SAVING SOCIAL SECURITY NOW AND MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security by:

- Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to the Social Security system.
- Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.
- Keeping Social Security solvent until 2055.
- Calling for a bipartisan effort to make the hard-headed but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:
    - Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.
    - Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President further called for bipartisan reforms that would allow Medicare to be secure until 2020 while also providing prescription drug benefits.
- **Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, we would provide Americans a flat tax credit to make contributions into their USA Account. In addition, we would provide additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and other pressing national priorities.

SAVE SOCIAL SECURITY NOW: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward A Framework To Strengthen Social Security Now. Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, if we do nothing, the Trust Fund will be exhausted and Social Security will have only enough resources to cover 72 cents per dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

<u>Use the Budget Surplus To Save Social Security Now</u>

- **"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

- **62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to Social Security.

<u>Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security</u>

- **Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise A Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and includes a mechanism to ensure that investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.

    - To achieve higher returns for Social Security, less than one-quarter of the transferred surpluses will be invested in the stock market.

<u>Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075</u>

- **President's Framework Keeps Social Security Solvent Through 2055.** By transferring 62 percent of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state or local government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

- **Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable choices to save Social Security through at least 2075.

Publicly Held Debt Will Fall To Lowest As Share of GDP Since 1917

- **Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the debt held by the public quadrupled, rising from $785 billion in 1981 to $3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 26 percent in 1981 to 50 percent in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to about 45 percent.

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to less than 10 percent in 2014 -- its lowest level since 1917.

Reduce Poverty Among Elderly Women -- Particularly Widows

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are especially high: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

- **President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

Eliminate the Out-Dated and Confusing Earnings Test

- **President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

- **Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing relic of a past era. It discourages the elderly from working. It is administratively complicated; administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:

STRENGTHENING MEDICARE FOR THE 21st CENTURY

RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE, EXTENDING THE LIFE OF THE MEDICARE TRUST FUND UNTIL 2020.

- **We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed to longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

- **Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- $650-$700 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.

- **New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to provide efficient health care to the elderly and people with disabilities in the 21st century.

UNIVERSAL SAVINGS ACCOUNTS (USAs)

RESERVE 12 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.

- **USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** To help supplement Social Security, the President proposes to create USA accounts to help strengthen two legs of retirement security: personal savings and pensions. Under the President's framework, we will reserve 12 percent of the projected surpluses over the next 15 years -- $500 billion -- to create Universal Savings Accounts (USAs), so that every working American can build wealth and a nest egg for retirement.

- **We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured So That They Are Progressive And Help Working Americans Save for Retirement.** President Clinton believes the government should provide most Americans with a flat contribution. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger percentage matches going to lower-income workers. However, we want to work with Members of Congress and pension and personal savings experts, to ensure that USA accounts build on the current private-sector pension system, are progressive, and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be determined later.

MILITARY READINESS AND OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND OTHER PRESSING NATIONAL PRIORITIES.

- **Ensuring That America's Military Continues to be Ready for the Challenges of the 21st Century.** Early in January, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. President Clinton believes this approach will provide the resources to meet his proposed detailed blueprint for military readiness.

- **Ensuring We Meet Other Critical Investments In America's Future.** In addition to military readiness, the setting aside of 11 percent of the projected surpluses -- nearly $500 billion -- will allow America to meet its other critical investment needs.

PRESIDENT CLINTON AND VICE PRESIDENT GORE:
Saving Social Security and Strengthening Medicare

January 27, 1999

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security And Strengthen Medicare. A week ago, President Clinton proposed his framework to allocate the projected budget surpluses over the next 15 years to meet America's challenges.

- **Save Social Security Now.** The President's framework includes transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to the Social Security system and investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does. This will keep Social Security solvent until 2055. The President believes we must work on a bipartisan basis to make the hard-headed but sensible and achievable choices to save Social Security until at least 2075, while reducing poverty among single elderly women and eliminating the limit on what older Americans on Social Security can earn.

    - **Letter from Social Security Actuary Shows President's Proposal Saves Social Security Until 2055.** Today, a memo from Stephen Goss, Deputy Chief Actuary of the Social Security Administration, was released and it stated that the President's "proposal would extend the estimated year in which the combined OASDI trust funds would become exhausted by 23 years, from 2032 to 2055. It would reduce the size of the estimated long-range OASDI actuarial deficit by over one half, from 2.19 to 0.76 percent of taxable payroll." [Memorandum from Stephen Goss, Deputy Chief Actuary of the Social Security Administration, January 26, 1999]

Strengthening Medicare for the 21st Century. Today, President Clinton emphasized the importance of his proposal to dedicate 15 percent of the projected budget surpluses to the Medicare program, as part of his broad framework to save Social Security and Medicare for the 21st century. These resources alone would extend the life of the Medicare Trust Fund to 2020, as confirmed by the Medicare actuary in a letter released today. However, the President stressed that the dedicated surplus dollars should be used in the context of broader Medicare reforms that modernize and improve the program.

President Clinton Emphasized That Dedicating Revenues is Essential to Preserving and Strengthening Medicare.

- **Letter from Medicare Actuary Shows President's Proposal Keeps Medicare Solvent Until 2020.** Today, a memo from Richard Foster, Chief Actuary of the Health Care Financing Administration (HCFA), was released and it stated that "the assets of the HI trust fund would be depleted in calendar year 2020 under [the President's] proposal, as compared to 2008 under present law." [Memorandum from Richard Foster, Chief Actuary of the Health Care Financing Administration, January 27, 1999]

- **Medicare, like Social Security, Faces Challenge of the "Senior Boom."** Medicare's enrollment is expected to double by 2030. Moreover, by 2030, the ratio of workers (who help finance Medicare through payroll taxes) to beneficiaries is expected to decline by over 40 percent.

- **Without New Surplus Revenue, Medicare Spending Would Have to Be Reduced Significantly.** For the Hospital Insurance (HI) Trust Fund to be solvent only through 2017, it would take a 10 percent reduction in baseline spending in each year (all else held constant). For example, in 2000, this would amount to about $15 billion -- more than Medicare pays for all of home health care.

- **Growth Would Have to Be Slowed to below General Inflation.** Even if Medicare per capita cost growth were constrained to general inflation in every year -- virtually unprecedented in health care and less than half projected private spending growth rate -- the Trust Fund would only be extended to 2016.

- **Experts Validate That Additional Revenues Are Critical to Preserving and Strengthening Medicare.** Health economists and experts agree: not only are new revenues needed but the surplus is a good source. Experts supporting this proposal include: Robert Reischauer, Henry Aaron, Judy Feder, Marilyn Moon, and Uwe Reinhardt and other respected economists.

The President Underscored His Strong Belief That Surplus Dollars Should Be Utilized In the Context of Broader Reforms to the Program. The President emphasized that it would be ill-advised to expand Medicare in the absence of broader reforms. He stressed that the additional dedicated dollars should be used in conjunction with important reforms which would modernize the program by providing market-oriented purchasing tools, additional savings, and a long-overdue prescription drug benefit.

The President's Framework Would Also Allocate Projected Surpluses To Provide Tax Relief for Retirement Security and To Prepare America for the Challenges of the Future:

- **Create New Universal Savings Accounts -- USA Accounts.** After we save Social Security, the President would allocate 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs). USA Accounts would be a $536 billion tax cut over the next 15 years to help Americans save for their futures, providing Americans a flat tax credit to make contributions into their USA Account and additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.

- **Prepare America for the Challenges of the Future.** And after Social Security reform is secured, the President's framework would allocate 11 percent of the projected surpluses for military readiness and other pressing domestic priorities.

PRESIDENT CLINTON AND VICE PRESIDENT GORE UNVEIL HISTORIC LONG-TERM CARE INITIATIVE TO SUPPORT FAMILY CAREGIVERS AND HELP ADDRESS GROWING LONG-TERM CARE NEEDS
January 4, 1999

Today, President Clinton is unveiling an historic new initiative to support Americans with long-term care needs and the millions of family members who care for them. This four-part, $6.2 billion (over five years) initiative takes important steps to address complex long-term care needs through: (1) an unprecedented $1,000 tax credit that compensates for formal or informal costs Americans of all ages with long-term care needs or the family caregivers who support them; (2) a new National Family Caregivers Support Program that provides a range of critical services for caregivers such as respite, home care services, and information and referral; (3) a national campaign to educate Medicare beneficiaries about the programs' limited coverage and how best to evaluate long-term care options; and (4) a proposal to have the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees at group rates.

The President is being joined by the First Lady, Secretary Rubin, Secretary Shalala, and OPM Director LaChance to unveil this initiative at the White House and the Vice President and Mrs. Gore are participating from an adult day care center in California, one of four States with model statewide family caregiving resource programs.

MILLIONS OF AMERICANS HAVE LONG-TERM CARE NEEDS

- **More and more Americans have a range of long-term care needs.** Over five million Americans have significant limitations due to illness or disability and thus require long-term care. Approximately, two-thirds are older Americans. Also, millions of adults and a growing number of children have long-term care needs because of health condition from birth or a chronic illness developed later in life.

- **The aging of Americans will only increase the need for quality long-term care options.** The number of Americans age 65 years or older will double by 2030 (from 34.3 to 69.4 million), so that one in five Americans will be elderly. The number of people 85 years or older, nearly half of whom need assistance with everyday activities, will grow even faster (from 4.0 to 8.4 million).

MULTI-FACETED INITIATIVE TO SUPPORT FAMILY CAREGIVERS AND ADDRESS GROWING LONG TERM CARE NEEDS. The President is unveiling a four-part initiative that is designed to address the broad-based and varied long-term care needs. It will: provide immediate support and assistance for the millions of Americans who care for family members with major long-term care needs; educate the elderly and people with disabilities about long-term care issues and options; and promote new promising strategies directions for long-term care policy for the twenty-first century. The President also called on the Vice President to host a series of forums around the nation to raise awareness about the need to support family caregivers and address the growing need for long-term care options.

The long-term care proposal being unveiled today by the President and Vice President includes:

- **Supporting families with long-term care needs through an historic $1,000 tax credit.** This initiative, for the first time, acknowledges and supports millions of Americans with long-term care needs or the family members who care for and house their ill or disabled relatives through a $1,000 tax credit. This new tax credit supports the diverse needs of families by compensating a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. This proposal, which supports rather than supplants family caregiving, would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children. It costs $5.5 billion over five years and phases out beginning at $110,000 for couples and $75,000 for unmarried taxpayers.

- **Creating an unprecedented National Family Caregiver Support Program.** Recent studies have found that services like respite care can relieve caregiver stress and delay nursing home entry, and that support for families of Alzheimer's disease patients can delay institionalization for as long as a year. This new nationwide program, strongly advocated by the Vice President, would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to create "one-stop-shops" that provide: quality respite care and other support services; critical information about community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model approaches for caregivers that are coping with new responsibilities and offering training for complex care needs, such as feeding tubes. This program, which costs $625 million over five years, would assist approximately 250,000 families nationwide.

- **Launching a national campaign to educate Medicare beneficiaries about the programs' limited coverage of long-term care and how best to evaluate their options.** Nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care, and many do not know what long-term care services would best meet their needs. This $10 million nationwide campaign would provide all 39 million Medicare beneficiaries with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home-and community-based care services that best fit beneficiaries' needs.

- **Having the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees.** The President also called on Congress to pass a new proposal that allows OPM to use its market leverage and set a national example by offering non-subsidized, quality private long-term care insurance to all federal employees, retirees, and their families at group rates. This proposal, that costs $15 million over five years, will provide employers a nationwide model for offering quality long-term care insurance. OPM anticipates that approximately 300,000 Federal employees would participate in this program.

SAVING SOCIAL SECURITY NOW, WHILE MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security by:

- **Using The Budget Surplus To Help Save Social Security And Invest A Portion In the Stock Market To Seek Higher Returns.** The President proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- $2.8 trillion -- to the Social Security system. The President proposes to invest less than one-quarter of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference by private sector managers with minimum administrative costs.

- **This Framework Will Save Social Security Until 2055 -- And the President Will Work With Congress To Save It Until At Least 2075.** Transferring over 60 percent of the surpluses to Social Security and investing a portion in the market will keep Social Security solvent until 2055. The President believes we must work on a bipartisan basis to make the hard-headed but sensible and achievable choices to save Social Security until at least 2075. As part of this effort, President Clinton believes that we must:

  (1) ***Reduce Poverty Among Single Women.*** Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans; and

  (2) ***Eliminate The Earnings Test.*** Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, securing Medicare until 2020. The President further called for bipartisan reforms that would allow Medicare to be secure until 2020 while also providing prescription drug benefits.

- **Reserves $536 Billion for Tax Credits to Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, we would provide Americans a flat tax credit to make contributions into their USA Account. In addition, we would provide additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.

- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and other pressing domestic priorities.

A FISCALLY RESPONSIBLE PROPOSAL: PUBLICLY HELD DEBT FALLS TO LOWEST LEVEL SINCE 1917

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** As a share of the economy, the publicly held debt increased from 26% in 1981 to 50% in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to 44 percent. And under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from 44% today to less than 10% in 2014 -- its lowest level since 1917.

2030 CENTER

For tomorrow's event: advice on communicating pension management for Social Security

To: First Lady Hillary Rodham Clinton

From: Hans Riemer, 2030 Center Director (202 822 6526)
Tom Matzzie, 2030 Center Policy Fellow

Date: January 22, 1999

The president has proposed to improve the solvency of Social Security by having about 15 percent of the Trust Fund managed like a pension. Privatizers and others oppose this move, calling it "Government ownership of the stock market." This memo is designed to help you win arguments against opponents of this plan, with talking points and strategic recommendations. I hope that you find this helpful.

- **The policy is "pension management for Social Security."** President Clinton argues that about 15 percent of the Social Security Trust Fund should be managed like a pension fund, with investments in stocks. This will improve Social Security's rate of return—a sensible, practical policy. Most state governments do this. In fact, Social Security is probably the only pension plan in the world that does not invest in stocks.

  This idea will resonate if presented as a responsible approach to retirement planning. Do not use complicated economic terms or call it "investing the Trust Fund"—focus on introducing the concept of "pension management for Social Security."

- **Pension management for Social Security will get the money out of Congress' hands.** Congress needs to be more responsible with Social Security—it is an investment, not a piggy bank. Pension management for Social Security will wall it off from Congress and protect it from political influence.

  Most people think that Social Security is in trouble because Congress has spent the money on other programs. Opinion research shows that the most attractive feature of pension management is getting the Trust Fund out of Congress' hands. This is a good counter to the argument that investment would enable Congress to undermine Social Security with politics.

- **Pension management prevents benefit cuts and increases in the retirement age.** Pension management for Social Security helps pay benefits. In contrast, privatized accounts drain resources from Social Security. Privatized accounts mean big benefit cuts and/or an increase in the retirement age. Preventing these cuts helps all Americans, especially low-income workers and retirees.

  The privatizers will try to spend all their time talking about whether "individuals or government" should invest Social Security money. You must force the conversation back to whether or not there should be benefit cuts. If the debate is framed in their terms, they win; if framed in our terms, we win. Pose the dilemma: would you rather work until you are 72? Would you rather cut benefits 30 percent?

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- **If you oppose pension management, what would you do instead?** This is a practical idea that can be made to work. The critics, however, have no plans of their own. Why are they unwilling to sit down to the table to devise a workable plan for pension management? In fact, they want to cut benefits and raise the retirement age in order to fund privatized accounts.

  Make our approach the only approach. All privatization plans will involve significant benefit cuts for present and/or future beneficiaries—there is no other way to fund privatized accounts. Go on the offensive.

In terms of defending your position, opponents and the media will immediately ask "should we invest in tobacco stocks," etc. Your answer: this is an important question that an independent board will answer, accountable only to the fiduciary interests of the Trust Fund. It is not a good enough reason to scrap the policy. The alternative, after all, is a higher retirement age or lower benefits. Privatization proposals have the same problem, anyway—in addition to big benefit cuts. If this is the only real objection to pension management, we should proceed in a manner that is responsive to that concern.

Please contact the 2030 Center for any further information or discussion, (202) 822 6526.

SAVING SOCIAL SECURITY AND STRENGTHENING MEDICARE: PRESIDENT CLINTON'S PLAN FOR ALL GENERATIONS

February 25, 1999

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security and Strengthen Medicare -- This Is A Plan To Ensure That We Meet Our Obligations To All Generations. The President and Vice President's framework strengthens Social Security and Medicare by:

Using The Budget Surplus To Help Save Social Security And Invest A Portion In the Stock Market To Seek Higher Returns. The President proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- $2.8 trillion -- to the Social Security system. By devoting the bulk of that money to paying down the debt, the President's plan cuts our interest payments and puts the government in a better position to meet its obligations to Social Security.

This Framework Will Save Social Security Until 2055 -- And the President Will Work With Congress To Save It Until At Least 2075. Transferring over 60 percent of the surpluses to Social Security and investing a portion in the market will keep Social Security solvent until 2055 as the independent Social Security actuaries have certified. The President believes we must work on a bipartisan basis to make the tough but sensible choices that are necessary to save Social Security until at least 2075. As part of this effort, President Clinton believes that we must:

(1) *Reduce Poverty Among Single Women.*. Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans; and

(2) *Eliminate The Earnings Test.* Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

Strengthen Medicare for the 21st Century. The President's framework reserves 15 percent of the projected surpluses for Medicare, securing Medicare until 2020. The President believes that the new resources should be utilized to achieve broader, bipartisan reforms that modernize Medicare, make it more efficient, provide for a long-overdue prescription drug benefit, and keep Medicare safe until 2020.

After We Have Acted to Secure Social Security and Medicare, President Clinton Proposes To:

Provide $536 Billion in Tax Credits to Create New Universal Savings Accounts -- USA Accounts. The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so working Americans can build wealth to meet their retirement needs. To help Americans save, we would provide Americans a flat tax credit to make contributions into their USA account. In addition, we would provide additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.

Prepare America for the Challenges of the Future. The President's framework will reserve 11 percent of the projected surpluses for military readiness and other pressing domestic priorities.

A FISCALLY RESPONSIBLE PROPOSAL:
PUBLICLY HELD DEBT FALLS TO LOWEST LEVEL SINCE 1917

Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917. As a share of the economy, the publicly held debt increased from 26% in 1981 to 50% in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to 44%. And under the President's framework, the publicly held debt will be cut by more than two thirds, and, as a share of GDP, will fall from 44% today to 7.1% in 2014 -- its lowest level since 1917.

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Testimony of Kenneth Apfel
Commissioner for Social Security
Hearing before
the Committee on Ways and Means
U.S. House of Representatives
February 23, 1999

Good morning, Mr. Chairman and Members of the Committee. I appreciate the opportunity to appear before you today to discuss the President's plan to strengthen Social Security. I believe that assuring the future financing of Social Security and Medicare is the most important domestic issue that we face as a Nation and I am delighted to be a part of these ongoing discussions.

In my testimony today I will briefly review for you Social Security's long-range solvency situation, the Nation's changing demographics, and then discuss why I believe the President's framework for protecting Social Security is the right approach.

Importance of Social Security

In the course of the past year, thousands of Americans, in forums and town hall meetings across this country, have made it clear that they believe that Social Security is important and it is worth protecting. I personally have spoken to women, minorities, people with disabilities, older Americans, baby boomers, college students, to business and labor leaders, to academicians and policy makers. And what I have learned from my year-long dialogue with the American people, is that they understand just how important Social Security is for families, for people with disabilities, for children who have lost a parent, for young women struggling to raise children alone. They know what Social Security means to those millions of Americans for whom those monthly benefit checks make the difference between dignity and devastation.

Today, Social Security provides benefits to 44 million men, women and children. In 1998, an estimated 150 million people worked in jobs covered by the OASDI program and paid OASDI contributions on their earnings, giving them peace of mind that comes from knowing that they and their families will be protected when they retire or if they should become disabled or die. Nearly 1 in 6 Americans receive Social Security benefits and 95 percent of Americans have the benefit protection provided by our programs.

Social Security is the most effective anti-poverty program in history. It is the major source of income for 66 percent of beneficiaries age 65 and older, and contributes 90 percent or more of income for about 33 percent. Today, only about 11 percent of older Americans are poor. Without Social Security, about half of all older Americans would be living in poverty. This is a program that has worked. It has worked extraordinarily well for the American people – young and old – for over a half of a century. We should be very careful to protect the guaranteed benefit that Americans – both those who are now recipients and those who have been promised benefits – will need.

The program also represents a financial floor of protection for millions of working-age Americans. About a third of our beneficiaries are not retirees, but are severely disabled workers, their children, or the surviving family members of workers who have died untimely. This protection is extremely important, especially for young families struggling to afford adequate private insurance policies. For a young married worker with two children, Social Security is the equivalent of a $300,000 disability insurance policy and a $300,000 life insurance policy. About one in six of today's twenty year olds will die before retirement, and nearly thirty percent will become disabled.

For all of these reasons, the program is irreplaceable, and I am delighted to have an opportunity to talk to you today about the President's framework for making Social Security strong for the 21st century.

Trustees' Estimates

As you know, under the 1998 Trustees Report intermediate assumptions, the annual combined tax income of the OASDI program is projected to exceed annual expenditures from the funds until 2013. After that, because of interest income, total income is projected to continue to exceed expenditures until 2021. The funds would begin to decline in 2021 and would be exhausted in 2032. In 2032, when the trust funds are projected to become exhausted, the Social Security system will have enough income to cover only about three-fourths of benefit obligations.

Demographics

We are all familiar with our Nation's demographics – and it can be summed up this way: we are living longer lives, but it is not just the number of years we are living, it is also the number of people who are living longer. This is good news. More of us are living to retirement age, and life expectancy at

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age 65 is increasing:

In the U.S. in 1995, the elderly population (aged 65 and over) was about 34 million, making up about 12% of the population. In contrast, there were about 9 million aged people in the U.S. in 1940, and then they accounted for less than 7 percent of the population.

The elderly population growth rate is expected to be modest from now through 2010, but it will increase dramatically between 2010 and 2030 as the baby-boom generation ages into the 65-or-older age group. By 2030 our elderly population will have doubled from 34 million in 1995 to 68 million.

When benefits were first paid in 1940, a 65-year old on average lived about 12 ½ more years. Today, a 65-year old could expect to live about 17 ½ more years. By 2070, life expectancy at age 65 is projected to be 20 ½ years.

Acting Now is Important

These millions of people, retired and working, rely on Social Security for their retirement security, and protection for their families against loss of earnings due to severe disability and death. Clearly, we must preserve and protect Social Security; millions are counting on us for strong and decisive action. The time to act is now. Not because Social Security

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is in crisis, but because delay will greatly increase the cost of achieving solvency. At the present time, our financing is sound. We can have modest changes now, or much more drastic changes later. The size of the financing gap will double if we delay for a generation, and young Americans could lose faith in our system. We face serious but manageable challenges with early action. We can prevent a crisis from ever occurring with responsible action in the near term.

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years. Today a 65-year old could expect to live about 17 ½ more years

draft

Social Insurance Around the World

Our aging population is not a unique American phenomenon. Countries around the world are studying and modifying their social insurance programs for precisely the same reasons that we are looking today at Social Security. And with a few exceptions, the approach seems to be to keep what works and tailor changes to the individual demographic situation. Most countries seem to be using their traditional social insurance structure, and are adding natural extensions such as advance funding and personal savings features. And that is exactly what our President has proposed—some additional advance funding and opportunities to increase retirement savings and he has done so in a way that builds on the successes in our system.

Window of Opportunity

I strongly support the Administration's decision to try to use the window of opportunity presented by the budget surpluses to advance fund more of the nation's Social Security system. This is the first time in a generation our fiscal position enables us to take action. Through advance funding, we can earn a higher rate of return to prepare for the inevitable challenges of preparing for the retirement of the baby boomers and succeeding generations.

President's Framework

I'd like to talk about how the President's framework would impact the Social Security

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8:42 am

program. The President proposed the following *three* distinct actions to solve the Social Security program financing problem:

The framework provides for transferring 62 percent of projected federal budget surpluses over the next 15 years—about $2.8 trillion--to the Social Security system and uses the money to pay down the publicly held debt, strengthening our economy for the future.

The framework calls for investing a small portion of the surplus in the private sector to achieve higher returns for Social Security. The amount of the Trust Funds invested in the private sector would be about 15 percent, representing, on average, no more than about 4 percent of the stock market. Funds would be invested in broad market indexes by private managers, not the government.

The President's framework calls for a bipartisan effort to take further action to ensure the system's solvency until at least 2075. There are hard choices that we must face. To assure confidence in Social Security it is important to bring the program into 75-year actuarial balance.

The first two steps will keep Social Security solvent until 2055, and bipartisan agreement on the hard choices could extend that solvency at least through 2075.

The President's plan would require that transfers be made from the U.S. Treasury to the Social Security trust fund each year for 15 years. The amount transferred each year would be specified in law, so that by 2015, about $2.8 trillion would have been transferred. A portion of these funds would be invested in the private sector each year, from 2000 through 2014, until such time as 14.6 percent of the Trust Funds are in private investments. The remainder, 85.4 percent, would continue to be held in government securities. This is a prudent degree of risk.

Stocks over time have returned about 7 percent annually after inflation, while bonds have yielded about half as much. Diversifying the trust fund investment to include stocks would produce more investment income and reduce the projected shortfall that needs to be made up through potential revenue and benefit changes.

Under the proposal, total investment in the private sector would account, on average, for around 4 percent or less of the U.S. stock market over the next 30 to 40 years. This, by the way, is about the size of Fidelity's share of the stock market today. State and local pension funds now represent more than twice that figure—about 10 percent—of total stock market investments. If State and local pensions had not, years ago, gone in the direction of a diversified portfolio, then States and localities would have had to increase taxes or curtail pensions significantly. State and local government pension plans now hold roughly 60 percent of their total investment portfolios in the private sector.

We must provide safeguards to avoid politicizing the investment process. Under the President's proposal, the Administration and Congress together would craft a plan that ensures independent management without political interference. I believe that this can be done, and that the Federal Reserve Board and the Thrift Savings Plan Board could serve as models. The Federal Reserve Board makes extremely important and sensitive

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economic decisions and no one doubts its independence. The Thrift Savings Plan Board oversees the investment of billions of dollars in the private sector and there has been no allegation of political interference in those investment decisions.

USA Accounts

Social Security is one part of a "three legged" retirement system, which includes employer sponsored retirement plans and personal savings. I strongly support the President's program to create Universal Savings Accounts (USA) by using part of the budget surpluses to help Americans create wealth for their retirement years. Under the proposal, we will reserve 11 percent of the projected surpluses over the next 15 years – averaging about $33 billion per year. Americans need to build wealth to finance longer lifespans.

These accounts would be separate from Social Security, not a substitute for the guaranteed benefit. No resources for these accounts would be drained from the Social Security system.

The President would extend this savings opportunity on a progressive basis to assure that those most in need of increased resources in retirement would benefit. The USA accounts will provide individuals with additional resources and individual choices in saving for retirement. Today the overwhelming preponderance of funds from pensions and savings go to the top half of the population by income, leaving only a tiny percentage for the bottom half by income. USA accounts, separate from Social Security, will mean

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hundreds of dollars in targeted tax cuts for working Americans who choose to save more for retirement, with more help for lower-income workers.

President Clinton also said that reducing poverty among elderly women must be a priority as part of this comprehensive solution. While the poverty rate for the elderly population is approximately 11 percent, for elderly widows it's 18 percent. Elderly women often are more dependent on Social Security because they are less likely to have pensions, and sometimes outlive their assets. Almost three-quarters of Social Security beneficiaries over age 85 are frail, elderly women—our mothers, grandmothers and great grandmothers. I believe that they need the best protection that society can provide.

In addition, the retirement earnings test would be eliminated. This provision of the law is a confusing and anachronistic hold-over from the earliest years of the program. Eliminating this work disincentive will allow people the freedom to choose to continue to work in their retirement.

Conclusion

Today we have a remarkable window of opportunity—a window created by the responsible fiscal policy of the last six years and the economy it helped to produce. This framework does much more than protect Social Security and Medicare. President Clinton's approach would pay down the publicly held debt, thereby increasing national savings and promoting economic growth which will reduce burdens on future generations.

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This is a moment we could not have foreseen just a few years ago. It is a moment in which we can begin to deal with the future. It is the moment to address long-term generational challenges. The President's framework for Social Security solvency gives a solid foundation on which to preserve our social insurance program for the 21^{st} century. The Administration and the Congress worked together successfully to achieve a robust economy. We now must focus on strengthening and protecting the Social Security system for future generations of Americans.

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Kelley L. O'Dell 02/08/99 11:53:46 AM

Record Type: Record

To: Jennifer M. Luray/WHO/EOP, Nicole R. Rabner/WHO/EOP, Maureen T. Shea/WHO/EOP

cc:

Subject: SSA roundtable

Per our discussion with Joan, find information on their women and Social Security roundtable. Joan would welcome your participation in this event.

Social Security Women's Roundtable

Date: February 17, 1999
10:00 a.m.-12:00 p.m.

Location: The National Museum for Women in the Arts, Washington DC

Purpose: The goal of the forum is to establish an ongoing relationship with women's organizations and to get the groups to work together, to share resources to better communicate to women about Social Security.

Format: The session will open with SSA executives welcoming participants and providing some opening remarks. The forum will then be turned over to our moderator Carolyn Lukensmeyer, Executive Director of Americans Discuss Social Security (ADSS) and to the panel. Each panel member will share with the audience information about their initiatives to educate women. The audience will then be given time to ask questions and/or comment about their own experiences in outreach efforts to women.

Invitees: Carolyn Lukensmeyer, Executive Director for ADSS, Moderator
Panel Members:
Christopher Truman, Acting Director of Public Policy for the National Federation of Business and Professional Women's Club,
Suzanne Dilk, Assistant to the Executive Director for Americans Discuss Social Security,
Roberta Weiner, Executive Director for the Older Women's League,
Roger Hickey, Co-Director for Campaign for America's Future,
Cindy Hounsell, Executive Director for Women's Institute for a Secure Retirement, and
Dr. Phyllis Mutshler, Director of the National Center on Women and Aging.

More than 50 other organizations representing Women, Hispanics, African-Americans, Asian-Pacific, and young workers have been invited.

Contact: Joan Wainwright, Deputy Commissioner for Communications
Social Security Administration

Phone (410) 965-1720
Fax (410) 965-3903

WOMEN'S OFFICE
Outreach Strategy on Social Security
2/9/99

Our strategy is to keep our core leadership well-informed and invested in the success of the Administration's social security initiative, and to utilize them to mobilize their members to organize support throughout the country. In addition, we plan to work with agencies and their regional offices, local elected officials, and local organizations to identify a broader range of partners.

OUTREACH TO DATE

Numerous women's organizations, including AAUW, BPW, Center for Policy Alternatives, NOW, and the Coalition of Labor Union Women, as well as the Council of Women's Organizations, an umbrella group, have made social security reform a top priority for this year. Beginning last December with the President's Conference on Social Security Reform, we have worked closely with these groups on social security and its impact on women. The President's Conference highlighted the intense focus of the women's community on this issue and their views on how to achieve reform. The following meetings have been held to incorporate their views in the Administration's proposal and to enlist their participation in building support for it:
November: Women's groups met with Sperling to discuss conference format and content;
January: Pre-SOTU, conference call held with key women leaders to preview proposal. Post-SOTU, women's groups met with First Lady, Sperling, Katzen and Mathews to react to proposal, and to discuss strategy for amplification and organizing among women nationwide.
February: Women's groups had follow-up meeting with Sperling to discuss their specific policy concerns and have agreed to submit written comments on the USA Accounts this week.

NEW OUTREACH PLANS

Coordination with other White House offices and Agencies:
SSA and other Agencies -- We organized a meeting with the Deputy Commissioner for Communications at SSA to discuss how their regional offices can help set up roundtables outside of DC. We also plan to work with regional appointees from other agencies on outreach efforts.

Office of the First Lady -- We are working closely with the First Lady's staff to coordinate outreach and event planning.

WH Press -- We met with press office staff to brainstorm press opportunities to reach women on Social Security. In March - Women's History Month -- we discussed bringing in editors of select women's magazines and women columnists to brief them (we had a similar program last year on our priorities). Another idea discussed is to allow reporters to "listen in" on pre-selected conference calls between Administration officials and women outside the Beltway.

Core Leadership Contact: Our goal is to organize at least one meeting/conference call per month with the women's community and WH staff to assess progress on our amplification and outreach as well as the substance of the proposal as it evolves.

Event Calendar: Working closely with our constituency, we are developing a "calendar" of event possibilities around the country to send principals and/or surrogates to. For example, AAUW has developed a list of top tier states where members are well positioned to take the lead in planning teleconferences and other public forums on Social Security throughout the year. We have asked other organizations to develop similar lists.

Some of the events thus far :

February 11-12: Business and Professional Women (BMW) is holding a Social Security "Policy and Action" conference. In addition to their own lobbying activities, they will be attending a reception at the Vice President's residence hosted by Mrs. Gore and Commissioner Apfel will be speaking to them on the Hill.

February 26: The Coalition of Labor Union Women (CLUW) is planning a conference entitled "Saving Social Security: Union Women's Tools for Action" in Palm Springs, CA

March 30: The Women's Foundation of Colorado is holding a half day conference on aging, with a distinct policy focus on women and Social Security. We are preparing a scheduling request for the Vice President to keynote this event, which will include 450-700 attendees from all sectors of the state.

Women's Speakers' Bureau: We will organize a speaker's bureau comprised of local women leaders who will be trained to amplify our message on social security and women. Some of the upcoming events as well as our own training sessions will be used as venues. Our speakers' bureau can be used to identify "real stories" and to amplify our message in local media markets.

Individual Calls: We will maintain a call list for principals and surrogates, particularly as groups emerge with questions or statements.

Statements of Support: We will continue to generate and collect written statements in support of our proposal. The above outreach activities will be used to encourage women leaders to write op eds and letters to the editor.

TALKING IT OVER

BY HILLARY RODHAM CLINTON

RELEASE: WEDNESDAY, FEBRUARY 17, 1999, AND THEREAFTER

Like many Americans, I got my Social Security card when I was a teenager and applied for my first job. Then, of course, I didn't think much about what Social Security meant for me or for generations before me. I didn't understand that my wallet-sized card represented a commitment that every American could grow old with dignity.

I also didn't understand that Social Security is not just for the elderly -- and not just for retirement. I didn't know that nearly one-third of its beneficiaries are either disabled, widows, widowers or surviving dependents. Almost 4 million are young people. In a very real sense, Social Security is a family protection system.

When I was a teenager, like many others, I didn't spend much time thinking about my future, much less about my retirement. Today, sadly, when young people do take the time to ponder the future, they have little faith that Social Security will even be there for them when they retire. That's all the more reason for them to get involved in the debate right away.

This week, the President and I held an event here at the White House designed to get everyone thinking about Social Security now.

Social Security has affected the lives of people young and old. One young man from Miami had an incapacitating stroke in his early 30s. Social Security was there to provide disability benefits for his four children, enabling them to grow up healthy and cared for. After the death of her husband, a retired cafeteria worker from Tennessee started receiving his benefits, allowing her to live more comfortably. A 15-year-old girl from Oklahoma lost her mother, and Social Security allowed this young woman to continue on to college, where she's now a sophomore majoring in psychology.

These stories remind us that anyone's life can change overnight and why it is so important to include young people in the discussion. I hope that young women in particular will pay attention. Young women today are making such strides in the workplace, many of them don't think they'll ever need Social Security. But because we never know when something catastrophic will happen, it is especially critical for women to understand that they have a unique stake in the future of the Social Security system.

Women live longer than men, and although many are moving toward pay equity, lifetime earnings for women remain lower, causing them to reach retirement with smaller pensions and other financial assets. For a quarter of all older women, Social Security is the only income they receive -- all that stands between them and destitution. The next time you're in the supermarket or just walking down the street, take a look around. Without Social Security, every other woman you see over the age of 65 would be living below the poverty line.

Clearly, it's in all our interests to preserve and strengthen Social Security into the next century. And if we don't want to burden our children and grandchildren -- if we want to make sure Social Security remains solvent well into the 21st century -- we must make bold decisions now.

The President believes that the best way to keep the promise of Social Security rock-solid is to avoid drastic cuts in benefits, not to raise payroll tax rates and not to drain resources from the system in the name of saving it. Instead, he has proposed committing 62 percent of the budget surplus for the next 15 years to saving Social Security.

I am pleased that some Republican leaders have embraced the President's framework, for this issue is far too important to be sidetracked by partisan politics. If we want to preserve Social Security as a family protection system that we can count on into the next millennium, all our voices must be heard. Republicans and Democrats, men and women, young and old -- all Americans must be an integral part of the public debate.

I hope every American will get involved. I hope you will take the time to educate yourself about how Social Security works and what it can mean to you. I hope you will encourage discussions at home, at work, at church and anywhere you gather.

Don't forget: Your voice matters. As we embark on this critical national debate, make yours heard.

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If you're interested in learning more about Social Security, you can visit the Social Security Administration's web site at www.ssa.gov or the Americans Discuss Social Security web site at www.adss.org.

To find out more about Hillary Rodham Clinton and read her past columns, visit the Creators Syndicate web page at www.creators.com.

NATIONAL WOMEN'S LAW CENTER

25 YEARS
Expanding the Possibilities

To: Gene Sperling, Assistant to the President for Economic Policy and Director, National Economic Council

From: Joan Entmacher and Nancy Duff Campbell, National Women's Law Center
Heidi Hartmann, Institute for Women's Policy Research and Task Force on Social Security, National Council of Women's Organizations

Re: USA Accounts: Issues for Women

Date: February 11, 1999

We appreciate your taking the time to meet with us last week to discuss the President's proposals on Social Security, Medicare, and the USA Accounts. We thank you for this opportunity to address issues of particular concern to women in connection with the design of the USA Accounts. Because the NCWO Task Force has not had an opportunity to discuss these issues in depth collectively, please view the issues presented here as our preliminary take, subject to development and amendment.

In order to identify the issues that must be addressed to ensure that the USA Account proposal works for women, we had to make a number of assumptions about the USA Accounts. In drafting these comments, our first assumption was that the objective was to create a retirement savings plan for adult workers as an entirely separate supplement to Social Security. Second, we assumed that eligibility would be tied to earned income, with some minimum earnings required for eligibility, and possibly a maximum beyond which the account was not available. Third, we assumed that there would be a contribution by the government (flat, except possibly for the lowest income group) plus a progressive match rate based on income. Fourth, we assumed there would be a limit to what the government would contribute. We were unsure how the contributions would relate to the tax system -- whether, for example, contributions would be made before or after tax -- and did not attempt to evaluate other tax consequences.

Eligibility

- Persons with earned income above a minimum amount, or persons married to an individual earning above the minimum amount, should be eligible for an account.

  The annual minimum should be low enough to ensure that adults in low wage, part-time jobs, such as women moving from welfare to work, will qualify. For example, the minimum could be the amount required for the crediting of two "quarters of coverage" under Social Security. (Currently, $740 in earnings is needed for a quarter of coverage; thus, the annual earnings required under this "two quarters" test would be $1,480). We recognize that the lower the earnings requirement, the more people will qualify, so it may be necessary to exclude, for example, adult children who are claimed as a dependent on another person's tax return.

Ensuring Fairness for Spouses with Individual Accounts

Because women are more likely to have lower earnings, and to take time out of the labor force to care for children and other family members, individual retirement savings plans that primarily benefit higher earners are problematic. The progressive match rate suggested for the USA Accounts will make this plan more equitable for low earners, who are disproportionately women, but does not address the equity issues within families. Spouses who sacrifice their earnings to provide care may end up with little or no savings for retirement. The President's plan for preserving Social Security would maintain the guaranteed, lifetime, inflation-adjusted benefits and family protections that are so important for women. However, the plan for supplementing Social Security with savings from the USA Accounts also must be equitable.

There are two basic approaches to ensuring equity: earnings sharing and spousal protections, and one intermediate approach.

- The earnings sharing approach would require equal division at the front end; that is, contributions to the USA Accounts would be equally divided between spouses, or the government would not provide a match. With equal contributions required, there would be less need for the spousal protections described below; however, a divorce court would retain the authority to treat the accounts as divisible marital property.

- Without earnings sharing, higher earning spouses are likely to have larger USA Accounts than lower earning spouses, just as they are more likely to have larger pensions, larger 401(k)s, and higher earned Social Security benefits. Under those circumstances, spousal protections are crucial.

    - Legislation would have to ensure the right of survivorship for the spouse in case of the death of the account holder before or after retirement. The written consent of the spouse would be required before a different beneficiary could be designated, with some exceptions (for example, legal separation, inability to locate spouse, abandonment, domestic violence).

    - At retirement, there might be a requirement that each account holder obtain an annuity with the right of survivorship, unless the spouse gives written consent, with some exceptions.

    - At divorce, the accounts would be treated as divisible marital property.

    - If access to accounts is permitted for various purposes before retirement (as with IRAs and 401(k)s), there should be a requirement for the written consent of the spouse, with some exceptions.

- An intermediate approach would be to structure the contributions, match rate, and contribution caps to encourage contributions to the account of the lower earner. With sufficient incentives to fund both accounts, more flexibility could be allowed to account holders, especially at retirement; some protections, such as annuitization with survivorship, might be less important.

Match Rates and Contribution Levels

Progressive match rates mean that those with lower incomes would receive a larger match from the government than those with higher incomes. The way in which income is determined has critical implications for women. For example, because the US income tax system is based on joint taxation of the total income of the married couple, some couples pay lower taxes, generally those with one spouse earning substantially more than the other (the marriage bonus), while others pay higher taxes, generally those with more equal earning spouses (the marriage penalty).

Basing the match rate for the USA Accounts simply on total household income would have unfortunate consequences. A single parent with two children earning $24,000 would get the same match rate as a single worker earning $24,000, despite their very different capacities to save. There also would be a substantial marriage penalty when two low earners ($12,000/each) married. (These examples assume that the higher match phases down between $12,000 and $24,000; the income levels at which these effects occurred would depend on where the phase out points for the match are set.)

- The phaseout of the match rate should be structured to accomplish several goals: to provide a more generous match rate for those with dependents, especially single heads of households, recognizing their more limited disposable incomes; to reduce the "marriage penalty" when two low earners marry; and, if earnings sharing is not mandated, to provide an incentive for couples to contribute to two accounts.

- Various approaches are possible. The match rate might vary by household size as well as total household income; this would recognize the different situation of families with children, especially single parents, as well as reduce the marriage penalty on two low earners. A special match rate for single heads of households, analogous to the different tax rate for single heads of households, might be established.

- If earnings sharing is not mandated, but a higher match rate is available to a two-person household than to a one-person household with the same income, an incentive for contributing to two accounts could be established by requiring that, to benefit from the higher match rate, equal contributions must made to both accounts. For example: a couple with a combined household income of $24,000 potentially would be eligible for a match rate between that available to a single person earning $12,000 and a single person earning $24,000. However, to receive that intermediate match, an equal contribution must be made to both accounts. If a contribution is made only to the account of the higher earner, it would be matched at the less favorable rate that would be available to a single person earning $24,000.

- Another way to increase savings, especially for low-income working families with children. would be to use the earned income tax credit: increasing it by an amount that could go into the USA Account as an additional contribution or toward the match.

Administrative Costs

- For women and other low earners, it is critical that administrative costs be kept extremely low.

Nondiscrimination in Investment Options, including Annuities

- The private annuity market, in contrast to Social Security and employer pension funds subject to Title VII, systematically discriminates on the basis of gender. Because of women's longer average life expectancy, women with equal savings to convert to an annuity receive lower monthly payments than men. Companies providing annuities or other investment products to USA Account holders should be required not to discriminate on the basis of gender, race, or ethnicity.

Rollovers

- Rollovers of USA Accounts into other savings vehicles should not be permitted if that would negate protections in the USA Accounts. (Under current law, for example, holders of IRAs are free to designate any beneficiary; however, spousal consent must be obtained to designate a different beneficiary for a 401(k) plan. These 401(k) provisions are circumvented, however, when a 401(k) is rolled over into an IRA. This issue must be considered as the USA Accounts are developed.)

Conclusion

We appreciate the opportunity to comment on these issues at this early stage in the process. As we said when we met last week, we believe it is essential that issues such as the match rates for married couples and the ownership of the accounts be addressed from the outset. Indeed, we believe that to put out any numbers at all, assumptions have to be made about the approach taken to married couples. We hope that these issues will be considered fully before the Administration announces basic decisions about the structure of the USA Accounts.

We look forward to discussing these issues further with you and your staff.

Cc: Jenny Luray, Director, White House Office for Women's Initiatives and Outreach
Jeffrey Liebman, White House Advisor
Nicole Rabner, Associate Director for Domestic Policy, Office of the First Lady
Susan Bianchi-Sand, Chair, NCWO
Members, Task Force on Social Security, NCWO

PRESIDENT CLINTON UNVEILS PRINCIPLES FOR MEDICARE REFORM AND UNDERSCORES NEED TO DEDICATE THE SURPLUS TO MEDICARE

February 3, 1999

Today, in his speech to the American Association of Retired Persons (AARP), President Clinton will underscore the need to dedicate 15 percent of the budget surplus to secure the Medicare Trust Fund until 2020. He will stress his preference for bipartisan Medicare reform that is necessary to modernize Medicare and achieve additional savings to strengthen the program, and will outline four main principles that he believes any such plan should meet. The President will:

Highlight the Need to Dedicate Budget Surplus to Strengthen Medicare. The President will highlight the fact that, while we need reform to improve competition and efficiency in the Medicare program, these reforms will not produce savings that are sufficient to significantly extend the life of the Trust Fund. In fact, if reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be limited to 2.8 percent per year -- in every year -- to get to 2020. This rate is over 60 percent below projected private health insurance spending per person (7.3 percent). Moreover, since this growth rate is below general inflation, the value of Medicare spending per beneficiary would erode. These projections help explain why virtually every independent health analyst agrees that Medicare cannot be significantly strengthened without adding outside financial support such as the surplus.

Unveil Principles to Guide Medicare reform. The President will outline principles that he will use to evaluate any Medicare reform proposal. Any broad-based reforms should:

- **Dedicate Surplus to Secure Medicare until 2020.** One of the fundamental goals of Medicare reform is to put the program on stronger financial footing to better prepare it for the demographic and health challenges of the next century. These challenges cannot be addressed solely through making the program more efficient, transferring current liabilities out of the Trust Fund, or increasing payments. The President is proposing to use 15 percent of the projected surpluses over the next 15 years to secure the Medicare Trust Fund until 2020 as part of broader reforms to further strengthen the program.

- **Modernize Medicare and Make It More Competitive.** Medicare should adopt the best management, payment, clinical and competitive practices used by the private sector, to help maintain high-quality services and keep spending growth in line with the private spending. Moreover, strong and effective Federal administration of Medicare should be assured.

- **Guarantee Defined Set of Benefits Without Excessive New Costs to Beneficiaries.** Beneficiaries should still be entitled to an adequate set of health benefits. A modernized, well-defined benefits package is needed to assure that health plans compete on cost and quality rather than price. Reforms should also maintain or strengthen protections for low-income beneficiaries, assure that any new cost burdens are not excessive, and assure that beneficiaries have access to a viable traditional Medicare program.

- **Use Savings from Reform to Help Fund a Prescription Drug Benefit.** Millions of Medicare beneficiaries have no or inadequate coverage for their medications, limiting their access to needed treatments. In fact, over half of Medicare beneficiaries pay more than $500 per month for prescription drugs and one in 10 pay more than $2,000. Prescription drugs have become an essential part of treatments and cures, and are expected to play an even greater role in health care in the next century. The President believes that additional savings from making Medicare more efficient should be used to help finance a long-overdue prescription drug benefit for all Medicare beneficiaries.

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PRESIDENT CLINTON AND VICE PRESIDENT GORE:
Saving Social Security and Strengthening Medicare

January 27, 1999

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security And Strengthen Medicare. A week ago, President Clinton proposed his framework to allocate the projected budget surpluses over the next 15 years to meet America's challenges.

Save Social Security Now. The President's framework includes transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to the Social Security system and investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does. This will keep Social Security solvent until 2055. The President believes we must work on a bipartisan basis to make the hard-headed but sensible and achievable choices to save Social Security until at least 2075, while reducing poverty among single elderly women and eliminating the limit on what older Americans on Social Security can earn.

Letter from Social Security Actuary Shows President's Proposal Saves Social Security Until 2055. Today, a memo from Stephen Goss, Deputy Chief Actuary of the Social Security Administration, was released, and it stated that the President's "proposal would extend the estimated year in which the combined OASDI trust funds would become exhausted by 23 years, from 2032 to 2055. It would reduce the size of the estimated long-range OASDI actuarial deficit by over one half, from 2.19 to 0.76 percent of taxable payroll." [Memorandum from Stephen Goss, Deputy Chief Actuary of the Social Security Administration, January 26, 1999]

Strengthening Medicare for the 21st Century. Today, President Clinton emphasized the importance of his proposal to dedicate 15 percent of the projected budget surpluses to the Medicare program, as part of his broad framework to save Social Security and Medicare for the 21st century. These resources alone would extend the life of the Medicare Trust Fund to 2020, as confirmed by the Medicare actuary in a letter released today. However, the President stressed that the dedicated surplus dollars should be used in the context of broader Medicare reforms that modernize and improve the program.

President Clinton Emphasized That Dedicating Revenues is Essential to Preserving and Strengthening Medicare.

Letter from Medicare Actuary Shows President's Proposal Keeps Medicare Solvent Until 2020. Today, a memo from Richard Foster, Chief Actuary of the Health Care Financing Administration (HCFA), was released, and it stated that "the assets of the HI trust fund would be depleted in calendar year 2020 under [the President's] proposal, as compared to 2008 under present law." [Memorandum from Richard Foster, Chief Actuary of the Health Care Financing Administration, January 27, 1999]

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Medicare, like Social Security, Faces Challenge of the "Senior Boom." Medicare's enrollment is expected to double by 2030. Moreover, by 2030, the ratio of workers (who help finance Medicare through payroll taxes) to beneficiaries is expected to decline by over 40 percent.

Without New Surplus Revenue, Medicare Spending Would Have to Be Reduced Significantly. For the Hospital Insurance (HI) Trust Fund to be solvent only through 2017, it would take a 10 percent reduction in baseline spending in each year (all else held constant). For example, in 2000, this would amount to about $15 billion -- more than Medicare pays for all of home health care.

Growth Would Have to Be Slowed to below General Inflation. Even if Medicare per capita cost growth were constrained to general inflation in every year -- virtually unprecedented in health care and less than half projected private spending growth rate -- the Trust Fund would only be extended to 2016.

Experts Validate That Additional Revenues Are Critical to Preserving and Strengthening Medicare. Health economists and experts agree: not only are new revenues needed but the surplus is a good source. Experts supporting this proposal include: Robert Reischauer, Henry Aaron, Judy Feder, Marilyn Moon, and Uwe Reinhardt and other respected economists.

The President Underscored His Strong Belief That Surplus Dollars Should Be Utilized In the Context of Broader Reforms to the Program. The President emphasized that it would be ill-advised to expand Medicare in the absence of broader reforms. He stressed that the additional dedicated dollars should be used in conjunction with important reforms which would modernize the program by providing market-oriented purchasing tools, additional savings, and a long- overdue prescription drug benefit.

The President's Framework Would Also Allocate Projected Surpluses To Provide Tax Relief for Retirement Security and To Prepare America for the Challenges of the Future:

Create New Universal Savings Accounts -- USA Accounts. After we save Social Security, the President would allocate 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs). USA Accounts would be a $536 billion tax cut over the next 15 years to help Americans save for their futures, providing Americans a flat tax credit to make contributions into their USA Account and additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.

Prepare America for the Challenges of the Future. And after Social Security reform is secured, the President's framework would allocate 11 percent of the projected surpluses for military readiness and other pressing domestic priorities.

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THE CHALLENGES OF SOCIAL SECURITY REFORM: IMPACT OF REFORM ON WOMEN

Presentation at
Session on Impact of Reform on Different Segments of the Population
White House Conference on Social Security
Washington, D.C.

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My assignment today is to discuss the potential impact of Social Security reform on women. The President and Members of Congress singled out women as a potentially vulnerable group in this morning's session. And with good reason. Let me make two points:

I. Women do very well under the current Social Security system, so moving to individual accounts could hurt women.

II. Simply shifting payroll taxes to individual accounts, as Senator Santorum suggested, will not produce higher returns on Social Security contributions for younger women, or for younger workers generally.

Let me explain these two points.

I. Social Security Reform Can Reduce Protections for Women

Women do very well under the current Social Security program, because it recognizes that women are likely to have earned less than men and that they are likely to live longer.

Let me tick off the ways in which Social Security's benefit rules are particularly helpful for women. First, the progressive benefit formula provides proportionately higher benefits for low earners than for high earners, and women are more likely to be low earners.

Second, for women who spend their careers taking care of their families, Social Security provides retirement benefits equal to 50 percent of their husbands' benefits. Divorced homemakers (married least 10 years) can also get these benefits.

Third, for older women whose husbands die, Social Security provides widows' benefits equal to 100 percent of their husbands' benefits. This is important because women tend to outlive their husbands.

Fourth, if children are getting survivors' benefits, younger widows who stay home to care for them also receive benefits.

Even with increasing numbers of women in the labor force, these family benefits remain very important.

In addition to a progressive benefit structure and family benefits, Social Security has two other features that help women. First, because Social Security pays monthly benefits for life, it is particularly valuable to women who on average live longer than men. Second, because benefits are adjusted annually for changes in the cost of living, their buying power is protected against inflation. This protection matters more for women than for men because women live longer after retirement.

All the protections of the current program would be put at risk if reform moved toward individual accounts. First, unless special provisions were enacted, a woman's retirement benefit would depend — at least in part -- on her contributions into her personal account and the earnings on those contributions. Because women tend to have lower wages and less time in the labor force, their contributions and earnings would, on average, produce low retirement benefits.

Second, many of the family benefits currently provided by Social Security would likely be cut back.

Third, with individual accounts the money is not automatically converted to a lifetime annuity or protected against inflation. If people get their money back in a lump sum, they could use it up before they die and leave nothing for their widow. This risk is compounded by the absence of inflation protection.

In short, the present Social Security system offers a range of protections — progressive benefit formula, family benefits, lifetime benefits, and inflation adjustments. These are of great importance to women and are not duplicated by many of the proposals to privatize the system. These are established rights, promised by law. Women should be very reluctant to give them up.

II. Individual Accounts Won't Improve the Returns

Let me turn to the second point. Women not only have a lot to lose from substituting individual accounts for traditional Social Security benefits, but also have little to gain. Shifting payroll taxes to individual accounts will not increase the rate of return on Social Security contributions, defined broadly. Yes, the returns on individual accounts may appear higher, but that's not the whole story. You have to subtract from those higher returns the cost of paying benefits to current retirees under the existing Social Security system.

When Social Security first started, the President and the Congress decided to pay benefits to the first generation of retirees whose lives had been disrupted by the Great Depression. Because the taxes of today's retirees went to support these early beneficiaries, someone must pay benefits for today's elderly. If current payroll taxes are diverted to individual accounts, then the government will have to raise other money or borrow to pay off this obligation. Subtracting the cost of higher taxes or borrowing reduces the return on individual accounts to the level of the Social Security fund.

There is no disagreement on this point among professional economists: simply diverting payroll taxes to individual accounts will not raise the rate of return on Social Security contributions.

III. Conclusion

In short, women have a large stake in the current Social Security debate. They can be hurt if Social Security payroll taxes are diverted to individual accounts. At the same time, a shift to individual accounts will *not increase* the returns on their Social Security contributions. Women should be very reluctant to give up current Social Security protections for an untried system that relies on individual accounts for even part of their basic retirement income.

THE CASE FOR INVESTING PART OF THE UNIFIED SURPLUSES IN EQUITIES

In his State of the Union Address, the President proposed that 62 percent of the unified budget surpluses over the next 15 years be transferred to the Social Security Trust Fund, in order to increase the ability of that Fund to meet promised Social Security benefit obligations. The President further proposed that about a fifth of the transferred surpluses be invested in equities to achieve higher returns for Social Security, helping to extend the life of the Social Security trust fund to 2055. This action does, however, raise understandable concerns about the possible extension of political influence on investment decisions and the risks that this might pose to the economy and the Trust Fund. Any system of collective investment can and must address these concerns. That is why we will work with Congress to design a system that observes five core principles:

1. **Private Sector Managers Selected by Competitive Bidding.** Social Security beneficiaries deserve the same efficient management and market returns that people receive in their private pensions and personal savings. The actual investments should be managed by private sector money-managers selected by competitive bidding.

2. **Independently Managed and Non-Political.** There would need to be wholly independent oversight of investment that was insulated from political influence. The choice of investment managers should be done by an independent board whose sole responsibility would be to pick fund managers so as to maximize the performance of the investments. This would ensure that the investment of funds was carried out with zero government involvement.

3. **Limited.** The share of Trust Fund assets invested in equities ought to be kept at a very modest level -- both to limit risk to the Fund and to ensure that collective investments never account for more than a small fraction of the stock market as a whole.

4. **Broad-based, Neutral, and Non-Discretionary.** Assets should be invested proportionately in the broadest array of publicly listed equities, with no room for discretion in adding or deleting companies and no room for active involvement in corporate decisions. Neither the government nor the private sector managers it selects to undertake investment on its behalf should be involved in "stock picking." As a shareholder the Funds should be entirely passive; one way to accomplish this would be to mandate that proxies be voted in the same proportions as other shareholders. Alternatively, if the investments were spread among a number of managers so that no one manager had a large share of the total market, the managers could vote the shares in the interests of the share holders, just as mutual fund managers do today.

    - *No Market Timing or Stock Picking.* In essence, the managers should be on autopilot in investing the funds. They should have little or no discretion in the investment of Trust Fund assets -- so they cannot "time the market" or pick individual stocks.

5. **Lowest-Cost.** Collective investment needs to be administratively simple and achieved at the lowest available cost -- both to obtain the highest possible returns and to further enhance the system's transparency and independence.

WHY INVEST PART OF THE SURPLUSES IN EQUITIES?

1. **Investing Part of the Surpluses in Equities Would Raise the Rate of Return That Workers Would Experience on Their Contributions into the Social Security System.**

- Historically, the Trust Fund has been invested exclusively in government bonds. While these bonds have the upside that they are essentially risk-free, they have the downside that they pay a relatively low rate of return on average. Adding equities to the Trust Fund portfolio would allow the Social Security system to enjoy a higher rate of return, on average. Between 1959 and 1996, the difference between the average annual rate of return earned on stocks and the rate earned on bonds held by the Trust Fund -- the "equity premium" -- was 3.84 percent.

- Raising the rate of return on the Trust Fund would mean that the Social Security system could be brought into long-term actuarial balance with smaller reductions in benefits, or smaller increases in revenue, or both.

- Investing part of the transferred surpluses in equities accounts for about one-third of the improvement in the actuarial balance achieved under the President's framework.

2. **Investing Part of the Trust Fund in Equities Would Bring Social Security into Line with the "Best Practice" of Both Private- and Public-Sector Pension Plans.**

- The overwhelming number of private-sector defined-benefit pension plans invest part of their reserves in equities. Among large private-sector defined benefit plans (those with more than 100 participants), more than 40 percent of total assets of were invested in equities.

- Similarly, 65 percent of the portfolio backing the defined-benefit pension plan of the Federal Reserve System is invested in equities.

- In aggregate, state and local pension plans hold fully 10 percent of the overall stock market.

WHY IS EQUITY INVESTMENT BETTER UNDERTAKEN THROUGH THE TRUST FUND THAN THROUGH INDIVIDUAL ACCOUNTS?

1. **Administrative Costs Associated with Trust Fund Investment Would Be Much Lower.**

- For example, the equity-fund component of the Federal Thrift Savings Plan (TSP) incurs annual investment-management costs of only about one basis point (one one-hundredth of a percentage point). Thus, for every $100 in equity assets under management, the TSP pays only about one cent per year in management fees.

- By contrast, asset management fees for individual accounts such as IRAs typically run in the neighborhood of 100 basis points or more -- or about $1 per year for every $100 under management.

  - *The asset management fees associated with IRAs are thus typically at least 100 times larger than the fees associated with centralized investment.*

- Management fees are extremely important in determining the buildup of assets. A fee of one basis point paid every year for 40 years would reduce the accumulated balance by only about 0.2 percent. By contrast, a fee of 100 basis points would reduce the accumulated balance by about 20 percent.

2. Financial Risk Can Be Spread Much More Effectively If Equity Investment Is Undertaken Through the Trust Fund than Through Individual Accounts.

- Financial risk that arises through equity-investment of the Trust Fund can be spread both across the entire population participating in the system at any given point in time, and over time. Indeed, provided equity investment is undertaken through the Trust Fund, the consequences of market fluctuations can potentially be spread over many generations.

- By contrast, in a system of individual accounts, the consequences of market fluctuations must -- by definition -- be borne by each individual. If the market happens to do well during a certain individual's lifetime, that individual can enjoy a relatively prosperous retirement. If the market does poorly, that individual's financial security in retirement may be jeopardized.

WHY CAN WE BE CONFIDENT THAT TRUST FUND INVESTMENT IN EQUITIES WON'T DISRUPT THE MARKET?

1. This Is Not Direct Government Investment -- It Is Investment Undertaken by Private-Sector Managers Selected by Competitive Bidding.

- A bedrock principle of the President's program is that the government itself should not be a participant in the market. All transactions will be executed by private-sector managers.

- The Thrift Savings Plan selects managers in a similar way, placing its portfolio with managers that bid the lowest cost. These managers also vote the shares of stock they control.

2. **Institutional Rules Can Be Established to Create Very Strong "Fire Walls" Against Political Interference.**

- The experience of state and local pension funds points to several elements of institutional design that have been essential in that context in helping prevent political interference.

- Investments can be made in a broad-based, neutral, and non-discretionary way. Through passive investing in an index, private-sector managers will not be involved in "stock picking."

- History shows that political influence can be avoided. The overwhelming bulk of assets in state and local plans are invested wisely -- not in politically motivated ways.

- For example, the Federal Thrift Savings Plan (TSP) invests $77 billion in stocks and bonds, with more than half in stocks. Francis Cavanaugh, the first executive director of the Board responsible for TSP investments, says that investments have been made without political interference. Specifically, in a recent news article, Cavanaugh said, *"Can it be done? It's been done... We did it."*

3. **The Equity Holdings of the Social Security System under the President's Program Would Be Modest Relative to the Holdings of Other Major Players in the Market.**

- Under the President's program, the Social Security system would hold an average of about 4 percent of the aggregate U.S. stock market.

- The top 10 largest private-sector portfolio managers all have more than one percent of the market under management. Fidelity, the largest such private-sector manager, has about 4 percent of the market under its management.

- By contrast, state and local governments in aggregate already hold about 10 percent of the market.

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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]

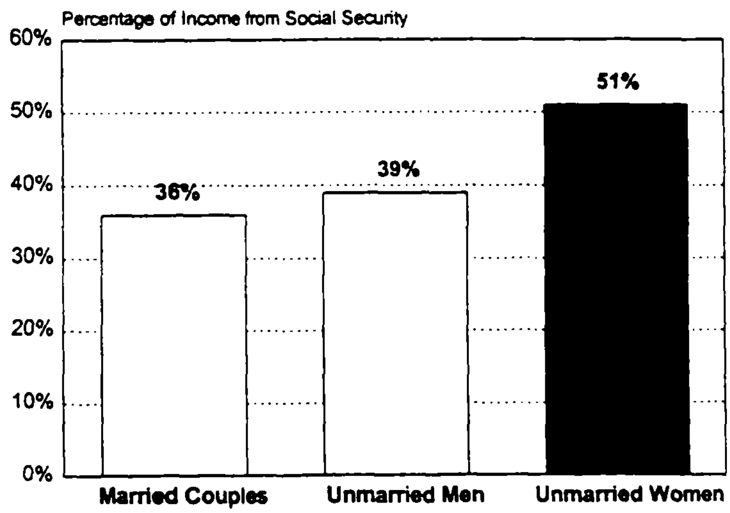
All Elderly Women	Married	Divorced	Widowed	Never Married
13.1%	4.6%	22.2%	18.0%	20.0%

- **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

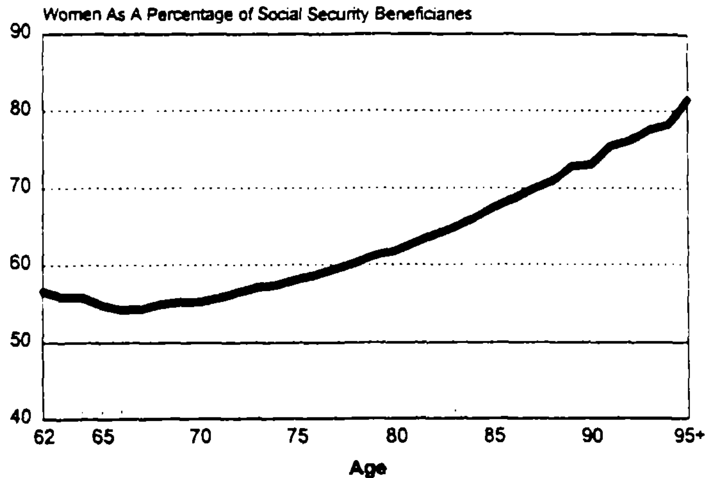
II. SOCIAL SECURITY AND WOMEN

- **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

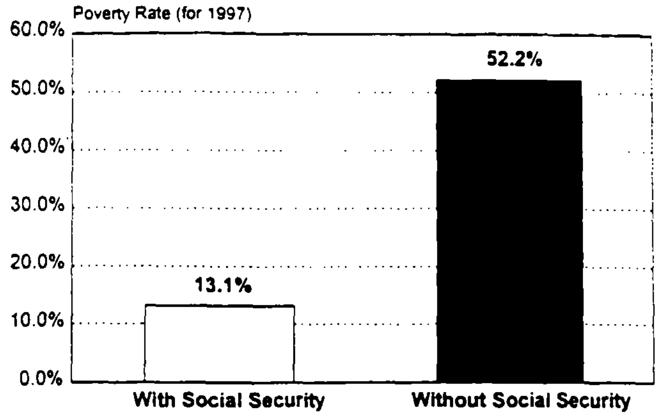


Source: Social Security Administration.

- **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]

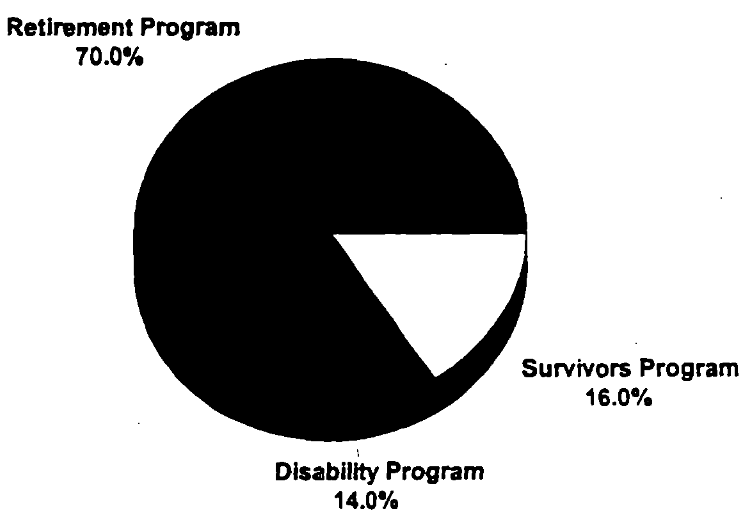
- **Social Security Provides Benefits for Widows.** Social Security pays an elderly widow a benefit equal to either the benefit she receives as a worker or the benefit of her deceased spouse, whichever is higher. Nearly three quarters -- 74 percent -- of elderly widows receive benefits based on the earnings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

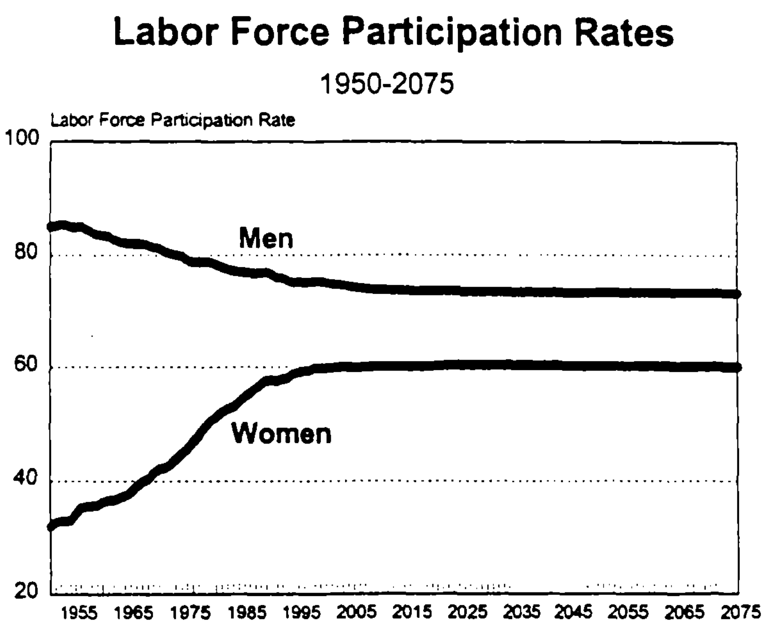
Percentage of Social Security Beneficiaries By Program



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).



Source: Social Security Administration. Data are age adjusted.

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

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

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

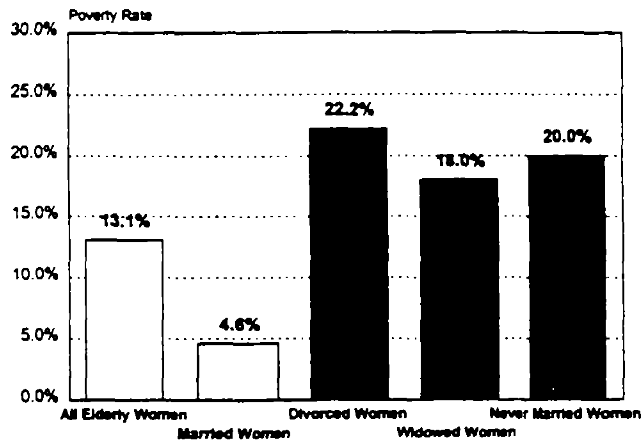
III. Challenges for the Current System

Poverty Rates Remain High Among Elderly Women

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

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

Poverty Rates Are High Among Unmarried Elderly Women
1997



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

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

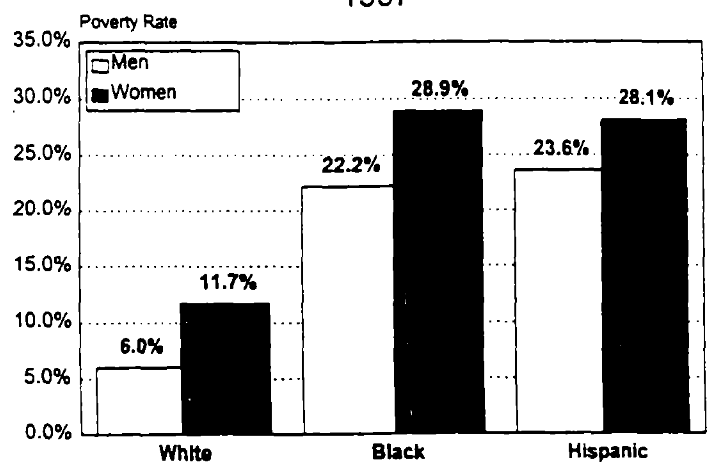
- **There Are Also a Substantial Number of Relatively Young Widows, Though the Number Is Falling.** Of 60-year old women, 13 percent are widows. This percentage rises to more than one-quarter of women aged 65 to 67. Because husbands in low-income families tend to die at younger ages than husbands in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

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

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

Poverty Rates Are Particularly High Among Elderly Minority Groups

1997



Source: Bureau of the Census

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

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

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

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

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

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

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

IV. Women and Pensions

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

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

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

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

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

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

401(k) Plan Take-up Rates

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

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

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

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

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

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

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

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

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

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

Women Have Smaller Non-Pension Wealth as Well.

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

V. Conclusion

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

ENDNOTES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Social Security Administration, Office of the Actuary.

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

17. Social Security Administration, Office of the Actuary.

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

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

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

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

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

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

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

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

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

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

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

October 21, 1998

MEMORANDUM FOR HILLARY RODHAM CLINTON

CC: MELANNE VERVEER

FROM: NICOLE RABNER

SUBJECT: Retirement Security and Women

As the President mentioned at the breast cancer event today, this Friday he will host an event in the East Room to highlight the issue of retirement security for women. Although you will be unable to participate, I thought you would be interested in the event and the announcements the President will make. The purpose of the event is for the President, in a roundtable discussion with "real people," to listen to retirement security concerns and challenges specific to women, including but not limited to the important role of Social Security. The audience will be comprised of women's organizations, seniors groups, Social Security advocates.

The President will release a report by the National Economic Council on Women and Retirement Security (which is still in draft), and he will make two announcements of new pension proposals that benefit women. The announcements are still being fleshed out, but they are described generally below. We will get final paper to you on the road.

(1) JOINT AND 3/4 SURVIVOR ANNUITY OPTION. Currently, defined benefit plans are required to offer only a joint and 50 percent survivor annuity option, under which the pension benefit to the surviving spouse is reduced by 50 percent if the participant/ex-employee dies first. Many couples would likely prefer an option that provides a relatively smaller benefit to the couple while both are alive but a larger benefit to the surviving spouse (non-participant).

Under the President's proposal, plans would have to offer an option that provides a survivor benefit equal to at least 75 percent of the benefit the couple received while both were alive. This proposal should have a disproportionately positive impact on women, given their longer life spans and the related concentration of elderly poverty among women.

(2) COUNTING FMLA TIME TOWARD PENSION VESTING AND PARTICIPATION REQUIREMENTS. This proposal would allow workers to count toward pension vesting and participation requirements time taken off under the Family and Medical Leave Act (FMLA). Currently, employee contributions to, for example, 401(k) plans are immediately vested. Employer matching contributions, however, are subject to the general vesting requirements applicable to defined benefit pension plans: 5 years for cliff vesting, under which a worker is either fully vested or not vested at all, and 7 years for graded vesting, under which vesting is phased in starting after year 3 and ending after year 7. If employer matching or other

contributions vest after 5 years, an employee who switches jobs after four years loses all of those employer contributions. The vesting requirement has a disproportionately adverse impact on female employees, who tend to have shorter job tenure.

Individuals generally must work 1,000 hours in a year for that year to count toward the 5-year (cliff) or 3-7 year (graded) vesting thresholds. This measure would ensure that workers do not lose a year of vesting solely because of time taken under FMLA due to, for example, illness or childbirth.