MICHIGAN RETIREMENT AND DISABILITY RESEARCH CENTER
UNIVERSITY OF MICHIGAN
Promoting research on retirement, disability, and Social Security policy

Work and Retirement of Older Black and Hispanic Adults

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Growing U.S. income inequality and the aging of Black and Hispanic populations point to greater risks of financial insecurity for older populations in coming years. Blacks and Hispanics combined will nearly double as a proportion of the U.S. population 65 and older by 2050 (United States Census Bureau 2018). Given their higher poverty rates, this growth may pose increasing challenges for income security among older adults (Flores and Radford 2017). Increasing income inequality has had particularly adverse effects on older Blacks and Hispanics. From 1971 to 2019, the proportion of middle-income households decreased while those of lower-income and high-income households increased. Part of this was due to greater increases in wealth and income for high-income households (Horowitz et al. 2020). Large proportions of Blacks and Hispanics have also worked in low-paying jobs with few benefits, often because of their lower levels of education (Tali et al. 2018). Among U.S. households headed by persons 30 to 59 years of age, the proportion "at risk" for old-age financial insolvency increased from 44% in 2007 to 50% in 2016, with Hispanics and Blacks most at risk (Munnell et al. 2018).

Research on retirement determinants for Blacks and Hispanics is limited. We explore which determinants of retirement vary by race and Hispanic origin, and which are most relevant for older Blacks and Hispanics. This research fill gaps in research on retirement patterns and determinants for older Blacks and Hispanics of lower income and education. The rapid aging of the population, particularly among Hispanics and Blacks, and increasing poverty in old age makes this topic relevant and timely.

We use 2000 to 2018 data from the Health and Retirement Study (HRS), which oversamples Black and Hispanic respondents. We link this data to restricted SSA individual-level files to determine Social Security wealth by race and Hispanic origin. To account for significant differences in survival probabilities by demographic characteristics, we apply different survival probabilities by gender and race — generating distinct probabilities for male Hispanic respondents, female Hispanic respondents, male non-Hispanic Black respondents, female non-Hispanic Black respondents, male non-Hispanic whites, and female non-Hispanic whites. We account for respondents' wage gaps in the employment histories using the HRS Working Trajectories file. Using our Social Security wealth estimations, we compute peak value measures that are a simplified metric of the retirement incentives imposed by the Social Security wealth accumulation (Coile and Gruber 2000). Using sociodemographic, health, and economic

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covariates found relevant in the literature as drivers of retirement, we construct a conditional probit model that identifies the probability that a given individual will retire from the workforce over time.

We find median earnings are higher for non-Hispanic whites than for non-Hispanic Blacks and Hispanics (see Figure 1). Earnings history is one of the primary determinants of Social Security benefits (U.S. Social Security Administration 2019).

In Figure 2, we observe that Social Security wealth is similar among non-Hispanic whites, non-Hispanic Blacks, and Hispanics consistent with previous studies that found that Social Security has a redistributional effect because its benefits are provided more equally than preretirement income (e.g. Crystal et al. 2017). Also, in our estimates of Social Security wealth, we consider different survival probabilities by gender and race/ethnic origin group and Hispanics have higher survival probabilities. Both greater redistribution of Social Security benefits and increasing life expectancy contribute to narrowing the gap in Social Security wealth between Hispanics and non-Hispanic whites.

Respondents in all three racial groups saw their peak value incentive (i.e. additional Social Security wealth for retiring at the optimal age based on the system incentives rather than retiring in the current period or age) peaking at ages 60 to 61, decreasing each year thereafter, and turning negative at age 68 after reaching the optimal retirement age (see Figure 3).

Overall, replacement rates are higher for non-Hispanic Black and Hispanics than for non-Hispanic whites because of their lower income and similar Social Security wealth compared to non-Hispanic whites (see Figure 4).

We find that Hispanics, Blacks, and non-Hispanic whites respond similarly to Social Security, private pension incentives, and other institutional (e.g., health insurance) drivers of retirement. The positive coefficient for Social Security wealth and negative coefficient for the peak value incentive measure are consistent with previous literature (Gruber and Wise 2004). Higher Social Security wealth implies greater financial security, which can induce retirement. Overall, our results across all four covariate specifications indicate that respondents do not respond much to the peak value. Peak values especially lacked influence on retirement timing for non-Hispanic Blacks. The impact of the peak value on retirement is grounded upon individuals' ability to be forward-looking and optimize across time.

Also, non-Hispanic Blacks are not responsive to some sociodemographic characteristics (male, couple, and number of household members), but they are responsive to physical and mental health problems as drivers of retirement. Hispanics, similar to non-Hispanic Blacks, are less responsive to sociodemographic retirement drivers (male, education, and couple) than are non-Hispanic whites and Blacks. Our findings for non-Hispanic whites are consistent with previous literature for the U.S. and other European countries (Gruber and Wise 1999, 2004).

Previous studies have documented that non-Hispanic Black and Hispanics rely more than non-Hispanic white on Social Security benefits to sustain their post-retirement years (Hendley and Bilimoria 1999; U.S. Social Security Administration 2010). Given the impact of Social Security wealth in our analyses, we would expect potential future changes in the U.S. Social Security system to strongly affect labor force participation and retirement decisions of non-Hispanic Blacks and Hispanics. The lack of responsiveness of Hispanics and non-Hispanic Blacks to drivers of retirement found in our results calls for further research examining the mediating role of financial literacy. It may be that some Hispanics and non-Hispanic Blacks are not making optimal retirement decisions given their socioeconomic and health conditions. Raising financial literacy levels could help improve their work and retirement decision-making. ❖

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Figure 1: Earnings (USD) for the 50th percentile

(**Source for all figures:** authors’ calculations.)

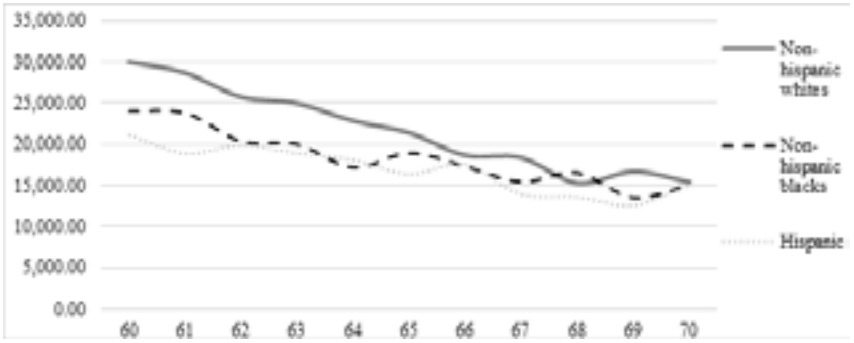


Figure 2: Social Security wealth (USD) for the 50th percentile

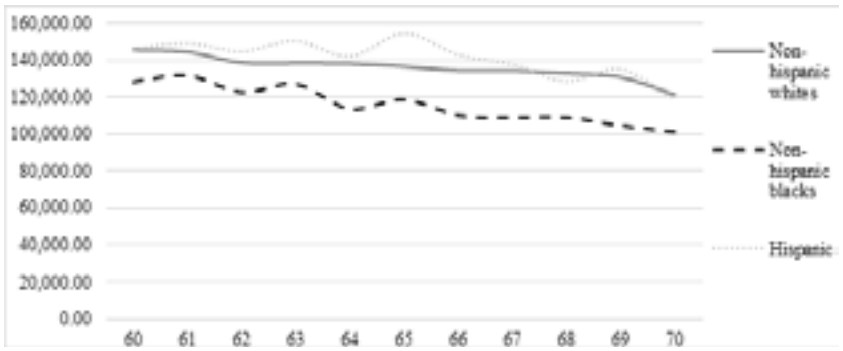


Figure 3: Peak value (USD) for the 50th percentile

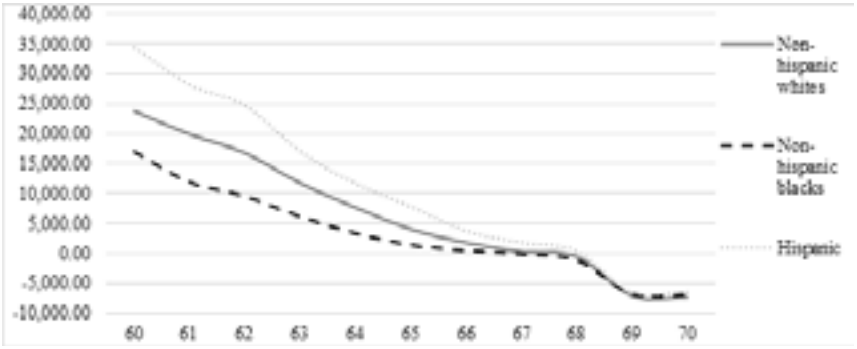
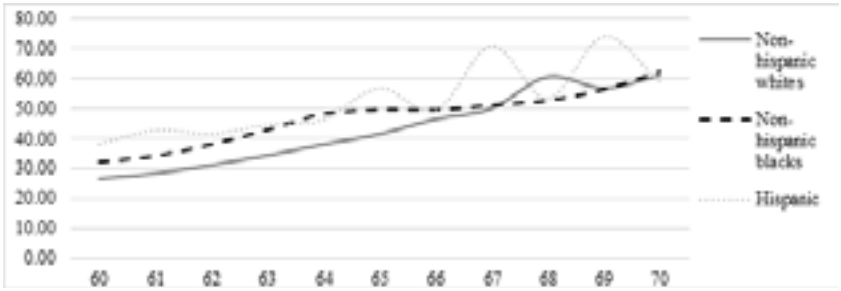


Figure 4: Replacement rates for the 50th percentile



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