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ISSUE BRIEF

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Women and Social Security

Social Security provides benefits on a gender-neutral basis. Benefits are based on an individual's earnings record, employment history, and family composition. However, gender-related differences in the American work culture mean that, in reality, Social Security provides different levels of retirement security for women and men. When the current benefit structure was set up, the traditional roles of men in the family as primary wage earners and women as primary child care providers were well established. The system provides the highest benefits relative to contributions to married couples with a primary wage earner, generally the husband, and their children. As women have increasingly assumed roles as heads of families or as primary or co-equal wage earners in their families, situations frequently arise where Social Security provides lower benefits for the same contributions, or requires significantly higher contributions with little, if any, increase in benefits compared to the "traditional" family. Factors that can affect these differences in the benefits women and men receive from Social Security include:

- **Employment history and earnings.** Women tend to have more frequent breaks in employment due to child-bearing, child care, or care of elderly parents. When they are working, women on average earn less than their male counterparts. Thus, women generally receive lower Social Security benefits based on their own earnings histories, as compared to men.
- **Disability.** Unpaid homemakers and caregivers do not qualify for coverage because they do not earn taxable wages, so some women are less likely to have sufficient recent employment to be insured for purposes of Social Security disability insurance benefits. If they qualify, women are likely to get lower benefits than their male counterparts.
- **Life expectancy.** Women, on average, live longer than men. Therefore, a woman who retires at the same age as a man can be expected to collect benefits over a longer period. The majority of women have fewer assets than men and are more dependent on Social Security.
- **Marital Status.** A higher proportion of women than men never marry. As a consequence of longer life expectancy, and the fact that women are often younger than their spouses, women on average are more likely than men to become widowed before or during retirement. In addition, older women who lose a spouse are less likely than men to remarry. All these factors mean women are likely to spend longer periods during retirement unmarried, and these periods are likely to fall at the more advanced ages. Social Security survivor benefits are designed to provide retirement security to widows and widowers, but provide no protection for the never-married or for divorcees if the marriage lasted less than 10 years.

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Social Security recognizes differences in financial circumstances among the workers and dependents it covers. As such, the current Social Security program provides certain safety net (or social adequacy) features to ensure that the less well off get enough benefits for retirement security. Although these features are not targeted at women, women often benefit from them more than men because of the factors outlined above. Some Social Security reform options currently being contemplated would change the social adequacy components of the program, with potentially disproportionate effects on women relative to men.

This issue brief discusses the relative differences in the factors affecting men and women, such as those noted above, as well as how these differences contribute to disparate benefits under Social Security. This includes the impact on the average woman of (a) social adequacy provisions of the current Social Security program and (b) various proposals to reform Social Security, including individual accounts.¹

Background

In general, an individual's Social Security benefit is based on the average indexed earnings of a worker's 35 highest-paid years. Social Security's rules are gender-neutral, so that a woman who retires with the same average lifetime earnings as a similarly situated man will receive the same benefit. However, some of the program's rules have a different impact on women because the average woman's work history is not the same as that of the average man.

Women are more likely than men to be out of the work force, or to have breaks in employment. Even with the narrowing gender gap in the rates of labor force participation, women often leave temporarily or permanently for pregnancy, child care, and other family care responsibilities. As a result, women tend to have shorter work histories and thus smaller benefits than men's.

- In 2004, the participation rate in the labor force among women ages 25 to 54 was 75 percent, compared with 91 percent for men. From ages 55 to 64, these percentages were 56 and 69, respectively. (U.S. Bureau of Labor Statistics, *Monthly Labor Review*, November 2005, Table 5)
- In 2005, about 64 percent of women with children under age six were in the labor force. (U.S. Census Bureau, "2005 American Community Survey," Table B23003)

Women are generally paid less than men. Based on their own earnings records, women can, on average, expect lower Social Security benefits than men with the same number of years of covered earnings. This particularly affects women who live alone or are the primary wage earners in their families. Married women, even in dual-earner families, may receive higher benefits based on their husbands' work histories than on their own.

- From 1980 to 1993, the average wage for women ages 25 to 34 years rose from 55 percent to 73 percent of the average for men in the same age group. (Social Security Administration, "Actuarial Note 135," Table 5)
- Despite gains in education, professional and managerial jobs, and business ownership, women have not achieved wage parity with men. In 2005 the median wage nationwide for women working full-time was only 77 percent of that for men. (Institute for Women's Policy Research, "The Best and Worst State Economies for Women," December 2006)

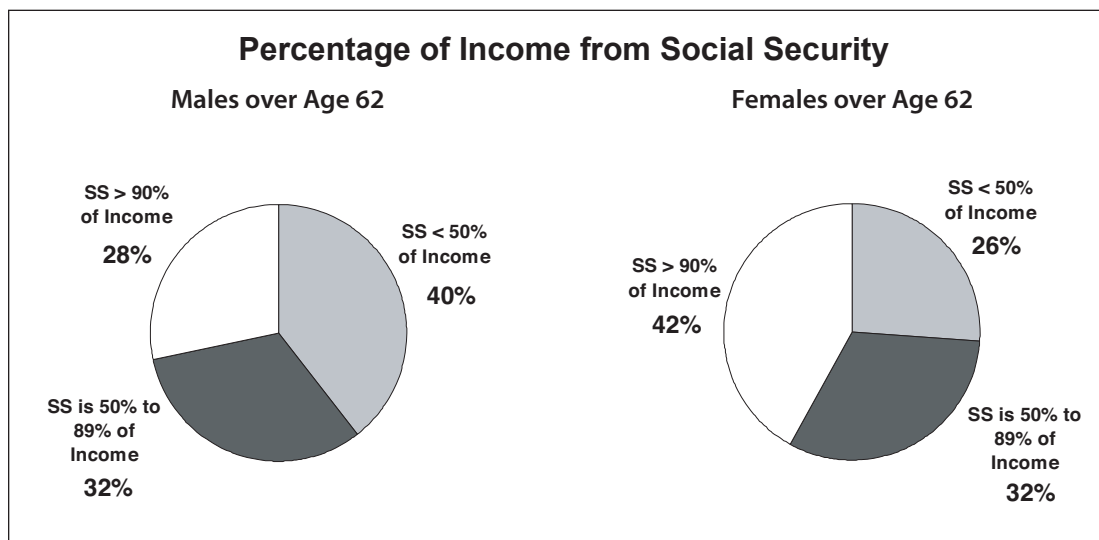
Women who become disabled are less likely than men to have disability coverage. Social Security Disability Insurance generally requires five years of covered work in the last 10 years, and women in unpaid care-giving roles will be less likely to have the required employment history. Those who qualify for Social Security disability benefits usually do so later in their careers, and the benefits are smaller, due to the smaller average earnings of most women.

Women live longer on average than men and will, therefore, need more assets in retirement. Because wom-

¹ See the American Academy of Actuaries' monograph on "Social Security Reform Options," January 2007, for a comprehensive summary of program features and reform proposals.

en generally have less income from other sources, and non-Social Security assets must be spread out over a longer expected lifetime, Social Security benefits are a more significant component of women's retirement security.

- The average life expectancy at age 65 is 17 years for males and 20 years for females. (Society of Actuaries, "2005 Risks and Process of Retirement Survey Report") In addition, most married women have older spouses. As a result, elderly women — who are more likely to depend on their spouses for all or most of their financial support — are much more likely to become widows and not have anyone to assist them financially in their most elderly years.
- Women live longer and are less likely to have a family member to care for them. Therefore they are much more likely to need long-term care in an institutional setting. ("2005 Risks and Process of Retirement Survey Report")
- Over 40 percent of elderly women (but only about 30 percent of elderly men) depend on Social Security for more than 90 percent of their income. (See graphs below.) ("Social Security: Income of the Population 55 or Older")

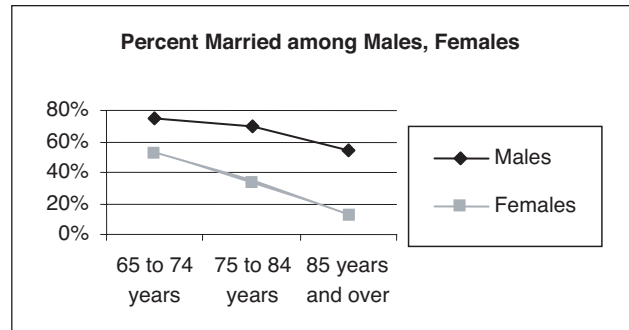


- Of the women over age 62 collecting benefits, between one-quarter and one-third receive these benefits based on spousal benefits or earnings. ("2005 Risks and Process of Retirement Survey Report")

Women are more likely than men to be single, widowed, or divorced in retirement. Widow(er)s can continue to be eligible for survivor benefits, but these benefits may be reduced or curtailed upon remarriage before age 60. Furthermore, those who have been divorced before 10 years of marriage may not be entitled to survivor benefits at the time of the Social Security beneficiary's death.

- Women are more likely than men to be unmarried. (U.S. Census Bureau, "2005 American Community Survey," Table B12002)
- For example, in 2005, at ages 65 to 74, 53 percent of women were married compared with 75 percent for men. For women, the figures drop to 36 percent at ages 75 to 84, and to 13 percent at ages 85 and older; the comparable figures for men were 70 percent and 54 percent. (See graph on page 4.) ("2005 American Community Survey")
- In 2005, the majority of women at ages 75 to 84 were widowed (53 percent), compared with married (36 percent), divorced or separated (7 percent), and never married (4 percent). ("2005 American Community Survey")
- The poverty rates for single women over age 65 are some of the highest for any subgroup in the country. For example, while the poverty rate for a married couple (over 65) is only 5 percent, the poverty

rate for a single woman is generally over 20 percent. (“Current Population Survey, March 2004 Supplement”)



This combination of factors means that the average woman has a higher risk of having insufficient income or depleting savings in her retirement years.

Social Adequacy Features of Current System

The current Social Security program contains safety net, or social adequacy, features that help address retirement security issues for women.

PROGRESSIVE BENEFIT FORMULA: A worker’s basic benefit, called the primary insurance amount (PIA), is determined using a progressive benefit formula that applies a declining scale of percentages as the average indexed monthly earnings (AIME) increases. Under the current PIA formula, the percentages (90, 32, and 15) remain the same from year to year but the amounts of AIME, where they apply (bend points), increase each year based on the national wage index. Thus, lower-paid workers generally receive a greater benefit as a percentage of wages than higher-paid workers. The formula also provides proportionately greater benefits to workers who have been absent from the labor force for significant periods than to those who have worked in covered employment throughout their adult lives. These features help women, who are usually lower-paid and likely to be absent from the labor force longer than men.

BENEFITS FOR SPOUSES: Under Social Security, a worker’s spouse is eligible to receive 50 percent of the worker’s benefit while the worker is alive, and 100 percent after the worker’s death (provided the spouse is not entitled to a higher benefit based on his or her own earnings history). Benefits are also payable to divorced spouses to whom the worker was married at least 10 years, without any reduction in benefits to the worker or to other family members. If a worker dies before becoming eligible for retirement, but was fully insured at death, Social Security pays benefits to the worker’s spouse and dependent children. As a result of spousal and survivor benefits, women with low earnings or little work history can still receive Social Security benefits based on a spouse’s earnings history.

Because of these features, however, the current system allocates benefits disproportionately (relative to taxes) to one-earner couples (who predominated when Social Security was created) compared with two-earner couples and single persons. The example in the chart on page 5 shows that there can be significant differences in retirement benefits and surviving spouse’s benefits for families with the same earnings histories and payroll tax contributions, but with different splits of earnings between the spouses. One-earner households receive a higher benefit from Social Security than two-earner couples with the same total household earnings. Moreover, the survivor of the two-earner couple receives a much smaller survivor benefit than the survivor of a one-earner couple with the same total earnings.

In the case of the two-earner couple where the primary earner has the same income as the one-earner couple, the secondary earner’s benefit is only marginally higher than if she or he did not work at all. Compared to the one-earner household, the survivor of the two-earner couple in this case receives no additional benefits, even

though he or she may have worked for many years and contributed payroll taxes to the program. Stated differently, the secondary earner's income is effectively taxed at a higher rate than the primary earner's income, which has an adverse effect on women.

Current-law Example

	One earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earner
Spouse A earns	\$34,200	\$17,100	\$34,200
Spouse B earns	\$0	\$17,100	\$17,100
Annual Social Security Tax	\$2,120/year	\$2,120/year	\$3,180/year
Total benefit at retirement*	\$1,350 spouse A + \$675 spouse B (\$2,025 total)	\$875 spouse A + \$875 spouse B (\$1,750 total)	\$1,350 spouse A + \$875 spouse B (\$2,225 total)
Total benefit to survivor	\$1,350	\$875	\$1,350

*Estimates assume both are age 66 and retired in 2007

As more women continue to enter the work force and earn higher wages, more will have retirement benefits greater than 50 percent of their spouses' benefits, so the spousal benefit will be provided to a declining proportion of women. However, as long as women continue to earn less on average than men, their retirement benefits will be less on average than their spouses' benefits, so the survivor benefit (100 percent of the higher wage earner's benefit) will continue to apply for a high percentage of women.

Proposals Within Current Structure

There are many recent proposals to reform Social Security within the current benefit and investment structure to restore the financial soundness of the Social Security program. Some of these proposals are of particular concern to women. The intent of this issue brief is to provide a clear, objective analysis of the options and assist the public policy process.

MODIFY THE COMPUTATION PERIOD FOR BENEFITS: Because benefits are based on a 35-year average wage, women who leave the paid work force for child rearing tend to receive smaller benefits. One remedy is to impute, or credit, income for years of child care. Another method is to reduce the 35 years for every year of child care. This latter approach is already in use — to a very limited extent — for disabled individuals. Nonetheless, implementing a drop-off-years approach for child care would raise practical considerations in ensuring that the integrity of the system is maintained.

Other proposals, however, would add years to the 35-year averaging period to help improve Social Security's financial condition and to encourage people to work for more years. For example, some proposals would increase the averaging period from 35 to 38 or 40 years. In general, this option would affect women disproportionately, unless they were allowed drop-out years for care-giving outside of the paid work force. The effect on benefits of an increase to 38 years would depend on the worker's earnings history, but would reduce scheduled benefits, on average, by about 3 percent. (2001 President's Commission to Strengthen Social Security)

REDUCE BENEFITS ACROSS THE BOARD: Such a change would have a greater impact on women who, to a greater extent than men, rely on Social Security. This would be particularly difficult for elderly women without spouses who are heavily dependent on Social Security.

CHANGE THE BENEFIT FORMULA: There are several approaches to changing the benefit formula. The simplest would reduce the formula percentages (90, 32 and 15) each year by a constant factor, say 1 percent per year. Such a change would maintain the formula's progressivity, but would gradually reduce program adequacy, particularly for low-wage earners. Reducing only the two percentages applicable to higher wage levels, i.e., the 32 and 15, but not the 90, would reduce the progressivity of the formula while maintaining program adequacy for very-low-wage earners. Yet another way involves indexing the bend points in the PIA formula to the generally slower changes in the Consumer Price Index (CPI), as compared to the wage index, with the effect of gradually reducing the PIA below current law levels. Initially, this would affect the highest earners the most, but it eventually would affect the lower earners too.

INDEX RETIREMENT AGES TO LIFE EXPECTANCY: The normal retirement age, the age at which full benefits are payable, currently ranges from ages 65 to 67, according to the worker's year of birth. Benefits before normal retirement age may begin as early as age 62, but such benefits are permanently reduced to make lifetime benefits approximately actuarially equivalent, regardless of retirement age. Increasing the normal retirement age and/or the initial eligibility age as life expectancy increases has been suggested as a means for solving the system's financial problems. Adopting such a reform has potential implications for individuals who cannot find or continue in employment to older ages, and must search for other sources of income in the interim. This can be significant for women who rely heavily on Social Security for income in old age.

ENHANCE BENEFITS FOR LOW EARNERS WITH LONG CAREER: A proposal from the 2001 President's Commission would protect against poverty for low-income workers, disproportionately women, by guaranteeing that an individual who worked at least 30 years at the minimum wage would retire with an income of between 100 percent and 120 percent of the poverty line. A true minimum benefit would be indexed to future inflation and provided to all regardless of earnings history.

CHANGE SPOUSAL BENEFITS: A 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). It has been estimated that it takes 75 percent of prior income for a survivor to maintain the same standard of living as existed before the first spouse's death.

As the following chart (revised from the earlier current-law example) illustrates, this proposal shifts benefits from retired one-earner couples to survivors of two-earner couples, generally women.

Advisory Council Proposal

	One earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earner
Spouse A earns	\$34,200	\$17,100	\$34,200
Spouse B earns	\$0	\$17,100	\$17,100
Total benefit at retirement	\$1,350 spouse A + \$450 spouse B (Total \$1,800)	\$875 spouse A + \$875 spouse B (Total \$1,750)	\$1,350 spouse A + \$875 spouse B (Total \$2,225)
Total benefit to survivor	\$1,350	\$1,313	\$1,669

*Estimates assume both are age 66 and retired in 2007

This proposal would also make it more likely that a working spouse will be entitled to retirement benefits solely on her or his own work record, rather than as spousal benefits. However, it does reduce the benefits to low-earning and nonworking women to 33 percent of the benefit of the working spouse. 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. This, of course, would reduce the benefit of the higher-wage earner and his or her subsequent spouse(s) and family, if applicable.

EARNINGS SHARING: Under an earnings-sharing proposal, the spousal benefit would be eliminated. Instead, a couple's earnings would be added together and split evenly each year. This would help dual-earner couples in which both spouses have substantial (but unequal) employment histories, and divorced women — especially those who were married for less than 10 years. However, married households in which only one spouse has a substantial employment history, and which currently receive spousal benefits for little or no additional tax contributions, would be adversely affected. It would also reduce the benefits of workers who shared their earnings, and then divorced. Also, disability benefits may need to be modified under an earnings-sharing approach.

LOWER COLAS: Social Security benefits increase each year by a cost-of-living adjustment (COLA) equal to the annual change in the CPI. Previously the CPI has been criticized for overstating the real annual rate of inflation by 1 percent or more. Much of this overstatement in the CPI has already been corrected over the past 10 years, although there is still a potential adjustment for indirect product substitution because some prices increase more than others. However, the cost of living of the elderly may not change at the same rate as the CPI because the elderly consume a different mix of goods and services than the population as a whole, and they may be less willing to substitute as products change. Any CPI reduction disproportionately affects the oldest elderly, a group that is mostly women and that has the highest rate of poverty.

Individual Accounts

There are proposals that may either require or allow individuals to accumulate a portion of their Social Security contributions in individual accounts. Such accounts could be invested in the securities markets, which may provide a higher return on contributions for some workers and more individual control over retirement investments, but would also shift various risks from the collective program to individual workers, as discussed below.

INADEQUATE BENEFITS: Under a private-account system, the contributions of people with low incomes and sporadic work histories — a group that includes a higher proportion of women than men — would be small. Furthermore, lower-paid individuals are more likely to have their money in overly conservative investments and may lack the investment knowledge to make appropriate investment decisions. Consequently, poor investment decisions and high administrative costs could yield retirement incomes below the poverty level. Some of these risks could be mitigated by restricting investments to regulated mutual funds or lifecycle funds, and providing a minimum benefit or a matching contribution for lower-income workers (up to a certain level). Also, there may be a need to restrict pre-retirement withdrawals (although this will be difficult as people will want access to their funds when they have major medical needs or other family emergencies).

LONGEVITY RISK: Because women on average live longer than men, they are more likely to outlive their funds. Purchasing annuities can eliminate this risk, but insurance companies will most likely charge a woman more than a man of the same age for the same annuity amount because of a woman's longer life expectancy or, conversely, provide a smaller annuity for the same premium. Thus, under an individual-account system, most women will need to save more than similarly situated men to receive the same income. One option, suggested by some, would be for the government to require insurance companies to charge gender-neutral, or unisex, rates. Government intervention could come from making annuity purchase mandatory, subsidies for annuities sold to women, or direct participation in annuity sales. Perhaps the biggest risk to many women in individual-account reform proposals would be eliminating the implicit longevity subsidy that women receive in the current system.

INFLATION RISK: Under an individual-account system, individuals would be adversely affected by inflation after retirement if benefits were not adjusted for changes in the cost of living. If individuals receive a level benefit in retirement, their purchasing power decreases by the inflation rate each year. After 30 years at four percent inflation, purchasing power would drop by 70 percent. This could be more detrimental to women, who are more

likely to live longer. One possible solution is to offer (or require) an inflation-adjusted annuity. However, such an annuity would have lower initial benefits than an annuity with a level benefit.

SPOUSAL BENEFITS: If a worker dies when young, the account balance may not be enough to provide adequately for a surviving non-employed spouse's future needs, forcing the non-working spouse to obtain employment even if caring for dependents. A partially privatized system could retain the survivors' insurance from the current system or mandate that employed spouses buy comparable insurance.

Death of the wage earner after retirement can cause a problem for a surviving spouse if a single-life annuity is purchased. Under a single-life annuity, the benefit ceases once the recipient of the annuity dies. In the case of a one-earner family, the government may want to require, with no option to waive, the purchase of a joint-and-survivor annuity that pays benefits as long as either spouse is still alive. Otherwise, the non-employed spouse could be left with insufficient income in old age. If neither type of annuity is purchased, surviving spouses will need to inherit an account balance adequate to provide for their future needs.

Social Security's present method of paying benefits to divorced spouses is especially helpful to women who stayed at home to care for children. Under an individual-account system, divorced women, especially those without substantial earnings histories, could end up with no or very low account balances that would not be enough to support them during their later years. Under this scenario, federal regulations splitting the retirement savings accounts upon divorce might be required. An alternative option would be to require contribution sharing, which would split the family's total contribution to individual accounts equally between the two spouses. Contribution sharing would pose fewer transition problems than earnings sharing. However, contribution sharing would reduce the accounts of divorced workers who were the primary wage earners while married. It would also require the government to administer a new provision that would probably not be necessary for couples who never divorce.

DISABILITY RISK: Just as with death, the amounts in accounts at younger ages will not be enough to provide adequate benefits to the worker or spouse if the worker becomes disabled. Remedies would be to maintain the Social Security disability program or to require the purchase of a minimum amount of disability insurance. In addition, a special provision for disability benefits may also be needed under either a contribution-sharing or earnings-sharing proposal to ensure that disability benefits are based on the earnings of the disabled worker.

Conclusion

The current Social Security law is gender neutral, and contains spousal and subsidized benefit provisions that mitigate, but do not eliminate, factors that produce lower benefits for women: lower earnings, shorter work histories, longer life spans, greater dependency on spouses, divorce, prior death of spouses, etc. It is also worth noting that the present system provides a lower level of benefits relative to Social Security taxes paid for two-earner families where the second earner has significant income. As policymakers 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 extremely important source of retirement income for women. This dependency on Social Security suggests that proposals to directly or indirectly address the unique issues of women and multiple-earner families should be studied carefully and modeled to show the impact on families/beneficiaries in a variety of situations before being adopted.



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