This report addresses how individuals from various racial and ethnic groups fare under the current Social Security system. It examines the relative importance of Social Security for these individuals and how several aspects of the system affect them.

Acknowledgments: The authors would like to thank the Office of Retirement Policy staff as well as Dan Durham, Ben Bridges, Jan Olson, Sharmilla Choudhury, Harriet Duleep, and Alicia Cackley for their assistance and comments on this paper and earlier drafts.

Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program

by Alexa A. Hendley and Natasha F. Bilimoria, Office of Retirement Policy, Office of Policy, Social Security Administration

Executive Summary

In recent articles, some commentators have criticized the Social Security system as being unfair to minorities. This criticism has generated discussions about how minority groups fare under the current Social Security system and how they might be affected as the system undergoes changes in the future.[1] To understand the policy implications of any changes for these groups, it is important to understand the current system. This paper addresses how minorities fare under the current system and sets the stage for a later discussion on how various changes to the Social Security system may affect them.

The Social Security program is race-neutral. That is, people in identical economic and family situations are treated identically. Rarely, however, are individuals in identical situations; minority[2] groups, on average, have different earnings and life expectancies than whites, which affect the benefits that minorities receive under the Social Security system. They also have less retirement income from other sources, on average, than whites.

This paper shows that:

- *Social Security plays a larger role in retirement income for minorities than for whites* because minorities have fewer other resources such as pensions and assets.
- *Several aspects of the Social Security system work to the advantage of minority groups*. For example, minorities who tend to have lower earnings (blacks and Hispanics) benefit from the progressive benefit formula, and those with shorter life expectancies (blacks) benefit from the disability and survivors benefits.
- *Minorities will become a greater percentage of the U.S. population.* Minorities are expected to increase from 25 percent of the population in 1990 to 47 percent in 2050, with most of that growth due to an increase in the Hispanic, Asian, and black populations.

I. Social Security Plays a Large Role for Minorities

Social Security is the nation's largest family protection program. Because Social Security spreads risk among almost the entire population and provides nearly universal coverage, relatively few older individuals are forced into situations where they are wholly dependent on family members for retirement income support.

The importance of Social Security for minorities in retirement can be demonstrated in a couple of ways. First, minorities rely on

Social Security for most of their retirement income because they lack other sources of income and have fewer income-producing assets than whites. Second, Social Security benefits are particularly important to blacks (aged 65 or older) who would have poverty rates as high as 60 percent without Social Security, while the poverty rate for whites would increase to near 50 percent.[3]

Minorities Rely on Social Security for More of Their Retirement Income

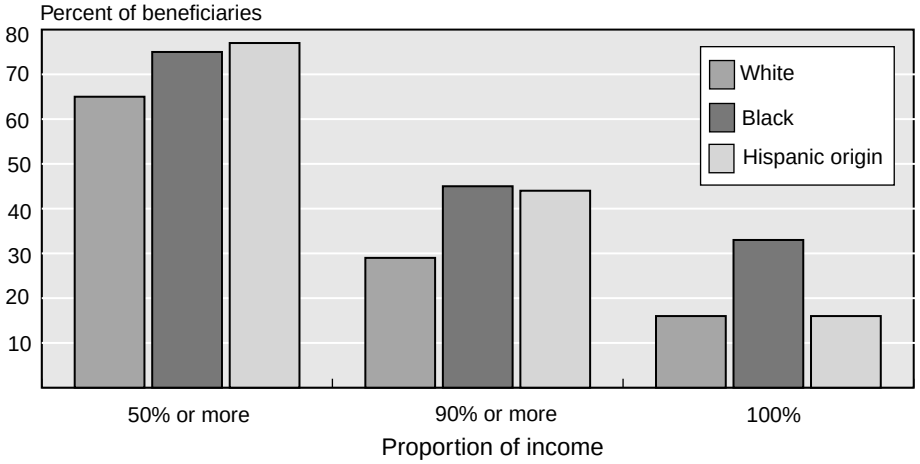
While Social Security is expected to be only one part of a person's retirement income, many minorities rely on it for more of their income than do whites. As chart 1 shows for those aged 65 or older in 1996:

- About three-fourths of minority beneficiaries rely on Social Security for *at least half their income,* while only two-thirds of whites rely on it to the same extent.
- Almost half of the minority beneficiaries (45 percent of blacks and 44 percent of Hispanics) relied on Social Security for *90 percent or more of their income,* compared with 29 percent of whites.
- A much higher percentage of minorities relied on Social Security for *all of their income*; 33 percent of blacks and 33 percent of Hispanics, compared with only 16 percent of whites.

Fewer minorities have other income sources.—Minorities rely more heavily on Social Security due to a lack of other income in retirement. Fewer elderly minorities receive income from pensions and assets than elderly whites. The greatest difference, as shown in chart 2, is in the receipt of income from assets; less than 40 percent of blacks and Hispanics have asset income, compared with more than 60 percent of whites.

The differences in pension receipt are likely to continue. Among current private sector workers aged 21 to 61, fewer minorities have pension coverage. In 1993 (the most recent data available), only 34 percent of black workers and 25 percent of Hispanic workers had pension coverage, compared with 45 percent of white workers. In fact, the pension coverage rate has dropped for white, black, and

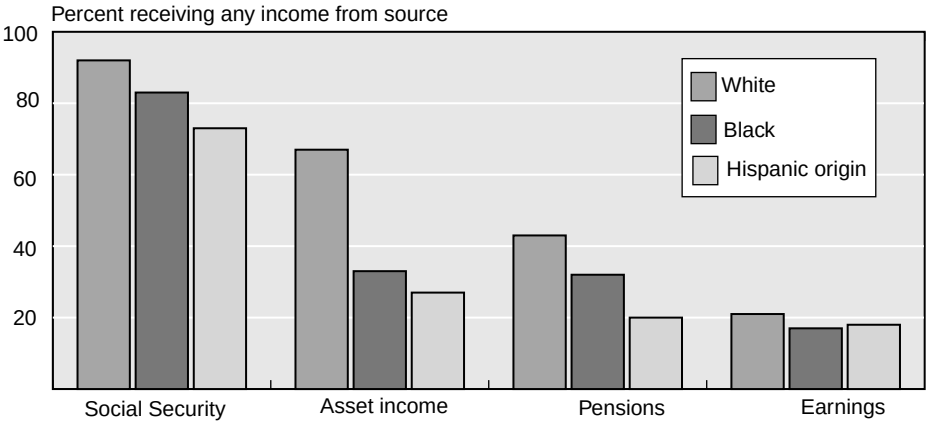
Chart 1.—Proportion of income from Social Security benefits, by race,[1] 1996



[1]Hispanics may be of any race.

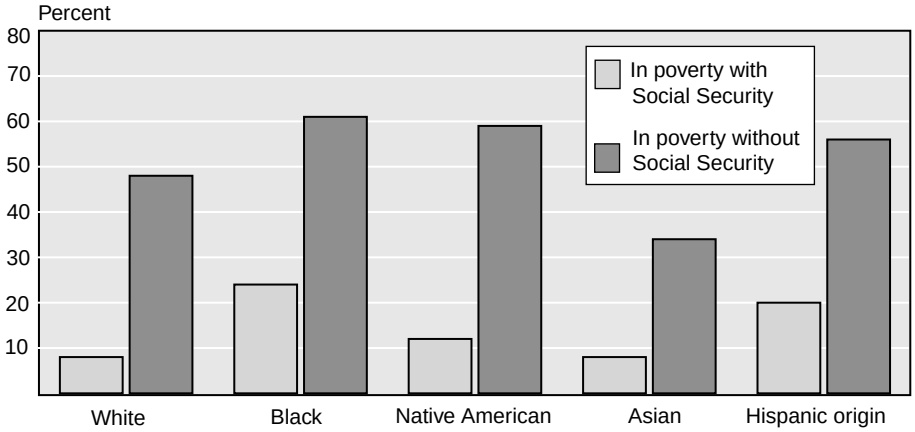
Source: *Income of the Population 55 and Older, 1996,* Social Security Administration, table VI.B.1 and table VI.B.4.

Chart 2.—Proportion of income from pensions and assets for minorities aged 65 or older, 1996



Source: *Income of the Population 55 and Older, 1996,* Social Security Administration, table I.3.

Chart 3.—Poverty rates for groups with and without Social Security benefit receipt, by race/ethnicity, 1997



Source: Office of Policy, Social Security Administration, tabulations of March 1998 *Current Population Survey* data.

Hispanic workers since the late seventies, but the decline has been greater for minorities.[4]

Social Security Reduces Minority Poverty

The importance of Social Security to minorities is emphasized by their current and potential poverty rates. Nine percent of all Social Security beneficiaries aged 65 or older were in poverty in 1997 (compared with 10.5 percent of *all* elderly). Without Social Security, 49 percent would have been in poverty. The poverty rates for elderly minorities are even higher than for whites. In particular, chart 3 shows that in 1997, elderly black beneficiaries had the highest poverty rate (24 percent) of the five racial/ethnic groups shown, while whites and Asians had the lowest rates (8 percent). If these groups did not have their Social Security benefits in 1997, around 60 percent of blacks, Native Americans, and Hispanics would have been in poverty, compared with slightly less than half of whites.

While the poverty rates vary among racial and ethnic groups, they also vary within these groups. Women, on average, have higher poverty rates than men. The greatest difference in poverty rates between men and women is among blacks and whites. For example, as shown in table 1, the poverty rate for white women was 9.9 percent in 1997, while it was 9.4 percent for Asians, 21.8 percent for Hispanics, and 26.2 percent for blacks.

Table 1.—Poverty rates for groups with and without Social Security, by race/ethnicity and sex, 1997[1]

Race/ethnicity	In poverty with Social Security		In poverty without Social Security	
	Men	Women	Men	Women
White.....	4.4	9.9	41.7	53.2
Black.....	19.6	26.2	55.7	65
Asian.....	5.3	9.4	32.6	35.8
Hispanic origin..	17.3	21.8	56.1	56.1

[1] The sample size for Native Americans is too small to present poverty data by gender.

Source: Office of Policy, Social Security Administration, tabulations of March 1998 *Current Population Survey* data.

II. Program Aspects of Importance to Minorities

Although the Social Security system is race-neutral, several features of the program are especially important to some minority groups. The progressive benefit formula helps low earners, many of whom are members of minority groups. The survivors and disability insurance programs are also important to minorities since they tend to have shorter life expectancies than whites.

Progressive Benefit Formula

Social Security payments are based on a worker's average indexed monthly earnings (AIME). Workers who had higher earnings will receive higher benefits. The program, however, is progressive in nature so that the system returns a greater percentage of pre-retirement earnings to low-wage workers than to high-wage workers. Chart 4 shows the estimated levels of replacement (or "replacement rates")[5] for workers who retire at age 65 in 2000,[6] with steady low, average, and high earnings. Minority groups, who have a disproportionate share of low-wage workers, receive more benefits in relation to past earnings than groups that include more high-wage earners.

However, while the benefit formula is progressive, the Social Security payroll tax is regressive when it is compared with the earnings subject to the payroll tax. Although 94 percent of workers have earnings below the taxable limit, the average earnings of blacks are lower than those of whites. Therefore, black workers are more likely to have all of their earnings subjected to this tax. One feature of the tax system that alleviates some of the payroll tax burden is the Earned Income Tax Credit (EITC). This tax credit was originally designed to offset the regressive payroll tax for families with children.

Minorities have lower earnings.—Social Security benefits are dependent on an individual's earnings. However, there are substantial differences in earnings among blacks and whites. Black's median earnings in Social Security covered employment were about $11,991, while white's median earnings were $16,360 in 1995.[7]

Although the Social Security benefit formula is progressive and provides low earners with a higher *proportion* of their pre-retirement earnings, workers with lower earnings still receive lower *dollar* benefits. The actual dollar amount minorities receive in benefits is lower than for whites because of their lower earnings, as shown in chart 5.

Lifetime work patterns affect benefits.—Lifetime work patterns affect Social Security benefits and other sources of retirement income. Years out of the work force directly affect Social Security benefits. The number of years in covered employment is important in the calculation of Social Security benefits. An individual's benefits are based on the average of the highest 35 years of earnings. Periods out of the work force or with reduced earnings will add zero years or more years of lower earnings into a worker's benefit calculation.

There are differences by race and gender in the number of years with no earnings in covered employment (zero years). In 1995, women who were age 61 (and fully insured for retirement benefits) averaged 7 years out of the work force, out of 35 years, while men age 61 averaged about 3 years. This difference is, in part, because women more frequently take time out to care for their children or elderly relatives.

Chart 6 shows that out of 35 years, black women had just slightly fewer zero years out of the work force than white women, but other minorities had many more. Part of the reason for this difference may be that the "other" minority category includes many immigrants who would not have had earnings under Social Security for 35 years.[8]

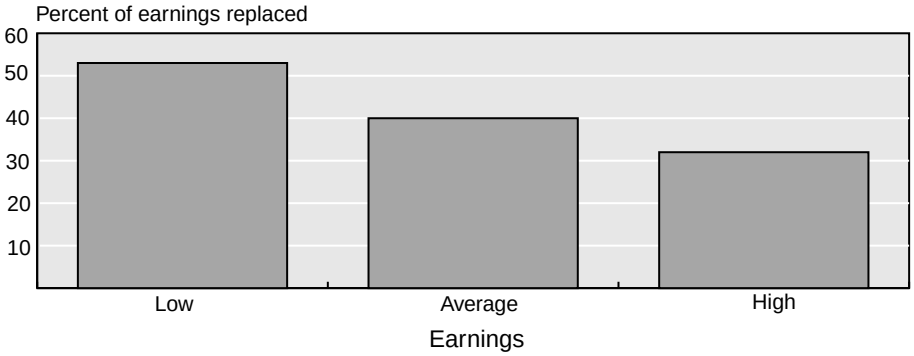
Social Security Survivors and Disability Insurance Protection

While Social Security retirement benefits are important to all elderly groups, chart 7 demonstrates that a greater proportion of white beneficiaries receive retired worker benefits than minority beneficiaries. A larger percentage of minority groups, however, receive disability and survivor benefits than do whites. Disability rates are strongly correlated to socioeconomic factors, with low-income workers having much higher rates of disability than workers with higher incomes.[9]

- Only 53 percent of black and 51 percent of other minority beneficiaries receive retirement benefits (including worker, spouse and children's benefits), compared with 72 percent of white beneficiaries.
- Minority beneficiaries are more likely to receive disability and survivors benefits than are whites. Twenty-five percent of all black beneficiaries and 32 percent of all other minority beneficiaries receive disability benefits, compared with only 12 percent of whites. In addition, while blacks comprised 11 percent of the population aged 18–64 in 1996, 18 percent of all disability awards were made to blacks.
- Twenty-two percent of black and 17 percent of other minority beneficiaries receive benefits from the survivors program, compared with 16 percent of white beneficiaries. Also, 25 percent of surviving children benefits were awarded to blacks, but blacks make up only 15 percent of the population under age 18.

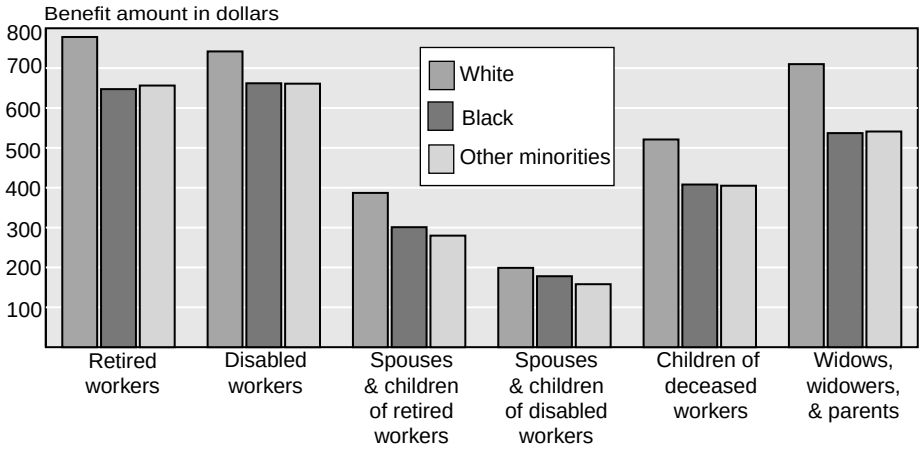
Life expectancy.—Life expectancy varies according to race and ethnicity. All else equal, persons with higher life expectancies will receive retirement benefits for a longer period and therefore receive higher lifetime benefits. On the other hand, those with lower life expectancies and their dependents may benefit more from the survivors and disability aspects of the program.

Chart 4.—Income replacement rates for low-wage workers



Source: *1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds*, table III.B5.

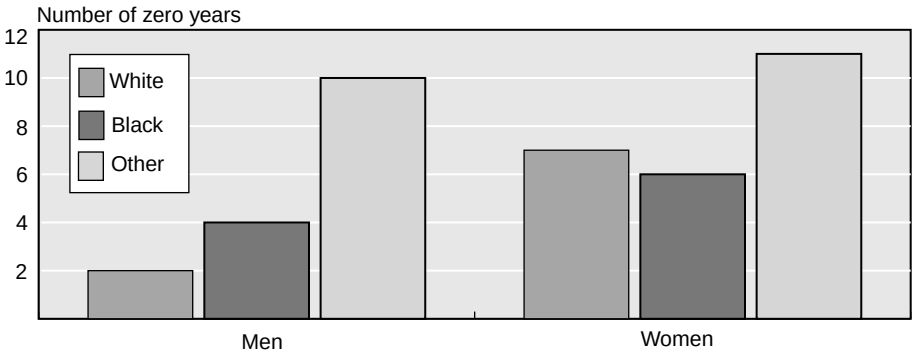
Chart 5.—Benefit amounts, by race and type of benefit, 1996[1]



[1]Social Security data on race are collected when an individual applies for a Social Security card, not at the time of application for benefits. Data collected before 1980 are limited to "black," "white," and "other." Other minorities may include Hispanics, Asian and Pacific Islanders, and other racial groups not specified. Hispanics, however, can also be classified as white or black.

Source: *Annual Statistical Supplement 1997* to the *Social Security Bulletin*, Social Security Administration, table 5.A.1.

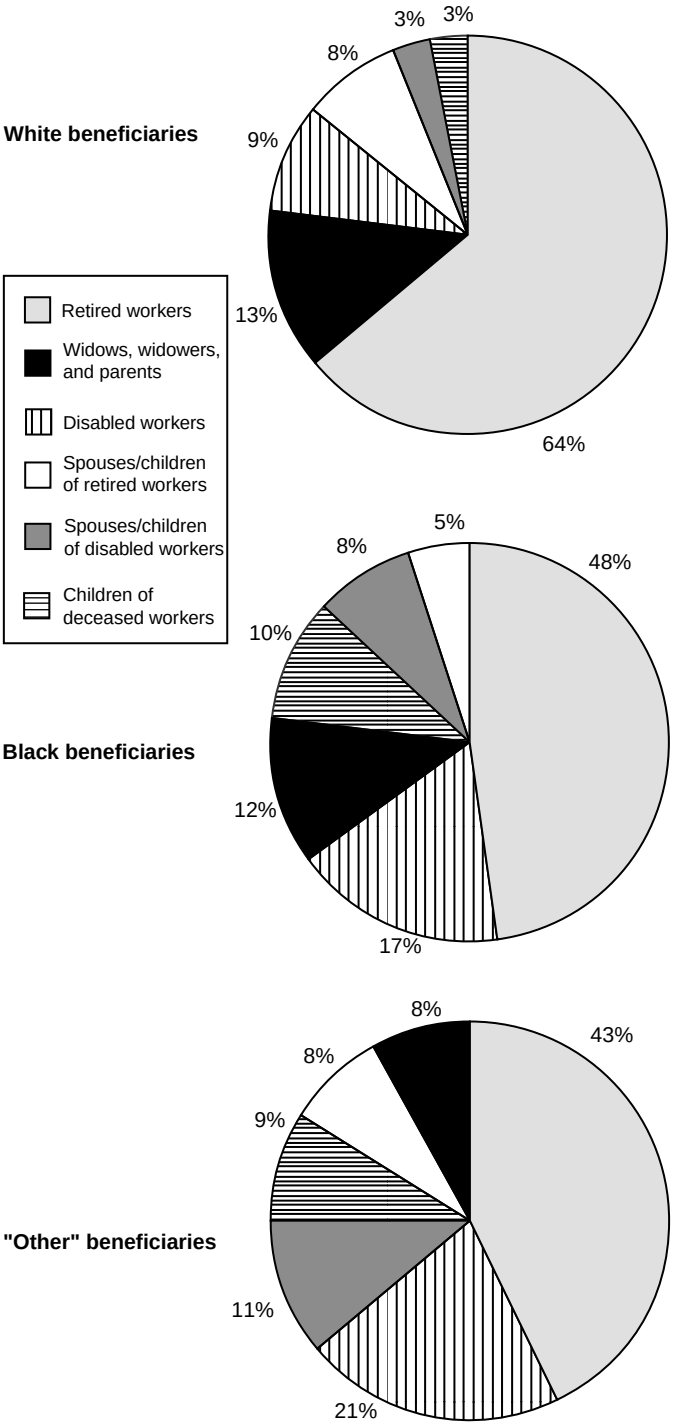
Chart 6.—Years with no earnings, by race[1] and sex, 1995



[1]Social Security data on race collected before 1980 is limited to "black," "white," and "other." Other minorities may include Hispanics, Asian and Pacific Islanders, and other racial groups not specified. Hispanics, however, can also be classified as white or black.

Source: 1937-95 1-percent active Continuous Work History Sample, for living nondisabled workers at age 61 and fully insured for retirement benefits at the end of 1995.

Chart 7.—Proportion of Social Security beneficiaries, by race[1] and type of benefit, 1996



[1]Social Security data on race are collected when an individual applies for a Social Security card, not at the time of application for benefits. Data collected before 1980 are limited to "black," "white," and "other." Other minorities may include Hispanics, Asian and Pacific Islanders, and other racial groups not specified. Hispanics, however, can also be classified as white or black.

Source: *Annual Statistical Supplement,1997* to the *Social Security Bulletin,* Social Security Administration, table 5A1.

In 1995, Asians and Pacific Islanders had the highest life expectancy rates at birth and at age 65, while blacks had the lowest (table 2). While whites, on average, had lower life expectancy rates than Asians and Hispanics, they consistently remain well above blacks.

Table 2.—Life expectancy rate at age 65, by sex and race/ethnicity

Sex	Total	White	Black	Asian	Hispanic origin
Both sexes…	17.4	17.6	15.6	21.2	21.2
Men……	15.6	15.7	13.6	18.8	18.5
Women……	18.9	19.1	17.1	22.9	21.8

Sources: (1) *Health United States, 1996-1997 and Injury Chartbook* , table 29 National Center for Health Statistics, 1997; and (2) *Population Projections for the United States by Age, Sex, Race, and Hispanic Origin: 1995-2050,* Current Population Reports, P-25-1130, 1996, tables B-1 and B-2.

Life expectancy trends show increases for all racial groups, but whites are increasing faster. The difference in life expectancy rates between blacks and whites has become smaller in the past 50 years because of improved education, health care, and working conditions. If these trends continue, life expectancy for blacks should continue to increase in the future. However, the U.S. Bureau of the Census projections[10] for 1995 to 2050 show that although life expectancy is increasing for all racial groups, it is increasing most for whites. The gap in life expectancy between blacks and whites is expected to grow while that between whites and Asians and Hispanics is expected to narrow. These expected trends emphasize the need to examine various subgroups separately and the possibility of differences in the types of benefits and reliance on the Social Security system in the future.

III. Minority Population Increase

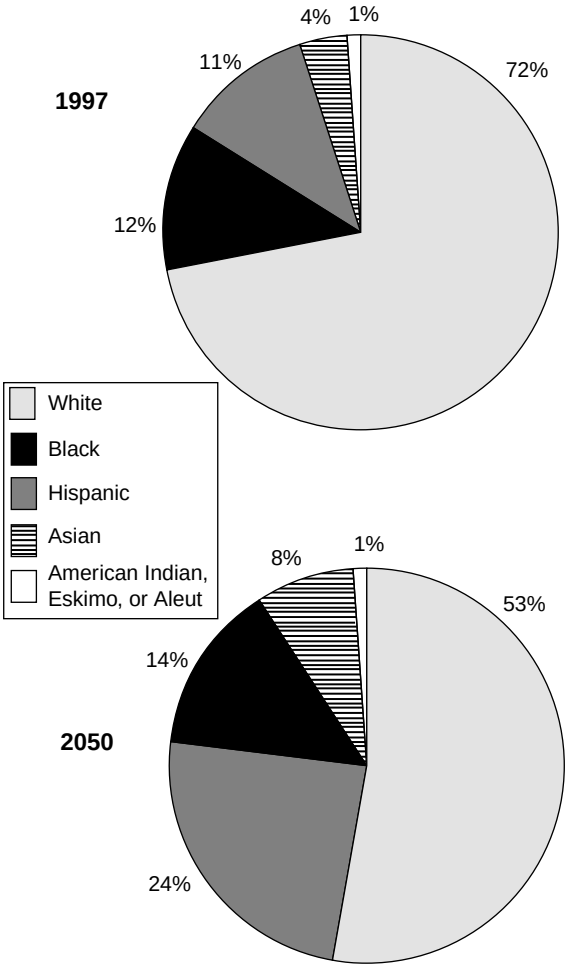
Minority populations continue to make up an increasingly larger proportion of the U.S. population.[11] In 1997, the majority of the U.S. population was white (72 percent), and minorities made up only 28 percent of the population (chart 8).

Due to high immigration and fertility rates, minority populations will grow significantly so that by 2050, the Census Bureau projects that the white population will decline to 53 percent of the total population.

The increase in the proportion of various minority populations will change the composition of the U.S. work force and the face of the nation's elderly. The great diversity among minority populations is important to consider in the analysis of the current and future Social Security system.

In the future, Social Security will continue to play an important role in the retirement security of our nation's elderly as well as to protect families against the total loss of income due to the disability or death of a worker. While the composition of the nation may change, the need for economic security will not. Minorities today rely on the retirement, disability, and survivors benefits. Retirement benefits are especially important to low-income workers, many of whom are minorities, who depend on them as a secure source of income in retirement. The progressive benefit formula also helps minorities who may have had low earnings throughout their lives. In addition, minorities depend on the disability and survivor's benefits more than whites. As these populations grow in the future, the importance of Social Security most likely will also grow.

Chart 8.—Percentage distribution of the U.S. population in 1997, and projected percentages for 2050, by race/ethnicity[1]



[1]White, black, Asian, and "other" classifications are not of hispanic origin.

Source: *Statistical Abstract of the United States, 1998*, table no. 19.

Notes

[1] See for example, William J. Beach and Gareth G. Davis, "Social Security's Rate of Return," and "Social Security's Rate of Return for Hispanic Americans," The Heritage Center Foundation; Kilolo Kijakazi, "Flaws in the Heritage Foundation's Assessment of Social Security's Rate of Return," The Center for Budget and Policy Priorities; and General Accounting Office testimony before the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives (February 10, 1999), "Social Security and Minorities: Current Benefits and Implications of Reform."

[2] The data used are from various sources and the race and ethnicity classifications may not always be consistent across sources. Due to data limitations, we do not have comprehensive data on all minority groups, but we have included information where available.

[3] The increase in the poverty rate assumes the Social Security benefit is taken away and there is no other change in behavior (such as increased savings) to compensate for this reduction.

[4] Yung-Ping Chen and Thomas D. Leavitt, "The Widening Gap Between White and Minority Pension Coverage," The Public Policy and Aging Report (Winter), 1997.

[5] Replacement rate refers to the benefit as a percentage of earnings in the 12-month period preceding retirement.

[6] Low earnings are equal to 45 percent of average, and high earnings are equal to 160 percent of average. For 1997, low earnings equal $12,342; average earnings equal $27,426; and high earnings equal $43,882.

[7] Unpublished Social Security Administration data, 1995.

[8] See Harriet Orcutt Duleep, "Measuring the Effect of Income on Adult Mortality Using Longitudinal Administrative Record Data," *Journal of Human Resources*, Vol. 21, No. 2 (Spring), 1986, pp. 238-251 and Gary Burtless, "Occupational Effects on the Health and Work Capacity of Older Men," in Work, Health, and Income Among the Elderly, Gary Burtless (ed.), Washington, DC: The Brookings Institution, 1987, pp. 103-142.

[9] See Jennifer Cheeseman Day, *Population Projections of the United States by Age, Sex, Race, and Hispanic Origin: 1995 to 2050*, U.S. Bureau of the Census, Current Population Reports, P25-1130, U.S. Government Printing Office, Washington, DC, 1996.

[10] Population estimates are based on 1990 U.S. Census Bureau data.

[11] High attribution rates (self-identification with a specific racial or ethnic group) also contribute to the increase in the black and Hispanic populations.