

# SOCIAL SECURITY AND THE RACIAL GAP IN RETIREMENT WEALTH

By **Benjamin W. Veghte**, **Elliot Schreur**, and **Mikki Waid\***

## SUMMARY

Racial and ethnic gaps in wealth are substantial and persistent. The wealth of the typical White household in 2013 was 13 times that of the typical Black household and 10 times that of the typical Hispanic household. Over the past three decades, the gap in wealth between Whites and African-Americans has increased, while the gap between Whites and Latinos has not diminished. Traditionally, wealth is measured as personal assets minus debt, but excludes Social Security wealth. Yet Social Security is a crucial component of most Americans' financial security in retirement and makes up the vast majority of retirement wealth for most households of color. The gap in Social Security wealth between white households and households of color is substantially less than the gap in holdings of pension and IRA wealth. Public assets like Social Security have unique advantages over private assets, especially for households of color. They provide universal coverage, require mandatory contributions, and provide greater assets to those who need them the most. Social Security reduces the racial gap in retirement wealth, which nevertheless remains substantial, to levels that are much lower than they would be in its absence. A range of Social Security reform options are available to further reduce the gap in retirement wealth.

Disparities in income and wealth are at historically high levels in the United States, and have been on the rise since the late 1970s.<sup>1</sup> These disparities are undermining the economic security of millions of American families, and slowing economic growth.<sup>2</sup> Long pre-dating and often compounding these broader economic disparities are persistent racial and ethnic gaps in income and wealth. Institutional racism in areas such as housing, employment,



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banking, education, voting rights, and the rule of law have historically constrained the ability of people of color to earn income and build assets to the same extent as White Americans.<sup>3</sup> Much of the discussion around the racial wealth gap has focused on facilitating Black and Latino accumulation of traditional, privately held assets like housing and personal savings.<sup>4</sup> This brief focuses on the racial and ethnic gap in retirement wealth, and on the role of Social Security in building retirement wealth among people of color.<sup>5</sup> Due to lack of disaggregated data on Asian and Pacific Islander Americans, Native Americans and Alaska Natives,<sup>6</sup> this brief focuses on Blacks and Latinos.

## HOW LARGE IS THE RACIAL WEALTH GAP, AND IS IT CLOSING?

Traditionally, wealth is measured as personal assets minus debt. Personal assets traditionally include housing assets, retirement and other savings (excluding Social Security wealth, to be discussed further below), business assets, and other liquid financial assets.<sup>7</sup> Personal debts include

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mortgages, auto loans, and credit cards. This definition of wealth corresponds to the concept of net worth. The wealth of the typical (median) White household in 2013 was 13 times that of the typical Black household – \$141,900 versus \$11,000. It was 10 times that of the typical Hispanic household, which held \$13,700.<sup>8</sup> Between 1983 and 2013, the gap in wealth between Whites and African-Americans actually increased, with White wealth rising from 10 to 13 times that of Blacks, while the gap between Whites and Latinos did not diminish. In other words, the racial wealth gap is not a fading remnant of a bygone era of discrimination. It has been passed on from generation to generation.

## SOCIAL SECURITY COMPARED TO OTHER RETIREMENT WEALTH

Retirement wealth has three primary components: Social Security, pensions, and savings (housing assets also play a role, and will be discussed in the next section). Traditional pensions, where a worker's employer promises to pay a lifetime annuity after retirement (or in some cases, optionally, a lump sum), have been steadily disappearing since the early 1980s.<sup>9</sup> Far fewer companies are offering them, in part due to a shift in employment mix toward firms with industry, size, and union status historically associated with low pension coverage rate.<sup>10</sup> Traditional pensions are being replaced by defined-contribution plans, which



are voluntary plans where a worker contributes her own income pre-tax, with the employer having the option to contribute additional funds. Unlike Social Security, the distributional dynamics of these 401(k)-style plans, as well as other tax-favored retirement vehicles like IRAs, are extremely skewed toward the top of the income spectrum,<sup>11</sup> and hence toward White households.

Social Security makes up the vast majority of retirement wealth for most households of color. This reflects, in part, the fact that people of color are less likely to have inherited wealth, retirement accounts, or other financial assets than Whites.<sup>12</sup> It also reflects their lower earnings, which makes it harder to save for retirement.<sup>13</sup>

There are a variety of ways one can estimate Social Security wealth and broader retirement wealth, and the estimated magnitude of such wealth can vary considerably based on the method chosen. An important insight from such estimates for the analysis of the role of Social Security in the racial gap in retirement wealth is the ratio of Social Security to other forms of retirement wealth, and the ratio of White to Latino and Black retirement wealth.

Social Security and other retirement wealth can be estimated for workers aged 47–64 using the Survey of Consumer Finances (SCF).<sup>14</sup> Social Security wealth is the present value of expected Social Security retirement benefits over a worker’s (or couple’s) lifetime. The sum of traditional pensions, 401(k)/style plans, and assets in Individual Retirement Accounts (IRAs) can be termed collectively ‘pension/IRA wealth.’

The typical (50th percentile) White (non-Hispanic) household aged 47–64 has \$223,416 in Social Security wealth (Table 1). This is one-and-a-half times that of the typical Latino household (\$145,034), and more than twice that of the typical Black household (\$107,811). The racial gap in pension/IRA wealth is much larger than that in Social Security wealth. The typical White household aged 47–64 holds \$105,600 in pension/IRA wealth. This is more than 10 times that of the typical Black household (\$10,300), while the typical Latino household holds no pension/IRA wealth whatsoever. These data indicate that Social Security has a mitigating effect on the racial and ethnic inequality in the distribution of retirement wealth.



**Table 1: Social Security and Pension/IRA Wealth for Median Households Aged 47–64, by Race/Ethnicity, 2013**

	Social Security Wealth	Pension/IRA Wealth
Whites (non-Hispanic)	\$223,416	\$105,600
Blacks (non-Hispanic)	\$107,811	\$10,300
Hispanics	\$145,034	\$0

Source: Edward N. Wolff’s unpublished estimates from 2013 Survey of Consumer Finances.

Social Security wealth has significance not only for retirement. It also yields income for families of workers who become disabled or die prematurely. The Social Security actuaries have estimated the asset value of the system’s survivors insurance protections. For a worker with medium earnings who dies at age 30 leaving behind a spouse and two young children, survivors benefits have an estimated asset value of \$612,000.<sup>15</sup> (The actuaries do not break these estimates down by race/ethnicity.)

## HOUSING WEALTH

Beyond Social Security and pension/IRA wealth, another potential source of retirement security is home equity

The typical White household aged 47–64 has housing wealth of \$67,000, while the typical household of color in this age group has no home equity whatsoever. Given this lack of home equity, Social Security remains the paramount

**Table 2. Homeownership and Home Equity for Typical Households Aged 47–64, by Race/Ethnicity**

	Home-ownership Rate	Median Home Value (among homeowners)	Median Home Equity (among homeowners)	Median Home Equity (for all households)
<b>Whites (non-Hispanic)</b>	79%	\$195,000	\$97,000	\$67,000
<b>Blacks (non-Hispanic)</b>	53%	\$100,000	\$40,000	\$0
<b>Hispanics</b>	73%	\$150,000	\$72,000	\$0

**Note:** Home value is of primary residence; home equity is home value less all home-secured debt.

**Source:** Authors' calculations from 2013 Survey of Consumer Finances.

source of wealth on which the typical household of color will be able to draw in retirement.

## PEOPLE OF COLOR RELY ON SOCIAL SECURITY WEALTH IN RETIREMENT

One way to evaluate retirement assets is their ability to produce adequate and reliable income in retirement. How important is Social Security to the income of current retirees? Among beneficiary units (singles or married couples) aged 65 or older, nearly 7 in 10 (69.4 percent) African American and over 7 in 10 (73.1 percent) Latino households rely on Social Security for half or more of their income.<sup>16</sup> Large shares of both groups – one-third of African American and 4 in 10 Latino households – rely on Social Security for all of their income.<sup>17</sup> Without Social Security, roughly half of Black and Latino seniors would have incomes below the poverty line, versus about 1 in 5 today.<sup>18</sup>

## WHY ARE ASSETS IMPORTANT?

Analysis of racial economic inequality has turned over the past two decades from a focus primarily on income to one that encompasses wealth, for three reasons.

- The racial and ethnic gap in wealth is several times larger than the gap in income.
- Wealth is just as important to overall economic well-being as income, and possibly more so. Beyond its monetary worth, it has intangible value and multiplier effects.<sup>19</sup>
- The racial wealth gap persists across generations. Wealth is shared within family networks and across generations through both inheritance and in-vivo transfers.<sup>20</sup> This renders families more resilient and able to reap the benefits of opportunities for economic advancement. Inequality in wealth in one generation fosters inequality in income and wealth for the next generation. The racial wealth gap thus not only indicates economic inequality along racial lines in a given generation, but also reproduces it across generations.

## SOCIAL SECURITY AS AN ASSET

Social Security is not an asset in the strict sense of the term, and hence is often excluded from discussions of asset building. Social Security differs from traditional assets in three respects.

- In contrast to the legal status of defined benefit pensions in many states, Social Security contributors have no property or contractual right to benefit receipt,<sup>21</sup> so future benefit claims are not individual property.
- A person's Social Security 'wealth' does not have a marketable cash value; rather, it is based on a promise to pay benefits according to a benefit formula which can be changed by law at any time.

### SOCIAL SECURITY AS AN ASSET

**“Social insurance is a natural addition to the asset-building program. Throughout the world, social protection goes hand in hand with wealth building efforts.”**

Pablo Farias,  
Former Vice President for Asset Building and  
Community Development at the Ford Foundation

- A worker’s Social Security ‘wealth’ is contingent, not guaranteed – it becomes income only if a specified insurable event occurs, that is, the old age, disability, or death of a breadwinner.

While Social Security is not an asset in the strict sense, the terms ‘asset’ and ‘financial assets’ have a broader significance as well: they are things of value both due to their monetary worth, and because they yield greater autonomy and peace of mind to the individual and his or her family, and facilitate career planning. Indeed, this is the rationale for the promotion of asset building.

Social Security wealth – the present value of one’s expected Social Security benefits – provides some, albeit not all, of these ancillary benefits of traditional assets. It confers considerable peace of mind regarding retirement security during one’s working years. It also reduces the need for intergenerational transfers from children to parents and grandparents, which has long inhibited asset building in communities of color and hence reproduced the racial wealth gap.

In contrast to traditional assets, however, Social Security retirement benefits cannot – at least in their present form – be leveraged by an individual during her working years. Social Security is thus by no means a substitute for other assets, and it is only one tool in the asset-building toolbox.

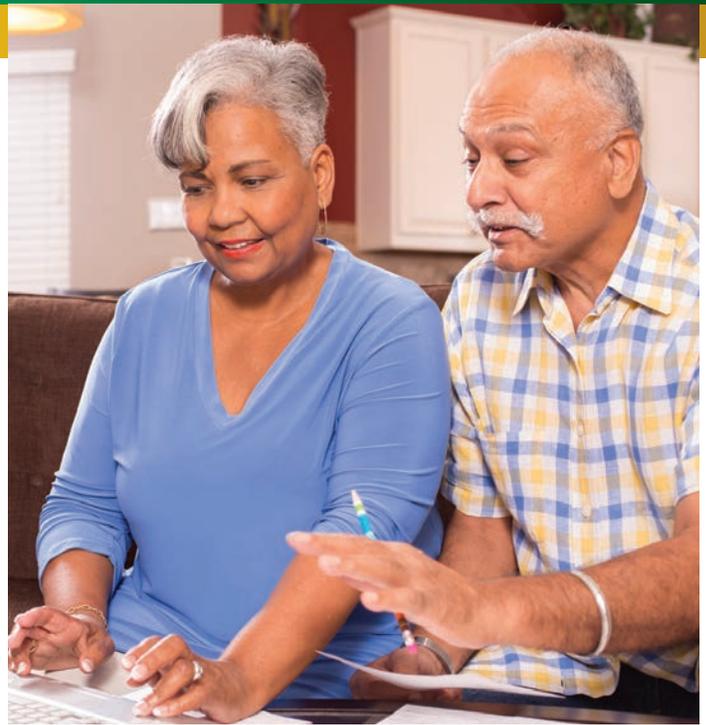
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***To date, Social Security has empirically been the most effective vehicle for asset-building among people of color.***

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To date, however, it has empirically been the most effective vehicle for asset-building among people of color. It should be noted here, moreover, that the fact that Social Security retirement wealth – in contrast to 401(k) or IRA retirement wealth – cannot be tapped before retirement has important advantages that will be discussed in the next section.

Treating Social Security wealth as an asset is not novel. Martin Feldstein, renowned economist and former Chairman of the Council of Economic Advisers, pioneered the concept in 1974.<sup>22</sup> Leaders in the financial industry such as John Bogle, founder of Vanguard, and researchers at the investment



company Morningstar, have also argued for the inclusion of the asset valuation of Social Security in families’ long-term financial planning strategies.<sup>23</sup> The Ford Foundation has long incorporated Social Security into its asset-building work.<sup>24</sup>

## **SOCIAL INSURANCE IS PARTICULARLY VALUABLE TO PEOPLE OF COLOR**

Public assets like Social Security, Medicare, and Unemployment Insurance have unique advantages over private assets, as Maya Rockey Moore and colleagues have articulated. They form the foundation of the “asset house” of low and moderate income households, who are disproportionately people of color.<sup>25</sup> In addition to being a public asset, Social Security is a social insurance program. Social insurance has many advantages over private, individual savings – advantages which are particularly valuable to people of color.<sup>26</sup>

### ***Universal Coverage***

There is a sizable racial gap in coverage rates in the private banking and retirement account systems. Among households aged 45–64, 18 percent of Black and 14 percent of Hispanic individuals are unbanked, which means they do not have a bank account at an insured financial institution.<sup>27</sup> This makes it extremely difficult for these families to establish individual economic security in the short term, and thereby to set themselves up for wealth building in the



long term.<sup>28</sup> Among those nearing retirement (aged 55–64), only 4 in 10 Black and 3 in 10 Latino-headed families owned a 401(k) or IRA-style retirement account in 2013, compared with nearly two-thirds of White families.<sup>29</sup>

Social Security provides near-universal coverage. This was not always the case: Prior to the 1950 and 1954 Amendments, Social Security excluded domestic and agricultural workers, as well as migrant workers, who were disproportionately African American and Latino.<sup>30</sup> Since then, however, Social Security coverage has been gradually extended to cover virtually all those in paid employment, with the exception of some state and local government workers.

### **Mandatory Contributions Build Assets**

The typical household of color has less disposable income to save for retirement than the typical White household, due to lower earnings. The incentives to save in the 401(k)/IRA system are also skewed toward higher earners. Social Security contributions are mandatory, both for employees and their employers. Due to both its universal coverage and its mandatory contributions and employer matches, Social Security has proven to be a far more effective tool for asset building among low and moderate income households than private retirement accounts.

### **Asset Value Increases with Need**

Social insurance pools risk, and hence Social Security wealth grows in value as the need grows.

- If seniors live to 100, their Social Security wealth grows to fund this longevity, whereas they are likely to outlive their 401(k)/IRA holdings. Most workers rely increasingly on Social Security as they age into their 80s and 90s.<sup>31</sup>
- When a worker retires, if his spouse is also retired, an additional spousal benefit of up to 50 percent of the worker's benefit may be available.
- If a worker has lower earnings, Social Security wealth is higher relative to contributions – that is, benefits replace a larger share of prior earnings.
- If a worker becomes disabled at a young age,



Social Security wealth is there; once she reaches retirement age, her disability benefits convert to retirement benefits and can take the place of the retirement savings she would have been unable to accumulate due to her inability to work and earn a living.

- If one dies prematurely leaving a spouse and/or children behind, Social Security wealth provides benefits proportional to need.

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In short, because Social Security is insurance that pools risk, it is worth more when certain defined risks transpire. This makes it a kind of wealth that is particularly valuable to low and moderate income workers, who are disproportionately people of color.

***Insures More than Just Retirement***

While Social Security's retirement benefits are extremely important to communities of color, its disability and survivors benefits are equally vital, if not more so. These types of benefits are more important to people of color than to Whites. While 74 percent of White Social Security beneficiaries rely on the system for its retirement benefits, nearly half (45 percent) of all African American beneficiaries and a majority (58 percent) of those classified as 'other' (neither White nor Black) rely on Social Security for its survivor and disability benefits.<sup>32</sup> This is due to myriad factors. Most notably, African Americans (and Native Americans) die younger, on average, than White Americans. As a consequence, while they may rely more heavily on Social Security's survivor benefits, they either do not collect their Social Security retirement benefits, or receive them – compared to Whites – for fewer years (after which, in the case of married beneficiaries, benefits can pass on to the spouse). People of color also tend to suffer higher rates of poverty, disability, and morbidity than Whites, in part because they tend to work in more physically challenging and dangerous jobs.<sup>33</sup>





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### **Predictable and Secure**

Because it is a public asset backed by the full faith and credit of the United States government, Social Security wealth is more secure than private retirement wealth. Furthermore, Franklin Delano Roosevelt ensured that its funding would be walled off from the annual appropriations process by designing Social Security as a social insurance program funded by dedicated payroll taxes rather than as a welfare program funded by general revenues. The predictability and security of the system is evidenced by the fact that over its 80-year history, Social Security has never missed a payment.

That said, the precise value of Social Security assets is not guaranteed, as Congress could change the benefit formula at any time. Most proposed reforms entail gradual changes, however, which exempt those nearing retirement. Moreover, the value of Social Security benefits is more predictable than that of private retirement assets. During the Great Recession, for example, stock prices fell 57 percent in just 17 months following their peak in 2007. As a consequence, retirement assets declined by \$2.8 trillion.<sup>34</sup> Housing wealth has proven to be similarly volatile in recent years. This unpredictability is risky for those nearing retirement, particularly for those with low levels of income

and assets who are less likely to have sufficient cushion to wait for markets to recover.

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***To date, Social Security has empirically been the most effective vehicle for asset-building among people of color.***

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### **More Redistributive than Other Vehicles for Building Retirement Wealth**

One of Social Security's core objectives is to provide at least a minimally adequate monthly income in retirement even for those with low lifetime earnings. The system achieves this goal via a redistributive benefit formula; that is, the benefits of lower-income workers replace a larger share of their prior earnings than is the case for higher-income workers. Black and Hispanic workers, whose lifetime incomes are typically lower than those of White workers, can expect higher replacement rates from Social Security. The Gini coefficient is a widely used measure of inequality, whereby higher values indicate greater inequality, and lower values less. It indicates much less inequality in Social Security wealth than in other forms of wealth. For example, in 2010, the Gini coefficient for Social Security wealth among 47–64 year-old households was



0.31, compared to 0.76 for pension/IRA wealth.<sup>35</sup> Evidence is mixed on whether Social Security is redistributive over a lifetime, particularly in light of the tremendous rise in income inequality since the 1970s and the increasing correlation of life expectancy with income. As long as income inequality persists, inequality in retirement wealth will persist. Nonetheless, by any measure, Social Security is a far more redistributive vehicle for wealth building than the private retirement account system or housing market.

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### ***No Leakage or Fees, and Optimal Decumulation***

Another advantage of Social Security wealth over savings is that the assets cannot ‘leak out’ over the life course through borrowing, ad-hoc withdrawals, or lump-sum distribution at retirement, which many financial advisors and policy analysts consider to be a highly problematic feature of many traditional retirement assets.<sup>36</sup> As a publicly administered annuity paid out in retirement, Social Security is also less susceptible than privately held wealth to fraudulent wealth-stripping schemes, which disproportionately target vulnerable minority communities.<sup>37</sup>

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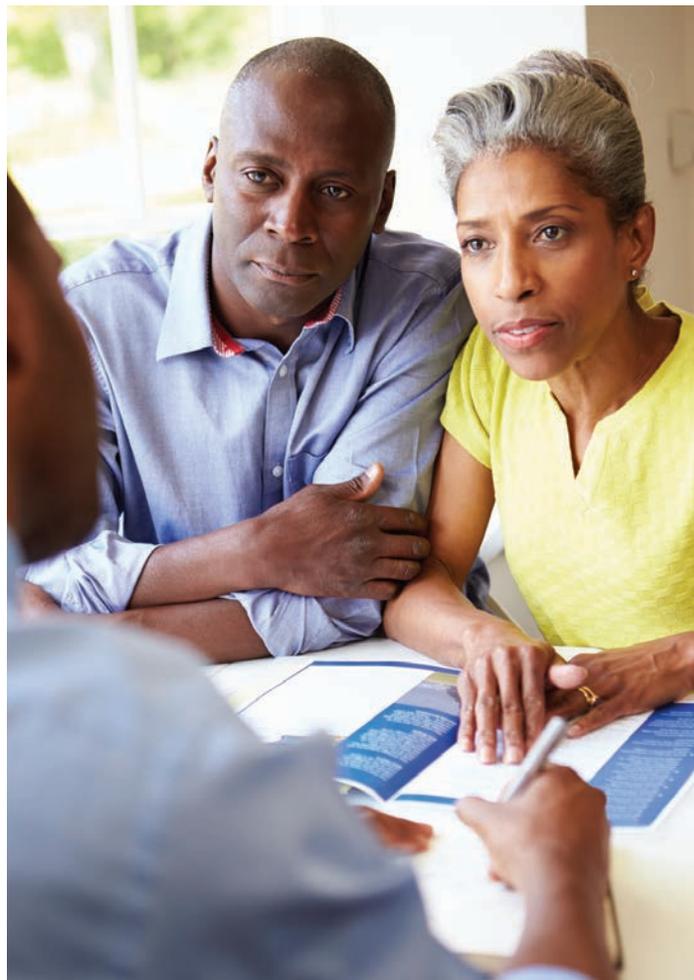
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Annuitization is the most efficient means of ensuring that one’s monthly needs are met to the greatest extent possible with the assets available for as long as one lives. Private annuities, however, are typically saddled with high and inscrutable fee structures. Moreover, up to 30 percent of the money contributed to 401(k)s does not benefit the worker at all but goes to the investment firms managing the plan in the form of profits; administrative, marketing, and investment management fees; and trading costs.<sup>38</sup> Social

Security wealth is not only annuitized, it is also inflation adjusted and administered with fees of less than 1 percent.

### ***Strengthens Asset Building across Generations***

By undergirding the retirement security of older workers, Social Security makes it less necessary for younger workers to support their retired parents. Such support is a widespread reality in communities of color, making it harder for working adults to save for retirement.<sup>39</sup> Experts of color convened by the Ford Foundation to discuss savings and wealth “defined wealth as being more than what an individual is able to accumulate. Instead, wealth is measured in terms of the well-being of the family, extended family, or in some cases, the community. The individual is not perceived as wealthy if his or her family is not wealthy.”<sup>40</sup> By providing greater security to parents and grandparents, Social Security facilitates asset building among younger workers of color.



## MAJORITY-MINORITY SOCIETY

**According to the U.S. Census Bureau, America's racial and ethnic minorities, who are disproportionately low-income, will become a majority of the U.S. population by 2044. In addition, without reforms, after 2034 the Social Security program will experience a funding shortfall, which could lead to benefit cuts. Together, these developments could dramatically increase the share of seniors who are unable to make ends meet.**

## HOW COULD SOCIAL SECURITY FURTHER REDUCE THE RACIAL GAP IN RETIREMENT WEALTH?

Social Security serves as a mitigating force across racial and ethnic communities in the building of retirement wealth. Without Social Security, the retirement (pension/IRA) wealth of the typical White household aged 47–64 is over 10 (10.3) times that of the typical Black household, and the typical Hispanic household has no pension/IRA wealth whatsoever. When Social Security wealth is included, the racial gap in retirement wealth shrinks considerably, with the retirement wealth of Whites being about 2.2 times that of both Blacks and Hispanics.<sup>41</sup>

A gap in Social Security wealth remains, however, because benefits are related to earnings, and the earnings of typical person of color are lower than those of Whites. The range of Social Security policy options outlined below could strengthen the retirement security of people of color and reduce the racial gap in retirement wealth. Such benefit enhancements would require some combination of offsetting revenue increases and/or spending reductions in the Social Security system, in addition to those required to close the currently projected long-term shortfall.

### **Option 1: Strengthen the Minimum Benefit**

A special minimum benefit was enacted in the 1970s to ensure that low-paid workers who had worked at least 30 years would receive a benefit that provided a basic level of adequacy. Because the benefit is currently not adjusted for wage growth, it no longer fulfills this purpose, and many long-term low-paid workers receive a Social Security benefit that falls short of keeping them out of poverty. There are a variety of proposals to update the minimum benefit to ensure that those with 30 years of work receive at least a poverty level benefit.<sup>42</sup> Such proposals would set the benefit to the poverty level, but index it to wage growth in the future. Otherwise, the benefit would deteriorate over time, as did the special minimum benefit enacted in the 1970s.

### **Option 2: Reinstate Student Benefits**

Currently, a child may qualify to receive Social Security benefits based on a deceased or disabled parent's work record, but not beyond high school. One proposal would allow child dependents of deceased or disabled Social Security beneficiaries to continue to receive dependent benefits through college or vocational school.<sup>43</sup> Studies have shown that making this change could increase college attendance rates among Black and low-income students.<sup>44</sup> Since higher educational attainment is associated with higher earnings and greater wealth-building capacity, extending student benefits could increase wealth building among people of color.

### **Option 3: Grant Caregivers Partial Social Security Earnings Credits**

Another type of proposal would improve the economic security of workers who temporarily leave the workforce to provide care for a family member. This is important not only to these workers and their families, but also to society as a whole in light of the aging of the Baby Boomers and the impending gap in the availability of caregivers.<sup>45</sup> One way of doing so would be to grant Social Security earnings credits to workers who take time off of work to care for a young child under the age of 6, or for an ailing family member. The credited earnings could be equivalent to half of the average



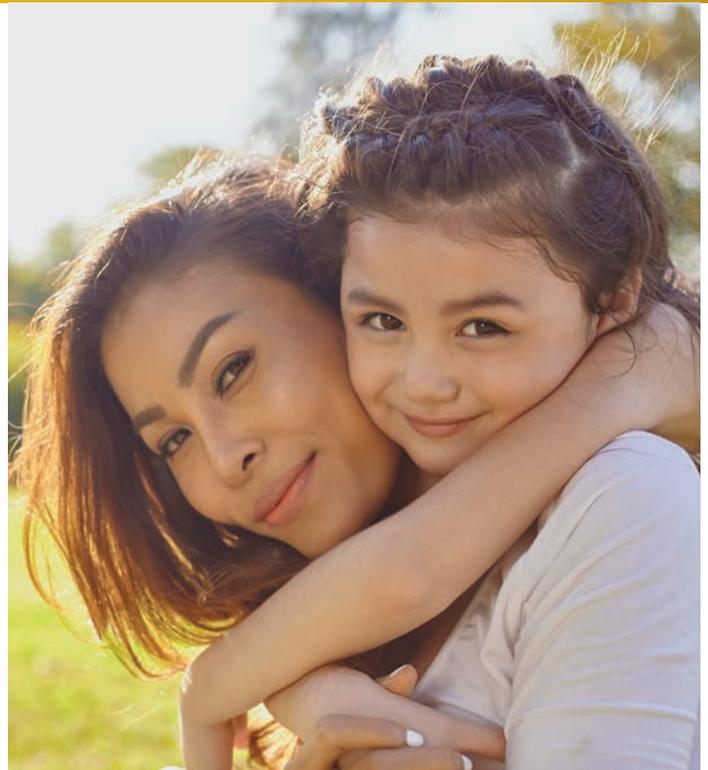
wages of all U.S. workers in a particular year. If earnings in a given year were below a certain amount (for example, 50 percent of the average wage that year), the worker would be credited with additional earnings to bring her or his earnings up to 50 percent of the average wage. Caregiver credits could be limited to a maximum of five years.

Caregiving supports would likely reduce the racial wealth gap. Social Security benefits are based on one's top 35 earnings years and related to earnings. Roughly the same proportion of white and black Americans – approximately one-fifth of each demographic – are engaged in providing care for a loved one.<sup>46</sup> But people of color are disproportionately lower earners and also more likely to have fewer than 35 earnings years. Therefore, caregiving years are more likely to add zeros to their earnings records and thereby lower their Social Security benefits. Women of color are doubly burdened by the gender and racial gap in retirement wealth. Women disproportionately assume caregiving responsibilities: the latest time-use survey by the U.S. Department of Labor shows that women spend more than twice as much time as men caring for household members, and more than 1.5 times as much time maintaining the household.<sup>47</sup> Hence the retirement wealth gap experienced by women of color, one of society's economically most vulnerable subgroups, would be particularly well-targeted by caregiver credits. Even a modest credit – at half the average wage – could help close the gaps that caregiving currently leaves in many workers' Social Security earnings records.

#### ***Option 4: Incorporate Paid Family Leave into Social Security***

Another way to reduce the racial wealth gap by helping caregivers would be to incorporate paid family leave into the Social Security system. Workers could contribute dedicated payroll taxes to a paid family leave fund within the Social Security system, and draw benefits when needed to temporarily leave the workforce to care for a child or family member.

Paid family leave would not only protect families' economic security while a worker is providing care, but also facilitate workforce retention. Low-earners who utilized California's paid family leave program were significantly more likely to return to the same job (82.7 percent) than those who did



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***The retirement wealth gap experienced by women of color would be particularly well targeted by caregiver credits.***

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not (73.9 percent).<sup>48</sup> Staying in the workforce would bolster lifetime earnings, which would further enhance both economic and retirement security.

California's paid leave policy has been in effect for over a decade and provides a wage replacement rate of 55 percent. It has led to significant reductions in inequality due to leave-taking. When comparing new mothers from before and after the implementation of the state's paid leave program, overall maternal leave increased by between 115 and 140 percent. Gains were most prominent for Black (11.8 percent) and Latina (6 percent) mothers, with smaller and statistically insignificant gains for White (4.4 percent) mothers.<sup>49</sup>

#### ***Option 5: Strengthen Benefits for Low and Moderate Income Workers***

Traditional pensions are disappearing, and low- and moderate-income workers have largely been unable to accumulate sufficient savings through the private-account system. Expanding Social Security benefits for these workers would increase wealth building among people of color.



There are two straightforward ways of doing this. They involve modifying the benefit formula, which works as follows. The first step in calculating an individual's benefit is to determine his or her career average monthly earnings (Average Indexed Monthly Earnings, or AIME), adjusted for wage inflation. Next, the benefit formula is applied to determine the Primary Insurance Amount (PIA)—the benefit an individual would receive if he or she began receiving benefits at the Full Retirement Age. The formula is progressive: the PIA is the sum of 90 percent of his or her career average monthly earnings up to \$856 (the first bend



point in 2016); 32 percent of the amount between \$857 and \$5,157 (the second bend point); and 15 percent of average earnings above \$5,157, up to the taxable maximum of \$9,875.

One way to improve benefits for low and moderate income earners would be to increase the PIA factor applied to the portion of career average monthly earnings below the first bend point above the current 90 percent. This would increase benefits for all beneficiaries, but workers with the lowest average earnings (including women and people of color) would see the largest percentage increase. A second way to improve benefits for low earners would be to raise the first bend point so that more earnings are multiplied by the highest PIA factor (currently 90 percent). This would increase benefits for all individuals with career average earnings above \$856 per month, but among these, it would provide the largest percentage increase to workers with the lowest average earnings.

### ***Option 6: Update Survivors Benefits for Low-Income Dual-Earning Couples***

Social Security provides a surviving spouse 100 percent of the deceased spouse's retirement benefit if this is higher than what the surviving spouse would have received based on her own earnings history. For couples where only one spouse worked, survivors benefits maintain household income. Couples with similar earnings histories, however – a situation which was hardly envisioned when Social Security was enacted 80 year ago – can lose up to half their combined Social Security income when one spouse dies, even though the household's living costs decline much less sharply. Households that predominately rely on Social Security for their income in retirement are particularly hard hit by this situation. One proposal is to modernize survivors benefits to better account for dual-earning couples by providing surviving spouses 75 percent of the sum of the survivor's and deceased worker's retirement benefits, with the total survivors benefit not exceeding the benefit an average earner would receive.<sup>50</sup>

These are six examples of policy changes in Social Security that could enhance wealth building among people of color. One or more such reforms could be incorporated as components of a broader package of reforms when Congress acts in the coming years to restore long-term solvency to Social Security.

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## CONCLUSION

The racial and ethnic gap in retirement wealth has structural causes which have been perpetuated over centuries in a highly targeted fashion. While these causes have become less intentional in recent decades, the effects of long-term discrimination have proven to have powerful inertia. A large share of wealth – and of racial wealth inequality – is passed on from generation to generation through inheritance and in-vivo transfers. The racial and ethnic wealth gap has not improved since 1983, and has even worsened for African Americans. A comprehensive set of policies is required to disrupt the structural causes of the racial wealth gap. Social Security can be one part of the solution to this broader public policy challenge.

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**Visit [www.nasi.org](http://www.nasi.org) for more resources.**



## ENDNOTES

- 1 Emmanuel Saez and Thomas Piketty, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118(1), 2003, 1-39: Tables and Figures Updated to 2014, June 2015. <http://eml.berkeley.edu/~saez/TabFig2014prel.xls>; Thomas Piketty and Gabriel Zucman, "Capital is Back: Wealth-Income Ratios in Rich Countries 1700-2010." <http://gabriel-zucman.eu/capitalisback/>.
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