



Strengthening Social Security for Women

A Report from the Working Conference on Women and Social Security

July 19-22, 1999

**Airlie House
Warrenton, Virginia**

**Task Force on Women and Social Security
National Council of Women's Organizations**

**In Collaboration with the
Institute for Women's Policy Research**

About the National Council of Women's Organizations' Task Force on Women and Social Security

The National Council of Women's Organizations (NCWO) is a nonpartisan network of more than 100 women's organizations representing more than six million women. In the fall of 1998, NCWO formed a *Women and Social Security Task Force* to address the critical issue of Social Security reform and to help policy makers understand women's stake in this crucial issue. The Task Force is working with all NCWO members to carry out a public education campaign to reach women across the country and to urge them to let their representatives and candidates know their views on Social Security reform. Task Force members are working to ensure the program's continued solvency and to improve Social Security for women by putting benefit improvements back on the public agenda. The Task Force is also a member of the New Century Alliance, a coalition of organizations including labor unions, senior groups, youth advocates, public policy organizations, disability rights groups, and civil rights organizations that oppose the privatization of Social Security. The Task Force's Women and Social Security Project is directed by Lisa Witter. More information can be obtained about the project at <http://www.women4socialsecurity.org>.

About the Institute for Women's Policy Research

The Institute for Women's Policy Research (IWPR) is a public policy research organization dedicated to informing and stimulating debate on issues of critical importance to women and families. IWPR focuses on issues of poverty, welfare, and income security; employment and earnings; work and family issues; the economic and social aspects of health care and domestic violence; and women's civic and political participation. The Institute works with policymakers, scholars, and public interest groups around the country to design, execute, and disseminate research and to build a network of individuals and organizations that conduct and use women-oriented policy research. Dr. Heidi Hartmann, President of IWPR, serves as Chair of the NCWO Task Force on Women and Social Security. Dr. Catherine Hill serves as Study Director and Dr. Lois Shaw as Senior Consulting Economist for Social Security at IWPR. IWPR staff assisted the NCWO Task Force in convening the Working Conference on Women and Social Security held at Airlie House in July 1999. They also provide on-going technical assistance to the NCWO Task Force. IWPR research reports can be found on the web at <http://www.iwpr.org>.

About this Report

Strengthening Social Security for Women is a report from the **Working Conference on Women and Social Security** held at Airlie House in July 1999. It presents recommendations on how to close Social Security's projected solvency gap as well as options to strengthen Social Security for women and families. The goal of this report is to educate lawmakers and the public about options available to protect and strengthen Social Security. The report is a joint project of the **NCWO Task Force on Women and Social Security** and the **Institute for Women's Policy Research**.

NCWO's Task Force on Women and Social Security and IWPR would like to acknowledge the financial support of the AARP, the John D. and Catherine T. MacArthur Foundation, the Open Society Institute, the Retirement Research Foundation, and the Rockefeller Family Foundation. We would like to thank the Airlie House Working Conference participants (listed in Appendix I of the report) for their contributions at the conference, which are reflected in this report.

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American Association of University Women
Business and Professional Women, USA
Center for Advancement of Public Policy
Coalition of Labor Union Women
The Feminist Majority Foundation
Institute for Women's Policy Research
MANA, A National Latina Organization
NA'AMAT USA
National Association of Commissions on Women
National Committee on Pay Equity
National Council of Negro Women
National Organization for Women
National Partnership for Women and Families
National Women's Law Center
Older Women's League (OWL)
Wider Opportunities for Women
Women's Action for New Directions/Women Legislators' Lobby
Women's Institute for a Secure Retirement

ISBN: 1-878428-50-0

\$7.50

Suggested citation: Heidi Hartmann and Catherine Hill with Lisa Witter. 2000. *Strengthening Social Security for Women*. Washington, DC: Institute for Women's Policy Research and the National Council of Women's Organizations' Task Force on Women and Social Security.

IWPR Publication Number: # D440

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Introduction

Social Security is a women's issue. On average, women earn less and live longer than men. Because of these characteristics, older women are more dependent on Social Security. Without Social Security, more than half of women aged 65 or older would be poor. For 25 percent of unmarried elderly women (widowed, divorced, separated, or never married), Social Security is their **only source of income**.

Social Security reform is under serious consideration in Washington. Although the program is fully solvent for the next three decades, the Social Security Trustees predict that a shortfall will occur in the year 2034 if no measures are taken. Some commentators believe the possibility of a future shortfall warrants immediate, even dramatic action, while others believe continued economic growth alone may generate sufficient revenue to keep the system solvent. Indeed, many argue that the only "guarantee" for a secure future for the elderly is a strong and vibrant economy that continually invests in its children and young people, ensuring a productive work force. How this issue is resolved will have enormous implications for women and their families.

Concerned that Social Security reform could disproportionately hurt women, the National Council of Women's Organizations' (NCWO) Task Force on Women and Social Security, with the assistance of the Institute for Women's Policy Research (IWPR), organized a working conference in July 1999. Held at Airlie House in Warrenton, Virginia, the conference brought together women leaders with researchers and experts from government and nonprofit organizations (see Appendix I for a list of participants). The goal of the meeting was to protect and strengthen Social Security for women. Building on the principles for Social Security reform established by the NCWO Task Force in November 1998 (see Appendix II), the conference provided an opportunity to develop strategies for protecting Social Security and to begin crafting a comprehensive reform plan for Social Security that women's organizations could

enthusiastically support in the 2000 elections and beyond.

This report documents three days of discussions among approximately 60 leaders of women's organizations and policy analysts. Aiming to develop proposals that would inspire women activists to engage in the public debate on Social Security reform, conference organizers were also committed to crafting proposals that would be politically feasible. Improvements involving an increase in benefits had to be balanced by revenue increases. Although additional debate and research is needed before a comprehensive reform package can be endorsed by NCWO, the conference generated innovative approaches to Social Security reform that will serve as a foundation for NCWO's work on this important topic.

This report presents possible proposals for a women's agenda for Social Security reform based on the conference as well as earlier meetings of the NCWO Task Force on Women and Social Security and its technical subcommittee. Part One describes various proposals to improve Social Security for women. As it now appears likely that major changes will not be considered in Congress until after the 2000 elections, this report distinguishes issues that need to be addressed in the short term from proposals that should be addressed as part of a longer-term strategy. Part Two describes the generation of new revenue both to address long-term solvency concerns as well as to pay for recommended benefit improvements.

For the short term, NCWO members at the conference supported the following recommendations for issues that could be acted upon immediately:

- ◆ the retention of the earnings test for workers between ages 62 and the normal retirement age;
- ◆ an increase in Supplemental Security Income

(SSI) benefits by raising the “income disregard” and asset limits.

NCWO Members also agreed to oppose major tax cuts that would reduce the general revenue available — funds that potentially could be used to strengthen Social Security.

Conference participants also discussed a more ambitious agenda for the longer term including:

- ◆ an increase in the benefits for very low earning workers, including improvements in the Special Minimum provision;
- ◆ an increase in the widow’s benefit to 75 percent of the couple’s combined benefit (capping the maximum benefit);
- ◆ an increase in the benefits for divorced spouses from 50 percent to 75 percent of the worker’s benefit;
- ◆ an improvement in access to benefits for disabled widows and divorced disabled spouses;
- ◆ an expansion in eligibility for divorced spouse benefits by reducing the minimum length of marriage required to seven years and a total of 10 years in marriage and work history combined;
- ◆ the addition of a “family service credit,” which could include an earnings credit, a provision for a number of “drop out years” in calculating benefits, and an expansion of eligibility for the Special Minimum to include years of caregiving.

The NCWO Task Force developed and designed these proposals to redirect the public debate on Social Security to improve the adequacy and equity of the program for women and to put benefit increases on the public agenda. Although the Task Force recognizes the importance of

ensuring the long-term fiscal health of Social Security, it maintains that benefit improvements for women are both needed and feasible.

The conference also addressed options for generating new revenue to both strengthen the Social Security system financially and to pay for benefit improvements. Discussion centered on the following proposals:

- ◆ increasing the maximum earnings covered;
- ◆ investing a percentage of the Trust Fund in the stock market;
- ◆ increasing the payroll tax in the future or using general revenue.

Other options for meeting the shortfall, such as raising the age of normal or early retirement, reducing cost of living adjustments (COLA), increasing the number of years for the computation of benefits, and other proposals to lower benefits through across-the-board cuts or means testing, were rejected because they would negatively affect women and other economically vulnerable groups. Using all or a portion of the payroll tax to fund individually-held private accounts was also rejected, because any proposal to direct payroll taxes to individual accounts would exacerbate, rather than resolve, the solvency issues (individual accounts would also be especially detrimental to women; Hill, Shaw, and Hartmann, 2000).

Because NCWO is a coalition of organizations with different political strategies, consensus on a single set of reform proposals may not be possible. The purpose of this report, therefore, is not to present a single comprehensive plan for Social Security reform, but rather to present a menu of options that reflect the different perspectives and strengths of the participating organizations. Speaking with a single voice can be powerful, but a well-orchestrated chorus can be effective as well.

Part One: Strengthening Social Security for Women

This section describes proposals to improve the adequacy and equity of Social Security benefits for women. Beginning with recommendations that involve fairly minor changes to the system and ending with those that involve more substantial changes, this section examines the argument for each recommendation. More extensive discussion of each topic can be found in the Conference Briefing Book (available from the Institute for Women's Policy Research).

Preventing the Elimination of the Earnings Test Below the Normal Retirement Age

Conference participants opposed the elimination of the Social Security earnings test for workers between age 62 and the normal retirement age.¹ Eliminating the earnings test for those below the full benefit age would encourage more workers to claim Social Security benefits early, resulting in permanently lower benefits for themselves and their spouses. Eliminating the earnings test would significantly increase the risk of poverty as recipients age and can no longer supplement their reduced Social Security benefits with earnings. Because women live longer than men, they are more likely to experience poverty as a result of their own or their spouse's decision to claim early retirement benefits (Social Security Administration 2000). This problem will become even more significant when the full benefit age increases to 67, and a person retiring at 62 will have his or her benefits permanently reduced by 30 percent (instead of the current 20 percent).

NCWO members and policy advisors agreed that an educational campaign to inform the public of the actuarial adjustments (i.e., the payback) for the earnings test is needed. No position was taken on the elimination of the earnings test for those at or above the full retirement age.

Proposal:

Support the retention of the earnings test for those below the normal retirement age.

Supplemental Security Income

Supplemental Security Income (SSI) is a means-tested program designed to provide income support for the poorest elderly and disabled Americans. Because approximately 62 percent of SSI beneficiaries are women, strengthening SSI is an important corollary to any proposals to improve Social Security for women. Coordination between the two programs is essential. For example, as described below, NCWO's proposal to increase the surviving spouse's Social Security benefit to 75 percent of the couple's combined benefits will increase widows' benefits. As Kilolo Kijakazi of the Center on Budget and Policy Priorities pointed out, "One not-so-helpful consequence of improving the surviving spouse benefit is that some elderly poor women will be lifted over the SSI eligibility limit and lose Medicaid coverage as a result" (Center on Budget and Policy Priorities 1999). Kijakazi recommended increasing the unearned income disregards from \$20 a month to \$80 a month, a change that would avert a loss of Medicaid coverage. Such an increase would be the first adjustment for inflation since 1972. Kijakazi also recommended increasing the limit on permitted assets (currently only \$2,000 for an individual and \$3,000 for a couple). Furthermore, Kijakazi suggested that although income from defined-contribution retirement plans should be counted as income, account balances should not be counted as assets. Thus, poor, elderly, and disabled SSI recipients would not have to "spend down" retirement savings to become eligible for SSI and could (within the low income restrictions of SSI) benefit from their earlier savings.

Because SSI is funded out of general revenues, rather than the payroll tax that supports Social

Security, these improvements could be made without regard to the solvency issue. Conference participants agreed that these modest improvements to SSI were desirable and feasible.

Proposal:

Support an increase in the unearned income disregards from \$20 a month to at least \$80 a month. Raise asset restrictions. Count as income funds from a defined-contribution account that are received by an individual, but do not count the account balance as an asset.

Low Earners

Raising Social Security benefits for the lowest earners was another area of agreement among conference participants, although the details were not completely resolved. Dean Baker, then of the Preamble Center for Public Policy and currently at the Center for Economic and Policy Research, and Wendell Primus, of the Center on Budget and Policy Priorities, presented proposals to raise Social Security benefits for low earners. Baker's proposal amends the calculation of the primary insurance amount used by the Social Security Administration by raising the replacement rate for earnings below the lowest bendpoint (and adding a new bendpoint so that the increase is targeted to very low wage earners).² Presently, the Social Security Administration calculates a benefit based on replacement of 90 percent of a worker's average annual lifetime earnings up to \$6,060; 32 percent of his or her average earnings exceeding \$6,060 but under \$36,516; and, for amounts over \$36,516, 15 percent up to the current maximum earnings base.³ Baker proposes changing this formula by increasing the replacement rate to 100 percent for the first \$6,060. To limit the cost of the proposal, a third "bendpoint" at \$9,625 would be introduced, with a reduction in payback from 32 percent to 15 percent for those with incomes between \$6,060 and \$9,625. For workers with annual incomes over \$9,625, the old formula would remain in place. No one would be worse off with the new formula. Because the measure is well targeted, the costs of the measure would be minimal, estimated by Baker at 0.10 percent of payroll. The proposal also has the advantage of working within a benefit formula already used by

the Social Security Administration. Overall, conference participants supported this proposal to help very low-wage workers. Some concern was expressed that very recent immigrants or state or local government employees who might not need assistance could take advantage of the new calculation, although the windfall elimination provision, which applies to anyone with a pension from non-covered employment, would correct for part of this problem.

One concern with Baker's proposal was that it might be too limited, because only those with average annual wages under \$9,625 would see an increase in benefits. Wendell Primus presented another proposal to change the calculation of Social Security benefits designed to help low earners. Primus suggested using a single replacement rate of 75 percent applied to earnings up to \$11,680, an amount equivalent to 45 percent of the average worker's earnings (whenever this formula resulted in higher benefits).⁴ Primus estimated that this proposal would result in approximately a 16 percent increase in benefits for a full-time minimum wage worker with 35 years of employment. However, Primus' proposal did not include a phase-out range.⁵ The proposal would be substantially more expensive than Baker's because a phase-out range (using the same reduction in payback of 15 percent found in Baker's proposal), would help workers with annual earnings up to about \$20,550.

Conference participants expressed an interest in combining the two proposals, using the Baker payback phase-out concept but modestly expanding the scope of the benefit to somewhat higher-wage workers. Hartmann proposed a modification that achieved the desired expansion at a lower cost than Primus with a phase-out range modeled on Baker's proposal. Hartmann's proposal begins with Baker's replacement rate of 100 percent for the first \$6,060 earned but introduces a new benefit replacement rate of 45 percent for income between \$6,060 and \$9,600. The phase out (at 15 percent) begins at \$9,600 and ends at \$15,871. At \$15,871, the benefit calculation would return to the existing formula of a 32 percent replacement rate (up to \$36,516, at which point the worker receives 15 percent up to the current limit). Under this proposal a lifelong, full-time, minimum wage worker (earning

\$10,700) would receive \$7,818 in benefits (the current poverty level for a single individual) for an increase of 13 percent over the current formula. ⁶

Figure 1 shows how the benefits of moderate, low, and very low earners, calculated as Baker, Primus, and Hartmann propose, compare with the existing formula. As shown in the graph, Baker's formula modestly improves benefits for workers earning up to \$9,625 with the largest increase going to those earning near the first bendpoint of \$6,060, while Primus' calculation raises benefits substantially for workers earning between \$10,000 and \$13,000. Hartmann's proposal represents a middle ground, improving benefits most for workers earning between \$6,000 and \$11,000. Figure 2 shows the "Hartmann combined" proposal, incorporating elements of both the Baker and Primus proposals.

Another alternative would be to expand the Special Minimum benefit provided for workers with long-time, low-paying jobs. Currently, if a worker has ten years or more in covered employment with minimal earnings (\$8,055 in 1999), he or she is entitled to \$28 per month for each year over ten of employment up to a maximum benefit of

\$560 per month or \$6,718 annually for 20 years. The Special Minimum benefit provision is not used by many workers. For example, in 1997, only 161,674 workers or 0.37 percent of all Social Security beneficiaries used the Special Minimum formula. However, if the formula were indexed to the federal minimum wage (rather than the maximum earnings base), such that any low-wage earner who earned an amount equivalent to a half-time minimum wage job worked year round would receive a year of credit toward the Special Minimum, the Special Minimum would have a larger impact. In the past, the annual earnings threshold for the Special Minimum has varied tremendously from quite low to very high levels. A uniform threshold pegged to the minimum wage worked half-time would especially help women, many of whom work reduced hours to care for family members. Raising the monthly and maximum benefits under the Special Minimum (by increasing the number of years counted) would also increase the number of workers who could benefit from this alternative calculation. Finally, as discussed below, giving credits for years of unpaid caregiving for children or dependent adults would also increase the number of women who could benefit from the Special Minimum provision.

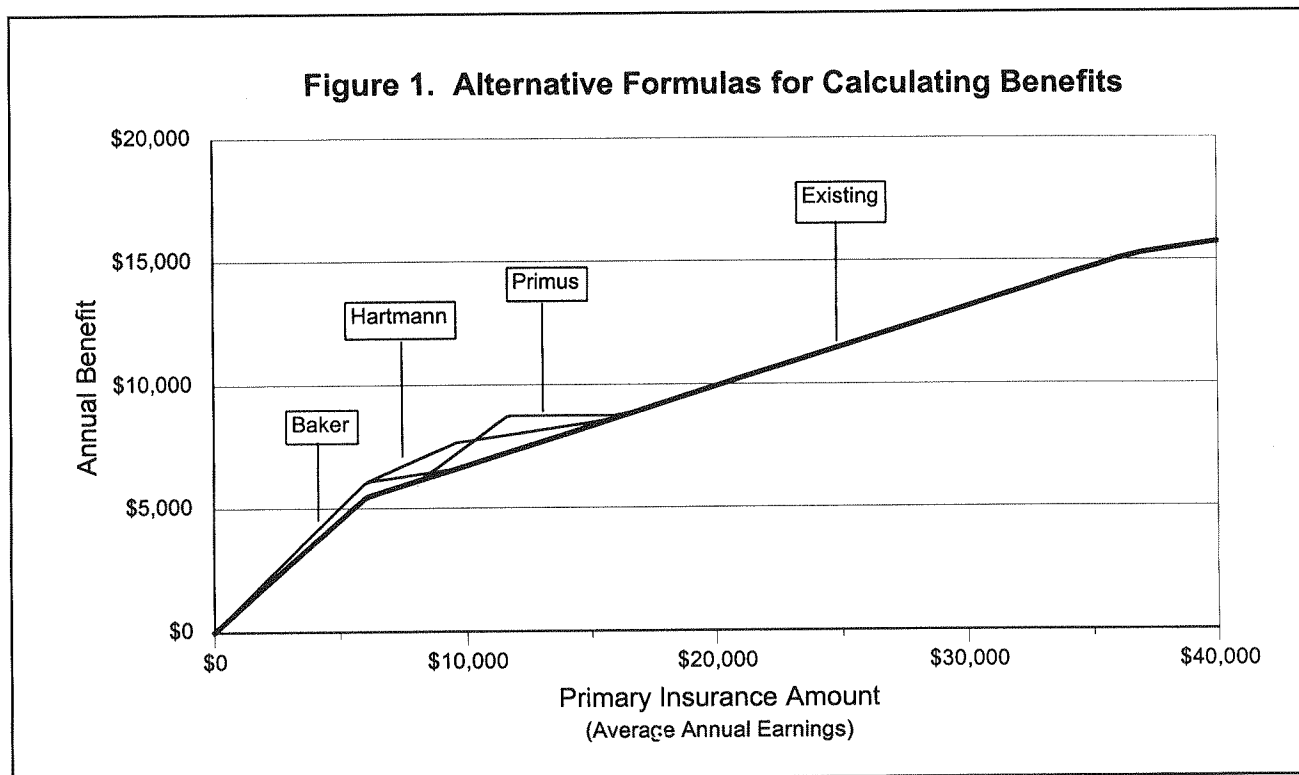
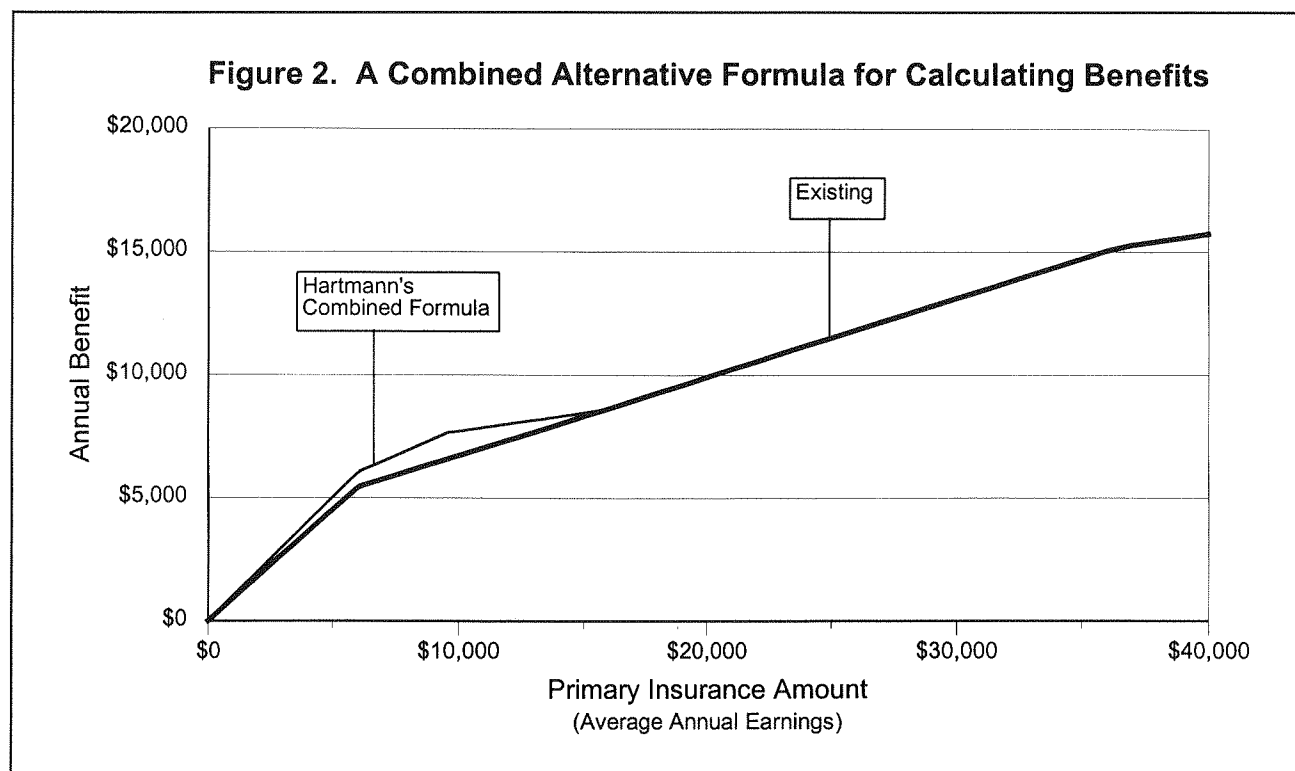


Figure 2. A Combined Alternative Formula for Calculating Benefits



Proposals:

Modify the calculation of the primary insurance amount to increase benefits for very low-wage workers by raising the bottom payback rate from 90 to 100 percent below \$6,060, adding a payback rate of 45 percent for earnings between \$6,060-\$9,600, and adding a payback rate of 15 percent for earnings between \$9,600 and \$15,871 (the end of the phase-out range) to contain costs.

Revise the current Special Minimum to expand eligibility by lowering the amount of annual earnings required for a year of credit to 50 percent of the minimum wage worked full-time, year round. Increase the benefit for each year of credit and increase the maximum number of years (beyond 20) allowable under the Special Minimum.

Widows

Widows make up a majority of the elderly poor, and their economic situation tends to worsen as they age. As Karen Holden, professor at the University of Wisconsin, pointed out, the average household income of married women

falls sharply when their husbands die, leaving them with a lower standard of living even when income measures are adjusted to account for the smaller household size (Holden and Zick 1999).

Under current law, if one member of a couple has not been in the work force or has earned a benefit less than 50 percent of the spouse's benefit, the survivor's benefit is equal to two-thirds of the couple's combined benefit.⁷ But if each member of the couple is entitled to a benefit based on his or her own work history that exceeds the 50 percent spousal benefit, the survivor can be left with as little as half of the couple's combined benefits.⁸ One approach to helping all widows, but especially those with their own substantial work history, is to raise the benefits payable to the survivors of married couples to 75 percent of the couple's combined benefits, limiting the benefit (to that received by one steady, maximum earner) so that it does not disproportionately benefit the highest income spouses.⁹ This change would result in larger benefits for all widows ranging from a 50 percent increase for a survivor of an equal-earner couple to a 12.5 percent raise for the survivor of a single-earner couple. This provision is particularly appealing because it addresses both adequacy and equity concerns. The proposal

targets benefit improvements to older women (and men), who are more likely to be widowed and more likely to be poor. It also partially offsets the inequity between traditional single-earner households and dual-earner households, without the problems associated with full-scale earnings sharing.¹⁰

At the conference, NCWO member organizations agreed that widows' benefits should be increased to 75 percent of the joint benefits received by the household when their husbands were alive (capped at the maximum earner's benefit at normal retirement age to keep the cost of the proposal reasonable and to avoid paying extra benefits to upper-income widows who do not need them). Conference participants agreed that the current spousal benefit of 50 percent for wives should not be reduced to pay for the increase in benefits to widows. This change would, of course, help widowers as well as widows.

Proposal:

Raise the survivor's benefit to 75 percent of the couple's joint benefits, capped at the maximum earner benefit.

Disabled Widows and Divorced Disabled Spouses

Disabled widows face two seemingly arbitrary limits to their access to Social Security benefits: (1) they must be at least age 50; and (2) they must become disabled within seven years of a spouse's death or seven years after last being eligible for benefits as a caretaking parent of surviving minor children. In addition, disabled widows younger than the normal retirement age face reductions in benefits (e.g., 82.5 percent at age 62; 71.5 percent at age 60 or younger).

Mary Jane Yarrington of the National Committee to Preserve Social Security and Medicare argued that disabled widows (and widowers) should be treated like disabled workers, meaning that their benefits should be computed as if they reached full retirement age in the year they became disabled. Moreover, like disabled workers, disabled widows should be allowed to receive

benefits before age 50 and should not be forced to meet an arbitrary seven-year limit for establishing disability. Like their older counterparts, young and middle-aged disabled widows also cannot work and have no partner to depend on for support.

Disability issues affect a surprisingly high number of divorced spouses. Weaver (1997) found that more than one-third of all divorced spouses had health problems that were severe enough to cause them to apply for disability benefits and that more than one-fifth of all divorced spouses had health problems severe enough to meet the disability criteria established by the Social Security Administration.

Conference participants generally agreed that disabled widows should be treated like other disabled people – once they establish their disability, they should receive full benefits regardless of age. Furthermore, participants generally agreed that divorced disabled spouses should be eligible for benefits on the same basis as widows (or widowers).

Proposal:

Raise benefits for disabled widows to 100 percent of the deceased worker's benefit. Remove the seven year limitation and the age 50 requirement for disabled widow benefits. Make divorced disabled spouses eligible for benefits on the same basis as disabled widows.

Divorced Women

Divorce is an economically risky event for women. The poverty rates for women over age 65 are much higher for divorced women (22 percent), even compared with women who have never been married (20 percent), and widows (18 percent). Because a woman must be married for at least ten consecutive years to the same man to receive divorced spousal benefits, many women will receive no Social Security credits for the years they were married (during which time they may have been out of the work force to care for children or disabled or elderly adults).

Two proposals to help divorced women emerged from the discussions at the conference.

First, spousal benefits for divorced women could be raised from 50 percent to 75 percent of the worker's benefit. As Anna Rappaport of the Society of Actuaries noted in her remarks, the spousal benefit, designed to be a supplemental benefit, is insufficient when a single divorced woman tries to live on it. Raising this benefit acknowledges the larger costs of separate households. Given the other legal benefits of marriage, participants felt that the problem of "sham" divorces would not be significant.¹¹

As shorter, serial marriages become more common, acknowledging a woman's right to benefit from her husband's earnings in a short marriage becomes increasingly important. Noting that the average length of marriage is now seven years, Heidi Hartmann of the Institute for Women's Policy Research suggested that the eligibility requirement for divorced spousal benefits could be lowered from ten to seven years. It was then suggested that, because a worker ordinarily needs ten years of covered work experience to qualify for retirement benefits, allowing a divorced person to combine marriage years (at least seven) with (up to) three years of work experience, for a total of ten years, would mimic the standard worker requirement. An alternative would be to allow women to combine years from two (or more) marriages, so that a woman married to two men (or the same man at two different times) for at least ten years would qualify for spousal benefits. For example, a woman married to two men for nine years each could receive a spousal benefit based on the average of their benefits (now such a woman receives no benefits from her marriages). Allowing the combination of marriages was judged by participants likely to be less popular than simply reducing the requirement for the number of years of one marriage.

Participants also discussed raising spousal benefits for divorcees with very long term marriages, by as much as 100 percent of the former spouse's benefit for a marriage that lasted 35 years. In marriages lasting from 10 to 35 years, the amount of the benefit could increase gradually from 75 percent (the NCWO proposal) or from 50 percent (current law) to the full 100 percent. The purpose of the increase would not be to "reward" longer marriages but to compensate those women

who chose a traditional homemaker role for their own lack of earnings.

Some concern was expressed at the conference that improvements targeted to divorced women would be difficult to achieve and might hurt the overall viability of the women's reform package. Some participants felt that in light of changes in the labor force participation patterns among married and divorced women, the effect of the various proposals should be further researched. However, participants agreed that it was important to improve benefits for divorced women.

Proposals:

Raise benefits for divorced spouses to 75 percent of the former spouse's benefit (while still alive) instead of the current 50 percent. Upon the death of the former spouse, the divorced spouse would receive the full widow's benefit of 100 percent (as current law provides).

Expand eligibility for divorce benefits to require a minimum of seven years of marriage and a total of 10 years in marriage and work history combined.

Valuing Family Service

Finding a way to value unpaid child or elder care – independent from the spousal benefit – was a central topic of discussion at the conference. Eleanor Smeal of the Feminist Majority Foundation raised the idea of a Family Service Credit, akin to the Military Service Credit provided to many men for their service in the military during World War II. Military service credits were based on veterans' military earnings plus a premium (representing the higher pay they would have received in the private sector), and after the war the equivalent of the employee plus the employer tax was paid via the Defense Department budget. If men could be given Social Security credits based on service to the country rather than on taxed earnings, why couldn't women who serve the country as mothers and caregivers for the elderly earn credit toward their Social Security benefits?

It was suggested that a "Family Service Credit" could consist of up to a \$5,000 earnings

credit to the Social Security account of the lower-earning spouse (a single parent is the lower earner by default) for the years that his or her children were under six years of age, for a maximum of ten years of credit (if both parents individually earn more than \$5,000 annually, neither would be affected). Structured this way, the cost of a Family Service Credit would remain modest, and its positive effects would be targeted to individuals with very low earnings who are caring for young children.¹² The amount of \$5,000 equals (approximately) the annual earnings of a half-time, year round minimum wage worker. Such a credit would be a step toward acknowledging the unpaid work of the primary caregiver in the calculation of Social Security benefits. Family service credits could also include care given to disabled older children and dependent adults. This credit, of course, does not reflect a true valuation of caregiving, but it is a step in the direction of compensating caregiving monetarily.

One problem with the Family Service Credit is that it may benefit those families who can afford to have one partner at home with the children, while many lower income families may need to have two wage earners each earning more than \$5,000 annually to get by. To better target the credit to lower-income families, the Family Service Credit could be used only with the Special Minimum formula. As noted earlier, the Special Minimum was designed to help raise benefits for workers with longtime low-paying jobs. A Family Service Credit could be given to the lower earner of a household with dependent children for some period of time (for example, when a child is under six years of age for a maximum of ten years of credits). In this way, the Special Minimum could be extended to include workers who combine low-paying work with child-rearing or elder care responsibilities. Again, care for the dependent elderly or disabled (older children and adults) could be recognized in a similar manner. If Family Service Credits were incorporated only in the Special Minimum, the credit would be limited to those whose lifetime earnings are quite low (otherwise one's regular earnings record, or one's spouse's, provides a higher benefit). Adding Family Service Credits to the Special Minimum has the potential to be of particular help to single and divorced mothers

(those not married long enough to qualify for spousal benefits) who may have had years out of the labor force or who may have earnings below the eligibility threshold because of family care responsibilities.

A third approach would be to allow the lower-earning spouse a certain number of family care "drop out" years, i.e., years that would not be counted in calculating Social Security benefits. Similar to the provisions in Canada and Europe, drop out years, often called "baby years," are particularly valuable for women who have relatively high earnings when they are in the workforce. The two options above target family care benefits to low- and moderate-income women, while this provision would likely help higher-income women more. It was recommended that drop out years be limited to four years total over one's work life (up to two years for each minor child), and that only years when a child under six, a disabled older child, or a dependent elderly person was present in the household be counted as drop out years. Although strong support for the Family Service Credit and drop out years proposals was expressed, conference participants agreed that more research was needed to develop reliable estimates of the number of potential beneficiaries and the proposals' likely costs.

Proposals:

Provide a family service credit of up to \$5,000 to the Social Security account of the lower earner of a married couple (a single parent is the lower earner by default) for the years his or her child is under six, up to a total of ten years. (Parents who earned more than \$5,000 per year would not be eligible.) Elder care years, especially years when a dependent elderly person was present in the household, could also be included.

Alter the Special Minimum benefit requirement for workers with longtime, low-paying jobs to include lower earners (or single parents) who combine low-paying work with child-rearing and/or elder care responsibilities. Caregiving could be incorporated into the Special Minimum by giving credit for up to ten caregiving years toward earning the Special Minimum Social Security benefit.

Allow the lower-earning spouse (or a single parent) a certain number of family care years, i.e., up to four years, that would “drop out” and not be counted in calculating Social Security benefits (years with dependent elderly as well as years with children under six or disabled older children could be included).

Table 1 summarizes all of the new benefit recommendations for women and estimates their costs in terms of percent of payroll and (for comparative purposes) the percent of the projected Social Security solvency gap. Although these cost estimates are preliminary, they do illustrate that these proposals to improve benefits are feasible even in the context of addressing the long-term solvency issue. As Table 1 illustrates, and as discussed below, new revenue sources can not only solve the long-term financing gap but also could generate extra funds that could be used to improve the adequacy and equity of benefits. Conceivably, if the current pace of economic growth continues, benefit improvements may be feasible without new sources of revenue. Also, proposals to increase benefits can be modified to accommodate the revenue available.

Other Issues

A number of other issues were raised at the conference for which no specific recommendations emerged. For example, some participants noted that lesbian couples and single women (including

single mothers) cannot take advantage of spousal benefits and hence do not receive any recognition of their unpaid caretaking work in the current Social Security system. Although the Family Service Credits discussed above would provide caregiving credits to single mothers and lesbians, spouses in lesbian couples would still not have access to spousal benefits. Single, never-married women, whose earnings are often low because of sex discrimination in the labor market, would receive no credits to boost their benefits unless they spent a significant number of years as a caregiver (although they might benefit from the proposals aimed at low earners).

Elder care is another area that conference participants wanted to see included in future NCWO work. Although the Family Service Credit or drop out years provision could potentially recognize care for the elderly as well as care for children, it is administratively more difficult to document the relationship. Most participants felt that a more narrowly defined Family Service Credit would be more politically feasible in the near term. Ideally, the concept of “Family Service Credit” could expand over time.

Other issues raised at the conference include indexing the COLA (cost of living adjustment) to average wages instead of the CPI (consumer price index), allowing newly married couples to elect earnings sharing on a voluntary basis, and additional approaches to improving equity for different kinds of households (including one- and two-earner couples).

Table 1: Elements of a Social Security Reform Package for Women

Proposals to Strengthen Core Benefits for Women	Percent of Payroll	Percent of Projected Solvency Gap
<p>Low Earners</p> <ul style="list-style-type: none"> ◆ <i>Combination Proposal</i>: 100 percent replacement rate below the first bendpoint; 45 percent replacement rate between \$6,060-\$9,600, phased out with a 15 percent replacement between \$9,600-\$15,871. ◆ <i>Special Minimum</i>: Revise current Special Minimum to lower earnings required to 50 percent of minimum-wage earnings for full-time, year-round work. 	.30 ^a (very small)	14.5
<p>Widows</p> <ul style="list-style-type: none"> ◆ Increase the <i>Widow's Benefit</i> to 75 percent of the couples joint benefit, capped at the maximum earner's benefit. ◆ Ensure that <i>widows are not penalized</i> by their husband's decision to retire early. 	.46 ^b .03 ^a	22.2 1.5
<p>Disabled Widows and Divorced Disabled Spouses</p> <ul style="list-style-type: none"> ◆ Raise benefits for <i>Disabled Widows</i> and <i>Divorced Disabled Spouses</i> to 100 percent of the retired worker's benefit. ◆ <i>Remove the seven-year limitation</i> on benefit eligibility and the age 50 provision on disabled widows and <i>make divorced disabled spouses eligible on the same basis as widows</i>. 	.05 ^a .05 ^a	2.4 2.4
<p>Divorced Women</p> <ul style="list-style-type: none"> ◆ Increase <i>Divorced Women's Spousal Benefit</i> to 75 percent. ◆ Increase eligibility for <i>Divorce Benefits</i> by requiring a minimum of only seven years of marriage and a total of ten years in marriage and work history combined. 	.05 ^a .05 ^a	2.4 2.4
<p>Valuing Family Service</p> <ul style="list-style-type: none"> ◆ <i>Family Service Credit</i>: Provide a credit to lower earner (or single parent) for the years that her/his biological/adopted children are under the age of six, up to a maximum of \$5,000 per year (50 percent minimum wage earnings in 1999, then index). Up to ten years of credit. ◆ <i>Special Minimum</i>: Up to ten caregiving years (for the lower earning spouse or single parent) to count towards the Special Minimum benefit. ◆ <i>Caring Years</i>: Provide two "Drop-Out" years for each biological/adopted child to the lower earner (or single parent) up to a total of four years. 	.50 ^a	24
Subtotal to Strengthen Benefits for Women	1.49	72
Proposals to Address Solvency		
<ul style="list-style-type: none"> ◆ Adjust the maximum wage base by making all earnings subject to the payroll tax and credit them for benefit calculations. ◆ Invest 40 percent of the Trust Fund in stocks. ◆ Increase the payroll tax 1.8 percentage points (0.9 each for the employer and the employee) in 2020 (or use general revenue). 	1.53 ^c .99 ^c 1.04 ^d	74 48 50
Subtotal for Addressing Projected Solvency Gap	2.07	100
Total For Addressing Solvency Gap and Strengthening Benefits	3.56	172
<p>Notes: a) These are very rough estimates of cost, which have to be further researched. For example, cost estimates do not account for interaction effects. b) Goss, 1999. c) Fontenot, 1999. d) Social Security Administration, personal communication, 2000.</p>		

Part Two: Revenue Generation

As many analysts have documented over the past year, there is no immediate Social Security crisis (Aaron and Reischauer 1998) and, depending on future economic growth, a shortfall after 2034 may not develop. Although the system is expected to remain solvent for at least another 34 years, and to be able to pay 75 percent of benefits after 2034 if no changes are made, the NCWO Task Force's proposals for Social Security reform must address revenue needs, both to deal with potential future shortfalls and to fund the increases in benefits the Task Force recommends.

The "solvency gap" projected by the Social Security Trustees can be measured as a percent of payroll. Currently, they estimate the solvency gap, the amount needed to guarantee 100 percent of benefits for a full 75 years, at 2.07 percent of payroll. In other words, increasing the Social Security payroll tax now by 2.07 percentage points from 12.4 to 14.47 would eliminate the future shortfall, according to the Trustees' projections. Their projections, however, are based on very low future economic growth. It is possible, if future growth averages the same as past growth, that no shortfall will develop. Whether or not this future shortfall occurs, the Task Force's proposals for enhancing benefits, which are designed to reduce poverty for older women (and will also help male low earners and men in dual earner couples) do cost money. The funds needed to pay for benefit increases can be expressed either in terms of a percent of payroll or in terms of the percent of the projected solvency gap, in which 2.07 percent of payroll equals 100 percent of the solvency gap.

As shown in Table 1, which includes the NCWO Task Force's proposals for strengthening Social Security and enhancing Social Security revenue, the Task Force's benefit package is estimated to cost 1.49 percent of payroll or 72 percent of the solvency gap. The Task Force's revenue-enhancement proposals raise 3.56 percent of payroll, or 172 percent of the solvency gap, which is enough to meet the projected future shortfall in funding and to increase benefits.

To avoid benefit cuts that would disproportionately hurt women and other economically vulnerable groups – such as raising the age of normal or early retirement, reducing cost of living adjustments (COLAs), increasing the number of years for the computation of benefits and lowering benefits in other ways – strategies for raising revenue were discussed at the conference. Discussion focused on three proposals for increasing Social Security revenues:

- ◆ adjusting the maximum wage base by making all earnings subject to the payroll tax (as is done now for the Medicare tax, which has no earnings cap) and providing appropriate credit in the calculation of benefits;
- ◆ investing 40 percent of the Trust Fund in the stock market;
- ◆ if these two proposals and economic growth are not sufficient, increasing the payroll tax by 1.8 percent (0.9 each for both the employer and the employee) in the year 2020 would close the projected gap; alternatively, general revenues could be raised.

Making additional earnings subject to the payroll tax is the most appealing approach to some NCWO members because it places greater financial responsibilities on those making more than \$76,200 annually (the earnings maximum in 2000). Raising or eliminating the cap on wages subject to Social Security taxes is particularly desirable because this source of revenue would keep pace with the growth of wages over time. If the cap was raised to keep the share of wage income subject to Social Security taxes constant, the cap would now be set at \$97,000. Even this more modest change could reduce the long-term shortfall by 0.55 percent of payroll (or about 25 percent of the solvency gap). In order to retain the connection between contributions and benefits, the maximum benefit would rise proportionally to the amount of payroll taxes paid. Rather than viewing an adjustment in the taxable wage base as

a tax measure, participants suggested it be viewed as an equity measure, ensuring that high income workers pay their share.

Investing a portion of the Social Security surplus in private equities or in higher-risk securities (than the current government bonds) has been suggested by a number of analysts as a source of revenue (Smeeding, Estes, and Glasse 1999). This recommendation differs from other privatization plans in two important ways. First, investments would be made by a central, independent organization, sharing risk across the entire system and holding down administrative costs. Second, only a portion of the surplus would be dedicated to this alternative investment strategy, thus limiting the system's overall exposure to risk.

Finally, assuming that these two proposals do not solve future solvency concerns and that the economy grows very slowly over the next three decades, an increase in the payroll tax might be needed to fund future benefits. Alternatively, general revenue could be used to help balance the Social Security system. Certainly Social Security is as important as other programs funded out of general revenues (such as education and defense). Because raising payroll taxes would likely be politically unpopular (even in the future, when earnings will be higher than they are today), it should be considered as a last resort. Developing proposals to make the payroll tax less regressive was also discussed, although no specific proposal was put forward.

Conclusions

There is no silver bullet for Social Security reform. Instead, improving Social Security is a balancing act requiring careful attention to the diversity of Americans' working lives and family arrangements. Despite the increase in women's participation in the paid work force over the past three decades, familiar factors — the persistence of the wage gap, differences in women's and men's family responsibilities, as well as the rise in divorce and single motherhood — are expected to continue to leave many women economically disadvantaged in their old age. For the foreseeable future, women will have special reasons for protecting and enhancing Social Security.

The Airlie House conference provided an unprecedented opportunity for leaders of women's organizations and policy experts to set a new agenda for Social Security that not only addresses solvency, but also improves the adequacy and equity of the system. In some cases, the NCWO Task Force's proposals represent a modification of proposals that are already under serious consideration. For example, the NCWO Task Force supports the proposal originally put forward by the 1994-96 Social Security Advisory

Council to raise the benefits for widows to 75 percent of the couple's combined benefits, although the NCWO Task Force does not support the Advisory Council's proposal to lower the spousal benefit to 33 percent (see Table 1 for alternative ways of funding benefit improvements). Other Task Force proposals represent a new direction in the public debate on Social Security reform. A Family Service Credit, for example, would represent a major shift in Social Security policy in that it would establish a third way to qualify for benefits. A Family Service Credit would mean that one could receive benefits based on one's record of working, marriage, or parenting (or caregiving). As American family arrangements become more diverse and marriages that qualify the lower earner for spousal benefits become less common, a supplement to the spousal benefit becomes increasingly important.

The NCWO Task Force wants feedback from NCWO members and women across the country as it develops final proposals for Social Security reform for women. Join us in this important debate by contacting the Task Force at <http://www.women4socialsecurity.org>.

Endnotes

- ¹ The Social Security Administration currently enforces an “earnings limit” for retirees who continue to work after beginning to claim Social Security benefits. Currently, any earnings over \$10,080 (indexed to average wage growth) results in a deferment of a portion of the benefits. Although the earnings test is often mistakenly portrayed as a tax, it is really more like forced savings, because benefits “lost” while the earnings limit is in force are restored later.
- ² This section paraphrases Dean Baker’s proposal which can be found in the beginning of Section Seven of the Conference Briefing Book.
- ³ Expressed as averaged indexed monthly earnings (AIME), the Primary Insurance Amount (PIA) is calculated as 90 percent of the first \$505 of the AIME, 32 percent of the amount between \$505 and \$3,043, and 15 percent of the amount over \$3,043 (1999 schedule). The bendpoint is the earnings level at which the replacement rate changes. Currently, there are two bendpoints, at \$505 and \$3,043, expressed as monthly earnings, or at \$6,060 and \$36,516, expressed as annual earnings.
- ⁴ The 1998 average indexed monthly earnings (AIME) for the average wage worker is \$2,163, equivalent to 45 percent of \$25,956 on an annual basis. As this index would rise with wages, it can be expected to keep pace with inflation over time.
- ⁵ Because Primus’ proposal caps benefits at \$8,760 at earnings of \$11,680, workers earning between \$11,680 and about \$16,400 would get an increase in benefits to that fixed level. Because this formula violates the basic tenet of Social Security that there should be a return on each dollar of covered earnings, a phase-out range is suggested.
- ⁶ Any bendpoint, range, and replacement rate could be chosen, depending on the revenue available and the desired import.
- ⁷ The couple’s benefits equal 100 percent of the worker benefit plus 50 percent of that amount for the lower-earning or non-earning spouse; upon widowhood the 50 percent spousal benefit is lost and the surviving spouse has only 100 percent of the worker benefit (or two-thirds of their income while married).
- ⁸ For example, if the wife and husband had equal lifetime earnings, each would receive a worker retirement benefit (because their own benefit would be greater than the 50 percent spousal benefit); when one member dies, the surviving member of the couple has only his or her own benefit, equal to only half of what the couple had received during their marriage.
- ⁹ The highest worker monthly benefit for a worker retiring at age 65 in 1999 is \$1,373 monthly for an annual income of \$16,476. However, a worker who defers benefits receives delayed retirement credits. At age 70, a worker beginning benefits in 1999 receives a monthly check equal to 122.5 percent of his or her Primary Insurance Amount, i.e. the amount he or she would have received at age 65. As delayed retirement credits increase, a worker’s check (or his or her survivor’s check) could reach 132 percent of PIA (before falling back to 124 percent when Normal Retirement Age reaches 67). In the rare case that a widow’s benefit would be higher than the maximum worker monthly benefit, she could retain the higher widow benefit instead of the combined income capped at the highest worker benefit.
- ¹⁰ In earnings-sharing proposals, annual earnings of the husband and wife would be combined, and each individual would be credited with one-half of this total for his or her Social Security earnings record. Theoretically earnings sharing is attractive, but, in practice, there are a number of serious drawbacks. Most important, couples lose access to the spousal benefit. Because women still tend to earn much less than their husbands, many women still depend on the spousal benefit. Eliminating the spousal benefit would lower benefits for many of these women.
- ¹¹ Married couples might divorce and continue to live together to increase their benefits from 150 percent to 175 percent of the retired worker’s benefit.
- ¹² Alternatively, the credit could be phased out at, for example, a 50 percent tax rate so a lower earner making \$1,000 per year while parenting would receive a credit of \$5,500 instead of only \$5,000. Such a formula would allow low-earning caregivers to benefit from their earnings and the payroll taxes they pay.

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Appendix II

National Council of Women's Organizations Task Force on Women and Social Security Principles for Social Security Reform

Social Security is the heart of our nation's social insurance program, providing universal coverage for workers and their families through the pooling of resources that guarantees benefits to all. The National Council of Women's Organizations (NCWO) has developed a women's checklist for the public and policy makers to reference while considering Social Security reform.

Does the Reform Proposal:

- Continue to help those with lower lifetime earnings, who are disproportionately women?** Social Security's benefit formula is structured so that the lowest paid workers receive benefits that replace a higher proportion of their pre-retirement earnings than higher-wage workers. Many of the lowest paid workers also have no pension from their jobs. Any reform must retain this feature benefiting lower-paid workers.
- Maintain full cost-of-living adjustments?** Social Security's annual cost-of-living increases (COLA), which are indexed to inflation, constitute a crucial protection against the erosion of benefits. Because women live longer than men, on average, and rely more on Social Security since they are less likely to have other sources of retirement income, this provision is particularly important to women. Even when employment-based pension income is available, it is rarely inflation protected.
- Protect and strengthen benefits for wives, widows, and divorced women?** Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation protected, life-time benefits for the wives of retired workers, widows, and many divorced women, many of whom did not work enough at high enough wages to earn adequate benefits of their own.
- Preserve disability and survivor benefits?** Social Security provides benefits to 3 million children and the remaining caretaking parent in the event of the premature death or disability of a working parent. Spouses of disabled workers and the widows (or widowers) of workers who died prematurely also receive guaranteed lifetime retirement benefits. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.
- Ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market?** Proposals to divert current payments from the Social Security system into individually-held private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women. Without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.
- Address the caregiving and labor force experience of women?** The Social Security system is based on marriage and work patterns that have changed. Currently, the benefit formula, which generally helps those with low lifetime earnings, also favors those with 35 years of labor force participation, years which many women lack because of family caregiving. Moreover, the effects of

sex-based wage discrimination during their working years are not fully offset by the more generous treatment lower earners receive. Such issues as divorce, taking time out of the workforce for caregiving, the difference in current benefits between one and two-earner couples, and the inadequacies in benefits for surviving spouses must be considered at the same time that solutions to strengthening the financial soundness of these systems are being sought.

- ☑ **Further reduce the number of elderly women living in poverty?** Social Security has helped reduce poverty rates for the elderly, from 35 percent in 1959 to less than 11 percent in 1996. In 1995, the poverty rate for all women aged 65 and older was 13.6 percent, while the poverty rate among women aged 65 or older who lived alone was 23.6 percent. Without Social Security, the poverty rate for women over 65 would have been an astonishing 52.9 percent. Nevertheless, unmarried women still suffer disproportionately; single, divorced, and widowed women aged 65 or older have a poverty rate of 22 percent, compared with 15 percent for unmarried men and 5 percent for women and men in married couples.

The NCWO Task Force on Women and Social Security

The NCWO Task Force on Women and Social Security was formed in the fall of 1998 to address the critical issue of Social Security reform and to help policy makers and candidates understand women's stake in this crucial issue. The NCWO Women and Social Security Project is working with all NCWO members to carry out a three-pronged public education campaign using: 1) technology, 2) media, and 3) on-the-ground grassroots organizing of forums and media events. To get involved in the NCWO Women and Social Security Project:

- ⌘ Check out our website at <http://www.women4socialsecurity.org> to learn more about the campaign. Link to this site from your site!
- ⌘ Sign-up for your e-mail list serve to receive updates on events and announcements throughout the campaign. Use the website or e-mail info@women4socialsecurity.org.
- ⌘ Get involved in our "Pin One On" campaign (represented on the front cover). Several important causes such as AIDS, breast cancer, and veterans have used the ribbon to raise awareness and show solidarity. Pull a dollar bill out of your pocket, fold it into a ribbon, and pin one on to show your support for protecting (by opposing privatization) and strengthening Social Security for women.

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The National Council of Women's Organizations is a non-partisan network of more than 100 women's organizations representing more than six million women. For more information, contact ncworg@aol.com or visit the website at <http://www.womensorganizations.org>.

The Institute for Women's Policy Research Information Network

The IWPR Information Network is a membership service designed to make IWPR research and publications available on a regular basis to the widest possible audience and to facilitate communication among IWPR's members. Individual and organizational members may receive complimentary or discounted publications, discounted registration to IWPR's policy conferences, a quarterly newsletter, and *Research News Reporter*, a monthly publication that contains research in the news relevant to women and families, and includes citation and ordering information.

For further information, contact:

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