



REPORT

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Hispanics and the Social Security Debate

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EXECUTIVE SUMMARY

Latinos have distinct demographic and economic characteristics that give them a unique stake in the debate over the future of Social Security. First, they are younger on average than the remainder of the U.S. population, which means that, as a group, their future as Social Security contributors and beneficiaries will be different from the future of non-Hispanics. Second, Hispanic workers tend to hold lower-paying jobs than the average U.S. worker and are less likely to have an employment-based pension. At all ages of adulthood Hispanics have lower average incomes and have accumulated less wealth than their white counterparts, and Hispanics currently over the age of 65 rely very heavily on Social Security retirement benefits as a source of income. For all these reasons, the nature, extent and timing of any changes to Social Security would have specific and distinct consequences for the Hispanic population.¹

In addition to examining these demographic and economic characteristics, this report presents the findings of a new national public opinion survey which found that about half of all Latinos favor a plan of the sort proposed by President George W. Bush, a plan that would allow wage earners to put some of their Social Security taxes in investment accounts. Conducted from February 15 to March 2, 2005, among a nationally representative sample of 1,001 Hispanic adults, the Pew Hispanic Center survey found that 49 percent think the proposal is a good idea while 38 percent say it is a bad idea. The survey also found that Latinos strongly favor measures that would limit benefits for the wealthy or increase Social Security taxes on them and oppose measures that would reduce benefits or eligibility for most retirees.

The major findings presented in this report include:

- Because of their relative youth, Latinos would be disproportionately affected by any changes to Social Security that leave benefits untouched for today's older workers and current retirees but impose a new structure on younger people. More than 25 percent of the white population was born before 1950, but only 10 percent of Hispanics. Since President Bush's proposed changes are "back-loaded," affecting younger persons

¹ The terms "Hispanic" and "Latino" are used interchangeably in this report. All racial identifiers such as "white" and "black" refer to non-Hispanics.

but leaving the system unchanged for those age 55 or older, a greater share of Hispanics than whites would find themselves directly affected.

- The transition to a retirement system that includes personal investment accounts as proposed by President Bush might be more challenging for Hispanic workers than for the working population at large. Not only are their earnings lower than average, young Hispanics have much less experience owning and managing long-term financial assets. For example, among household heads ages 35 to 44, 66 percent of whites own stocks, bonds or other long-term financial assets, compared with less than 28 percent of Hispanics.
- Among persons age 65 or over, Hispanics are less likely than others to receive Social Security benefits, and the average amount of Social Security benefits they do receive is lower as well.
- Hispanics age 65 or over are more dependent on Social Security than whites in the same age bracket because they have few other sources of retirement income.
- Current indicators suggest that Social Security is likely to continue to be a key source of income for older Hispanics in the future. Hispanic workers are the least likely of the principal racial and ethnic groups to participate in an employment-based retirement plan or own any long-term financial assets.
- The role that Hispanics play as contributors to Social Security will increase substantially in the next several decades. While the white labor force is projected to fall from 100 million in 2005 to about 94 million in 2050, the Hispanic labor force is projected to more than double, increasing from 19 million in 2005 to about 46 million in 2050. While fewer white workers will be contributing, many more Hispanics will be paying Social Security taxes by the middle of the century.
- In a national opinion survey by the Pew Hispanic Center, 49 percent of Hispanics said they thought a plan for individual investment accounts of the sort proposed by President Bush was a good idea while 38 percent said it was a bad idea and 12 percent said they did not know.

- Hispanics are almost evenly divided in their views of the condition of the Social Security system, with 47 percent saying it was in crisis or had major problems and 43 percent saying it had minor problems or no problems at all.

INTRODUCTION

This report is broken into four sections. First, it reviews the current and future demographic characteristics of the Latino and white population in the United States, and shows how differences in these characteristics mean that Latinos and whites would be affected in different ways by the changes in Social Security proposed by President Bush. Next, the report analyzes how older Hispanics are faring under the current Social Security system. It then shows how wealth accumulation and levels of participation in pension plans by Hispanics are likely to shape their dependence on Social Security in the future.² Finally, the report presents the findings of a national survey of Latino attitudes toward proposed changes in the Social Security system.

I. President Bush's Social Security Proposal

In the State of the Union address on February 2, 2005, President Bush proposed an overhaul of the Social Security system that would enable persons now under the age of 55 (those born after 1949) to choose to participate in new individual investment accounts or to remain in the current Social Security system. Under the president's proposal, Social Security benefits both for current recipients and for persons now age 55 and older would remain unchanged. Administration officials have since indicated that guaranteed Social Security benefit levels would be reduced for persons under the age of 55 in order to address the long-term financing issues facing the system. The White House has not specified the level of guaranteed Social Security benefits under the proposal, nor the manner in which guaranteed benefit levels will be determined. The proposal simply indicates that guaranteed Social Security benefits may be less generous than under current law for those under age 55.

The president's proposal hence divides the population into two groups. Persons age 55 or older will experience no change in the determination of their Social Security benefits and will not have access to voluntary personal investment accounts. Those age

² In line with current public debate, this analysis focuses only on the retirement portion of Social Security. Social Security also provides benefits to disabled workers and surviving family members of deceased workers. Of the 46.4 million Social Security beneficiaries in December 2002, 32.3 million were either retired workers or the spouses or children of retired workers. Although Social Security reform might also affect disability and survivors' benefits, it is clearly the projected growth in the number of retiree beneficiaries due to the aging of the baby boom generation that is driving this reform.

54 or under would be in the new system with the option of personal investment accounts. A subset of this younger group, individuals between the ages of 45 and 55, would be young enough to be in the new system but would reach age 65 in a relatively few number of years, which might limit their ability to realize substantial gains on their investments.

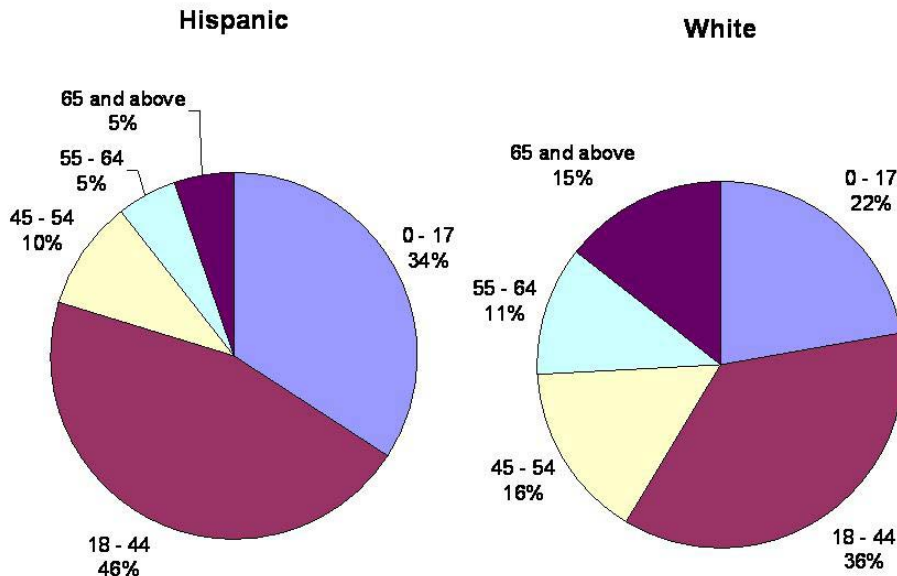
Table 1 indicates that different racial and ethnic groups have different levels of exposure to the personal investment account proposal. Whites are an older population. More than a quarter of all whites are age 55 or older (as of March 2004) and are not directly affected by the president’s proposal (Figure 1). By contrast, only 10 percent of the Hispanic population is age 55 or older – 4.3 million individuals out of an estimated 40 million Latinos. Thus a greater share of the Latino population would see its retirement finances affected by changes of the sort proposed by the president.

Table 1. Population by Ethnic Group and Age, 2004 (in millions)

Age	Total	Hispanic	Non-Hispanic			
			White	Black	Asian	Other
All ages	288.3	40.4	194.9	34.9	11.7	6.3
0 - 17	73.6	13.9	43.4	11.1	2.7	2.5
18 - 44	110.6	18.4	70.8	13.7	5.3	2.4
45 - 54	41.1	3.9	30.2	4.6	1.6	0.7
55 - 64	28.4	2.2	22.0	2.7	1.0	0.4
65 and above	34.7	2.1	28.3	2.8	1.1	0.4

Source: Pew Hispanic Center tabulations of March 2004 Current Population Survey Annual Social and Economic Supplement.

Figure 1. The Distribution of the Hispanic and White Population by Age, 2004



Source: Pew Hispanic Center tabulations of March 2004 Current Population Survey Annual Social and Economic Supplement

Under the president’s proposal, workers now between the ages of 40 and 55 could opt to invest some of their payroll taxes in a personal investment account beginning in 2009. Individuals in the 45-to-54 age bracket today are young enough to be in the new system the president proposes, but they are also old enough that their investment accounts would operate on a relatively short time horizon if their goal was to accumulate a balance that could supplement their traditional Social Security benefit. The oldest of these workers, for example, would reach age 65, the current retirement age, in 2015 and thus would have only six years for their investment accounts to accumulate gains before they started drawing them down.

It should be noted that individuals between the ages of 45 and 54 are not necessarily the individuals whose total retirement benefits would most likely decline under the investment account proposal. Which ages might experience the largest gains or losses under the president’s proposed change depends on several factors, including the manner in which the guaranteed Social Security benefit will be determined for those under age 55. So, it is impossible to assess presently which age groups will fare better or worse with a combination of investment accounts and a modified structure for guaranteed

benefits. But it is certainly true that persons between the ages 45 to 54 will have less time to adjust to and gain from the new system in comparison to younger workers, and that will have a specific impact on the Latino population.

Nationwide, about 41 million persons are in this sensitive 45-to-54 age bracket (Table 1), of whom almost 4 million are Latinos. As discussed in Section III below, the financial market experience and knowledge of Hispanics in this age group probably puts them at a disadvantage in facing the challenges of managing an investment account with a short time horizon. Only 40 percent of Hispanic workers in this age bracket participate in a work-based retirement plan, in comparison with 63 percent of white workers of the same age. Fewer than 30 percent of Hispanics ages 45 to 54 own stocks, bonds or other long-term financial assets, whereas almost 70 percent of whites in this age bracket own such assets. Relative to whites, these Hispanics have less financial savvy and experience. The personal investment account proposal would challenge their financial acumen, especially with retirement just around the corner.

More than half of all 45-to-54-year-old Latinos (2.2 million) were born outside the United States and many of them arrived during the 1970s and 1980s. These included a large number who initially lived here without authorization, and many of these would have been among the nearly 3 million people who became legal permanent residents under the amnesty provisions of the 1986 Immigration Reform and Control Act (IRCA). In comparison with their native-born Hispanic peers and with non-Hispanic whites, these workers have a low earnings history and lower levels of wealth and are less likely to have a pension. Thus, changes in the guaranteed Social Security benefit level may have a significant impact on these foreign-born Latinos given their lack of other sources of retirement income, regardless of whether or not they choose to participate in personal investment accounts.

Looking at another segment of the population – people now under the age of 45, who would have more time to plan and contribute to personal investment accounts – President Bush’s proposal would again have a distinct impact on the Latino population because of its demographic characteristics. Latinos are more concentrated in this age group than other major racial and ethnic groups. Four out of five Latinos are under age 45, in comparison with fewer than three out of five whites. And Hispanics have a bigger stake in the president’s proposal than their presence in the general population suggests.

Fewer than 7 percent of persons age 55 or older are Latinos, but about 18 percent of the population under 45 years of age is Latino. In short, a greater share of Hispanics than whites would be directly affected by the president's proposal.

In sum, proposed Social Security changes currently on the table will have their largest impact on persons less than 55 years old. Those between the ages of 45 and 54 are on the cusp of change – young enough to be affected by reform but perhaps not young enough to realize the potential gains from reform. The youth of the Hispanic population ensures that relatively few of them fall into this age bracket. But those who do are under-prepared for retirement in comparison with whites and so are more susceptible to the particulars of reform. The retirement security for the largest segment of the Latino population, the 32 million Latinos under the age of 45, would be directly impacted by the president's proposal, and thus we need to consider the behavior and well-being of today's young Latinos to fully distill its implications for the Latino population

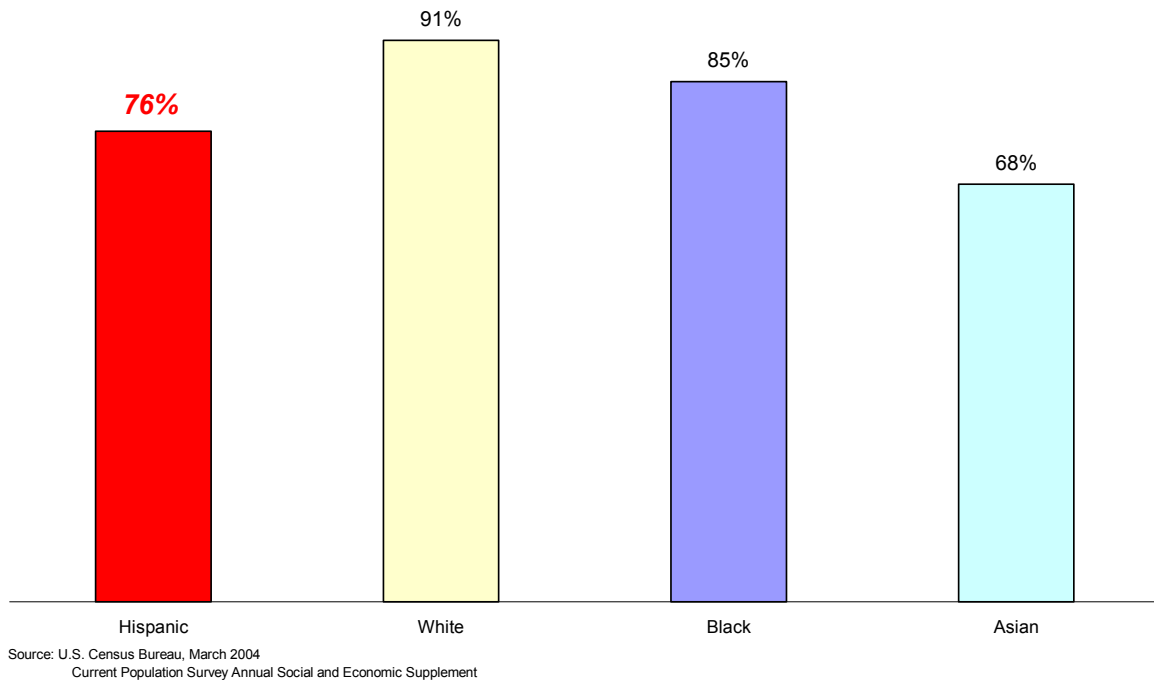
II. The Role of Social Security for Older Hispanics

This section considers the extent to which Hispanics age 65 or older receive Social Security benefits and at what levels they receive them. Relatively fewer Hispanics than whites or blacks receive income from Social Security, and their levels of benefits are also lower on average. However, Social Security is a more important source of income for retired Hispanics than for other retirees, and Social Security keeps more of them out of poverty than it does members of other racial or ethnic groups.

Older Hispanics are less likely than older whites and blacks to receive Social Security (Figure 2). About 75 percent of older Hispanics receive Social Security, compared with 91 percent of whites and 85 percent of blacks. This lower recipient percentage among older Hispanics is explained by several factors. First, a small fraction of older foreign-born Hispanics do not have legal immigration status and thus are not eligible to receive benefits; a somewhat larger share spent some part of their lives in the United States as unauthorized workers and were not able to have a Social Security number in their own name. Second, in order to qualify for Social Security benefits an individual must be at least age 62 and have earned a threshold amount of income during employment covered by Social Security for the equivalent of at least 10 years. Because

of immigration and work histories, a greater share of Latinos than whites fail to meet one or both of these qualifications.

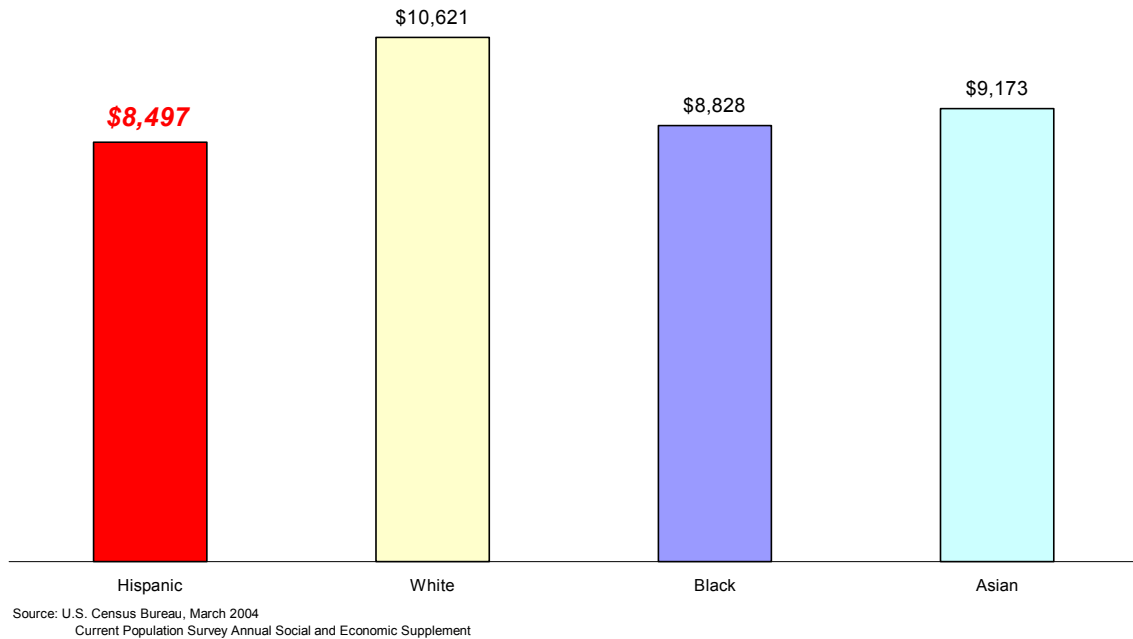
Figure 2. Percent of Persons Age 65 and Older Receiving Social Security Benefits, by Ethnic Group, 2003



Among older individuals receiving Social Security, the average amount received by Hispanics trails the amount paid to white and black recipients (Figure 3). The average annual Social Security benefit received by older Hispanics was about \$8,497 in 2003.³ In comparison, whites received an average benefit of \$10,621 and blacks drew \$8,828 in benefits. The lower benefits paid to Hispanic recipients are a reflection of their earnings history. Social Security benefits are based on the highest 35 years of earnings on which the recipient paid Social Security taxes. Hispanics are more likely to have been low-wage workers and more likely to have worked in jobs not covered by Social Security; accordingly, their Social Security benefits tend to be lower on average.

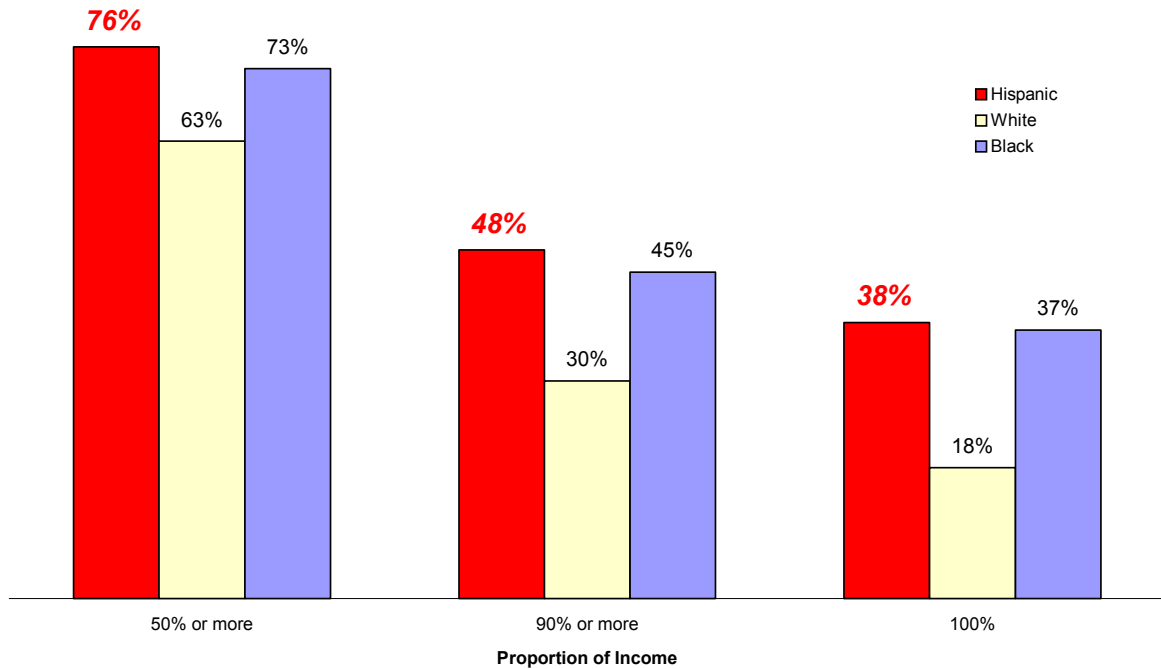
³ This is based on the amount of Social Security benefits reported by respondents to the U.S. Census Bureau's 2004 Current Population Survey (CPS), Annual Social and Economic Supplement. Comparison of the CPS estimates with other sources suggests that the CPS underreports Social Security benefits for all groups (Social Security Administration, 2002).

Figure 3. Average Annual Social Security Benefits of Persons Age 65 and Older, by Ethnic Group, 2003



Older Hispanics tend to receive less Social Security, but they rely on it to a greater extent than older whites. Social Security comprises more than half of total income for 76 percent of older Hispanic beneficiaries; this is true for only 63 percent of older white beneficiaries. Almost half of older Latino beneficiaries rely on Social Security for 90 percent or more of their income, and for 38 percent of older Latino beneficiaries Social Security is their sole source of income (Figure 4).

Figure 4. Percent of Beneficiaries Age 65 and older, by Proportion of Income from Social Security and Ethnic Group, 2000



Source: Social Security Administration, *Income of the Population 55 or Older, 2000*

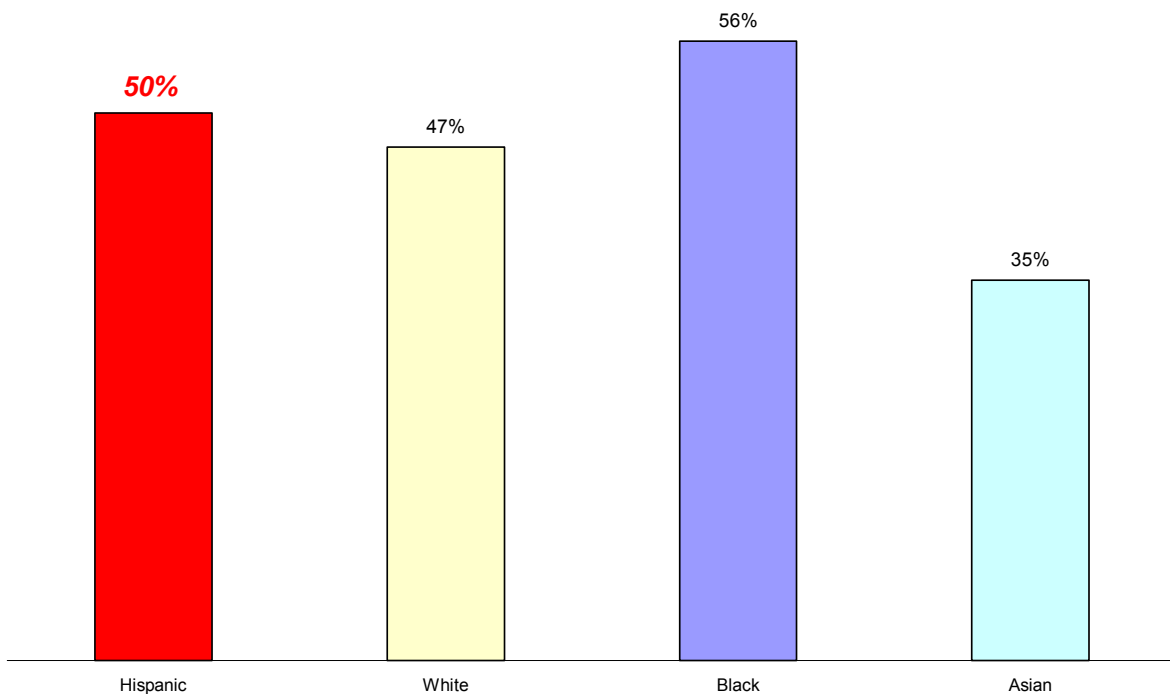
Since Hispanics past retirement age are less likely to receive Social Security and, on average, receive less of it, it is not surprising that they are more likely to live in poverty. Almost 20 percent of older Hispanics are living in poverty, compared with 8 percent of whites (Table 2). But Social Security makes a huge difference for older Hispanics in keeping them out of poverty. In the absence of Social Security, half of older Hispanics would be in poverty (Figure 5).

Table 2. Percent Below Poverty Thresholds for Persons 65 and Older by Ethnic Group, 2003

Poverty status	Hispanic	White	Black	Asian
Below 100 percent of the poverty line	19.5	8.0	23.7	14.3
Below 125 percent of the poverty line	30.7	13.9	33.3	24.0
Below 150 percent of the poverty line	38.7	21.2	43.1	33.4

Source: U.S. Census Bureau, March 2004 Current Population Survey Annual Social and Economic Supplement

Figure 5. Poverty Rates for Persons 65 and Older in the Absence of Social Security, 2003



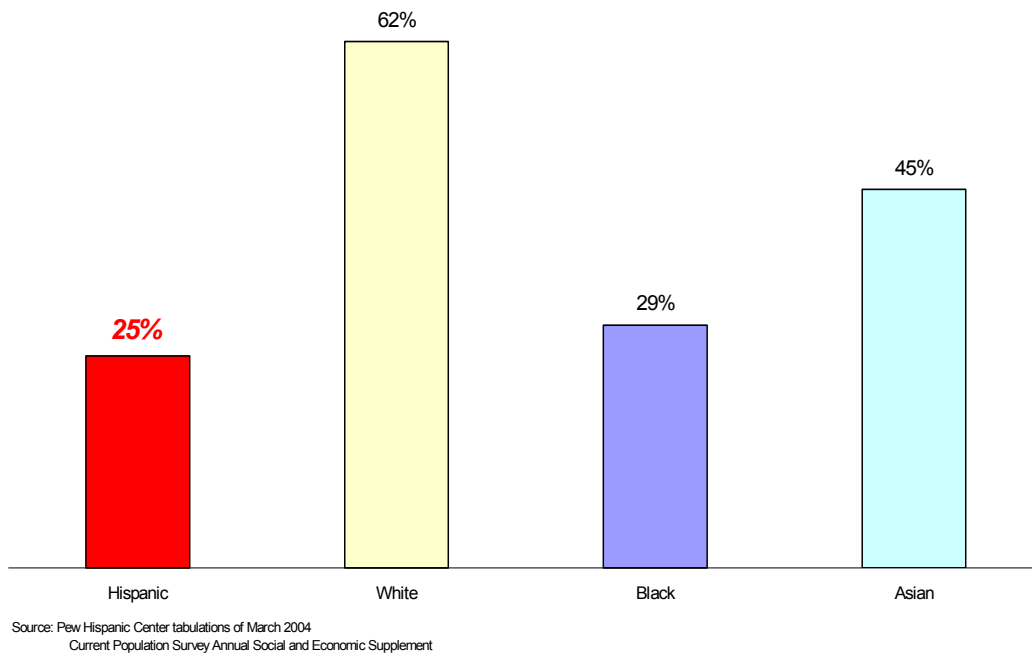
Source: Pew Hispanic Center tabulations of March 2004 Current Population Survey Annual Social and Economic Supplement

Social Security looms larger for Hispanics because they have relatively fewer alternative sources of income in retirement. The greatest difference lies in the receipt of income from assets. Over 60 percent of older whites have income-producing assets, in comparison with only 25 percent of Latinos (Figure 6)⁴. And Hispanics are the least

⁴ “Income from assets” includes interest and dividends and rents, royalties, estates, or trusts.

likely of any racial or ethnic group to receive income from a pension;⁵ more than 33 percent of older whites received income from a pension in 2003, in comparison with 15 percent of older Hispanics. About the only area of parity between older Hispanics and older whites is their involvement in the labor market. About one in six of all persons 65 or older received earnings in 2003.

Figure 6. Percent of Persons Age 65 and Older Receiving Income from Assets, by Ethnic Group, 2003



In sum, Latinos age 65 or older are in worse economic condition than other racial and ethnic groups. They lack income from private pension plans or personal wealth, and more of them live in poverty. As a result, elderly Hispanics are much more dependent on the Social Security system than other groups of retirees.

⁵ “Pension income” includes income from a company or union plan, government retirement plan, and income from annuities, IRA, Keogh and 401(k) accounts.

III. Looking to the Future: More Latino Beneficiaries and More Latino Contributors

In the future, the growth of the Hispanic population will affect both the payout and revenue sides of the Social Security system. Eventually, when the current stock of young Latinos reaches retirement age, a growing proportion of beneficiaries will be Latino. At the same time, however, the number of Hispanic workers paying into Social Security will more than double as the white baby boom generation moves rapidly from contributor to beneficiary status.

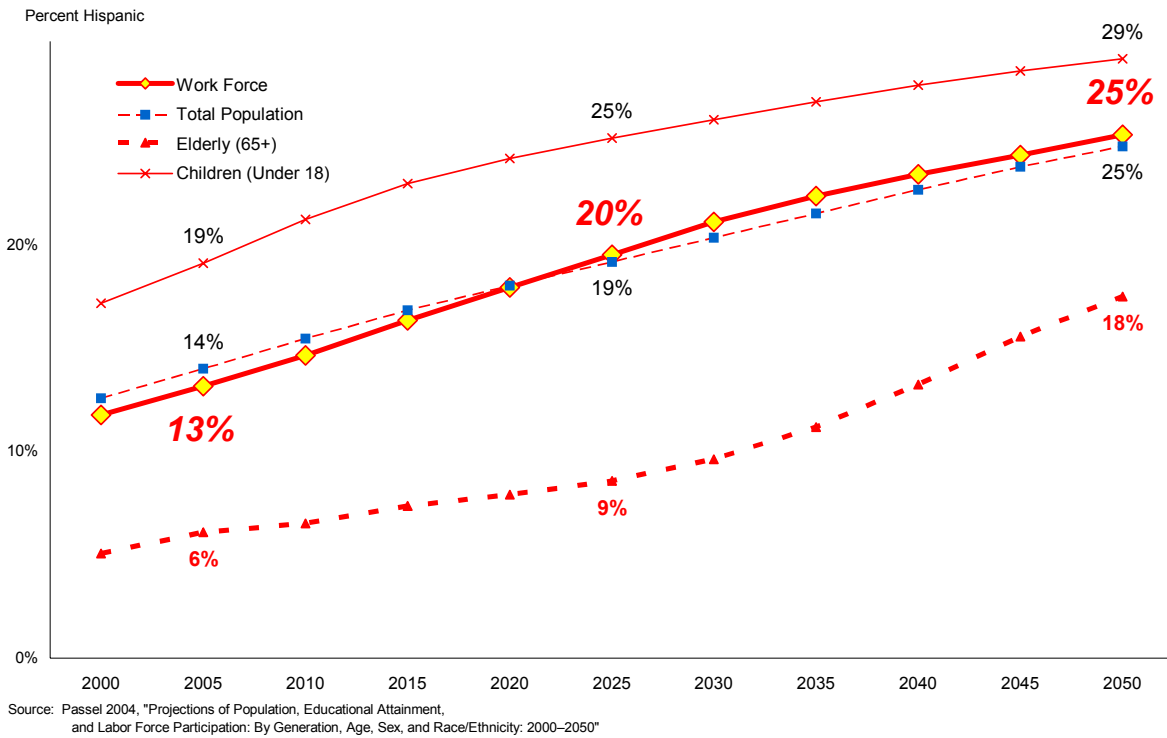
These outcomes result from Hispanics' demographic characteristics and their different propensity to accumulate wealth and participate in pension plans. The share of retirees who are Hispanic is on the increase. However, Hispanics who will enter retirement in the next 20 years are much less likely to participate in pension plans and have acquired far fewer assets than have whites. Thus, Latino retirees are likely to remain highly dependent on Social Security benefits in the foreseeable future. Conversely, future retirees will be more dependent on Hispanic workers as the number of white workers supporting each retiree steadily declines.

Latinos are a Rising Proportion of Social Security Beneficiaries

Hispanics are not one of the major groups of older Social Security beneficiaries today. They make up 6 percent of the 65-or-older population today and an even smaller proportion of Social Security beneficiaries.⁶ This will change over time, however. Hispanics are nearly 17 percent of today's 18-to-44 year-old population. And with additional immigration, Hispanics are projected to comprise 18 percent of the 65-or-older population by 2050 (Figure 7). The Pew Hispanic Center projects that the number of Hispanics age 65 or older is projected to rise from 2 million in 2004 to 14 million in 2050.

⁶ Information on the Hispanic identity of Social Security beneficiaries is not available from administrative data. Social Security data on race are collected when an individual applies for a Social Security card, not when he or she applies for benefits. Before 1980 the race/ethnicity categories were limited to "white," "black" and "other." However, information from the CPS Annual Social and Economic Supplement suggests that Hispanics are less likely to be recipients than other racial/ethnic groups (Figure 3).

Figure 7. Percent Hispanic in Different Age Groups, 2000-2050



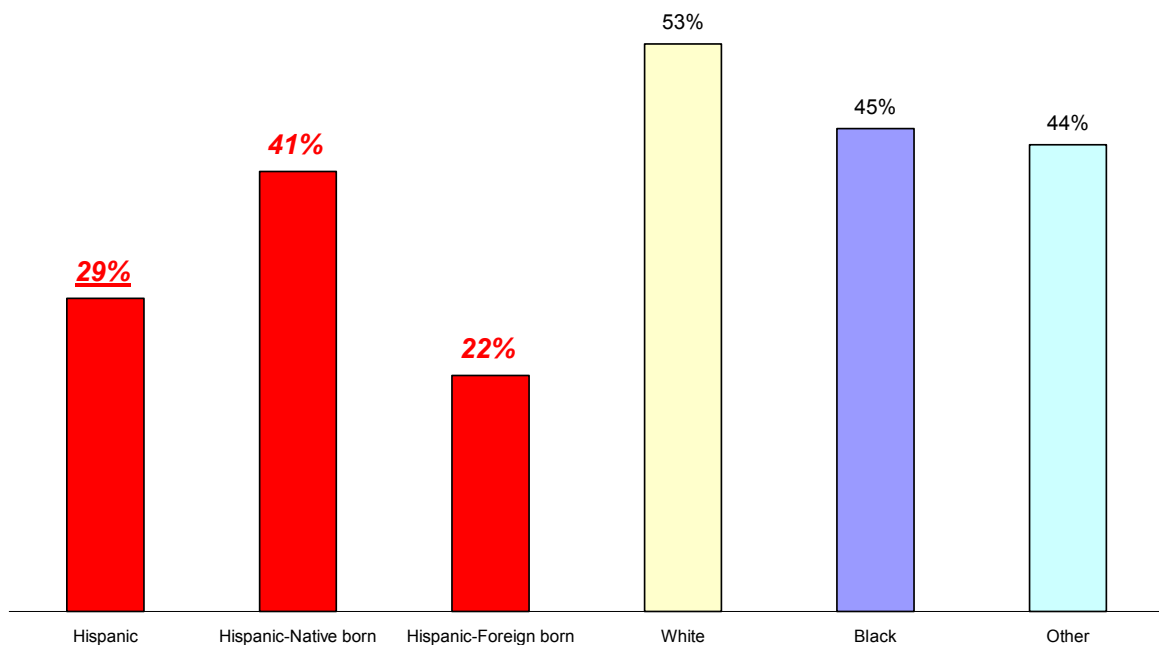
Pension Plan Participation

Current indicators suggest that future Hispanic retirees will depend on Social Security to as great an extent as today's retirees, if not more so. Hispanic workers today are the least likely of all major racial or ethnic groups to participate in an employer-based pension plan (Figure 8). Fewer than 30 percent of Hispanic wage and salary workers participate in a pension plan, in comparison with over half of white wage and salary workers.⁷ Pension plan participation increases with age, but the fact that Latino workers tend to be younger than white workers does not account for the lower fraction of Hispanics participating in pension plans. Hispanic workers in the same age bracket are less likely to participate in a pension plan than white workers (Copeland, 2004). For example, among workers 25 to 34 years of age, almost half of white workers participate in a pension plan. In comparison, fewer than a quarter of 25-to-34 year-old Hispanic

⁷ This percentage refers to all wage and salary workers, not the fraction of wage and salary workers among those eligible to participate in their employer's pension plan who actually do so. The data on which this figure is based do not identify whether an individual wage and salary worker is eligible to participate in his or her employer's pension plan.

workers are participants in pension plans. The difference partly reflects low participation among foreign-born Hispanic workers, yet only 38 percent of native-born Hispanic workers in that age bracket participate in a pension plan. Similarly, workers who earn more are more likely to participate in a pension plan than lower-paid workers. But the lower earnings of Hispanic workers do not fully account for the pension plan participation differences between whites and Hispanics. Among similarly paid workers, Hispanics are less likely to participate than whites.

Figure 8. Percent of Wage and Salary Workers Age 21-64 Participating in an Employment-based Retirement Plan, by Ethnic Group, 2003



Source: Employee Benefits Research Institute, *EBRI Issue Brief No. 274*

Hispanic pension plan participation could increase in the future. But that would be a reversal of previous aggregate trends. Average pension plan participation has fallen for Hispanic workers since 1987, whereas it has risen for white workers (Copeland, 2004).

Wealth Accumulation

Hispanics nearing retirement age are among the least prepared of the principal racial and ethnic groups. Retirement income is usually derived from some combination of three sources – Social Security, pensions and personal wealth. Latino households lag white households in personal wealth and asset ownership by a wide margin. Lacking in personal wealth, Hispanics entering into retirement over the next twenty years, and possibly beyond, will remain more dependent on Social Security than whites.

Table 3 shows the rate of asset ownership for Hispanic, white and black households in 2002. Ownership of real estate and long-term financial assets (stocks, bonds, IRAs, etc.) is the most critical element of wealth accumulation from the point of view of retirement. By this measure, most white households nearing retirement have undertaken some preparation. Over 85 percent of white heads of households ages 55 to 64 own a home and over two thirds own long-term financial assets. About the same can be said for white heads of household in the 45-to-54 age bracket. Hispanic households are far behind. Only 60 percent of Latino heads of household ages 55 to 64 own real estate and fewer than 30 percent possess long-term financial assets. In fact, there is no age group in which more than 30 percent of Hispanic households own long-term financial assets. Financial market participation among Hispanics lags far behind that of whites, and this lack of engagement with the financial markets raises questions about whether the Latino population is well-positioned to take advantage of the potential gains from the privatization of Social Security.

Table 3. Household Asset Ownership Rates, by Type, Age and Ethnic Group of Head, 2002 (in percent)

Ethnic Group and Age	Real Estate	Financial Assets			Unsecured Debt
		Long-term	Short-term	Other	
Hispanic					
All ages	48	25	58	80	45
0 - 24	17	19	42	72	38
25 - 34	36	23	54	82	44
35 - 44	51	28	61	83	49
45 - 54	56	29	65	82	50
55 - 64	60	29	61	79	44
65 and above	65	20	59	68	38
White					
All ages	76	61	82	90	53
0 - 24	25	31	66	84	56
25 - 34	57	58	79	90	67
35 - 44	76	66	82	93	64
45 - 54	82	68	83	92	61
55 - 64	86	67	84	93	52
65 and above	83	51	84	83	26
Black					
All ages	48	30	53	69	47
0 - 24	6	14	30	51	36
25 - 34	28	29	50	69	50
35 - 44	43	33	55	73	50
45 - 54	57	40	57	71	56
55 - 64	66	32	57	76	49
65 and above	68	16	55	62	32

Source: Pew Hispanic Center tabulations of Survey of Income and Program Participation 2001 Panel, Wave 6

Note: Real estate refers to own home, rental properties and other real estate; short-term financial assets include checking accounts and interest earning assets at financial institutions; long-term financial assets include U.S. government bonds and securities, municipal or corporate bonds, IRA, 401(k), Keogh and thrift accounts stocks and mutual funds; and other assets include equity in vehicles and own businesses and miscellaneous assets.

Latinos who do own assets have accumulated far less value in those assets than have whites. Hispanic homeowners between the ages of 45 and 64 have a median equity of about \$66,000 in real estate (Table 4). White homeowners, more numerous than Latinos, have much higher equity. In the age bracket of 55 to 64, white homeowners

possess a median equity value of \$116,713, and those ages 45 to 54 have \$83,359 in home equity. A similar disparity emerges with respect to owners of long-term financial assets. White heads of household ages 45 to 64 have at least twice as much value as Hispanic heads of household in these financial holdings. For example, white heads of household ages 45 to 54 owned \$40,088 in long-term financial assets compared with only \$19,326 for Hispanic heads of households. In sum, not only are Latinos less likely to own assets, those who do have amassed far less wealth than whites.

Table 4. Median Level of Assets Owned by Households, by Type, Age and Ethnic Group of Head, 2002 (in 2003 dollars)

Ethnic Group and Age	Total	Financial Assets				Unsecured Debt
		Real Estate	Long-term	Short-term	Other	
Hispanic						
All ages	\$ 7,932	\$ 50,829	\$ 12,179	\$ 1,221	\$ 3,325	\$ 3,051
0 - 24	1,218	11,189	1,522	631	2,639	2,136
25 - 34	3,857	28,417	7,104	1,015	3,153	3,560
35 - 44	9,994	40,747	13,650	1,273	3,151	3,045
45 - 54	23,475	66,114	19,326	1,786	3,265	4,577
55 - 64	29,074	66,077	24,086	2,537	4,809	3,050
65 and above	51,934	91,542	13,194	1,221	4,475	1,830
White						
All ages	88,651	84,744	31,607	3,659	5,527	4,973
0 - 24	1,664	19,417	3,045	905	2,639	4,066
25 - 34	15,460	32,530	10,149	1,526	3,631	6,099
35 - 44	66,077	60,894	28,000	3,045	5,277	5,083
45 - 54	112,630	83,359	40,088	4,069	5,848	5,083
55 - 64	172,913	116,713	61,028	5,582	7,104	4,371
65 and above	154,716	121,787	50,857	8,560	5,640	2,033
Black						
All ages	5,988	44,554	12,255	1,015	3,153	4,060
0 - 24	0	27,402	2,033	507	3,439	3,051
25 - 34	1,294	24,398	6,099	761	2,645	4,069
35 - 44	3,863	28,480	11,487	1,015	3,146	4,066
45 - 54	17,254	45,746	15,223	1,017	3,662	5,074
55 - 64	35,459	61,028	17,050	1,522	3,153	4,575
65 and above	35,521	63,126	20,343	1,522	4,060	2,746

Source: Pew Hispanic Center tabulations of Survey of Income and Program Participation 2001 Panel, Wave 6
 Note: Real estate refers to own home, rental properties and other real estate; short-term financial assets include checking accounts and interest earning assets at financial institutions; long-term financial assets include U.S. government bonds and securities, municipal or corporate bonds, IRA, 401(k), Keogh and thrift accounts stocks and mutual funds; and other assets include equity in vehicles and own businesses and miscellaneous assets.

The picture turns much bleaker when *all* Latino households, not just those that own assets, are compared with all white households. The median wealth of all Hispanic households where the head was 65 or older was \$51,934 in 2002 (Table 4). That was only one third as high as the median wealth – \$154,716 – of comparable white households.

The situation was even worse among those aged 55 to 64. With retirement imminent within a decade, the median wealth of these Latino households was only \$29,074, less than one fifth the median wealth of white households in the same age bracket. The situation was not much better among Hispanic households in the 45-to-54 age bracket. The median wealth among Hispanics there was \$23,475, one fifth as high as the median wealth of \$112,630 among white households in the same age bracket. The low level of wealth accumulation among Latinos reaching retirement age within the next 20 years ensures that Social Security will remain the predominant source of their income following retirement.

Latinos are Growing Contributors to the Social Security Tax Base

Hispanics are a young and growing population. More than one in three of the nation's 40 million Hispanics are under age 18 (Figure 1). And Hispanics will account for much of the growth in the labor force to 2050; in fact, the Hispanic labor force will more than double while the white labor force shrinks. Under a pay-as-you-go financing structure such as Social Security has traditionally employed, it is the increasing numbers of Hispanic workers who will support the additional retirees as the nation ages.

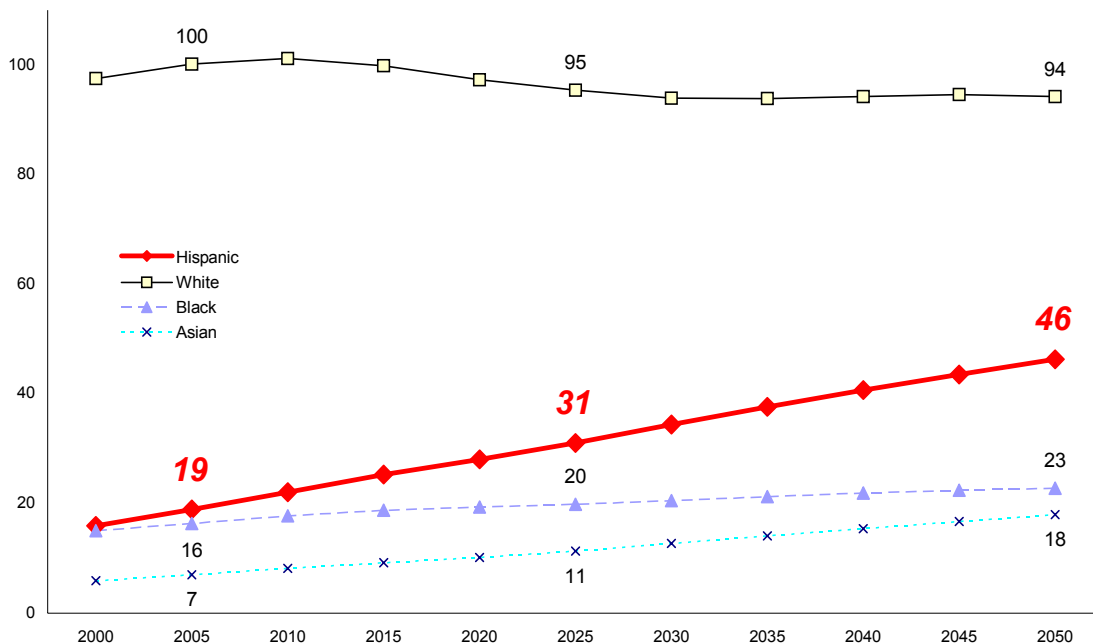
Demographic change over the last 30 years has greatly increased the presence of Latinos in the U.S. work force and population. Continued immigration (even at somewhat reduced levels) and slightly higher than average fertility will lead to even further growth in the presence of Hispanics in the U.S. population and labor force. In 2005, Hispanics account for about 14 percent of the U.S. population and 13 percent of the labor force. By 2050, both figures will roughly double to the point where Hispanics will represent one quarter of the total population and labor force (Figure 7).

It is the absolute growth in the Hispanic work force that truly brings home the growing role of Latinos in the U.S. economy and the financing of Social Security. Between 2005 and 2050, the U.S. labor force is projected to grow by about 39 million, or more than one quarter, from 143 million to 182 million.⁸ During this time, the Hispanic labor force is projected to grow by 27 million, from about 19 million in 2005 to 46 million in 2050 (Figure 9). This growth is far larger than the 7 million growth projected for blacks and the 11 million growth projected for the Asian-Pacific Islander

⁸ These figures represent the civilian noninstitutional population ages 18 through 64 who participate in the labor force, meaning they are either working or looking for work. The projections assume that labor force participation rates for groups by age, sex, race, educational attainment and generation remain unchanged through 2050. These particular projections are from Passel (2004), but almost all population projections for 2050 with levels of immigration roughly comparable with current levels show stable or decreasing numbers of whites, greatly increasing shares of working-age Latinos and Asians, growing numbers of elderly, and a growing U.S. working-age population.

population. Further, the critical importance of the growth of the Hispanic labor force is highlighted by the slight decline in the size of the white labor force projected over this period from about 100 million to 94 million. In other words, most of the labor force growth in the next 45 years will come from the Latino population at a time when the number of elderly people in the United States will be increasing substantially from 35 million to 77 million (not shown separately).

Figure 9. Workers Aged 18-64 by Ethnic Group, 2000-2050 (in millions)

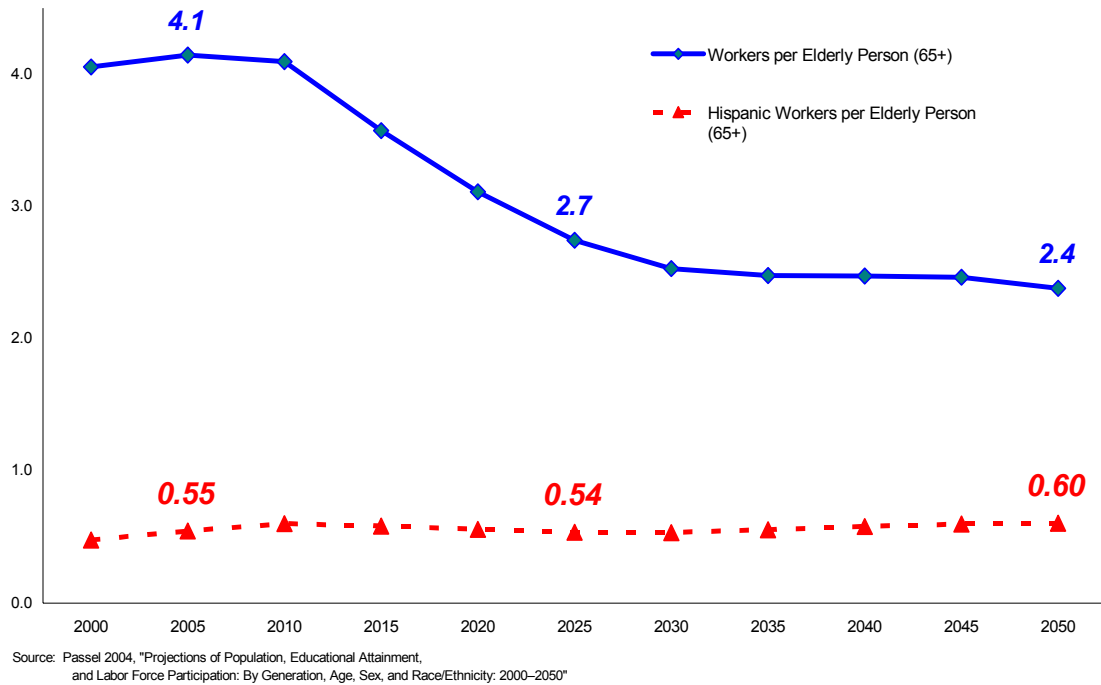


Source: Passel 2004, "Projections of Population, Educational Attainment, and Labor Force Participation: By Generation, Age, Sex, and Race/Ethnicity: 2000-2050"

Another view of the role of Hispanics in support of Social Security is given by the ratio of workers to retirees. The decrease in this ratio is at the heart of the Social Security financing problems, as fewer workers are paying taxes to support each retiree.⁹ In 2005, there are about 4.1 workers per elderly person. About 13 percent of these are Latinos meaning that there are about 0.55 Latino workers per elderly person (Figure 10).

⁹ We approximate the ratio of Social Security payees to retirees with the simpler ratio of workers per elderly person. The number of Social Security payees is significantly smaller than the number of workers ages 18 through 64, even though some workers fall outside this age range, because not all "workers" are working at a given time and many are not working in jobs where Social Security taxes are withheld. The number of retirees is greater than the number of elderly persons (those age 65 or older). Even though not all the elderly are retired, there are many retirees outside this age range. Thus, the ratio of Social Security payees per retiree tends to be smaller than the ratio of workers per elderly person reported in the text. However, the two ratios change over time in virtually identical ways.

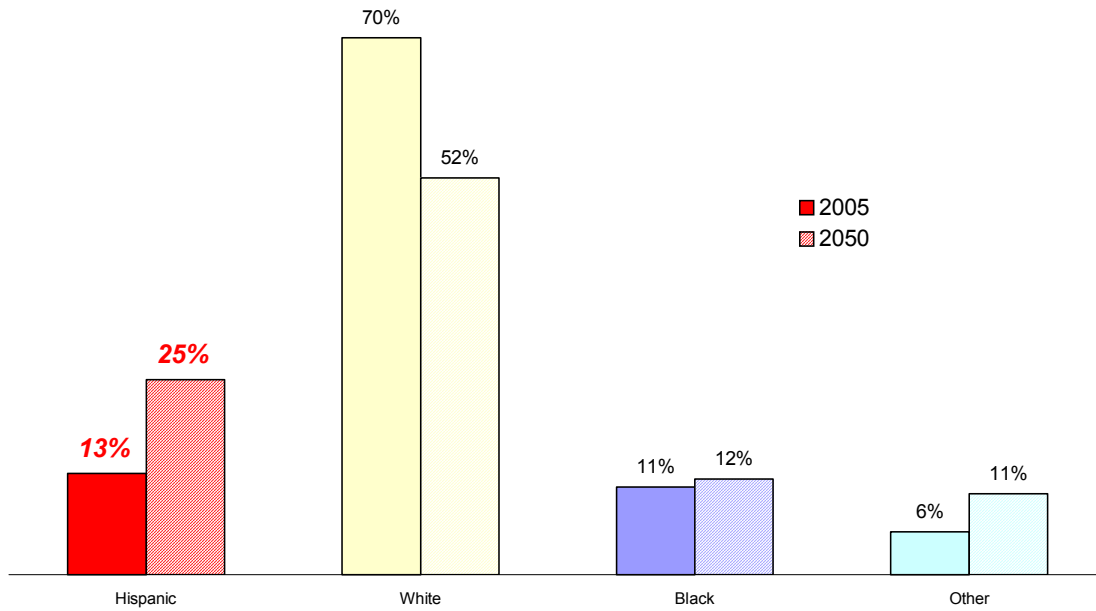
Figure 10. Ratio of Workers (18-64) to Elderly (65+) , 2000-2050



The overall ratio begins to decline sharply after about 2012 and then levels out after about 2035, reaching just 2.4 workers per elderly person in 2050. Over the entire period, however, the ratio of Hispanic workers per elderly person remains slightly higher than its initial value, and by 2050 it is 0.60. The lack of change in the ratio of Hispanic workers per elderly person means that the Hispanic work force is increasing at roughly the same rate as the elderly population – and both are growing rapidly. Were this true of the total population, Social Security would not be facing financing problems. The overall ratio is declining because the number of white workers is falling while the elderly population increases. The number of Hispanic workers supporting the growing elderly population is increasing. The Hispanic labor force more than doubles in size over the period and the Hispanic share of the workers per elderly person nearly doubles from 13 percent in 2005 to 25 percent in 2050 (Figure 11). In short, a growing Hispanic work force will be supporting a growing population 65 and over so long as Social Security

retains its current financing structure in which today's workers fund the retirement benefits of the current recipients.

Figure 11. Ethnic Share of Workers per Elderly Person, 2005 and 2050



Source: Passel 2004, "Projections of Population, Educational Attainment, and Labor Force Participation: By Generation, Age, Sex, and Race/Ethnicity: 2000–2050"

IV. Hispanic Views of the Social Security Debate

In a national survey conducted between February 15 and March 5, 2005, Hispanics were almost evenly divided over whether the Social Security system faced severe problems. The survey also found that a plurality of Latinos favored a plan of the sort proposed by President Bush that would allow people to individually invest some of their Social Security taxes, but support for the idea fell just short of a majority. Sentiments were much clearer in favor of measures that would limit eligibility or benefits for the wealthiest recipients and against proposals that would reduce the payout to the general population. Finally, the survey found that relatively few Latinos think they are doing enough planning for retirement and that only a quarter expect to rely on Social Security as their main source of income.

Comparing the results of this survey with public opinion polls of the general population taken during the same period, Latinos appear somewhat less concerned about

the future of the Social Security system although their views on potential policy changes are very similar to those of the U.S. population as a whole

The survey was conducted by telephone among a nationally representative sample of 1,001 Hispanic adults using Random Digit Dialing (RDD) methodology. Respondents could choose to respond to the survey in English or Spanish. The survey results have a margin of error of plus or minus 3.1 percent. All of the fieldwork was conducted by International Communications Research of Media, PA.

The survey asked two questions designed to probe respondents' views on the extent to which the Social Security system faces problems, and both showed Latinos almost evenly divided in their assessments.

Which of these statements do you think best describes the Social Security system: It is in a state of crisis, it has major problems, it has minor problems, or it does not have problems?

Is in a state of crisis	Has major problems	Has minor problems	Does not have problems	Don't know	Refused
17	30	22	21	8	1

Do you think the Social Security system will have the money available to provide the benefits you expect for your retirement?

Yes, it will have the money	No, it will not have the money	Don't know	Refused
46	40	12	2

Concerns were considerably greater among Latinos with higher incomes than among those with lower incomes; 72 percent with annual household incomes of \$50,000 or more said they thought the system was in crisis or had major problems, while just 47 percent of those with incomes of less than \$25,000 held this view. Similarly, Latinos with at least some college education were more concerned about the condition of the system than were those with a high school education or less.

Surveys of the general public taken during the same time period show greater levels of concern, with as many as two thirds of respondents in some polls saying that the Social Security system is in crisis or will run short of money in the future. In this regard the views of U.S.-born Latinos more nearly mirror the views of the general population

than do those of the foreign-born. Among the U.S.-born 59 percent said they thought the Social Security system was in crisis or faced major problems compared with 40 percent of foreign-born Latinos.

Asked whether they thought a plan of the sort proposed by President Bush that would allow the investment of some Social Security taxes in individual accounts was a good or a bad idea, more Latinos responded positively than negatively, but the share endorsing the plan fell slightly short of a majority. Latinos under the age of 35 were somewhat more supportive of the proposal than those over the age of 55, and those born outside the United States were more supportive than those born here. Latino views of the Bush proposal are similar to those of the general public. A recent survey by the Pew Research Center for the People and the Press found that 46 percent of Americans supported the president’s proposal for individual investment accounts and 38 percent opposed it.

As you may know, one idea to address concerns with the Social Security system would allow people who retire in future decades to invest some of their Social Security taxes in the stock market and bonds, but would reduce the guaranteed benefits they get when they retire. Do you think this is a good idea or a bad idea?

Good idea	Bad idea	Don’t know	Refused
49	38	12	2

Presented with a series of alternative measures, Latinos by significant margins said they favored proposals that would increase taxes or reduce benefits to wealthy recipients and were equally opposed to proposals that would reduce benefits to the population as a whole. As with the Bush proposal, Latino views on these options closely mirror the attitudes expressed by the population as a whole.

Assuming there would be no change in Social Security benefits for those who are now age 55 or older, do you think each of the following would be a good idea or a bad idea to address concerns with the Social Security system?

How about:

a. limiting benefits for wealthy retirees

Good idea	Bad idea	Don’t know	Refused
56	35	7	2

b. requiring higher-income workers to pay Social Security taxes on ALL their wages

Good idea	Bad idea	Don't know	Refused
59	31	9	2

c. further reducing the total amount of benefits a person would receive if they retired early

Good idea	Bad idea	Don't know	Refused
36	52	10	2

d. increasing the age at which people are eligible to receive full benefits

Good idea	Bad idea	Don't know	Refused
32	60	6	2

e. reducing retirements benefits for people who are currently under age 55

Good idea	Bad idea	Don't know	Refused
32	58	7	2

f. doing nothing to the Social Security system and leaving the taxes and benefits as they are today.

Good idea	Bad idea	Don't know	Refused
45	44	8	3

Respondents who indicated they were not retired – more than 90 percent of the full sample – were asked about their current expectations for retirement income. By a margin of five to one, Latinos said they were dissatisfied with the state of their retirement planning. Only a quarter said they expected Social Security to be a major source of retirement income.

(Asked of those not currently retired; n=925)

How much planning would you say you've done for your retirement – enough planning considering your present age, some but not enough planning considering your present age, or no planning at all?

Enough planning	Some, but not enough	No planning at all	Don't know	Refused
14	38	43	3	2

When you retire, how much do you expect to rely on Social Security: as your main source of income, a minor source of income, or not at all?

Main source	Minor source	Not at all	Don't know	Refused
25	44	20	8	3

CONCLUSIONS

Latinos have much at stake in any changes in the federal Social Security retirement system.

Today's older Hispanics rely heavily on Social Security. More than 600,000 Hispanics age 65 or older are kept out of poverty by Social Security. Almost half of older Latinos receive more than 90 percent of their income from Social Security. Older Latinos have not accumulated the nest eggs that their white counterparts have been able to save. Nearly 80 percent of Hispanics age 65 or older own no stocks and bonds whatsoever, compared with half of older whites.

Looking to the future, it is impossible to assess with confidence how Latinos will finance their retirements. On the one hand, there is a firm basis for projecting that today's young Latinos will be better off in retirement than today's older Hispanics. A greater share of young Hispanics were born in the United States, and a greater proportion of them spent their childhood here and were educated in the United States. With nativity comes enhanced educational attainment and eventually the potential for greater economic well-being. Under current law, the fact that more younger Latinos are native born would presumably boost the number of them who are covered by Social Security and the amount of Social Security retirement benefits they would receive. More of them would be eligible for Social Security retirement benefits when they reach age 62. In addition, their entire working years would be counted in determining their Social Security benefit levels. So, their ability to save out of their earnings may be greater and they will have higher Social Security benefits under current law. Young Latinos may have more extensive income sources to depend on in retirement relative to today's older Hispanics. But young Latinos are clearly lagging young whites in developing private sources of retirement income. They are less likely to have private pension plans and their level of wealth accumulated trails far behind whites at any age.

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