IMPACT OF SOCIAL SECURITY ON THE LATINO COMMUNITY

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A new world is on the horizon, a world of increasing demographic change characterized by expanding numbers of elderly and growing ethnic diversity. The complexion of the United States is also transforming—it is in the process of an age and cultural makeover. It shows more wrinkles, reflecting the badge of honor of a long life, and more color, reflecting the richness of a racially and ethnically diverse population. As the United States undergoes this transformation, the benefits provided by Social Security, one of the most popular government programs in the country, become increasingly consequential. Although any change to Social Security would affect all of America's elders, it would have a particularly profound impact on Latinos,[1] the country's largest minority group (Beedon and Wu 2004). This paper examines the importance of Social Security for older adults in general and Latino older adults in particular and projects the outlook for future Latino retirees.

History of Social Security

The Great Depression, a time of staggering economic downturn for the United States, was marked by dramatic increases in poverty and high unemployment. Unemployment rates reached an unprecedented 25%, and elders—those sixty-five years and older—experienced the highest percentage of unemployment (Achenbaum 1983). According to the Social Security Administration, in 1934 over 50% of all elders lacked adequate income to support themselves (DeWitt 2003).

Before the Great Depression, "old-age dependency" was primarily the responsibility of families, neighbors, and local charities (Achenbaum 1983). The deprivations caused by the Depression brought the needs of elders to the forefront of the nation's agenda. The scope and dimension of their problems caused the federal government to step in, resulting in the enactment of the Social Security Act in 1935. The legislation initiated a fundamental shift of responsibility from the private sector to government (Achenbaum 1983). Social Security was "based on the principle that providing widespread and basic protections against risk related to retirement, disability and survivorship is in the interest of the nation and its citizenry" (Herd and Kingson 2005, 184).

The Social Security Act includes a component called *old age insurance* (OAI), which provides monthly income for retired workers aged sixty-five and older. The OAI component pays benefits only to those workers who have paid into the system during their working years (Hudson 2005). An additional component of the Social Security Act at the time of its passage was *old age assistance,* a welfare program that provided assistance for destitute elders but did not require worker contributions. *Supplemental security income* (SSI) later replaced the old age assistance component of the original Social Security Act. In 1939 benefits were added for survivors of deceased workers, and in 1956 disability benefits were added. Today Social Security is a combination of old age (OA), survivor (S), and disability insurance (DI) benefits, or OASDI (Chen 1998). The objective of Social Security—income security—is met through a pay-as-you-go transfer of payroll tax revenues from workers to retirees, their survivors, and the disabled.

Incremental changes that have benefited older adults include increased monthly payments, annual cost of living adjustments (COLAs), which are based on the annual increase in the consumer price index (CPI), and early retirement, which is available at age sixty-two with reduced benefits. COLAs are automatic annual increases in monthly Social Security benefits that prevent the erosion of benefits due to inflation (Social Security Online 2005).

The most recent discussions about Social Security have voiced concern about the program's solvency once the baby boom generation starts to receive retirement benefits. The first baby boomers will turn sixty-five in 2011. Solutions include a number of proposals to shore up the trust fund and proposals that would substantively change the legislation. One of the latter, privatizing Social Security, came to the forefront of the public agenda in 1997, when a report by the Advisory Council on Social Security presented three plans for partially privatizing the program (Binstock 2005). Each plan called for investing in the private sector a portion of the money paid into Social Security. President George W. Bush made privatization a primary policy objective of his second term.

Structure of Social Security

The Social Security program is a pay-as-you-go system financed through a compulsory payroll tax. This means that the payroll tax contributions of today's workers pay the Social Security benefits for current beneficiaries. OASDI is financed almost exclusively through the payroll tax. Employees and employers each pay a percentage (6.2%) of the workers' pay, up to an income ceiling, which was $90,000 in 2005. When Social Security began, the ceiling was $3,000; it has gradually increased over time. The payroll tax is held in two Social Security trust funds: OASI and DI. The funds are invested in treasury bonds, and the federal government may fund other activities from the sale of these bonds with a promise to pay back the money with interest. In addition to paying out benefits, the Social Security Administration uses a small portion of the funds for administration. Administrative costs are very low, however; for example, in 2004, less than 1% of contributions were spent on administrative expenses (Social Security Administration 2005a).

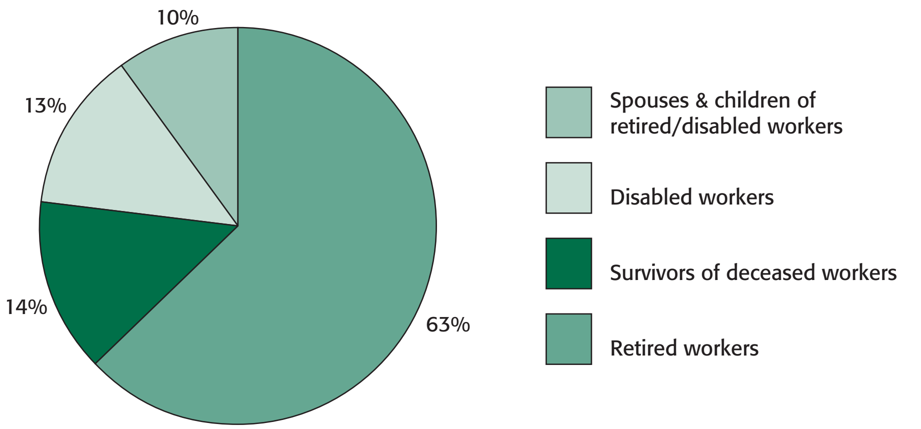
Social Security eligibility is based on two criteria: age and wage-earning history. The minimum work time required to be eligible for Social Security is forty quarters. Social Security payments are computed using individuals' average earnings during their lifetime in all employment covered by Social Security. An average of the thirty-five highest years of earnings is used as the basis for calculating benefits. Those years in which an individual has low earnings or no earnings are also counted, to bring the total to thirty-five years (Social Security Online 2006). Early retirement is available at age sixty-two with reduced benefits. Changes to the Social Security program in the 1980s raised the eligibility age for full retirement benefits from age sixty-five to sixty-seven. This change is being phased in, beginning in 2000 (Social Security Administration 2005b) for those born in 1938 and ending at a maximum age of sixty-seven for those born in 1960 or later (Social Security Administration 2005a). The Social Security system is a defined benefit plan—that is, a specific or defined amount of pension income is paid for the rest of the retiree's life (Moody 2002).

Seventy-five-year projections regarding the viability of Social Security are provided annually by the Social Security Administration's Office of the Actuary. These projections serve as an "early warning system" for the Social Security Board of Trustees and provide a "reasonable basis" for monitoring the financial status of the Trust Fund (Herd and Kingson 2005, 190).

Who Receives Social Security?

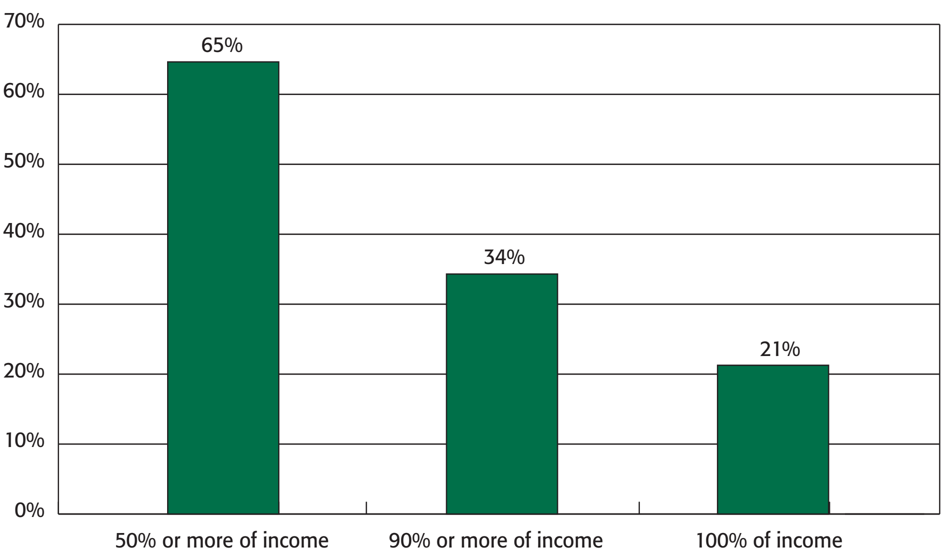
According to the Social Security Administration (2005a), in December 2004 there were nearly 47.7 million beneficiaries receiving OASDI benefits. Figure 1 shows that the majority of these beneficiaries, slightly over 30 million, or 63%, were retired workers, with the remaining 37% consisting of disabled workers (13%), spouses and children of retired or disabled workers (10%), and survivors of deceased workers (14%). Work-related pension income in the United States is relatively low, with only about half of workers covered by a pension plan (Diamond and Orszag 2004). In 2003, 65% of older adult beneficiaries relied on Social Security income for 50% or more of their total income, and for 21% Social Security was their only source of income, as Figure 2 shows (Social Security Administration 2005a).

FIGURE 1. OASDI Beneficiaries, December 2004



Source: Social Security Administration 2005a, 14.

FIGURE 2. Reliance on Social Security for Americans Aged Sixty-five and Older, 2003



Source: Social Security Administration 2005a, 7.

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Social Security Lifts Elders Out of Poverty

By the mid-1980s poverty rates among older adults had dropped to levels that were lower than those for all other age groups; this drop was due primarily to Social Security (Meyer 2005). By 2002 the poverty rate among older adults was down to 10.4%, from a rate of 40% during the 1950s (Hudson 2005).

Although poverty rates among older adults are at a historic low, segments of the population remain near, at, or below the poverty level. The 1997 poverty data from Hendley and Bilimoria (1999) showed that Black and Latino men and women had poverty rates that were two, three, and even four times higher than those of non-Latino Whites.

Table 1 provides insight into the severity of poverty among minorities

TABLE 1. Poverty Rate for Groups with and without Social Security, by Race/Ethnicity and Sex, 1997

	In Poverty with Social Security		In Poverty without Social Security	
	Men	Women	Men	Women
Non-Latino White	4.4	9.9	41.7	53.2
Black	19.6	26.2	55.7	65.0
Asian	5.3	9.4	32.6	35.8
Latino	17.3	21.8	56.1	56.1

Source: Hendley and Bilimoria 1999, 61.

TABLE 2. Life Expectancy Rate at Age Sixty-Five, by Sex and Race/Ethnicity

	Total	Non-Latino White	Black	Asian	Latino
Both Sexes	17.4	17.6	15.6	21.2	21.2
Men	15.6	15.7	13.6	18.8	18.5
Women	18.9	19.1	17.1	22.9	21.8

Sources: Hendley and Bilimoria 1999, 63; National Center for Health Statistics 1997, table 29; U.S. Census Bureau 1996, tables B-1 and B-2.

and the importance of Social Security for lifting older adults out of poverty.

Poverty rates were considerably higher for older women than for older men. Among those receiving Social Security, Latino and Black women had poverty rates that were considerably higher than those of non-Latino White women. Without Social Security, about 60% of all Blacks and 56% of all Latinos would have been in poverty. Non-Latino Whites fared better, with less than half living in poverty (Hendley and Bilimoria 1999).

Life expectancy is another area that varies within the older adult population. Latinos have a higher life expectancy than non-Latino Whites, but Blacks have a lower life expectancy than non-Latino Whites (Hendley and Bilimoria 1999). The data in Table 2 illustrate this point. Life expectancy is an important factor when evaluating Social Security, since those who live longer will receive higher lifetime benefits.

Variations in Work Patterns Affect Social Security

Lifetime work patterns that include periods of low wages or non-work negatively impact the benefits received in retirement. Minorities have the highest number of years with no earnings. This may be due, in part, to immigrants who have not lived in the United States long enough to complete thirty-five years of work history or who have not had continuous, stable work over a thirty-five-year period. The figures are strikingly different: non-Latino White males have, on average, only two years with no earnings, whereas the pattern of non-earning for minorities ranges from four years for Blacks up to ten years for other racial/ethnic groups (Hendley and Bilimoria 1999). Since women are more likely to leave work for child rearing or caring for aging parents, their average years with no earnings are greater: seven years for non-Latino Whites, six years for Blacks, and eleven years for other minorities (Hendley and Bilimoria 1999). These gaps lead to lower monthly benefit payments for minorities because the thirty-five years with the highest earnings are used to compute a worker's average indexed monthly earnings (AIME), which is a component of the calculation that determines the benefit amount (Shelton and Beedon 2003).

The "Graying of America"

Projected future costs of Social Security are based on demographic changes in the older adult population. Hoyer and Roodin (2003) provide evidence from the 2000 census that the population of the United States is aging, with dramatic increases anticipated in the numbers of elders—what they describe as the "Graying of America." In 1900 there were 3.1 million adults aged sixty-five and older, or about 4% of the U.S. population. In 2000 this group had increased more than tenfold, to 34.9 million, or 13% of the overall population. Because of the baby boomer cohort—those 76 million individuals born between 1946 and 1964—the population of adults aged sixty-five and older is estimated to reach 65.6 million by 2030, or over 20% of the U.S. population.

Social Security's pay-as-you-go system was initiated in 1935, when there were fifty workers for each Social Security beneficiary. The baby boomer cohort will begin to be eligible for early retirement beginning in 2008. It is anticipated that before 2030 the ratio of workers to retirees will decline to about two to one (Moody 2002).

Changing Racial/Ethnic Mix of the U. S. Population

In addition to the "Graying of America," a second dynamic, the rising cultural diversity of our nation, is at work. The United States is evolving from a country that has historically been predominately non-Latino White into a society with increasing numbers of racial/ethnic minorities. Minorities comprised 28% of the population in 1997; that proportion is expected to grow to 47% by 2050 (Hendley and Bilimoria 1999). The largest increase will be among Latinos, whose proportion of the U.S. population is expected to double, from 12% in 1997 to 24% in 2050 (Hendley and Bilimoria 1999). Estimates from 2002 census data show that Latinos represented 6.03% of the total U.S. population aged sixty-five and older; this number is expected to reach 16% by 2050 (Beedon and Wu 2004). Although adults aged sixty-five and older comprised 13% of the overall U.S. population, Latino elders comprised only 6.03% overall in 2002.

Profile of Latinos

The term *Latino* refers to persons whose origin is either "Mexican, Puerto Rican, Cuban, Central or South American, or some other Hispanic origin" (U.S. Census Bureau 2006). The Latino community, then, is a heterogeneous population composed of many subgroups that differ by country of origin. More than half of Latino elders in the United States are of Mexican heritage, with well over half of them born in the United States (Valdez and Arce 2000). The remaining Latino population is relatively equally distributed among Cubans, Puerto Ricans, and Central and South Americans. California and Texas have the highest concentrations of Latinos, with more than half of all U.S. Latinos living in these two states. Texas has some of the oldest Latino communities in the nation as a result of an open border between Mexico and the United States, which until the late 1920s allowed people and goods to move freely between the two countries, mainly across the Rio Grande (Valdez and Arce 2000).

Economic Status and Education Level

When compared to other racial/ethnic groups, Latino elders have the highest rates of poverty and below-average education levels as well; some researchers suggest that these characteristics will persist for decades (Mutchler and Angel 2000). Those Latino elders who have experienced a lifetime of low socioeconomic status are likely to reach retirement exhibiting the effects of "cumulative disadvantage," which is defined by Moody as "the tendency of negative life events to have an enduring and multiplying impact over the life course" (2002, 466).

Low education levels leave many Latinos unqualified for higher wage jobs that provide pension and healthcare benefits. Although, in the aggregate, national participation in higher education is improving, Latinos are not keeping pace when compared to Asians, Blacks, and non-Latino Whites (De Los Santos et al. 2005). Latinos have the highest percentage (61%) of adults aged sixty-five to seventy-four who have only some elementary education (Valdez and Arce 2000). One consequence is that the poverty rate of Latino elders is more than twice the poverty rate for all people aged sixty-five and older in the United States—22% versus 10.4% (Beedon and Wu 2004). Latino elders also make up the highest percentage of individuals who are categorized as near poor—those that live just above the poverty threshold. The near poor are most often referred to as being below 125% (or, in some calculations, 150%) of the poverty threshold. While 17% of the overall elder population falls below 125% of the poverty threshold, almost twice as many (33.3%) Latino elders are represented in this category (Beedon and Wu 2004).

The median income in 2002 of working-age Latinos was $22,400, compared to $28,400 for the nation as a whole (Social Security Administration 2004). Additionally, because of low lifetime earnings, Latinos reach retirement with few savings and assets. Social Security is the only source of retirement income for 21% of all retirees in the United States (Social Security Administration 2005a). Latino retirees' reliance on Social Security is 41%, however, nearly twice as much (Social Security Administration 2004).

Family Wealth and Inheritance

The aggregate economic status of Latinos regardless of age is not favorable. Most Latinos fall into the lowest category of wealth. In addition, the wealth of the Latino community is not evenly distributed. The Latino middle class is relatively small when compared to that of non-Latino Whites, and the upper class, or wealthiest 25% of Latino households, owns over 90% of Latinos' total wealth. Over 25% of the Latino population has a negative net worth. Without savings, this segment of the Latino population is vulnerable to economic downturns. During the recessionary period of 1999 and 2001, over 25% of the value of Latino wealth was lost (Kochhar 2004). Some recovery was seen in the years that followed, but the overall household wealth of Latinos is still less than 10% of that of non-Latino Whites. In addition, many Latinos send money to family members in their countries of origin, suggesting that they may have fewer savings than do other ethnic/racial groups. According to Kochhar, "remittance flows to Latin American and Caribbean countries are presently estimated at more than $30 billion per year" (2004, 1). Less wealth means fewer opportunities for Latino families to pass on property and other assets to subsequent generations.

Nearly 50% of Latino households are headed by first-generation Americans, many of whom have lived in the United States for twenty years or less (Kochhar 2004). Although wealth often increases the longer a person has been in the United States, the rate of wealth among Latinos is still well below that of non-Latino Whites. A factor that may be contributing to the slower rate of wealth accumulation is the high cost of living in the areas where Latinos have concentrated, such as California. A recent trend shows Latinos settling in U.S. cities outside the Southwest—for example, Raleigh, North Carolina, Omaha, Nebraska, and Nashville, Tennessee—where homeownership is more feasible and opportunities to accumulate wealth are greater due to a lower cost of living (Kochhar 2004).

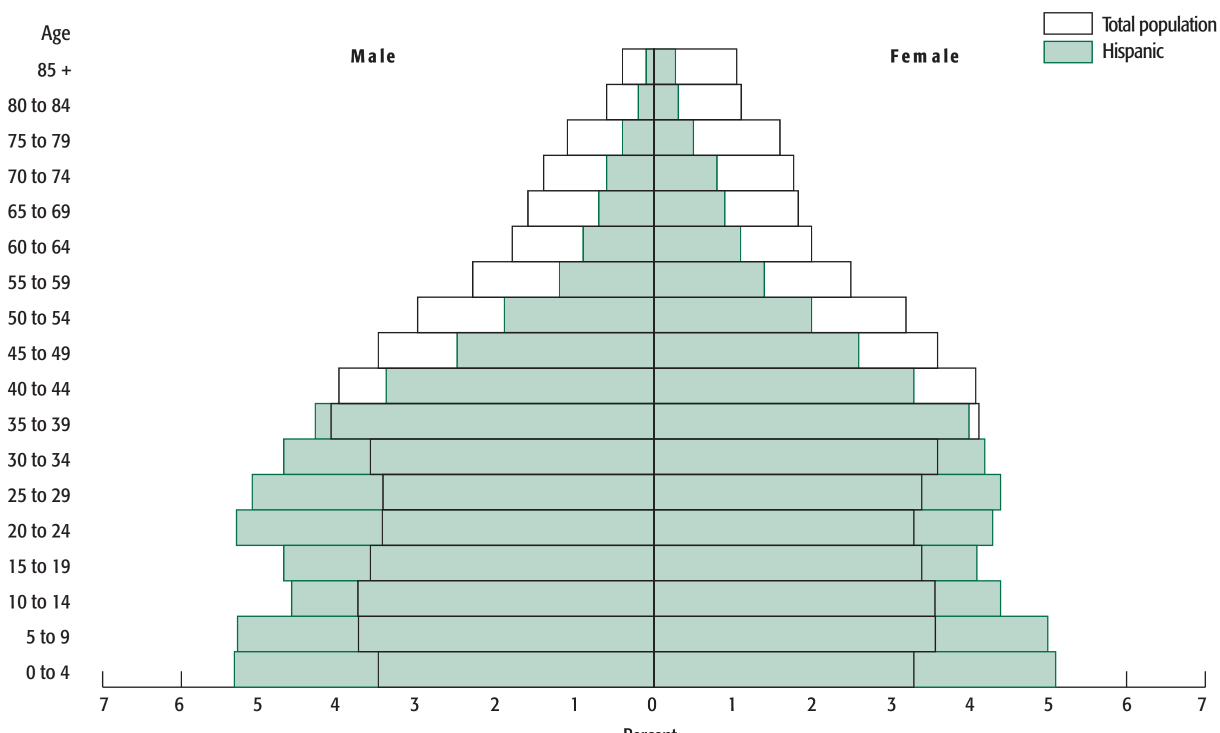
Another key characteristic to consider when evaluating the economic status of the Latino population is that they are a young population. Mutchler and Angel (2000) show that the median age of Latinos in 1997 was twenty-six, compared to thirty-five for the nation as a whole. Figure 3, based on U.S. census data from 2000, illustrates the youthfulness of the Latino population when compared to the U.S. population as a whole. The pyramid shows that the population of working-age Latinos (between the ages of eighteen and thirty-five) was much larger than that of the nation as a whole in 2000. Additionally, the total adult Latino population aged sixty-five and older was much smaller when compared to the U.S. adult population of the same age group.

Youthfulness, low education levels, low-wage jobs, and low accumulated wealth all contribute to the overall low economic status of the Latino community, which, in turn, explains why Latino elders enter their retirement years with little wealth and rely so heavily on Social Security for their retirement income.

Retirement Income

Retirement income has often been described as a three-legged stool, with Social Security as one of the legs. Retirement pensions and individual savings also contribute to economic stability in retirement. An additional source may be wages earned after retirement. Among Latino elders, low education levels have limited their ability to obtain high-paying jobs during their work careers, and therefore most have not had access to pensions. In addition, low-wage jobs are often physically arduous, making it more difficult and less desirable to continue working past the typical age of retirement. Hendley

FIGURE 3. U.S. Latino Population, by Age and Sex, 2000



Note: Shows percentage distribution.
Source: Ramirez 2004, 4. Reproduced with permission.

and Bilimoria show that disability rates are strongly correlated with socioeconomic factors. Low-income workers have "much higher rates of disability than workers with higher incomes" (1999, 62).

Interest from savings and investments is another form of income after retirement. Yet, a lifetime of low earnings often results in minimal or no savings or investment income. Latinos have disproportionately low savings rates. Fifty-three percent of all Americans aged sixty-five and over receive income from interest, whereas only 22% of Latino elders receive this kind of income (Beedon and Wu 2004). A similar situation exists with regard to pensions. About 30% of the total adult population aged sixty-five and over receives pension income as part of their monthly retirement income (Beedon and Wu 2004). For Latino elders this number is significantly less, at 14%. Older Latino women are the least likely to receive pension benefits; only 9% do so (Beedon and Wu 2004).

Long Life Expectancy

Long life expectancy is another characteristic that affects the economic status of Latino elders. According to the Social Security Administration (2004), Latino men who were age sixty-five in 2004 can expect to live to eighty-five, compared to age eighty-one for all men; Latino women who were age sixty-five in 2004 can expect to live to eighty-eight, three years longer than all women. Although Latino elders do have a higher life expectancy, they fare worse than non-Latino Whites when health indicators are examined. Moreover, the prevalence of cognitive impairment in old age among Latinos was twice as great as that among non-Latino Whites (Green 2005).

Latino Elders and the Current Social Security System

Social Security is vital to the economic well being of Latino elders. More than half (54.5%) would live below the poverty line without the program's benefits (Beedon and Wu 2004). Given the combined effects of low savings and pension participation, income from the Social Security program is essential to the economic well being of many Latino elders. Without Social Security, they would be living at a Depression-era poverty level.

Certain features of Social Security serve Latino retirees very well. The current Social Security program has a progressive benefit structure that modestly redistributes resources from high to low lifetime earners. This is especially important because a large percentage of Latino retirees are low-wage earners and, as a result, have few or no other income sources at retirement. An additional feature contributing to retirement stability among Latino elders is the COLA. This feature maintains retirees' purchasing power no matter how long they live, which is especially important to Latinos since they have a longer than average life expectancy.

Latino elders are vulnerable to poverty in old age because they have low education levels, which lead to low-paying jobs and low lifetime earnings.

Conclusion

Since the Latino community relies heavily on Social Security, Latinos are vulnerable to proposed changes to the program. Understanding the impact of these changes is essential. The COLA and the redistributive feature of the current Social Security system are crucial to the economic well being of Latino elders. Without them, Latino elders would face severe economic consequences.

A just and equitable solution to the Social Security shortfall is essential: COLA and the redistributive feature of the program must be maintained, if not improved. When compared with all Americans aged sixty-five and older, twice as many Latino elders currently face poverty. It is important to ensure that the changes implemented to shore up Social Security do not further increase poverty levels for vulnerable Latino elders.

Note

This report was prepared for "Security and the Emerging Latino Community: Implications for Retirement," a project of the UCLA Center for Policy Research and Aging, Fernando Torres-Gil, primary investigator.

1. The term *Latino* is used throughout this report. The U.S. Census Bureau uses *Hispanic* for this ethnic population, but considers the two terms synonymous; see http://ask.census.gov.

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As the population of the United States grows older and more diverse, the benefits provided by Social Security become increasingly consequential. Although any change to Social Security would affect all of America's elders, it would have a particularly profound impact on Latinos because, as a group, they tend to have a high life expectancy rate as well as low lifetime earnings.

MISSION STATEMENT

Latinos and Social Security is an ongoing project to study the impact of Social Security on the Latino population. It is a collaborative research project of the UCLA Center for Policy Research on Aging, the USC Ethel Percy Andrus Gerontology Center, and the UCLA Chicano Studies Research Center, in partnership with the National Hispanic Council on Aging and the National Association of Latino Elected and Appointed Officials (NALEO). Major support is provided by the Ford Foundation.

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