to Erskine Bowles and Alice Rivlin.** Baltimore, MD: U.S. Social Security Administration. Retrieved September 19, 2011 from: [http://www.ssa.gov/oact/solvency/BowlesSimpsonRivlinDomenici\\_20110202.pdf](http://www.ssa.gov/oact/solvency/BowlesSimpsonRivlinDomenici_20110202.pdf)

<sup>117</sup> Ruffing, K., & Van de Water, P. N. (2011). **Bowles-Simpson Social Security Proposal Not a Good Starting Point for Reforms.** Washington, DC: Center on Budget and Policy Priorities.



## Chart of Options

The 0.34 percent remaining after benefit enhancements are paid for can be used to support additional benefit improvements and/or extend Social Security’s solvency beyond the 75-year actuarial window.

## Why Some Reform Proposals are Not Beneficial for People of Color

Given the heavy reliance that future generations will have on Social Security, it is shortsighted to embrace proposals that include benefit cuts that harm those who need Social Security the most. Furthermore, the proposals outlined above demon-

**FIGURE 9** | Commission To Modernize Social Security Plan

Revenue Options	Income as % of Taxable Payroll	Adequacy Options	Cost as % of Taxable Payroll
Gradually increase payroll tax by one percent over 20 years	1.39	Increase benefits by a uniform amount at age 85	0.09
Eliminate cap but count earnings towards benefits with flatter formula	2.17	Pay widowed spouse 75% benefit with “average earner” benefit cap	0.06
Cover all new state and local workers	0.17	Provide 5 years of dependent care credits at half of average wage	0.24
Treat salary reduction plans like 401(k)s	0.25	Update special minimum benefit to 125% of poverty at full benefit age, wage index	0.13
		Reinstate student benefit	0.07
		Increase benefit by uniform amount equal to 5% of average benefit	0.75
		Administrative fixes	0.08
<b>Total Revenue Raised</b>	<b>3.98</b>	<b>TOTAL COST OF BENEFIT IMPROVEMENTS</b>	<b>1.42</b>
Actuarial Deficit	-2.22		
Amount Remaining	1.76	Amount remaining	0.34

## It is possible to both achieve solvency and modernize the Social Security benefit structure without harming lower- and middle-income Americans.

strate that these proposals are unnecessary. The following section seeks to illustrate why some of the more popular benefit cut proposals are a bad deal for the working class and vulnerable seniors.

**Raising Retirement Age:** Increasing the Full Retirement Age (FRA) is often recommended as an easy way to “fix” Social Security. However,

advocates for this approach fail to mention that the normal retirement age is already increasing, from 65 to 67 for those born after 1960 (a 13% benefit cut for people in this category), and that increasing the retirement age from 67 to 69 would result in an additional 13 percent benefit cut.<sup>118</sup> Furthermore, they ignore the fact that this option seriously disadvantages workers who are lower-income, from racial and ethnic minority groups, and/or in labor-intensive occupations.<sup>119</sup> For example, African Americans and Native Americans tend to have shorter life expectancies, so raising the retirement age means they are more likely

<sup>118</sup> Strengthen Social Security. (2010). *Raising the Retirement Age: A Benefit Cut that Harms Everyone, Especially Low-Income and Minority Workers*. Washington, DC: Strengthen Social Security.

<sup>119</sup> Ibid.





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**In exchange for a modest increase in the Social Security payroll tax (about three-tenths of one percent) workers could self-finance paid family leave insurance that would allow them to take critical time off without experiencing undue financial hardship.**

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to die before receiving benefits or more likely to receive benefits for a shorter period of time after retiring but before dying. Not only does this option save Social Security money by cutting benefits for everyone including vulnerable groups, it also represents a transfer of Social Security wealth from groups with shorter life expectancies to people who are longer lived. This wealth transfer and the practice of indexing the age of full retirement to

the national longevity rate raises issues of fairness that are especially troubling in light of racial, ethnic and income disparities in life expectancy. Recent proposals have called for raising the age of early retirement (ERA) from 62 to 64 years of age in addition to raising the FRA.<sup>120</sup> The U.S. Government Accountability Office examined this proposal

<sup>120</sup> National Commission on Fiscal Responsibility and Reform. (2010). *The Moment of Truth: A Report of the National Commission on Fiscal Responsibility and Reform*. Washington, DC: The White House.



and found that those with a work-limiting health condition and those in physically demanding jobs would be adversely impacted.<sup>121</sup> The study found that Latino workers (48%) and African American workers (38%) were more likely than whites (20%) to report being in fair or poor health. It also determined that any savings from raising the age of early retirement would be offset by an increase in individuals applying for disability benefits. Confirming these findings, other studies have also found that this proposal would not generate savings, in part because of higher annual benefits associated with the lower early retirement penalty.<sup>122</sup>

To allay concerns, members of the National Commission on Fiscal Responsibility and Reform recommended creating a “hardship exemption” intended to offset the burden of raising the age of early retirement on vulnerable populations. This exemption would purportedly enable workers to apply for an exemption from the higher retirement age. However, there are significant flaws with the proposed approach. Critics say that many middle class workers who do not meet the exemption’s income requirements but work in physically demanding jobs would be left behind.<sup>123</sup> Additionally, applicants would likely experience difficulty qualifying for benefits and long delays due to the continuing administrative backlog of disability cases at the Social Security Administration.<sup>124</sup>

121 U.S. Government Accountability Office. (2010). **Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls.** Washington, DC: U.S. Government Accountability Office.

122 Panis, C., Hurd, M., Loughran, D., Zissimopoulos, J., Haider, S., & St. Clair, P. (2002). **The Effects of Changing Social Security Administration’s Early Entitlement Age and the Normal Retirement Age.** Baltimore, MD: Social Security Administration.

123 Strengthen Social Security. (2010). **Why the Bowles-Simpson “Hardship Exemption” Won’t Work.** Washington, DC: Strengthen Social Security.

124 Ibid.

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## Given the interplay between the two programs, our nation’s leaders should consider how to strengthen SSI in tandem with Social Security.

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**Reducing the Cost of Living Adjustment:** Social Security’s annual cost of living adjustment (COLA) is important for middle- and low-income individuals and families because it ensures that their benefits keep pace with rising costs and enables them to purchase needed goods and services. However, various proposals seek to cut this vital benefit for all workers; some by reducing the COLA by a set amount annually and others by adjusting the formula so that it pays out less. Currently, COLA’s are calculated using a version of the Consumer Price Index geared towards wage earners (CPI-W). Critics say that this measure doesn’t include the price increases experienced by the elderly (especially health care costs) and, as a result, underestimates the annual amount they need. Others say that another measure, the chained CPI for urban workers (Chained CPI) would be a better measure since it accounts for consumers who substitute goods in order to offset price increases. For example, buying chicken instead of beef. However, because the Chained CPI grows more slowly than the current formula, adoption of this measure would translate into severe benefit cuts for the most vulnerable.<sup>125</sup> It is estimated that this cut would amount to \$500 per year after ten years and \$1,000 per year after twenty.<sup>126</sup> Women who live longer than men and are already in or vulnerable to extreme poverty

125 Bivens, J. (2011). **Protection, Not a Windfall: Proposed Change to Social Security’s COLA Would Further Erode Retirees’ Financial Security.** Washington, DC: Economic Policy Institute.

126 Ibid.



would be hard hit.<sup>127</sup> People of color who are longer lived and have fewer assets would also be hurt.<sup>128</sup>

**Price Indexing Benefits:** Social Security benefits are currently determined by using a worker’s earnings history to calculate how much they’re due in benefits. There are proposals to change the benefit formula so that the benefits of middle and higher income workers are indexed to prices instead of wages or to a blend of prices and wages. Because prices rise more slowly than wages, experts point out that price-indexing benefits would

represent a drastic benefit cut that would affect the near poor—those making at or above \$24,000 per year.<sup>129</sup> One commonly touted approach for implementing PPI is estimated to result in a 9.6 percent benefit cut for middle quintile households between the ages of 40-44 in 2007.<sup>130</sup> Eventually, this approach would erode the purchasing power and economic security of most Social Security beneficiaries.<sup>131</sup>

127 Entmacher, J., & Robbins, K. G. (2011). *Cutting the Social Security COLA by Changing the Way Inflation is Calculated Would Especially Hurt Women*. Washington, DC: National Women’s Law Center.

128 National Senior Citizens Law Center. (2011). *Does the Social Security COLA Need to be Changed?* Washington, DC: National Senior Citizens Law Center.

129 National Committee to Preserve Social Security and Medicare. (2010). *Price Indexing Would Cut Social Security Benefits*. Washington, DC: National Committee to Preserve Social Security and Medicare.

130 Baker, D., & Rosnick, D. (2010). *The Impact of Social Security Cuts on Retirement Income*. Washington, DC: Center for Economic and Policy Research.

131 Ibid.



## Why Improvements to SSI Should Also Be Considered

Supplemental Security Income (SSI) is a means-tested program that provides cash assistance to very low-income individuals who are elderly, blind, or disabled. Although not officially a part of the Social Security program SSI is administered by the Social Security Administration and a significant number of low-income retirees and workers and their families can qualify for both programs. For the extremely low-income households that qualify, SSI provides critical gap funding when Social Security is by itself not enough. These households are disproportionately black and brown.<sup>132</sup>

In addition, many disabled and low-income refugee and humanitarian immigrant elders rely solely on

SSI for their income because they are ineligible for Social Security due to lack of work credits. However, if they are unable to naturalize within a seven-year time frame from the when they begin receiving benefits, they will be cut off and lose these life-saving benefits.

Given the interplay between the two programs, our nation's leaders should consider how to strengthen SSI in tandem with Social Security. Areas for improvement include strengthening and standardizing the appeals process, allowing qualified refugees and other humanitarian immigrants to receive SSI without a time limit, eliminating the transfer penalty provision, increasing the resource or asset limit from \$2K to \$10K, and increasing the Federal Benefit Rate, the maximum amount payable to qualifying individuals.<sup>133</sup>

<sup>132</sup> Scott, C. G. (1999). Identifying the Race and Ethnicity of SSI Recipients. *Social Security Bulletin*, 62 (4), pp. 9-20.

<sup>133</sup> National Senior Citizens Law Center. (2011). *SSI Modernization: Improvements Long Overdue*. Washington, D.C.: National Senior Citizens Law



## Future Areas for Growth

There are other ways to strengthen our social insurance and safety net programs to help American workers meet and exceed the economic challenges facing 21<sup>st</sup> century America. Still in the formative stage, these proposals represent promising approaches that should be seriously considered in the future.

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### A strong Social Security system is the cornerstone of economic and social progress for the 21st century.

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**Adding Family and Medical Leave to Social Security:** For the most part, Americans no longer live in intergenerational households in which relatives pitch in to provide care for the sick and shut-in. Today, workers most often have to take unpaid leave to care for loved ones or to get extended medical attention for themselves. The Family and Medical Leave Act was a step in the right direction but its unpaid benefits make it an unrealistic and burdensome prospect for many. To resolve this challenge, it is possible to add family and medical leave to Social Security as a way to provide paid leave for workers. Under the proposal “Social Security Cares,” all workers currently covered by Social Security would have access to benefits when they experience any of the three life events covered by the Family Medical Leave Act (FMLA)—the birth or adoption of a child, the worker’s

own serious illness, or to care for a seriously ill family member. Benefits would be provided for a maximum of 12 weeks per year, the same as under FMLA.<sup>134</sup> In exchange for a modest increase in the Social Security payroll tax (about three-tenths of one percent) workers could self-finance paid family leave insurance that would allow them to take critical time off without experiencing undue financial hardship.<sup>135</sup> This proposal would not only help workers, it would make the intergenerational compact between younger and older workers stronger enabling younger workers paid time off to help care for older relatives.

**Adding Wellness Insurance to Social Security:** It is well known that our nation’s financial challenges are integrally connected to our health challenges. The burden of high-cost chronic diseases that are largely preventable is not only unsustainable but it is also expected to grow as a result of the obesity epidemic. While the focus on including important prevention measures such as free screenings and community-based prevention grants in the Affordable Care Act was a step in the right direction, there is still a need for a primary prevention mechanism that ensures that Americans can stay healthy over a lifetime. Creating a “Wellness Insurance” program as a part of the Social Security system could provide an affordable mechanism.<sup>136</sup> For a nominal increase in the Social Security payroll tax, workers would gain access to approved wellness services such as nutrition education courses, maternal and child health education and training, gym membership, and

<sup>134</sup> Ibid.

<sup>135</sup> Boushey, H. (2009). *Helping Breadwinners When It Can’t Wait: A Progressive Program for Family Leave Insurance*. Washington, DC: Center for American Progress.

<sup>136</sup> Rockey Moore, M. (2009). *Real Health Reform Belongs Where It Started: With Social Security*. Washington, DC: The Franklin and Eleanor Roosevelt Institute.



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**Decisions made today about Social Security's future will profoundly affect the next generation's ability to survive and thrive, and it is the responsibility of our national leaders to prioritize the needs of the next generation.**

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weight management, smoking cessation and disease management courses, to name just a few services. Beneficiaries and their families would qualify for wellness insurance based on a formula tied to their Social Security contributions. In order to ensure quality, companies that want to provide wellness services to Social Security beneficiaries would be required to become certified vendors. Furthermore, the adoption of a wellness tax credit tied to Wellness Insurance utilization rates and health outcomes

would create an economic incentive for Americans of all backgrounds to eat healthier and be more physically active.<sup>137</sup>

The rationale for this plan is straightforward: by creating a wellness intervention embedded in social insurance, many more people will have access to the supports that they need to make healthier choices. It is anticipated that this approach will reduce the incidence of preventable chronic diseases and lead to increased healthcare cost savings. It will also likely result in increased Social Security savings because fewer people will seek disability and survivor benefits as a result of preventable chronic diseases. In addition, seniors in better health may have fewer out-of-pocket health-related expenses, and therefore, more disposable income to meet other needs as they age.

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<sup>137</sup> Ibid.



## CONCLUSION

A strong Social Security system is the cornerstone of economic and social progress for the 21<sup>st</sup> century. For this reason, policymakers must take the time to understand the impact of changes made today on future generations of increasingly diverse Americans. This includes designing and implementing reforms that will speak to their specific needs and circumstances. This report outlines specific ways that policymakers can approach Social Security reform that can make the program stronger without sacrificing economic security for future workers. The next generation deserves to inherit a country that has preserved and strengthened the social compact that has made the United States a beacon of hope and prosperity for the world.







# PLAN FOR A NEW FUTURE: THE IMPACT OF SOCIAL SECURITY REFORM ON PEOPLE OF COLOR

A Report of the Commission to Modernize Social Security

October 2011