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Social Security Privatization Advocates Rely on False Claims About African Americans and Life Expectancy

Dear Democratic Colleague:

Yesterday, the Los Angeles Times published a story describing the tactics that the White House and its allies use to make the case that privatization would benefit the black community. A story in Sunday's edition of the same paper noted an effort to use African American churches to advance privatization of Social Security.

Their case rests on the spurious argument that privatization will benefit African Americans because we have a lower life expectancy than white Americans. I find this argument troubling for many reasons. My deepest concern is that it takes a serious problem that affects the African American community and, instead of seeking to address it, asks that we accept it and design our public policies accordingly.

Lower life expectancy for African Americans is a real problem. We should strive to erase that gap. Instead, advocates of privatization are using this problem that affects African American families to build their case for a policy change that is fundamentally driven by other concerns.

Rather than give a small bequest from a privatized Social Security account to those African Americans who lose a parent far too young, we should make sure their parents are able to enjoy a full and healthy life.

— OVER —

Moreover, the argument that life expectancy disparities mean that Social Security privatization would help African Americans rests on a misleading and distorted picture of both the actual differences in life expectancy and of how Social Security works. Social Security is not just a retirement program. It also features disability and survivors benefits that are important to African American communities. Social Security is also progressive, offering a much better return for lower-income workers, who – unfortunately – are disproportionately black.

In fact, privatization of Social Security will actually make things worse for African Americans. In 2003, the Government Accountability Office (GAO) found that African-Americans, on average, get more for their money in Social Security than do whites. They do so primarily because of features of Social Security that would be weakened by private accounts. The report also found that privatization would be likely to harm minorities.

I have enclosed a fact sheet discussing this issue that was prepared by the House Ways and Means Committee Democratic Staff. I hope you will find it helpful.

Sincerely,



Charles B. Rangel
Ranking Democrat

Social Security Privatization Advocates Rely on False Claims About African Americans and Life Expectancy

Supporters of Social Security privatization argue that private accounts offer a better deal than the current system for African Americans. They argue that Social Security gives African Americans – because they have a shorter average life span than whites – a smaller return on their payroll taxes. Creating private accounts which could be passed on to heirs would address this problem, they say.

This argument has several critical flaws. First and foremost, it assumes the life expectancy gap is permanent, ignoring the fact that it is shrinking, and calls for policies that accept the problem rather than policies that fix it. Differing life expectancy by race is the problem; any inequity it creates in Social Security is merely a symptom. If we are concerned about the problem, we should try and do something about it, not just accept it and settle for trying to address its symptoms.

Nevertheless, even if we ignore this fundamental flaw, the argument simply doesn't hold water:

- o it relies on misleading statistics about life expectancy;
- o it relies on misleading claims about the ability to pass along accounts to heirs; and
- o it only considers Social Security retirement benefits, ignoring the progressive structure of the system, survivors benefits, and disability benefits, all of which disproportionately benefit African Americans.

Misleading life expectancy argument. Privatizers argue that African Americans live an average of five years less than whites, citing “at birth” life expectancies of 72.3 years vs. 77.7 years. This is misleading: life expectancy at age 65 – not at birth – is what matters in calculating the value of retirement benefits.

The life expectancy gap between African Americans and whites is widest at birth. Infant mortality is a significant contributor to the gap. But by the time people reach working age (and begin contributing to Social Security), the gap begins to narrow. By age 65, the difference is 1.6 years.

Misleading claim about passing assets to heirs. Privatization supporters argue that their plan would allow retirees who die young to pass their accounts to their heirs. This is misleading since privatization plans typically require some or all of the account balance to be annuitized at retirement – your account would be converted to monthly benefits for life, with nothing left upon death.

While private accounts could allow someone who dies before retirement to pass along assets to their heirs, privatization is likely to lead to reductions in survivors benefits. Private accounts won't make up for that. People who die young will have had less time to build up a balance in their account. Their children are likely to be better off receiving full monthly benefits from

Social Security until they are adults, than to receive shrunken Social Security benefits plus a one-time modest payment from a private account.

Social Security is a "good deal" for minorities. Any disparity resulting from life expectancy differences is more than offset by other features of Social Security that disproportionately benefit African Americans – the progressive benefit structure, survivors benefits, and disability benefits. Social Security provides higher benefits (relative to lifetime wages) for lower earners than for higher earners. It also provides disability benefits for victims of career-ending illnesses or injuries, as well as survivors benefits for dependents of those who die young. Since African Americans have lower wages than whites and are more likely to suffer from disabilities, these features of Social Security more than offset the differences in life expectancy. African American children also receive a disproportionate share of survivor benefits.

An April 2003 GAO report refuted claims that minorities are treated badly by Social Security and would benefit from privatization. The GAO found that both African-Americans and Hispanics, on average, get more for their money in Social Security than do whites. The report concluded that proposals to privatize Social Security would likely harm minorities, by reducing the progressivity of the system. Moreover, such proposals would likely reduce disability and survivor benefits, which are particularly beneficial to minorities.

We need to close the life expectancy gap, not accept it. Using life expectancy to justify privatization assumes that the difference is permanent and that we should accept it. Neither is true. The gap has been slowly closing and is now at its lowest level ever. We should strive to close this gap further and eventually eliminate it, by improving access to health care, worker safety, and education, as well as protecting the environment and providing better housing in African American communities. Reducing the economic gap between African Americans and other Americans would help in all these areas.

Even the handful of African Americans who might benefit from Social Security privatization – heirs of African Americans who die in their 50s and early 60s without children or spouses eligible for significant survivors benefits – likely would rather see their parents, siblings, relatives or friends live for several more decades than receive a modest payment from a private account.

Instead of accepting the life expectancy gap, we should work to end it. That would do much more to benefit African Americans than privatizing Social Security.