



# CENTER ON BUDGET AND POLICY PRIORITIES

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## **The Importance of Social Security to People of Color and Women** by Kilolo Kijakazi

Social Security has been one of the country's most successful social programs and is particularly important to people of color and women. The program provides several protections that benefit these communities, including a progressive benefit formula, comprehensive insurance benefits (including disability, survivors, and retirement benefits), spouses benefits, a cost of living adjustment, and coverage until death. These protections will be placed at risk or lost if Social Security is fully or partially converted to a system of individual accounts. Individual accounts would not have a progressive component: workers would get back what they pay in plus earnings or losses. Individual accounts would not provide insurance for unforeseen events such as the death or disability of a worker, and these accounts may not provide coverage for spouses or inflation protection.

Elderly African Americans and Hispanic Americans rely on Social Security benefits more than white elders rely on the program. During the period from 1994 to 1998, both African-American and Hispanic-American seniors and their spouses relied on Social Security for about 44 percent of their total income, while white elders and their spouses received 37 percent of their total income from Social Security. This is not surprising given the lower rates of pension coverage for people of color. Pension income was received by only 29 percent of elderly African Americans and their spouses and 22 percent of elderly Hispanic Americans. By comparison, 45 percent of elderly whites and their spouses received pension income. Moreover, people of color are disproportionately represented among low-wage workers. It is, therefore, more difficult for them to set aside savings for retirement to supplement Social Security.

Social Security is also an important source of income for women. The program made up 43 percent of total income received by elderly women and their spouses during the period from 1994 to 1998. Compared to men, women have few resources other than Social Security to draw upon in their older years. Women have lower rates of pension coverage and pension income than men. Only about 36 percent of elderly women had pension coverage, while approximately 48 percent of elderly men were covered. Of those who had pension income the average annual benefit for women and their spouses was \$4,365 compared to \$6,604 for men. Additionally, fewer elderly women than elderly men are employed, and those who are employed earn lower average wages than men. Women make up the majority of those whom Social Security lifts from poverty. In 1999, three out of every five elderly people lifted out of poverty by Social Security were women.

The lack of pension coverage and limited resources for savings place greater weight on Social Security as a reliable, guaranteed source of income for many people of color and women.

The argument has been made that Social Security provides a lower rate of return to African Americans because this community has a lower average life expectancy than the general population. According to this argument, an African-American worker would contribute payroll taxes, but would not live long enough to receive Social Security benefits sufficient to achieve the same rate of return as non-African-American beneficiaries. This reasoning is faulty, however, as it overlooks important protections Social Security provides for African-American and low-wage workers, including disability and survivors insurance.

Three aspects of the Social Security system help to compensate African Americans for their shorter average life expectancy. First, Social Security's benefit formula is progressive. Individuals who earned lower wages and/or had fewer years in the workforce receive larger monthly benefit amounts, in proportion to the wages they earned and the taxes they paid, than other workers do. Since African Americans are disproportionately represented among low-wage earners, they gain from this formula. The second feature is the option for early retirement. Two-thirds of all workers, including people of color, retire between ages 62 and 65. Given the shorter life span for African Americans, the benefits these early retirees receive from age 62 to the end of their lives exceed the benefits they would receive, as a group, if they waited until 65 to retire. Starting to receive benefits several years earlier *increases* the total benefits they receive and raises their average rate of return. The third component is the comprehensive nature of the program. Social Security is not solely a retirement program; it is also an insurance system. African Americans benefit disproportionately from the disability and survivors components of Social Security. For example, African Americans made up 11 percent of the labor market in 1999 but accounted for 18 percent of disability beneficiaries.

Thus, despite the shorter life span of African Americans, aspects of the program such as the progressive benefit, early retirement and comprehensive insurance, offset the effects of higher mortality rates for this community. A study of Social Security's rate of return conducted by researchers at the Treasury Department (Duggan, Gillingham, and Greenlees, 1993) found that African Americans had a slightly higher rate of return from Social Security's retiree and survivors benefits than whites. A second study by the Social Security Administration looked specifically at disability insurance. It shows that African Americans received substantially more benefits from Social Security Disability Insurance in relation to the payroll taxes they paid than whites do.

Social Security is of particular value to Hispanic Americans. Hispanic-American retirees live longer, on average, than other Americans. The average American who reaches 65 (including both men and women) will live an additional 17.5 years, while the average Hispanic American reaching 65 lives an additional 20.5 years. Individuals with a longer life span receive more monthly benefit checks from Social Security. Furthermore, Social Security's annual cost-of-living adjustment — a feature most private annuities do not have — is of greater value to those who live longer. Hispanic Americans gain from Social Security's provision of benefits that keep pace with inflation and cannot run out no matter how long one lives. They also are helped by

Social Security's progressive benefit formula, since Hispanic-American retirees on average have lower wages and fewer covered years of employment. Due to these protections, Hispanic Americans receive benefit levels that return the taxes they paid in fewer years than average retirees do, while also receiving benefits for more years than the average retiree. Hispanic Americans consequently are one of the groups for which Social Security is most beneficial.

A Social Security Administration fact sheet notes that Hispanic-American beneficiaries "on average receive a higher rate of return on taxes paid." An analysis by the Deputy Chief Actuary of the Social Security Administration explains that "a somewhat higher rate of return for Hispanic Americans is to be expected, based on the higher life expectancy for Hispanic Americans, and the fact that Hispanic Americans have lower than average earnings."

Women too benefit particularly well from Social Security. Women gain from the progressive benefit formula because their wages are lower than men's wages, on average. In fact, Social Security replaces 54 percent of the average lifetime earnings for the median female retiree compared to 41 percent for the earnings of the median male retiree. In addition, women are more likely than men to have dropped out of the labor force or worked part time, often to care for children or elderly relatives. Because the benefit formula adjusts for time spent out of the labor market, it helps to compensate women.

Social Security also provides other compensations to married women. A married woman can receive either a benefit based on her own earnings history or a spouse benefit equal to 50 percent of her husband's benefit, whichever is larger. In addition, an elderly woman who outlives her husband can receive a survivors benefit that is based on her own earnings history or she can receive 100 percent of her deceased husband's benefit, whichever is larger. Although the number of women in the workforce has grown tremendously since the 1960s, a substantial number of women will continue to receive spouse benefits in the future. A study by the Social Security Administration showed that among women born during the baby boom, 36 percent are projected to receive spouse benefits when they turn 67.

Given the longer average life span for women, they also benefit greatly from the survivors insurance component of Social Security. The SSA study also projected that 75 percent of female baby boomers who are elderly widows will receive survivors benefits based on their husbands' earnings. A woman is eligible for spouse and survivors benefit even if she is divorced, as long as she was married for ten years and did not remarry before age 62.

Finally, the annual cost-of-living adjustment particularly benefits women due to their longer life span. Without this annual increase in benefits, the buying power of elderly women would decline substantially as they grow older. Data from the Social Security Administration indicate that as a result of these protections, women pay 38 percent of the payroll taxes but receive 53 percent of the benefits.

Given the importance of Social Security to people of color and women, efforts to reform the program should not undermine the protections or the guaranteed benefit the program provides. To do so would place these communities at risk.