OWL
THE VOICE OF MIDLIFE AND OLDER WOMEN

FAX

To: Debra Waxman
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Pages (including cover: 9

Comments:
Here are the fact sheets on women & SS. And, the effects of various proposals.
More detailed reports to follow by courier.

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PRINCIPLES
WOMEN AND SOCIAL SECURITY

1. **Social Security must always remain an earned right.**
America's government has a contract with its older citizens to enable them to have a secure retirement. Social Security is an integral component of that compact, and must always provide equitable coverage for those who have paid for it.

2. **Social Security should be an equitable program.**
Women, the disabled, racial and ethnic minorities, low and moderate income working people, and families must all be treated in way that will provide fair and equal outcomes today and in the future. Structural barriers in the design of Social Security that have the unintended consequence of creating inequities must be removed for future recipients.

3. **Social Security should be genuinely gender-neutral in its outcomes.**
The specific inequities faced by women, caused by their traditional employment histories and life patterns, must be specifically addressed so that women of future generations will, when they retire, receive all the benefits to which they are entitled.

4. **Social Security should provide adequacy-maintaining benefit levels for all recipients.**
As pension coverage and savings decline for many persons, a larger proportion of retirement income will come from Social Security. Any proposed "across the board" benefit cuts implemented in efforts to maintain the program's solvency would disproportionately harm women and minorities; temporary, seasonal and part time workers; and the chronically under- and unemployed.

5. **All existing and new revenue sources must be explored before any changes in Social Security's structure are undertaken to assure its future solvency.**
Modification of existing program fundamentals, such as the calculations of cost-of-living increases through the Consumer Price Index, changes in the retirement age, and raising the floor for the taxation of benefits; as well as ideas such as income caps, earnings sharing, taxation of unearned income, shifts in the allocation of spousal and survivor benefits, and the use of general revenues, must be carefully analyzed for their consequences for women, and their distributional impact generally, before any radical changes that could destroy the foundation of the program are proposed.

6. **Social Security must keep Americans secure. No changes should affect current recipients.** There should be no <u>ex post facto</u> effects of legislation on current recipients.

7. **Major changes in Social Security must not be made in isolation.**
Any changes in benefits and/or revenues must be considered in the context of projected changes in Medicare, Medicaid, private retirement benefits and other aspects of the government's social insurance programs that have a profound impact on women's lives.

8. **Information on the impact of Social Security reform must be provided to the public by the Social Security Administration. Adequate funding should be provided for comprehensive public education about Social Security and any changes being proposed.**
The distributional and other effects of structural reform and other proposed policy options for Social Security and other programs administered by the Social Security Administration must be analyzed and made publicly available.

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OWL Facts

WOMEN AND RETIREMENT INCOME

Social Security began in 1935 to fit a traditional single-earner family structure--husband, wife and children--and while it is designed to be gender neutral, changing family structures have created great inequities for women in the Social Security system.
Tragically, poverty for women in old age too often begins the first day they enter the workforce. When they make decisions about the kind of job they will hold, few women understand the consequences that these decisions will present when they retire. Younger women believe this problem is one of the past, but three in five women today still hold sales, clerical, and retail jobs--low-wage positions that frequently offer no pension benefits.

- **The average woman now spends 11.5 years out of the workforce, caregiving. That's time she is not vesting in a pension or paying into Social Security.** Today, many women in midlife are part of the "sandwich generation"--caring simultaneously for small children and aging parents. And, the fastest growing segment of the population today are those 85 and older, making the "sandwich" a triple decker for many women who are caring simultaneously for grandmothers, mothers, and small children.

- **Most women do not have income from pensions.** The flexible work that allows women to be caregivers is usually low-waged, with few benefits, especially pensions. Only one in five women who work for firms with fewer than 100 employees are covered by a pension plan. Women also change jobs more frequently than men, making vesting in a pension difficult, as most plans vest only after 5 years. Only 13 percent of women 65 or older receive income from a pension. And those women receive only about 40 percent of what men receive in annual benefits.

- **Women still earn only 74 percent of what men earn for the same work**--30 years after the Fair Pay and Equal Pay Acts were passed. Over a life time, this adds up to about $250,000 less in earnings for a woman to save and/or invest in her retirement.

- **Women live an average of seven years longer than men, which compounds all of these problems.** In 1993, older women were almost twice as likely to be living in poverty as older men. Social Security represents 90 percent or more of income for 27 percent of all older women; 20 percent depend on Social Security as their sole source of income in retirement. The median income of women over 65 in 1995 was $9,355. Women retiring during the next 20 years will have less than one-third the income necessary to retire comfortably. Older women of color are poorest in retirement: only 25% of African American and 33% of Hispanic women have income from savings or assets. And younger women do not understand their future plight.

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OWL PRESS RELEASE

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OWL TO EMBARK ON MAJOR INITIATIVE TO EDUCATE WOMEN ABOUT SOCIAL SECURITY

Secure Women/Secure Lives Will Involve Women of All Ages, Economic Status In Nationwide Project

Secure Women/Secure Lives is an exciting and innovative new OWL initiative on women and Social Security. Everyone from Washington to Wall Street is talking about the future solvency of the Social Security system, and because the outcome will affect all women--young and old alike--all women need to understand their stake in the debate.

Secure Women/Secure Lives will educate women, the population at large, and opinion and policymakers about the current status of the Social Security system and the options now on the table for changing the system.

The goals of the campaign are to educate the leadership of women's, labor, and social policy organizations, representing all age, racial, and economic groups, as well as policymakers and legislators, to the unique issues specific to women in Social Security; to present to these constituencies the impact of proposed changes on women; and to engage their participation, through organizational or legislative activities, in a coalition for public education and advocacy for positive change.

A Problem for Women of All Generations

Experts disagree on what is necessary to keep the system viable for future generations. Some maintain that only a relatively small amount of change is needed to allow our children and grandchildren to receive the benefits to which they are entitled. Others say that massive reform is necessary.

The release early this year of the 1996 Report of the Advisory Commission on Social Security has highlighted the controversy around the solutions to Social Security's solvency. Its report was released with sharply divided recommendations--all of which would have a disparate impact on women.

America's retirement system is based on the male pattern of work and retirement. Since women's work and life patterns are considerably different, it is important to analyze any attempt to reform the system in the context of women's unique problems, including:

employment, when they make decisions about the kinds of work they will do--frequently in low-wage, no benefit jobs--how long they will work, and when they will not, without understanding the consequences those decisions present in retirement. Younger women believe that this problem is one of the past, but three in five women today have the same kinds of jobs that women have traditionally held: sales, clerical, and retail--low-wage positions that frequently offer no pension benefits.

- **The average woman now spends 11.5 years out of the workforce, caregiving. That's time she is not vesting in a pension or paying into Social Security.** Today, many women in midlife are part of the "sandwich generation"--sandwiched between caring simultaneously for small children and aging parents. And, the fastest growing segment of the population today is the 85 and older group, making the "sandwich" a triple decker for many women who are caring for grandmothers, mothers, and small children--all at the same time.

- **Most women do not have income from pensions.** The flexible work that allows women to be caregivers is usually low-waged, with few benefits, especially pensions. Only one in five women who work for firms with fewer than 100 employees are covered by a pension plan. Women also change jobs more frequently than men, making vesting in a pension plan difficult, as most pension plans vest only after 5 years. Only 13 percent of women 65 or older receive income from a pension. And those women who are lucky enough to have pensions receive only about 40 percent of what men receive in annual pension benefits.

- **Women still earn only 71 percent of what men earn for the same work**--30 years after the Fair Pay and Equal Pay Acts were passed. Over a life time, this adds up to about $250,000 less in earnings for a woman. Less to save and/or invest in their retirement.

- **The savings picture is also bleak**; the saving patterns of young women indicate that they do not understand their plight. Women who are retiring in the next 20 years will have less than one-third of the income needed to retire comfortably, and women of color are poorest in retirement. Just 25% of older African American and 33% of older Hispanic women have income from savings or assets.

- **Women live seven years longer, on average, than men, which compounds all of these problems.** Thus, women live longer, poorer lives than men. At retirement, the income gap becomes a chasm--in 1993, older women were almost twice as likely to be living in poverty as older men.

Consequently, Social Security represents 90 percent or more of income for 27 percent of all older women; 20 percent of women depend on Social Security as their sole source of income in retirement. One in four older women lives in or near poverty. The median income of women over 65 in 1995 was $9,355.

OWL's program will reach out to younger women through coalition work and a media strategy, to urge them to engage in the debate. The program will implement a broad-based public education campaign particularly to focus awareness on Social Security among mid-life and younger women. The project will educate women on Social Security's current structure and the impact of suggested reform on the lives of women.

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OWL Facts

SOCIAL SECURITY PRIVATIZATION AND WOMEN

Social Security was never intended to be solely a retirement program. It is also a social insurance program in which individuals pool their resources to protect against risks. One-third of the program's beneficiaries are widows, children and the disabled. It is a national commitment through which we care for one another.

The **privatization** of Social Security has been put forward as a way to keep the program solvent for the long term. Privatization would divert some or all of current Social Security taxes into private accounts. A privatized system of **personal investment accounts**, however, would do nothing to ensure the solvency of Social Security in the future, and it would change the structure of the system from one based on guaranteed benefits and shared risk to one based on individual investments and individual risk.

Because of their life and work patterns, any form of individual retirement accounts would be particularly harmful to women. Women spend an average of 11.5 years out of the workforce, most often caregiving for children or frail relatives. These are years during which they are not paying in to Social Security, or accumulating credits toward retirement. Women earn only 74 percent of what men earn for the same work. Most women workers are clustered in low-wage, low benefits job sectors. And, they live an average of seven years longer than men.

In a system of private accounts, they would start with much less to invest, no longer have access to the often desperately needed cost-of-living increases built into the current Social Security program, and, because of their longevity, face the possibility of outliving their assets.

Most women, particularly those with the smallest benefits, would earn even less than under the current system; and, in an outcome just the opposite of what those favoring privatization advertise, the transition to a private system would increase the federal deficit by several trillion dollars and force the imposition of new consumption and other taxes to compensate for the costs.

While seeking to provide safeguards for the future of the Trust Fund, it raises a whole new set of problems, chief among them the destruction of the guarantee of a basic lifetime benefit, critical for women now, and, because of their projected continued low earnings, rising divorce rates, and increasing longevity, even more critical in the future.

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GENDER BIAS IN THE SOCIAL SECURITY SYSTEM

Social Security was designed in 1935 as a gender neutral program. Lifestyles were very different when the program was instituted, and retirement plans, both Social Security and private pensions, were designed on male work patterns. They still best serve the old-style family: a paid worker (usually the husband), an unpaid homemaker (usually the wife), and children. Today, most American families do not fit that profile, and even fewer will in the future, and that fact makes certain provisions in the Social Security law particularly harmful to women.

- In the 1990s, perhaps most important is the dilemma of dual entitlement and single benefit. A woman in a two-earner couple who is entitled to both a worker benefit on her earnings and a spousal benefit on her husband's earnings can receive only the greater of the two, usually the spouse benefit.

  Since 1960, the percentage of women drawing a benefit based on their own work records has remained virtually constant--36 percent--but the percentage of women entitled to benefits on both their own work records and those of their husbands has jumped from 5 percent in 1960 to 25 percent in 1993. Despite the increased participation of women in the workforce, they remain just as dependent on their spouses--receiving exactly the same spouse benefit they would have received had they never worked outside the home, either because of wage inequities or because they have left the work force to be a caregiver to children or parents.

- So-called "zero years" are included in the average when the amount of benefits is being calculated for women who have taken extended periods of time away from work to fulfill caregiving responsibilities, resulting inevitably in lowered benefits.

- A divorced person age 62 and over can receive Social Security upon divorce if the former spouse is drawing Social Security, but must wait two years if the former spouse is still in the workforce. This provision was enacted to prevent couples from obtaining a divorce in order to avoid loss of spousal benefits under the earnings test. For many women without other options, this waiting period can be a time of great deprivation; and, it can be regarded as imposing a penalty on divorce. Moreover, the inequity is clear: 60 times more women than men are dependent on their divorced spouse's earnings for Social Security benefits.

- If a widow(er) becomes disabled more than seven years after the spouse's death, she/he is not eligible for disability benefits. A seven-year limit was chosen because if a previously uninsured widow or widower in good health entered the labor market after the

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spouse's death, the widow(er) would be able to develop his or her own worker eligibility for disability benefits. However, when the seven-year restriction was enacted in 1967, fewer than seven years of Social Security earnings was enough to qualify an individual for disability benefits. This is no longer true; the requirement now is 10 years.

Today, a spouse who diligently went to work and then became disabled during the seventh to 10th years following her spouse's death could be left without the benefit eligibility that would have been assured to them if they developed their disabilities within a few years after the worker's death. This inequity weighs most heavily upon older women who simply were not in the Social Security-covered workforce during their family rearing and caregiving years.

- A widow who enters or continues in the work force past age 65 receives her own delayed retirement credits for any month after age 65 that she does not receive Social Security benefits. If her own benefits are greater than her widow's benefits, she will receive delayed retirement credits. But if her widow's benefits are the greater amount, when she retires she will actually receive no delayed retirement credits whatsoever. Therefore her benefits could be identical to those she would have received if she had never entered the work force, or had retired at an earlier age.

- Women who have devoted most of their adult lives to caregiving are not treated differently than long-term wage-earners when applying the earnings test. In fact, a women in her early sixties who, because she devoted herself to caregiving in earlier years, has no earnings record, may try to work in order to achieve some small savings to be used for her support in later years. In these cases, if the earnings test is applied, she is danger of losing a portion of her savings.

- Social Security does not provide spouse benefits to spouses under the age of 62 who are caring for a beneficiary disabled enough to need aid and attendance. In contrast, if an adult disabled child who is receiving benefits needs attendant care, benefits are paid to a mother providing that care regardless of her age.

file social security / Women

SOCIAL SECURITY AND WOMEN

STRENGTHENING SOCIAL SECURITY IS PARTICULARLY IMPORTANT FOR WOMEN:

- **Most Social Security Recipients Are Women.** Women represent 60 percent of all aged Social Security recipients. Women are 72 percent of all beneficiaries age 85 and above.

- **Elderly Unmarried Women Get More Than Half Their Income from Social Security.** Unmarried women -- including widows -- age 65 and over get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.

- **Without Social Security, the Poverty Rate Among Elderly Women Would Be Over 50 Percent.** The poverty rate among elderly women is 13.6 percent. Without Social Security it would be 53.1 percent. (For men the rate is 6.8 percent, without Social Security it would be 40.8 percent).

- **Poverty Rates Among Unmarried Elderly Women Remain High.** While the overall elderly poverty rate has fallen by two-thirds from 35.2 percent in 1959 to 10.5 percent in 1997, poverty rates among unmarried women remain high -- 18.7 percent for widows and 19.9 percent for divorced women.

THE CURRENT SOCIAL SECURITY SYSTEM HAS IMPORTANT FEATURES THAT PROTECT WOMEN:

- **Social Security Provides an Inflation-Protected Benefit That Lasts as Long as You Live.** Because women tend to live longer than men (life expectancy at age 65 is 19.2 years for women and 15.7 years for men), they are in greater danger of outliving their other sources of retirement income, but it is impossible to outlive your Social Security benefit.

- **The Progressive Benefit Formula Provides a Higher Replacement Rate for Workers with Lower Earnings.** Since women tend to have lower earnings than men, they receive benefits that are a higher fraction of their lifetime earnings.

- **Social Security Provides Extra Benefits to Spouses with Low Lifetime Earnings.** Women are more likely than men to take time out of the labor force for child rearing, and on average have lower earnings when they work than men do. This means that the Social Security benefit they are entitled to based on their own earnings history can be small. But Social Security provides a spousal benefit that helps many women, even if they did not work at all. A spouse receives the larger of the benefit she is entitled to based on her own earnings, and one-half of the benefit received by her husband.

- **Social Security Provides Benefits for Widows.** Social Security pays an aged widow a benefit based on either her earnings or the earnings of her deceased spouse, which ever is higher. And Social Security provides benefits to parents of children under 16 if the other parent is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as parents.

- **Social Security Provides Benefits to Parents.** Social Security provides benefits to spouses c any age who care for children under 16 if the worker is retired, becomes disabled or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

HOW SOME SOCIAL SECURITY REFORM OPTIONS IMPACT WOMEN

Increasing the Number of Computation Years

- Currently, Social Security benefits are calculated using a formula that averages the highest 35 years of earnings during a worker's career. If a retiree had fewer than 35 years in the workforce, the benefit formula averages in zeros for the missing years.

- Many reform proposals recommend increasing the number of computation years to 38 years. By introducing more years with zero or low earnings into the benefit formula, this change would reduce benefits by an average of 3 percent. The reduction would be smaller for workers with more than 35 years of work since they would be able to include non-zero years in the formula.

- Women are more likely to have years with low or zero earnings in the proposed additional three years. SSA actuaries estimate that for those retiring in 2020, 29 percent of women would have 38 years of covered employment compared with 57 percent of men.

- However, the SSA actuaries calculate that the average benefit reduction for women from this proposal would be only a few tenths of one percent more than that for men. Even in 2020, half of women are expected to have their benefits determined by their husband's earnings rather than by their own. Many of the other half, those receiving their own retirement benefit only, have earnings histories more similar to those of men.

Allowing Dependent Care Drop-out Years in the Benefit Formula

- Some experts have proposed that years spent out of the labor force for child-rearing or other care-giving responsibilities not be counted as zeros in the benefit formula. Either the number of years in the averaging formula could be reduced by the number of care-giving years or the zero earnings for those years could be replaced by an average level of earnings when the benefit computations are made.

Reducing the Cost-of-living Adjustment

- Each year Social Security benefits are increased to reflect increases in the Consumer Price Index (CPI). Some experts believe that the CPI overstates the rate of change in the cost of living, although the size of the overstatement is a subject of dispute.

- Some Social Security reform plans reduce the annual cost-of- living increase in Social Security benefits by 0.5 percent to account for the overstatement in the CPI.

- This proposal would produce larger benefit cuts for those who live the longest, particularly women (whose life expectancy at age 65 is almost 19 years -- over three years longer than men) because the impact of slower cost-of-living increases multiplies the longer one lives.

PROPOSAL TO INCREASE WIDOW BENEFITS TO REDUCE ELDERLY POVERTY

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate among Americans age 65 and over has fallen from 35.2 percent in 1959 to 10.5 percent today. However, poverty rates among unmarried (widowed, divorced, never married) women remain high.

Poverty Rates of the Population 65 and Over
By Sex and Marital Status, 1997

	Married	Divorced	Widowed	Never Married	All
Men	4.6%	15.0%	11.4%	22.8%	7.0%
Women	4.6%	22.2%	18.0%	20.0%	13.1%

- **Declines in Social Security benefits at widowhood are an important factor in explaining why the poverty rate is higher for widows than for married women.**

  -- Married couples receive benefits based on 150 percent of the benefit of the higher earner in the couple or the sum of the benefits of the two spouses, whichever is larger.

  -- Widows and widowers receive 100 percent of the benefit of the higher earner in the couple.

  -- These two rules imply that when one spouse dies, the surviving spouse receives Social Security benefits that are between 50 percent and 67 percent of the benefit the couple was receiving when both spouses were alive.

    -- For a couple in which the lower earner was receiving a spouse benefit, the Social Security benefit falls to 67 percent of the previous benefit when one spouse dies.

    -- For a couple in which both spouses were receiving benefits based solely on their own earnings, the benefit falls to a lower level -- as low as 50 percent of the previous benefit if the two spouses had identical average annual earnings.

- **President's Framework Would Lower Poverty Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 percent to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain per pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood. One way to do this would be to provide widows with the option of receiving 75 percent of the benefit the married couple received. This new widow benefit could be capped at the benefit for the average retiree, so as to target the additional resources at low-income widows.

CENTER ON BUDGET AND POLICY PRIORITIES

To: Melanne Verveer
From: Bob and Ellen
Subject: Social Security reform and the impact on women

Date: October 2, 1998

Ellen was recently asked by someone at the White House if we had reviewed some of the materials available on the impact of Social Security reform proposals on women, and if we could pull together a few of the most useful pieces. We thought these materials might be helpful to you as well. Perhaps after the election we might have a chance to chat with you about Social Security and related issues for next year.

We've included the following:

- An excellent three-page piece on how Social Security privatization would affect women by Alicia Munnell, a leading Social Security expert.

- A fact sheet on Social Security and women prepared by the Democratic staff of the House Ways and Means Committee. (Both the Democratic staff director of the full Ways and Means Committee and the Democratic staff director of the Social Security Subcommittee of Ways and Means are women.) The fact sheet is based in part on a fact sheet from the Institute form Women's Policy Research.

- A column on Social Security and women by syndicated columnist Jane Bryant Quinn, and two articles by Social Security expert Edith Fierst, who was a member of the 1994-96 Social Security Advisory Council and is a leading expert on Social Security and women.

- Finally, in the event that you would like more comprehensive background, we are enclosing a 17-page issue brief entitled "Social Security Reform: How Might Women Fare?," prepared by the Public Policy Institute at AARP. This is the single best comprehensive background piece now available on these issues and is largely written as a straight policy analysis, not as an advocacy document.

While these pieces cover a number of issues, one feature of these pieces stands out — *consistent warnings that privatization plans that would shift a portion of payroll tax*

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revenues from the Social Security trust funds to individual accounts would hold particular dangers for women, especially divorced women and widows. The Social Security benefit structure contains a number of unique features highly beneficial to women that individual accounts are unlikely to contain. For example:

- Social Security redistributes benefits toward workers who had below-average earnings over their lives. This is beneficial to women both because they have lower average wages than men and because they spend more years out of the full-time labor force. Private accounts contain no such redistribution.

- Social Security provides benefits that last as long as you live and that are fully adjusted for inflation. This is of greatest value to those with the longest life expectancies. Since women have longer life expectancies than men, these features of Social Security are particularly valuable to them.

  By contrast, funds in individual accounts can run out before an aged person dies if the person lives to a very old age, unless the funds in the account have been used to purchase a private annuity. But private annuities are expensive. Moreover, for a private account of a given size, firms provide *lower* monthly annuity payments to women than to men because women are likely to live longer. This is not true of Social Security.

  In addition, when private firms sell joint annuities to a husband and wife, these annuities provide a *lower* monthly payment than a single annuity does, because joint annuities must pay benefits for a longer number of years (i.e., until both spouses die).

  Finally, most private annuities do not adjust monthly benefits for inflation, so the purchasing power of the monthly payments declines with each passing year. All of these problems primarily affect women.

- Women both earn less than men and tend to invest more conservatively. As a result, they would end up, on average, with significantly smaller private accounts.

- Proposals to shift a portion of the payroll tax to private accounts necessarily entail deeper cuts in Social Security benefits; under such proposals, Social Security benefits must be reduced enough to eliminate the current Social Security shortfall and then reduced further to make up for the loss of the payroll tax revenues being shifted from Social Security to private accounts. For example, proposals to shift two percentage points of the payroll tax to private accounts *double* the financial shortfall in Social Security and greatly enlarge the benefit reductions needed to close the shortfall. Most current proposals of this nature include substantial reductions in spouse benefits, survivors' benefits (which mainly go to widows), and disability benefits as part of their effort to reduce Social Security benefits enough to put Social Security in balance while shifting funds to private accounts at the same time.

- By their nature, private accounts cannot provide the protection to spouses, divorcees, and widows that Social Security does. The funds that a private account can provide to a retiree, his current spouse, and possibly to a former spouse are strictly limited to the money in that account. If money from the account goes to an ex-spouse, less is left for the retiree and his current spouse. It is a zero-sum game.

  This is not true of Social Security. Based on a single retiree's earnings record, Social Security benefits can be paid to the retiree, his current spouse, and all divorced spouses who were married to him at least 10 years and are not currently married. The level of benefits paid to the retiree, his current spouse, and one or more divorced spouses are set by law — these benefit levels do *not* affect each other. Payment of a benefit to one beneficiary does not lower the payments to other beneficiaries.

  It is very likely that replacing a portion of Social Security benefits with private accounts will result in significant reductions in income for elderly women who are divorced. Such women would probably be able to gain access to funds in their ex-spouse's individual account only by going to divorce court. Moreover, the court would be limited in what it could provide a divorced woman from her ex-husband's account by the need to leave adequate funds in the account for the husband and his current spouse.

Why Social Security Privatization Would Hurt Women

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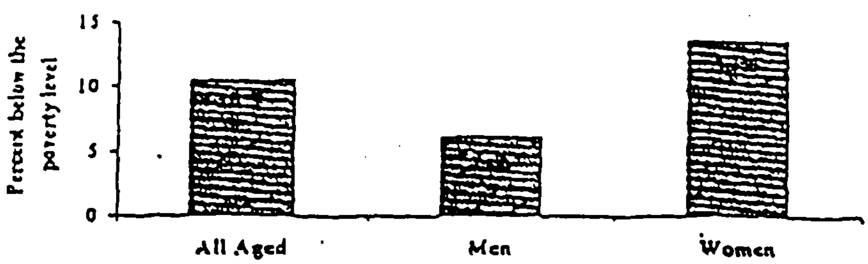
Proposals to replace some or all of the existing Social Security program with a new system of personal retirement accounts would undermine the financial security of older women. Poverty among women over 65 is already twice as severe as among men over 65 (Chart 1). The current Social Security program recognizes this problem, and its benefit structure compensates for two important characteristics of women: They are likely to have earned less than men, and they are likely to live longer. Privatization proposals currently being considered make no provision for these differences, and thus would make the poverty problem for women even worse.

Chart 1. Poverty Status of Persons 65 Years and Older by Sex, 1995

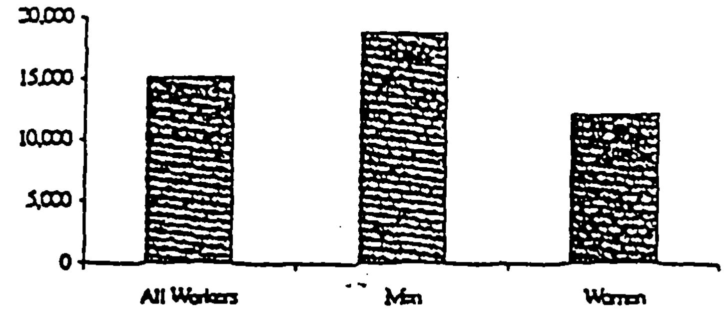


Source: U.S. House of Representatives, Committee on Ways and Means, *1998 Green Book*, May 19, 1998, Table A-6

Although the percentage of working-age women who hold jobs is much higher now than when Social Security was new (60 percent today versus 28 percent in 1940), their careers continue to be different. Women tend to spend fewer years in the workforce than men, since they interrupt their careers to care for young children or elderly parents. For the same reasons, women are also more likely to work at part-time rather than full-time jobs. And even when they work full time, women are likely to be paid less than men. As a result, median earnings for women are far below those for men (Chart 2).

A system relying even in part on personal savings accounts would perpetuate these differences into retirement. Unless special provisions were enacted, a woman's overall retirement benefit would depend on her contributions into her personal account and the earnings on those contributions. Because of lower earnings and less time in the labor force, these contributions and earnings would, on average, produce very low retirement benefits.

Chart 2. Median Earnings of Workers Covered by Social Security, 1994



Source: From the Social Security Administration website, online version of Social Security Bulletin, *Annual Statistical Supplement, 1997*, Table 4.B6, see: http://www.ssa.gov/statistics/supp97/pdf/t4b6.pdf (as of September 8, 1998).

Although Social Security's benefit rules are gender-neutral, they are particularly helpful for women. First, the progressive benefit formula provides proportionately higher benefits for low earners than for high earners. Second, for the woman who spends her career taking care of her family, Social Security provides a retirement benefit equal to 50 percent of her spouse's benefit. Third, for the homemaker who becomes divorced after at least 10 years of marriage, Social Security provides a retirement benefit based on her former spouse's benefits. Fourth, for the older woman whose husband dies, Social Security provides widow's benefits equal to 100 percent of her husband's benefits. Fifth, if a younger widow's children are getting survivors' benefits, she also receives benefits while she is caring for them and not working.

Even with more women in the labor force, these family benefits remain importan_ In 1996 the majority (63 percent) of woman beneficiaries aged 62 and older were receiving wives' or widows' benefits; 37 percent had no earnings history and were entitled only as a wife or widow; and 26 percent had a higher benefit as a wife or widow than as an earner.

In addition to providing benefits to compensate for lower lifetime earnings, Social Security has two features that compensate for the fact that women live longer than men. Life expectancy at age 65 is currently 19.2 years for women compared to 15.6 years for men (Table 1). Because Social Security pays benefits for life, it supports women who outlive their spouses. And because benefits are adjusted annually for changes in the cost of living, their buying power is protected against being eroded by inflation — a protection that increases in importance with every passing year. Without such protection, even a modest 3 percent inflation rate cuts the purchasing power of a $100 benefit to $74 after 10 years and to $55 after 20 years.

Table 1. Life Expectancy at Age 65, for Individuals Reaching 65 in Selected Years, 1997-2025

Life Expectancy (in Years)		
Year	Male	Female
1997	15.6	19.2
2005	16.0	19.5
2015	16.4	19.8
2025	16.8	20.2

Source: *1998 Green Book*, Table 1-53

With personal retirement accounts, on the other hand, benefits are not automatically converted to a lifetime annuity or protected against being diminished by inflation. If individuals receive their money in a lump sum, they risk exhausting their assets before they die — a risk that is compounded by the absence of inflation protection. In theory, annuity and inflation protection could be purchased separately, but private annuities are very expensive to purchase and inflation-adjusted annuities are nonexistent in the United States.

In short, the present Social Security system offers a range of protections — progressive benefits formula, dependents' benefits, lifetime benefits, and inflation adjustments — that are of great importance to women and are not duplicated by any of the proposals to privatize the system. These are established rights, promised by law. Women should be very reluctant to give them up for an untried system that relies on individual investments for even part of their basic retirement income.

SOCIAL SECURITY REFORM AND WOMEN
FACT SHEET

Social Security is very important for women.

Sixty percent of Social Security beneficiaries are women and Social Security is often the only 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. These patterns are not expected to change in the future.

- *Most women do not receive private pensions.* Only 38 percent of women receive employer-provided pension benefits compared to 57 percent of men. This is especially problematic for minority women who are less likely to have employer-provided pension plans than either white men, white women, or nonwhite.

- *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 more likely to work part-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 the same age group.

- *Women are more likely to spend time out of the labor force.* Twenty one percent of women, between the ages of 25-44, were unemployed in 1996 compared to only 7 percent of men. Many of these women are mothers of young children.

- *Women are more likely to live alone in their retirement years.* Retired men, who are more likely to be married, have better financial security upon retirement because they receive two Social Security benefits: one for themselves and one for their wives. Elderly women living alone receive only one benefit.

Plans to privatize Social Security could have an adverse impact on women.

Proposals which reduce Social Security's guaranteed benefits to make way for individual accounts could disproportionately hurt women--making women more vulnerable to the risk of private investments and poverty if expected returns are not realized

- *Private accounts could disadvantage women because they earn less than men.* Because private accounts are based solely on deposits into the accounts (which are strictly proportional to workers' earnings) and on the investment performance of the accounts, women would earn less (even if the market were stable) than their male counterparts from private accounts.

- *Private accounts could adversely impact women because they are more likely to work part-time and spend time out of the labor force.* Private accounts require that individuals work full time for forty years or more in order to receive the expected total value of their accumulated retirement fund. Privatization proposals, therefore, would punish women for taking time off to care for their children and family members.

- *Privatization proposals significantly reduce spousal benefits.* Because women take more time out of the workforce and earn less than men, married women are more reliant on the higher spousal benefits earned by their husbands. Privatization plans propose to cut spousal benefits by one-third, leaving women with a benefit near poverty-level.

- *Private accounts could penalize women for making different investment decisions than men.* Economists have found that women are "risk averse" or less likely to make risky investments. By investing less in riskier assets, women and low wage workers also benefit less from the *potential* rates of return that stocks could generate. Privatization proposals would punish women for making prudent financial decisions!

- *Private accounts could give women smaller retirement checks even if they have the same work history as men.* Annuity companies would adjust women's retirement benefits downward since women live longer than men.

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.

- *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.

- *Social Security lasts as long as you live.* Women live an average of 7 years longer than men. Whereas Social Security provides monthly benefits for as long as a retired person lives, private accounts place women in danger of outliving their accumulated funds.

Prepared by the Democratic Staff of the Committee on Ways and Means, August 6, 1998.

Washington Post
Washington, DC
Februray 8, 1998

JANE BRYANT QUINN

Women, Be Wary of Social Security Change

In his State of the Union address, President Clinton said he would use any budget surplus first to save the Social Security system.

But women, in particular, need to take a hard look at any "reforms" Congress proposes.

On average, women gain relatively more than men from Social Security today. That's because it favors lower earners and dependents, most of whom are women and children. Some of the reforms would erase this advantage.

Workers like to calculate how much more their money might earn if invested in stocks rather than paid in Social Security taxes. But they often forget that their taxes buy other benefits, too.

For example, when workers die, their spouses and young children are eligible for monthly benefits—so Social Security provides life insurance.

Retirees who had low or spotty earnings during their working years (usually women), and don't get much personally out of Social Security, can collect a higher benefit through their spouse's account. So there's retirement-income insurance, too.

The program includes divorce insurance. The divorced can collect on an ex-spouse's account if the marriage lasted at least 10 years. So a divorced, single woman isn't abandoned financially in old age.

These payments to a former spouse don't take one penny away from the worker or current spouse. Everyone has a safety net.

It even includes inflation insurance. Your check rises annually with the inflation rate.

These would be costly insurance plans if workers had to buy them from private insurers. Without them, dependents and ex-dependents would be at risk.

Many of the reform proposals would cast off or slash the social insurance plans and use part or all of the Social Security tax for some form of mandatory 401(k).

Money would be diverted from your paycheck into a personal account. You could decide where to invest it. Your standard of living in retirement would depend on how large this nest egg grew.

How would life differ for women under these privatization proposals? Each plan is a little different. But the government's General Accounting Office has provided some broad answers in a study requested by Rep. Barbara B. Kennelly (D-Conn.). Said the GAO:

- Benefit payments: Women on average earn less than men, so less money would go into their investment accounts. Social Security helps low earners by raising their benefits a bit. That wouldn't happen in private accounts. Those accounts might yield more for your money than Social Security does, but the gap between men's and women's retirement income would grow.
- Investment returns: Women tend to be more conservative investors than men. If stocks did poorly for a long period of time, their conservatism would pay. But if stocks did well, their cautious investing would leave them even further behind men's retirement incomes.
- Longevity: Women with the same earnings and investments as men could wind up with lower monthly incomes because they tend to live longer. They would have to draw less from their accounts to be sure the money lasted a lifetime.

In the Social Security program, people who had equal incomes get equal monthly benefits for life.

You also could get equal payments from a private plan. The government might decree that, if you bought a lifetime annuity, you would be charged a unisex rate obtained by averaging male and female life spans.

But men wouldn't like that. Their incomes would be lower than if they paid the "male" rate.

- Divorce: None of the plans provide monthly payments to an ex-spouse. My crystal ball sees more impoverished divorcees.

Some reformers would split the investment account at divorce. That helps the unemployed spouse at the worker's expense but has no guarantee that spouse will get the same income that Social Security now pays.

- Spouse protection: When a worker dies today, a spouse can get 100 percent of the worker's monthly Social Security benefit for life.

With private savings, the retired worker can take money as needed, in a lump sum or as a lifetime annuity. So spouses get no income guarantees.

A private investment account might give a spouse more than Social Security pays. It also might give less. That depends on life's tragedies, how the money is invested and how the stock market behaves.

We all need private savings. But dependents, in particular, also need a Social Security guarantee.

ALICE COULD STILL LIVE HERE — WITH SOCIAL SECURITY

By Edith U. Fierst

Recently I watched an old movie, "Alice Doesn't Live Here Any More," a very popular film when it came out in 1974. Readers may remember it as the story of a 35-year old woman whose husband was killed in an accident, leaving her without income. She sold her home and its contents and with her son, Tommy (then perhaps 11 years old), began to travel drearily around the country seeking work. What she found were low-paying and, in some cases, seedy jobs. Eventually she was saved by a new man, played by Kris Kristofferson.

When the movie first came out, it was seen as raising important feminist issues. Was it true that a young woman, unexpectedly widowed, couldn't make it without a man to support her, as the movie suggested? What should women do to avoid a catastrophe like hers?

What I don't remember is any discussion about the Social Security that would have supported Alice if only she had applied. Why didn't she? Obviously it would have spoiled the plot, but its benefits would have made life much better for her and her son, at least until Kris Kristofferson came along. Tommy would have been eligible for monthly payments until he reached 18, or if he was still in school, until he was 20. If he was disabled, he would have been entitled to benefits for life. In addition, Alice would have been eligible to receive benefits for herself as a widowed parent until Tommy reached age 16 or, if he was disabled, until he recovered from his disability.

If Alice's husband had been an average earner, Alice and Tommy were respectively 35 and 11, and this was taking place in 1998, their combined monthly Social Security benefits would be $1,454. (If Alice earned more than $9,120 this year, her benefit would be reduced by half of her earnings above that amount. If she earned more than about $15,000, her benefit would be eliminated, but her son would still get $727 a month.)

When Tommy reached his 16th birthday in 2003, Alice would have to become self-supporting until she reached age 60. But she would then be eligible for a widow's benefit of $1,908 a month.

If Alice were disabled herself, she would be eligible for widow's benefits at age 50 rather than 60. Moreover, Alice could increase her benefits in old age by waiting until normal retirement age — now 65 — before starting to collect her widow's benefit (or by earning enough to qualify for a benefit larger than her widow's benefit).

These Social Security benefits would have enabled Alice to stay in her home rather than sell it and to keep Tommy in his familiar school and neighborhood instead of, as in the movie, leaving him alone in lonely motel rooms while she hunted for jobs and worked. When she was ready to enter the workforce, Social Security would have supported her and Tommy while she trained or looked for work.

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Some people argue today that women like Alice would be better off if instead of Social Security, her husband had established a privatized account. A look at the figures shows how unlikely it is that a privatized system would be better for her. Social Security's actuaries estimate that to obtain equivalent income to what Social Security would provide for her and Tommy, she would need to receive a lump sum of about $150,000. If her husband had been three years older than she and had gone to college before entering the workforce, he would have worked for 17 years before his death. If he had average earnings and saved five percent of them in a privatized account, it is highly unlikely his individual account would have accumulated anything close to $150,000. In addition, after his death, the much touted magic of compound interest wouldn't help much because interest is payable only on money that is not spent, and Alice and her son would have begun using the money for their support during the period right after she became a widow.

Recently on a CBS news program, a woman in Galveston, Texas, in a public employment job not covered by Social Security, described the nest egg she had been able to acquire in a privatized account established as an alternative to Social Security. She thought she was better off than under Social Security. But her next egg totaled $85,000, only a little more than *half* the present value of the benefits to which Alice would be entitled. If she became a widow with children — clearly a possibility at the age she appeared to be — or if she became disabled, her nest egg could not offer her anything close to what Social Security would have provided.

To be sure, there are circumstances in which privatization might be better for some individuals, such as those who never marry, have children, or become disabled. They could acquire a significant savings account, provided their investments are well-chosen, and the market does not go down when they are ready to retire. But who can be sure ahead of time he or she will have such a life? Who would risk their security on the guess that they will? Perhaps the same kind of person who does not buy fire insurance because it seems unlikely the house will burn down.

As Americans looking to the future, do we want to abandon or curtail Social Security for privatized accounts in the hope some of us will strike it rich? I'd like to see everyone become rich. But I'm not prepared to sacrifice the guaranteed protection for widows, surviving children, disabled people and people who live until a very old age, among others — as well as people who don't know how to invest wisely — so some of us can grow wealthier. Why not let those who can afford it save more on their own, but keep the vital safety net Social Security provides? None of us knows for sure when we will need it badly.

Edith U. Fierst was a member of the 1994-1996 Advisory Council on Social Security.

WOMEN AND A PRIVATIZED RETIREMENT

By Edith U. Fierst

When I was in my teens, a scandal in our small suburban town shocked the community. A husband of 20 years, father of four children, one of whom was my friend, a man deemed a pillar of society, walked out on his wife to marry another woman. Today a departure like his has become more commonplace, but when I was in high school, it didn't happen. Everyone, including the teenagers talked about it. But one subject we never considered was what the wife would live on as she approached old age in the years to come. She was short and fat, well into her fifties, unlikely to marry again, and a consummate housewife, unequipped to earn a living. Would the husband pay her adequate alimony? Suppose he died and the alimony expired, what would she then do?

Today many people, especially young women planning their lives, ask that question. One important answer is Social Security. Sometimes it is the only answer. Under current law, Social Security pays:

- *A spouse benefit* to a married woman or one divorced after 10 or more years of marriage. This benefit equals the difference between the Social Security benefit she earned herself and an amount equal to *half* of her husband's benefit if it is larger. The spouse benefit is payable while the husband lives.

- *A survivor benefit* to a widow or widower, including one who was divorced after 10 years of marriage. This benefit is the difference between the benefit she earned herself and the *full* amount of the worker's benefit, if it is larger.

Both spouse and survivor benefits are paid from the Social Security trust fund to those eligible. These benefits are guaranteed by law. Such benefits now provide a basic minimum income for millions of elderly women, enabling them to live with self-respect independent of their children. These benefits also provide invaluable peace of mind to younger women who know they can count on these benefits. To the extent Social Security were to be privatized, the financial independence and peace of mind that spouse and survivor benefits now provide to these women could greatly diminish.

Under privatization, payroll taxes would be directed into private individual accounts instead of into the trust fund. Control of the private accounts would vest in the worker who paid the tax. Any payment to the wife would come from payments that would otherwise go the worker, giving him an incentive to resist or limit sharing with her.

This would change the psychology of the financial relationship of the couple. Today no one objects to Social Security payments to a spouse, even if estranged or divorced, since the benefits are paid by the trust fund and *there is no reduction of benefits* *to the retiree himself.* Any woman who has been married 10 years or more is entitled to a spouse or survivor benefit based on marriage. Indeed, the earnings record of a much-married man could be the basis for benefits to several former spouses to whom he was married for 10 or more years, as well as to a current wife to whom he need not have been married that long. (Note: A woman may not collect benefits based on more than one marriage. Her spouse and survivor benefits are based on the earnings of the husband with the highest earnings, except that spouse benefits must be based on the earnings of her current husband if she married him before reaching age 60.)

To the extent benefits were privatized, payments to a spouse could depend on the willingness of the worker to share the funds in his personal account, as well as on the success of his investments. Since any benefits a current or former spouse received would come from his account, a retired worker would have an incentive to resist or limit such sharing. To be sure, under some partial privatization proposals, account owners would be required to purchase survivor annuities for their spouses unless the spouses waive their right to such benefits. Except for such limited requirements, however, privatized benefits would generally be under the unrestricted control of the retired worker, who would have complete freedom over how to spend them.

Payments to a spouse from the privatized portion of Social Security would compete with other uses the owner of the account might find necessary or appropriate. For example, the owner of a privatized account with good intentions might be forced to spend his savings on nursing home care for himself or his spouse. Similarly, the account-holder might buy a small business which later failed, leaving both husband and wife without adequate retirement funds. Or, as in the case of the family I knew in high school, the man might leave for another woman after many years in which his wife thought their marriage was happy, taking his money with him.

What could she do to assure he would help support her in old age, especially if she outlives him? One possibility is to seek assistance from the divorce courts, on the likely assumption that they would divide privatized funds as they now do other marital assets. To assure success, she might conclude she had to act before her husband retired. While divorce courts can award alimony whether the worker is working or retired, there may not be enough funds left after he retires and begins to spend some of the savings in his privatized account for him to be able purchase an adequate survivor annuity for his spouse. For this reason, privatization could even provide an incentive for some women to consider seeking a divorce. I can imagine a woman faced with a terrible dilemma — whether to risk eventual poverty or to act early to gain access to her husband's account before it is spent. Afterwards, it might be too late; there might be too little left for the court to divide.

Even divorce courts would not give women a benefit based on the lifetime earnings of their husbands. Divorce courts generally have jurisdiction to give the wife a share only of what was earned *during* marriage. By contrast, under current law, a wife's Social Security benefits are based on her husband's lifetime earnings, including those earned *before or after* their marriage.

Proponents of privatization sometimes argue that with women working more outside the home, the need for spouse and survivor benefits is diminishing and may soon vanish. The facts are otherwise. The Social Security actuaries estimate that among married women retiring in 2015, approximately 40 percent will continue to qualify for at least a partial spouse benefit.

Moreover, since few women earn as much or more over a lifetime as their husbands do, more than 80 percent of widows will continue to qualify for survivor benefits. As noted above, the benefits equal the husband's entire Social Security benefit. These widows will have earned less at their jobs, perhaps because their attention was divided during the years they were raising children, or because they chose to stay home for extended periods to bring up children, care for elderly parents, or serve in their community. All of these are life-style choices that would be at some risk under privatization.

Another major issue is how to be sure benefits will last a lifetime. The only way is for monthly benefits to be paid for life, as Social Security benefits are. By contrast, most privatization plans allow the retiree access to much or all of his savings at retirement. This means that many people may encounter difficulty spreading their retirement incomes over their and their spouse's lifetimes, whatever their intentions. At age 65, men have an average life expectancy of 15.3 years (to over age 80) and women an average of 19.1 years (to over age 84).

Those who want to protect themselves and their spouses against outliving their benefits could purchase private annuities, but private annuities are expensive. Experience has shown that those who buy them tend to live longer than the average for the population as a whole. Insurance companies and other private purveyors of lifetime annuities charge high prices to compensate for the likelihood of longer lives by their customers and to enable them to earn a profit.

Moreover, unless federal regulations preclude differential charges for annuities by sex, companies will charge women more for annuities or give them lower monthly annuity benefits, since on average women live to older ages than men.

Without annuities, what will keep elderly widows from destitution? Perhaps SSI, welfare for the elderly, which currently supplements the income of the elderly poor. But SSI raises the income of elderly individuals only to $494 a month for those with assets of less than $2,000 (excluding certain items such as a home, a car and prepaid funeral expenses). This is well below the poverty line.

Social Security not only pays a benefit every month for life but also provides an annual cost-of-living supplement to keep up with inflation. Because of the COLA,

A Way to Improve Life for Elderly Widows

One change that has been proposed could make life more secure for elderly widows, who are the poorest component of the elderly population. More than 20 percent of them, including divorced widows, are below the poverty line. This proposal also would give women who have earned their own benefits a greater return for their taxes.

Under the proposal, survivor benefits would be increased from half to three-quarters of the husband and wife's combined benefits. For example, if husband and wife each had earned a benefit of $1,000 a month, under current law the survivor benefit would be $1,000 a month; under this proposal, it would rise to $1,500. If only one partner had worked, the benefit would remain at $1,000.

The beneficiaries of this change would be couples in which both had worked, especially if their earnings had been nearly the same. Researchers at the Social Security Administration estimate that the incomes of about one of every six poor widows who came on the rolls in 1990 would be raised above the poverty level by such a change.

The cost of this modification could be paid for mostly by reducing the spouse benefit from one-half to one-third of the husband's benefit. Of the 40 percent of married women who are expected to qualify for spouse benefits in 2015, many earn more than a third of their husbands' benefits and would keep their worker benefits. Those who did not would still get at least one-third of their husband's benefits. Over time, as women earn higher benefits themselves, such a reduction would affect fewer of them.

Further, most couples in which the wife has earned benefits less than one-third of her husband's are relatively affluent. This is what enabled them to work so little outside the home. The poverty rate among married couples, whether they are of working or retirement age, is less than six percent, while that for widows is more than three times as high.

Social Security never loses its purchasing power. Nothing similar is available in the private market.

The present discussion of privatization has arisen because Social Security is expected to have a shortfall in the 75 years ahead. This shortfall can be solved with modifications in Social Security, such as raising the retirement age modestly, bringing state and local employees under mandatory coverage, and taxing benefits in the same manner as other pension payments are taxed. Such changes are what we should be debating, not proposals that would significantly reduce the security of elderly women.

ISSUE BRIEF

SOCIAL SECURITY REFORM: HOW MIGHT WOMEN FARE?

Highlights

Trends in female labor force participation rates, female earnings as a percent of male earnings, and women's pension coverage all point to improvements in the economic status of women that have taken place in recent decades. In the years ahead, more women will be receiving Social Security and pension benefits based on their own work histories and, in the aggregate, are likely to have higher real incomes in retirement than women who are retired today.

Despite these positive trends, many millions of women will receive low or no private pension benefits and will remain heavily dependent upon Social Security for retirement-income support. Thus, how Social Security treats women, and how women might fare under various proposals to restore long-term solvency to the Social Security system are matters of critical concern to women.

This issue brief examines the potential impact on women of a number of proposed Social Security reforms. Some of the changes would maintain the system's social insurance principles, while others call for a privatized system that would allow workers to invest all or part of their Social Security contributions in the private market.

Privatization, even partial privatization, poses big risks, especially for persons with limited resources. How the market has performed historically, for example, cannot be counted on to apply to specific groups of workers or to the time that a particular cohort retires. The market does not just go up, and declines can be swift, deep, and prolonged. Low-income women would have less to invest and would be less able than higher-income women to weather market downturns.

Women appear to be more conservative investors than men. Under a privatized system, two investors with identical earnings but different investment philosophies could end up with very different retirement benefits. Women, in such instances, could expect the lower accumulations.

Because Social Security is gender neutral, men and women with identical work histories and earnings can expect identical benefits. In the private market, however, sellers of annuities can take into consideration women's longer life expectancy. Thus, the same accumulation may purchase lower monthly benefits for women than for men.

Social Security provides benefits to the spouses and survivors of workers eligible for Social Security. Not all privatization proposals would require account owners to annuitize their accumulations. This could leave married women and survivors with no assurance of any income from their husbands' retirement investments.

Divorced women are entitled to Social Security benefits based on the earnings of their former husbands, if they had been married for at least ten years. Under some proposed changes to Social Security, such women would apparently have to depend on the vagaries of the divorce court for any share of the accumulations in their husbands' privatized accounts.

Other more modest changes to Social Security have also been proposed, and some of them could adversely affect women. For example, because women's average work histories remain much shorter than men's, they would find it hard to meet an increase in the number of years included in the benefit computation formula or a higher normal retirement age.

AARP

Introduction

Women's rising labor force participation rates, increasing earnings, and expanded pension coverage (Tables 1 to 4) point to a brighter old age for millions of women, who at one time could count on little in the way of retirement income beyond a Social Security benefit based on the earnings of their husbands. Growing numbers of women in the future will receive Social Security and private pension benefits as a result of their own work histories, and many will be able to supplement those benefits with income from savings and investments.

Table 1
Labor Force Participation Rates of Women, Selected Ages: 1950-1996 (in percent)

Year	16+	24-34	35-44	45-54	55-64
1950	33.9	34.0	39.1	37.9	27.0
1955	35.7	34.9	41.6	43.8	32.5
1960	37.7	36.0	43.4	49.9	37.2
1965	39.3	38.5	46.1	50.9	41.1
1970	43.3	45.0	51.1	54.4	43.0
1975	46.3	54.9	55.8	54.6	40.9
1980	51.5	65.5	65.5	59.9	41.3
1985	54.5	70.9	71.8	64.4	42.0
1990	57.5	73.6	76.5	71.2	45.3
1995	58.9	74.9	77.2	74.4	49.2
1996	59.3	75.2	77.5	75.4	49.6

Source: U.S. Department of Labor 1985, 1986, 1991, 1996, and 1997.

Despite these developments, the retirement income security of millions of women in the near- and longer-term future is by no means guaranteed.[1] Women with lengthy work careers and jobs with high wages and pension coverage may look forward to a financially secure old age, but even they could find themselves at risk of outliving their assets and watching the value of their private pensions dwindle from even moderate inflation or a stay in a nursing home. Moreover, although women's employment prospects have brightened considerably over the past several decades, their labor force attachment and work experiences have yet to measure up to men's, and it is on work patterns more typical of men that much of the country's retirement-income system is based.

Women are still more likely than men to be out of the labor force at any age, to experience discontinuous work histories, and to be employed part time--all of which have implications for their ability to accrue pension credits and save for retirement.

Table 2
Median Earnings of Full-time Working Women: 1970-1996* (in 1996 dollars)

Year	Number with Earnings (in 000s)	Annual Earnings
1970	25,926	$15,576
1980	34,727	$17,570
1990	42,940	$20,284
1996	46,944	$21,185

*Civilian workers only prior to 1989.
Source: U.S. Census Bureau 1998.

Government efforts to encourage people to assume more responsibility for their own well-being in old age notwithstanding, Social Security will continue to provide much of the

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[1] The same can be said of men, of course. However, as discussed in this paper, older women are, and most likely will remain, more vulnerable financially than men. For this reason, and because the number of vulnerable older women far exceeds the number of vulnerable men, this paper focuses on women.

retirement income on which millions of women depend. Hence, how Social Security treats women, and how women might fare under various proposals designed to restore long-term solvency to the Social Security system, are matters of critical concern to women. This issue brief examines the importance of Social Security to women now and into the 21st century, especially with respect to their continued economic vulnerability. It also addresses issues of benefit adequacy and equity for women and assesses how some of the more prominent proposed changes to the Social Security system might affect them.

Table 3
Female Earnings as Percent of Male Earnings: 1970-1996 (median earnings of full-time workers)

Year	Annual	Weekly
1970	59.4	62.3
1980	60.2	64.4
1990	71.6	71.8
1995	71.4	75.4
1996	73.8	75.0

*Year-round workers.
Source: Institute for Women's Policy Research (IWPR) 1997; U.S. Department of Commerce 1998; U.S. Department of Labor 1988.

Income Security in Old Age

Not only do over 90 percent of women aged 65 or older collect Social Security benefits, but Social Security accounts for over half the income of nonmarried women in this age group and 38 percent of the income of married couples. In fact, Social Security actually contributed more to household income for couples and nonmarried women in 1994 than it did in 1976 (Grad and Foster 1979: Table 28; Grad 1996: Tables I.8 and VII.2). Social Security plays almost as important a role in the financial well-being of nonmarried older men. (See Figure 1.)

Social Security was designed to help protect people against income loss resulting from events--retirement and disability, in particular--over which they have little or no control. While never intended to serve as the sole source of retirement income, it is just that for approximately 2.7 million nonmarried elderly women and nearly three-fourths of a million aged married couples (Grad 1996: Table VI.B.2).

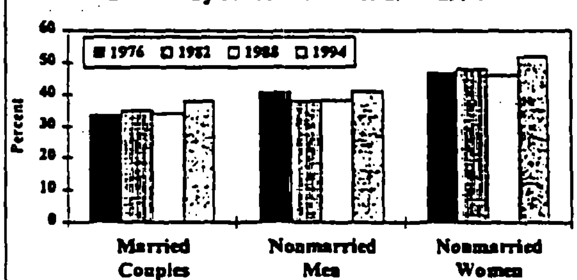
Table 4
Women's Pension Coverage Rates, Full-time Private Wage and Salary Workers: 1972-1993 (in percent)

Year	Coverage
1972	38
1979	40
1983	42
1988	44
1993	48

Source: U.S. Department of Labor et al. 1994 Table B16.

Fewer than one in five (18 percent) elderly women were receiving income from private pensions or annuities in 1994. A much higher proportion (two-thirds) reported owning assets, but median asset income in 1994 was barely over $1,300 for all aged recipients; among nonmarried women, the median was less than $900 (ibid.: Table V.D.1).

Figure 1
Social Security As a Share of Aggregate Income by Marital Status: 1976-1994



Source: Grad and Foster 1979; Grad 1984, 1990, and 1996.

Subject to numerous uncertainties under the best of circumstances, Social Security projections are especially problematic in light of recently proposed reform measures. As noted above, in the future, women will have greater access to sources of retirement income in addition to Social Security, as their behavior continues to undergo changes. For example, as Ross (1997) notes, women nearing retirement age--55 to 64 years old--had a labor force participation rate of 41 percent 30 years ago, when they were 25 to 34. Women who are between the ages of 25 and 34 today, in contrast, have a participation rate of 75 percent. For this as well as other reasons, seven in ten baby boomer females in 2030 are expected to have pensions and assets in addition to Social Security, according to simulations by Lewin-VHI (AARP 1994: Table 10). Only about one in 25 female boomers is likely to have income from only one of these sources.[2]

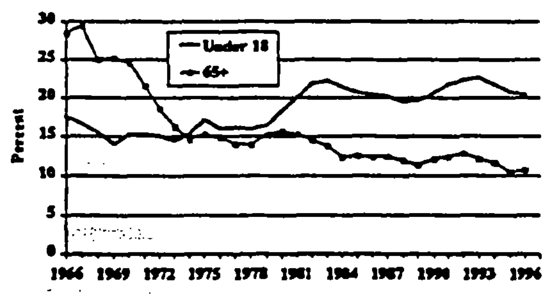
Despite these developments, reliance on Social Security may not lessen as dramatically as women's changing roles might suggest, at least not for several decades. Pension coverage rates have stagnated since the 1970s, and although more future retirees will receive pensions, the amounts could be small. This is because the average benefits to shorter tenured workers "who would not have received pensions previously" may be low (U.S. General Accounting Office 1997: 7).

In addition, efforts to foster personal savings "appear to have had only marginal success" (U.S. General Accounting Office 1997: 7). The temptation to utilize lump-sum pension distributions upon job change may be overwhelming for many workers (see, e.g., Korczyk 1996a and 1996b), leaving future retirees with less retirement income than pension coverage rates might imply. When offered the chance, workers are apparently far more likely to opt for lump-sum payouts, even at retirement (Salisbury 1997), when a lifetime annuity might be more appropriate. At least one set of simulations warns that Social Security's contribution to aggregate income could change only modestly, especially for nonmarried women through 2030 (Zedlewski, et al. 1989), a conclusion echoed by Lewin-VHI for widowed females (AARP 1994).[3]

Vulnerability in Old Age

Social Security has been a major contributor to the marked decline in poverty among elderly persons in recent decades. In 1966, nearly 29 percent of persons aged 65 and older had incomes below the official poverty level, but by 1996, that figure had fallen to just 10.8 percent, partly the result of substantial Social Security benefit increases in the 1970s and automatic cost-of-living increases as of 1975. The overall poverty rate for the older population is now below that for the population under the age of 18 (Lamison-White 1997; see Figure 2).

Figure 2
Poverty Rates of Persons Under Age 18 and 65+: 1966-1996



Source: Lamison-White 1997.

The loss of Social Security benefits would not put every older person in the poorhouse, but millions would find themselves strapped

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[2] In 1994, only 5 percent of aged married couples and 1 percent of nonmarried women received three or more retirement benefits (Grad 1996: Table I.6).

[3] Zedlewski et al., for example, estimate that Social Security will account for 68 percent of the aggregate income of nonmarried women in 2030, while Lewin-VHI projects that it will account for almost 49 percent of the income of widows.

or financially at risk without them. Unpublished calculations by AARP's Public Policy Institute indicate that the 1995 poverty rate for persons 65 and older would have risen from 10.5 percent to 47.8 percent if their Social Security benefits had been eliminated. Without Social Security, the poverty rate of older women—who predominate among the aged poor—would have been 52.9 percent in 1995, rather than 13.6 percent.

Aggregate poverty rates obscure significant differences by subgroups that make it clear that, as Choudhury and Leonesio (1997: 1) put it, "the gains that have accrued to the aged in aggregate have not been equally shared by men and women." So, for example, older women have a higher poverty rate than older men; nonmarried women are far worse off than married women; minority women have much higher rates of poverty than white women (see Table 5); very old women (85-plus) are at greater risk of being poor than women in their 60s.

Women's Eligibility for Social Security[4]

Women can receive Social Security benefits in old age in one of essentially three ways[5]—based on their own work histories and earnings records, based on the work histories and earnings records of their husbands, or based on a combination of the two. Women with the requisite Social Security coverage (a minimum of 40 quarters for workers reaching retirement age today) are entitled to a full retired worker benefit at the age of 65. Actuarially reduced benefits are available to qualified workers as early as age 62.

If, upon reaching retirement age, a woman is married or had been married for at least ten years before becoming divorced, she may be entitled to spousal benefits that at their maximum are equal to half of her husband's or ex-husband's retired worker benefit.[6]

Women receiving spousal benefits may have worked during their marriages, but not enough to qualify for benefits of their own that exceed their spousal benefits. Women lacking 40 quarters of coverage are entitled only to spousal benefits.[7]

Table 5
Poverty Rates of Selected Groups: 1996
(in percent)

Persons 65 and older	10.8
Persons under age 18	20.5
Women 65 and older	13.6
Men 65 and older	6.8
White women 65 and older	12.1
Black women 65 and older	29.8
Hispanic women 65 and older	27.7
Married women 65 and older	5.2
Nonmarried women 65 and older*	19.5

*Includes separated women.
Source: Lamison-White 1997, Table 1; unpublished AARP-Public Policy Institute tabulations of March 1997 Current Population Survey.

More likely today, married women will have worked enough to qualify for retired

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[4] For ease of reading and because it is concerned primarily with women, this issue brief will generally refer only to women even when the observations apply to men as well. Social Security, it should be stressed, is gender neutral.

[5] Under certain circumstances, workers may also qualify for benefits at younger ages, e.g., if they become disabled. A very few Social Security beneficiaries are receiving special age-72 benefits or benefits as parents; however, these beneficiaries are not treated in this issue brief.

[6] Early (pre-65) collection of benefits results in an actuarial reduction. The full 50-percent spousal benefit is received only when both spouses are 65 or older at the time of receipt.

[7] Spousal benefits are sometimes referred to as dependents' benefits, a term that has come to have a pejorative connotation as the concept of marriage as an economic partnership has achieved greater currency.

worker benefits of their own but, upon reaching retirement age, find that their own benefits amount to less than half of their spouses'. Technically, these women—who are "dually entitled"—receive their own retired worker benefits plus an auxiliary benefit that tops their worker benefits up to what they are otherwise entitled to as spouses. In other words, they do, in fact, collect benefits based on their earnings, but this technicality is lost on many married women, who are only too aware that when it comes to old age and survivors' benefits, they are no better off than if they had never worked for pay.[8] In practical terms, dually entitled beneficiaries get the higher of two benefit amounts; they cannot collect both full benefits.

When spousal benefits were introduced in 1939, relatively few married women worked outside the home, although even then it was assumed that "most wives, in the long run, [would] build up wage credits on their own employment" (Chater cited in U.S. General Accounting Office 1996: 64), as indeed they have. Today, the majority of adult women under the age of 65 are employed outside the home, regardless of marital status or the presence of children. Even the mothers of young children are likely to be employed. As of 1996, nearly 58 percent of married women with a child under the age of three were in the labor force, over 2.5 times the figure 30 years earlier (Ferber 1993 and U.S. Depart-ment of Labor 1998).

The figures in Table 6 highlight how women's changing roles have been reflected in their Social Security benefits, as a growing proportion now collects worker benefits. Over 62 percent of women qualified for worker benefits in 1995, up from 43 percent in 1960. That women are increasingly working long enough to qualify for retired worker benefits of their own is a big plus in the event of divorce.

Table 6
Women Social Security Beneficiaries Aged 62 or Older, by Type of Entitlement: 1960–1995 (in percent)

Entitlement	1960	1980	1995
Worker	43.3	56.9	62.1
Worker only	38.7	41.0	36.2
Dually entitled	4.6	15.9	25.9
Wife/widow only	56.7	43.1	37.9

Source: Social Security Administration 1996: Table 5A.14.

Women today, it is clear, are far less likely to be "dependent" on a spouse, at least as far as Social Security is concerned. This is evident in the decline in wife/widow-only recipients from almost 57 percent in 1960 to just under 38 percent in 1995.

Despite women's growing labor force attachment, "there are still," as Ferber (1993: 43) states, "millions of women who have been full-time homemakers most of their lives, although their number has been declining rapidly. There are many more women who have been full-time or part-time homemakers intermittently" (Ferber 1993: 43). Thus, women's gains have come mainly in the form of dual entitlement (see Table 6). If these women's own worker benefits had been higher than half of their husband's, they would be classified as "worker only,"[9] a figure that was actually lower in 1995 than it was in 1960, perhaps as a result of more low-wage women entering the labor force and accumulating sufficient quarters of coverage to qualify for worker benefits. Instead, these

[8] If they lack the requisite work history, however, married women are not eligible for disability benefits based on their husbands' work records, so employment does provide them a benefit that marriage alone does not.

[9] This designation may be confusing because the beneficiaries in question would have qualified for spousal benefits if they were not entitled to retired worker benefits that are greater than the spousal benefits.

dually entitled women do better with what is, in essence, the spousal benefit.

At widowhood--and most women outlive their husbands--survivors either collect their spouses' full benefits or continue to receive their own retired worker benefits, whichever are greater. They cease to get the 50-percent spousal benefit. The same holds true for divorced women. If their ex-husbands die, they, too, may be eligible for higher survivors' benefits.

Receipt of benefits based on husbands' work records and earnings may continue into the foreseeable future, in spite of women's growing labor force attachment. Sandell and Iams (1996) estimate that women's changing work patterns and earnings will result in higher income for couples, but little improvement for most widows. A growing proportion of wives, they maintain, will qualify for Social Security benefits of their own that exceed *half* of their husbands' benefits but are less than 100 percent of those benefits. If they outlive their husbands, these women will find themselves "better off" with survivors' benefits than they would be with their own retired worker ones.

The projections of Sandell and Iams suggest that fewer than 20 percent of baby boom widows in the early part of the next century will collect higher benefits based on their own earnings, in contrast to about 8 percent today. As a result, "a sizable proportion, not too different than today's, of next century's elderly widows will be at risk of economic distress" (Sandell and Iams 1996: 12).

Reinforcing this observation are projections from the Commonwealth Fund Commission on the Elderly People Living Alone (1987: OR-2), which indicate that by 2020, poverty among the aged will be largely confined to persons living alone, virtually all of whom will be women. Moreover, the gap between these women and other elderly persons is expected to widen. Hence, developments that threaten to undermine the income support the aged *now* receive should be examined carefully for their potential impact on this vulnerable group.

Social Security Provisions of Particular Importance to Women

Social Security is gender neutral, which means that men and women with identical work histories and earnings can expect identical benefits. The gender neutrality of Social Security extends to its actuarial calculations. In the private market, sellers of annuities can take into consideration the fact that a set sum or accumulation of savings must, on average, last longer in the case of women. Thus, the same accumulation may purchase lower monthly benefits for women than for men, though payments over a lifetime may be the same. This cannot happen under Social Security.

Nonetheless, because women's and men's lives are anything but gender neutral, the Social Security benefits they receive typically vary substantially in both type and amount. Not surprisingly, women's benefits typically are lower than men's.

At the end of 1995, female retired workers were receiving monthly benefits that averaged $621, in contrast to $810 for men (Social Security Administration 1996: Table 5.A1). This gap reflects less time in the labor force on the part of women, as well as their greater probability of working part time and their continued concentration in lower-wage occupations.

The gender neutrality aspect of Social Security aside, a number of Social Security's provisions are especially beneficial to women, although men in comparable circumstances would benefit from these provisions as well. For example, 99 percent of the spousal benefit recipients are women, as are 98 percent of the dually entitled (Social Security

Administration 1996: Tables 5.A1 and 5.G2). The U.S. General Accounting Office (GAO) notes that "because women receive spousal and survivor benefits more often than men and, hence, are subject to the dual entitlement limitation more often, these concerns are often viewed as women's issues" (U.S. General Accounting Office 1996: 48).

The Benefit Formula

Women also gain from the way Social Security benefits are calculated because the benefit calculation formula replaces a higher proportion of the wages of low-wage workers than of higher-wage workers. For single earners with low, average, and high earnings, for example, Social Security replaces, respectively, about 53 percent, 40 percent, and 26 percent of their wages (Steuerle and Bakija 1994: 96).

The progressive benefit formula redistributes income from higher-wage earners to lower-wage earners who, it has been recognized since the system's inception, would have more difficulty achieving income adequacy in old age than their higher-earning counterparts. Since women are disproportionately found among the lower earners, this "weighted benefit formula" is especially important to them.[10] Private pension benefits lack the redistributive element of a weighted benefit formula, which is a fundamental feature of social insurance in the United States.[11]

The fact that divorced women can collect benefits on their ex-husbands' work records and that multiple ex-spouses who meet the duration-of-marriage test can collect benefits as divorcees or widows, underscores the role that Social Security plays in protecting against income loss and providing a floor of security. In sum, as Ferber (1993: 43) notes, Social Security "favors lower income workers and makes provisions for spouses who are not employed," two aspects of the system that favor women as a result.

Defined Benefit vs. Defined Contribution Protection

Social Security is a defined benefit retirement income plan that uses a formula set by law to calculate benefits based on earnings up to an annual maximum limit and years of coverage (35 years of highest earnings). Workers can, albeit generally with some help from the Social Security Administration, estimate what their benefits will be under reasonable assumptions about wage increases and years of employment. That is not, however, the case with defined contribution private pension plans, such as 401(k)s, which are claiming an increasing share of the private pension market. With defined contribution plans, market risk is a real risk: retirement annuities or lump-sum distributions from those plans depend on the amount invested and the earnings on the investments. Poor investment choices, as well as both the unwillingness and inability to save, can also undermine retirement-income accumulations.

Moreover, retirees need never fear outliving their Social Security benefits. Because Social Security cannot be taken as a lump sum or as graduated payments or phased withdrawals, beneficiaries can never "use up" their Social Security. Furthermore, because old-age and survivor benefits cannot be cashed out at early ages, qualifying retirees can never get their hands on the money prematurely. Assuming workers have sufficient quarters of coverage, something will always be there for retirement. In contrast, cashouts pose a significant problem for savers

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10 Of course, the weighted benefit formula is no substitute for improving the wages and benefits of women. High earners still receive higher absolute benefits than low earners, even if those benefits replace a lower proportion of pre-retirement earnings.

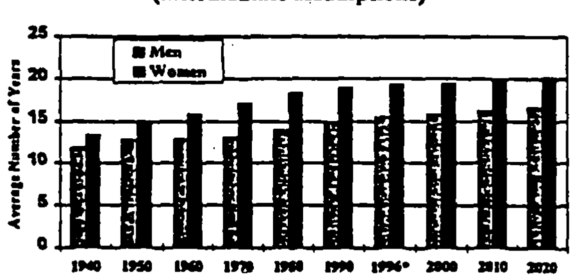
11 Women may lose some of that progressivity if their Social Security and private pension benefits are integrated.

in defined contribution plans, especially at the time of a job change. Women are more likely than men to cash out their defined-contribution accumulations before retirement age (Korczyk 1996a).

Longevity

Longevity should also be kept in mind by women as well as men as they plan for their income needs in old age. Life expectancy at age 65 has risen for both men and women since the early years of Social Security (Figure 3), though the female/male longevity gap is wider than it was six decades ago. As of 1996, at age 65 the average woman could expect to live more than 19 years; future female retirees will have to plan for an even longer retirement. Very old Social Security beneficiaries today, the vast majority of whom are women, are among the poorest of Americans. They may also face catastrophic health and long-term care expenditure at the same time that they risk exhausting their non-Social Security resources. Just how much more secure the very old of the future will be remains to be seen.

Figure 3
Life Expectancy at Age 65: 1940-2020
(intermediate assumptions)



*Preliminary.
Source: Board of Trustees, Federal Old-Age and Survivors Insurance Disability Trust Funds 1997

Longer life expectancy for women, coupled with the fact that wives are generally younger than their husbands, means that women are more likely than men to become widowed and, as a result, have a far greater probability of living alone. Some women reach old age never having married, but the percentage currently is low (about 4 percent). Many more are widowed, and by age 75, only about one fourth of women are married, in contrast to about 70 percent of men of the same age. Women are thus more likely to suffer the loss of income and social support resulting from the death of a spouse.

One of the great advantages of the Social Security system is that benefits are indexed. This guarantees that retirement benefits maintain their purchasing power over time. Almost no private pensions are automatically indexed, although a few grant ad hoc increases. A very long life expectancy accompanied by even modest inflation can seriously erode private retirement benefits. Private annuitants must purchase indexed annuities if they want any inflation protection in their defined contribution plans, but they pay for that protection in the form of lower benefits.

Social Security and Women's Unmet Needs

Despite the benefits that accrue to women under Social Security, the program today is not without critics. Its gender neutrality, for example, by definition fails to make allowances for the fact that caregiving responsibilities are one reason that women's work histories continue to be shorter than men's. Social Security benefit calculations assume a 40-year work history, with the five lowest years of earnings omitted from the calculation. For women, some or all of these five years may be years of zero earnings. Earnings over the remaining 35 years are averaged, but if Social Security applicants have more than five years of no earnings--as many women still do--anything in excess of five is included as zeros in the estimation of average wages and calculation of benefits.

To be sure, more women are reaching retirement age with a full work history, but most still fall short of the full averaging period. GAO observes that the median number of years with covered earnings was 36 for men reaching age 62 in 1993; it was only 25 for women; less than 20 percent of women had 35 years, in contrast to almost 60 percent of men (Ross 1997).

"Provid[ing Social Security] participants with retirement benefits adequate to secure a basic subsistence standard of living" is the goal that drove the architects of the Social Security system (Steuerle and Bakija 1994: 15-16) and that has driven many of the system's subsequent reforms. Though attention to equity issues, or the fairness of benefits compared to contributions, was apparent at the outset, benefit adequacy was the greater concern at the outset as the architects of the program sought first to deal with the problem of poverty (ibid.: 14).

Concern about the well-being of dependent family members, particularly women and children, manifested itself in the early days of Social Security. The addition of benefits for wives and children that were not tied to their own work records, according to Derthick (1979: 260-261), "consciously introduced an avoidable bias into the program for the sake of welfare objectives."

That bias--an inequity accepted for the sake of adequacy--was the advantage accruing to a married couple with a single earner over a two-earner couple with the same earnings. The latter couple might pay the same Social Security taxes as the former, but the couple would collect less from Social Security. Each qualifying worker in a two-earner couple would get a retired worker's benefit, while the single-earner couple could claim a worker's benefit and a spousal benefit.

This inequity has proven nettlesome to many dual-earner couples as their numbers have increased. It also translates into an adequacy issue, especially upon widowhood. The benefit to which the surviving spouse, again generally a woman, is entitled will be substantially lower for the survivor of a dual-earning couple than the survivor of the single earner with comparable earnings. Household expenses may fall at this time, but, as Rappaport (1997: 35) observes, "the difference in cost of living is far smaller than the difference in income." Survivors of dual-earner couples may experience considerable hardship as a result of the decline in household income at this time.

As more married women began to find themselves part of dual-earner couples, issues of equity or fairness began to strike a chord,[12] and by the late 1970s, women's advocates were increasingly seeking to bring some of these issues to the fore. Income adequacy, especially for nonmarried women and the very old, continued to be a concern. Although women's status in retirement was clearly improving, many women's advocates agreed with former Congresswoman Mary Rose Oakar, Chair of the House Task Force on Social Security and Women, when she argued that correcting the inequities toward women in the Social Security system was "one of our top domestic issues" (U.S. House of Representatives 1980: 2).

Improving Women's Status in Old Age

There have been numerous proposals since the 1970s and early 1980s to make Social Security more equitable and/or more adequate for women (see, e.g., U.S. House of Representatives 1980 and 1985; Beedon 1991; Burkhauser and Smeeding 1994; Center for Women Policy Studies 1988; Save Our Security 1996; Steuerle and Bakija 1994). Reform proposals have varied, from the radical solution of earnings-sharing for married couples--whereby the earnings of both partners would be halved and credited to

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[12] GAO (1996) recently summed up the key inequities that have the greatest impact on women: two-earner couples receive lower benefits than one-earner couples with the same earnings; the survivors of these couples get less as well. In addition, dually entitled beneficiaries get no more in Social Security benefits than they would receive if they had never worked.

the earnings records of each spouse—to more modest proposals, such as increasing the number of dropout years in the calculation of average earnings under Social Security.

However, most proposals, as Ferber points out, "have come to naught," which she does not find surprising, since there is so much disagreement "about what the effects of Social Security are, and what the outcomes should be" (Ferber 1993: 43). Moreover, many of the proposals have been costly, involved benefit cuts to some beneficiaries--never politically popular--, and/or would be phased in over such a long period of time that years or decades would have to pass before full implementation. Hence few women who need help immediately would benefit from the change.

Though momentum for reform that would benefit women under Social Security seemed to be building in the late 1970s, demographic, economic, and other pressures were conspiring against significant improvements. Costly changes, in particular, were beginning to look doomed. By 1983, the Social Security system was in short-term actuarial imbalance, and the situation was urgent. Restoring solvency to the system at that time allowed for very few benefit enhancements, though the modest improve-ments that were included in the 1983 amendments to the Social Security Act were largely seen as "women's" benefits.[13]

Social Security for the 21st Century

Despite the fact that the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds will build up sizable reserves for the next dozen years, the long term picture is not auspicious for costly benefit improvements, whether or not they involve enhanced adequacy or equity.

While Social Security revenues currently exceed payments, the system is not in actuarial balance over the long-term; the estimated deficit over the 75-year horizon used in Social Security projections amounts to 2.23 percent of taxable payroll for the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds (Board of Trustees 1997).[14] The 1997 report of the Social Security Trustees notes that, all else being equal, the trust fund reserves which are currently growing will be drawn down beginning in about 2012 and will be exhausted by 2029.[15] Thus, Social Security will be able to pay full benefits on time for more than three decades. To ensure that benefits will be paid in a timely fashion after that date, some changes will be necessary. The only possibilities are revenue increases and/or benefit decreases, the magnitude of which will depend on the specific proposals and when the changes are introduced.

Coupled with the solvency issue is growing concern about declining confidence in the ability of Social Security to pay benefits (see, e.g., Reno and Friedland 1997). According to a 1997 opinion survey by Public Agenda, about one-third of the public thinks "they won't get any Social Security benefits at

[13] Under these amendments, a divorced spouse who was at least age 62 would be able to collect Social Security benefits based on the earnings of her ex-spouse as long as the ex-spouse was eligible to receive benefits; he need not have begun collecting them. Benefits were also liberalized for certain spouses.

[14] This is the average difference between income (e.g., payroll contributions) and outgo (benefits and administrative costs) as a percent of taxable payroll over 75 years. To bring the trust funds into balance, revenues would have to be augmented or costs reduced by an average of 2.23 percent in each of the next 75 years.

[15] The sensitivity of deficit projections to the assumptions on which they are based can be seen in the fact that, under the Social Security Actuaries' low cost assumptions, the OASDI trust funds will never be exhausted (at least over the 75-year period), while under high-cost assumptions, exhaustion will occur in 2018, rather than 2029.

all," up from one-fourth since 1994 (Farkas and Johnson 1997: 23), even though at its lowest point, income to Social Security should be sufficient to pay three-fourths of projected benefits. The Social Security trustees refer to "an alarming erosion of public confidence in the Social Security system over the past few years, particularly among younger generations," insisting that early action is needed to ensure long-range solvency to restore that confidence (Social Security and Medicare Boards of Trustees 1997: 13).

As of fall 1997, Social Security reform was not yet on the Congressional Agenda, although President Clinton was promising "to do something soon" about Social Security (Harris 1997: A1), contending that the administration "'would fulfill [its] responsibilities to curb the costs of Social Security." In his 1998 State of the Union address, he called for a national dialogue on Social Security to be facilitated by a series of bipartisan regional forums designed to increase public understanding of Social Security and various reform proposals.

Few politicians relish the prospects of reforming Social Security, long referred to as the third rail of politics. But while reform may be inevitable, opinions vary widely as to the degree of change that is necessary to restore long-range solvency. January 1997 saw the release of the report of the 1994-96 Advisory Council on Social Security, which had been appointed by the Secretary of Health and Human Services under Section 706 of the Social Security Act to "advise the public, the Administration, and Congress on how best to prepare" Social Security and Medicare for the future (Advisory Council on Social Security, Vol. I 1997: 6).

The Council's long-anticipated report was preceded by considerable media attention and discussion by policymakers and Social Security experts and aficionados for at least two reasons. This was the first Council that was unable to achieve consensus on major recommendations. Its 13 members could not agree on how best to prepare Social Security for the future. But most likely accounting for the flurry of media interest in the topic of Social Security were recommendations for what would amount to restructuring of the Social Security system. Proposals to privatize Social Security by allowing workers to establish individual investment accounts and decide where to invest all or part of their Social Security contributions were being seriously considered.

It is worth emphasizing that most members of the Advisory Council did agree on a number of fundamental principles. For example, members eschewed conventional means-testing and approved continuing to finance the programs through contributions from employers and employees, rather than from general revenues. Members also indicated that full cost-of-living adjustments should be maintained. However, opinions differed greatly as to the most appropriate course of action to restore solvency. The result was three very distinct approaches to the solvency issue.

These plans are by no means the only ones that will figure in upcoming debates about Social Security. Social Security reform proposals have been offered by a number of organizations, some politicians, researchers, and policy analysts, including the Committee for Economic Development, the National Taxpayers' Union Foundation, Senators Kerrey and Simpson, the Concord Coalition, and the CATO Institute. More can be expected once Social Security moves to the top of the Congressional agenda. Space limitations preclude a consideration in this paper of all the plans. Instead, this issue brief highlights components of the three Advisory Council plans as they may affect women.

Because of the publicity surrounding, and a fair degree of public interest in, these plans, because many of the other plans include similar features, and because these plans could serve as a point of departure for debate on reform in general, it seems reasonable to restrict discussion to the Advisory Council's recommendations at this time.

Social Security Reform and the 1994-1996 Social Security Advisory Council

Although the three reform plans of Social Security Advisory Council have some elements in common, they approach restoration of solvency in very different ways. The differences can largely be summed up with respect to the degree to which efforts would be made to maintain the system's social insurance principles, especially redistribution of income, or instead move toward a more privatized system, thereby shifting more of the burden of retirement support to future retirees themselves. A very brief summary of the three plans follows. (Greater detail can be found in Advisory Council on Social Security, Vol. I 1997.)

Maintain Benefits

Of the three Advisory Council reports, what is referred to as the Maintain Benefits (MB) plan would, as its name suggests, maintain the structure of the Social Security system much as it is today. Social Security would continue as a defined benefit plan, with benefits based on a set formula established by law. Income redistribution--so fundamental to this social insurance program and so important in ensuring income adequacy for low-wage workers--would be retained.

Solvency would be achieved by a number of rather modest changes. The plan would, for example, extend Social Security coverage to new state and local workers, tax Social Security benefits like private pension benefits, lengthen the benefit computation period from 35 to 38 years *or*, alternatively, slightly increase the payroll contribution rate, and eventually shift to OASDI that portion of Social Security revenues generated from taxing Social Security that now goes to the Hospital Insurance (HI) Fund. If these changes proved insufficient to bring the system into actuarial balance, the plan would increase employer and employee payroll taxes in 2045.

The most innovative feature of the Maintain Benefits plan involves the possible investment after further study of a portion (up to perhaps 40 percent) of the Social Security trust fund reserves in private equities in a search for higher returns. Although some observers see such investment as a form of privatization, workers themselves would have no say over how funds were invested; an investment policy board nominated by the President and confirmed by the Senate would oversee investments. Earnings would accrue to the trust funds, not to workers' individual accounts. Despite the fact that the Maintain Benefits plan would make the fewest changes to Social Security, equity investment would nonetheless represent a significant departure from present policy.

Individual Accounts

The second plan proposes establishing mandatory individual accounts (IAs) similar to a 401(k) defined contribution plan. Workers, but not employers, would contribute an additional 1.6 percent of earnings to their individual accounts. They would be provided with limited investment choices, the accumulations of which would have to be converted to indexed annuities at retirement.

The IA plan would also extend Social Security coverage to new state and local workers, extend the benefit computation period to 38 years, lower the earnings replacement rate for middle- and high-wage earners, accelerate the scheduled increase in Social Security's full retirement age and subsequently index it to increases in longevity, and tax Social Security benefits like private pensions. The result of these changes, according to GAO, would be lower benefits from the "basic" Social Security program for all workers (Advisory Council on Social Security 1997; Ross 1997: 7), although benefits from the individual accounts are intended to help offset the losses.

Finally, the 50-percent spousal benefit would be gradually reduced to 33 percent, and the survivor benefit increased. Under this plan, a survivor would collect the highest of his or her own basic benefit, the deceased spouse's benefits, or 75 percent of the couple's combined benefits.

Personal Security Accounts

The most radical of the three Advisory Council plans would turn Social Security into a two-tier system. Tier I would become a flat-rate benefit based on years of covered employment that, after 35 years of earnings, would amount to about two-thirds of the poverty level for a person living alone (which was $410 a month in 1996).[16] Tier II would consist of retirement income from workers' personal security accounts (PSAs) financed by allocating 5 percentage points of workers' payroll taxes to the new accounts.

Workers could invest their 5 percent in a wide-range of financial instruments. At retirement, workers would not be required to annuitize their investments. The Tier I benefit for spouses would be the highest of their own benefit, half their retired spouse's benefit, or half of the flat benefit, when fully phased in. Survivors would be eligible for 75 percent of the benefit payable to the couple; they could also inherit any balance in the PSA of the deceased worker.

In addition, the PSA plan would accelerate and index the increase in retirement age and then periodically examine the need for additional changes, raise the age of early eligibility, and cover new state and local workers.

Social Security Reform's Impact on Women

Certainly, *everyone* has a stake in Social Security, and everyone will be affected by whatever reforms are ultimately implemented. However, as this issue brief and a sizable literature demonstrate, Social Security is without question a women's issue. Any proposal that would change the system, therefore, ought to be carefully scrutinized in terms of its impact on women. Rappaport (1997: 39) calls for making the changes needed to "ensure that we will have a strong Social Security system going forward," including a system that "will better handle a variety of family patterns."

All three plans could lead to long-term Social Security solvency, although their impact on various groups in the population will vary. Just how secure women would be under the various plans, though, remains a matter for further research. Since the Maintain Benefits plan would result in the fewest changes to the system, how women would fare in the future is essentially how they are faring today, although many might be worse off as a result of the lengthening of the benefit calculation period (discussed below).

Under the Individual Accounts (IA) plan, the National Academy of Social Insurance (NASI) calculates that the average earner would see a drop of 17 percent in his or her basic benefit from Social Security (Ross 1997: 8). Reductions would be higher for high-wage workers than low-wage workers.

The amount invested in individual accounts (an additional 1.6 percent of wages) would be expected to make up the difference between the basic benefit and what would be paid to workers under current law. It may do this, but it seems unlikely that income

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[16] Ultimately, workers with only 10 years of covered employment would be eligible for a benefit amounting to 50 percent of the full flat amount; this percentage would increase by two for each additional year worked up to 35.

adequacy in retirement would be greatly improved over what it is today.

The more dramatic changes would take place under the Personal Security Accounts (PSA) plan, whose provisions, especially the reconfiguration into a two-tier plan, stand to have a significant impact on women. As has been noted elsewhere in this paper, women with high-wage jobs have less to be concerned about when it comes to the Advisory Council's proposed changes (Williamson 1997b: 98), including those in the PSA plan. Affluent women, like everyone else, face market risk under privatization, but would come out ahead under many circumstances.

Privatization, even the partial privatization of the PSA and IA plans, poses big risks, especially for persons with limited resources. Low-income women, for example, have less to invest in the first place and would be less able than more affluent women to weather market downturns. They might also find it harder to obtain good market advice, given their limited income.

It also appears that women are more conservative investors than men (Hinz, McCarthy, and Turner 1997). That being the case, Ross (1997) notes, two investors with identical earnings could end up with very different retirement benefits. Women, in such instances, could expect the lower accumulations.

Women would also see lower benefits for the same accumulations because separate life tables could be used when IA or PSA accumulations were annuitized.[17] Since women live longer, their monthly annuity benefits would be lower than those of men with the same accumulations. Payments over a lifetime might be identical, but that is small consolation when monthly bills must be paid.

Moreover, although privatization proponents generally contend that most workers *could* do better in the private market than under Social Security, IA and PSA investors would face market risk. How the market has performed historically may not apply to specific groups of workers, and may not be in evidence at the time a particular cohort retires.

Over the long run, investments in the stock market have returned approximately 10 percent per year in nominal terms; between 1926 and 1994, the average return for the S&P 500 was 10.2 percent, or 6.9 percent after adjusting for inflation (Levine and Levine 1996: 222). However, some bear markets are deep and prolonged. On September 3, 1929, the Dow Jones reached a level it did not see again until November 23, 1954 (Pierce 1996). More recently, between January of 1973 and September of 1974, the market declined by 43 percent (or by 52 percent after factoring in inflation) (Ibbotson and Brinson 1993: 162). The phenomenal bull market of the past 15 years is not typical of the last 50 years, nor is it likely to be typical of the next 50 years, particularly if growth rates turn out to be lower than the nation experienced during the past 50 years (Williamson 1997a: 565).

There is also the question of who would actually own the accumulations in married workers' accounts. In the case of PSAs, the owner is clearly the worker, despite the fact that husbands and wives may make joint decisions about who works and when, and how money should be invested. Under the PSA plan, the owner would be under no obligation at the time of disbursement to purchase an annuity but could opt instead for a lump-sum payment. Unless Congress decided otherwise, that decision would be left to the owner of the PSA; spouses would not have a say in receiving any share of the money. This provision in the PSA plan could

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[17] As noted elsewhere in this paper, the PSA plan does not require annuitization. Adverse selection under such circumstances could make annuities very expensive in the private market.

have a disproportionate and negative impact on women.

Divorced women are given short shrift in both IA and PSA plans. They would apparently have to depend on the divorce settlement for any share of the accumulation in a spouse's account. Williamson (1997b: 103) explains that under the IA plan a divorced woman would otherwise have no claim on her former husband's individual account so long as he was alive. At his death she would become eligible for only half of his benefit from his mandatory individual account. The divorced spouse of a worker with a PSA could not even count on that, as annuitization would not be required.

Women with sufficient work histories would always qualify for PSA's Tier I benefits, but that benefit would guarantee substantially less relative to the poverty level than the average woman's retired worker benefit today. Many women would be able to make up the difference with their PSA Tier II benefits, but others might not fare so well. This might tend to be the case if workers were tempted and allowed to gain access to their accumulations before retirement.

The question of preretirement access to IAs or PSAs is a critical concern, and Congress may be reluctant to limit people's access to their own money in time of need. Women tend to be less likely to retain lump-sum pension distributions for retirement (Korczyk 1996a). Might they also be more likely to tap into these new retirement savings, if permitted?

Advisory Council member Thomas Jones speculates that the pressure to use retirement savings prematurely might "dwarf the political risk attributed to the current pay-as-you-go system" (Jones 1996: 5). He also worries that "political support for the first pillar [the basic benefit] might weaken once it is explicitly separated from the individual account pillar." Women would have a great deal to lose if this were to happen.

Although the PSA plan represents the most radical of the proposed changes discussed in this paper, a number of the other proposals would likely have a disproportionate impact on certain groups, such as women and those with low incomes. Raising the full retirement age might disproportionately affect low-wage workers in demanding jobs that do not lend themselves to a longer worklife. Skills obsolescence is also a problem for many low-wage workers, who may also be at greater risk than high-wage workers of experiencing health problems that affect ability to work. Not all such workers would be women, but women are heavily represented in the low-wage jobs whose numbers are projected to increase the most over the next decade (Silvestri 1997). More affluent workers, on the other hand, may have the resources to continue to retire early, as well as the education and skills that encourage employers to retain them longer.

Women will also find it more difficult than men to meet the longer benefit computation period. According to Social Security actuaries, only 15 percent of women retiring in 1999 vs. 57 percent of men, would be able to meet a 38-year averaging period (Fierst 1997: 137).

Benefit Improvements

Given the need for revenue increases or benefit cuts just to keep the present system afloat, the prospects for benefit expansion would appear to be dim. And, to be sure, like everyone, women will benefit from a fiscally solvent Social Security system.

Yet many people continue to worry about income adequacy in old age, especially among nonmarried women, and have proposed reforms to address that inadequacy. The majority of Advisory Council members (as well as others [e.g., Burkhauser and Smeeding

1994; Sandell and Iams 1997]) support reducing spousal benefits and increasing benefits for survivors. While there are various ways to do this, one way, as mentioned above, is to reduce the spousal benefit from 50 to 33 percent and increase the survivors' benefit to 75 percent of combined benefits. Such a proposal is actually a nod in the direction of greater equity, as higher benefits would go to survivors of dual-, not single-, earner couples.

Many survivors would be no better off under the change, however, and the change would do nothing for never-married or divorced women, who are among the poorest aged today. In fact, divorced women could be far worse off, as they would qualify for only one-third of their ex-husbands' benefits, rather than half. While the number of women who collect benefits as divorced spouses is low, they are a particularly needy group. Finally, intact couples would have to get by on less while both partners were alive if one partner were entitled to the spousal benefit. This might prove difficult for low-income couples. Choudhury and Leonesio (1997) caution that this proposed change might not have the desired impact due to the fact that a lifetime of poverty, rather than loss of a spouse, appears to be the primary determinant of poverty in old age for the majority of women.

Conclusions

The market risk of even a partially privatized Social Security system is very real and deserves a great deal more attention than it has received to date. Policymakers, retirement-income experts, and women's advocates, among others, need to think long and hard before asking moderate- and particularly low-wage workers, a category that includes many women, to take those risks (Williamson 1997a). The market does not just go up. Declines can be swift, deep, and prolonged.

The Social Security Trustees argue that many of the proposals for reform would involve "a profound shift in philosophy and would have significant ramifications [that] deserve careful examination and consideration by policymakers and the American public before any changes are made" (Social Security and Medicare Boards of Trustees 1997: 13.) The recently confirmed administrator of the now-independent Social Security Administration, Kenneth S. Apfel, hopes to enhance understanding of Social Security and foster dialogue on the tough choices not only on Capitol Hill, "but also in family living rooms all across America" (Social Security Administration 1997).

The level of ignorance about Social Security basics, to say nothing of its financing and reform (see, e.g., Farkas and Johnson 1997), suggests that the public debate and discussion about the "tough choices" must be preceded by a public information/education campaign that tries to provide the public with the tools it needs to make informed decisions. Women, in particular, must be a focus of the campaigns.

However, before Social Security is fundamentally overhauled, more and far better data are required on the combined effect and distributional impact of any changes. There can be little doubt that women's well-being would be profoundly affected by some of the reforms being considered. Just who would be most affected and by how much needs further examination. Even the experts don't have the answers. Reform might not make women better off than they are today, but it should not worsen their often precarious situation in old age.

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CENTER ON BUDGET AND POLICY PRIORITIES

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AFRICAN AMERICANS, HISPANIC AMERICANS, AND SOCIAL SECURITY: THE SHORTCOMINGS OF THE HERITAGE FOUNDATION REPORTS

Executive Summary

by Kilolo Kijakazi

The Heritage Foundation has released two reports on Social Security's rate of return for minorities. One report addresses African Americans; the second speaks to Hispanic Americans. Heritage argues that the African-American community will secure poor and even potentially negative rates of return from Social Security because African Americans have lower life expectancies. Heritage asserts that Social Security also is a bad deal for Hispanic Americans because they are a disproportionally young population and will bear a significant share of the cost of financing Social Security in the future. According to these reports, these communities would fare better under a retirement program of individual accounts invested in the private market.

The Heritage reports contain critical flaws, however, in their assumptions about both Social Security and individual accounts. The erroneous assumptions result in large errors in Heritage's analysis of rates of return for the population in general and for minorities in particular. As this paper explains, Heritage's rate-of-return calculations substantially understate the rate of return from Social Security and heavily overstate the rate of return from the individual accounts that Heritage favors. As a result, the Heritage calculations are inaccurate.

The Social Security actuaries concluded that Heritage "grossly underestimates the expected rates of return from Social Security benefits" for workers in general and African Americans in particular.

A major part of this paper is drawn from an assessment of the Heritage paper on African Americans that the Social Security Administration's highly respected Office of the Chief Actuary conducted. The Office of the Chief Actuary identified major errors in Heritage's work, including the fact that Heritage exaggerated the taxes that African Americans pay into Social Security while substantially understating the Social Security benefits that African Americans receive. The actuaries concluded that Heritage "grossly underestimates the expected rates of return from Social Security benefits" for the overall population and especially for African Americans. The actuaries also examined Heritage's subsequent work on Hispanic Americans and found it seriously flawed as well.

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Excerpts from the Analysis of Heritage's Work On African Americans by the Social Security Administration's Office of the Chief Actuary

"... the [Heritage] conclusions are highly misleading due to two major errors in methodology, plus a number of incorrect or inappropriate assumptions. Due to these errors, rates of return for the general population in this study are at substantial variance with those produced for the 1994-6 Advisory Council on Social Security."

"More importantly, the methods utilized by the authors bias expected rates of return downward to a far greater degree for African Americans than for the general population. This study thus erroneously indicates differences in rates of return by race that are greatly exaggerated. In fact, results from more careful research reflecting actual work histories for workers by race indicate that the non-white population actually enjoys the same or better expected rates of return from Social Security than for the white population."

Source: Steve Goss, Deputy Chief Actuary, Social Security Administration, "Problems with 'Social Security's Rate of Return,' A Report of the Heritage Center for Data Analysis," January 27, 1998, p. 1.

Assumptions that Understate Social Security's Rate of Return

- **The Social Security Administration's Office of the Chief Actuary found that Heritage both overstated the payroll taxes that workers pay for Social Security and understated the Social Security retirement benefits that workers receive, with these errors being particularly large for African Americans.** The Office of the Chief Actuary found that in estimating the number of years an individual would work and make payroll tax contributions, Heritage failed to take into account the fact that some workers die before retirement and consequently contribute payroll tax for a smaller number of years than those who work into their 60s. Since a larger portion of African-American workers than of white workers die before 65, failing to take this factor into account led Heritage to make particularly large errors in its rate-of-return calculations for African Americans. For example, the actuaries found that the number of years a 20-year-old African-American man is expected to make payroll tax payments into the Social Security system is six years fewer than the Heritage methodology would predict. This flaw in its methodology led Heritage to overstate significantly the Social Security taxes that African Americans pay.

  The actuaries found that Heritage made still larger errors in computing the number of years for which African-American workers receive Social Security retirement benefits. The actuaries found that a 20-year old African- American man would be expected to receive such benefits for nearly *four times as many years* as would be assumed under the Heritage methodology. The actuaries' analysis shows that for 20-year-old African-American men, the number of years of drawing Social Security retirement benefits will equal 20.7 percent of their work years. The Heritage methodology erroneously assumes the number of benefit years would equal *just 4.9 percent* of these individuals' work years.

  The actuaries also found the Heritage methodology resulted in a large

Social Security and Hispanic Americans

Social Security provides a particularly large portion of the income of older Hispanic Americans. While nine percent of all couples age 65 and older rely on Social Security for all of their income, 23 percent of Hispanic couples do. Similarly, while 24 percent all of aged single individuals receive *all* of their income from Social Security, 40 percent of aged Hispanic single individuals do.

Social Security also is of particular value to Hispanic Americans for another reason. Hispanic retirees live longer, on average, than other Americans — the average American who reaches 65 (including both men and women) will live an additional 17½ years, while the average Hispanic reaching 65 lives an additional 20.5 years. Those with a longer life span receive more monthly benefit checks from Social Security. Furthermore, Social Security's annual cost-of-living adjustment — a feature most private annuities do not have — is of greater value for those who live longer.

Hispanics thus benefit doubly from Social Security; they benefit both from Social Security's provision of benefits that keep pace with inflation and cannot run out no matter how long one lives, and also from Social Security's progressive benefit formula, which ensures that individuals who earned lower wages and/or had fewer years in the workforce receive larger monthly benefit amounts, in proportion to the wages they earned and the taxes they paid, than other workers do. Since Hispanic retirees on average have lower wages and fewer covered years of employment and also live longer than other workers, they receive benefit levels that return the taxes they paid in fewer years than average retirees do, while also receiving benefits for more years than the average retiree.

Hispanics consequently are one of the groups for which Social Security is most beneficial. A recent Social Security Administration fact sheet notes that Hispanic American beneficiaries "on average receive a higher rate of return on taxes paid."[2] A recent analysis by the Deputy Chief Actuary of the Social Security Administration explains that "a somewhat higher rate of return for Hispanic Americans is to be expected, based on the higher life expectancy for Hispanic Americans, and the fact that Hispanic Americans have lower than average earnings."[3] Indeed, tables in Heritage's own report show Social Security provides higher rates of return to Hispanics than to the general population, although Heritage fails to acknowledge this in the text of the report.[4]

In addition, a conclusion drawn by the General Accounting Office that "because Social Security provides a lifetime annuity that is indexed for inflation, it becomes an increasingly important source as retirees grow older and exhaust other income sources" is particularly true for Hispanics.[5] By contrast, under individual accounts, Hispanics could, because of their greater life expectancy, face a greater-than-average risk both of having their accounts run out before they die and of losing a substantial amount of the purchasing power of the funds in their accounts to inflation as the years pass.

understatement of Social Security's rate of return "for younger workers who are far from retirement age in 1997," a finding of particular significance for Hispanic Americans, who are a younger-than-average population.

- **Heritage inappropriately assumed that if Social Security is not privatized, it will be restored to long-term actuarial balance entirely by raising payroll taxes and that this tax increase will begin in 2015, a decade earlier than the Social Security actuaries project would be necessary.** No proponent of restoring long-term balance to Social Security without privatization has recommended correcting the imbalance purely through payroll tax increases. Virtually all

Nearly half of all African Americans who receive Social Security benefits of any kind — 47 percent — receive disability or survivors benefits. By contrast, 28 percent of white Social Security beneficiaries do.

reform plans that do not include privatization components would increase Social Security revenue through such measures as expanding Social Security coverage to the 30 percent of state and local government employees not currently covered and/or investing a portion of the Social Security reserves in the equities market. In calculating Social Security's rate of return, however, Heritage assumed that the only method used to close the imbalance would be payroll tax increases. Heritage selected what is probably the single approach to closing the Social Security imbalance that would affect rates of return for minorities (and especially Hispanic Americans) most adversely.

Moreover, even if calculations of rates-of-return for Social Security are based on the implausible assumption that the imbalance will be closed entirely through payroll tax increases, Heritage's approach is deficient; Heritage assumed that payroll taxes would be raised years before that would be necessary. The Social Security actuaries project it would not be necessary to raise taxes until 2025 to maintain a pay-as-you-go system without any changes in eligibility or benefits, and even then not by as much as Heritage assumed. In its assessment of this aspect of the Heritage paper, the Office of the Chief Actuary wrote: "In order to provide a pay-as-you-go financed Social Security program, tax rates would not need to be raised until around 2025, and by less than the [Heritage] authors assumed. The early, too-large increase in tax rates results in rates of return that are estimated to be too low for Social Security."

- **Heritage failed to calculate the rate of return for the full Social Security system. It ignored Social Security disability and survivors benefits in making its calculations.** African Americans benefit disproportionately from the Social Security disability insurance and survivors' insurance programs. A considerably larger proportion of African Americans than of whites receive these benefits. While African Americans make up 11 percent of the civilian labor force, they account for 18 percent of the workers receiving Social Security disability benefits. Social Security Administration analyses have found that African Americans receive substantially more benefits from Social Security Disability Insurance in relation to the taxes they have paid than whites do. Moreover, nearly half of all African Americans who receive Social Security benefits of any kind — 47 percent — receive either disability or survivors benefits. By contrast, 28 percent of white Social Security beneficiaries receive disability or survivors benefits.

  In calculating Social Security's rate of return, Heritage eliminated these two components of the system Social Security, the components most favorable to the African-American community. That makes Social Security appear less valuable to African Americans than it is.

Assumptions that Overstate Returns from Individual Accounts

While understating rates of return for Social Security, Heritage overstates rates of return for individual accounts.

Excerpts from the Social Security Actuaries' Analysis of Heritage's Work on Hispanic Americans

"...In a subsequent statement by Heritage...it was suggested that Hispanic Americans could expect far lower rates of return from Social Security than would be possible from individual accounts. The statement compared the (erroneously) computed expected rates of return from Social Security to the expected return from an individual account invested either all in bonds or partly in stocks. But the comparison ignores both the cost of transition to an individual-account program, and the administrative expenses associated with individual accounts. Transition costs associated with the continuation of benefit payments for current OASDI beneficiaries and today's older workers would be substantial. Adding in these costs, which are excluded from the Heritage analysis, would greatly reduce the overall rate of return...under the Heritage proposal.

"Finally, the authors fail to note...that, by their own calculations, see page 7 of January 15 report, *Hispanic Americans would be expected to receive a substantially higher rate of return from Social Security than would the general population,* on average."

Source: "Comments on Heritage Rates of Return for Hispanic Americans," Memorandum from Stephen C. Goss, Deputy Chief Actuary, to Harry C. Ballantyne, Chief Actuary, April 2, 1998.

- **Heritage failed to factor in transition costs — the costs that workers would have to pay under a privatized system to continue financing the Social Security benefits of current retirees and near-retirees.** If retirement benefits are privatized, the payroll taxes that are currently used to finance Social Security retirement benefits will instead be deposited in individual accounts. That will create a financing gap — funds will be needed to fulfill the government's obligation to pay Social Security benefits to current retirees and those nearing retirement. As a result, workers would have to pay a new tax to continue financing the Social Security benefits of current and soon-to-be retirees.

  As senior researcher Paul Yakoboski of the Employee Benefit Research Institute recently testified, "Because the current Social Security system is largely pay-as-you-go, most of what workers pay into the system funds today's benefits....[O]n top of paying current benefits, workers moving to a privatized system would have to pay "twice" — for the benefits going to today's beneficiaries and again to their own [personal] accounts."[7] For this reason, the General Accounting Office has noted that if Social Security retirement benefits were privatized, "the [payroll] contributions needed to fund both current and future retirement liabilities would clearly be higher than those currently collected."[8] Heritage fails to factor these added tax payments into its calculations. That leads it to overstate the rate of return that individual accounts would provide.

  This error is of particular importance in analyzing rates of return for Hispanics. A study conducted by the Employee Benefit Research Institute, a highly regarded research institution, incorporated transition costs into its calculations. It found that for workers who are 21 today and receive low wages, the rate of return would be *lower* under the individual accounts options it examined than under all options it examined to restore long-term balance to Social Security without individual accounts. The EBRI data are a further indication that Heritage's claim that Hispanics would fare better under an individual accounts system because they are disproportionately young is inaccurate.

- **The Heritage estimates fail to take into account administrative costs, the fees that investment companies charge on individual accounts, and the costs of converting accounts to annuities, an omission that results in a substantial overstatement of the rates of return for individual accounts.** Heritage compared the rate of return for Social Security to the rate of return for private accounts like IRAs. Use of IRAs results in significant administrative costs and management fees, which are paid out of the proceeds in the IRA accounts and consequently reduce the amounts available in those accounts to pay retirement benefits. Moreover, additional costs are incurred when the funds in these accounts are converted to lifetime annuities upon retirement.

  Heritage ignores these costs. Its estimates of the rate of return that individual accounts would generate rest on the invalid assumption that no such costs would be incurred.

  Based on data on IRA and 401(k) accounts, two eminent Social Security experts — Henry Aaron of the Brookings Institution and Peter Diamond of M.I.T. — have estimated that the administrative costs for retirement accounts like IRAs or 401(k)s would consume 20 percent of the amounts that otherwise would be available in these accounts to pay retirement benefits.[9] They note that a one percent annual charge on funds in such accounts eats up, over a 40-year work career, 20 percent of the funds in the accounts.[10] The 1994-1996 Advisory Council on Social Security estimated an annual charge of one percent on the assets in privately managed individual accounts.

  Furthermore, recent financial data indicate that a one percent annual charge is a conservative estimate. In 1997, the average annual charge on stock mutual funds was 1.2 percent of the amounts invested in those funds. In addition, Diamond has noted that administrative and management costs consume approximately 20 percent of the amounts in individual accounts in Chile's privatized retirement system and more than 20 percent of the funds in privatized retirement accounts in Great Britain and Argentina.

  Some of these costs are fixed-dollar expenses that do not vary with the size of an account. As a result, such costs would generally consume a larger percentage of the amounts in smaller-than-average accounts (and a smaller percentage of the amounts in large accounts). This suggests these costs would, on average, consume more than 20 percent of the funds in the accounts of lower-wage workers. That is of particular significance to minorities since, as a group, they receive lower-than-average wages and would consequently have smaller-than-average accounts.

  To these costs must be added the costs of converting an individual account to an annuity upon retirement. The leading research on this matter indicates that an additional 15 percent to 20 percent of the value of an individual account is consumed by the costs that private firms charge for converting accounts to annuities.[11] The General Accounting Office recently noted that "While individual annuities are available, they can be costly especially relative to annuities provided through Social Security."

  (Heritage may envision that account-holders would not have to convert the funds in their accounts to annuities when they retire. Lack of annuitization, however, would create large risks that substantial numbers of retirees would eventually exhaust their accounts and be thrust into poverty in very old age. Lack of a lifetime annuity would be a particularly severe problem for elderly widows and for Hispanic Americans, since they have longer-than-average life expectancies.)

Taking all of these costs into account — both administrative and management fees and the costs of converting accounts to annuities — Aaron estimates that at least 30 percent and as much as 50 percent of the amounts amassed in individual accounts similar to IRAs or 401(k)s would be consumed by these costs rather than being available to provide retirement income. The Heritage reports essentially assume that none of the amounts in these accounts would go for such costs.

- Heritage ignores the variation in rates of return that would occur with individual accounts and the likelihood that low-income workers and minorities would receive below-average rates of return. Retirees who are particularly lucky or wise in their investments could receive retirement income from individual accounts that more than offsets their loss of Social Security benefits. But retirees who are less lucky or wise, including those who retire and convert their account to a lifetime annuity in a year the stock market is down, would likely face large reductions in the income they have to live on in their declining years.

A recent GAO report takes note of these issues. "There is a much greater risk for significant deterioration of an individual's 'nest egg' under a system of individual accounts," the GAO wrote. "Not only would individuals bear the risk that market returns would fall overall but also that their own investments would perform poorly even if the market, as a whole, did well.[12]

An additional 15 percent to 20 percent of the value of an individual account could be consumed by the costs that private firms charge for converting accounts to annuities.

This is a concern for workers in general — surveys have found Americans are not very knowledgeable about financial markets — and a particular concern for lower-wage workers, who generally would not be able to afford as good investment advice as individuals at higher income levels. Moreover, lower-income groups have less investment experience and would be more likely to invest in an overly conservative manner because they could not afford to expose the funds in their accounts to much risk. African Americans and Hispanic Americans make up disproportionate shares of the low-income population. As a result, they would be likely to receive a somewhat lower-than-average return on amounts invested even while, as explained above, they would likely pay an above-average percentage of their holdings in fees. Heritage overlooks these factors.

To persuade the public that Social Security should be replaced with individual accounts, Heritage has targeted the African-American and Hispanic-American communities and portrayed them as winners under such a conversion. Yet Heritage's rate-of-return calculations do not withstand scrutiny. These calculations significantly understate the rate of return to Social Security and significantly overstate the return to an individual accounts program.

African Americans and Hispanic Americans make up disproportionate shares of the low-income population. As a result, they would be likely to receive a somewhat lower-than-average return on amounts invested while paying an above-average percentage of their holdings in administrative and management fees.

When these problems are corrected, African-American and Hispanic-American communities no longer are the big winners Heritage portrays them as being under privatization of Social Security retirement benefits. They would be more likely to come out behind than ahead. The largest winners under Heritage's proposal for IRA-type individual accounts would more likely be financial investment companies, which could reap administrative and management fees running into the tens of billions of dollars on the accounts of nearly 150 million workers.

Notes:

2. Social Security Administration, "Social Security and Hispanic-Americans: Some Basic Facts, July 1998."

3. "Comments on Heritage Rates of Return for Hispanic Americans," Memorandum from Stephen C. Goss, Deputy Chief Actuary, to Harry C. Ballantyne, Chief Actuary, Social Security Administration, April 2, 1998.

4. William W. Beach and Gareth G. Davis, "Social Security's Rate of Return," Heritage Foundation, January 1998, Table 1, p. 7.

6. General Accounting Office, *Social Security: Different Approaches for Addressing Program Solvency*, July 1998, p. 78.

7. Statement of Paul Yakoboski before the Senate Finance Committee, July 22, 1998.

8. General Accounting Office, "Social Security: Restoring Long-Term Solvency Will Require Difficult Choices," Testimony of Jane L. Ross before the Senate Special Committee on Aging, February 10, 1998, p. 11.

9. Statement by Peter Diamond, AARP-Concord Coalition Debate on Social Security, Albuquerque, July 27, 1998; Peter Diamond, "The Future of Social Security for this Generation and the Next: Proposals Regarding Personal Accounts," Testimony before the Subcommittee on Social Security of the House Committee on Ways and Means, June 18, 1998; Testimony of Henry J. Aaron before the Senate Committee on the Budget, July 23, 1998.

10. As Diamond has explained, with a one-percent annual charge on holdings in accounts, a dollar deposited in an individual account in the first year of a 40-year work career will be subject to the one percent fee 40 times, while a dollar deposited in the final year before retirement will be subject to the fee once. On average, dollars in the account will be subject to the one percent annual charge 20 times, so approximately 20 percent of the amounts deposited or earned by the account will be consumed by these charges.

11. Olivia S. Mitchell, James M. Porterba, and Mark J. Warshawsky, *New Evidence on the Money's Worth of Individual Annuities*, Cambridge, MA: National Bureau of Economic Research, April 1997.

12. General Accounting Office, *Social Security: Different approaches for Addressing Program Solutions*, July 1998, p. 6.

CENTER ON BUDGET
AND POLICY PRIORITIES

Statement of Robert Reischauer at the White House Forum on Social Security

Albuquerque, New Mexico
July 27 1998[1]

Many workers, particularly younger ones, are worried that they may not get a very good return on the payroll taxes that they and their employers are sending in to the Social Security system. They wonder whether some other type of pension system might give them a better payback than Social Security promises.

The answer to their question, of course, is "yes." A reformed and strengthened version of the current system can give workers better returns than those of the current system or those of any of the alternative structures that have been proposed.

To see why this is the case we need to look at the three reasons why returns on Social Security payroll taxes are relatively low for today's workers. One of these reasons, no rational person should want to change; another we can do nothing about; and the third we can and should act to correct. If we take this corrective step, Social Security will be able to pay higher average benefits than any of the various privatization plans could pay for similar levels of contributions.

The first reason why today's workers will get a rather low return on the Social Security taxes they pay is that a portion of their contributions — about $1 out of every $4 — goes not for retirement purposes but rather to provide disability and survivors insurance. Just like the fire insurance we all have on our homes and the collision insurance we purchase for our cars and trucks, none of us should want to have a high return on this portion of our contributions because that would mean that we had suffered either a disability that kept us from working or the death of a breadwinner.

The second reason why future retirees can expect low returns arises because most payroll tax dollars we send in for retirement purposes — some $13 out of every $15 — are used immediately to pay benefits to current retirees, our parents and grandparents. This practice dates back to 1939

we need to look at the three reasons why returns on Social Security payroll taxes are relatively low for today's workers. One of these reasons, no rational person should want to change; another we can do nothing about; and the third we can and should act to correct. If we take this corrective step, Social Security will be able to pay higher average benefits than any of the various privatization plans could pay for similar levels of contributions.

[1] Robert D. Reischauer is a senior fellow at the Brookings Institution. He is the former director of the Congressional Budget Office and is co-author of a forthcoming Century Fund-Brookings guide to the debate on Social Security reform. He also is a member of the Board of Directors of the Center on Budget and Policy Priorities.

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when Congress decided to pay relatively generous benefits to those who had contributed payroll taxes for only a portion of their working lives. Not until 1982 did workers who were 20 when the payroll tax was first imposed and, therefore, paid the tax during their entire careers, turn 65.

The decision to provide adequate retirement benefits to those who had not contributed to Social Security over their full careers was a fair and sensible one. Many of these workers had fought in World War I and had had their careers blighted by the Great Depression. Congress's decision greatly reduced the appalling incidence of poverty among the elderly. It allowed many to live independently and with dignity which benefitted all of society. But it also meant that workers' contributions were not building up as reserves that could support them when they retired. The result is the so-called unfunded liability — that is, the current promises Social Security has made to pay benefits in the future that are unmatched by reserves. Whether we retain the exiting system or privatize it, this unfunded liability will have to be met unless we renege on the benefits promised to today's elderly and near elderly. Dealing with the unfunded liability inescapably will reduce the returns workers can expect on their contributions.

The third reason for relatively low returns is the restriction that Social Security reserves be invested in safe, but low-yielding, government bonds. This restriction mattered little until recently because Social Security had only meager reserves to invest. After 1983, the system's reserves began to grow and by 1991 they exceeded the amount experts believe is necessary to maintain as a contingency fund to protect a pay-as-you-go system from the consequences of a deep recession.

Currently, the reserves total $725 billion — enough to finance two years of benefit payments — and by 2020 they will exceed $3.7 trillion dollars. If reforms are adopted, the reserves could easily swell to several times this level. So we are talking about a considerable amount of money — and what kind of returns these reserves earn can have a huge impact on the Social Security program.

Under current law, the reserves must be invested in government bonds that are expected to earn about 2.8 percent more than the rate of inflation. Investments in a prudently diversified portfolio of common stocks, corporate bonds, and government guaranteed securities could double that yield.

So why don't we invest these growing Social Security reserves in assets that would generate a better rate of return than government bonds pay? If we did that about half of the long-run financing problem facing Social Security would be resolved, thereby reducing the size of the benefit cuts or the payroll tax increases that would be needed to restore the system to full fiscal soundness.

To answer this question we should go back to 1935 and look at the two reasons why Congress decided to require Social Security to invest its reserves solely in government bonds. One was the economic conditions of the time. In the middle of the Great Depression, few people wanted to sock away their retirement nest eggs in the highly unstable stock and corporate bond markets.

The second and more important concern of Congress was that politicians — like themselves — might be tempted to use reserve investment policy to interfere with markets or meddle in activities of private businesses.

The concerns that Congress had in 1935 were certainly legitimate ones. But conditions have changed. Stock and bond markets are far larger, less volatile, and more efficient now than they were in the 1930s. The concept of investing passively in a broad index of bonds or stocks, which was unheard of then, is widely recommended for long-term investing today.

Furthermore, we can establish new institutions that can shield Social Security reserve investment decisions from political interference. This responsibility should be put in the hands of an independent entity patterned after the Federal Reserve Board. Its members would be chosen for their integrity and expertise for staggered terms of 10 or more years. The Board would be charged with selecting private sector fund managers through an open and competitive process. These fund managers would be required to invest the Social Security funds entrusted to them passively in stocks and bonds that reflected the broadest market indexes. As is the case now with the shares of stock owned by mutual funds, the managers would be required to vote Social Security's shares solely to protect the economic interests of their owners — that is, future retirees.

Switching from holding solely government bonds to holding government bonds, stocks, and corporate bonds is one, but not the only, step necessary to reform and strengthen Social Security. It is not a panacea or a silver bullet. Neither this step nor investing through private individual accounts would increase national saving as we must do; only benefit reductions or tax increases can do that. Furthermore, investing the reserves in stocks and bonds could push federal government borrowing rates a bit because private investors would have to be induced to buy the government bonds that Social Security would no longer hold.

Nevertheless, investing a portion of the growing Social Security reserves in private sector securities would give participants in the program a more equitable share of the benefit that increased Social Security reserves provide for the overall economy. Such a change would improve the return today's workers will get on their Social Security contributions without exposing them to the market risks and high administrative costs that would come if such investments were made through individual retirement accounts.

WOMEN AND A PRIVATIZED RETIREMENT

By Edith U. Fierst

When I was in my teens, a scandal in our small suburban town shocked the community. A husband of 20 years, father of four children, one of whom was my friend, a man deemed a pillar of society, walked out on his wife to marry another woman. Today a departure like his has become more commonplace, but when I was in high school, it didn't happen. Everyone, including the teenagers talked about it. But one subject we never considered was what the wife would live on as she approached old age in the years to come. She was short and fat, well into her fifties, unlikely to marry again, and a consummate housewife, unequipped to earn a living. Would the husband pay her adequate alimony? Suppose he died and the alimony expired, what would she then do?

Today many people, especially young women planning their lives, ask that question. One important answer is Social Security. Sometimes it is the only answer. Under current law, Social Security pays:

- *A spouse benefit* to a married woman or one divorced after 10 or more years of marriage. This benefit equals the difference between the Social Security benefit she earned herself and an amount equal to *half* of her husband's benefit if it is larger. The spouse benefit is payable while the husband lives.

- *A survivor benefit* to a widow or widower, including one who was divorced after 10 years of marriage. This benefit is the difference between the benefit she earned herself and the *full* amount of the worker's benefit, if it is larger.

Both spouse and survivor benefits are paid from the Social Security trust fund to those eligible. These benefits are guaranteed by law. Such benefits now provide a basic minimum income for millions of elderly women, enabling them to live with self-respect independent of their children. These benefits also provide invaluable peace of mind to younger women who know they can count on these benefits. To the extent Social Security were to be privatized, the financial independence and peace of mind that spouse and survivor benefits now provide to these women could greatly diminish.

Under privatization, payroll taxes would be directed into private individual accounts instead of into the trust fund. Control of the private accounts would vest in the worker who paid the tax. Any payment to the wife would come from payments that would otherwise go the worker, giving him an incentive to resist or limit sharing with her.

This would change the psychology of the financial relationship of the couple. Today no one objects to Social Security payments to a spouse, even if estranged or divorced, since the benefits are paid by the trust fund and *there is no reduction of benefits* *to the retiree himself.* Any woman who has been married 10 years or more is entitled to a spouse or survivor benefit based on marriage. Indeed, the earnings record of a much-married man could be the basis for benefits to several former spouses to whom he was married for 10 or more years, as well as to a current wife to whom he need not have been married that long. (Note: A woman may not collect benefits based on more than one marriage. Her spouse and survivor benefits are based on the earnings of the husband with the highest earnings, except that spouse benefits must be based on the earnings of her current husband if she married him before reaching age 60.)

To the extent benefits were privatized, payments to a spouse could depend on the willingness of the worker to share the funds in his personal account, as well as on the success of his investments. Since any benefits a current or former spouse received would come from his account, a retired worker would have an incentive to resist or limit such sharing. To be sure, under some partial privatization proposals, account owners would be required to purchase survivor annuities for their spouses unless the spouses waive their right to such benefits. Except for such limited requirements, however, privatized benefits would generally be under the unrestricted control of the retired worker, who would have complete freedom over how to spend them.

Payments to a spouse from the privatized portion of Social Security would compete with other uses the owner of the account might find necessary or appropriate. For example, the owner of a privatized account with good intentions might be forced to spend his savings on nursing home care for himself or his spouse. Similarly, the account-holder might buy a small business which later failed, leaving both husband and wife without adequate retirement funds. Or, as in the case of the family I knew in high school, the man might leave for another woman after many years in which his wife thought their marriage was happy, taking his money with him.

What could she do to assure he would help support her in old age, especially if she outlives him? One possibility is to seek assistance from the divorce courts, on the likely assumption that they would divide privatized funds as they now do other marital assets. To assure success, she might conclude she had to act before her husband retired. While divorce courts can award alimony whether the worker is working or retired, there may not be enough funds left after he retires and begins to spend some of the savings in his privatized account for him to be able purchase an adequate survivor annuity for his spouse. For this reason, privatization could even provide an incentive for some women to consider seeking a divorce. I can imagine a woman faced with a terrible dilemma — whether to risk eventual poverty or to act early to gain access to her husband's account before it is spent. Afterwards, it might be too late; there might be too little left for the court to divide.

Even divorce courts would not give women a benefit based on the lifetime earnings of their husbands. Divorce courts generally have jurisdiction to give the wife a share only of what was earned *during* marriage. By contrast, under current law, a wife's Social Security benefits are based on her husband's lifetime earnings, including those earned *before or after* their marriage.

Proponents of privatization sometimes argue that with women working more outside the home, the need for spouse and survivor benefits is diminishing and may soon vanish. The facts are otherwise. The Social Security actuaries estimate that among married women retiring in 2015, approximately 40 percent will continue to qualify for at least a partial spouse benefit.

Moreover, since few women earn as much or more over a lifetime as their husbands do, more than 80 percent of widows will continue to qualify for survivor benefits. As noted above, the benefits equal the husband's entire Social Security benefit. These widows will have earned less at their jobs, perhaps because their attention was divided during the years they were raising children, or because they chose to stay home for extended periods to bring up children, care for elderly parents, or serve in their community. All of these are life-style choices that would be at some risk under privatization.

Another major issue is how to be sure benefits will last a lifetime. The only way is for monthly benefits to be paid for life, as Social Security benefits are. By contrast, most privatization plans allow the retiree access to much or all of his savings at retirement. This means that many people may encounter difficulty spreading their retirement incomes over their and their spouse's lifetimes, whatever their intentions. At age 65, men have an average life expectancy of 15.3 years (to over age 80) and women an average of 19.1 years (to over age 84).

Those who want to protect themselves and their spouses against outliving their benefits could purchase private annuities, but private annuities are expensive. Experience has shown that those who buy them tend to live longer than the average for the population as a whole. Insurance companies and other private purveyors of lifetime annuities charge high prices to compensate for the likelihood of longer lives by their customers and to enable them to earn a profit.

Moreover, unless federal regulations preclude differential charges for annuities by sex, companies will charge women more for annuities or give them lower monthly annuity benefits, since on average women live to older ages than men.

Without annuities, what will keep elderly widows from destitution? Perhaps SSI, welfare for the elderly, which currently supplements the income of the elderly poor. But SSI raises the income of elderly individuals only to $494 a month for those with assets of less than $2,000 (excluding certain items such as a home, a car and prepaid funeral expenses). This is well below the poverty line.

Social Security not only pays a benefit every month for life but also provides an annual cost-of-living supplement to keep up with inflation. Because of the COLA,

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A Way to Improve Life for Elderly Widows

One change that has been proposed could make life more secure for elderly widows, who are the poorest component of the elderly population. More than 20 percent of them, including divorced widows, are below the poverty line. This proposal also would give women who have earned their own benefits a greater return for their taxes.

Under the proposal, survivor benefits would be increased from half to three-quarters of the husband and wife's combined benefits. For example, if husband and wife each had earned a benefit of $1,000 a month, under current law the survivor benefit would be $1,000 a month; under this proposal, it would rise to $1,500. If only one partner had worked, the benefit would remain at $1,000.

The beneficiaries of this change would be couples in which both had worked, especially if their earnings had been nearly the same. Researchers at the Social Security Administration estimate that the incomes of about one of every six poor widows who came on the rolls in 1990 would be raised above the poverty level by such a change.

The cost of this modification could be paid for mostly by reducing the spouse benefit from one-half to one-third of the husband's benefit. Of the 40 percent of married women who are expected to qualify for spouse benefits in 2015, many earn more than a third of their husbands' benefits and would keep their worker benefits. Those who did not would still get at least one-third of their husband's benefits. Over time, as women earn higher benefits themselves, such a reduction would affect fewer of them.

Further, most couples in which the wife has earned benefits less than one-third of her husband's are relatively affluent. This is what enabled them to work so little outside the home. The poverty rate among married couples, whether they are of working or retirement age, is less than six percent, while that for widows is more than three times as high.

Social Security never loses its purchasing power. Nothing similar is available in the private market.

The present discussion of privatization has arisen because Social Security is expected to have a shortfall in the 75 years ahead. This shortfall can be solved with modifications in Social Security, such as raising the retirement age modestly, bringing state and local employees under mandatory coverage, and taxing benefits in the same manner as other pension payments are taxed. Such changes are what we should be debating, not proposals that would significantly reduce the security of elderly women.

WOMEN AND RETIREMENT SECURITY

PREPARED BY THE NATIONAL ECONOMIC COUNCIL
INTERAGENCY WORKING GROUP ON SOCIAL SECURITY

OCTOBER 27, 1998

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- **Women Have Lower Income in Retirement than Men -- And Thus Higher Poverty.** In 1997, median income for elderly unmarried women (widowed, divorced, separated, and never married) was $11,161, compared with $14,769 for elderly unmarried men and $29,278 for elderly married couples. Thus, the poverty rate for elderly women was higher than that of men: in 1997, the poverty rate of elderly women was 13.1 percent, compared to 7.0 percent among men. Among unmarried elderly women, the poverty rate was significantly higher -- about 19 percent.

- **Social Security Is Particularly Important to Women.** Elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security. For 25 percent of unmarried women, Social Security is their only source of income, compared to 9 percent of married couples and 20 percent of unmarried men. Without Social Security benefits, the elderly poverty rate among women would have been 52.2 percent and among widows would have been 60.6 percent.

- **Women Face Greater Economic Challenges in Retirement.** First, women tend to live longer: a woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. Second, women have lower *lifetime* earnings than men do. And third, women reach retirement with smaller pensions and other assets than men do.

- **The Current Social Security System Has a Number of Features That Help Women Meet These Challenges.**

  1. Social Security provides an inflation-protected benefit that lasts as long as you live. Since women tend to live longer than men, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit.

  2. The progressive benefit formula provides a higher replacement rate for workers with lower earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.

  3. Social Security provides extra benefits to spouses with low lifetime earnings. The Social Security spousal benefit helps many women, even if they did not work at all outside the home.

  4. Social Security provides benefits to elderly widows; 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse.

  5. Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

- **Social Security Will Continue to Be Important for Women in the Future.** As the labor force participation rates of women continue to rise, women in the future will reach retirement with much more substantial earnings histories than in the past. Therefore, the percentage of women receiving benefits based solely on their own earnings history is expected to rise from 37 percent today to 60 percent in 2060. However, this means that 40 percent of women will continue to receive benefits based on their husband's earnings.

- **Poverty Rates Among Unmarried Elderly Women -- Especially Widows Who Make up 45 Percent of All Elderly Women -- Are High.** Divorced women are a growing share of the elderly population, and their poverty rate is higher than the overall elderly poverty rate. And finally, poverty rates among elderly minority groups are unacceptably high.

- **Among Current Retirees, Women Have Much Less Pension Coverage Than Men.** Only 30 percent of all women aged 65 or older were receiving a pension in 1994 (either worker or survivor benefits), compared to 48 percent of men.

- **Pensions Received by Women Are Worth Less than Those Received by Men.** Among new private sector pension annuity recipients in 1993-94, the median annual benefit for women was $4,800, or only half of the median benefit of $9,600 received by men. And among women approaching retirement, pension wealth is much smaller: for example, single women had average pension wealth that was 34 percent of the single men's average.

- **Among Workers, Women's Pension Coverage Depends on Work Status.** Overall, fewer women workers have pensions through work, 40 percent of women compared to 44 percent of men. However, women in full-time jobs are equally likely to have pension coverage as men; in 1997, 50 percent of women in full-time jobs had pensions compared to 49 percent of men. It is important to note, though, that women are much more likely to work part-time or be out of the labor force than men.

Women and Retirement Security

Over the course of this year, the Administration, Congress, and other interested parties have engaged Americans in a national debate about ways to strengthen Social Security for the 21st Century. President Clinton and Vice President Gore attended three bipartisan Social Security forums convened by the AARP and the Concord Coalition, and the President and Vice President hosted a conference on private retirement savings in July. One issue that has arisen repeatedly throughout this process is the relationship between Social Security and women's retirement security. The purpose of this report is to inform the national debate by presenting some of the key facts and issues about women and their Social Security benefits and pensions.

I. Basic Facts on Women and Retirement

- **Women Have Lower Income in Retirement than Men Do.** In 1997, median income for elderly unmarried women (widowed, divorced, separated, or never married) was $11,161, compared with $14,769 for elderly unmarried men and $29,278 for elderly married couples.[1]

- **Poverty Rates Among Elderly Women Are Higher Than Rates Among Men.** The poverty rate among Americans age 65 and over has fallen from 35.2 percent in 1959 to 10.5 percent today. The poverty rate for all elderly women was 13.1 percent in 1997, compared to a 7.0 percent rate for all elderly men.[2] And for unmarried elderly women, the poverty rate is even higher -- around 19 percent.

Poverty Rates of the Female Population 65 and Over by Marital Status, 1997[3]

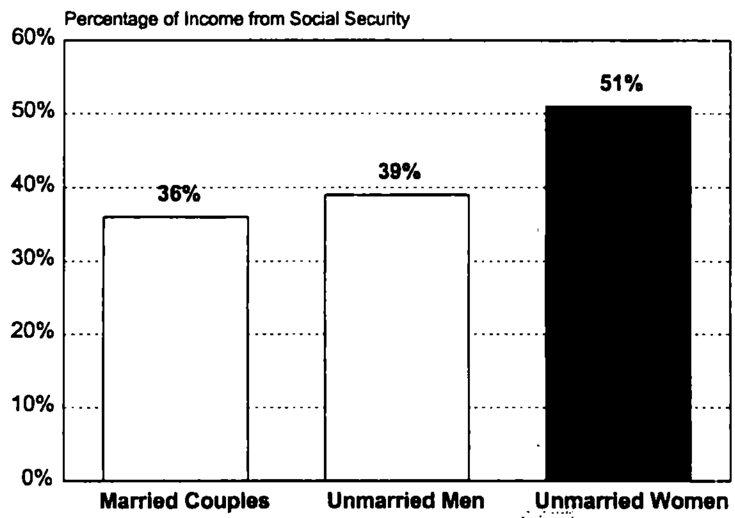
All Elderly Women	Married	Divorced	Widowed	Never Married
13.1%	4.6%	22.2%	18.0%	20.0%

- **Nearly 60 Percent of Elderly Women Are Unmarried.** The poverty rate among unmarried women is particularly important because 59 percent of elderly women are either widowed (45 percent), divorced (7 percent), separated (2 percent), or never married (5 percent). In contrast, only 27 percent of elderly men are unmarried.[4]

- **Social Security Is Particularly Important to Women.** Elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.[5]

Sources of Income for Persons 65 and Over, 1996 (percent of total income)					
	Social Security	**Pensions**	**Income from Assets**	**Earnings**	**Other**
Unmarried women	51%	15%	20%	10%	4%
Unmarried men	39	22	16	19	4
Married couples	36	20	18	25	1
All elderly	40	18	18	20	4

Social Security Is Particularly Important For Elderly Women



Source: Social Security Administration

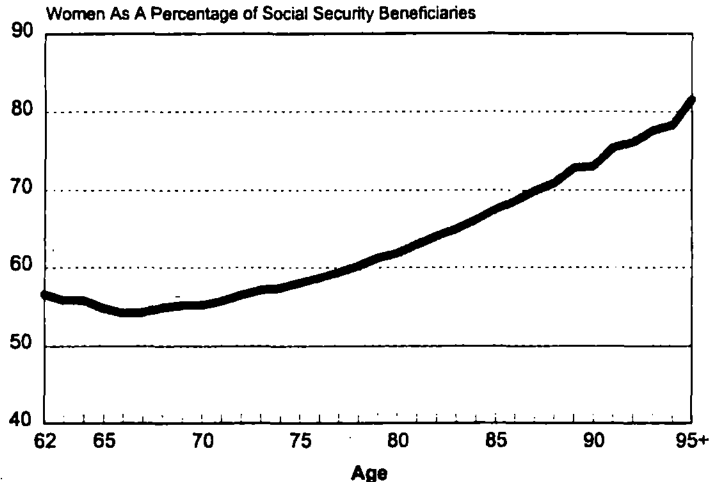
II. SOCIAL SECURITY AND WOMEN

- **Most Social Security Recipients Are Women.** Women represent 60 percent of all elderly Social Security recipients (women are 18.9 million of the 31.7 million aged beneficiaries).

- **Women Make Up Nearly Three Quarters -- 72 Percent -- of the Increasing Number of Americans Over 85 Years Old.** Because women live longer, on average, than men, women make up 72 percent of all beneficiaries age 85 and above.[6]

Most Social Security Beneficiaries Are Women

Among Oldest Beneficiaries Women Are An Even Larger Share

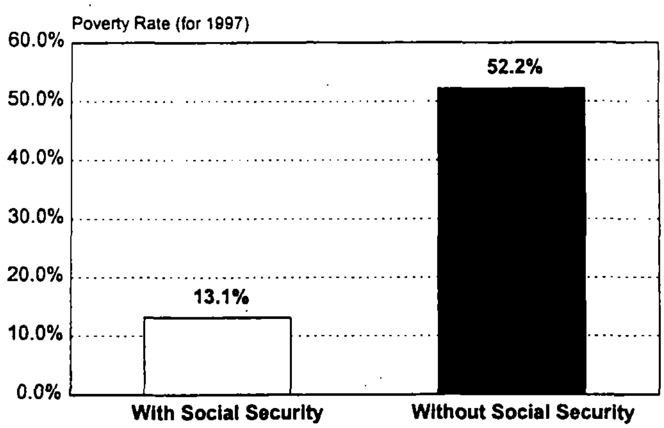


Source: Social Security Administration.

- **For Many Elderly Women, Social Security Is Their Only Source of Income.** For 25 percent of unmarried women (widowed, divorced, separated, never married), Social Security is their only source of income. Social Security is the only source of income for 9 percent of married couples and 20 percent of unmarried men.[7]

- **Excluding Social Security Benefits, the Poverty Rate among Elderly Women Would Be More Than 50 Percent.** In 1997, the poverty rate among elderly women was 13.1 percent. Without Social Security benefits it would have been 52.2 percent. For elderly widows the poverty rate was 18.0 percent; without Social Security benefits it would have been 60.6 percent. (For elderly men the rate is 7.0 percent, without Social Security it would be 40.7 percent.)[8]

Without Social Security, More than Half of Elderly Women Would Be in Poverty



Source: Social Security Administration

Why Women Face Greater Economic Challenges in Retirement

- **Women Live Longer than Men.** A woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81.[9] This gap is expected to persist into the future. Because women live longer, they depend on Social Security for more years, and become increasingly dependent on Social Security with age. Unmarried women between 65 and 74 years old get 43 percent of their income from Social Security, while unmarried women 75 and older get 55 percent of their income from Social Security.

Expected Total Lifetime for Persons Age 65		
Year Turning Age 65	**Male**	**Female**
1940	77.0	78.7
1998	81.2	84.8
2030	82.7	86.1

- **Women Have Lower Lifetime Earnings than Men.** Women have lower *lifetime* earnings than men do for three reasons:
  - **Women Who Work Are More Likely to Work Part-time.** In the third quarter of 1998, 25.8 percent of female workers worked part-time, compared with 10.6 percent of male workers. Women represented 67.5% of all part-time workers.[10]
  - **Full-time Female Workers Earn Less than Full-time Male Workers.** The median earnings of full-time year-round women workers in 1997 was $24,973, compared to $33,674 for men -- that means that the median woman earns 74 percent of the median man's earnings.[11]

- o **Women Take More Years Out of the Labor Force than Men Do.** Women are more likely to take time out of the labor force for child raising or other care giving responsibilities. Of workers retiring in 1996, the median woman had worked 27 years over her lifetime, while the median man had worked 39 years.[12]

- **Women Reach Retirement with Smaller Pensions and Other Assets than Men Do.** Only 30 percent of women aged 65 or older were receiving their own pensions in 1994 (either as a retired worker or a survivor), compared with 48 percent of men. Section IV describes issues related to women and pensions in more detail.

How the Current Social Security System Helps Women Meet Retirement Challenges

The current Social Security system has a number of features that are particularly important to women.

- **Social Security Provides an Inflation-Protected Benefit That Lasts as Long as You Live.** Although women receive lower average Social Security benefits than men do, women tend to live longer than men and to receive benefits for more years. In addition, because women live longer, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit. Furthermore, the cost of living protection in Social Security is more valuable the longer a person lives; therefore, this feature of the program is particularly valuable to women.

- **The Progressive Benefit Formula Provides a Higher Replacement Rate for Workers with Lower Earnings.** Since women tend to have lower earnings than men, they receive worker benefits that are a higher fraction of their lifetime earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.[13]

- **Social Security Provides Extra Benefits to Spouses with Low Lifetime Earnings.** Women are more likely than men to take time out of the labor force for child rearing, and, on average, have lower earnings when they work than men do. This means that the Social Security benefit they are entitled to -- based on their own earnings history -- can be small. But Social Security provides a spousal benefit that helps many women, even if they did not work at all outside the home. A spouse receives a benefit equal to the larger of the benefit she is entitled to based on her own earnings or one-half of the benefit received by her husband. Currently, 63 percent of female Social Security beneficiaries age 65 and over receive benefits based on their husband's earnings record. (Only 1.2 percent of male Social Security beneficiaries receive benefits based on their wife's earnings record). The result is women receive more than they would based only on their own earnings histories. While the average full benefit a women is entitled to based on her own earnings record is only 62 percent of that of men, the average benefit received by women is 75 percent of that of men.[14]

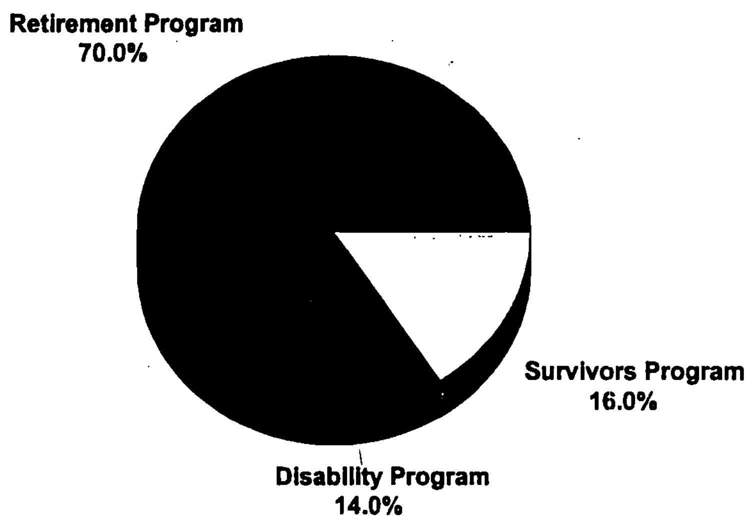
- **Social Security Provides Benefits for Widows.** Social Security pays an elderly widow a benefit equal to either the benefit she receives as a worker or the benefit of her deceased spouse, whichever is higher. Nearly three quarters -- 74 percent -- of elderly widows receive benefits based on the earnings of their deceased spouse.

- **Social Security Provides Benefits to Spouses with Young Children.** Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

    - **Nearly One-Third of Social Security Beneficiaries Are Either Disabled or Survivors (or Their Dependents).** Nearly one-third of Social Security's 44 million beneficiaries are either disabled or survivors (or their dependents). This includes 3.8 million children who receive benefits, with 1.9 million as survivors of deceased parents, 1.4 million as children of disabled workers, and 0.4 million as children of retired workers. Disability insurance (in case an individual becomes disabled and can't work) and survivors' insurance are each separately equivalent, for the average young family with two children, to an insurance policy of about $300,000.

Social Security Is More Than A Retirement Program

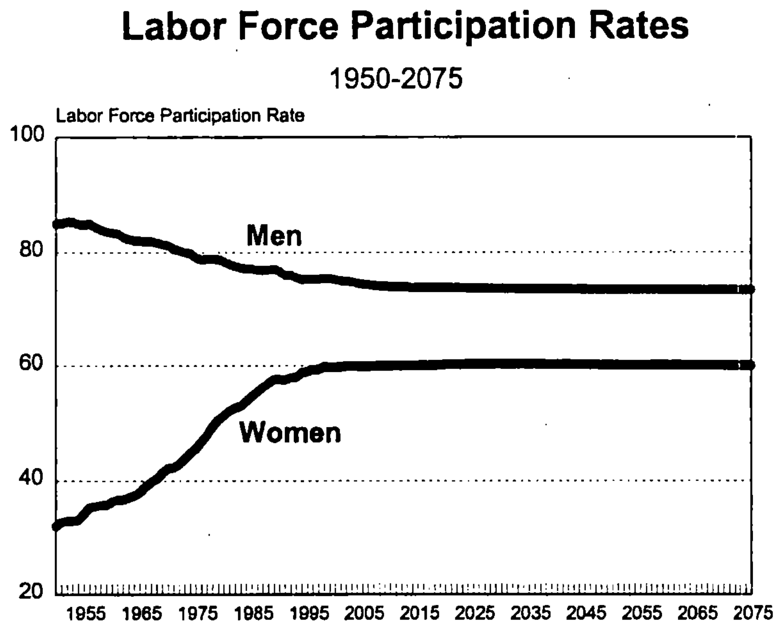
Percentage of Social Security Beneficiaries By Program



Will Social Security Continue to Be as Important for Women in the Future?

As younger cohorts of women reach retirement, more and more female beneficiaries will receive benefits based upon their own earnings records. Nonetheless, the average benefit received by women is expected to remain below that of men, and a significant share of women will continue to receive benefits based on their spouse's earnings record.

- **Labor Force Participation Rates among Women Have Risen Dramatically.** In the future, women will reach retirement with much more substantial earnings histories than in the past. (Male labor force participation has been falling due largely to earlier retirement).



Source: Social Security Administration. Data are age adjusted.

- **More Women Will Receive Benefits Based Solely On Their Own Earnings History.** The percentage of women receiving benefits based solely on their own earnings history is expected to rise from 37 percent today to 60 percent in 2060. However, this means that 40 percent of women will continue to receive benefits based on their husband's earnings.[15]

- **Average Benefits Based On Own Earnings Record Will Rise Relative to Men.** The average full monthly benefit for retired female workers based on their own earnings record, which is currently 62 percent of the average for men, will rise to 67 percent in 2050.[16]

- **Projections Indicate That Women Will Continue to Live Longer than Men.** The difference in life expectancy at age 65 between men and women will fall only slightly under Social Security Administration projections from a gap of 3.6 years today to 3.4 years in 2030. Thus, in the future, women will continue to depend on Social Security for more years than men will.[17]

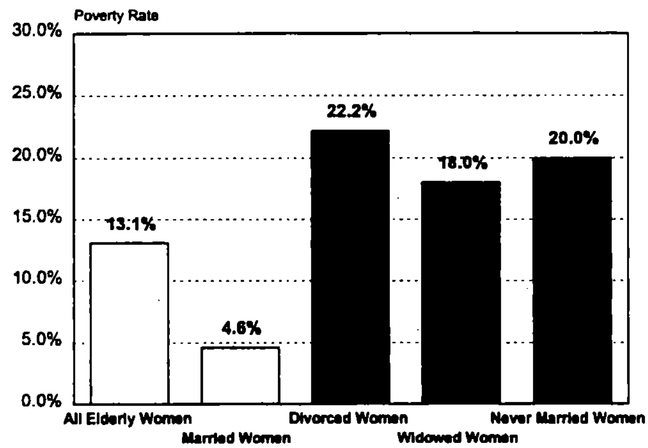
III. CHALLENGES FOR THE CURRENT SYSTEM

Poverty Rates Remain High Among Elderly Women

- **Poverty Rates Among the Elderly Have Fallen Dramatically, Due Largely to Social Security.** The poverty rate among Americans age 65 and over has fallen from 35.2 percent in 1959 to 15.2 percent in 1979 and 10.5 percent today. This compares with an overall poverty rate of 13.3 percent.

- **Poverty Rates among Widowed, Divorced, and Never Married Women Remain High.** The poverty rate for all elderly women was 13.1 percent in 1997, compared to a 7.0 percent rate for all elderly men. For both divorced and widowed women, poverty rates are significantly higher than men: the poverty rate is 22.2 percent for divorced women and 15.0 percent for divorced men and the poverty rate is 18.0 percent for widowed women and 11.4 percent for widowed men. Married couples had a poverty rate of only 4.6 percent.

Poverty Rates Are High
Among Unmarried Elderly Women
1997



Source: Social Security Administration, Based on Data from the Census Bureau.

- **Widows Make Up A Large Fraction of Elderly Women.** Of women 65 and over, 45 percent of women are widowed, 43 percent are married, 7 percent are divorced, and 5 percent are never married. This means that the high poverty rate among widows and other unmarried women affects a large share of elderly women.

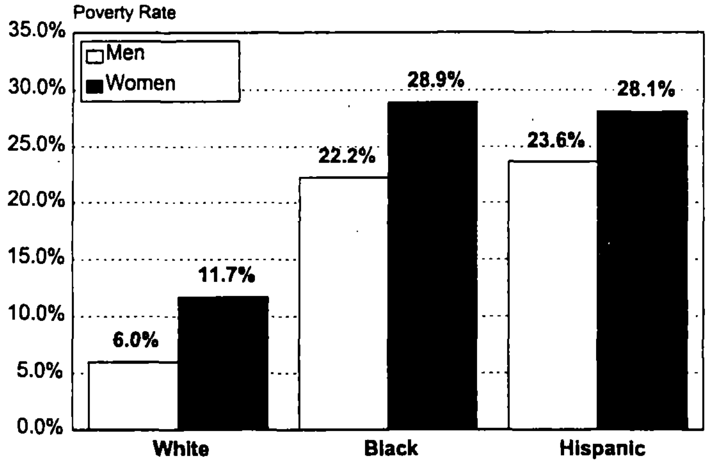
- **There Are Also a Substantial Number of Relatively Young Widows, Though the Number Is Falling.** Of 60-year old women, 13 percent are widows. This percentage rises to more than one-quarter of women aged 65 to 67. Because husbands in low-income families tend to die at younger ages than husbands in higher-income families, these early widows are often poor.

- **Divorced Women Are a Growing Share of the Elderly Population.** In 1997, 7.1 percent of elderly women were divorced -- this compares with only 2.2 percent in 1969. Among women approaching retirement (55-64 years old), 14.4 percent were divorced in 1997. Since divorced women have higher poverty rates than other women, this trend could lead to higher poverty rates for women in the future.

- **Poverty Rates Are Higher among Elderly Blacks and Hispanics.** The poverty rate for black women aged 65 or above is 28.9 percent, compared with 28.1 percent for Hispanic women, and 11.7 percent for white women. The poverty rate for black men aged 65 or above is 22.2 percent, compared with 23.6 percent for Hispanic men, and 6.0 percent for white men.

Poverty Rates Are Particularly High Among Elderly Minority Groups

1997



Source: Bureau of the Census

Reasons Why Poverty Rates Are Higher Among Widows than Among Married Women[18]

- **Declines in Social Security Benefits at Widowhood.** Widow benefits vary from 50 to 67 percent of benefits for a married couple. The official poverty thresholds imply that a widow needs 79 percent of a couple's income to maintain her pre-widowhood consumption level. Thus, women who are in couples just above the poverty line, can fall below the line when they become widowed. Empirical studies suggest that this factor can explain as much as half of the excess in poverty among widows.

- **Pre-Widowhood Differences in Economic Status.** Poorer husbands typically do not live as long as richer husbands. Therefore, at a given age, women who are widowed are more likely to have been poor throughout their lives than are the women whose husbands have not yet died. Empirical studies conclude that this fact explains around one third of the difference in poverty rates between married women and widows.[19]

- **Declines in Pension Income at Widowhood.** Research using data from the 1970s implies that roughly 15 percent of the gap in poverty between widows and married women can be explained by the loss of the husband's pension income. However, these data predate the Retirement Equity Act of 1984 which was designed to encourage the choice of a pension with survivorship rights.

- **Declines in Income from Other Assets at Widowhood.** Some assets may be bequeathed to people other than the widow or used for medical or other expenses when the widow's spouse dies. Empirical evidence suggests that the decline in other asset income is responsible for about 10 percent of the difference in poverty rates between widowed and married women.

Issues Concerning Benefits for Spouses who Work in the Home and Benefits Based on Paid Employment

- **Spousal Benefit Ensures Adequate Retirement Income.** A woman is eligible to receive a Social Security benefit that is 50 percent of her husband's benefit while her husband is alive, and a benefit that is 100 percent of her husband's benefit after he dies. These benefits reward women for work done in the home and ensure that all Americans have an adequate retirement income, even those with little paid employment. However, some people argue that spouse benefits are unfair because women with many years of paid employment can end up with benefits that are no larger than stay-at-home moms, and others point out that two families with identical total earnings can end up with different Social Security benefits depending on the division of the earnings between the two spouses.

IV. Women and Pensions

Social Security provides a key foundation for retirement security. Pensions and individual savings provide important resources as well. For elderly married couples, these other sources of income account for 64 percent of total income. For elderly unmarried females, these other sources account for 49 percent of total income.

Among Current Retirees, Women Have Much Less Pension Coverage Than Men

- **Women Are Less Likely To Have A Pension.** Only 30 percent of all women aged 65 or older were receiving a pension in 1994 (either worker or survivor benefits), compared to 48 percent of men.[20]

- **Lower Pension Coverage Among Private-Sector Workers.** Only 31 percent of women aged 65 or older (and 55 percent of men) who had worked in the private sector reported pension benefits, compared to 66 percent (and 75 percent of men) of public sector retirees.[21]

- **Pensions Received by Women Are Worth Less than Those Received by Men.** Among new private sector pension annuity recipients in 1993-94, the median annual benefit for women was $4,800, or only half of the median benefit of $9,600 received by men. The median pre-retirement wage replacement rate of annuity benefits was 20 percent for women, compared to 30 percent for men. Among lump sum pension recipients in 1993-94 who were age 40 and over, the median lump sum distribution was $5,000 for women and $14,475 for men.[22]

- **Among Women Approaching Retirement, Pension Wealth Is Much Smaller.** Single women had average pension wealth that was 34 percent of the single men's average. Among married people, the gender gap was even larger, with the women's average being only 25 percent of men's. These estimates include both private and public sector workers with and without pensions.[23]

401(k) Plan Take-up Rates

- **Women Are Less Likely To Take Up 401(k) Option When Offered.** Among private wage and salary workers offered a 401(k) plan in 1993, the overall participation rate was 62 percent for women and 70 percent for men.[24]

- **Lower Take Up Is Largely Explained By Lower Earnings.** The take-up rate is highly correlated with earnings. For example, while only 39 percent of workers earning less than $15,000 per year participate in a 401(k) plan when offered, 90 percent of workers earning $75,000 or more do so. Because men, on average, earn more than women, their overall take-up rates in 401(k) plans are higher. However, when wages are held constant the take-up rate for women is generally equal to or greater than that of men. Among workers earning less than $15,000 in 1993 the take-up rate was 41 percent for women compared to 35 percent for men. For workers earning from $30,000 to $40,000 the take-up rate was 75 percent for women and 72 percent for men.[25]

Among Workers, Women's Pension Coverage Depends on Work Status[26]

- **Overall, Fewer Women Have Pensions Through Work.** For all female workers -- both full time and part time -- 27 million (40 percent) had a pension plan through work in 1997. For all male workers, 34 million (44 percent) had an employment based pension.

- **In Full-time Jobs, Women Are Equally Likely To Have Pension Coverage.** Twenty five years ago, pension coverage for women in full-time jobs was only 70 percent of the rate for men. Today, the coverage rates are nearly identical. In 1997, 50 percent of women in full-time jobs had pension coverage, compared with 49 percent of men.

- **Coverage Is Significantly Lower for Part-time Workers.** Coverage is significantly lower for women who work part time. In 1997, 15 percent of women working part time were covered by pensions versus 50 percent working full time.

- **Women Are More Likely to Work Part-time or Be Out of the Labor Force than Men.** In 1997, 75 percent of men were in the labor force, versus 60 percent of women. In addition, over one fourth of working women were part-time, compared with one tenth of men.

- **Women Who Work Part time Are Less Likely To Work For Firms With Pension Plans.** In 1997, of the 48 million women workers employed full time, 30 million (63 percent) worked for a firm with a plan. Among the 20 million women employed part time in 1997, only 7 million (36 percent) worked for a firm sponsoring a pension plan.

- **Women Who Work Part time Are Less Likely to Participate in Pension Plans.** Among women employed by firms sponsoring pension plans, those employed on a part-time basis are far less likely to participate in the plan, primarily because plans often exclude employees working less than 1,000 hours per year. Of the 30 million full-time women workers in 1997 employed with firms with plans, 24 million (80 percent) participated in the plan. Of the 7 million part-time women workers employed by firms with plans, only 3 million (41 percent) participated in the plan.

- **Vesting Rate is Higher for Women Who Work Full time.** For women participating in a pension plan the vesting rate is higher for those who work full time, particularly for those with less than five years of service. In 1993, 64 percent of women with less than five years of service who were employed full time in private sector jobs reported that they were vested, compared to 56 percent of women employed part time. A total of 325,000 women with less than five-years of pension service in a part-time job reported that they were not vested.[27]

Women Have Smaller Non-Pension Wealth as Well.

- **Median Net Worth Is Lower for Women.** In 1993, the median female householder aged 65 or older had $9,560 in financial net worth (not including equity in own home). In comparison, the median male householder had $12,927, and the median married couple had $44,410.[28]

V. Conclusion

As discussions of Social Security reform continue, it will be important to study the impacts of comprehensive reform proposals on women. The design of reforms must take into account, not only the current characteristics of elderly women, but also the changes in their needs that are likely to come about in the 21st century as more women with long work histories reach retirement. In addition, reforms should consider the entire range of sources of retirement income available to women and how Social Security can best fit into the overall retirement security package.

ENDNOTES

1. Social Security Administration, Office of Policy, October 1998.

2. Bureau of the Census, *Poverty in the United States: 1997,* September 1998.

3. Social Security Administration, Office of Policy, October 1998.

4. Social Security Administration, Office of Policy, October 1998.

5. Social Security Administration, Office of Policy, October 1998.

6. Social Security Administration, Office of the Chief Actuary, October 1998.

7. Social Security Administration, Office of Policy, October 1998.

8. These calculations make the assumption that other income would not change if Social Security were not available.

9. Social Security Administration, Office of the Chief Actuary.

10. Bureau of Labor Statistics, Current Population Survey, October 1998.

11. Social Security Administration, Office of Policy, October 1998.

12. Social Security Administration, Office of the Chief Actuary, October 1998.

13. Social Security Administration, Office of the Chief Actuary.

14. The average benefit based on women's own earnings is the average for only those women claiming benefits as retired workers. Thus, it does not include the 37.5 percent of aged female beneficiaries who receive benefits as wives or widows only. Including these additional beneficiaries with full "worker" benefits of zero in the average would reduce the average full benefit for women as a share of the average full benefit for men to 39 percent.

15. Social Security Administration, Office of the Actuary.

16. The average benefit for retired female workers based on their own earnings records is calculated using only those women claiming benefits as retired workers. In the future, increased labor market experience will be divided between increased years of work for women who already have been receiving retired worker benefits, and additional women becoming eligible for worker benefits. As more women claim benefits as retired workers, many of the additional women will have earnings below the average for women already claiming as retired workers. This expansion of the population used in calculating the average explains in part why the average is forecast to rise only from 62 to 67 percent of the average for men even as cohorts of women retire with much greater labor market experience.

17. Social Security Administration, Office of the Actuary.

18. The subsequent estimates are based on integrating evidence from a number of studies, including the following: Hurd, Michael D. (1990). "Research on the Elderly: Economic Status, Retirement, and Consumption Savings," *Journal of Economic Literature*, XXVIII(2): 565-637. Holden, Karen (forthcoming). "Insuring Against the Consequences of Widowhood in a Reformed Social Security System," In National Academy of Social Insurance, *Framing the Social Security Debate: Values, Politics, and Economics*, Brookings Institute. Holden, Karen C., Richard V. Burkhauser, and Daniel A. Myers (1986). "Income Transitions at Older Stages of Life: The Dynamics of Poverty," *The Gerontologist*, 26(3): 292-297.

19. Holden, Karen (forthcoming). "Insuring Against the Consequences of Widowhood in a Reformed Social Security System," In National Academy of Social Insurance, *Framing the Social Security Debate: Values, Politics, and Economics*, Brookings Institution. Holden, Karen C., Richard V. Burkhauser, and Daniel A. Myers (1986). "Income Transitions at Older Stages of Life: The Dynamics of Poverty," *The Gerontologist*, 26(3): 292-297.

20. Department of Labor, Current Population Survey, September 1994.

21. Department of Labor, Current Population Survey, September 1994.

22. Department of Labor, Current Population Survey, September 1994.

23. Gustman, Alan, Olivia Mitchell, Andrew Samwick, and Tom Steinmeier. Forthcoming. "Pension and Social Security Wealth in the Health and Retirement Study." *Wealth, Work, and Health: Innovations in Measurement in the Social Sciences*, editors, James P. Smith and Robert Willis. Ann Arbor, Michigan: University of Michigan Press.

24. Department of Labor, Current Population Survey, April 1993.

25. Department of Labor, Current Population Survey, April 1993.

26. Unless otherwise noted, data in this section are from the Department of Labor, Current Population Survey, March 1998.

27. Department of Labor, Current Population Survey, April 1993.

28. Bureau of the Census, *Asset Ownership of Households: 1993*, August 1995.

SOCIAL SECURITY IN THE 21ST CENTURY

ERIC R. KINGSON
JAMES H. SCHULZ

CHAPTER 2

The Historical Development of Social Security in the United States

EDWARD D. BERKOWITZ

This essay uses history to consider how policy debates in Social Security and the related Medicare program have unfolded over time. In this context, Social Security refers to the Old-Age Insurance program initiated by the Social Security Act in 1935 that has grown into today's Old-Age, Survivors, and Disability Insurance. Medicare refers to Hospital Insurance (HI) and Supplementary Medical Insurance (SMI). The objective is to examine the major issues in Social Security (and the related Medicare program) from the point of view of the policymakers who faced those issues as they arose. In this manner, the current Social Security program becomes the product of its past. Contemporary issues such as the stability of Social Security financing, the adequacy of benefits, and the control of disability expenditures acquire a new dimension when they are observed over time.

Historians rely on the concept of periodization to categorize change. In the case of Social Security, one might think of four distinct periods. Before 1935 the very concept of social insurance struggled to gain legitimacy in a political order that emphasized private and local initiative. Between 1935 and 1950, Social Security fought for its survival in the face of considerable competition from Old Age Assistance, a welfare program that was more easily implemented in most states than was Social Security. Between 1951 and 1972, the program entered into a period of incremental expansion combined with considerable political debate over extending its boundaries to include disability and health care and over the passage of health insurance for the elderly. In the period after 1972, Social Security faced challenges from critics who objected to growing cost, unstable financing patterns, and heavy reliance on a public approach to private savings.

THE SOCIAL SECURITY ACT OF 1935

Historians continue to debate the true origins of Social Security, with its reliance on the social insurance approach and on the federal government to collect payroll taxes. Some see it as a response to industrialism. Others regard the pressure exerted by the elderly themselves, acting through mass movements such as that spawned by Dr. Townsend, who promised every elderly citizen $200 a month, as the decisive factor in Social Security's passage. Still others regard Social Security as a reaction to the internal crises of American capitalism during the depression decade.

If the program was a response to industrialism, this response came far later in this country than in western Europe. The German government gave serious consideration to the passage of social insurance measures in 1878, and by 1884 that country had created a workers' compensation and a sickness insurance program. To cite another example, 11 countries adopted compulsory unemployment compensation laws between 1919 and 1930. Identifying the reasons for the arrival of social insurance in western Europe and the relative delay of similar measures in the United States has occupied the talents of a generation of social scientists.

The growth of an industrial economy facilitated the development of social insurance programs in all of the countries, even though each country created such programs from within a distinctive political culture. The development of an industrial economy does not explain why one country adopted social insurance before another; yet it does provide a broad explanation for the phenomenon. In particular, social insurance depends, as Thompson and Upp discuss in the previous chapter, on a pooling of risk, so that, for example, workers can set aside money to cover the contingencies of ill health, disability, and old age. It requires an economic surplus in order to accomplish this pooling of risk. By increasing the productivity of individual workers and widening the margin between actual and subsistence incomes, industrialism was the economic means by which western nations accomplished this surplus.

Industrialism also introduced new rhythms to working life. Although agricultural work was dangerous and insecure, workers experienced a continuous relationship to their work. On a farm, even under conditions of crop failure, the concept of unemployment made little sense: there was always work to do. Similarly, retirement was something alien to the agrarian experience, since people of all ages could contribute to farm work. In an industrial economy, however, workers often found their work interrupted by stoppages over which they had no control. Also, employers prized efficiency and tended to lay off those who could not match the pace of production. Hence, unemployment entered the modern lexicon. Social insurance, in this sense, marked a response to involuntary unemployment. It was a means of harnessing industrial productivity to cushion some of its shocks.

The appeal of social insurance was as great in America as in western Europe; yet we chose to handle the problems of industrial insecurity differently. Our first large system of social benefits aided veterans of the Civil War, not veterans of industry (Skocpol, 1992). Our second large system of social benefits, created around 1912, provided social insurance through workers' compensation, programs designed to protect against risks related to work-related injuries. Yet we relied heavily on state governments and private insurance companies to deliver the actual benefits. In the progressive era, we experimented with survivors' benefits in the form of means-tested widows' pensions; yet in this program, as in workers' compensation, the administrative burden fell on state, and even county, governments. In the 1920s, we offered a very fragmentary program of means-tested, old-age pensions that reached only a small portion of those in need. In the United States, therefore, we chose to deal with the problems of industrialism in ways that privileged veterans over civilians, local over national government, and private over public sector.

At the same time, a strong movement for social insurance existed in this country, beginning in the progressive era, gaining strength among workers' compensation administrators, and culminating in the work of academic economists and state administrators in such places as Wisconsin. The depression provided a sense of crisis and a change of political regime. Those conditions made it possible for a group of social insurance advocates to gain influence over the nation's political agenda and to create what became the Social Security Act of 1935.

In the most immediate sense, then, the Social Security Act was the product of a report from the Committee on Economic Security. Created by President Roosevelt in the early summer of 1934, the committee was chaired by Secretary of Labor Frances Perkins. Social insurance experts staffed the committee from top to bottom, practically guaranteeing that it would recommend creation of a social insurance program to cover the risks of old age and unemployment (Altmeyer, 1996; Witte, 1963).

In 1934, social insurance, to which the committee staff was intellectually predisposed, also met pragmatic political needs. It depended on the taxing power of the federal government, which was explicitly sanctioned by the Constitution. Indeed, the need to gain approval of the Supreme Court figured prominently in the committee's discussions. Social insurance relied on payroll taxes that supplied a source of revenue independent of income and other taxes. At the time, the income tax provided a very uncertain means of collecting money for social projects. As Mark Leff has noted (1984, p. 46), the "narrow base" of the income tax limited its expansion and made it an unreliable vehicle for covering Social Security's obligations; it was an era in which 95 percent of Americans paid no income taxes. The alternative was payroll taxes or some combination of general revenues and payroll taxes.

As matters turned out, the exact structure of the Social Security tax plan became an object of considerable controversy among the president's advisors. At issue was how to schedule the taxes over time and how to blend payroll taxes and general revenues. The staff working on the problem decided to recommend a gradually rising tax rate that would accommodate the growing number of people who would retire in the future. The tax would begin in 1937 at a rate of 2 percent, split evenly between the employer and the employee, and rise every two years until it reached 5 percent in 1957. According to the staff's calculations, which were subject to the vagaries of trying to predict population, wage levels, and unemployment rates into the future, the system would develop a deficit by about 1967. At that time, should such a deficit develop, the government could remedy it by adding general revenues.

President Roosevelt objected to this formulation and insisted that the tax rates be redrawn so as not to allow a deficit. Accordingly, the committee staff substituted a plan, which Treasury Secretary Morgenthau presented to Congress toward the end of the Ways and Means Committee's hearings on the bill, in which the combined employer and employee tax rate reached 6 percent by 1949. Employers and employees would pay taxes on the first $3,000 of the employee's income (Berkowitz, 1991).

Requesting only this reworking of the tax rates, Roosevelt passed the committee's recommendations along to Congress in the beginning of 1935. Congress reacted politely, as it might to any administration proposal that followed the election of 1934. At the same time, no ground swell developed in support of social insurance programs because they did not affect the major problems of relieving the victims of the depression. Old-age insurance and unemployment compensation, two social insurance programs proposed by the committee, bore little relationship to the urgent business of coping with the consequences of massive unemployment or the poverty of old age. To aid people in immediate distress, states would have to continue to depend on their old poor laws, supplemented by federal emergency public works programs (Berkowitz and McQuaid, 1991).

Despite this problem, President Roosevelt persevered. At several points, Congress threatened to drop old-age insurance from the omnibus economic security bill, which also included welfare (aid to the elderly, the blind, and dependent children), unemployment compensation, vocational rehabilitation, child welfare, and public health components. The president insisted that the various parts of the legislation be kept together. As a consequence, Congress passed a federally administered old-age insurance program for industrial and commercial workers, funded by payroll taxes that initially amounted to 2 percent of the employee's first $3,000 in wages. Then, as now, employers and employees split the tax. One percent was deducted from an employee's paycheck, and 1 percent was paid by the employer. The only issue concerning old-age insurance that animated Congress concerned the right of people who already had private pensions not to participate in the government's new program. After considerable debate, Congress rejected the notion of voluntary participation—what became known as the Clark plan, after its Senate sponsor Bennett Champ Clark (D-Missouri).

THE STRUGGLE FOR SURVIVAL, 1935–1950

The formulation of the legislation and its presentation to Congress had important implications for the future of Social Security policy. Because the bill rested on the government's power to tax, it went to the tax committees in Congress. By 1939, provisions were worked out in which the money collected for Social Security was automatically placed in a trust fund. That meant that the Social Security program bypassed the appropriations process and became the exclusive preserve of the House Ways and Means and Senate Finance committees in Congress. That, in turn, provided a source of continuity and support for the program that other social welfare programs, which had constantly to fight for appropriations, lacked (Derthick, 1979).

Despite this advantage, the Social Security program initially had far more liabilities than assets. In the years between 1935 and 1939, issues related to the long-term financing of the program dominated the policy agenda. Between 1939 and 1950, the chief issues concerned the competition between Social Security and welfare over which would become the dominant program in aiding the elderly. Legislation in 1939 settled the financing issue, and important amendments in 1950 ended much of the competition between Social Security and welfare. The entire period between 1935 and 1950 might be thought of as one of political peril for the Social Security program.

The problems had several dimensions. One concerned the relationship of contributions to benefits. Social insurance, by definition, depended on what I have described as the "pay to play rule" (1991, p. 21). Someone who contributed nothing received nothing from the program. That meant that someone already old in 1935 could not expect a pension, undermining the program's relevance as a vehicle for providing a floor of protection for the old. Those nearing retirement age who contributed only a little to the program could expect little back from the program. To bolster the pensions of those nearing retirement age, the program relied on the contributions of younger workers to supplement those of older workers, a feature that greatly complicated the financing plans.

Another dimension of the problem was that the program would show up as a payroll tax before it began to pay benefits. This situation created political vulnerabilities that faced any program that relied on a tax and raised questions related to the role that the tax would play in macroeconomic policy. A final dimension of the problem was inherent in the long-run financing of the program, if it were to be self-supporting from payroll taxes. At first, the costs of the program would be low. Over time, as more people who had contributed to the system retired, these costs would rise. The question arose as to whether the system might prefund its liabilities. If it were not to use general revenues, then payroll taxes would have to be set so as to yield early surpluses that could then be used to pay later expenses. The alternative was for early program participants to pay very low taxes and later program participants to pay much higher taxes.

Each of these problems posed early stumbling blocks to the expansion of the system that were not resolved until 1950. The fact that so few people initially benefitted from the program meant that welfare programs for the elderly became more popular than Social Security. State welfare programs for the elderly, known as public assistance programs, were subsidized by the federal government through general revenues. Under the terms of the Social Security Act, the federal government agreed to match the first $15 that the state contributed toward the pension of an elderly person. These state administered pensions were gratuities, not entitlements. The states awarded them only to people who could prove they were poor and reserved the right to rescind them for such things as immoral behavior. Still, old-age assistance (welfare) reached far more people and paid much higher benefits than did old-age insurance (social insurance or Social Security) in the period between 1935 and 1950. As Mark Leff (1988), Brian Gratton (C. Haber and Gratton, 1994), and other historians have noted, over a fifth of the elderly population received old-age assistance payments by the end of the 1940s; in a few states, such as Colorado and Louisiana, the percentage was over one-half. Not only did more of the elderly receive old-age assistance than old-age insurance, but also the welfare benefits were, on average, 70 percent higher than the Social Security benefits (Achenbaum, 1986).

In this situation, many people questioned the purpose of Social Security taxes. The program appeared to lack social relevance, and the taxes created macroeconomic difficulties. Congress reacted to this situation by simply abandoning plans to raise Social Security taxes every three years. In 1939, before the tax raise sched-

uled for 1940, Congress opted instead to maintain the current tax rate. Each time a scheduled benefit increase approached, in 1943, 1946, and 1949, Congress voted to freeze the tax rate at its 1937 level. In 1947, the Republican Congress seriously considered reducing *future* payroll tax raises, dropping future maximums from 3 percent to 2 percent. The tax rate did not rise until 1950; the "taxable wage base" did not increase until 1951 (Leff, 1988; Derthick, 1979).

Part of the reason for abandoning plans to raise taxes was a fear that, contrary to the president's desires in 1935, the program's liabilities could not be prefunded by building up a large reserve. The "reserve fund" became an object of ridicule from both the Left and the Right. Conservatives, such as presidential candidate Alfred Landon, branded the plans for a Social Security fund a "cruel hoax." Liberals, such as those associated with the CIO, could not see the point of building up a large reserve when current economic conditions were so bleak and the needs of the elderly so pressing (Berkowitz, 1983). In 1939, by expanding the range of benefits to include survivors' benefits, deciding that married couples should receive higher benefits than single workers, and lowering the size of the reserve fund, Congress helped to ease some of the pressure on the program, but Congress could not assure the program's long-term survival.

The program remained in precarious condition through the 1940s. The whipsawing of the economy from depression to prosperity failed, at least initially, to increase the popularity of what was then known as old-age and survivors insurance. The administrators tried to position themselves for a postwar recession. In 1941, for example, Arthur Altmeyer, the chairman of the Social Security Board, argued that the Social Security program could tax workers' wages in a time of prosperity and become a vehicle for social spending in a time of depression. His immediate proposal was for a greatly expanded federal social insurance program that would retain old-age and survivors' benefits and add disability, unemployment, and health insurance benefits to the system. He hoped that the new program would cover more of the labor force and pay substantially higher benefits than the existing Social Security program.

Congress rejected nearly all of Altmeyer's suggestions, but if it had acquiesced in the plan, the expanded Social Security program would have run a substantial normal surplus and made an estimated $1.7 billion available for the Treasury to spend on defense.[1] Then, after the war, if a depression of 1930s magnitude had developed, the new Social Security program would have supplied a sustained purchasing power of at least $6 billion per year. Such devices as the federal government paying 26 weeks of unemployment benefits would have pumped billions into the economy.[2]

Despite this appeal to the fear of a postwar depression, Social Security administrators failed to advance their plan. With a war to pursue and a conservative Congress with which to contend, President Roosevelt hesitated to put the Social Security proposals at the top of his agenda. When the postwar depression failed to materialize, the plans of the Social Security administrators were thrown into further disarray. Social Security appeared to have lost its urgency during the war and the immediate postwar eras. The welfare program appeared more than able to take up the slack. As Congress refused to countenance increases in the Social Security tax rate, it twice took the time to raise the level of federal contributions to the welfare program.

The work of an advisory council that met in 1947 and 1948 helped to rescue the Social Security program from its early dilemmas. This council, relying heavily upon data generated by the Social Security Administration and on staff director Robert Ball's ability to tutor the members on the fundamentals of social security without appearing to dictate to them, issued a series of reports between April and December of 1948. The key report on old-age and survivors insurance arrived in April. The council accepted the Social Security Administration's social policy formulation that equated preventing dependency and reducing the need for public assistance. The best way to lower the public assistance rate, according to the council, was to extend Social Security. In this manner, the council came to recommend a major expansion (report reprinted in W. Haber and Cohen, 1948).

On August 28, 1950, after considerable congressional scrutiny and debate, the recommendations of the advisory council became law. Through this law, the proponents of Social Security gained much of what they wanted: a greatly expanded social security program that paid substantially higher benefits. The increase in benefits was 77 percent. Further, the impasse over Social Security taxes was broken. Congress agreed to raise the tax level to 3 percent and to raise the taxable wage base from $3,000 to $3,600. Once again, Congress, reaffirming the principle that the system should never have to depend on general revenues, included a schedule of future tax increases in the measure, with a maximum rate of 6.5 percent to be reached in 1970. The 1950 law also added a new feature to the tax. A majority of self-employed persons received Social Security coverage, at a tax rate of 2.25 percent of taxable payroll. This change meant that the program no longer was limited to commercial and industrial employees. Instead, self-employed persons could pay Social Security taxes through their income tax returns. Arthur Altmeyer, who remained in charge of the program throughout the Roosevelt and Truman years, later termed the 1950 law "crucial" to Social Security's survival. It meant that Social Security had finally attained parity with welfare (Achenbaum, 1986; Altmeyer, 1966, p. 169).

What produced these amendments? One explanation began with the fact that unions, particularly those in the coal, steel, and automobile industries, had recently secured more adequate retirement pensions from employers. These collectively bargained agreements provided for pensions that took Social Security benefits into account. In agreeing to this provision, the unions gave the employers an incentive to favor higher social security benefits. Social Security, the argument went, was cheaper for employers than private pensions. Among other things, employees contributed to Social Security pensions, and the program contained special benefits for low-income workers. So, when the time came to testify on the 1950 Social Security amendments, the union leaders did so enthusiastically, and the business leaders did not oppose higher Social Security benefits. This coalition made higher benefits possible (Cohen, 1951; Quadagno, 1988).

For Social Security's supporters, the 1950 amendments became a source of almost instant satisfaction. In an article that appeared early in 1952, Wilbur Cohen, an important figure within the Social Security Administration, described 1951 as a milestone year. He noted that in February 1951, for the first time in the nation's history, more people received Old-Age Insurance than received Old-Age Assistance. In August 1951, also for the first time in the nation's history, the total amount of insurance payments exceeded the amount of Old-Age Assistance payments (Cohen,

INCREMENTAL EXPANSION AND DEBATES OVER DISABILITY AND HEALTH CARE, 1951–1972

In the period between 1950 and 1954, the issues in Social Security policy shifted from the program's survival to the program's expansion. In this period, policymakers learned how to harness postwar prosperity as a force to expand benefits. By 1954, support for the program had become truly bipartisan, with the Republican Eisenhower administration as invested in Social Security as the preceding Democratic administrations had been.

1. The Bipartisan Politics of Incremental Expansion

After 1950, the incremental engine of Social Security expansion kicked into high gear. If past experience served as a guide, the Korean War should have made the passage of Social Security legislation almost impossible. It had taken Congress 11 years to amend the Social Security program in a significant way. The 1940s passed without a single major development in the old-age insurance law. Since Congress had devoted so much time and energy to Social Security in 1949 and 1950, and since the country was fighting a war, one could expect another long hibernation period.

Although they recognized that many factors worked against an increase in benefits in 1952, the bureaucratic leaders of Social Security believed that Social Security benefits should nonetheless be increased for reasons related to the actuarial traditions of the Social Security Administration and the state of the economy. In making long-run estimates of the program's costs, the actuaries established a number of conventions. One crucial assumption was to base cost estimates on a level average annual wage. In the postwar era, this assumption flew in the face of reality. "No economist today would maintain that the trend in wages which has been so clearly upward will suddenly become level for the next 50 years," noted two exasperated economists in 1951. The actuaries, in their defense, argued that it would be inappropriate to show a rising wage rate in combination with a static benefit formula. That would seriously understate the costs of the program. Instead, the actuaries chose to overstate the costs by, in effect, consistently underestimating the increased revenues that would come from rising wage levels (Killingsworth and Schroeder, 1951, pp. 207–208).

That meant that the program was always receiving windfalls. In 1944, for example, the trust fund received $1.4 billion, and the program spent only $238 million on benefits, occasioning a large net growth in the trust fund (for these and other data see the various issues of *Social Security Bulletin: Annual Statistical Supplement*). In 1944, of course, the government needed the revenue collected for Social Security to finance the war effort. After the war, the Republican Congress halted any plans to expand Social Security. Social Security supporters hoped that the 1950s would be different and that part of the Social Security surplus created by rising wage rates would be spent on increased benefits. The fact that more people were insured by Social Security (the percentage of insured workers went up to 78 percent by 1960) because of the 1950 amendments provided one source of encouragement. More congressmen had a stake in Social Security benefit increases in the

1950s than in the 1940s. The 1950 increase in benefit levels also made Social Security more attractive in the 1950s than in the 1940s, as did the newfound union and management support for the program. So Social Security advocates hoped that rising wages after 1950 might occasion a benefit increase in 1952.

The irresistible thing was that, because of rising wages, benefits could be increased without raising the tax rates already specified in the 1950 law. At the time, Wilbur Cohen referred to this phenomenon as a "miracle" that made it possible to change the system "without changing the contributions of the program or impairing the actuarial soundness of the system" (quoted in Berkowitz, 1995). The members of the Ways and Means Committee, some of whom had acquired expertise in Social Security while working on the 1950 amendments, understood the opportunity they had in 1952 to raise benefits without any sort of tax increase.

Chairman Robert Doughton (D-North Carolina) decided to introduce a comprehensive Social Security bill. This bill moved quickly through the Ways and Means Committee. It took a year and a half for Congress to consider the 1950 amendments. In this instance, Ways and Means Committee decided to skip hearings altogether and reported the 1952 bill out in four days. Although this bill failed to pass for reasons related to the politics of disability insurance, Representative Daniel Reed (R-New York), the ranking Republican on the Committee, soon introduced another Social Security bill that included an increase in Social Security benefits. For the first time, the Republicans and the Democrats agreed on the political desirability of an increase in Social Security benefits, and both thought that such an increase would be helpful to them in an election year. Four weeks after the introduction of Reed's bill, the House voted to reconsider and pass Doughton's original bill. On June 26, 1952, the Senate passed its version of the bill by a voice vote. The bill, complete with a 15 percent raise in benefit levels, became law on July 18, 1952.

As Wilbur Cohen reported in his private correspondence, the legislation "gets us away from the idea that OASI is a depression phenomenon and that it will be another 10 years before benefits can be increased."[3] Cohen astutely grasped the fact that the 1952 amendments were different, that they were the first of what would be a steady stream of incremental expansions of Social Security, the first bipartisan endorsement of the program, the first real manifestation of Social Security's political popularity.

In 1952, with the program finally in high gear, the election of Republican Dwight D. Eisenhower posed another problem for the program's expansion. As matters turned out, even a change in political regime in both the presidency and the Congress failed to halt the growth of Social Security. When President Eisenhower delivered his State of the Union message on February 2, 1953, he recommended that the "old-age and survivors insurance law should promptly be extended to cover millions of citizens who have been left out of the Social Security system" (quoted in Cohen, Ball, and Myers, 1954, p. 16).

After a brief period in which the administration considered converting Social Security to a noncontributory old-age pension similar to the Townsend plan of the 1930s, things once again fell in place for the expansion of Social Security in the fall of 1953. The administration conducted an intensive internal review that fall to prepare a comprehensive Social Security bill that would be ready in January. In November Wilbur Cohen reported to Altmeyer, who had retired from the government, that, "After much travail I think the recommendations will be on the constructive side. We have shed a lot of blood in the process but we are eating lots of red blood to make up for our loss."[4] As these comments implied, the administration decided to follow the incremental path established by the 1952 amendments. It opted for a major extension of coverage to farm operators and other groups, for raising the average level of Social Security benefits by 13 percent, and for raising the tax base from \$3,600 to \$4,200. In addition, the administration acquiesced in the scheduled tax increase from 3 to 4 percent of covered payroll. As President Eisenhower expressed it in a letter to stockbroker E. F. Hutton, "it would appear logical to build upon the system that has been in effect for almost twenty years rather than embark upon the radical course of turning it completely upside down and running the very real danger that we would end up with no system at all."[5]

2. The Politics of Disability Insurance

Between 1954 and 1956, the issues in Social Security shifted from the expansion of benefits to the creation of disability insurance, a major new form of Social Security coverage. The issue of disability shadowed Social Security from its inception, and the control of disability expenditures has remained an issue from the beginning of the program to the present day. Two of President Roosevelt's advisors had prepared a report on the subject for the Committee on Economic Security. Both the president and Frances Perkins decided, however, that the report was too controversial to be released. They preferred to have old-age insurance established before turning to health and disability insurance. The first permanent disability insurance proposal did not get unveiled until October 1938 and then only at a private meeting of a Social Security advisory council. The members of this group reacted cautiously to the proposal. They agreed only that disability insurance was "socially desirable" but could not recommend that Congress start such a program in the near future (quoted in Berkowitz, 1987, p. 59). In part, the members of the advisory council feared that disability benefits, intended for those with physical impairments that led to permanent incapacity, would instead become a convenient means for people to drop out of the labor force before the age of 65.

Indeed, disability insurance became a real source of tension not only within the advisory council but also among the employees of the Social Security Board. The trouble was that the actuaries, taking their cues from actuaries who worked for private insurance companies, regarded disability insurance as extremely problematic: a difficult program in which to contain costs and predict future expenditures. As Jerry Mashaw discusses in chapter 7, disability was more difficult to define than old age, and the actuaries feared that it was an elastic concept that would respond to such factors as unemployment. Administering a disability program required federal administrators to decide just who was capable of working and who deserved a ticket out of the labor force. These problems created a sense of caution in the same actuaries who enthusiastically supported the old-age and survivors insurance program. When the matter was first discussed in 1938, W. Rulon Williamson, the agency's actuary, said that he could not possibly give one estimate of disability insurance's cost and "maintain his professional dignity."[6]

Despite these real concerns, the advisory council that met in 1947 and 1948 recommended that Congress pass a disability insurance program. In 1950, the House of Representatives went so far as to pass such a program, only to have the proposal die in the Senate. In 1952, Social Security administrators tried to get Congress to pass a modified proposal, known as a disability freeze, that preserved the benefit rights of a person with a disability. This meant that such a person could receive benefits at age 65, despite having dropped out of the labor force at the onset of the disability. Even this compromise measure encountered substantial opposition from insurance companies, particularly from the American Medical Association, which regarded disability as the "entering wedge" for national health insurance. The disability freeze failed to go into effect in 1952.

Beginning in 1954, Social Security advocates, buoyed by the success of Old-Age and Survivors Insurance, put disability insurance at the top of the legislative agenda. In that year, the Eisenhower administration agreed to sponsor the disability freeze, which passed Congress and became part of the 1954 Social Security Amendments. Administration officials regarded the freeze as a means of identifying candidates for vocational rehabilitation. Once a person applied to the Social Security Administration, he or she would be referred to state vocational rehabilitation programs and put on a regimen of counseling and other services that would enable that person to overcome a disability and get a job. Social Security advocates, by way of contrast, saw the disability freeze as an incremental step toward the passage of disability insurance.

In 1956, acting against the wishes of the Eisenhower administration, which favored the expansion of Social Security but not the creation of disability insurance, the Democratic Congress passed a disability insurance program. The incremental process that led to this result forced Social Security advocates to make a number of important concessions. As passed, disability insurance had its own trust fund, so that Congress could closely monitor program expenditures. Disability determinations became the responsibility of state offices acting under contract to the federal government. In most cases, states placed their disability determination services within the same bureaucratic structures as their vocational rehabilitation programs. In this manner, they hoped to forge a link between rehabilitation and disability benefits, and Congress hoped to send a signal to the American Medical Association that disability insurance would be administered in a cautious manner and not lead to federal influence over the practice of medicine. In another concession, Congress limited disability benefits to those 50 or over and did not extend benefits to the dependents of disability beneficiaries. Even with these concessions, the measure passed by the barest of margins in a dramatic vote on the floor of the Senate. In this manner, the program expanded to include benefits for a person who was "unable to engage in substantial gainful activity" by virtue of a medical impairment that was expected to result in death or be of long-continued or indefinite duration (Berkowitz, 1987).

3. The Politics of Health Insurance

Between 1956 and 1965, the leading issue in social insurance policy concerned the establishment of health insurance for Social Security beneficiaries. To be sure, the incremental expansion of Old-Age, Survivors, and Disability Insurance continued during these years. In 1958, acting under the leadership of newly appointed Ways and Means Committee chairman Wilbur Mills, Congress opted to raise OASDI benefits by 7 percent. In that same year, Congress extended benefits to the dependents of disabled beneficiaries and in 1960 broadened disability coverage to workers of all ages, eliminating the age 50 requirement. Even as these events occurred, however, Congress faced the question of whether to use the undisputed popularity of Social Security as a base from which to take on the American Medical Association and begin a program of national health insurance.

As with disability insurance, program administrators had modified their health insurance proposals over the years. As conceived in 1935, health insurance was to take the form of federal grants to the states. In the 1940s, social insurance advocates explored the possibility of funding health insurance through the same payroll tax mechanism as Social Security. Political pressure from the American Medical Association, the relative unpopularity of the Social Security program, and the rise of Blue Cross and other private forms of health insurance all combined to defeat the measure. President Roosevelt endorsed the concept of national health insurance but never submitted or actively supported a specific piece of legislation to implement the concept. President Truman's administration made proposals, but they never came close to passage.

In 1951, program administrators seized upon the idea of limiting health care benefits to retired people already on Social Security. From that time forward, this idea guided the debate over national health insurance. In 1957, a proposal incorporating the idea received attention from the Ways and Means Committee but failed to gain the committee's endorsement. In 1959, a subcommittee of the Senate Committee on Labor and Public Welfare publicized the issue of health insurance for the elderly in dramatic hearings at which elderly citizens spoke of their inability to secure adequate health care. The common citizens, delivering details that historian Sherri David (1985, p. 21) described as "heart-rending," generated enough publicity to make health insurance, in Wilbur Cohen's words, "the major issue in Social Security in Congress and in the nation in 1959."[7] During the following year, Senator John F. Kennedy (D-Massachusetts) chose to highlight health insurance for the elderly, which he called Medicare, as a campaign issue. After the Democratic convention, the Senate considered and rejected Kennedy's plan to use a social insurance approach to help pay hospital bills for elderly beneficiaries.

In this manner, Medicare developed into a legislative priority for the Kennedy administration. The measure first came to a vote on the floor of the Senate in the summer of 1962. The amendment (to a welfare bill) on which the Senate voted made provisions for intermediaries to handle billing arrangements with the hospitals and intercede between the federal government and the hospital. Under this scheme, the hospital would send its bills to the intermediary, rather than the federal government, and the intermediary would reimburse the hospital. This arrangement closely resembled what hospitals already did for their customers who subscribed to one of many regional Blue Cross plans. The measure also included a controversial provision that permitted the federal government to reimburse private insurers for those who preferred to continue their private health insurance at retirement. Despite these concessions, the administration lost the Senate vote by what proved to be a one-vote margin. If Senator Robert Kerr (D-Oklahoma) had not persuaded Senat-

Jennings Randolph (D-West Virginia) to vote against the Medicare amendment, the Senate would have passed it in 1962.

It took until 1964 for Congress to reconsider Medicare. On September 2, 1964, the Senate approved a version of the legislation for the first time. Among other features, this iteration included a mechanism, proposed by Senator Jacob Javits (R-New York), to encourage the purchase of supplementary private insurance to cover doctors' bills and other expenses not handled by Medicare. Another idea that surfaced in the 1964 discussion but that was ultimately not included in the final measure was for beneficiaries to have a choice between receiving Medicare benefits and getting higher cash benefits. Although Wilbur Mills expressed some interest in this option, he could not bring himself to support Medicare in 1964. Because of Mills' opposition to Medicare, conferees in the Senate and the House agreed to disagree, and the measure once again died.

After Lyndon Johnson's landslide in the 1964 election, Medicare supporters hoped to use the measure passed by the Senate as a guide for a bill that would pass both houses in 1965. On New Year's eve in 1964, Wilbur Cohen, at the time an assistant secretary at the Department of Health, Education, and Welfare, distributed the administration's latest version of the "Hospital Insurance, Social Security, and Public Assistance Amendments of 1965." This version provided for inpatient hospital services for up to 60 days, with a deductible equal to the average cost of half a day of hospital care. Other covered services included physician services associated with hospital care, such as pathology and radiology; outpatient hospital diagnostic services; and posthospital extended care in a nursing home or similar recuperative facility. The bill also included a 7 percent across-the-board Social Security benefit increase. All in all, it amounted to a large, complicated, and expensive package.[8]

As matters turned out, Wilbur Mills substantially modified the administration's proposal. In particular, he jettisoned the Javits notion of complementary private insurance in favor of what was known as the Byrnes Bill, after John Byrnes (R-Wisconsin), its chief congressional sponsor. The Byrnes proposal was based on a plan available to employees of the federal government through the Aetna Insurance Company. It was a classic indemnity plan in which employees paid monthly premiums, deducted from their paychecks, and the federal government contributed a percentage of the premium as well. When an employee got sick, the plan paid the doctors' and hospitals' bills, minus a portion that the employee was expected to pay himself. Byrnes proposed to offer this sort of protection to the elderly. It would be voluntary, subsidized in part by the federal government through general revenues, and comprehensive in that it covered both doctor and hospital bills. It would also involve out-of-pocket payments by the elderly both for the premiums (analogous to the payroll deductions) and for the costs of medical care they were expected to share with the insurance plan. Social Security advocates, such as Wilbur Cohen and Robert Ball, objected to the voluntary nature of the plan, the costs to the general revenue, and the way that it would pay doctor and hospital bills based on "charges" rather than "costs" (it was an item of faith at the time that the elderly cost less to serve than did younger people). Above all, they thought it inadvisable to make a person pay for health insurance during his retirement "when his income is lowest." The administration plan, by way of contrast, required a person to pay for health insurance

during his working lifetime and enabled him to earn a paid-up policy upon retirement.[9]

Wilbur Mills decided to ignore these arguments. Instead, he proposed and Congress accepted a plan based on the administration's Medicare proposals for the payment of hospital bills and on Congressman Byrnes's plan for the payment of doctors' bills. Mills arrived at this idea during a closed session of the Ways and Means Committee that took place on March 2, 1965. "Without any advance notice," according to Cohen, "Mills asked me why we could not put together a plan that included the Administration's Medicare hospital plan with a broader voluntary plan covering physician or other services?" (see Berkowitz, 1995). Cohen and many of the others in the room were stunned by this suggestion. Robert Ball and Arthur Hess of the Social Security Administration called the development "unexpected" (Ball and Hess, 1993, p. 2; Harris, 1996; Marmor, 1973).

In this apparently spontaneous manner, after years of congressional deliberation, Medicare was created. By July 21, 1965, the bill emerged from a conference committee, in Senator Clinton Anderson's words, "in generally good shape."[10] The scope of the legislation was amazing. In addition to starting Medicare Part A (Hospital Insurance), Medicare Part B (Supplementary Medical Insurance for doctors' bills), and Medicaid (health insurance for welfare beneficiaries), it also raised the earnings base on which Social Security taxes were paid, contained a substantial 7 percent increase in Social Security benefits, made it easier for Social Security beneficiaries to work without losing their benefits, liberalized the definition of disability, began a program of rehabilitation services for people on disability insurance, extended the scope of childhood disability benefits, and lowered the age at which widows could receive benefits. The bill also increased federal payments for welfare and expanded the maternal and child health and children's services programs. On July 28, 1965, the measure, the most far-reaching amendment to the Social Security Act since the act's passage in 1935, received final approval from Congress and reached the president's desk.

4. The Politics of Incremental Expansion Redux

In retrospect, the 1965 amendments marked the high tide of expansion of the social insurance approach to economic well-being. Although the entire debate centered on Medicare, the incremental engine that expanded Social Security continued to operate throughout the process. As in all Social Security legislative exercises, prosperity played a major role. The expanding economy permitted program administrators to recommend, and Congress to accept, a raise in benefit levels, combined with reduced tax rates. As the law was written before July 1965, the combined employer–employee Social Security tax rate was to have been 8.25 percent in 1966. In the new law, Congress reduced the rate to 7.7 percent, and even adding in the new hospital insurance program, the total 1966 rate was only 8.4 percent. As projected in 1965, the 1968 rates for hospital insurance and Social Security would actually be lower than the rates that had earlier been projected for Social Security alone. Prosperity enabled Social Security benefits to rise by $1.4 billion, the elderly to have most of their hospital bills paid for, and hospitals and doctors to receive generous subsidies without raising long-term tax rates on workers.[11]

Nor did the expansion of the program stop after 1965. The 1967 amendments, signed in 1968, involved considerable controversy over the growth of welfare programs. The Old-Age, Survivors, and Disability Insurance program, by way of contrast, continued to bask in the glow of congressional approval. Congress increased benefits by 13 percent. In 1969 Congress raised benefits by another 15 percent, and in 1972 it permitted a spectacular 20 percent increase in benefits. The 1972 legislation also contained provisions that allowed disability beneficiaries to receive Medicare after a two-year waiting period and that extended Medicare coverage to those with end-stage renal disease.

THE AGE OF RECONSIDERATION, 1972–1996

In retrospect, one could notice a change in the inevitability of social insurance expansion as early as 1965. The first subtle signs of a shift away from expansion and toward a consideration of cost containment became evident then, particularly in the Medicare program. The problem with Medicare concerned its role in increasing the costs of medical care. One historian, writing in 1984 went so far as to describe the program as "a ruinous accommodation between reformers and vested interests" that produced run-away inflation in health-care costs (Matusow, p. 228).

What had happened? For one thing, hospital insurance grew expensive quickly. The hospital insurance part of the program cost $1 billion in calendar year 1966, $3.4 billion in 1967, and $4.3 billion in 1968. In those same years, expenditures on Supplementary Medical Insurance increased from $200 million to $1.7 billion. In part, these increases followed from Medicare's mission, which was to ensure access to health care for the elderly population, not to control health-care cost inflation or to reform health-care delivery. If the government had attempted to change the health-care financing or delivery systems, as later critics such as Matusow implied it should have, Congress would certainly have objected and would probably have defeated the measure, as it did in 1957, 1960, 1962, and 1964. Medicare resembled the Blue Cross plans enjoyed by working Americans, and few people in 1965 regarded such plans as breeding inflation. Indeed, the preoccupation with inflation was largely a post-1965 phenomenon. Only in retrospect would Medicare appear to be flawed. In this manner, yesterday's solution became today's problem.

From the very beginning, however, rising Medicare costs attracted the attention of Wilbur Mills and Lyndon Johnson. In March of 1967, for example, the president complained to Wilbur Cohen that Wilbur Mills was "all over the ticket" on the increased costs of hospital care. Mills was genuinely worried that rising hospital costs would cut into the money that might otherwise have gone to raise basic Social Security benefits.[12]

Adding to the doubts about the future of social insurance programs, administrative problems surfaced in both the disability and Medicare programs. State administration of disability insurance led to inconsistent decisions from state to state. Private carriers who were to implement the Supplementary Medical Insurance program in the Medicare program often were inadequate to the task, not handling the claims swiftly or accurately enough. Adverse publicity attracted political attention. Nursing homes proved to be difficult institutions to regulate. In general, charges to

patients increased in all of the health insurance programs. The first increases in copayments and deductibles became effective in 1968.

Even more critical were the problems that developed in Social Security. In the 1970s, a combination of circumstances made the program vulnerable to a downturn in the economy. In part as a response to the criticisms of economists and in part for reasons of partisan politics, Congress had opted in 1972 to index future benefit increases to the rate of inflation, rather than continuing the system of ad hoc benefit increases of the sort that Wilbur Mills had done so much to negotiate. The large benefit increases in 1968 and 1969 encouraged the Republicans in their thinking on this matter. When prices rose faster than wages, as they did in the years of the Carter administration, a crisis developed. In 1977 Congress attempted to deal with the problem by passing remedial legislation that, among other things, increased tax rates and raised the amount of a person's wages that were subject to Social Security taxation.

The 1977 legislation failed to put the Social Security system on a firm financial footing, in part because the economy continued to worsen. In 1980, for example, the benefit increase, as determined by the automatic indexing formula, was 14.3 percent, but wages went up only 9 percent and employment remained sluggish (Kingson, 1984). The effect on Social Security was direct. From a high of $37.8 billion in 1974, the old-age and survivors trust fund declined to a low of $19.7 billion in 1983. At one point in 1983, there was the possibility that the program would not be able to meet its obligations and send out checks to beneficiaries.

A solution to the financing problem was worked out by an informal bipartisan group including members of the Greenspan Commission (which had been created by President Reagan to deal with the crisis), such as Robert Ball, and top Reagan administration officials, such as James Baker. With only minor modifications, Congress endorsed this solution in 1983. Key parts of the compromise involved treating up to one-half of benefits as taxable income, expansion of coverage to new federal employees, a six-month delay in the cost of living adjustment that amounted to permanent benefit reduction for Social Security beneficiaries, and slight payroll tax increases. Congress also chose to raise the normal retirement age to 67 over a 24-year period, beginning in 2003. Because of the provisions in the 1983 amendments and the small size of the depression age cohort that began to retire in the 1990s, the Social Security trust funds showed an impressive rate of recovery. The old-age and survivors trust fund, for example, stood at $267.8 billion in 1991 (Berkowitz, 1991). The politics of the situation began to shift toward old fears about the meaning of a large Social Security surplus at a time of substantial federal deficit.

CONCLUSIONS

By the 1990s, Social Security taxes were no longer invisible to the general public, nor was the link between contributions and benefits so direct as it had once been. A system that had once approached bankruptcy and once again faces a long-term financing problem had lost some of its political goodwill. People once again debated the advisability of maintaining such high Social Security taxes at a time when economic policymakers were trying to stimulate the economy and induce a greater rate of economic growth. Yet the fact remained that Social Security had weathered the stagflation era, the Reagan economic reforms, and the neoliberal experiments of Bill Clinton and managed to grow in the process. For all of the loss of the program's innocence, Social Security remained America's most important form of social policy. Little indicated that the situation would change soon.

Beyond that simple statement, it is not my intention to indulge in speculation about the future; I leave that to other contributors such as Robert Ball in chapter 18, Robert Myers in chapter 13, and Eugene Steuerle in chapter 17. Nor can the history of Social Security (and the related Medicare program) be encapsulated within such a short and such a diffuse essay. Nonetheless, I hope that readers come away with an understanding of the many issues faced by Social Security policymakers and of how these issues have shifted over time. The fluidity of the decision process can be seen in such matters as the last minute shifts in Social Security financing in 1935 and the content of the Medicare bill in 1965. Once these and many other decisions were made, however, they had fateful consequences for this country's most important social insurance programs, Social Security and Medicare. In this area of policy, as in so many others, we can best understand the present as the sum of what has happened in the past.[13]

ENDNOTES

1. 8/13/41, "An Expanded Social Security Program," and Cohen to Byron Mitchell, Chief Budget Examiner, June 6, 1941, both in Box 26, Wilbur Cohen Papers, Wisconsin State Historical Society, Madison, Wisconsin.

2. "An Expanded Social Security Program," Cohen Papers, Box 26.

3. Wilbur Cohen to Elizabeth Wickenden, August 1952, Elizabeth Wickenden Papers, Wisconsin State Historical Society.

4. Cohen to Altmeyer, November 3, 1953, Cohen Papers.

5. Eisenhower to Edward F. Hutton, October 7, 1953, Central Files, Box 848, File 156-C, Dwight D. Eisenhower Presidential Library, Abilene, Kansas.

6. See Wilbur J. Cohen to Arthur Altmeyer, 13 October 1938, Record Group 47, Records of the Social Security Administration, File 025, Box 10, National Archives, Washington, DC.

7. Wilbur J. Cohen, "Social Security Legislation, 1960: Issues and Proposals," March 12, 1960, mimeo, p. 2, Box 270, Cohen Papers.

8. "Brief Summary of 'Hospital Insurance, Social Security, and Public Assistance Amendments of 1965'" RG 235, General Counsel Records, Accession 71A-3497, Box 1, File AW, December 31, 1964, Washington National Records Center.

9. Memorandum from Wilbur J. Cohen to the president, January 29, 1965, RG 235, Accession 69A-1793, File LL, Box 16, Washington National Records Center.

10. Anderson to the president, July 21, 1965, Box 1103, Clinton Anderson Papers, Library of Congress, Washington, DC.

11. On the tax rates, see Cohen to Lawrence O'Brien, July 21, 1965, Cohen Papers, Box 83.

12. Cohen to the Secretary, March 8, 1967, Cohen to the president, March 8, 1967, both Box 91, Cohen Papers.

13. The author wishes to t[illegible]k the volume editors [illegible] Robert J. Myers for their helpful comments.

PART II

Social Security Issues

THE WHITE HOUSE

WASHINGTON

October 26, 1998

WOMEN AND RETIREMENT SECURITY EVENT

DATE: October 27, 1998
TIME: 2:00-3:00 PM
LOCATION: East Room
FROM: Gene Sperling

I. PURPOSE

To announce two new pension proposals to promote retirement security among women; to release a report on Women and Retirement Security; and to highlight the importance of Social Security to women.

II. BACKGROUND

Announcements: You will put forward two new pension proposals and release a report on women and retirement security. The two pension proposals disproportionately benefit women. See attached fact sheet for more details.

- **Counting Time Taken Under the Family and Medical Leave Act Toward Retirement Vesting.** Under current law, an employer does not have to credit a year of service toward pension vesting unless the employee has worked at least 1,000 hours in that year. You will propose to ensure that workers who take time off under the Family and Medical Leave Act (FMLA) can count that time toward retirement plan vesting. You will effectively say that taking time off under FMLA will no longer make the difference between receiving or not receiving credit towards minimum pension vesting requirements for an entire year of work.

- **Added Benefit Security for Widows and Widowers.** Under current law, employer pension plans are required to offer what is called a "joint and survivor annuity" option; that is, regular (typically monthly) payments are made while both spouses are alive, and then, if the former employee dies first, the surviving spouse continues to receive benefit payments for the rest of his/her life. Currently plans are allowed to meet this requirement by offering only a "joint and 50 percent survivor annuity": under this option, the monthly pension payments to the surviving spouse are reduced to 50 percent of the level of monthly payments that were made while both spouses were alive. You will propose that employer plans would have to offer an option that pays a survivor benefit equal to at least 75 percent of the benefit the couple received while both were alive. In effect, couples would receive a smaller benefit when both are alive, so that the survivor widow would have the security of a larger benefit. Employer plan participants would not be required to choose this option and pension plans could still offer the joint and 50 percent survivor option; they would just be required to offer the joint and 75 percent survivor option also.

The report provides a number of key facts and issues relating to women and Social Security and pensions. The report is attached, but some of the key findings include:

- **Women Have Lower Income in Retirement than Men -- And Thus Higher Poverty.** In 1997, the poverty rate of elderly women was 13.1 percent, compared to 7.0 percent among men. Among unmarried elderly women, the poverty rate was significantly higher -- about 19 percent.

- **Social Security Is Particularly Important to Women.** Elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. For 25 percent of unmarried women (widowed, divorced, never married), Social Security is their only source of income, compared to 9 percent of married couples and 20 percent of unmarried men. Without Social Security benefits, the elderly poverty rate among women would have been 52.2 percent and among widows would have been 60.6 percent.

- **Women Face Greater Economic Challenges in Retirement.** First, women have lower *lifetime* earnings than men do. Second, women also tend to live longer: a woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. And third, women reach retirement with smaller pensions and other assets than men do.

- **The Current Social Security System Has a Number of Features That Help Women Meet These Challenges.**

    1. Social Security provides an inflation-protected benefit that lasts as long as you live. Since women tend to live longer than men, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit.

    2. The progressive benefit formula provides a higher replacement rate for workers with lower earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.

    3. Social Security provides extra benefits to spouses with low lifetime earnings. The Social Security spousal benefit helps many women, even if they did not work at all outside the home.

4. Social Security provides benefits to elderly widows; 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse.

5. Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

- **Among Current Retirees, Women Have Much Less Pension Coverage Than Men and They Are Worth Less Than Those Received by Men.** Only 30 percent of all women aged 65 or older were receiving a pension in 1994 (either worker or survivor benefits), compared to 48 percent of men. Among new private sector pension annuity recipients in 1993-94, the median annual benefit for women was $4,800, or only half of the median benefit of $9,600 received by men.

Amplification: The Social Security Administration has set up this event so that it will be broadcast live at 11 different sites around the country (Atlanta; Birmingham, AL; Boston; Chicago; Dallas; Denver; Kansas City; New York; Philadelphia; Richmond, CA; and Seattle). Each event will have between 25-100 people.

Background on Participants: There will be five participants in the roundtable discussion, from a student who benefitted from survivor's insurance to a retirees who live off their Social Security checks. The participants are:

- **Bernice Meyer, Seattle, Washington.** Bernice Meyer is 49 years old and works as a home helper for Freemount Public Association, helping the elderly and disabled with personal care, shopping, and cleaning. She is a union member (OPEIU Local 8). While Bernice anticipates receiving a small pension from a job she worked at for four years in her mid-30's, Social Security will be the major part of her retirement income. Bernice feels that the work she does is very important to society, but it is not a job that pays well enough to allow her to save much and it does not have a pension plan. That is why she believes it is important that we have a Social Security system to care for workers, like her, who work to take care of others.

- **Molly Lozoff [LOW-zoff], Miami, Florida.** Molly Lozoff is a 77 year old widow from Miami Beach, FL. She is a semi-retired real estate broker who receives about $650 per month in Social Security benefits. In 1955, when she was 35, a stay-at-home mom with four kids aged 9-14, her husband, a successful Realtor had a totally incapacitating stroke, and could not speak for the remaining fourteen years of his life. She became his legal guardian, and in the process of getting her life together, "discovered that there were government programs that could provide assistance for the minor children of disabled parents." The assistance that the government provided at that time, she believes, enabled her children to become the successful adults that they are. Without the help of these great government programs, she doesn't know where she would be. After a career as real estate broker, she is once again depending on Social Security to provide her basic living expenses, and she knows that both she and many of her widowed friends and neighbors would be living very different lives without this very important government program.

- **Wilma V. Haga [Hay-ga], Bristow, TN.** Wilma Haga is a 76 year old retired cafeteria worker from Bristow, TN, School System, with a small pension of $203 a month. Her husband died 8 years ago. And she receives Social Security widow benefits of $915 per month. She says that she could not survive without SS and would do anything to help people understand how important it is to women like her. She has two sons; one who works at the Agriculture Department here in Washington.

- **Lucy Sanchez, Washington, DC.** Ms. Sanchez' husband suffered two aortic dissections over the course of 8 months requiring her to care for him during his difficult recovery. The employee of a national association since 1983, her employer was very supportive and offered Family and Medical Leave and she was able to use accrued annual and sick leave to retain her full salary for a large portion of her time off. Mr. and Mrs. Sanchez are both grateful for the coverage provided by the Family and Medical Leave Act, as it allowed Ms. Sanchez to stay by her husband's side through their family crises. Ms. Sanchez says, "If I had, *had* to go to work I would have been useless. Family and medical leave allowed me to do what I had to do because no matter what, family comes first." <u>You should know that Ms. Sanchez will ***not*** benefit from our pension proposal, but she provides an example of why taking FMLA should not count against an employee.</u>

- **Tyra [TIE-ra] Brown, Oklahoma City, OK.** Tyra Brown is a 20 year old Psychology major at Howard University. She is originally from Oklahoma City, OK. Currently a Jumpstart Americorps member and a former volunteer for Big Brother/Big Sister. She is an honors student and a Ronald McNair Scholar. Ms. Brown's mother passed away when Tyra was only 15 years old. She received Social Security survivor's benefits until that age of 18.

III. PARTICIPANTS

<u>Pre-Brief</u>
The Vice President
Erskine Bowles
John Podesta
Gene Sperling
Paul Begala

Ann Lewis
Minyon Moore
Secretary Herman
Jeff Liebman
Jon Orszag
Emil Parker
Jeff Shesol

Event
The Vice President
Bernice Meyer, Seattle, Washington, home helper for elderly and disabled
Molly Lozoff [LOW-zoff], Miami, Florida, semi-retired real estate broker
Wilma V. Haga [Hay-ga], Bristow, TN, retired cafeteria worker
Lucy Sanchez, Washington, DC, took FMLA; employee of a national association
Tyra [TIE-ra] Brown, Oklahoma City, OK, student at Howard University.

IV. SEQUENCE OF EVENTS

- **YOU** and the Vice President are announced into East Room accompanied by panelists.
- The Vice President makes remarks and introduces **YOU**.
- **YOU** make remarks from the podium and then take your seat at the table.
- **YOU** open the panel discussion.
- Upon conclusion of the panel discussion, **YOU** makes concluding remarks and depart.

V. PRESS COVERAGE

Open Press.

VI. REMARKS

To be provided by speechwriting.

VII. ATTACHMENTS

- Fact Sheet on New Proposals to Improve Retirement Security for Women
- Report on Women and Retirement Security
- Script and Background for Roundtable Discussion

Final 10/26/98 6:00pm
Jeff Shesol

PRESIDENT WILLIAM J. CLINTON
REMARKS ON RETIREMENT SECURITY FOR WOMEN
THE WHITE HOUSE
October 27, 1998

Acknowledgments: VP; Sec. Herman; the panelists; the satellite audience at 12 sites across America

Six years ago, when I became President, I dedicated my administration to fulfilling a new vision of government. At heart it is a simple vision: I have always believed that our government can live within its means, and, at the same time, invest in our people. I think the experience of the past six years shows us this was the right path, leading America into a new realm of prosperity, a new economic renaissance. These are prosperous and productive times for the American people: Opportunity is abundant. Communities are getting stronger. Families are more secure.

This year I have been talking and thinking about ways to strengthen that feeling of confidence -- particularly, and most important, the need to save Social Security for the 21st Century. On December 8th and 9th, we'll hold the first-ever White House Conference on Social Security to help pave the way toward a bipartisan solution next year.

Social Security, as many of you know from experience, means more than an ID number or a monthly check. It is a sacred trust among generations; between parents and children and grandparents and grandchildren; between those in retirement and those at work; between the disabled and the able-bodied. It is our obligation to one another and to our deepest values as Americans. It is and must remain a rock-solid guarantee.

America has never had a greater opportunity to save Social Security. Just this month, I had the privilege to close the books on three decades of deficits and open -- at long last -- a new era of balanced budgets and budget surpluses. We have turned red ink to black, and in impressive fashion: the projected $70 billion surplus is the largest in history. It is the product of the hard-working Americans who drive the most powerful economic engine in a generation; and it is the product of hard choices by lawmakers who put our nation's long-term economic interests above their own short-term political gain. It is an achievement in which we can all rightly take pride.

We also know that we have not balanced the budget solely for its own sake. We have not balanced the budget purely for our own prosperity. We have balanced the budget so we can do something meaningful for future generations. That begins -- as it should, as it must -- with strengthening Social Security for the 21st Century. There is no task more important.

Strengthening Social Security helps keep our economy sound, our budget balanced, and honors our duty to older Americans.

But soon, there will be many more older Americans. I suppose I will be one of them. And 75 million other baby boomers will be retiring during the next two decades. By 2013, what Social Security takes in will no longer be enough to fund what it pays out, and we will have to dip into the trust fund. By 2032, the trust fund will be empty, and the money Social Security takes in will only be enough to pay 72 percent of benefits. [*chart 1*]

But by making the budget surplus a Social Security surplus, we have already taken an important step in the right direction. Every American deserves retirement security during their sunset years. We plan for it, we count on it, we should be able to rely on it if need be. That holds true for women and men -- but, in the case of women, Social Security is particularly important. Women, on average, live longer than men; so it shouldn't surprise us that women make up 60 percent of all aged recipients, and 72 percent of recipients over 85 years old. For elderly women, Social Security makes up more than half of their income -- and, for some, it is all that stands between themselves and the ravages of poverty. In fact, without Social Security, more than 50 percent of elderly women would be in poverty. [*chart 2*]

Study after study shows us that women face greater economic challenges in retirement than men do. There are three reasons for this: first, as I said, women tend to live longer: a woman who is 65 years old today can expect to live to 85, while a man of 65 can expect to reach 81. Second, even for comparable hours of work, women have lower lifetime earnings than men. And third, women reach retirement with smaller pensions and other assets than men do. Social Security has a number of features that help women meet these challenges; but the fact remains that too many retired women, after providing ably for their families, are having trouble providing financial security for themselves.

That is why, for six years, my administration has been working hard to expand pension coverage, make pensions more secure, and simplify the management of pension plans. We are working for the economic empowerment of women -- working to end wage discrimination and strengthen enforcement of the Equal Pay Act. But there is more we must do. Until women earn one dollar for every dollar men earn -- and today we are only three-quarters of the way there -- we must work harder to give retired women the security they deserve.

Today, I am announcing two concrete steps we must take: I am proposing, first, that workers who take time off under the Family and Medical Leave Act should be able to count that time toward retirement plan vesting and eligibility requirements. Sometimes, the few months spent at home with a child means the difference between pension benefits and no pension benefits. That is precisely the wrong message to send to people who are trying to balance work and family. Second, I am proposing that families be given the choice to receive less of their pension when both spouses are living, leaving more for the surviving spouse after the breadwinner dies. This should help keep elderly widows out of poverty in their twilight years.

These proposals build on the work of Congressman David Price and Senators Barbara Boxer and Carol Moseley-Braun, and they will make a difference for our mothers, wives, sisters -- and, someday, for our daughters. But let me emphasize again that the most important thing we must do for future generations is to strengthen Social Security. Now, I know it is an election year. When I said in my State of the Union Address that I would reject any attempt to spend any surplus until we have saved Social Security, I knew that the majority in Congress would demand to drain billions from the surplus -- even before it appeared in the books, even before the black ink had dried.

Regrettably, that's what they tried to do. The Republican leadership tried, in recent weeks, to pass a tax plan that squandered the surplus. I said all along I would veto it, and their plan failed. But some in the majority may still be backing away from this historic opportunity. Just last week, the Senate Majority Leader said he may not want to join me in reforming Social Security. I think that would be unwise. It is most certainly unhelpful. As with so many other long-term challenges, it will be far easier to resolve it if we act now than if we wait until crisis comes.

I believe we must save Social Security and do it next year. Social Security should be an issue that binds the American people not only across generational divides, but across party lines. It is an issue that offers a choice between progress and partisanship, between moving forward and turning back. I think that is a very clear choice for the American people. The Congress we elect in eleven days is the one that will shape Social Security for decades to come. America needs a Congress that is 100 percent committed to saving Social Security first. America deserves a Congress that puts long-term security above short-term politics.

I am eager to hear our panelists talk. It is fitting that we will be talking about women's retirement, because one of the greatest advocates for Social Security was a remarkable woman named Frances Perkins. As Secretary Herman will tell you, Frances Perkins' name graces the Department of Labor building, just down Pennsylvania Avenue. Frances Perkins was the first woman to hold the office Secretary Herman now holds -- in fact, she was the first woman to hold any Cabinet office. Years later, on the 25th anniversary of the Social Security Act she helped shape, Frances Perkins looked ahead and said: "We will go forward into the future a stronger nation because of the fact that we have this basic rock of security under all of our people." Frances Perkins and President Roosevelt laid that foundation. Now it is up to us to strengthen it for all of our people, women and men, as we move forward into the 21st Century. Thank you.

EXECUTIVE SUMMARY

- **Women Have Lower Income in Retirement than Men -- And Thus Higher Poverty.** In 1997, median income for elderly unmarried women (widowed, divorced, separated, and never married) was $11,161, compared with $14,769 for elderly unmarried men and $29,278 for elderly married couples. Thus, the poverty rate for elderly women was higher than that of men: in 1997, the poverty rate of elderly women was 13.1 percent, compared to 7.0 percent among men. Among unmarried elderly women, the poverty rate was significantly higher -- about 19 percent.

- **Social Security Is Particularly Important to Women.** Elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security. For 25 percent of unmarried women, Social Security is their only source of income, compared to 9 percent of married couples and 20 percent of unmarried men. Without Social Security benefits, the elderly poverty rate among women would have been 52.2 percent and among widows would have been 60.6 percent.

- **Women Face Greater Economic Challenges in Retirement.** First, women tend to live longer: a woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. Second, women have lower *lifetime* earnings than men do. And third, women reach retirement with smaller pensions and other assets than men do.

- **The Current Social Security System Has a Number of Features That Help Women Meet These Challenges.**

    1. Social Security provides an inflation-protected benefit that lasts as long as you live. Since women tend to live longer than men, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit.

    2. The progressive benefit formula provides a higher replacement rate for workers with lower earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.

    3. Social Security provides extra benefits to spouses with low lifetime earnings. The Social Security spousal benefit helps many women, even if they did not work at all outside the home.

    4. Social Security provides benefits to elderly widows; 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse.

    5. Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

- **Social Security Will Continue to Be Important for Women in the Future.** As the labor force participation rates of women continue to rise, women in the future will reach retirement with much more substantial earnings histories than in the past. Therefore, the percentage of women receiving benefits based solely on their own earnings history is expected to rise from 37 percent today to 60 percent in 2060. However, this means that 40 percent of women will continue to receive benefits based on their husband's earnings.

- **Poverty Rates Among Unmarried Elderly Women -- Especially Widows Who Make up 45 Percent of All Elderly Women -- Are High.** Divorced women are a growing share of the elderly population, and their poverty rate is higher than the overall elderly poverty rate. And finally, poverty rates among elderly minority groups are unacceptably high.

- **Among Current Retirees, Women Have Much Less Pension Coverage Than Men.** Only 30 percent of all women aged 65 or older were receiving a pension in 1994 (either worker or survivor benefits), compared to 48 percent of men.

- **Pensions Received by Women Are Worth Less than Those Received by Men.** Among new private sector pension annuity recipients in 1993-94, the median annual benefit for women was $4,800, or only half of the median benefit of $9,600 received by men. And among women approaching retirement, pension wealth is much smaller: for example, single women had average pension wealth that was 34 percent of the single men's average.

- **Among Workers, Women's Pension Coverage Depends on Work Status.** Overall, fewer women workers have pensions through work, 40 percent of women compared to 44 percent of men. However, women in full-time jobs are equally likely to have pension coverage as men; in 1997, 50 percent of women in full-time jobs had pensions compared to 49 percent of men. It is important to note, though, that women are much more likely to work part-time or be out of the labor force than men.

POTENTIAL QUESTIONS AND BACKGROUNDFOR ROUNDTABLE DISCUSSION

Seating Chart

Lucy Sanchez	Bernice Meyer	Molly Lozoff	The President	Vice President	Tyra Brown	Wilma Haga

Table

- **PRESIDENT CLINTON: Question for Molly Lozoff [LOW-zoff]:** Molly Lozoff is here from Miami, FL. When I was supposed to go to Miami two weeks ago, Molly was going to introduce me at a speech down there. It seems appropriate that she open up our discussion. Molly, I understand that Social Security has made an enormous difference in your life for more than 40 years. Do you want to share with us your story?

  - **BACKGROUND ON MOLLY LOZOFF:** Molly Lozoff is a 77-year old widow from Miami Beach, FL. She is a semi-retired real estate broker who receives about $650 per month in Social Security benefits. When she was 35, her husband had a totally incapacitating stroke. She "discovered that there were government programs that could provide assistance for the minor children of disabled parents." The assistance that the government provided at that time, she believes, enabled her children to become the successful adults that they are. After a career as real estate broker, she is once again depending on Social Security to provide her basic living expenses in retirement.

- **VICE PRESIDENT GORE: Question for Tyra [TIE-ra] Brown:** Most people think of Social Security as only a retirement program. I think Tyra's story will show that the program is far more broad than that. In fact, it is often overlooked that nearly one-third of Social Security's 44 million beneficiaries are either disabled or survivors. This includes 3.8 million children who receive benefits, with 1.9 million as survivors of deceased parents. Tyra, do you want to share your story with us?

  - **BACKGROUND ON TYRA BROWN:** Tyra Brown is a 20 year old psychology major at Howard University. She is originally from Oklahoma City, OK. Currently a Jumpstart Americorps member and a former volunteer for Big Brother/Big Sister. She is an honors student and a Ronald McNair Scholar. Ms. Brown's mother passed away when Tyra was only 15 years old. She received Social Security survivor's benefits until the age of 18.

- **PRESIDENT CLINTON: Question for Bernice Meyer:** We have heard from a student and a retiree. I would like to turn to Bernice Meyer now who can talk about planning for retirement and the difficulties that women often face with savings. Bernice is like the 60 percent of women workers -- both full time and part time -- who work at jobs that do not provide a pension. Bernice, do you want to tell us your story?

- **BACKGROUND ON BERNICE MEYER:** Bernice Meyer is 49 years old, lives in Seattle, Washington, and works as a home helper for Freemount Public Association, helping the elderly and disabled with personal care, shopping, and cleaning. She is a union member (OPEIU Local 8). While Bernice anticipates receiving a small pension from a job she worked at for four years in her mid-30's, Social Security will provide the major part of her retirement income. Bernice feels that the work she does is very important to society, but it is not a job that pays well enough to allow her to save much and it does not have a pension plan. That is why she believes it is important that we have a Social Security system to care for workers, like her, who work to take care of others.

- **VICE PRESIDENT GORE: Question for Wilma Haga [Hay-ga]:** The poverty rate for elderly women who are widowed is 18.0 percent -- that's far higher than the overall elderly poverty rate of 10.5 percent. This is one of the most important roles of Social Security. I was astonished by this fact: without Social Security, the poverty rate of elderly widowed women would be 60.6 percent -- that's six out of ten elderly widowed women living out there lives in poverty. That is why Social Security is so important. I believe Wilma can tell us a little about her experience with Social Security and how it's affected her life?

  - **BACKGROUND ON WILMA V. HAGA:** Wilma Haga is a 76-year old retired cafeteria worker from Bristow, TN, School System, with a small pension of $203 a month. Her husband died 8 years ago, and she receives Social Security widow benefits of $915 per month. She says that she could not survive without SS and would do anything to help people understand how important it is to women like her. She has two sons; one who works at the Agriculture Department here in Washington.

- **PRESIDENT CLINTON: Question for Lucy Sanchez:** The first law I signed in 1993 was the Family and Medical Leave Act. And since then, millions of Americans have not had to worry about losing their job because they had a child or a loved one became ill. I believe that we should give workers the piece-of-mind that if you take time off under FMLA, you don't have to worry about it disqualifying you from a year of credit toward pension vesting requirements. I believe Lucy Sanchez can talk about her experience with FMLA and how important it was to her life. [NOTE: <u>You should know that Ms. Sanchez will ***not*** benefit from our pension proposal, but she provides an example of why taking FMLA should not count against an employee</u>.]

  - **BACKGROUND ON LUCY SANCHEZ:** Ms. Sanchez' husband suffered two aortic dissections over the course of 8 months requiring her to care for him during his difficult recovery. The employee of a national association since 1983, her employer was very supportive and offered Family and Medical Leave, and she was able to use accrued annual and sick leave to retain her full salary for a large portion of her time off. Mr. and Mrs. Sanchez are both grateful for the coverage provided by the Family and Medical Leave Act, as it allowed Ms. Sanchez to stay by her husband's side through their family crises. Ms. Sanchez says, "If I had, *had* to go to work I would have been useless. Family and medical leave allowed me to do what I had to do because no matter what, family comes first."

Nicole -
Jen has the folder
of SS material
that I used
for this
memo
- Debra

August 27, 1998

MEMORANDUM

To: Jennifer Klein, Nicole Rabner, Neera Tanden

Fr: Debra Waxman

Re: Social Security Reform and Women

As the debate intensifies over Social Security reform, women's groups have increasingly added their voices to the discussion. In articulating their perspective, advocates have consistently pointed to several current inequities between men and women regarding financial security. These differences, which serve as an underpinning to the perspective of many of the women's groups on reform proposals, include: 1)differences in labor force participation and earnings, 2) differences in investment behavior, and 3) differences in longevity. Many advocates worry that these inequities will mean that any across-the-board cuts included in Social Security reform will disproportionately harm women.

As expected, both proponents of privatization plans (e.g. Cato Institute) and skeptics (e.g. Older Women's League) have published reports arguing why their respective positions will do the most to protect American women. The majority of high-profile women's organizations, however, fall into the "cautious and skeptical" category. These advocates are interested in/concerned about several specific provisions in the plans currently under consideration, and regardless of the size and shape of the final plan, these issues will be necessary to resolve. A sample of this list includes provisions to change the computation of benefits, increase the retirement age, shift the allocation of spousal and survivor benefits, calculate individual annuities, and change earnings sharings.

The first section of this memo includes a handful of factoids, gathered from two GAO reports (12/97 and 4/97), the Cato Institute, the Older Women's League and the Institute for Women's Policy Research, on the inequities discussed.

Section two details several specific provisions, which have been included in some of the major reform plans, as they may impact women. The list of plans I referenced includes: the three proposals offered by the Social Security Advisory Council in 1996-- 1)the Maintain Benefits plan (MB), 2) the Individual Accounts plan (IA) and 3)the Personal Security Accounts plan (PSA), 4) the CSIS 21st Century Retirement Plan, and 5)two Senate bills and two House bills. bills. (See attached chart).

SECTION I

Labor Force Participation

- In 1996, labor force participation rate for women age 16 and older was 59 percent compared with 75 percent for men.
- An average woman spends 11.5 years out of the workforce.

Earnings

- Women earn 74 percent of what men earn for the same work.
- Women retiring in the next 20 years will likely have less than 1/3 the income necessary to retire comfortably. Only 25 percent of African American women and 33 percent of Hispanic women have income from savings or assets
- Poverty rates for women age 65 (14.9%) and over are twice as high as for elderly men (7.2%).

Investment Behavior

- A study published by the University of Pennsylvania (and cited in GAO report, 4/97, p.3) analyzed 35 years of participation in Federal Thrift Savings Plans at historical yields and identical contributions and found that the gender difference in investment behavior can lead to men having a pension portfolio that is 16 percent larger than women.

Life Expectancy

- Women live an average of seven years longer than men.

SECTION II

Computation of Benefits

Currently, Social Security benefits are calculated based on earnings averaged over the course of 35 years. Several proposals including: the Maintain Benefits plan, the Individual Accounts plan and the Moynihan/Kerrey plan would increase the length of years used to compute benefits from 35 to 38 years. Rep. Nick Smith's (R-MI) proposal would increase the number of years to 39, and the CSIS plan would increase it to 40 years. This provision is intended to be a cost-savings mechanism. Average earnings tend to increase and then decrease over the course of an individual's career. Lengthening the computation period will likely include more years with decreased earnings, therefore reducing the benefit and saving money.

This is likely to impact women more significantly than men because fewer women have participated in the labor force for as long as men have. In fact, 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 who will have 38 years of covered earnings. (GAO, 4/10/97). In addition, the median number of years with zero earnings for workers turning 62 in 1993 was four for men and 15 for women (GAO, 12/97)

SSA has calculated that if the number of years used to compute a benefit was raised to 38, this would be a 3.1 percent benefit reduction for men and a 3.9 percent reduction for women. Extended to forty years, the computation formula would likely result in a 5.2 percent reduction in benefits for men and a 6.4 percent reduction for women.

Raising the Retirement Age

Under current law, the age of retirement is gradually increasing from age 65 to age 67. Almost all of the plans reviewed include a provision to accelerate this increase in the retirement age as well as an increase in the early retirement age. Again, this is a cost-savings mechanism that is likely to hurt older men and women who cannot find a job or may be restricted for health reasons. However, the impact may be greater for older women because of the differential in earnings -- men working those extra years are likely to make more than women -- and because women are more often caretakers for children and parents or an older spouse.

Furthermore, advocates worry that if the early retirement age remains at 62, but the normal retirement age is increased, benefits at early retirement may decrease further from the current value of 80 percent of the full benefit available at the normal age. This decrease would result from the additional years the retiree is collecting benefits between early retirement and normal retirement. This would translate into an added hardship for widows whose benefits depend on how early their spouses retired.

Shifts in the Allocation of Survivor and Spousal Benefits

Because women tend to live longer than men on average and more women than men rely on their spouse's income, survivor and spousal benefits are of particular importance to this constituency. Under the Individual Accounts plan, the CSIS plan and Rep. Smith's plan, spousal benefits are lowered from 50 percent to 33 percent of the retired worker's benefit. However, the IA plan would couple this provision with a change in the survivor benefit from 100 percent of the deceased worker's benefit to the higher of either one's own benefit, the spouse's benefit, or 75 percent of the couple's combined benefit. The result may be beneficial for widows with work experience, but the downside would fall on low-earning married, divorced or separated women.

Calculation of Individual Annuities

As the reform discussions center increasingly on privatization and the slightly riskier opportunities of personal retirement accounts, individual annuities have gained more attention as a mechanism to ensure a basic monthly benefit for life. While some proposals will allow retirees to withdraw their savings in lump sum payments (e.g. the Moynihan plan, the Sanford plan, the Smith plan) rather than buy an annuity, this will lead to too much risk for many. However, even if an annuity is an attractive option, it may still disadvantage women compared to men because many insurance companies use gender-specific life tables to calculate the value of the annuity. These tables are adjusted for longevity and therefore, insurance companies offer a smaller monthly benefit for women or charge women more for the same level of benefits given to men. We should note that federal, state and local pension plans use unisex life tables in calculating monthly annuity benefits.

The debate over retirement security has highlighted concerns about the availability of pension plans for women. According to the Older Women's League, only one in five women in this country work for firms with fewer than 100 employees and are covered by a pension plan, and only 13 percent of women 65 or older receive income from a pension. In late June, House and Senate Democrats introduced companion bills, entitled the Retirement Security Act of 1998, intended to, among other things, help small businesses set up pension funds, ensure pension portability and guarantee pension security. Women's groups will most certainly want to focus on these efforts as part of the larger debate.

Personal Investing

Many of the reports on women and Social Security reform, including briefings from the Cato Institute, raise questions about the impact of the gender difference in investment behavior and experience on women, particularly low-income, non-educated women. This concern is of primary importance for any proposal to privatize, especially those plans allowing beneficiaries freedom to choose investments. There has been a nearly unanimous call from this constituency for an education campaign to enable women and low-income individuals to gain the tools and the know-how to reap the higher benefits that are promised under a privatized system.

Changes in Earnings Sharings

Privatization proponents, such as Cato, argue that because women currently tend to have lower retirement benefits resulting from some of the inequities discussed investing in the market rather than in Treasury bonds <u>can provide</u> financial benefits to women. While these advocates acknowledge the concerns about benefit formulation and spousal and survivor benefits, they suggest supporting a privatization plan that includes some add-ons to protect low income, non-working or secondary-earner spouses. One example would be to mandate earnings sharings, in which total contributions by married couples to a personal security account would be split 50-50 between the husband and wife before being deposited into each account.

<u>Section III: A Couple of Final Thoughts</u>

This issue is, needless to say, complicated, and several of the provisions I have highlighted, such as an accelerated increase in the retirement age, are likely to be a part of any final plan. The concern from the advocacy groups seems to focus on the cumulative effects of these changes on women coupled with the possibility that investing in the market may not reap benefits equally for men and for women. Given the current political mood, there is a likelihood that the final plan <u>will</u> include some piece of privatization or opportunity to redirect money from a payroll tax to investment in the market through private accounts. Therefore, specific suggestions that would protect women combined with efforts to privatize, such as using unisex annuity tables, providing general education efforts and financial planning advice, may be a viable solution.

Social Security Reform Proposals Side-By-Side

Proposals	Personal Retirement Accounts	Retirement Age	Computation of Benefits	Survivor/Spousal Benefits	Guaranteed Minimum Benefit
Advisory Council on SS	**3 options**: **(MB)** does not include personal investment accounts, **(IA)** includes defined contribution individual accounts with 1.6% of covered payroll invested, **(PSA)** invest 5% of employee's payroll tax in mandatory accounts for workers under age 55.	Increases from 65 to 67 by 2011. Then slowly rises to age 70 by 2083.	Extends from 35 to 38 years between 1997-99.	The IA plan lowers spousal benefits from 50% to 33% of retired worker's benefit. Survivor benefit changes from 100% of deceased worker's benefit to the higher of one's own benefit, spouse's benefit or 75% of the couple's combined benefit.	The IA plan includes a minimum flat benefit equal to 65% of the current poverty level for an elderly person living alone.
CSIS "21st Century Retirement Plan"	Invests 2% of current payroll tax for all workers under age 55 into Individual Savings Accounts (ISA). Similar to Thrift Savings Plan (TSP)	Increases to age 70 by 2029. Increases early retirement age to 65 by 2017.	Increases from 35 years to 40 years.	Reduces spousal benefits from 50% to 33% between 2000 and 2016.	All SS beneficiaries with 20 years of covered earnings guaranteed a benefit of at least 60% of the poverty level, phasing upwards with each year of covered earnings.
S.1792 Moynihan (D-NY) Kerrey (D-NE)	Invests 2% of payroll taxes in voluntary personal accounts-managed like TSP. **KidSave**: opening $1,000 retirement investment account for every child at birth and adding $500 a year for the first five years.	Increases by two months per year between 2000 and 2017 to age 68. Increases to age 70 between 2018 and 2065.	Increases from 35 to 38 years.		A worker could choose to invest in PSAs or take an increase in take-home pay equal to 1% of wages.
S. XXX Gramm (R-TX) Domenici (R-NM) (expected to be introduced in September)	Invests 3% of payroll taxes into mandatory SS Individual Investment Accounts - voluntary for current workers. Invest in real assets-60% stocks and 40% bonds.				During transition, worker is guaranteed minimum benefit equal to the SS benefits that might have been earned plus 20% of the SI annuity accumulated prior to retirement.
H.R. 2768 Sanford (R-SC)	Invests 8% of payroll taxes into mandatory personal retirement accounts for those entering workforces in 2000 or later. Invest in low to moderate risk index funds.	Increases to age 70 by 2029.			Investment principle up to a minimum wage level annuity would be insured against loss by a fund administered by the SEC or private insurer.
H.R. 3082 Smith (R-MI)	Invest 2.5% rising to 2.8% in voluntary Personal Retirement Savings Accounts (PRSA). Invest similar to IRAs	Increases to age 69 between 2003 and 2015. Increases early retirement age to 65 between 2000 and 2011.	Increases from 35 years to 39 years by 2015	Reduces spousal benefits from 50% to 33%.	Workers investing in PRSAs would still receive SS benefit that would be reduced by the actuarial value of the contributions put into PRSA.