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SOCIAL SECURITY AND WOMEN OF COLOR

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In conclusion, in any normal household, business or Government enterprise we would never set up commitments or contracts today that would prevent us from making changes 10, 20, 50, 100 years in the future. That, however, is the way we designed our Social Security system. Many inequities can be only addressed by adherence to a set of principles. Such principles should help ensure, most importantly, that the elderly are kept out of poverty and that spouses share more equally in the retirement benefits accruing from and attributive to the years they spend together. Thank you.

MS. SHLAES: Thank you, Eugene. A great deal of the concern about Social Security and the coming changes resides in the questions of how those changes will affect women and minorities. We are very glad to welcome Dr. Kilolo Kijakazi. She will speak to us today on the question of Social Security and women of color. I have a sense that she is also equipped to brief us a little bit about what is going on in the mind of the administration regarding policy because she has served as a staffer for President Clinton's Welfare reform task force and also as a panelist on the recent White House Conference on Social Security.

SOCIAL SECURITY AND WOMEN OF COLOR

Dr. Kilolo Kijakazi

DR. KIJAKAZI:^{***} Thank you. Social Security has been one of the Country's most successful social programs. The program was responsible for reducing the poverty rate among the elderly from about 48 percent to about 12 percent in 1997.¹¹ Social Security is the

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¹¹ See generally KATHRYN PORTER ET AL., SOCIAL SECURITY AND POVERTY AMONG THE ELDERLY: A NATIONAL AND STATE PERSPECTIVE (Center on Budget and Policy Priorities 1999).

major source of income for 2/3 of beneficiaries age 65 and older.¹² In addition, the program has provided at least 90 percent of the income for over 25 percent of elderly beneficiaries.¹³ The program is particularly important for elderly people of Color. Social Security benefits make up 43 percent of the income received by elderly African-American individuals and their spouses and 41 percent of the income received by elderly Hispanic Americans, compared to 36 percent of the income of White elderly.¹⁴

Social Security is also an important source of income for women of Color and several aspects of the program provide safeguards for these women. Social Security's benefit formula is progressive. Workers who earned lower wages or had fewer years in the workforce receive a larger percentage of their pre-retirement earnings when they retire than workers with higher earnings. Since women of Color remain some of the lowest paid workers in the Country and women spend more time out of the labor market than men, often caring for family members, they benefit from the progressive formula.¹⁵ In addition, Social Security offers an option for early retirement. Women of Color often hold physically arduous jobs that may be too demanding for them to continue as they age.¹⁶ Two-thirds of all retired workers, including people of Color, take advantage of the option to retire early.¹⁷ Moreover, Social Security is

¹² *Budget Surplus and Social Security: Hearing Before the Comm. on the Budget Task Force on Social Security*, 105th Cong. 472-522 (1998) (statement of Kenneth S. Apfel, Comm'r of Social Security).

¹³ See PORTER ET AL., *supra* note 11.

¹⁴ See Alice Ann Love, *Study Finds Social Security Narrows Poverty Gender Gap*, BUFFALO NEWS, Apr. 1999, at A8. See also *id.*

¹⁵ *Reducing Poverty, Protecting Minorities, Surviving Families, and Individuals with Disabilities: Hearing on the Impacts of the Current Social Security System*, 106th Cong. 2-10 (1999) (statement of Kilolo Kijakazi, Ph.D., Senior Policy Analyst) [hereinafter *Reducing Poverty*]; see also Geoffrey T. Holtz, *Social Security Discrimination Against African-Americans: An Equal Protection Argument*, 48 HASTINGS L.J. 105, 110 (1996).

¹⁶ See Patricia Hill Collins, *African-American Women and Economic Justice: A Preliminary Analysis of Wealth, and African-American Social Class*, 65 U. CIN. L. REV. 825, 848-49 (1997).

¹⁷ See SOCIAL SECURITY ADMIN., ANNUAL STATISTICAL SUPP., 1998: TO THE SOCIAL SECURITY BULLETIN 194.s, tbl. 5.A3 (1998).

a comprehensive insurance program that provides for disability and survivor's benefits in addition to retirement benefits.

Disability Insurance is essential given the labor-intensive jobs that are held by many women of Color. African Americans are disproportionately represented among disability beneficiaries. For example, 12 percent of the labor market is comprised of African-American workers,¹⁸ however, 19 percent of female workers who received disability benefits in 1997 were African-American women.¹⁹ Disability benefits are also provided to families of workers. While African-American children make up 16 percent of all children in the United States,²⁰ they comprised 22 percent of children who received Social Security benefits in 1997 because workers in their families were disabled.²¹

Survivors benefits are also critical for African-American women, given the shorter life expectancy of African-American men. Non-elderly African-American widows and their children receive a disproportionate share of survivors benefits. Twenty percent of widows raising children and 24 percent of children who received survivors benefits in 1997 were African American.²² Additionally, elderly parents of deceased workers may qualify for Social Security benefits if they received 50 percent of their income from the worker. Eighteen percent of mothers of deceased workers who received these benefits were African-American and 13 percent were other women of Color.²³

Not only can women of Color benefit directly from Social Security as workers and survivors; they may also be able to receive benefits based on the work histories of their spouses or their divorced spouses, as Dr. Steuerle has mentioned.²⁴ African-American and

¹⁸ See Tables A-3 & A-4, EMPLOYMENT & EARNINGS, Jan. 1998, at 11-12 (U.S. Dept. Lab.).

¹⁹ See SOCIAL SECURITY ADMIN., *supra* note 17, at 186, tbl. 5.A1.

²⁰ Calculated from data in BUREAU OF THE CENSUS, POVERTY IN THE UNITED STATES: 1996, P60-98 (1997) (series P60-98).

²¹ See SOCIAL SECURITY ADMINISTRATION, *supra* note 17, at 191, tbl. 5.A1.

²² *Id.* at 190, 192, tbl. 5.A1.

²³ *Id.* at 193, tble 5.A1.

²⁴ See generally *supra* notes 2-10 and accompanying text.

Hispanic-American men are also employed disproportionately in jobs that are low paid and physically risky.²⁵ Thus many women of Color who receive spouse benefits are helped by the progressive benefit formula used to determine their husbands' benefits.

Finally, Hispanic-American retirees live longer, on average, than other Americans.²⁶ Social Security benefits are increased annually to compensate for inflation. Therefore, Hispanic-American women will receive benefits longer than the average workers and maintain their purchasing power as they age. Clearly, Social Security offers important protections to women of Color.

Some proposals to reform Social Security would be particularly disadvantageous to women of Color. These include plans to privatize Social Security by diverting payroll taxes from the Social Security Trust Funds into individual accounts. Proponents of these plans often fail to factor in the costs of privatization when they are comparing rates of return between Social Security as it currently exists and an individual accounts system that diverts part of the payroll tax. Social Security is a pay-as-you-go system, which means my payroll tax contributions help to cover the benefits my parents receive. If proportions of my contributions are diverted from the Trust Funds into individual accounts, then the diverted revenue has to be replaced. The cost of replacing these funds is the transition cost. The Employee Benefit Research Institute factored in the transition costs in determining the rate of return of several options for individual accounts. They found that young low-wage workers were likely to face lower rates of return under each of the individual account options that they examined than under any of the options they looked at for maintaining Social Security.²⁷

There are other prohibitive factors associated with these accounts. For example, there are administrative costs and annuity

²⁵ See *Reducing Poverty*, *supra* note 15.

²⁶ See KILOLO KIJAKAZI, *AFRICAN-AMERICANS, HISPANIC-AMERICANS, AND SOCIAL SECURITY: THE SHORTCOMINGS OF THE HERITAGE FOUNDATION REPORTS* (Center on Budget and Policy Priorities 1998).

²⁷ See Kelly A. Olsen et al., *How Do Individual Social Security Accounts Stack Up? An Evaluation Using the EBRI SSASIM2 Policy Simulation Model*, ISSUE BRIEF, Mar. 1998.

costs that will reduce the rate of return further for these accounts. Henry Aaron of the Brookings Institution and Peter Diamond of MIT have estimated that the administrative costs for an IRA-type account would eat up approximately 20 percent of the savings over a 40 year work life.²⁸ In addition to the administrative cost there would be fees to annuitize these savings. When workers retire, they may decide to withdraw their accumulated savings and invest them in annuities so that they will receive payments throughout their lives, or for a period of time they select. To purchase an annuity, a worker would take his or her savings to an insurance company that would charge a transaction fee to convert the savings to an annuity. That cost can consume an additional 15 to 20 percent of the account. Thus, a substantial portion of the account could be eaten up by administration and annuitization costs.

In addition to these costs is a risk factor. Low-wage workers are least likely to realize a high rates of return when their money is invested in the stock market. There are several reasons why this is the case. First, their accounts will be smaller than the accounts of other workers. The amount that they can contribute will be less because they are earning less. Second, some of the administrative costs are fixed costs which means these costs will consume a greater proportion of a low-wage worker's earnings than they will consume of a high-wage worker's earnings.²⁹ And according to Arthur Levitt, Chairman of the Securities and Exchange Commission, people, in general, do not have sufficient knowledge to invest as wisely as they should. Fewer than 50 percent of Americans know the difference between a stock and a bond.³⁰ This includes people who are already investing.

²⁸ See KIJAKAZI, *supra* note 26.

²⁹ See KELLY OLSEN & DALLAS SALISBURY, EMPLOYEE BENEFIT RESEARCH INST., INDIVIDUAL SOCIAL SECURITY SYSTEM ACCOUNTS: ISSUES IN ASSESSING ADMIN. FEASIBILITY AND COSTS, SR-34 Brief No. 203 (1998) (listing administrative costs/options: enrollment, calculating and sending required contributions, contributions sent, holding individual accounts, managing funds, reporting contributions sent to the government, reporting calculations and contributions sent to individuals, participant investment selections, sending periodic account statements to participants, identifying mistakes, calculating losses incurred as a result of mistakes and compensating participant, providing ongoing investment education, processing distribution).

³⁰ See *Proposal to Streamline the SEC*, NEWSDAY, Oct. 16, 1998, at A69.

Only eight percent of investors understand administrative costs. Low-wage workers have fewer resources to purchase investment advice and are therefore at an even greater disadvantage.

Benefits for a spouse, a divorced spouse or a survivor are uncertain under a system of individual accounts. It is possible to purchase a joint annuity to provide coverage for a spouse. If joint annuities are mandated for people who are married, however, these benefit payouts will be smaller for a joint annuity than a one-person annuity, since a joint annuity will be paid until both people die. By contrast, under Social Security, a worker receives his or her full benefit and the spouse may get an additional 50 percent of the worker's benefit if that is more than what the spouse would receive based on his or her own work history. Under Social Security, a divorced spouse who was married to a worker for at least 10 years and has not remarried (or is at least 62 upon remarrying) would receive the same benefit as a current spouse. It is not clear that a divorced spouse would receive any portion of the retirement savings under an individual account system.

There is an alternative approach to individual accounts that redirect part of the payroll tax from the trust funds into individual accounts. Such an alternative plan was proposed by President Clinton during his 1999 State of the Union Address. The first step of the President's plan is to pay down the debt and lower interest payments, placing the Country in a better financial position when baby-boomers begin to retire in large numbers.³¹ The second step is for members of Congress to develop a bipartisan plan to extend solvency through 2075.³² Third, President Clinton proposed an individual accounts plan that would not undermine the guaranteed Social Security benefit. Dr. Steuerle has referred to this proposal for Universal Savings

See also The SEC Perspective on Investing Social Security in the Stock Market (remarks by Arthur Levitt, Chairman of the Securities and Exchange Commission, at the John F. Kennedy School of Government Forum, Harvard University, Oct. 19, 1998).

³¹ See President's Address Before A Joint Session of the Congress on the State of the Union, 35 WEEKLY COMP. PRES. DOC 78 (Jan. 19, 1999) [hereinafter "State of the Union"].

³² See *id.*

Accounts.³³ Universal Savings Accounts accounts would be funded with the budget surplus and would not divert payroll taxes from the trust funds. Furthermore, these accounts would be progressive. Equal amounts of the surplus would be contributed to each worker's account. Consequently, the contribution would make up a larger percentage of earnings for a low-wage worker than a higher wage worker. And, a progressive match would be provided for workers who contribute some of their own savings to their accounts. For example, low-wage workers who contribute a dollar may get a dollar match from the Government while average-wage workers may receive \$0.50.

In conclusion, given the vital role Social Security plays in the economic well being of woman of Color, it is important not to undermine this program with reforms that would put the guaranteed benefit at risk. Proposals that leave intact the basic Social Security system and add to it a vehicle that has the potential for increasing retirement savings would place women in a better financial position when they retire.

MS. SHLAES: Thank you, Dr. Kijakazi. I think it is felicitous that we have this speaking order because one of the themes you addressed is, are women — any women, women of Color, White women — ready to manage individual accounts? That is one of the big themes of the day. The President included individual accounts in his proposal.³⁴ Do we have the knowledge to do it, do we have the resources to do it, and can we pay for it? Those are going to be some of the themes that our next speaker will address. Nancy Christine Staudt is our third panelist. Underlying a lot of the talk about Social Security is this question: Can women be trusted to look after money? Even now that is part of the question. Can women learn to trust themselves with their own money or should they learn to trust themselves with their own money? The question of economic literacy, Professor Staudt is going to provide some of the answers to that question.

³³ See generally *supra* notes 2-10 and accompanying text.

³⁴ See generally *State of the Union*, *supra* note 31.