COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

June 24, 1998

The Honorable William J. Clinton
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As you and the Vice President continue your public discussions on the future of Social Security, we urge you to address the issues facing women. Women retiring in the next 20 years will have less than one-third the income necessary to retire comfortably, a situation that is greatly exacerbated for women of color. Several Social Security proposals under consideration would only make this situation worse.

The majority of Social Security recipients are women and yet, so far, the various reform proposals' specific effects on women and their life choices have not been highlighted. We want to make sure American men and women understand these effects as they make choices about their Social Security system.

Too few young women today understand that the job decisions they make when they enter the workforce can have a devastating impact on their lives in retirement. They mistakenly believe that the increased number of women holding better jobs means that their lives will be different. Unfortunately, that is not the case. Three out of five women are still in low-wage jobs that offer few benefits, including pensions, and they work in much greater numbers than men in part-time and contingent jobs. The situation is not expected to change well into the future.

When these women retire, even if they have worked full time and take no time out of the workforce, they will most likely have little retirement income other than a meager Social Security benefit. Most women, however, do take time out of the workforce — 11.5 years on average — to raise their children or care for ailing parents or spouses. During that time, when they are taking responsibility for the well-being of their families, they are receiving no credit in their Social Security accounts, penalizing them further when the amount of their benefits are being computed.

In addition, women live an average of seven years longer than men, and are twice as likely to be living in poverty as men. Widows often become poor for the first time on the day their husbands die. In fact, the fastest growing group in poverty are single women and widows over the age of 65.

Enclosed are three recent studies which demonstrate that women will be significantly impacted by Social Security reform. We commend these studies to your attention.

We believe that, if our national discussion on Social Security is to be truly effective, it must sound a wake-up call to women to play an active role in determining their future. They need to learn how their work and life patterns have affected — and will continue to affect their Social Security benefits in the future. And they need to understand how the effects of various options for change will affect their prospects for a secure retirement. If Social Security does not effectively serve women, it will not effectively serve anyone. We hope you agree that these critical issues serve a prominent place on your agenda, and we will be happy to work with you to make that happen.

Thank you for your consideration.

Sincerely,

Karen L. Thurman　　Barbara B. Kennelly

Zoe Lofgren　　Eddie Bernice Johnson

Karen McCarthy　　Eva M. Clayton

August 3, 1998

Dear Barbara:

Thank you for your letter concerning Social Security, and the specific challenges facing women as we strive to reform and strengthen our nation's Social Security system. I agree with you on the importance of this matter, and assure you that my Administration is working to address these issues.

As you know, women represent 60 percent of all Social Security recipients. Because women live longer, on average, than men, this percentage climbs to over 70 percent after the age of 85. In addition, unmarried women -- including widows -- age 65 and over receive just over half of their total income from Social Security. For these reasons, women will be significantly affected by the future of our Social Security system and any changes that are enacted.

My Administration recognizes the importance of Social Security to women and is studying the effects any reforms to the Social Security system will have on women. Vice President Gore, at the July 1 Social Security conference in Rhode Island, noted the special challenges facing women retirees, and voiced the Administration's intent to address these concerns. I have welcomed an open dialogue in my effort to save Social Security first by reserving every penny of any surplus until we achieve comprehensive Social Security reform. I am committed to including the special concerns of women in this dialogue.

Thank you, again, for your letter. I look forward to working with you to ensure a stronger, reformed Social Security system for both women and men in the next century.

Sincerely,

The Honorable Barbara B. Kennelly
House of Representatives
Washington, D.C. 20515

Elements of Social Security Reform Proposals That Affect Women

Several different reform plans have been proposed to address Social Security's long-term financing problem. Three plans put forth by members of the 1994-96 Advisory Council on Social Security have received the most attention, but other plans by members of the Congress, research organizations, and advocacy groups have also been proposed.

The three Advisory Council proposals are the Maintain Benefits plan, the Individual Accounts plan, and the Personal Security Accounts plan. At least two other plans have been proposed in legislation in the Congress, including S. 321 (105th Congress) and S. 2176 (104th Congress), and two more plans that have received serious attention were proposed by the Committee for Economic Development, a research organization, and the National Taxpayers Union Foundation, an advocacy group. All seven plans are compared to current Social Security law in table II.1.

Table II.1: Features of Social Security Under Current Law and Reform Proposals

		Reform proposals of 1994-96 Advisory Council on Social Security		
Type of beneficiary[a]	**Social Security**	**Maintain Benefits**	**Individual Accounts**	**Personal Security Accounts**
Retired worker	— Benefit computation is based on 35 years of highest taxable earnings — Progressive formula leads to redistribution — Benefits reduced actuarially if taken between 62 and normal retirement age (NRA); increased if taken after NRA — NRA to increase to 67 years for persons born after 1959	Extends computation period from 35 years to 38 years of taxable earnings	— Extends computation period from 35 years to 38 years of taxable earnings — Changes benefit formula by lowering conversion factors — Accelerates increase of NRA and indexes to longevity — Creates individual account based on defined contribution pension	— Creates two-tier system with a tier I flat benefit based on years of taxable earnings and a tier II personal security account based on defined contribution pension — Accelerates increase of NRA and indexes to longevity — Increases early retirement age to 65 years
Spouse	— Benefit is 50% of the retired worker's benefit — Benefit is actuarially reduced if taken between 62 and NRA	Same as current law	Benefits are lowered from 50% to 33% of retired worker's benefit	50% of full tier I benefit
Survivor	— Benefit is equal to amount deceased spouse would be receiving but not less than 82-1/2% of deceased spouse's benefit — Benefit is actuarially reduced if taken between 62 and NRA	Same as current law	— Higher of own basic benefit or deceased spouse's basic benefit or 75% of couple's combined benefit — Joint and survivor annuity with individual account balance	75% of benefit payable to couple plus eligibility to inherit balance of deceased spouse's personal security account
Dually entitled beneficiary[c]	Receives own retired worker benefit plus difference (if positive) between spouse or survivor benefit and his or her retired worker benefit	Same as current law	— Own individual account benefit — Higher of own basic benefit or 33% of spouse's benefit	Tier II own accumulations plus higher of own tier I benefit or 50% of full tier I benefit

Committee for Economic Development	Gregg bill[b]	Kerry-Simpson bill[b]	National Taxpayers Union Foundation
— Creates two-tier system with basic benefit based on years of taxable earnings and a personal retirement account (PRA) based on defined contribution pension, financed by an additional mandatory 3% contribution — Gradually lowers replacement rate for two higher-income brackets — Favors annuitization of PRA at retirement — NRA increases to 70, beginning in 2000, by 2 months per year and indexed to life expectancy thereafter — Early retirement age (ERA) remains at 62 but with additional actuarial reduction — Taxes all benefits in excess of contributions — Increases years of taxable earnings in primary insurance amount (PIA) calculation from 39 to 40 years	— Adds to the current system by establishing a mandatory 1% payroll deduction Personal Investment Plan (PIP) to be used in a similar fashion to the Thrift Savings Plan — Reduces factors used for calculation of PIA, based on age of the worker — NRA gradually increases to 70 (and beyond) in 2029 for both workers and widows older than 62 beginning in 2000 — ERA gradually increases to 65 (and beyond) in 2017 for both workers and widows older than 62 beginning in 2000	— Adds to the current system by establishing a mandatory 2% payroll deduction. PIP to be used in a similar fashion to the Thrift Savings Plan — Reduces factors used for calculation of PIA, based on age of worker	— Converts current system to a system of Personal Thrift Accounts (PTA), based on payroll contribution of 5% (designed to replace other benefits of Old Age and Survivors Insurance (OASI) — PTAs can be passed down after death of worker or owner of PTA — Mandatory (minimum) annuitization at retirement (joint and survivor annuity if applicable) — Fund balances in excess of minimum annuity purchase are unrestricted
Reduces benefits from 50% to 33% of retired worker's benefit for nonworking spouses	Unless otherwise decided, transfers PIP balance to spouse at death	Unless otherwise decided, transfers PIP balance to spouse at death	PTA is transferred to spouse at death of owner
100% of deceased worker benefit or own benefit, whichever is larger	Balance of PIP is transferrable at death of retired worker (if agreed to in writing; otherwise spouse receives it)	Balance of PIP is transferrable at death of retired worker (if agreed to in writing; otherwise, spouse receives it)	Retains all OASI child benefits
No mention	Spouse receives PIP balance at death of retired worker	Spouse receives PIP balance at death of retired worker	PTA is transferred at death of owner

(continued)

		Reform proposals of 1994-96 Advisory Council on Social Security		
Type of beneficiary[a]	**Social Security**	**Maintain Benefits**	**Individual Accounts**	**Personal Security Accounts**
Divorced and surviving divorced spouse	— Must have been married for at least 10 years and currently be unmarried (for divorced spouse only) — Must be at least 62 years old for divorced spouse, 60 years old for divorced survivor — Benefit actuarially reduced if younger than NRA — Divorced spouse benefit is 50% of retired worker's benefit — Surviving divorced spouse benefit is 100% of retired worker's benefit	Same as current law	No mention	No mention
Mother or father and widowed mother or father plus child	— Have eligible child in care — Younger than 65 — 50% of retired worker's benefit plus 50% of child's benefit — 75% of deceased worker's benefit plus 75% of child's benefit	Same as current law	Same as for spouse or survivor plus child's benefit (same as current law)	Same as for spouse or survivor plus child's benefit (same as current law)

Committee for Economic Development	Gregg bill[b]	Kerry-Simpson bill[b]	National Taxpayers Union Foundation
No mention	If there is no current spouse, then benefits devolve to the individual's last surviving divorced spouse but not if that former spouse is currently married	If there is no spouse, then benefits devolve to the individual's last surviving divorced spouse but not if that former spouse is currently married	In the event of a divorce, divides evenly all PTA assets attributable to wages earned during the marriage
No mention	No mention	No mention	Retains all OASI nonaged survivor benefits

[a]Beneficiary categories are based on Social Security definitions.

[b]Both Gregg (S. 321, 105th Congress) and Kerrey-Simpson (S. 2176, 104th Congress) contain provisions that allow them to operate in a two-tier system. The first tier pays traditional Social Security benefits that are lowered because of the reduction in the payroll tax. The second tier consists of the PIP account balances that are a percentage deducted from payroll.

[c]Entitled to benefits as both retired worker and spouse or survivor of retired worker.

Comments From SSA

SOCIAL SECURITY

Office of the Commissioner

December 15, 1997

Ms. Jane L. Ross
Director, Income Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

Thank you for the opportunity to comment on the draft report, "Social Security Reform: Implications for Women's Retirement Income" (GAO/HEHS-98-42).

We believe that GAO has done a commendable job in outlining some of the concerns of the differential effects on women of the new "privatization" reform proposals. We do, however, have some general comments.

Because the report focuses on women as retired workers, it misses one major point. The report explains the lower benefits of women as a function of the lower lifetime labor force participation and the lower earnings of women. Although the conclusion is correct, a more complete analysis would have focused on lifetime earnings of both husbands and wives. While some women receive benefits based on their own lifetime earnings, many others get higher benefits based on their husband's earnings. Because of this, it is impossible to evaluate the impact of privatization on women without looking at the impact of those privatization plans on families.

As a corollary, it is important to remember that many, if not most, women retire as part of a married couple and later become widows. While retired as spouses (regardless of whether receiving Social Security spouse's benefits or worker's benefits based on their own work), poverty is rarely an issue. It is with advancing old age and widowhood that poverty becomes a problem for women. Social Security, as a social insurance program, attempts to address this by providing benefits for the widow (and surviving divorced spouse) in amounts similar to what the worker would have received.

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

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Under most privatization plans, social insurance features are replaced by individual choice. By reducing basic benefits for all workers, protection of dependents and survivors is automatically diminished. The result could be harmful for many women.

What individuals choose to do with their investments may have a profound impact on what retirement income will be available to their spouses in old age. For instance, under privatization, people cannot be compelled to take a joint and survivor annuity when the time comes to convert individual accounts. Some couples may wish to forego the cuts in the worker's protection that arise from such a choice. And, with privatization, people cannot be compelled to provide for their dependents, such as former spouses from a divorce and disabled adult children, who can qualify for Social Security survivor benefits under current law.

The reductions in Social Security contemplated in some privatization plans will have a direct impact on protection for some very vulnerable groups, many of whom are women. Whether these reductions are actually made up by proceeds from individual investment accounts will depend on the choices and decisions each individual worker makes.

We also had some technical comments on the report which we have already shared with your staff.

Thank you for the opportunity to comment on the draft report. If you have any questions, your staff can contact Judy Chesser at (202)358-6030.

Sincerely,

Kenneth S Apfel

Kenneth S. Apfel
Commissioner
of Social Security

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United States General Accounting Office

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Testimony

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

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

SOCIAL SECURITY REFORM

Implications for the Financial Well-Being of Women

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

GAO/T-HEHS-97-112

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

Mr. Chairman and Members of the Subcommittee:

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

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

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

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

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

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

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

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

Labor Force Participation and Earnings Differ for Men and Women

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

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

[2] The labor force participation rate is the proportion of the population under consideration who are working or actively seeking employment.

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

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

Life Expectancies Differ for Men and Women

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

Women Invest More Conservatively Than Men

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

[4]Years of covered earnings are the years in which the individual received earnings on which Social Security taxes were paid.

[5]Social Security benefits are based on the 35 years of highest covered earnings.

[6]GAO/HEHS-96-55, Apr. 10, 1996.

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

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

Pension Plan Provisions Offer Different Benefits From Social Security

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

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

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

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

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

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

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

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

Benefits for Dependents Differ Under Social Security and Pensions

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

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

This wasn't always the case. Under the Employee Retirement Income Security Act of 1974, a married worker had the option to choose an annuity that provided benefits only as long as the retiree lived. Recognizing marriage as an economic partnership, the Congress sought through the Retirement Equity Act of 1984 to bring the retiring worker's spouse directly into the decision-making process concerning benefit payment options. Under this act, a joint and survivor annuity became the normal payout option and written spousal consent is required to choose another option. This requirement was prompted partly by testimony before the Congress by widows who stated that they were financially unprepared at their husbands' death because they were unaware of their husbands' choice to not take a joint and survivor annuity. Through the spousal consent requirement, the Congress envisioned that, among other things, a greater percentage of married men would retain the joint and survivor annuity and give their spouses the opportunity to receive survivor benefits.

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

Some Reform Proposals Would Make Social Security More Like Pension Plans

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

The Maintain Benefits Plan Would Make Fewest Changes to Social Security

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

[12] One supporter of the MB plan does not support this provision.

The Individual Accounts Plan Would Add a Defined Contribution Component

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

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

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

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

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

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

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

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

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

Conservative Investment Behavior May Have Adverse Consequences for Retirement Income

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

[13]The payroll tax for Social Security is 12.4 percent of taxable earnings. The tax is split evenly between the employee and employer.

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

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

How Account Distributions Are Handled Affects Benefit Levels

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

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

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

Conclusions

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

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

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

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

Contributors

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

Features of Social Security Under Current Law and Those of Pensions

Type of beneficiary[a]	Provisions under current Social Security law	Current pension plan provisions: Federal Employees' Retirement System/Thrift Savings Plan	Defined benefit plans	Defined contribution plans
Retired worker	— Benefit computation is based on 35 years of highest covered earnings — Progressive formula leads to redistribution — Benefits reduced actuarially if taken between 62 and normal retirement age (NRA); increased if taken after NRA — NRA to increase to 67 years for those born after 1959	— FERS benefit is based on statutory formula — TSP benefit is based on employee and government contributions plus investment returns of individual account balances	Benefit is based on formula under plan documents	Benefit is based on contributions of employee, employer, or both plus investment returns of individual account balances
Spouse	— Benefit is 50% of the retired worker's benefit — Benefit is actuarially reduced if taken between 62 and NRA	[b]	[b]	[b]
Survivor	— Benefit is equal to amount deceased spouse would be receiving but not less than 82-1/2% of deceased spouse's benefit — Benefit is actuarially reduced if taken between 62 and NRA	Joint and survivor annuity is normal form of annuity, and survivor receives 50% of basic annuity	Joint and survivor annuity is normal form of annuity	Joint and survivor annuity is normal form of annuity
Dually entitled beneficiary[c]	Receives own retired worker benefit plus difference (if positive) between spouse or survivor benefit and his/her retired worker benefit	[b]	[b]	[b]

(continued)

Type of beneficiary[a]	Provisions under current Social Security law	Current pension plan provisions: Federal Employees' Retirement System/Thrift Savings Plan	Current pension plan provisions: Defined benefit plans	Current pension plan provisions: Defined contribution plans
Divorced and surviving divorced spouse	— Must have been married for at least 10 years and currently be unmarried — Must be at least 62 years old for divorced spouse, 60 years old for divorced survivor — Benefit actuarially reduced if younger than NRA — Divorced spouse benefit is 50% of retired worker's benefit — Surviving divorced spouse benefit is 100% of retired worker's benefit	Qualifying court order	Qualified domestic relations order	Qualified domestic relations order
Mother or father and widowed mother or father plus child	— Have eligible child in care — Under 65 years old — 50% of retired worker's benefit plus 50% of child's benefit — 75% of deceased worker's benefit plus 75% of child's benefit	[b]	[b]	[b]

[a]Beneficiary categories are based on Social Security definitions.

[b]Not applicable.

[c]Entitled to benefit both as retired worker and as spouse or survivor of retired worker.

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

Type of beneficiary[a]	Provisions under current Social Security law	Reform proposals of 1994-96 Social Security Advisory Council: Maintain benefits	Individual accounts	Personal security accounts
Retired worker	— Benefit computation is based on 35 years of highest covered earnings — Progressive formula leads to redistribution — Benefits reduced actuarially if taken between 62 and normal retirement age (NRA); increased if taken after NRA — NRA to increase to 67 years for those born after 1959	Extends computation period from 35 years to 38 years of covered earnings	— Extends computation period from 35 years to 38 years of covered earnings — Changes benefit formula by lowering conversion factors — Accelerates increase of NRA and indexes to longevity — Creates individual account (IA) based on defined contribution pension	— Creates two-tier system with tier I a flat benefit based on years of covered earnings and tier II a personal security account (PSA) based on defined contribution pension — Accelerates increase of NRA and indexes to longevity — Increases early retirement age to 65 years
Spouse	— Benefit is 50% of the retired worker's benefit — Benefit is actuarially reduced if taken between 62 and NRA	Same as current law	— Benefits are lowered from 50% to 33% of retired worker's benefit — Joint and survivor annuity with IA balance	Benefits are tier II accumulations plus 50% of full tier I benefit
Survivor	— Benefit is equal to amount deceased spouse would be receiving but not less than 82 1/2% of deceased spouse's benefit — Benefit is actuarially reduced if taken between 62 and NRA	Same as current law	— 75% of couple's combined benefit — Joint and survivor annuity with IA balance	75% of benefit payable to couple plus eligible to inherit balance of deceased spouse's PSA
Dually entitled beneficiary[b]	Receives own retired worker benefit plus difference (if positive) between spouse or survivor benefit and his/her retired worker benefit	Same as current law	Higher of own basic benefit or 33% of spouse's benefit	Tier II accumulations plus higher of own tier I benefit or 50% of full tier I benefit

(continued)

Type of beneficiary[a]	Provisions under current Social Security law	Reform proposals of 1994-96 Social Security Advisory Council: Maintain benefits	Individual accounts	Personal security accounts
Divorced and surviving divorced spouse	— Must have been married for at least 10 years and currently be unmarried — Must be at least 62 years old for divorced spouse, 60 years old for divorced survivor — Benefit actuarially reduced if younger than NRA — Divorced spouse benefit is 50% of retired worker's benefit — Surviving divorced spouse benefit is 100% of retired worker's benefit	Same as current law	No mention	No mention
Mother or father and widowed mother or father plus child	— Have eligible child in care — Under 65 years old — 50% of retired worker's benefit plus 50% of child's benefit — 75% of deceased worker's benefit plus 75% of child's benefit	Same as current law	Same as for spouse or survivor plus child's benefit, which is same as current law	Same as for spouse or survivor plus child's benefit, which is same as current law

[a]Beneficiary categories are based on Social Security definitions.

[b]Entitled to benefits both as retired worker and as spouse or survivor of retired worker.

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Fax #: 456-2878

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Date: 7/14/98

Pages (including this cover page): 3

Message: KIM KOIVISTO ASKED ME TO FAX YOU A COPY OF OUR SOCIAL SECURITY FACT SHEET. PLEASE LET ME KNOW IF YOU NEED ADDITIONAL INFORMATION.

Shannon.

From the desk of....

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Research-In-Brief

Social Security Reform and Women: A Factsheet

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

- *Most women do not receive private pensions.* Only 38 percent of women receive employer-provided pension benefits compared to 57 percent of men.[1] This is especially problematic for women of color, who are less likely to have employer-provided pension plans than either white men, white women, or nonwhite men.

- *Women earn less than men.* Women who work full-time earn less than men who are employed full-time. The average woman college graduate earns little more than the average male high school graduate. Women earn 74 cents for every dollar men earn.

- *Women are less likely to work full-time.* Seventy-four percent of men between the ages of 25-44 were employed full-time for all of 1996, compared to 49 percent of women in that age group.[2]

- *Women are more likely to spend time out of the paid labor force.* Twenty-one percent of women between the ages of 25-44 were not employed in 1996 compared to only 7 percent of men.[3] Many of these women are mothers of young children.

- *Women are more likely to live alone in their retirement years.* Retired men are more likely to be married and therefore usually receive two Social Security benefits: one for themselves and one for their wives. Elderly women living alone receive only one benefit.

Institute for Women's Policy Research ♦ 1400 20th Street N.W. ♦ Suite 104 ♦ Washington, D.C. ♦ 20036 ♦ (202) 785-5100

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

- *Social Security benefits protect against inflation.* The cost-of-living increases built into Social Security provide an important anti-poverty protection for women. Private investments do not protect against inflation or devalued investments.

- *Women live an average of 7 years longer than men.* Private accounts place women in danger of outliving their accumulated funds. Under private accounts, women could live their most vulnerable years in extreme poverty.

Proposals for Social Security reform must maintain safeguards for women.
Research conducted by the Institute for Women's Policy Research, the General Accounting Office, and others indicate:

- Proposals that reduce guaranteed benefits to make way for individual accounts would disproportionately hurt women--making women more vulnerable to the risk of private investments and poverty if expected returns are not realized.

- Proposals that raise the retirement age to 70 would tend to hurt women who are unable to work while they care for their aging parents, family members, or their retired spouses.

- Widows, divorcees, and women who have never been married--women who tend to have the lowest Social Security benefits today--would receive even lower benefits under many of the proposed changes.

Notes:

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

[2] Based on IWPR calculations from the Current Population Survey for 1996, U.S. Bureau of the Census.

[3] Ibid.

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

United States Senate
Democratic Steering and Coordination Committee

Washington, DC 20510–7050
(202) 224-9048

MEMORANDUM

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

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

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

A few factoids about women and Social Security:

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

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

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

The Retirement Security Act of 1998 -- Bill Highlights --

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

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

IMPROVING PENSION ACCESS AND COVERAGE

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

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

PROMOTING PENSION PORTABILITY

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

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

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

STRENGTHENING PENSION SECURITY

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

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

INCREASING PENSION EQUITY FOR WOMEN

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

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

THOMAS A. DASCHLE
SOUTH DAKOTA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

###

CATO

July 21, 1998

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

PATRICK S. KORTEN
Vice President for Communications

Dear Ms. Clinton:

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

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

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

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

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

Sincerely,

Patrick S. Korten

enclosures

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THE VOICE OF MIDLIFE AND OLDER WOMEN

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Fax Number: 456-2878

From: Deb Briceland-Betts

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Comments:
Here are the fact sheets on women & SS. And, the effects of various proposals.
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OWL

THE VOICE OF MIDLIFE AND OLDER WOMEN

PRINCIPLES
WOMEN AND SOCIAL SECURITY

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

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

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

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

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

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

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

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

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THE VOICE OF MIDLIFE AND OLDER WOMEN

OWL Facts

WOMEN AND RETIREMENT INCOME

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

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

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

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

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

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

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

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

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

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

A Problem for Women of All Generations

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

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

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

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

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

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

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

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

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

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

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

OWL

THE VOICE OF MIDLIFE AND OLDER WOMEN

OWL Facts

SOCIAL SECURITY PRIVATIZATION AND WOMEN

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

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

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

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

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

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

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THE VOICE OF MIDLIFE AND OLDER WOMEN

OWL Facts

GENDER BIAS IN THE SOCIAL SECURITY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

file social security / Women

SOCIAL SECURITY AND WOMEN

STRENGTHENING SOCIAL SECURITY IS PARTICULARLY IMPORTANT FOR WOMEN:

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

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

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

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

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

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

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

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

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

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

HOW SOME SOCIAL SECURITY REFORM OPTIONS IMPACT WOMEN

Increasing the Number of Computation Years

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

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

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

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

Allowing Dependent Care Drop-out Years in the Benefit Formula

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

Reducing the Cost-of-living Adjustment

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

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

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

PROPOSAL TO INCREASE WIDOW BENEFITS TO REDUCE ELDERLY POVERTY

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

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

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

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

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

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

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

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

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

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

WOMEN
AND
RETIREMENT SECURITY

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

OCTOBER 27, 1998

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WOMEN AND RETIREMENT SECURITY

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

I. BASIC FACTS ON WOMEN AND RETIREMENT

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

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

POVERTY RATES OF THE FEMALE POPULATION 65 AND OVER BY MARITAL STATUS, 1997[3]

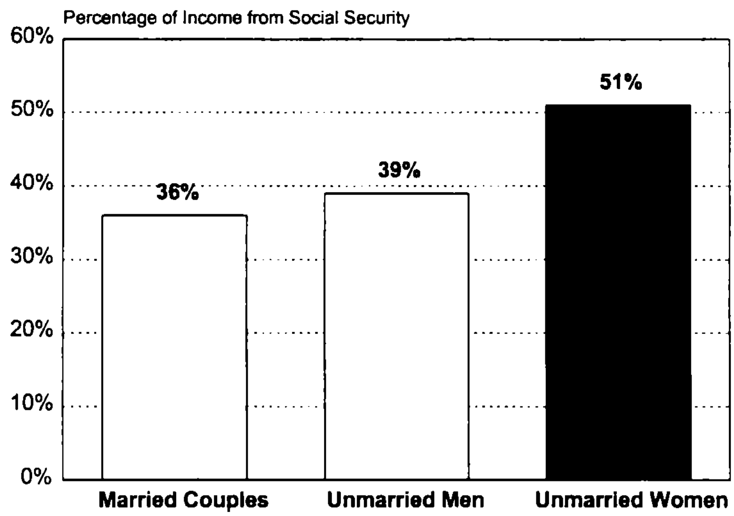
All Elderly Women	Married	Divorced	Widowed	Never Married
13.1%	4.6%	22.2%	18.0%	20.0%

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

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

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

Social Security Is Particularly Important For Elderly Women



Source: Social Security Administration

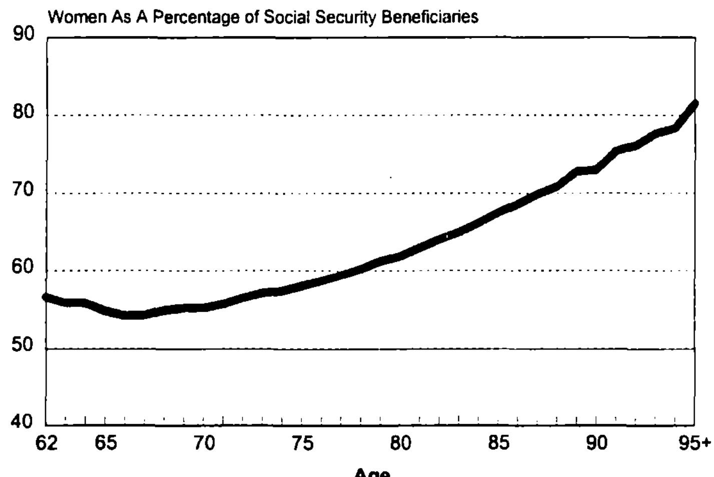
II. Social Security and Women

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

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

Most Social Security Beneficiaries Are Women

Among Oldest Beneficiaries Women Are An Even Larger Share

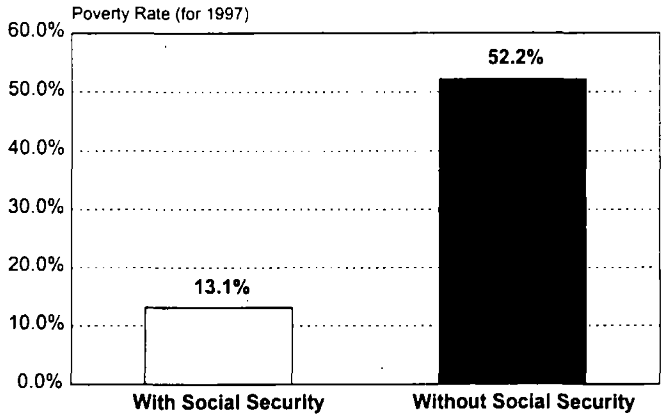


Source: Social Security Administration.

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

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

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



Source: Social Security Administration

Why Women Face Greater Economic Challenges in Retirement

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

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

- **Women Have Lower Lifetime Earnings than Men.** Women have lower *lifetime* earnings than men do for three reasons:

    - **Women Who Work Are More Likely to Work Part-time.** In the third quarter of 1998, 25.8 percent of female workers worked part-time, compared with 10.6 percent of male workers. Women represented 67.5% of all part-time workers.[10]

    - **Full-time Female Workers Earn Less than Full-time Male Workers.** The median earnings of full-time year-round women workers in 1997 was $24,973, compared to $33,674 for men -- that means that the median woman earns 74 percent of the median man's earnings.[11]

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

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

How the Current Social Security System Helps Women Meet Retirement Challenges

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

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

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

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

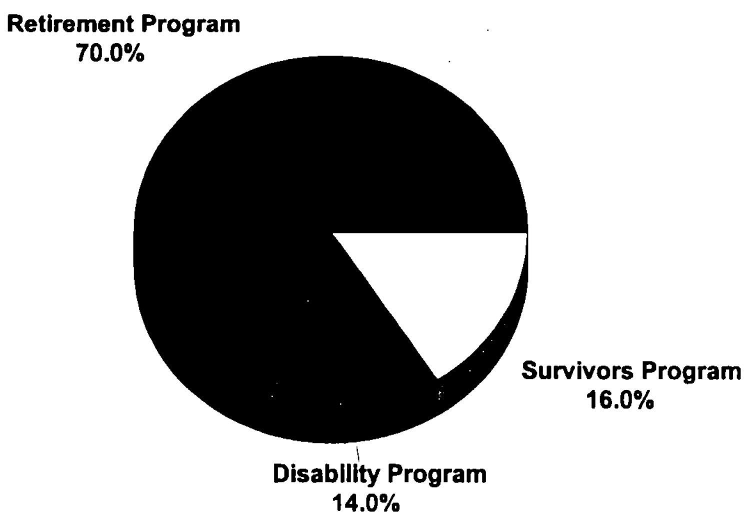
- **Social Security Provides Benefits for Widows.** Social Security pays an elderly widow a benefit equal to either the benefit she receives as a worker or the benefit of her deceased spouse, whichever is higher. Nearly three quarters -- 74 percent -- of elderly widows receive benefits based on the earnings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

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

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

Social Security Is More Than A Retirement Program

Percentage of Social Security Beneficiaries By Program



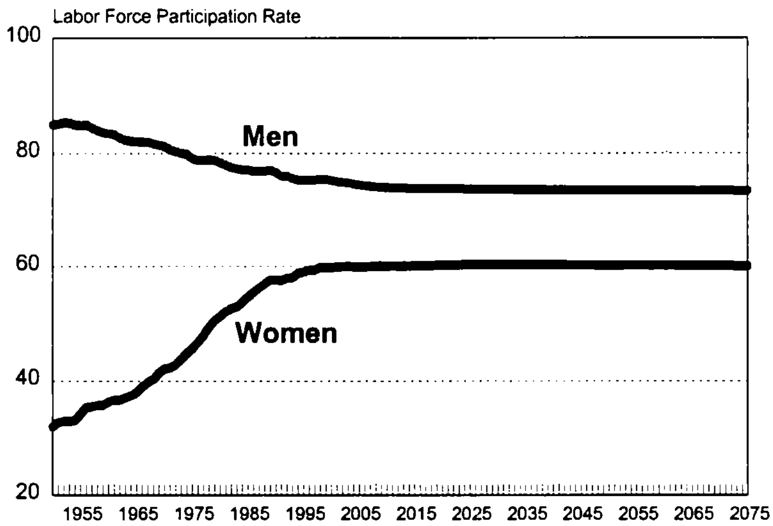
Will Social Security Continue to Be as Important for Women in the Future?

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

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

Labor Force Participation Rates

1950-2075



Source: Social Security Administration. Data are age adjusted.

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

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

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

III. CHALLENGES FOR THE CURRENT SYSTEM

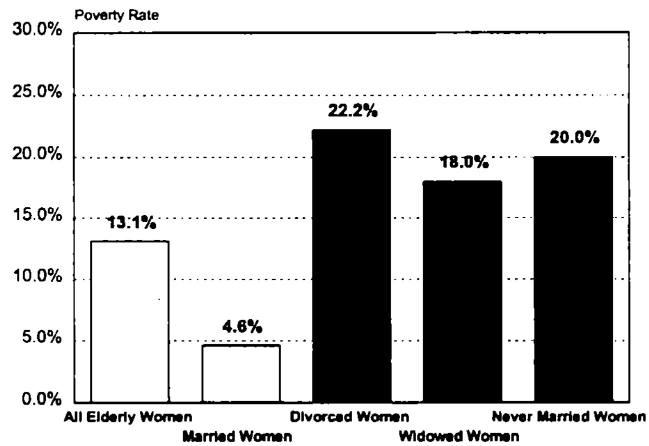
Poverty Rates Remain High Among Elderly Women

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

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

Poverty Rates Are High Among Unmarried Elderly Women

1997



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

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

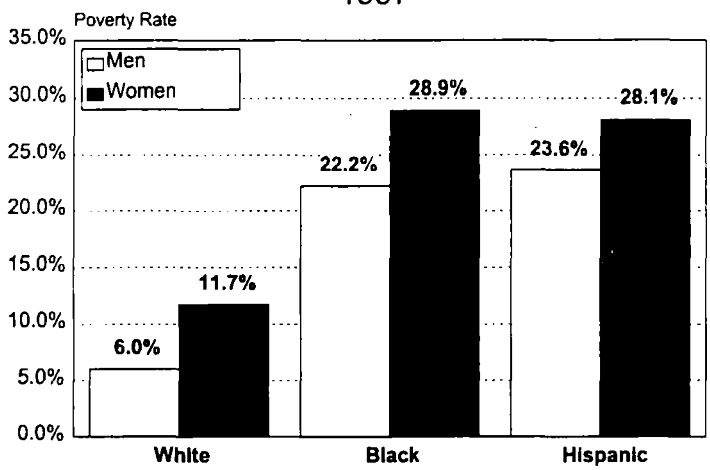
- **There Are Also a Substantial Number of Relatively Young Widows, Though the Number Is Falling.** Of 60-year old women, 13 percent are widows. This percentage rises to more than one-quarter of women aged 65 to 67. Because husbands in low-income families tend to die at younger ages than husbands in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

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

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

Poverty Rates Are Particularly High Among Elderly Minority Groups

1997



Source: Bureau of the Census

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

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

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

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

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

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

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

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.