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Keynote Address:

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Strengthen Social Security

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P R O C E E D I N G S

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STRENGTHEN SOCIAL SECURITY

MS. KING: Good morning, everyone. And thank you so much for the opportunity to join you today by way of the miracle of modern telecommunications.

I'm speaking to you from Dallas, Texas, or as my husband and other Washington Redskins fans call it -- the original axis of evil.

(Laughter.)

MS. KING: I'm sorry that schedule conflicts prevented me from joining you there in person, but I'm very grateful that at least my video image can take part in this very important conference. Actually, the risks for me are somewhat greater in a format like this. If I were there in person, I could at least see you when you get tired of hearing me and try to sneak out of the room, but I'll do my best to make this good.

There is no secret, of course, as to why I was asked to join you today -- Richard Parsons couldn't make it.

(Laughter.)

MS. KING: I had the privilege of being asked by President Bush to serve with Richard and Pat Moynihan on the President's Commission to Strengthen Social Security. I want to say what a privilege it was to serve on that bipartisan commission. It was an honor to work alongside Senator Moynihan and Richard Parsons, and all 16 of my fellow commissioners, each of whom is dedicated to building a better Social Security system, one that offers genuine retirement security to all Americans.

The Commission came out with its recommendations on December 21st of last year and, as you know, presented three options to the President for consideration and debate. Each of these options addressed the mandate to increase the fiscal sustainability of the Social Security system while including personal retirement accounts.

We are a nation faced with complex challenges and great competing needs. We have prosperity, and yet we still have too many people living in poverty. We have resources and yet we are still not certain how best to use those resources for an aging population whose collective health care and retirement security needs are growing rapidly. There will be no easy solutions to these challenges we face. The Commission was convinced that the challenges cry out for a national discussion, a reasonable debate by all sectors of our society. We need a thoughtful,

level-headed process that gathers the best ideas and eventually leads to consensus and to action.

We need more events like the one you are participating in today, and more discussion by diverse groups, interested in and directly invested in this program. So, I want to just thank Ed Crane and Harry Alford, Michael Tanner, Christy, and all those who worked so hard to bring us to this moment.

Make no mistake about it, when we talk about Social Security and African Americans, we do need to discuss change. We need to talk about ideas to make the system better, fairer, and more effective, as a weapon against poverty. We do need to recognize that the status quo is simply not acceptable.

Allow me to make three points today. First, that we have a system that desperately needs to be improved. Second, that there are reasonable ideas for change that warrant debate, discussion and, eventually, action. And three, that the fierce arguments against reform are simply no excuse for inaction on strengthening our Social Security program.

But let me preface these points by sharing two experiences. I will never forget the day my grandmother's first Social Security check arrived in the mail. She was just furious that the government, without her approval, had put her on the welfare, and she was having none of it. My brothers and I had to try to explain to her that this was not a public assistance; this

was Social Security which one of her employers had paid in for her over the years and to which she was entitled because of her lifetime of hard work.

Once she understood that this was a real benefit she had earned, she looked forward to the 3rd of the month for the next 22 years. So, I understand that Social Security is a very important part of the lives of millions of elderly people. I also have very strong feelings about how important it is for families that work hard to accumulate wealth to be able to pass it along from generation to generation. I believe we can improve the economic health within the African American community by creating an environment in which young men and women can get a head start and a meaningful stake in the world by virtue of resources passed on to them by previous generations.

So, to my second story. My parents worked very hard to earn a living and to provide a good home for me and my three brothers, but when my father died suddenly and without warning of a massive heart attack that night in August of 1969, my mother found out just how important the steps were that pop had taken to do something a little beyond the providing of food and shelter. He was insured. His car note was insured. And his hard-earned savings provided my mother with the means to face the future with financial security.

My brothers and I were young adults, with young families, just beginning to make our way. We were all over the age of 25. Mother was only 54 years old. After a lifetime of paying into the Social Security system, my dad would have been shocked to know that the total benefit paid to his family amounted to \$255.

The Social Security system as it exists today provides for old age, survivors and disability benefits, OASDI. The Social Security program has been a godsend to families when a breadwinner is unable to work because of a disability or when a breadwinner dies -- if the spouse is at or near retirement age and the children are young. And African American families are disproportionately dependent on disability and survivor's benefits -- that according not only to Social Security but also to the National Urban League.

But let's deal in hard facts here. The average life expectancy for an African American man, according to the year 2000 statistics, is 64.8 years. This is trending down, not up. In 1995, it was 65.4 years. Of every 1,000 African American men, about 650 of them won't see their 75th birthday. My dad was turning 55 the week he died.

The significance of this is pretty obvious. It means that millions of working black men are going to devote a healthy share of their lifetime earnings to finance the Social Security

benefits of others. Yet they will likely receive no retirement benefits themselves. The well-respected RAND Corporation found that African American workers will transfer as much as \$10,000 of their lifetime income to the Social Security system.

For middle- and lower-income workers, that is not small change. But we all know that Social Security is a vital concern to millions of Americans of all races who depend on Social Security benefits during retirement or periods of disability. Unfortunately, unless we act to strengthen the system, Americans will not be able to depend on those benefits indefinitely.

Oh, I know, AARP refers to Social Security benefits as guaranteed. That simply is not the case, as Ed Crane has already said. It is just one more of the myths surrounding this important program. The truth is that benefits are not guaranteed. And benefit amounts can be reduced if the funds are not available to pay full scheduled benefits. The Supreme Court has already ruled twice that contributors have no property rights to Social Security.

For minorities, with a shorter lifespan, reform of the system is essential. Only 65 percent of black men aged 20 today can expect to survive to age 65. Retirement benefits will never be realized. Put another way, 1 of ever 3 young African American men will never receive retirement benefits -- perhaps disability,

perhaps his family will receive survivor's benefits, but not necessarily -- remember my own personal story.

When I hear people defend the status quo as being something that African Americans should want to protect from those who would change it, I want to have them look at one critical number. Among African Americans between the ages of 65 and 74 who are receiving benefits from Social Security, 1 of every 4 -- 25.1 percent -- are living below the poverty line. By contrast, among white Americans that figure is just 8.8 percent.

I don't need statistics alone, though, to make this point. I've seen it with my own eyes, and I know many of you have as well. As Commissioner of Social Security, I had ample opportunity to visit senior centers, nursing homes and retirement communities. I've spoken with people who were so grateful to be receiving that monthly Social Security check, and yet they were scrambling to stay solvent every month. They were going without their medications in order to buy food, and vice versa.

I absolutely refuse to believe that this is the best America can do. But I also know that the program's continued ability to pay currently scheduled benefits is not assured without change. We all know that demographic changes will occur. Baby boomers will retire. Fewer workers will be paying in to cover the benefits. We all know that by 2016 Social Security will be taking in less than it needs to pay full promised

benefits. And trust fund bonds will need to be redeemed over the next 22 years to make up the difference. And we all know that the U.S. Treasury will have to come up with the resources to make good on those bonds.

By 2038, when the trust funds are expected to be exhausted, only 74 percent of benefits promised today will be covered by the revenue taken in by Social Security. We have a system that needs to be improved. Why not act sooner rather than later? Why not act in a bipartisan spirit of reason for the good of the program and those who depend on it?

I believe the President's commission developed proposals for an improved Social Security that deserve meaningful and thoughtful public debate. Fiscal problems are a reality outside the debate of a personal retirement account. So, as Snuffy Smith used to say, time's a wastin'. Most of you are already quite familiar with the report of our Commission, and you are certainly familiar with the criticism that resulted from it. Let me take a moment to address some of the major proposals in the report.

Number one, we believe that Social Security would be strengthened by allowing workers to use a small portion of their 6.2 percent Social Security contribution to create a personal retirement account component, so that families can gain a larger return on their money than is currently earned and have the

opportunity to build savings instead of just contributing their FICA taxes toward their defined benefit. These accounts would be voluntary and would not apply to current beneficiaries or those within five years of retirement.

In today's world, the median African American household has barely over \$3,000 in financial assets -- \$3,000. That's not enough money to protect a family against a serious financial setback. That's not enough money to cover even one year of post-retirement life. And one major reason that African American families only have \$3,000 in assets is because they're contributing 6.2 percent of their wages to the Social Security system. And, let's face it, that doesn't leave much cushion in the paycheck of low-income workers for personal savings.

I believe we can create a structure in which that 6.2 percent can yield some tangible benefit beyond monthly retirement benefits that, as we know, millions of black men will never even see. Our Commission did some projections. We discovered that if we take just \$1,000 of an average worker's annual Social Security taxes, beginning when they start their working career, and place it for 45 years over their working career in a personal retirement account, that average wage earner would enter retirement with more than \$150,000 accumulated, even after inflation adjustments.

So, put these profiles side by side -- the millions of African American retirees who are drawing Social Security yet still living in poverty versus the possibility of accumulating over \$100,000 in personal savings. I challenge anyone to look at that side-by-side contrast and say that we shouldn't at least consider the prospect of individual Social Security investment accounts.

And I agree with Commissioner Bob Johnson, that the accumulated wealth in these Social Security accounts should be inheritable. Why should we just passively accept that cycles of poverty among generations are a fact of life that cannot be altered? With one significant policy change, we can snap that cycle in this generation and literally change the future for so many families. By just taking a portion of that money that is being funneled directly into the Social Security system and enabling workers to use it to build an estate, we aren't just altering their lives today -- we're building a future for their children.

And, finally, I believe strongly that if we are going to give people the ability to create personal retirement accounts with a portion of their Social Security taxes, then we must also give them control over those balances when they reach retirement age. I believe that if we can trust individuals to invest their money wisely during their working years, we should certainly give

them that same control and flexibility with their money when they retire -- once we are ensured that enough of a guaranteed benefit remains to serve as a cushion against poverty.

Now, as you well know, these ideas emanating from the President's commission were not met with universal acclaim. So, let's be clear about what we did and did not do. And let's not resort to frightening seniors who are already receiving benefits. We did not propose changing benefits for current and near retirees. Let me say that again -- we quite simply did not propose any measures that would touch the retirement of any individual aged 55 or over.

Now, having made that clear, let me address some of the specific arguments that have been made against the Commission's recommendations as it relates to African Americans. First, it has been said frequently that minorities are disproportionately reliant on Social Security for their retirement income and that it would be, therefore, extraordinarily hurtful to them to alter the current system.

It is true that minorities have a heavy reliance on Social Security for their retirement income. Black males who worked in the low-wage brackets for most of their lives will depend on Social Security for about 80 percent of their retirement support. The wealthiest 20 percent of wage earners,

by contrast, depend on Social Security for only 20 percent of their retirement income needs.

Yet, far from being an argument against reform, I see this as a compelling argument for change. Dependency on Social Security has not, by any means, equalled retirement comfort for African American retirees. They have little wealth accumulation. Many are living below or barely above the poverty line. This is certainly not a strong rationale for maintaining the status quo.

Furthermore, think about the future of Social Security and about how much we depend on the program. If the day comes -- and it will come -- when we cannot balance the Social Security books without making significant cuts in benefits, who is going to bear the lion's share of that pain?

It has been argued that African Americans are likely to fare worse under private accounts since Social Security retirement benefits are progressive and, disproportionately, low-income recipients receive a larger percentage of benefit relative to earnings than do higher-income recipients. The Commission was careful to make sure we offered new progressive proposals for funding personal retirement accounts and progressive changes to Social Security's benefits structure. As a result, many minorities would be helped disproportionately by our recommendations.

Another argument voiced against reform is that minorities are prime beneficiaries of Social Security's disability and survivor benefits and would be hurt the most if those benefits were undermined by proposed reforms. The President specifically directed the Commission to preserve Social Security's disability and survivor's components.

Commissioners recommended that disabled persons receive full disability benefits before they hit retirement age. They would not have their benefits reduced. And then, when they reach retirement age, if they had voluntarily elected to have personal retirement accounts, they, just as other program participants, would exchange a small portion of their traditional benefits in return for that expected higher return from their personal accounts. In this way, disabled persons are supported with full disability benefits while younger, but can also gain the greater retirements from personal investment accounts if they voluntarily elect to do so.

As for survivor benefits, far from undermining them, the Commission recommended larger increases. We recommended, in fact, that benefits for low-income widows be increased from 66 percent to a level of 75 percent of that received by both spouses. This is a particularly important provision for African American widows, and it should not be lost or obscured in this

discussion. And widows would also benefit from inheriting personal account balances.

I could go on and on debating the arguments that have been made since the Commission released its final report, but I know you will be hearing from many others and I'm sure you're going to gain a lot more insight from their expertise. So, let me just finish by saying something about the future of Social Security.

To say that we should maintain Social Security exactly as it exists today is no different from saying that a train should stay on the same track even though the bridge is out a few miles up ahead. The Social Security trustees report tells us that, beginning in 2016, the current program will cease producing sufficient revenues to cover full benefit outlays. By 2030, if we are going to continue to meet current benefit promises, it is going to require either a 17-percent Social Security tax rate on workers just to pay for it, or benefits would have to be cut in 2038 by 27 percent just to keep the program solvent.

We have a window of opportunity in which to address these problems. By starting now to begin a serious debate that could lead to legislative action two or three years from now, we can keep Social Security solvent well into the 21st century. And we can create a program that offers promise and prosperity to

people who are today experiencing poverty and near poverty, or not gaining anything at all from Social Security.

The key is to do just what you are doing today -- to look at the issues with an open mind, with a sense of fairness, and with vision and clarity, to look at what is right and necessary for the people who depend on Social Security, and to begin taking steps toward building the kind of program Americans need and deserve.

Ed Crane and I were tracking on the same wavelength. In 1884, Frederick Douglass wrote, and I quote: A race which cannot save its earnings can never rise in the scale of civilization.

I believe those words ring true today. That the key to a more prosperous African American community lies in making it possible to preserve our rich heritage, to educate our children with dignity, and to build wealth that can be passed from generation to generation. Without change, cycles of poverty will continue uninterrupted. But, with change, we can replace despair with hope, dependency with confidence, and dislocation with home ownership.

Thank you very much.

(Applause.)

(End of Ms. King's presentation.)