

Social Security Reform: Implications for the Latino Community

Social Security has long served as one of the most important financial safety nets for millions of retirees, disabled workers and families throughout the United States. Enacted in 1935, the Social Security Act established the first major social insurance program in the United States designed to provide a valuable package of retirement, disability and survivor’s insurance to workers and their families. Over 47 million people – retirees, survivor beneficiaries and disabled workers - receive Social Security benefits every month. Social Security is the primary source of financial protection for the vast majority of Hispanic retirees and their families.

While Social Security has been financially stable for decades, reports on the system’s forthcoming insolvency have generated ample alarm and concern. Proposals to “save” or “transform” social security have been touted by several of our nation’s leaders. Some proposals aim at maintaining Social Security’s current structure, raising the retirement age, increasing payroll taxes or decreasing benefits. The Bush administration is strongly advocating for the creation of personal savings accounts that would allow younger workers to divert a portion of their payroll taxes into individual accounts they would manage. These accounts would either supplant Social Security or supplement lower Social Security benefits. The following is an analysis on the importance of Social Security for the Latino community and the impact that proposed changes to the system would have on future and current Hispanic retirees.

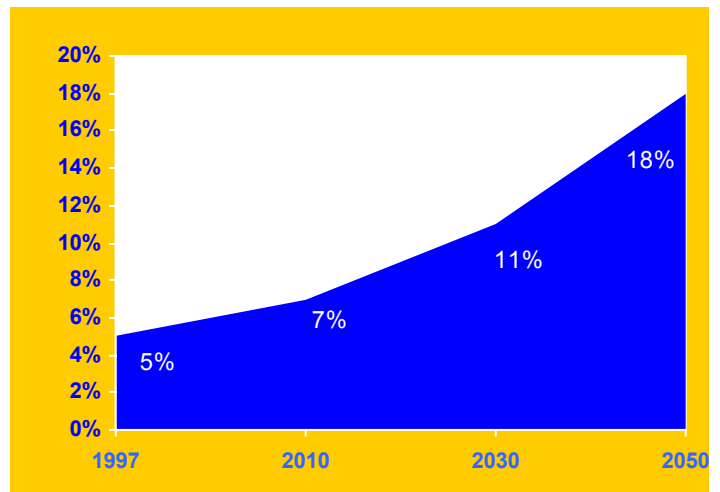
Hispanic Elderly

At 40 million, the Latino community represents the largest ethnic group in the United States. The number of Latino elderly represents 13% of the total Latino population and 6% of the elderly population in the United States. According to the U.S. Census Bureau, the Hispanic community is the youngest and fastest growing group in the country. Today, the Hispanic population’s median age is about nine years less than that of the non-Hispanic White population. By 2050, Hispanic seniors will account for 17.5 percent of the US elderly population (AARP, 2004).

In New York City alone there are over 300,000 Hispanics 60 years and older (New York Center for Policy on Aging). By 2025, that number will increase to nearly half a million.

Poverty remains disproportionately high among the Hispanic elderly. Twenty-four percent of elderly Hispanics live below the poverty level, more than double the rate of

Elderly Population Trends for Hispanics 65+

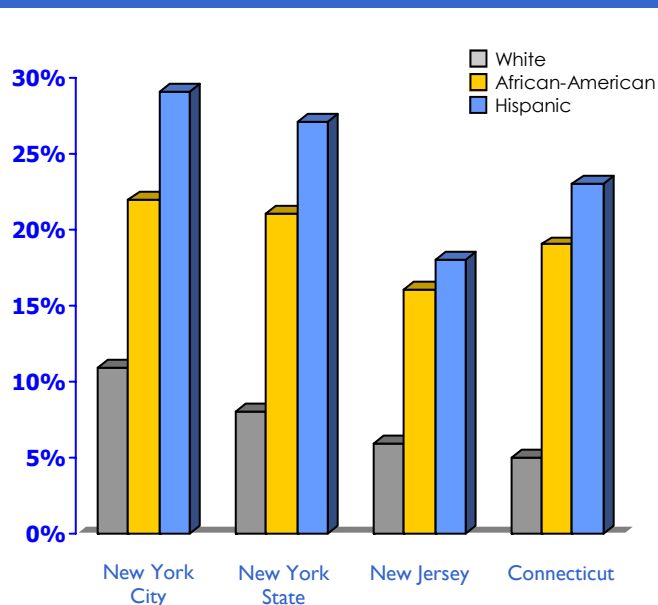


Source: AARP: Social Security and Hispanics, 2004

White seniors (United States Administration on Aging). The poverty rate for older Hispanics in the New York tri-state area is even higher. According to the US Census Bureau, Hispanics 65 and older have the highest poverty rates in the Northeast. In New York City, the estimated poverty rate for the Hispanic elderly is 29% compared to 22% for African Americans and 11% for Whites.

In New Jersey and Connecticut, Latino elderly poverty rates – 23% and 18% respectively – are also substantially higher than the poverty rates experienced by White seniors. Elderly poverty rates are high in the Hispanic community because Latinos are more likely to have been poor prior to old age than non-Latinos. A variety of factors contribute to the high Hispanic poverty rate.

Estimated Poverty Rates Among People 65+ by Race/Ethnicity in the Tri-State Area



Source: US Census Bureau, Detailed Tables, 2000

Hispanics are more likely to be unemployed for longer periods of time and have lower earnings than any other group in the nation. According to the US Census Bureau, over 50 percent of Hispanic workers earn less than \$25,000 - compared to 25 percent of Whites. In the tri-state area, the average median household income for Latinos is an estimated \$33,000, or 40% less than the household income of Whites in the region.

Latinos and Social Security

For Latino seniors and their families, the reliability of Social Security's income stream is critical to their economic wellbeing. More than any other group, Latinos depend on Social Security to provide their sole or primary source of retirement income. Nearly one in two Latinos rely on Social Security for over 90% of their income.

Similarly, in New York City, over 50% of the older population depends on Social Security benefits for over 90% of their income. According to the Association of American Retired Persons (AARP), over 70% of the Hispanic elderly rely on Social Security for more than half of their income compared with 29% of Whites.

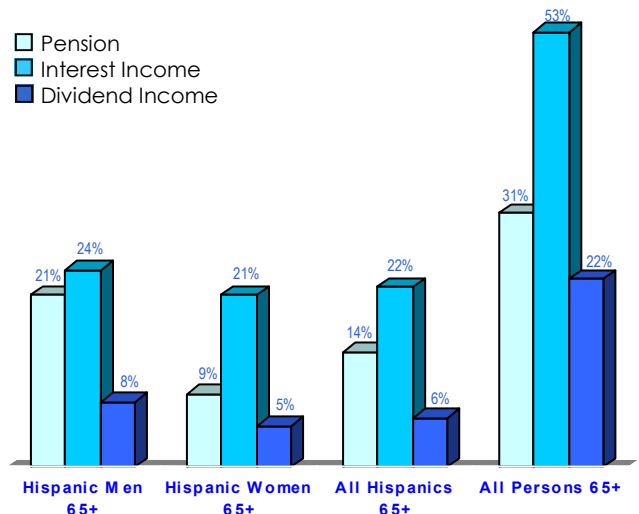
It is estimated that without the current social security system, over 50% of Hispanic families would find themselves destitute.

Hispanic retirees are more dependent on Social Security because they are less likely to receive pension, interest or dividend income than any other retiree group. In fact, less than half of the Hispanic workforce has retirement savings and over two thirds of future Hispanic retirees will depend solely on Social Security guarantees.

Hispanics also have a higher work disability rate than other Americans. According to the Social Security Administration, Hispanic disability rates are estimated to be the highest in the nation. Employment disability rates for Latinos in 2004 was 16.7 percent, five percentage points more than the overall employment disability rate in the United States. Therefore, Hispanics are more likely to depend on the disability benefits provided by Social Security.

Several features of Social Security also make the program particularly important for Latino beneficiaries. For example, the progressive benefit formula of Social Security ensures that low-wage earners receive a greater percentage of the resources they contribute to the system than those who have high earnings. Social Security replaces about 57 percent of lifetime average wages for low-income earners,

Hispanics Age 65+ with Pension, Interest and Dividend Income, 2002



Source: AARP, Public Policy Institute, 2004

42 percent for average-wage earners, and 36 percent for high-wage earners (Center for American Progress, 2004). This formula supports Latino workers, who are concentrated in low-wage jobs and earn less than other groups of Americans during their lifetime.

Social Security: An Immediate Crisis or Future Concern?

Statistics indicate that because of increasing life expectancy rates, a decrease in fertility rates, and a projected increase in beneficiaries, there will be fewer workers contributing to Social Security for future retirees, disabled workers, and survivor beneficiaries. It is estimated that in approximately two decades there will only be 2 workers contributing for each beneficiary (GAO Report, 1997).

By 2018, Social Security will go into deficit. Proponents of transforming or doing away with Social Security use this fact to argue that at this point the system will be bankrupt and unable to sustain itself. However, according to the American Academy of Actuaries and the Congressional Budget Office, the system will be able to pay full benefits until 2042 and about 70 to 80 percent of promised benefits after that by using its trust fund reserves.

Indeed, Social Security's projected crisis is more than a generation away. Nevertheless, the program faces a long-term deficit that if left unattended for very long will eventually leave the system unable to fully support future beneficiaries.

Privatization

Supporters of privatization argue that the best way of financially protecting future retirees is by allowing workers to divert a portion of their payroll taxes away from Social Security into individual accounts. These accounts would be invested in the stock market and supplement lower Social Security benefits. Proponents of privatization argue that workers would get a better return on their money through these accounts than through the current Social Security system.

However, replacing part of Social Security with a system of mandatory personal investment accounts would in effect weaken – instead of strengthen - one of the most effective social safety net programs in our nation's history. Money diverted into private accounts would not be guaranteed, and, as with any funds invested in the stock market, be subject to a certain degree of risk. The rate of return a retiree receives through a private accounts system depends on a variety of factors, including how much money they contribute, the choices they make when investing, and the state of the economy at the time

of retirement. Since the large majority of Latino low-income earners, seniors and disabled workers lack any real familiarity with the financial markets, they may face an even greater risk of faring poorly with their investments. Certainly, they are likely to face a high degree of economic hardship if their investments fail.

In addition, the privatization plan being proposed does not provide any details on how Social Security's disability and survivors benefits will be financed under a new privatized system. As previously noted, these benefits are especially important to Latinos, who are disproportionately represented among disabled workers.

Finally, since the costs of transitioning to a private account system are estimated to be up to 2 trillion dollars (Tumulty and Roston, 2004), this poses serious social and economic implications for the entire country.

Strengthening Social Security and the Economic Future of the Latino Community

Given the importance of Social Security, it is critical that our nation's leaders look to strengthen the current system. While Social Security, even if left unattended, will remain adequately financed for the next 35 years, legislative action is necessary for it to stay solvent for future generations of American families. A balanced packet of adjustments in benefits and revenues phased in over several decades appears to be the most prudent approach.

As our government examines Social Security, it should also look to support other initiatives that help the growing Latino community better prepare for their retirement years. The following are some of the ways to improve the well-being and security of Latino families:

1. Provide incentives for Latino workers to enroll in retirement plans and/or private accounts so that these can serve as a useful supplement to Social Security
2. Develop more skills-training programs to move low-income earners into higher wage employment
3. Promote more economic incentives to improve Latino homeownership
4. Sponsor financial literacy initiatives in Latino communities
5. Expand matching tax credit programs for retirement savings benefiting low- and middle-income wage earners.

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Hispanic Federation

PUNTO DE VISTA

Policy Brief

Punto de Vista – a policy brief that offers advocates, policymakers and community members an informative analysis on political, economic and social issues affecting the Latino community.

*The **Hispanic Federation** is a service-oriented membership organization that works with 84 Latino health and human services agencies to advance the quality of life for Latinos in the tri-state region and beyond. The Federation seeks to educate elected officials, policymakers, the media and funders about the needs and contributions of Latinos, and serves as a public policy advocate for the Latino community on the issues of civic participation, health care, immigration, education, economic development, media coverage and more.*

***Institute for Puerto Rican/Hispanic Elderly** seeks to improve the quality of life of Hispanic and other minority seniors through advocacy and the provision of a wide-range of social services.*

Hispanic Federation

Lillian Rodríguez-López
President

Christian Tirado, MA,MPA
Policy Analyst
ctirado@hispanicfederation.org

130 William Street, 9th Floor
New York, NY 10038
Phone: 212.233.8955
Fax: 212.233.8996

1522 K Street, N.W., Suite 1130
Washington, DC 20005

www.hispanicfederation.org