



A Win-Win for an All-In Nation

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

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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.

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