

Revised, October 8, 1998

African Americans, Hispanic Americans, and Social Security: the Shortcomings of the Heritage Foundation Reports

by Kilolo Kijakazi

I. Executive Summary

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.

Table of Contents

- I. Executive Summary
- II. Assessment of the Heritage Reports
- III. Conclusion
- IV. Appendices: Analyses of Heritage's work by Office of the Chief Actuary, Social Security Administration

[Click here for PDF version of this report](#)

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.

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. The analyses of Heritage's work by the Office of the Chief Actuary are attached as appendices.

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 is 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, however, 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 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.

**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."

* 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.

- **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 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 Social Security system, the components most favorable to the African-American community. That makes Social Security appear less valuable to African Americans than it is.

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." 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."* 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.**

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.*** 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.

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

** "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.

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

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

Assumptions that Overstate Returns from Individual Accounts

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

- **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."⁽¹⁾ 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."⁽²⁾ 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.

**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.*"

* "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.

- **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.⁽³⁾ 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.⁽⁴⁾ The 1994-1996 Advisory Council on Social Security estimated an annual charge of one percent on the assets of 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.⁽⁵⁾ 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."⁽⁶⁾

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.

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.

II. Assessment of the Heritage Reports

The authors of the Heritage reports assert that the retirement component of the Old Age Survivors and Disability Insurance (OASDI) program, or Social Security, should be replaced with private individual accounts that are invested in stocks and bonds. The basis for their assertion is that rates of return from the private market would be greater than those for Social Security. The rate of return reflects the difference between the value of money paid into a retirement or insurance program over time and the value of benefits received from the program over time. The higher the rate of return, the greater the amount of money an individual will receive compared to what the individual paid in.

Heritage compares the payroll taxes that individuals contribute to Social Security during their work lives to the benefits they receive after retirement. The Heritage

authors also look at the funds individuals would get back if their payroll taxes were paid into individual accounts modeled on IRAs, instead of Social Security, and invested in the private market.

The authors argue that rates of return are lower under Social Security than they would be under individual accounts for the population in general and are particularly low for African-American workers and their families. According to Heritage, the higher mortality rate for African Americans compared to whites, especially for African-American men, will result in fewer years of benefits after retirement and consequently lower rates of return. In addition, the Heritage report on Hispanic Americans states that because Hispanics constitute a relatively young population, they will bear a disproportionately larger share of the cost of funding Social Security in the future.

To determine rates of return, the Heritage authors used a model that calculates the benefits of a hypothetical individual or family. The accuracy of any such model depends on the validity of the assumptions built into it. The Heritage model suffers from deeply flawed assumptions. The faulty assumptions are listed below and then examined one by one in the remainder of this analysis.

Assumption 1:

All workers will live to be 65, and the age at which they are expected to die does not increase as they grow older.

Assumption 2:

All workers will remain in the labor force until the age at which they can draw full Social Security benefits; none will retire earlier and draw actuarially reduced Social Security benefits.

Assumption 3:

Converting to a private individual accounts system will incur no transition costs.

Assumption 4:

Administrative costs, fees charged by investment companies, and the cost of converting accounts to annuities can be omitted from projections on rates of return.

Assumption 5:

Social Security can be assessed based solely on its retirement provisions.

Assumption 6:

It is not necessary to adjust life expectancy by income level when examining differences in longevity by race.

Assumption 7:

The long-term actuarial balance for Social Security will be restored solely by raising payroll taxes and this hike will begin in 2015, when the trust fund has a several trillion dollar surplus.

Assumption 1: All workers will live to be 65 and the age until which an individual is expected to live does not increase as the individual grows older.

The Social Security Administration's Office of the Chief Actuary has analyzed the approach used by Heritage to estimate rates of return for Social Security and found major errors that led the Heritage authors to underestimate significantly the rates of return for workers in general and for African Americans in particular.⁽⁷⁾ The Heritage method inaccurately estimates both the number of years an individual is expected to work and the number of years the individual is expected to collect Social Security

retirement benefits.

Heritage used in its calculations the Life Tables developed by the Department of Health and Human Services. These tables show life expectancy to be 54.3 more years for a 20-year-old white man and 47.2 more years for a 20-year-old African-American man.⁽⁸⁾ Under the Heritage methodology, both such men are assumed to work for 45 more years and to retire at the age at which Social Security pays full benefits, currently 65.

Such an assumption, however, fails to take into account the fact that some of these men will die before age 65; Heritage essentially assumed these men have a 100 percent chance of reaching 65. The Social Security Administration actuaries note that the probability of the men living this long is 78.1 percent for a 20-year-old white man and 60.3 percent for an African-American man.

The SSA actuaries determined that the true expected number of work years averages 42.2 years for the 20-year-old white man and 39.1 years for the African-American man, rather than the 45 years Heritage assumed. By overestimating the likelihood of living until 65, the Heritage authors overestimated the average number of years these individuals will make payroll tax contributions. Heritage thus overstated the Social Security payroll taxes these individuals will pay, with the overstatement being greatest for African Americans.

Expected Work and Retirement Years for 20-Year-Old Males in 1997

Method	Years Working and Paying Taxes		Retirement Years	
	White Men	African- American Men	White Men	African- American Men
Heritage Assumptions	45	45	9.3	2.2
SSA Actuaries	42.2	39.1	2.1	8.1

Source: Steve Goss, "Problems with 'Social Security's Rate of Return,' A Report of the Heritage Center for Data Analysis," January 27, 1998, p. 2.

At the same time, Heritage underestimated the average numbers of years these workers will draw Social Security retirement benefits because Heritage failed to adjust the expected age of death for individuals who *do* survive to 65.⁽⁹⁾ Continuing with the previous example, a man who is 20 years of age is expected to live to 74.3 if he is white and to 67.2 if he is African American, given their life expectancies at age 20 of 54.3 additional years and 47.2 additional years, respectively. The Heritage methodology assumes that white men who work until 65 will receive 9.3 years of retirement benefits (from age 65 to 74.3), while African-American men who work until 65 will receive just 2.2 years of retirement benefits (from 65 to 67.2 years of age). This is flatly wrong. The age that an individual is expected to attain changes over his or her lifetime. If a man reaches age 65, he is expected to live 15.5 additional years if he is white and 13.5 more years if he is African-American. Heritage thus heavily underestimated the number of years that these men, and especially African-American men, will draw Social Security retirement benefits.

Because of these and other flaws, the actuaries found that the Heritage methodology "... grossly underestimates the expected rates of return from Social Security

retirement benefits. Moreover, the extent of this bias is greater for workers with lower life expectancy, in particular African Americans. The error is also greater for younger workers who are far from retirement age in 1997."⁽¹⁰⁾

An appropriate method for estimating the expected number of years of retirement for a 20-year-old man must incorporate both the probability of surviving to 65 and the life expectancy for those who reach 65. Since a 20-year-old white man has a 78.1 percent chance of reaching 65, his expected number of retirement years is 12.1 (that is, 0.781 times the 15.5 additional years such a man is expected to live if he reaches 65). The 20-year-old African-American man who has a 60.3 percent probability of surviving until 65 is expected to have 8.1 retirement years (0.603 times 13.5).

The table above compares work years and retirement years under the Heritage methodology with the corrected values determined by the SSA actuaries. *The actuaries' findings result in nearly four times as many estimated years of retirement benefits for young African-American men as the Heritage methodology assumes.* Had Heritage used the appropriate methodology for computing work years and retirement years, the rates of return that Social Security provides for men, especially African-American men, would be shown to be considerably higher than Heritage claims.

Another way of examining the data is to compare the number of work years to the number of retirement years for both African-American men and white men. The actuaries' calculations show that the number of years of retirement for 20-year-old African-American men equals 20.7 percent of their working years. For 20-year-old white men, the retirement period equals 28.7 percent of their work years. The Heritage methodology yields distorted results, with the assumed retirement period for 20-year-old African-American men equaling only 4.9 percent of their work years and the assumed retirement period for 20-year-old white men equaling 20.6 percent of their work years.

Because Heritage overestimates the number of years for which men, especially African-American men, contribute payroll taxes while substantially underestimating the number of years for which these men — and again, especially African-American men — receive Social Security benefits, it produces large underestimates of the rates of return that Social Security provides. (Note: This problem also results in an underestimate by Heritage in the rates of return that Social Security provides to Hispanic-Americans, although the underestimate is greatest for African Americans. The Social Security actuaries did not compute the specific degree of error contained in the Heritage estimates for Hispanics.)⁽¹¹⁾

Assumption 2: All workers will remain in the labor force until the age at which they can draw full, rather than reduced, Social Security benefits.

The rates of return that Heritage has estimated for Social Security reflect an assumption that each worker will remain in the labor force and contribute payroll taxes until the age at which workers may retire and draw full Social Security benefits. (This

age, sometimes mislabeled the "normal retirement age," is currently 65.⁽¹⁰⁾ This Heritage assumption fails to take into account that about two-thirds of all workers, including minority workers, take early retirement. Having the option to receive Social Security benefits before 65 is particularly important to African Americans given their shorter average life span.

The Social Security system allows workers either to retire with full benefits at a given age, currently 65, or to retire early with reduced benefits. A worker can take early retirement at age 62. Workers who retire at 62 pay payroll taxes for three fewer years. They also begin receiving benefits three years earlier, with their monthly benefit level permanently reduced to compensate for the increased number of years during which they will receive benefits.

The reduction in the monthly benefit amount for those who retire early is based on actuarial tables and is intended to make the amount of benefits received from age 62 to the point of death equivalent, on average, to the amount of benefits retirees would receive if they waited until the "normal retirement age" to retire. Over the population as a whole, the Social Security early retirement option is close to a wash — the lower monthly benefits paid are designed to offset the increased number of years for which benefits will be received. (On average, individuals do slightly less well by retiring early.)

The story is different, however, for African Americans. Given the shorter average life span of African Americans, the benefits that African-American early retirees receive from age 62 to the end of their lives exceed the benefits they would receive, as a group, if they waited until 65 to retire. Starting to receive benefits several years earlier *increases* the total benefits they receive and raises their average rate of return.

The Heritage calculations overlook this. These calculations understate the Social Security retirement benefits that African-American workers are expected to receive because Heritage assumes African-American workers do not start drawing benefits until age 65.

Elements of the Social Security Benefit Structure Favorable to Low-income Workers are of Importance to Minorities

Low-income people tend to have a higher mortality rate than high-income people. This factor would result in lower rates of return from Social Security retirement benefits for low-income workers *if* no other factors came into play. But other factors do come into play. Social Security has a highly progressive benefit formula. Workers with relatively low earnings receive a much higher proportion of their wages as a retirement benefit than high-wage earners do. As a result, low-wage workers get back their payroll tax contributions in substantially fewer years than high-wage earners do.

This is of particular importance to minorities. Since African Americans and Hispanic Americans make up a disproportionately large share of low-wage workers (and a disproportionately small share of highly paid workers), the Social Security benefits they receive tend to return their payroll tax contributions in fewer years than is true, on average, for non-minorities.

A study by James Duggan, Robert Gillingham, and John Greenlees of the Treasury Department used data from 1951 to 1988 on actual workers and retirees (rather than the hypothetical cases Heritage constructed) to estimate rates of return for Social Security retirement and survivors benefits by race. The study reflected both the shorter life expectancies of African Americans and the progressivity of the Social Security benefit structure. Contrary to Heritage's claim that Social Security provides lower rates of return to African Americans than to whites, the researchers found African-American workers received slightly *higher* real rates of return than white workers.* The study by Duggan and his colleagues is generally regarded as the most significant study on this issue because it is the only study of rates of return by race that is based on data on actual Social Security earnings and benefit histories. (No other such studies are based on these data because researchers outside the Social Security Administration and the Treasury are not allowed access to these data for confidentiality reasons.)

It also may be noted that the Earned Income Tax Credit, a refundable credit for working families and single individuals with low or moderate wages, offsets some or all of the payroll taxes that many low-income workers pay. This credit was established in 1975 primarily to offset the payroll tax burdens of low-income workers. In 1998, low-income workers with one child can receive an Earned Income Tax Credit equal to 34 percent of earnings on up to \$6,680 of their wages, for a maximum credit of \$2,271, while workers with more than one child may claim a credit equaling 40 percent of earnings on up to \$9,390 of their wages, for a maximum credit of \$3,756. Poor workers without children qualify for a credit equal to 7.65 percent of earnings on up to \$4,460 of their wages. If the portion of the EITC that offsets Social Security payroll taxes is taken into account in calculating rates of return for low-wage workers, these rates rise significantly. The Heritage reports do not take the EITC into account.

* James E. Duggan, Robert Gillingham, and John S. Greenlees, "Returns Paid to Early Social Security Cohorts," *Contemporary Policy Issues*, October 1993.

Assumption 3: Converting to a private individual accounts system will incur no transition costs.

Social Security is largely a "pay-as-you-go" system; the payroll taxes of workers currently in the labor force pay the benefits of current retirees. Under the privatized system that Heritage proposes as an alternative, payroll taxes from workers would

flow into their own individual accounts and would not be available to pay retirement benefits for current retirees. Yet funds would have to be made available to honor the promise of benefits to current retirees and workers near retirement who have paid into the system throughout their working lives.

These funds would presumably be generated by raising payroll taxes. The 1994-1996 Social Security Advisory Council split into three factions when making recommendations for restoring long-term balance to Social Security. The faction most in favor of privatization proposed diverting five percentage points of the payroll tax from the Social Security trust funds to individual accounts. The members of this faction of the Advisory Council identified the transition costs that would result and proposed that to cover these costs, the payroll tax be increased by 1.52 percentage points for 72 years. (Even with this increase in the payroll tax, the federal government would need to borrow an additional \$1.9 trillion over the next 40 years to help cover the transition costs under this proposal. These borrowed amounts would be repaid between 2035 and 2070.)

A study by the respected Employee Benefit Research Institute (EBRI) also estimated the transition cost of redirecting five percent of the payroll tax to individual accounts.⁽¹³⁾ (The option EBRI examined differs in some respects from the privatization option these members of the Advisory Council proposed.) EBRI estimated that the transition costs would require an increase in contributions equal to five percent of payroll over a 40-year period or a 3.3 percent payroll tax increase over a 70-year period.

EBRI appropriately took these transition taxes into account when computing rates of return for privatization proposals, something Heritage failed to do. The Heritage calculations essentially assume that the retirement component of Social Security can be fully privatized without incurring transition costs, a virtual impossibility.⁽¹⁴⁾

EBRI found that when transition costs are included, rates of return are lower for various groups — including low-income workers now 22 years of age — under individual accounts than under any of the options it examined for maintaining Social Security. The options it modeled for maintaining Social Security included restoring actuarial balance through benefit reductions only, payroll tax increases only, and a combination of the two.

This finding is of particular significance for Hispanic Americans. Heritage's report on Hispanic Americans contends that because this community is disproportionately young, it would be unduly burdened by an increase in the payroll tax to sustain Social Security and would fare better under individual accounts. Part of Heritage's argument rests, however, on Heritage's failure to take into account the transition costs to a privatized system, which would be borne disproportionately by younger populations. The EBRI findings suggest that the rate of return to young, low-wage Hispanics under an individual accounts system would likely be lower than the rate of return from maintaining Social Security either by raising Social Security payroll taxes and/or by cutting Social Security benefits.

Furthermore, if part of the long-term imbalance in Social Security finances is closed

by investing a portion of Social Security reserves in equities rather than by raising taxes or cutting benefits, the rate of return that the Heritage individual accounts alternative would generate for young populations would compare even more poorly to Social Security. Investing a portion of Social Security reserves in equities is a course that former Congressional Budget Office director Robert Reischauer, Brookings senior fellow Henry Aaron, and former Social Security commissioner Robert Ball, among others, have recommended.

Assumption 4: Administrative costs, fees charged by investment companies, and the cost of converting accounts to annuities can be omitted from calculations of rates of return for individual accounts.

When computing rates of return for individual accounts, the authors of the Heritage reports fail to take into account the fees that investment companies charge to cover their administrative costs, the companies' management fees, and the fees charged for converting individual accounts into lifetime annuities when a worker retires. These costs reflect the expenses that investment companies incur in advertising and undertaking other promotions to attract investors, in communicating with investors, and in record-keeping, as well as the profits the companies make.

— Social Security pays no commissions, and it charges no fees for converting funds to annuities. Its administrative costs are extremely low, in large part because of the economies-of-scale achieved by having a single agency manage accounts for 147 million workers and 44 million beneficiaries.⁽¹⁵⁾ In addition, Social Security does not incur costs in advertising to attract customers and does not take a portion of the funds it handles for profits for private shareholders.

This much-greater administrative costs incurred under a privatized system involving numerous financial firms must be paid from funds in the individual accounts. As noted earlier, Peter Diamond and Henry Aaron have pointed out that a one percent annual charge on funds in an individual account similar to an IRA or a 401(k) account — the type of individual account Heritage favors — would, over a 40-year work career, consume approximately 20 percent of the funds in the retirement account. Based on the most recent financial data on mutual funds, a one percent annual charge is a conservative estimate. Lipper Analytical Services reports that in 1997, the average charge on no-load stock funds equaled 1.21 percent of the amounts invested in these funds, while the average charge on front-load stock funds equaled 1.25 percent of the amounts invested, in addition to the load charge.⁽¹⁶⁾

Individual Accounts May Yield Large Profits for Financial Securities Industry

In testimony June 18 before the Subcommittee on Social Security of the House Ways and Means Committee, Ric Edelman, head of Edelman Financial Services, commented on the large fees, costs, and profits that would be associated with individual accounts. Edelman stated:

"If these massive investments are handled on an individual level, five major industry sectors will enjoy tremendous profits...

- a) First, the money management industry will earn enormous fees by investing and managing these assets. I am referring to mutual funds, annuities, institutional money managers, clearing firms, banks, insurance companies and brokerage firms....
- b) Financial advisors would become the nation's hottest new profession (if it isn't already). There will be incredible fee and commission income from advising consumers on how to invest their Social Security assets...If you enact this proposal, let me be the first to thank you in advance for helping me and all financial advisors to become rich, or rather, even richer.
- c) The burgeoning financial education field, of which I am a part, and which currently is a small cottage industry, would become a major metropolis. Tens of millions of workers would be new targets for educational products and services.
- d) The financial media, which is very well represented today by *Money* Magazine, would find a treasure chest of new information to convey to its readers. They'll have plenty to write about for a long time.
- e) The advertising industry would receive its biggest bonus since prescription drug advertising hit television. Whereas currently Wall Street attempts to reach only the affluent, who have assets to invest, this proposal would place investable assets into the hands of virtually every working American. Wall Street will want to reach those consumers, and this means unmatched spending on advertising, marketing, promotional and public relations campaigns...."

The amounts consumed would generally be greater than 20 percent of the amounts in smaller-than-average accounts, the accounts that workers with below-average wages would have. That would include the majority of African-American and Hispanic-American workers.

A sizeable additional cost is incurred when a worker converts the funds in his or her account to a lifetime annuity at the time the worker retires. (An annuity is a payment generated for the remainder of the beneficiary's life, regardless of how long the individual lives.) An insurance company selling an annuity must cover its overhead, advertising and promotional costs, commissions to agents, and profit for shareholders.

It also must cover itself against the risk of "adverse selection" — the risk that the lifetime benefits the company pays to people who purchase annuities will exceed the amounts the company charged for the annuities if many of the beneficiaries live to very old ages and receive annuity benefits from the company for many years. This is

a particular risk for firms selling annuities, because the people most likely to purchase annuities are people who are more likely than the average retiree to live to a quite old age. Firms cover themselves against losses of this nature by pushing up the price of the annuities they sell.

The leading research in the field indicates that the various costs and charges involved in converting private accounts to annuities eat up 15 percent to 20 percent of the value of the accounts.⁽¹⁷⁾

The costs charged for annuities can vary considerably across insurance firms. A retiree would need to be fairly astute in selecting an insurance company from which to purchase an annuity to obtain the best value for his or her investment. Relatively few families, however, have experience with buying annuities. The 1995 Survey of

Consumer Finances by the Federal Reserve Board shows that only 3.8 percent of all families have assets such as personal annuities and trusts, and only one percent of nonwhite and Hispanic families have them.⁽¹⁸⁾ African-American and Hispanic-American families, especially those with low incomes, may be among those who, under an individual accounts system, would be most likely to incur costs for annuities that extract a higher-than-average percentage of the funds in their accounts. That would further reduce the rate of return on individual accounts for these communities.⁽¹⁹⁾

Financial Securities Analyst Explains That Administrative Costs Can Substantially Reduce Returns From Accounts

In testimony July 24 before the Subcommittee on Finance and Hazardous Materials of the House Commerce Committee, Joel M. Dickson, Senior Investment Analyst with the Vanguard Group, explained the large role that administrative costs can play in lowering rates of return that individual accounts can provide, especially for the smaller-than-average accounts of workers with below-average earnings. Dickson stated:

"Much of the recent debate on individual accounts has centered around how Social Security participants can earn higher rates of return — like those experienced in the private financial markets. Unfortunately, there is often a large gap between the assumed market return on an investment and the actual return realized by investors. The reason? Cost... What may seem to be a relatively small cost difference over a short period of time can become an enormous difference over a long investment horizon....

"Consider a \$1,000 investment in two equity funds; one earns a market return of 10%; the second earns only 8%, which represents the market's return reduced by an all-too-realistic total cost of 2% (arising from charged expenses and portfolio transaction costs). After the first year, the difference in account values between the two options is only \$20. Of course, a participant investing over the course of their working lifetime must consider much longer time horizons. Over 40 years, the first fund soars to \$45,000. The second fund, earning 2% less per year, grows to \$22,000 — less than half what the market earned....

"The key pricing variable for private accounts is the average account size. To the extent that costs of servicing the accounts could not be covered by asset-based management fees, other charges — like account maintenance fees — are likely. One of the criticisms often made about privately-managed, individual accounts is that lower-income workers may not be as financially savvy, resulting in lower average returns. I think a bigger issue is that *lower-income and part-time workers will have small account balances, potentially*

subjecting them to higher fees because asset-based revenue cannot begin to cover the costs of maintaining these accounts. Thus, they are likely to earn lower returns than higher-income workers that make the same investment choices for reasons unrelated to financial market sophistication" [emphasis added].

Assumption 5: Social Security can be assessed based solely on its retirement provisions.

The Heritage reports do not calculate the rate of return on the full Social Security system. They attempt to isolate the retirement portion of Social Security by estimating both the payroll tax contributions and the Social Security benefits associated only with retirement. They then compare the retirement component of the Social Security system to private individual accounts.

Social Security is not designed, however, to be solely a retirement program. It is a comprehensive insurance system that protects against risks which are unforeseen or for which workers are not sufficiently prepared. Social Security does not simply cover a worker's retirement; it also provides benefits to the worker's spouse and dependents when the worker retires or becomes disabled, as well as survivors benefits if the worker dies. The divorced spouse of a retired or deceased worker also is generally entitled to benefits.

African Americans benefit disproportionately from the disability and survivors components of Social Security. By removing these parts of Social Security from its calculations, Heritage disregards the elements of Social Security most favorable to them.

Furthermore, Heritage removes survivors insurance from its rate-of-return calculations in a questionable manner that makes the rate of return for Social Security retirement benefits appear lower than it is. In computing the rate of return for Social Security retirement benefits, Heritage disregards the portion of the payroll tax that it claims to be the part that supports benefits for survivors of workers who die before retirement. Heritage compares the remaining part of the Old Age and Survivors Insurance payroll tax to the retirement benefits that workers would receive.

In making these calculations, however, Heritage attributes too much of the payroll tax that African Americans and Hispanic Americans pay to retirement benefits and too little to survivors benefits. In addition, while Heritage claims its individual accounts option preserves Social Security disability benefits, it fails to take into account that replacing Social Security retirement benefits with individual accounts would make it more difficult to maintain Social Security disability benefits without raising payroll taxes or cutting disability benefits sharply. It also fails to take into account the potential under its plan for many spouses of retired workers and many divorced women to be faced with sharp reductions in retirement income.

Disability Insurance

One of every seven Social Security beneficiaries is a beneficiary of Social Security disability benefits. African Americans make up a disproportionate number of these participants.⁽²⁰⁾ While African Americans account for 11 percent of the civilian labor force,⁽²¹⁾ they comprised 18 percent of the workers receiving Social Security disability benefits in 1996.

When a worker becomes disabled, the workers' dependents also become eligible for Social Security benefits. African Americans made up 23 percent of the children and 15 percent of the spouses who received Social Security benefits in 1996 because workers in their families were disabled. Studies by the Social Security Administration show that African American receive substantially more benefits from Social Security Disability Insurance in relation to the taxes they have paid than whites do.⁽²²⁾ Leaving disability benefits out of Social Security rate-of-return calculations, as Heritage does, understates the value of Social Security to the African-American community.

Furthermore, Heritage never explains how, if Social Security retirement benefits are privatized, Social Security disability insurance can remain unchanged unless payroll taxes are raised or disability benefits cut. The Heritage reports gloss over the fact that Social Security disability insurance faces more immediate funding problems than the retirement component of Social Security. Looked at in combination, the Social Security trust funds will remain solvent until 2032, but the Disability Insurance trust fund on its own will be exhausted in 2019. Addressing the financing problems in Social Security disability insurance are easier if the full Social Security system is maintained, because funds can be reallocated from the Social Security Old Age and Survivors Insurance trust fund to the disability insurance trust fund if necessary. If the revenue for the retirement part of Social Security has been diverted to individual accounts, however, it will not be available to help sustain the disability insurance program.

Aggravating this problem, if only the disability and survivors parts of Social Security remain, Social Security administrative costs will rise as a percentage of benefits paid. This is true both because economies-of-scale will be reduced and because the costs of administering disability insurance are three times as high, measured as a percentage of benefits paid, as the administrative costs of Social Security as a whole.⁽²³⁾

For these reasons, the benefits provided under Social Security disability insurance would likely need to be cut back more sharply under the Heritage approach than under a reform plan that maintains the payroll tax levels now devoted to Social Security retirement benefits. To maintain adequate coverage in the face of such reductions, workers might need to supplement their scaled-back Social Security disability insurance by purchasing private disability insurance if they could afford it.

If workers needed to purchase private disability insurance, those with the lowest incomes would, on average, be likely to face the highest premiums if they qualified for such insurance at all. Disability insurance premiums are based in part on the occupation and health of the applicant.⁽²⁴⁾ The greater the physical risk of the occupation and the less healthy the worker, the greater the probability of not

qualifying for coverage and the higher the premium for those who do qualify. Workers with lower wages are more likely to be employed in jobs that require physical exertion.⁽²⁵⁾ In addition, low-income earners have a greater propensity for poor health since they generally have fewer resources with which to obtain health care. As a result, some low-income workers could find themselves unable to secure coverage or unable to obtain coverage they could afford.

The likely reductions in Social Security disability insurance under the Heritage approach would be particularly detrimental to African Americans. This would be true both because of their greater use of Social Security disability benefits and because, as a population with a disproportionate share of low-wage workers, African Americans could face higher-than-average costs for purchasing private disability insurance to supplement their reduced Social Security disability benefits. Hispanic Americans could face higher costs for private disability insurance for the same reason.

Survivors Insurance

Social Security survivors benefits go to the spouse, the children, and sometimes the dependent grandchildren and parents of a deceased worker. An elderly widow, widower, or divorced spouse of a deceased worker can, for the rest of his or her life, receive a survivors benefit equal to 72 percent to 100 percent of what the deceased worker's monthly benefit would have been.⁽²⁶⁾ A non-elderly widow, widower, or divorced spouse receives 75 percent of the deceased worker's benefit if he or she cares for the deceased worker's child. Eligible children and grandchildren also receive monthly checks equal to 75 percent of the deceased worker's benefit. So do the parents of the worker if they are caring for the deceased worker's children.⁽²⁷⁾

In computing Social Security rates of return, Heritage attempted to isolate the retirement portion of Social Security from the survivors portion. As with the removal of disability insurance from the computations, this lowers rates of return for African Americans. As a result of above-average mortality rates among African Americans, the African-American community benefits disproportionately from the feature of Social Security that provides benefit payments to non-elderly survivors.

For example, although African-American children comprise about 16 percent of all children in the United States,⁽²⁸⁾ they made up 24 percent of the children receiving survivors benefits in 1996.⁽²⁹⁾ African-Americans also accounted for 21 percent of the spouses with children who received survivors benefits. Benefits for non-aged survivors are one of the aspects of Social Security most favorable to African-Americans and low-income workers.

Furthermore, Heritage used a highly questionable methodology in removing the survivors portion of Social Security from its calculations. Removing survivors insurance from calculations of Social Security's rate of return necessitates determining what portion of the combined Old Age and Survivors Insurance (OASI) payroll tax goes for survivors insurance so that this part of the payroll tax may be removed from the computations.⁽³⁰⁾ There is no ready way, however, to make such a determination; there are no separate payroll tax components for retirement and

survivors benefits.

To compute rates of return for Social Security retirement benefits, Heritage subtracted the portion of the OASI tax it *claims* is used for benefit payments to the survivors of workers who die before retirement. But the methodology Heritage used in allocating the payroll tax into survivors and retirement components is flawed; it allocates to survivors insurance too little of the payroll taxes that African Americans and Hispanic Americans pay, while allocating an overly large share of these payroll taxes to Social Security retirement benefits. Overstating the amount of Social Security taxes said to go for retirement benefits makes the rate of return on these benefits look lower than it actually is.

To determine what share of the payroll tax goes for survivors benefits, Heritage identified a low-cost term life insurance premium offered by one life insurance company. Heritage simply assumed that the cost of this premium represents the portion of the payroll tax that goes for survivors benefits.

The cost of a life insurance policy varies greatly, however, depending on an applicant's health. A term life insurance policy worth \$200,000 would cost a 38-year-old man in good health approximately \$225 to \$350 per year,⁽³¹⁾ while the same individual in poor health could pay from \$900 to several thousand dollars per year or be uninsurable. Heritage based its estimate of the portion of the payroll tax that goes for survivors benefits on the cost of life insurance premiums *for healthy workers*. As a result, the estimated cost of a life insurance policy that Heritage used to determine the portion of the Old Age and Survivors Insurance payroll tax that goes for survivors benefits is too low for the population as a whole.

The problem is most serious in computing rates of return for low-income workers, since they are more likely than those at higher income levels to be in poor health and thus to incur larger premium costs when they seek to purchase life insurance (if they qualify for insurance at all — some in poor health may be unable to secure a policy). Because minorities are disproportionately represented among the lower-income population, as a group they are likely to incur above-average costs for life insurance.

The Heritage assumption that the portion of the payroll tax going for survivors benefits equals the cost of a low-cost life insurance premium for healthy workers consequently is particularly problematic for minorities. It results in an understatement of the portion of payroll taxes paid by minority workers that go for survivors benefits and a corresponding overstatement of the payroll taxes these workers pay for retirement benefits. This is another factor that leads Heritage to underestimate the rate of return that African American and Hispanic Americans receive on Social Security retirement benefits.⁽³²⁾

The Heritage Analysis and Widows of Retired Workers

Under the Social Security system, survivors benefits also go to survivors of *retired* workers who die; such benefits go primarily to elderly widows and some members of their families. The Heritage reports are vague about how such widows would be taken care of under the individual accounts that, under the Heritage approach, would replace not only Social Security retirement benefits but also the benefits of survivors of workers who die after retiring.

The Heritage reports suggest a retired worker could purchase an annuity with the accumulated savings in his or her individual account. Although it is possible to purchase a joint annuity for two people that would be paid until both have died, Heritage does not state whether this would be mandatory under its proposal. If no restrictions applied and a married retiree could purchase a *one*-person annuity, then a spouse who outlived the retired worker to whom she was married would face the risk of receiving no income from the annuity after her husband's death.

Moreover, if conversion of individual accounts to annuities at retirement is *not* mandatory — and nothing in the Heritage reports suggests it would be — many retirees could largely exhaust their accounts by the time they die, leaving little for their surviving widows. The risk of increased impoverishment of elderly widows is one of the principal concerns posed by plans to replace Social Security retirement benefits in full or in part with individual accounts.

Spousal Coverage

Another issue the Heritage reports do not address is that the privatization alternative Heritage advances could lead to significant losses in income for many spouses and divorced women. Social Security benefits increase if a beneficiary has a spouse or dependents. The spouse of a retired worker can receive a Social Security benefit equal to 50 percent of the worker's benefit,⁽³³⁾ with the result that the couple can receive a total benefit equal to 150 percent of the worker's benefit. If the worker has dependent children, the children also are eligible for a benefit equal to 50 percent of the retired worker's benefit, up to a maximum amount for the family.

These benefit features would be hard to replicate under a plan where retirement benefits are limited to what can be paid from an individual's account. As the General Accounting Office has noted: "With respect to dependents' benefits, individual account proposals imply reduced spousal benefits."⁽³⁴⁾

There also is the question of joint annuities. The Heritage reports indicate that under the Heritage individual accounts plan, a worker could, upon retirement, purchase an annuity with the savings in his or her individual account. But in contrast to Social Security, the amount of the monthly benefit payment for a joint annuity would necessarily be *lower* than the amount of the monthly benefit payment for one person, rather than higher.⁽³⁵⁾ A joint annuity must be paid until *both* people die; therefore, the payout period is likely to be longer than for one person. To compensate for the longer period of coverage, monthly benefit payments are necessarily smaller for a joint annuity than for a one-person annuity.⁽³⁶⁾

Heritage also does not explain what would happen to divorced spouses of retired

workers under its individual accounts system. Under Social Security, a divorced spouse who was married to a worker for at least 10 years, is 62 or over, and has not remarried is entitled to the same Social Security benefits that a current spouse would receive. Furthermore, benefits to a divorced spouse are outside the family maximum for the worker; should the worker remarry, the benefits paid to the divorced spouse do not affect the benefits paid to the worker's or retiree's current spouse and family. Heritage glides over the question of whether a divorced spouse would receive *any* benefits from the worker under a system of individual accounts; if so, current spouses and dependents would have to receive lower benefits as a result (since, once again, the amount of the payments would be limited to what is in the accounts). Individual accounts may pose a risk of eliminating divorced spouses as a group of beneficiaries, which could result in a substantial increase in poverty for a substantial number of older women. None of these factors are considered in Heritage's rate-of-return estimates.

Assumption 6: It is not necessary to adjust life expectancy by income level when examining differences in longevity by race.

The Heritage report on African Americans contains examples of hypothetical workers to demonstrate differences between African-Americans and whites with respect to Social Security rates of return. In discussing the African-American community, the Heritage authors use a single, low-income man and a single low-income, 21-year-old mother. When discussing the white community, the authors select an upper-middle-income married couple with two children. Aside from the rather stereotypical nature of the characteristics selected for these hypothetical workers, the authors fail to separate out the impact of *income* on longevity (and hence on Social Security benefits) from the impact of *race* on longevity.

Although the Heritage authors acknowledge that life expectancy varies by income, they make no adjustments for these differences when estimating rates of return. In their critique of the Heritage methodology, the Social Security actuaries state: "Without appropriate adjustment of mortality by income, race-differentials in rates of return are highly misleading."⁽³⁷⁾

Stated another way, failing to control for income — that is, failing to compare mortality rates for whites and minorities with the same income levels — exaggerates the impact of race on rates of return. When determining differences in longevity, Heritage failed to compare African-American upper-income, married couples with children to white upper-income, married couples with children. Similarly, it failed to compare single, low-income African-American men and women to single, low-income white men and women.

A study by Duggan, Gillingham, and Greenlees did control for income, among other factors, when calculating rates of return for Social Security retirement and survivors benefits for African-American and white workers.⁽³⁸⁾ The study used data from 1951 to 1988 on actual workers and retirees, rather than the hypothetical cases Heritage constructed. Contrary to Heritage's claims, the researchers found that

African-American workers received slightly higher real rates of return than white workers.

Assumption 7:

In calculating rates of return for Social Security, assume that long-term actuarial balance will be restored solely by raising payroll taxes and that the tax hike will take effect in 2015.

The Social Security trustees project that over the next 75 years, total Social Security benefits paid will exceed total payroll taxes received by an amount equal to 2.19 percent of taxable payroll for this period.⁽³⁹⁾ The 1994-1996 Advisory Council issued three competing plans for eliminating the long-term imbalance. Recommendations contained in one or more of these plans included expanding coverage of Social Security to the 30 percent of state and local government workers not currently covered, investing a portion of Social Security assets in the private market, reducing benefits in various ways, and raising the payroll tax in future decades.⁽⁴⁰⁾ The Heritage studies are based on the assumption that if Social Security is not privatized, the *only* method used to correct the imbalance will be raising the payroll tax. Consequently, Heritage assumes too large an increase in payroll taxes in its calculations. The Heritage authors also assume the payroll tax hike will begin in 2015. This is a decade earlier than would be necessary.

Assuming Social Security's long-term deficit will be met solely through increases in payroll tax rates unrealistically drives up the amount of payroll contributions that workers would make and drives down their rates of return. No proposal by any Advisory Council members or other prominent proponents of Social Security reform has recommended correcting the imbalance purely through payroll tax increases.

Moreover, some of the other steps that have been recommended to close the imbalance, such as investing a portion of Social Security assets in the equities market and extending Social Security coverage to more state and local employees, would reduce the imbalance without lowering the typical retiree's rate of return. For example, the Social Security actuaries estimate that investing half of the trust fund in equities would cut the long-term deficit about in half. This would substantially reduce the need for tax increases. Some other recommended measures would trim benefits primarily from beneficiaries who receive large Social Security benefits; such measures would disproportionately affect beneficiaries with high incomes and hence would not lower rates of return appreciably for the typical minority beneficiary. Heritage stacked the deck in computing Social Security rates of return by assuming the single approach to closing the Social Security imbalance that would most adversely affect rates of return for minorities.

In addition, the Heritage authors assumed that payroll tax rates would be raised in 2015, earlier than the actuaries project would be necessary even under a "payroll-tax-increase-only" approach. Social Security is currently running a substantial surplus, with payroll tax revenue exceeding benefit payments. The actuaries estimate

that in 2015, the trust fund balances will equal 300 percent of annual benefits, or \$1.9 trillion.⁽⁴¹⁾ No tax increase would be needed at that time. In its assessment of the Heritage report, the Office of the Chief Actuary noted: "In order to produce 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. [Heritage's assumption of an] early, too-large increase in tax rates results in rates of return that are estimated to be too low for Social Security." ⁽⁴²⁾

III. Conclusion

The Heritage analysis suffers from large flaws. It understates the rate of return for Social Security and overstates the returns under individual accounts. When the deficiencies in the analysis are corrected, the African-American and Hispanic-American communities no longer are the winners Heritage portrays them as being under these accounts. They are more likely to be injured than aided by the elimination of Social Security retirement benefits and their replacement with individual accounts.

IV. Appendices

February 4, 1998

MEMORANDUM

From: Steve Goss, Deputy Chief Actuary
Social Security Administration

Subject: Problems with "Social Security's Rate of Return" A Report of the Heritage Center for Data Analysis

The analysis by William M. Beach and Gareth G. Davis of the Heritage Foundation attempts to provide an answer to the question "What can Americans expect in future Social Security retirement benefits?" The paper suggests that expected rates of return will decrease substantially in the future and that African Americans do now and will in the future have substantially lower expected rates of return than for the general population. However, the conclusions are highly misleading due to two major errors in the 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 a substantial variance with those produced for the 1994-6 Advisory Council on Social Security (See Appendix 2 of Volume 1 of the report, pages 219-22). For example, for single men (all races combined) born in 1970 with average earnings, real rates of return are estimated at only 0.47 percent by Heritage, compared with 1.28 percent in the Advisory Council Report.

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. (See Duggan, et. al., "The Returns Paid to Early Social Security Cohorts," *Contemporary Policy Issues*, (October), pp. 1-13.)

Error in Method of Computing Expectation

Expected values indicate the average of all possible outcomes for individuals at a point in time with an uncertain future. Instead, the Heritage study erroneously analyzes a single outcome where an individual is assumed to know how long he or she will live. For persons at each age 22 through 66 in 1997, the authors estimated remaining life expectancy, i.e., the average number of years of life remaining after 1997. Individuals at each age were then assumed to live for precisely the number of years indicated by this average life expectancy. This approach consistently overestimates the expected number of years of work and consistently underestimates the expected number of years after reaching retirement age. As a result, it grossly underestimates the expected rates of return from Social Security retirement benefits. Moreover, the extent of this bias is greater for workers with lower life expectancy, in particular African Americans. The error is also greater for younger workers who are far from retirement age in 1997.

To illustrate this error, consider the expected years of work and retirement under the Heritage method in comparison with the true expected years for white and black men based on the 1992 United States Life Tables. Life expectancy at age 20 was 54.3 years for white men and 47.2 years for black men. Assuming both planned to work until retirement age at 65, the Heritage approach would assume 45 work years for each, and 9.3 retirement years for white men but only 2.2 years of retirement for black men:

However, the true expected number of work years for both black and white men must be less than 45, because some will die before reaching age 65. In fact, the true expected number of work years (reflecting deaths before 65) is 42.2 years for white men and 39.1 years for black men. Computing, for 20-year-old men the expected number of retirement years after 65 requires both the probability of surviving to 65 and the life expectancy at 65 for those who do survive. For white men age 20, 78.1 percent would expect to survive to 65 at which point they would average an additional 15.5 years of life after 65. Thus, the expected years of life for a 20-year-old white male after reaching 65 would be 12.1 years ($= 15.5 \times .781$). For black men age 20, 60.3 percent would average an additional 13.5 years of life. Their expected retirement years would thus be 8.1 ($= 13.5 \times .603$).

Expected Work and Retirement Years for 20-Year-Old Males in 1997

	Work Years		Retirement Years	
	White Men	Black Men	White Men	Black Men
Heritage Erroneous Method	45	45	9.3	2.2
True Expectation	42.2	39.1	12.1	8.1

Clearly, computed rates of return for retirement benefits using true expectation will be much higher for all men, and, moreover, the difference between rates of return for black and white men will be dramatically smaller, than if the erroneous Heritage method is used. While this is the largest and most fundamental error in the Heritage analysis, an number of additional errors further bias the results.

Error in Not Reflecting Relationship Between Mortality and Income

The authors acknowledge the fact that life expectancy is highly correlated with income, and that

their estimates do not reflect this fact. Estimates made by the Office of the Chief Actuary, Social Security Administration indicate that for the general population, about 20 percent of the difference in the rates of return between low- and high-income workers is removed by properly reflecting mortality differences by income. However, this correlation would be far more important in comparing rates of return between African Americans and the general population.

The authors note that rates of return would be lower for low-income and higher for high-income workers if adjusted appropriately for mortality at the indicated level of income. Average-income workers would presumably have mortality at about the level of the average population, and thus be unaffected by the adjustment. While this is all true for the general population, the African American rates of return would be increased much more for high-income workers, would also increase for average-income workers, and would decline much less for low-income workers. This is true because average income for African Americans is substantially lower than for the general population at this time.

For example, African Americans with earnings equal to the general population average have much higher-than-average earnings within the African American population. As a result, they must be assumed to have much better mortality than the average for all African Americans. Thus, with proper adjustment with mortality by income level, race differentials in life expectancy would diminish greatly, for individuals at the same income levels.

Without appropriate adjustment of mortality by income, race-differentials in rates of return are highly misleading. This is the reason that the Office of the Chief Actuary, Social Security Administration has not as yet developed race-specific money's worth ratios or rates of return.

Additional Errors

The authors of the Heritage study exclude disability benefits and taxes from the analysis, even though the Disability Insurance program represents nearly 15 percent of the Social Security. While including disability would not substantially change the expected rate of return for the general population, it would considerably narrow the rate of return for African Americans versus the general population. This follows from the fact that disability benefits are significantly more likely for African Americans than for the population as a whole.

Because Social Security provides survivor benefits when a worker dies before retirement age, and Heritage omits these benefits, the authors also deducted from taxes a premium intended to cover these benefits. The premium appears to exclude those survivor benefits for a spouse that are payable after the youngest child reaches age 16, i.e., widow(er)s benefits that are payable from age 60 to the end of life. Premiums are also likely to be too low if Heritage used premiums for commercially-available life insurance. Life insurance is sold largely to healthy, higher-income persons who can afford the premium and can qualify as insurable. Including lower-income and uninsurable individuals would boost the premium substantially. Making these changes would increase rates of return from Social Security.

The authors raised tax rates for Social Security starting 2015 by enough to cover future benefit costs, ignoring the fact that the Trust Fund balance projected for that time, 300 percent of annual benefits, would continue to grow as a percent of annual benefits under these conditions. In order to produce 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 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.

The authors included a "high-income" worker with earnings at 300 percent of the average wage. In fact, the maximum level of earnings that is taxable and creditable for Social Security benefits is now and will be in the future 240 percent of the average wage (less than 240 percent in years before 1978). It is not clear whether the authors included taxes above this maximum benefit level. If they did, then rates of return for Social Security are estimated to be too low for high-income

workers.

MEMORANDUM

Date: April 2, 1998

To: Harry C. Ballantyne
Chief Actuary

From: Stephen Goss
Deputy Chief Actuary

Subject: Comments on Heritage Rates of Return for Hispanic Americans

In an analysis from the Heritage Foundation dated January 15, 1998, the authors Bill Beach and Gareth Davis, suggested that African Americans can expect to get a lower rate of return, and Hispanic Americans a higher rate of return from Social Security, than the general population. My memorandum on February 4, 1998 addressed a number of technical shortcomings in the methods used in this analysis. These shortcomings resulted in an understatement of the expected rates of return for all groups. The understatement was largest for African Americans, and smallest for Hispanic Americans. Their correct expected rates of return would be higher, and closer together than presented by Heritage.

In a subsequent statement by Heritage in early March, referring to the results of the January 15 analysis, 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 rate of return for 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 for the combination of individual accounts and the OASDI program under the Heritage proposal.

Finally, the authors fail to note in the March statement 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 for Social Security than would the general population*, on average. 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. However, the extent to which Heritage shows higher returns for Hispanic Americans is overstated, just as the extent to which African Americans are shown to have lower rates of return (Heritage January 15) is overstated.

Stephen C. Goss

Attachment

End Notes:

1. Statement of Paul Jakoboski before the Senate Finance Committee, July 22, 1998.
2. 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.
3. 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.
4. 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.
5. 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.
6. General Accounting Office, *Social Security: Different approaches for Addressing Program Solutions*, July 1998, p. 6.
7. Steve Goss, *op. cit.*
8. U.S. Department of Health and Human Services, *Vital Statistics of the United States, 1996: Life Tables*, Washington, DC: U. S. Government Printing Office, 1996, Table 6-1, p. 8 and 10.
9. Heritage took into account that during the 45-year period that would pass between the time an individual was 20 and the time he or she was 65, life expectancies in the United States would be expected to climb modestly. But Heritage failed to take into account the more critical, and larger, factor — that the expected age of death for those who reach 65 is substantially higher than the expected age of death at age 20.
10. Steve Goss, *op. cit.*
11. The figures cited here for numbers of work years and retirement years for 20-year-old men under the Heritage methodology were computed by the Social Security actuaries. In its report, Heritage uses 21-year-olds rather than 20-year-olds as an example.
12. Although the term "normal retirement age" is widely used, it is a misnomer — the majority of Social Security beneficiaries retire and begin drawing benefits before the "normal retirement age." What is commonly called the "normal retirement age" is simply the age at which full, rather than reduced, Social Security benefits are paid.
13. Kelly A. Olsen, Jack VanDerhei, Dallas L. Salisbury, and Martin R. Holmer, "How Do Individual Social Security Accounts Stack Up? An Evaluation Using the EBRI_SSASIM2 Policy Simulation Model," *Issue Brief*, March 1998. The EBRI individual accounts options are partially privatized programs that would provide retirees with reduced OASI benefits in addition to their individual accounts.
14. Heritage claims to have dealt with transition costs in a subsequent document, "A New Framework for Cutting Taxes: Reforming the Tax Code and Improving Social Security," July 1, 1998. In fact, this document calls for diverting \$867 billion over the next 10 years from the Social Security trust funds to individual accounts (about \$1.9 trillion over 10 years) without replacing in the trust funds any of the foregone revenue. This Heritage document contains no mechanism to cover the transition cost.

15. 1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, April 28, 1998, Tables II.C5, p. 38.

16. See Robert McGough, "Robust Fund Industry Isn't Lowering Fees," *Wall Street Journal*, May 14, 1998.

17. 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.

18. Board of Governors of the Federal Reserve System. "Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, January 1997.

19. Heritage has belatedly acknowledged that administrative costs should be taken into account. In a September 1998 paper on Social Security and union households, Heritage assumes an annual charge on accounts of \$100 plus one percent of the assets in the accounts, an initial setup cost of \$1,000 per account, and a fee of 20 percent of the value of the principal for workers who choose to purchase an annuity. None of these costs are assumed, however, in the Heritage papers on rates of return for African Americans and Hispanic Americans, which were written earlier in 1998.

20. Social Security Administration, *Annual Statistical Supplement, 1997: To the Social Security Bulletin*, Washington, DC: U. S. Government Printing Office, 1997.

21. U. S. Department of Labor, Bureau of Labor Statistics, *Employment, Earnings, and Hours*, Washington, DC:

U. S. Government Printing Office, Vol. 43, No. 1, January 1996, Tables A-3 and A-4 pp. 14-15

22. Dean R. Leimer, "Historical Redistribution Under the Social Security Disability Insurance Program," Social Security Administration, Office of Research, Evaluation, and Statistics, July 1998.

23. 1998 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds, April 28, 1998, Table II.C5., pp46-48 and Table II.C3, p44.

24. This information is based on conversations with actuaries at Guardian Life Insurance Company.

25. Lawrence Mishell, Jared Bernstein, John Schmitt, *The State of Working America 1996-97*, Armonk, NY: M.E. Sharpe, 1997. Table 3.5 p. 142.

26. A widow, widower, or divorced spouse aged 65 or older will receive 100 percent of the worker's benefit unless the worker retired early, in which case the survivor will receive the amount the worker would be receiving if the worker lived, but not less than 82.5 percent of the full benefit. If the surviving spouse elects to receive benefits between the ages of 60 and 65, he or she will receive a permanently reduced benefit determined by the age at which he or she begins receiving benefits. If the surviving spouse is disabled, he or she may begin receiving benefits as early as age 50 without a reduction in benefits.

27. A dependent parent who was receiving 50 percent of his or her income from the worker is eligible at age 62 for 83 percent of the worker's benefit; two parents may receive 75 percent each. Survivors benefits are subject to a family maximum determined using a progressive formula. This cap limits the total amount of benefits the family may receive.

28. Bureau of the Census, *Poverty in the United States: 1996*, P60-198.

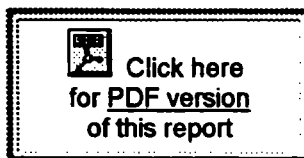
29. Social Security Administration, *Annual Statistical Supplement, 1997: To the Social Security Bulletin*, Washington, DC: U. S. Government Printing Office, 1997.

30. The combined employer and employee payroll tax for Social Security equals 12.4 percent of earnings up to \$68,400. Of this amount, 1.7 percent goes into the Social Security Disability Insurance trust fund, and 10.7 percent goes into the Old Age and Survivors Insurance trust fund.

31. These quotes are based on conversations with insurance agents at All State and State Farm insurance companies.
32. Still another problem with the manner in which Heritage estimated the portion of the payroll tax that goes for survivors' benefits is that Heritage based its estimate on the cost of a life insurance policy only for individuals aged 35 to 55. This is too short to be comparable to Social Security, which covers workers under 35 and over 55.
33. A spouse who has worked and is eligible for his or her own retirement benefits may receive 100 percent of his or her own benefit or 50 percent of the spouse's benefit, whichever is higher.
34. General Accounting Office, *Social Security: Different Approaches for Addressing Program Solvency*, July 1998, p. 60.
35. Mark J. Warshawsky, "The Market for Individual Annuities and the Reform of Social Security," *Benefits Quarterly*, 1997.
36. General Accounting Office, *Social Security Reforms: Implications for Women's Retirement Income*, December 1997.
37. Steve Goss, *op.cit.* p. 3.
38. James E. Duggan, Robert Gillingham, and John S. Greenlees, "Returns Paid to Early Social Security Cohorts," *Contemporary Policy Issues*, October 1993.
39. *1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 28, 1998.
40. *Report of the 1994-96 Advisory Council on Social Security, Volume I: Findings and Recommendations*, January 1997.
41. *1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 28, 1998, Table III.B2, p. 177.
42. Steve Goss, *op. cit.*, p.4.

About the Author:

Dr. Kilolo Kijakazi is a senior policy analyst in the Income Security Division at the Center on Budget and Policy Priorities, where she specializes in Social Security. Dr. Kijakazi previously worked as a policy analyst at the National Urban League and the Food and Nutrition Service of the U. S. Department of Agriculture. She is the author of *African-American Economic Development and Small Business Ownership*, a book published by Garland Publishing, Inc. in 1997.




Download the **Adobe Acrobat Reader** if you do not already have one.

Additional related reports:

- Poverty and Income Security analyses

**Background Information | Board of Directors
Publication Library | Center Staff | Search this site
Job Opportunities | Internship Information | Top Level
New! International Project | State Fiscal Analysis Initiative New!**

To join the Center's e-mail notification list, ask questions,
or send comments, write bazie@cbpp.org
Center on Budget and Policy Priorities
820 First Street, NE, Suite 510
Washington, DC 20002
Ph: (202) 408-1080
Fax: (202) 408-1056

[illegible]

SELECT COMMITTEE ON AGING
SUBCOMMITTEE ON RETIREMENT INCOME
AND EMPLOYMENT

[illegible]

VERONICA CLAYTON
CHIEF COUNSEL
AND MANAGER

WOMEN AND RETIREMENT CONGRESSIONAL SYMPOSIUM

Social Security

Nancy Altman
Laurel Beedon
Richard Burkhauser
Nancy Duff Campbell
Lou Glaspe
Louise Kamikawa
Olivia Mitchell
Alicia Munnell
Robert Myers
Regina O'Grady LeShane
Sara Rix
Bruce Schobel
Carolyn Weaver
Mary Jane Yarrington
Donna Yee

Private Pensions

Larry Atkins
Emily Andrews
Ed Burrows
Lorraine Decker
Karen Ferguson
Vicki Gottlich
Janice Gregory
Meredith Miller
Anne Moran
Joe Perkins
Anna Rappaport
James Schulz
Roger Thomas
David Walker

APPENDIX I

SUMMARY RECOMMENDATIONS OF THE CONGRESSIONAL STUDYGROUP ON WOMEN AND RETIREMENT

Summary Prepared and Submitted by

The Honorable William J. Hughes, Chairman

and

The Honorable Sherwood L. Boehlert, Ranking Republican

September, 1992

Summary Recommendations of the Social Security SubgroupBasic Principles

- In terms of women and retirement issues, the highest priority should be given to addressing the problem of poverty and low incomes among older women.
- There is a need to address issues of fairness with respect to the treatment of a variety of Social Security beneficiaries, including one-earner couples, two-earner couples, single individuals and divorced individuals.
- There is a need to provide more adequate benefits for women in their own right based on their years in the paid labor force and their years spent caregiving in the home.
- Any package of reforms should be accompanied by proposals to fund those changes, both in the short- and long-term.

Special Minimum Benefit

- Modify the special minimum benefit to take into account caregiving years. Provide a year of coverage toward the special minimum for any year in which the beneficiary had a child or other family member in the household up to a maximum of 10 caregiving years.
- Increase the maximum years of coverage that are now used to compute the special minimum benefit from 30 to 35, resulting in raising the maximum special minimum benefit to slightly above poverty.

Separated and Divorced Individuals

- Reduce the 10-year marriage requirement to five years.

Disabled Widows

- Eliminate the requirement that individuals who become widowed and disabled before age 50 have to wait until age 50 to collect benefits.
- Remove the requirement that disability occur within seven years of the spouse's death in order for a disabled widow to be eligible for widow benefits before age 60.

Summary Recommendations of the Social Security Subgroup:
No Consensus, But Deserves Further Study

Widows

- Consider providing widows who work past the age their husbands retire or who work past age 65 delayed retirement credits.
- Instead of determining widows' benefits by the first month the deceased husband received a benefit, perhaps the widow reduction should be based on the number of early retirement months the benefits were paid.

Early Retirement

- Expand the earned income tax credit or provide a similar credit to encourage older workers to remain in the work force rather than to prematurely retire for Social Security benefits.
- Adjust the formula so that the survivor of a two-earner couple receives two-thirds of the couple's combined benefits; or give the survivor a minimum of his or her own benefit plus a portion of the other benefit.
- Provide a disabled wives' benefit or disabled spouses' benefit.

Survivor Benefits to One- and Two-Earner Couples

- Assure a survivor two-thirds of the couple's combined benefits. The benefit payable to the survivor of every two-earner couple is increased whenever a spouse benefit was not payable.
- Provide the dually insured low earner of a two-earner couple the greater benefit to which he or she was entitled plus a percentage of the smaller benefit. This proposal could be made applicable to spouse benefits as well as widow(er) benefits.
- Increase the widow's benefit to three-fourths of the benefit received by the couple. Pay for this change by slightly lowering the couple's benefit from 150% to about 147%.

Supplemental Security Income (SSI) Program

- No consensus was reached by the Study Group on the following issues, but they deserve further consideration or study.
 - Raise the Federal SSI benefit up to 120% of poverty over a five year period.
 - Increase the asset eligibility requirements to at least the inflation-adjusted level that existed when SSI was established in 1974.
 - Eliminate the reduction of one-third of the benefit for those living with others.
 - Increase incentives for employment.
 - Lower the age of eligibility to 62 years.
 - Increase Social Security staffing.
 - Raise the income disregard from \$20/month to \$30/month.

Summary Recommendations of the Private Pension Subgroup

Widow's or Survivor's Benefits (ERISA currently mandates a minimum of a 50% retirement benefit for a surviving spouse unless it is jointly waived).

- Either surviving spouse receives a benefit equal to two-thirds the benefit received while both were alive; or the surviving spouse receives 100% of the benefit after the employee dies; or the surviving spouse receives 67% of the benefit after the employee dies. In all cases the initial benefit the family receives would be reduced to offset the cost of this formula change. However, consensus was not reached on which of these options should be adopted.
- ERISA contains a provision requiring a pre-retirement survivor annuity if the worker dies before reaching retirement age. This annuity should be changed to parallel whatever option is implemented from the survivor's benefit proposals listed above.
- Increase effort to educate workers and their spouses about retirement planning so they may choose the benefit which suits their particular economic situation.

Divorced Individuals

- Require a default option in which pension benefits are divisible unless the couple agrees in their separation agreement or in their court order that benefits not be provided. Benefits that would be divisible are only those earned while the couple was married and the employee was at the job that provides the pension.
- Model QDRO Language - Require the Department of Labor to develop model language that could be distributed to attorneys throughout the country.

Lump Sums

- If distributed prior to retirement age, benefits would have to either be rolled over into another qualified plan or to an individual retirement plan. Restrict use of the employer's share so that it could only be used for retirement purposes.

Integration

- There is a need for more specific information on integration. A study should be authorized which, among other things, should examine whether integration should be eliminated; what are the costs and implications of outlawing integration; what types of workers are most affected by integration; and what are the historical trends of this practice.

Pension Indexation

- Authorize a study to examine the costs and implications of indexing benefits after termination of employment. In the same study, examine the implications of the change from defined benefit to defined contribution plans. Study the implications of cash balance plans which don't offer such indexing, and the winners and losers under a variety of scenarios.

Portability

- Study of a portable pension system to determine how coverage as well as benefit loss might be curtailed for women who work in the paid labor force.

Vesting

- Most of the Study Group members supported equalizing vesting requirements for multi-employer plans to five years so that it's consistent with single employer plans.
- Most supported an additional safe harbor so that a plan that puts 3% of pay in for everybody could be a plan that did not have to meet as many nondiscrimination rules, though the Study Group did not have time to get into the specifics of what that would be.

Pension Trends

- Commission a study on the effects of the shift to more individual responsibility and the implementation of 401(k)s. Examine the role of regulations as they relate to pension coverage.

Contingent and Part-Time Workers

- The Secretary of Labor should follow through with the Secretary's prerogative, as contained in ERISA, to define an alternative 1000 hour rule for service qualification for seasonal and part-time workers.
- Congress undertake a study on data and technical issues for contingent workers.

Benefits to Other Family Members

- Commission study of innovations some of the larger companies are developing with regard to family members who are not spouses - children, parents, other relative's domestic partners.

Summary Recommendations of Private Pension Subgroup:
No Group Consensus, But Deserves Further Study

Caregiving

- Special provisions for crediting extra hours to determine a break in service for parental leave should be extended to include absences for elder caregiving requirements as well.

Exclusions

- No longer permit employers to exclude 30% of their employees still have a qualified plan. Some concerns were expressed about how to require 100% coverage and still take into consideration the complex structure of business and employment.
- ERISA minimum participation and eligibility requirements should be modified to accommodate the work patterns of part-time and seasonal workers.

Integration

- Employers shouldn't be permitted to design their basic formulas in an integrated manner, but they should be permitted to cap their benefits in a manner which reflects both the private plan and Social Security.

Individual Retirement Accounts

- No agreement, because some concern that changes might most help women with higher salaries/income, but could consider allowing increased contributions during caregiving years, and allowing women who are out of work for caregiving responsibilities to make after-tax contributions to their employer-sponsored plans.

APPENDIX II

ISSUES: WOMEN AND PRIVATE PENSIONS

Pension Policies and Work Patterns of Women

- Private pensions plans are not specifically designed to discriminate against women, but their characteristics and structure often leave women with low or no benefits. The system does not adjust well to the fact that the work patterns of women are often different than those of men.
- Typical pension plans are designed to reward longer service, higher paid workers in specific types of jobs.
- Women are more likely to be concentrated in low wage, service, part-time, nonunion and small firm jobs where pension coverage is less likely.
- Forty-five percent of women who work outside are employed by businesses with less than 100 employees. Only 24% of employees in businesses with <100 employees have pensions.
- Approximately 2/3 of all part-time workers are female.
- Women are more likely to be caregivers than men, taking time out from the labor force to take care of children or dependent parents. Women average 11.5 years out of the work force, compared to 1.3 years for men.

Participation and Earnings

- Forty-six percent of full-time workers are covered by private pension plans - 43% of women workers; 50% of men. Only 29 percent of women in the private work force participate in a basic pension plan, compared to 38 percent of men.
- Only one of eight workers (12.9%) making less than \$10,000 has access to a pension plan. Two of five workers (41.0%) with earnings between \$10,000 and \$20,000 have access to a private pension.
- Coverage increases significantly as earnings go up. Three of four workers (74.0%) earning between \$30,000 and \$50,000 are covered by a pension; and four of five (78.6%) of workers earning over \$50,000 are covered.

Pensions Provide a Small Percentage of Income During Retirement

- Two-thirds of retirees who receive pension benefits are men. The lack of a pension is one of the major contributing factors to poverty among older women.
- In 1990, the median pension income for women over the age of 65 was \$269 per month; for men, \$591/month.

Portability

- Portability of pension benefits refers to accruing and carrying benefits, service, or assets when a worker leaves a job. There are three sources of portability losses:
- Workers leave their job before they are "vested" or eligible for benefits and lose any benefits credited to their accounts.
- Workers who leave a job receive a lump sum distribution and use these retirement benefits for current consumption. Eighty-nine percent of the time these lump sum distributions are not rolled over into other retirement savings. These losses represent nearly 80% of the value of all lump sum distributions.
- Under defined benefit plans, benefits are tied to the salary in existence when the worker leaves the plan. No inflation increases are made to the salary. For instance, if a person left a job fifteen years ago at a salary of \$15,000 and retired today, the pension would be based on the \$15,000 salary. Because of inflation, the value of that benefit will already be worth half of what it was when the worker left the job.
- Women have significantly greater exposure to portability losses from lump sum receipts than men. Women are nearly 40% more likely than men to receive pre-retirement distributions from qualified plans, and receive them at younger ages than men. Reflecting their lower earnings and greater mobility, women receive smaller distributions than men.
- Lump sum disposition is not strongly related to earnings or family income.

Job Mobility, Pension Vesting and Backloading

- In 1988, more than half of all private-sector employees had less than five years of experience with their primary employer.
- Women change jobs and leave the labor force more frequently than men and face greater risks of losses from pre-retirement distributions.
- The problem with changing jobs more frequently is that a worker may lose all of his/her pension benefit if he/she does not work long enough to "vest", or earn a right to a pension.

- Prior to 1989, under a single employer plan, workers needed to work for ten years to be vested in the pension plan. Now, most employees in single employer plans need only five years to become qualified.
- But half of all women have been on their current job only 3.6 years and half of all men, 5.1 years.
- Multiemployer plans, such as those negotiated by a union with several employers in industries such as transportation, hotel, restaurant, and food service, are still permitted to have 10 year vesting requirements.
- Another problem for workers who change jobs frequently is the practice of "backloading" in which greater weight is given to later years of work when determining the amount of benefits a retiree will receive.

Pension Integration

- Pension integration involves a reduction of pension benefits by a percentage of the worker's Social Security benefits.
- Workers who have fully qualified for earned benefits prior to 1989 can have their entire pension benefits eliminated or integrated out by the size of their Social Security benefits. This policy was changed so that no more than half of the pension earned after 1989 can be eliminated.
- For instance, if a worker earned a \$300 per month pension based on earnings prior to 1989 and \$600 per month in Social Security, the worker whose pension plan is fully integrated with Social Security will likely receive no pension at all.
- It is important to note that the new rules which only permit up to half of the pension to offset, apply only for pension contributions from 1989 on. If a person worked for an employer for 40 years prior to 1989 and then worked in 1989, the entire 40 years before 1989 could be offset and the person could receive half of what was earned for 1989.
- In medium and large firms, two-thirds of full-time workers are in integrated plans. Lower and moderately paid workers, a greater percentage of whom are women, tend to be most affected by integration rules.

Glossary of Key Pension Terms

Actuarial Assumptions: Estimates made by actuaries on which defined benefit plan costs are based, including factors such as rate of interest earned on plan investments, rates of salary increases, and rates of employment terminations and deaths.

Actuarial Funding: The schedule of contributions required to meet a plan's liabilities. There are several allowable funding methods.

Annuity: An arrangement to provide an income for a specified number of years, or for the remaining lifetime of an individual.

Back Loading: Providing a higher or faster rate of benefit accrual for later years of service in pension plans than for earlier years.

Buy-Back Provision: A plan provision affecting terminating employees. If a terminating employee withdraws his or her own contributions when he or she is 50% vested or less, a plan which cancels the rest of his/her benefits must allow the employee to buy back the forfeited benefits by repaying the withdrawn amounts plus interest.

Defined Benefit Plan: Type of retirement plan in which the employer makes a promise to provide employees a specified amount of income at retirement. The amount of income is defined by a benefit formula, usually based on pay and years of service.

Defined Contribution Plan: A plan which provides an individual account for each participant. Benefits at retirement are based solely on (1) the amount contributed to the account plus (2) any income, expenses, and investment gains and losses.

ERISA: The Employee Retirement Income Security Act of 1974 was enacted to protect workers covered by pension plans.

ESOP: Employee Stock Ownership Plan - a qualified stock bonus or qualified money purchase pension plan that is designed to invest primarily in employer securities.

Fiduciary: Indicates the relationship of trust where one person holds or controls assets for the benefit of others. Under ERISA, a fiduciary is a person who exercises any discretionary authority over the management or administration of a plan or its assets or renders investment advice to a plan. Under ERISA, fiduciaries must discharge their duties solely in the interest of plan participants.

401(k) Plans: A type of defined contribution plan which allows employees to save part of their pay and defer income taxes on that pay until the money is distributed. Companies often make matching contributions, which are also tax deferred.

GICs: Guaranteed Investment Contracts - offered by insurance companies which guarantee a rate of return on an investment for a given period and payment of principal and accumulated interest at the end of that period. While the rates of return are guaranteed,

the funds themselves are backed by insurance companies which are not guaranteed.

Integration: Defined benefit plans often reduce pension benefits by a portion of an employee's Social Security benefits. Workers who have fully qualified for earned benefits prior to 1989 can have their entire pension benefit eliminated or integrated out by the size of their Social Security benefit. This policy was changed so that no more than half of the pension earned after 1989 can be eliminated.

Joint and Survivor Option: A provision that enables a plan participant to take annuity payments with continuing payments of all or part of the benefits after his or her death going to a designated beneficiary. The survivor annuity will automatically be provided to a married participant unless he or she signs a form waiving this option. The annual pension benefits of participants electing to have a survivor annuity are actuarially reduced.

Keogh: These plans allow self-employed individuals to establish a qualified pension or profit-sharing plan, and limits his/her own benefit to 15 percent of earned income, not to exceed \$30,000/yr.

Multiemployer Plan: A collectively bargained pension plan in which more than one nonrelated employer contributes.

PBGC: Nonprofit independent government agency established to insure defined benefit plan pensions in the event of plan terminations. All defined benefit plan sponsors pay premiums to the PBGC for this protection for their employees.

Portability: Any provision for or method of transferring pension rights or preserving the tax-favored status of pension distributions when changing from one employer to another.

Preemption of State Laws: ERISA's reporting, disclosure, fiduciary responsibility, participation, vesting, funding, plan definition and plan termination insurance provisions supersede all state laws that would otherwise apply. However, ERISA does not preempt state law regarding insurance, banking, securities, or crime.

SER: Simplified Employee Pension - Pension plan under which the employer makes contributions to individual retirement accounts for employees in amounts up to a certain maximum amount per year or a certain maximum percentage of compensation.

Vesting: An employee's right to receive a present or future pension benefit regardless of whether he/she remains in the service of the employer. An employee's own contributions are always fully vested.

Welfare Plan: A plan which provides medical, surgical, or hospital care or benefits in the case of illness, accident, disability, death, or unemployment; it may also include other benefits such as vacation or scholarship plans.

Glossary of Key Social Security Terms

Benefit Computation

Determined by first computing an insured worker's average monthly wage (AMW), or - in the case of most workers who attain age 62, become disabled, or die after 1978 - average indexed monthly earnings (AIME).

Benefits for dependents or survivors are calculated as a percentage of the insured worker's PIA.

Benefits payable to workers, spouses, widows, widows and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction.

The AMW is used in computing benefits under the pre-1979 benefit formula, and the AIME is used in computing benefits under the post-1978 formula enacted in 1977.

The AMW or AIME is linked to the monthly retirement benefit payable at the worker's normal retirement age. This amount is called the Primary Insurance Amount (PIA).

Average Indexed Monthly Earnings - (AIME)

Represents the average monthly earnings adjusted for the change in the average of total wages in the economy during the year. Indexing creates an earnings record that reflects the value of the individual's earnings related to the national average earnings in the indexing year. Four steps:

- 1) indexing the worker's earnings for each year after 1950 by dividing the worker's earnings by the average wages of all workers in that year and multiplying this result by the average earnings in the indexing year;
- 2) determining the number of computation years until the worker reaches age 62, becomes disabled, or dies, minus dropout years (usually 5);
- 3) selecting the actual computation years, based on the highest indexed earnings from any year after 1950;
- 4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

Primary Insurance Amount (PIA)

The monthly benefit payable to a retired worker who begins to receive benefits at his normal retirement age is his PIA. The PIA is used as a basis for computing all benefits which are payable on the basis of that worker's earnings record.

Regular Minimum Benefit

Smallest benefit payable to a worker/survivor/dependents. In 1977 the minimum benefit was frozen at \$122 per month. It was repealed for persons reaching age 62 after 1981, except for members of certain religious orders.

Special Minimum Benefit

This is a benefit that is not based on the worker's average monthly wage or average indexed monthly earnings, but instead on the length of years of covered employment. It's meant to help persons who worked in covered employment for many years but had low earnings.

The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by \$11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases used for years 1979 and later.

Spouse's Benefit

This is a monthly benefit payable to a spouse or divorced spouse of a retired worker under one of the following conditions: 1) currently the married spouse is aged 62 or older or is caring for one or more of the worker's entitled children who are disabled or have not reached age 16; or 2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker lasted at least 10 years before the divorce became final.

Widow's or Widower's Benefit

Monthly benefit payable to a widow(er) or surviving divorced spouse of a worker fully insured at the time of death if he/she is unmarried, or remarriage occurred after the widow(er)'s first eligibility for benefits, and: 1) is aged 60 or older, or 2) aged 50-59 and has been disabled throughout a waiting period of 5 consecutive calendar months that begin no later than 7 years after the month the worker dies or after the end of her entitlement to benefits as a widowed mother.

Government Pension Offset

Social Security benefits payable to spouses of retired, disabled, or deceased workers are generally reduced to take account of any public pension the spouse receives as a result of work in a government job not covered by Social Security. The amount of the reduction is equal to two-thirds of the government pension.

The "Windfall" Benefit

Social Security benefits are generally reduced for workers who also have pensions from work that was not covered by Social Security.

SOCIAL SECURITY FACT SHEET

Trust Fund Assets

- At the end of 1991, 40.6 million people were receiving monthly benefits under the OASDI program.

	OASI	DI	Combined
	(\$ in billions)		
Assets at Beginning of Year	\$203.4	\$11.5	\$214.9
Income	293.3	29.3	322.6
Expenditures	241.3	27.8	269.1
Net Increase in Assets	52.0	1.5	53.5
Assets at End of Year	255.4	13.0	268.4

Interest Earned

- Invested assets of the OASI and DI Trust Funds earned interest amounting to \$19.8 billion during FY 1991. The effective rate of interest earned was 9.2%.

Administrative Expenses

- Administrative expenses for the OASDI program during FY 1991 was \$2.5 billion, which is 1.0 percent of benefit payments for the year.

Short and Long-Range Estimates of Trust Funds

- Over the next 10 years, the assets of the OASI and DI Trust Funds are estimated to increase substantially.
- At the beginning of 1992, combined OASDI assets amounted to \$280 billion, or 96 percent of expenditures. By 2001, assets are estimated to increase to \$998 billion, or 206% of annual expenditures, based on intermediate assumptions.
- The assets of the DI Trust Fund fail to meet the short-range test of financial adequacy, declining from \$12.9 billion at the beginning of 1992, until the fund is exhausted in 1997.
- For the long-range, under intermediate assumptions, over the next 24 years income exceeds outgo. The assets of the combined OASI and DI Trust Funds are estimated to be depleted under present law in 2036.

	1991	1992
<u>Cost-of-Living Adjustment</u>	5.4%	3.7%
<u>Tax Rate</u>	7.65%	7.65%
	(OASDI, 6.2%, HI 1.45%)	
Self-Employed	15.3%	15.3%
<u>Maximum Earnings Taxable</u>	\$53,400	\$55,500
<u>Quarter of Coverage</u>	\$540	\$570
<u>Earnings Test</u>		
Age 65 thru 69	\$9,720	\$10,200
Under Age 65	\$7,080	\$7,440

(For people age 65 thru 69, \$1 in benefits is withheld for every \$3 in earnings above the limit. For people under age 65, \$1 is withheld for every \$2 in earnings above the limit)

Maximum Social Security Benefit

\$1,022/mth \$1,088/mth

Ave. Monthly Social Security Benefit

All Retired Workers	\$607	\$629
Aged Couple, Both With Benefits	\$1,029	\$1,067
Aged Widow(er) Alone	\$563	\$584

Taxation of Social Security Benefits

Single	\$25,000	\$25,000
Couple	\$32,000	\$32,000

Normal Retirement Age

- Beginning in the year 2000, the normal retirement age will increase by 2 months per year, from age 65 to age 66. From the years 2005-2016, the normal retirement age will be 66. Then normal retirement age will again be raised by 2 months per year from 2017 to 2021, so that by the year 2022 and later the normal retirement age is 67.
- The reduction for early retirement will be greater in future years as the full retirement age increases.

NATIONAL WOMEN'S LAW CENTER

REPORT OF THE SOCIAL SECURITY SUBGROUP OF THE WOMEN AND RETIREMENT STUDY GROUP OF THE HOUSE SELECT COMMITTEE ON AGING ON SOCIAL SECURITY STRUCTURAL ISSUES

by Nancy Duff Campbell

The options described in this section address ways in which the Social Security system could be modified to provide more adequate benefits to women in their own right, based on their work in the paid labor force and their work at home. Although comprehensive schemes for reform of the Social Security system, such as earnings sharing, may immediately come to mind, the subgroup's self-imposed task was to come up with incremental proposals that would particularly target assistance to low-income women.

We divided the proposals discussed into two categories. We focused primarily on proposals to address the inadequate benefits women receive because of their caregiving responsibilities. To a lesser extent, we discussed proposals to address the inequitable benefits that women receive because of the dual entitlement rule and the way the benefit computation formula treats couples with the same lifetime earnings but different distributions of earnings between the spouses.

CAREGIVING

With respect to caregiving, three proposals were discussed that would ameliorate the current adverse benefit impact on women who take time out of the paid labor force, or reduce their labor force participation, in order to meet their caregiving responsibilities.

1. **Permitting additional "drop-out" years.** The amount of an individual's "worker" benefit depends upon the earnings accrued during that individual's computation period. The computation period has gradually lengthened to 35 years. Individuals who have more years of covered earnings than the computation period may disregard their years of lowest earnings; individuals who have fewer years of covered earnings have a zero averaged into their earnings records for each missing year. Men generally work 35 years or more in paid employment, but women traditionally spend at least some years working in the home as caregivers, outside of the paid labor force. Consequently, women are more likely than men to have zeros averaged into their earnings records, lowering their worker benefit. To address this problem, individuals could be provided with additional drop-out years to reflect periods caring for children or other family members.

The subgroup limited its discussion of this approach to the concept of drop-out years, and accordingly did not address the specifics of various proposals. For example, we did not discuss the number of additional drop-out years that might be permitted; pending legislative

proposals by Rep. Hughes and Sen. Reid drop five years; proposals by Rep. Oakar and Rep. Schroeder drop ten. We also did not discuss what, if any, age limit should be placed on a child in order for the year to be dropped out; the Hughes, Reid, Oakar and Schroeder bills propose age 12. We did not discuss limitations, if any, on the circumstances under which the care of family members other than children should be included; the Hughes, Reid, Oakar and Schroeder bills include care for a chronically dependent spouse or relative living with the caregiver. Finally, we did not discuss whether only years of no earnings should be counted as additional drop-out years, or whether years of low earnings, too, should be counted. The Hughes, Reid, Oakar and Schroeder bills provide additional drop-out years for years of both zero and low earnings (up to \$2,000).

The short-range (five-year) cost of the Hughes and Reid bills is estimated to be \$1.5-2 billion, and of the Oakar and Schroeder bills about \$2 billion. The long-range cost of the Hughes and Reid bills is estimated to be 0.23 percent of payroll, and of the Oakar and Schroeder bills 0.29 percent of payroll.

2. **"Deeming" earnings.** Under this approach, individuals would be given earnings credits for periods when they were out of the paid labor force to care for children or other family members. Their deemed earnings would count towards the computation of Social Security benefits just as their actual earnings would. The same issues that arise under a drop-out years approach -- age of children, definition of other family members included, maximum number of years of deemed earnings allowed, requirement of zero or low earnings before deeming could occur -- would need to be resolved under this approach. In addition, the level at which earnings would be deemed would have to be determined.

The subgroup was not aware of legislative proposals that incorporate the deemed earnings approach, nor of cost estimates of such an approach.

We did not embrace either the drop-out years or the deemed earnings approaches, on the grounds that they are not sufficiently targeted to lower-income individuals and, indeed, are probably more beneficial to higher-income women who can afford to take more years out of the paid labor force. This is particularly true with proposals to increase the drop-out years, since each drop-out year becomes equal in value to average earnings during years in the paid work force. This lack of targeting also makes both the drop-out years and deemed earnings approaches more costly than more-targeted approaches.

Instead, the subgroup preferred, as an incremental first step, an approach that has been recommended by the 1980 National Commission on Social Security and the Technical Committee on Earnings Sharing, among others, and a version of which has been proposed in legislation by Rep. Oakar. Under this approach, the computation of the special minimum benefit would be modified to increase the benefits of individuals with little or no earnings in a particular year because of caregiving responsibilities.

3. **Modifications to the special minimum benefit.** The purpose of the special minimum benefit is to provide a minimum benefit floor for long-term, low-wage workers. The special minimum benefit is computed using an alternative computation method; the special minimum benefit is paid only if it exceeds the worker's benefit the person would receive under the regular computation method.

The special minimum benefit amount is based on a table in the law; for 1992, it is equal to approximately \$24 a month, multiplied by the number of years of a person's Social Security coverage in excess of 10 but not exceeding 30 years. Thus, the maximum benefit today is roughly \$24 times 20, or \$480 a month. A "year of coverage" for purposes of the special minimum benefit is credited for earnings of about \$6,000 today. (Hence if a person's yearly earnings are greater than \$6,000 he or she does not benefit from the special minimum).

The proposal discussed by the subgroup would modify the computation of the special minimum benefit to provide a year of coverage for any year in which an individual had a child or other family member in need of care in the household, up to a maximum of ten total years. In addition, the maximum number of years of coverage used to compute the special minimum would be raised from 30 to 35, thereby increasing the maximum benefit (to \$600 in 1992), bringing it from below poverty to slightly above poverty for a single individual over age 65.

The subgroup did not attempt to reach consensus on what, if any, age limit should be imposed on a child in the household in order for that year to be counted as a year of coverage. The National Commission and Technical Committee proposed age 7; Rep. Oakar's bill proposes age 10; the child and dependent care tax credit is available for care of children up to age 13; Social Security child-in-care benefits are available for care of children up to age 16. In addition, the subgroup did not attempt to define the family members other than children whose presence in the household would qualify an individual for a year of coverage, although we agreed that the category should be broader in its coverage than just children.

HHS in 1991 estimated that the short-range cost of a proposal providing a year of coverage (up to ten years) toward the special minimum for individuals with a child under age 7 in the household, and increasing the number of years of coverage counted towards the special minimum benefit from 30 to 35 years, would be \$5.5 billion. Over \$3.5 billion of the cost is attributable to the fact that HHS applied the proposal retrospectively, to individuals currently on the rolls as well as individuals who would become eligible in the future. Previous estimates of such a proposal, calculated before the recent change in the special minimum benefit lowering the threshold for a year of coverage to its current level, projected the long-range cost to be 0.01 percent of payroll.

The effect of the subgroup's proposal would be that a woman who had a substantial work history at low wages and no earnings or earnings under \$6,000 a year because of caregiving responsibilities would receive a year of coverage at \$6,000 towards the special minimum. If these "caregiving years" combined with other years of earnings equalled 35 years, she would be assured of at least a poverty-level income. Because the special minimum is only available to long-term, low-wage workers, this proposal would effectively target low-income women. This targeting would also make the proposal considerably less expensive than the proposals discussed above. Moreover, eligible individuals would be helped regardless of their marital status or whether they actually took time out of the paid labor force, as long as they had a child or other family member in their household, their wages were low enough and their attachment to the paid labor force long enough otherwise to qualify them. Indeed, the increase in the special minimum that would result might help ameliorate the benefit reductions suffered by some divorced women and widows, previously discussed by Mary Jane Yarrington, by potentially increasing both their worker benefit and their spouse benefit (indirectly, through increasing their spouse's worker benefit). Finally, the increase in the number of years used to compute the benefit would help low-income individuals without children or other family members in their care as well, since it would increase the computation period for all individuals eligible for the special minimum.

Although there was general enthusiasm within the group for the special minimum proposal, a minority thought that assistance might be better targeted to low-income Social Security beneficiaries through the Supplemental Security Income program rather than the Social Security system. Moreover, the subgroup as a whole emphasized that the special minimum proposal is very incremental in nature: it does not address in any substantial way the improvements needed in the system to help divorced women, disabled women and widows. And, even for those women who are helped by the proposal, their benefits would be raised, at best, to only slightly above the poverty level.

DUAL ENTITLEMENT/SAME EARNINGS, DIFFERENT BENEFITS

Because of the subgroup's focus on improving the adequacy of Social Security benefits for the lowest-income women, we did not address in any detail the equity problems posed for women that are the result of the dual entitlement rule or the way the benefit computation formula results in disparities in benefits among married couples with the same lifetime earnings but different distributions of earnings between the spouses.

1. **Dual entitlement.** A significant number of women who qualify for worker benefits find that their benefit is so low that it is even less than the benefit they would receive as a spouse. These women are "dually entitled," and under the dual entitlement rule receive the worker benefit plus the amount needed to raise that benefit to the amount of the spouse benefit. The practical result of the dual entitlement rule is that a woman receives the higher of her spouse benefit or her worker benefit. Thus, despite the fact that dually-entitled

women have paid Social Security taxes for many years, they receive little or no higher retirement benefit than if they had never worked for wages and had paid no taxes at all. As the labor force participation of women continues to increase, more and more women are affected by the dual entitlement rule.

2. Same earnings, different benefits. Related to the inequity created by the dual entitlement rule is the disparity in Social Security benefits among married couples with the same average total lifetime earnings, depending upon the distribution of earnings between the spouses. Couples with the same average annual earnings, who contribute the same amount in taxes, may receive up to twenty percent less in annual benefits depending on the distribution of their earnings. Disparities in benefits exist both between one- and two-earner couples and among some two-earner couples. As the number of two-earner couples increases, more and more individuals are affected by the disparities.

The subgroup acknowledged the important equity problems that result from the dual entitlement rule and the effect of the benefit computation formula on couples whose earnings are distributed differently. Considerations of time and our focus on low-income women prevented our full consideration of proposals to address these inequities, however. We urge further consideration of ways to redress these inequities to assure the continued widespread support for the Social Security system that now exists.

The National Women's Law Center is a non-profit organization that has been working since 1972 to advance and protect women's legal rights. The Center focuses on major policy areas of importance to women and their families including Social Security, tax reform, child support, employment, education, reproductive rights and health, child and adult dependent care, and public assistance -- with special attention given to the concerns of low-income women.

 **CENTER ON BUDGET
AND POLICY PRIORITIES**

820 First Street, NE, Suite 510 • Washington, DC 20002

Telephone: 202/408-1060 •

Fax: 202/408-1056

E-mail: center@cbpp.org •

Website: www.cbpp.org

FAX COVER SHEET

DATE:

TO:

FAX NUMBER:

FROM:

SUBJECT:

NUMBER OF PAGES:
(including cover)

Monday
Nicole Robner
456-9412
Ellen Nissenbaum
SS/werner

Comments:

Pls share w/ Shirley, Jenn, etc.

As promised.

Better ones on top.

OWL **PRESS RELEASE**

666 11TH STREET, NW • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

OWL Declares Private Accounts Disastrous for Most Women

For Immediate Release
December 2, 1998

Contact: Deborah Briceland-Betts
202-783-6686

"Private retirement accounts are a prime example of why every effort to change the current system must be measured by its impact on women. Reforming Social Security by establishing private accounts would be disastrous for most women," Deborah Briceland-Betts, OWL's Executive Director said at a press conference of national women's organizations today.

"Private accounts would decimate that system by undermining the redistributive effect of the program. Women cannot afford to lose a known benefit, with its guarantee of a progressive formula, and annual increases tied to inflation," she said.

Although a higher percentage of working-age women hold jobs than when Social Security was first established (60 percent today versus 28 percent in 1940) women's careers continue to be different. Women still average 11.5 years away from the workforce for caregiving of small children or elderly parents. And because they remain the primary caregivers, women are also more likely to hold part-time jobs. Those who work full time still earn only 74 percent of what men earn for same or similar work.

A system of private retirement accounts would continue these differences into retirement. Her lower earnings and fewer years in the labor force would mean that her contributions to a private account, on average, would produce very low benefits.

Women live an average of six years longer than men. Women know that their longer lives mean that their benefits must last longer, and as a result, tend to be more cautious investors than men, and their already small, safe investments would lead to even smaller returns. Investment accounts would also hurt those women who live paycheck to paycheck and cannot save, or must spend their small savings before retirement, often for long term care for a spouse or education for a child. It would also hurt those who, simply, live too long and outlive their annuitized individual accounts.

Finally, private accounts would cost our nation trillions of dollars. A new, much more costly administrative structure would have to be established; and, as funds are paid out to individuals instead of into the Trust Fund, benefits for current retirees would still have to be paid. The only way those costs could be covered would be through increased taxes, lower benefits--and/or a huge increase in the deficit, which most likely resulting in the demise of other components of our nation's social insurance program, such as Medicare.

"We welcome these efforts to explore ideas for ensuring Social Security's solvency for future generations, because it is a program that has worked for women. We know, therefore, that if proposed options do not work for America's women, they will not work for anyone. The reverse is not true," said Briceland-Betts.

OWL, the voice of midlife and older women, is the only national membership organization with a mission to address issues unique to women as they age. OWL has 15,000 members and 75 chapters nationwide.

N E W S R E L E A S E

FOR IMMEDIATE RELEASE
December 2, 1998

Contact: Lisa Cain or Kris Maccubbin
202/785-7729 or 7723



**AAUW CHALLENGES CONGRESS
TO PROTECT WOMEN IN SOCIAL SECURITY REFORM**
Statement by Nancy Zirkin, Director of Government Relations, AAUW

For more than a century, the American Association of University Women (AAUW) has promoted equity in the workplace, education, and in all aspects of women's lives. AAUW has long been committed to a Social Security program that improves the social status and economic security of the elderly. As Congress considers proposals to reform the current Social Security system, the economic well being and security of women must be safeguarded.

Fact: women are more dependent on Social Security than men. Women earn less than men, making only 74 cents for every dollar a man earns. That adds up to an average of \$250,000 over a lifetime—a quarter of a million dollars that women have not had the opportunity to save or invest for retirement. Add to that the fact that women spend more time out of the paid work force to raise families and the fact that women live longer than men, and you have a recipe for disaster if Social Security reform doesn't protect women.

Fact: women need guaranteed benefits that they can count on. In 1997, the poverty rate for elderly women was 13 percent. Without Social Security benefits, it would have been 52 percent. The poverty rate among elderly men is much lower at 7 percent. For many older women, Social Security is their only source of income.

AAUW challenges Congress to make sure that any Social Security reform increases the stability and security of elderly women with some very simple protections. Congress must preserve the full cost of living adjustments to protect against inflation. This provision is particularly important to women because they live longer, rely more on Social Security, and lack other sources of income.

Congress must maintain a progressive benefit formula. Women and others who earn low wages over their lifetime must continue to be compensated with a larger share of their past earnings to protect them from poverty.

Congress must preserve spousal benefits to protect women. Sixty-three percent of women on Social Security receive benefits based on their husbands' earnings, while only 1.2 percent of men receive benefits based on their wives' earnings.

And Congress must protect the benefits that go to children and widows in the event of a premature death or disability of a working parent or spouse. We must protect women as they grow older. It's the least we can do.

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

Formerly known as the Council of Presidents
c/o National Committee on Pay Equity
1126 16th Street, NW ■ Washington, DC 20036 ■ (202) 331-7343 ■ (202) 331-7406

EMBARGOED UNTIL:

11:30 a.m., Wednesday
December 2, 1998

CONTACTS:

Jill Braunstein (TWPR) 202/785-5100
Roberta Weiner (OWL) 202/783-6686
Harriet Trudell (Fem. Majority) 703/522-2214
Susan Bianchi-Sand (NCPE) 202/331-7343

WOMEN'S ORGANIZATIONS URGE PRESIDENT, CONGRESS TO **"KEEP THE HEART IN SOCIAL SECURITY"**

Diverse Coalition Issues Checklist on Women and Social Security Reform

"All proposals to address the future solvency of the Social Security Trust Fund *must* be viewed through the eyes of women and assessed for their impact on women, the majority of Social Security recipients" according to a statement from the National Council of Women's Organizations, released today at a press conference in Washington, D.C.

In the statement, the National Council of Women's Organizations, which is comprised of women leaders from over 100 organizations and represents more than six million women, called on the President and Congress to keep the heart in Social Security by strengthening and preserving the valuable protections for women under the Social Security system.

"Social Security *is* women's security," said Susan Bianchi-Sand, Chair of the National Council of Women's Organizations and Executive Director of the National Committee on Pay Equity. "We want to ensure that any proposal that compromises these protections is off the table and that women are at the table when decisions about reform are made.

In order to "Keep the Heart in Social Security" any reform proposal should:

- ▶ continue to help those with lower lifetime earnings, who are disproportionately women;
- ▶ maintain full cost of living adjustments;

- ▶ protect and strengthen benefits for wives, widows, and divorced women;
- ▶ preserve disability and survivor benefits;
- ▶ protect the most disadvantaged workers from 'across the board' benefit cuts;
- ▶ ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market;
- ▶ address the care-giving and labor force experiences of women; and
- ▶ further reduce the number of elderly women living in poverty.

According to National Council of Women's Organizations statement, "Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women."

Other speakers at the press conference included: Deborah Briceland-Betts, Executive Director, Older Women's League; Heidi Hartmann, Director, Institute for Women's Policy Research; Liz Kramer, Policy Associate, 2030 Center; Eleanor Smeal, President, Feminist Majority; Gail Shaffer, Chief Executive Officer, Business and Professional Women, BPW/USA; Jane Smith, President, National Council of Negro Women; Nancy Ibarra, a 47-year-old widow; Clarissa Cummins, a 90-year-old retiree; and Sandra Yates, a 40-year-old single-parent.

The National Council of Women's Organizations is a non-partisan network comprised of the leaders of over 100 women's organizations, which together represent more than six million women. Organizational members focus primarily on illuminating and promoting public policies that address women's needs.

###

For a copy of the statement and the *Women's Checklist on Social Security Reform*, contact the Institute for Women's Policy Research (IWPR) at 202/785-5100 or visit their website at <http://www.iwpr.org>.

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

Formerly known as the Council of Presidents
c/o National Committee on Pay Equity
1126 16th Street, NW, Washington, DC 20036
Tel: (202) 331-7343, Fax: (202) 331-7406

Women and Social Security - Statement and Checklist

KEEP THE HEART IN SOCIAL SECURITY

Social Security is a woman's issue. Since its inception in 1935, Social Security has often been the only income source keeping women from living out their days in poverty. Today while women's lives have changed, they are still over-represented in the lowest wage jobs and earn only 74 percent of what men earn. Women leave the labor force for an average of 15 percent of their working careers, primarily to fulfill responsibilities as caregivers to their children, spouses, or elderly family members. And, in addition, they live an average of seven years longer than their male counterparts.

Social Security has worked for women because it is a program where every worker pays in, and every retired worker receives a benefit she can count on every month for her entire life, with the added comfort of knowing that benefit will be increased regularly to meet inflation.

Women also greatly benefit because lower earning workers receive a larger proportion of their earnings in benefits than those who earn more. In addition, many women also receive spousal and survivor benefits based on their husband's (or former husband's) earnings record. These benefits protect many retired wives, widows, and divorced women from poverty. Retired workers' minor children also receive benefits.

The Social Security system also provides life and disability insurance that protects workers and their families. Disabled workers receive benefits and children (and the parent who takes care of them) receive benefits when a working parent dies prematurely or becomes disabled before retirement. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.

Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts would significantly damage women's retirement income. The returns on individual accounts would be dependent on the risks of volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits, widow's benefits or benefits for divorced spouses—all of which are special features of the current Social Security system. Since Social Security provides the core of women's retirement income, without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.

We believe that women must play a significant role in shaping Social Security for future generations. All proposals to address the future solvency of the Social Security Trust Fund must be viewed through the eyes of women and assessed for their impact on women, the majority of Social Security recipients. Remaining inadequacies for women in the current system also must be addressed. If we strengthen the Social Security system so that it works well for women, we will have a system that works well for all Americans.

WOMEN'S CHECKLIST ON SOCIAL SECURITY REFORM

KEEP THE HEART IN SOCIAL SECURITY

Social Security is the heart of our nation's social insurance program, providing universal coverage for workers and their families through the pooling of resources that guarantees benefits to all. Check each reform proposal to see if it meets the women's check test.

DOES THE REFORM PROPOSAL . . .



CONTINUE TO HELP THOSE WITH LOWER LIFE-TIME EARNINGS, WHO ARE DISPROPORTIONATELY WOMEN?

Social Security's benefit formula is structured so that the lowest paid workers receive benefits that replace a higher proportion of their pre-retirement earnings than higher-wage workers. Many of the lowest paid workers also have no pensions from their jobs. Any reform must retain this feature benefitting lower-paid workers.



MAINTAIN FULL COST OF LIVING ADJUSTMENTS?

Social Security's annual cost-of-living increase (COLA), which is indexed to inflation, is a crucial protection against the erosion of benefits. Because women live longer than men, on average, and rely more on Social Security since they often lack other sources of retirement income, this provision is particularly important to women. Even when employment-based pension income is available, it is rarely inflation-protected.



PROTECT AND STRENGTHEN BENEFITS FOR WIVES, WIDOWS, AND DIVORCED WOMEN?

Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, life-time benefits for the wives of retired workers, widows, and many divorced women, many of whom did not work enough at high enough wages to earn adequate benefits on their own accounts. (Similarly low-earning men married to higher-earning women also have these protections; however, while 63 percent of female Social Security beneficiaries aged 65 and over receive benefits based on their husbands' earning records, only 1.2 percent of male Social Security beneficiaries aged 65 and over receive benefits based on their wives' earning records.)



PRESERVE DISABILITY AND SURVIVOR BENEFITS?

Social Security provides benefits to 3 million children and the remaining care-taking parent in the event of the premature death or disability of either working parent. Spouses of disabled workers and the widows (or widowers) of workers who died prematurely also receive guaranteed life-time retirement benefits. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.



PROTECT THE MOST DISADVANTAGED WORKERS FROM "ACROSS-THE-BOARD" BENEFIT CUTS?

Some proposed "across-the-board" benefit cuts such as raising the retirement age or the

number of years of work history used in calculating benefits would disproportionately hurt those with the most physically demanding or stressful jobs who cannot work more years, as well as those who have low life-time earnings, including many women (because they move in and out of the labor force to provide family care), minorities, temporary, seasonal and part-time workers, agricultural workers, and the chronically under and unemployed. These workers are also unlikely to have other employer-provided retirement benefits.



ENSURE THAT WOMEN'S GUARANTEED BENEFITS ARE NOT REDUCED BY INDIVIDUAL ACCOUNT PLANS THAT ARE SUBJECT TO THE UNCERTAINTIES OF THE STOCK MARKET?

Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women. Without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.



ADDRESS THE CARE-GIVING AND LABOR FORCE EXPERIENCES OF WOMEN?

The Social Security system is based on marriage and work patterns that have changed. Currently, the benefit formula, which generally helps those with low life-time earnings, also favors those with 35 years of labor force participation, years which many women lack because of family care-giving. Moreover, the effects of sex-based wage discrimination during their working years are not fully offset by the more generous treatment low earners receive. Such issues as divorce, taking time out of the workforce for caregiving, the differences in current benefits between one and two-earner couples, and the inadequacies in benefits for surviving spouses must be considered at the same time that solutions to strengthening the financial soundness of the system are being sought.



FURTHER REDUCE THE NUMBER OF ELDERLY WOMEN LIVING IN POVERTY?

Social Security has helped reduce poverty rates for the elderly, from 35 percent in 1959 to less than 11 percent in 1996. In 1995, the poverty rate for all women over the age of 65 was 13.6 percent while the poverty rate among women aged 65 or older who lived alone was 23.6 percent. Without Social Security, the poverty rate for women over 65 would have been an astonishing 52.9 percent. Nevertheless unmarried women still suffer disproportionately; single, divorced, and widowed women aged 65 or older have a poverty rate of 22 percent, compared with 15 percent for unmarried men and 5 percent for women and men in married couples.

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

Formerly known as the Council of Presidents
c/o National Committee on Pay Equity

1126 16th Street, N.W. • Suite 411 • Washington, D.C. • 20036 • (202) 331-7343 • (202) 331-7406

Statement of Susan Bianchi-Sand, Chair NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

SOCIAL SECURITY PRESS CONFERENCE December 2, 1998

Welcome. Thank you for coming.

I am Susan Bianchi-Sand, Chair of the National Council of Women's Organizations (NCWO).

The NCWO is a coalition of over 100 leaders from organizations dedicated to advancing equity for women and girls. The Council membership groups reach more than 6 million women.

The face of Social Security has a uniquely woman's profile. Women's financial circumstances and economic vulnerabilities are facts that make any discussion of Social Security reform a critical issue for the National Council.

Women earn less and live longer than men. Women and their families rely on social security as a major portion of fundamental retirement security; and when disability benefits are necessary, it help bring some normalcy to their lives.

With this press conference, the NCWO is launching a year-long organizing and educational campaign to "Keep the Heart in Social Security." We will develop coordinated fact sheets, educational materials, lobby days, town meetings and video tapes to reach our constituents and our communities.

Leaders will meet with members of Congress and agency officials. Last week we met with Gene Sperling in the White House.

Social Security will be our number one policy issue for 1999. This effort will be headed by Heidi Hartmann, President of the Institute for Women's Policy Research. Her task force includes women leaders and organizations who have been active on this issue for years.

Our concerns include not only the adequacy but the equity of Social Security.

A unified position paper following the guidelines and principles described on the visual will be developed and circulated to all parties.

Reform must:

- Continue to help those with lower lifetime earnings;
- Maintain full cost of living adjustments;

A bipartisan network of leaders from over 100 organizations representing more than six million women.

NO. 375 P009/013

**Embargoed until:
11:30am Wednesday, December 2**

Women's Checklist on Social Security Reform

KEEP THE HEART IN SOCIAL SECURITY

Does the Reform Proposal . . .



Continue to help those with lower lifetime earnings, who are disproportionately women?



Maintain full cost of living adjustments?



Protect and strengthen benefits for wives, widows and divorced women?



Preserve disability and survivor benefits?



Protect the most disadvantaged women from 'across the board' benefit cuts?



Ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market?



Address the care giving and labor force experiences of women?



Further reduce the number of elderly women living in poverty?

Contact: Communications Officer

202-293-1100

Fax: 202.861.0298



Business and Professional Women/USA

2012 Massachusetts Ave NW
Washington, DC 20036
202.293.1100
Fax: 202.861.0298

FACT SHEET

BPW/USA

Business and Professional Women/USA, founded in 1919, promotes equity for all women in the workplace through advocacy, education and information. With 70,000 members in more than 2,000 local organizations represented in every congressional district in the country, BPW/USA includes among its members women and men of every age, race, religion, political party and socio-economic background.

BPW/USA monitors federal legislation that affects working women and educates its members to become involved in public policy development in their own workplaces, and at the local, state and federal government levels. As among the first of the women's organizations to endorse the Equal Rights Amendment in 1937, BPW/USA has been a leader in passing key legislation effecting working women including:

- The Women's Business Ownership Act
- Violence Against Women Act of 1994
- The Civil Rights Act of 1964
- Equal Pay Act of 1963
- The Retirement Equity Act of 1984
- Family and Medical Leave Act of 1993
- Title IX of the Civil Rights Act 1964

Legislative Platform

BPW/USA annually releases its national legislation platform, which includes planks that call for:

Economic Equity

Ensure pay equity, equal educational and economic opportunities at all stages of life; and promote affordable, quality dependent care to help ensure economic self-sufficiency for women.

Health

Ensure reproductive choice and full access to all reproductive health services and education; ensure funds for research into and protections for women's health care needs; and encourage the development of a national health care plan recognizing the special health care needs of women.

Civil Rights

Ensure equal rights and remedies for women in all phases of their lives; support affirmative action; eliminate sexual harassment and violence against women.

BPW's political action committee, the **BPW/PAC**, provides contributions and endorsements to women and pro-women candidates who support BPW's legislative priorities.

The BPW Foundation

BPW's Foundation collects, conducts and analyzes research on issues affecting women in the workplace while providing financial assistance for women to further their education. The Foundation, which has awarded over \$5 million in scholarships, loans and grants to almost 8,000 women, raises money to educate women who need additional skills to advance in their careers or re-enter the workforce. The Foundation's Marguerite Rawalt Resource Center, one of the nation's first and most comprehensive libraries dedicated to working women's issues, serves as a reference source of information for members and over 200 other libraries across the country.

Events

National Business Women's Week, October 19-23, 1998
BPW Foundation Academic Symposium, Nov. 6-7, 1998, Boston, MA
Policy & Action Conference, Feb. 4-7, 1998, Washington, D.C.
Women Mean Business Awards, Feb. 5, 1998, Washington, D.C.
1999 Annual Conference, July 15-22, Rochester, NY

The
Leading
Advocate
for
Working
Women



News Release

STATEMENT OF HEIDI HARTMANN

President and Director

Institute for Women's Policy Research

Chair, Working Group on Social Security

National Council of Women's Organizations

Today the National Council of Women's Organizations launches its campaign to "Keep the HEART in Social Security." Social Security *has* a heart--it is our society's way of caring for each other financially. Women have given their hearts to their families and their country, and Social Security, which provides guaranteed, life time retirement benefits is one way our country gives something back to women. Because women live longer than men, women are the majority of Social Security recipients--60 percent overall, and the vast majority of the oldest recipients, 72 percent of those over 85. For many retired women, more than half of non-married women, for example, Social Security is their primary means of support. Thus, Social Security *is* a women's issue.

Today we want to emphasize three central themes.

First, there are many protections for women in the current Social Security system. Our campaign will educate our members, members of the public, and members of the Congress about these benefits for women: among them, higher relative benefits for lower earners and, for women whose own benefits as workers would be small, benefits as the wives, widows, and divorced wives of retired or deceased working men. And the protections for the minor children of disabled and deceased workers are very important to all parents, especially mothers who are most often the remaining caretaker of the children.

Second, every reform proposal that is considered must be evaluated in terms of its impact on women. Since women and men have different life experiences and different work experiences, virtually *any* public policy affects women differently than it affects men. Social Security is no exception. As much as Social Security has done to reduce poverty among older women, it still doesn't do enough. Older women are still much more likely to be poor than older men (13 percent poor for women vs. 7 percent poor for men). We'd like to see improvement in the economic status of older women, and we will be looking at every proposed reform to see if it brings that improvement to older women's lives.

Third, because Social Security is such an important issue for women and because any proposed reform will affect women differently than it does men, we insist that women leaders have a seat at the table when decisions about reform are made. Because of their different life experiences, women have different attitudes towards reform--for example, women are more averse to risky private investments and more willing to pay higher taxes to improve the financial soundness of the system. Among women, 73 percent opposed privatization in a September NBC poll compared to 58 percent of men, while 67 percent of women vs. 58 percent of men said they'd rather pay higher taxes than cut benefits in an October 1997 poll by the Americans Savings Education Council. Therefore women's views on appropriate reform must be heard. Still underrepresented in Congress, we call upon the President and the Congress to make sure women leaders are involved in the decision making.



FEMINIST MAJORITY

Working for Women's Equality

Eleanor Smeal
President

Peg Yorkin
Chair of the Board

Katherine Spillar
National Coordinator

FOR IMMEDIATE RELEASE
December 2, 1998

CONTACT: Harriet Trudell
Justine Andronici
(703)522-2214

WOMEN MUST BE AT CENTER STAGE IN SOCIAL SECURITY DEBATE

**Feminist Majority Opposes Reforms that Disadvantage Women,
Urges Improvements in Treatment of Women**

■ Washington D.C. Office
1600 Wilson Boulevard
Suite 801
Arlington, VA 22209
703 522 2214
703 522 2219 fx

□ West Coast Office
8105 West Third Street
Los Angeles, CA 90048
213 651 0495
213 653 2689 fx

Web Site:
<http://www.feminist.org>

E-mail:
femmaj@feminist.org

WASHINGTON, D.C. -- Joining with other leaders of the National Council of Women's Organizations, Feminist Majority President Eleanor Smeal called upon the Clinton Administration and Congress to move women and women's issues to the center stage of the social security debate.

"Women cannot be a side issue in the social security debate. Women are the main issue. Our concerns must be at center stage. The majority of social security recipients are women. Social security is the major source of retirement income for the majority of women. Women's advocacy organizations, experts on women and social security, and feminist think tanks must be well-represented at the table as reforms and the future of the social security system are debated," stated Smeal.

In addition to women's advocates being at the table, Smeal urged the consideration of improvements to the social security system which would strengthen the system for women and eliminate inequities. "As absolutely crucial as the social security system is to women's economic security, the system is based on demographics of marriage and work patterns which have changed. As a result, there is a substantial benefit gap between male and female social security recipients. Retired women workers receive an average of \$621 in monthly benefits compared with retired men workers who receive an average of \$810 per month.

"Women are penalized for their traditional care-taking roles. For example, leaving the labor force to provide care to children or elderly parents dramatically lowers women's lifetime average earnings and, in turn, their social security benefit payouts. And women are penalized as wage earners. Social Security taxes lower income workers, who are disproportionately women, at a higher average rate because the tax is levied currently on only the first \$68,400 of income. Moreover, wage discrimination against women in the labor market not only keeps most women as lower income earners, but also results in lower social security benefits," said Smeal.

Smeal continued, "In adopting reforms, every reform must be assessed for its impact on women. For example, increasing the number of work years used as a base for the calculation of benefits from 35 to 38 disadvantages women who take time out of the workforce to take care of family members. We must use this opportunity of reforming social security to strengthen it for women." Among the possible reforms which Smeal said merited consideration to improve the treatment of women were:

- Establishing earning sharing allocating 50% of both spouses' earnings to each spouse so that each individual pays into the social security system and collects benefits in her or his own right.
- Crediting, rather than penalizing, individuals providing child care or elderly care for their families.
- Changing distribution of spousal and primary earner benefit to 75% of total benefit for spouse and 75% of total benefit for primary earner. Currently, the primary earner receives 100% and the spouse 50%.
- Raising the cap on social security taxes in order to remove the additional tax burden on secondary wage earners.

For more information or to schedule interviews, contact Justine Andronici or Harriet Trudell at 703-522-2214.

MARCH 12, 1999

Women's Magazine Editor's Roundtable entitled:
"Economic and Retirement Security: What Every Woman Should Know"

DATE: Monday, March 15, 1999
LOCATION: Roosevelt Room
TIME: 2:00 PM - 2:15 PM
FROM: Marsha Berry
Mary Beth Cahill
Jenny Luray
Beverly Barnes

I. PURPOSE

You are scheduled to meet with approximately 21 editors and writers of national women's magazines, on Monday, March 15, 1999, in the Roosevelt Room. The representatives of the magazines are here to attend a half-day roundtable discussion on the future of Social Security and Medicare and their importance to women. The combined circulation of the magazines attending our event is more than 20 million. The editors (but not the writers) have also been invited to attend the Sixth Millennium Evening that evening.

II. BACKGROUND

The White House event for the magazine editors and writers will begin at 11:30 a.m. with a luncheon in the Indian Treaty Room. They will move to the Roosevelt Room for the briefing. The briefing will be opened by Jenny Luray who will describe the activities of the Women's Office. Ann Lewis will then provide an overview of the briefing and put the Administration's efforts on Social Security and Medicare into a broader context of the women and families agenda.

The editors and writers will hear from Secretary Donna Shalala who will make remarks on the importance of Medicare reform for women. A panel will follow, starting with OMB Director Jack Lew on the President's Social Security and Medicare financing plan and its strengths compared to other plans; Barbara Kennelly, Counselor to the Commissioner of the Social Security Administration, on the importance of Social Security reform for women; and CEA Chair Janet Yellen, on what Social Security reform means for all Americans and how it will affect future generations.

A panel comprised of three "real women" aged 28, 45, and 83 will discuss their own experiences with Social Security and why it is important to them (please see attachment for more complete descriptions).

Because March is Women's History Month, we've also attached a brief piece on Labor Secretary Frances Perkins, who was the first woman to serve in the Cabinet. She accepted her appointment by President Franklin D. Roosevelt on the condition that he support her call for a public old-age insurance program. Under her leadership, the Social Security Act was passed in 1935.

III. PARTICIPANTS

21 editors and writers representing 13 national women's magazines (please see attachments).

IV. PRESS PLAN

"On the record" for the magazine representatives.

V. SEQUENCE OF EVENTS

Please see attachment.

VI. REMARKS

You will close the meeting, stressing the vital importance of Social Security and Medicare to women, reiterating the Administration's efforts to reform Social Security and Medicare for the next generation, and challenging the magazines to make their readers aware of these critical issues. Your remarks are on-the-record. You will not take questions after your remarks.

VII. ATTACHMENTS

Descriptions of the Three "Real Women"
Remembering Francis Perkins During Women's History Month
At-A-Glance List of Attendees and the Magazines they Represent
Detailed Background on Attendees and the Magazines they Represent
Schedule of the Event
NEC Social Security Fact Sheet, "Saving Social Security Now"
NEC Report, "Women and Retirement Security"
Kaiser Family Foundation, "Women and Medicare"

**Descriptions of "Real Women" Participating in
Women Magazine Editors Briefing on Social Security & Medicare
March 15, 1999**

"Young Woman"

**Melinda Scott
Philadelphia, PA**

As the deputy director of FIRST (Foundation for Individual Responsibility and Social Trust), Melinda has helped organize events in over 28 cities for her organization. She is very articulate and well acquainted with issues of her generation regarding pensions and savings. She has participated in several Social Security forums throughout the region (including both the White House Conference on Social Security and the satellite downlink on young people and Social Security.) She is 28 years old and African-American.

"Middle-Aged Woman"

**Catherine Galvin
Front Royal, VA**

Catherine is the Executive Director of the Shenandoah Area Agency on Aging. She is covered by a pension plan and Social Security. She has a unique perspective on Social Security for several reasons. First, her father died when she was 11 years old and she received survivors benefits through her college years. Social Security played an important role in providing financial security for her mother and siblings following her father's death. Second, she will be highly dependent upon Social Security once she retires; the pension she will receive will be small and Social Security will comprise the major component of her retirement benefits. Third, because of the nature of her work, she is quite familiar with the role that Social Security plays in the lives of older women in rural Virginia, many of whom are widowed and have low incomes. She is 45 years old and Caucasian.

"Aged Woman"

**Ruth Rosenstein
Silver Spring, MD**

Ruth is a widow and receives her own retirement benefit as well as a portion of widows benefits. Her husband died when she was only 39 years old and left her with 2 children to raise. She put both of them through college. Her daughter and granddaughter are both teachers. She lives in senior housing in Silver Spring and participates in service activities in her housing system. She is an 83-year-old Caucasian.

TALKING POINTS FOR FIRST LADY HILLARY RODHAM CLINTON
WOMEN'S MAGAZINE EDITORS BRIEFING
ROOSEVELT ROOM, THE WHITE HOUSE
March 15, 1999

- I'm delighted that all of you have joined us for this important discussion of the Administration's plans for strengthening Social Security and Medicare, and of why these issues are particularly important to women. I'm especially grateful that Melinda Scott, Catherine Galvin, and Ruth Rosenstein were able to be with us to share their personal perspectives on these critical issues.
- Many of you will be with us later tonight for the Millennium Lecture -- as we celebrate and examine the changes in women's lives in this century and look ahead to the next to the challenges of the next millennium. That theme is fitting to this discussion because the creation of Social Security and Medicare played such enormous roles in women's lives in this century. And, the decisions we are going to make about these programs will have a profound impact on women in the future.
- We can perhaps best understand the importance of our action now by considering a time when Social Security and Medicare did not exist. When older Americans lived in fear of becoming ill. When growing old meant growing poor. When the terrible tragedy of losing a husband meant a life in poverty. Social Security and Medicare changed all that.
- Over the past few hours, you've heard from top Administration officials about why Social Security and Medicare are vital and particularly so for women. Let me just reinforce a few points:
 - (1) Social Security. Social security is our nation's solemn pledge that Americans can grow old with dignity. But it is much more than a retirement system. Nearly one-third of its beneficiaries are either disabled or survivors -- or their dependents. And millions of young people benefit, as well. We never know when something catastrophic will happen, but today Social Security is always there. Social security -- in a very real sense -- is America's family protection system.
 - (2) Social Security and Women. Women have a particular stake in saving Social Security for future generations. Women represent the majority of aged recipients. And, without it, half of all women over 65 would be living in poverty. As women, we also rely on Social Security because of our unique life patterns: we live longer than men and, though we are making progress, we reach retirement with smaller pensions and other financial assets. The President's call to save Social Security as a rock-solid guarantee is therefore particularly important to women.

- (3) Medicare and Women. Women have a special stake in keeping Medicare secure well into the future. We make up more than half of all beneficiaries -- and more than 70 percent of those 85 years and older. Medicare also provides important preventive benefits -- including guaranteed mammograms -- that have improved the health of millions of women. Preserving Medicare must be at the top of our agenda -- retirement security and health security must go hand in hand.
- (4) "USA" Accounts (Universal Savings Accounts). The President has proposed a tax break for working families to help them to build nest eggs for their retirement. Because women are less likely to have employer-provided pensions and because we reach retirement with smaller pensions and other assets, this proposed opportunity to help Americans build wealth is particularly important for women.
- I believe that we are at a critical juncture to ensure that the gains we've made for women and children are protected and strengthened in the years to come. The decisions we make now will demonstrate who we want to be as a nation, and what we want to stand for as we enter the new millennium. We stand at a time of unprecedented prosperity -- when fiscal discipline and a robust economy have replaced budget deficits with budget surpluses. The President and I believe that this prosperity gives us a unique and important responsibility to act on these challenges.
 - Women's magazines play a critical role in women's lives because they are an enormously important and credible source of information for women. Women trust your magazines because you bring them valuable information about their lives and you do it in a personal way -- without the political jargon and rhetorical language that comes out of Washington. And, when you bring your readers information about the stake they and their families have in debates about national policy, women become involved.
 - Women's voices must be heard in the coming debate about Social Security and Medicare.
 - I hope these briefings have been valuable -- I urge you to keep in touch with us as this debate continues. Women need to understand the profound ways in which the decisions we make now will affect their lives. And, as we've learned time and again, magazines can do this uniquely. When your magazines have joined in partnership to inform and explain, we have witnessed impressive results -- such as your role in promoting the Medicare mammography benefit.
 - I look forward to working together in the months ahead on these critical issues. And, I look forward to seeing many of you tonight at the Millennium lecture. Thank you for your commitment to improving the lives of American women.

March 12, 1999

WOMEN'S EQUALITY SUMMIT

DATE: Monday, March 15, 1999
LOCATION: NEA Auditorium
TIME: 3:00 p.m.
FROM: Mary Beth Cahill
Jenny Luray

I. PURPOSE

You are scheduled to speak on women's economic issues at the Women's Equality Summit in the National Education Association Auditorium on Monday, March 15, 1999. The audience will consist of approximately 500 women activists gathered from around the nation for the Women's Equality Summit and Congressional Action Day (March 15-16) sponsored by the National Council of Women's Organizations.

II. BACKGROUND

The Women's Equality Summit and Congressional Action Day is sponsored by the National Council of Women's Organizations (NCWO), which is chaired by Susan Bianchi-Sand, Executive Director, National Committee on Pay Equity. The co-chairs of the Summit are Ellie Smeal, President, Feminist Majority Foundation, and Pat Reuss, Senior Policy Analyst, NOW Legal Defense Fund. The Summit is bringing together grassroots activists who are members of NCWO organizations on March 15 and 16, 1999. They will attend briefings on the six key issues identified for the Congressional Action Day and launch a public education and organizing campaign on Social Security reform and its impact on women. The key issues include:

- Protecting Social Security and ending disadvantages to women in Social Security;
- Securing affordable, quality child care as a national priority for all who need it;
- Improving access to health care by increasing funding for family planning and requiring private insurance coverage for contraceptives;
- Supporting the United Nations Convention for the Elimination of All Forms of Discrimination Against Women (CEDAW) by the Senate and measures to oppose gender Apartheid in Afghanistan;
- Supporting Fair Pay legislation;
- Ending hate violence against all citizens, supporting the Hate Crimes Prevention Act.

After your remarks, the activists will hear from other members of the Administration (see Sequence of Events). Before your remarks and after this part of the program, the activists will attend issue briefings on these priority issues conducted by the NCWO.

The next day, the group will join members of the Congressional Caucus on Women's Issues who will outline their proposals for women and families for the 106th Congress during a morning press conference. The activists will also lobby their members of Congress. Following the Summit, the goal is for the participants to return home to educate their communities and local organizations about the six priorities.

In April, 1997, the White House Women's Office and the Center for Policy Alternatives co-sponsored the Women's Economic Leadership Summit. You and the President joined leaders from over 20 states representing business, labor, state and local governments, grassroots organizations and foundations to develop a women-led economic agenda. This blueprint for action entitled "America's Economic Agenda" contains recommendations on economic self-sufficiency and family and work policy which we have acted on since the conference, and are also the focus of this Women's Equality Summit. In your remarks, you will be highlighting the linkage between the two events and the Administration's relevant accomplishments.

III. PARTICIPANTS

500 women leaders from across the country representing 110 organizations will be in the audience.

Program participants include: You; the Secretary of Health and Human Services Donna Shalala; Secretary of Labor Alexis Herman; Counselor to the Commissioner of Social Security Barbara Kennelly; Susan Bianchi-Sand; Ellie Smeal. You will be introduced by Laura Fortman, a grassroots activist who is the Director of the Maine Women's Lobby and the Women's Development Institute. Laura focuses on getting low-income women involved in public policy, and was instrumental in the passage of "Parents as Scholars," a state aid program that helps welfare recipients complete college.

IV. PRESS PLAN

Open.

V. SEQUENCE OF EVENTS

Possible meet and greet with NCWO steering committee members;
Susan Bianchi-Sand makes remarks and introduces Maine activist Laura Fortman;
Laura Fortman makes remarks and introduces you;
You make remarks and depart;
Susan Bianchi-Sand introduces Secretary Herman;
Secretary Herman makes remarks on fair pay and introduces Secretary Shalala;
Secretary Shalala makes remarks on Medicare and child care and introduces Barbara Kennelly;
Barbara Kennelly makes remarks on social security and introduces Ellie Smeal;
Ellie Smeal makes concluding remarks.

VI. REMARKS

Formal remarks to be provided by speechwriters.

VII. ATTACHMENTS

Women's Equality Summit Schedule

List of Summit participating organizations

NCWO Steering Committee

NEC Social Security Fact Sheet, "Saving Social Security Now"

NEC Report, "Women and Retirement Security"

Kaiser Family Foundation, "Women and Medicare"

DPC Equal Pay Fact Sheet

THE WHITE HOUSE
WASHINGTON

March 12, 1999

MILLENNIUM EVENING AT THE WHITE HOUSE
WOMEN AS CITIZENS: VITAL VOICES THROUGH THE CENTURY

DATE: March 15, 1999
LOCATION: East Room
TIME: 7:30 p.m.
FROM: Ellen McCulloch-Lovell

I. PURPOSE

You and the First Lady will host the sixth program in our series of "Millennium Evenings at the White House." This evening's discussion is entitled *Women as Citizens: Vital Voices through the Century* and will focus on three themes: women as volunteers and reformers, women's struggle for rights, and women in public/civic life today. We will explore these themes through a panel discussion with three distinguished scholars and educators: historians Alice Kessler-Harris of Columbia and Nancy Cott of Yale will address the first two topics, paying particular attention to the ways women have been active in the political arena and in civic work as volunteers, union members and other reform movements. Dr. Ruth Simmons, the acclaimed President of Smith College, will address the question of how we should educate both men and women to secure and broaden rights in the 21st century. Before proceeding to the East Room for the lecture, you will greet the three speakers, their spouses and guests and representatives from our sponsors.

II. BACKGROUND

"Millennium Evenings at the White House" celebrate creativity and innovation by highlighting the contributions of artists, scholars, scientists and other creative individuals whose ideas help us honor our past and imagine our future as we approach the new millennium. This program coincides with National Women's History Month and will examine the many important roles American women have played in the nation's civic and public life. The twentieth century has been a time of tremendous change and transformation for women, and in our society perhaps no change has been more important than the roles women have created for themselves in the public arena. This Millennium Evening is dedicated to an exploration of women's citizenship in all its many forms.

The individual presentations will be preceded by a short video and followed with a brief question period from the audience. Professor Alice Kessler-Harris will make a short

V. SEQUENCE OF EVENTS

- 7:00 p.m. YOU and THE FIRST LADY arrive the Red Room for briefing.
- 7:15 p.m. YOU and THE FIRST LADY proceed to the Blue Room for meet and greet.
- 7:25 p.m. Ellen Lovell is announced into the East Room and enters from the Green Room on to the stage and briefs and audience.
- 7:30 p.m. YOU and THE FIRST LADY, along with Alice Kessler-Harris, Nancy Cott and Ruth Simmons, are announced into the East Room.

Program Begins.

THE FIRST LADY makes welcoming remarks and introduces the first video.

“Women as Volunteers and Reformers” video plays.

Alice Kessler-Harris makes remarks and takes question from the audience.

Ellen Lovell introduces the second video.

“The Fight for Rights” video plays.

Nancy Cott makes remarks and takes question from the audience.

Ellen Lovell introduces the third video.

“The Practice of Citizenship” video plays.

Ruth Simmons makes remarks and takes question from audience.

YOU make remarks and pose the first question to Alice Kessler-Harris.

Ellen Lovell opens discussion with audience and the Internet.

- 9:00 p.m. YOU make closing remarks and invite guests into the State Dining Room for a reception.
- 9:10 p.m. YOU and THE FIRST LADY have the option to join the guests in the State Dining Room or depart.

VI. REMARKS

To be provided by speechwriters

VII. ATTACHMENTS

Bios for guest speakers

Alice Kessler-Harris

Alice Kessler-Harris is a Visiting Professor at Columbia University where she holds a joint appointment in both the History Department and the Institute for Research on Women and Gender. She received her Ph.D. in History from Rutgers University in 1968. Currently, she also holds her appointment as Professor of History at Rutgers, where she directed the Women's Studies Program from 1990 to 1995. She is described as one of the foremost labor historians in the country and has played an important role in the establishment of the discipline of women's studies. Dr. Kessler-Harris has authored and edited over ten books, including: A Women's Wage: Historical Meanings and Social Consequences, and Women in Culture and Politics: A Century of Change. One of her main subjects is how working women have understood their world. She has received fellowships from both the Guggenheim and Rockefeller foundations, and from the National Endowment for the Humanities.

Nancy Cott

Nancy Cott is the Stanley Woodward Professor of History and American Studies at Yale University, where she has taught since 1975. She received her Ph.D. in History of American Civilization from Brandeis University in 1974. Presently, she is spending the year in Palo Alto, California, at the Center for Advanced Studies in the Behavioral Sciences. Her publications include: A Heritage of Her Own: Towards a New Social History of American Women, co-editor; The Grounding of Modern Feminism; A Woman Making History: Mary Ritter Beard Through Her Letters; and numerous articles. Dr. Cott is also the series editor of the eleven-volume Young Oxford History of Women in the United States. She has received Guggenheim, Rockefeller Foundation and National endowment for the Humanities fellowships, and lectures widely at academic conferences and on college campuses. Recently, Dr. Cott appeared as a featured scholar on the PBS special "One Woman, One Vote." Her current research focuses on the history of marriage and public policy in the United States.

Ruth Simmons

Ruth Simmons is President of Smith College, an appointment she has held since 1995. Prior to her arrival at Smith, Dr. Simmons served as Provost of Spelman College, and Vice Provost, Associate Dean of the Faculty and Acting Director of African-American Studies at Princeton University. She received her Ph.D. in Romance Languages and Literature from Harvard University in 1973; her teaching and writing has centered on the literature of francophone Africa and the Caribbean. Throughout her career she has been recognized as a leading practical feminist and educational administrator. She is active in a wide range of educational, charitable, and civic endeavors and holds honorary degrees from a number of colleges and universities, including Amherst, Dillard, UMass Amherst, Dartmouth and Princeton. She also serves on numerous boards, including Clarke School for the Deaf, Pfizer, Inc., and Metropolitan Life Insurance. In 1996, she was named a CBS Woman of the Year, NBC Nightly News' Most Inspiring Woman, and Glamour Magazine's Woman of the Year. In 1997, she was awarded the Centennial Medal from Harvard University.