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NATIONAL COUNCIL OF LA RAZA

SOCIAL SECURITY, HISPANIC AMERICANS, & PROPOSED REFORM

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I. The Issue

In a period of 19 years, from 1946 to 1964, America witnessed the birth of 77 million children, the "baby-boomers." In 2011, the oldest of this generation will begin receiving full Social Security benefits, and by 2030, the entire group will be retired.[1] In addition, overall life expectancy is increasing and birth rates are declining. In the 1930s, when the Social Security system was created, the average life expectancy was 61 years, while today average life expectancy is 76 years, and by 2020 it is expected to increase to 78 years. Also, during the baby-boom period (1946-1964), the average family had three children; from 1970-1990 that number had decreased to two children.[2] Taken together, and without appropriate action, these demographic changes pose major challenges to the Social Security system and to the financial and retirement security of the Latino community:[3]

- **A growing gap between what will be collected and what will be distributed.** In 2013, soon after the number of retirees starts increasing by more than one million a year, it is projected that Social Security will begin to pay out more in benefits than it collects in tax revenues.[4] As a result, the federal government will need to begin borrowing from the Social Security trust fund in order to make up the difference. Furthermore, it is projected that in 2032, shortly after the youngest of the baby boomers are of retirement age, the trust fund will be depleted and revenues will support only 75% of guaranteed benefits.[5]

- **A smaller workforce than will be required to support a growing number of retirees.** It is estimated that by 2030, there will be fewer than three persons aged 20 to 64 (compared to five in 1995) for each retired person 65 years and over. Moreover, in 2030, it is estimated that 20% of the population will be 65 years and over, compared to 24% under 20 years of age, and 56% between the ages of 20 and 64. (For comparison purposes, in 1995, only 13% of the population was over the age of 65, compared to 29% under age 20 and 59% between the ages of 20 and 64 years.)[6] By the year 2040, the ratio of retirees to workers will have decreased to fewer than two to one (from over three to one today), and projections show that 25% of the population will be over age 65.[7]

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The source of the potential Social Security problem is the pay-as-you-go nature of the system, by which today's workers are required to provide income for yesterday's workers. The Social Security system basically acts as a pipeline; a worker pays taxes into the system at one end and the system pays benefits to retired persons, surviving spouses and their families, and disabled workers at the other end.[*8] However, with current projections indicating the aging of the baby boomers, an increase in life expectancy, a decline in birth rates, and a shrinking workforce, this universal guarantee could be threatened if benefits do exceed revenues and necessary action is not taken.

The potential Social Security problem and proposed reform of the system could have an adverse effect on the Latino community, just as demographic projections indicate that Hispanics will have a significant impact on the preservation of the system.

- **Hispanics: present and future contributors to the Social Security system.** Nearly two-thirds (62.6%) of the total Hispanic population 16 years and over, or 12.7 million, were employed in 1997 and paid an estimated $18.8 billion into the Social Security system.[†9] In 1990, Hispanics constituted 8% of the total U.S. workforce, compared to 78% for Whites and 10% for Blacks. By 2010, 2020, and 2030, Latinos are projected to account for 13.2%, 15.2%, and 17.2%, respectively, of all U.S. workers.[10]

- **Hispanics: present and future beneficiaries of the Social Security system.** In 1996, 1.1 million Hispanic elderly received Social Security, which for many was their primary source of income, and averaged $6,747 in total yearly benefits.[11] In 1997, Hispanics 65 years and over constituted 5.7% of the Hispanic population and 4.9% of the U.S. elderly population.[12] Between 1997 and 2030, the number of Hispanic elderly is expected to triple, and in 2030, Hispanics over age 65 are projected to comprise 11.9% of the Hispanic population and 11.2% of the U.S. elderly population.[13]

Given that Hispanics are a large and growing segment of both the U.S. labor force (contributors to the system) and U.S. elderly population (beneficiaries of the system), NCLR has prepared this issue brief to examine the current impact of Social Security, and of potential changes to the system, on Hispanic Americans.

II. Social Security Taxes

The Federal Insurance Contributions Act (FICA) is the federal law that requires a worker to pay taxes out of her/his earnings. The federal payroll tax is levied at a flat rate of 15.3%, with the employer and employee each paying 7.65% on wages and salaries.[‡] A worker's obligation to pay

[*] According to the Social Security Administration, "workers are considered disabled if they have a severe physical or mental condition that prevents them from working. The condition must be expected to last for at least 12 months or to result in death. Once benefits begin, they continue for as long as the worker is disabled and cannot work."
[†] Based on unpublished data from the U.S. Census Bureau
[‡] As noted in NCLR's *State of Hispanic America 1996, Burden or Relief? The Impact of Tax Policy on Hispanic Working Families,* while the federal tax is imposed on both employees and employers alike, ultimately the burden of the payroll tax falls totally on employees. This assumption is supported by studying both the short-and long-run

payroll taxes ends once total wages and salaries reach $68,400 (1998 tax year).[14] Taxes paid into the system are held in four separate trust funds, the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, the Federal Disability Insurance (DI) Trust Fund, and the two Medicare trust funds, the Federal Hospital Insurance (HI) Trust Fund, or Medicare Part A; and the Federal Supplementary Medical Insurance (SMI) Trust Fund, or Medicare Part B. Of the 7.65% payroll tax, 5.35% is earmarked for the OASI Trust Fund, 0.85% for the DI Trust Fund, and 1.45% for the HI Trust Fund.[*15] In other words, out of every dollar paid into the system, 69 cents is allocated toward retirement and survivors' benefits, 12 cents toward disability benefits, and 19 cents toward Medicare (hospital) benefits.[16] Therefore, the Social Security tax rate, equivalent to the portion of the federal payroll tax rate allotted to Social Security, is 12.4%.

Impact on Hispanics

Every working Hispanic, from a sales representative at a clothing store earning $15,000 annually to a principal of a high school earning $50,000 per year, pays Social Security taxes. However, the share of income paid into the system is proportionately higher for low-income individuals than for high-income individuals for three reasons. First, the Social Security tax rate of 12.4% is applied to all persons no matter what their level of earnings (below $68,400 in 1998).[17] Second, the Social Security tax is only levied on wages and salaries, which comprise a larger share of income for low-income (and Hispanic) persons than for high-income persons, who tend to garner a greater share from investments, estates, and trusts.[18] Third, there are no deductions or exemptions to the Social Security tax base that individuals can claim to help reduce the amount of their income subject to the tax and, in turn, tax liability.[†19] Consequently, working Hispanic families bear a relatively heavier burden of the Social Security tax system, as shown in Figure 1.

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effects of the employer share of the federal payroll tax. In the short run, the employer share of the payroll tax either reduces employer profits or increases consumer prices; but, over the long run, either employee wages are reduced or consumer prices increased. Therefore, since the employer share of the federal payroll tax eventually increases consumer prices or decreases employee wages, it can be argued that the entire federal payroll tax burden falls ultimately on employees/consumers.

[*] Social Security taxes do not fund the SMI Trust Fund.

[†] While there are no specific federal payroll tax deductions or exemptions, the federal Earned Income Tax Credit (EITC) does help offset payroll tax liability. For example, over one-third (34.9%) of Hispanic households received the EITC in 1996, and averaged $1,725 in EITC benefits per household.

Figure 1
Social Security Tax Burden by Race/Ethnicity 1996

	Hispanic Households	White Households	Black Households
Median Income	$24,906	$37,161	$23,482
Wages & Salaries	$20,921	$27,945	$18,856
FICA (12.4%)	$2,594	$3,465	$2,338
Share of Income	**10.4%**	**9.3%**	**10.0%**

Source: U.S. Bureau of the Census and Consumer Expenditure Survey.

Given that wages and salaries comprised 84.0% of income for Hispanic, 75.2% for White, and 80.3% for Black households in 1996, the average Social Security tax rate is higher for Hispanic households. Specifically, 10.4% of Latino median household income is captured by the Social Security tax, compared to 9.3% for White households and 10.0% for Black households. Moreover, each household's total income is decreased by $2,594 for Hispanics, $3,465 for Whites, and $2,338 for Blacks by Social Security tax contributions. As a result, the median amount of income remaining for consumption, saving, and investing is $22,312 for Hispanic households, $33,696 for White households, and $21,144 for Black households.[20] **Therefore, in its current form, the federal Social Security tax further reduces the already low incomes of working Latinos and their families and disproportionately limits their consumption, saving, and investing ability, in part contributing to high Hispanic poverty.** In 1996, 20.9% of Hispanic working families were poor, compared to 6.6% of comparable White families and 17.7% of comparable Black families.[21]

III. Social Security Benefits

In February 1998, 43.9 million persons received benefits from Social Security. Of these beneficiaries, 27.2 million (62.0%) were retired workers receiving an average of $765 a month in benefits, 5.2 million (11.9%) were widows/widowers receiving an average of $732 a month, and 4.5 million (10.3%) were disabled workers receiving an average of $721 a month.[*22]

The benefits a worker receives when s/he retires or becomes disabled depend on the length of time worked, as well as the level of reported wages and salaries earned, during her/his lifetime. For example, currently the age at which a retired worker becomes eligible to begin receiving full Social Security benefits is 65 years, or reduced benefits as early as age 62.[†23] To qualify, a

[*] The remaining 15.8% receiving benefits in February 1998 were wives and husbands (7.1%) and children (8.7%).
[†] The retirement age is slated to increase gradually to 67 by 2027.

worker must have made at least ten years of contributions to the system, and have earned at least 40 Social Security credits.*[24]

*While low-wage retired workers get back a **smaller amount** in Social Security benefits than high-wage retired workers, the system compensates the burdensome nature of the payroll tax by replacing a **greater share** of a low-wage worker's lifetime earnings.* The proportion of lifetime earnings replaced by the system is about 60% for a low-wage earner, 42% for an average-wage earner, and 26% for a high-wage earner.[25] Numerically, in 1998, a low-wage worker [annual total of Average Indexed Monthly Earnings (AIME), $10,524] received an average of $568 in monthly retirement benefits, an average-wage worker (annual total of AIME, $23,376) received $938 a month, and a high-wage worker (annual total of AIME, $35,160) received $1,210 a month.[26]

Figure 2
Sources of Income
Persons 65 Years and Over
1996

Types of Income	Hispanic	White	Black
Median Income	**$8,036**	**$12,921**	**$8,656**
Earnings	19.8%	17.0%	16.2%
Wages and Salaries	**14.5%**	**15.1%**	**14.2%**
Social Security	**46.9%**	**41.8%**	**46.7%**
SSI	**6.3%**	**0.6%**	**2.9%**
Veterans' Benefits	0.0%	1.1%	2.0%
Survivors' Benefits	0.0%	2.1%	1.8%
Disability Benefits	0.0%	0.4%	0.0%
Pensions	**13.5%**	**18.3%**	**18.1%**
Interest	0.0%	4.5%	2.4%
Dividends	4.4%	11.3%	7.2%
Rents, estates, or trusts	2.0%	2.2%	1.5%

Source: U.S. Bureau of the Census.

Impact on Hispanics

In 1997, the median weekly earnings for Hispanic full-time workers was $351, compared to $519 for Whites, and $400 for Blacks.[27] **Therefore, since Hispanics have relatively lower earnings levels, they are both more likely to receive a lesser amount in, but a greater share of income**

* As stated by the Social Security Administration, "a worker earns Social Security credits when s/he works in a job covered by Social Security. During a person's working years, wages and salaries are posted to his/her Social Security record and s/he receives Social Security earnings credits based on those wages. In 1998, a worker receives one Social Security credit for each $700 of earnings, up to the maximum of four credits per year. In future years, the amount of earnings needed for a credit will rise as average earnings levels rise."

from, Social Security, than either Whites or Blacks. This concept is illustrated in Figure 2, which shows that Social Security constitutes a greater proportion of elderly Latinos' incomes compared to their White and Black counterparts. In 1996, 46.9% of income for Hispanic elderly came from Social Security benefits, 18.6% from wages and salaries, 13.5% from pensions, and 6.3% from Supplemental Security Income (SSI). In comparison, Whites received 41.8%, 15.1%, 18.3%, and 0.6% of income from Social Security, wages and salaries, pensions, and SSI, respectively. (See Figure 2 for the proportion Blacks received from each.) Furthermore, 1.1 million Hispanics 65 years and over -- 74.0% of the Hispanic elderly population -- received an average of $562 a month from Social Security in 1996. In contrast, 91.4% of White elderly and 82.7% of Black elderly averaged $703 and $596 in monthly benefits, respectively, that same year.[*28] Although the Social Security system was intended to eliminate poverty among and provide retirement security for retired persons, it does not fully achieve this result, particularly for Latinos and Blacks. **The Hispanic elderly population is more likely than Whites, but less likely than Blacks, to be poor;** in 1996, almost one-quarter (24.4%) of Hispanic persons 65 years and over were poor, compared to less than one-tenth (9.4%) of Whites and one-quarter (25.3%) of Blacks.[29]

A Brief History of Social Security[30]

In 1934, a period in which all Americans, especially elderly Americans, were feeling the effects of the Great Depression, including high unemployment and financial failures, President Franklin D. Roosevelt created the Committee on Economic Security to study the issue of economic insecurity, and to construct a program that would address the problem of poverty among old-aged individuals. On August 14, 1935, the Social Security Act was signed into law, and created a program aimed at providing retired workers age 65 or older with a livable income after retirement. The program was to be financed by a federal payroll tax (2% of wages and salaries) established by the Federal Insurance Contributions Act (FICA), and benefits were to be based on payroll tax contributions made by the worker.

The first FICA taxes were collected in January 1937, immediately after Social Security numbers were assigned. Payments of monthly benefits began in January 1940 (the period from 1937 to 1940 was used to build up funds), and were distributed to retired workers, their widows, or their surviving parents. Until 1950, payment amounts had been fixed, but that year COLAs (Cost of Living Allowances) were introduced, and provided retirees with much-needed benefit increases based on the increased cost of living, e.g., consumer prices. At first, benefits increased only when Congress passed legislation; however, starting in 1975 (after legislation was passed in 1972), automatic and annual COLAs were made to retirees' benefits. No longer did beneficiaries have to wait for the enactment of legislation before receiving necessary benefit increases.

Finally, amendments to the Social Security Act gave birth to a disability insurance program in 1954. At first, the program provided disabled persons with a "freeze" on their Social Security record, which prevented periods of disability from reducing or eliminating retirement benefits, but no cash benefits were offered. Over the next couple of years, Congress expanded the program to allow disabled workers and their dependents to qualify for cash benefits.

* NCLR calculated the percent of elderly receiving Social Security benefits by dividing the number with Social Security income by the total population 65 years and over; and determined average monthly benefits by dividing mean annual income by 12.

IV. Current Reform Proposals

As discussed above, the Social Security system will be strained in less than 15 years, and a number of proposed changes to the system have been offered to help remedy the situation. Over the past few years, the Advisory Council on Social Security appointed by President Bill Clinton has outlined three possible plans, and a number of organizations have weighed in with their proposals on how to reform the system. In addition, this year President Clinton tabbed Social Security reform as the Administration's number one priority by proposing that all future federal budget surpluses be used to shore up the system. Legislatively, there has been only gradual movement on reforming the Social Security system, as there is some considerable debate among those in Congress on how the projected surplus should be distributed. However, Social Security reform will most likely be discussed, and may occur, in the next legislative session, and pieces of the plans/proposals that have been suggested to this point will most likely form the basis for those legislative initiatives. Therefore, NCLR has briefly outlined several of the currently-proposed changes to the Social Security system below and has provided a preliminary assessment of their potential effects on the Latino community.

A. Proposals Designed To Raise Social Security Tax Revenues:

1. **Increase the payroll tax.** Two of the three plans put forth by the Social Security Advisory Council propose raising the federal payroll tax to increase revenues and help pay benefits to the expanding number of retirees. In addition to "rebating" five percentage points of the current 12.4% Social Security tax to workers for private investment, the plan advanced by Sylvester J. Schieber, Vice President of the benefits consulting firm Watson Wyatt Worldwide, would also levy an additional 1.5% tax on wages and salaries to cover current retirees' Social Security benefits. Likewise, the plan developed by Edward Gramlich, former Congressional Budget Office (CBO) Director, also would adopt an added payroll tax of (1.6%), but in this case, to be used by workers for private investment or saving. In combination with other provisions to reduce benefit levels, both plans claim they will completely eliminate the deficit over the next 75 years.[31]

   - **Impact on Hispanics.** As detailed in a 1997 NCLR report, *Burden or Relief? The Impact of Tax Policy on Hispanic Working Families,* while federal payroll taxes are fairly progressive, they extract a large share of income from Latino families. The study revealed that in 1995, a Hispanic family with an income of $25,000 (Hispanic median family income that year) had its income reduced 11.2% by the payroll tax. While a portion of total income was repaid through the federal Earned Income Tax Credit (EITC), the median Hispanic family still had nearly $1,700 less in disposable income to spend on important items like its children's education.[32] *NCLR does not support any Social Security reform proposal which contains a payroll tax increase, because it disproportionately diminishes the already low income levels of many hardworking Hispanic Americans.*

2. **Privatize the system through individual accounts.** Some groups believe that privatization, and, more specifically, individual investment accounts, would be the most effective means of reforming the Social Security system. Such a system is advocated by many conservatives and financial institutions because it would shift control over taxable income from the government to the individual; some proposals also maintain a minimum government guarantee of benefits. For example, the Schieber plan would allow workers privately to invest five percentage points of the 12.4% of wages and salaries currently collected for Social Security, and the accompanying returns would help pay for the worker's retirement, along with reduced Social Security benefits. Proponents further claim that the result of such a shift would be increased savings and higher rates of return, which would allow the federal government to reduce payroll taxes.[33]

   - **Impact on Hispanics.** *NCLR is currently studying the effects of a number of proposed alternatives, but has five sets of concerns with regard to privatization of the Social Security system, which initially appears most to benefit the wealthy and least low-wage workers:*

     a. **High transition costs.** In changing from a pay-as-you-go system to a privatized system, the federal government would still be required to meet its obligations to current retirees, which means additional costs would be incurred during the transition period in which a new system is phased in. Hispanics are projected to comprise a greater proportion of the U.S. workforce in the next 30 years, and will be greater contributors to the Social Security system, as a result. Thus, Hispanic workers will bear a proportionately larger portion of the transition costs that would most likely be placed on current workers if a privatized system were adopted.

     b. **Lack of investment experience.** According to the recently released 1998 Employee Benefit Research Institute (EBRI) survey, while Hispanics are confident of their ability to invest for retirement, they are least likely among all racial/ethnic groups to have begun preparing (through saving and/or investing) for retirement due to their concentration in low-wage occupations, and lack of information about, access to, and comfort with, the financial sector.[34] In addition, low-wage workers would most likely be conservative investors, which could diminish their long-run levels of return, and many may also decide to withdraw their funds early, if allowable, in order to meet current and unforeseen obligations, e.g., health crisis or layoff.

     c. **Volatile earnings history.** Low-wage workers tend to have more unstable jobs than high-wage workers because they are employed in sectors of the economy which are more susceptible to downturns. As a result, low-wage workers experience higher rates of dislocation, displacement, and unemployment.[35] Further, while workers currently only have to earn 40 credits to qualify for full benefit coverage, under a privatized system, which assumes consistent work at wages that allow for investment, these same workers would be penalized during periods of unemployment because they could not contribute to their private individual accounts.

d. **Higher risk.** There is high risk involved with such a dramatic systemic change. While the country is currently experiencing an economic "boom" and a "bull" market, the economy and market will most likely experience a downturn or "correction" in the future. A recession would affect benefit levels under a privatized system and potentially threaten the financial security of retirees who partially depend on Social Security for survival, many of whom are Hispanic. Furthermore, there is not only the question of whether a minimum level of benefits would be maintained, but, if so, whether they would be sufficient to support Latino retirees and their families, who depend more on Social Security income than other groups.

e. **Transaction fees.** Administrative fees to maintain individual accounts could be charged to workers annually or quarterly, as well as a transfer fee if a worker decided to move her/his account from one certified manager to another. The administrative fee would reduce the amount of contributions workers made to the system, which would subsequently diminish their level of return and overall benefits received from the system. Likewise, a transfer fee would also reduce expected returns and benefits. Both of these fees would have a more adverse effect on low-wage, and Hispanic, workers who earn and contribute much less to the Social Security system, and rely more on the benefits the system provides, than high-wage workers.[36]

In sum, privatization through individual accounts would not necessarily benefit, and could potentially harm, most Latino workers or retirees, and carries great risk to the safety net currently provided by Social Security. Therefore, while privatization through individual accounts appears fair and efficient at first glance, it could, in fact, make the current Social Security system more inequitable and costly. NCLR believes further research is needed to assess fully the distributive effects of full privatization proposals.[37]

A Look at the 1998 Heritage Foundation Report on Social Security Privatization and Hispanic Americans[38]

On March 27, 1998, the Heritage Foundation released a study entitled *Social Security's Rate of Return for Hispanic Americans.* The Heritage Foundation argued that Hispanics would achieve a higher rate of return and a greater level of retirement security if they placed their payroll tax contributions in private investment accounts rather than relying on the current Social Security system. The Heritage Foundation asserted that a higher rate of return from tax contributions is important, not only for a person's own financial well-being, but also for her/his family, the succeeding generation, and the community in which s/he lives.

According to the Heritage Foundation's analysis, a Hispanic male worker, age 22, earning $17,900 a year, currently has an annual rate of return of 1.44% under Social Security, but would have a much higher return of 2.8% if his payroll taxes were invested in U.S. Treasury Bonds. Similarly, a married-couple Hispanic family, with both parents age 32 and working, and with combined earnings of $35,822, currently earns 2.17% interest from Social Security, but would earn 3.17% if its payroll taxes were invested in U.S. Treasury bonds (and 4.67% if 50% were invested in bonds and 50% in equities).

Furthermore, the Heritage Foundation suggests that this "gap" in current and possible benefits from the Social Security system has a dual effect on the Latino community and the country. First, the report estimates that a hypothetical community of 200,000 Hispanic residents (50,000 married-couple families of four, both parents age 30, working, and earning $17,911 a year) would have $12.8 billion more in disposable income if payroll taxes paid over a lifetime were invested in a "conservative portfolio," like those above. Second, the report contends that this gap could also have an impact on other retirees in the near future as the "baby boom" generation retires and Hispanics make up an increasing share of workers and contributors to the system.

NCLR agrees with the Heritage Foundation's basic premise that Social Security is an important source of retirement income for Hispanic Americans, and, in turn, that Hispanic Americans will be a vital factor in the long-term solvency of the Social Security system. In addition, NCLR believes that current payroll taxes are too high and deter, if not prevent, saving, which has a negative effect on the socioeconomic status of Latinos and the overall state of the U.S. economy. Finally, NCLR is also in support of a system which yields a higher rate of return for Hispanic families -- without sacrificing the overall equity of the system.

However, while this report appropriately brings to light the importance of the Latino community in the Social Security reform debate, **NCLR also believes that there are additional issues not covered by the Heritage study, including high transition costs, lack of investment experience, volatile earnings history, higher risk, and transaction costs.** (These are explained in more detail on pp.8-9.)

3. **Privatize the system through government investment.** Other proponents of privatization believe that a portion of the federal payroll tax should be invested in private markets -- by the government -- in "less-risky" stocks and bonds. (The federal government is currently allowed to invest Social Security funds not used to pay benefits only in U.S. government securities.) For example, former Social Security Commissioner Robert M. Ball's plan, issued by the Social Security Advisory Council, would invest 40% of the Social Security trust fund in an index fund of stocks, but the stock portfolio would be managed by the government, not individuals. As with other forms of privatization (e.g., individual accounts), government investment would be projected to result in greater revenues, which would help secure the solvency of the system and relieve the burden of providing for an increased number of retirees.[39]

    - **Impact on Hispanics.** Government investment of a portion of the trust fund appears initially to be extremely beneficial for Hispanics, in potentially reducing burdensome Social Security taxes and ensuring and increasing needed Social Security benefits. However, any investment in private markets involves risk, which at times means higher returns and, at others, diminished returns. The economy will inevitably experience downturns in the future, which would impact Social Security revenue flows and, if serious enough, could force the federal government to turn elsewhere for needed revenue, including to workers by increasing their payroll taxes. Therefore, if a privatized system such as that described above were instituted, it would be vital that the federal government make sound investment decisions and have mechanisms in place to deal with downturns and maintain benefit levels.[40] *NCLR would consider supporting partial privatization of the Social Security system as one of several provisions designed to maintain the social insurance nature of the program and enhance progressivity.*

B. Proposals Designed To Reduce Social Security Benefit Payments:

1. **Raise the retirement age.** The normal retirement age is slated to be increased from 65 years to 67 years over the next couple of decades, and many reformers are proposing to increase it faster and/or even further, to 70 years, and beyond. Proponents argue that such a change is needed because life expectancy is higher than it was when the Social Security Act was adopted and a larger number of workers are retiring earlier, which has the dual effect of increasing the amount of benefits paid to retirees and decreasing the amount of payroll tax revenue received from workers. Thus, many presume that raising the retirement age would effectively save the Social Security system billions of dollars by reducing the number of eligible recipients. These observers and others also contend that increasing the retirement age would remove the need for more drastic alterations to the system, which could jeopardize the equity currently inherent in the system.[41]

    - **Impact on Hispanics.** According to many projections, raising the retirement age to 73 years would come close to eliminating Social Security's long-term deficit. However, as detailed previously, low-wage workers depend on Social Security for a significant share of their retirement income, and delaying the receipt of benefits would force many to work longer (at least part-time). While high-income workers can manage to retire early, and receive reduced benefits until reaching the normal retirement age, large numbers of Latinos currently cannot retire early because they have insufficient savings and/or returns from investment and need the extra income not only to support themselves, but also, in some cases, their families. In addition, due to low high school graduation and college completion rates, many Latino workers enter the workforce earlier and work longer than their White and Black counterparts, who have higher levels of education.[42] Still other low-wage, and Hispanic, workers cannot work, due to poor health and/or job loss, and, consequently, would have to survive longer without full Social Security benefits if the normal retirement age were increased.[43] *NCLR feels that the likely costs of raising the retirement age for many Latino workers in having to work longer far outweigh the projected benefits of reducing the Social Security deficit.*

2. **Means-test Social Security benefits.** Under the current system, while low-wage earners receive a larger proportion of their lifetime earnings in Social Security benefits, high-wage earnings still garner a significant amount from the federal government. For example, a worker with average lifetime earnings of $23,376 gets a monthly Social Security check of $1,210, no matter what her/his level of wealth.[44] As a result, some proponents believe that Social Security benefits should be means-tested, so that benefits would be reduced at a certain level of income (e.g., $40,000). The argument is that the government should help support those who depend primarily on Social Security for their retirement income rather than those who already have adequate income due to earnings, savings, and/or investments. It is argued further that the end result would be less pressure on the system to pay for more

higher-income retirees and more revenue to help pay the benefits for a growing number of retirees, many of whom will have low incomes and will especially need the added income Social Security provides.[45]

- **Impact on Hispanics.** The universal nature and fairness of the Social Security system enjoys widespread support, and it would be extremely hard, if not impossible, to sustain popular support for a system that reduces Social Security benefits for wealthier retirees, but still requires them to make the same contribution to the system as workers. Such a policy would be viewed as redistributive (taxing the wealthy to provide benefits for the poor), and essentially a "welfare" program for low-income retirees, which could threaten overall public support for Social Security. Furthermore, higher-income persons might seek ways to reduce their taxable income, by "transferring" a portion into assets, for example, which could have the effect of "netting out" or off-setting the projected revenue-gain from means-testing.[46] *NCLR is disinclined to support a strict means-testing provision as part of Social Security reform because the system currently helps alleviate poverty for many Hispanic retirees, and this could change if the program were believed to be unfair and targeted to the poor.*

While the above proposals have garnered the most attention, there are some more modest provisions, many supported by the Advisory Council on Social Security, which have also been mentioned that could reduce a significant amount of the Social Security deficit. These include: means-testing of Cost of Living Allowances (COLAs), expanding Social Security coverage to state and local government employees, and changes in the tax system to make a greater share of high-income retirees' benefits liable to income taxes. Each of these provisions deserve further scrutiny and will be considered by NCLR in future Social Security reform discussions.[47]

V. NCLR Recommendations

While reform of the Social Security system is needed, it would have significant implications for Hispanic Americans, who make up an increasing share of the U.S. workforce, as well as a growing segment of the U.S. elderly population. Therefore, there be a need to enhance the education and employment prospects of future Latino workers, and financial status of a growing Latino elderly population. Specifically:

- **Given that the Social Security system will become more dependent on Latino workers for revenue, it is imperative that their educational and employment outcomes be improved.** Hispanics comprise an increasing share of the U.S. population and labor force. Currently, the majority of Latinos only have a high school education and are concentrated in low-wage occupations. However, if Hispanic educational attainment were increased, employment prospects would be enhanced, and earnings levels would rise. This "chain reaction" would result in greater payroll tax revenue, less pressure to provide for retirees, and, consequently, fewer incentives to change the current Social Security system drastically, as changes could very likely be inequitable and have an adverse effect on Hispanics.[48]

- **Since the Social Security system will begin paying benefits to more Latino retirees, it makes sense to reform the system adequately and progressively, and help insure a decent retirement.** The growth of the Hispanic population over the next few decades will be concentrated, in part, among those 65 years and over. Given that the current Hispanic elderly population relies heavily on the Social Security system for income, it is likely that a significant share of tomorrow's retired Latino workers will do the same. Therefore, any reform of the system must factor in the growing Hispanic elderly population, and its, at least partial, reliance on Social Security for retirement security.

- **In addition to Social Security, personal saving and investing and private pension plans are two other ways to help Latinos build a financially secure retirement, and both should be studied further and advanced.** Latino households held under one-third (30.2%) the assets (including home equity; financial assets, such as stocks or bonds; and real assets, such as cars) of White households in 1995.[49] Latinos have limited assets because many Hispanics simply do not have the means to purchase a home, invest in stocks, or buy a car. In 1995, the average Hispanic household had $3,784 in disposable income (after paying for such necessities as food, housing, and clothing), compared to $9,976 for non-Hispanic households.[50] It is also suggested that Latinos do not save and invest due to their overall low level of "financial literacy." According to the 1998 EBRI Survey, a large segment of Latino respondents did not have access to and/or use financial planning information. Furthermore, Latinos have extremely low pension plan coverage because they are concentrated in low-wage jobs that do not offer retirement savings plans. Of the 12.3 million Hispanics in the U.S. labor force in 1995, one-third (32%) had employee pension plans, compared to one-half (51%) of Whites and two-fifths (44%) of other minorities.[51] Therefore, increasing Latino access to positions which pay better and provide pension plan coverage, as well as to financial planning information could simultaneously diminish the strain on the Social Security system and enhance Latino retirement security.

- **Further research is needed to assess fully and accurately the effects of various Social Security reform options on the Hispanic community.** Various features of the Social Security system interact in complex ways; as a result, sophisticated economic models generally are required to produce precise projections of the impact of alternative proposals on specific income groups. For Latinos, even these analyses are inadequate, because they do not fully account for the community's demographic and employment characteristics. Furthermore, any final legislative reform is likely to be in the form of a "package" that includes elements of various reform proposals. A review of the literature does not reveal any existing research or analysis that fully encompasses all of these considerations. However, as a technical matter, it should not be difficult to adapt existing Social Security models to account for Hispanic demographic and employment characteristics. Given the scope and magnitude of the potential impacts on Latinos as a result of changes in the Social Security system, any major reform debate should be informed by the most complete and accurate data available.

Latino workers and retirees will respectively be greater contributors to, and beneficiaries of, the Social Security system when financial constraints are projected to befall the system in the next 15 to 30 years. Accordingly, a joint federal and community-based effort must seek to develop this critical population base financially, by helping to move more Latinos into higher-paying occupations with retirement savings plans, and to heighten their "financial literacy," both of which begin by improving Latino educational outcomes. The resulting effect would be less pressure on the Social Security system, as more revenue would be available to provide benefits to future retirees, and more retirement income would be accumulated via savings, investments, and pensions. As a result, any consideration of reform of the Social Security system must take into account the impact of the current Social Security structure, in addition to proposed reforms, on the Latino community, not only for the benefit of Latino retirees, in the elimination of poverty and enhanced retirement security, but also for the nation, in helping to avert a potential crisis.

Endnotes

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