Social Security and People of Color

Unity Conference '99

Seattle, WA -- July 1999

Lies, Damn Lies and Statistics: Debunking Flawed Research on People of Color and Women in Social Security Reform

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Popular myths can be given new life by inaccurate research that appears to support these myths. If journalists report erroneous statistics without citing the problems with the data, these myths can take on a life of their own. For example, one myth is that Social Security is a bad deal for African Americans. Due to their shorter life expectancy, they may not live long enough to collect Social Security. The Heritage Foundation conducted research that appeared to support this myth. One reporter wrote:

The Heritage Foundation which calculated rates of return for various income and ethnic groups found that Social Security is an especially bad deal for low income blacks. Contrary to long-held beliefs that low-income workers are helped most by Social Security, many will not only receive a poor rate of return on the taxes they paid, some get back less than they paid.

The problem with reporting this research without doing further investigation is that the methodology Heritage used to determine rates of return is seriously flawed. The Social Security Administration found that Heritage overestimated the number of years people work and contribute payroll taxes and underestimated the number of years people are retired and receive benefits. Figure 1 shows that when the actuaries used the correct methodology, they found that a 20-year-old African American man could expect to work and pay taxes for six fewer years than the Heritage methodology suggests. The man could also expect to receive benefits four times longer than would be predicted using the Heritage methodology.

Figure 1
Expected Work and Retirement Years for 20-Year-Old Males in 1997

Method	Years Working and Paying Taxes		Retirement Years	
	White Men	African-American Men	White Men	African-American Men
Heritage Assumptions	45	45	9.3	2.2
SSA Actuaries	42.2	39.1	12.1	8.1

Source: Steve Goss, "Problems with >Social Security's Rate of Return,= A Report of the Heritage Center for Data Analysis," January 27, 1998, p. 2.

The fact is that historically African American workers have received a higher rate of return than white workers from Social Security. This was determined by researchers at the Treasury Department who analyzed data, not available to the general public, that contained earnings and benefits of real workers.[1] This methodology is superior to the approach used by Heritage to estimate rates of return for *hypothetical* workers.

Since African Americans do have a shorter life expectancy than whites, how is it possible that the rate of return for this community has been higher than for whites? Social Security=s design helps to compensate African Americans for their lower life expectancy. It does this in three ways. First, the progressive benefit formula replaces a higher percentage of pre-retirement earnings for low-wage workers than for high-wage workers. Since African-Americans, on average, have lower wages, they benefit from this feature of Social Security. A second component of Social Security that is beneficial to African Americans is the option for early retirement. Two thirds of all workers, including people of color, retire between ages 62 and 64. 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. Thus, despite the shorter life span of African Americans,

aspects of the programs such as the progressive benefit, early retirement and comprehensive insurance, help to offset the effects of higher mortality rates for this community.

It is important to base news stories on reliable data. There are a number of research organizations that produce such data. In some instances, however, it may be difficult for journalists facing deadlines to discern which data are reliable. Cross-checking data with sources such as the Social Security Administration, Office of the Chief Actuary and with the National Academy of Social Insurance can help ensure more accurate reporting.

A second myth is that Social Security is a bad deal for women and should be replaced with individual accounts. A report by the Cato Institute stated: AAlthough Social Security does not penalize women explicitly, because of demographic factors and the different roles of men and women in families, women ultimately are economically disadvantaged by the system.[2]

In fact, women pay only 38 percent of all payroll taxes collected, but receive 53 percent of Social Security retirement and survivors benefits. Several features of Social Security are more beneficial to women than men. Social Security has auxiliary benefits for dependent spouses. If a spouse does not work, then he or she will receive 50 percent of the primary worker=s benefit. If a spouse does work, then he or she will receive a benefit based on his or her own benefit or 50 percent of the primary worker=s benefit, whichever is larger. A divorced spouse who was married to the primary worker for 10 or more years is also entitled to a spouse benefit. Women typically receive the dependent spouse benefit.

Women also are helped by the progressive benefit formula because, on average, women earn only 74 cents for each dollar earned by men. 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. On average, women spend 11 more years out of the labor force than men. The benefit formula adjusts for time spent out of the labor market and as a result it helps to compensate women.

Women have a longer average life span than men. Thus, they also benefit greatly from the survivors insurance component of Social Security. 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. A divorced spouse who was married to the primary worker for 10 or more years is also entitled to a survivors benefit.

Since women tend to live longer than men, they collect benefits longer. Social Security benefits are paid for as long as the beneficiary lives. Moreover, benefits are adjusted each year to compensate for inflation.

These features of Social Security that provide protections for women are likely to be absent or inadequate in an individual account system. Furthermore, under a system of individual accounts, you get back only what you put in, plus earnings *or* losses. Women, like many people of color, are less likely to receive high rates of return or build large amounts of wealth. Given their lower earnings levels, their accounts would be relatively small. Administrative costs that are fixed would consume a larger proportion of small accounts than larger accounts, further reducing these smaller accounts. Low-wage workers will need to invest more conservatively, since they can ill-afford to lose any of their savings. Conservative investments will yield lower returns. Additionally, low-wage workers will have fewer resources with which to purchase good investment advice.

It is also important to note that if individual accounts are created by diverting payroll taxes from the Social Security trust funds, the guaranteed Social Security benefit would have to be reduced more than would otherwise be necessary.

Accurate coverage of the Social Security reform debate requires knowledge of the key components of the Social Security system. It is important for reporters to rely on objective sources of information to determine who the winners and losers will be under various reform proposals.

[1] James E. Duggan, Robert Gillingham, and John S. Greenless, "Returns paid to Early Social Security Cohorts," *Contemporary Policy Issues*, October 1993

[2] Ekaterina Shirley and Peter Spiegler, *The Benefits of Social Security Privatization for Women*, July 1993, p.1.