The Impact of Social Security Reform on Women

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The Impact of Social Security Reform on Women

Executive Summary

The Social Security trust funds collect money from current workers to pay benefits to current retirees; since the amount of money being collected is much greater than the current benefits, there has been a surplus for many years that will continue for the next 10 years. Experts predict that the aging of the baby boom generation will create an imbalance, and that after 2032 there will be only enough funds to pay for approximately 75 percent of promised benefits for several decades.

This future shortfall raises important questions about what the federal government should do to ensure that the Social Security system will provide adequate benefits during the retirement years of the baby boom generation. This report uses information from a study of women over the age of 65, conducted by the Institute for Women's Policy Research, to determine the impact of different proposals to revise the Social Security program on women, who are the majority of Social Security recipients.

The study is based on data from the Social Security Administration's New Beneficiary Survey, which conducted interviews with a nationally representative sample of women and men who had begun receiving Social Security benefits in the early 1980s, and then in 1991 re-interviewed surviving members of the original sample and surviving spouses of those who had died to determine how their economic circumstances had changed.

Research Findings

Ten percent of the unmarried women in our study were poor when they were first interviewed shortly after retirement and 15 percent were poor nine years later. In contrast, poverty was relatively rare among women who were married when they retired as well as nine years later. Poverty was more likely among retired women who had been divorced, separated, or widowed for longer periods of time. And, among the older women who became poor, more than two-thirds stayed poor. There are several reasons for the increase in poverty among women who were not married: loss of earnings that supplemented Social Security benefits, either her own or her husband's (for recent widows); lack of pensions, or, among recent widows, loss or reduction of her husband's pension; and declining income from assets, due either to inflation or to spending savings or other assets (to pay for health care or other expenses).

- The results indicated that pension and retirement savings systems are especially inadequate for women. Much poverty in old age can be attributed to lack of pensions and inadequate pensions, which are often related to lifelong low earnings. Women were more likely to have pensions if they were married to well-educated men; very few women had pensions from their own work experience.

- For non-married women with only modest amounts of retirement income, continuing to work may be one of the few ways to avoid becoming poor. As women age, however, health problems or lack of job opportunities may make continued employment difficult or impossible.

- Health problems that interfere with working significantly contribute to poverty during the retirement years. A husband with health problems often worked fewer years, saved less for retirement, and was more likely to die.
early. Women’s own health problems also contributed to poverty, especially for elderly women who needed to work to supplement low retirement income.

- Receiving disability insurance benefits from Social Security can partially make up for the income disadvantage of health problems. Disability insurance gave widows of disabled workers the best protection when the husband’s disability did not take too many years from his working life. Because of their generally lower earnings, however, women’s own disability benefits were rarely large enough to compensate for the lost earnings and high health costs resulting from poor health.

Implications of Findings for Proposed Changes in the Social Security System

The findings have important implications for the debate on the future of the Social Security system. Most proposals emphasize changes in the way retirement savings are invested or when benefits are distributed, and do not show as much concern about the importance of the social insurance aspects of Social Security that provide a safety net for many older Americans, especially women. Our findings indicate that, as proposals are considered, it is essential to keep in mind that current Social Security rules protect recipients in ways that are especially important for women. These protections include:

1. A benefit formula that is relatively generous to low earners, which is important because women usually earn less than men;

2. Yearly cost-of-living increases, which are especially important for individuals who live longer, most of whom are women;

3. Survivor benefits for the lower earning spouse, which is almost always the wife;

4. Benefits for divorced spouses and divorced widows, if a marriage lasted at least ten years; and


The purpose of current proposals to revise Social Security is primarily aimed at decreasing the cost of the program, often by making the benefits less generous. The findings indicate that widows and other women who have no husbands during their retirement years face economic problems that would be even more severe if Social Security benefits were made less generous. Unfortunately, even the changes that are already underway will make Social Security benefits less generous for many of the women who depend on these benefits as their safety net.


Proposals to Change Benefits or the Retirement Age

The Individual Accounts proposal includes changes to the dependent and survivor benefits. Currently, married women can choose to receive either a benefit based on her own work record or a dependent benefit equal to half of her husband’s benefit. A widow can receive either her own benefit or a survivor benefit equal to her husband’s benefit. Similar provisions are available for men and for divorced or separated persons. Under the Individual Accounts proposal, a widow could receive either her husband’s benefit, her own benefit, or three-quarters of the combined benefit of both spouses. However, the dependent spouse benefit would be reduced from one-half to one-third of the husband’s benefit. So, widows with considerable work experience would benefit from these changes, but low-earning married women and many divorced and separated women would tend to be harmed by these changes.

Under the Individual Accounts proposal and the Maintain Benefits proposal, benefits would be
calculated on the basis of the average of 38 years of highest earnings rather than the 35 years of highest earnings that is current policy. Experts estimate that only 30 percent of women and 60 percent of men retiring in 2021 will have 38 years of work experience; the majority of women would have lower benefits because their benefits would be based on average annual earnings that take into account one or more years of no earnings at all. Of course, women are also more likely to have more years of part-time work, which would also likely lower their benefits.

Several proposals, including the Individual Accounts proposal and the Personal Security Accounts proposal, would raise the normal retirement age as well as the early retirement age. Under current law, the age of retirement is gradually increasing from 65 to 67, but under these new proposals the age increase would be accelerated and then raised further as longevity increases for the general population. These proposals would harm older men and women who are not healthy enough to work full-time or who are unable to find a job, but it would be particularly harmful for women, since they are more likely to stop working to care for an older spouse.

Privatization Proposals

The Individual Accounts (IA) plan and the Personal Security Accounts (PSA) plan also call for partial privatization. The IA plan would privatize a much smaller portion of benefits than the PSA plan. The guaranteed portion of retirement benefits would be scaled back to provide guaranteed amounts that are estimated to be 22 percent below those currently received by low earners and 32 percent below those of high earners.

Private investments can be risky, especially for women who tend to rely heavily on Social Security as their major source of retirement income. Women tend to be more cautious investors, so they are less likely to lose their savings in a private plan, but also less likely to substantially increase their savings through investments.

In the Personal Security Accounts plan most of the employee’s portion of the payroll tax would be invested by the workers as they choose, which could include stocks or bond mutual funds to be held in private accounts. Accumulated funds would be managed by the individual but could not be withdrawn until the stipulated age for retirement. Qualified workers would receive a very scaled-down guaranteed benefit, based on the number of years of employment of the individual (or possibly both spouses, if married or widowed). For divorced and separated women, for example, the maximum guaranteed benefit would be only about two-thirds of the poverty level, thus leaving many women well below the poverty line.

The PSA plan would entail great risks for low and moderate-income elderly women who are no longer married. Our results indicate that these are the women who are currently most likely to become poor; the PSA plan is likely to exacerbate poverty for these women.

The Individual Accounts plan is receiving a great deal of attention, because it is less radical than the other privatization plan (the PSA). Fortunately, the IA plan is more favorable for women than the PSA plan. However, it still shares several major changes that would harm some of the older women who are already most vulnerable to poverty.

How Different Will Future Generations of Retired Women Be?

The participation of women in the work force, and the careers that women choose, have changed greatly in the last 30 years. Although future generations of women retirees will differ from those interviewed for this study, most of these policy conclusions will still be relevant. Women retiring now and in the future are more likely to be divorced and to have more work experience and higher earnings. The increased work experience and higher earnings will help increase their benefits, but our results suggest that the larger proportion of divorced and separated women among the retired could mean an increased likelihood of poverty among older women in the future, despite their improved life-time earn-
ings. And, even though women retiring in the future will have more work experience than currently retired women, they will still be much more likely than men to have spent time out of the labor force or working part-time. Moreover, even those women who work full-time year-round continue to earn only about 75 percent of men’s earnings. Therefore, many women will have inadequate pensions and will continue to need to rely on Social Security and to share in their husband’s (or former husband’s) retirement income.

Conclusions

Although adjustments to the Social Security system are probably necessary to keep the program balanced throughout the baby boomer retirement years, many provisions of the current proposals would risk increasing poverty among retired women. As proposals are developed and considered in the months to come, it is essential to maintain the social insurance aspects of the current system in order to ensure that women, especially widows and other non-married women, are not thrust into poverty as a result of changes in Social Security policies.
The Impact of Social Security Reform on Women

The Social Security trust funds collect money from current workers to pay benefits to current retirees; since the amount of money being collected is much greater than the current benefits, there has been a surplus for many years that will continue for the next 10 years. Experts predict that the aging of the baby boom generation will create an imbalance, but that nevertheless the years of surplus will enable the Social Security system to continue to pay 100 percent of the promised benefits until 2032 even if no changes are made before then. Even after this date there would still be enough funds to pay for approximately 75 percent of promised benefits on a sustained basis. Such a large cut in benefits, however, would harm many people.

This projected shortfall raises important questions about what the federal government should do to enable the Social Security system to achieve benefits close to those promised for the retirement years of the baby boom and later generations. It is essential to answer these questions in the near future to restore faith in Social Security for younger generations who have been led to believe that they will receive nothing from the system. Many different proposals have received congressional and public attention in recent months. Perhaps the most often cited are the recommendations made by the Social Security Advisory Council in 1996. The proposals made by the Council and by others vary widely. However, virtually all have one shortcoming in common: they pay almost no attention to the impact that proposed changes in the Social Security system will have on women, even though women depend more on Social Security benefits than do men.

The Institute for Women’s Policy Research recently completed a two-year study of women who receive Social Security benefits, with a focus on the factors that affect their financial security (Shaw & Yi, 1997). The study has immediate implications for proposals to reform the Social Security system, because it provides comprehensive and objective information about the economic experiences of women throughout the United States who are 60 years old and older.

This report will focus first on the questions that the study addresses about poverty among older women, and then discuss the implications of the findings for proposals that are currently being considered to change the Social Security program. Although some of the life experiences that may cause poverty, such as poor health, widowhood, or lifelong low earnings, cannot be remedied by changing the Social Security system, the impact of those life experiences can be either minimized or maximized by many of the policy reforms that are currently under consideration.

Research Study and Results

Why are so many elderly women poor, and what kinds of changes to Social Security and other policies would reduce poverty among elderly women?

It is well established that elderly poverty is most common among women who are not married and among older rather than younger retirees. However, many important questions remain:

- Why are women increasingly likely to be poor as they move from the early years of retirement into their 70s?

- Are pension and retirement savings systems especially inadequate for women? What strategies are effective in compensating for inadequate retirement benefits and savings?
In what ways does the poor health of a woman or her husband affect her economic security in old age?

The answers to these questions have important implications for the Social Security program, and for efforts to reform that program in the coming years. The research conducted by the Institute for Women’s Policy Research is designed to answer the questions using a unique data set, the Social Security Administration’s New Beneficiary Surveys. In 1982, the first of the interviews was conducted with a nationally representative sample of women and men who had begun receiving Social Security benefits in the previous two years. A follow-up survey in 1991 interviewed surviving members of the original sample and surviving spouses of those who had died (see Ycas, 1992; Social Security Administration, 1993). The combined surveys provide a picture of the economic circumstances of women shortly after the time of their retirement and then nine or ten years later when they were in their 70s.

To determine how to reduce poverty, the economic circumstances of married women and three major groups of nonmarried women were compared:

- recent widows (those whose husbands died between the interviews),
- longer-term widows, and
- long-term divorced or separated women.

An additional group, never-married women, are shown on tables when sample size permits. Women who recently remarried or divorced are not discussed further in this report because so few were interviewed in the national survey. The proportions of the women in these marital status groups are shown in Figure 1.

**Figure 1. Marital Status of Women Respondents in the New Beneficiary Surveys**

- Married Both Years (45.2%)
- Never Married (3.9%)
- Recent Widows (20.1%)
- Long-Term Widows (20.9%)
- Divorced or Separated Both Years (7.9%)
- Other (a) (2.1%)

(a) includes those whose marital status changed from married to separated or from divorced and non-married to married.

**Poverty Measures**

The poverty statistics presented here are based on the official poverty definition used by government agencies. Some Census publications use 125 percent of the poverty line as a definition of near poverty. We have chosen to use the term “near-poverty” to designate those below 150 percent of the poverty level. This broader definition includes more of the vulnerable elderly. In 1996 dollars, the poverty line for persons 65 or older was about $7,500 for a single individual and $9,500 for two people; 150 percent of poverty was about $11,250 for a single person and $14,250 for a couple. It is our belief that elderly women with incomes under $11,250 per year are indeed close to being poor.

The poverty rates reported are based only on the income of the person interviewed, if not married, or the couple, if married. These poverty measures indicate the ability of the women or couples to live on their own resources (except that monetary help from others may be included in income).

We could not include the income of family members other than husbands because the NBS did not gather complete income data from them. About one-quarter of nonmarried women lived with other family members in 1991.

One criticism of official poverty statistics is that many elderly individuals and couples own mortgage-free homes and may therefore have lower living expenses than renters or home owners with mortgages. They may also potentially be able to obtain reverse mortgages that could increase their spendable incomes. Not allowing for these advantages might mean overestimating the amount of elderly poverty. When we took into account the value of home ownership, the amount of poverty and near poverty decreased for all groups. Using this measure, poverty was uncommon among recent widows and married couples. However, near-poverty rates remained high for nonmarried women. In 1991, 20 percent of recent widows, 35 percent of long-term widows, and nearly half of divorced or separated women were near-poor, even after taking their home equity into account.

Findings on Poverty Among Elderly Women

Poverty or near-poverty increased for all nonmarried women as they moved from initial retirement into their 70s. Ten percent of the nonmarried women in the study were poor when they were first interviewed shortly after retirement and one-quarter were either poor or near-poor. Nine years later, 15 percent were poor and 38 percent were below the near-poverty level. (See Poverty Measures Text Box for definitions.)

- Long-term divorced or separated women were the most likely of any group to be poor or near poor; more than half were poor or near-poor by 1991 (see Figure 2).

- Recent widows had the largest increase in poverty over time, but were still much less likely to be poor or near poor than long-term widows or long-term divorced or separated women.

- Poverty was relatively rare and did not increase among women who were married at both interviews. However, approximately one in ten married women was either near poor or poor.

Several reasons for decreased income led to poverty over the nine-year period among women who were not married:

- Loss of earnings, either her own or her husband’s (for recent widows), was the most important kind of income loss among women who became poor (see Table 1). Women earners most commonly lost earnings from formerly held part-time jobs that supplemented their Social Security benefits.
Figure 2. Percentage of Women Who Were Poor or Near-Poor in 1982 and 1991, by Marital Status


Table 1. Percentage of Unmarried Women with Income Losses of $50 per Month or More: Women Who Became Poor or Near-Poor, by Marital Status

<table>
<thead>
<tr>
<th>Kind of Income Loss</th>
<th>Widowed After 1982</th>
<th>Widowed After Both Years</th>
<th>Divorced/Separated Both Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Became Poor (a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>37%</td>
<td>45%</td>
<td>62%</td>
</tr>
<tr>
<td>Assets Income</td>
<td>20</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>Pensions (c)</td>
<td>13</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Became Near-Poor (b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>31%</td>
<td>38%</td>
<td>68%</td>
</tr>
<tr>
<td>Assets Income</td>
<td>28</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Pensions (c)</td>
<td>35</td>
<td>15</td>
<td>6</td>
</tr>
</tbody>
</table>

(a) Below 100 percent of poverty threshold.
(b) Below 150 percent of poverty threshold.
(c) Public and private pensions except for Social Security.

For a recent widow, loss or reduction of her husband’s pension sometimes caused economic hardship, but usually did not lead to poverty. The women most likely to become poor had been wives of low-earning men who did not have pensions.

Declining income from assets (which often led to near-poverty, especially for long-term widows) could be due either to inflation or to spending down savings or other assets (to pay for health care or other expenses).

Another reason the likelihood of poverty increased over time is that once an older, nonmarried woman becomes poor it is difficult for her to improve her economic situation:

Two-thirds of the divorced or separated women and 78 percent of long-term widows who were poor in 1982 were still poor in 1991 (see Table 2). Most of those who did escape from poverty had incomes only slightly above the poverty line.

Rising above near-poverty was even less likely; only 16 percent of nonmarried near poor women improved their economic well-being above this level.

In contrast, 62 percent of married couples who had been poor in 1982 were no longer poor in 1991 and 38 percent had left near-poverty.

The main routes out of poverty were through increased earnings, increases in Social Security benefits or pensions from additional work, or (for divorced women) becoming eligible for survivor rather than dependent benefits from Social Security after the former spouse’s death.

Much poverty in old age can be attributed to life-long low earnings.

Poverty or near-poverty is much less likely for recent widows if their husbands had higher levels of education and worked for more years prior to retirement and if they provided a survivor benefit from a job-based pension. In other words, husbands who had well-paid jobs are less likely to have widows who are poor.

| Table 2. Percent of Women Leaving Poverty or Near-Poverty: Comparing 1991 with 1982 |
|-----------------------------------------------|----------|----------|
| Marital Status                               | Poverty (a) | Near-Poverty (b) |
| Married Both Years                           | 62%       | 38%       |
| All Non-Married                              | 25        | 16        |
| Recent Widow                                 | 19(c)     | 13        |
| Long-Term Widow                              | 22        | 17        |
| Long-Term Divorced/Separated                 | 32        | 14        |
| Never Married                                | 20(c)     | 24        |

(a) Below 100 percent of poverty threshold.
(b) Below 150 percent of poverty threshold.
(c) Based on fewer than 30 cases.

During their retirement years, divorced or separated women, and to a lesser extent long-term widows, are more dependent on their own preretirement earnings than other women, and they are therefore more likely to be poor than women who can depend on their husbands' previous earnings. Among the unmarried women, women with more education, work experience, and pensions are less likely to become poor.

For nonmarried women with only modest retirement income, continuing to work may be one of the few ways to avoid becoming poor. As women age, however, health problems or lack of job opportunities may make continued employment difficult or impossible.

For women employed in 1982, leaving the work force was a strong predictor of becoming poor in subsequent years unless they were eligible for a pension.

Beginning to work again was a significant route out of poverty.

Policy Implications. The research results show that retirement is a financial hardship for many women, especially women who are widowed, divorced, separated, or never married; who are less well educated with less work experience or no pensions of their own; or whose husbands did not have high earnings or generous pensions. For many, Social Security benefits by themselves are insufficient, and poverty becomes increasingly likely when they can no longer work and must spend their savings to make up for the lack of an adequate retirement income. Therefore, any policies that tend to decrease rather than increase Social Security benefits for low-income women will exacerbate the hardship of retirement.

For widows, the health problems of their husbands before age 65 often increased the risk of poverty. A husband with health problems often worked fewer years, saved less for retirement, and was more likely to die early.

Women's work-limiting health problems also contribute to poverty, especially for elderly women who need to work to supplement low retirement income.

Receiving disability insurance benefits from Social Security can partially make up for the income disadvantage of health problems.

Disability benefits that the husband had received may have lessened the need to spend assets to pay for health care or living expenses before retirement.

A husband's receipt of disability benefits gave a widow of a disabled worker the best protection when the husband's disability did not take too many years from his working life.

A husband's having received disability benefits during his working-age years also offered some protection to his widow because Social Security rules require reduced survivor benefits for a widow if her husband took early retirement (before age 65) but not if he received disability benefits.

Unmarried women who became disabled before age 65 were generally not as well protected as men. Because of their lower earnings and fewer years of work experience, they were less likely to have pensions and other assets and their disability benefits were smaller.

Policy Implications. The importance of health issues as a cause of poverty indicates that disability benefits for men, and to a lesser extent women, under the age of 65 are an important safety net that will help to prevent poverty for many years after a person retires. Because poor health and disabling conditions increase as men and women age, these findings also
have important implications for the current plan to raise the normal retirement age to 67 and for proposals to reduce disability benefits as the age of normal retirement increases.

**Implications of Findings for Proposed Changes in the Social Security System**

The findings have important implications for the debate on the future of the Social Security system. Most proposals emphasize changes in the way retirement savings are invested or when benefits are distributed, and do not show as much concern about the importance of the social insurance aspects of Social Security that provide a safety net for many older Americans, especially women. The study’s findings on poverty among older women indicate that, as proposals are considered, it is essential to keep in mind that current Social Security rules protect recipients in ways that are especially important for women. The protections include:

1. a benefit formula that replaces more of the earnings of low earners than high earners, an important consideration because of women’s generally lower earnings;

2. yearly cost-of-living increases, especially important for long-lived people, predominantly women;

3. survivor benefits for the lower-earning spouse, who is almost always the wife;

4. benefits for divorced spouses, if a marriage lasted at least ten years;

5. benefits for children of disabled or deceased workers; and

6. benefits before retirement age for nonemployed caretakers of children of deceased or disabled workers.

The current proposals to revise Social Security are aimed primarily at decreasing the cost of the program, often by making the benefits less generous. IWPR study’s findings indicate that widows and other women who have no husbands during their retirement years often face serious economic problems that would be even more severe if Social Security benefits were made less generous. Unfortunately, even the changes that already are being implemented will make Social Security benefits less generous for many of the women who depend on those benefits as their safety net (for details, see the Current Social Security System Text Box).

The Report of the 1994–1996 Advisory Council on Social Security offered three proposals for reform of the Social Security system (see Advisory Council Plans Text Box for details). All of the proposals called for changes in the way benefits would be calculated; two proposals called for partial privatization. The plan requiring the fewest changes is the Maintain Benefits (MB) plan. The two partial privatization proposals are the Personal Security Accounts (PSA) plan and the Individual Accounts (IA) plan. Many of the proposed changes could be carried out whether or not any part of the Social Security system were privatized.

**Proposals Not Involving Privatization**

**Individual Account (IA) plan to change dependent and survivor benefits**

This proposal potentially would benefit many widows, but some divorced or separated women as well as low-income married women would be worse off. Currently, a married woman can choose to receive either a benefit based on her own work record or a dependent benefit equal to half her husband’s benefit. A widow can receive either her own benefit or a survivor benefit equal to her husband’s benefit. Similar provisions are made for men if the wife is the higher-earning spouse, and for divorced or separated persons.
**Current Social Security System**

Benefits are based on the 35 years of highest taxable earnings.

The benefit formula replaces a higher percentage of earnings of low earners than high earners.

Normal retirement age (the age when full benefits are available) is currently 65 and will increase in stages for workers born in 1938–1959 to age 67 for those born in 1960 or after.

Earliest age of eligibility for worker benefits will remain 62; benefits are currently reduced if taken between age 62 and 65. If taken at age 62, benefits are now 80 percent of full benefits and will gradually decrease to 70 percent as the higher normal retirement age is phased in.

A delayed retirement credit is added to benefits if retirement is postponed beyond the normal age.

Married persons receive the larger of their own retired worker benefit or 50 percent of their spouse's retired worker benefit. In either case the benefit is reduced if taken between age 62 and the normal retirement age.

Widow(er)s are entitled to a survivor benefit equal to the deceased spouse's retired worker benefit (if it is larger than their own retired worker benefit). Minimum age for receiving the survivor benefit is 60, but the benefit is reduced if taken before the normal age.

A divorced person who was married for at least ten years, who is currently not married, and whose former spouse is still living is entitled to divorced spouse benefits equal to 50 percent of the former spouse’s retired worker benefit (applies only if own retired worker benefit is smaller). The same age restrictions as for dependent spouse benefit apply. Divorced persons married at least ten years are entitled to surviving divorced spouse benefits when the former spouse dies (if the person’s own retired worker benefit is smaller). The same age restrictions as for widow(er) survivor benefits apply.

Benefits based on covered earnings are available for qualified disabled workers below normal retirement age. If disability continues, retired worker benefits begin at the normal age without actuarial reduction for early retirement.

Dependent children (under age 18) of retired or disabled workers are entitled to benefits based on the worker's earnings record.

All benefits are increased annually based on changes in the Consumer Price Index.

**Under the IAP proposal to change the calculation of survivor benefits, a widow could receive either her husband's benefit, her own benefit, or three-quarters of the combined benefits of both spouses.** Survivor benefits would not be reduced for any group and would be larger than current benefits for any widow whose own benefit was more than one-third of her husband's benefit. Many widows with considerable work experience would receive substantially larger benefits.

**The added cost to the Social Security system would be paid for in part by scaling back the dependent spouse benefit from one-half to one-third of the husband's benefit.** Scaling back the spouse benefit would hurt some low-income married women. In the future, many more women will have earnings that would result in benefits higher than the dependent spouse benefit. However, the potential for harm to the most vulnerable, whether married or not, should not be ignored.

**The proposal does not mention the situation of divorced and separated women, who would presumably be subject to the changed rules.** Their situation is anomalous under both old and proposed rules: a divorced or separated woman is treated as if she were part of a couple while her (former) husband...
is alive; as soon as he dies she is treated as a widow. Scaling back the dependent benefit would initially harm those with little earnings of their own; after the husband’s death, they would fare as well as or better than before. Since divorced and separated women are the most economically vulnerable of all elderly women, there would be a serious problem for many women whose former husbands are still living.

The number of years of earnings averaged in calculating the retirement benefit to increase from the current 35 years of highest earnings to 38 years (MB and IA plans)

- Benefits would be reduced for many women because they worked full-time for less than 38 years. The new calculation would be based on an average that therefore includes additional years of no earnings or part-time earnings for many people. In addition to the family reasons that reduce the working lives of many women, irregular work history due to unemployment or health problems would lead to lower benefits for both women and men when 38 years are averaged instead of 35. The Social Security Administration has estimated that only 30 percent of women and 60 percent of men retiring in 2021 would have 38 years of work experience.

The normal retirement age—the age when full Social Security benefits become available—to be raised (IA and PSA plans)

- The currently scheduled increase from 65 to 67 years would be accelerated and the age of normal retirement would continue to increase as longevity increased. This would harm all men and women who are unable to work full-time past age 65, but will especially harm women who are more likely to have to stop working to care for an older spouse.

- If the minimum age of eligibility for early retirement remained at 62 (IA plan), retired worker benefits might decrease even more than the scheduled decrease from 80 to 70 percent of the full benefit available at the normal age. This decrease would take into account the extra years that the retiree is collecting benefits between early retirement and normal retirement. This is a problem not only for women workers, but also for widows whose benefits depend in part on how early their husbands retire.

The minimum age for receiving benefits to increase from 62 to 65 (PSA plan)

- Not all retirement is voluntary. Workers who have lost their jobs because of downsizing, age discrimination, or other reasons would be harmed by these provisions.

- People in physically demanding jobs are less likely than white-collar workers to be capable of working at older ages. Many people now take early retirement when they have difficulty finding or keeping jobs because of health or other problems that do not qualify them for disability benefits. Increasing either the normal or minimum ages of retirement is likely to increase elderly poverty for both men and women with physically demanding jobs and for their surviving spouses unless provisions are made for them.

- Broadening current qualifications for receiving disability benefits could protect more of those with health problems. Other policies would be needed for those who have difficulty finding employment suitable for their age and abilities.

Implications for Policies on Employment of Older Workers

Policies to encourage longer working lives are based on the belief that people should expect to work longer as life expectancies increase. Will enough jobs be available for increased numbers of older workers? Currently, employers often cut payrolls during times of retrenchment by laying off older workers or offer-
ADVISORY COUNCIL PLANS FOR CHANGING SOCIAL SECURITY

The Report of the 1994–1996 Advisory Council on Social Security offered three proposals for reform of the Social Security system. The major features are shown; proposed changes in the earnings test, workers to be covered, and taxation of benefits, as well as proposals for phasing in the new plan, may be found in the Advisory Council report.

Maintain Benefits (MB) Plan

- The benefit computation period would be increased from 35 to 38 years. (An increase in the payroll tax by 15 percent of covered wages was mentioned as a possible alternative.)
- All state and local government employees hired after 1997 would be covered under Social Security.
- Except for already taxed employee contributions, all Social Security benefits would become subject to the income tax. The proceeds would be credited to the trust fund.
- The payroll tax could be increased when the trust fund balance is exhausted, which it is estimated will be about 2050 if other recommended changes are made.
- A portion of the Social Security trust fund could be invested in the stock market but would not be held in individual accounts.

Individual Account (IA) Plan

Each covered worker would receive a basic benefit, which would be lower than the current Social Security benefit, and the proceeds of an individual account that is invested in government-managed funds.

- Basic account benefits would be calculated like current benefits except that the benefit formula would be changed to yield somewhat lower benefits. If this and all other recommended changes are adopted, benefits would decrease by about 22 percent for low-earning workers and 32 percent for high earners.
- The already enacted normal retirement age increase from 65 to 67 years would be accelerated and extend beyond age 67 as longevity increases.
- The benefit computation period would be increased from 35 to 38 years.
- The dependent spouse benefit would be the larger of the individual’s own benefit or one-third of the spouse’s benefit.
- The survivor benefit for widows (or widowers) would be the largest of the worker’s own benefit, the spouse’s benefit, or three-quarters of the combined benefits of both spouses.
- Basic account benefits would be supplemented by an annuity based on the amount in the individual account at the minimum retirement age.
- The individual account would be created by an additional 1.6 percent payroll contribution from employees.
- The annuity would be increased yearly to keep up with inflation.
- For couples the annuity would provide a survivor benefit unless the spouse waived it in writing.

continued, next page
Personal Security Account (PSA) Plan

The new system would consist of a guaranteed (Tier 1) benefit and a Tier 2 benefit from the proceeds of a personal account established for each covered employee. The entire system would require an increase of 1.52 percent in the payroll tax for the next 75 years.

The scaled-down guaranteed benefit would be based on number of years of employment of the individual worker.

- In calculating the guaranteed benefit, any year in which the worker earned at least $2,500 would be counted as a year of employment, which would benefit low earners and part-time workers.
- A minimum benefit of $205 per month (in 1996 dollars) would begin at 10 years of employment and increase by $8 for each additional year up to 35 years. The maximum benefit would be $410 per month. All amounts would be increased yearly depending on the rate of increase of the Consumer Price Index.
- Married women would receive the larger of their own benefit, one-half of their husband’s benefit, or a minimum benefit of $205.
- Surviving spouses would receive three-quarters of the couple’s combined benefit, ranging from $305 if both spouses had minimum benefits to $615 if both were entitled to maximum benefits. These amounts are much below current median benefits of $875 (in 1996 dollars) for long-term widows.
- No provision is made for divorced spouses beyond accounts based on their own earnings.

- The already enacted normal retirement age increase from 65 to 67 years would be accelerated and extended beyond age 67 as longevity increases.
- The minimum age for receiving early retirement benefits would gradually increase from 62 to 65 years; at the same time the minimum age for survivor benefits would increase from 60 to 63 years.
- Disabled worker benefits would be scaled back gradually. The disability benefit would decline to 87 percent of the current benefit when the normal retirement age increased to age 67, then to approximately 75 percent at age 70, eventually reaching a lower limit of 70 percent.
- The balance in the private account could not be withdrawn until age 62.

Approximately one-half of the payroll tax would be invested by the worker (in stock, certificates of deposit, or whatever she or he chose) in private accounts in each individual’s name and considered the property of the individual. The Tier 2 benefits from these accounts would be subject to the following rules.

- At age 62, the balance could be withdrawn in a lump sum or as the individual wishes, or used to purchase a private annuity.
- Balances remaining at the owner’s death would go to the owner’s estate and could be willed in any way desired, but could not be withdrawn until the recipient reached age 62.

of the labor market. Older women may suffer from both age and sex discrimination. The greatest problem is likely to be continued employment for workers who, although not disabled, can no longer handle the physical (or mental) demands of the kinds of jobs they have always held. This is often thought to be primarily an issue for men, but many women also hold jobs that are increasingly difficult as they age (such as waitressing, nursing, cleaning, food service, child care and retail sales). And, as noted earlier, IWPR’s research on women who have retired shows that many fall into poverty when they can no longer supplement their benefits with earnings. Perhaps some system of reduced work schedules and partial retirement benefits could be devised. Employers may need to be encouraged, through legislation, union action, or other strategies, to provide
EMPLOYMENT POLICY
CHANGES TO CONSIDER

If the retirement age is to be increased, it will be essential to monitor developments in the labor market for older workers. Changes in some employment and private pension practices may be needed. Possible policy changes might include:

- Better enforcement of age and sex discrimination laws, so that older workers are not forced out of the labor market. Older women may suffer from both age and sex discrimination.

- Changes in private and public employee pension systems so that partial pensions and part-time employment could be an option for those unable to work full time.

- Requirement that private pensions offer actuarially fair benefits to workers who delay retirement. Currently, many pensions do not offer larger benefits that reflect the fewer predicted years of retirement for workers retiring at older ages. This policy encourages early retirement, as do buyouts and added retirement benefits to those who agree to early retirement.

- Changes in the health care system so that employers do not avoid hiring older workers because of the higher cost of health insurance for them. Possible changes include a more universal system of health care or extending Medicare coverage to earlier ages and making it the primary insurance for older workers. (Currently, Medicare is secondary to employer-provided insurance for workers, although retiree health insurance is secondary to Medicare.)

working conditions that make a longer working life possible for their employees. (See Text Box on Employment Policy Changes to Consider.) This problem deserves much more attention than it has received.

Proposals to Privatize the Social Security System

Both proposals offered by the Advisory Council to partially privatize the social security system would require an increase in the payroll tax, which falls more heavily on low earners than on high earners. These and other privatization proposals tend to offer inadequate protection for low and moderate income widowed, divorced, or separated women.

Individual Accounts Proposal

The first partial privatization proposal, the Individual Accounts (IA) plan, would privatize a much smaller portion of benefits than the PSA plan. The guaranteed portion would be scaled back by changing the benefit formula to offer somewhat lower benefits for low earners and considerably lower benefits for high earners. (See box for details.)

The IA and the PSA plans have many of the same risks for women:

1. The benefit formula change and the dependence on the private account to make up the shortfall would be especially harsh for disabled workers and their dependents. Those with disabilities tend to have had their working lives cut short and will have been able to save much less in their private accounts.

2. Private investment can be risky. The most optimistic projections of future private benefits depend on investment in the stock market, which is subject to extreme swings, and so economic security would depend on the state of the market when workers reached retirement age. On the other hand, women tend to be more cautious investors, so although they are less likely to lose...
their savings, they are less likely to substantially increase their savings through investments. Overall, individuals have different abilities (and luck) in choosing investments and some will fare much better than others.

(3) Combined with other changes in the calculation of benefits that have been described above, the IA plan would provide guaranteed amounts that are estimated to be 22 percent below those currently received by low earners and 32 percent below those of high earners. These provisions heighten the significance of the investment risk.

The IA plan is receiving a great deal of attention, because it is less radical than the PSA plan. Fortunately, the IA plan is more favorable to women than the PSA plan in at least two ways:

(1) Benefits from the private account would be paid out in the form of an annuity indexed for changes in the cost of living and paid directly from the Social Security system.

(2) As in the private pension system, the annuity for a married person would provide a spousal survivor benefit, unless waived in writing by both spouses.

**Personal Security Accounts Proposal**

The Personal Security Accounts (PSA) plan goes further in privatizing the system. Under the PSA plan, most of the employees’ portion of the payroll tax would be invested by the workers as they choose, which could include stocks or bond mutual funds to be held in private accounts. Accumulated funds would be managed by the individual but could not be withdrawn until the stipulated age for retirement; when withdrawn they would constitute Tier 2 benefits. Qualified workers would receive much scaled-down guaranteed (Tier 1) benefits, based on the number of years of employment of the individuals.

Widows would receive Tier 1 benefits based on both their own and their husbands’ employment. Wives who had little or no employment would be entitled to half the full basic benefits. Tier 1 benefits would be indexed for inflation.

The PSA plan would entail great risks for low and moderate-income elderly women who are no longer married. Our results indicate that these are the women who are currently most likely to become poor, and the PSA plan is likely to exacerbate poverty for these women:

(1) No provision is made for divorced women in either the guaranteed or private accounts; their retirement benefits would depend entirely on their own accounts. Divorce settlements presumably could include a share of the former spouse’s personal account, but that would depend on case-by-case litigation.

(2) No provision is made for separated women, who would be unlikely to receive anything from their husbands’ private accounts.

(3) Unless protections are added, widows would not necessarily receive any benefit from their husband’s private account, which the worker would have been free to spend or to will to someone else if he chose. If the worker dies at a young age, there would be very little in the account even if the worker did not spend it or will it to someone else.

(4) The maximum Tier 1 guaranteed amount for never-married, separated, or divorced women living alone is only two-thirds of the poverty line. The maximum amount for widows ($615 monthly in 1996 dollars) is slightly below the poverty line. Many women will receive much less than the maximum.

(5) The risk of retirees becoming poorer as they grow older would increase greatly because
Private accounts can be spent for any reason at all, good or bad. Reasons could include illness or disability, or because the individual lived much longer than expected and failed to save enough for a longer life, as well as poor planning.

Lifelong private annuities, which could be purchased at retirement in the private insurance market with the assets in the private account, are costly and, because of women’s greater life expectancy, would offer smaller monthly benefits to women than men with equal savings unless gender-neutral rates are required.

Private annuities are almost never indexed for inflation and thus provide decreasing real incomes every year that the person lives.

Disability benefits would be reduced gradually, due to increased retirement age, thus reducing protection for disabled workers and their spouses. Eventually the decreased benefits would be only 70 percent of the current benefits. Disabled workers are likely to have accumulated less in their private accounts as well because of their lower lifetime earnings. As shown in this report, disability payments currently provide a safety net that is inadequate for many women; these changes would make a bad situation even worse.

How Different Will Future Generations of Retired Women Be?

The participation of women in the work force, and the careers that women choose, have changed greatly in the last 30 years. It is important to consider whether the research findings reported here are relevant to the women who will be retiring in the future.

Although future generations of women retirees will differ from those interviewed in the New Beneficiary Surveys, most of our policy conclusions will still be relevant. Women retiring now and in the future are more likely to be divorced and to have more work experience than those interviewed in 1982. Divorced and separated women are currently the worst-off group of retired women. The increased work experience of future generations of these women might partially offset the current disadvantages of becoming divorced or separated, but there is no evidence to suggest that those disadvantages will be completely offset. It would be unwise to take away any of the benefits of the current system before we know if women’s pensions and other personal resources will be adequate.

For example, even though younger women will have more work experience than currently retired women, they will still be much more likely than men to spend time out of the labor force or working part-time. Slightly less than one-half of the women ages 25-44 were working full-time year round in 1996 compared with about three-quarters of men the same age (see Figure 3). Twenty percent of women in this age group, compared with only 7 percent of men, were not employed at any time in 1995. The Social Security Administration has estimated that only 30 percent of women retiring in 2020 (compared with 60 percent of men) will have been employed for the proposed 38 years required to avoid reduction of their benefits.

Besides having lifetime earnings that are lower than men’s because of working fewer full-time years, earnings of women who do work full-time year-round continue to be only about 75 percent of men’s earnings. Therefore, many women will continue to need to share in their husbands’ (or former husbands’) retirement income.

Another trend that does not bode well for reducing poverty among older women is the increase in earnings inequality. While earnings for the best paid employees have soared, those at the bottom have stagnated (for women) or declined (for men). Our research shows that poverty in old age tends to be associated with lifelong low earnings. Women and men with low earnings will continue to need a retirement system that offers them guaranteed support.

Conclusions

While some adjustments to the Social Security system are probably necessary to close the projected
The Impact of Social Security Reform on Women
then the projections will prove to be pessimistic and there may be no deficit. Given this uncertainty, Social Security should be revised in ways that protect the most vulnerable, rather than changed in radical ways that could be damaging to many women and men who depend on it for their economic security.

Privatized accounts that would increase the risk to people with little margin for failure should be avoided. Requiring a longer working life to obtain benefits equivalent to those received today should be adopted only if there are sufficient jobs for all who want to work as well as ample safeguards for those who can no longer perform physically demanding work. Another harmful proposal, contained in a bill recently introduced by Senator Moynihan, would limit cost-of-living increases in benefits to 1 percent less than the Consumer Price Index (or to 0.5 percent less in the recent proposal from the National Commission on Retirement Policy). Initially, such a change would curtail benefits only slightly, but the reduction would have a large cumulative negative effect for those who live to be very old—who are already among the worst off of the elderly and are disproportionately female.

As proposals are considered, it is essential to maintain the social insurance aspects of the current system in order to ensure that women, especially widows and other non-married women, are not always thrust into poverty as a result of changes in Social Security policies.

Endnote

1. If they have any earnings to be included in the combined benefit calculation, their benefit would be higher than under the current system

References

