

## Insight on the Issues

# Social Security: A Key Retirement Income Source for Older Minorities

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- ✓ **Social Security is the primary source of retirement income for older minorities. Eighty-two percent of African Americans, 75 percent of Hispanics, and 69 percent of Asians, ages 65 and older, depend on it for part of their family income.**
- ✓ **Nearly one-third of older African Americans and Hispanics in families that receive Social Security rely on it for more than 90 percent of their family income.**
- ✓ **Social Security keeps approximately 30 percent of older African Americans and Hispanics and 20 percent of older Asians out of poverty. Nonetheless, high poverty rates persist among these groups.**

As the minority population in the United States grows,<sup>1</sup> it becomes even more important to understand which factors will affect the economic well-being of minorities in retirement. This paper examines differences by race, ethnicity, and nativity of three main sources of income of older Americans (age 65 and older): Social Security, pensions and retirement savings, and assets.

Social Security is the bedrock of retirement security for older Americans, but it is particularly important for minorities who have fewer sources of other income. In 2014, 7.4 million older minority Americans (3.3 million African Americans, 2.7 million Hispanics, and 1.4 million Asians) relied on Social Security for at least part of the income that they and their families received (see Methodological Note at end).

Social Security has a funding shortfall and changes to the program to address that shortfall could undermine the retirement security of older minorities who are more reliant on the program's income. In 2034, when the assets in the Social Security trust funds will become depleted, only about 80 percent of benefits can be paid—primarily from revenue obtained from payroll taxes.

### **SOCIAL SECURITY IS AN IMPORTANT SOURCE OF RETIREMENT INCOME FOR OLDER MINORITIES**

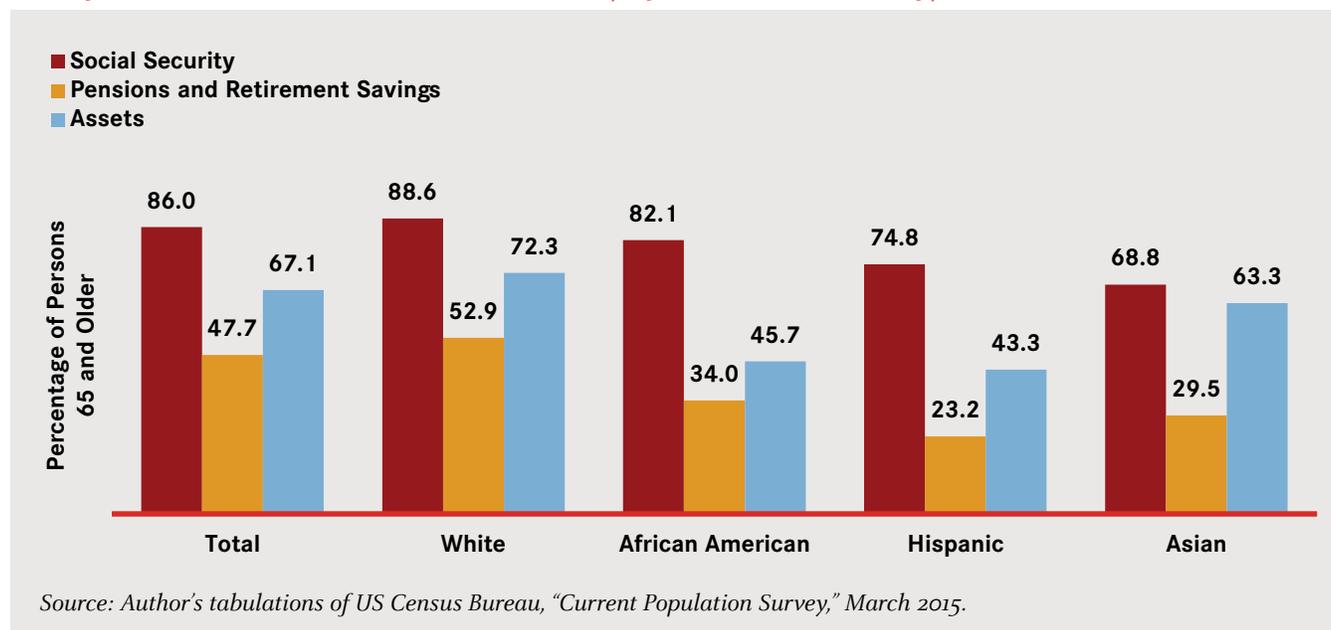
#### **Older Minorities Are Less Likely than Whites to Receive Social Security and Even Less Likely to Receive Other Sources of Retirement Income**

Nearly 90 percent of older whites live in families that receive Social Security benefits (see figure 1). In contrast, only about 82 percent of older African Americans, 75 percent of older Hispanics, and 69 percent of older Asians include Social Security as part of the income received in their families.



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FIGURE 1  
Family Income Sources of Older Americans, by Race and Ethnicity, 2014



Fewer older minorities receive income from pensions, retirement savings, or assets than whites. Roughly one-third of African Americans (34 percent) and Asians (30 percent) and nearly a quarter of Hispanics (23 percent) live in families that receive income from pensions or retirement accounts. However, nearly two-thirds of older Asians (63 percent) and two out of five African Americans (46 percent) and Hispanics (43 percent) live in families that receive asset income<sup>2</sup> (figure 1).

Older minorities have fewer sources of retirement income than whites at all income levels (figures 2–4). Social Security is the one source of income that is most universally held by all races, regardless of income level. The widest gap, however, occurs for pension and retirement savings, because minorities are less likely to work full time and have an employer that provides a pension (figure 3).

#### Older Minorities Rely on Social Security for More of Their Family Income

Older minorities are less likely to live in a family that receives any Social Security income, but for African Americans and Hispanics who do, Social Security makes up a significant share of their

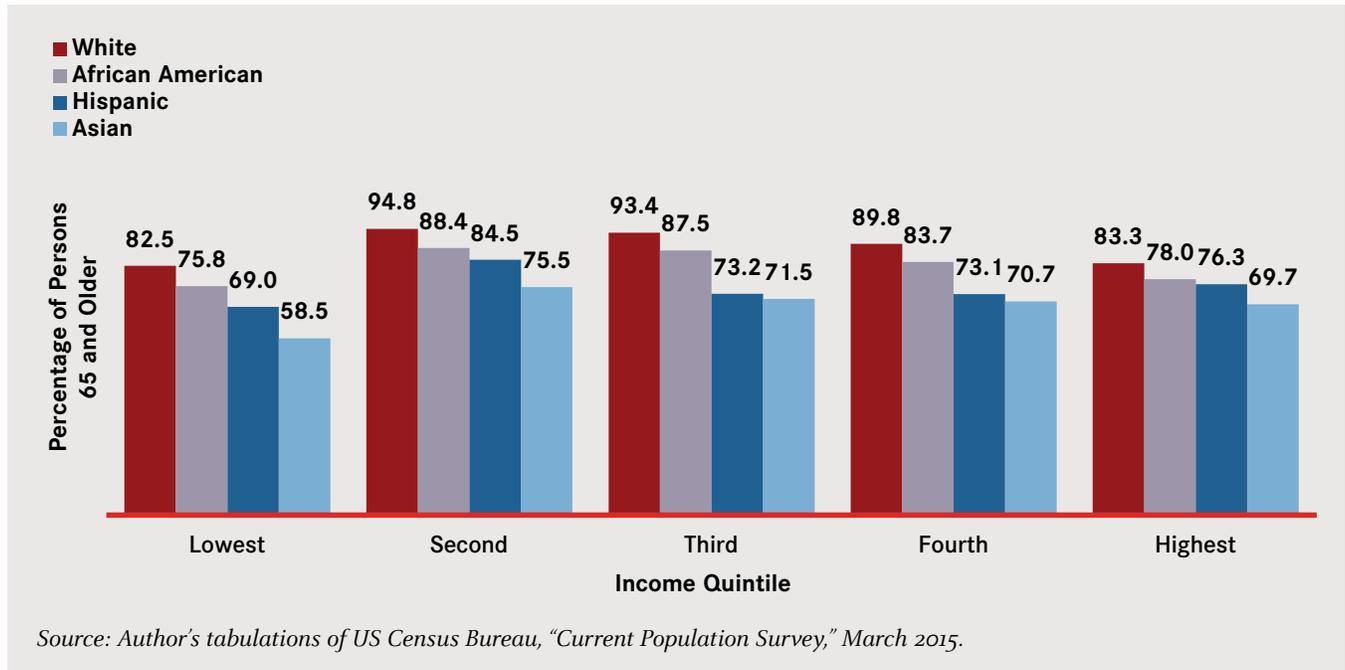
family income. Nearly one-third of older African Americans (33 percent) and Hispanics (31 percent) who live in families that receive benefits rely on Social Security for at least 90 percent of the income that their family receives (see figure 5). Social Security is not only vitally important to older minorities but also to their families.

#### Although Social Security Helps Keep Older Minorities Out of Poverty, Their Poverty Rates Are Higher

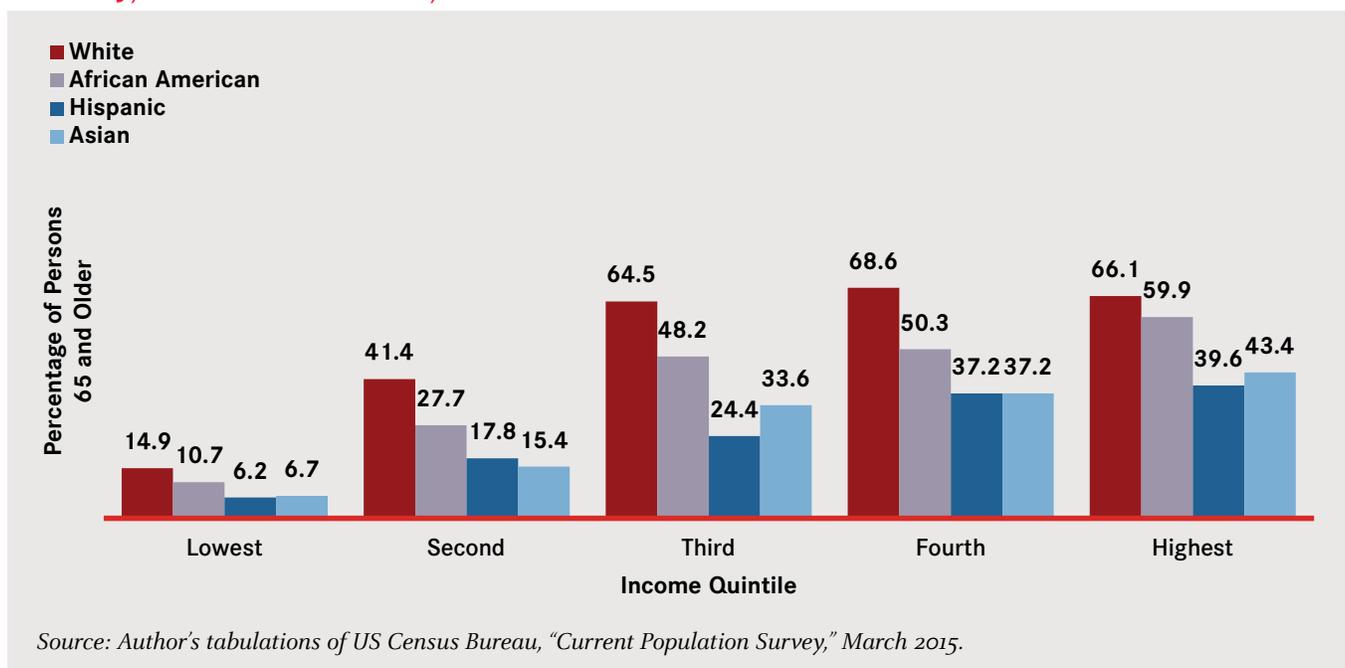
Social Security is important to keeping all individuals, regardless of race, out of poverty. In 2014, Social Security benefits lifted roughly 33 percent of older whites out of poverty, along with about a third of older African Americans (32 percent) and Hispanics (29 percent) and one-fifth of Asians (19 percent). Poverty rates for older minorities, however, are still much higher than those for older whites. In 2014, 19 percent of older African Americans and 18 percent of Hispanics lived in poverty (see figure 6)—more than double the rate for whites (8 percent).

The difference in the proportion of older minorities and older whites kept out of poverty by Social

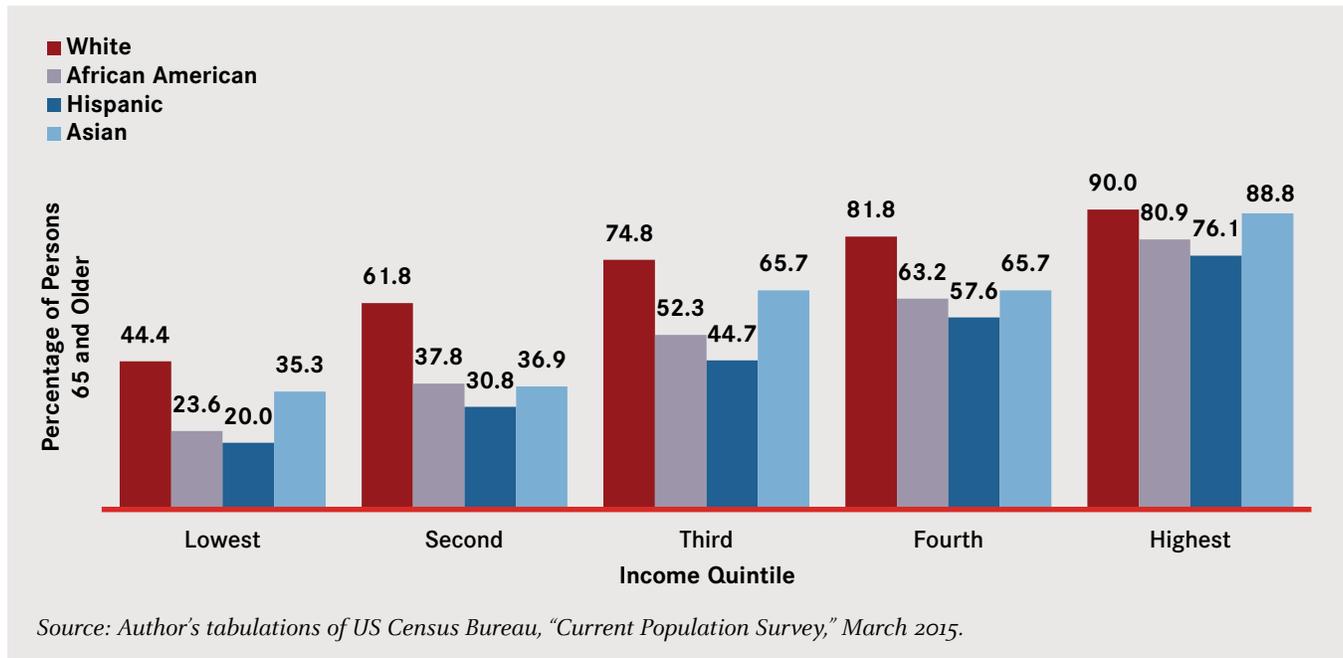
**FIGURE 2**  
**Social Security as a Family Income Source for Older Americans, by Race, Ethnicity, and Income Quintile, 2014**



**FIGURE 3**  
**Pensions and Retirement Savings as a Family Income Source for Older Americans, by Race, Ethnicity, and Income Quintile, 2014**



**FIGURE 4**  
**Assets as a Family Income Source for Older Americans, by Race, Ethnicity, and Income Quintile, 2014**



Security reflects two factors. First, as previously discussed, older minorities are less likely to receive Social Security income. Second, as discussed below, even among those who do receive Social Security, the typical benefit that minorities receive is less than that of whites because of lower lifetime earnings.

**DESPITE THEIR GREATER RELIANCE ON SOCIAL SECURITY, OLDER MINORITIES RECEIVE LESS SOCIAL SECURITY INCOME**

The typical older African American family receives annual Social Security benefits of \$15,600, compared with \$16,020 for the typical older Hispanic family; both figures are about 24 percent lower than what the typical older white family receives (\$21,117). For the typical Asian family, the gap is about 15 percent (\$18,024; see table 1).

Even at higher family income levels, older minorities' Social Security income lags behind that of older whites. The median annual Social Security income received by a family with an older minority and who receives Social Security is lower at almost all income quintiles than that of white families<sup>3,4</sup> (see figure 7).

**LOWER LIFETIME EARNINGS AND HIGHER DISABILITY RATES HAVE IMPORTANT EFFECTS ON MINORITIES' SOCIAL SECURITY BENEFITS**

Lower wages combined with fewer years of employment and higher disability rates negatively affect lifetime earnings, the basis for determining Social Security benefits, and therefore the amount of benefits minorities receive.

**TABLE 1**  
**Median Family Income from Social Security for Older Americans in Beneficiary Families, 2014**

Race/Ethnicity	Median Social Security Income
White	\$21,117
African American	\$15,600
Hispanic	\$16,020
Asian	\$18,024

Source: Author's tabulations of US Census Bureau, "Current Population Survey," March 2015.

**Minorities Tend to Earn Less**

As shown in figure 8, a higher percentage of working African Americans and Hispanics than whites and Asians, ages 25 to 64, have earnings in the bottom quintile.<sup>5,6</sup> Median annual earnings of working African Americans are 71 percent of those of whites. Hispanic median earnings are 66 percent of white median earnings, and median earnings for working Asians are similar to (and slightly greater than) those of whites.<sup>7</sup>

Minorities' lower average lifetime earnings result in lower Social Security benefits. As shown in table 2, the median Social Security benefit (based on the person's own earnings) for white beneficiaries in 2014 was \$14,939; this figure is about 17 percent higher than the amount for the typical older Asian who received Social Security benefits, 18 percent higher than the typical older African American beneficiary, and 23 percent higher than the typical Hispanic beneficiary.

**TABLE 2**  
**Median Own Social Security Income of Older Beneficiaries, 2014**

Race/Ethnicity	Median Own Social Security Income
White	\$14,939
African American	\$12,320
Hispanic	\$11,459
Asian	\$12,454

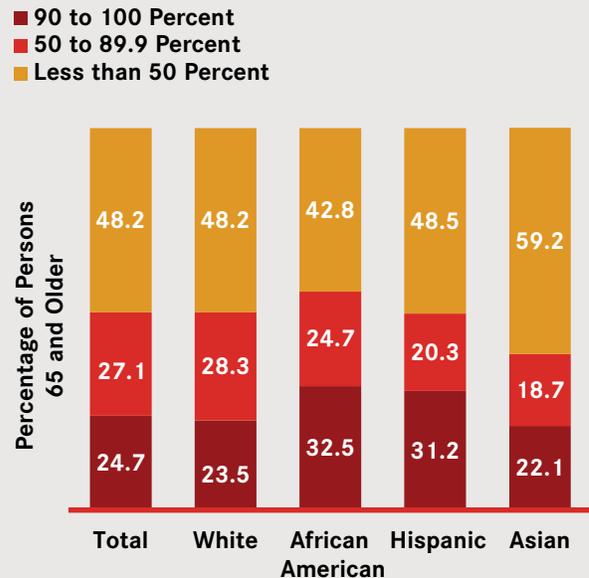
Source: Author's tabulations of US Census Bureau, "Current Population Survey," March 2015.

Note: Includes only individuals with positive own Social Security income.

**DISABILITY HAS A NEGATIVE EFFECT ON MINORITIES' LIFETIME EARNINGS**

Minorities, particularly African Americans and Hispanics, have higher disability rates than whites in the ages leading up to retirement.<sup>8</sup> Studies suggest that minorities' higher rates of disability are also linked to lower employment rates, which negatively affect lifetime earnings.<sup>9</sup> One study finds that minorities with disabilities experience larger decreases in employment rates than whites do.<sup>10</sup>

**FIGURE 5**  
**Older Minorities Rely on Social Security for a Significant Share of Family Income, Beneficiaries Only, 2014**



Note: Family income includes income from all family members, including those in related subfamilies; persons with zero family income, negative family income, negative family earnings, or negative family asset income are excluded. Only individuals with positive family Social Security income are included.

Source: Author's tabulations of US Census Bureau, "Current Population Survey," March 2015.

Another study finds that while government transfers offset some of disability's negative effect on income, the disabled still face lower incomes and higher poverty rates than the nondisabled do.<sup>11</sup>

**IMMIGRATION HAS A NEGATIVE EFFECT ON RETIREMENT INCOME**

For the older Asian and Hispanic populations, immigration is another key factor that drives down families' Social Security income. About 53 percent of older Hispanics and 80 percent of older Asians are either naturalized citizens or immigrants.<sup>12</sup> In contrast, only 5 percent of older whites and 9 percent of older African Americans are foreign-born.

It is important to note that undocumented immigrants are not eligible for Social Security

benefits, but even legally present immigrants may not have enough reported years of work to be eligible.<sup>13</sup> For naturalized citizens and immigrants who are eligible for benefits, a shorter history of US earnings drives down their level of retirement benefits received (see table 3).

**TABLE 3**  
**Median Own Social Security Income of Older Foreign-Born Beneficiaries, by Years in the United States, 2014**

Year of Entry	Median Own Social Security Income
63 years or more	\$15,576
53 to 62 years	\$13,200
43 to 52 years	\$13,259
31 to 42 years	\$12,000
21 to 30 years	\$10,800
11 to 20 years	\$9,659

*Source: Author's tabulations of US Census Bureau, "Current Population Survey," March 2015.*

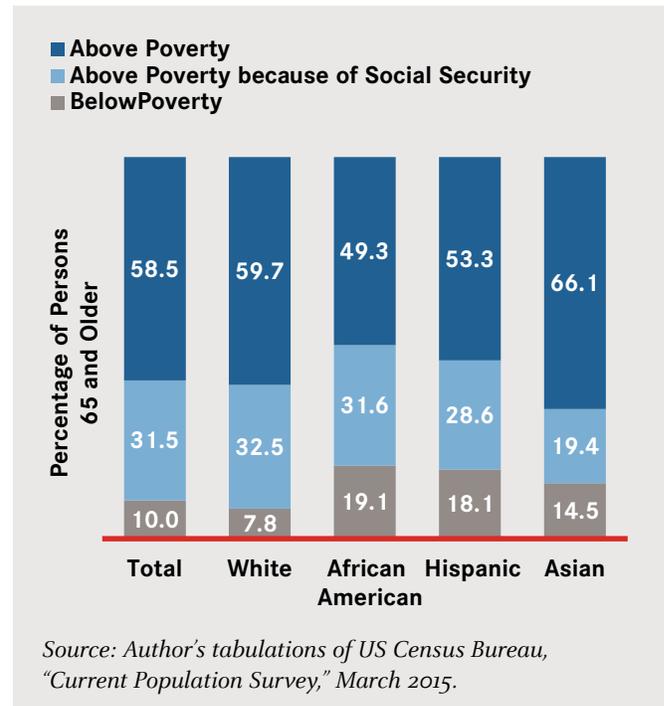
**OLDER FOREIGN-BORN PEOPLE ARE LESS LIKELY THAN OLDER NATIVE-BORN CITIZENS TO RECEIVE ANY SOCIAL SECURITY BENEFITS**

Naturalized citizens and immigrants<sup>14</sup> ages 65 and older are less likely than their native-born peers to live in a family that receives any of the three major sources of retirement income (figure 9).

In addition to citizenship status, the number of years lived in the United States also has a significant effect on the likelihood of receiving one of the major sources of retirement income. As shown in figure 10, older people who have been in the United States the longest are much more likely to have family income from Social Security, assets, or pensions and retirement savings than those who have been in the United States for fewer years.

Social Security income for the typical minority family is less than that of older whites, but the median benefit for foreign-born minorities and their families is even lower. For older foreign-born minorities who live in families that receive Social Security income, median annual Social Security income lags behind that of older native-born citizens (see table 4).

**FIGURE 6**  
**Poverty Rates Are Higher for Older Minorities, 2014**



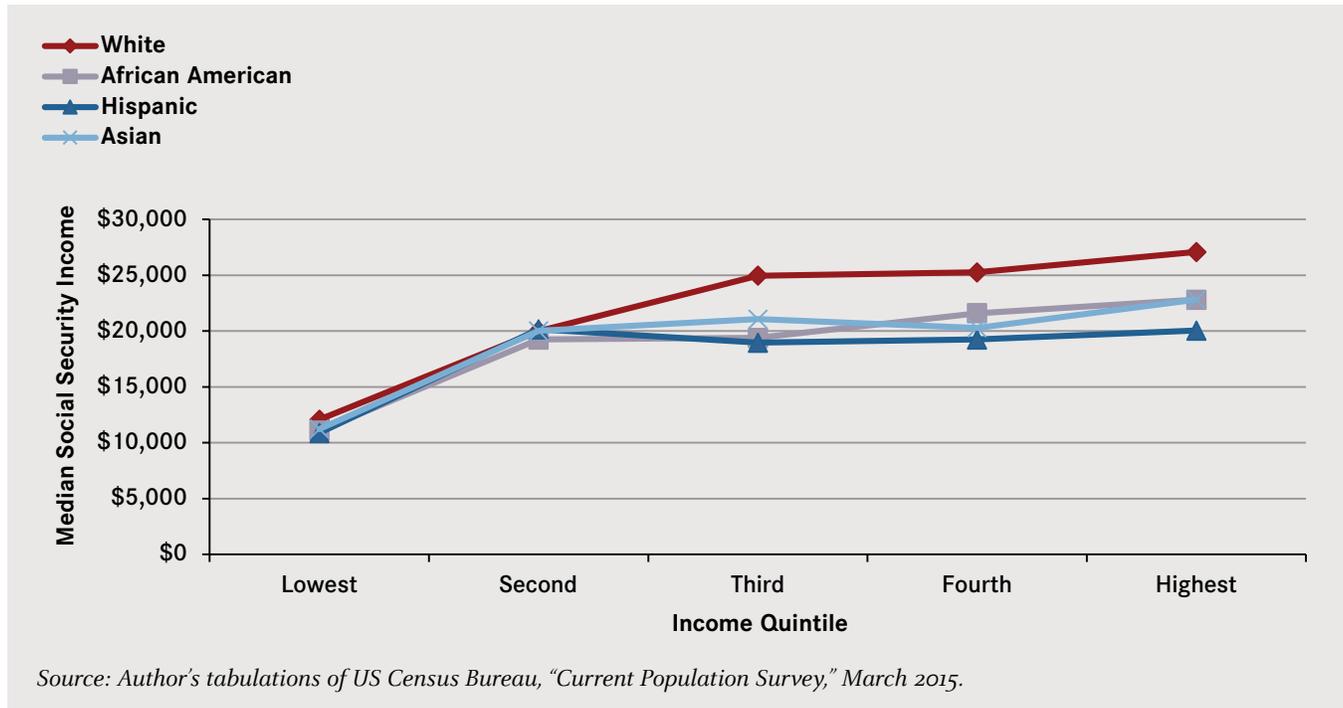
Naturalized citizens receive somewhat lower Social Security benefits than native-born citizens do, and immigrants' benefits are generally much lower (except among whites). With the exception of Asian citizens, older minorities have a lower median benefit, whether they are native-born, naturalized citizens, or immigrants.

**THE PROGRESSIVITY OF THE SOCIAL SECURITY BENEFIT FORMULA BOOSTS THE BENEFITS OF OLDER MINORITIES**

The progressivity of the Social Security benefit formula means that while benefits increase with lifetime earnings (up to a cap), Social Security replaces a higher share of average lifetime earnings for low lifetime earners than for higher lifetime earners. As a result, minorities, who tend to have lower lifetime earnings, have Social Security benefits that replace a higher share of their average career earnings than non-Hispanic whites.

For example, one study found that the median share of taxable earnings replaced was 30 percent for whites, 37 percent for African Americans,

**FIGURE 7**  
**Median Family Social Security Income for Older Minorities Is Lower at All Income Quintiles, Beneficiary Families Only, 2014**



38 percent for Hispanics, and 34 percent for Asians. However, whites still receive more Social Security benefits over their lifetimes because they have higher lifetime earnings (which results in higher benefits) and live longer on average.<sup>15</sup>

**CONCLUSION**

Social Security is and will continue to be the main source of income for low- and moderate-wage retirees, many of whom are older minorities, but improvements to Social Security and other

programs could alleviate poverty and income insecurity among all older Americans.

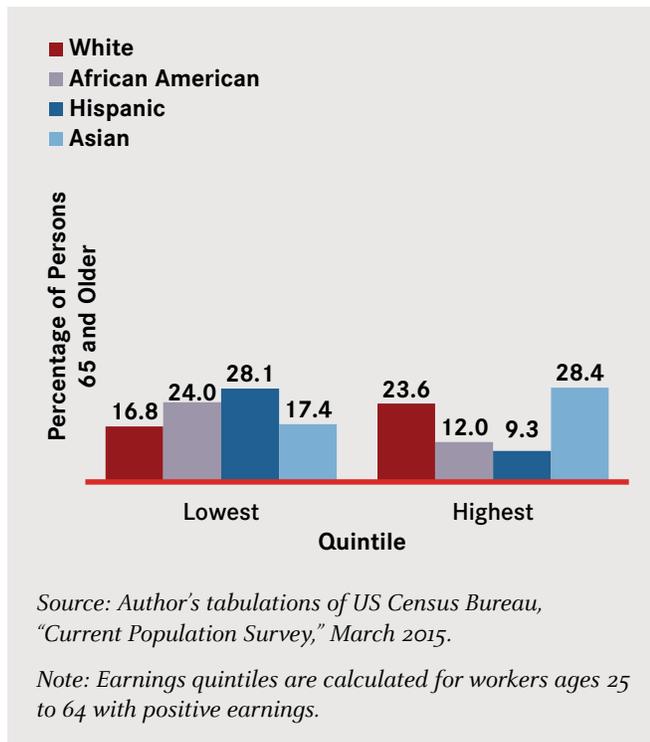
More can be done to boost the benefits of older minorities. For example, an enhanced minimum benefit for Social Security that would target workers with long careers and low lifetime earnings would increase the Social Security benefits of some low-income retirees, including many minorities. By tying an enhanced benefit to years of work, minimum benefit proposals would ensure the adequacy of benefits received by low-wage workers

**TABLE 4**  
**Median Family Social Security Income by Race and Ethnicity and Nativity, Older People in Beneficiary Families, 2014**

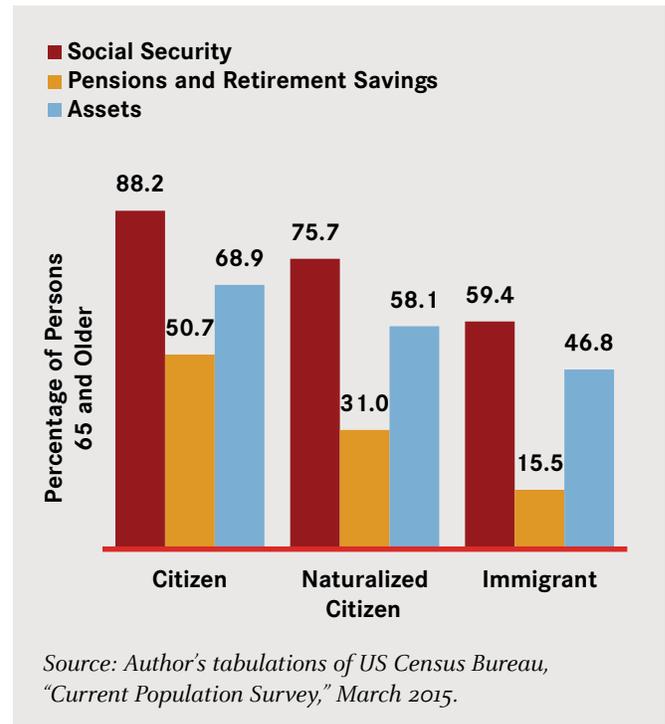
Nativity	All	White	African American	Hispanic	Asian
<b>Citizen</b>	\$20,459	\$21,288	\$15,600	\$17,315	\$18,910
<b>Naturalized Citizen</b>	\$18,000	\$19,248	\$14,664	\$15,179	\$19,200
<b>Immigrant</b>	\$15,598	\$19,200	\$10,463	\$13,896	\$15,720

Source: Author's tabulations of US Census Bureau, "Current Population Survey," March 2015.

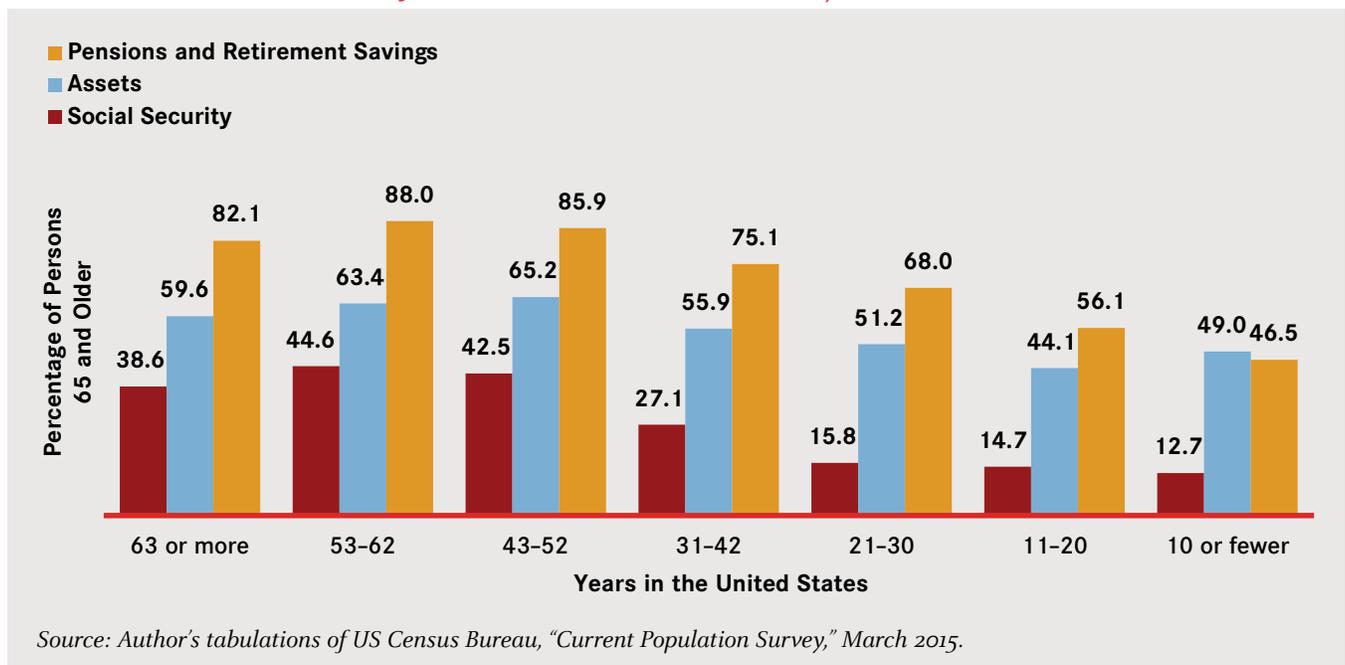
**FIGURE 8**  
**More Working Minorities Have Earnings in the Bottom Quintiles, 2014**



**FIGURE 9**  
**Older Foreign-Born People Are Less Likely to Live in a Family That Has Any of the Three Major Sources of Retirement Income, 2014**



**FIGURE 10**  
**Years in the United States Affect Probability of an Older Foreign-Born Person Living in a Family that Receives Social Security and Other Sources of Income, 2014**



and reward their years of work. Minimum benefit proposals that also include credits for time out of the labor force for caregiving, unemployment, or poor health also would boost the benefits of minority groups.<sup>16</sup>

Reforming the Supplemental Security Income (SSI) program—a means-tested, federally administered income assistance program for needy older, blind, and disabled persons—could mitigate hardship for many vulnerable older Americans. Reforms to SSI could include increasing the benefit to bring beneficiaries up to the poverty level, relaxing the asset test, eliminating the reduction in benefits for older people who live with others, and restoring benefits for legal immigrants.

Increasing retirement savings is another avenue to improving the retirement security of older minorities. For example, requiring employers without a retirement plan to implement a payroll deduction automatic Individual Retirement Account would help minorities—particularly Hispanic workers, who are much less likely than whites to have access to employer-sponsored retirement plan—to save for their own retirement.<sup>17</sup> Also, reforming the Saver's Credit would increase the incentive for minorities to save for retirement.

### Methodological Notes

Unless otherwise noted, the tables and figures in this report show the family income of older individuals. Family income is used because it is a better measure of the resources available to older people and their economic well-being. It is also the income measure used for determining poverty.

Family income includes any income received by related people living with an individual who is 65 or older. The characteristic on which the information is displayed is at the individual level.

This report uses self-identified racial and ethnic designations. Designations are exclusive in this report—Hispanics may be of any race, but all whites, African Americans, and Asians are non-Hispanic.

While American Indians and Alaska Natives (AIANs) also are considered minorities, they are not included in this report because of data limitations. The number of AIANs ages 65 and older included in the Current Population Survey is not sufficient to produce reliable estimates for all the tables and figures in this report. For 2014, the median family Social Security income for older AIANs was \$16,049 (AARP Public Policy Institute tabulations of US Bureau of the Census, Current Population Survey, March 2015).

- 1 Sandra L. Colby and Jennifer M. Ortman, *Projections of the Size and Composition of the U.S. Population: 2014 to 2060* (Washington, DC: US Bureau of the Census, March 2015).
- 2 Throughout this report, asset income includes interest income, dividend income, rental income, royalties, estates or trusts, other public assistance, and state disability payments (worker's compensation).
- 3 At the median, in the second income quintile, Hispanics and Asians have greater Social Security income than do white families. However, the sample sizes of both groups are much smaller and are thus subject to greater measurement error.
- 4 Income quintiles for figure 7 are calculated for the total population ages 65 and older.
- 5 Includes all people ages 25 to 64 with positive earnings in 2011.
- 6 Earnings deciles are calculated for the total working population.
- 7 AARP Public Policy Institute tabulations of US Bureau of the Census, "Current Population Survey," March 2013.
- 8 Laura Trupin, Douglas S. Sebesta, and Edward Yelin, *Transitions in Employment and Disability among People Ages 51 to 61* (Washington, DC: National Institute on Disability and Rehabilitation Research, August 2000); Richard W. Johnson, Melissa M. Favreault, and Corina Mommaerts, "Work Ability and the Social Insurance Safety Net in the Years Prior to Retirement," Discussion Paper 10-01, Urban Institute, Washington, DC, January 2010.
- 9 John Bound, Timothy Waidmann, Michael Schoenbaum, and Jeffrey B. Bingenheimer, "The Labor Market Consequences of Race Differences in Health," *Milbank Quarterly* 81, no. 3 (2003).
- 10 Mikki Waid, "Social Security Disability Benefits: A Lifeline for Workers with Disabilities," Fact Sheet 324, AARP Public Policy Institute, Washington, DC, April 2015. See also Trupin, Sebesta, and Yelin, *Transitions in Employment and Disability*.
- 11 Johnson, Favreault, and Mommaerts, "Work Ability."
- 12 The foreign-born population referenced in this Fact Sheet includes two major groups: foreign-born people who have obtained US citizenship (naturalized citizens) and all other immigrants. The Current Population Survey does not distinguish between legal and undocumented immigrants.
- 13 Generally, a person must work at least 10 years in Social Security-covered employment to be eligible for retirement benefits.
- 14 Foreign-born people include both naturalized citizens and immigrants. The Current Population Survey does not distinguish between legal and undocumented immigrants.
- 15 Benjamin Bridges and Sharmila Choudhury, "Examining Social Security as a Retirement Resource for Near-Retirees, by Race and Ethnicity, Nativity, and Disability Status," *Social Security Bulletin* 69, no. 1 (2009).
- 16 Melissa M. Favreault, *A New Minimum Benefit for Low Lifetime Earners* (Washington, DC: Urban Institute, March 2009); Peter A. Diamond and Peter R. Orszag, "Reforming Social Security: A Balanced Plan," Policy Brief No. 126, Brookings Institution, Washington, DC, December 2003.
- 17 Ariel Investments and Hewitt Associates, *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups 2012*, <http://www.arielinvestments.com/images/stories/PDF/ariel-aonhewitt-2012.pdf>; Yung-Ping Chen and Thomas D. Leavitt, *Employee Preferences as a Factor in Pension Participation by Minority Workers* (Boston, MA: University of Massachusetts, 2009), [http://www.mccormack.umb.edu/centers/gerontology\\_institute/pubAndStudies/DOLreport.pdf](http://www.mccormack.umb.edu/centers/gerontology_institute/pubAndStudies/DOLreport.pdf); Lisa Southworth and John Gist, *The Saver's Credit: What Does It Do for Saving?* (Washington, DC: AARP Public Policy Institute, 2008), [http://www.aarp.org/money/taxes/info-02-2008/i1\\_credit.html](http://www.aarp.org/money/taxes/info-02-2008/i1_credit.html).

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