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A Win-Win for an All-in Nation

Changing the Economics of Communities of Color
and Improving Social Security's Long-Term Outlook

By Christian E. Weller and Farah Z. Ahmad

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Introduction and summary

Social Security is the bedrock of American families' economic security, offering them a guarantee of a basic universal retirement income as long as they live. Social Security Disability Insurance fills part of the income void when workers become disabled and must continue to pay their bills even though they cannot work. Similarly, Social Security covers part of a household's living expenses when its primary breadwinner dies prematurely. This gives families tremendous peace of mind when their primary income source disappears.

Social Security will pay promised benefits for decades to come, but it faces a long-term financial challenge: By 2033, promised benefit payments are expected to exceed Social Security's income from payroll taxes and from its trust funds.¹ Thankfully, there are solutions to combat this shortfall.

One approach is to raise the living standards of working-age families in communities of color. Shrinking racial and ethnic gaps in economic and health outcomes can ultimately improve Social Security's long-term finances and increase the economic security of both struggling communities of color and middle-class non-Hispanic whites. This efficiently achieves multiple policy goals at once, creating a win-win situation.

Policy investments that target communities of color are particularly important, as these communities are growing at an impressive rate. In 2010, communities of color comprised more than 36 percent of the U.S. population, and they are projected to make up the majority of the nation's population by around 2043.² Much of this growth will come from Hispanics, with their share of the population expected to equal 28 percent in 2050—up from 16 percent in 2010.³ Such growth will be beneficial to Social Security's finances: Faster population growth—and hence faster employment growth—will mean more workers will contribute their payroll taxes to the system than would otherwise be the case.

These increased contributions to Social Security come at a vital time. Baby Boomers—those who were born between 1946 and 1964 and who make up the largest generation in our nation’s history—are retiring and will continue to retire en masse. The United States had 37 million people ages 65 and older in 2005, but this population is expected to increase to 81 million by 2050.⁴ Today, Social Security already pays out more benefits than it receives through payroll taxes, and it relies on its trust funds to fill the gap. As the gap widens with the mass retirement of the Baby Boomers, Social Security’s trust funds will run out of money as planned. This could mean benefit cuts, tax increases, and/or fund transfers from other parts of the government to sustain Social Security.

If policies were instituted that could shrink racial and ethnic economic and health inequities, Social Security could gain even more important financial benefits from the growth of communities of color. Many communities of color have higher unemployment rates, lower earnings, higher incidences of disability, and greater mortality prior to reaching retirement than non-Hispanic whites. All of these differences adversely affect Social Security’s finances for the following three reasons: lower earnings that result in fewer payroll tax contributions to Social Security, higher benefit payments due to the progressive nature of Social Security benefits, and higher benefit payments due to increased disability benefits. Reducing the economic and health disparities between communities of color and non-Hispanic whites will create a win-win situation for communities of color and Social Security. Communities of color would see higher living standards, and Social Security would see a financial boost.

This report highlights the dual value of improving Social Security’s long-term finances while lowering unemployment, raising earnings, reducing disability incidences, and cutting premature mortality risks in communities of color. This would improve the lives not just of people of color but also of all workers and families through a stronger universal income insurance program. Improving economic and health outcomes in communities of color today is particularly important, as these communities are expected to see disproportionate growth over the coming decades. Specifically, this report shows that:

- **Population growth, due to the faster growth of communities of color, and its accompanying employment growth improves Social Security’s long-term financial outlook.** Faster population growth means that more workers contribute to Social Security through their payroll taxes sooner. The latest trustees report of the Social Security Administration estimated that rising population growth—and presumably, long-term employment growth—due to higher fertility rates and increased immigration will improve Social Security’s finances.⁵

Increasing the fertility rate from 2 children born per woman to 2.3 children would lower the program's 75-year shortfall by 12.8 percent. Increasing annual immigration from 1.125 million to 1.43 million people would cut the long-term deficit by 7.3 percent.⁶

- **Raising wage growth by lifting wages among communities of color brightens Social Security's long-term outlook.** The latest trustees' report estimates that inflation-adjusted annual wage growth of 1.76 percent—instead of 1.13 percent, which the trustees assumed in their intermediate scenario—would improve Social Security's financial outlook and cut its future expected deficit by 34.7 percent.⁷ A higher minimum wage—which would benefit communities of color in particular⁸—would also improve Social Security's outlook.
- **Lowering disability incidences, which are especially prevalent among communities of color, would improve Social Security's finances.**⁹ The latest trustees' report estimates in its intermediate scenario that 5.4 people out of every 1,000 people who have the potential to become disabled are awarded benefits annually. It argues that by lowering this number to 4.3 people, Social Security's long-term financial shortfall could be reduced by 9.5 percent.¹⁰ Creating better jobs for communities of color is one way to help reduce disability rates.

The bottom line is that policymakers can achieve a win-win outcome for both struggling communities and Social Security by embracing policies that improve the economic and physical health of communities of color. Such policies would raise the living standards of communities of color today and substantially improve Social Security's finances in the long term, lifting up the economic security of struggling, middle-class non-Hispanic white families and communities of color alike.

Social Security's long-term financial outlook

Trustees' Report and the intermediate scenario

The Social Security Administration's trustees report highlights the state of Social Security. Its data and analysis can inform policies that improve Social Security's finances while simultaneously improving the outcomes for disadvantaged communities.¹¹

Describing Social Security's duties, the 2014 trustees' report says that, "The Social Security Act established that the Board of Trustees oversee the financial operations of the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) Trust Funds." Together, the OASI and DI programs are commonly known as Social Security, or OASDI. Among other duties, the board of trustees must report annually to Congress on the actuarial status and financial operations of OASI and DI Trust funds—and they do so through the annual trustees' report.¹²

According to the 2014 trustees' report:

The future income and expenditures of the OASI and DI Trust Funds will depend on many factors, including the size and characteristics of the population receiving benefits, the level of monthly benefit amounts, the size of the workforce, and the level

*of covered workers' earnings. These factors will depend in turn on future birth rates, death rates, immigration, marriage and divorce rates, retirement-age patterns, disability incidence and termination rates, employment rates, productivity gains, wage increases, inflation, interest rates, and many other demographic, economic, and program-specific factors.*¹³

The trustees' report also indicates that it "presents key demographic and economic assumptions for three alternative scenarios," including low cost, high cost, and intermediate cost scenarios. The trustees' report states:

*The intermediate assumptions reflect the Trustees' best estimates of future experience. Therefore, most of the figures in this overview present only the outcomes under the intermediate assumptions. Any projection of the future is, of course, uncertain. For this reason, the Trustees also present results under low-cost and high-cost alternatives to provide a range of possible future experience. The actual future costs are unlikely to be as extreme as those portrayed by the low-cost or high-cost projections.*¹⁴

Currently, Social Security's finances pose a manageable longer-term challenge. Although total payroll taxes already fall short of total benefit payments, Social Security can rely on its trust funds' interest earnings to pay for a small share of annual benefits.¹⁵ The program has been building up trust funds since 1983, when payroll taxes first began to exceed benefit payments. These cash surpluses were invested in government bonds held in Social Security's two trust funds—one for the retirement and survivorship parts of the program and one for its disability insurance part. The trust funds amounted to \$2.8 trillion—or 320 percent of annual benefit payments—at the end of 2013, the most recent year for which data are available.¹⁶

Social Security can cover the shortfall between benefit payments and payroll taxes with the interest earnings on its trust fund assets for now, but as Baby Boomers retire en masse—since 2011, an estimated 10,000 of them turn age 65 per day until 2030¹⁷—this interest will eventually disappear. The latest trustees’ report estimates that interest income will be able to cover the difference only through 2019.¹⁸ Social Security will then have to sell government bonds in the trust funds to cover the difference between benefit payments and payroll taxes. The latest trustees’ report estimates that Social Security will run out of trust fund assets in 2033.¹⁹ If nothing changes, payroll taxes will cover only 77 percent of Social Security’s promised benefits after the trust funds are depleted.²⁰

Improving the economic outcomes of communities of color can help delay the date when Social Security will exhaust its trust funds and could shrink the share of Social Security benefits not covered by payroll taxes.

Social Security’s payroll tax revenues will only improve—even if tax rates stay the same—when more people are employed and those people earn more. It is particularly necessary for those earnings to total more than the amount that Social Security’s trustees currently project. Faster employment and earnings growth will help bring in more money for Social Security over time, since more people earning more money will pay more Social Security taxes.

However, communities of color tend to have substantially higher unemployment rates than non-Hispanic whites. Persistently higher unemployment rates among African Americans and Hispanics than among their non-Hispanic white counterparts further add to economic disparities.²¹ In 2013, annual unemployment rates were twice as high for African Americans, at 13.1 percent, than for non-Hispanic whites, at 6.5 percent.²² Reducing unemployment for all groups, but especially for communities of color, will improve Social Security’s finances and increase the economic security of all Americans moving into retirement or facing a family breadwinner’s disability or premature death.

Reducing income inequality and disability incidences will improve Social Security’s financial outlook

Social Security’s long-term outlook will improve with faster employment and future benefit growth, but it will improve more if benefit growth slows over time due to less income inequality and a lower chance of disability. These linkages are somewhat complicated, and this section explains them in detail.

The number of beneficiaries depends on past employment growth. If more people than expected find jobs, Social Security will have to pay out benefits to more people in the future. While more employed people means more benefits paid out, these benefits will not be paid out for decades, but Social Security will receive more revenue now.

Social Security’s outlook can also improve with less earnings inequality and better health outcomes—specifically, fewer chances of disability. The rest of this section provides details on Social Security’s benefits calculations to show how improvements for communities of color in employment opportunities, earnings inequality, and health outcomes could help Social Security’s finances.²³ Although these details are explored in depth in the Appendix, the main conclusion is that stronger earnings among lower-paid workers will benefit Social Security because of its progressive insurance structure.

Stronger earnings among lower-paid workers will benefit Social Security because of its progressive insurance structure.

Earnings and Social Security’s finances

People with much lower average earnings over their careers receive much higher Social Security benefits relative to their earnings than do people with higher earnings. (see Text Box 3) More earnings mean higher payroll taxes and higher Social Security benefits, but the rate at which benefits grow with earnings slows as earnings increase. People with higher lifetime earnings receive benefits that are lower relative to their lifetime earnings—though higher in absolute dollar terms—than is the case for lower lifetime earners. The Social Security Administration shows that someone who retires at the full retirement age of 66 in 2014 with final, low earnings equal to \$11,708 could expect an annual benefit of \$8,881, or 79.4 percent of their

average lifetime earnings. Someone who retires in 2014 at age 66 with final earnings of \$46,832, in comparison, could expect \$19,151 in annual benefits, the equivalent of 42.8 percent of their average lifetime earnings.²⁴

Because this finance structure pays lower-paid workers relatively higher benefits than it does higher-paid workers, closing income disparities is critical for low-income individuals who will depend on these benefits in old age. Communities of color in particular face large earnings disparities. In 2012, median household income for Hispanics was \$39,005, and median household income for African Americans was \$33,321; households of non-Hispanic whites earned \$57,009.²⁵ Poverty rates among communities of color are also disproportionate, with 25.6 percent of Hispanics and 27 percent of African Americans in poverty in 2012, compared with 9.7 percent of non-Hispanic whites.²⁶ Poverty rates varied widely among Asian Americans, with the aggregate poverty rate from 2006 to 2010 being as high as 27 percent for some groups, such as Hmong Americans, and as low as 6.4 percent for Filipino Americans.²⁷ These economic disparities contribute to the lower lifetime earnings of communities of color.²⁸

From Social Security's perspective, more people with higher lifetime earnings will mean a better balance between payroll taxes and benefit payments than more people with lower lifetime earnings. Simply stated, Social Security is an income insurance program that—like all insurance programs—helps those who need its income the most. The 2014 trustee's report hypothesizes that contributions to Social Security from payroll taxes used to pay retirement benefits in 2023 could be as high as \$1,235.9 billion or as low as \$891.5 billion, depending on a variety of factors, including wage increases or a lack thereof.²⁹ Thus, reducing earnings inequality and growing the middle class is good for Social Security's long-term outlook and particularly good for the long-term security of American families.

Disability incidence, premature death, and racial disparities that affect Social Security's finances

Social Security pays disability and survivorship benefits to beneficiaries and their families in addition to retirement benefits. Workers and their dependents will receive disability and survivorship benefits if workers become disabled or die before reaching age 62. Otherwise, they will receive retirement benefits. Both disability and survivorship benefits are calculated similarly to the way in which retirement benefits are calculated. (see Appendix for details) The main difference is that to qualify for disability and survivorship benefits, workers do not need to pay into Social Security for as long as they do to qualify for retirement benefits.

Workers' disabilities and deaths adversely affect Social Security's finances; this would be the case for any insurance that is dealt a catastrophic event. Insurance products and companies—Social Security included—mainly exist to help people weather unforeseen and economically detrimental events, not to make money off insurance premiums. Disability and survivorship benefits reduce Social Security's finances in a number of ways:

- Workers who become disabled or die early in their careers pay less in payroll taxes than they would have paid had they worked a full career.
- Disabled workers receive benefits earlier and often for longer periods of time than is the case for workers who work a full career before retiring.
- Social Security offers benefits to a range of beneficiaries, including minors. The chance that minors are dependents of a disabled worker—or indeed, that minors are survivors of a deceased worker—is greater than the chance that surviving children of a deceased retired worker are minors, as disability and survivorship benefits are tied to events that happen earlier in a worker's life than retirement.

These considerations are particularly relevant when examining the link between communities of color and Social Security's long-term financial future. Communities of color are expected to grow faster than non-Hispanic whites in the coming decades and are projected to be the majority of the nation's population by 2043.³⁰ Meanwhile, employment, earnings, and disability differences between communities of color and non-Hispanic whites are projected to persist. Social Security's long-term finances will benefit from faster population growth, and this benefit could be even larger with similar employment, earnings, and disability outcomes between communities and color and non-Hispanic whites.

For example, total payroll taxes could grow faster than expected if the economic outlook for communities of color improves.³¹ Annual payroll tax revenues will play an increasingly important role for Social Security's benefit security as the trust funds become smaller. Raising annual payroll tax revenues—not rates—in the aggregate beyond their currently expected levels will mean that Social Security needs to rely less than predicted on its trust funds and interest rates to pay promised benefits. Higher payroll tax revenues will extend the life of the Social Security's trust funds and shrink the long-term difference between benefits and taxes beyond what Social Security's trustees currently forecast.

Additionally, workers who die prematurely pay less in payroll taxes than they would have had they worked a full career. Communities of color are among those that disproportionately experience incidences of premature death. A nationwide study of premature mortality—those who died before reaching age 65—from 1960 to 2002 showed that while premature mortality generally decreased from 1966 to 1980 for all groups, disparities between non-Hispanic whites and communities of color at all income levels remained in the following decades. Disparities were smaller as income level increased.³² A second study of premature mortality—which examined those who died between ages 25 and 64 in Minnesota—revealed that while socioeconomic status had a direct impact on premature mortality, with those in less affluent neighborhoods having higher premature mortality rates than those in affluent neighborhoods, African Americans had higher premature mortality rates than non-Hispanic whites, even after taking socioeconomic status into account.³³ Strikingly, even in affluent neighborhoods, African American women were six times more likely to die prematurely than non-Hispanic white women in similar neighborhoods.³⁴ These disparities are devastating for families and communities of color, and addressing them could only bring improvements.

Workers who become disabled early in their careers also pay less in payroll taxes than they would have paid otherwise. The age-sex adjusted disability prevalence rate—the ratio of the number of disabled-worker beneficiaries in current-payment status to the number of people insured for disability benefits—was 4.6 percent in 2013.³⁵

Disability rates vary widely among different communities. Non-Hispanic whites, for example, had an age-adjusted disability rate of 17.6 percent in 2010, compared with 22.2 percent of African Americans and 17.8 percent of Hispanics. Asian Americans had a disability rate of 14.4 in 2010, significantly lower than all other groups.³⁶ However, examination of the Asian American and Pacific Islander, or AAPI, community reveals significant variation by ethnicity, reflective of the diversity of the AAPI community. This may be due to variation in education and income levels among different AAPI groups, as well as to variation in job industry type.³⁷ Variations in disability rates between communities of color and non-Hispanic whites in general likely follow lower educational attainment among communities of color, as well as related occupational and sectoral segmentation. For example, people with less education can end up working more hours in more physically demanding jobs—such as food preparation—than is the case for people with more education.³⁸ Furthermore, people with less education often enter the labor force earlier and thus have more chances to become disabled due to

more time spent working. Finally, people with less education tend to work in jobs with lower pay and fewer benefits, causing stress—particularly financial stress—which can raise the chance of becoming disabled.³⁹ Communities of color also may work in more physically demanding occupations than non-Hispanic whites.⁴⁰

Disability incidence, premature death, and racial disparities have a significant effect on the depletion of Social Security’s finances. As communities of color become a bigger share of the population each year, addressing these realities provides opportunities for intervention to improve the stability of Social Security and the economic and health outcomes of communities of color.

Policy recommendations

There are a number of policy goals that can help Social Security remain solvent and improve economic and health conditions for communities of color. These include lowering unemployment, increasing earnings growth, and lowering the incidence of disability. Each of these is discussed in detail below.

Lower unemployment, especially in communities of color, to take advantage of population growth

Higher employment numbers improve Social Security's finances. Employment will grow more quickly if the population grows faster than expected and if all new labor-market entrants face good job prospects. More people paying into Social Security in the present will raise the program's benefit payments in the future, but raising the number of taxpayers still improves Social Security's long-term outlook.

The latest trustees' report estimated that rising population growth—and presumably, long-term employment growth—due to a higher fertility rate and more immigration would improve Social Security's finances. Increasing the fertility rate from 2 children born to each woman to 2.3 children would lower Social Security's 75-year shortfall by 12.8 percent. The 2 children figure comes from the trustees' report's intermediate scenario, on which the most commonly cited financial figures rest. (see Table 1) Increasing annual immigration from 1.125 million to 1.43 million people would cut Social Security's long-term deficit by 7.3 percent. (see Table 1)

TABLE 1

Changing economic and physical health and Social Security's long-term finances

Changes to assumptions in Social Security trustees' intermediate cost scenario for Social Security's 75-year outlook	Change in Social Security trustees' expected Social Security deficit for the next 75 years, as percent of payroll	Relative change in Social Security's long-term deficit for the next 75 years
Higher fertility rate—number of children born to woman over her lifetime—with 2.3 children instead of 2	-0.37	-12.8
More immigration, with 1.43 million immigrants annually instead of 1.125 million	-0.21	-7.3
Higher real-wage differential, with 1.76 percent annually instead of 1.13 percent	-1.00	34.7
Lower death rate, with an increase in annual death rate reduction to 1.20 percent from 0.79 percent	+0.48	+16.7
Lower disability incidence, with 4.3 awards per 1,000 exposed instead of 5.4 awards per 1,000 exposed	-0.27	-9.5

Notes: All figures are in percent. The total actuarial deficit is equal to 2.88 of payroll over 75 years. A reduction in this deficit is noted by a "-" and an increase in this deficit is shown by a "+." All key assumptions use intermediate and low-cost scenarios except for the death rate. Because the death rate assumption looks at mortality improvements, which adds cost to Social Security, high-cost and intermediate scenarios were used.

Source: Author's calculations based on Social Security Administration, *The 2014 Annual Report of The Board of Trustees of The Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (2014), available at <http://www.socialsecurity.gov/OACT/TR/2014/tr2014.pdf>.

These effects will presumably be larger in the near term if policymakers manage to erase job-market inequities. Such policies would mean that population groups that have traditionally suffered higher unemployment rates than their counterparts—such as Hispanics when compared with non-Hispanic whites—would see relatively faster job growth even after controlling for population growth. Put differently, lowering unemployment rates in struggling communities would accelerate the medium-term effects of faster population growth on Social Security. Because communities of color generally have higher unemployment rates than their non-Hispanic white counterparts and generally make up a smaller employed share of the population—with African Americans at 53.4 percent and Hispanics at 60.7 in the first quarter of 2014, compared with 59.7 percent for non-Hispanic whites—closing these racial gaps would have a large positive impact on improving earnings and thus improving Social Security's finances for all future recipients.⁴¹

While multiple avenues exist to decrease unemployment, some policies have disproportionate effects on the employment levels of communities of color. Increasing infrastructure investments, for example, would create more jobs for everybody but would provide large numbers of jobs in construction and transportation—where Latinos disproportionately hold jobs—and in manufacturing, transportation, and administration—where African Americans disproportionately

hold jobs.⁴² Likewise, expanding apprenticeships would create a pathway toward good jobs, with targeted impacts for disadvantaged communities. Apprenticeships are traditionally concentrated in building and construction, where many people of color work, but they are also growing in other fields. The U.S. Department of Labor has projected that apprenticeship occupations such as personal and home health care aides, veterinary technologists and technicians, medical assistants, and pharmacy technicians are also expected to grow.⁴³ Apprenticeships are also a growing pathway for people with disabilities to gain employment.⁴⁴

Raise earnings growth to reduce earnings inequality among Social Security taxpayers

Less earnings inequality would improve Social Security finances. Greater earnings equality would come from raising the earnings of lower-income and moderate-income earners relative to their higher-income counterparts, meaning that earnings at the bottom and middle of the earnings scale would rise faster than those at the top. People would earn more money below the cap—the level, currently \$117,000, at which one’s earnings is no longer subject to Social Security payroll taxes⁴⁵—than is currently the case, improving Social Security’s payroll tax revenue. Social Security’s tax base—made up of the earnings below the cap—would grow faster as earnings inequality declined.⁴⁶ This implies that achieving less earnings inequality by raising earnings among lower-income workers would help Social Security’s finances. Lowering earnings inequality by lowering earnings at the top would not help Social Security.⁴⁷

In fact, the latest trustees report estimates that inflation-adjusted annual wage growth of 1.76 percent annually—instead of the 1.13 percent assumed in the trustees’ intermediate scenario—would improve Social Security’s financial outlook and cut its future expected deficit by 34.7 percent.⁴⁸ (see Table 1)

The most room for earnings improvement exists in communities of color. African Americans, Latinos, and a substantial segment of Asian Americans have much lower earnings than non-Hispanic whites. Median weekly earnings—the level of work earnings that split each population group exactly in half—can be indicative of the quality of Americans’ jobs. As of the first quarter of 2014, median weekly earnings for Hispanics who worked full time were \$593 while African American’s earned \$646. However, non-Hispanic whites had significantly higher weekly earnings at \$819.⁴⁹ These numbers indicate that African Americans and Latinos continue to hold lower-quality and lower-wage jobs and earn significantly less money than their non-Hispanic white counterparts. Thus there is a greater need

to improve earnings for communities of color than for non-Hispanic whites, although many whites also suffer economic insecurity due to low earnings. In fact, communities of color—particularly women of color—are disproportionately represented in some fields with poor job quality, such as service jobs. These jobs have low wages, high insecurity, and a lack of benefits.⁵⁰

Raising the minimum wage, promoting paid sick days, and establishing more opportunities for high-quality child care are some ways to raise earnings and also make earnings go further. Additionally, making it easier for those workers who want to form unions enables workers to negotiate for fair wages and benefits.⁵¹

Lower disability incidences

Making people healthier by lowering health hazards at work and improving health care could reduce incidences of disability and improve Social Security's finances.⁵²

The latest trustees' report estimated that reducing disability incidences from 5.4 awards annually per every 1,000 people who have the potential to become disabled to 4.3 awards per every 1,000 people would reduce Social Security's long-term financial shortfall by 9.5 percent. (see Table 1)

As discussed in the previous section, communities of color—especially African Americans and Latinos—have substantially higher disability incidences than do non-Hispanic whites. Targeting improved health outcomes for communities of color will help Social Security's finances, due to fewer disability cases and thus fewer benefits paid.

Lowering the chances of serious disability or illness in communities of color will require a number of different approaches.

First, a range of measures will be needed to improve the economic security of communities of color. Boosting a child's family income is associated with a reduced likelihood of disability and poor health later in childhood and in adulthood. Higher adult incomes are also associated with better health outcomes, as higher-income families have better access to preventive care and to health care when a debilitating illness—such as back pain or post-traumatic stress disorder—arise. Appropriate first policy steps could therefore include increasing earnings, as mentioned above. Creating better jobs would then mean raising the minimum wage and improving access to a wide range of benefits, such as health insurance and retirement benefits.

Health outcomes are also dependent on a variety of factors, including access to high-quality food. Because better nutrition is typically linked over time to lower disability incidences, reducing inequities in access to healthy nutrition between communities of color and non-Hispanic whites is key.⁵³ A first step would be to avoid cuts to the Special Supplemental Nutrition Program for Women, Infants, and Children, or WIC, and the Supplemental Nutrition Assistance Program, or SNAP—formerly known as food stamps. Both of these are important nutritional and health programs that support low-income families.

In addition to supporting healthy living, reducing existing health disparities is critical. The Affordable Care Act, or ACA, includes an array of provisions expected to reduce health disparities—including the chance of becoming seriously disabled—where disparities between communities of color and non-Hispanic whites exist. The lack of health insurance among communities of color—29.1 percent of Hispanics and 19 percent of African Americans were uninsured in 2012, compared with just 11.1 percent of non-Hispanic whites⁵⁴—is associated with poor health outcomes, which includes the chance of suffering from serious disabilities. A lack of health insurance is risky for many reasons, including that health issues that can lead to disability go untreated. ACA provisions include a prohibition on denying health insurance coverage to individuals with pre-existing conditions; the creation of a National Institute on Minority Health and Health Disparities, which will study the causes of health disparities and recommend possible ways to address them; and the possibility for states to expand Medicaid coverage. Medicaid is an important vehicle of health insurance coverage for communities of color. Expanding Medicaid under the ACA will greatly increase access to health insurance coverage for communities of color, lowering the possibility of suffering from serious disabilities and illnesses. States should take advantage of ACA rules and expand Medicaid to further reduce health disparities between communities of color and non-Hispanic whites. This expanded coverage will improve the quality of life for communities of color today and advance Social Security’s long-term financial soundness for many years to come.

Conclusion

Social Security provides the basis of economic security for American families whose main source of earnings disappears due to the retirement, disability, or death of a primary breadwinner. Families have relied on Social Security to be there for them when they need it for almost 80 years.⁵⁵

But the program faces a long-term financial shortfall. However, this shortfall can be managed if it is properly addressed, especially since faster population growth due particularly to disproportionate increases in communities of color can boost its finances through faster employment growth and more contributing taxpayers.

Social Security and Americans' financial security could see even greater benefits if economic and health disparities between communities of color and non-Hispanic whites shrank or disappeared. Higher employed population shares, higher wages, and lower chances of disability are all beneficial to people's well-being and to Social Security's financial outlook. Yet communities of color lag behind non-Hispanic whites in all of these areas. Improving employment, wages, and health outcomes for communities of color would raise their quality of life and add years to Social Security's financial well-being—an outcome that benefits all Americans in the long run.

Improved economic and health outcomes also result in greater longevity among communities of color. This would be a welcome development, as some communities of color, such as African Americans, often have a much shorter life expectancy than non-Hispanic whites.⁵⁶ Longer life expectancies also mean that ultimately people will receive Social Security benefits for longer periods.

A number of policy steps that advance economic prosperity, provide security during hard times, and improve health outcomes could address existing economic and health disparities by race and ethnicity. The bottom line is that policymakers in Congress have the opportunity to create a win-win situation by raising the living standards for workers in communities of color and thus improving Social Security's finances and economic security for all American families.

Appendix

Social Security provides a family with basic income in the event of a breadwinner's retirement, disability, or death

Social Security is shorthand for what is officially called Old-Age, Survivorship and Disability Insurance, or OASDI. Social Security replaces part of a family's income when the primary breadwinner faces any of the following three scenarios: retirement, serious disability or illness, or death. Importantly, Social Security provides guaranteed, inflation-adjusted lifetime benefits, so families can count on this basic income after their main earnings source disappears. Social Security benefits target the most vulnerable populations, offering higher benefits relative to earnings to those who struggle more in the labor market than to those who are already economically secure.

Social Security has a long record of protecting American families from economic insecurity. The nation's premier retirement, disability, and life insurance program for working families was created in 1935 and served 59 million people in 2014.⁵⁷ (see Table A-1) It is a near universal system, with 87 percent of all Americans insured under Social Security in 2012, the most recent year for which data are available. This number leaves out people who have not yet worked long enough to qualify for Social Security benefits, as well as some state and local government workers who are not covered by Social Security.⁵⁸ But close to 90 percent of Americans have had at least 40 quarters of substantial earnings, meaning that they qualify for Social Security benefits or were dependents to somebody who qualified for retirement or survivorship benefits.

The distribution of Social Security highlights the importance of all three basic Social Security benefits: retirement, survivorship, and disability. Retired workers and their dependents made up the largest group of Social Security beneficiaries, with 41.1 million in 2014. Eleven million beneficiaries and their dependents have received disability benefits so far this year, and 6.2 million dependents received benefits from the survivorship program. (see Table A-1) A total of 4.4 million children received Social Security benefits from the three income guarantee components of Social Security in 2014. (see Table A-1)⁵⁹

TABLE A-1
Number and average monthly benefit, by type of benefit, May 2014

Type of benefit	Number, in millions	Average monthly benefit, in dollars
Total Social Security	58.6	1,187
Retirement benefits	47.6	1,231
Retired workers	41.4	1,253
Spouses of retired workers	2.3	654
Children of retired workers	0.6	634
Survivor benefits	6.2	1,084
Children of deceased workers	1.9	817
Widowed mothers and fathers	0.	910
Nondisabled widow(er)s	3.9	1,249
Disabled widow(er)s	0.3	715
Disability benefits	11.0	995
Disabled workers	8.9	1,146
Spouses of disabled workers	0.2	307
Children of disabled workers	1.9	343

Source: Social Security Administration, "Monthly Statistical Snapshot, May 2014." (2014).

Social Security benefits ensure a basic standard of living for people with average or even high earnings, but they do not allow for a life of luxury. The average monthly retirement benefit was \$1,231 in 2014.⁶⁰ The average disability and survivorship benefits were lower—\$995 and \$1,084, respectively.⁶¹ (see Table A-1)

Social Security benefits offer some protection but no guarantee against poverty in old age.⁶² The poverty rate in 2012 for those ages 65 and older was 9.1 percent, compared with 21.8 percent for children and 13.7 percent for those between ages 18 and 64.⁶³ Social Security clearly helps substantially lower poverty in old age below where it otherwise would be by offering disproportionately higher benefits to lower-income earners than to higher-income earners. Yet Social Security does not offer enough of a basic income floor to guarantee that retirees will not experience poverty in old age, even after a full career.

Social Security checks are a reliable source of lifetime income that constitutes the most important source of income for families 65 years old and older. The program's benefits provided the majority of income for 64.6 percent of all families 65 years old and older in 2012.⁶⁴ Indeed, on average, families in each of the five income quintiles in this age group received more income from Social Security than from any other income source. Social Security, for instance, still made up an average of 43.5 percent of income for families in the fourth quintile in this age group.⁶⁵

Social Security makes up a larger share of income for some groups of older households of color than for non-Hispanic whites. In 2012, on average, Social Security accounted for 39.1 percent of income for older African Americans and for 40.9 percent of income for older Latinos, compared with 35.1 percent for older non-Hispanic whites and 30.2 percent for older Asians.⁶⁶

Social Security's payroll taxes

Payroll taxes are Social Security's primary source of revenue. Most employers and employees are required to pay 6.2 percent of their earnings to Social Security.⁶⁷ Earnings that are subject to the payroll tax are capped, meaning that some wage earnings are not subject to the payroll tax and are not counted for the purpose of Social Security benefits. The cap on earnings subject to the payroll tax currently increases annually in line with the overall average wage of workers calculated by the Social Security Administration. The cap was set at \$117,000 in 2014.⁶⁸ The annual payroll tax revenue thus equals the product of 12.4 percent—from both of the 6.2 percent contributions from employers and employees—multiplied by the earnings up to the cap for all people who participate in Social Security.

Social Security's benefit calculations

Social Security's benefit calculations are based on the Average Indexed Monthly Earnings, or AIME. This is an average of people's highest earnings over 35 years, after adjusting for average wage growth since the money was earned so that earnings in earlier years are comparable to earnings in later years. Years of no earnings when people worked for less than 35 years are counted as years with \$0 earnings, lowering a beneficiary's AIME. This also means that more employment will raise the basis for people's benefit calculations while bringing in more payroll tax revenue to Social Security. The net effect of more money now and more benefits in the future still constitutes an improvement to Social Security's long-term finances, as is discussed in more detail below.

Social Security uses the AIME to calculate people's monthly benefits. People can expect to receive 90 percent of each dollar—or \$0.90—of the first \$816 of their AIME as benefits, 32 percent of each dollar above \$816 but below \$4,917, and 15 percent of each dollar above \$4,917. The AIME is potentially split into these three different amounts, each multiplied by a different percentage. The three possible benefit amounts are then added together to arrive at a person's Primary Insurance Amount, or PIA. The PIA forms the basis of other calculations, such as reductions for early retirement and spousal benefits depending on the beneficiary's circumstances.

Earnings inequality and Social Security benefits

This calculation highlights how earnings inequality relates to Social Security benefits. People pay payroll taxes on their earnings—not on other forms of income such as dividends and capital gains—up to an annual maximum of \$117,000 in 2014.⁶⁹ People receive benefits only on the share of their earnings for which they paid payroll taxes, or their earnings below the cap. Therefore, there is a maximum AIME. So lowering a top earner's earnings from \$1,000,000 to \$900,000 per year⁷⁰ would not affect Social Security's payroll tax revenue or have any effect on future benefit payments. On the other hand, raising the earnings of a low-income earner from \$21,074 to \$46,832—that of a lifetime average earner and an increase of 122.2 percent—in 2014 would raise payroll taxes by an equal percent of 122.2 percent, or \$3,194. $(0.124 \times (\$46,832 - \$21,074) = \$3,194)$ If this difference in earnings had been in place over an entire career, lifetime average earners would have received an annual benefit equal to \$19,151 in 2013 dollars. Low-income earners would have received \$11,626—an increase of 64.7 percent, well below the earnings and payroll tax increase of 122.2 percent—if they had retired at age 66 in 2014. The replacement rate of future benefits relative to lifetime earnings would have gone from about 55 percent for low-income earners to roughly 41 percent for average, or medium, earners.⁷¹ Raising earnings can improve Social Security's finances because the immediate increase in additional payroll tax revenue is larger than the increase in future expected benefit payments.

Calculating disability and survivorship benefits

Social Security calculates the AIME for a disabled beneficiary or a deceased beneficiary, which is first used as a means to convert lifetime payments into the PIA amount for the beneficiary and the survivors. The main difference is that workers need to have paid into Social Security for shorter periods to qualify for disability and survivorship benefits than for retirement benefits. The only difference for the AIME calculation in the case of disability and survivorship benefits is that the worker's earnings are not averaged over 35 years, as is the case with retirement benefits, but only over the actual number of years up to disability or death. These averaging periods mean that no years with zero earnings are entered into the calculation. Consequently, the AIME and PIA are much higher than they would have been for an individual who works until retirement without incident. Beneficiaries receive the PIA if they are disabled, while other beneficiaries receive an additional fraction of the PIA if they are eligible. Spouses, for instance, receive 50 percent of the beneficiary's PIA, and each minor child receives 25 percent of the PIA. Survivors receive similar shares of the PIA for as long as they are eligible for benefits.

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Endnotes

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- 9 Reducing economic and disability inequities between communities of color and non-Hispanic whites will likely also increase longevity among communities of color. Greater longevity poses a manageable challenge for Social Security. Communities of color tend to have a higher probability than non-Hispanic whites to die before reaching retirement age. Lowering mortality by raising the reduction in the death rate—which means increasing improvements in longevity—from 0.8 percent annually to 1.21 percent would increase Social Security's financial shortfall by 16.9 percent. This increase in Social Security's shortfall reflects a desirable social outcome since it means that more people live longer lives. The resulting cost for Social Security is manageable, especially if other beneficial economic changes such as more employment opportunities and faster earnings growth occur simultaneously. Lowering the mortality rate within communities of color while increasing prosperity will benefit people, families, and the economy through additional years of productive work and higher consumer spending.
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Progress 2050, a project of the Center for American Progress, seeks to lead, broaden, and strengthen the progressive movement by working toward a more inclusive progressive agenda—one that truly reflects our nation’s rich ethnic and racial diversity. By 2050 there will be no ethnic majority in our nation and to ensure that the unprecedented growth of communities of color also yields future prosperity, we work to close racial disparities across the board with innovative policies that work for all.

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