



Center for Policy Analysis and Research

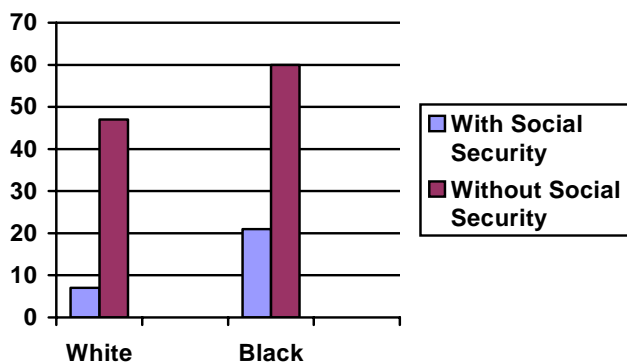
## OVERVIEW

For years, proponents of privatizing Social Security, also known as Old Age, Survivor and Disability Insurance (OASDI), have promoted the idea of diverting all or a portion of the Social Security payroll tax to fund individual retirement accounts. In an attempt to win support from minorities, privatization advocates have also argued that African Americans would get a better deal from private retirement accounts than from the current Social Security program. Yet these arguments often overlook the full range of Social Security program benefits that are important to African Americans and underestimate the impact of privatization on their families.

## SOCIAL SECURITY AND AFRICAN AMERICANS

African Americans rely heavily on Social Security benefits. According to the Social Security Administration (SSA), while only 12 percent of the U.S. population, African Americans are 17 percent of those receiving Social Security disability benefits. Additionally, African American children are 22 percent of all children receiving Social Security survivor benefits.

**Poverty Status of Security Beneficiaries, 2000**  
(Social Security Bulletin, Annual Statistical Supplement 2001)



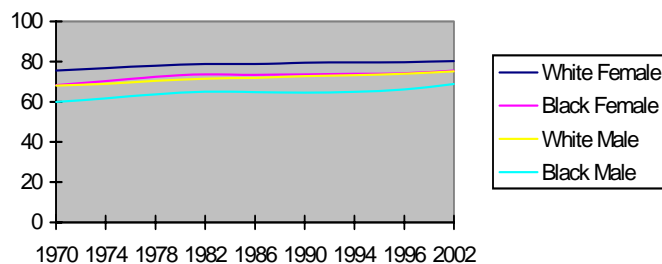
Because African Americans tend to have lower earnings and less pension coverage than white Americans, Social Security is also extremely important for African American retirees. Social Security Administration statistics show that Social Security benefits are the only source of retirement income for 40 percent of older African Americans. Without Social

Security, SSA estimates the poverty rate for African American seniors would more than double.

## SOCIAL SECURITY PRIVATIZATION THREATENS AFRICAN AMERICANS

Several arguments used by privatization advocates are highly misleading and obscure the likely effect of individual accounts for African Americans and other vulnerable populations.

**Life Expectancy at Birth by Race and Sex, 1970-2002**  
(National Vital Statistics Reports, Vol. 53, No. 6, Nov. 10, 2004)



Ironically, those who favor individual accounts say that Social Security fails African Americans because of their higher mortality rates. Indeed, the National Center on Health Statistics reports that African Americans can expect to live 71.4 years compared to the 76.9 years of the average American. Black men have the lowest life expectancy rates of all the major population groups.

Yet it should be made clear that it is America's broken health care system—not Social Security—that minimizes African American life expectancy. In fact, Social Security's disability and survivor benefits help offset mortality disparities by providing critical economic assistance for the families of African Americans who become disabled or die in the prime of their working lives. Even still, African Americans benefit significantly from the current retirement program with a majority of African Americans, 53 percent, receiving Social Security retirement benefits.

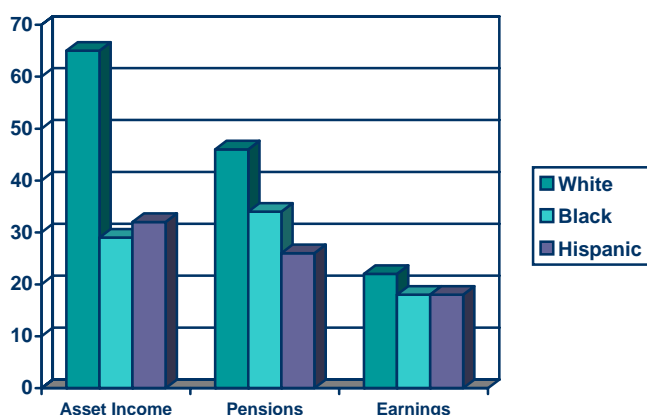
Privatization advocates go on to argue that African Americans would receive a better deal if some or all of the payroll tax currently dedicated to Social Security were diverted to fund individual retirement accounts.

Yet, they do not make it clear that funding private retirement accounts by diverting money away from the current system would undermine the economic viability of the survivor and disability components of the Social Security system—the very programs upon which African Americans and their children heavily rely. Furthermore, they fail to explain that Social Security’s comprehensive assistance for working and middle class African Americans families, particularly in the event of unexpected occurrences like disability or death, would be prohibitively expensive and unaffordable in the private insurance market.

## AFRICAN AMERICANS HAVE LESS WEALTH FOR RETIREMENT

Statistics from the Social Security Administration show that African Americans are much less likely than white Americans to have income from private assets, pensions or earnings upon retirement. Supporters of individual accounts disingenuously point to Social Security’s inability to promote savings as the primary cause of this disparity.

**Income Sources Upon Retirement By Race**  
(Income of the Population 55 and Older, 2000  
Social Security Administration, Table 1.3)



Sadly, many African American families do suffer from a lack of personal assets that can supplement their income upon retirement. This lack of private wealth, however, is not due to the Social Security payroll tax but to the historic marginalization of African Americans in a labor market where they have been disproportionately unemployed, underemployed, and/or segmented into those jobs that do not offer pension benefits. The result is their overrepresentation among low and moderate income workers which translates into their diminished ability to accumulate, purchase or “pass on” assets such as equity-rich homes, stocks, land, or a cash inheritance.

Instead of pushing for asset development proposals that leave Social Security untouched, privatizers attempt to lure African Americans to individual retirement accounts

by arguing that they will generate great wealth that African Americans can pass on to their heirs as an inheritance. Yet, by all estimates their approach would not only cut away at one of a few existing programs that brings some balance to racial inequities in the labor market, they would likely leave African Americans in even worse shape.

This is true for several reasons. First, under individual accounts retirement income moves from being a steady benefit to an uncertain return. The stock market’s notorious fluctuations cannot guarantee the long-term growth of amounts contributed to individual accounts. Thus, there is a real risk of extreme poverty if expected gains are not realized.

What may not be apparent to some, however, is that income inequalities would still be exacerbated for African American families under healthy stock market assumptions.

This is true because, private accounts would eliminate the progressive aspects of the current system that provide more help for low-income people. In the absence of a real progressive benefit structure, black families would only accrue interest on their smaller wage-based contributions. And, because of higher unemployment rates, African Americans would be doubly vulnerable to having periods of zero earnings where no contributions at all are made to individual accounts. Unlike Social Security, individual accounts would not offset this labor market disadvantage.

Furthermore, upon retirement most privatization proposals require individuals to use their account funds to purchase an annuity plus life insurance that could be paid out to survivors upon death. This type of private policy would be very expensive and would leave the retiree with very little money to live on and his heirs with little or next to nothing.

When considering that private accounts would also eliminate cost of living adjustments while piling on higher administrative fees and debt burdens, the advantages of these accounts over the current system are questionable at best.

## CONCLUSION

While wealth accumulation is certainly an important goal to pursue, it is not good policy to jeopardize Social Security’s steady benefits by subjecting them to the risks of the stock market. With Social Security expected to experience a financing shortfall in the year 2052, there are good reasons to find ways to strengthen the system. Policymakers must explore financing options without using misleading racial arguments to undermine the principles that have made Social Security a vital source of income support for generations of Americans.



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