

# **Economic Status of Older African American Women: Implications for Social Security Reform**

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While it is true that the economic status of the elderly has improved in the last thirty years, that progress has not been equal for all older persons (Quinn, 1987). The elderly are a diverse group economically (Quinn & Smeeding, 1993), and substantial differences exist among subgroups of elders (Radner, 1992; Taylor & Chatters, 1988). By ignoring diversity, policymakers may overlook important differences within subgroups of elders and proposed reforms may be misguided. For example, considerable attention has been given to gender differences in retirement income (see, for example, U.S. House of Representatives, 1992). Yet research suggests that gender differences among older African Americans may not be as significant as socio-economic status (Gibson, 1993). In discussing proposals for reforming Social Security, it is, therefore, important to assess the impact of proposed reforms on the distribution of income among subgroups of the aged. Social Security is the major source of income for older people—90 percent of older people receive Old-Age and Survivors Insurance (OASI) benefits. Two-thirds (69%) of the elderly receive income from assets and less than half (44%) receive pension income, and one out of five older persons receive income from a job (U.S. Department of Health and Human Services, 1992). However, important differences exist within subgroups of the elderly. Slightly less than three out of ten African Americans receive income from assets (29%) or from pensions (28%) (U.S. Department of Health and Human Services, 1992). Twenty percent of African Americans also receive Supplemental Security Income (SSI). Consequently, African Americans receive a far greater proportion of their income from Social Security than do other subgroups of the elderly. In 1990 the mean proportion of retirement income received from Social Security was 72 percent for African Americans, compared to 58 percent for white elderly (Grad, 1992: 94).

Social Security also plays a major role in reducing poverty among the aged (U.S. Department of Health and Human Services, 1992). Often cited as one of the successes of the last thirty years has been a decline in poverty among the aged. In 1966 more than one out of four older persons was poor. Today, only about one out of ten older people is poor (U.S. Bureau of the Census, 1993). However, it is estimated that half of all older persons would be poor without Social Security (U.S. Department of Health and Human Services, 1992).

A reduction in poverty-level income, dramatic as it has been, does not mean a success story for all older people. The likelihood of being poor is greater for people of color than it is for other elderly groups.

## **Income and Poverty by Race, Gender, and Marital Status**

Generally, differences that exist earlier in life are reflected in retirement income. In 1989 the median income of elderly white men was \$13,391, compared to \$7,816 for elderly white women, or a gap of 58 percent. Among African Americans the median income of elderly men was \$8,192, compared to \$5,059 for elderly women, or a gap of 62 percent. (U.S. Senate, 1991). Between 1955 and 1980 the annual wages of full-time, year-round women workers fluctuated between 60 and 64 percent of men's wages (Blau & Ferber, 1992: 133). Since 1985 the gap in men and women's wages has been narrowing (Blau &

Ferber, 1992: 133), especially among African Americans (see Table 1). In 1955 African American women earned 55 percent of African American men's wages, and today that gap has narrowed to 86 percent. If this trend continues, it is likely that the differences in their Social Security benefit amounts will also narrow, as will be explained below.

While there is no agreement on measures of economic well-being (Radner, 1992; Quinn & Smeeding, 1993), poverty-level income is a widely accepted measure of economic need. In 1994 the poverty threshold for an unrelated aged individual was \$9,109 and \$8,964 for an aged couple. Poverty is greater among African Americans with one-third of all African Americans age 65 years and older reporting incomes below the poverty threshold (U.S. Bureau of the Census, 1993). In Table 2 the rate of poverty for older persons by age, gender, race and household relationship is presented. Older women living alone are especially vulnerable to poverty. In 1990 older African American women living alone have the highest rate of poverty (60%) of all sub groups of older Americans (see Table 2).

In a study designed to identify the characteristics of elderly women at risk of poverty, Logue (1991) found that married women were at lower risk of poverty than unmarried women, but the protection of marriage did not extend to African American women. However, in a sample of older African Americans age 55 years and older Taylor and Chatters (1988) found that married respondents had higher income than other marital status groups, demonstrating the effect of marital status as a protection against economic vulnerability. The extent of poverty among older African American women living alone is, therefore, partly explained by their nonmarried status, but their previous work history must also be considered.

### **Work History**

Overall, African American women have had strong attachments to the labor force, but for many their access to jobs was limited to the service industry—an industry with low wages (Herz, 1988). Historically, the labor force participation rate of African American women has been higher than the participation rate of white women. Only in the last ten years have the differences narrowed between the labor force participation rates of African American and white women (Ferber, 1993). However, the labor force participation rates by race and marital status differ considerably. In 1988, never married white women had the highest labor force participation rate (70.5%) compared to married (55.9%) and other ever married women (45.4%). The highest labor force participation rates among African American women were for married women, spouse present (65.6%), compared to 58.1 percent for never married women and 50.3 percent for other ever married women (Blau & Ferber, 1992: 111). Since marital status also influences the amount of retirement income received by a household, low wages in combination with fewer years worked and less marital protection results in an economic vulnerability for unmarried African American women.

### **Determinants of OASI Benefit Amounts**

Social Security benefits for retired workers are a function of a lifetime of earnings in covered employment and the number of years worked. Each year of earnings are indexed to reflect the level of wages in the economy prior to retirement. The five years of no earnings or the lowest years of earnings are dropped and the total lifetime earnings are then divided by the number of months between age 21 or 1950 (whichever is later),

resulting in average indexed monthly earnings (AIME). Finally, the primary insurance amount (PIA) is calculated from a weighted benefit formula that is applied to the AIME. The PIA is the basic dollar benefit that is adjusted for age of retirement and eligibility for retired-worker benefits.

When women retire they receive a benefit based on their own earnings. If they are married or divorced, they are also eligible for a spousal benefit. As a retired worker, married women first receive a OASI benefit based upon their lifetime earnings and years worked. They then receive a supplement to raise their total benefit to equal 50 percent of the OASI benefit of their husband. Such women are dually entitled. In 1960 roughly 5 percent of women beneficiaries were dually entitled, and today almost 25 percent are dually entitled (U.S. Department of Health and Human Services, 1993). The provision of spousal benefits has recently been challenged (Ferber, 1993).

According to Ferber (1993), the higher OASI benefits received by married women may no longer be justified. When Social Security was enacted in 1935, it was based on a model of a traditional family, which assumes that marriages last a lifetime and that families consist of one breadwinner (male) and a homemaker who cares for children. Today, many marriages end in divorce or separation, and close to six out of ten of married women are working at a paid job (U.S. Department of Labor, 1993). Families today are characterized by a diversity of familial relationships, and the traditional family represents a declining proportion of families. The supplemental benefit which accrues to spouses has been characterized by Ferber (1993) as preferential treatment. According to Ferber (1993), the higher OASI benefits received by married women may no longer be justified. For African American women the spousal benefit may not significantly raise the retirement income of the couple to the same extent as for white couples, in part, because the earnings of African American women are close to the earnings of African American men. As demonstrated in Table 2, the ratio of earnings for African American men and women is currently 86 percent (see Table 2). Additionally, Iams (1993) examined the earnings of married couples for the birth cohorts of the 1930s, 1940s and 1950s, and found that earnings were low among wives who had more children, were married for a longer period of time compared to other wives, and were married to husbands who had high earnings. But the earnings of African American women did not significantly differ from their husband's earnings for women born in the 1940s and 1950s birth cohorts. This finding is significant in view of the fact that one major proposed reform of Social Security, namely, earnings sharing, seeks to equalize the earnings of husbands and wives. Clearly, this proposal, described below, would not be advantageous to African American couples.

African American women are more likely to be widowed at earlier ages than white women. The average life expectancy of African American males is 65.2 years (U.S. Congress, 1991: 20). Shorter life expectancy among African American males has been the basis of claims that Social Security is unfair to African Americans (Kingson & Berkowitz, 1993: 124). The argument is that African American males enter the labor force early in life, thereby contributing to Social Security, but they do not live long enough to collect OASI benefits. Others point out that the issue is very complex. African Americans are more likely to receive disability income from Social Security. African Americans who are low wage workers also have a higher proportion of income replaced by Social Security (Kingson & Berkowitz, 1993: 125-126). If African American males do become eligible for OASI benefits, they are more likely to retire early (Gibson, 1993).

OASI benefits claimed at age 62 years are actuarially reduced. Consequently, as widows, African American women are more likely to receive survivors' benefits which have been reduced because of their husbands' early retirement.

As mentioned above, African Americans receive a greater proportion of their income from Social Security than other subgroups of the elderly. There are important differences among African Americans based upon marital status. Whereas 62 percent of African American married couples receive half of their retirement income from Social Security, it is the major source of income for nonmarried older African American women—80 percent receive more than half of their retirement income from Social Security (Grad, 1992: 94). Table 3 presents the average monthly benefit of retired workers by race. African American women receive the lowest average monthly benefit of all retired workers—\$490 compared to the average benefit (\$653) for all beneficiaries (see Table 3). Since Social Security benefits are based upon lifetime earnings, low wages throughout one's working career result in low retirement benefits. OASI benefits are also calculated based on the number of years worked. The higher labor force participation rates of African American women may not necessarily contribute to higher retirement income. While the reasons for this lower benefit require more careful analysis, it points to the fact that changes in Social Security may be far more important to the income adequacy of older African American women than other subgroups of the elderly.

### **Proposals to Reform Social Security**

While considerable attention has been given to reforming Social Security, particularly to deal with the problems faced by women (for the latest discussion of these issues see, U.S. House of Representatives, 1992), most proposed reforms do not address the retirement incomes needs of African American women. One major proposal is earnings sharing, which would add together the earnings of each spouse and credit half of the amount to the Social Security earnings records of the husband and wife. Since African American women's earnings are close to their male counterparts (see Table 1), African American women would not benefit greatly from the earnings of their husbands. Secondly, earnings sharing does not address the never married status of many African American women. Other proposals, such as caregiver dropout years, also would not substantially improve the retirement income of older African American women.

The purpose of caregiving dropout years is to fill in the years of no earnings associated with childrearing. While intuitively proposals for crediting women for time spent at home caring for children or other family members sound reasonable and are supported by scholars who have examined the economic status of older women of color (Malveaux, 1993), the extent to which such proposals would benefit African American women deserves more detailed analysis. In a study of the effect of caregiving on women's Old-Age Survivors Insurance (OASI) benefits Kingson and O'Grady-LeShane (1993) found that the reduction in benefits associated with childrearing is less for low income women than for moderate income women. Unfortunately, their study did not include separate analyses for African American women. It is possible that low wages rather than years of no earnings contributes to lower OASI benefits, but this point should be explored further. Current Social Security law provides an alternative method of calculating OASI benefits. The Special Minimum Benefit (SMB) is designed for long-term, low-wage workers. The calculation of the SMB is a flat dollar amount multiplied by the number of years worked. The Congressional Symposium on Women and Retirement (see U.S. House of

Representatives, 1992) called for a modification of the Special Minimum Benefit by including caregiver dropout years. Since this proposed reform is targeted towards low-wage workers, it is possible that it would raise the retirement income of women who care for children and have a long career at low wages.

Prior to the enactment of any proposed reform there must be greater understanding of the effect of proposed changes of the distribution of income within subgroups of the elderly. The more widely known proposed reforms of Social Security, namely, earnings sharing and caregiver dropout years, do not appear to address the retirement income needs of older African American women. The proposed modification of the Special Minimum Benefit deserves further analysis, but it should be noted that this proposal would only raise the OASI benefits of long-term, low-wage women workers. The extent to which it would impact the retirement income of all African American women is unknown.

We do know that unless attention is paid now to the implications of changing family structure on the retirement income of families and unmarried persons, the future may be more bleak than the present for many African Americans. According to a recent report by the Congressional Budget Office (CBO) (1993: 44-45), individuals now between the ages of 25 and 34 who have less than a high school education and are unmarried with children are at economic risk in their old age. African American women who will retire in 2010 or later and are unmarried seem likely to face a future more bleak than their mothers and grandmothers of today.

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