



**SOCIAL SECURITY REFORM
AND
AFRICAN AMERICANS:
*DEBUNKING THE MYTHS***

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Summary

For years, proponents of privatizing Social Security have promoted the idea of diverting all, or a portion, of the Social Security payroll tax to fund individual retirement accounts. In an attempt to win support from minorities, privatization advocates have also argued that African Americans would get a better deal from private retirement accounts than from the current Social Security program. The recent interim report issued by the President's Commission to Strengthen Social Security invokes similar themes in its effort to garner African American support for individual accounts. While there are a number of general arguments advanced by privatization advocates, this policy brief provides a rebuttal to privatization arguments targeted toward African Americans such as those presented in the report by the President's Commission.

Social Security and African Americans

For over a half-century, the Old Age Survivors and Disability Insurance (OASDI) program—more commonly known as Social Security—has protected American families from falling into poverty because of the loss of income due to retirement, death of a breadwinner, or disability. As the most important source of income for more than 80 percent of elderly Americans and virtually the only source of income for the poorest 40 percent of older Americans, Social Security provides people with a guaranteed retirement income, safeguarded from being eroded by inflation, for a lifetime.

African Americans have been shown to have a heavy reliance on Social Security benefits. While only 12 percent of the U.S. population, African Americans are 17 percent of those receiving Social Security disability benefits and 22 percent of all children receiving Social Security survivor benefits. A recent study by the National Urban League Institute for Opportunity and Equality found that African American children are almost four times more likely to be lifted out of poverty by Social Security than are white children.²

Because African Americans tend to have lower earnings and less pension coverage than white Americans, Social Security is also extremely important for African American retirees. Social Security Administration statistics show that Social Security benefits are the only source of retirement income for 40 percent of older African Americans.

Social Security retirement benefits are progressive—that is, low-income people receive a larger percentage of benefits relative to their earnings than do higher-income individuals. Because African Americans are disproportionately among the low-income, Social Security benefits are favorably structured to level income disparities and enhance their economic bottom line. Combined with a cost of living adjustment that increases the amount of benefits annually for a lifetime, the benefits of the current system for African Americans are great.

Debunking the Myths

There are several arguments that have become standard issue for privatization advocates who seek to increase support for individual accounts among African Americans and other groups. These arguments are highly misleading and obscure the likely effect of individual accounts for African Americans and other vulnerable populations.

Myth #1: African Americans do not benefit from Social Security due to their higher mortality rates.

The Commission report argues that African Americans are “more likely...to die before receiving [retirement] benefits.”³ This argument is not only misleading, it elevates the importance of one portion of the Social Security program at the expense of other equally important components. Social Security, also known as the Old Age, Survivors, and Disability Insurance program, is a comprehensive program that encompasses retirement, disability and survivor benefits—all of which are important to African Americans. As stated previously, while only 12 percent of the U.S. population, African Americans comprise 17 percent of Social Security disability beneficiaries and 22 percent of all children receiving Social Security survivor benefits.

While it is true that African American men die at younger ages, they usually die at dramatically younger ages—not at or just prior to retirement as some suggest. What privatization proponents do not explain is that when black and white men reach the age of 65, the actual difference in their life expectancy has decreased to about two years.⁴ And because African Americans are more likely to draw an

early retirement at the age of 62, the difference in the number of years that black and white men receive benefits is further reduced to less than two years. Overall, a majority of African Americans, 53 percent, are recipients of Social Security retirement benefits. If not for Social Security, the poverty rate for older African Americans would more than double from 24 percent to 65 percent.⁵ Thus, African Americans benefit significantly from the current retirement program—contrary to what proponents of privatization claim.

Myth #2: African Americans receive a lower rate of return from Social Security.

Measuring Social Security benefits using rates of return is akin to comparing apples and oranges. Unlike the private securities market, Social Security is an insurance system that re-distributes economic assistance to contributors and their families on an as needed basis at various points during their lives. The value of this assistance, particularly in the event of unexpected occurrences like disability or death, is priceless. As with any other form of insurance, OASD Insurance benefits all Americans because it pools individuals who face the risk of losing income due to death, disability or retirement. The concept of private accounts, however, changes the essence of this pooled insurance program into an individual retirement plan that would leave the families and children of individual workers out.

Analysts at the right-leaning Heritage Foundation issued a widely circulated study claiming that African Americans receive a poor rate of return from Social Security.⁶ They argued that some African Americans, specifically low-income black males born after 1959, would receive a negative return from Social Security because of higher mortality rates. The findings of the Heritage report have been soundly refuted by a number of scholars including Steve Goss, the Chief Actuary at the Social Security Administration.⁷ Independent analyses reveal that the methodological assumptions used in the Heritage report were fundamentally flawed.

First, the Heritage report erroneously calculated rates of return by assuming that individuals within demographic groups would die promptly at the age of their projected average life expectancy. This approach overlooks the fact that in real life, significant numbers of individuals live beyond their group's average life expectancy. By embracing this method, the report dramatically overstated the amount of taxes African Americans pay into Social Security while significantly underestimating the expected rate of return from Social Security retirement benefits. Second, the Heritage report fails to include the estimated value of Social Security's survivor and disability benefits for African Americans in their rate of return calculation. By excluding the very programs upon which African Americans heavily rely, the report falsely lowers the expected rate of return for this group. Third, the Heritage report overstates the rate of return for individual accounts by failing to factor their high transition and administrative costs, which

dramatically reduces the amount of gains that might accumulate under healthy market conditions.⁸

Myth #3: African Americans would be able to leave an inheritance under a system of private individual accounts.

The report by the President's Commission argues that African American private account owners will be able to bequeath their funds to surviving relatives in the event of an untimely death. However, analyses of various individual account proposals show that privatizers would be unable to deliver on this promise. For example, a study by the National Urban League found that a typical black man dying in his 30s would only have enough in his private account to cover less than two percent of the survivor's benefits under current law.⁹ Furthermore, upon retirement most privatization proposals require individuals to use their account funds to purchase an annuity plus life insurance that can be paid out to survivors upon death. This type of private policy would be very expensive and would leave the retiree with very little money to live on and his heirs with little or next to nothing. In contrast, Social Security's spousal and survivor benefit provides crucial support to surviving children and spouses for as long as necessary without having to purchase an expensive annuity or life insurance policy.

Myth #4: Carving out some or all of the Social Security payroll tax to fund individual private accounts would benefit African Americans.

Funding private retirement accounts by diverting money away from the current system would undermine the economic viability of the survivor and disability components of the Social Security system—the very programs upon which African Americans and their children heavily rely. For this reason, the National Urban League is opposed to “carve-outs” or taking money away from the current payroll tax system to fund individual accounts.

Additionally, a carve-out approach would increase retirement *insecurity* for African Americans because it would eliminate the guaranteed benefits of the current system while exposing them to greater risk in the private markets. Proponents of private individual accounts assume that the future performance of the stock market will be equal to or greater than that of the past. Privatization plans such as the type President Bush is purported to support would not be able to protect the retirement income of vulnerable populations in the event of an economic downturn or stock market crash. This level of risk is unacceptable and ill advised.

Myth #5: Private individual accounts are specially designed to increase African Americans' access to retirement benefits.

Privatizers readily argue that because African Americans have shorter life expectancies, they are more likely to die before receiving Social Security

retirement benefits. This is why, they assert, Social Security is such a bad deal for blacks. What privatizers do not clearly state is that the unfortunate demographic circumstances that affect some African Americans under Social Security would remain the same under a system of private accounts. In other words, the same argument could be used if private individual accounts were implemented: because African Americans have shorter life expectancies, they are more likely to die before receiving retirement proceeds from an individual account. This point is particularly important when considering private individual accounts contain no structural elements that would make it easier for African Americans to access retirement benefits.

Furthermore, prominent privatization advocates highlight the problem of higher mortality rates in the African American community while proposing to increase the retirement age along with implementing individual accounts. These proposals would raise the bar by making it more difficult for African Americans to access retirement benefits.

Myth #6: Private individual accounts would create wealth for African Americans.

Ironically if the country were to move to a privatized retirement system, African Americans are likely to fare worse for several reasons. First, Social Security retirement benefits are progressive—that is, low-income people receive a larger percentage of benefits relative to their earnings than do higher-income individuals. Because African Americans are disproportionately among the low-income, Social Security benefits are favorably structured to level income disparities and enhance their economic bottom line.

Private accounts, on the other hand, would eliminate the progressive aspects of the current system that provides more help for low-income people. Without a progressive system income inequalities would be exacerbated because low-income individuals would only accrue interest (assuming a healthy stock market) on their smaller wage-based contributions. Thus, even individuals earning the same rate of return would have very different portfolios because of the disparate nature of their earnings. In addition, Social Security calculates benefits based on a worker's highest 35 years of earnings while private accounts would use a worker's entire work history to determine benefits. Because of higher unemployment rates, black men are twice as likely as white men to have years of zero earnings. Thus, African Americans would be disadvantaged because private accounts would not compensate for that difference.

When considering that private accounts would also eliminate cost of living adjustments and a guaranteed benefit, the advantages of these accounts over the current system for low-income populations are questionable at best.

Conclusion

While wealth accumulation and sound investment practices are certainly important goals to pursue, it is not good policy to jeopardize Social Security's guaranteed benefits by subjecting them to the risks of the stock market. After all, Social Security is designed to be the safety net that individuals can rely upon in the event of financial setbacks that may come with private investments. Precisely because African Americans are disproportionately low-income and less likely to have private pensions, it is especially important that Social Security's guaranteed safety net be there to protect them in the event of an economic downturn or stock market crash.

With Social Security expected to experience a financing shortfall in 2038, there are good reasons to find ways to strengthen the system. Let us explore financing options without using misleading racial arguments to undermine the principles that have made Social Security a vital source of income support for generations of Americans.

The National Urban League is the nation's oldest and largest community-based movement devoted to empowering African Americans to enter the economic and social mainstream.

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² Valerie Rawlston, "The Impact of Social Security on Child Poverty," A special report issued by the National Urban League Research and Public Policy Department, May, 2000.

³ See "Interim Report of the President's Commission to Strengthen Social Security," Washington, DC, August 2001 (www.csss.gov).

⁴ Black men who live to age 65 can expect to live to approximately 79 years compared to 81 for white men. See the National Center for Health Statistics, "Deaths; Preliminary Data for 1999," National Vital Statistics Reports 49, no. 3, June 26, 2001.

⁵ Social Security Administration, "Fact Sheet: Social Security is Important to African Americans," Washington, DC, March 2001.

⁶ Beach, William W. and Gareth Davis, "Social Security's Rate of Return," Washington, DC: Heritage Foundation, Report #98-01, January 15, 1998.

⁷ See Steve Goss, "Problems with 'Social Security's Rate of Return', A Report of the Heritage Center for Data Analysis," Social Security Administration Memorandum, February 4, 1998; Kilolo Kijakazi, "African Americans, Hispanic Americans, and Social Security: The Shortcomings of the Heritage Foundation Reports." Washington, DC: Center for Budget and Policy Priorities, October 1998; Robert Myers, "A Glaring Error: Why One Study of Social Security Misstates Returns," *The Actuary*, September 1998.

⁸ Kijakazi, 1998.

⁹ Valerie Rawlston and William Spriggs. "Social Security: A True Family Value," This paper will be published as a chapter in the Fall 2001 IRRA research volume entitled, *The Future of the Safety Net: Social Insurance and Employee Benefits*.