

# African Americans and Social Security

## Why the Privatization Advocates Are Wrong

BY WILLIAM E. SPRIGGS

**P**roponents of Social Security privatization are trying to claim that the current program is unfair to African Americans and that a privatized program would serve African Americans better. This argument lends support to the privatization agenda while at the same time giving its advocates a compassionate gloss. But the claims about African Americans and Social Security are wrong.

The Old Age Survivors and Disability Insurance Program (OASDI), popularly known as Social Security, was put in place by Franklin Roosevelt to establish a solid bulwark of economic rights for the public—specifically, as he put it, “the right to adequate protection from the economic fears of old age, sickness, accident, and unemployment.” Most Americans associate Social Security only with the retirement—or old age—benefit. Yet it was created to do much more, and it does.

As its original name suggests, Social Security is an insurance program that protects workers and their families against the income loss that occurs when a worker retires, becomes disabled, or dies. All workers will eventually either grow too old to compete in the labor market, become disabled, or die. OASDI insures all workers and their families against these universal risks, while spreading the costs and benefits of that insurance protection among the entire workforce. Currently, 70% of Social Security funds go to retirees, 15% to disabled workers, and 15% to survivors.

Social Security is a “pay as you go” system, which means the taxes paid by today’s workers are not set aside to pay their own benefits down the road, but rather go to pay the benefits of current Social Security recipients. It’s financed using the Federal Insurance Contribution Act (or FICA) payroll tax, paid by all working Americans on earnings of less than about \$90,000 a year. While the payroll tax is not progressive, Social Security benefits are—that is, low-wage workers receive a greater percentage of pre-retirement earnings from the program than higher-wage workers.

In the 1980s, recognizing that the baby boom generation

would strain this system, Congress passed reforms to raise extra tax revenues above and beyond the current need and set up a trust fund to hold the reserve. (See “Social Security Isn’t Broken,” p. 14.) Trustees were appointed and charged with keeping Social Security solvent. Today’s trustees warn that their projections, which are based on modest assumptions about the long-term growth of the U.S. economy, show the system could face a shortfall around 2042, when either benefits would have to be cut or the FICA tax raised. (See “Economy in Numbers,” p. 38.)

Those who oppose the social nature of the program have pounced on its projected shortfall in revenues to argue that the program cannot—or ought not—be fixed, but should instead be fundamentally changed (see “Privatization Advocates.”) Privatization proponents are seeking to frame the issue as a matter of social justice, as if Social Security “reform” would primarily benefit low-income workers, blue-collar workers, people of color, and women. Prompted by dispari-

### **Privatization would have African Americans gamble with their only leg of retirement’s supposed three-legged stool—pension, savings, and Social Security.**

ties in life expectancy between whites and African Americans and the racial wealth gap, a growing chorus within the privatization movement is claiming that privatizing Social Security would be beneficial to African Americans.

Opponents attack the program on the basis of an analogy to private retirement accounts. Early generations of Social Security beneficiaries received much more in benefits than they had paid into the system in taxes. Privatization proponents argue those early recipients received a “higher rate of return” on their “investment” while current and future generations are being “robbed” because they will see “lower rates of return.” They argue the current system of social

insurance—particularly the retirement program—should be privatized, switching from the current “pay-as-you-go” system to one in which individual workers claim their own contribution and decide where and how to invest it.

But this logic inverts the premise of social insurance. Rather than sharing risk across the entire workforce to ensure that all workers and their families are protected from the three inevitabilities of old age, disability, and death, privatizing Social Security retirement benefits would enable high-wage workers to reap gains from private retirement investment without having to help protect lower-wage workers from their (disproportionate) risks of disability and death. High-wage workers, who are more likely to live long enough to retire, *could* in fact do better on average if they opt out of the general risk pool and devote all their money to retirement without having to cover the risk of those who may become disabled or die, although they would of course be subjecting their retirement dollars to greater risk. But low-wage workers, who are far more likely to need disability or survivors’ benefits to help their families and are less likely to live long enough to retire, would then be left with lower disability and survivors’ benefits, and possibly no guaranteed benefits. This is what the Social Security privatization movement envisions. But you wouldn’t know it from reading their literature.

And when the myths about Social Security’s financial straits meet another American myth—race—even more confusion follows. Here is a look at three misleading claims

by privatization proponents about African Americans and Social Security.

#### MYTH #1

*Several conservative research groups argue that Social Security is a bad deal for African Americans because of their lower life expectancies. “Lifetime Social Security benefits depend, in large part, on longevity,” writes the Cato Institute’s Michael Tanner in his briefing paper “Disparate Impact: Social Security and African Americans.” “At every age, African-American men and women both have shorter life expectancies than do their white counterparts. ... As a result, a black man or woman earning exactly the same lifetime wages, and paying exactly the same lifetime Social Security taxes, as his or her white counterpart will likely receive a far lower rate of return.” Or as the Americans for Tax Reform web site puts it: “A black male born today has a life expectancy of 64.8 years. But the Social Security retirement age for that worker in the future will be 67 years. That means probably the majority of black males will never even receive Social Security retirement benefits.”*

The longevity myth is the foundation of all the race-based arguments for Social Security privatization. There are several problems with it.

First, the shorter life expectancy of African Americans compared to whites is the result of higher morbidity in mid-life, and is most acute for African-American men. The life expectancies of African-American women and white men are virtually equal. So the life expectancy argument can really only be made about African-American men.

Second, the claim that OASDI is unfair to African Americans because their expected benefits are less than their expected payments is usually raised and then answered from the perspective of the retirement (or “old age”) benefit alone. That is an inaccurate way to look at the problem. Because OASDI also serves families of workers who become disabled or die, a correct measure would take into account the probability of all three risk factors—old age, disability, and death. Both survivor benefits and disability benefits, in fact, go disproportionately to African Americans.

While African Americans make up 12% of the U.S. population, 23% of children receiving Social Security survivor benefits are African American, as are about 17% of disability beneficiaries. On average, a worker who receives disability benefits or a family that receives survivor benefits gets far more in return than the worker paid in FICA taxes, notwithstanding privatizers’ attempts to argue that Social Security is a bad deal.

Survivors’ benefits also provide an important

#### PRIVATIZATION ADVOCATES

Powerful advocates for privatization include libertarian and conservative think tanks and advocacy groups such as the Cato Institute, the Heritage Foundation, Americans for Tax Reform, and Citizens for a Sound Economy, all driven by an ideological commitment to the abolition of federal social programs.

Wall Street too is thirsty for the \$1.4 trillion that privatization would funnel into equities if the taxes collected to support the Social Security system were invested privately rather than reinvested in federal government bonds. That’s not to mention the windfall of fees privatization would deliver for banks, brokerage houses, and investment firms.

Just after he took office, President Bush appointed a commission to examine privatizing the Social Security system. The commission could not figure out how to maintain payments to current recipients while diverting tax dollars to the savings of current workers, nor could it resolve how to cover the benefits of the disabled or resolve issues surrounding survivors’ benefits. Although the president did not succeed in carrying out Social Security privatization in his first term, he has made the partial privatization of Social Security retirement accounts the top priority of his second-term domestic agenda.

boost to poor families more generally. A recent study by the National Urban League Institute for Opportunity and Equality showed that the benefit lifted 1 million children out of poverty and helped another 1 million avoid extreme poverty (living below half the poverty line).

Finally, among workers who do live long enough to get the retirement benefit, life expectancies don't differ much by racial group. For example, at age 65, the life expectancies of African-American and white men are virtually the same.

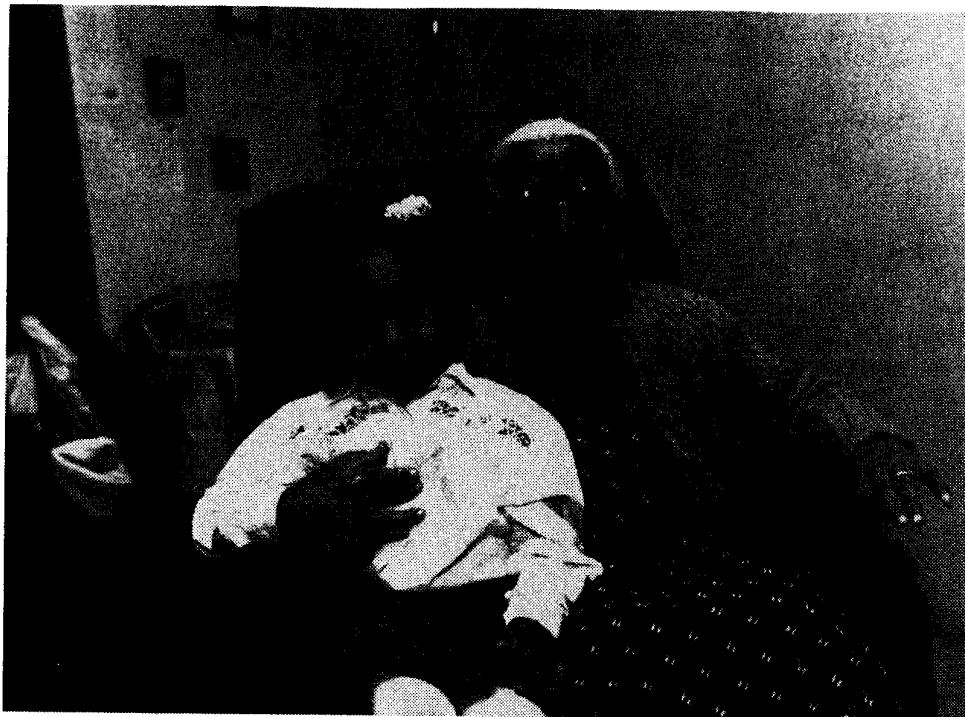
President Bush's Social Security commission proposed the partial privatization of Social Security retirement accounts, but cautioned that it could not figure out how to maintain equal benefits for the other risk pools. The commission suggested that disability and survivor's benefits would have to be reduced if the privatization plan proceeds.

This vision is of a retirement program designed for the benefit of the worker who retires—only. A program with that focus would work against, not for, African Americans because of the higher morbidity rates in middle age and the smaller share of African Americans who live to retirement.

#### MYTH #2

*African Americans have less education, and so are in the work force longer, than whites, and yet Social Security only credits 35 years of work experience in figuring benefits. Tanner says, "benefits are calculated on the basis of the highest 35 years of earnings over a worker's lifetime. Workers must still pay Social Security taxes during years outside those 35, but those taxes do not count toward or earn additional benefits. Generally, those low-earnings years occur early in an individual's life. That is particularly important to African Americans because they are likely to enter the workforce at an earlier age than whites...."*

This claim misinterprets the benefit formula for Social Security. Yes, African Americans on average are slightly less educated than whites. The gap is mostly because of a higher college completion rate for white men compared to African-American men. But the education argument fails to acknowledge that white teenagers have a significantly higher labor force participation rate (at 46%) than do African-American



ELLEN SHUB

teens (29%). The higher labor force participation of white teenagers helps to explain why young white adults do better in the labor market than young African-American adults. (The racial gaps in unemployment are considerably greater for teenagers and young adults than for those over 25.)

These differences in early labor market experiences mean that African-American men have more years of zero earnings than do whites. So while the statement about education is true, the inference from education differences to work histories is false. By taking only 35 years of work history into account in the benefit formula, the Social Security formula is progressive. It in effect ignores years of zero or very low earnings. This levels the playing field among long-time workers, putting African Americans with more years of zero earnings on par with whites. By contrast, a private system based on total years of earnings would exacerbate racial labor market disparities.

#### MYTH #3

*A third claim put forward by critics of Social Security is that African-American retirees are more dependent on Social Security than whites. Tanner writes: "Elderly African Americans are much more likely than their white counterparts to be dependent on Social Security benefits for most or all of their retirement income." Therefore, he concludes, "African Americans would be among those with the most to gain from the privatization of Social Security—transforming the*

*continued on page 32*

## **AFRICAN AMERICANS AND SOCIAL SECURITY**

*continued from page 19*

*program into a system of individually owned, privately invested accounts." Law professor and senior policy advisor to Americans for Tax Reform Peter Ferrara adds, "the personal accounts would produce far higher returns and benefits for lower-income workers, African Americans, Hispanics, women and other minorities."*

It's true that African-American retirees are more likely than whites to rely on Social Security as their only income in old age. It's the sole source of retirement income for 40% of elderly African Americans. This is a result of discrimination in the labor market that limits the share of African Americans with jobs that offer pension benefits. Privatizing Social Security would not change labor market discrimination or its effects.

Privatizing Social Security would, however, exacerbate the earnings differences between African Americans and whites, since benefits would be based solely on individual savings. What would help African-American retirees is not privatization, but rather changing the redistributive aspects of Social Security to make it even more progressive.

The current formula for Social Security benefits is progressive in two ways: low earners get a higher share of their earnings than do higher wage earners and the lowest years of earning are ignored. Changes in the formula to raise the benefits floor enough to lift all retired Social Security recipients out of poverty would make it still more progressive. Increasing and updating the Supplemental Security Income payment, which helps low earners, could accomplish the same goal for SSI recipients. (SSI is a program administered by Social Security for very low earners and the poor who are disabled, blind, or at least 65 years old.)

The proponents of privatization argue that the heavy reliance of African-American seniors on Social Security requires higher rates of return—returns that are only possible by putting money into the stock market. Yet given the lack of access to private pensions for African-American seniors

and their low savings from lifetimes of low earnings, such a notion is perverse. It would have African Americans gamble with their only leg of retirement's supposed three-legged stool—pension, savings, and Social Security. And, given the much higher risk that African Americans face of both death before retirement and of disability, it would be a risky gamble indeed to lower *those* benefits while jeopardizing their only retirement leg.

Privatizing the retirement program, and separating the integrated elements of Social Security, would split America. The divisions would be many: between those more likely to be disabled and those who are not; between those more likely to die before retirement and those more likely to retire; between children who get survivors' benefits and the elderly who get retirement benefits; between those who retire with high-yield investments and those who fare poorly in retirement. The "horizontal equity" of the program (treating similar people in a similar way) would be lost, as volatile stock fluctuations and the timing of retirement could greatly affect individuals' rates of return. The "vertical equity" of the program (its progressive nature, insuring a floor for benefits) would be placed in greater jeopardy with the shift from social to private benefits.

Social Security works because it is "social." It is America's only universal federal program. The proposed changes would place Social Security in the same political space as the rest of America's federal programs—and African Americans have seen time and again how those politics work.

*William E. Spriggs is a senior fellow with the Economic Policy Institute and was formerly the executive director of the National Urban League Institute for Opportunity and Equality.*