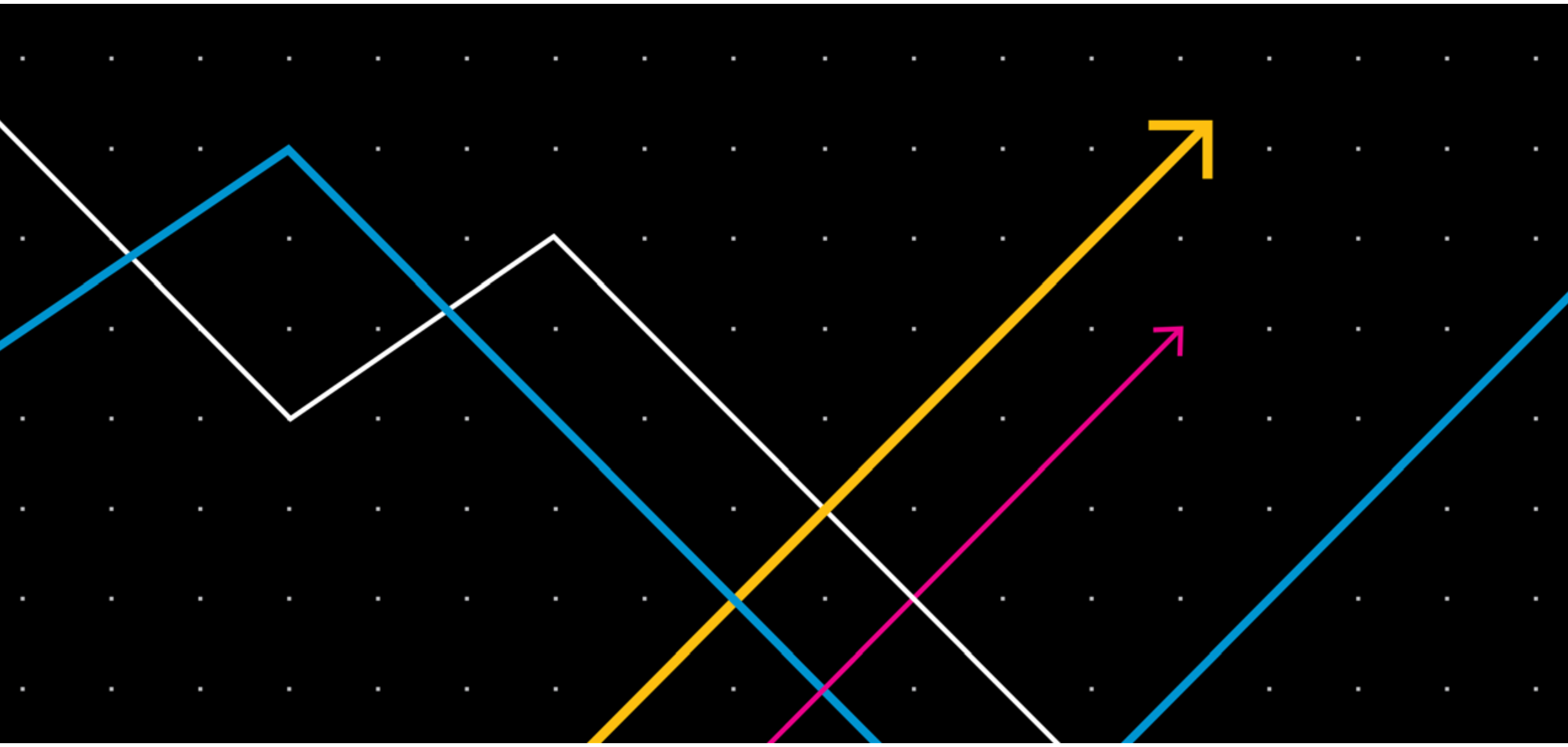
PROGRAM ON RETIREMENT POLICY



RESEARCH REPORT

How Can Policymakers Close the Racial Gap in Retirement Security?

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Contents

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How Can Policymakers Close the Racial Gap in Retirement Security?

Financial insecurity at older ages is a growing policy concern. Retirement income largely depends on earnings received at working ages, which determine Social Security benefits, any employer pensions that retirees receive, and a person's capacity to set aside additional funds for retirement. Although earnings have been growing for women, bolstering their future retirement income, earnings have stagnated over the past few decades for men in the bottom three-quarters of the earnings distribution (Machin 2016; Rose 2015), threatening their retirement security.

The pillars of the US retirement income system are also under threat. Most older people receive much of their income from Social Security, but the program faces a long-term financial shortfall that could necessitate significant benefit cuts within the next 15 years unless program revenues increase (Board of Trustees 2020). Traditional employer-provided pensions, which typically provide lifetime annuities to retirees based on their earnings and years of service, are disappearing (especially in the private sector) and being replaced by 401(k)-type plans (Munnell and Sunden 2004). These defined-contribution plans facilitate retirement saving, but they require workers to set aside a portion of their pay each period, make sound investment choices, and resist the temptation to dip into their savings before they retire. Spending needs are also increasing at older ages. As life expectancy continues to increase for most people, especially at older ages (Bosley, Morris, and Glen 2018), retirement savings must last longer unless people delay their retirement. Older adults are increasingly entering retirement with significant debt holdings, including outstanding mortgages, which they must service with their retirement income (Butrica and Karamcheva 2018), and out-of-pocket health care costs are rising at older ages (Hatfield et al. 2018).

Many Black people face special financial challenges at older ages. Workers of color generally earn less than their white counterparts, limiting their future Social Security benefits and their ability to save for retirement. Educational deficits reduce wages received by Black workers, but people of color also face systemic racism that limits their employment opportunities and suppresses their earnings (Bertrand and Mullainathan 2004; Daly, Hobijn, and Pedtke 2017; Darity and Mason 1998; Hamilton and Darity 2012; Penner 2008; Reid and Rubin 2005). Black workers also tend to have shorter careers than white workers. Black workers' limited employment histories result from health problems (which are influenced by structural racism) and from caregiving responsibilities that interrupt employment and lead to early retirement (Centers for Disease Control and Prevention 2013; Feagin and Bennefield

2014; Fuller-Thomson et al. 2009; Kail, Taylor, and Rogers 2020; Murphy, Johnson, and Mermin 2007). Black people are especially likely to serve as primary caregivers for their grandchildren, which can interfere with paid work, raise spending needs, and reduce retirement savings (Chen et al. 2014; Ellis and Simmons 2014; Minkler and Fuller-Thomson 2005).

Many people of color also face challenges using their earnings to build wealth. Black workers are less likely than white workers to participate in employer-sponsored retirement plans, which are an important component of retirement savings, and those who participate contribute less to their plans on average (Ariel Investments and Hewitt Associates 2009; Butrica and Johnson 2010). Homeownership is an important way to amass wealth, yet rates of homeownership are quite low for people of color (Charles and Hurst 2002; Neal, Choi, and Walsh 2020). Moreover, Black homeowners are more likely than white homeowners to hold high-cost mortgages (Bayer, Ferreira, and Ross 2018), and they are often subject to higher property tax rates (Avenancio-Leon and Howard 2020). Black people also hold much more student loan debt at ages 25 to 55 than other racial groups (Braga 2016). The need to service high debt levels, including mortgages and student loans, reduces the availability of resources that Black people can set aside for retirement. Black people are less likely than white people to be married (Johnson, Haaga, and Simms 2011), and marriage allows households to economize on living expenses; to receive inheritances (Hamilton and Darity 2010), which can help finance home purchases and fund retirement; and to have access to banks, which limits their ability to save (Federal Deposit Insurance Corporation 2018).

In this report, we document the financial challenges facing older Black adults and discuss various policy options to improve their financial well-being. We begin by comparing household income and household wealth and poverty rates by race and Hispanic origin for adults age 65 and older. We also analyze two-decade trends in income and wealth at older ages, show how income sources vary by income level, and describe how poverty rates vary by personal characteristics. We then report the share of workers ages 51 to 64 with employer-sponsored retirement plan coverage on their current job.

The tabulations report findings in 2019 inflation-adjusted dollars and use data from the Health and Retirement Study, a nationally representative longitudinal survey of older adults conducted by the Institute for Survey Research at the University of Michigan. When we completed our analysis, the most recent available data were collected in 2016. Because the survey asks respondents about income received in the previous calendar year, our income estimates run through 2015. We adjust for differences in household size by dividing income and wealth estimates for married couples by the square root of 2 (or about 1.41). This adjustment factor is commonly used to reflect the higher costs incurred by larger households as well as the savings that result from shared living arrangements (National Research Council 2005).

The second half of this report discusses policy options that could narrow the racial gap in retirement security. Because many older Black adults rely heavily on Social Security, shoring up the program's finances and boosting payment to low-income beneficiaries would improve their financial well-being at older ages. Expanding Supplemental Security Income (SSI), a federal program that provides cash benefits to older adults in need and people with disabilities, would help many Black retirees. Other policy options, including facilitating homeownership, promoting savings, and boosting employment and earnings, could help younger Black workers build wealth over their lifetimes, leaving them better prepared for retirement. Successful implementation of these reforms will require sustained commitment from policymakers and other stakeholders.

The Racial Gap in Economic Well-Being at Older Ages

Older Black adults receive less income than older white adults. They also hold much less wealth, which older adults can draw down to cover living expenses if their incomes fall short. Further, Black workers are less likely than white workers to participate in employer-sponsored retirement plans.

Income

Among adults age 65 and older, median 2015 household income is barely half as much for Black people as for white people ($22,100 versus $40,200, measured in 2019 inflation-adjusted dollars) (table 1). Latinx people's median 2015 household income of $17,100 is less than half as much as the median for white people. Within all three groups, about 9 in 10 older adults received Social Security income, but labor earnings, pension income, and asset income were more common among older white people than among older people of color. About two-thirds of older white adults received asset income in 2015, for example, compared with less than one-third of Black and Latinx adults. Except for other income, which includes means-tested government benefits, the median amount of each income type received was lower for Black and Latinx people than for white people.

TABLE 1

Adjusted Household Income by Source, Race, and Hispanic Origin, 2015

Age 65 and older

	Black	Latinx	White
Median adjusted household income ($)	**22,100**	**17,100**	**40,200**
Percentage with income			
Social Security	90	89	93
Labor earnings	24	19	28
Pension income	36	27	54
Asset income	31	23	66
Other income	41	37	38
Median amount among those with income (%)			
Social Security	13,800	13,400	18,500
Labor earnings	24,400	22,100	31,500
Pension income	12,900	10,800	13,800
Asset income	700	2,600	2,400
Other income	4,000	2,300	1,200

Source: Author's calculations from the Health and Retirement Study.

Notes: Financial amounts are reported in 2019 inflation-adjusted dollars. The analysis divides reported household income by the square root of two for married adults, to reflect the greater spending needs of couples relative to single adults. Asset income includes business or farm income, self-employment earnings, rent, dividend and interest income, and income from trust funds and royalties. Pension income includes income from employer-sponsored pensions and annuities. Other income includes income from alimony; unemployment insurance; workers' compensation; other government benefits; and lump sums from insurance, pensions, and inheritances.

The relative importance of different income sources varies with income levels. For all racial groups, Social Security accounted for about four-fifths of 2015 income received by older adults in the bottom third of the income distribution (table 2). Social Security is less important at higher income levels. Nonetheless, in the middle third of the income distribution it accounted for 80 percent of the income received by older Latinx adults and 68 percent of the income received by older Black adults (but only 47 percent of the income received by white adults). In the top third of the income distribution, labor earnings and employer pensions are important sources of income for all racial groups, and asset income is important for white people.

TABLE 2

Composition of Household Income by Income Tercile, Race, and Hispanic Origin, 2015 (%)

Age 65 and older

	Black	Latinx	White
Bottom third			
Social Security	79	82	80
Labor earnings	2	2	2
Pension income	3	3	9
Asset income	1	2	4
Other income	15	12	4
Middle third			
Social Security	68	80	47
Labor earnings	6	4	11
Pension income	13	5	26
Asset income	4	1	10
Other income	10	9	6
Top third			
Social Security	23	25	13
Labor earnings	33	32	28
Pension income	26	17	15
Asset income	9	19	31
Other income	9	8	13

Source: Author's calculations from the Health and Retirement Study.

Notes: The analysis divides reported household income by the square root of two for married adults, to reflect the greater spending needs of couples relative to single adults. Asset income includes business or farm income, self-employment earnings, rent, dividend and interest income, and income from trust funds and royalties. Pension income includes income from employer-sponsored pensions and annuities. Other income includes income from alimony; unemployment insurance; workers' compensation; other government benefits; and lump sums from insurance, pensions, and inheritances. Income terciles are estimated separately for each racial group.

The racial income gap at older ages has not changed much over the past two decades. At ages 65 to 70, Black median income as a share of white median income increased from 53 percent in 1997 to 61 percent in 2009, but it then declined to 49 percent in 2015 in the wake of the 2008 financial crisis and the deep recession that accompanied it (table 3). For Latinx adults at ages 65 to 70, median income as a share of white median income fell from 47 percent to 35 percent between 1997 and 2015, with most of the decline occurring after 2009. The racial income gap narrowed slightly between 1997 and 2015 at ages 71 to 76 and ages 77 to 82.

TABLE 3

Trends in Median Total Household Income by Age, Race, and Hispanic Origin, 1997–2015

	Dollar amount			As a percentage of white income	
	Black	**Latinx**	**White**	**Black**	**Latinx**
Ages 65–70					
1997	21,100	18,900	40,000	53	47
2003	25,000	20,300	43,500	57	47
2009	27,000	19,600	44,000	61	45
2015	27,600	19,800	55,900	49	35
Ages 71–76					
1997	18,900	15,400	32,800	58	47
2003	19,200	16,700	34,600	55	48
2009	21,500	16,000	36,400	59	44
2015	24,300	21,400	39,600	61	54
Ages 77–82					
1997	18,900	15,400	32,800	58	47
2003	19,200	16,700	34,600	55	48
2009	21,500	16,000	36,400	59	44
2015	24,300	21,400	39,600	61	54

Source: Author's calculations from the Health and Retirement Study.

Notes: Financial amounts are reported in 2019 inflation-adjusted dollars. The analysis divides reported household income by the square root of two for married adults, to reflect the greater spending needs of couples relative to single adults.

Older Black adults are more than four times as likely to have income below the federal poverty level (FPL) as older white adults. Among adults age 65 and older, 22 percent of Black people and 28 percent of Latinx people had incomes below the FPL in 2015 compared with 5 percent of white people (table 4). The poverty rate was particularly high for older people of color with limited education; adults age 80 and older; and divorced, widowed, and never married adults. Older women were also more likely than older men to have incomes below the FPL, mostly because they were less likely to be married.

TABLE 4

Poverty Rates by Personal Characteristics, Race, and Hispanic Origin, 2015

Age 65 and older

	Black	Latinx	White
All	**22**	**28**	**5**
Education			
No high school diploma	33	38	13
High school graduate	19	15	5
College graduate	13	16	3
Age			
65–69	19	31	4
70–74	17	19	3
75–79	23	24	5
80 and older	32	37	8
Gender			
Male	18	21	3
Female	25	32	6
Marital status and gender			
Married	6	19	2
Not married	32	39	10
Male	34	26	8
Female	31	44	11

Source: Author's calculations from the Health and Retirement Study.

Notes: Table shows the share of adults age 65 and older with incomes below 100 percent of the federal poverty level.

Wealth

On average, Black and Latinx adults age 65 and older hold only about one-quarter as much wealth as older white adults. In 2016, mean total household wealth—measured in 2019 inflation-adjusted dollars and including the value of housing, other real estate holdings, businesses, automobiles, other modes of transportation, and financial assets, minus any outstanding debt—was $159,200 for older Black people, $171,700 for older Latinx people, and $647,300 for older white people (table 5). Because the wealth distribution is skewed, most older adults hold much less wealth than the average amount. Median household wealth in 2016 was only $50,600 for older Black adults, $49,600 for older Latinx adults, and $269,500 for older white adults. One-quarter of older Black and Latinx adults had less than $2,500 in wealth.

TABLE 5

Adjusted Household Wealth by Type, Race, and Hispanic Origin, 2016 ($)

Age 65 and older

	Dollar amount			As a percentage of white income	
	Black	**Latinx**	**White**	**Black**	**Latinx**
Total household wealth					
Mean	159,200	171,700	647,300	25	27
25th percentile	2,100	2,400	86,600	2	3
50th percentile (median)	50,600	49,600	269,500	19	18
75th percentile	154,400	177,100	675,400	23	26
Net housing wealth					
Mean	75,900	94,500	158,600	48	60
25th percentile	0	0	26,600	0	0
50th percentile (median)	32,000	42,600	105,500	30	40
75th percentile	95,900	117,200	207,700	46	56
Financial wealth					
Mean	44,900	37,000	323,400	14	11
25th percentile	0	0	5,300	0	0
50th percentile (median)	500	0	76,800	1	0
75th percentile	8,800	7,500	323,900	3	2

Source: Author's calculations from the Health and Retirement Study.

Notes: Table reports wealth in 2019 inflation-adjusted dollars and divides household wealth by the square root of two for married adults, to reflect the greater spending needs of couples relative to single adults. Total household wealth includes the value of housing, other real estate holdings, businesses, automobiles and other modes of transportation, and financial assets, minus any outstanding debt. Net housing wealth includes the value of the primary residence minus any outstanding mortgages. Financial wealth includes the value of stocks, mutual funds, money market funds, checking and savings accounts, certificates of deposit, bonds, individual retirement accounts, Keogh plans, annuities, and other financial assets.

Most older adults of color hold much of their wealth as home equity. For older Black people, median housing wealth net of outstanding mortgages and other housing debt was $32,000, or 63 percent of their median total wealth. Median net housing wealth was 86 percent of median total wealth for older Latinx people but only 39 percent of median total wealth for older white people. Racial wealth disparities are especially pronounced for financial wealth. On average, older Black people held only 14 percent as much financial wealth as older white people in 2016, and older Latinx people held only 11 percent as much as older white people. More than one-quarter of older Black people and one-half of older Latinx people held no financial assets, and one-half of older Black people had no more than $500 in financial assets. These shortfalls in financial wealth are problematic because most households can easily liquidate much of their financial assets to meet emergencies.

The racial gap in household wealth at older ages has not improved much over the past two decades. Between 1998 and 2016, median total household wealth for Black people as a share of median total wealth for white people fell 4 percentage points at ages 65 to 70, increased 4 percentage points at ages 71 to 76, and fell 7 percentage points at ages 77 to 82 (table 6). The gap in household wealth between older Latinx people and older white people narrowed slightly over the past two decades. Latinx median total household wealth as a share of white median wealth increased 5 percentage points at ages 65 to 70 and at ages 71 to 76 and increased 2 percentage points at ages 77 to 82.

TABLE 6

Trends in Median Total Household Wealth by Age, Race, and Hispanic Origin, 1998–2016

	Dollar amount			As a percentage of white income	
	Black	**Latinx**	**White**	**Black**	**Latinx**
Ages 65–70					
1997	49,900	34,200	240,800	21	14
2003	56,500	60,800	290,600	19	21
2009	69,800	42,300	284,000	25	15
2015	46,800	52,700	283,300	17	19
Ages 71–76					
1997	44,400	45,500	225,700	20	20
2003	54,100	46,700	281,400	19	17
2009	59,500	51,400	264,200	23	19
2015	67,100	70,800	281,000	24	25
Ages 77–82					
1997	46,300	31,400	199,800	23	16
2003	35,300	76,600	268,000	13	29
2009	62,700	7,000	274,600	23	3
2015	45,200	49,600	278,000	16	18

Source: Author's calculations from the Health and Retirement Study.

Notes: Table reports wealth in 2019 inflation-adjusted dollars and divides household wealth by the square root of two for married adults, to reflect the greater spending needs of couples relative to single adults. Total household wealth includes the value of housing, other real estate holdings, businesses, automobiles and other modes of transportation, and financial assets, minus any outstanding debt.

Retirement Plan Coverage

Workers of color are less likely than white workers to participate in a retirement plan at work, which is an important vehicle for amassing retirement savings. Among employed workers ages 51 to 64 in 2016, 52 percent of Black people and 37 percent of Latinx people were covered by an employer-sponsored retirement plan, compared with 60 percent of white people (table 7). Coverage rates are higher among full-time workers, but the racial gap is similar. Racial disparities in retirement plan coverage have grown over time. In 1998, coverage rates were similar for Black and white employed workers, whereas the coverage rate for Latinx workers lagged only 12 percentage points behind the rate for white workers. For all groups, defined-contribution plans are more common than defined-benefit plans, which have become less common over the past two decades.

TABLE 7

Retirement Plan Coverage on the Current Job, by Type, Race, and Hispanic Origin, 1998 and 2016 (%)

Workers ages 51–64

	Black	Latinx	White
All employed workers			
Any coverage			
1998	56	46	58
2016	52	37	60
Defined-benefit plan			
1998	36	23	33
2016	19	16	27
Defined-benefit plan			
1998	26	27	37
2016	38	21	43
Full-time workers			
Any coverage			
1998	64	54	67
2016	61	44	69
Defined-benefit plan			
1998	41	28	40
2016	23	20	31
Defined-benefit plan			
1998	30	32	44
2016	45	25	50

Source: Author's calculations from the Health and Retirement Study.

Notes: The analysis defines full-time work as 35 or more hours a week.

Policy Options

Various policy options could narrow racial gaps in retirement security. Possibilities include protecting and improving Social Security, expanding SSI, facilitating homeownership, promoting savings, and boosting employment and earnings.

Protect and Improve Social Security

Because Social Security accounts for a disproportionate share of the income received by older Black people, increasing program payments to low-income beneficiaries could substantially improve their financial security. Many policymakers, advocates, and policy organizations have advanced proposals to raise Social Security benefits, but they often approach benefit increases differently, affecting the impact on Black beneficiaries. Moreover, Social Security's looming financial problems complicate efforts to increase benefits.

IMPROVE PROGRAM FINANCES

Social Security faces a long-term financing gap driven by reduced fertility and increased life expectancy that has lowered the number of workers supporting each retiree. The program trustees' 2020 intermediate projections indicate that under current rules Social Security's 75-year shortfall totals 3.21 percent of taxable payroll and that program costs will exceed revenues in 2020 and every subsequent year for the foreseeable future (Board of Trustees 2020). A large trust fund that built up after 1983, when Congress last addressed Social Security financing, can cover the shortfall for the next 15 years, but the trustees project that fund reserves will be depleted in 2035, just 15 years from now. When that happens, the system will be able to cover only about four-fifths of scheduled benefits.

Closing Social Security's long-term financing gap would prevent or at least delay the depletion of the program's trust funds and the need to implement substantial across-the-board benefit cuts. Consequently, steps to bolster Social Security's financial status could prevent or forestall a significant deterioration in the financial security of older adults, including people of color. Policymakers could close the financing gap through some combination of raising revenues and cutting costs. The approach they choose could shape the financial well-being of older Black adults.

Increase the taxable maximum. Social Security is financed mainly by payroll taxes.[1] The current payroll tax rate is 6.2 percent and is levied on both covered employees and their employers. Self-employed workers pay 12.4 percent of their earnings to the system. However, only earnings in covered employment below the program's contribution and benefit base are subject to taxation each year. That cap, which increases with the growth in the average national wage, was set at $137,700 in 2020.

Many Social Security reform plans, including those proposed by the Commission on Retirement Security and Personal Savings (2016), the National Commission on Fiscal Responsibility and Reform (2010) and many of the 2020 Democratic presidential candidates (Smith, Johnson, and Favreault 2020), would increase the cap on annual earnings subject to Social Security payroll taxes. Although the program's taxable maximum grows with the average national wage, the share of covered earnings subject to the Social Security payroll tax decreased from 90 percent in 1983 to 83 percent in 2018 because earnings have increased more rapidly for high-wage workers than for moderate- and low-wage workers (Johnson 2020b). Raising the taxable maximum would move the share of earnings subject to the payroll tax closer to its past level and improve Social Security's financial status.

The financial impact of increasing the taxable maximum would depend on how high the cap is raised, the tax rate applied to higher earnings, and whether workers would receive additional benefit credits for their additional taxes. Some proposals would eliminate the taxable maximum so that all earnings would be taxed; others would increase the maximum so that the payroll tax would cover about 90 percent of earnings; and others would impose additional taxes only on workers with annual earnings above some level, such as $250,000 or $400,000. The Social Security actuaries estimate that removing the taxable maximum in 2021 and later years would eliminate about three-quarters of Social Security's long-term financing gap if the program did not provide benefit credits for those additional taxes and would eliminate only about one-half of the gap if the program provided benefit credits for the additional taxes.[2] About one-fifth of Social Security's long-term financing shortfall would be eliminated, according to the actuaries, if the taxable maximum were increased to cover 90 percent of covered earnings and benefit credits were provided on those contributions. These proposals would not raise taxes on many Black workers, because they are much less likely than white workers to earn more than the existing taxable maximum (Favreault and Haaga 2013).

Other revenue-enhancing proposals for Social Security include raising the payroll tax rate and taxing additional income sources to help finance the program. The Social Security 2100 Act, introduced by Representative John Larson (D-CT) in 2019, would gradually increase the payroll tax 2.4 percentage points (split between employees and their employees).[3] During the 2020 Democratic presidential primaries, Senator Bernie Sanders (I-VT) and Senator Elizabeth Warren (D-MA) proposed taxing investment income and crediting those revenues to Social Security (Smith, Johnson, and Favreault 2020). Raising the payroll tax rate would reduce take-home pay for all covered workers, but taxing new income sources might not affect lower- and moderate-income Black workers much if the tax was levied on income sources, such as investment earnings, received mostly by higher-income workers.

Cut costs. Another approach to closing Social Security's long-term financing gap is to cut program costs by trimming benefits. One often-proposed option is to revise the benefit formula to trim payments to beneficiaries with high lifetime earnings, which would protect low- and moderate-income Black beneficiaries from benefit cuts. The benefit formula is progressive; for workers turning 60 in 2020, it replaces 90 percent of their first $960 of average indexed monthly earnings ($11,520 annually), 32 percent of the next $4,824 in average monthly earnings, and 15 percent of covered earnings above $5,785 ($69,420 annually), up to the taxable maximum. The Social Security Reform Act of 2016, introduced by the former representative Sam Johnson (R-TX), would modify the benefit formula to reduce the share of high earnings replaced by Social Security from 15 percent to 5 percent.[4]

Another common cost-containment proposal would raise the program's retirement age. In 1983, President Ronald Reagan signed legislation to gradually increase Social Security's full retirement age from 65 to 67. This increase cut benefits by boosting the actuarial reduction for claiming benefits early and reducing the bonus for delaying benefit take-up. Advocates of further raising the full retirement age, which was included in the Social Security Reform Act of 2016, argue that benefits should be cut because most people are living longer. However, life expectancy has not grown as rapidly for Black people as for white people (Olshansky et al. 2012), so raising the retirement age could disproportionately harm Black people. On the other hand, beneficiaries who first began collecting because of a disability are not subject to actuarial reductions. Those beneficiaries, who are disproportionately Black, would not be harmed by an increase in the retirement age (Mermin and Steuerle 2006).

ENHANCE BENEFITS

Enhancing Social Security benefits could improve retirement security for people of color. The effectiveness of any such changes would hinge on how policymakers increase benefits.

Create a meaningful minimum benefit. Perhaps the most effective approach would be to increase Social Security's minimum benefit, which would target benefit increases to those with the smallest benefits. Social Security currently includes a minimum benefit. This provision aims to support retirees who spent many years working at low wages, but the minimum is too low to help many beneficiaries. At the end of 2019, only 32,100 people, less than 0.1 percent of all Social Security beneficiaries, received the special minimum, (Social Security Administration 2020). No new Social Security recipients have received the special minimum since 1998, except for a few retirees receiving government pensions that reduced their Social Security benefits (Feinstein 2013). Yet in 2003, 21 percent of Social Security beneficiaries ages 64 to 73 received family Social Security benefits that fell below the FPL, including 43 percent of Black beneficiaries (Favreault 2010).

Many prominent Social Security reform proposals would create a meaningful minimum benefit, including proposals from both Democrats and Republicans.[5] The proposed minimum benefit is usually tied to the FPL and years of employment. The proposed Social Security 2100 Act, for example, would set the minimum equal to 125 percent of the FPL for beneficiaries with 30 or more years of covered employment, 100 percent of the FPL for beneficiaries with 26 years of covered employment, and 50 percent of the FPL for beneficiaries with 18 years of covered employment. One limitation of these proposals, however, is that many older adults with limited Social Security benefits did not have long careers; in 2003, about 9 in 10 beneficiaries ages 64 to 73 receiving benefits below the FPL worked fewer than 30 years in covered employment (Favreault 2010). Consequently, most beneficiaries who would qualify for the full minimum benefit would fall into the second quintile of the lifetime earnings distribution, not the bottom quintile.

Other benefit increases. Other proposals to expand Social Security include across-the-board benefit increases, the introduction of caregiver credits, and increased payments to long-term beneficiaries and the survivors of beneficiaries. The Social Security Expansion Act, introduced by Sanders in 2019, would adjust the Social Security benefit formula to increase the amount of earnings subject to a 90 percent replacement rate, thus boosting payments to all beneficiaries.[6] Another option would supplement the earnings histories that factor into Social Security benefit calculations for workers who take time out of the paid workforce to care for children, dependents with disabilities, or older family members. The Social Security Caregiver Credit Act of 2019, introduced by Senator Chris Murphy (D-CT), would credit workers with one month of earnings equal to one-half of the national average wage for every month that they provided at least 80 hours of care.[7]

Boosting Social Security payments to the survivors of deceased beneficiaries could improve financial security for widows, who are much more likely to have income below the FPL than married beneficiaries (Johnson 2020a). Social Security currently offers survivor benefits equal to 100 percent of the deceased spouse's benefit, which would replace the surviving spouse's existing benefit if it generated a larger payment. This survivor benefit is not very valuable when spouses receive similar payments; in those cases, the death of a spouse can reduce household Social Security payments as much as 50 percent. During the 2020 Democratic presidential primary, several candidates, including former vice president Joe Biden, proposed providing survivors with the option of collecting 75 percent of the total benefit received by their household before their deceased spouse died, as long as that payment does not exceed the benefit that would be received by a two-earner couple with average career earnings (Smith, Johnson, and Favreault 2020).

Many long-term Social Security beneficiaries receive relatively low payments because their benefits are based on earnings received many years earlier. Social Security's annual cost-of-living adjustment raises payments to offset inflation, but because wages typically grow faster than prices, beneficiaries who began collecting many years ago generally receive lower benefits than those who began collecting later. Moreover, out-of-pocket spending on medical care and home and residential care typically surges after age 80 (Cubanski et al. 2019; Hatfield et al. 2018), exacerbating economic hardship for many long-term beneficiaries. Some Social Security reform proposals would provide a bonus to long-term beneficiaries to improve their financial security. A report put forth by the National Commission on Fiscal Responsibility and Reform (2010), for example, would provide a bonus equal to 5 percent of the average benefit to beneficiaries who had collected payments for 20 years; the higher payments would phase in, beginning with a 1 percent bonus for beneficiaries who had collected for 16 years (Favreault and Karamcheva 2011).

Boosting payments to widowed beneficiaries would likely help more Black retirees than would creating caregiver credits or providing longevity bonuses. Black women are more likely to become widowed than white and Latinx women even though Black women are less likely to marry (Angel, Jimenez, and Angel 2007). Caregiver credits tied to average earnings could help people with low earnings, but it could also help higher-income groups who can afford to drop out of the labor force to raise children. Black mothers with young children are more likely to work for pay than white or Latinx mothers.[8] Boosting payments to long-term beneficiaries would help white retirees more than Black retirees because white people tend to live longer (Olshansky et al. 2012). Changing the benefit formula to increase payments to all beneficiaries would not target benefit enhancements to Black retirees or other groups who may need more help.

Expand Supplemental Security Income

Designed to help people who do not collect Social Security or who receive very small Social Security payments, SSI provides only limited benefits and enrolls relatively few older adults. The 2020 federal SSI benefit for an individual is $783 a month, although many states supplement those payments.[9] Recipients without any earnings who do not collect a supplement are left with an income that falls $280 below the FPL. In 2019, only 1.2 million adults age 65 and older— just 2 percent of the US population in that age group—received SSI benefits (Social Security Administration 2020). Between 1975 and 2019, the number of older SSI beneficiaries fell by 1.1 million as the number of adults age 65 and older increased by more than 30 million.

Expanding SSI could improve financial security at older ages for many Black people. Boosting enrollment by simplifying the application procedure and reaching out to potential participants would amplify SSI's impact. Only about one-half to two-thirds of eligible participants enroll in the program (McGarry 1996; Rupp, Strand, and Davies 2003). Policymakers could also ease eligibility standards by relaxing SSI's resource test, which permits enrollees to hold no more than $2,000 in countable assets if single and $3,000 if married. Those levels have not increased since 1989, and the resource test excludes only the value of a residence, vehicle, burial plot, household goods, and personal effects. Another option to improve SSI's impact is to increase benefit levels. During the 2020 presidential campaign Biden, Sanders, and Warren proposed increasing the federal SSI benefit for individuals to 100 percent of the FPL (Smith, Johnson, and Favreault 2020).

Facilitate Homeownership

Homeownership helps people build wealth and improve their financial security in old age as they pay off their mortgages. It also often allows people to live in communities with better amenities, including higher-quality schools (Dietz and Haurin 2003) that can help students obtain good-paying jobs, and it provides families with an important asset that can be passed on to future generations. However, Black people are much less likely than white people to own a home. In the second quarter of 2020, the homeownership rate was 47 percent for Black households compared with 76 percent for white households (US Census Bureau 2020). The homeownership gap between Black and white people narrowed during the 1990s and the first half of the 2000s as the 1968 Fair Housing Act and subsequent federal legislation outlawed race-based discrimination in access to credit and homeownership, but it increased in the wake of the 2007 financial crisis (Acolin, Lin, and Wachter 2019). Black people are now only about half as likely as white people to transition from renting to owning a home (Brown and Dey 2019).

Racial disparities in income, credit scores, and marital status account for much of the homeownership gap between Black and white people (Acolin, Lin, and Wachter 2019; Choi et al. 2019). Racial discrimination also appears to play a role, including the legacy of past racist government policies that segregated neighborhoods and restricted Black people's access to financial credit and homeownership (Rothstein 2017). The Federal Housing Administration, established in 1934, guaranteed mortgages for homeowners but imposed restrictive covenants in deeds that forbade home sales to Black people. Similarly, the GI Bill, first enacted in 1944 to help veterans returning from World War II buy homes, used the same restrictive practices as the Federal Housing Administration to block homeownership by Black veterans. The impact of these policies lingers. By helping to deny the wealth building opportunities that come with homeownership, these policies limited the ability of a generation of Black adults to transfer wealth to future generations, making it harder for Black people to buy homes today. The racial homeownership gap today is larger for low-income families, possibly because low-income Black people are less able than their white counterparts to count on financial help from family (Choi et al. 2019). Racial discrimination is not merely a relic of the past. When looking to buy homes, people of color are told about and shown fewer homes by realtors than are white people (Turner et al. 2013). Acolin, Desen, and Wachter (2019) find evidence that discrimination may be worsening, because the share of the racial homeownership gap that cannot be explained by differences in financial resources is growing.

Policymakers can take several steps to promote Black homeownership (McCargo, Choi, and Golding 2019; Neal, Choi, and Walsh 2020). A more equitable housing finance system would help Black people obtain the credit most people need to buy a home. Mortgage credit has become more difficult to obtain after the 2007 global financial crisis (Brown and Dey 2019), and Black borrowers face higher interest rates than white borrowers (Bartlett et al. 2019). Reforming zoning and land-use regulations could increase the supply of housing (especially at the low end of the market) and make homeownership more affordable, particularly for first-time homebuyers. More outreach to Black renters and counseling on credit building, saving strategies, and the home-buying process could also ease the transition to homeownership.

Promote Savings by Lower-Wage Workers

Changes to the federal income tax code that better reward low- and moderate-income savers could encourage more Black workers to save for retirement. Most retirement savings accumulate in employer-sponsored 401(k)-type accounts that allow workers to deduct their account contributions from their taxable income. These tax deductions are worth more for higher-income savers in high tax brackets than lower-income savers in low tax brackets, and they provide no financial benefit to the estimated 11 percent of working-age adults who do not pay any federal income tax (Fullerton and Rao 2019). Replacing the tax deduction for saving in tax-qualified retirement accounts with a flat-rate refundable tax credit would strengthen savings incentives for lower-income workers (Butrica et al. 2014).

Another way to help lower-income savers would be to expand the federal Saver's Credit, which currently provides a nonrefundable income tax credit of up to $1,000 ($2,000 if married filing jointly) for low- and moderate-income taxpayers who contribute to a retirement savings account. The credit equals 50 percent, 20 percent, or 10 percent of contributions, depending on taxable income, for those with incomes up to $32,500 (or $65,000 if married filing jointly) in 2020. Making the tax credit fully refundable and raising the income eligibility thresholds would allow more people to benefit from the Saver's Credit.

Saving for retirement is especially challenging for the nearly half of Black workers who lack access to an employer-sponsored retirement plan. Automatic payroll deductions, typically supplemented by employer contributions, allow many workers with 401(k) plans to accumulate significant retirement savings. Several states have recently enacted programs requiring employers that do not provide a retirement plan to automatically enroll their workers in individual retirement accounts and make payroll deductions on their behalf while allowing workers to opt out if they choose.[10] Early results from Oregon's plan show that relatively few workers opt out of the plan (Quinby et al. 2019). Expanding these programs to more states or creating a national, automatic individual retirement account program could boost retirement saving for many Black workers.

Lack of access to banking services, which limits one's ability to save and obtain credit and raises the cost of financial transactions, also contributes to the racial wealth gap (Baradaran 2019). In 2017, 17 percent of Black households were unbanked—meaning that no one in the household had a checking or savings account at an insured institution—compared with only 3 percent of white households (Federal Deposit Insurance Corporation 2018). Another 30 percent of Black households were underbanked, meaning that they had a bank account but also obtained products or services from an alternative financial services provider. Allowing the US Postal Service to provide simple banking services, such as checking accounts and small loans, could help many Black households save and obtain lower-cost credit (Baradaran 2019).

Improve Employment Outcomes

Narrowing racial gaps in the workplace could substantially improve Black people's financial well-being at older ages because that well-being depends largely on how much people earned earlier in life. More than 50 years after the passage of major civil rights legislation intended to reduce racial barriers in employment and education, Black adults continue to earn much less than white adults (Daly, Hobijn, and Pedtke 2017). Because of these earnings shortfalls, most policies designed to help lower-income workers would disproportionately help Black workers. Options include increasing the minimum wage, expanding apprenticeships, devoting more public funds to workforce development programs, and strengthening labor unions. Labor union membership has been declining for decades, but unions could be revived by federal policies that facilitate worker efforts to create collective bargaining units; create meaningful penalties for employers who violate labor laws by firing workers who are organizing; and overturning state right-to-work laws, which allow employees in unionized workplaces to opt out of union dues.

Other policies and practices would focus on increasing lifetime earnings for Black workers. Local laws that forbid employers from questioning job applicants about their salary history, because such questions can perpetuate past discrimination and other inequities, have been shown to increase salaries for workers who change jobs, especially women and Black workers (Bessen, Denk, and Meng 2020). Extending these laws could reduce the racial wage gap. Employers could provide more career mentoring for Black workers and invest more in programs to root out implicit bias in the workplace. To limit unconscious bias in promotion decisions, the US Army no longer shows candidates' photos to officer selection boards.[11] Eliminating the mass incarceration of Black men would also promote retirement security, because people cannot earn wages, accumulate Social Security credits, or save for retirement when serving time in prison.

Conclusions

Many older Black people face significant financial challenges. Black adults age 65 and older receive only about half as much income as their white counterparts, and they are more than four times as likely to be impoverished. Average household wealth, including the value of a home, other real property, and financial assets minus outstanding mortgages and other debt, is about four times higher for older white people than older Black people. Disparities in financial wealth, which include bank accounts, mutual and money market funds, and stocks and bonds (all of which can generally be easily liquidated in an emergency) are even larger. On average, older white people hold about seven times as much financial wealth as older Black people. The gap in economic well-being between Black and white people at older ages has not narrowed over the past two decades.

Various policy changes could improve the financial security of older Black adults. Because Social Security accounts for the majority of income received by most Black retirees, shoring up the program's finances may be the most pressing priority. Under current benefit and tax rules, the Social Security trustees project that in 2035 the system's trust funds will run out, and Social Security will be able to pay only about four-fifths of scheduled benefits (Board of Trustees 2020). Those projections were completed before the COVID-19 pandemic plunged the US economy into a deep recession and slashed Social Security revenues, so the program's true day of reckoning may come sooner. Increasing Social Security revenues, such as by taxing high earnings, could delay or reduce required benefit cuts for Black beneficiaries and others. Social Security benefit enhancements, such as the introduction of a meaningful minimum benefit and increased benefits for the survivors of deceased beneficiaries, as well as SSI expansions, would also help many older Black adults.

Other policy initiatives could help Black workers accumulate wealth over their lifetimes and improve financial security for future generations of Black retirees. A more equitable housing finance system that improves access to credit and zoning reforms that increase the supply of affordable housing could enable more Black people to purchase homes and build home equity. Policymakers could promote retirement savings for lower-income workers by expanding the Saver's Credit and incentivizing saving through tax credits instead of tax deductions. Widespread use of automatic individual retirement accounts could facilitate retirement savings for workers without access to employer-sponsored retirement accounts. Increasing the minimum wage, expanding apprenticeships, devoting more public funds to workforce development programs, and strengthening labor unions could increase employment and earnings for many Black workers, allowing more to save for retirement and accumulate additional Social Security credits.

These initiatives could help level the playing field for Black workers and savers, helping them overcome the legacy of racist government policies and ongoing racial discrimination that obstruct wealth building and limit retirement security for many Black people. Some of these policy initiatives would require additional public spending. Expanding Social Security, increasing SSI payments, and investing more in workforce development programs could be expensive and divert resources from other public priorities. Other efforts, such as ensuring that Black people are treated fairly in credit, housing, and labor markets, would not require much funding. Successful implementation of any of these reforms would require sustained commitment from federal, state, and local policymakers and other stakeholders.

Notes

[1] The federal government also taxes part of the Social Security benefits received by higher-income beneficiaries and allocates that revenue to Social Security. However, those tax receipts accounted for only 4 percent of the program's total revenue in 2019 (Board of Trustees 2020).

[2] "Provisions Affecting Payroll Taxes," Social Security Administration, accessed September 2, 2020, https://www.ssa.gov/oact/solvency/provisions/payrolltax.html.

[3] Social Security 2100 Act, H.R. 860, 116th Cong. (2019).

[4] Social Security Reform Act of 2016, H.R. 6489, 114th Cong. (2016).

[5] For example, the Social Security 2100 Act (H.R. 860) and the Social Security Reform Act of 2016 (H.R. 6489) both include minimum benefit provisions.

[6] Social Security Expansion Act, S. 478, 116th Cong. (2019).

[7] Social Security Caregiver Credit Act of 2019, S. 2317, 116th Cong. (2019).

[8] "Labor Force Participation Rates," Women's Bureau, US Department of Labor, accessed September 2, 2020, https://www.dol.gov/agencies/wb/data/latest-annual-data/labor-force-participation-rates.

[9] "Federal SSI Payments for 2020," Social Security Administration, accessed September 2, 2020, https://www.ssa.gov/oact/cola/SSI.html.

[10] "State Initiatives 2020: New Programs Begin Implementation While Others Consider Action," Center for Retirement Initiatives, Georgetown University, accessed September 2, 2020, https://cri.georgetown.edu/states/.

[11] Kyle Rempfer, "Army Ditches Officer Promotion Photos as Part of an Effort to Eliminate Unconscious Bias," *Army Times*, June 25, 2020.

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