



# Research-in-Brief

## SOCIAL SECURITY REFORM AND WOMEN: A FACTSHEET

### **Social Security is very important for women.**

Sixty percent of Social Security beneficiaries are women and Social Security is the major source of retirement income for a majority of these women. Women are heavily reliant on Social Security benefits because of wage and employment discrimination and different patterns of labor force participation. Despite changes in women's workforce participation, these patterns have persisted.

- *Most women do not receive private pensions.* Only 38 percent of women receive employer-provided pension benefits compared to 57 percent of men.<sup>1</sup> This is especially problematic for women of color, who are less likely to have employer-provided pension plans than either white men, white women, or nonwhite men.
- *Women earn less than men.* Women who work full-time earn less than men who are employed full-time. The average woman college graduate earns little more than the average male high school graduate. Women earn 74 cents for every dollar men earn.
- *Women are less likely to work full-time.* Seventy-four percent of men between the ages of 25-44 were employed full-time for all of 1996, compared to 49 percent of women in that age group.<sup>2</sup>
- *Women are more likely to spend time out of the paid labor force.* Twenty-one percent of women between the ages of 25-44 were not employed in 1996 compared to only 7 percent of men.<sup>3</sup> Many of these women are mothers of young children.
- *Women are more likely to live alone in their retirement years.* Women spend more retirement years living alone, receiving just one Social Security benefit, either their own or a spousal benefit. Retired men are more likely to be married; couples are usually more financially secure because they receive two Social Security benefits, for the husband and wife.

## **The Social Security benefits that women receive are *guaranteed for life*.**

Unlike private individual accounts, Social Security benefits are safe, reliable, and guaranteed for life. This protection is especially important for women because of their longer life span.

- *Social Security benefits protect against inflation.* The cost-of-living increases built into Social Security provide an important anti-poverty protection for women. Private investments do not protect against inflation or devalued investments.
- *Women live an average of 7 years longer than men.* Private accounts place women in danger of outliving their accumulated funds. Under private accounts, women could live their most vulnerable years in extreme poverty.

## **Proposals for Social Security reform must maintain safeguards for women.**

Research conducted by the Institute for Women's Policy Research, the General Accounting Office, and others indicate:

- Proposals that reduce guaranteed benefits to make way for individual accounts would disproportionately hurt women--making women more vulnerable to the risk of private investments and poverty if expected returns are not realized.
- Proposals that raise the retirement age to 70 would tend to hurt women who are unable to work while they care for their aging parents, family members, or their retired spouses.
- Widows, divorcees, and women who have never been married--women who tend to have the lowest Social Security benefits today--would receive even lower benefits under many of the proposed changes.

### Notes:

<sup>1</sup> Pension statistics do not include Social Security benefits. Statistics are from the U.S. Department of Labor's *Retirement Benefits of American Workers*, September 1995.

<sup>2</sup> Based on IWPR calculations from the Current Population Survey for 1996, U.S. Bureau of the Census.

<sup>3</sup> Ibid.

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*The Institute for Women's Policy Research (IWPR) is an independent, non-profit, scientific research organization founded in 1987 to meet the need for women-centered, policy-oriented research. This Research-In-Brief is based in part on the IWPR report, The Impact of Social Security Reform on Women, by Lois Shaw, Diana Zuckerman, and Heidi Hartmann. This factsheet was written in June 1998. For information on IWPR membership, call 202/785-5100, fax 202/833-4362, or visit our web site at <http://www.iwpr.org>.*

**GAO**

**Testimony**

Before the Subcommittee on Social Security, Committee  
on Ways and Means, House of Representatives

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For Release on Delivery  
Expected at 10:00 a.m.  
Thursday, April 10, 1997

**SOCIAL SECURITY  
REFORM**

**Implications for the  
Financial Well-Being of  
Women**

Statement of Jane L. Ross, Director  
Income Security Issues  
Health, Education, and Human Services Division



# Social Security Reform: Implications for the Financial Well-Being of Women

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the impacts of proposals to finance and restructure the Social Security system, specifically the impacts on the financial well-being of women. As you know, the Social Security trust funds are predicted to pay out more in annual benefits than they collect in taxes beginning in 2012 and are expected to be depleted by 2029. Recently, the Social Security Advisory Council offered three alternative reform proposals to address this long-term financing problem. Each of the alternative proposals also affects the financial well-being of beneficiaries, especially women. One reason to be especially concerned about the financial well-being of women is that elderly unmarried women are much more likely to be living below the poverty line. For example, 22 percent of unmarried elderly women have income below the poverty threshold, compared with 15 percent of unmarried elderly men and only 5 percent of elderly married couples.

Today, I would like to discuss how and why the benefits for women differ from those for men under the current Social Security system and how each of the three reform proposals of the Social Security Advisory Council might particularly affect women. The information I am providing today is based on previous GAO work and contains preliminary findings from a report being prepared at the request of the Ranking Minority Member of the Subcommittee.<sup>1</sup>

In summary, our work shows that, although the provisions of the Social Security Act do not differentiate between men and women, women tend to receive lower benefits than men. This is due primarily to differences in lifetime earnings because women tend to have lower wages and fewer years in the workforce. Women's experience under pension plans differs from men's not only because of earnings differences but also because of differences in investment behavior and longevity. Moreover, public and private pension plans do not offer the same social insurance protections that Social Security does.

Furthermore, some of the provisions of the Social Security Advisory Council's three proposals may exacerbate the differences in men and women's benefits. For example, proposals that call for individual retirement accounts will pay benefits that are affected by investment

<sup>1</sup>Pension Plans: Survivor Benefit Coverage for Wives Increased After 1984 Pension Law (GAO/HRD-92-49, Feb. 28, 1992); Social Security: Issues Involving Benefit Equity for Working Women (GAO/HEHS-96-55, Apr. 10, 1996); and 401(k) Pension Plans: Many Take Advantage of Opportunity to Ensure Adequate Retirement Income (GAO/HEHS-96-176, Aug. 2, 1996).

behavior and longevity. Expected changes in women's labor force participation rates and increasing earnings will reduce but probably not eliminate these differences.

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## Demographic Characteristics and Labor Market Attachment Affect Retirement Income for Men and Women Differently

Over their lifetimes, men and women differ in many ways that have consequences for how much they will receive from Social Security and pensions. Women make up about 60 percent of the elderly population and less than half of the Social Security beneficiaries who are receiving retired worker benefits, but they account for 99 percent of those beneficiaries who receive spouse or survivor benefits. A little less than half of working women between the ages of 18 and 64 are covered by a pension plan, while slightly over half of working men are covered. The differences between men and women in pension coverage are magnified for those workers nearing retirement age—over 70 percent of men are covered compared with about 60 percent of women.

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## Labor Force Participation and Earnings Differ for Men and Women

Labor force participation rates differ for men and women, with men being more likely, at any point in time, to be employed or actively seeking employment than women.<sup>2</sup> The gap in labor force participation rates, however, has been narrowing over time as more women enter the labor force, and the Bureau of Labor Statistics predicts it will narrow further. In 1948, for example, women's labor force participation rate was about a third of that for men, but by 1996, it was almost four-fifths of that for men. The labor force participation rate for the cohort of women currently nearing retirement age (55 to 64 years of age) was 41 percent in 1967 when they were 25 to 34 years of age. The labor force participation rate for women who are 25 to 34 years of age today is 75 percent—an increase of over 30 percentage points.

Earnings histories also affect retirement income, and women continue to earn lower wages than men. Some of this difference is due to differences in the number of hours worked, since women are more likely to work part-time and part-time workers earn lower wages. However, median earnings of women working year-round and full-time are still only about 70 percent of men's.<sup>3</sup>

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<sup>2</sup>The labor force participation rate is the proportion of the population under consideration who are working or actively seeking employment.

<sup>3</sup>Even after accounting for differences in education, work effort, age, and other characteristics that affect wages, women earn wages that are about 15 to 20 percent lower than men's wages, on average.

The lower labor force participation of women leads to fewer years with covered earnings<sup>4</sup> on which Social Security benefits are based.<sup>5</sup> In 1993, the median number of years with covered earnings for men reaching 62 was 36 but was only 25 for women. Almost 60 percent of men had 35 years with covered earnings, compared with less than 20 percent of women. Lower annual earnings and fewer years with covered earnings lead to women's receiving lower monthly retired worker benefits from Social Security, since many years with low or zero earnings are used in the calculation of Social Security benefits. On average, the retired worker benefits received by women are about 75 percent of those received by men. In many cases, a woman's retired worker benefits are lower than the benefits she is eligible to receive as the spouse or survivor of a retired worker.<sup>6</sup>

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### Life Expectancies Differ for Men and Women

Women tend to live longer than men and thus may spend many of their later retirement years alone. A woman who is 65 years old can expect to live an additional 19 years (to 84 years of age), and a man of 65 can expect to live an additional 15 years (to 80 years of age). By 2070, the Social Security Administration projects that a 65-year-old woman will be able to expect to live another 22 years, and a 65-year-old man, another 18 years. Additionally, husbands tend to be older than their wives and so are likely to die sooner. Differences in longevity do not currently affect the receipt of monthly Social Security benefits but can affect income from pensions if annuities are purchased individually.

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### Women Invest More Conservatively Than Men

Many pension plans give participants responsibility for managing the investment of their pension assets, and differences in how men and women invest can lead to differences in pension benefits they receive. When making financial decisions, women tend to be more risk averse than men. One consequence of this is that women tend to invest more of their pension funds in safer but lower yielding assets, such as government bonds. The results of a recent study<sup>7</sup> of the federal Thrift Savings Plan indicate that men are much more likely to invest in the stock fund than are

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<sup>4</sup>Years of covered earnings are the years in which the individual received earnings on which Social Security taxes were paid.

<sup>5</sup>Social Security benefits are based on the 35 years of highest covered earnings.

<sup>6</sup>GAO/HEHS-96-55, Apr. 10, 1996.

<sup>7</sup>Richard P. Hinz, David D. McCarthy, and John A. Turner, "Are Women Conservative Investors? Gender Differences in Participant Directed Pension Investments," in Positioning Pensions for the Year 2000, Olivia Mitchell, ed. (Philadelphia: University of Pennsylvania Press, 1996).

women. The authors estimated that, after 35 years of participation in the plan at historical yields and identical contributions, the difference in investment behavior between men and women can lead to men having a pension portfolio that is 16 percent larger.

## Pension Plan Provisions Offer Different Benefits From Social Security

Social Security provisions and pension plan provisions differ in several ways (see app. I for a summary). Under Social Security, the basic benefit a worker receives who retires at the normal retirement age (NRA)<sup>8</sup> is based on the 35 years with the highest covered earnings.<sup>9</sup> The formula is progressive in that it guarantees that higher-income workers receive higher benefits, while the benefits of lower-income workers are a higher percentage of their preretirement earnings. The benefit is guaranteed for the life of the retired worker and increases annually with the cost of living.

Private pensions are different. They can be classified into two basic types: defined benefit and defined contribution plans. Pension benefits in defined benefit plans are generally based on a formula that includes years with the firm, age at retirement, and salary averaged over some number of years.<sup>10</sup> Employers offering defined contribution plans generally promise to make guaranteed periodic contributions to workers' accounts, but the amount of retirement benefits is not specified. The benefits from defined contribution plans depend on the contributions plus investment returns or losses. Today, defined contribution plans are the most prevalent type of pension plan, and 401(k) plans are one of the fastest growing defined contribution plan types.<sup>11</sup> Typically, at retirement, workers receive a joint and survivor annuity that provides pension benefits to the surviving spouse after the worker's death, unless both the worker and spouse elect, in writing, not to take the joint and survivor annuity. In this instance, the retiring worker

<sup>8</sup>Currently, the normal retirement age is 65 years. It is set to gradually increase to 67 for those born in 1960 or after. The early retirement age (the earliest age at which a worker qualifies for Social Security retirement benefits) will remain at 62.

<sup>9</sup>The calculation of a worker's basic benefit amount first involves calculating average indexed monthly earnings (AIME) on the basis of the 35 years of highest earnings. For workers becoming eligible for Social Security benefits in 1997, benefits are equal to 90 percent of the first \$455 of AIME, plus 32 percent of the AIME from \$455 to \$2,741, plus 15 percent of the AIME in excess of \$2,741. The dollar amounts in the formula are called the bend points, and the percentages are called the conversion factors.

<sup>10</sup>In defined benefit plans that are integrated with Social Security, pension benefits also depend on the size of an individual's Social Security benefit.

<sup>11</sup>401(k) pension plans are salary reduction plans that allow participants to contribute, before taxes, a portion of their salary to a retirement account. Many employers match workers' contributions to these accounts. Also, many employers allow participants to direct the investment of their account balances.

may elect, along with the spouse, to take a single life annuity or a lump-sum distribution if allowed under the plan.

When workers retire, they are uncertain how long they will live and how quickly the purchasing power of a fixed payment will deteriorate. They run the risk of outliving their assets. Annuities provide insurance against outliving assets. Some annuities provide, though at a higher cost or reduced initial benefit, insurance against inflation risk, although annuity benefits often do not keep pace with inflation. Many pension plans are managed under a group annuity contract with an insurance company that can provide lifetime benefits. Individual annuities, however, tend to be costly.

### Benefits for Dependents Differ Under Social Security and Pensions

Under Social Security, the dependents of a retired worker may be eligible to receive benefits. For example, the spouse of a retired worker is eligible to receive up to 50 percent of the worker's basic benefit amount, while a dependent surviving spouse is eligible to receive up to 100 percent of the deceased worker's basic benefit. Furthermore, divorced spouses and survivors are eligible to receive benefits under a retired worker's Social Security record provided they were married for at least 10 years. If the retired worker has a child under 18 years old, the child is eligible for Social Security benefits, as is the dependent nonelderly parent of the child. The retired worker's Social Security benefit is not reduced to provide benefits to dependents and former spouses.

Pensions, both public and private, generally do not offer the same protections to dependents as Social Security. Private and public pension benefits are based on a worker's employment experience and not the size of the worker's family. At retirement, a worker and spouse normally receive a joint and survivor annuity so that the surviving spouse will continue to receive a pension benefit after the retired worker's death. A worker, with the written consent of the spouse, can elect to take retirement benefits in the form of a single life annuity so that benefits are guaranteed only for the lifetime of the retired worker.

This wasn't always the case. Under the Employee Retirement Income Security Act of 1974, a married worker had the option to choose an annuity that provided benefits only as long as the retiree lived. Recognizing marriage as an economic partnership, the Congress sought through the Retirement Equity Act of 1984 to bring the retiring worker's spouse directly into the decision-making process concerning benefit

payment options. Under this act, a joint and survivor annuity became the normal payout option and written spousal consent is required to choose another option. This requirement was prompted partly by testimony before the Congress by widows who stated that they were financially unprepared at their husbands' death because they were unaware of their husbands' choice to not take a joint and survivor annuity. Through the spousal consent requirement, the Congress envisioned that, among other things, a greater percentage of married men would retain the joint and survivor annuity and give their spouses the opportunity to receive survivor benefits.

The monthly benefits under a joint and survivor annuity, however, are lower than under a single life annuity. Moreover, pension plans do not generally contain provisions to increase benefits to the retired worker for a dependent spouse or for children. As under Social Security, divorced spouses can also receive part of the retired worker's pension benefit if a qualified domestic relations order is in place. However, the retired worker's pension benefit is reduced in order to pay the former spouse.

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## Some Reform Proposals Would Make Social Security More Like Pension Plans

The three alternative proposals of the Social Security Advisory Council would make changes of varying degrees to the structure of Social Security. The key features of the proposals are summarized in appendix II.

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## The Maintain Benefits Plan Would Make Fewest Changes to Social Security

The Maintain Benefits (MB) plan would make only minor changes to the structure of current Social Security benefits. The major change that would affect women's benefits is the extension of the computation period for benefits from 35 years to 38 years of covered earnings.<sup>12</sup> Currently, earnings are averaged over the 35 years with the highest earnings to compute a worker's Social Security benefits. If the worker has worked less than 35 years, then some of the years of earnings used in the calculation are equal to zero. Extending the computation period for the lifetime average earnings to 38 years would have a greater impact on women than on men. Although women's labor force participation is increasing, the Social Security Administration forecasts that fewer than 30 percent of the women retiring in 2020 will have 38 years of covered earnings, compared with almost 60 percent of men. \*

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<sup>12</sup>One supporter of the MB plan does not support this provision.

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### The Individual Accounts Plan Would Add a Defined Contribution Component

The Individual Accounts (IA) plan would keep many features of the current Social Security system but add an individual account modeled after the 401(k) pension plan. Workers would be required to contribute an additional 1.6 percent of taxable earnings to their individual account, which would be held by the government. Workers would direct the investment of their account balances among a limited number of investment options. At retirement, the distribution from this individual account would be converted by the government into an indexed annuity.

The IA plan, like the MB plan, would extend the computation period to 38 years; it would also change the basic benefit formula by lowering the conversion factors at the higher earnings level. This plan would also accelerate the legislated increase in the normal retirement age and then index it to future increases in longevity. As a consequence of these changes, basic Social Security benefits would be lower for all workers, but workers would also receive a monthly payment from the annuitized distribution from their individual account, which proponents claim would offset the reduction in the basic benefit.

In addition to extending the computation period, elements of the IA plan that would disproportionately affect women are the changes in benefits received by spouses and survivors, since women are much more likely to receive spouse and survivor benefits. The spouse benefit would be reduced from 50 percent of the retired worker's basic benefit amount to 33 percent. The survivor benefit would increase from 100 percent of the deceased worker's basic benefit to 75 percent of the couple's combined benefit if the latter was higher. These changes would probably result in increased lifetime benefits for many women. Additionally, at retirement a worker and spouse would receive a joint and survivor annuity for the distribution of their individual account unless the couple decided on a single life annuity.

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### The Personal Security Accounts Plan Would Replace Social Security With a Flat Benefit and a Defined Contribution Component

The Personal Security Accounts (PSA) plan would make the most dramatic changes to the structure of Social Security. This plan would replace the current system with a two-tier system. The tier I benefit would be a flat benefit based on years of covered earnings. The full tier I benefit, which would be equivalent to 65 percent of the poverty threshold, would be received after 35 years of covered earnings. The tier II benefit would be the distribution from the retired worker's personal security account. The personal security account is modeled after the 401(k) pension plan and would be funded by diverting 5 percentage points of the worker's Social

Security payroll tax into the account,<sup>13</sup> which would not be held by the government. Proponents of the PSA plan claim that over a worker's lifetime the tier I benefits plus the tier II distribution would be larger than the lifetime Social Security benefits currently received by retired workers. The worker would direct the investment of his or her account assets. At retirement, workers would not be required to annuitize the distribution from their personal security account but could elect to receive a lump-sum payment. This could potentially affect women disproportionately, since the worker is not required to consult with his or her spouse regarding the disposition of the personal account distribution.

Under the PSA plan, the tier I benefit for spouses would be equal to the higher of their own tier I benefit or 50 percent of the full tier I benefit. Furthermore, spouses would receive their own tier II accumulations, if any. The tier I benefit for a survivor would be 75 percent of the benefit payable to the couple; in addition, the survivor could inherit the balance of the deceased spouse's personal security account assets.

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## Effects on Women's Benefits of Changing Basic Social Security Law

Many of the proposed changes to Social Security would affect the benefits received by men and by women differently.<sup>14</sup> The current Social Security system is comparable to a defined benefit plan's paying a guaranteed lifetime benefit that is increased with the cost of living. Each of the Advisory Council proposals would potentially change the level of that benefit, and two of the proposals would create an additional defined contribution component. Not only would retired worker benefits be changed by these proposals, but the level of benefits for spouses and survivors would be affected.

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## Conservative Investment Behavior May Have Adverse Consequences for Retirement Income

Two Advisory Councils plans—the IA and PSA plans—would create defined contribution accounts for workers. Both plans would also lower basic Social Security benefits. On the basis of calculations by the National Academy of Social Insurance, the IA plan would lower basic benefits by 17 percent for the average earner, while the PSA plan would lower the basic or tier I benefit to about 47 percent of the benefit paid to today's average earner. The rest of a retired worker's Social Security benefit would come from the distribution from his or her private account. Under both plans,

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<sup>13</sup>The payroll tax for Social Security is 12.4 percent of taxable earnings. The tax is split evenly between the employee and employer.

<sup>14</sup>The proposed changes could also affect benefits received from pension plans that are integrated with Social Security. How the changes in these benefits would affect men and women is beyond the scope of our testimony.

the account balances at retirement would depend on the contributions made to the worker's account and investment returns or losses on the account assets. Since women tend to earn lower wages, they would be contributing less, on average, than men to their accounts. Furthermore, even if contributions were equal, women tend to be more conservative investors than men, which could lead to lower investment returns. Consequently, women would typically have smaller account balances at retirement and would receive lower benefits than men. The difference in investment strategy could lead to a situation in which men and women with exactly the same labor market experiences receive substantially different Social Security benefits. The extent to which investor education can close the gap in investment behavior between men and women is unknown.

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### How Account Distributions Are Handled Affects Benefit Levels

The two Advisory Council proposals with individual or personal accounts differ in the handling of the distribution of the account balances at retirement. The IA plan would require annuitization of the distribution at retirement, and choosing a single life annuity or a joint and survivor annuity would be left to the worker and spouse. If the single life annuity option for individual account balances was chosen, then the spouse would receive the survivor's basic benefit after the death of the retired worker plus the annuitized benefit based on the work records of both individuals.

The PSA plan would not require that the private account distribution be annuitized at retirement. A worker and spouse could take the distribution as a lump sum and attempt to manage their funds so that they did not outlive their assets. If the assets were exhausted, the couple would have only their basic tier I benefits, plus any other savings and pension benefits. Furthermore, even if personal account tier II assets were left after the death of the retired worker, the balance of the PSA account would not necessarily have to be left to the survivor. If a worker and spouse chose to purchase an annuity at retirement, then the couple would receive a lower monthly benefit than would be available from a group annuity.

Both the IA and the PSA plans could lead to situations where men and women in identical circumstances received different Social Security benefits. Suppose a man and woman had the same labor market experiences and the same amount in their private accounts and then annuitized their distributions. The monthly annuity payments would reflect the differences in expected longevity (separate life tables could be used for men and women in the calculation of annuitized benefits) and,

although the expected lifetime payments would be the same, the monthly payments to the woman would be lower, since women have longer life expectancies.

## Conclusions

Even though the current provisions of Social Security are gender neutral, differences during the working and retirement years may lead to different benefits for men and women. For example, differences in labor force attachment, earnings, and longevity lead to women's being more likely than men to receive spouse or survivor benefits. Women who do receive retired worker benefits typically receive lower benefits than men. As a result of lower Social Security benefits and the lower likelihood of receiving pension benefits, among other causes, elderly single women experience much higher poverty rates than elderly married couples and elderly single men.

Social Security is a large and complex program that protects most workers and their families from income loss because of a worker's retirement. Public and private pension plans do not offer the social insurance protections that Social Security does. Pension benefits are neither increased for dependents nor generally indexed to the cost of living as are Social Security benefits. Typically, at retirement a couple will receive a joint and survivor annuity that initially pays monthly benefits that are 15 to 20 percent lower than if they had chosen to forgo the survivor benefits with a single life annuity. Furthermore, under a qualified domestic relations order, a divorced retired worker's pension benefits may be reduced to pay benefits to a former spouse.

While the three alternative proposals of the Social Security Advisory Council are intended to address the long-term financing problem, they would make changes that could affect the relative level of benefits received by men and women. Each of the proposals has the potential to exacerbate the current differences in benefits between men and women. Narrowing the gap in labor force attachment, earnings, and investment behavior may reduce the differences in benefits. But as long as these differences remain, men and women will continue to experience different outcomes with regard to Social Security benefits.

This concludes my prepared statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

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## Contributors

For more information on this testimony, please call Jane Ross on (202) 512-7230; Frank Mulvey, Assistant Director, on (202) 512-3592; or Thomas Hungerford, Senior Economist, on (202) 512-7028.

# Features of Social Security Under Current Law and Those of Pensions

| Type of beneficiary <sup>a</sup>         | Provisions under current Social Security law                                                                                                                                                                                                                                                                                                                               | Current pension plan provisions                                                                                                                                                                                                |                                                      |                                                                                                                         |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
|                                          |                                                                                                                                                                                                                                                                                                                                                                            | Federal Employees' Retirement System/Thrift Savings Plan                                                                                                                                                                       | Defined benefit plans                                | Defined contribution plans                                                                                              |
| Retired worker                           | <ul style="list-style-type: none"> <li>— Benefit computation is based on 35 years of highest covered earnings</li> <li>— Progressive formula leads to redistribution</li> <li>— Benefits reduced actuarially if taken between 62 and normal retirement age (NRA); increased if taken after NRA</li> <li>— NRA to increase to 67 years for those born after 1959</li> </ul> | <ul style="list-style-type: none"> <li>— FERS benefit is based on statutory formula</li> <li>— TSP benefit is based on employee and government contributions plus investment returns of individual account balances</li> </ul> | Benefit is based on formula under plan documents     | Benefit is based on contributions of employee, employer, or both plus investment returns of individual account balances |
| Spouse                                   | <ul style="list-style-type: none"> <li>— Benefit is 50% of the retired worker's benefit</li> <li>— Benefit is actuarially reduced if taken between 62 and NRA</li> </ul>                                                                                                                                                                                                   | b                                                                                                                                                                                                                              | b                                                    | b                                                                                                                       |
| Survivor                                 | <ul style="list-style-type: none"> <li>— Benefit is equal to amount deceased spouse would be receiving but not less than 82-1/2% of deceased spouse's benefit</li> <li>— Benefit is actuarially reduced if taken between 62 and NRA</li> </ul>                                                                                                                             | Joint and survivor annuity is normal form of annuity, and survivor receives 50% of basic annuity                                                                                                                               | Joint and survivor annuity is normal form of annuity | Joint and survivor annuity is normal form of annuity                                                                    |
| Dually entitled beneficiary <sup>c</sup> | Receives own retired worker benefit plus difference (if positive) between spouse or survivor benefit and his/her retired worker benefit                                                                                                                                                                                                                                    | b                                                                                                                                                                                                                              | b                                                    | b                                                                                                                       |

(continued)

**Appendix I  
Features of Social Security Under Current  
Law and Those of Pensions**

| Type of beneficiary <sup>a</sup>                         | Provisions under current Social Security law                                                                                                                                                                                                                                                                                                                                                                                                   | Current pension plan provisions                          |                                    |                                    |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------|------------------------------------|
|                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                | Federal Employees' Retirement System/Thrift Savings Plan | Defined benefit plans              | Defined contribution plans         |
| Divorced and surviving divorced spouse                   | <ul style="list-style-type: none"> <li>— Must have been married for at least 10 years and currently be unmarried</li> <li>— Must be at least 62 years old for divorced spouse, 60 years old for divorced survivor</li> <li>— Benefit actuarially reduced if younger than NRA</li> <li>— Divorced spouse benefit is 50% of retired worker's benefit</li> <li>— Surviving divorced spouse benefit is 100% of retired worker's benefit</li> </ul> | Qualifying court order                                   | Qualified domestic relations order | Qualified domestic relations order |
| Mother or father and widowed mother or father plus child | <ul style="list-style-type: none"> <li>— Have eligible child in care</li> <li>— Under 65 years old</li> <li>— 50% of retired worker's benefit plus 50% of child's benefit</li> <li>— 75% of deceased worker's benefit plus 75% of child's benefit</li> </ul>                                                                                                                                                                                   | b                                                        | b                                  | b                                  |

<sup>a</sup>Beneficiary categories are based on Social Security definitions.

<sup>b</sup>Not applicable.

<sup>c</sup>Entitled to benefit both as retired worker and as spouse or survivor of retired worker.

# Features of Social Security Under Current Law and Those of Three Reform Proposals

| Type of beneficiary <sup>a</sup>         | Provisions under current Social Security law                                                                                                                                                                                                                                                                                                                               | Reform proposals of 1994-96 Social Security Advisory Council             |                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                          |                                                                                                                                                                                                                                                                                                                                                                            | Maintain benefits                                                        | Individual accounts                                                                                                                                                                                                                                                                                                                             | Personal security accounts                                                                                                                                                                                                                                                                                                                          |
| Retired worker                           | <ul style="list-style-type: none"> <li>— Benefit computation is based on 35 years of highest covered earnings</li> <li>— Progressive formula leads to redistribution</li> <li>— Benefits reduced actuarially if taken between 62 and normal retirement age (NRA); increased if taken after NRA</li> <li>— NRA to increase to 67 years for those born after 1959</li> </ul> | Extends computation period from 35 years to 38 years of covered earnings | <ul style="list-style-type: none"> <li>— Extends computation period from 35 years to 38 years of covered earnings</li> <li>— Changes benefit formula by lowering conversion factors</li> <li>— Accelerates increase of NRA and indexes to longevity</li> <li>— Creates individual account (IA) based on defined contribution pension</li> </ul> | <ul style="list-style-type: none"> <li>— Creates two-tier system with tier I a flat benefit based on years of covered earnings and tier II a personal security account (PSA) based on defined contribution pension</li> <li>— Accelerates increase of NRA and indexes to longevity</li> <li>— Increases early retirement age to 65 years</li> </ul> |
| Spouse                                   | <ul style="list-style-type: none"> <li>— Benefit is 50% of the retired worker's benefit</li> <li>— Benefit is actuarially reduced if taken between 62 and NRA</li> </ul>                                                                                                                                                                                                   | Same as current law                                                      | <ul style="list-style-type: none"> <li>— Benefits are lowered from 50% to 33% of retired worker's benefit</li> <li>— Joint and survivor annuity with IA balance</li> </ul>                                                                                                                                                                      | Benefits are tier II accumulations plus 50% of full tier I benefit                                                                                                                                                                                                                                                                                  |
| Survivor                                 | <ul style="list-style-type: none"> <li>— Benefit is equal to amount deceased spouse would be receiving but not less than 82 1/2% of deceased spouse's benefit</li> <li>— Benefit is actuarially reduced if taken between 62 and NRA</li> </ul>                                                                                                                             | Same as current law                                                      | <ul style="list-style-type: none"> <li>— 75% of couple's combined benefit</li> <li>— Joint and survivor annuity with IA balance</li> </ul>                                                                                                                                                                                                      | 75% of benefit payable to couple plus eligible to inherit balance of deceased spouse's PSA                                                                                                                                                                                                                                                          |
| Dually entitled beneficiary <sup>b</sup> | Receives own retired worker benefit plus difference (if positive) between spouse or survivor benefit and his/her retired worker benefit                                                                                                                                                                                                                                    | Same as current law                                                      | Higher of own basic benefit or 33% of spouse's benefit                                                                                                                                                                                                                                                                                          | Tier II accumulations plus higher of own tier I benefit or 50% of full tier I benefit                                                                                                                                                                                                                                                               |

(continued)

**Appendix II  
Features of Social Security Under Current  
Law and Those of Three Reform Proposals**

| Type of beneficiary <sup>a</sup>                         | Provisions under current Social Security law                                                                                                                                                                                                                                                                                                                                                                                                   | Reform proposals of 1994-96 Social Security Advisory Council |                                                                                   |                                                                                   |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
|                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                | Maintain benefits                                            | Individual accounts                                                               | Personal security accounts                                                        |
| Divorced and surviving divorced spouse                   | <ul style="list-style-type: none"> <li>— Must have been married for at least 10 years and currently be unmarried</li> <li>— Must be at least 62 years old for divorced spouse, 60 years old for divorced survivor</li> <li>— Benefit actuarially reduced if younger than NRA</li> <li>— Divorced spouse benefit is 50% of retired worker's benefit</li> <li>— Surviving divorced spouse benefit is 100% of retired worker's benefit</li> </ul> | Same as current law                                          | No mention                                                                        | No mention                                                                        |
| Mother or father and widowed mother or father plus child | <ul style="list-style-type: none"> <li>— Have eligible child in care</li> <li>— Under 65 years old</li> <li>— 50% of retired worker's benefit plus 50% of child's benefit</li> <li>— 75% of deceased worker's benefit plus 75% of child's benefit</li> </ul>                                                                                                                                                                                   | Same as current law                                          | Same as for spouse or survivor plus child's benefit, which is same as current law | Same as for spouse or survivor plus child's benefit, which is same as current law |

<sup>a</sup>Beneficiary categories are based on Social Security definitions.

<sup>b</sup>Entitled to benefits both as retired worker and as spouse or survivor of retired worker.

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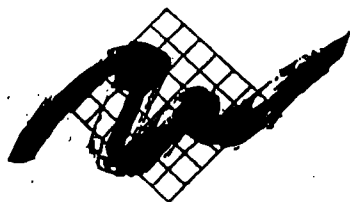
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CELEBRATING OUR TENTH ANNIVERSARY

## Facsimile

To: DEBORAH WAXMANFax #: 456-2878Re: IWPR SOCIAL SECURITY FACT SHEETDate: 7/14/98Pages (including this cover page): 3

## Message:

Kim Koivisto asked me to Fax you  
A copy of our Social Security Fact Sheet.  
PLEASE LET ME KNOW IF YOU NEED ADDITIONAL  
INFORMATION.

Shannon.

From the desk of....

Shannon M. Garrett  
Research Program Assistant  
Institute for Women's Policy Research  
1400 20th St., NW, Suite 104  
Washington, DC 20036  
tel: (202) 785-1921  
fax: (202) 833-4362  
e-mail: [garrett@www.iwpr.org](mailto:garrett@www.iwpr.org)



# Research-In-Brief

## SOCIAL SECURITY REFORM AND WOMEN: A FACTSHEET

### **Social Security is very important for women.**

Sixty percent of Social Security beneficiaries are women and Social Security is the major source of retirement income for a majority of these women. Women are heavily reliant on Social Security benefits because of wage and employment discrimination and different patterns of labor force participation. Despite changes in women's workforce participation, these patterns have persisted.

- *Most women do not receive private pensions.* Only 38 percent of women receive employer-provided pension benefits compared to 57 percent of men.<sup>1</sup> This is especially problematic for women of color, who are less likely to have employer-provided pension plans than either white men, white women, or nonwhite men.
- *Women earn less than men.* Women who work full-time earn less than men who are employed full-time. The average woman college graduate earns little more than the average male high school graduate. Women earn 74 cents for every dollar men earn.
- ➔ ■ *Women are less likely to work full-time.* Seventy-four percent of men between the ages of 25-44 were employed full-time for all of 1996, compared to 49 percent of women in that age group.<sup>2</sup>
- *Women are more likely to spend time out of the paid labor force.* Twenty-one percent of women between the ages of 25-44 were not employed in 1996 compared to only 7 percent of men.<sup>3</sup> Many of these women are mothers of young children.
- *Women are more likely to live alone in their retirement years.* Retired men are more likely to be married and therefore usually receive two Social Security benefits: one for themselves and one for their wives. Elderly women living alone receive only one benefit.

**The Social Security benefits that women receive are *guaranteed for life*.**

Unlike private individual accounts, Social Security benefits are safe, reliable, and guaranteed for life. This protection is especially important for women because of their longer life span.

- *Social Security benefits protect against inflation.* The cost-of-living increases built into Social Security provide an important anti-poverty protection for women. Private investments do not protect against inflation or devalued investments.
- *Women live an average of 7 years longer than men.* Private accounts place women in danger of outliving their accumulated funds. Under private accounts, women could live their most vulnerable years in extreme poverty.

**Proposals for Social Security reform must maintain safeguards for women.**

Research conducted by the Institute for Women's Policy Research, the General Accounting Office, and others indicate:

- Proposals that reduce guaranteed benefits to make way for individual accounts would disproportionately hurt women--making women more vulnerable to the risk of private investments and poverty if expected returns are not realized.
- Proposals that raise the retirement age to 70 would tend to hurt women who are unable to work while they care for their aging parents, family members, or their retired spouses.
- Widows, divorcees, and women who have never been married--women who tend to have the lowest Social Security benefits today--would receive even lower benefits under many of the proposed changes.

**Notes:**

<sup>1</sup> Pension statistics do not include Social Security benefits. Statistics are from the U.S. Department of Labor's *Retirement Benefits of American Workers*, September 1995.

<sup>2</sup> Based on IWPR calculations from the Current Population Survey for 1996, U.S. Bureau of the Census.

<sup>3</sup> Ibid.

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*The Institute for Women's Policy Research (IWPR) is an independent, non-profit, scientific research organization founded in 1987 to meet the need for women-centered, policy-oriented research. This Research-In-Brief is based in part on the IWPR report, The Impact of Social Security Reform on Women, by Lois Shaw, Diana Zuckerman, and Heidi Hartmann. This factsheet was written in June 1998. For information on IWPR membership, call 202/785-5100, fax 202/833-4362, or visit our web site at <http://www.iwpr.org>.*

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**MEMORANDUM**

TO: Social Security and Women's Issues LA  
 FR: Kim Koivisto, 4-3986 direct  
 DATE: July 6, 1998  
 RE: Briefing on Women and Social Security

One of the political hot topics this year is Social Security Reform. But the current public debate often fails to mention the impact possible reforms would have on women, the majority of Social Security recipients. Three reports have been released in the past two months that highlight specific issues affecting women. The latest report issued by the Institute for Women's Policy Research (IWPR) entitled, "*The Impact of Social Security Reform on Women*," will be the topic of a staff briefing this Friday.

**Staff Briefing on Friday, July 10th at 11:00 a.m. in room SC-6 of the Capitol.**

Dr. Diana Zuckerman, Director of policy and research at IWPR and one of the lead authors of the report will address specific concerns facing women in the Social Security debate this Friday, July 10th at 11:00 a.m. in room SC-6 of the capitol. Copies of the report and a one page Fact Sheet are enclosed for your review. All interested staff are encouraged to attend.

A few factoids about women and Social Security:

- Sixty percent of social security beneficiaries are women and Social Security is the major source of retirement income for a majority of these women;
- Women are heavily reliant on social security benefits because women earn less than men, women often interrupt their careers and spend more time out of the workforce; and
- Women live, on average, 7 years longer than men and more likely to live alone in their retirement.

**Letter from the Women's Caucus**

On June 24, the Congressional Caucus on Women's Issues sent a letter to the President requesting that more be done to inform the public about the impact of various reform proposals on women. A copy of the letter is attached for your review.

If you would like additional information on this briefing or Social Security Reform, please give me a ring at 4-3986 or call Ted Zegers at 4-3232. Thanks.

## **The Retirement Security Act of 1998**

### **-- Bill Highlights --**

The recent National Summit on Retirement Savings highlighted the need for Americans to participate in an employer-provided pension plan so that, in addition to Social Security, they will have enough private savings to enjoy a secure retirement. Congressional Democrats and President Clinton have continued to make pension reform one of their top legislative priorities.

On June 24, Congressional Democrats, joined by Secretary of Labor Alexis Herman, unveiled comprehensive pension legislation, the "Retirement Security Act of 1998," as part of the Democratic unity agenda for 1998. This Democratic bill seeks to improve pension access and coverage; promote pension portability, so that it is easier to take a pension from job to job; strengthen pension security; and increase pension equity for women.

### **IMPROVING PENSION ACCESS AND COVERAGE**

The Retirement Security Act of 1998 will boost pension coverage for men and women by making it easier for employers to offer pension benefits as well as for workers to build up adequate retirement savings. In addition, the bill seeks to improve pension access for small business employees and low-to-moderate income workers, who are less likely to have pension coverage. The main feature of the bill would:

- Create a new system to help workers without pension coverage build their own retirement savings through direct deductions from their paychecks into an IRA;
- Establish an easy-to-administer a defined benefit plan option for small businesses known as the SMART plan;
- Provide a maximum credit of \$1,000 to help small businesses cover the cost of setting up new pension plans; and,
- Modify new rules for the "SIMPLE" and 401(k) plans to encourage minimum pension coverage for low-to-moderate income employees.

### **PROMOTING PENSION PORTABILITY**

Gone are the days when most Americans worked at the same job all their lives. Today, the American workforce is much more mobile and workers need to have the ability to take their pension savings with them as they move from job to job. The current average length of stay at a particular job for American workers is 3.8 years for women and 5.1 years for men. Improving pension portability helps workers build up retirement savings, particularly women, who are more likely to interrupt their careers and therefore have a greater need for pension portability. This bill encourages pension portability through:

- Faster vesting of employers matching contributions under defined contribution plans (including 401(k) plans), so that employees would have rights to the contributions after at least three years of employment;

- Allowing participants of plans set up by state and local governments (457 plans) to be roll their account balances to IRAs; and
- Allowing rollovers between 401(k) and similar plans set up by non-profit organizations including 403(b) plans.

### STRENGTHENING PENSION SECURITY

Americans depend on their retirement income, and Democrats want to help ensure that the pension benefits for the American worker will be there when they retire. This bill protects and strengthens pensions through:

- Establishing greater safeguards to prevent corporations from raiding their employees' pension plans;
- Creating stricter requirements for audits of plan assets and how companies are investing these assets;
- Prohibiting employers from making credit card loans against out pension assets; and
- Providing pension plan participants with regular and informative benefit statements, so they can monitor the activity and value of their pensions assets.

### INCREASING PENSION EQUITY FOR WOMEN

Pension laws were not developed to take into account the full impact of women's work patterns. Because they enter and exit the workforce more frequently than men, and tend to work in jobs that are less likely to offer pension coverage, women often have to rely on their husbands' retirement benefits for their retirement security. In addition to the provisions described above which promote greater access to pensions for all Americans, the "Retirement Security Act of 1998" includes specific provisions to reduce the wide gap in pension coverage between men and women, as well as provide greater protections for older women. The bill includes:

- New safeguards to ensure that pension benefits are not overlooked when a couple divides assets upon divorce;
- A new option for federal workers to provide a greater benefit for women who outlive their husbands;
- New safeguards to ensure that women are not denied their share of their husbands' retirement benefits;
- Protections for low-income women against the loss of their Social Security benefits;
- A new women's pension information hotline; and
- Additional hours taken under the Family and Medical Leave credited to the pension plan for purpose of participation and vesting in their plan benefits. This would ensure that women are not forced to choose between meeting the needs of their families and their retirement security.

JUL -14' 98 (TUE) 16:15

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P. 002

THOMAS A. DASCHLE  
SOUTH DAKOTA

**United States Senate**  
**Office of the Democratic Leader**  
Washington, DC 20510-7020

**Remarks by Senate Democratic Leader Tom Daschle  
on Democrats' Plan to Boost Retirement Security  
Wednesday, June 24, 1998**

The other night, I saw a TV commercial in which a baby-boomer Mom is jolted into realizing she's getting older when her teenage babysitter tells her how lucky she is that she doesn't have to worry about being cool anymore. I didn't know whether to laugh or cry.

Very few of us like to think about getting older. And even fewer of us want to think about retiring because -- frankly -- most of us are scared we can't afford to retire. Today, Democrats are offering identical bills in the House and the Senate to make the prospect of retirement less frightening for millions of American workers.

Right now, just under half of all American workers have pension plans -- and the number is far worse for women and low and moderate income workers.

Our plan would increase that number of people with pensions substantially by making it easier and cheaper for small businesses to set up pension funds.

It would create a new system to help workers who don't have pension coverage to build their own retirement savings through direct contributions from their paychecks into an IRA.

Our plan would make it easier for workers to take their pensions with them from one job to the next. This is incredibly important in an economy where the average worker will change careers an average of seven times.

Our plan would increase pension security, so your pension is actually there when you retire.

And, it would help close the huge pension gap that now exists between men and women and that leaves far too many older women who are widowed or divorced living in near-poverty.

I talk to people all the time who are worried they won't be able to afford the "luxury" of retirement. I say we don't have the luxury of ignoring the coming retirement crisis.

Retirement shouldn't mean an economic freefall. And it doesn't have to. The first of the baby boomers turns 50 this year. We still have time to make the changes that will allow us to enjoy a secure retirement. But it will take change.

JUL -14' 98 (TUE) 16:15

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P. 003

From individuals. From employers. And from the government. That's what this bill provides.

I'm pleased to be joined by some of the sponsors of our bill: Senator Carol Moseley-Braun, Congressman Sam Gejdenson, Congressman Richard Neal and Congresswoman Barbara Kennelly. Each of them is going to say a few words about different parts of our plan, and why they are needed.

We're also very grateful to have a strong ally in this Administration -- represented today by Labor Secretary Alexis Herman.

In 1994, President Clinton signed a bill protecting the pensions of more than 40 million American workers and retirees against risky investments and corporate raids. In 1996, he signed another bill cutting red tape and start-up costs for pension plans, so more small businesses could create retirement plans for their workers. Before 1998 is over, we intend to give the President another retirement security bill to sign.

This Congress has done precious little so far to address the concerns of America's working families. Passing this bill -- increasing Americans' retirement security -- would do a lot to fill that void. We urge our Republican colleagues to join us in passing it.

###



July 21, 1998

Hillary Rodham Clinton  
The White House  
1600 Pennsylvania Ave., NW  
Washington, DC 20510

PATRICK S. KORTEN  
*Vice President for Communications*

Dear Ms. Clinton:

The Cato Institute has just released two important new studies examining the impact of Social Security on women, and we wanted to make sure you received personal copies.

Social Security Paper No. 12, "The Benefits of Social Security Privatization for Women," is the result of research done at Harvard's Kennedy School of Government by Ekaterina Shirley and Peter Spiegler. They performed a rigorous analysis of how women in a variety of income groups and with various work histories fare under Social Security and under two alternative methods of providing retirement income: partial and full privatization. They document the severe disadvantage married working women suffer under the current Social Security system, and examine the benefits women would receive under the Social Security Advisory Council's Personal Security Account (PSA) plan, and under a fully privatized plan incorporating earnings sharing.

As you know, partial privatization is increasingly considered the minimum reform likely to be adopted, with key Democrats like Sen. Moynihan offering variations on the theme. But in Cato's SSP 12, Shirley and Spiegler found that such partial privatization would improve the lot of women only slightly, while full privatization would make most women *significantly* better off during their retirement years.

Also enclosed is a copy of a Cato Briefing Paper by analyst Darcy Olsen, in which she summarizes the results of the Shirley/Spiegler study, and looks as well at issues involving women that have been covered in other research we've done.

I hope the information contained in these studies will be useful to you, and that you will consider carefully the extraordinary benefits that women stand to gain from having the opportunity to chose a fully privatized system. We've published a number of other studies on this issue as well, and would be happy to provide copies of any that might interest you. They're listed on the back of SSP 12.

Sincerely,

A handwritten signature in dark ink, appearing to read "Patrick S. Korten", written over a large, stylized flourish.

Patrick S. Korten

enclosures

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# *The Cato Project On* Social Security Privatization

July 20, 1998 SSP No. 12

## *The Benefits of Social Security Privatization for Women*

*by Ekaterina Shirley and Peter Spiegler*

### **Executive Summary**

**T**he economic case for privatization as a response to Social Security's insolvency problems has been made extensively in the academic and policy literature. How privatization would affect various social groups, however, has remained largely unaddressed. There are reasons to be especially concerned about the impact of reform on women. Women are known to be disproportionately dependent on Social Security benefits in their old age and because of longer life expectancy and employment patterns, an elderly woman is twice as likely to be living in poverty as is an elderly man.

Although the Social Security system is gender neutral on its face, it produces some financial outcomes that place women at a disadvantage in retirement compared with men.

- The employment patterns of women, characterized by fewer years in the labor force, lower earnings, and more frequent job changes, translate into lower Social Security benefits.
- The dual-entitlement rules of the system often impose a penalty on wives and widows of two-earner couples.
- The loss of up to 50 percent of a couple's benefit at the husband's death throws every fifth widow into poverty.

Those outcomes are exacerbated by women's disproportionate dependence on Social Security benefits. As a result of low private asset accumulation and inadequate or absent supplemen-

tary pension coverage, on average, nonmarried women over 65 rely on Social Security for 72 percent of their retirement income. Forty percent of that group rely on Social Security for 90 percent or more of their retirement income.

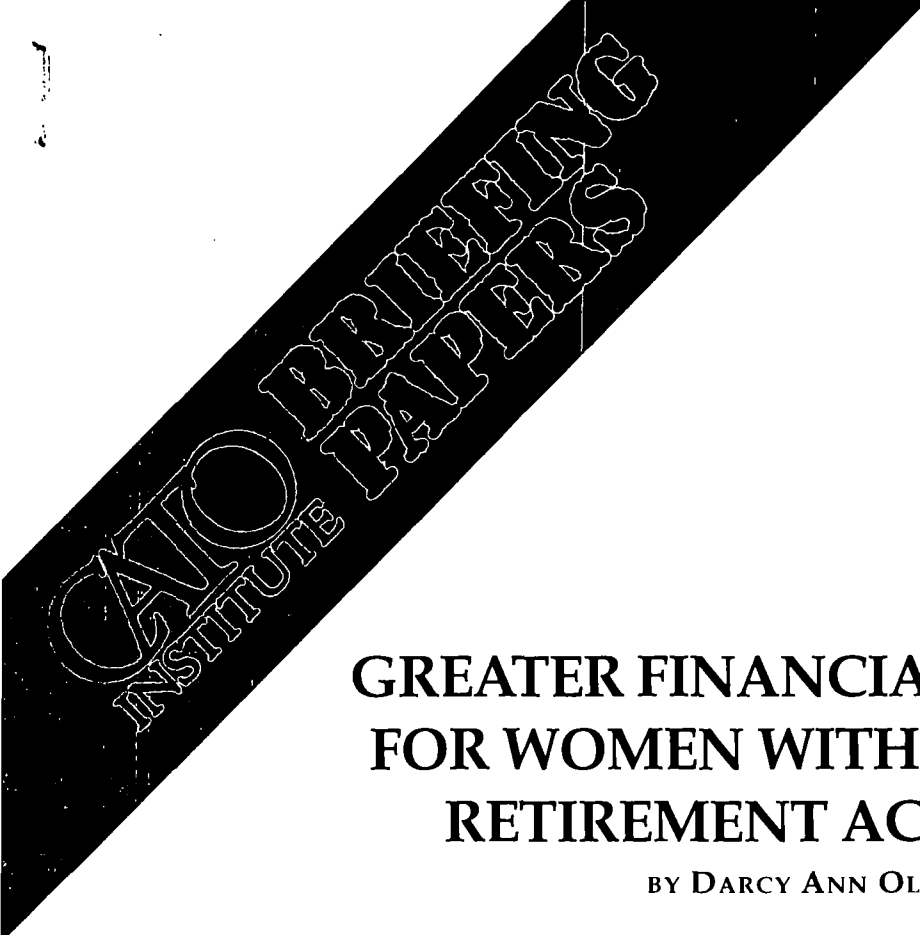
Contrary to some criticisms raised in the course of the Social Security reform debate, our analysis demonstrated that privatization of Social Security in fact would offer tangible financial benefits to women. If higher rates of return are realized on investments in the private capital markets, privatization is likely to boost the retirement savings of both men and women. Indeed, this study finds that

- Virtually all women would be better off (most *significantly*) under a system of individually owned, privately invested accounts with earnings sharing than under the current Social Security system.
- A fully privatized Social Security system with earnings sharing between spouses provides greater benefits to women than does a partially privatized, two-tiered system.
- Contributions to personal accounts could be reduced to as little as 7 percent of covered earnings and still provide all categories of women (single, divorced, married, widowed) with significantly higher retirement benefits than does Social Security. That would allow the remaining 5.4 percent of the current payroll tax to be used to provide disability benefits, help finance transition costs, protect against market risk, or even provide a tax cut at some point in the future.

---

*Ekaterina Shirley and Peter Spiegler are graduates of the John F. Kennedy School of Government, Harvard University.*

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# GREATER FINANCIAL SECURITY FOR WOMEN WITH PERSONAL RETIREMENT ACCOUNTS

BY DARCY ANN OLSEN

No. 38

July 20, 1998

## Executive Summary

As privatizing Social Security becomes more likely, people are raising questions about how women would fare under a new system. Would poor women be able to weather market downturns? Would they be capable investors? What about women's aversion to risk?

Although the current Social Security system does not differentiate between men and women, on average, women receive lower benefits than do men because women tend to have lower wages and fewer years in the workforce. Thus poverty rates are much higher among elderly women than elderly men. While Social Security alleviates some poverty, there is room for improvement. Virtually every woman would be better off financially under a system of fully private, personal retirement accounts with earnings sharing.

Since the success of privatization is sensitive to the contribution rate, the greater that rate, the greater the benefits. Thus, a fully private system would benefit women more than a partly private two-tiered system.

## **GREATER FINANCIAL SECURITY FOR WOMEN WITH PERSONAL RETIREMENT ACCOUNTS**

by Darcy Ann Olsen

### **Introduction**

Plans to privatize Social Security--that is, to redirect payroll tax payments into personal accounts similar to individual retirement accounts or 401(k) plans--have become enormously popular. Polls show that a large majority of Americans favor some amount of privatization. Democratic and Republican legislators have introduced bills that would privatize the system to varying degrees. And experts of various ideological persuasions have endorsed privatization. Yet many questions about privatization remain, particularly with regard to women. Would poor women be able to weather market downturns? Would they be capable investors? What about women's aversion to risk?

Many people agree that a retirement system should address poverty among the elderly. That, after all, was the primary reason for establishing Social Security. Unfortunately, the current Social Security system does not adequately address poverty among the elderly, particularly elderly women. Although the current Social Security system does not differentiate between men and women, on average, women receive lower benefits than do men. That is primarily because women tend to have lower wages and fewer years in the workforce. Thus, poverty rates are twice as high among elderly women as among elderly men: 13.6 percent compared to 6.2 percent.<sup>1</sup> Although Social Security alleviates some poverty, clearly there is room for improvement.

In contrast, research shows that virtually every woman--single, divorced, married, or widowed--would probably be better off financially under a system of fully private, personal retirement accounts, the earnings of which could be shared by spouses. And the greater the contribution rate, the greater the financial security. Thus, a fully private system with a 10 percent contribution rate would benefit women more than a partly private two-tiered system. That is true even for poor women who move in and out of the job market.

---

*Darcy Ann Olsen is an entitlements policy analyst at the Cato Institute.*

### **Inequity in the Present System**

By law, the Social Security system treats all workers equally. Yet the system has a disparate impact on women because they typically earn less, work fewer years, and live longer than do men. In particular, Social Security punishes married women who work and favors married women who do not work. A married woman who works her entire adult life may not receive any more benefits than a married woman who has never worked; a couple with two breadwinners may get fewer benefits than a couple with one breadwinner and identical lifetime earnings, and widows of two-earner couples may get less than widows of one-earner couples.<sup>2</sup>

Those inequities result from the way benefits are calculated. A spouse can receive benefits in one of three ways. First, she can receive benefits based on her own work history. Second, she can receive benefits based on her husband's work history. By law, a woman is automatically entitled to benefits equal to 50 percent of her husband's benefits, whether or not she has ever worked or paid Social Security taxes.<sup>3</sup> Third, she can receive benefits based on a combination of the two.

When a woman qualifies for benefits both as a worker in her own right and as a spouse (or surviving spouse) of a worker, she is subject to the "dual entitlement rule."<sup>4</sup> That rule prevents her from collecting both her own retirement benefit and her spousal benefit. Instead, she receives only the larger of the two. And because the typical woman earns less and works fewer years than her husband, 50 percent of her husband's benefits is often larger than the benefits she would be entitled to receive in her own right. Consequently, she receives benefits based on only her husband's earnings--she receives no credit or benefits based on the payroll taxes she has paid. A woman who never worked at all receives exactly the same benefits.

The second inequity that results under Social Security's dual-entitlement rule is that a couple with two breadwinners may get fewer benefits than a couple with one breadwinner and identical lifetime earnings. Table 1 illustrates this point.

Each of the three couples has the same total earnings, yet couple A with one breadwinner receives higher benefits than do couples B and C with two breadwinners. During one year, couple A will receive \$1,116 more than couple C. After 10 years, couple A will have received more than \$11,000 more in retirement benefits than couple C. As men

Table 1  
Couples' Benefits under Dual Entitlement

|                  | Monthly Earnings (\$) | Monthly Benefit (\$) |
|------------------|-----------------------|----------------------|
| Couple A         |                       |                      |
| Husband          | 1,000                 | 573                  |
| Wife (no income) | 0                     | 287                  |
| Total            | 1,000                 | 860                  |
| Couple B         |                       |                      |
| Husband          | 500                   | 413                  |
| Wife             | 500                   | 413                  |
| Total            | 1,000                 | 826                  |
| Couple C         |                       |                      |
| Husband          | 667                   | 467                  |
| Wife             | 333                   | 300                  |
| Total            | 1,000                 | 767                  |

Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 4.

Note: Monthly Earnings is the Average Indexed Monthly Earnings (AIME), which is found by adding the 35 years of a worker's highest indexed earnings and dividing by 420 (the number of months in 35 years). In this example, it is assumed that the workers' combined earnings equaled \$1,000. The Monthly Benefit is the Primary Insurance Amount (PIA). The following progressive benefit formula is applied to the AIME to determine the PIA (1996): 90% of the first \$437 of AIME, 32% of AIME from \$437 to \$2,635, and 15% of AIME over \$2,635.

and women who reach age 65 are expected to live to age 80 or beyond, that inequity can have a significant impact on a couple's quality of life for many years.<sup>5</sup>

While the dual-entitlement rule has a negative impact on many two-earner couples during their retirement years together, its most pernicious impact is often felt after a husband dies.<sup>6</sup> Social Security's survivor benefit rules can leave widows with up to 50 percent less income than the couple was receiving when the husband was alive. That is one reason why the poverty rate among widows is 19.2 percent, two times greater than among widowers.<sup>7</sup> And, in general, the more of the couple's earnings the widow earned,

Table 2  
Widows' Benefits under Dual Entitlement

|                  | Monthly Earnings (\$) | Couple's Benefit (\$) | Widow's Benefit (\$) |
|------------------|-----------------------|-----------------------|----------------------|
| Couple A         |                       |                       |                      |
| Husband          | 1,000                 |                       |                      |
| Wife (no income) | 0                     | 860                   | 573                  |
| Total            | 1,000                 |                       |                      |
| Couple B         |                       |                       |                      |
| Husband          | 500                   |                       |                      |
| Wife             | 500                   | 826                   | 413                  |
| Total            | 1,000                 |                       |                      |
| Couple C         |                       |                       |                      |
| Husband          | 667                   |                       |                      |
| Wife             | 333                   | 767                   | 467                  |
| Total            | 1,000                 |                       |                      |

Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 5.

Note: Monthly Earnings is the Average Indexed Monthly Earnings (AIME), which is found by adding the 35 years of a worker's highest indexed earnings and dividing by 420 (the number of months in 35 years). In this example, it is assumed that the workers' combined earnings equaled \$1,000. The Monthly Benefit is the Primary Insurance Amount (PIA). The following progressive benefit formula is applied to the AIME to determine the PIA (1996): 90% of the first \$437 of AIME, 32% of AIME from \$437 to \$2,635, and 15% of AIME over \$2,635.

the smaller the share of the couple's retirement benefit she receives after her husband dies. Table 2 illustrates this point.

Each of the three couples has the same total earnings, yet the widow who never worked (A) receives higher benefits than the widows who worked (B and C). Widow A's benefits are approximately 16 percent higher than widow B's and 10 percent higher than widow C's. As Tables 1 and 2 indicate, the one-earner couple (couple A) receives the highest retirement benefits while the husband is alive, and the widow receives the highest survivor's benefit. In addition, the widow who made as much money as her husband receives less than the widow who earned only half as much as her husband.

Anna Rappaport of William M. Mercer found that the situation for low-income widows who worked is even worse.<sup>8</sup> For example, the wife of a couple with \$34,200 in annual pay gets \$1,082 as a widow if she never worked, while the wife who brought home half that paycheck gets a widow's benefit of only \$674. That is a difference of \$408 per month.

The Social Security Administration reports that 24 percent of married and widowed women have their benefits slashed by the dual-entitlement rule. That number is projected to increase to 39 percent by 2040, as increasing numbers of women earn higher wages and work more hours.<sup>9</sup> As Jonathan Barry Forman, former tax counsel to Sen. Daniel Patrick Moynihan (D-N.Y.), puts it, "In short, the Social Security system takes billions of payroll tax dollars from these working women and gives them no greater Social Security benefits in return."<sup>10</sup>

The negative impacts of the dual-entitlement rule are exacerbated by a handful of other factors that make women disproportionately dependent on Social Security benefits.<sup>11</sup> As a result of lower earnings and fewer years of work, women, on average, earn less Social Security benefits than do men. In 1995 male retirees received \$810 in monthly benefits while women received only \$621, on average.<sup>12</sup> Lower earnings and part-time employment also make it more difficult for women to accumulate private savings for retirement. In addition, women are less likely than men to have employer-provided pension plans.<sup>13</sup> Even if they do have pension plans, they generally save too little because of their moves in and out of the job market.<sup>14</sup>

Those gender-specific issues aside, women, like men, face the larger problem of Social Security's looming debt and declining rate of return. Federal Reserve Board chairman Alan Greenspan estimates that Social Security's unfunded liability is roughly \$9.5 trillion.<sup>15</sup> If the government intends to make good on its promise to pay retiree benefits, it will have to raise taxes or cut benefits in order to meet that revenue shortfall.<sup>16</sup> The Social Security board of trustees has estimated that it would take a tax hike of at least 6.3 percentage points to put the program in the black.<sup>17</sup> A tax hike of that size would force workers to pay one-fifth of their wages to Social Security. Of course, cutting benefits is no solution either; benefit cuts would give workers an even worse deal than does the current system. Many of today's young workers can expect to get a negative rate of return from Social Security, according to the nonpartisan Tax Foundation.<sup>18</sup> And, as the American Association of Retired Persons has pointed out, women would

suffer most under reform proposals that reduce retiree benefits.<sup>19</sup>

### **Benefits of Full Privatization**

Women, like men, want to know what would be the likely results under a private system in which payroll tax payments were redirected into personal accounts similar to individual retirement accounts or 401(k) plans. Would private accounts increase the overall level of women's retirement benefits? Would private accounts address poverty among widows? Would private accounts end discrimination against working wives?

To answer those questions, Ekaterina Shirley and Peter Spiegler, graduates of Harvard University's Kennedy School of Government, conducted two empirical analyses.<sup>20</sup> The first is a retrospective analysis using actual earnings histories of 1,585 men and 1,992 women who retired in 1981. The researchers compared Social Security benefits with the benefits that hypothetically would have accrued under a private plan with a 7 percent contribution rate, a 6.2 percent rate of return, and 50-50 earnings sharing between spouses where applicable.<sup>21</sup> Earnings sharing lets married couples split their contributions 50-50 before depositing them into each person's account.<sup>22</sup>

Shirley and Spiegler found that all but .11 percent (approximately 3) of the women collecting benefits would have been better off under the private system. For those women, the difference between the plans was exactly zero--no woman was worse off under the private system. For 3.7 percent (approximately 110) of the women, the difference was less than \$2,000. Even though the absolute dollar difference appears small, it is significant relative to total benefits from Social Security. Overall, the median value of the accrued difference between benefits from Social Security and benefits from a privatized plan was \$30,000 for single women, \$26,000 for wives, \$21,000 for divorcees, \$23,000 for surviving divorcees, and \$20,000 for widows.<sup>23</sup> As a percentage of Social Security benefits, that difference is substantial. The median values of that percentage are 58 percent for single women, 208 percent for wives, 67 percent for divorcees, 58 percent for surviving divorcees, and 97 percent for widows.

In the second analysis, Shirley and Spiegler conducted a prospective simulation since the cohort of women in the workforce today has significantly different labor and marital characteristics than the one that retired in 1981. As

complete lifetime earnings histories for women who are currently in the workforce do not exist, the research team simulated the effects of various retirement plans.<sup>24</sup> They compared Social Security; a fully private system; and a two-tiered, or partly private, system. Under the fully private system, the assumed contribution rate is 10 percent.<sup>25</sup> The partly private approach would channel 5 percentage points of payroll taxes into a personal account, with the remaining 7.4 percentage points going to Social Security to finance a "flat benefit" and survivor's and disability insurance. The flat benefit is equal to 2/3 of the poverty rate.<sup>26</sup> As they did in the retrospective analysis, the researchers assumed a 6.2 percent rate of return on invested contributions.

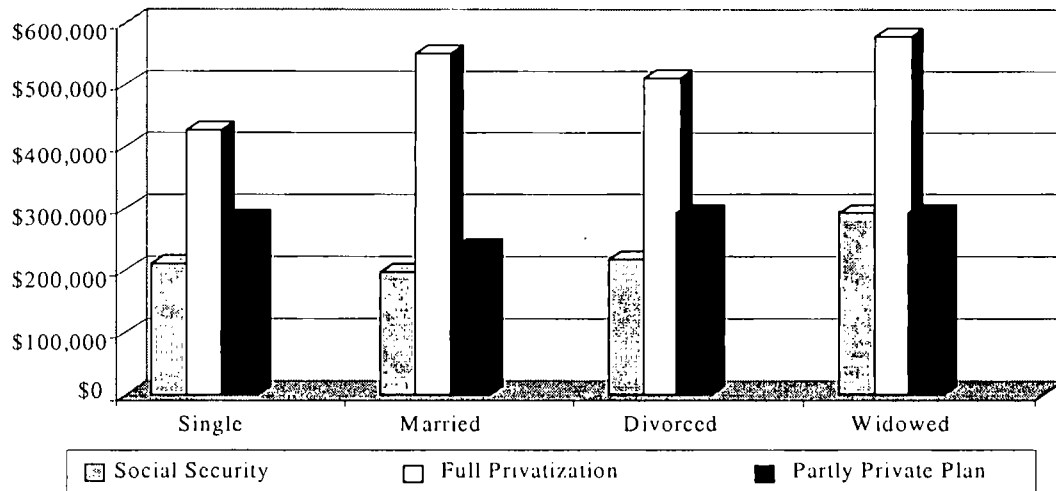
As Figure 1 shows, in every case the fully private system with a contribution rate of 10 percent would bring all women--whether collecting benefits based on their own earnings or as wives, divorcees, or widows--with full earnings histories more than twice the retirement benefits of Social Security.<sup>27</sup>

Moreover, the greater the contribution rate, the greater a woman's financial security in retirement. Thus, the fully private system generates significantly higher retirement benefits than does the partly private, two-tiered system. The partly private system provides only slightly greater benefits than Social Security. The results are similar for women who have moved in and out of the job market, as Figure 2 shows.

In every case, the fully private system brings all women significantly greater benefits than does either Social Security or the partly private system. For example, the fully private plan gives married, divorced, and widowed women (with full or interrupted earnings histories) at least \$200,000 more in retirement benefits than does Social Security or the partly private system. That's better than \$10,000 per year.<sup>28</sup>

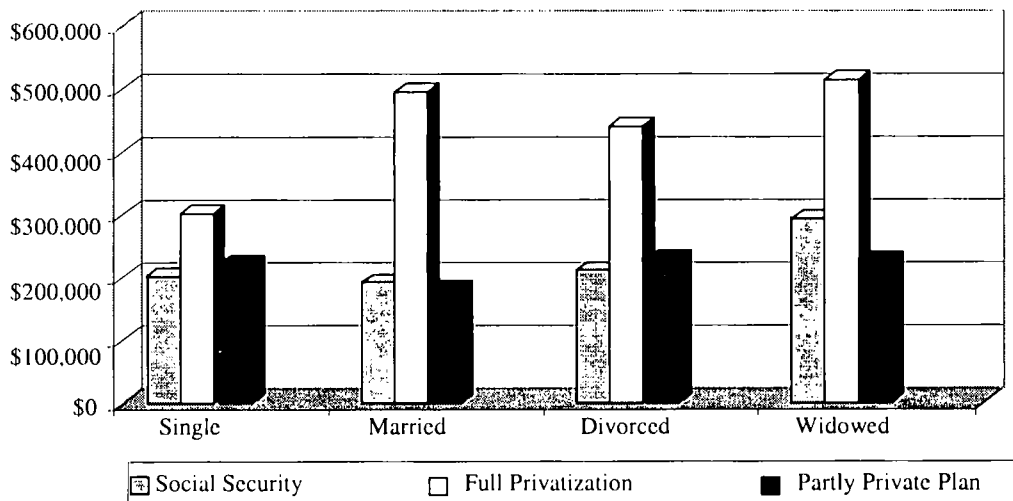
To answer questions about the potential impact of privatization on women with low to moderate incomes, Shirley and Spiegler ran a simulation using half the national mean wage level of women. Figures 3 and 4 show that women with low to moderate incomes (with full or interrupted earnings histories) would do far better under a fully private system than under either Social Security or the partly private system.

Figure 1  
Accrued Retirement Income of Mean-Income Women with Full Earnings Histories



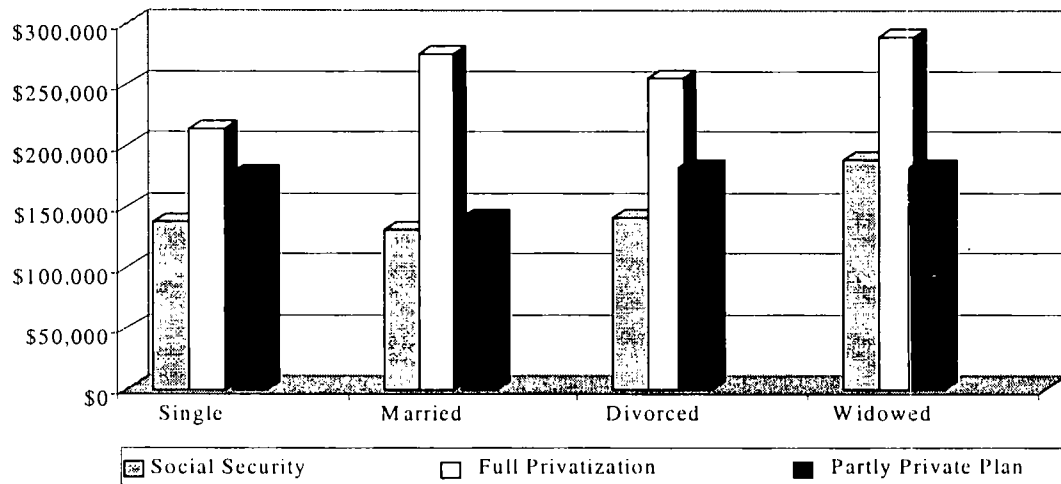
Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 12.

Figure 2  
Accrued Retirement Income of Mean-Income Women with Interrupted Earnings Histories



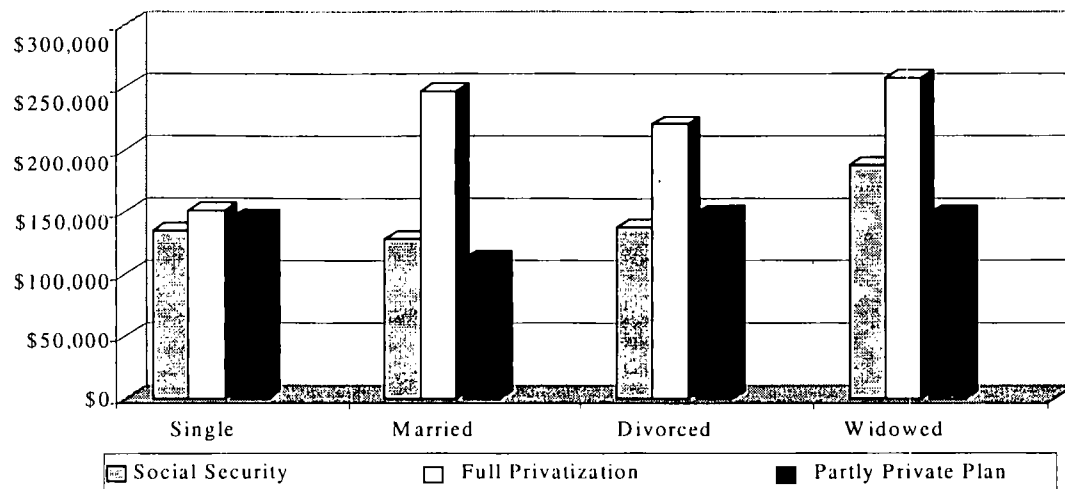
Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 12.

Figure 3  
Accrued Retirement Income of Low-Income Women with Full Earnings Histories



Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 13.

Figure 4  
Accrued Retirement Income of Low-Income Women with Interrupted Earnings Histories

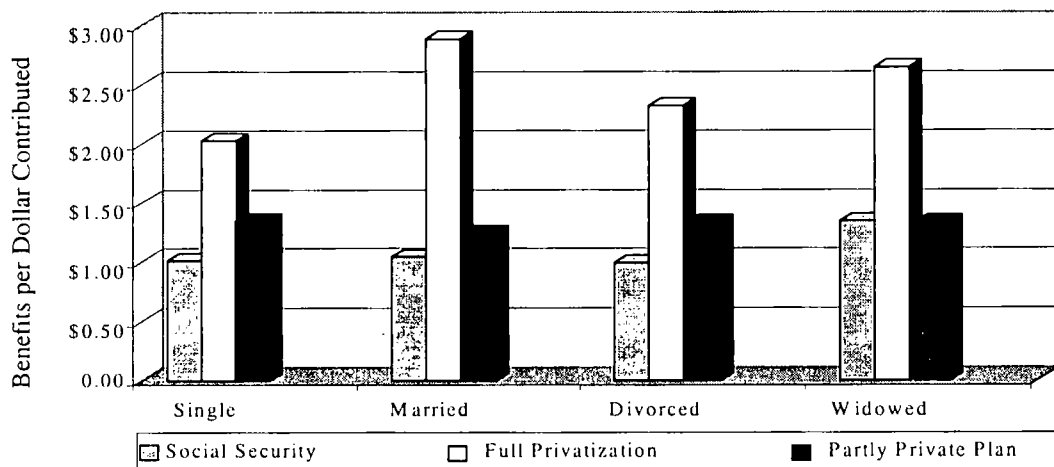


Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 14.

For example, a married woman with a low income who has moved in and out of the workforce could expect to gain roughly \$125,000 more in benefits under the private system than under Social Security. That's nearly \$550 more per month than Social Security would provide.<sup>29</sup> Even women in the worst-case scenario--low-income single women who do not benefit from the earnings sharing provision and who have moved in and out of the workforce--would receive greater benefits under full privatization than under Social Security, nearly \$100 more per month.<sup>30</sup>

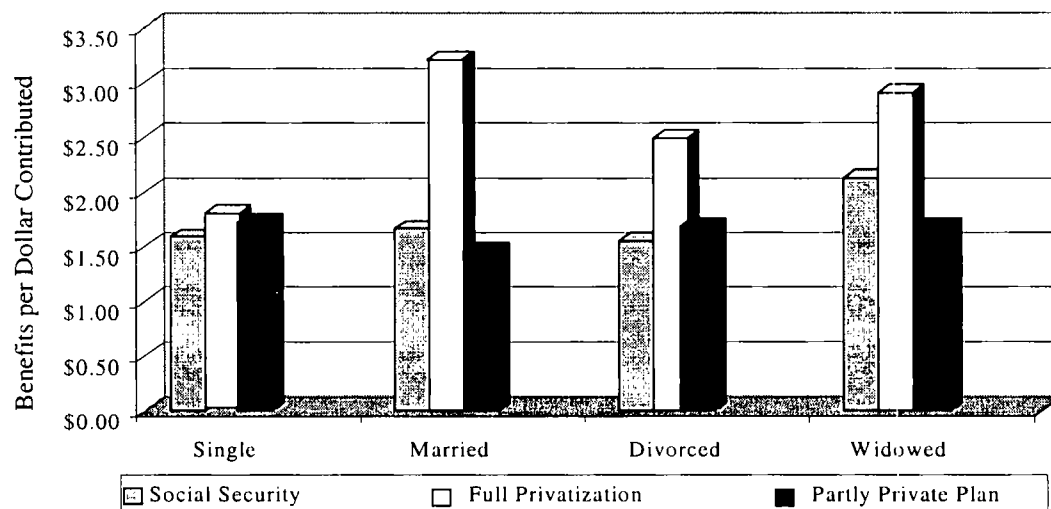
One potential concern is that the positive benefits under privatization are simply the result of high contribution rates. To address that concern, Shirley and Spiegler calculated how much each program gives in return for each tax dollar invested. In other words, they wanted to find out whether women were getting their money's worth under each program. For example, Figure 5 shows that a widowed woman with a complete work record would get approximately \$1 in Social Security benefits for each \$1 she contributed; under the fully private plan, she would get approximately \$2.50 for each \$1 contributed.

Figure 5  
Money's Worth to Mean-Income Women with Full Earnings Histories



Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 12.

Figure 6  
Money's Worth to Low-Income Women with Interrupted Earnings Histories



Source: Adapted from Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 14.

In a final simulation, the researchers used half the national mean wage level of women in each category to examine whether low-income women were getting their money's worth from each program. As Figure 6 shows, full privatization would give low-income women with interrupted earnings histories much more value for the dollar than would either Social Security or the partly private plan.

The money's worth calculations demonstrate that, even taking into account Social Security's "progressive" benefit structure, all categories of women would still get more for their money under a fully private plan.<sup>31</sup>

Shirley and Spiegler's retrospective, prospective, and value-for-the-dollar calculations show how a fully private system with a contribution rate of 10 percent would be able to bring all women--single, married, divorced, or widowed with low to moderate or average income--greater financial security than does Social Security. The implications are real and significant for women, yet many important questions still exist.

### **Concerns about Women and Private Accounts**

People have raised more concerns about women and private accounts than can be addressed in this short paper. However, a brief discussion of a few of the most important concerns should alleviate much uneasiness about personal accounts.

#### **Low-Income Women as Investors**

"Because women are more likely to be living in low-income households, they generally have less access to good investment advice."<sup>32</sup> It is unlikely that low-income women would not have adequate access to good investment advice. As the American Association of Retired Persons points out, "Lots of good information on saving and financial planning is free--from AARP, investment companies, the Internet, and your local library. Also, free or low-cost seminars specifically designed for women are offered in many communities."<sup>33</sup> A market-based retirement system will undoubtedly increase investment companies' outreach efforts to women. What is perhaps even more important, however, is that full privatization does not require that every participant be an intelligent or experienced investor. The history of 401(k) plans has demonstrated that workers of all income groups can do well by entrusting their pension benefits to experienced investors who, for the most part, have fulfilled their responsibilities. Under a well-structured system with fully private accounts, low- and high-income workers could expect to receive guidance from fund managers in much the same way. As Melissa Hieger and William Shipman of State Street Global Advisors point out, "There is no need for a worker who chooses the market-based system to know how markets work as long as the pension system is properly structured and sensible guidelines are followed. In fact, most proposals for a privatized national retirement system have regulatory elements that restrict investment strategies that are either too risky or that would be insufficiently aggressive to provide needed retirement benefits."<sup>34</sup>

#### **Low-Income Women and Market Downturns**

"Low-income women . . . would be less able than more affluent women to weather market downturns."<sup>35</sup> One way to address that concern is to see how low-income women would have fared historically under a market-based system. That can be done by comparing Social Security benefits with simulated market benefits for low-income workers. For example,

Hieger and Shipman compared an initial monthly Social Security benefit with an initial balanced-fund (60 percent equities, 40 percent bonds) benefit for low-income workers born in 1950 and 1970.<sup>36</sup> The low-income worker born in 1950 could expect a monthly Social Security benefit of \$668; the balanced-fund benefit would be \$1,514. The low-income worker born in 1970 could expect a monthly Social Security benefit of \$799; the balanced-fund benefit would be \$1,431. In both cases, the market affords low-income workers higher retirement benefits than does Social Security. Those results are consistent with other studies that show higher retirement benefits from markets than from Social Security.<sup>37</sup> If, however, the worst-case scenario arose leaving a worker with insufficient benefits upon retirement, the government could finance a safety net from general revenues. Moreover, if one believes the market-based system is inferior to Social Security, most privatization plans would allow workers the option of staying in the present system. The freedom to choose is particularly important to low-wage women who do not earn enough to save and invest on their own.<sup>38</sup> That inability to invest is largely due to high payroll tax rates. Forcing women to stay in a system that takes 12.4 percent of their wages only to cheat them of a secure retirement is simply unjust. Low-income women should have the freedom to invest their earnings in a way that will increase their chances for a financially secure retirement.

### **Risk Aversion of Women**

"With individual accounts, women may fare worse than men because they are more risk averse."<sup>39</sup> There is some evidence that women tend to be more conservative investors than men; however, many studies that purport to show that did not control for education levels or investment-specific knowledge--factors that may account for some differences in investment behavior.<sup>40</sup> According to the General Accounting Office, people who are given information about their investment choices and potential returns are more likely to invest more than those who do not receive such information.<sup>41</sup> Investment companies compete vigorously to educate and attract female clients. For example, OppenheimerFunds has distributed a 160-page booklet called "A Woman's Guide to Investing." Merrill Lynch, PaineWebber Group Inc., and Smith Barney have similar marketing strategies.<sup>42</sup> In addition, women who have been investing for a long time pursue investment strategies that are very close to those of men.<sup>43</sup> Certainly, experience shows that it is unreasonable to suggest that women, simply because of their gender, are not capable of becoming perfectly competent investors. Finally,

in a well-structured private system, women, as well as men, could expect to rely on investment managers to help with investment decisions.

### **Conclusion**

Shirley and Spiegler's research demonstrates how full privatization with earnings sharing can address the shortcomings of the current Social Security system. First, both the retrospective and the prospective analysis show that fully private accounts would significantly improve the retirement incomes of women--single, married, divorced, or widowed with low-to-moderate, moderate, or average income--which would begin to address the problem of poverty that exists under Social Security. Second, fully private accounts would end the discrimination currently faced by women under Social Security by ensuring that every dollar earned by a woman had a strictly positive effect on her retirement income. Finally, changing Social Security into a fully funded system would help ensure that future generations grow up without being saddled by unnecessary debt and grow old with financial security.

### **Notes**

I am grateful to Ekaterina Shirley and Peter Spiegler who did the research on which much of this analysis is based. Special thanks to Lea Abdnor for her constructive comments, to Carrie Lips for her expert research assistance, and to Michael Tanner for his support and direction. I take full responsibility for all errors.

1. U.S. House of Representatives, Committee on Ways and Means, 1998 Green Book (Washington: Government Printing Office, 1998), p. 1037.

2. General Accounting Office, "Social Security: Issues Involving Benefit Equity for Women," GAO/HEHS-96-55, April 1996.

3. A surviving spouse receives 100 percent of the deceased worker's benefit. That provision applies to both men and women; however, it affects women almost exclusively because there are relatively few families in which the husband earns less than 50 percent of his wife's wages. Women account for 99 percent of beneficiaries who receive spousal or survivor benefits. Jane L. Ross, "Social Security Reform: Implications for the Financial Well-Being of Women," General Ac-

counting Office, GAO/T-HEHS-97-112, April 10, 1997, p. 2.

4. For more information on the dual-entitlement rule, see Jonathan Barry Forman, "Social Security Is Hurting Working Women," Washington Times, December 17, 1996; and General Accounting Office, "Social Security."

5. Men aged 65 can expect to live an additional 15 years; women can expect to live another 19 years. General Accounting Office, "Retirement Income: Implications of Demographic Trends for Social Security and Pension Reform," GAO/HEHS-97-81, July 11, 1997, p. 16.

6. Women account for 99 percent of beneficiaries who receive survivor benefits.

7. U.S. House of Representatives, p. 1037.

8. Anna M. Rappaport, "Improving the Financial Status of Elderly Women: Issues in Savings, Pension Plans and Social Security," Paper presented at the Savings are Vital to Everyone's Retirement Summit, Washington, June 4-5, 1998, p. 7.

9. See, Peggy S. Trout, "Adequacy and Equity of Social Security," in Report of the 1994-1996 Advisory Council on Social Security, vol. 2, Findings and Recommendations (Washington: Government Printing Office, 1997) p. 344.

10. Forman.

11. Cynthia Costello, "Women, Work, and Pensions: Improving the Odds for a Secure Retirement," 1998 Mother's Day Report, Older Women's League, Washington, 1998, pp. 1-22.

12. U.S. House of Representatives, p. 53. This results in part from the way benefits are calculated. Benefits are computed on the basis of the worker's 35 years of highest earnings, and each year short of 35 counts as zero. The median number of years with zero earnings for workers turning 62 in 1993 was 4 for men and 15 for women. See General Accounting Office, "Social Security Reform: Implications for Women's Retirement Income," GAO/HEHS-98-42, December 1997, pp. 7-8.

13. Ibid.

14. Jenny C. McCune, "The Future of Retirement: What Lies Ahead for Baby Boomers, Businesses, and Society As This Formidable Group Reaches Retirement Age?" Management Review,

April 1998.

15. Alan Greenspan, Testimony before Senate Committee on the Budget, Task Force on Social Security, November 20, 1997.

16. In 2013 Social Security will begin paying out more in benefits than it collects in revenues. The Social Security trust fund, which will be required to provide benefits after that date, consists only of federal IOUs. To meet the revenue shortfall, the government will have to raise taxes, lower benefits, or privatize the system.

17. Using intermediate assumptions. 1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, p. 21.

18. Arthur P. Hall, "Forcing a Bad Investment on Retiring Americans," Tax Foundation Special Report no. 55, Washington, November 1995, pp. 2-6.

19. Sara E. Rix and John B. Williamson, "Social Security Reform: How Might Women Fare?" AARP Public Policy Institute Issue Brief no. 31, Washington, 1998, pp. 1-20.

20. Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, pp. 1-18.

21. Shirley and Spiegler chose a contribution rate of 7 percent because it was approximately the average payroll tax over the 35 years prior to 1981. The assumed rate of return, 6.2 percent, is the weighted average of returns in the corporate, housing, and noncorporate sectors from 1960 through 1993. Shirley and Spiegler also assumed that no individuals would collect benefits for more than 40 years (past age 105) and that an individual's marital status would not change during retirement. For more information, see *ibid.*, p. 6.

22. Earnings sharing increases the level of benefits available to most women because it allows them to take advantage of their spouses' higher earnings. That is particularly important to divorcees and widows who, if forced to rely solely on their own earnings, might not have sufficient resources in retirement.

23. There are several reasons that the difference in retirement benefits in the retrospective analysis appears small relative to the results in the prospective analysis. First, in the retrospective analysis, workers had 35 years of

earnings, but in the prospective simulations workers had 40 years of earnings. Those 5 years of additional contributions are reflected in the prospective simulation. That is consistent with fully private plans under which every dollar contributed would bring additional benefits. Under Social Security, workers receive credit for only the 35 years of highest earnings. In addition, the taxable maximum for the cohort that retired in 1981 was much lower than it is today. For example, in 1951 it was \$3,600; today it is \$68,500. In addition, the payroll tax rate, on average, was 7 percent, 5.4 percentage points lower than it is today. Therefore, the returns in the retrospective analysis appear relatively smaller because workers contributed much less than they do today.

24. Shirley and Spiegler assumed that individuals entered the workforce at age 25 and retired at age 65. Earnings streams were generated using the Current Population Survey's mean annual earnings for each category of women and men. Mean earnings were \$40,229 for married men, \$31,339 for divorced men, \$27,289 for widowed men, and \$25,613 for single men. Mean earnings were \$21,792 for married women, \$25,098 for divorced women, \$24,986 for widowed women, and \$24,042 for single women. Low-income figures are 50 percent of the mean. For the complete methodology, see Shirley and Spiegler, p. 17.

25. Shirley and Spiegler also examined contribution rates of 5 and 7 percent. They assumed the remaining 2.4 percent of the payroll tax would continue to finance survivor's and disability insurance.

26. This two-tiered approach was modeled after a plan by members of the Advisory Council on Social Security. See Joan T. Bok et al., "Restoring Security to Our Social Security Retirement Program," in Report of the 1994-1996 Advisory Council on Social Security, vol. 1, Findings and Recommendations (Government Printing Office, 1997) pp. 102-34.

27. The following applies to Figures 1-6: "earnings history" means a person has worked from age 25 to age 65. A person with an "interrupted earnings history" has taken 5 years out of the workforce. All figures are in 1995 dollars. Social Security benefits for single women are calculated on the basis of their own work records. Married and divorced women are "dually entitled," so they receive benefits based on their own work records or 50 percent of their husbands' or ex-husbands' benefits, whichever is greater. Widows are also dually entitled. They receive benefits based on their own work records or 100 percent of their deceased husbands'.

benefits, whichever is greater.

28. That calculation is based on the average woman who retires at age 65 and lives an additional 19 years.

29. That calculation is based on the average woman who retires at age 65 and lives an additional 19 years.

30. That calculation is based on the average woman who retires at age 65 and lives an additional 19 years.

31. For charts showing the "money's worth" calculations for mean-income women with interrupted earnings histories and low-income women with full earnings histories, see Shirley and Spiegler, p. 13.

32. John Williamson, "Should Women Support the Privatization of Social Security?" Challenge 40, no. 4 (July-August 1997): 97-108.

33. Deborah Chalfie, "Saving for Retirement: How Are Women Doing?" AARP Fact Sheet, 1997, p. 6.

34. Melissa Hieger and William Shipman, "Common Objections to a Market-Based Social Security System: A Response," Cato Institute Social Security Paper no. 10, July 22, 1997, p. 6.

35. Rix and Williamson, p. 15.

36. "Low-income" was defined as annual earnings equal to half the national average wage, about \$13,366 in 1997. The balanced fund was 60 percent equities and 40 percent bonds. The balanced fund's annual returns were those actually achieved from 1951 through 1996, which averaged 9.92 percent. Starting in 1997, the assumed annual return was 8.8 percent. For further information, see Hieger and Shipman, pp. 1-28.

37. See Marshall N. Carter and William G. Shipman, Promises to Keep: Saving Social Security's Dream (Washington: Registry, 1996), pp. 158-66.

38. Chalfie, p. 2.

39. General Accounting Office, "Social Security Reform: Implications for Women's Retirement Income," p. 9.

40. Shirley and Spiegler, pp. 1-18.

41. General Accounting Office, "Social Security Reform: Implications for Women's Retirement Income," p. 14.
42. Richard C. Ten Wolde, "Money Managers Shift Focus to Women," Wall Street Journal, November 24, 1997.
43. "When It Comes to Investing, Women Are Paying More Attention," Press release, OppenheimerFunds, January 14, 1998.

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