



After Work?:

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Financial Health and Quality of Life for South Carolina's Minority Senior Citizens

Summary

Old-age poverty continues to plague South Carolina's Minority populations. This Brief examines the some of the barriers faced by Minorities of retirement age in the state and compares them with data for their White peers. The Brief also explores issues related to supplementing income through retirement savings for the working age population by analyzing current publicly available data on the subject at the state level.

Introduction

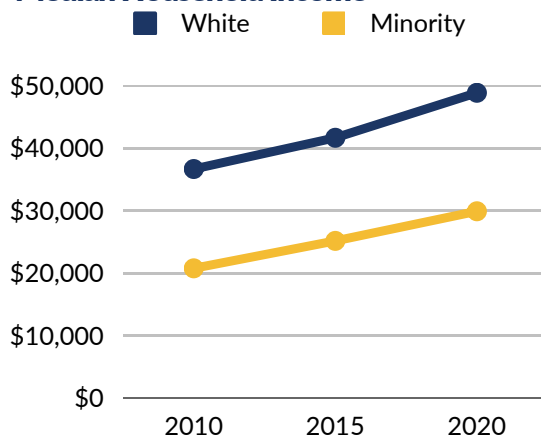
Despite the state's extremely favorable tax code for retirees, and particularly those who are veterans of the Armed Forces, South Carolina's Minority senior citizens face a range of economic and social hurdles that contribute to less secure retirements. In comparison with their White counterparts, Minorities tend to earn less during their careers, are less likely to be homeowners, were more likely to be employed in fields that were historically excluded from Social Security coverage, are less likely to count on employer-sponsored retirement plans, and are less likely to have accumulated income-generating assets. Despite these known discrepancies, research into the economic conditions of Minority retirees in South Carolina has taken a backseat to discussions of income differentials and unemployment rates for contemporary workers. This Brief aims to illustrate how these matters are linked. As South Carolina ages and becomes more diverse, we must also more scrupulously examine the economic conditions of retirees and retirement-planning factors during employment.

South Carolina's Retirement-Aged Population

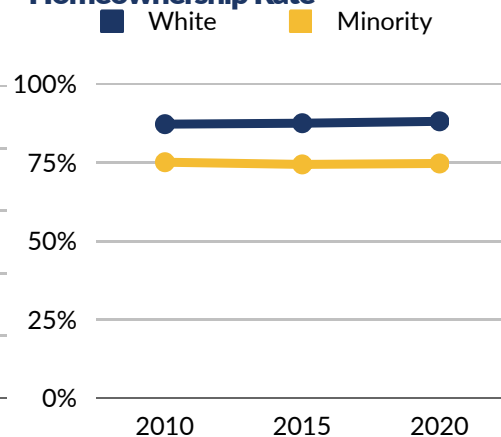
South Carolina's retirement-aged (62+)* population has grown by 357,082 persons from 2010 to 2020, for an annual increase of around 4.8%. Throughout that time, retirement-aged Minorities comprised 22.5% (2010), 23.5% (2015), and 24.5% (2020) of the total retirement-aged population, a rapidly growing share. Minority individuals within this category grew by more than 101,800 over that ten-year stretch, for an annual growth rate of around 6.1%. African Americans constituted around 85.4% of all retirement-aged Minorities in 2020, a relative decline of 4.5 percentage points. Hispanics (6.5% in 2020) and Asian American and Pacific Islanders (4.3% in 2020) were the second and third largest retirement-aged Minority populations in the state, and the two fastest growing segments.

Moreover, median household incomes for retirement-aged persons varied greatly depending on whether or not that person identified as a racial or ethnic Minority. In 2010, Minorities median personal income was \$15,890 less than that of Whites, and by 2020, that gap increased to \$18,960. Retirement-aged individuals tend to have higher rates of homeownership than the rest of the population, at around 87.5% for Whites and 74.7% for Minorities, rates which have remained flat over the prior decade. That said, Social Security benefits accounted for more than \$13 billion in 2020, around 6.25% of the the State-level GDP for the year, figures which are destined to rise further. Even still, White retirement-aged labor force participation exceeded that of Minorities over the decade, though that gap has gradually diminished from 2010 to 2020.

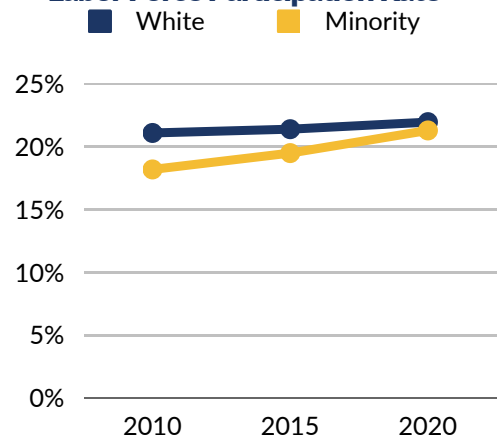
Median Household Income



Homeownership Rate



Labor Force Participation Rate



Sources: Data from 2010, 2015, and 2020 American Community Survey (ACS) Public Use Microdata Samples and 2019-2022 Current Population Survey (CPS) Annual Social and Economic (ASEC) Supplement. Data on the State GDP for 2020 is from the US Bureau of Economic Analysis. Data for graphics on this page is from the ACS.

Note: See bottom of the next page.



When Benefits Commence

The United States' Social Security system does not impose forced retirement, and individuals may work as long as they choose. Similarly, one can draw on benefits and continue working. Although qualified individuals can currently draw on Social Security benefits at age 62, that person would forever receive only 70% of the amount they would receive full-retirement age (FRA) and only 56.5% of the total monthly amount they could receive if they waited until age 70.

In South Carolina, the share of Minorities drawing Social Security benefits prior to age 65 is higher than that of Whites, when the two groups intersect. Indeed, 42% of Minorities turning 62 have already drawn upon their Social Security benefits, and more than half have done so by age 63. This permanently locks in a 20-25% discount to monthly Social Security payments to nearly half of all Minority seniors. What is more troubling, this data cannot account for those ineligible to receive Social Security.**

Remarkably, the range and rate of recipients of Social Security old-age pensions that are in the labor force for both Whites and Minorities is fairly even from age 62 to 70+.

Income Streams in Retirement

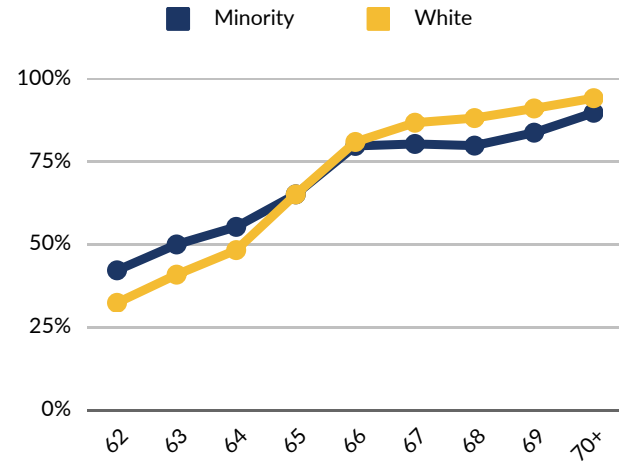
As mentioned, retirement is often painted as the end of a person's working career, but a number of individuals continue working well past the date upon which they begin drawing on their Social Security benefits. For certain members of the state's Minority communities, not having built up enough work credits and/or not having a Social Security number means one might never be able to collect. Nevertheless, a little more than a fourth of all seniors are actively participating in the labor force, although when adjusted for age, these figures drop rapidly after age 65.

There are several ways retirees make ends meet, other than extending their working careers. Social Security is the single biggest source of income for retirement-aged individuals in the state of South Carolina. However, around 22.9% of both Minority and White retirement-aged individuals continue to receive wages (the only category without a significant gap between the two groups).

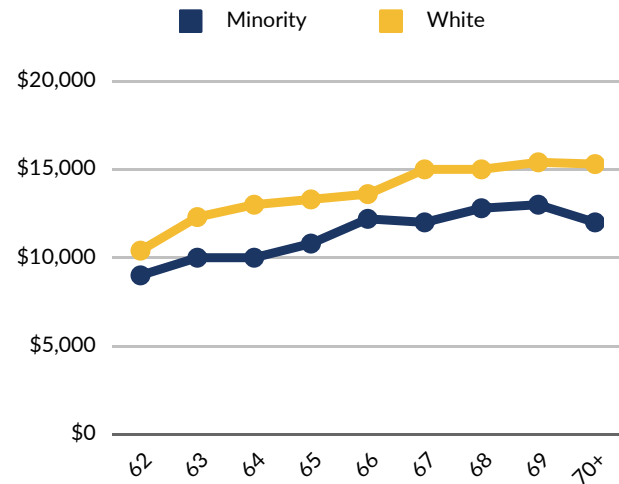
The two sources of income streams driving significant differences between Whites and Minorities of retirement ages are funds associated with funds accumulated in retirement plans (including IRAs, 401Ks, pensions, annuities and disability and survivor benefits) and from income derived from interests, dividends, and rents from the ownership of capital assets. In the case of retirement-plan income in 2020, 32.7% of Minorities drew from accounts compared with 41.5% of Whites.

In the case of those drawing from income streams generated by capital assets (rental properties, bonds, stocks, etc., outside retirement accounts), nearly 26.9% of Whites receive some income compared to only 7.4% of Minorities. In other words, White retirement-aged South Carolinians are 3.6 times more likely to receive passive income streams from passively held capital assets.

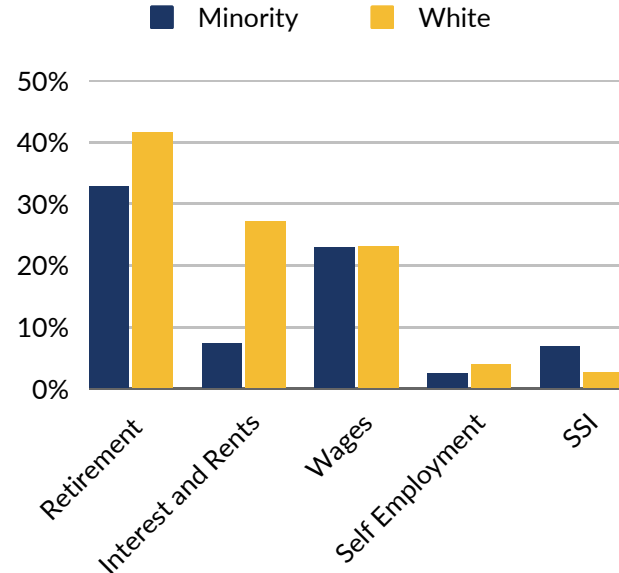
Share of Population Taking Social Security Payments by Age (2020)



Median Individual Social Security Benefit by Age (2020)



Share of Retirement-Aged Population Receiving Income Stream by Type (2020)



Sources: All data estimates on this page are generated from the 2010, 2015, 2020 American Community Survey Five-Year Public-Use Microdata Samples

Notes:

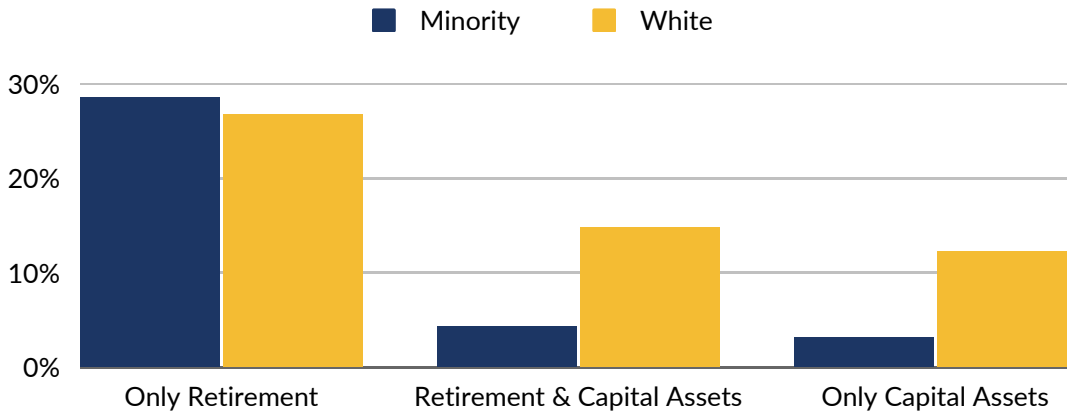
*We use age 62 and above to define retirement-aged individuals because by 2022, that is the youngest age when a person is eligible to draw on their old-age pension from the US Social Security Administration.

** We estimate that population to be around 10% of Minority senior citizens and around 6% of White senior citizens.





Share of Retirement-Aged Population Receiving Income Stream by Type (2020)



These differences are rather significant at face value, but this story is far from complete. The reality is that around 26.7% of Whites and 28.5% of Minorities of age only draw upon income streams generated in retirement-oriented accounts and savings vehicles. White retirees are 3.5 times more likely to draw upon streams from both retirement plans and from capital assets generating interests, dividends, and rents.

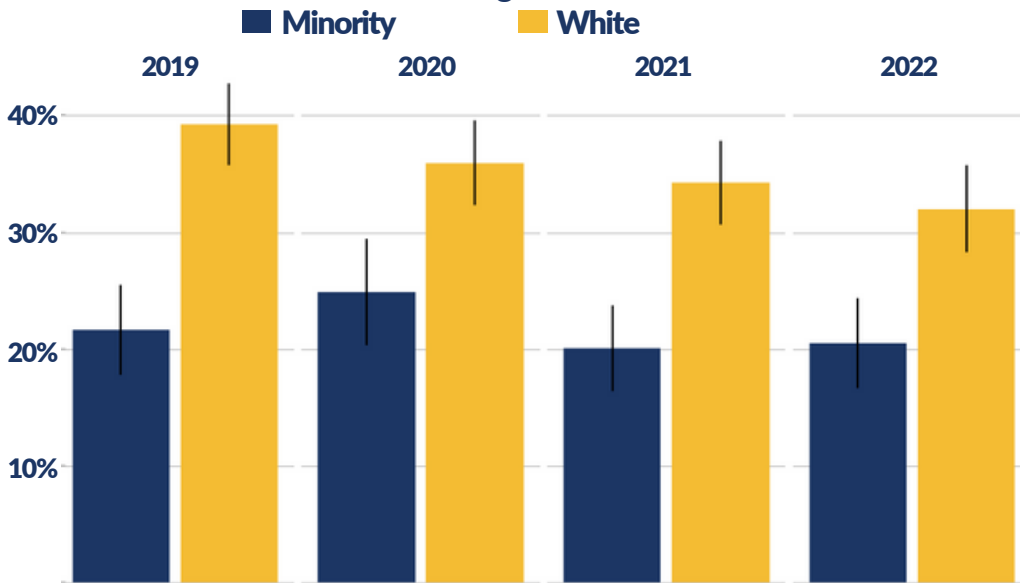
Of the \$9,307,530,000 of income realized from retirement plans and accounts in 2020, only 15% (\$1,408,696,000) was claimed by someone identifying as a racial/ethnic Minority. And of the more than \$5,180,360,000 in income generated from capital assets (interests, rents, dividends) owned by retirees, only 5.5% were claimed by Minorities. These gaps are key to understanding how the racial wealth gap in the state persists under federal tax-funded incentive structures.

Retirement Contributions

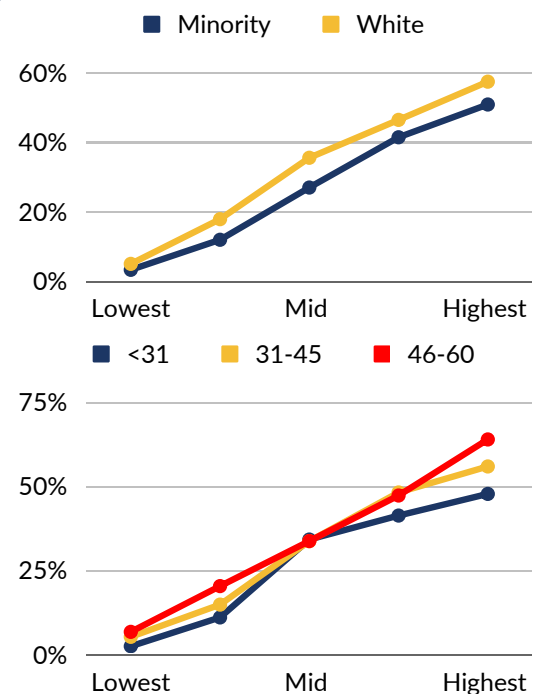
With Social Security being eaten away by rising Medicare premiums and taxation, it is paramount that individuals begin utilizing retirement savings vehicles to build up their nest eggs and rainy-day funds. As it stands, from 2019 to 2022, the share of currently employed Minorities in South Carolina that contributed to retirement funds was around 21% (+/-1.01%) compared to around 35.4% (+/- 0.92%) of Whites. Much of this difference can be attributed to income, as the share of contributors increased with income. Age appears to also impact, however mildly, the tendency to contribute.

Without a dramatic change in America's retirement system (i.e., an expansion of Social Security or mandatory enrollment for all workers in a national savings plan), it is very likely that South Carolina's Minority residents will continue to fall behind Whites in terms of economic stability throughout their Golden Years, particularly so as homeownership rates continue lagging that of Whites and housing remains largely unaffordable for many individuals. Since the CPS data does not include the amount already stashed away, it would be impossible to estimate the how much individuals might have by the time they retire, but we can apply a simple future value of a series formula to the CPS monthly contribution figure and estimate how much they would have if

Share of Current Workers Contributing to Retirement Accounts



Share of Current Workers Contributing to Retirement Accounts by Minority Status and Age

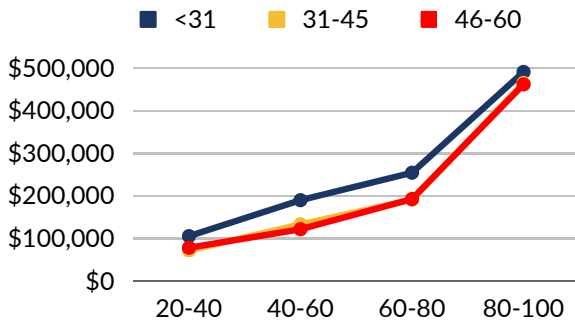


Sources: Data for share of current workers contributing to retirement accounts from 2019-2022 CPS Annual Social and Economic Supplement accessed from IPUMS CPS. Data for retirement-aged population shares is from the ACS.

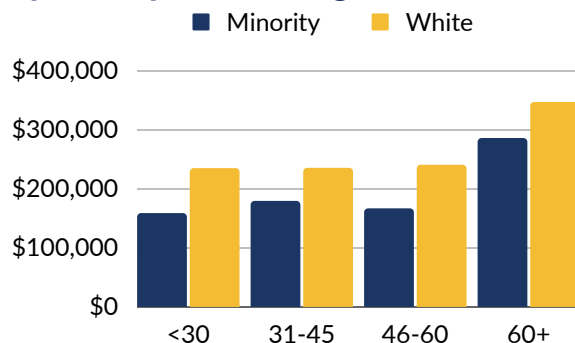


individuals were to continue saving at their current rate by the time they reach age 65. In our model we assume that contributions do not change for the duration in question (calculated by subtracting 65 from the current age of the respondent), that contributions continue unabated until age 65 (i.e., no long-term periods of unemployment), that the real rate of return on an annual basis is 4%, and that savers will not raid their funds for non-retirement purposes or panic sell when market conditions sour. Of course, real-world conditions may vary widely from those assumed in this simplified model.

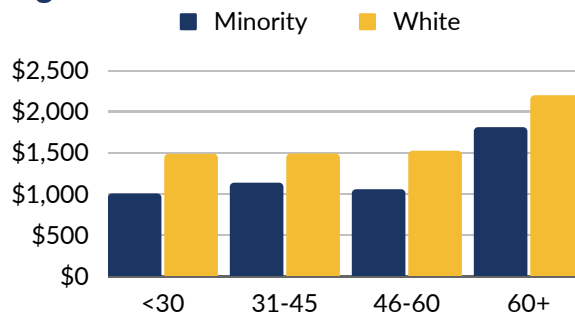
Estimated Accumulated Nest Egg at Age 65 by Age Cohort and Income Quintile



Estimated Accumulated Nest Egg at Age 65 by Minority Status and Age Cohort



Estimated Monthly Payment from Annuizing Nest Egg by Minority Status and Age Cohort



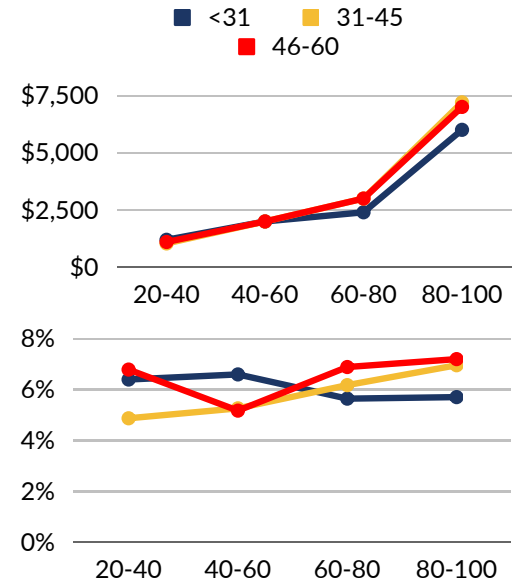
We also simulated prior accumulation by assuming that contributions start at age 25 and calculated prior accumulations under similar assumptions. Our findings show significantly lower outcomes for Minorities when compared with Whites, particularly for cohorts "31-45" and "46-60" at the 95% Confidence Interval. (For the remaining age cohorts, the standard error margins were too wide to provide significance).

Conclusions

Old-age poverty remains a problem, particularly for retirement-aged Minorities. Retirement-aged Minorities are 1.88 times more likely than Whites (51.9% to 27.5%) to have income at or below 200% of the federal poverty line, and they are 2.2 times more likely to spend more than 30% of their income on housing expenditures (35.4% to 16.1%). Currently around 53.7% of retirement-aged Minorities rely on Social Security for more than 80% of their yearly income, around 12% more than the White estimate.

In order to improve the quality of life for future retirees, both behavioral and policy changes need to be implemented. Delaying Social Security benefits is particularly attractive for healthy individuals. Additionally, without waiting for politicians to pass legislation on state-organized retirement plans (similar to what California, Oregon, Maryland, and New Mexico have implemented), a federal overhaul to retirement savings, or an expansion of Social Security, working-aged individuals need to make an effort to save for the future if possible. There are numerous tax incentives and credits available for individuals and households with low income to save for retirement. Likewise, citizens should reach out to their elected officials and advocate for state- and federal-level improvements and access to retirement savings.

Yearly Median Contributions and Average Contribution Rates to Retirement Accounts by Age Cohort and Income Quintile



Notes: Error margins were too wide to provide data for the first quintile. For margins of error, please contact CMA Research.

Sources: All data estimates on retirement-aged individuals was generated from 2010, 2015, 2020 American Community Survey Five-Year PUMS. All data on current workers and retirement contributions is based on 2019-2022 CPS ASES

Data and graphics produced and generated by the authors using R Studio. Graphics created in ggplot2 package and Canva. Data processed and analyzed with the help of tidycensus and ssvyr packages.

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