

VIEWPOINT

WHY SOCIAL SECURITY IS IMPORTANT TO HISPANIC AND LATINO AMERICANS

Proponents of privatizing Social Security often claim that certain groups, such as Hispanic Americans, would be better off under a privatized Social Security system than they are under today's traditional program. By focusing on very narrow elements of the Social Security system, these proponents of privatization ignore the broad array of benefits that make Social Security a uniquely valuable program for Hispanic Americans.

Summary

Social Security protects families in the event that a worker retires, becomes disabled or dies. These guaranteed insurance benefits are especially crucial to people of color who tend to have fewer alternative resources, become disabled at higher rates, and disproportionately rely on Social Security's family benefit features. Social Security provides many elderly Hispanics with their sole or primary source of income in retirement. Today's Hispanic workers are concentrated in low-wage jobs that typically lack pension coverage. Hispanics experience high poverty and underemployment, and have less ability to save and invest for retirement than most other Americans. Because of low income throughout their working lives, elderly Hispanics may not have been able to accumulate savings, and may depend almost exclusively on Social Security for their retirement income. Therefore, preserving the current system with its guaranteed benefits is crucial for Hispanics.

Hispanics 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. Because Hispanics tend to have lower earnings and less pension coverage than white Americans, Social Security is extremely important for Hispanic retirees.

- Over three-fourths of Hispanic beneficiaries rely on Social Security for at least half their income
- Approximately 45 % of Hispanics beneficiaries rely on Social Security for 90 percent or more of their income
- Approximately 38 % of Hispanics beneficiaries rely on Social Security for all of their income

Minorities rely more heavily on Social Security due to a lack of other income in retirement. Few elderly minorities receive income from pensions and assets. The greatest disparity is in the receipt of income from assets.

- Twenty-eight percent of Hispanics have asset income, compared with more than 63 percent of whites
- In 2000, 22% of Hispanics 65 years old and over with income reported receiving income from pensions, compared to 43% of whites 65 years old and older.
- In 2000, over one-quarter of Hispanics (31.2%) 65 years old and older with income reported receiving income from interest relative to 66.4% of comparable whites.

Elderly Latinos are more dependent on Social Security than others, because they are more likely to be in poverty than non-hispanic elderly. They are also more likely to have been poor prior to old age than non-Hispanics. Social Security reduces poverty for Hispanic elderly.

- In 2001, 19% of Hispanic elderly 65 years old and older were poor, compared to 7% of white elderly.
- If not for Social Security, the poverty rate for older Hispanic Americans would more than double from 19% to 55%.

Program Aspects Important to Hispanics

Social Security provides many elderly Hispanics with their sole or primary source of income in retirement. Although Social Security's benefit and contribution provisions are neutral with respect to race, ethnicity and gender, several features of the program are especially important to Hispanics. The progressive benefit formula intentionally helps low-income earners, many of whom are Hispanic American. In the aggregate, Hispanic Americans have higher disability rates and lower lifetime earnings, and thus receive greater benefits relative to taxes paid. Furthermore, due to higher than average life expectancy, Hispanics benefit from the Social Security program's annual cost-of-living adjustment.

Progressive Benefit Formula

Social Security employs a progressive formula that intentionally returns a higher percentage of wages to low- and average-wage earners than it returns to those who have had high earnings. Lifetime earnings directly factor into Social Security's progressive benefit formula. Hispanics, on average, have lower levels of lifetime earnings than white workers. For example, 38% of Hispanic workers born between 1931 and 1940 had lifetime earnings that fell into the bottom fifth of earnings received by workers born in these years. Conversely, only 9% of Hispanic workers had earnings that placed them in the highest fifth of workers. The median earnings of working-age Hispanics in jobs covered by Social Security in 2001 were about \$21,600, compared to \$27,500 for all working-age people. As a result of their over-representation among workers receiving the lowest earnings and their under-representation among workers receiving the highest level of earnings, Hispanic Americans gain from Social Security's progressive benefit formula.

Disability

Hispanic Americans have higher rates of disability and consequently are more likely to receive benefits from the Social Security Disability Insurance (DI) program. In general, workers with a higher probability of becoming disabled have a higher benefits-received-to-taxes-paid ratio than those who are not disabled. This is because DI beneficiaries begin to receive benefits and cease contributing payroll taxes at an earlier age than workers who are not disabled. A high incidence of disability among Hispanic Americans increases their benefit-to-tax ratio. Moreover, because low-wage DI beneficiaries also gain from the program's progressive benefit formula, low-wage disabled workers benefit from two aspects of the program. Hispanic Americans are disproportionately represented among both disabled workers and low-wage earners. Thus, DI plays an important role for Hispanic Americans.

Life Expectancy/Cost of Living Adjustment

Hispanics benefit from the guaranteed benefit that is annually adjusted for inflation. With longer life expectancies, elderly Hispanics will live more years in retirement and benefit from Social Security's cost-of-living protections. Hispanics tend to have higher life expectancies at age 65 than the majority of the population. Hispanic men who are age 65 in 2003 can expect to live to age 85, compared to age 81 for all men. Hispanic women who are age 65 in 2003 can expect to live to age 88, compared to age 85 for all women. As a

result of their higher-than-average life expectancy, Hispanics gain from the Social Security program's annual cost-of-living adjustment.

Privatization

A wide variety of plans to privatize Social Security are under consideration today. Some of these plans acknowledge the difficulty lower-income Americans will have in accumulating enough savings in their individual accounts to provide for a secure retirement once the progressivity of the current system is eliminated. But their response, in most cases, is to simply allow lower-income workers to place higher portions of their income into the investment accounts. This places even more of their savings at risk, and makes more of their retirement income subject to the uncertainties of the stock market.

In addition, virtually all of the plans focus solely on the retirement aspects of the Social Security program. While advocates of private accounts claim that they would protect the disability and survivors programs, they provide no details on the level of support that would exist in the future, and they do not explain how these benefits would be financed. This would leave Hispanic Americans, who benefit disproportionately from these programs, with even more uncertainty if plans to privatize Social Security are successful.

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