

# Setting the Record Straight: Two False Claims about African Americans and Social Security



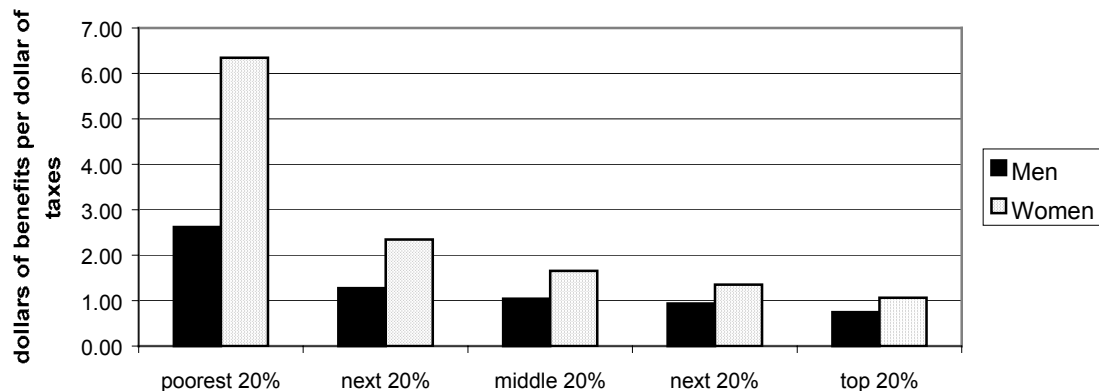
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1. *African Americans on average have substantially shorter life expectancies than other Americans. Therefore they are short-changed by Social Security.*

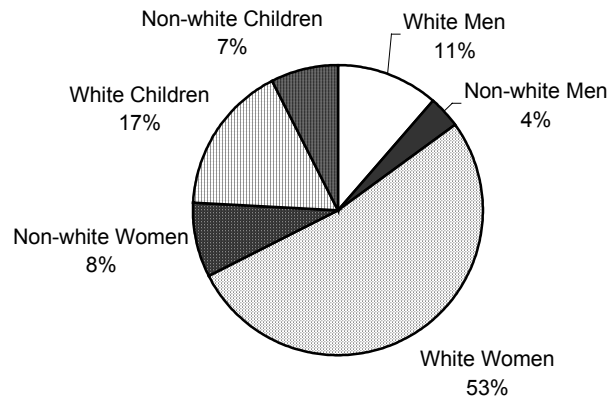
The first statement is true: on average, African Americans do die younger than other Americans. But the second statement does not follow: there is almost no difference in Social Security's payback by race. There are two reasons for this. First, African Americans on average earn less than other Americans, and Social Security is a substantially better deal for low-wage than high-wage workers (see Figure 1).<sup>i</sup> Second, more than a third of Social Security benefits go to disabled workers and survivors of deceased workers. Non-whites make up 19 percent of this group of beneficiaries (see Figure 2).<sup>ii</sup>

**Figure 1. Benefits Received per Dollar of Payroll Taxes  
by Lifetime Income of Recipient**

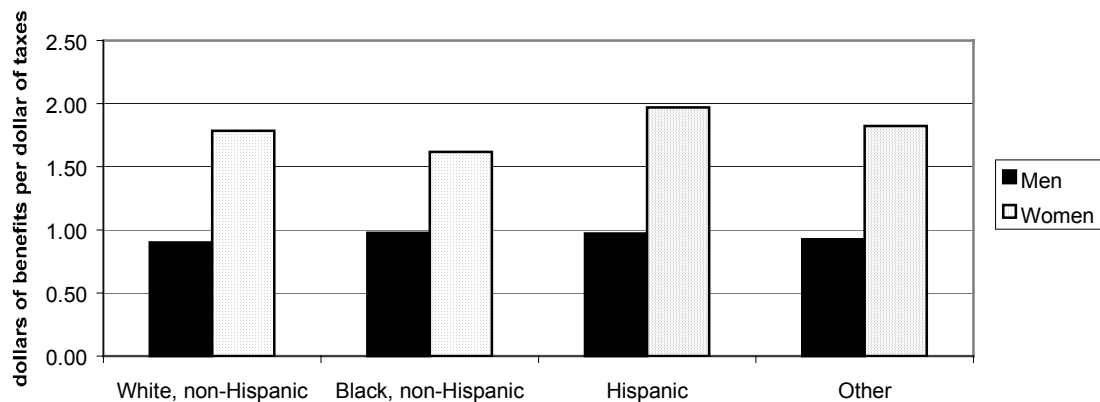


African-Americans on average have two characteristics that are disadvantageous under Social Security: shorter life expectancy and lower marriage rate. African Americans also have several characteristics that lead to greater benefits under Social Security: higher disability rate; more survivors; lower average wages. As Figure 3, below, illustrates, the bottom line of these advantages and disadvantages is that there is almost *no difference* by race in the benefits per dollar of Social Security taxes paid.

**Figure 2. Racial Composition of 17 Million Disabled Workers, Survivors, and Dependents**



**Figure 3. Benefits Received per Dollar of Payroll Taxes, by Race**



Who would really benefit under privatization? Here is that bottom line. A shift toward individual accounts offers the best prospects to high-income individuals, with minimal family obligations, who work for forty years or more without disease or disability, and retire in a financial bull market. Groups that are likely to suffer are

- low-wage workers (notably women and African Americans),
- people whose working years are interrupted by family obligations (women again) or disability (African Americans again),
- dependents of workers, and
- anyone who retires after financial markets have experienced a crash.

2. *Private accounts to replace Social Security would give every retiree wealth that he or she could pass on to anyone else, just like other private saving accounts.*

One of the best-kept secrets of those advocating private accounts is how limited the control over those accounts would be. Here are three little-known facts:

Fact: all three plans laid out by President Bush's Commission on Social Security restrict investment to a few very broadly diversified mutual funds, with investment decisions restricted to one per year.

Fact: all three proposals, plus every piece of legislation proposed so far to implement private accounts, require the average worker to purchase a *retirement annuity* upon retirement. This converts all or most of the nest egg to a regular pension, guaranteed until death, just like Social Security today. There can be no bequest from an annuity, (unless it is combined with life insurance, at a higher price).

Fact: from the worker's point of view, there would be only one major difference between Social Security today and private accounts as proposed by President Bush's Commission. That difference is that private accounts would force families to absorb the risk of market fluctuations. There would be no significant change in ownership of bequeathable wealth for an average worker who retired with a private account replacing Social Security.

The only bequests that could be made would occur if a worker died before retirement. Advocates of private accounts repeatedly claim that disabled workers and survivors would be cared for in a privatized system, but they provide no details on the level of support and they do not tell us how these benefits would be paid for. Since they say nothing about how survivor insurance would be paid for, this bequest, too, is likely simply to substitute for today's Social Security, but without the security.

The "Setting the Record Straight" series, along with other Social Security related materials are available on the Social Security Network at <http://www.socsec.org>.

For more information please contact Tina Doody at 212-452-7743 or [doody@tcf.org](mailto:doody@tcf.org).

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<sup>i</sup> The data for Figures 1 and 3 are taken from the study *Social Security by Education, Race, and Income: How Much and Why* by Lee Cohen of the Social Security Administration and C. Eugene Steuerle and Adam Carasso of the Urban Institute, May 2001. A two percent discount rate is used. This tends to reduce the benefits per dollar of taxes, since taxes typically are paid long before benefits are claimed. The numbers are for those born between 1956 and 1964.

<sup>ii</sup> Data for Figure 2 are from the Social Security Administration.