

Women and Social Security

Overview

Social Security, the first leg of the retirement income stool, continues to be the nation's single most successful social program. Its lifetime benefits and annual cost-of-living adjustments help millions of women and men to escape poverty in old age. The Social Security system was established in 1935 to provide American workers with protection from the total loss of wages when they retired. The program was amended in 1939 to pay benefits to spouses, widowed spouses, and children of retired or deceased workers, and amended again in 1956 to provide benefits for workers with disabilities and their families.

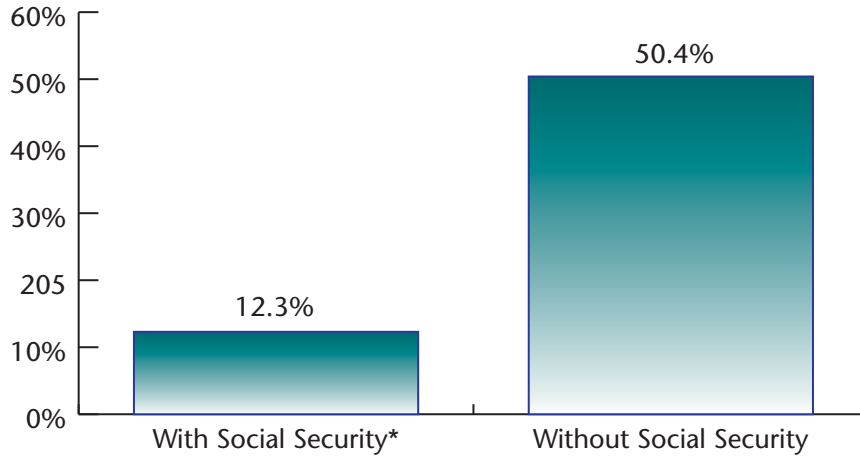
Social Security is a social insurance program financed by a federally-administered system of payroll taxes. When they are in the labor force, workers and their employers each pay equally into Social Security (FICA taxes) so that when the workers retire, become disabled, or die, they and/or their eligible family members will receive monthly benefits. The Social Security taxes paid by today's employers and employees provide benefits for today's beneficiaries. Its annual cost-of-living increases prevent inflation from eroding the value of these benefits, and benefits are received for life.

Social Security benefits are an important source of income for women of all ages. Today, women receive more than 48 percent of retired worker benefits and almost 46 percent of disabled worker benefits. Women receive 99 percent of non-disabled survivor benefits and 99 percent of widowed mothers and fathers benefits (SSA, 2006A). More than 50 percent of women age 65 and older would live in poverty were it not for their Social Security benefits. Unfortunately, even with Social Security benefits, over 12 percent of all older women are poor. (See Figure 2.1). For older minority women the rates are even higher—



without Social Security the poverty rate for older Black women would jump from 25 percent to 62 percent (AARP, 2007A).

FIGURE 2.1: Social Security Is Particularly Important For Elderly Women

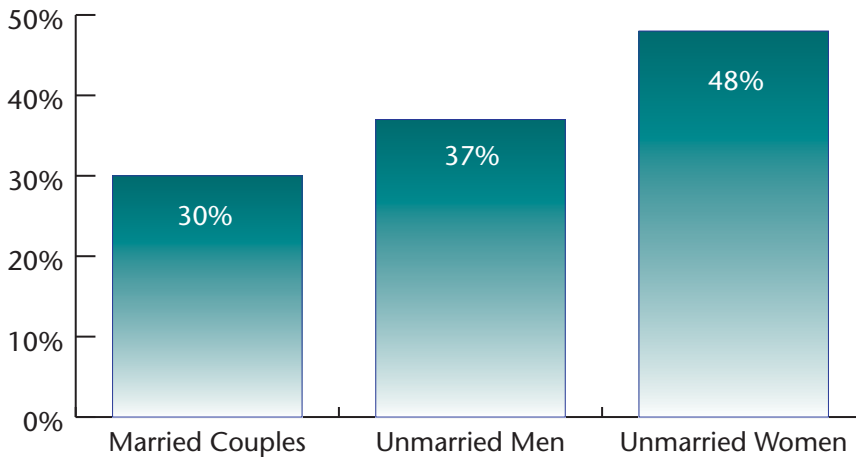


* Note: Percentage of women who are Social Security beneficiaries

Source: Census, 2006

Social Security benefits provide a lifeline for unmarried women whether they are widowed, divorced, or never married. For unmarried women age 65 and older, Social Security comprises 48 percent of their total income. In contrast, Social Security comprises only 37 percent of unmarried elderly men's income and only 30 percent of elderly couples' income (SSA, 2007 B1). (See Figure 2.2). The extent to which women depend on the program increases with age.

FIGURE 2.2: Social Security Is Particularly Important For Unmarried Women Age 65+



Source: Social Security Administration, 2007B

Broadly speaking, Social Security is gender neutral: women and men with identical work histories and earnings can expect to receive the same benefits. But women's different employment patterns create a gender gap in Social Security benefits. According to the Social Security Administration, the average annual benefit for retired women workers in 2007 was \$10,685 considerably less than the \$14,055 received by men. (SSA, 2007 B1). For minority women, the difference is even greater. The average retired workers' benefits were about 10 percent lower for black women (\$847.70) than for white women (\$916.10) (SSA, 2007).

There are three general categories of Social Security benefits to which an older woman may be entitled: (1) a benefit based on her own work record, (2) a spouse or divorced spouse benefit based on her spouse's work record, or (3) a surviving spouse or surviving divorced spouse benefit based on her deceased or former spouse's earnings.

Worker Benefits

If a woman receives a Social Security benefit based on her own earnings record, it is calculated assuming a 40-year work life. The five lowest earning years are dropped from the 40-year calculation and the 35 years with the highest earnings are averaged. A zero is entered into the calculation for each year under 35 years that the worker does not work and contribute to Social Security. Each zero year reduces a woman's average and thus her lifetime benefit amount. In 2002, the average number of years with zero earnings for a newly retired woman was 13 (SSA, 2003). (For a more complete explanation of the benefit calculation and an estimate of your Social Security benefit go to: <http://www.socialsecurity.gov/planners/calculators.htm>.)

Spousal Benefits

Upon reaching retirement age, a woman who is married, or a divorced woman who had been married for at least 10 years, may be entitled to spouse or divorced spouse benefits. The maximum spouse or divorced-spouse benefit is based on one-half of a husband's, or former husband's, retired worker benefit. The (ex)wife will receive the amount of her own worker benefit or a spousal benefit—whichever amount is higher—but she cannot receive both added together. A woman who has earned benefits through her own work history but is entitled to a spousal benefit that is higher than her own is considered “dually entitled.” This means that she will receive her own benefit amount and her spouse's benefit will be used to bring her total benefit amount up to one-half of his. (The full benefits are not added together.) Women with fewer than 40 credits (10 years of covered work) are entitled to receive spousal benefits, assuming their spouses are eligible.

According to Social Security, the portion of women aged 62 or older who are receiving benefits based on their husband's earnings record only has declined from 57 percent in 1960 to 30 percent today. At the same time, the portion of women with dual entitlement (that is, the benefit from the wife's own earnings record is lower than the benefit based on 50 percent of her husband's benefit) has increased from five percent in 1960 to 28 percent today. Forty-two percent of women are receiving benefits based on their own work. They are neither receiving benefits as a spouse alone nor receiving benefits as a dually entitled



person (SSA, 2007A). These women may be married; if so, the benefit based on their own work is higher than the benefit based on 50 percent of their spouse's benefit. Some analysts see an inequity here, since two-earner couples may contribute more to the system, but actually receive less in benefits than a one-earner couple making the same total income.

Survivor Benefits—Widowhood & Divorce

Many women see their family Social Security benefits drop when they become widows. Survivors may collect their own retired worker benefits, or their spouse's full benefit amount, whichever is larger. They do not continue to receive the benefit amount the couple received. In 2008, the average nondisabled widow of a retired worker received \$1,046 in monthly benefits (SSA, 2008).

A divorced woman whose former husband dies (and who was married for at least 10 years) may receive his full benefits or her own retired worker benefit, whichever amount is greater—she cannot receive both. However, because the average length of a marriage that ends in divorce is eight years, many divorced women do not qualify for divorced spouse benefits. In 2006, divorced women who qualified received an average monthly benefit of \$513; divorced widows who qualified received an average \$1,034 in monthly benefits (SSA, 2007). (Benefits for divorced widowed spouses have no effect on the benefits received by the current spouse.)

Proposals for Reform

Discussions about changing Social Security are being driven by policymakers, lawmakers and advocates who are concerned about Social Security's future fiscal health. In 2008, the first baby boomers reached age 62—early retirement age for Social Security—and were eligible to start drawing Social Security benefits. While Social Security currently takes in more revenues than it pays out in benefits, the retirement of the 78 million boomers as they come into the program will create a long-term imbalance.

The most recent report from the Social Security Trustees states that without changing current law, full benefits can be paid until 2041. After that, even if no changes are made, the amount of money paid into the system by current workers will cover roughly 78 percent of benefits. There is no immediate crisis. However, the report strongly recommends that the public engage in informed discussion and that policymakers think creatively about the needs and preferences of working and retired Americans (Social Security Trustees Report, 2008).

Members of Congress are divided on which of two major approaches should be taken. Some say that Social Security requires a major overhaul and others believe that only a tune-up is needed, applying the kinds of minor adjustments that have been made throughout the program's history.

Long-term Solvency—Two Approaches

Major Restructuring

Private or Individual Accounts (IAs). The dominant proposal from those who believe the program needs a major restructuring is creation of private or individual accounts. The advocates of IAs recommend taking a part of current payroll taxes, usually 1 or 2 percentage points, from the 12.4 percent employer/employee FICA tax and moving it into accounts that the individual worker would invest for him or herself.

Critics of these individual accounts that take money from the system note that diverting money from the current program would result in a worsening of Social Security's long-term solvency. They also note that this approach increases the amount of risk the individual has to take.

While advocates of this approach promise there would be no cutting back on the benefits of those in or near retirement, there is concern that future reductions in the program could result in an increase in poverty among older women.

Analysts point out that the proposed option of diverting 2 percent of payroll taxes into private accounts was estimated to cost more than \$1 trillion over ten years. None of the private account proposals suggest how to make the transition from today's pay-as-you-go Social Security program to a privatized individual account system, but almost everyone on both sides of the issue agrees it would be costly.

Potential Adjustments to the Current Structure

The advocates of adjusting the current program suggest a number of options that can be mixed and matched and adjusted to achieve long-term solvency. They include two options that could have a negative affect on women:

- ✿ Raise the age for full retirement based on longevity. This change solves 20 to 30 percent of the long-term shortfall; however, it would be a hardship for women and men who have physically demanding jobs. They are more likely to take benefits early and would therefore experience a further reduction in their benefits.
- ✿ Increase the number of work years used to calculate Social Security benefits from the current 35 to 38 years. This change solves about 15 percent of the shortfall but also has a disproportionately adverse effect on women, who already lag behind men in meeting the current 35 year work requirement.

Former Social Security Commissioner Robert M. Ball developed a comprehensive plan to resolve the Social Security shortfall through a combination of revenue increases and cost reductions including:

- ✿ Gradually increase the cap on earnings taxable for Social Security to cover 90 percent of wages. Today only 83-84 percent of wages are being taxed. This means losses to the trust funds.
- ✿ Dedicate future proceeds of a revised estate tax to Social Security beginning in 2010. Present law gradually reduces the estate tax so that by 2009, only estates above \$3.5



million (\$7 million per couple) will be taxed. The tax could be frozen at that level, with the revenues directed toward Social Security.

- ❁ Improve the return on Social Security funds by investing a portion in equities, as just about all other public and private pension plans do. Other government retirement systems, such as those for employees of the Federal Reserve Board, the Federal Railroad Retirement Board, and the Tennessee Valley Authority, also invest directly in stocks.

Risks for Women in Private/Individual Accounts

Depending on the specifics of the proposal, individual accounts that take money out of the Social Security program could expose women to greater financial risk. Additionally, proposals that take money from the Social Security program increase solvency concerns; they do not solve the financing problem, they make it worse.

Any reform proposals should take into account the following issues and how they will affect the majority of working women:

- ❁ Women on average earn less than men, and that is unlikely to change dramatically over the next few decades. Social Security today replaces a larger percentage of income for low paid earners than for high paid earners. Typically, women have lower earnings and spend more time out of the workforce for caregiving than men. As a result, women have less money than men to invest. Individual accounts would eliminate or significantly reduce the current program's protection for low-income people.
- ❁ The stock market is unpredictable. Individual accounts mean the individual bears all the risk of investing. Educating the public about wise asset allocation strategies would seem to be an enormous undertaking. Moreover, those who retire when the stock-market is down would have fewer financial resources through no fault of their own. Guaranteeing a minimum benefit would help shift the risk away from the individual.
- ❁ Women live longer than men. The current program pays a monthly benefit for as long as a woman lives. Additionally, benefits are adjusted upward annually for changes in the cost of living, helping to protect buying power. If women had to purchase their own annuities to replace a part of their Social Security, their longer life expectancy would mean lower monthly benefits.
- ❁ Divorced women are particularly vulnerable under individual accounts. The current program provides a woman married for ten years or more with half of her former husband's benefit amount while he is alive. When he dies, she is entitled to the same widow's benefit she would have received if she had stayed married. While divorced women are among the poorest beneficiaries, individual accounts would further reduce their guaranteed benefits.
- ❁ Dependent's and Survivors' benefits could be negatively affected. The current program provides protection for the spouse, children, and dependent parents of an eligible worker who dies or becomes disabled. Critics of individual account proposals say that dependents and survivors would have less protection and most would experience a benefit cut.

Improving Benefits for Women

While many Social Security reform proposals would result in lower benefits for women, there are options that address some of the current program's structural deficits and increase women's benefits. The purpose of presenting some of these is to offer options for consideration.

- ✿ Eliminate the “motherhood penalty,” by granting caregiver credits for up to five years spent out of the full-time workforce to care for children. (A spouse's earnings would not affect eligibility for the credits.) Granting the credits potentially eliminates five additional “zero” years from the Social Security benefit calculation.
- ✿ Provide credits for caregiving by allowing up to four additional “drop out” years. “Care” would include care for family members other than children.
- ✿ Increase the widow's benefit from 100 percent of the couple's higher-earner benefit to 75 percent of the couple's combined benefits. This proposal addresses the fact that many older women are not poor until their spouses die. Since typically the husband's income has been higher, a widow who worked long enough to be eligible for benefits of her own essentially gets no credit for her earnings.

Expand the Special Minimum Benefit:

- ✿ Change the Social Security benefit calculation formula to increase the minimum benefit, which was designed to compensate long-term, low-wage workers, predominantly women who stay in such jobs for most or all of their work lives.

Improve Benefits for Divorced Women:

- ✿ Increase benefits for lower-earning divorced spouses from 50 percent of the former spouse's benefit to 75 percent.
- ✿ Reduce the number of years of marriage needed to qualify for the spousal benefit from the current ten years to seven years, as long as combined marriage and work history totals ten years.

In Conclusion

Social Security is the first line of defense for women against poverty in old age. Clearly, women have a strong stake in ensuring the financial solvency of the program and making sure that the broad range of benefits remains. Women need to stay focused on the proposals and the debate to reform the current system.



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