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PRIMER

Impact of Social Security and Proposed Benefit Changes on the Latino Population

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- Social Security benefits are particularly important to Latinos because of their lower socioeconomic status, higher rates of disability and longer life expectancy; almost half of all Latino elders would live in poverty without Social Security benefits.
- The proportion of the Latino population currently eligible for benefits is lower than other groups because the U.S. Latino population is relatively young and will contribute to the Social Security system for many years to come—only receiving benefits decades later.
- Because of their low lifetime wages and lower socioeconomic status, Latinos benefit from the program's moderately progressive payout structure.
- Many proposed reform options aim to reduce or delay guaranteed benefits, which would hurt many Latinos who do not have investment savings accounts to rely on for income.



### Background

**T**his primer briefly examines the importance of Social Security to Latinos and the potential impact of changes to the Social Security system for Latino beneficiaries and their families. Although it is often thought of exclusively as a retiree benefit, “Social Security” refers to the Old-Age, Survivor, and Disability Insurance program, a title that reflects the three groups that it supports: (1) retirees and their spouses; (2) spouses and dependents of deceased workers; and (3) people who leave the work force due to a long-term disability or one expecting to result in death. Currently, the three components of Social Security provide around 54 million people in the U.S. with benefits. In 2011, 69% of beneficiaries received retiree benefits, almost 12% received survivor benefits, and almost 19% received disability benefits.<sup>1</sup>

The U.S. Social Security system provides millions of retired workers and their families a guaranteed lifelong income with minimal administrative costs. Its role in providing financial security in retirement and in cases of disability or death has proved especially important to the U.S. Latino population, which has historically been disproportionately of lower socioeconomic status. In 2008, almost 50% of Latino elders would have lived in poverty without these benefits, as compared to 19.3% who actually did.<sup>2</sup>

Social Security is not in immediate jeopardy, as is often portrayed.

With no changes, the Social Security actuaries project that the program can pay out all promised benefits for the next 26 years and about 75% of scheduled benefits after 2037.<sup>3</sup> The benefit formula contains a moderate redistribution element that promotes economic adequacy for all elder workers; although high earners receive higher payouts than low earners, low earners receive a greater proportion of their pre-retirement income than high earners do. It also contains important spousal and survivor provisions. The spousal provision allows individuals to collect 50% of their spouse's benefit if that amount is more than any benefit they would qualify for based on their own work history. Once a worker or retiree dies, survivor provisions can provide their spouse with retirement, disability, or childcare benefits. This is significant for Latino women who are at a higher risk of falling into poverty in old age than White women.<sup>4</sup> The worker or retiree's surviving parents, children, and grandchildren can also receive benefits under certain conditions. Despite this broad range of benefits offered under the Social Security system, Social Security's retirement benefit remains modest for low income workers. It was constructed to be only one leg of a "three-legged stool" of retirement income, with the other two legs being private pensions and personal savings.

Many of the current reform options—largely those that aim to reduce benefits—would be detrimental to Latinos. In 2008, 25% of Latino men and 27% of Latina women age 65 or over relied on Social Security for 90% or more of their family income.<sup>5</sup> Anything that jeopardizes the amount of their check could have devastating consequences. However, some options could have a negligible or even positive effect on Latinos. Reform recommendations to increase or eliminate the cap on taxable earnings would help stabilize the system without unnecessarily burdening those recipients who are in greatest need of its support.

### Why We Are Interested: Aging Latinos

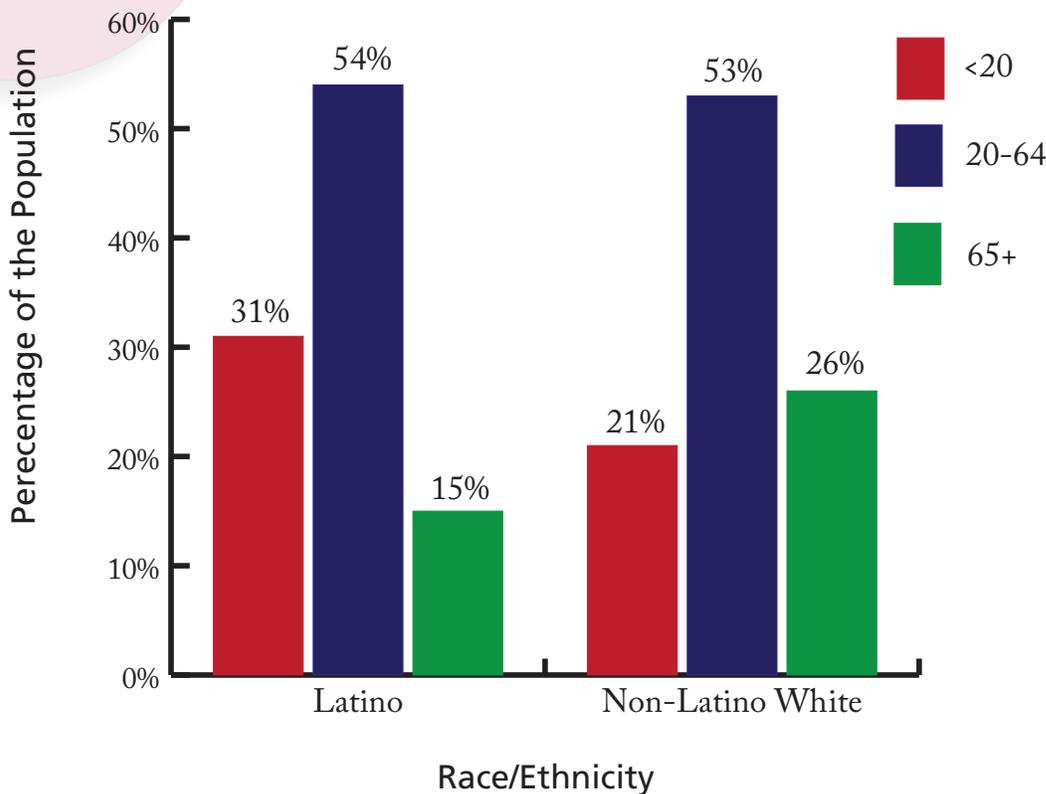
The U.S. Latino population is the fastest growing ethnic group in the nation.<sup>6</sup> Representing only 6% of the U.S. population in 1980<sup>7</sup>, Latinos today represent nearly three times that amount (16%), 50.5 million people in 2010.<sup>8</sup> The terms Latino and Hispanic are used interchangeably to describe this ethnic group. Latino is not a racial category, because Latinos can be of any race which has common historical origins in Spanish-speaking nations. The Latino ethnic group is comprised of many nationality groups with quite different histories in the United States.

### *How Are Latinos Unique?*

The Latino population in the U.S. is relatively young, with a median age of only 28 in 2010, compared to 41 for the non-Latino white population.<sup>9,10</sup> For decades to come, Latinos as a relatively young population will play a crucially important role in supporting the Social Security system while not drawing very much from it.



Projected U.S. Population in 2050



U.S Census Bureau: National Population Projections<sup>9,10</sup>

The large Latino working population will reach retirement age in the second half of the century; it is particularly important to Latinos that the Social Security trust funds be balanced in the long term, as a vast majority of the Latino population will not see any benefits for decades.

**Why Social Security Is Especially Important for Latinos**

In general, Latino elders have a lower socioeconomic status than non-Latino elders. This is partially due to the lower income levels earned by Latinos during their working lives and the fact that they are less likely to work in places that provide private pension plans.<sup>11</sup> In addition, throughout their lifetime Latinos exhibit low savings rates.<sup>12</sup> Any savings they do have tend to be in accounts with low rates of return.

*High Levels of Reliance*

Because of Latinos' generally low socioeconomic status, Social Security plays a very large role in the economic security of Latino elders. In 2008, over three-quarters (78%) of Latinos aged 65 and over received a portion of their family income from Social Security benefits. Of those Latino elders whose families receive benefits, roughly 26% have no other sources of family income, and a further 7% receive at least 90% of their family income from Social Security.<sup>13</sup>

The elders who rely most on Social Security are those who are unmarried<sup>14</sup>, elders who are also less likely to have the support of a family to rely on. Instead of the traditional three-legged stool of retirement income, Latino elders are too often left to balance on just one leg: Social Security.

The basic requirement for eligibility for Social Security's retirement benefits is 40 credits (also known as quarters of coverage). One credit is earned for each \$1,120 (in 2011) of earnings, up to a maximum of four credits each year. Benefits are calculated based on the highest 35 years of earnings, adjusted for the change in average U.S. wages. Latinos have more gaps in employment than the general population due to caregiving responsibilities, seasonal employment, and unreported casual labor. Earnings for years spent outside the formal labor force are counted as years with no earnings in the benefit calculation; every year without earnings reduces the benefit amount. The moderately progressive benefit structure, under which low-income individuals receive a higher percent of their pre-retirement earnings than high-income individuals, is beneficial for those Latinos who have low lifetime wages. However, an important fraction of the population is still ineligible to receive benefits because they do not meet the 40 credits needed for eligibility or did not contribute at all to Social Security during their work life.<sup>15</sup> Agricultural labor is a telling example of sub-minimum wage employment where salaries and Social Security contributions for workers often go unreported.

Recent studies of major urban areas with high proportions of Latino residents, such as Los Angeles and New York, show that the average benefit levels for Social Security are insufficient to cover subsistence costs beyond housing. In 2008, the average monthly Social Security payout for Latinos age 65 and older was \$1,018 for men and \$795 for women<sup>16</sup>; in contrast, the average cost for a one-bedroom rent in 2009 was \$1,061 in the City of Los Angeles<sup>17</sup> and \$1,195 in New York City.<sup>18</sup>

### *Latinos Live Longer*

The longevity of the U.S. population has increased steadily for decades. Latinos' average life expectancy exceeds that of all Americans, despite their significantly lower education and income levels.<sup>19</sup> According to current estimates, a Latino man who is age 65 today is expected to live to be 85, compared to 82 for all non-Latino men, and a Latina woman who is age 65 today is expected to live to 89, compared to 85 for all non-Latina women.<sup>20</sup> Due to this enhanced longevity, it is very important for Latinos to receive annual cost-of-living adjustments (COLAs), which ensure that their benefits are not eroded by inflation and minimize their risk of being unable to meet their basic financial needs as they age.

### *High Rates of Disability*

Latinos have unique characteristics that result in workers, retirees, and families benefitting in essential ways from the various components of Social Security. Latino workers are heavily concentrated in labor sectors with impermanent employment, such as service work, agricultural labor, and construction industries where occupational injuries and disabilities are commonplace.



In these sectors the potential for lengthy careers is limited for workers.<sup>21</sup> Latinos can choose to take advantage of the option to receive early retirement benefits at age 62, before the normal retirement age, albeit at a permanently reduced amount. These labor sectors are also less likely to offer health insurance to afford preventive care and timely treatment for injuries. Based on Census-based disability measures from 2000, both working age and older Latinos show higher rates of disability than non-Latino whites: 26.8% vs. 18.6% for working age individuals<sup>22</sup> and 49.3% vs. 42.4% for those aged 65 and over.<sup>23</sup> Social Security disability benefits can serve as a lifeline for financial adequacy for Latino workers who become disabled and can no longer work.

### *Spousal and Survivorship Benefits*

The spousal and survivorship coverage provisions of Social Security have been and continue to be very important for the Latino population. Latina women in the workforce are especially likely to experience work history disruption, part-time labor, and low income levels during their working life, which can reduce their level of Social Security eligibility.<sup>24</sup> For example, Latinas were more likely to be mothers in 2004 (63%) than white non-Latina women (53%), and were less likely to return to the labor force, even a decade after their last child birth.<sup>25</sup> The spousal benefit helps to reduce the negative effects of these workforce disparities on spouses in retirement and on all dependents after the death of a worker.

### *Evolving Family & Household Structures*

As Latino family structures become more like mainstream family structures, Latino retirees' Social Security income will be particularly important in supporting independent living. Compared to 1st generation immigrants, Latinos born in the U.S. are more likely to live alone (20% vs. 15%) and less likely to live with non-spousal family members (10% vs. 30%) in old age.<sup>26</sup> Additionally, recent trends show increasing use of nursing homes and other forms of institutional placement outside of family residential settings among Latinos.<sup>27</sup> Between this dramatically altered household structure and the emphasis on work over family caregiving among the children of aging Latinos, the financial independence that Social Security helps to provide will become increasingly important for future generations of Latino retirees.

### *How Potential Social Security Reforms Would Impact Latinos*

Policymakers and the American public are concerned about the long-term financial outlook for Social Security and its ability to fulfill its commitment to provide financial security for future generations. The following proposed reforms have appeared regularly in policy discussions.

#### *Increasing Retirement Age*

A prominent reform option involves raising the retirement age to reflect increases in life expectancy. The normal retirement age increased from 65 for those born in 1937 or earlier to 66 for those born from 1943 to 1954, and will increase to 67 for those born in 1960 or later.<sup>28</sup>

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The 2010 reform proposal by the National Commission on Fiscal Responsibility and Reform suggested increasing it further to 68 by 2050 and 69 by 2075.<sup>29</sup> Any such change would increase the penalty for early retirement, which would impose a tremendous financial burden on those Latinos who must retire early due to severe health problems. This penalty would persist throughout retirement, having a severe effect on monthly retirement income.

### *Reducing the Cost-of-Living Adjustment*

Another prominent reform option is a reduction in the cost-of-living adjustment (COLA) to retirement and disability benefits. There have been a few methods proposed for enacting such a change, including the progressive indexing of disability benefits, which would provide larger COLAs to recipients of lower benefits. However, the most prominent approach being considered is basing the COLA on an alternative measure of inflation, the chained CPI-U price index, which typically reports less inflation in prices than the current price index used for Social Security, the CPI-W. This change would be especially consequential as, due to high healthcare costs, elders' costs of living have been shown to increase at a greater rate than that provided by even the CPI-W.<sup>30</sup> Because they live longer on average and receive Social Security for more years, Latinos would feel the compounded effect of a COLA reduction to a greater degree than other racial/ethnic groups.

### *Increasing the Tax Base*

A third popular proposal would increase the earnings cap—income above this point is not subject to Social Security (FICA) taxes. In 2011, the earnings cap is \$106,800, a threshold that includes 86% of covered earnings. This percentage will drop to 83% by 2014, leaving far more wages below the cap.<sup>31</sup> Raising the cap to cover 90% of wages, as was the intent of the 1977 amendments to the Social Security Act, would eliminate a large proportion of the shortfall in Social Security's fiscal outlook. Going even further and removing the cap completely, so that all wages are subject to FICA taxes, would have a major revenue impact that would fund Social Security for many decades without needing to enact reforms that would negatively impact the program's most vulnerable beneficiaries. Any increase to the earnings cap would likely have minimal negative effects on most Latino retirees and would prevent potential benefit cuts.

### *Privatization*

Privatizing Social Security would allow individuals to invest part of their Social Security contributions in private investment accounts. All proposals for privatization would reduce the amount of the guaranteed benefit that comes directly from Social Security and force individuals to rely on the uncertain profits from private investment accounts to make up the shortfall. This reform option would have severe and negative implications for Latino retirees for several reasons. First, the lower wages of Latinos would mean lower balances in their investment accounts; accounts with low balances have been shown to be disproportionately eroded by broker fees. Second, Latinos have been shown to be more conservative investors due in part to their limited financial literacy and market knowledge, an attribute that would greatly limit the growth of their investments.<sup>32</sup> Third, the recent economic recession has provided a reminder of the volatility that exists in the market; this degree of volatility is untenable for an income source that is so directly tied to the financial sufficiency of Latino retirees.

## Conclusion

Social Security is currently the only robust, reliable source of retirement income, especially for low income workers, underscoring the importance of ensuring the viability of the program for Latinos. Policy reforms are necessary, but wrong choices could prove extremely hazardous to the Latino population. Further deterioration of elders' retirement income and means to living independently must be prevented. To do otherwise risks shifting this burden to other public benefit programs and the next generation of retirees. However, key changes could be made, such as increasing the earnings cap, to increase the Social Security tax base without further eroding the benefits for Latinos and other vulnerable populations. Creative and sustainable solutions can ensure the future of Social Security for workers who have already contributed their fair share to support the program.

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#### Further Reading

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