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Senator Orrin Hatch
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Senator Ron Wyden
Ranking Member, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: December 9, 2014 Hearing on "Social Security: Is a Key Foundation of Economic Security Working for Women?"

Dear Chairman Hatch and Ranking Member Wyden:

I am pleased to respond to your request for further comments regarding my December 9 testimony on whether Social Security provides economic security for working women. While Social Security provides benefits on a gender-neutral basis, gender-related differences in the American family structure, work culture and longevity have meant that Social Security provides different levels of retirement security for men and women. As Members of Congress evaluate various options to reform the Social Security system, they should not only address its financial problems but also consider that Social Security remains an even more important source of retirement income for many women than men.

You have asked me to address several questions.

<u>From Ranking Member Wyden</u>

Questions for Ms. Barr

1. **Your testimony states "the reduction in benefits disproportionately affects the oldest elderly, a group consisting mostly of women and having the highest rate of poverty." Benefits for the "the oldest elderly" seems an area where we should focus our efforts to help those most in need. What do you think would be the best policy to address poverty among the "oldest elderly"? In your answer, please discuss how that proposal would work and what challenges you foresee in administering the policy.**

If Social Security is changed to address poverty among the oldest elderly, this change should be part of a package of changes over a period of time that will result in sustainable solvency of the program. The changes should be implemented in a way that preserves the balance between social adequacy and individual equity and should target three types of beneficiaries distinctly:

- Current "oldest elderly."
- Near retirees and current retirees who are not yet "oldest elderly."
- Future retirees.

If a change is made to address poverty among the oldest elderly, the first challenge is to define an age considered the oldest elderly age. One option would be to use statistical methods and life expectancy calculations to calculate this age. For example, if life expectancy at age 65 is the target age for the oldest elderly group, actuaries can calculate the age (currently, about 82) at which someone age 65 has an 80 percent (or another percent could be used) probability of dying prior to that age. The target for near retirees and current retirees who are not yet oldest elderly might be life expectancy at age 66 (about 83) and the target for future retirees might be life expectancy at age 67 (about 83). The calculations would be done on a unisex (gender neutral) basis since men and women have different life expectancies. Another option would be to calculate the number of years expected to be lived (about 17) after Social Security Normal Retirement Age (SSNRA) for which someone at SSNRA has an 80 percent (or another percent) probability of dying prior to that age.

Since a greater percentage of the oldest elderly are women, an increase for the oldest elderly will tend to benefit women.

In order to preserve the balance between social adequacy and individual equity, any increase for the oldest elderly should apply to all retirees and widows (possibly spouse benefits would be excluded since married couples are not as likely to be in poverty) but should also provide a greater increase for those with lower benefits. For example, a one-time increase in future benefits could be made to all retirees who reach a certain age. The one-time increase could be determined by a table of increases based on benefit amount at a certain age or by recalculating benefits under the then-current Social Security formula. Any changes should integrate with the income tax provisions of Social Security in a way that is tax efficient for those currently paying income tax on their Social Security benefits.

A different type of program change that would address poverty in the oldest elderly without a specific targeted increase to that group is a small increase in the inflation index. For example, an additional increase of approximately 0.3% to an average inflation increase of 3.0% would increase a $1,000 monthly benefit at age 62 by $17 after 5 years, $40 after 10 years, $69 after 15 years and $108 after 20 years.

Any increase in benefits for the oldest elderly would require additional income sources and/or alternative benefit decreases in order for Social Security to pay scheduled benefits.

The American Academy of Actuaries believes that gradually increasing the retirement age should be considered as part of this package of changes that will result in a sustainable solvency and preserve the balance between individual equity and social adequacy.

2. If you could do only one thing to modify the Social Security program to improve outcomes for women while working or during retirement, what policy option would you adopt?

If only one aspect of the Social Security program could be changed to improve outcomes for women while working or during retirement, first and foremost the change should not reduce the solvency of the system and it should be designed to preserve the balance between individual equity and social adequacy. The Social Security Committee of the American Academy of Actuaries has not determined a single, preferred way to address improved outcomes for women. However, in order to not reduce the solvency of the system but also improve outcomes for women, the following changes could be made, with the caveat that they be accomplished gradually:

- Add a credit for time spent out of the workforce due to child care.
- Eliminate the spouse benefit.
- Increase the surviving spouse benefit to the greater of 75% of the total benefit paid to the employee and spouse or 100% of the greater of the employee or spouse benefit.

For example, spousal benefits could be decreased according to a table based on year of birth until no Social Security spousal benefits are paid to people born after a certain year. The child care credit could be paid based on child care years after a certain year. The child care credit could be graduated such that it is reduced but generally not eliminated for retirees with higher earnings relative to those with lower earnings. Also, the child care credit could be based on the number of children so that people with three or more children receive a full subsidy while people with one or two children receive a reduced subsidy.

Outcomes for women's Social Security benefits can be improved over time relative to current law in a way that does not reduce the solvency of the system and which preserves the balance between individual equity and social adequacy.

From Chairman Hatch

Questions for Ms. Barr

1. Your testimony discusses comparisons of two-earner couples with a single-earner couple. In one case in which a two-earner couple has a primary earner with the same income as the one-earner couple, the secondary earner in the two-earner couple receives benefits that are only slightly higher than if she or he did not work at all. And, compared to a one-earner household, the survivor of a two-earner couple can end up receiving no additional benefit, even though she or he may have worked for many years and paid payroll taxes all along.

   Your testimony points to the fact that the current Social Security system allocates benefits disproportionately, relative to taxes, to one-earner couples compared with two-earner couples and single persons. And, you identify that in many cases a secondary earner's income is effectively taxed at a higher rate than a primary earner's income.

   Could you discuss how the current structure of benefits tends to favor one-earner couples, which was the predominant type of household structure when Social Security but may not be today?

   And, could you elaborate on how income from a couple's secondary earner can effectively be taxed by the Social Security system at a higher rate than a primary earner's income?

For ease of reference I have provided Table 6 from my testimony below.

Table 6. Impact on Social Security Benefits of Different Family Circumstances[1]			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Annual Social Security Tax of 6.2%	$3,100/year	$3,100/year	$4,650/year
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

The example shows Social Security taxes and benefits for three households. In the first column, there is one worker earning $50,000, and in the second column there are two workers each earning $25,000. In the third column, there is one worker earning $50,000 and a second worker earning $25,000. The total monthly Social Security benefit for the one-earner couple in the first column of the example is $415 per month more than the two-earner couple benefit in the second column ($2,655 - $2,240 = $415). Social Security pays the greater of a worker benefit based on one's own earnings record or a spouse benefit equal to 50 percent of the benefit payable to a retiree's spouse. The total monthly benefit for the two-earner couple in the third column is $235 per month more than the one-earner couple.

At the time that Social Security was designed, one-earner couples (with the male as the earner) were prevalent and the design reflected that the family would need more income in retirement than a one-person family would need. It was a social adequacy feature of the system. If Social Security were designed under today's circumstances where two-earner couples are prevalent there may have been a different spouse features.

Now focusing on survivor benefits, Social Security pays 100 percent of the deceased spouse's worker benefit or else continues to pay the worker benefit, whichever is greater. In the example, the one-earner survivor benefit is $650 per month more than the two-earner couple benefit in the first column ($1,770 -$1,120=$650) and the same as the two-earner couple in the third column. This result helps provide social adequacy where one-

[1] Benefit Estimates are rounded and assume both spouses are age 66 and retired in 2014, discounting earnings for years prior to 2014 using National Average Earnings assuming earnings begin at age 18.

earner couples are prevalent but indicates lower individual equity today when two-earner couples are prevalent.

Regarding the question on how income from a couple's secondary earner can effectively be taxed by the Social Security system at a higher rate than a primary earner's income; this issue has the same cause as the previous example, which showed that total Social Security benefits and survivor benefits are higher for one-earner couples than two-earner couples. One metric that is used to determine individual equity is where the present value of benefits received is compared to the accumulated value of payroll taxes paid by an individual. Instead of thinking of the tax rate as a percentage of earnings, consider the tax rate as the total taxes paid divided by the total value of benefits received over an individual's career. If taxes paid compared to benefits received are higher for one individual than another, the individual can be said to have paid a higher percentage of career earnings than the other individual.

In Table 6 above, the couples in the first two columns each paid the same Social Security taxes over their career but the one-earner couple will receive higher total benefits if both couples live the same amount of time. The secondary earner in the second column is taxed at the same effective tax rate as the primary earner. But in the third column if the primary and secondary earner each live the same amount of time, if the accumulated value of taxes paid is compared to the present value of benefits received, the secondary earner can be said to have paid a higher percentage of career earnings than the primary earner.

In summary, given that two-earner couples are much more prevalent than one-earner couples in America today, a change in Social Security spouse and survivor benefits could improve both individual equity and social adequacy, and could help Social Security work better for women.

2. **As an issue brief by the American Academy of Actuaries identified, a proposal from the 1994-1996 Advisory Council on Social Security would reduce spousal benefits and increase survivor benefits for two-earner couples. The result would be a shift in benefits from retired one-earner couples to survivors of two-earner couples, who generally tend to be women. Could you discuss that proposal, and any costs and benefits that you think are relevant for the proposal?**

The proposal from the 1994-1996 Advisory Council on Social Security would reduce the 50-percent spousal benefit to 33 percent and would increase survivor benefits for two-earner couples to 75 percent of the total benefit paid to them when both were alive (or 100 percent of either worker's benefit if greater). The examples shown below are based on the one and two earner couples used previously and compare benefits from the proposal to those based on current law.

Example comparing the 1994-1996 Advisory Council on Social Security Spouse proposal to benefits based on current law

Advisory Council Proposal Spousal Benefit: 33 percent of insured worker benefit

Advisory Council Proposal Widow(er) Benefit: 75 percent of the total benefit paid when both spouses were alive (or 100 percent of either worker's benefit if greater)

Table 7 - Advisory Council Proposal			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total benefit at retirement	$1,770 spouse A + $590 spouse B (Total $2,360)	$1,120 spouse A + $1,120 spouse B (Total $2,240)	$1,770 spouse A + $1,120 spouse B (Total $2,890)
Total benefit to survivor	$1,770	$1,680	$2,168

Current Law Spousal Benefit: 50 percent of insured worker benefit

Current Law Widow(er) Benefit: 100 percent of insured worker benefit

Table 8 - Current Law			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

Under the Advisory Council proposal, the one-earner couple's total benefit is $120 ($2,360 - $2,240) more per month than the two-earner couple's benefit but far less than the additional $415 per month provided under current law. The one-earner couple's survivor benefit is $90 ($1,770 -$1,680) more per month than the two-earner couple's benefit but far less than the additional $650 per month provided under current law. The survivor benefits are greater for two-earner couples which are more prevalent today than under current law.

This proposal improves individual equity and the change in survivor benefit improves social adequacy compared to current law and would benefit many women under today's prevalent family circumstances. It would make it more likely that working spouses are entitled to retirement benefits solely on their own work records, rather than as spousal benefits. However, the proposal reduces the benefits to low-earning and nonworking spouses to 33 percent of the benefit of the working spouse (a total couple benefit of 133 percent of the higher-wage earner). This could be particularly problematic for divorced women, who have the highest poverty rate of the elderly. One possible remedy would be to split the benefits 50/50, just as pensions are divided upon divorce in some states. Such a remedy, of course, would reduce the benefit of the higher-wage earner and his or her subsequent spouse(s) and family, if applicable.

A gradual decrease in the spouse benefit from 50% to 33% was studied by the Social Security Office of the Actuary (OACT) and was found to solve approximately 4% of the current deficit. A change in the survivor benefit to the better of 75% of the total benefit paid (or which could have been paid at age 62 if the benefit is not currently in pay status) or 100% of the worker benefit of either worker was studied by OACT and was found to increase the current deficit by approximately 4%. The net impact of making both changes would be no change in the current deficit.

3. **Some people have proposed elimination of the spousal benefit and adoption, instead, of "earnings sharing" where a couple's earnings would be added together and divided evenly every year. Could you trace out some pros and cons associated with that type of proposal, and identify who might be winners and losers from adoption of such a proposal?**

It is helpful to use the examples to understand how this option would work. Please refer to the table below:

	Earnings Sharing Examples (current law amounts shaded)				
	(1)	(2)	(3)	(4)	(5)
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary	One-earner couple at taxable max	Two-earner couple each at max
Spouse A earns	$50,000	$25,000	$50,000	$120,000	$120,000
Spouse B earns	$0	$25,000	$25,000	$0	$120,000
Each spouse assuming earnings sharing	$25,000	$25,000	$37,500	$60,000	$120,000
Total monthly benefit at retirement with **earnings sharing**	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,445 spouse A + $1,445 spouse B ($2,890 total)	$2,029 spouse A + $2,029 spouse B ($4,058 total)	$2,642 spouse A + $2,642 spouse B ($5,284 total)
Current law total monthly benefit at retirement	$2,655	$2,240	$2,890	$3,963	$5,284
Total monthly benefit to survivor with **earnings sharing**	$1,120	$1,120	$1,445	$2,029	$2,642
Current law monthly benefit to survivor	$1,770	$1,120	$1,770	$2,642	$2,642

Under an earnings sharing proposal, the survivor benefit will be less than or equal to what it would have been under current law. As women tend to live longer than their male spouses, this reduction in survivor benefits would tend to impact women more than men. Divorced women who were married for 10 years would tend to be better off under current law.

A one-earner couple earning more than the taxable maximum will receive more in total Social Security benefits under an earnings sharing arrangement than under current law. The couple in column (4) would have a monthly benefit of $3,963 under current law ($2,642 + (0.5 x $2,642) = $3,963) but a monthly benefit of $4,058 under the earnings sharing approach. This is due to the fact that Social Security replaces a lower percentage of income for higher-paid and sharing the income lowers the earnings used in the calculation and thus increases the Social Security benefit paid.

One concern with earnings sharing is that past Social Security earnings records might not be sufficient to implement earnings sharing for past earnings. Implementation could be expensive and prone to error. Another concern is whether there would be acceptance of the idea of halving earnings between spouses since a large percentage of marriages end in divorce. Such a proposal would need to specify whether divorce or legal separation determined the end date for a period of earnings sharing. Further study of how earnings sharing would impact people under different scenarios is recommended prior to further consideration of this proposal.

4. **Your testimony discusses some options to increase payroll taxes or the taxable maximum. Of course, we know that with the set of Social Security promises embedded in current law, Social Security faces $10.6 trillion of unfunded liabilities over the next 75 years. And, as you identify, costs of other social insurance programs that benefit women, particularly Medicare and Medicaid, are rising rapidly and will also require additional funding in the future unless eligibility and/or benefits are reduced.**

   I am concerned, in addition to negative economic effects of some of the large tax hikes envisioned by many of the expand-benefits and raise taxes advocates, that we could end up simply expanding promises but not have the fiscal space available to fulfill them. That would be unfair to young generations of workers who would foot the bill with yet higher taxes, or unfulfilled promises.

   In order to make good on existing Social Security promises alone, in the long run, we'd already have to raise taxes substantially if there are no changes in the benefit structure. Do you think that we could fulfill all promised entitlement benefits, including Social Security and Medicare and Medicaid, add additional benefits as some are proposing, and finance that all by only having people pay just a little bit more in taxes, or significantly more in taxes?

Regarding whether there is sufficient "fiscal space" to raise taxes such that Americans can pay for all currently promised entitlement benefits including Medicare and Medicaid and additional benefits, I am constrained to address only Social Security on behalf of the Academy. Please bear in mind the following:

- Social Security plays a vital role in protecting the financial security of seniors. As such, the program needs to be revised so that income is sufficient to pay for promised benefits.

- In order for the program to be sustainable in the long term, costs cannot increase faster than the growth of the economy.
- The Academy has published a policy statement stating that raising the Social Security Normal Retirement Age (SSNRA) should be part of a package of changes to solve the funding deficit of the program. As people live longer, they tend to have more productive and healthy years. Raising the SSNRA helps set expectations as to retirement age. If SSNRA is set too low relative to the length of time people will live in retirement, they will tend to not have sufficient savings since Social Security is only one source of retirement income. Personal savings and employer plans are the other sources of retirement income. The Academy believes this change will help the sustainability of Social Security.

The Academy also believes that Congress should act sooner rather than later to solve Social Security funding deficit to allow more gradual changes and to give Americans a chance to plan for the decreases in benefits or increases in taxes that will be required to solve the funding deficits.

The Academy's Public Interest Committee will be publishing a white paper in the near future that speaks more generally to public program sustainability that may also address your broader question and I would be happy to provide you a copy of it once published.

<u>From Senator Grassley</u>

Questions for Ms. Barr:

1. **As we all know, Social Security is facing long-term financing challenges. The Social Security Trust Fund is projected to be exhausted in 2033 at which time trust fund assets will only be able finance about 77 percent of current law benefits. Such a drastic reduction in benefits would be devastating to millions of retirees. What reform or reforms would you enact to ensure the long-term stability of the Trust Fund for future generations?**

   The American Academy of Actuaries has published a policy statement supporting an increase in the Social Security Normal Retirement Age (SSNRA) as part of a package of changes that would reform Social Security and solve the long-term deficit. The Social Security Office of the Actuary provides the cost impact of five proposals for changing SSNRA on their website. The proposals solve between 12% and 35%[2] of the deficit and provide for a gradual change in the SSNRA.

   The American Academy of Actuaries also believes that Congress should act sooner rather than later to resolve the funding deficits of the programs so that more gradual changes can be adopted that will allow Americans to plan for any increase in taxes or decrease in benefits adopted.

[2] http://www.ssa.gov/oact/solvency/provisions/retireage.html. Proposals are labeled C1.1 through C1.5 and financial results are based on the 2014 Trustee Report assumptions.

2. **One suggested reform at the hearing for updating how Social Security treats spouses was “earnings sharing.” What are your views on “earnings sharing”? Please discuss both benefits and concerns you may have from moving to such an approach.**

   This question was also asked by Senator Hatch so please refer to Senator Hatch’s question 3 above.