Social Security for Women: Proposals for Change

Social Security is this country’s most successful anti-poverty program. Half of women aged 65 and older would be poor if not for Social Security. Social Security is particularly important for women, who on average have fewer resources in retirement than men.

Because women tend to earn less than men and to take more time out of the paid work force to care for children or elderly parents, women have lower Social Security benefits than men. While the option of a spousal benefit for women married ten years or longer partially compensates for women’s care giving work, and provides added economic security for many women, poverty rates among older women remain high.

What follows is a short overview of proposals to improve Social Security for women. Spousal benefits, child care credits, double-decker systems and high minimums are described. None of these proposals are new. Some proposals, such as earnings sharing, have been debated for decades. Others, such as child care credits or the double-decker approach, are already used in other countries. In this Briefing Paper, strengths and weaknesses of these approaches are noted in order to demonstrate the range of options available for improving Social Security for women.

Changes in Spousal Benefits

The Spousal Benefit

While the original Social Security Act of 1935 provided monthly benefits for retired workers only, Congress quickly amended it to include a benefit equal to 50 percent of the worker’s primary benefit for the wife, (as well as benefits for widows and dependent children). As Reno and Upp (1983) point out, it was clear from the start that many women would be “dually entitled,” that is, they would earn Social Security credits through their own work in the paid labor force in addition to their entitlement as wives of workers. This “dual entitlement” is at the heart of the equity issue in Social Security. For example, a woman who earns up to a third of her husband’s lifetime earnings receives the same Social Security benefit as a woman who didn’t work at all. As Steuerle and Bakija (1997) point out, the principles behind the spousal benefit are contradictory.

On the one hand, the spousal benefit recognizes that households with two people need more money. On the other hand, it provides benefits to high income households, while low-income dual earner couples do not benefit from it.

Earnings sharing and changes in widow’s benefits are two prominent approaches to rectifying the equity problems raised by the spousal benefit. These proposals would also improve adequacy for many women.

Earnings Sharing

The basic concept behind the proposals for earnings sharing is that the husband and wife are equal partners in a marriage. These proposals therefore treat each member of the couple as an equal earner, combining the earnings totals of the couple and dividing them evenly between the husband and wife. Whether the husband is
the sole wage earner or earns more than his wife becomes irrelevant, since the idea of earnings sharing is based on the belief that both the husband and the wife contribute equally to the establishment of the family and the home.

In earnings sharing proposals, annual earnings of the husband and the wife would be combined, and each individual would be credited with one-half of this total for his or her Social Security earnings record. Each individual’s benefit, therefore, would be based on the individual’s own earnings for the years he or she was single, plus half of the combined couple earnings for the years of marriage. The sharing of earnings would cease once one of the spouses retired or became eligible for some other form of benefit, such as disability.

While the theory behind earnings sharing is based on the economic partnership of a married couple and aims to equalize Social Security benefits for men and women, husbands and wives, there are some inherent concerns with these reform proposals. Research conducted by the General Accounting Office (GAO) has shown that earnings sharing would equalize the benefits of one and two-earner couples that had the same lifetime earnings. However, this would result from a trade-off in benefits. While two-earner couples stand to gain an increase in their Social Security benefits, single-earner couples would experience a drop in the total benefits received. Because there is no spousal benefit to offset the lack of earnings of the non-working spouse, the combined earnings would not result in an increased benefit, as occurs in the current system.

Similarly, survivor benefits would also be equalized between one and two-earner couples with the same earnings. Under earnings sharing, the widow (or widower) would receive the earnings credits of the deceased spouse as well as her (or his) own. However, these shared credits may result in a lower survivor benefit than what would have been received under the current law. This would occur whenever 100 percent of each spouse’s benefit combined was less than 150 percent of the deceased spouse’s benefit.

Earnings sharing proposals include some additional trade-offs. For example, while married women stand to gain in Social Security benefits, married men, one-earner couples, and other beneficiaries such as divorcees, certain survivor beneficiaries, and married disabled men would generally receive a decrease in benefits with these plans. Single individuals would not be affected by these proposals.

Earnings sharing proposals alone will not improve the overall adequacy of the Social Security program, and other measures will be needed to improve basic income protection.

The Technical Committee on Earnings Sharing proposed a modified Earnings Sharing Plan that included some protection and studied the effects of the reform on Social Security benefits. Among the protections, disability benefit determination would include a “freezing” option. This would allow a spouse to freeze his or her own earnings record while caring for a disabled spouse, preventing the addition of zero-earning years in the earnings record of the couple. The survivor benefit would also be altered. An adjustment benefit of 71.5 percent of the basic benefit for the couple would be provided to the widow(er) for up to two years after the death of his or her spouse. There would also be an in-care benefit provided to caregivers, both for the care of dependent children and the care of disabled spouses. A special minimum benefit would be included and amended to add credit for a maximum of ten years for time spent caring for a child under the age of seven.

To test the results of the Technical Committee’s Plan, the Urban Institute used a microsimulation model to project benefit levels in future years. The impact of earnings sharing on the benefits varied. For retired married couples, approximately half would experience no change (within 5 percent) in their combined benefit under the earnings sharing program. Six percent would experience a dramatic increase in benefits of more than 20 percent, about one-fifth would experience an increase in benefits of between 5 and 19 percent, and one-fifth would experience a comparable decrease in benefits received. For retired divorced individuals, earnings sharing would divide the benefits more equitably between the men and the women. Approximately 75 percent of retired divorced women would receive an increase in their benefits while about 70 percent of men would experience a slight decrease. The majority of surviving spouses would also experience an increase in their benefits. Projections show that nearly 60 percent of surviving women would receive at least a 5 percent increase in their benefits, with half of them receiving an increase of over 20 percent. However, the other side of the story is that 24 percent of widowed women would actually experience benefit decreases, with 7 percent receiving a reduction of over 20 percent. The remaining 17 percent of surviving women would receive benefits at about the same level as under current law. Meanwhile, 64 percent of surviving men would experience benefit increases of 5 percent or more. Overall, the results also showed that earnings sharing would improve the benefit levels for most people in the lowest-income groups, including most retired married couples, divorced women and many men, and surviving women and men in this income category.
Current Social Security System’s Spousal Benefits

- The current Social Security system is a pay-as-you-go system in which benefits are based on the 35 years of highest taxable earnings. The benefit formula is a progressive calculation which replaces a higher percentage of earnings for low income workers than for high earners.

- Currently, the retirement age is 65, and the earliest age at which one is eligible for benefits is 62. If a worker retires at 62, his or her benefits will be reduced to 80 percent of the full benefit. The eligibility age for Social Security benefits has been revised from 65 to 67 years of age to be phased in by the year 2022.

- Under the current system, a married person is eligible for the larger of either 100 percent of his or her own retired worker benefit or 50 percent of his or her spouse’s retired worker benefit. A woman with earnings is considered dually entitled if she is receiving any portion of the spouse’s benefit. She is considered to be receiving her own worker benefit and an additional benefit which increases her overall benefit to the amount equal to 50 percent of her spouse’s. Both forms of benefits are reduced if they are taken between the ages of 62 and 65.

- Widow(er)s are entitled to 100 percent of the deceased spouse’s retired worker benefit, if it is larger than their own retired worker benefit. One may receive a survivor benefit at age 60, but the benefit will be reduced if taken before the normal retirement age.

- A divorced person who was married for at least 10 years, who is not married and whose former spouse is still living, is entitled to spousal benefits equal to 50 percent of the former spouse’s retirement worker benefit (if it is greater than 100 percent of her own retired worker benefit). Divorced persons married at least 10 years are also entitled to survivor benefits when the former spouse dies, at the 100 percent rate that applies to widows.

Source: Shaw, Zuckerman, and Hartmann, 1998.

Widow’s Benefits

Another approach to recognizing women’s care giving is to lower the spousal benefit while both husband and wife are alive, and increase it after the death of either spouse.

In an article in the Social Security Bulletin, research on four alternative policies was presented by Howard Iams and Steven Sandell (1998) of the Social Security Administration in an attempt to analyze how Social Security benefits could be increased for widows. The first of these proposals involves decreasing the spousal benefit from 50 percent to 33 percent of the husband’s benefit, and then using the saved benefit to increase the survivor’s benefit. This would result in a total couple benefit of 133 percent rather than the current 150 percent, but an increased survivor benefit of 125 percent. The second policy suggests reducing the couple’s combined benefit by 10 percent and then increasing the survivor benefit with the savings. The third proposal would reduce the couple’s benefits to 150 percent of the higher earning spouse’s primary insurance amounts (PIAs) and increase the benefit to the survivor with the net savings. This would occur in couples where both individuals receive only retired-worker benefits and not spouse benefits (and are thus currently receiving more than 150 percent of the higher earner’s benefits). And finally, the fourth idea involves several measures including basing the survivor benefit on 75 percent of the couple’s benefit, decreasing the spousal benefit to 33 percent of the husband’s benefit, and reducing the PIA formula amounts by 1.5 percent to make the proposal cost neutral.

While these policies would decrease the overall poverty rate for women aged 62 or older, not all women would gain from the reforms. The first proposal would decrease the poverty rate for widows aged 62 or older by about 12 percent, but would increase the poverty rate for wives in this age range from 4.2 to 4.5 percent. In addition, the impact of this policy would depend on the size of the spousal benefit currently received. This would in turn depend on whether the wife was receiving benefits based on her own earnings or only on those of her husband. Thus, not all individuals would gain equally from such a proposal, and in fact, some even stand to lose from it.
The other three policies proposed by Iams and Sandell have similar results. The second suggestion would decrease the poverty rate for widows by approximately 25 percent—from 17.9 to 13.4 percent—but would increase the poverty rate for couples. The third plan would have the same effect, lowering the widows’ poverty rate by 16 percent at the expense of increasing that of couples slightly, from 4.2 percent to 4.4 percent. And the fourth policy would slightly increase the poverty rate of married couples while lowering that of widows from 17.9 percent to 15.1 percent. Thus, overall, these policies would involve trade-offs: widows would gain benefits with these reforms, but couples would lose overall. In addition, many divorced wives would also lose, with a one-third decrease in their Social Security benefits, from the 50 percent spousal benefit to the 33 percent spousal benefit.

When examining the cost of these policies to the Social Security system, Iams and Sandell discovered that the first three proposals would have an actuarially fair impact, transferring the benefits of a couple from the time that both are alive to the time when one has passed away and one is a widow or widower. (This is true only if the deceased spouse lived until retirement age.) The fourth policy would reduce the PIA for all beneficiaries, but this reduction in benefits would not offset the increase in benefits received by survivors. The majority of these policies are neutral in their financial impact on the system, transferring benefits from one group of beneficiaries to another. The fourth policy would have a negative financial impact on Social Security funds, as increased benefits would be larger than the decreases in benefits.

Other proposals to increase widow’s benefits that do not reduce benefits for married couples do not require trade-offs but do add costs to the system.

Other Proposals on Spousal Benefits

There are numerous other plans that impact spousal benefits in some way or another. The General Accounting Office examined some of these proposals in its April 1996 report, entitled Social Security: Issues Involving Benefit Equity for Working Women. For example, one proposal is to cap the size of the spousal benefit. This could be done by placing a maximum limit on the amount of the spousal benefit itself or by further limiting the size of the retired worker’s benefit which is then used as the base for the spousal benefit. Another plan involves reducing the dual entitlement benefit offset. Currently, a person who is receiving a spousal benefit has this benefit reduced, or offset, by $1 for every $1 received from the retirement benefit he or she earned. By reducing this entitlement benefit offset, the spousal benefit would be reduced by less than a dollar for every dollar received from the individual’s retirement benefit. This would therefore increase the total benefit received by the lower-earning spouse. A proposal to allow the earnings credits of deceased spouses to be awarded to the surviving spouse has also been suggested. This would increase the total benefit of the surviving spouse by calculating the benefit based on the total lifetime earnings of both spouses. Finally, reducing the number of years included in the benefit formula for the lower-earning spouse would increase the total benefit for many women. This is because women are more likely to have spent some years outside of the labor force and therefore have more years of zero earnings. While all of these proposals have appealing attributes, there are trade-offs which accompany each of them, thereby requiring more examination of the details in order to assess the overall impact of the reforms.

Child Care Credits

Various plans attempt to credit women with Social Security benefits for the years in which they were out of the workforce to provide child care. These plans are based on child care dropout years, which are defined in one version by Iams and Sandell (1994) as years with no recorded Social Security covered earnings and the presence of a child under the age of six. Proposals attempt to compensate women for these years out of the workforce with either a minimum benefit or an earnings credit for that period of time, either at a flat rate or based on the woman’s earnings when she is working. Other reforms would include older children and provide partial credits for periods of part-time work and part-time child care. The study uses data from the 1990 Survey of Income and Program Participation (SIPP) of the Bureau of the Census, supplemented with information from the Social Security records of covered earnings from 1951 through 1990.

While crediting child care provision is a progressive and seemingly beneficial policy in theory, the reality of the plans is that they have a minimal impact on women’s Social Security benefits, and tend to improve benefits for those who are already better off. Under the current system, the majority of women receive benefits based on their husbands’ earnings, either as spouses or widows. Thus, changing to a system which incorporates a child care credit or benefit would be unlikely to provide a benefit that is larger than the benefit a woman would already receive through her husband (because of her lower earnings history during the years in which she did work). Iams and Sandell concluded that for those women who would actually benefit from the child care dropout years (those
with time out of the labor force and higher earnings relative to their husbands), the average lifetime increase in benefits would be approximately $4,200. Once this average increase in overall benefits is spread across the average of 14 years of retirement, the average woman would receive $25 additional per month. Thus, the benefit increase resulting from child care dropout years is minimal in their proposal.

Another unexpected result is that women with higher education levels would tend to gain more from these plans. Studies have shown that the majority of women entering the work force are married to more educated husbands who tend to have higher earnings. Furthermore, studies have demonstrated that child care dropout years benefit white and other women more than black women, thereby benefitting the economically advantaged more than the most disadvantaged populations. Child care credits and dropout years also produce some other interesting results. By crediting years out of the workforce, these plans may provide a disincentive to work, thereby lowering the years in which a person contributes to the Social Security system. Thus, while these proposals are well-intentioned and are theoretically desirable, in reality the plans as measured so far tend not to help those women who are most economically in need.

Upon closer examination, however, child care credit plans have the potential to aid poor single mothers who are economically in need. If the credit is created at a flat rate and given as a benefit regardless of earnings histories, single women who have had to take time out of the labor force (or reduce their work time) to care for children would benefit. Rather than having zero or very low earning years in their benefit formula, these women, many of whom have limited earnings records, would gain some income for their retirement despite having spent time caring for their families. Such credits could also be used to increase benefits under the “special minimum,” which is a Social Security provision for long term low wage earners.

### Dependent Care Credits

Often times, women are required to leave the labor force to care for a family member who is older or disabled. Dependent care credit proposals are similar to the child care credit plans in that they offer women some sort of compensation for time taken out of the workforce to care for others. These plans take into consideration the reality that women are often left with the responsibility for caring for ailing, aging, or disabled family members, not just children. Therefore, although a woman may not be earning wages covered by the Social Security System, she is deserving of credit to compensate her during this time. The results of these proposals would likely be similar to those of child care credit plans and would depend on how they were structured.

### Double-Decker Plans

These proposals break Social Security benefits into two parts: a flat benefit paid to all qualified individuals and an earnings-based benefit proportional to an individual’s own workforce earnings. As described by the GAO (1996), these plans account for both a social adequacy component and an individual equity component. As proposed, these plans would eliminate spousal benefits and survivor benefits. Double-decker plans would equalize Social Security benefits of one and two-earner couples who have identical earnings, since the individual equity component would provide benefits to each spouse, rather than basing the couple’s benefit on that of the higher earning spouse. Thus, double-decker plans would provide Social Security benefits on two different levels, creating a socially adequate and individually equitable plan in theory.

Although these plans seem to solve the problems of adequacy and equity, there are some practical complications. First, since survivor benefits would be eliminated, some widows would receive smaller benefits under these plans. Also, without spousal benefits, some married individuals may receive decreased benefits, since women’s lower lifetime earnings may produce a smaller benefit than what she would have received through her higher earning spouse. To the extent that the second tier involves individual privatized investment accounts, there would be a dramatic increase in administrative costs. Thus, while there are some benefits to these proposals, there are also some drawbacks which need further consideration.

### Higher/Alternative Minimums

The Long-Term Reforms Subcommittee of the Save our Social Security Coalition Women’s Issues Committee presented various proposals to improve the adequacy of the system for women. One of the measures recommended by the Subcommittee is to create a benefit floor through the development of a new basic benefit formula. This new benefit would be calculated on a sliding scale, based on the number of years of covered earnings an individual has accumulated. A basic benefit would be provided for workers with 10 or more years of covered earnings, and this amount would increase proportionally with the number of years worked up to a maximum of 25 years. With this benefit floor in place, low-earning workers...
would be protected from falling below the poverty level. (This would only be true if the basic benefit and other benefits were always equal to at least the poverty level. For short-term workers this would probably not be the case.) Similarly, the Subcommittee proposes placing spousal benefits on a sliding scale as well. Couples married for 25 years or more would be eligible for the maximum benefit. Those married between 10 and 24 years would receive a prorated benefit, and those married for less than 10 years would not receive a spousal benefit at all. This sliding scale for spousal benefits would improve the adequacy of the system for both long-term married and divorced women, but those with marriages that last less than 25 years would most likely receive less in both spousal and survivor benefits. Other proposals to increase minimum benefits, such as by increasing wage replacement rates for low earners or adding credits for child care years, have also been proposed.

The process of addressing the Social Security program’s financial imbalance also provides an opportunity to make improvements. The approaches described above represent ways to strengthen the Social Security program to ensure adequacy and equity for women.

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References


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