Social Security: Strengthening a Vital Safety Net for Latinos

by Jeff Cruz

Jeff Cruz is the executive director of Latinos for a Secure Retirement, a coalition of ten national Latino organizations formed to educate the growing Latino community to protect and strengthen Social Security, Medicare, and the pension system. Cruz is also currently a 2012 mid-career master in public administration candidate at the John F. Kennedy School of Government at Harvard University. In 2011, Cruz was a visiting scholar at the National Academy of Social Insurance. Previously, he served as an associate director handling health care and seniors outreach at the White House Office of Public Engagement and as a senior policy adviser to U.S. Senator Herb Kohl (D-WI) on the Senate Committee on Aging, focusing on retirement security issues. In 2008, Cruz took leave from the Senate to work for U.S. President Barack Obama’s national election campaign as the deputy director for senior outreach, then as the Florida State seniors vote director. Before that, Cruz was a senior policy analyst for Campaign for America’s Future. Cruz has also served as a staff member in the U.S. House of Representatives, working in the leadership office of then-Chairman of the Democratic Caucus Bob Menendez (D-NJ) and as a legislative assistant to Congresswoman Grace Napolitano (D-CA). He has worked on campaigns in more than a dozen states. He is a graduate of the University of Illinois at Urbana-Champaign and a recently elected member of the National Academy of Social Insurance.

Since 1935, Social Security has provided a vital safety net for millions of Americans who cannot work because of age or disability. This safety net has been especially critical for Americans of Latino decent, who number more than 50 million or nearly one out of every six Americans. Social Security provides benefits to roughly one out of six Latino households (U.S. Census Bureau 2009).

Social Security is critical to Latinos because it is much more than a retirement program. In addition to protecting those that cannot work because they are too old, the program benefits disabled workers and their families as well as children and spouses of the deceased. Because Latinos have larger families and are more likely to become disabled in physically demanding jobs, the Social Security safety net protects them disproportionately (Torres-Gil et al. 2005).

However, benefits are far from generous. For Latinos over the age of sixty-five, the average annual benefit for men was only $12,213; for women it was only
$9,536 (Social Security Administration 2011a). On average, for Latino households age sixty-five or older receiving benefits, Social Security makes up 75.4 percent of the household’s total income. For a portion of those households—44.2 percent—Social Security makes up all of the income received (Social Security Administration 2008).

Without Social Security, the elderly Latino poverty rate of approximately one out of six (17.9 percent) would explode to one out of two (50.7 percent) (Torres-Gil et al. 2005). Because of lower lifetime income, longer life expectancies, higher incidence of disability, and larger families, Latinos receive a rate of return on their Social Security contributions that is 35 percent to 60 percent higher than that of the overall population—more than any other ethnic group (Social Security Administration 2011a).

Most Latino and seniors advocates believe benefits need to be expanded. For example, Latinos for a Secure Retirement (a coalition of ten leading Latino organizations) and the Commission to Modernize Social Security (a group of national policy experts representing African American, Asian American, Latino, and Native American communities) created reform plans in 2011 that would expand Social Security benefits.

Eighty-four percent of Latinos agree that preserving Social Security for future generations is critical, even if it means increasing Social Security taxes on workers (Rockeymoore and Maitin-Shepard 2010). Ninety percent of Latinos agree that Social Security’s societal benefits are worth the cost (Rockeymoore and Maitin-Shepard 2010).

Despite the importance and popularity of Social Security to Latinos, the past year has seen conservative politicians call for the program to be slashed. For example, some members of the Joint Select Committee on Deficit Reduction, colloquially referred to as the Supercommittee, have called for a chained consumer price index (CPI) benefit cut, which would slash benefits by drastically reducing the cost of living adjustment (COLA). COLA was designed to help
Social Security and Supplemental Security Income benefits keep pace with inflation (Social Security Administration 2011b). However, most Social Security experts believe the current COLA is insufficient and should be increased (NCPSSM 2011). The experimental CPI for the elderly (CPI-E), developed by the federal government in 1988, has found that Social Security beneficiaries face higher inflationary pressures than the population as a whole.

Opponents of Social Security have tried to present the proposed adoption of the chained CPI benefit cut as a minor technical change, but it would have drastic consequences for Latinos. Because the benefits cut compounds over time, the disabled and the most elderly would be especially hurt. As stated above, Latinos are more likely to be disabled and to live longer than other ethnic groups. A Hispanic male’s life expectancy at birth is 77.9 years, but his life expectancy once he reaches the age of 65 is 84 (Mann 2010). A Hispanic female’s life expectancy at birth is 83.1 years, but it is 86.7 once she reaches age 65 (Mann 2010). If the chained CPI benefit cut proposal were enacted, the average worker would face a 6.5 percent benefit cut—a reduction of nearly $1,000 a year—when he or she reached the age of eighty-five (Latinos for a Secure Retirement 2011a).

Another way opponents of Social Security have proposed cutting benefits is by increasing the normal retirement age past sixty-five. This proposal would result in lower benefits regardless of the age of the individual when benefits are first claimed, and it is particularly harmful to those in blue collar, manual labor jobs who may not be able to physically work beyond age sixty-five. At this time few seniors are able to wait until the normal retirement age to start claiming benefits, and yet the retirement age is already scheduled to rise to sixty-seven by 2027 (Social Security Administration 2010). In 2009, about 75 percent of new retirees (2 million out of 2.7 million) claimed reduced retirement benefits below the full-benefit age (Social Security Administration 2010).

Opponents of Social Security have called for these devastating benefit cuts under the guise of deficit reduction. This is despite the fact that Social Security
has never contributed a single penny to our national deficit and is barred from
doing so by the law (Board of Trustees et al. 2010). Social Security currently has
a $2.6 trillion surplus that will grow to nearly $4 billion over the next decade
(Board of Trustees et al. 2010). However, it does face a small funding gap thirty
years from now when it would only be able to pay out about 76 percent of
promised benefits if no changes are made (Board of Trustees et al. 2010). To
avoid this, Social Security should be strengthened to further help Latinos.

**Proposed Reforms**

First, to solve the long-term funding gap, additional revenues can be obtained by
eliminating the earnings tax cap. This cap currently exempts income above
$106,800 from Social Security taxes, and about six percent of all workers earn
more than the cap (Gregory et al. 2010). Gradually raising the cap to cover 90
percent of earnings over the next decade can eliminate about 40 percent of the
projected seventy-five-year shortfall in Social Security (Gregory et al. 2010).
Completingly eliminating the cap, as was done for Medicare under former U.S.
President Bill Clinton, would completely eliminate the funding shortfall over the
entire seventy-five-year period.

Second, the Social Security trust fund should be diversified into local and state
infrastructure through investments in the municipal bond market. This would help
protect the trust fund and provide additional infrastructure investment capital vital
to the future economic success of America. By generating additional returns for
the trust fund, the safety net for Latinos would be strengthened. This will require
reforming the bond market for local and state infrastructure to eliminate tax
loopholes that benefit the wealthiest Americans and the creation of an
independent trust fund board to oversee the investments. But once set up,
diversifying the trust fund can benefit Social Security, local and state
governments, and the U.S. economy as a whole.

Third, any Social Security reform should treat all salary reduction plans like
401(k)s. Employees pay Social Security taxes on their contributions to retirement
accounts, such as 401(k), 403(b), and 457 plans but do not pay Social Security taxes on other salary reduction plans or flexible spending accounts, such as for health care, dependent care, or qualified commuting costs (Joint Committee on Taxation 2005). Ensuring that all salary reduction plans cannot be used to avoid Social Security tax liability would reduce the projected seventy-five-year deficit by about 13 percent (Gregory et al. 2010).

By adopting these three reforms to raise additional revenue, Social Security could afford to provide additional protections. For example, it could once again provide benefits to college and vocational students with deceased or disabled parents (Hertel-Fernandez 2010). Social Security historically paid benefits to children of retired, deceased, or disabled beneficiaries until the age of twenty-two if they were in college. However, the law was changed in 1981 to end benefits for “student children” once they either graduated high school or turned nineteen, in part because of the belief that higher education had become more affordable for disadvantaged youth (Hertel-Fernandez 2010). Since then, college costs have skyrocketed and higher education has become even more essential to long-term labor market success.

Compared to other ethnic groups, Latinos are a young, low-income population that struggles with college affordability, and Latino children are more likely to have a deceased or disabled parent. Polls show that 78 percent of Americans favor having Social Security cover college and vocational student children of deceased or disabled parents, and the cost is very modest (Hertel-Fernandez 2010). Similar to diversifying the trust fund, the ultimate benefit may be the future economic growth realized by the investment. A college graduate will, on average, make about $26,000 more than someone with only a high school education, contributing $145,000 more into the Social Security trust fund over his or her lifetime (Latinos for a Secure Retirement 2011b).

Social Security should also be reformed to better help agricultural and household workers. Latinos are disproportionately represented in these job categories, comprising 14 percent of the overall workforce but 41 percent of domestic
workers and 48 percent of farm workers (U.S. Bureau of Labor Statistics n.d.). Originally, these sectors were excluded from Social Security coverage. Though now eligible, coverage remains low because of inconsistent wage reporting by employers, classification of employees as independent contractors, underpayment of wages, and payment of wages in cash—all of which impact an individual’s earnings history and Social Security tax payment records (Benefits Security Administration 2010; Grillo-Chope and Ramos 2006). Increased enforcement measures for wage and reporting violations can compel employers in these sectors to deduct and report Social Security earnings for Latino workers (Robles 2009; Miranda and Torres 2011). Furthermore, household workers face a higher income threshold before their work counts as a quarter of coverage under Social Security: $1,700 per year for household workers compared to $1,120 for other workers (Social Security Administration 2011c). This makes it harder for household workers to qualify for Social Security.

Finally, undocumented workers contribute more than $10 billion in Social Security taxes each year but are not eligible to collect benefits (Lantigua 2011). Comprehensive immigration reform should allow undocumented workers a chance to claim their Social Security earnings from previous work. Each increase of 100,000 immigrants improves the long-term actuarial balance by about 3.5 percent of the projected seventy-five-year deficit (Board of Trustees et al. 2010, 166).

By eliminating the earning cap, treating all salary reduction plans like 401(k)s, and diversifying the trust fund into local and state infrastructure, Social Security can be strengthened for future generations. Policy makers should also make it easier for agricultural and household workers to qualify for benefits and reinstate the college benefit for "student children" of deceased and disabled parents. With these reforms, Social Security can continue to provide a vital safety net and better protect the Latino community.

References


Mann, Denise. 2010. Hispanics have highest life expectancy in U.S. WebMD, 14 October.


