RABNER

SOCIAL SECURITY BRIEFING BOOK FOR MRS. CLINTON

PREPARED BY THE NATIONAL ECONOMIC COUNCIL
NOVEMBER 25, 1998

SOCIAL SECURITY BRIEFING BOOK
for
MRS. CLINTON

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Divider Title: 1

BACKGROUND ON SOCIAL SECURITY

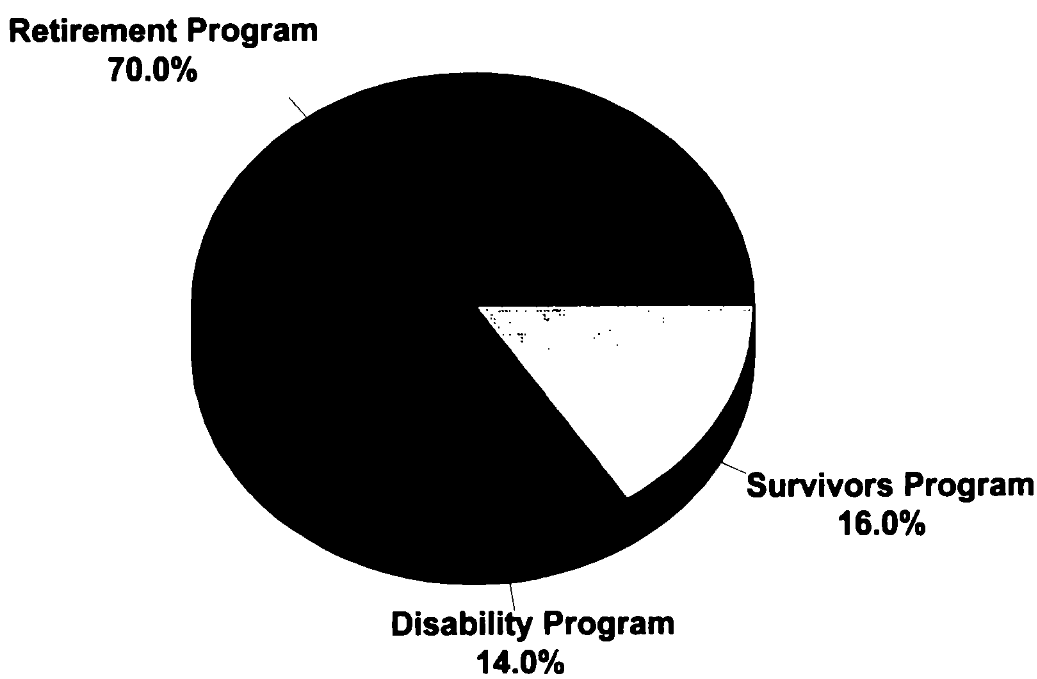
- **<u>Social Security is more than just a retirement program</u>.** It also provides disability insurance (in case an individual becomes disabled and can't work) and survivors' insurance. Each is equivalent, for the average young family with two children, to an insurance policy of about $300,000 ($600,000 in total).

    - Nearly one-third of Social Security's 44 million beneficiaries are either disabled or survivors (or their dependents).

    - 3.8 million children receive benefits: 1.9 million as survivors of deceased parents; 1.4 million as children of disabled workers; and 0.4 million as children of retired workers.

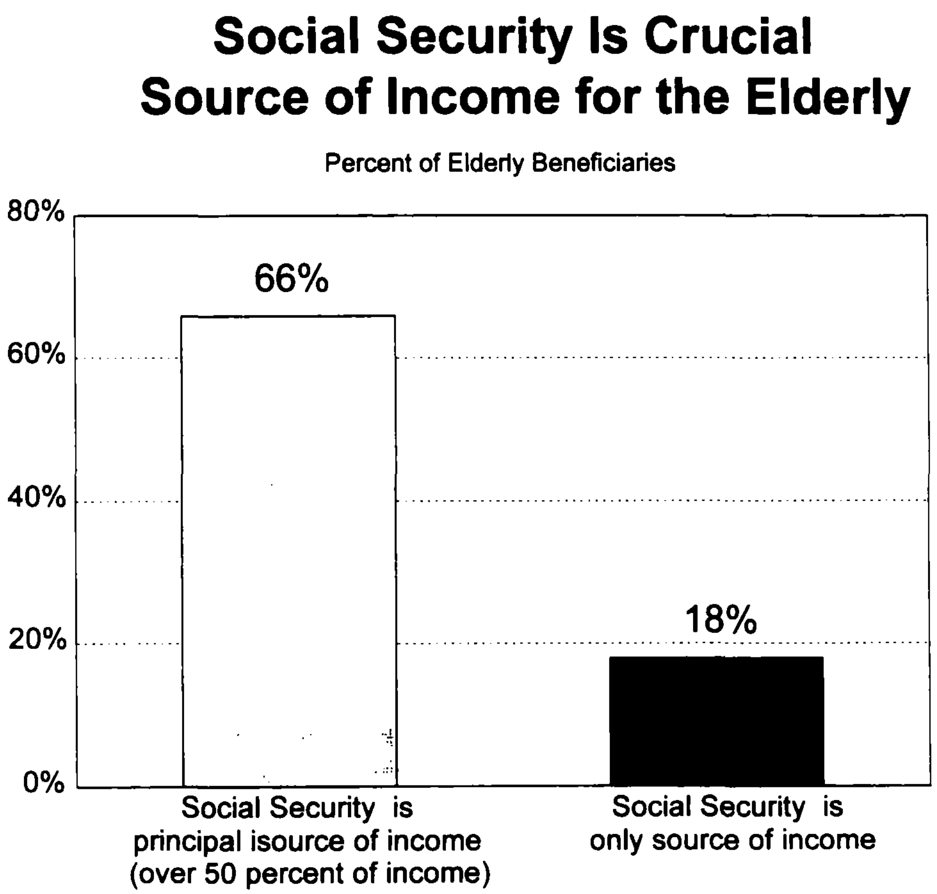
Social Security Is More Than A Retirement Program

Percentage of Social Security Beneficiaries By Program



- **Social Security provides a benefit you can count on.** A Social Security benefit is both guaranteed for life after retirement and indexed to inflation.

- **Social Security is a crucial source of income for the elderly.** Social Security benefits represent the majority of income for two-thirds of elderly beneficiaries, and are the *only* source of income for 18 percent of its elderly beneficiaries.

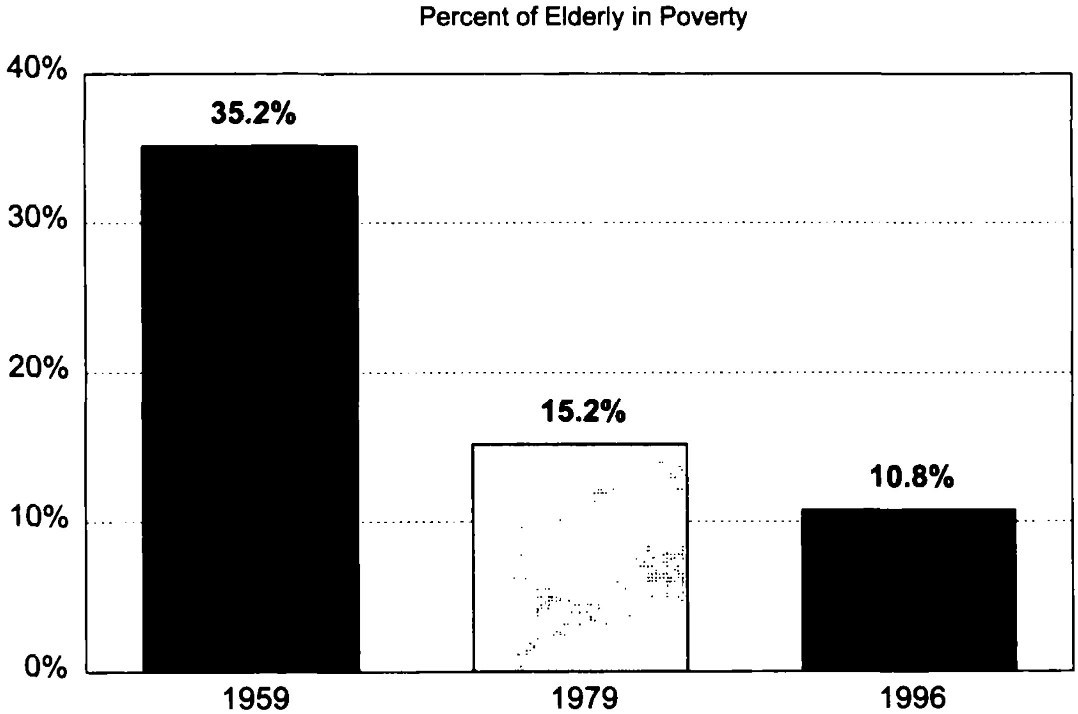


- **<u>Social Security has dramatically reduced the rate of poverty among the elderly</u>.**

  - The elderly poverty rate has fallen from more than 35 percent in 1959 to 10.8 percent in 1996.

  - Even today, with our strong economy, the elderly poverty rate without Social Security would be 48 percent. Social Security benefits lift roughly 15 million elderly Americans out of poverty (and another 1 million non-elderly Americans out of poverty).

Social Security Has Helped Cut The Elderly Poverty Rate by Two-Thirds



- **<u>Social Security is especially important to women</u>.** For single, divorced, or widowed elderly women, the poverty rate would be 60 percent without Social Security (relative to 20 percent with Social Security). Because women live longer, they are more likely to outlive savings and other non-Social Security sources of retirement income.

- **<u>Average Benefits.</u>** The average monthly benefit for a retired worker is $760. The average monthly benefit for a retired worker with an aged spouse is $1280.

- **<u>Share of US Budget.</u>** Social Security outlays are expected to be $378 billion in FY 1998, 23 percent of the total U.S. budget of $1.67 trillion, and 4.5 percent of GDP.

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FIVE PRINCIPLES FOR SOCIAL SECURITY REFORM

At the Kansas City conference, the President enumerated five general principles to guide Social Security reform. The principles are:

1. **Strengthen and Protect Social Security for the 21st Century.** This principle provides our overall goal in reforming Social Security and warns against proposals that are not comprehensive solutions to the solvency problem.

2. **Maintain Universality and Fairness.** This principle is designed to ensure progressivity, and preclude an opt-out option (which would unduly benefit upper-income Americans).

3. **Provide a Benefit People Can Count on.** This principle precludes radical privatization, which would undermine Social Security as a foundation of retirement income security.

4. **Preserve Financial Security for Low-income and Disabled Beneficiaries.** This principle highlights disability and survivors' insurance, as well as protection for low-income widows and other beneficiaries -- which are often overlooked in reform discussions.

5. **Maintain Fiscal Discipline.** This principle is intended to ensure that the surpluses are not drained before addressing Social Security reform, and that we maintain our fiscal discipline in order to prepare for the retirement of the baby boomers.

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WHY DO SOCIAL SECURITY REFORM NOW?

- Perceived and real insolvency of Social Security system threatens confidence in crown-jewel of progressive government -- particularly among younger Americans.

- Acting now will prevent the budget surplus from being dissipated on tax cuts which would leave fewer resources to fix Social Security later without resorting to significant benefit cuts or revenue increases.

- Waiting longer will make reforms within more traditional Social Security structure more painful and more difficult because the actuarial imbalance will be greater and surpluses will be smaller or even unavailable, which could erode confidence in the system and lead to more radical and painful reform down the road.

- Reform is necessary to keep spending on the elderly from crowding out other desirable spending in the middle of the next century.

- Acting now will help build confidence in the system among younger Americans, who may not have as solid a commitment to the New Deal social compacts as older Americans.

ENSURING SOCIAL SECURITY REMAINS PROGRESSIVE

MAINTAIN AND STRENGTHEN SOCIAL SECURITY'S PROGRESSIVITY

- The current Social Security benefit structure is highly progressive.

REPLACEMENT RATES (Annual Social Security Benefits/Average earnings during working years)	
Low Earner ($12,000)	57 percent
Average Earner ($27,000)	43 percent
Maximum Earner ($68,400)	25 percent

Social Security reform must protect this structure and make progress toward achieving other progressive goals.

REDUCE ELDERLY POVERTY

- Social Security has played a large role in reducing elderly poverty from 35.2 percent in 1959 to 10.5 percent today.

- Social Security reform could help further reduce poverty rates among the elderly, particularly among widows and elderly people of color.

PERCENT IN POVERTY, PEOPLE AGES 65 AND ABOVE				
	Married	**Widowed**	**Divorced**	**Never Married**
Women	4.6%	18.0%	22.2%	20.0%
Men	4.6	11.4	15.0	22.8

PERCENT IN POVERTY, PEOPLE AGES 65 AND ABOVE			
	White	**Black**	**Hispanic**
Women	11.7%	28.9%	28.1%
Men	6.0	22.2	23.6

FOUR OFTEN-MENTIONED WAYS TO SOLVE SOCIAL SECURITY'S FUNDING PROBLEM

- **Use Budget Surpluses.**
- **Reduce Benefits.**
- **Increase Traditional Revenues.**
- **Invest in Equities.**

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BACKGROUND ON DEMOGRAPHIC TRENDS

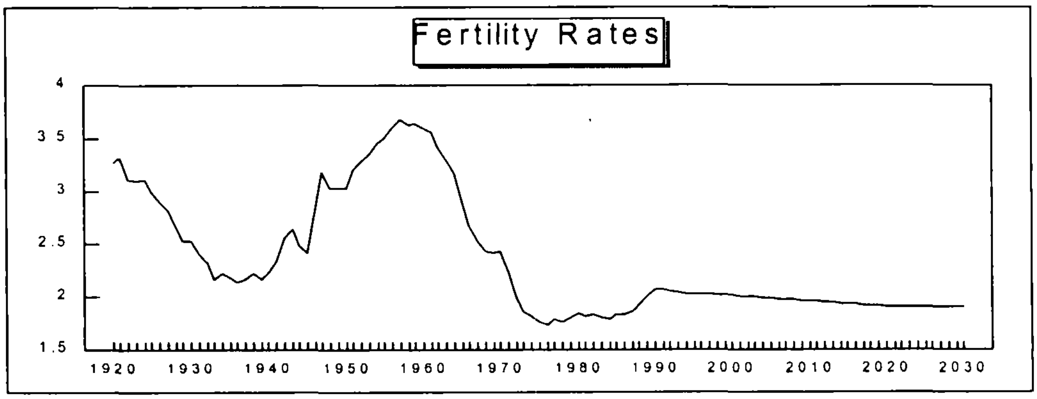
AMERICANS ARE LIVING LONGER THAN IN THE PAST:

The challenge of financing the retirement of the baby boomers and of future generations of retirees is largely the result of good news -- people are living longer.

LIFE EXPECTANCY AT AGE 65			
Year turning age 65	**Male**	**Female**	**Total**
1940	12.0	13.7	12.9
1998	16.2	19.8	18.1
2030	17.7	21.1	19.4

FERTILITY RATES REMAIN LOW

During the coming century, fertility rates are expected to fall below 2 births per woman.



- The figure above shows the high fertility rates of the babyboom years and the lower subsequent rates.
- While the retirement of the baby boom generation will intensify these trends, increasing longevity and declining fertility would have produced a financing problem for Social Security even if there had not been a post-war baby boom.

	1940	1950	1960	1970	1980	1990	2000	2020	2040	2060
Total fertility rates (births per woman)	2.23	3.03	3.61	2.43	1.85	2.07	2.01	1.91	1.90	1.90

AMERICANS ARE RETIRING EARLIER THAN IN THE PAST:

- In 1950, nearly half (46 percent) of men 65 and older were in the labor force. Today only 16 percent of men 65 and older are in the labor force. In 1950, 10 percent of women 65 and over were in the labor force, while 8 percent participate today.

- Over the past 3 decades, the percentage of Americans who receive Social Security retirement benefits before age 65 has increased dramatically.

PERCENTAGE OF FIRST RECEIPT OF RETIREMENT BENEFITS BY AGE				
Year/Age	**62**	**63-64**	**65+**	**TOTAL**
1962	18	19	63	100
1996	60.1	18.3	21.6	100

EXPLANATIONS FOR WHY PEOPLE ARE RETIRING EARLIER THAN IN THE PAST:

- Social Security has made it possible for more elderly to afford to retire. In particular, the introduction of the early retirement age in 1961 (1956 for women) has enabled people to retire before age 65.

- Rising incomes have made it possible for some people to afford to retire even before they are eligible for Social Security.

- Private pension plans can create incentives to retire early.

- Society's attitude toward the appropriate age of retirement may have changed.

THE HEALTH OF THE ELDERLY IS IMPROVING, BUT SOME PEOPLE WORK IN PHYSICALLY DEMANDING JOBS:

- In a recent survey, one-quarter of retirees said that poor health was the most important reason why they retired.

- The percentage of workers approaching retirement who work in physically demanding jobs has been declining and is expected to decline further in coming decades. However, there remains a segment of the population, particularly the lower paid and African Americans, who tend to work in these physically demanding jobs.

- Estimates of the percentage of workers approaching retirement who are in physically demanding jobs range from 11 percent to over 30 percent depending on the definition used.

- Even jobs that do not involve heavy physical labor -- kindergarten teaching for example -- can be difficult for older workers.

OVERALL IMPACT: DECLINING WORKERS PER BENEFICIARY

Increased longevity, reduced fertility, and early retirement imply a falling ratio of workers to beneficiaries. The ratio of workers to beneficiaries was 5.1 in 1960 and is 3.4 today. It is expected to fall below 2 in 2035 and reach 1.8 by 2065.

	1950	1960	1970	1980	1990	2000	2020	2040	2060	2070
Workers per beneficiary	16.5	5.1	3.7	3.2	3.4	3.3	2.4	2.0	1.9	1.8

- Similar trends are occurring around the world. As the chart below shows, many countries are aging much more rapidly than the U.S.

RATIO OF PEOPLE AGE 65 AND OLDER TO PEOPLE AGES 20 TO 64
(In percent)

	1990	2010	2030	2050
Japan	19.3	35.8	48.7	60.1
Germany	23.6	32.9	53.8	57.5
France	23.4	27.2	43.1	48.4
Italy	24.3	33.8	52.4	66.7
United Kingdom	26.7	28.6	42.8	45.8
Canada	18.6	22.9	43.6	46.5
United States	20.8	21.3	35.5	37.0

BACKGROUND ON HEALTH AND DISABILITY AMONG ELDERLY

KEY FACTS:

- **Reduced mortality from heart disease and stroke is responsible for most of the increase in life expectancy for older Americans since 1940.** As recently as the early 1970s, there were few effective treatments for severe cases of these illnesses; prevention was the main cause of reduced mortality. Over the past 25 years, the treatment of heart attacks and other severe forms of heart disease has improved. Sophisticated procedures like angioplasty and bypass surgery have become commonplace, and many effective new drug therapies have been introduced. In the future, gene therapies and a greater understanding of the biochemical basis of heart disease are likely to prevent even more cases of heart disease, reducing the need for invasive surgery and enabling people to live longer healthier lives.

- **More than half of the elderly will develop cataracts, but cataracts are rarely debilitating any more.** Left untreated, cataracts can be very disabling - with reduced vision it is difficult to work, read, and participate in many other activities of life. During the 1970s, surgical treatments for cataracts were developed, but the procedures were long, unpleasant, costly, and restored only fair eyesight. Over the past 15 years, cataract removal and lens replacement has become a routine outpatient procedure, and has restored very good eyesight to millions of older Americans.

IMPROVING HEALTH OF OLDER AMERICANS:

AMERICANS ARE LIVING LONGER THAN IN THE PAST:

- Americans are one-third more likely [83% vs. 60%] to reach age 65 now than they were when Social Security began, and they are more than three times as likely [35% vs. 10%] to reach age 85.

- Life expectancy for 65-year old Americans has increased by about one month per year for the past 60 years. A woman turning 65 in 1998 has a life expectancy of 20 more years; a man can expect to live an additional 16 years.

THESE IMPROVEMENTS IN LIFE EXPECTANCY ARE LIKELY TO CONTINUE:

- The increase in life expectancy of older Americans since 1940 can be traced mainly to reduced mortality from heart disease and stroke. Both improvements in disease prevention (especially before 1980) and improvements in medical treatments for heart disease (especially since 1980) have accounted for the reduced mortality.

- New innovations in the treatment of heart disease and stroke, and new knowledge about preventing these diseases and their complications, suggest that reductions in cardiovascular death rates will continue.

- Mortality from other diseases may also decline in the future. Death rates from cancer have increased slightly since 1940. However, cancer death rates have fallen for the last several years. Many new innovations in cancer treatment, such as greater use of mammograms to detect cancers early as well as genetically-engineered drugs that inhibit the blood vessels supplying cancers, provide some promise that these declines will continue.

- Many experts believe that these trends will result in continued steady improvements in survival to the "oldest old" ages of 85 and beyond, and continued increases in life expectancy.

QUALITY OF LIFE IS IMPROVING ALONG WITH LENGTH OF LIFE FOR OLDER AMERICANS:

- An increasing share of elderly Americans report themselves to be in good to excellent health. As the Table below shows, Americans aged 75 and over now report their overall health to be about as good did Americans aged 65-74 a decade earlier. In turn Americans 65-74 now report their health to be about as good as did Americans aged 55-64 a decade earlier.

PERCENT RATING OWN HEALTH AS EXCELLENT, VERY GOOD, OR GOOD, BY AGE

	55-64	65-74	75+
1984	74.6	67.8	64.1
1994 (most recent year available)	79.7	74.4	68.7

- Most studies have found that objective measures of the physical and cognitive health of the elderly have also improved.

- The additional years of life that older Americans are experiencing do not appear to be years spent with serious morbidity from severe functional impairments. Some studies find that serious morbidity has even been "compressed" into a shorter time period before death, and that the likelihood and length of nursing-home stays has not increased.

DESPITE THESE SUBSTANTIAL IMPROVEMENTS IN HEALTH, THE HIGH RATES OF CHRONIC ILLNESSES AND DISABILITY IN OLDER AMERICANS REMAIN IMPORTANT CONSIDERATIONS FOR POLICIES AFFECTING RETIREMENT AND SOCIAL SECURITY:

- Around 1/5 of the elderly need help with at least one activity of daily living, and 1/20 live in nursing homes. These rates increase substantially with age: half of those aged 85 and over need assistance with at least one activity of daily living, and most nursing home residents are in this age group.

- The rates of many chronic illnesses in elderly Americans – including arthritis, hearing or vision impairments, heart failure, diabetes, and many others – are at least twice as high for the elderly as for the nonelderly.

- The rates of most of these illnesses have not declined in proportion to the mortality improvements, suggesting that many of the elderly are living more effectively despite chronic health problems. For example: better joint replacement procedures have improved the mobility of the elderly with arthritis; devices and procedures to improve hearing and vision have substantially improved sensory capabilities; and better drug treatment for the complications of heart failure has improved the physical capacity of the elderly with heart failure.

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LONG-TERM FINANCING PROJECTIONS

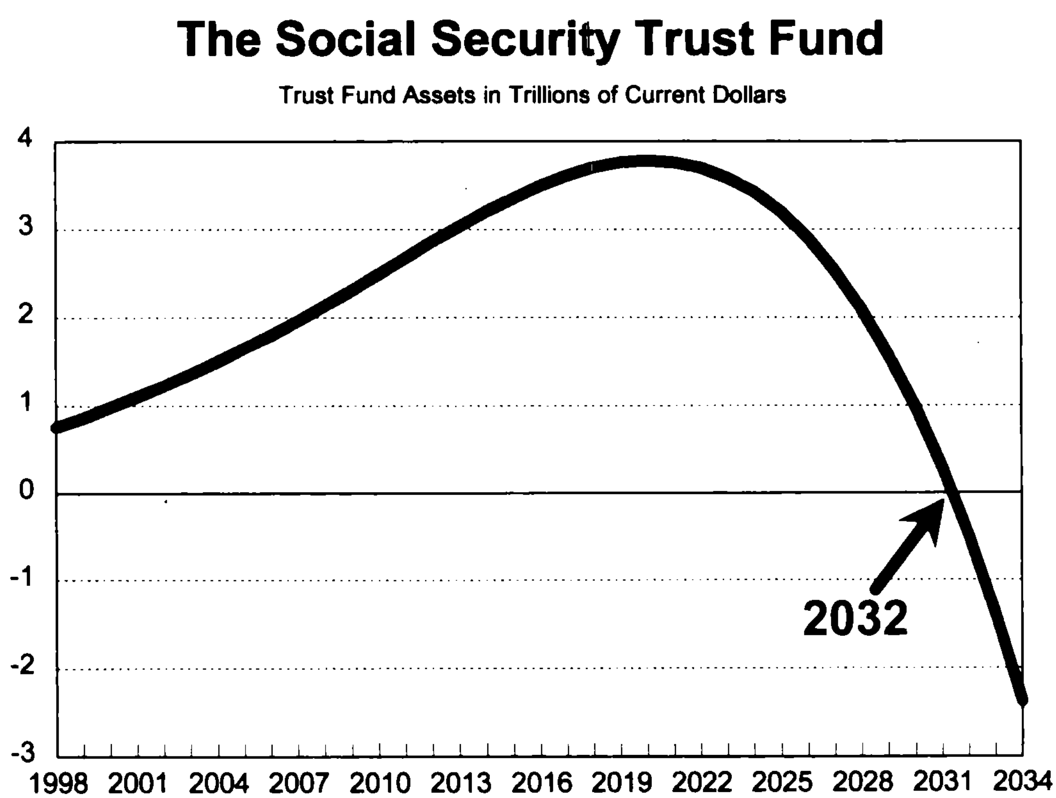
The Social Security system is expected to face increasing strains as the nation's nearly 80 million baby boomers retire, as life expectancies continue to increase, and as the fertility rate declines. There are currently 3.4 workers who contribute to the system for every Social Security beneficiary. By 2030, there will be only 2 workers for every Social Security beneficiary.

According to the intermediate projections of the Trustees:

- By 2013, payroll contributions (plus income taxes on benefits) will not be sufficient to pay for benefits due under current law. In order to meet its benefit obligations, the system will have to begin spending some of the interest it earns on the assets in the Trust Fund.

- By 2021, taxes plus interest earnings will not be sufficient to pay for benefits, and the Trust Funds will begin declining, gradually at first, and then more rapidly.

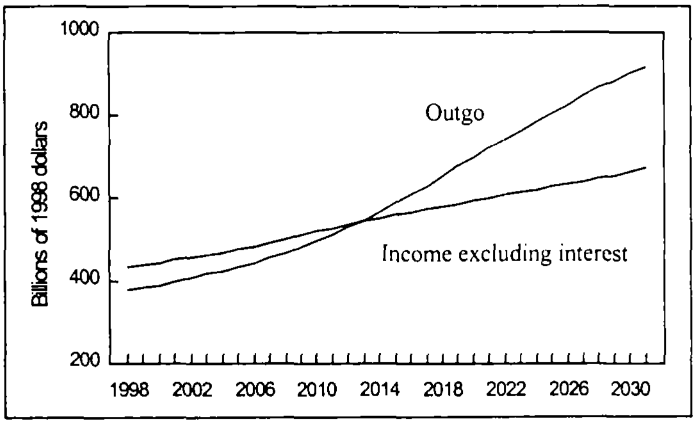
- By 2032, the Trust Fund is expected to be depleted -- at which time income to the system would still be sufficient to pay about 75 percent of current law benefits.



OUTLOOK FOR SOCIAL SECURITY FINANCING

BEGINNING IN 2013, SOCIAL SECURITY SPENDING WILL EXCEED SOCIAL SECURITY TAXES

Since the 1983 reforms, Social Security has been taking in more revenue in payroll taxes and from the taxation of benefits than it has been paying out in benefits and administrative costs. As the demographic factors described above take effect, this situation will reverse itself and beginning in 2013 Social Security will begin paying out more than it receives in taxes.



- Social Security outgo and income are often expressed as a percentage of payroll. This measure illustrates the amount payroll taxes would need to be increased to restore pay-as-you-go balance if no other changes were made.

OASDI Income and Cost Rates, Calendar Years 2000-2070
(As percentage of taxable payroll)

	Income rate (Social Security Revenue as percentage of taxable payroll)	Cost rate (Social Security outgo as percentage of taxable payroll)	Balance
2000	12.63	11.16	1.48
2010	12.74	12.19	0.54
2020	12.92	15.17	-2.26
2030	13.10	17.76	-4.66
2040	13.18	18.13	-4.95
2050	13.22	18.29	-5.07
2060	13.29	19.04	-5.75
2070	13.34	19.54	-6.20

MEASURING LONG-RUN ACTUARIAL BALANCE

Each year, the SSA Trustees' Report presents estimates of the financial status of the OASDI program for the next 75 years. For the system to be in actuarial balance, the present value of income into the system must exceed the present value of costs. These summarized income and costs measures are presented as a percentage of the present value of taxable payroll over the 75 year period.

OASDI Income and Cost Rates for 75-year Period			
	Income rate	Cost rate	Actuarial balance
1998-2072	13.45	15.64	-2.19

- In the 1998 Trustees' Report, OASDI was found to have an actuarial deficit of 2.19 percent of payroll.
- This 2.19 deficit can be interpreted as the increase in annual payroll taxes necessary to bring the system into exact actuarial balance. For example, if the 75-year actuarial deficit of 2.19 percent were addressed by raising scheduled tax rates by 2.2 percentage points (1.1 each for employers and employees), then OASDI assets at the beginning of 1998, together with income from payroll taxes, interest, and other sources, would be just sufficient to meet all expenditures for the long-range period and leave the level of the trust fund at the end of the period equal to about 100 percent of the following year's expenditures.
- Restoring 75-year actuarial balance is a common goal of reform plans.

DIFFERENT SOLVENCY GOALS

While achieving 75-year actuarial balance is the standard target for reform plans, some have argued that this goal alone may not be sufficient.

For example, if actuarial balance were achieved by raising the payroll tax by 2.19 percentage points, Social Security would run many years of surpluses in the beginning of the 75 year period followed by many years of deficits at the end of the period. While the trust fund would have 1 year's worth of benefits in the 75th year, the trust fund would be declining and the system would not be able to pay full benefits on time soon after the 75th year. **An important implication of reform plans that achieve 75-year balance with good years followed by bad years is that the passage of time alone will bring the system out of balance in the future. In the worst case scenario, one year after reform, the system would no longer be in 75-year balance.**

Therefore, some proposals attempt to achieve actuarial balance over periods of more than 75 years. Others aim to have a stable or growing trust fund at the end of the 75th year.

Nonetheless, it is worth noting that even if a reform plan achieved only 75 year solvency, it would be making Social Security much stronger than it is today -- pushing back the exhaustion date of the trust fund by 40 years.

OUTLOOK FOR THE UNIFIED BUDGET

FOR THE NEXT DECADE SOCIAL SECURITY IS RESPONSIBLE FOR MOST OF THE UB SURPLUSES

Both OMB and CBO are projecting large unified budget (UB) surpluses over the next decade. Until 2002, the non-SS budget is in deficit, but Social Security surpluses lead to a unified budget surplus. In later years the on-budget surplus is positive as well.

Budget Projections						
	CBO July 1998 (Billions of dollars)			OMB Mid-session Review 1998 (Billions of dollars)		
	Unified Budget	Non-Social Security	Social Security	Unified Budget	Non-Social Security	Social Security
1998	63	-41	104	39	-63	102
1999	80	-37	117	54	-59	113
2000	79	-46	125	61	-62	123
2001	86	-45	131	83	-48	131
2002	139	1	138	148	6	142
2003	136	-10	146	150	-2	152
2004	154	0	154	184	24	160
2005	170	5	165	213	36	177
2006	217	44	173	245	60	185
2007	236	55	181	300	103	197
2008	251	64	187	342	136	206
1999-2008	1548	31	1517	1780	194	1586

- Social Security is responsible for 89 percent of the 10-year unified budget surpluses under OMB projections, and 98 percent of the 10-year UB surpluses under CBO projections.

Illustrative Budget Projections (Numbers for 2010 and beyond are for illustrative purposes only.)			
	(Billions of dollars)		
	Unified Budget	Non-Social Security	Social Security
2000	79	-46	125
2005	170	5	165
2010	About 280	About 250	About 30
2015-2020*	About 470	About 600	About -130

* *For illustrative purposes, annual average for time period*

- In 2013, Social Security outgo begins exceeding Social Security tax revenue. In order to pay benefits, the Social Security Trust Fund begins redeeming its bonds and receiving funds from the general fund. Nonetheless, current long-run projections have unified budget surpluses persisting beyond 2020 because the non-Social Security budget surpluses are larger than Social Security's shortfall.

OASDI INCOME AND COST PROJECTIONS FROM TRUSTEES' REPORT
(Billions of Dollars)

	Income excluding interest	Outgo	Balance
1998	435	383	52
1999	450	396	54
2000	468	413	55
2001	488	433	55
2002	509	455	54
2003	532	478	54
2004	557	504	53
2005	585	533	52
2006	614	565	50
2007	648	599	49
2008	682	637	45
2009	718	679	39
2010	756	724	32
2011	795	773	22
2012	835	826	10
2013	877	884	-7
2014	920	946	-26
2015	965	1014	-49
2016	1011	1087	-76
2017	1060	1165	-106
2018	1110	1249	-139
2019	1162	1337	-175
2020	1217	1430	-214

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SOCIAL SECURITY TAXES

- **The Old-Age, Survivors, and Disability Insurance (OASDI) program is funded by a tax of 12.4 percent of earnings**, split equally between the worker and employer (self-employed workers pay the entire 12.4 percent themselves). An additional 2.9 percent tax is used to fund part of Medicare.

- **The OASDI tax is levied on the first $68,400 of earnings** (this threshold is indexed to average wages in the economy).

  -- Unlike the federal income tax which has deductions and exemptions that imply that very low-income people pay no tax, the OASDI tax begins on the very first dollar of earnings.

  -- Social Security's progressive benefit formula offsets its regressive tax structure.

- **The OASDI program receives additional revenue from the partial taxation of Social Security benefits.**

  -- For those with income above $25,000 if single and $32,000 if married, up to 50 percent of Social Security benefits are taxable. The income taxes on these benefits are credited to the Social Security Trust Funds.

  -- For those with income above $34,000 if single and $44,000 if married, up to 85 percent of Social Security benefits are taxable. The additional revenue from taxing benefits at 85 percent rather than 50 percent is credited to the Medicare trust fund, not the OASDI trust funds.

  -- In calendar year 1997, only 25 percent of beneficiaries were subject to taxes on their Social Security benefits.

- During fiscal year 1997, income to the OASDI trust fund was composed of:

Payroll tax contributions	$398.5 billion
Income from taxation of benefits	$ 6.9 billion
Interest income	$ 41.2 billion
Total income	$446.5 billion

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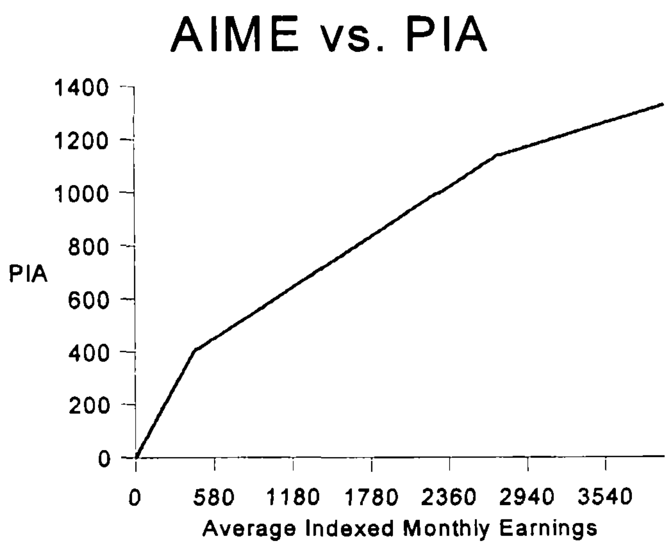
SOCIAL SECURITY BENEFITS

- **The Social Security benefits received by a worker are based on the average earnings of the worker over his or her lifetime.** Each year of earnings is indexed to the increase in the average annual wage between the year of the earnings and the year the worker turns 60.

- **The benefit formula takes the highest 35 years of indexed earnings and averages them**. This average is divided by 12 to provide a worker's Averaged Indexed Monthly Earnings (AIME).

- **A progressive benefit formula is applied to the AIME to produce a worker's Primary Insurance Amount (PIA)**, which is the level of monthly benefits a worker is entitled to based on his or her own work history if the worker retires at the normal retirement age of 65.

  For a worker becoming eligible in 1997, the PIA is calculated as:



90 percent of the first \$455 of AIME
+ 32 percent of the next \$2286 of AIME
+ 15 percent of AIME above \$2741

- **This formula implies that a worker with higher lifetime earnings receives a higher Social Security benefit, but that the share of a worker's average earnings that is replaced by Social Security falls with income**.

Replacement rates

Low earner (\$12,000)	57 percent
Avenge earner (\$27,000)	43 percent
Maximum earner (\$68,400)	25 percent

Benefits for Married and Previously Married Beneficiaries

- Married couples receive 150 percent of the PIA of the higher earner in the couple or the sum of the PIAs of the two spouses, whichever is larger.

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

- Divorcee benefits are available to people if their marriages lasted at least 10 years. A divorced person receives the larger of the benefit he or she is entitled to from his or her own work history and 50 percent of the ex-spouse's benefit if the ex-spouse is still alive and 100 percent of the ex-spouse's benefit if the spouse is deceased.

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Divider Title: 8

Disability Benefits

- **<u>Eligibility.</u>** An insured worker who cannot engage in any kind of substantial gainful work because of physical or mental impairment is eligible for disability benefits if the disability is expected to last for at least 12 months or to result in death.

  -- To be an insured worker, the worker must have received credit for half of the calendar quarters during the previous 10 years and one-fourth of the calendar quarters since the worker turned 21. Currently a worker receives a credit for every $700 of earnings, up to $2800, earned during a year.

  -- Substantial gainful work is defined as the ability to earn $500 a month.

- **<u>Benefit calculation.</u>** For a worker who becomes disabled before age 56, fewer than 35 years are used in calculating worker's average indexed earnings. The number of computation years is the number of years elapsed since age 21 minus a number of drop out years that depends on the worker's age. Then, the same PIA formula that applies to retired workers is applied to the disabled worker's AIME.

- **<u>Benefits are also payable to members of the disabled worker's family.</u>** In addition to the benefit for the disabled worker, a benefit equal to 50 percent of the worker's benefit is payable to the worker's spouse if he or she is at least 62 or is caring for one or more of the worker's children (the children must be under 16 or disabled). Each dependent child (under 19) of the worker is also entitled to a benefit equal to 50 percent of the worker's benefit. However, the total benefit received by the family is limited to the smaller of 150 percent of the disabled worker's PIA and 85 percent of the worker's AIME.

Example

<u>The family</u>: A married couple with two young children in which both the husband and wife are 27 years old, the husband earns $28,000 (the average earnings in the economy), and the wife doesn't work.

<u>Disability Benefits</u>: If the husband becomes disabled, this family will receive disability benefits of $17,500 a year. This is equivalent to a payout of $300,000 from the disability insurance policy.

Survivors Benefits

- **Eligibility.** Survivors' benefits are payable to the spouse and dependents of a covered worker after the worker's death.

  -- A widow(er) receives benefits if the widow(er) is age 60 or older or age 50-59 and disabled. The widow(er) receives a benefit equal to 100 percent of the worker's PIA if he/she is disabled or if he/she takes benefits at age 65 and receives reduced benefits if he/she is not disabled and takes benefits earlier.

  -- A mother's/father's benefit equal to 75 percent of the worker's PIA is payable to a surviving spouse who is not married and is carrying for at least one child age 16 or below of the deceased worker. Each child (under 19) of the deceased worker is also entitled to a benefit equal to 75 percent of the worker's benefit. However, the total benefit received by the family is limited to between 150 and 188 of the disabled worker's PIA depending on the level of the worker's PIA.

Example

The Family: A married couple with two young children in which both the husband and wife are 27 years old, the husband earns $28,000 (the average earnings in the economy), and the wife doesn't work.

Survivors' Benefits: This family will receive survivors' benefits of $20,400 a year. This is equivalent to a payout of $330,000 from a life- insurance policy.

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Divider Title: **9**

The Social Security Retirement Age

- **The normal retirement age is currently 65, but workers can retire as early as 62, with reduced benefits.** Beneficiaries receiving widow/er benefits can retire as early as age 60, again with reduced benefits.

  -- For retired workers, benefits are reduced by 6 2/3 percent for every year before 65 that a worker elects to receive benefits. Thus a worker retiring at age 62, receives a monthly retirement benefit for the rest of his or her life that is 20 percent lower than the benefit he or she would have received if he or she had waited until age 65 to receive benefits.

  -- Spouses and widow(er)s also have their benefits reduced for early retirement.

- **The 1983 reforms gradually raise the normal retirement age to 66 for workers who reach age 62 in 2005.** The retirement age begins increasing by 2 months per year starting in 2000, reaching 66 in 2005. Then the retirement age will remain at 66 until 2016, when it will begin increasing gradually again until it reaches 67 in 2022. The earliest eligibility age will remain 62.

  -- The normal retirement age for someone who is 54 years old today is 66.

  -- The normal retirement age for someone who is 37 years old today is 67.

- **Workers who delay retirement beyond age 65 receive credit for postponing the benefits.** The 1983 Social Security Amendments gradually increased the delayed retirement credit. A worker reaching age 65 in 2007 will receive an 8 percent increase in benefits for every year he or she delays receiving Social Security beyond age 65.

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Divider Title: **10**

The Social Security Earnings Limit

- **Historically, Social Security has been a program for those who are retired**. The 1935 report of the Committee on Economic Security appointed by President Roosevelt recommended that no benefits be paid before a person had "retired from gainful employment." Various forms of earnings limits have been part of the program as a way to restrict benefits to retirees.

- **Currently, Social Security recipients who are between the ages of 62 and 69 have their benefits reduced if their earnings exceed a certain amount.** The benefits of recipients who are aged 70 or above are not affected by the limit.

  -- Recipients under 65 lose $1 of benefits for every $2 of earnings above $9,120.

  -- Recipients between 65 and 69 lose $1 of benefits for every $3 of earnings above $14,500.

- **On average, recipients get back these lost benefits through the delayed retirement credit** which provides them with increased benefits once they stop working. Nonetheless, many elderly workers perceive the earnings test to be unfair and as an impediment to work.

- **In 1996, working with both Democrats and Republicans in Congress, President Clinton signed into law annual increases in the earning limit for those between 65 and 70.** Between 1998 and 2002, the limit for workers in this age range will increase from $14,500 to $30,000.

- **Because benefits foregone are given back through the delayed retirement credit, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the OASDI program.** Such a change would have significant short-run budget effects, however. Removing the earnings limit for those aged 62 and above would raise Social Security expenditures by roughly $12 billion in 2001.

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Divider Title: **11**

COVERAGE OF THE WORKFORCE

- **96 percent of all jobs in the United States are covered by Social Security.** Since the Social Security Act of 1935, coverage has expanded from workers in business and industry to include the self-employed, nonprofit groups, agricultural and household workers, the Armed Services, Congress, and all other Federal employees hired after 1983. In 1998, 96 percent of all workers are covered under Social Security -- up from 55 percent in 1939.

- **25 percent of State and Local Government Workers are not covered by Social Security.** State and local government employees are the final sizable group of workers not universally covered by Social Security. If such workers are mandatorily covered under a state or local public pension system, they are not mandatorily covered under Social Security. Roughly 25 percent of state and local workers are not covered under Social Security (A total of 5.5 million workers). 75 percent of these are in 7 states: California, Ohio, Texas, Illinois, Massachusetts, Louisiana, and Colorado.

- **The most common occupations of uncovered workers are teachers, firefighters, and police.**

- **Many workers who worked in non-covered jobs still receive Social Security benefits.** 95 percent of noncovered state and local workers receive SS as workers, spouses, or dependents. Some have their benefits reduced under the government pension offset and windfall elimination provisions.

- **Almost every Social Security reform plan calls for including newly hired State and Local Government workers in the system.** All 3 Advisory Council plans included such a provision, and do the Ball plan, the Moynihan-Kerrey plan, and the NCRP (Breaux-Gregg Kolbe-Stenholm) plan.

  -- Covering all new hires immediately solves about 11 percent of the 75-year actuarial imbalance. Allowing a 10-year lead time, this provision would solve 8 percent of the problem.

  -- Those who favor this provision say it is only fair for the last sizeable group of uncovered employees to be covered. Since most of our Social Security taxes go to pay benefits for our parents and grandparents, all workers should share in this burden.

  -- Those who oppose this provision say that it is unfair to require state and local governments to redesign their pension systems, and that either benefit levels for state and local government workers will fall or costs to state and local governments will rise if this provision is adopted.

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Divider Title: **12**

COST OF LIVING ADJUSTMENTS

- **COLAs Affect Millions of Americans.** The cost-of-living adjustment within Social Security is set each year on the basis of the increase in the Consumer Price Index (CPI) over the year ending in the third quarter of the previous year. Cost of living adjustments (COLAs) affect 44 million Americans through the Social Security program, and millions more through other programs (including the tax code). The CPI is calculated by the Bureau of Labor Statistics (BLS).

- **Boskin Commission Concluded that the CPI overstates true change in cost of living.** Michael Boskin chaired the "Advisory Commission to Study the Consumer Price Index" which reported to the Senate Finance Committee on December 4, 1996. The Commission estimated that the CPI overstated the true rate of change in the cost of living by between 0.8 and 1.6 percentage points per year, with a best estimate of 1.1 percentage points per year. While most economists agreed with the Boskin Commission that the CPI is biased upwards, there is considerable uncertainty about the magnitude of the bias.

  The commission concluded that the CPI is biased upwards for a number of reasons, the most important of which are:

  Substitution bias. As the prices of goods and services change, consumers tend to shift their spending away from items that have become relatively more expensive. Such shifts are not reflected in the CPI because it uses a fixed basket of goods and services.

  Quality change bias. The quality of many goods and services changes over time. The BLS attempts to correct for these quality changes as best it can, but many experts believe that some quality improvement slips through nonetheless.

  New product bias. New products often are not introduced into the market basket in a timely manner, causing the index to miss the typical initial phase of price decline.

- **BLS is Making Improvements.** The Bureau of Labor Statistics is continuing to make improvements in the CPI, and many economists believe that they are making good progress. Alan Greenspan recently testified that the "[BLS has] done really an excellent job over the last couple of years." Recent technical changes will lower CPI inflation by an estimated 0.3 percentage points per year going forward. These changes are already incorporated in the forecasts of the Social Security Actuaries. Changes scheduled for 1998 and 1999 will likely have a relatively small impact on Social Security's finances. Any major additional changes beyond these would likely require legislation instructing Social Security to use a different index for its COLA adjustments.

- **COLA will be 1.3 Percent.** Recent COLAs have been relatively small because inflation has been low. The COLA payable in the January 1999 benefit check will be 1.3 percent for OASDI benefits..

- **Impact on Social Security Reform.** Reducing the COLA by 1 percentage point per year reduces lifetime benefits for the average retiree by roughly 10 percent, and reduces the long-run actuarial imbalance in the Social Security system by 1.4 percent of taxable payroll (out of current gap of 2.19 percent).

Divider Title: **13**

The Social Security Administration (SSA) is one of the best run organizations within government.

- **<u>High on Customer Surveys.</u>** Surveys of SSA's customers have shown that the agency gets consistently high marks from its customers for prompt, courteous, and accurate service whether they are dealing with one of SSA's local offices or with the 800 Number Service.

- **<u>SSA's 800 number has been rated better than almost any other public or private sector toll-free number service</u>**, including such well-known services such as the L.L. Bean catalog. (SSA's 800 number is 800-SSA-1213). In fiscal year 1997, the Social Security Administration served over 55 million individuals who called the 800 number, making it one of the largest toll-free service systems in the world. SSA's achievements in this area have been recognized by Dalbar Associates, an independent auditing agency.

- **<u>Very Efficient: Costs are Less than 1 Percent of Benefits.</u>** SSA is noted for its efficient and effective service. SSA's administrative costs are less than 1 percent of benefit payments.

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Divider Title: **14**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Women and Retirement Security

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

I. Basic Facts on Women and Retirement

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

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

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

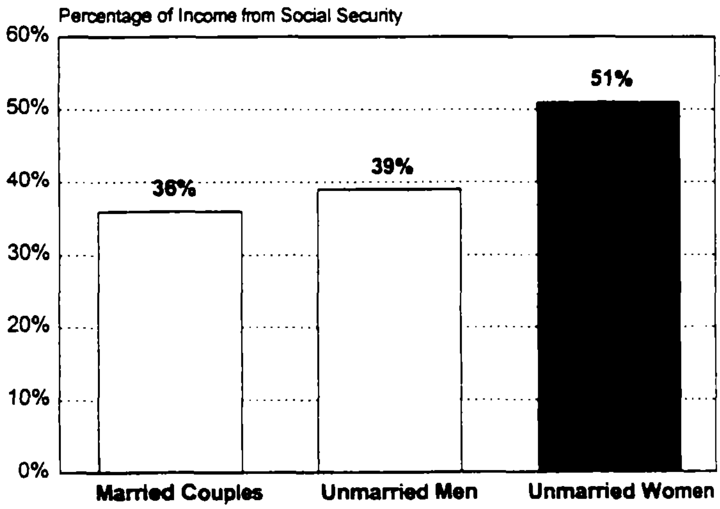
All Elderly Women	Married	Divorced	Widowed	Never Married
13.1%	4.6%	22.2%	18.0%	20.0%

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

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

SOURCES OF INCOME FOR PERSONS 65 AND OVER, 1996 (PERCENT OF TOTAL INCOME)					
	Social Security	Pensions	Income from Assets	Earnings	Other
Unmarried women	51%	15%	20%	10%	4%
Unmarried men	39	22	16	19	4
Married couples	36	20	18	25	1
All elderly	40	18	18	20	4

Social Security Is Particularly Important For Elderly Women



Source: Social Security Administration

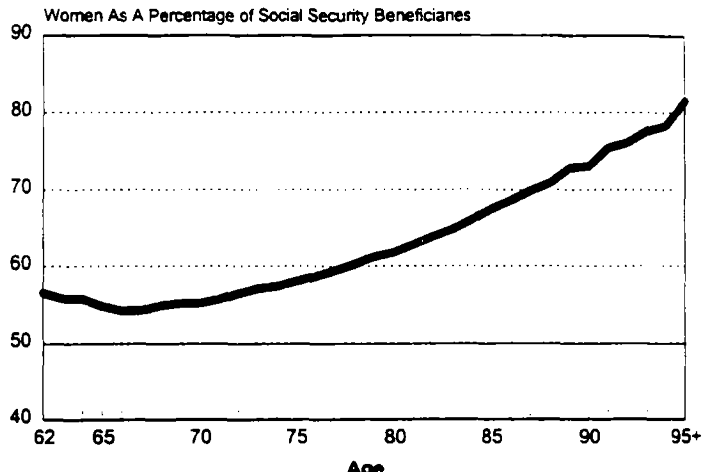
II. Social Security and Women

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

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

Most Social Security Beneficiaries Are Women

Among Oldest Beneficiaries Women Are An Even Larger Share

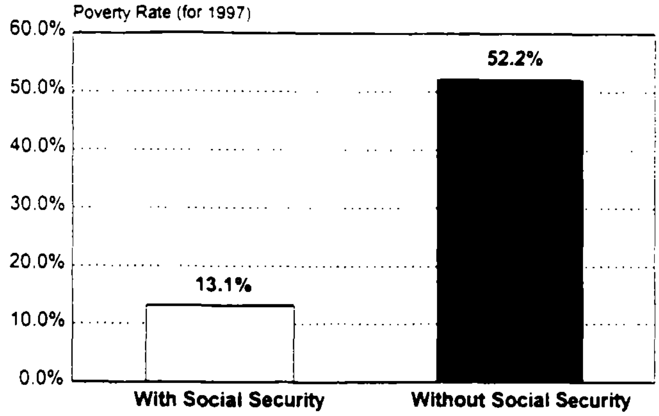


Source: Social Security Administration.

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

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

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



Source: Social Security Administration

Why Women Face Greater Economic Challenges in Retirement

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

EXPECTED TOTAL LIFETIME FOR PERSONS AGE 65		
Year Turning Age 65	**Male**	**Female**
1940	77.0	78.7
1998	81.2	84.8
2030	82.7	86.1

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

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

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

How the Current Social Security System Helps Women Meet Retirement Challenges

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

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

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

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

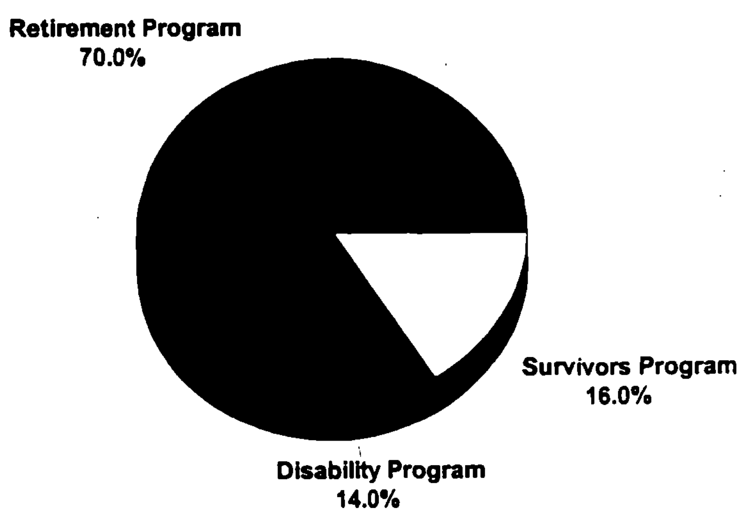
- **Social Security Provides Benefits for Widows.** Social Security pays an elderly widow a benefit equal to either the benefit she receives as a worker or the benefit of her deceased spouse, whichever is higher. Nearly three quarters -- 74 percent -- of elderly widows receive benefits based on the earnings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

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

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

Social Security Is More Than A Retirement Program

Percentage of Social Security Beneficiaries By Program



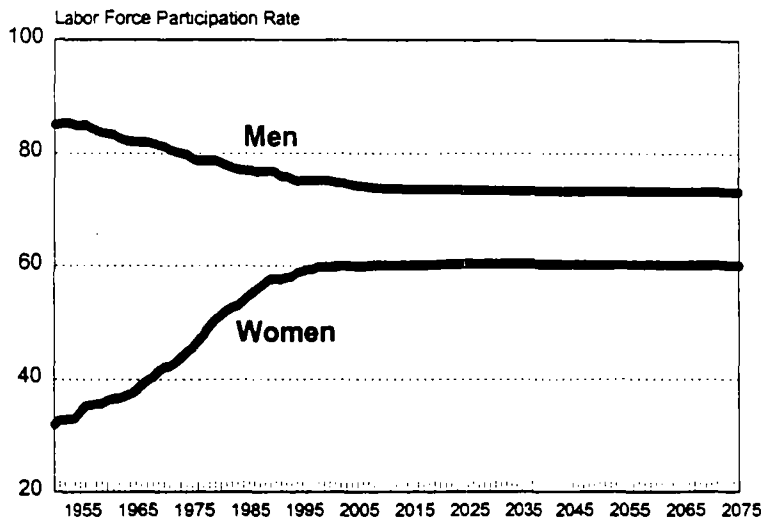
Will Social Security Continue to Be as Important for Women in the Future?

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

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

Labor Force Participation Rates

1950-2075



Source: Social Security Administration. Data are age adjusted.

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

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

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

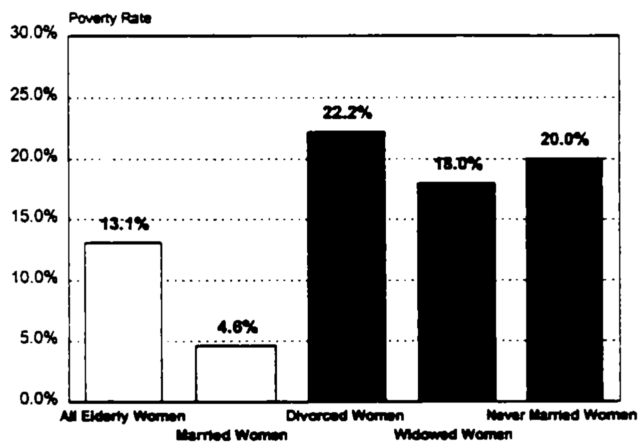
III. CHALLENGES FOR THE CURRENT SYSTEM

Poverty Rates Remain High Among Elderly Women

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

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

Poverty Rates Are High
Among Unmarried Elderly Women
1997



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

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

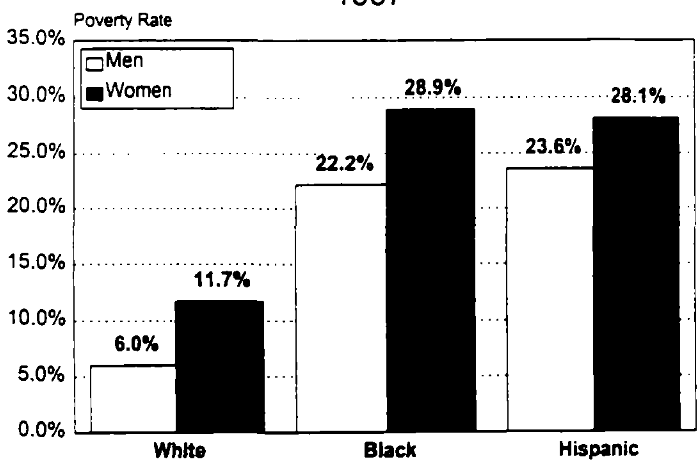
- **There Are Also a Substantial Number of Relatively Young Widows, Though the Number Is Falling.** Of 60-year old women, 13 percent are widows. This percentage rises to more than one-quarter of women aged 65 to 67. Because husbands in low-income families tend to die at younger ages than husbands in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

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

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

Poverty Rates Are Particularly High Among Elderly Minority Groups

1997



Source: Bureau of the Census

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

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

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

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

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

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

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