

LIVING LONGER ON LESS
REPORT #3

**SEVERE FINANCIAL
INSECURITY
AMONG AFRICAN-
AMERICAN AND
LATINO SENIORS**

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Executive Summary

Building on *Living Longer on Less*, the first report in a series examining the financial vulnerability of the elderly,¹ this report examines the economic security of African-American and Latino senior households. The Senior Financial Stability Index (SFSI), described in more detail on page 6, provides an assessment of long-term economic security of senior households throughout their retirement years. Major components of the SFSI are Housing Expenses, Healthcare Expenses, Household Budget, Home Equity, and Assets.

LONG-TERM ECONOMIC SECURITY AND RISK

The SFSI finds that **91 percent of both African-American and Latino seniors face financial vulnerability**. Thus, nine out of 10 senior households of color do not have sufficient economic security to sustain themselves through their projected lives. Among Latino single seniors, only four percent are financially secure.

Notably, the data used in this report were collected before the Great Recession of 2008-09. This recession has been characterized by dramatic losses in assets, particularly in housing assets, which are the primary source of wealth for most American households, especially senior households. Because the data are drawn from before this time period, we are likely to underestimate the current economic vulnerabilities for seniors.

SOURCES OF ECONOMIC SECURITY AND RISK

- ▶ **Assets:** More than three fourths of senior households of color (76 percent of African-American and 85 percent of Latino seniors) do not have sufficient financial resources to meet projected lifetime expenses.
- ▶ **Healthcare Expenses:** Out-of-pocket health expenses are burdensome for 34 percent of African-American and 39 percent of Latino senior households. These expenses will eat up an increasingly larger share of fixed budgets in senior households in the future.
- ▶ **Housing Expenses:** High housing expenses put six in 10 African-American and Latino seniors' budgets at risk.
- ▶ **Home Equity:** Forty-four percent of African-American and 37 percent of Latino senior households are at risk with respect to home equity—meaning that they rent or have no home equity.

By focusing on particular areas of strength and vulnerability among older households, the SFSI provides a benchmark of the economic life prospects of older Americans and underscores areas that public policy can address.

The current generation of Americans age 65 or older is better prepared for retirement than subsequent generations will be. This is primarily because subsequent generations are experiencing declining employer-based retirement savings and rising debt. For African-Americans and Latinos, the outlook for future seniors is even bleaker than the current reality.

While we report on the economic security status of older Americans, this work also helps to identify retirement-related vulnerabilities for younger families and policy interventions designed to ensure their long-term economic security.

POLICIES PROMOTING SENIOR ECONOMIC SECURITY FOR ALL

To promote long-term economic security, our recommendations aim to:

Enhance Existing Programs and Resources for Seniors

- ▷ Strengthen Social Security
- ▷ Strengthen Pension Provisions
- ▷ Institute Long-Term Care Insurance
- ▷ Support Flexible Employment Before and During Retirement

Support the Development of Assets for Adults of All Ages

- ▷ Address the Healthcare Crisis
- ▷ Increase Access to Matched and Tax-Deferred Savings and Retirement Saving Plans
- ▷ Promote and Expand Financial Education for All Ages
- ▷ Promote Adequate Income Opportunities
- ▷ Improve Regulations that Support Asset Protection

Promoting lifelong sustainable well-being for seniors benefits all citizens and strengthens the nation. A just society can do no less than move towards these goals.

Context:

Economic Security of Seniors of Color in the 21st Century

A typical adult approaching retirement in 2010 was born around 1945 and may have entered the workforce in the mid 1960s at a time of racial segregation in schools and communities, little access to college for people of color, and employment opportunities with no pension or retirement savings benefits, or even Social Security for African-American and Latino workers. Despite having witnessed much progress, people of color face great barriers to economic opportunities which shaped their life trajectories and continue to shape their current economic realities. Past discriminations and current economic realities have long-term economic implications for people of color who are entering retirement today in a more unstable position than their white counterparts.

Seniors have traditionally been among the most economically vulnerable populations in society. Our commitment to changing this reality in the 20th century through the establishment of broad based social insurance programs such as Social Security and Medicare dramatically improved conditions for seniors. Nevertheless, Social Security in its initial design was not equally available to all types of workers. Large proportions of African Americans and Latinos were kept out of the system in its early years due to their occupational type.

Historical inequities in opportunities for work and education were par for the course when today's older people of color were entering and rising up in the workforce. Our nation has worked hard to remedy the inequities, but it has not cured them. Even today, people of color remain less likely to receive pension benefits from their employers and, many people of color, particularly Latinos, are overrepresented in occupations in which worker misclassification limits participation in Social Security.²

These retirement challenges for African-American and Latino seniors must be put in the context of the growing overall challenges to Americans' ability to accrue retirement savings. The general retirement landscape is becoming more insecure. At a time when the economic resources of seniors must last more years, there is a dramatic decline in employer-provided pensions and poor national economic conditions have left fewer with employment stability and retirement savings opportunities.

People of color have experienced a disproportionate share of the set-backs in recent decades. From 1979 to 2006, African-American private sector workers saw their overall pension coverage go down from 45.8 percent to 37.5 percent. Latinos have the lowest coverage levels and experienced the most significant decline in coverage in the same period from 38.2 to 22.6 percent (down by 15.5 percentage points). In contrast, white workers experienced a much smaller decline of 3.7 percent to 48.5 percent coverage.³ These facts suggest that younger African Americans and Latinos entering into retirement in the future will face difficulties improving their retirement prospects beyond those of their parents. Today's challenging trends will lead to less secure years for all older adults if structural changes in policy and employer-based pensions and savings mechanisms are not developed.

Even though future seniors will be less prepared for retirement than today's seniors, the economic security of today's older adults, particularly African Americans and Latinos, is alarmingly uncertain. With declining pension access for workers today, future generations of older adults will likely have less, not more, access to pension income. Today access to pension income for older adults is just 35.5 percent for seniors overall, while only 32.1 percent of African-American men and 24.2 percent of African-American women have pension income.⁴

Like pension income, access to assets and financial wealth is much lower for minorities in the United States throughout the life course. This leads to significant disparities in retirement resources by race and ethnicity. Shapiro found that African Americans on average hold only 10 cents in assets for every dollar held by white households.⁵ A lifetime of fewer assets leads to a much more vulnerable retirement for many households of color.

On average over half (52.0 percent) of Americans age 65 and above have access to interest income; however, less than one in four (22.2 percent) African-American seniors have interest income.⁶ While overall 22.5 percent of seniors receive dividend income, very few older African Americans (5.2 percent) received dividend income.⁷ While evidence suggests that minorities generally invest in lower-risk, lower-return investments,⁸ a broader set of factors beyond investing behavior contributes to the significant racial wealth gap that remains significant after controlling for income. These factors include little access to parental support and inheritances for college and home purchases making saving for retirement more difficult and debt burdens greater for households.⁹

Subsequent generations will face severe challenges in retirement if current trends in pensions and rising health costs are not reversed. The impact of the current housing crisis has reduced the asset holdings of many households, thereby reducing the largest asset of most retired households. The effects of current declines in housing prices on economic stability for older households will be seen many years down the road. The number of older Americans who are filing for bankruptcy has now reached record levels, an indication of the impending crisis for future retirees.¹⁰ Financial assets among middle class families of color dramatically decreased between 2000 and 2006,¹¹ and the 2008 recession bodes for a more uncertain future.

Existing measures of economic vulnerability that use a single income threshold, like the official poverty measure, are inadequate for capturing economic vulnerabilities of households and do not adequately capture assets and resources. The analysis in this report aims to provide a fuller picture of the economic security of African-American and Latino senior households with members age 65 and above by examining several key facets of security.

Measuring Long-Term Senior Financial Stability

The Senior Financial Stability Index (SFSI) measures the economic capacity of older Americans over their lifetime. This approach differs from previous methods of measuring senior economic security. Traditionally senior economic security has been measured in relation to the prevailing federal poverty line. The poverty line is a snapshot in time that gauges the capacity for annual income to provide basics needed for minimal well-being. The life course approach of the SFSI moves the discussion to a more policy-relevant conversation about the capacity of older Americans to sustain an adequate level of economic well-being throughout every stage of their life.

SFSI offers a framework to assess the strengths and vulnerabilities of economic security among older Americans—and, importantly, helps to identify policy areas to strengthen well-being. In developing this concept, we identified essential factors for economic security and well-being, and set common-sense and research-tested thresholds while creating an index anchored to a single, easily understood and interpreted metric.¹²

The traditional view of retirement security focuses on three complementary income sources to cover living costs during retirement. These are Social Security, pensions, and savings. The SFSI examines these resources but widens its lens to encompass other factors affecting economic stability and vulnerability:¹³ Housing Expenses, Healthcare Expenses, Household Budgets, Home Equity, and Assets.

These five factors were selected for the following reasons:

- ▷ A body of research documents that the largest living expenses for older Americans are housing and health expenses.
- ▷ Household budgets are important because they measure the capacity of senior households to meet annual essential expenses.
- ▷ Research points to home equity as the largest source of wealth for all U.S. citizens and in particular for older Americans.
- ▷ Financial assets establish long-term stability.

Our understanding of senior economic stability has come a long way. Previous efforts to examine senior economic security have focused on the self-sufficiency capacities of older Americans for short periods, typically regionally determined living expenses for one year. The Elder Economic Security Standard¹⁴ provides a benchmark for the capacity of seniors to meet a realistic level of basic expenses. The National Retirement Risk Index uses replacement rates comparing pre and post retirement consumption to assess whether assets and savings would support proportionate consumption levels during retirement.¹⁵

The SFSI extends this line of research by delivering a policy-relevant marker with significant implications for revitalizing America's social contract. By building financial assets and housing wealth into a longer-term, economic security calculation, SFSI **provides a benchmark of the life prospects of older Americans that underscores areas of strength and vulnerability that public policy can address.**

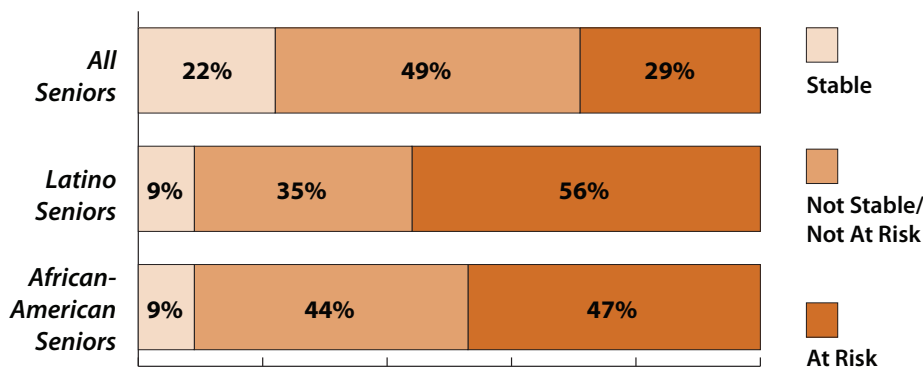
TABLE 1: FINANCIAL STABILITY AND RISK THRESHOLDS FOR EACH FACTOR

Factor	Standard for Senior Financial Stability	Risk to Senior Financial Stability
<i>Housing</i>	Housing consumes 20 percent or LESS of income	Housing consumes 30 percent or MORE of income
<i>Health</i>	Medical expenses, including supplemental health insurance, LESS THAN 10 percent of total before tax income	Medical expenses, including supplemental health insurance, 15 percent or MORE of total before tax income
<i>Budget</i>	\$10,000 or MORE after annual essential expenses	Risk when budget at zero or negative after essential expenses
<i>Home Equity</i>	Home equity of \$75,000 or above	Renter/no home equity
<i>Assets</i>	Net financial assets plus Social Security/pension income MINUS median expenses over life expectancy GREATER or EQUAL to \$50,000 for single seniors, \$75,000 for senior couples.	Net financial assets plus Social Security/pension income MINUS median expenses over life expectancy EQUAL to zero or less.
SFSI	<i>Asset secure PLUS stability in at least two¹⁶ other factors</i>	<i>Asset risk PLUS risk in at least two other factors</i>

HOW SECURE ARE SENIORS?

The data reveal that nine out of 10 senior households of color do not have sufficient economic security to sustain them through their lives. According to the SFSI, 47 percent of African-American and 56 percent of Latino seniors are at risk and financially vulnerable. Only 9 percent of African-American seniors and 9 percent of Latino seniors meet the criteria for long-range economic security—less than half the level of seniors overall (22 percent).

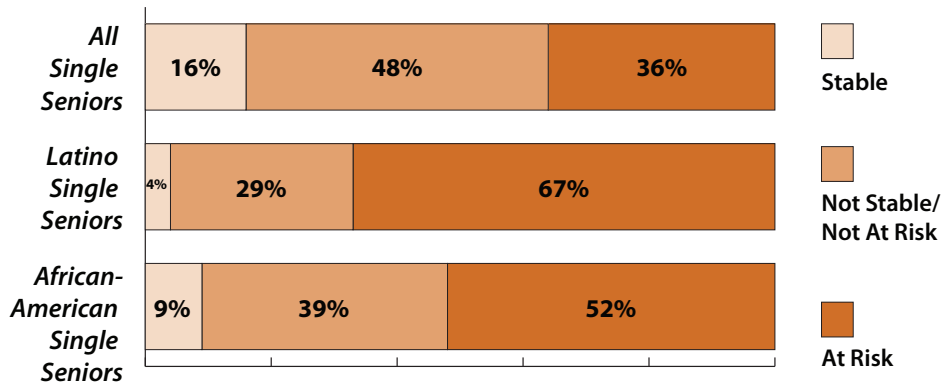
FIGURE 1: OVERALL ECONOMIC SECURITY AND FRAGILITY OF SENIORS IN 2004



The story for Latino senior couples is better—15 percent are secure and 42 percent are at risk. Financial stability does not increase for African-American senior couples but risk is reduced with 29 percent among them identified as financially vulnerable.

For single seniors, the SFSI demonstrates less security and more risk—only 9 percent of African-American single seniors and 4 percent of Latino single seniors are secure, while 52 percent of African-American and 67 percent of Latino single seniors are vulnerable and at risk of inadequate resources to sustain their older age life cycle.

FIGURE 2: FINANCIAL STABILITY OF SINGLE SENIOR HOUSEHOLDS



Put in a larger perspective, the SFSI shows that 91 percent of African-American and Latino seniors are not economically secure; that is, they are economically at risk or in between (not secure and not at risk). This means that if present conditions continue, nine out of 10 senior households of color will not have sufficient economic security to sustain them through their lives. The SFSI thus pinpoints not only areas of vulnerability, but provides a fuller picture of economic security among senior citizens. The power of examining the long horizon of the later part of one’s life course is illustrated by a comparison with the traditional, income-based poverty line.

The results of our analysis using the SFSI reveal that official government statistics regarding poverty underestimate economic vulnerability.¹⁷ The latest poverty rates from the Census Bureau for African-American and Latino seniors (65+) are 23.2 percent and 17.1 percent respectively--significantly higher than the rate of 7.4 percent for non-Hispanic whites.¹⁸ Still, these numbers do not capture the reality that 9 out of 10 African-American and Latino older households are not truly secure for a long-term, stable retirement. For some time researchers and academics have argued that the measure of poverty needs to be modernized and updated. Our analysis adds to this discussion by demonstrating that the economic challenges faced by older U.S. households are multi-faceted and combine both long-term and immediate needs.

Sources of Economic Security and Risk

As demonstrated in our earlier work, of the five factors that comprise the Senior Financial Stability Index, the **asset or wealth factor poses the greatest risk** for most seniors.¹⁹ Given the existing research on the racial wealth gap,²⁰ it is not surprising that seniors of color have particularly low levels of assets to help them weather financial challenges and meet their long-term financial needs. In our study, this factor is annuitized to project current Social Security and pension incomes²¹ and adds current assets such as savings, property values (excluding one's own home), and investments.²² Privately held assets are less important when Social Security and pensions provide adequate income streams for seniors and when protections for long-term care expenses have been instituted.

However, in the current U.S. context these resources are often inadequate to meet overall needs. In fact, incomes such as Social Security and defined-benefit pensions provide some of the most stable economic resources seniors have—given the volatility of other assets that has been demonstrated so clearly in the volatile markets of 2008. However, with more and more emphasis put on private savings, including 401(k) plans, assets have become increasingly more vital to fill the gap between Social Security income and living expenses.

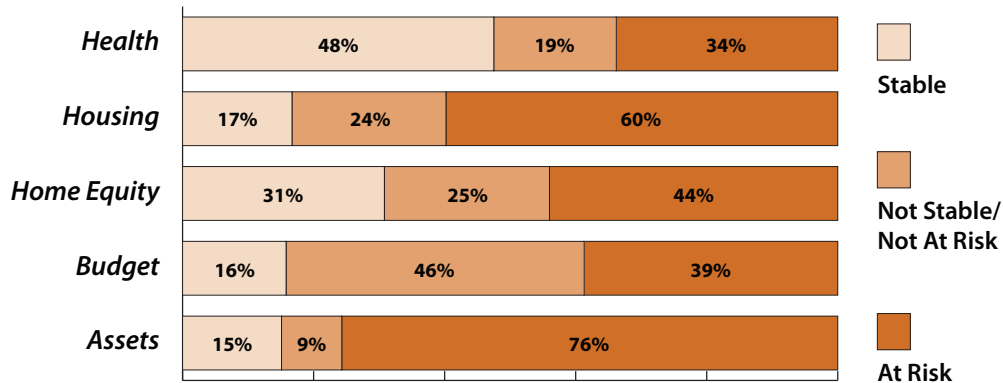
With an average life expectancy of 83 years at age 65, seniors need net financial assets, secure income such as Social Security, and/or home equity to provide economic security for at least 18 years on average, while other income sources often decline and health expenses can increase. Absent of employment income, few seniors have assets that can provide security for even a much smaller number of years.

- ▷ More than three-quarters of African-American and Latino senior households (76 and 85 percent respectively) are at risk of not having sufficient financial resources to meet median projected expenses for their projected life expectancy based on their financial net worth and projected Social Security and pension incomes. Only 15 percent of African-American and 10 percent of Latino senior households are secure with respect to their combined resources from their financial net worth, Social Security benefits, and pension assets, the three traditional legs of senior economic security, as captured by the Asset risk factor.
- ▷ Only 16 percent of African-American and Latino seniors have Budgets that allow for an additional cushion of savings for larger and unforeseen expenses, while tight budgets are much more common. Another 39 percent of African-American and 57 percent of Latino seniors have no additional funds after paying for essential expenses.
- ▷ Despite surprisingly high homeownership rates well above rates of younger families (62 percent for African-American seniors, 68 percent for Latino seniors in 2000²³), housing-related expenses are high. Sixty percent of African-American and Latino seniors are economically at risk based on their Housing Expenses.
- ▷ More than one-third of African-American and Latino senior households (34 and 39 percent respectively) are at risk based on their current Health Expenses. With increased age, these expenses tend to increase, demonstrating that all households should be prepared for health costs to increase with age. Also, given the overall rising health costs in the U.S. system, healthcare premiums are rising disproportionately to income for seniors relying on fixed incomes, posing an even larger burden for senior economic security in the future.

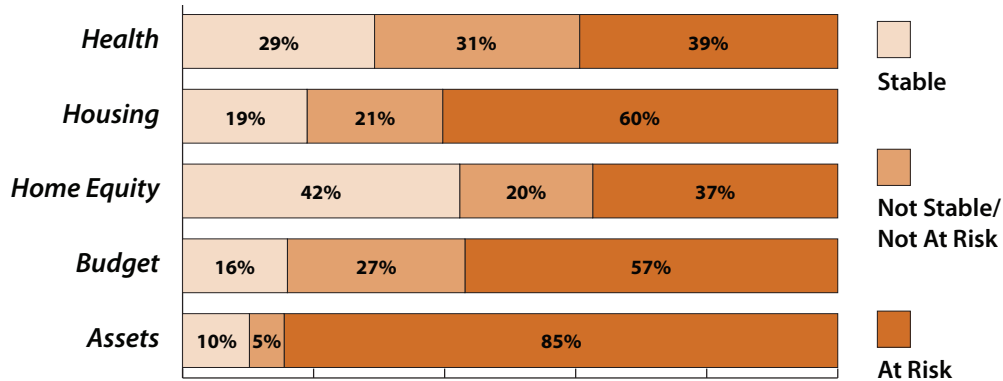
- Home Equity is the largest asset of seniors. Approximately half of all seniors have median home equity worth \$90,000 or more (pre-2008 housing values). A substantial proportion of senior households of color (31 percent of African-American and 42 percent of Latino seniors) are secure with respect to home equity. However, similar numbers (44 percent of African-American and 37 percent of Latino senior households) are at risk, meaning they either rent or have no home equity. This suggests a substantial gap in security between owners and non-owners.

FIGURES 3 AND 4: SOURCES OF FINANCIAL STABILITY AND RISK*

African-American Senior Households 2004



Latino Senior Households 2004



* Percents may not total 100 due to rounding.

Among the five SFSI factors, Assets and Housing are especially troublesome for single African-American and Latino seniors. Seventy-seven percent of single African-American and 90 percent of single Latino seniors are at risk based on their assets. Further, 65 percent of African-American and 68 percent of Latino single seniors are at risk based on their housing expenses.

These compelling statistics reflect the realities of many seniors and demonstrate the roots of economic security and fragility—a fundamental mismatch between income and costs of essential and other day-to-day expenses. Put simply, many seniors have too little income and assets and face costs that are too high and rising.

Policies to Strengthen the Foundation of Economic Security for All Seniors

The data presented in this report reveal that African-American and Latino seniors face particular economic vulnerabilities. Our analysis in recent reports using the Senior Financial Stability Index (SFSI) reveals that economic insecurity is commonplace among older adults. This report demonstrates that seniors of color are particularly likely to be at-risk in the essential economic security factors measured by the SFSI. Our policy recommendations aim to create a foundation for economic security for all seniors, while ensuring that policy addresses the needs of the most vulnerable groups. In order to promote long-term economic security, policy changes must 1) enhance existing social programs and resources for seniors, and 2) support the development of assets for working age adults across the life course.

ENHANCE EXISTING PROGRAMS AND RESOURCES FOR SENIORS

Earlier reports in the *Living Longer on Less* series have highlighted the need for broad policy reforms which enhance our existing retirement security programs. These proposals are crucial for bolstering the existing foundation of retirement security for current and future seniors.

Strengthen Social Security

Social Security remains a crucial bedrock for millions of retired and disabled Americans and their survivors. Still, many beneficiaries remain in poverty due to low benefit levels and few other resources, and a portion of seniors of color have no access due to employment that does not cover them.²⁴ Policymakers should review benefit formulas for the lowest earners and promote policies which address benefit adequacy for vulnerable populations.²⁵

Strengthen Pension Provisions

The existing system of employer-based pensions is not working for millions of employees who have no pension protections outside of Social Security. Social Security benefits are intended to be supplemented by other retirement resources and are often inadequate to meet basic needs for retired households. As employers have reduced their obligations under traditional pension plans, the loss of secure pension protections for many workers in recent decades has hit minority families particularly hard. Congress should work to ensure that pension benefits are available to all workers by providing a publicly-supported pension plan that relies on pooled risk and requires contributions from both employees and employers.

Expand Long-Term Care Insurance

Long-term care costs can be large and difficult to predict at the household level. But the need for long-term care services across the population is both predictable and growing as the population ages. Private insurance policies for such care are unaffordable for most. Thus the development of a social insurance program for long-term care needs would be the best way to ensure that families are financially protected from the economic risks associated with long-term care. As it became law under the Healthcare Reform Bill of 2010, voluntary long-term care

insurance programs with a basic benefit designed to help seniors and disabled people avoid nursing homes are a first step to address this need.

Support Flexible Employment Before and During Retirement

Today's earnings are an important part of the financial resources of older households who are able to work. Yet our current system of employment does not provide adequate opportunities for older adults. Policymakers and employers should work together to develop more opportunities for flexible work arrangements for older adults as well as working parents who want to be engaged in the workforce but find working full time difficult.

SUPPORT THE DEVELOPMENT OF ASSETS FOR ADULTS OF ALL AGES

In order for seniors to be secure in their later years, they must have adequate income and asset building opportunities. These opportunities must be available during their prime working years as well as during their elder years. Poverty before one reaches age 65 is a major predictor of poverty after age 65. This reality suggests that a major strategy for reducing poverty for tomorrow's seniors is to help them achieve more secure living conditions today, conditions that can be sustained for the long run.

Given the important role that assets play in sustaining families during difficult economic times, broader opportunities for asset-building and provisions for asset protection should be made available throughout the life course, particularly for vulnerable communities. Many current policies to help families build assets are highly skewed to benefit higher income families. Our recommendations aim to address these inequities by strengthening opportunities for families with fewer resources.

Address the Healthcare Crisis

Lack of health insurance and under insurance are among the greatest risk factors for financial ruin in the United States today. Bankruptcies in the United States are increasingly caused by medical bills leaving families who should be focused on getting well mired in financial disaster.²⁶ Our current healthcare system leaves millions of adults and youth without health insurance during their childhood and their working years. Medicare is a crucial resource, but the system has major financial problems. Rising healthcare expenses mean rising premiums for Americans of all ages.

Our data reveal that African-American and Latino seniors are more secure in the health factor than all other SFSI factors. This reality is due to the nearly universal coverage provided by Medicare. Such coverage is needed for Americans of all ages. The long-term financial security of all Americans, particularly families of color who are disproportionately among the uninsured, requires systematic changes to our healthcare system. The Healthcare Reform bill voted into law in March 2010 is a first step toward universal coverage and access to care for all persons and the reining in of rising costs.

Increase Access to Matched and Tax-Deferred Savings and Pension Plans

Relative to higher income households, policy does little to promote savings among low-income households. Policymakers should extend opportunities for low-income populations to participate in matched savings accounts or Individual Development Accounts (IDAs) that provide significant incentives for long-term savings similar to the incentives that are available to

higher income groups. Policymakers should also take action to develop universal retirement savings accounts which will help all employees save for retirement regardless of the pension offerings of their employers. Several options have been suggested—including the Automatic IRA supported by researchers at the Brookings Institute and the Heritage Foundation²⁷ that would dramatically expand retirement savings options for workers who are currently without pensions.

Promote and Expand Financial Education for All Ages

Financial management is a complex and life-long activity in which all adults must participate. However, few people receive guidance in this area and much learning is informal. Wise financial planning is essential throughout the life course. Expanding financial literacy is an important part of helping families achieve long-term financial stability. From planning for educational loans and managing credit cards to saving for retirement, all of us make important financial decisions that will impact our future financial resources. The current housing crisis has revealed the importance of helping homeowners, particularly first-time homeowners, understand their options for financing. The crisis also demonstrates the dangers of predatory loan products. By using schools, community centers, non-profits, churches, and senior centers as access points for financial education, public and foundation resources could make an important impact on the financial health of today's and tomorrow's senior population.

Promotion of Adequate Income Opportunities

Adequate employment opportunities that allow for career development and provide adequate wages are important to long-term economic security. The complexity of ensuring that all workers have stable, well-paying employment is beyond the scope of this report. Policies which support living wages, job training and career ladders are important steps in helping workers and their families achieve adequate incomes to meet ongoing consumption needs and to save for the future.

Improve Regulations that Support Asset Protection

The foreclosure crisis of 2007-2010 reveals how families with little understanding of the terms of their mortgages can get into serious financial trouble by entering into abusive loan agreements. Foreclosures can lead to personal disaster for families. They also decimate entire neighborhoods when homes are abandoned and left vacant. Strengthened regulations and consumer protections in the banking and lending sectors need to be developed and enforced by a funded federal agency such as the proposed Consumer Financial Protection Agency to ensure that products on the market are safe and that families are not advised or coerced into taking on loans that are not in their best interests. Critical to the development of a safe credit environment is the development of fair and responsible asset-building loan products, examples of which are already offered by small community development lending institutions.

Conclusions

While our social insurance programs have done much to improve the economic status of the elderly by promoting health and economic independence, many seniors remain economically vulnerable and fall between the cracks in our current system. Our past analysis using the Senior Financial Security Index (SFSI) reveals that economic insecurity is much more widespread than official poverty numbers suggest. It is important to note that this economic vulnerability is not evenly distributed across the population of older adults in the United States.

The findings of this report reveal that African Americans and Latinos are particularly at-risk of poverty and financial instability in their later years. This is in large part because of earlier economic challenges and barriers faced by people of color. The direction policymakers must take to address poverty among African-American and Latino seniors, is clear. They should promote comprehensive reforms which support all working age adults in maintaining economically secure and healthy households. Policy should also help families prepare for retirement by reinforcing our crucial existing programs for seniors to ensure that the most economically vulnerable are protected from poverty in their later years.

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- ▷ *The Hidden Cost of Being African-American: How Wealth Perpetuates Inequality*, by Thomas Shapiro (Oxford University Press, 2004)

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