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Report to the Honorable
William V. Roth, Jr., U.S. Senate

April 1996

SOCIAL SECURITY

Issues Involving Benefit Equity for Working Women



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**Health, Education, and
Human Services Division**

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April 10, 1996

The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

This report responds to your request that we review concerns about the treatment of married women and widows under the Social Security system, proposals that have been made to address these concerns, and the likely impact of recent and projected economic and demographic trends on women's future benefits.

As agreed with your office, we are sending copies of this report to the Commissioner of Social Security. Copies will be sent to others on request.

This report was prepared under my direction. Please contact Michael D. Packard, Senior Economist, at (202) 512-7250 if you have any questions.

Sincerely yours,

A handwritten signature in cursive script that reads 'Jane L. Ross'.

Jane L. Ross
Director, Income Security Issues

Executive Summary

Purpose

Social Security is a large and complex program that protects most workers and their families from income loss because of a worker's retirement, disability, or death. In 1994, about 95 percent of all jobs in the United States were covered by Social Security, and almost 43 million people received \$317 billion in benefits from the program.

In the 1930s, when the program was established, less than 15 percent of married women worked for pay outside of their homes, and, as a result, most married couples were one-earner couples. Today, about 60 percent of married women are paid workers, and most married couples are two-earner couples. However, Social Security's benefit structure remains largely unchanged despite this and other demographic changes, leading some to question the structure's fairness.

To better understand this matter, Senator William V. Roth, Jr., asked GAO to (1) describe concerns about the fairness of the benefits received by wage-earning women and their families in retirement, (2) discuss how economic and demographic trends might affect the benefits of such people in the future, and (3) discuss past proposals to address these concerns.

Background

Policymakers in 1935 based the Social Security Act's (the act) original benefit structure on the principle that only those who contributed to Social Security should receive benefits and individual benefit levels should relate to individual earnings levels. This may be termed the "individual equity" principle.

In 1939, policymakers decided the program should also provide benefits to the families of covered workers, and the Congress amended the act to provide benefits to covered workers' wives, widows, eligible children, and, in a few instances, parents.¹ These benefits are provided without additional contributions from the worker. By reflecting the notion that the worker and his family were the unit to be protected, the 1939 amendments incorporated a "social adequacy" rationale into the benefit structure.

The 1939 expansion of benefit categories resulted in some people being entitled to benefits both as a retired worker and as the spouse or survivor of another worker. These individuals are said to be "dually entitled" to benefits. However, dually entitled beneficiaries do not receive the sum of these two benefits. Rather, they receive (1) the retired worker benefit they

¹The wife's benefit is currently based on 50 percent of the worker's benefit and the widow's on 100 percent (see app. I). These benefits were made available to husbands and widowers in 1950.

earned plus (2) the difference, if any, between that benefit and the benefit they would receive simply as a spouse or survivor. In other words, because of the dual entitlement provision (or dual entitlement limitation), married (and widowed) beneficiaries receive a benefit equal, in effect, to either their own earned retirement benefit or their spousal (or survivor) benefit, whichever is higher.

Results in Brief

The provision of spousal and survivor benefits on social adequacy grounds and the workings of the dual entitlement limitation laid the groundwork for concerns about the fairness of the Social Security benefit structure. Some question whether benefits are equitably distributed among different categories of beneficiaries and contributors to the program. For example, a two-earner couple will receive lower combined benefits in retirement than an otherwise identical one-earner couple. And, a married woman who works and pays Social Security taxes might not, because of the dual entitlement limitation, receive higher benefits than if she had never worked and received only a spousal benefit.

The movement of women into the paid labor market is likely to increase the concerns about the fairness of the Social Security benefit structure. As women's labor force participation continues to grow, increasing numbers of women will earn benefits in their own right. This, in turn, will increase the number of two-earner couples, heightening concerns about the fairness of their benefits (and those of their survivors) vis-a-vis those of one-earner couples with identical lifetime earnings. It will also increase the proportion of married women subject to the dual entitlement limitation and may lead more women to question whether they receive an adequate return on their contributions.

Several proposals have been made over the years to address these equity issues. These include two broad proposals—"earnings sharing" and a "double-decker" plan—and several more narrow proposals, such as reducing spousal benefits. However, none of the proposals has been adopted, in part because they would either increase program costs or reduce benefit amounts for some groups of beneficiaries. Their enactment could also impose a large administrative burden on the Social Security Administration (SSA).

Principal Findings

The Social Security Act's benefits provisions are "gender neutral" in that individuals, identical in all respects aside from gender, will receive

identical earned benefits from the program. However, because spousal and survivor benefits are not earned benefits, these provisions result in benefit outcomes that raise certain fairness concerns. Because women tend to have lower lifetime earnings and longer life expectancies than men, they are more likely than men to qualify for spousal and survivor benefits and, thus, to be affected by the dual entitlement limitation. As a result, these concerns are generally perceived as women's issues.

Implications of the Benefit Provisions on Individual Equity

The main equity concerns about the treatment of working women and their families result from the characteristics of the spousal and survivor benefits and how benefits are affected by the act's dual entitlement limitation. First, a two-earner couple receives a lower monthly benefit in retirement than a one-earner couple with identical lifetime earnings (and other relevant characteristics, such as age). Each couple receives the full retired worker benefits it earned.² In addition, the one-earner couple receives a spousal benefit based on the lifetime earnings of the worker. The spousal benefit for the two-earner couple, smaller than that for the one-earner couple because it is based on the smaller lifetime earnings of the primary earner, is further reduced, and often eliminated, by the dual entitlement limitation. As a result, the monthly benefits for a two-earner couple can be as much as one-third less than those for a one-earner couple having identical demographic characteristics and identical lifetime earnings.

Second, the disparity in monthly benefits can be even greater for the survivors of these couples. A survivor is entitled to a benefit that is essentially equal to the larger of the pre-death retired worker benefits received by the couple. The survivor of a one-earner couple receives 67 percent of the total benefit received when both were alive.³ The survivor of a two-earner couple, however, can receive as much as 67 percent or as little as 50 percent of the couple's combined pre-death benefits.⁴ As a result, the survivor of a two-earner couple can receive a

²The benefit formula is progressive (see app. I) and a two-earner couple usually has a larger portion of its average indexed monthly earnings (AIME) replaced at the 90-percent tier of the benefit formula and, therefore, receives larger combined retired worker benefits than an otherwise identical one-earner couple.

³This assumes both the husband and wife were aged 65 when they first received benefits. If not, the survivor could receive a different percentage of the couple's pre-death benefit.

⁴The larger reduction occurs when each partner receives equal pre-death retired worker benefits, again assuming both were aged 65 at first benefit receipt. At the death of one of the partners, one of those benefit streams is eliminated, resulting in a 50-percent reduction from the pre-death combined benefits. The smaller reduction occurs when the secondary earner is dually entitled.

benefit that is as little as one-half that received by the survivor of a one-earner couple with identical lifetime earnings.

Third, a retired married person (usually the wife) might be eligible for larger benefits as a spouse or survivor than as a retired worker even though she (or he) made contributions to Social Security for many years. Because of the dual entitlement limitation, these contributions do not always result in an increase in monthly benefits. This raises questions of whether married women receive a fair return on the contributions they make. Even though these contributions may not increase their retirement benefits, they can provide the worker with disability coverage and the worker's family with survivor coverage—coverages not provided to those who make no contributions.

Finally, spousal and survivor benefits may provide some people with higher benefits than other people who had higher lifetime earnings and who made higher contributions to Social Security.

Trends

Most of these concerns about benefit fairness are likely to become more widespread in the future because of two trends. First, women are spending an increasing portion of their lives in the paid labor force. The labor force participation rates for women have doubled since 1940, and those of working-aged women (those aged 25 to 54) are expected to continue to increase in the future. This stronger labor force participation will result in more women receiving benefits based, at least in part, on their own work records and may exacerbate concerns about the return married women receive on their contributions. It will also increase the proportion of couples who are two-earner couples, which may increase the concerns that two-earner couples (and their survivors) receive lower benefits than identical one-earner couples.

Second, the earnings of women are rising relative to those of men. Because of the dual entitlement limitation, these higher lifetime earnings will increase the proportion of married women whose earnings will be too high for them to qualify for any spousal benefits, which may reduce the concerns about returns on contributions. However, it may increase concerns that people who had lower lifetime earnings and made smaller contributions to Social Security could receive higher benefits from the program.

Proposals for Reform

Several proposals have been made during the past 25 years to address individual equity concerns. Two of the broader proposals—“earnings sharing” and a “double-decker” plan—would address several of these concerns at one time. Earnings sharing would combine the covered earnings⁵ of the husband and wife for each year the couple was married and credit half of this combined total to each spouse’s Social Security earnings record. There would be no separate spousal or survivor benefits, but, under most variations of earnings sharing, survivors would inherit “earnings credits” from deceased partners for the years of marriage.

Because benefits would be based only on each spouse’s shared earnings credits, couples with the same total lifetime earnings would receive equal retirement benefits, as would their survivors.⁶ In addition, because there would be no spousal benefits, a married woman would not face the prospect of working and paying Social Security taxes only to find that she is entitled to a spousal benefit larger than the benefit she earned in her own right.⁷

The double-decker plan, which is used in many countries, would also equalize benefits in situations in which couples’ lifetime earnings were the same. Each person who works in covered employment would, upon retirement, receive benefits from two “decks.” The first deck would provide a flat-rate benefit to all qualified beneficiaries, while the second deck would provide benefits proportional to the beneficiary’s lifetime covered earnings. Spousal and survivor benefits would be eliminated, but, under some versions of the plan, survivors would inherit earnings credits from deceased partners.

None of these proposals, broad or narrow, has been adopted. One obstacle has been costs. Many of the proposals would entail increasing the benefits for certain categories of beneficiaries thought to be disadvantaged by the current system (for example, two-earner couples), which would raise program costs if no offsetting benefit reductions were made. Financing such increases in a “cost neutral” manner—that is, without the need for additional Social Security payroll taxes—would require corresponding benefit decreases for other categories of beneficiaries, which could raise

⁵Covered earnings are earnings on which Social Security taxes are paid.

⁶This assumes that the couples are identical except for the distribution of total earnings within the couples and that the survivor of each couple could inherit all of the earnings credits of his or her deceased partner.

⁷Earnings sharing would not necessarily equalize benefits of like-earning individuals who, under current law, have different monthly benefits, if, for example, their spouses have different earnings.

certain concerns about the adequacy of their benefits. Also, implementing any proposed reforms could put a large administrative burden on SSA by forcing it to revise its reporting, recording, and operational procedures.

Recommendations

GAO is making no recommendations.

Agency Comments

GAO provided a draft of the report to the Commissioner of Social Security with a request for the agency's comments. In commenting on our report, the Commissioner stated that the report "adequately addresses the objectives of the study." However, she noted a few concerns.

First, she indicated the report follows the premise that the authors of the 1939 amendments did not envision a world in which most wives would work. The report has been modified to indicate the authors of the 1939 amendments did envision such a world. However, GAO's point is that the increase in the number of women workers combined with the current benefit structure has given rise to anomalies that lead to the concerns discussed.

Second, the Commissioner suggested GAO discuss what impact certain proposals to address the equity concerns, such as eliminating spousal and survivor benefits, would have on adequacy concerns. Appendix II covers adequacy concerns in some detail, and chapter 5 notes that reforming the program to address equity concerns could create or exacerbate existing adequacy concerns.

Finally, the Commissioner noted that GAO's use of cross-sectional data for the analyses in chapter 3 could provide biased estimates of Social Security lifetime earnings and wealth, and she offered GAO the use of an alternative data set created by SSA's Office of Research and Statistics. GAO did not use the recommended data set in its analyses. However, it included some published findings from studies that used this data set.

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Abbreviations

AIME	average indexed monthly earnings
BLS	Bureau of Labor Statistics
COLA	cost of living adjustment
DRC	delayed retirement credit
PIA	primary insurance amount
SSA	Social Security Administration
SSI	Supplemental Security Income

Introduction

When Social Security was enacted 60 years ago, relatively few women worked in wage-paying jobs. As a result, during the first decades of the program, most women became eligible for benefits as either the spouse or survivor of their Social Security-covered husbands. Today, a larger proportion of women work and earn Social Security benefits in their own right. However, the benefit structure has not significantly changed to reflect this trend, leading to concerns about its fairness for retired women and their families.

Development of Social Security's Benefit Structure

The Social Security Act (the act) was signed into law by President Franklin D. Roosevelt in August 1935. It originally was designed to provide retirement benefits only to people in commerce and industry occupations. Workers in these occupations could receive benefits at age 65 or older if they had no earnings.

Benefits under the original act had a strong “individual equity” component—that is, benefits were to go only to retired individuals who had contributed to Social Security during their working years, and individual benefit levels were to be based on lifetime earnings. Benefits were not strictly proportional to earnings, however, because there was (and still is) a larger increase in benefits for the first increment of earnings than for later earnings increments. Thus, there was also a “social adequacy” component to the benefit structure.

The original act had no provision providing monthly benefits to workers' dependents or survivors.⁸ The first Advisory Council on Social Security, believing that the family—not simply the worker—should be the unit protected by the act, concluded in 1938 that this was a shortcoming. In their view, the social adequacy goals of the program needed strengthening. The Council therefore recommended that benefits be extended to the wives, widows, and eligible minor children.

The Congress in 1939 adopted the Council's recommendations and provided “auxiliary” benefits to wives and widows aged 65 or older, children under age 18 (but generally only if the covered worker was male), and some dependent parents of deceased covered workers.⁹ Today,

⁸However, a deceased worker's survivor was eligible for a lump sum payment equal to 3.5 percent of the worker's lifetime covered earnings less the lifetime benefits received by the worker.

⁹In 1950, the Congress made men eligible for spousal and survivor benefits, albeit with more restrictions than applied to women. Today, the requirements to receive such benefits are identical for men and women. Only the marriage partner with the lower lifetime earnings can qualify for auxiliary benefits.

spousal benefits are 50 percent of the worker's age 65 benefit and the survivor benefits are 100 percent. The auxiliary benefits were (and are) funded, not by an additional tax on married workers or a reduction in their own benefits, but from Social Security funds to which all covered workers contribute. Thus, auxiliary benefits are not "earned" benefits.

When the 1939 Congress provided auxiliary benefits to wives and widows, it recognized that many married women would also be wage earners entitled to Social Security retired worker benefits in their own right. The Congress did not want to deny such women the opportunity to receive at least some spousal or survivor benefits because doing so could result in lowered benefits for working wives. The auxiliary benefits of many women, particularly those with low-paying jobs or few years of work, might be larger than the benefits the women earned from their own jobs. At the same time, however, the Congress did not want working women who were not dependent on their husbands to receive auxiliary benefits.

The Congress' solution, seen in the act's dual entitlement provision (or limitation), was to provide that a working woman in retirement could receive benefits from two sources—(1) her own retired worker benefit plus (2) any excess of her spousal or survivor benefit over her retired worker benefit. In effect, this meant that she would receive not the sum of these two benefits but either her retired worker benefit or her auxiliary benefit, whichever was higher.^{10,11}

By providing benefits to people other than the workers themselves, the 1939 amendments improved the "social adequacy" part of the program but, in so doing, laid the groundwork for the "individual equity" concerns. Subsequent debates about the program have often been over the appropriate balance between these two, often conflicting goals. It is not easy to move the program closer to one goal without moving it away from the other.

¹⁰For example, if a dependent married woman is entitled to a retired worker benefit of \$300 per month based upon her own work record and a spousal benefit of \$400 per month based upon her husband's work record, she will receive a dual entitlement benefit of \$400—that is, her own retired worker benefit of \$300 plus the \$100 by which her spousal benefit exceeds her retired worker benefit. In effect, she gets the larger of the two, the amount of her spousal benefit.

¹¹Although dually entitled people receive the same benefit amounts they would have received had they never worked, their work provides advantages not enjoyed by spouses and survivors who never worked. First, their earnings increase their family's income during the years they work. Second, these women are often eligible for disability benefits. Third, their families are eligible for survivor benefits. Finally, they can receive retired worker benefits at the time they choose (after attaining age 62) and do not have to wait for their spouses to retire or die to receive a Social Security benefit.

Since 1939, the act has been amended many times, with the changes tending to strengthen the social adequacy features of the program—for example, the 1956 amendments introduced disability benefits. Other changes included expanding the types of jobs covered, adding beneficiary categories (such as benefits for disabled workers and divorced spouses), increasing benefits, introducing automatic cost of living adjustments (COLA), and changing the payroll tax rate and level of earnings subject to the payroll tax.¹²

Today, about 95 percent of all jobs in the United States are covered by Social Security. Workers in the program, provided they have made the necessary contributions and met other requirements, may receive retirement benefits upon reaching age 62 or disability benefits upon becoming disabled. In 1994, more than 138 million workers contributed almost \$345 billion to the program, and nearly 43 million people received \$317 billion in benefits.

How Benefits Are Calculated

The calculation of Social Security benefits is essentially a three-step process (see app. I for a detailed description). First, a worker's lifetime covered earnings over his or her 35 highest earnings years are calculated. Social Security uses "average indexed monthly earnings" (AIME) as its measure of lifetime covered earnings.

Second, a progressive benefit formula is applied to these lifetime earnings to determine the benefit that would be payable to the worker at age 65.¹³ This age-65 benefit is called the "primary insurance amount" (PIA). Finally, the benefit is adjusted for the age at which the worker first receives the benefit.¹⁴ If auxiliary benefits are being calculated, a factor is applied to the PIA for the particular type of benefit, and the resulting amount is adjusted for the auxiliary beneficiary's age.¹⁵

¹²Workers whose earnings are subject to the Social Security payroll tax (also called contributions) are called "covered" workers, and the earnings on which payroll taxes are levied are known as "covered" earnings.

¹³The benefit formula is progressive in that it replaces a relatively larger portion of lifetime earnings for people with low earnings than for people with high earnings.

¹⁴Benefits are reduced if first taken before age 65 and increased if first taken between ages 65 and 70.

¹⁵A spousal benefit is 50 percent of the worker's PIA and a survivor's benefit, 100 percent. Each will be reduced if first received by the auxiliary beneficiary before age 65, but not increased if first taken at age 65 or older.

The benefits of retired and disabled workers are based on their own PIAS. The benefits of auxiliary beneficiaries, such as those receiving spousal benefits, are normally based on the PIAS of their current or former spouses. The benefits for persons entitled to auxiliary benefits and retired worker benefits in their own right—“dually entitled” individuals—are based in part on their own PIAS and in part on those of their current or former spouses.

The Benefit Structure and Women

Today, the act’s benefit provisions are gender neutral. At retirement, men and women with identical Social Security earnings histories and other relevant characteristics, such as age and marital status, will receive identical earned benefits from the program. However, because women, on average, have lower lifetime earnings than men, their average Social Security benefits are smaller. In December 1994, benefits of female retired workers averaged \$601 compared with \$785 for male retired workers.¹⁶ The lower earnings for women reflected their “weaker attachment” to the workplace in terms of fewer years with earnings and lower wage rates for their years of employment. Also, women’s benefits tend to be lower than men’s because women generally begin receiving benefits at younger ages than men. The younger the age at retirement, the larger the benefit reduction.

Because women tend to have lower earnings than men, their benefits, relative to their lifetime earnings, are likely to be higher than men’s because of Social Security’s progressive benefit formula. Also, because women have lower earnings than men, more women than men receive auxiliary benefits as spouses or survivors,¹⁷ and, thus, more women will be subject to the dual entitlement limitation on benefit amounts. Finally, women have longer life expectancies than men and will, therefore, receive Social Security benefits for a longer period of time than men, on average.¹⁸ As a result, the ratio of the total benefits women and men receive over their lifetimes will be higher, on average, than the ratios of their monthly benefits.

¹⁶Averages include the portion of spousal or survivor benefits received by dually entitled persons.

¹⁷For example, in December 1994, more than 3 million women, but fewer than 40,000 men, were receiving spousal benefits.

¹⁸A woman aged 65 today can expect to live another 19 years, but a 65-year-old man can expect to live only about 15 more years.

Objectives, Scope, and Methodology

To better understand the issues involved, Senator William V. Roth, Jr., asked us to (1) describe the concerns about the fairness of the benefits received by job-holding women and their families in retirement, (2) discuss how economic and demographic trends might affect the benefits of such people in the future, and (3) discuss past proposals to address these concerns.

To address these objectives, we reviewed current and historical Social Security documents to understand the rationale for the current Social Security benefit structure; interviewed experts and researchers who have studied Social Security's treatment of women; reviewed the literature that described concerns about Social Security's treatment of women during the past 25 years and that proposed solutions to alleviate these concerns; and obtained historical evidence and available projections of the changing labor force participation and earnings levels of women.

Most of the data we used to analyze economic and demographic trends were published or provided by the Social Security Administration (SSA), the Department of Labor's Bureau of Labor Statistics and Women's Bureau, and the Bureau of the Census. Because of a lack of suitable and readily available longitudinal data to analyze these trends, we relied heavily on cross-sectional data for our analysis. Using these data, we determined the likely effect of economic and demographic trends on the Social Security benefits women will receive in the future. We conducted our work from November 1994 to December 1995 using generally accepted government auditing standards.

Social Adequacy Issues

In examining concerns about the fairness of the benefits structure for working women and their families, our focus is on working women's (and, by extension, couples') earnings and how they affect, or do not affect, retirement benefits. Insofar as the focus is on the link between earnings and benefits, the report addresses mainly "individual equity" issues.

There are, as well, "social adequacy" concerns pertaining to the Social Security benefits of women—for example, whether benefits for aged widows should be increased or whether the program's treatment of divorced women is fair. Although these concerns were outside the scope of this study, we have summarized some of the more common ones in appendix II.

Implications of Benefit Provisions on Individual Equity

Concerns about the fairness of the act's benefit provisions for women and their families arise from two sources—the unearned nature of the act's spousal and survivor benefit provisions and its dual entitlement limitation. Because women tend to have lower lifetime earnings and longer life expectancies than men, they are more likely than men to qualify for spousal and survivor benefits and to be affected by the dual entitlement limitation. As a result, the following fairness concerns are generally viewed as women's issues, although the concerns can apply to men as well.

Couple Benefits

One fairness concern is that a two-earner couple receives lower combined retirement benefits than a one-earner couple with identical lifetime earnings and other identical characteristics.¹⁹ The reason this occurs is that the two-earner couple will receive a smaller spousal benefit than the one-earner couple and, in fact, may receive no spousal benefit at all.

Both couples receive all the retired worker benefit each partner earned through his or her covered employment. Because the benefit formula is progressive, the two-earner couple will usually receive larger total retired worker benefits than the one-earner couple.

The one-earner couple also receives a spousal benefit (usually for the wife) based on one-half the worker's benefit. This spousal benefit is not reduced by the dual entitlement limitation because the spouse receives no retired worker benefits of her own. Thus, the one-earner couple's total benefit is 150 percent of the worker's retired worker benefit (if both first received benefits at age 65).

The unreduced spousal benefit for the two-earner couple will be smaller than that for the one-earner couple because it is based on the benefit of the couple's primary earner, whose lifetime earnings are smaller than those of the worker in the one-earner couple. The dual entitlement limitation will further reduce, or perhaps eliminate, this smaller spousal benefit by subtracting the secondary worker's retired worker benefit from it. The total benefit of the two-earner couple will consist of the two retired worker benefits plus, perhaps, a spousal benefit supplement. The difference in spousal benefits always exceeds the difference in total

¹⁹The benefit formula used to calculate benefits is adjusted each calendar year and applies to all people attaining age 62 in that year. Also, benefits are adjusted depending on the age at which benefits are first received. Thus, assuming that these other characteristics of couples are identical, especially the years of birth and the ages at first benefit receipt, is important.

retired worker benefits, so a two-earner couple always receives lower benefits than an otherwise identical one-earner couple.

A hypothetical example can illustrate how this occurs. We assume there are two couples who begin receiving benefits in 1995 and that all four persons are aged 65. We assume that the husband in the one-earner couple has an AIME of \$2,000 and that his wife had no covered earnings.²⁰ In the two-earner couple, we assume each spouse has an equal AIME of \$1,000, for a total of \$2,000.

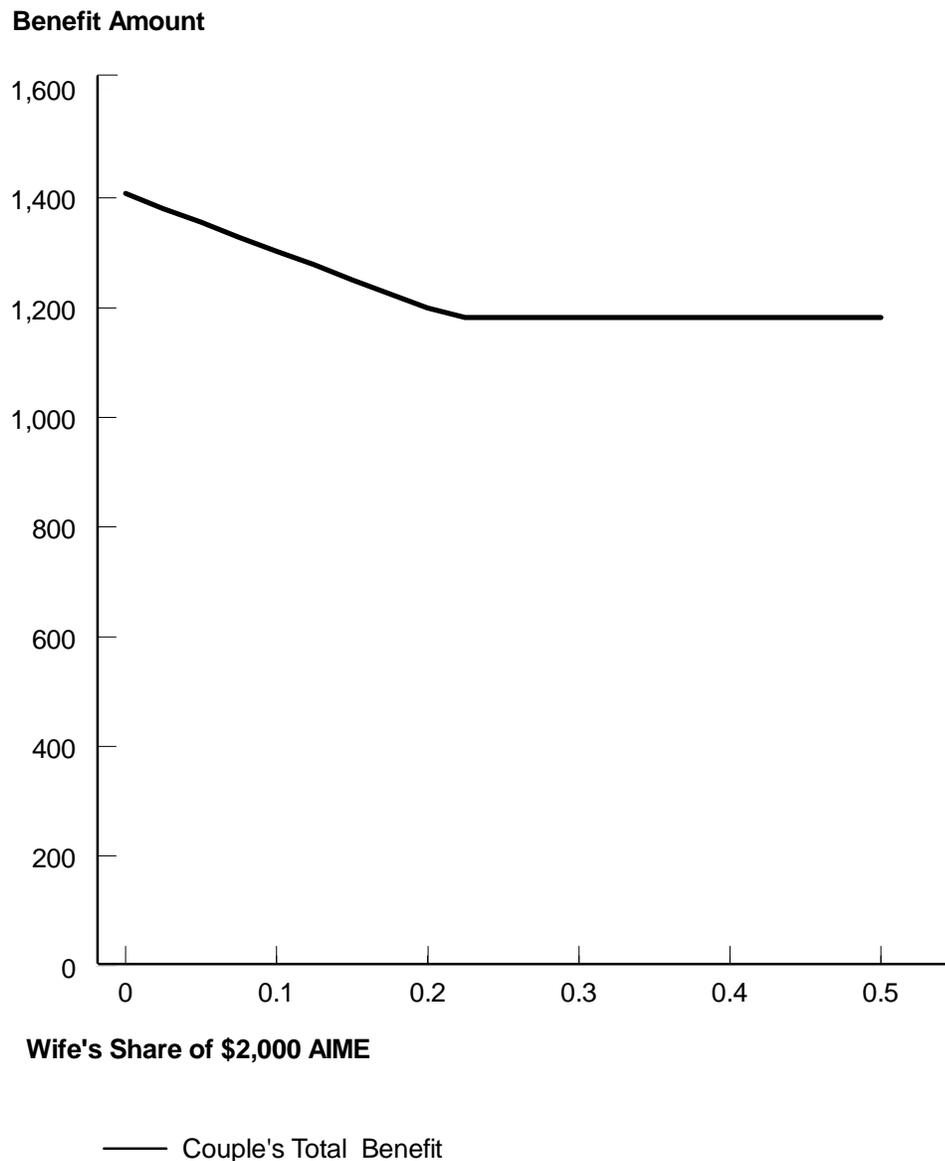
In this example, the worker in the one-earner couple would receive a retired worker benefit of \$939 per month and his wife, an unreduced spousal benefit of \$469 per month for a total benefit of \$1,408. Each worker in the two-earner couple would receive a monthly retired worker benefit of \$591. Neither would be eligible for a spousal benefit because of the dual entitlement limitation. Their total benefit would be \$1,182, \$243 more than the retired worker benefit received by the one-earner couple but \$226 less than the one-earner couple's total benefit.

The total monthly benefit of the two-earner couple in this example is about 16 percent less than that of the one-earner couple. The reduction can be greater or smaller depending on the relative earnings of the husband and wife in the two-earner couple and the couples' total AIME. In some cases, a two-earner couple can receive total benefits that are one-third less than an otherwise identical one-earner couple's benefits.

Figure 2.1 shows how varying distributions of earnings would affect the combined benefits of couples with a combined AIME of \$2,000 (assuming that benefits always start at age 65 in 1995). At the left end of the line, the wife's share of the couple's AIME is 0 percent (the one-earner couple in our example), and the couple's total monthly benefit is \$1,408. At the right end, the wife's share is 50 percent (the two-earner couple in the example), and the couple's total monthly benefit is only \$1,182. The connecting line shows the monthly benefit totals for two-earner couples with various within-couple distributions of the \$2,000 AIME.

²⁰Recall that AIME stands for "average indexed monthly earnings," the measure of lifetime earnings SSA uses to calculate a person's Social Security benefit.

Figure 2.1: Total Couple Benefits for
65-Year-Old Couples With Various
Within-Couple Distributions of a \$2,000
AIME



The declining segment of the line represents couples whose secondary earner (the wife) is dually entitled to retired worker benefits and spousal benefits. The line declines because, as the wife's share of the couple's AIME

increases, the husband's share falls. This reduces both the husband's retired worker benefit and the spousal benefit based on it. Until the wife's retired worker benefit exceeds her benefit as a spouse, the couples' total benefits will fall. Once both husband and wife are receiving retired worker benefits, the couples' total benefit will either increase (if the wife's AIME puts her on a higher tier of the benefit formula than her husband [see app. I]) or remain constant (if both partners are on the same tier).²¹

Survivor Benefits

A second concern is that the disparity in the monthly benefit received by one-earner and two-earner couples with identical lifetime earnings can be even greater for the survivors of these couples. The survivor of a couple is entitled to the higher of the two retired worker benefits earned by the couple before the death of one partner.²² Because women tend to outlive their husbands, they are the ones most often affected.

The surviving member of a one-earner couple receives about 67 percent of the couple's total monthly benefit when both were alive.²³ In essence, the retired worker benefit continues, and the spousal benefit ends.

The surviving member of a two-earner couple can receive as much as 67 percent of the couple's total monthly benefit (if the secondary earner was dually entitled) or as little as 50 percent (if each earner had identical lifetime earnings). Because two-earner couples have lower couple benefits than identical one-earner couples, the survivors of two-earner couples always receive lower survivor benefits. These survivors receive only the higher of the two retired worker benefits the couple earned. The retired worker benefit of the secondary earner and any spousal supplement he or she might have received as a dually entitled beneficiary are eliminated. As a result, the survivor of a two-earner couple can receive benefits that are as low as one-half those received by the survivor of an identical one-earner couple.

Continuing our hypothetical example, the survivor of the one-earner couple would receive \$939 (two-thirds of the couple's \$1,408 monthly benefit) as shown in figure 2.2. The survivor of the two-earner couple in which the husband and wife had identical lifetime earnings would receive

²¹For 65-year-old couples in 1995, the line will have a rising segment when a couple's combined AIME level is less than about \$1,860.

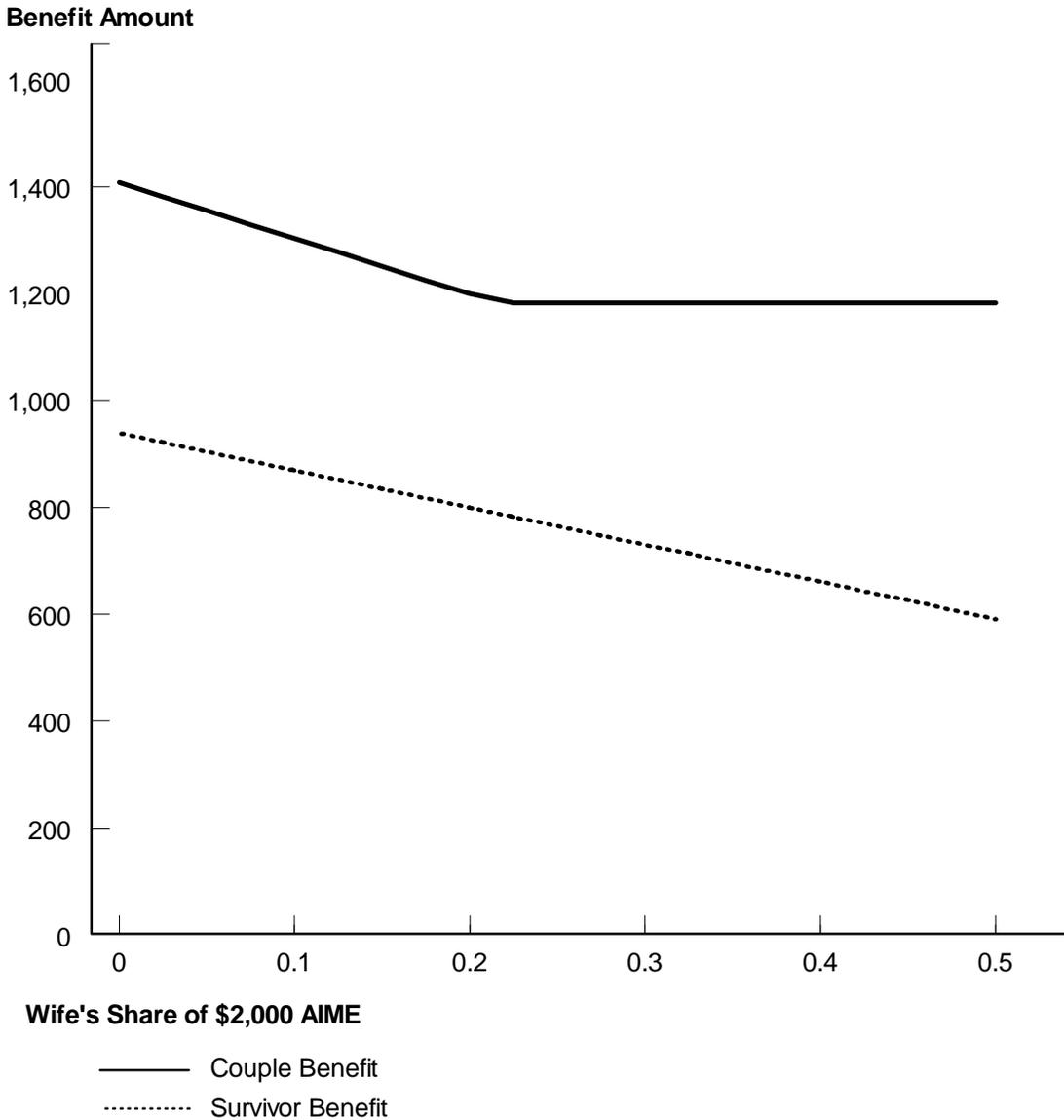
²²In a one-earner couple, the spouse has a retired worker benefit of \$0.

²³The exact percentage depends on the ages of the husband and wife when benefits were first received. In our example, the survivor would receive two-thirds of the couple's benefit.

Chapter 2
Implications of Benefit Provisions on
Individual Equity

only \$591 (half the \$1,182 the couple received while both were alive). The benefits of the survivor of our two-earner couple are 37 percent less than those of the one-earner couple survivor, even though both couples had identical lifetime earnings.

Figure 2.2: Couple and Survivor Benefits for Different Within-Couple Distributions of the Couples' Total \$2,000 AIME



As seen in the figure, the survivor benefit of a two-earner couple whose secondary earner was dually entitled while both partners were alive will receive a benefit one-third smaller than the couple's total benefit while

both were alive. Once the secondary earner is no longer dually entitled, the percentage reduction will increase because the secondary earner's retired worker benefit, which now exceeds the spousal benefit based on the primary earner's benefit, is eliminated.

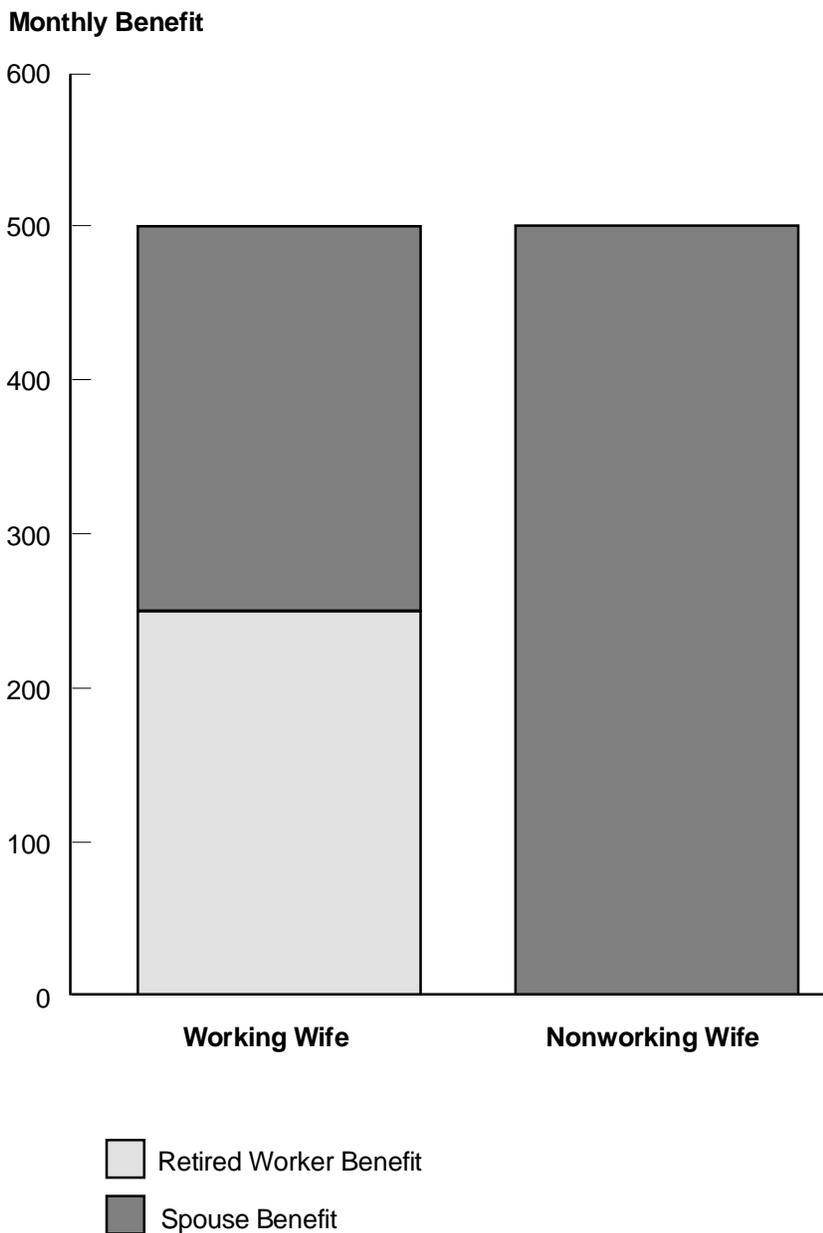
Benefits for Married Working Women

A third concern is that a married person (usually the wife) may work and pay Social Security taxes only to discover at retirement that she is entitled to a spousal benefit that is larger than the retired worker benefit she earned in her own right. Because the act's dual entitlement limitation effectively limits a beneficiary to the larger of these benefits, her contributions do not result in a larger benefit at retirement. It is sometimes argued that such a limitation is unfair because it does not sufficiently reward a person for years of contributions.²⁴

The first bar in figure 2.3 ("Working Wife") illustrates this point. In this figure, we assume that the wife had earned a retired worker benefit of \$250. Her husband, however, earned a benefit of \$1,000, making her eligible for a \$500 spousal benefit. She receives a dually entitled benefit of \$500—her own \$250 retired worker benefit and the \$250 difference between it and her full spousal benefit. Had she never worked, she still would have been eligible for a spousal benefit of \$500 (the second bar in the figure ["Nonworking Wife"]).

²⁴We note, however, that, while the dually entitled beneficiary's benefit is not increased as a result of her contributions to the program, her benefit is larger than the benefit that would be received by a beneficiary who had identical lifetime earnings but who is not dually entitled.

Figure 2.3: Social Security Benefits of
Two Married Women

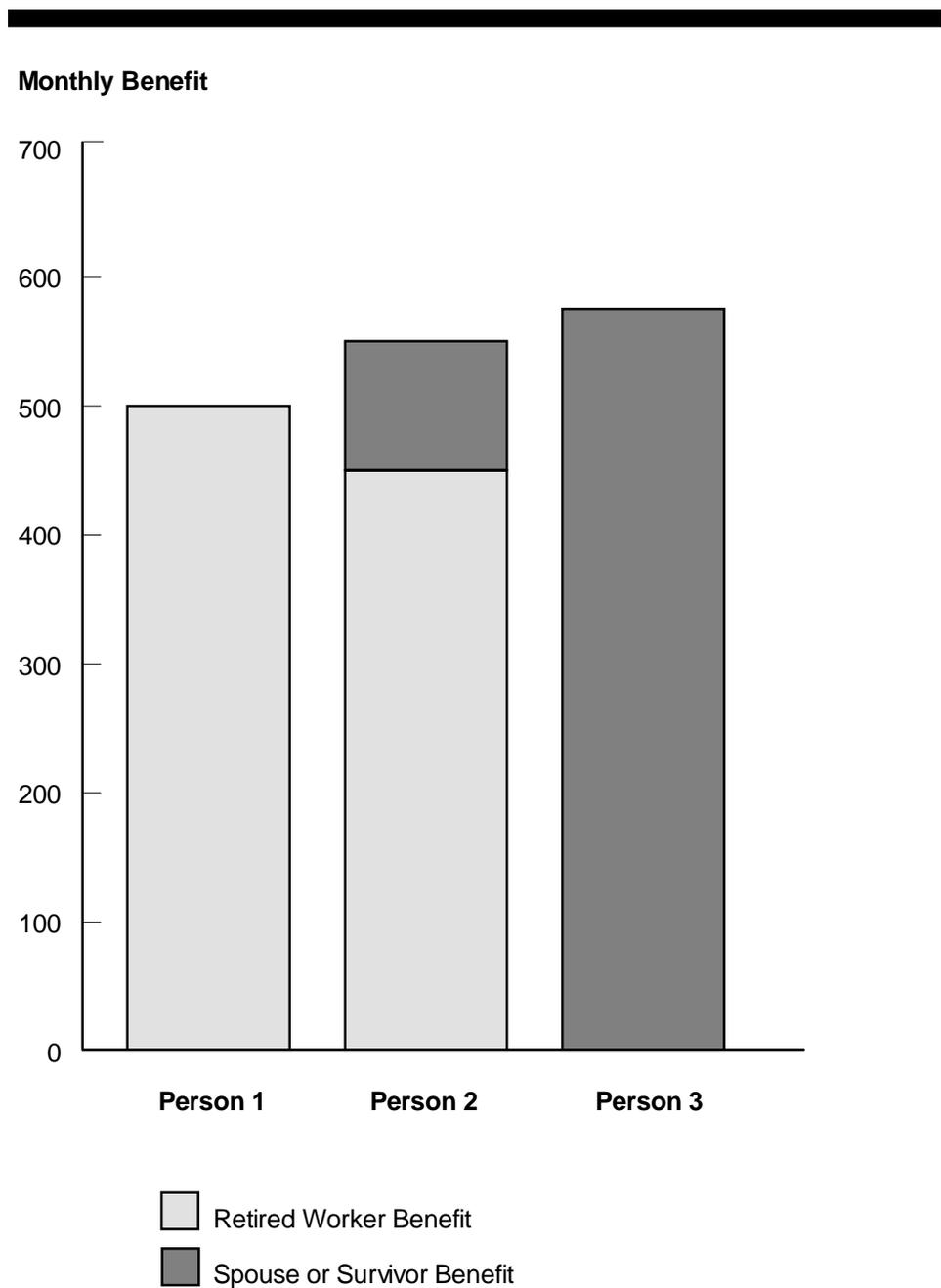


Benefits for Working and Nonworking Individuals

Related concerns have also been raised about the relative benefits that can be received by those who worked and contributed to the program versus those who receive benefits solely as spouses or survivors and about the benefits that can be received by those who are dually entitled versus those who are not. The first issue is that workers, in spite of the taxes they pay to Social Security, may not receive higher benefits in retirement than nonworkers who paid no such taxes. The second is that some workers may receive benefits that are smaller than those received by people having lower lifetime earnings and making lower contributions to the program. These concerns are most apparent when comparing benefits received by single workers with those received by the lower earner in a married couple.

These issues are illustrated in figure 2.4. “Person 1” has a monthly retired worker benefit of \$500 and is not dually entitled. “Person 2” has lower lifetime earnings and a lower retired worker benefit (\$400 per month) but is a dually entitled spouse and receives a total monthly benefit of \$550. “Person 3” never worked and receives no retired worker benefit, but her spouse was a high earner. Her spousal benefit is \$575 per month.

Figure 2.4: Illustrative Benefits for Retired Worker Only, Dually Entitled, and Spouse Only Beneficiaries



Persons 1 and 3 illustrate the first concern, that workers may receive smaller benefits than nonworkers. For this to occur, the covered earnings of the nonworker's spouse must be more than twice as large as the worker's covered earnings.

Persons 1 and 2 illustrate the second concern. Person 1 had larger lifetime earnings and a larger retired worker benefit than person 2. However, he had a smaller total benefit because person 2 had a relatively high-earning spouse. As an extreme example, in December 1994, several thousand dually entitled spouses had monthly benefits in excess of \$900 per month. This is a larger monthly benefit than was received by more than three-quarters of all retired worker beneficiaries in that month.

These concerns can intensify when a couple's primary earner dies. The survivor then becomes eligible for the deceased's full retired worker benefit. Widows who were the couples' secondary earners are even more likely than married spouse beneficiaries to have larger benefits than workers who contributed more to the program than the widows did.

Trends in Women's Social Security Benefits

The recent and projected trends in women's labor force participation and earning levels are likely to heighten the concerns discussed in chapter 2. The type and amount of Social Security benefits women receive depend upon several factors, including their "attachment" to the labor force, their lifetime earnings (or AIMEs) relative to those of current or former husbands, and their marital history.

Women's labor force participation has been increasing, which should increase the proportion of women qualifying for retired worker benefits in the future. This, in turn, will increase the proportion of couples who are two-earner couples. The earnings of women relative to men's have also been increasing, which should increase the proportion of women receiving only retired worker benefits (as opposed to being dually entitled). Finally, changes in marital status have affected the types of benefits these women can receive.

Women's Labor Force Participation

There has been a long-term trend toward greater labor market participation by women. This is seen in table 3.1. In 1940, only 28 percent of all women were in the labor force, and less than 15 percent of married women were working.²⁵ By 1993, almost 60 percent of all women were in the labor force and married women were slightly more likely than other women to be working.

The growth in women's labor force participation is even more dramatic for women in their prime earning years—ages 25 to 54. The labor force participation rate for these women increased from 42 percent in 1960 to 75 percent in 1993. The rates for married women within this age range increased even more rapidly.

²⁵The labor force participation rates cited in this chapter include all workers regardless of whether their employment is covered by Social Security.

Table 3.1: Women's Labor Force Participation Rates, 1940-93

Year	All women		Married women ^a	
	Aged 16 and older	Aged 25-54 ^b	Aged 16 and older	Aged 25-54 ^b
1940	27.9 ^c	NA	14.7 ^c	NA
1950	33.9 ^c	NA	23.8 ^c	NA
1960	37.7	41.6	31.9	34.6
1970	43.3	50.1	40.5	45.2
1980	51.5	64.3	49.9	59.3
1990	57.5	73.9	58.4	70.7
1993	57.9	74.5	59.4	72.3

Note: NA indicates data not available for this age breakdown.

^aMarried women with husbands present.

^bAs of March of the given year.

^cAged 14 and older.

Sources: Historical Statistics, Colonial Times to 1970, series D 29-41 and 49-62; Statistical Abstract of the United States 1994, table 625; and data from the Bureau of Labor Statistics.

This increased labor force participation reflects not only a higher proportion of women working but also women staying in the labor force for longer periods. According to one study, recent generations of married women have much stronger attachments to the labor force at a given age than older generations did.²⁶ For example, married women born from 1945 to 1949 were three times more likely to have worked 17 or more of the 20 years between ages 22 and 41 than were married women born from 1930 to 1934 (34 percent versus 11 percent).

The stronger attachment to the labor force of recent generations of women is also demonstrated by the increasing percentage of mothers in the labor force, especially those with young children (table 3.2), and by the increasing percentage of women who have gained fully insured status under Social Security (table 3.3).²⁷

²⁶Howard M. Iams, "Earnings of Couples: A Cohort Analysis," *Social Security Bulletin*, Vol. 56, No. 3, pp. 22-32.

²⁷Being fully insured is necessary for entitlement to retired worker benefits and for one's dependents to be entitled to spouse, children, or survivor benefits. To be fully insured, a person needs 1 quarter of coverage for each year after 1950, or the year age 21 is attained, if later, and the year before the person reaches age 62, dies, or becomes disabled. In 1995, 1 quarter of coverage (up to a maximum of 4) was credited for each \$630 of covered earnings received during a calendar year.

Chapter 3
Trends in Women's Social Security Benefits

Table 3.2: Labor Force Participation Rates for Women, by Marital Status and Presence and Age of Children, March 1960-93

Year	With children								
	Total			Under age 6			Ages 6-17 only		
	Single	Married ^a	Other ^b	Single	Married ^a	Other ^b	Single	Married ^a	Other ^b
1960	44.1	30.5	40.0	NA	18.6	40.5	NA	39.0	65.9
1970	53.0	40.8	39.1	NA	30.3	52.2	NA	49.2	66.9
1980	61.5	50.1	44.0	44.1	45.1	60.3	67.6	61.7	74.6
1990	66.4	58.2	46.8	48.7	58.9	63.6	69.7	73.6	79.7
1993	64.5	59.4	45.9	47.4	59.6	60.0	70.2	74.9	78.3

Note: NA indicates data are not available.

^aHusband present.

^bWidowed, divorced, or separated.

Source: Statistical Abstract of the United States 1994, table 626.

Table 3.3: Percentage of Men and Women Who Were Fully Insured, 1950-93

Year	Percentage fully insured	
	Men	Women
1950	50.3	22.2
1955	75.5	44.7
1960	80.7	43.2
1965	85.6	54.3
1970	87.7	58.3
1975	88.9	63.8
1980	90.2	69.4
1985	89.2	72.3
1990	90.1	76.2
1993	90.1	77.5

Source: Social Security Administration, Office of the Actuary.

The implication of this strong growth in women's participation rates is that a higher percentage of women retiring in the future will be fully insured and qualify for benefits based on their own work records. Also, they will have fewer years with no earnings in their work histories when they apply for benefits than do women retiring today.²⁸ A more complete work

²⁸The median number of \$0 earning years for insured workers attaining age 62 in 1993 was 4 for men and 15 for women. After dropping the 5 years with lowest earnings, each year of \$0 earnings reduces the AIME by about 2.9 percent compared with what it would have been had the earnings for that year equaled the worker's average earnings for all years with work.

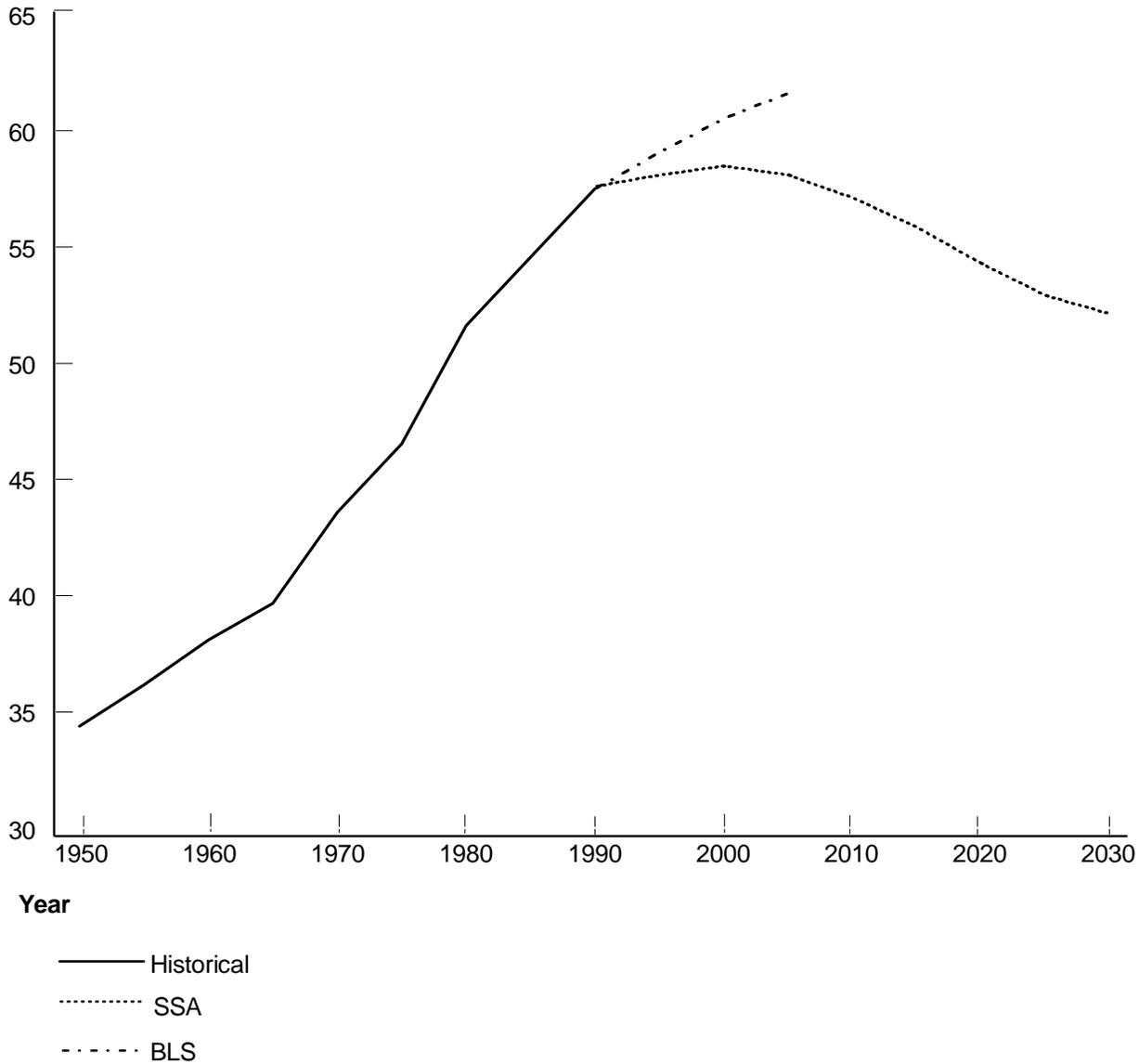
history, in turn, will increase the AIMEs of women retiring in the future, and this should increase the proportion of married women receiving benefits based solely on their own work records.

**Women's Future Labor
Force Participation**

Both the Office of the Actuary within SSA and the Department of Labor's Bureau of Labor Statistics (BLS) estimate future labor force participation rates for women. As seen in figure 3.1, SSA estimates women's overall labor force participation rates will peak at about the year 2000 and then decline slowly as the baby boom generation of women moves out of the labor force; while BLS estimates that women's overall labor force participation rates will continue to increase over at least the next 10 years.

Figure 3.1: Past and Projected Labor Force Participation Rates for Women, Selected Years

Labor Force Participation Rate



Sources: Department of Labor, Bureau of Labor Statistics; and Social Security Administration, Actuarial Study No. 108.

The BLS estimates assume an increase in women's participation rates at all ages, but especially for those aged 25 to 54 whose participation rates are expected to increase by almost 4.5 percentage points (from 74.7 percent in 1992 to 79.1 percent in 2005). SSA estimates assume more modest increases in women's labor force participation rates within this age range during the same period.²⁹

Although these two estimates of women's future labor force participation rates differ, the implications of the differences for projections of Social Security benefits would take several years to become evident because Social Security benefits are based on lifetime employment, not employment in the last few years before retirement. Thus, the projections of the distribution of women's Social Security benefits by type for the next few years would be similar regardless of which estimate of future labor force participation rates is used.³⁰

Women's Earnings Patterns

Women's benefits are not only influenced by their growing attachment to the labor force but also by their lifetime earnings (see table 3.4). Women's median year-round, full-time covered earnings were a relatively constant 60 percent of men's earnings until about 1980. Since 1980, women's earnings have risen to about 70 percent of men's. This changing relationship will increase women's retired worker benefits relative to those for men, but only slowly because benefits are based on average earnings over the workers' entire lifetimes.

²⁹There are several reasons for the differences in the SSA and BLS estimates. Most result from different assumptions SSA and BLS used in making their estimates, especially those for future disability prevalence rates. SSA assumed an increase in this rate, while BLS did not. This difference makes the SSA labor force participation rate estimate lower than the BLS estimate, other things being equal.

³⁰The BLS estimates would project a slightly larger proportion of women receiving benefits based on their own work records than would the SSA estimates.

Table 3.4: Median Earnings of Year-Round, Full-Time Workers, by Sex, 1951-94

Year	Earnings		Women's median earnings as a percentage of men's
	Women	Men	
1951	\$2,305	\$3,605	63.9
1960	3,293	5,417	60.8
1970	5,323	8,966	59.4
1980	11,197	18,612	60.2
1983	13,902	21,854	63.6
1985	15,624	24,195	64.6
1990	19,822	27,678	71.6
1994	22,205	30,854	72.0

Source: Department of Labor, Women's Bureau.

Social Security benefits are based on earnings in covered employment rather than on all earnings. Social Security covered earnings data show that younger women have higher median covered earnings relative to men their own age than do older women. Relative covered earnings fall as women age, reach a low in the women's early 30s when many have left the labor force or reduced their hours of work to care for children, and then rise slowly. This "U-shaped" relative earnings profile (relative earnings fall with age and then increase) is flatter for more recent generations of women, reflecting their tendency to have children later in life than older generations and to return to work sooner after childbirth. The higher relative lifetime covered earnings of more recent generations of women will increase their lifetime earnings and retired worker benefits relative to those of men in their age group.

In addition to the increase in women's relative median earnings, the percentage of married women whose earnings exceed those of their husbands' has also been increasing. In families where both the husband and wife have earnings (about 60 percent of all married family households in 1992), the percentage in which the wife's earnings exceed the husband's increased from 15.9 percent to 22.3 percent between 1981 and 1993. It is difficult to tell from the data whether these women consistently earn more than their husbands or whether this is only an occasional occurrence. The distinction is important because Social Security benefits are based on lifetime earnings.

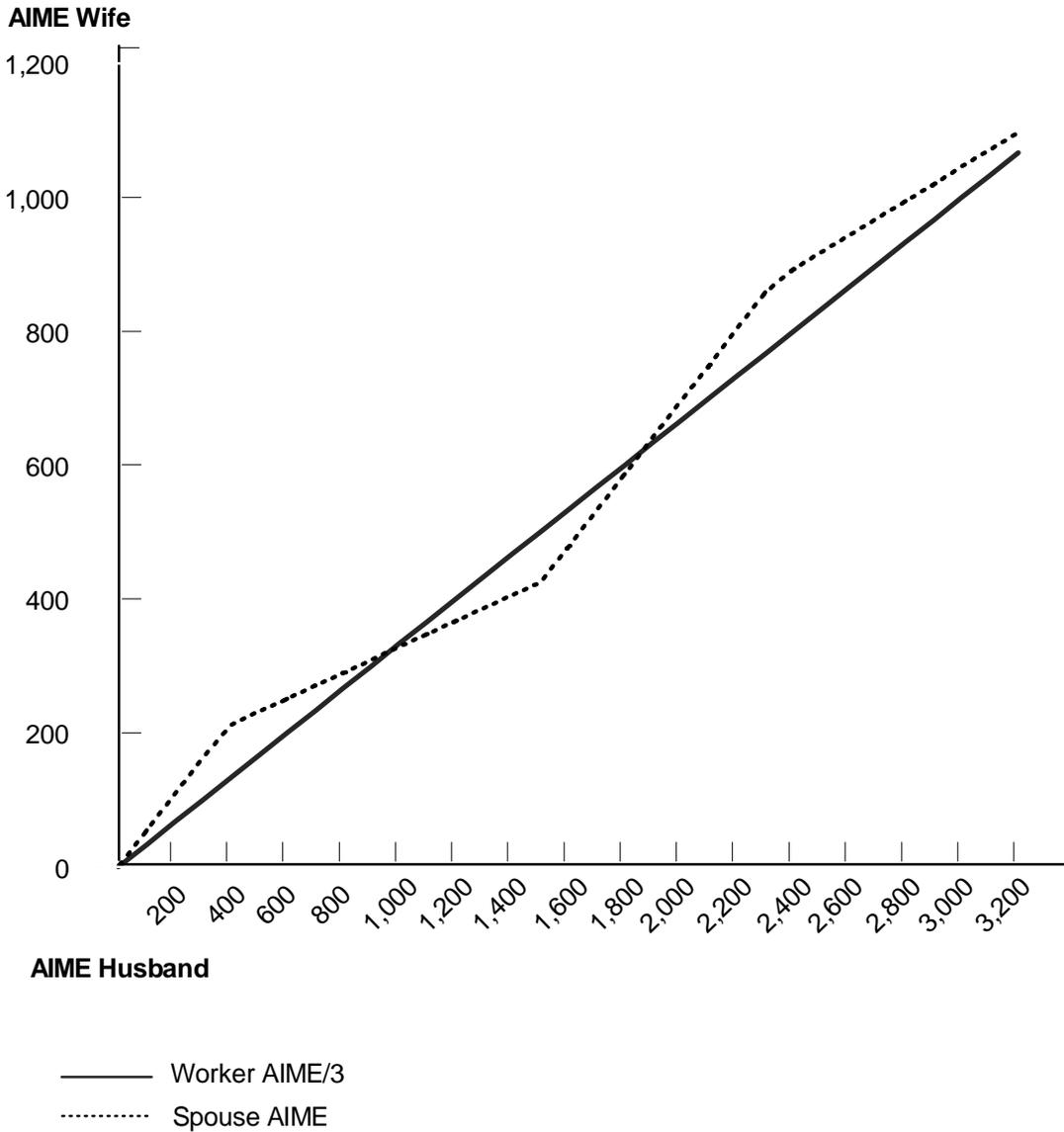
The ratio of a wife's lifetime earnings to those of her husband that moves the wife from being dually entitled to receiving retired worker benefits is

not a constant. The ratio will depend on the husband's lifetime earnings, the difference in the ages of husband and wife, the age when each begins to receive benefits, and the relative growth in wages and prices from the time the older spouse is age 62.

Figure 3.2 shows the AIMEs of a 65-year-old couple in 1995, both receiving benefits for the first time at age 65, that just allow the lower earning spouse (the wife) to receive only retired worker benefits.³¹ For comparative purposes, it also shows the AIME equal to one-third of the husband's AIME (worker AIME/3). To receive a benefit based only on her own earnings, this wife needs an AIME as high as 50 percent of her husband's (if his AIME is less than about \$387) or as low as about 26.6 percent (if his AIME is about \$1,500). In general, her "break even" AIME will be between about 28 percent and about 35 percent of her husband's AIME.

³¹That is, the AIME level at which her retired worker benefit exceeds her benefit as a spouse.

Figure 3.2: Spouse AIME Needed to Receive Benefits as a Retired Worker, Both Husband and Wife Aged 65



The recent increase in women's earnings relative to men's should increase women's relative AIMEs for many years to come, regardless of what happens to women's relative earnings in the near future. The higher

married women's AIMEs are, relative to their husbands', the more likely they are to receive retired worker benefits rather than benefits as dually entitled spouses.

Future Relative Earnings

We were unable to locate any quantitative estimates of the future relative earnings of men and women. We were also unable to obtain a consensus on whether researchers think women's earnings will increase or decrease relative to men's in the future.³²

Marital Status

A woman's marital history at retirement determines if she is eligible for spousal benefits based on her current or former husband's work record, or for survivor benefits based on a deceased husband's work record. Eligibility for retired worker benefits is not dependent upon one's marital status.

As life expectancies for men increase, the percentage of women who enter their retirement years either married or divorced should increase, and the percentage entering as widows should decline. As seen in table 3.5, SSA projects that the proportion of women aged 65 to 69 who are married will remain relatively constant over the next 25 years, and that the proportion who are divorced will more than double over this period.

Table 3.5: Projected Percentage Distribution of Women Aged 65-69, by Marital Status, 1995-2020

Year	Total	Marital status			
		Single	Married	Widowed	Divorced
1995	100	4.5	58.6	29.6	7.3
2000	100	4.3	58.6	27.3	9.8
2005	100	4.4	59.8	24.0	11.9
2010	100	4.9	59.6	21.2	14.3
2015	100	5.4	58.9	19.4	16.4
2020	100	5.8	59.1	18.1	17.0

Source: Social Security Administration, Office of the Actuary.

³²The Women's Bureau at the Department of Labor believes women's earnings will continue to increase relative to men's as the work experience and educational attainment of women increase. SSA assumes, for the Social Security trustees' annual report, that the real wage growth for men and women will be the same in the future. This implies that their relative earnings will be constant. And an economic demographer working with the 1994 Social Security Advisory Council thinks women's earnings will fall somewhat relative to men's in the future because (1) of the types of flat-earnings jobs women have been taking over the past decade and (2) she does not think men's earnings will continue to stagnate as they have during the past 10 years.

The divorce rate has more than doubled since Social Security was enacted and the percentage of women aged 65 and older who are divorced almost quadrupled between 1960 (1.5 percent) and 1993 (5.8 percent). However, most divorced women do not qualify for divorced spouse benefits because most marriages that end in divorce last less than 10 years, the minimum marriage duration needed to qualify for such benefits. In addition, many divorced women who were married at least 10 years do not receive divorced spouse benefits because they either subsequently remarry or have retired worker benefits that exceed their benefit as a divorced spouse.

If the pattern of divorce after a relatively short marriage continues, most women who divorce will not be eligible for divorced spouse or surviving divorced spouse benefits in the future. Lack of eligibility for divorced spouse benefits may not pose a serious problem for most divorced women retiring in the future because women's increased labor force participation suggests that many will be receiving adequate retired worker benefits based on their own work records.

Women's Benefit Trends

The increasing labor force participation and earnings of women are already reflected by an increase in the percentage of women who receive benefits based, at least in part, on their own work records. As seen in table 3.6, in 1960, 43 percent of women aged 62 or older were retired worker or dually entitled beneficiaries, while in 1993, 61 percent were. As women with stronger attachments to the labor force retire in the future, the percentage of women beneficiaries who are receiving retired worker or dually entitled benefits should increase and the percentage who are receiving spouse-only or widow-only benefits should decrease.

Table 3.6: Percentage Distribution of Women Beneficiaries Aged 62 and Older, by Type of Benefit and Dual Entitlement Status, 1960-93

Type of benefit	Year							
	1960	1965	1970	1975	1980	1985	1990	1993
Entitled as worker ^a	43.3	47.3	50.6	54.1	56.9	58.7	60.3	61.3
Worker only	38.7	40.7	42.1	42.3	41.0	38.6	36.9	36.2
Dually entitled	4.6	6.6	8.5	11.8	15.9	20.1	23.4	25.1
Wife's benefit	2.4	3.1	3.4	4.4	6.2	8.7	10.4	11.2
Widow's benefit	2.1	3.6	5.0	7.4	9.6	11.5	13.0	13.9
Entitled as wife or widow only ^b	56.7	52.7	49.4	45.9	43.1	41.3	39.7	38.7
Wife's benefit	32.8	27.1	22.4	19.6	17.6	16.4	15.3	14.8
Widow's benefit ^c	23.4	25.2	26.8	26.1	25.4	24.9	24.3	23.9
Total	100.0							

^aIncludes disabled workers.

^bIncludes parents.

^cIncludes mothers and disabled workers.

Source: Barbara A. Lingg, *Social Security Bulletin* (July 1990), pp. 2-12; and *Social Security Bulletin* (Summer 1994), pp. 70-71.

If women's labor force participation is increasing, more women should be dually entitled and fewer entitled as a wife or widow only. The data support this expectation. The percentage of women receiving benefits solely on their own work records should also be expected to increase, but this percentage turned downward after 1975.

There are a number of reasons that, combined, probably explain the downturn. Women who might be eligible for retired worker benefits include fully insured women who never married; those who were divorced after being married less than 10 years (20 years before 1978); married women whose husbands had not yet taken Social Security benefits; those whose husbands' jobs were not covered by Social Security; and those women whose retired worker benefits exceeded their benefits as a spouse or survivor.

The percentage of women aged 65 and older who never married has been falling since 1960. As the percentage of working women who are married increases, we would expect more to be dually entitled.

The percentage of older women who are divorced has been rising. In addition, the dependency requirement divorced women faced was removed in 1972,³³ and the years-of-marriage requirement was halved in 1977. The impact of these demographic and legislated changes has been a large increase in the number of women receiving divorced spouse and surviving divorced spouse benefits. These rule changes also appear to have allowed some divorced women to become dually entitled as divorced spouses and surviving divorced spouses, whereas, without these changes they would only have received retired worker benefits.

As seen in table 3.7, the percentage of men whose benefits are reduced because of early retirement is increasing. Thus, fewer of their wives will receive retired worker benefits while waiting for larger dually entitled benefits their husbands' retirements can bring.

Table 3.7: Percentage of New Retired Worker Beneficiaries Whose Benefits Are Reduced for Early Retirement, by Sex, 1960-93

Year	Men	Women
1960	NA	48.5
1965	30.2	48.4
1970	39.4	56.0
1975	48.9	62.3
1980	51.7	63.9
1985	65.7	75.2
1990	66.1	72.9
1993	67.8	73.0

Notes: Figures include dually entitled beneficiaries.
NA = reduced benefits not available.

Source: Annual Statistical Supplement, 1994 to the Social Security Bulletin, p. 262.

Finally, the 1983 amendments brought into covered employment many workers who were not already in jobs covered by Social Security. This should increase the proportion of married women who are eligible for dual entitlement benefits rather than retired worker benefits or spousal benefits alone.

Three other changes may also help explain the decline in the proportion of women receiving benefits as retired workers. First, the number of years of earnings used to calculate benefits increased by 1 year each year from 1960 until 1991 (with the exception for men noted in the next paragraph)

³³Under this requirement, the divorced woman must have received at least half her support from her former husband.

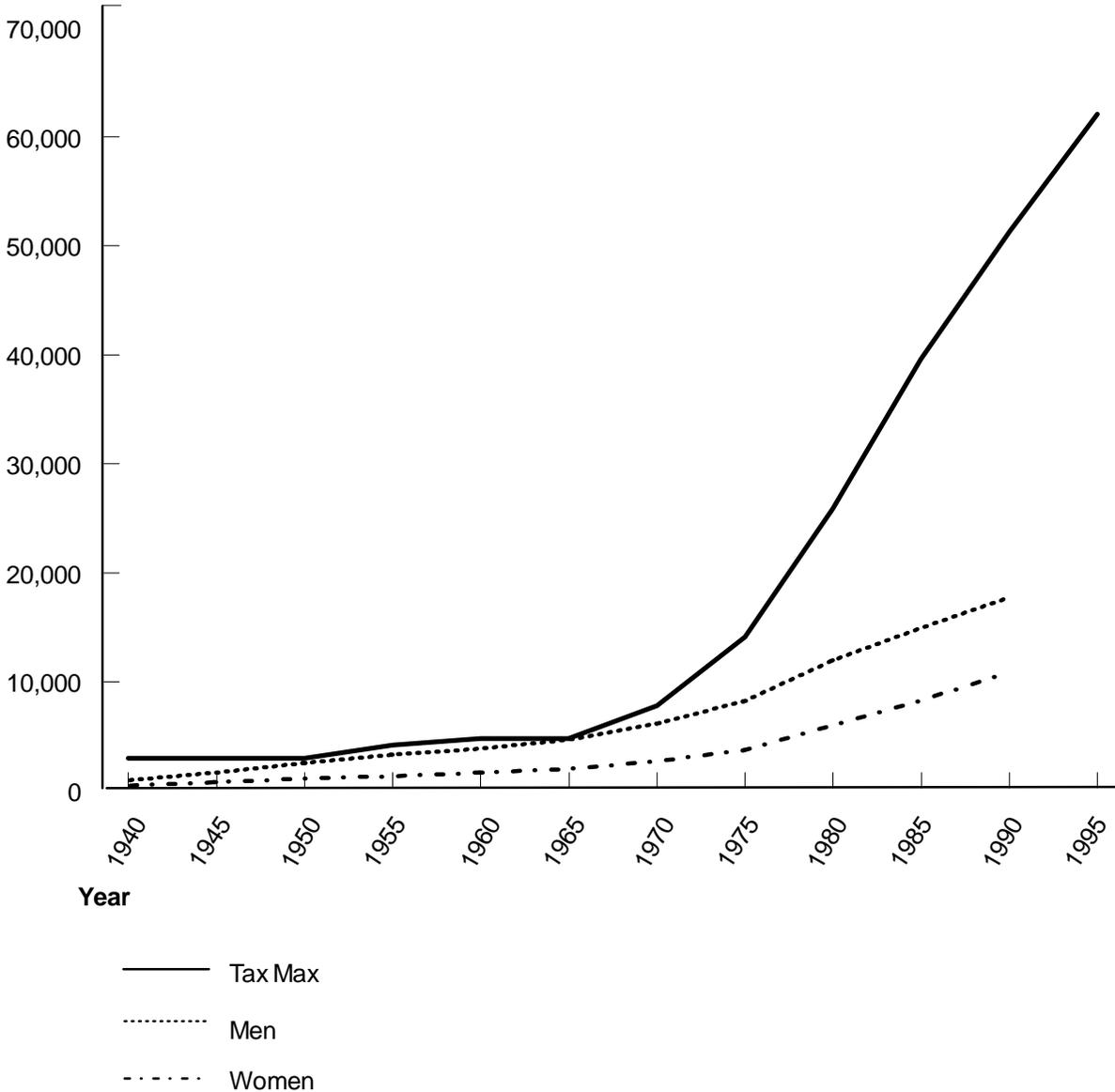
when it reached 35 years. It is scheduled to remain at 35 years. Because women tend to have more years without earnings than men, the lengthening computation period often added years for which they had no earnings and, thus, reduced their calculated AIMEs relative to men's.

Second, the number of years of earnings used to compute men's retired worker benefits was reduced by 3 years by the 1972 amendments. This had the effect of increasing men's AIMEs and PIAs slightly. The higher PIAs were reflected in men's higher retired worker benefits and higher auxiliary benefits based on their work records. This, in turn, could reduce the number of women whose own benefits exceeded their benefits as a spouse.

Third, the 1977 amendments provided for ad hoc increases in the maximum taxable earnings level for 1978 through 1981. The maximum taxable earnings level is now increasing faster than the growth in median covered earnings (see fig. 3.3).³⁴ Because more men had earnings above the maximum taxable level before the ad hoc increases, this change increased the covered wages of men more than women, resulting in higher AIMEs and PIAs for men than for women. A higher PIA for men increases both the auxiliary benefits based on this PIA and the proportion of wives receiving benefits as dually entitled spouses rather than as retired workers.

³⁴Maximum taxable earnings is the dollar amount (\$62,700 in 1996) above which earnings in covered employment are neither subject to Social Security taxes nor creditable for benefit computation purposes.

Figure 3.3: Median Covered Earnings for Men and Women and the Maximum Taxable Earnings Level, 1940-95
Current Dollars



Source: Annual Statistical Supplement, 1994 to the Social Security Bulletin, pp. 169-70.

Proposals Aimed at Addressing Women's Equity Concerns

Many proposals have been put forth over the past 25 years to address the equity issues that arise because of existence of spousal and survivor benefits and the workings of the dual entitlement limitation. Two of the broader proposals—"earnings sharing" and the "double-decker" plan—while addressing the key concerns, also have possible drawbacks or trade-offs associated with them.

Although variations of the earnings sharing and double-decker proposals are possible that would not be "cost neutral,"³⁵ our discussion of these proposals assumes that the features have been designed to be cost neutral in their impact on the Social Security program. That is, the benefit costs of the Social Security program under either proposal would approximate the benefit costs of the current program. These costs do not reflect the potentially large administrative burden on SSA that enactment of either of these proposals would require.

The other representative proposals discussed generally affect only one or two of the equity concerns. These proposals were usually not designed to be cost neutral but could be made so, for example, by adjusting general benefit levels.

Earnings Sharing

Earnings sharing is a proposal that received a great deal of attention in the late 1970s and early 1980s.³⁶ Under earnings sharing, unlike under the current Social Security law, the partners in a marriage would be treated as coequals. The basic premise is that both partners contribute equally to building a family and home, even if only one has a wage-earning job.

Under the proposal, for each year a couple is married, the annual covered earnings of the husband and wife would be combined and one-half of this total would be credited to each spouse's Social Security earnings record. Earnings sharing would cease if one spouse becomes eligible for a disability benefit or a retired worker benefit. The benefit received by an individual would be based on his or her own earnings for the years he or

³⁵Under some variants of the double-decker plan, the flat amount would be means tested. These variations are generally referred to as two-tier plans.

³⁶Four reports with a major focus on earnings sharing were issued during this period—U.S. Department of Health, Education, and Welfare, *Social Security and the Changing Roles of Men and Women* (February 1979); U.S. Department of Health and Human Services, *Report on Earnings Sharing Implementation Study* (January 1985); Center for Women Policy Studies, *Earnings Sharing in Social Security: A Model for Reform* (1988); and Congressional Budget Office, *Earnings Sharing Options for the Social Security System* (January 1986).

she was single and on his or her half of the couple's combined earnings for the years of marriage.

Auxiliary benefits for spouses and surviving spouses would be eliminated under earnings sharing because each spouse would be eligible for a benefit based on his or her own shared earnings record. However, under most versions of earnings sharing, a surviving spouse would inherit the earnings credits of the deceased spouse for the years the two were married.³⁷ Without this inheritance feature, many survivors would receive lower benefits than they do under current law.

Earnings sharing essentially redistributes a portion of a couple's covered earnings from the higher earner to the lower earner. Because women tend to have lower earnings than their husbands, earnings sharing would increase the retired worker benefits of most married women.

Several Concerns Addressed by Earnings Sharing

Many of the concerns about the fairness of the Social Security benefit structure would be addressed by earnings sharing. It would tend to equalize the benefits of identical one-earner and two-earner couples with the same lifetime earnings by reducing the benefits of one-earner couples. Unlike under current law, there would be no spousal benefit to increase the combined benefits of the one-earner couple. In fact, if the husbands and wives of two couples with equal lifetime earnings were married for their entire working careers, earnings sharing would credit each spouse with one-half the couple's earnings and both couples would receive identical benefits.

Earnings sharing also would tend to equalize the benefits of the survivors of these one-earner and two-earner couples. Unlike under the current act, there would be no survivor benefits as such. Under most versions of earnings sharing, survivors would inherit the earnings credits of their deceased spouses for the years they were married. However, a restricted inheritance provision would result in some survivors receiving smaller benefits than they would under current law.

Also, a worker would not pay Social Security taxes only to find out at retirement that the benefit she receives is the same as the spousal benefit she would have received had she never worked. However, because a couple's earnings would be shared for the period of marriage, an individual worker could still find that his or her retired worker benefit was

³⁷The combined earnings would be capped at the annual maximum taxable limit for each year.

matched or exceeded by that of another person who, as an individual, had lower lifetime earnings.

Earnings Sharing Would Involve Trade-Offs

Earnings sharing would increase the benefits for certain categories of beneficiaries and decrease them for others. As noted above, married women generally would receive higher benefits than they do under current law as would many survivors. However, the husbands of these married women, one-earner couples, and two-earner couples with dually entitled wives would receive lower benefits. Other categories of beneficiaries—such as married disabled men, women who qualify for divorced spouse benefits under current law, and certain categories of survivor beneficiaries—would also generally receive smaller benefits under earnings sharing.

Administrative Burden for the Social Security Administration

The Department of Health and Human Services reported that earnings sharing would impose a large new administrative burden. SSA would have to obtain and maintain data on all marriages and divorces of all individuals who work in covered employment. Given data limitations, SSA would find it difficult to implement earnings sharing retroactively. Prospective implementation would require a lengthy transition or phase-in period if it were decided that the benefits of those nearing retirement should be protected. SSA would also have to modify current, or establish new, operational procedures to ensure the accuracy of initial and continued benefit determinations under earnings sharing.

Proposals Similar to the Basic Earnings Sharing Model

Several proposals have been made that are similar to the basic earnings sharing “model” described above. These proposals would improve the fairness of benefits for one-earner and two-earner couples that were otherwise identical and for their survivors, but would not split earnings on a yearly basis. The following are examples:

- Base a couple’s benefit on its total lifetime earnings. Under this proposal, the lifetime earnings of the husband and wife would be combined and used to calculate a benefit. Each partner would receive a given percentage (usually 50 or 75 percent) of this “couple’s” benefit.
- Base survivor benefits on the couple’s total benefits. Benefits for a couple would be calculated as they are under current law. However, when one spouse dies, the survivor would receive a given percentage (usually 67 percent) of the couple’s total pre-death benefit.

The Double-Decker Plan

Double-decker retirement systems are in use in a number of countries, including Canada, Japan, Norway, Sweden, and the United Kingdom among others. These systems generally pay a flat amount to all qualified beneficiaries (the adequacy deck) and then a proportional earnings-based amount on top of that (the equity deck). Thus, the “social adequacy” component of benefits can be separated from the “individual equity” component.

In the double-decker plan, as in the earnings sharing plan, spousal and survivor benefits would be eliminated. In addition, some variations allow the inheritance of the earnings credits of a deceased spouse and the sharing of earnings credits at divorce.

A double-decker system would redistribute benefits. Those with very small benefits under the current system would receive larger benefits. Those in the middle of the benefit distribution currently, and possibly those at the high end, would receive lower benefits. The extent of the redistribution would be controlled by the relative levels of the flat benefit and the generosity of the earnings-based benefit. (To keep program costs relatively constant, a larger flat benefit would necessitate a less generous earnings-based benefit.) If the earnings-based benefit is generous enough, those with very high benefits under the current program could receive even higher benefits under a double-decker system. Whether women and couples with certain characteristics will be absolutely better off or worse off under the double-decker plan will depend in large measure on the extent of this redistribution.

Assuming that each member of retired couples receives the flat benefit amount,³⁸ the equity deck payment—because it is proportional to earnings—would equalize the benefits of two-earner and one-earner couples with identical lifetime earnings. The survivors of such couples (assuming all earnings credits may be inherited) would also have equal benefits. However, if earnings could only be inherited for the years of marriage, some of these survivors could receive smaller benefits than others. A survivor from a shorter marriage could inherit less than a survivor from a longer marriage.

Also, a married working woman would not enter retirement and find that her spousal benefit is larger than her retired worker benefit because there would be no spousal benefit. Married individuals would have larger

³⁸In some proposals, a minimum number of quarters with credited covered earnings would be needed to receive the full flat benefit amount.

benefits than other married individuals with lower lifetime earnings. However, widows could receive smaller benefits than other widows who had lower individual lifetime earnings but who inherited more earnings from a deceased spouse.

As under earnings sharing, there would be added administrative burdens for SSA under a double-decker plan. The entire process of determining eligibility for benefits and computing benefit amounts would change, and many procedures would also need to be changed. If earnings credits were shared at divorce or inherited at the death of one spouse, SSA would also have to obtain and maintain detailed marital history records for all covered workers.

Other Representative Proposals

Reduce Spousal Benefits

One proposal would reduce spousal benefits from 50 percent of the retired worker's benefit to 33.3 percent and increase retired worker benefits by 12.5 percent. This preserves the combined benefits of one-earner couples. At the same time, it increases the benefits of all two-earner couples and single workers.

Because retired worker benefits would be increased, benefits for survivors would increase as well. However, benefits for divorced wives would decline by one-third. The proposal would be costly because the benefits of retired workers and survivors would increase substantially.

A second proposal would reduce couples' benefits by either reducing the spousal benefit or modifying the benefit formula. Benefits for survivors would be a specified fraction (two-thirds or three-fourths) of the couples' benefit. Benefits for many survivors of two-earner couples would be increased under this proposal.

Cap the Spousal Benefit

Spousal benefits were implemented because of concerns about the adequacy of benefits for families of retired workers. This proposal would provide a limit on the maximum size of spousal benefits (and possibly other auxiliary benefits), either by placing an upper limit, or cap, on the spousal benefit or by limiting the dollar amount of the retired worker's

benefit that can be used as the base for spousal benefits. Such a cap would reduce, but not eliminate, the benefits for spouses of workers with high AIMEs.

A cap on spousal benefits was enacted as a part of the 1967 amendments to the Social Security Act. However, this cap was repealed by the 1969 amendments.

Eliminate the Spousal Benefit

Eliminating the spousal benefit would reduce benefits for one-earner couples by one-third and for dually entitled two-earner couples by less than one-third. This proposal would not equalize benefits for all couples with identical lifetime earnings because the progressive benefit formula would be used to determine the benefit of each spouse in two-earner couples, but only of the worker in a one-earner couple. As a result, the combined benefits for two-earner couples would be larger than those for the one-earner couple with identical combined AIMEs.

Reduce the Dual Entitlement Benefit Offset

A person currently entitled to a spousal benefit has that benefit reduced, or offset, by \$1 for each \$1 of retired worker benefits he or she earned. Benefits for such beneficiaries can be increased by changing the dual entitlement benefit offset so that it reduces the spousal benefit by less than \$1 for each additional \$1 of retired worker benefits earned. This would allow the beneficiary to receive an incremental benefit increase for every additional dollar of covered earnings he or she earns.

The size of the increase would depend on the size of offset established under the proposal.³⁹ Many two-earner couples would receive an increase in benefits while one-earner couples and single workers would receive the same benefits as they do under current law. Therefore, the current gap between the benefits received by like-earning one-earner and two-earner couples would shrink under this proposal.

Allow Survivors to Inherit Their Spouses' Earnings Credits

Allowing a survivor to inherit his or her spouse's earnings credits has also been proposed. These inherited credits would be added to the survivor's own credits and a benefit would be calculated based on these total lifetime earnings. If all the deceased's earnings credits could be inherited, survivor

³⁹If the offset were small enough, both the husband and wife could receive increased benefits, especially if their lifetime earnings were nearly identical.

benefits for one-earner and two-earner couples would be equalized.⁴⁰ However, if credits could only be inherited for the years of marriage, benefits for survivors could fall if the couple had a marriage of short duration.

Reduce the Period Used in Computing Benefits

Workers currently becoming eligible for retired worker benefits have their benefits based on their highest 35 years of indexed yearly earnings. Reducing the number of years used to compute benefits would result in higher AIMEs and higher benefits for all workers, but especially for women, who are more likely than men to have years with no earnings (see ch. 3). If shortening the benefit computation period sufficiently increased wives' retired worker benefits relative to those of their husbands, more women would have retired worker benefits that exceeded their spousal benefits.

This proposal would increase program costs, however, because the shortened benefit computation period would increase retired worker benefits and the related auxiliary benefits for all retired workers. In addition, this proposal raises concerns about the fair treatment of workers with many years of covered work. In this scenario, long-term workers could receive the same benefits as short-term workers even though the long-term worker would have paid more Social Security taxes.

⁴⁰This assumes no restrictions on the total earnings credits the survivor could have for any 1 year. If yearly earnings credits were limited to the annual maximum taxable amount, benefits for all survivors might not be equalized.

Conclusions and Agency Comments

Conclusions

Spousal and survivor benefits were incorporated into Social Security's benefit structure in 1939. To ensure these benefits went only to persons who were dependent on another for their support, a dual entitlement provision limiting the total benefit that could be received was also enacted. The introduction of these benefits improved the social adequacy goal of the program and led to the equity concerns we have discussed.

These concerns are that (1) two-earner couples receive smaller retirement benefits than identical one-earner couples; (2) survivors of these two-earner couples can receive even smaller benefits proportionally than survivors of one-earner couples; (3) dually entitled beneficiaries make contributions to the program but receive the same benefit they would have received had they never worked; and (4) people who contribute to the program may receive smaller benefits than people who either contributed less or contributed nothing at all. Because women receive spousal and survivor benefits more often than men and, hence, are subject to the dual entitlement limitation more often, these concerns are often viewed as women's issues.

These concerns do not arise because Social Security reduces the benefits of any group of beneficiaries. Social Security is gender neutral. All beneficiaries receive a benefit at least as large as the benefit to which their earnings histories entitle them. The concerns arise because some couples and survivors receive, for adequacy reasons, benefits that exceed those based on their earnings alone. The size of this benefit supplement will vary according to the characteristics of the couple or survivor.

As the participation in the labor force of women—especially married women—increases, we anticipate that some of these concerns could intensify because the proportion of women who will be affected by one or more of these concerns is expected to increase. This will have an impact on these equity concerns in several ways.

First, as women's earnings and labor force commitments increase relative to those of men, Social Security will be paying benefits to more two-earner couples. A larger proportion of couples will receive benefits that are less than the total benefit received by a one-earner couple with the same total lifetime earnings, which may magnify the concerns relating to couples' benefits.

Second, the increase in the number of two-earner couples will also increase the concern about the equity of survivor benefits. Because (1) the

survivor of a one-earner couple receives approximately two-thirds of the couple's total benefits when both husband and wife were alive, (2) the survivor of a two-earner couple can receive a smaller portion, as low as one-half, and (3) two-earner couples have smaller total benefits to begin with than one-earner couples with the same total lifetime earnings, we anticipate that there could be increased demands that benefits for survivors of like-earning couples be equalized.

Third, the anticipated growth in the percentage of women receiving only retired worker benefits could reduce or increase the concern that married women receive little or no incremental return for the payroll taxes they pay. These women will receive the same benefit and the same return on their Social Security taxes as other retired worker beneficiaries with the same earnings history. This could reduce the concern that they may not receive a fair return on their payroll taxes. However, the concern may intensify because more married retired-worker women will find that their contributions to the program result in only a small incremental increase to the spousal benefits for which they were already qualified.

Finally, the anticipated increase in the number of women receiving only retired worker benefits may lessen the concern that some persons receive larger benefits than other people who had higher lifetime earnings and made larger contributions to the program. However, because there will always be some people who either never work for pay (and receive pure spousal or survivor benefits) or who have covered earnings sufficiently low that they receive dually entitled spousal or survivor benefits, we do not expect this concern to disappear entirely.

A number of proposals have been made that would address concerns about the fairness of the Social Security benefit structure for working women and their families. However, these proposals have not been enacted, in part because they would either involve additional costs to the program or require reductions in benefits to some categories of beneficiaries. This latter effect could create or exacerbate benefit adequacy concerns for those categories of beneficiaries. In addition, several of the proposals, including earnings sharing and the double-decker plan, would require substantial changes in the program's operations and, thus, would impose a large administrative burden on SSA.

Agency Comments and Our Evaluation

We provided a draft of the report to the Commissioner of Social Security with a request for the agency's comments. In commenting on our report, the Commissioner stated that the report "adequately addresses the objectives of the study" (see app. III for the full text of her letter). However, she noted a few concerns.

First, she indicated the report follows the premise that the authors of the 1939 amendments did not envision a world in which most wives would work. The report has been modified to indicate the authors of the 1939 amendments did envision such a world. However, our point is that equity concerns arise because the increase in the number of women workers combined with the current benefit structure creates certain anomalies. In spite of these equity concerns, the benefit structure has not been modified to eliminate these anomalies.

Second, the Commissioner suggested we discuss how certain proposals to address the equity concerns, such as eliminating spousal and survivor benefits, would affect adequacy concerns. Eliminating spousal benefits would lower benefits received by all one-earner couples and those two-earner couples in which the lower earning spouse is currently dually entitled. Eliminating the survivor benefit would eliminate benefits for the nonworker in one-earner couples and would lower benefits for all survivors who were the lower earners in two-earner couples. Appendix II covers adequacy concerns in some detail and this chapter notes that reforming the program to address equity concerns could create or exacerbate existing adequacy concerns.

Finally, the Commissioner noted that our use of cross-sectional data for the analyses in chapter 3 could provide biased estimates of Social Security lifetime earnings and wealth, and she offered us the use of an alternative data set created by SSA's Office of Research and Statistics. We did not use the recommended data set in our analyses. However, we included some published findings from studies that used this data set.

SSA also provided us with a number of technical clarifications. We modified the report as appropriate.

Benefit Calculations

This appendix describes how various types of Social Security benefits are calculated.⁴¹ Today, the calculation of a retired or disabled worker's benefit is essentially a three-step process—(1) determining a worker's average indexed monthly earnings (AIME, a measure of the worker's lifetime earnings), (2) applying a benefit formula to the AIME to determine the beneficiary's primary insurance amount (PIA, the benefit payable at age 65 or at disability), and (3) adjusting the PIA for the worker's age at first benefit receipt, if different from age 65. In addition, if auxiliary benefits are to be based on this PIA, then the appropriate auxiliary benefit adjustment factor must be applied.⁴²

The AIME calculation requires indexing the worker's covered earnings for each year before he or she attains age 60. Indexing is accomplished by dividing the average wage in the national economy in the year the beneficiary turned age 60 by the average wage for an earlier year and multiplying the resulting amount by the beneficiary's covered earnings for that earlier year.⁴³ This is done for each year the beneficiary had earnings after 1950 and before age 60. Earnings at age 60 or older are entered into the AIME calculation at their nominal (unindexed) amount. The AIME is calculated by summing the 35 years of highest indexed earnings and dividing by 420, the number of months in 35 years.⁴⁴

Once the AIME is determined, a benefit formula is applied to determine the beneficiary's PIA. The benefit formula has three tiers—90 percent, 32 percent, and 15 percent. The AIME levels at which one moves from one tier to the next are known as bend points. The bend points are wage-adjusted annually and each year's bend points apply only to those attaining age 62 (or becoming disabled or dying before age 62) in a particular year. In 1996, these bend points are \$437 and \$2,635.

Thus in 1996, the PIA for a 62-year-old worker would be 90 percent of his or her AIME if the AIME was \$437 or less; \$393.30 (that is, 90 percent of \$437) plus 32 percent of the AIME in excess of \$437 if his or her AIME was

⁴¹To be eligible for Social Security benefits on one's own work record, one must meet certain age and insured status requirements. The insured status requirements are earned by having sufficient numbers of quarters with recorded covered earnings.

⁴²If auxiliary benefits are paid on this PIA, a family maximum limitation may be imposed if total benefits paid exceed 150 percent of the PIA.

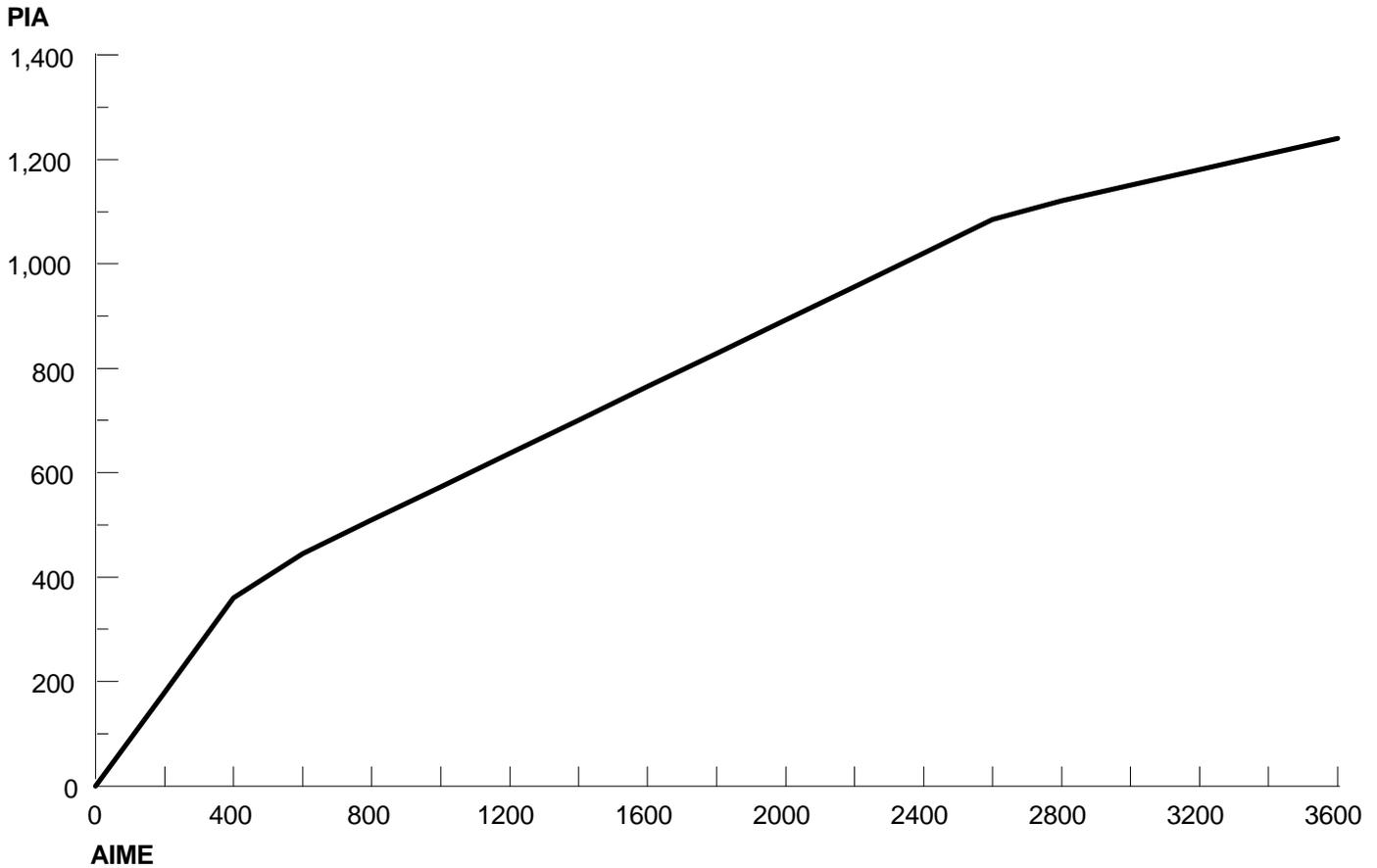
⁴³AIMEs of disabled and deceased workers are calculated by indexing earnings to 2 years before the disability or death occurred.

⁴⁴The AIMEs of workers deceased or disabled before age 62 are calculated using fewer than 35 years of indexed earnings as are those for workers born before 1929. Workers born before 1917 have benefits calculated using earnings that are not indexed.

Appendix I
Benefit Calculations

between \$437 and \$2,635; and \$1,096.66 (that is, 90 percent of \$437 plus 32 percent of \$2,198 [= \$2,635 - \$437]) plus 15 percent of the AIME in excess of \$2,635, if his or her AIME exceeded \$2,567. For example, a 62-year-old worker with an AIME of \$400 would have the entire amount valued at the 90-percent level and his or her PIA would be \$360 (that is, 90 percent of \$400). A worker of similar age with an AIME of \$1,000 would have \$437 valued at the 90-percent level and the remaining \$563 valued at the 32-percent level for a PIA of \$573 ($\$437 \times 0.9 + \$563 \times 0.32 = \573) (see fig.I.1).

Figure I.1: Converting Average Indexed Monthly Earnings Into a Primary Insurance Amount for a Person Attaining Age 62 in 1996



The PIA is increased by any cost of living adjustments (COLA) that have occurred since the worker first became eligible for benefits (this will be age 62 for retired worker beneficiaries). Thus, someone who waits until age 65 to claim retired worker benefits will use the benefit formula in place when he or she was 62 and his or her PIA will be increased by all COLAs provided beginning with the year he or she attained age 62.

The PIA is the figure from which almost all benefit amounts for the worker and his or her dependents or survivors are derived. Benefits of retired workers and disabled workers are based on their own PIAs. Benefits of auxiliary beneficiaries are based on the PIAs of their current or former spouses.⁴⁵ Benefits of dually entitled beneficiaries are based in part on their own PIAs and in part on those of their current or former spouses.⁴⁶

For a retired worker, the PIA will be adjusted for the age at first benefit receipt, if other than the month the worker attains age 65 (the normal retirement age).⁴⁷ If retired worker benefits are first taken before age 65, the monthly benefit will be the PIA reduced by five-ninths of 1 percent for each month benefits are taken early. If benefits are first taken after age 65 but before age 70, the monthly benefit usually will be the PIA increased by the delayed retirement credit (DRC).⁴⁸ No DRC increases are given after age 70 is attained. Disabled worker benefits usually are equal to the worker's PIA and are not adjusted for the age benefits are first received.

To calculate an auxiliary benefit, the worker's PIA is multiplied by a factor that varies according to the type of auxiliary benefit. For spouses and aged survivors, the benefit is then usually reduced if the auxiliary beneficiary is under age 65 at first benefit receipt. No DRCs are given to auxiliary beneficiaries who first receive benefits after age 65, although a survivor's benefit is increased by any DRC the deceased worker would have received.

Spouse (wife and husband) benefits and divorced spouse benefits are available at age 62 and are equal to 50 percent of the worker's PIA. These benefits are reduced by 25/36ths of 1 percent for each month the spouse first takes benefits before age 65. Benefits for spouses under age 65 who qualify because they have eligible children of retired or disabled workers in their care (mothers and fathers) are equal to 50 percent of the worker's PIA. These benefits are not reduced for age at first receipt.

⁴⁵Parents' benefits are based on the PIAs of their deceased son or daughter.

⁴⁶In a few infrequent instances, a person can be dually entitled to benefits based on the work records of two other individuals, for example, as the spouse of a current marriage partner and as the survivor of a former marriage partner.

⁴⁷The normal retirement age is scheduled to increase gradually beginning in 2000.

⁴⁸The DRC is being gradually increased. For those attaining age 65 after 1970 and before 1982, the DRC was 1/12th of 1 percent per month that benefit receipt was delayed between ages 65 and 72. For those attaining age 65 after 1981 and before 1984, the DRC was one-fourth of 1 percent for each month that benefit receipt was delayed over those ages. For those attaining age 65 after 1983 and before 1990, the DRC was one-fourth of 1 percent for each month that benefit receipt was delayed between ages 65 and 70. For those attaining age 65 after 1989 and before 2008, the DRC will be increased by 1/24th of 1 percent every other year and will apply between the normal retirement age and age 70. The DRC will be two-thirds of 1 percent per month (8 percent per year) for those attaining age 65 in 2008 or later.

Survivor (widow or widower) benefits and surviving divorced spouse benefits are available at age 60 and are equal to 100 percent of the worker's PIA reduced by 19/40ths of 1 percent for each month the survivor is under age 65 when benefits are first received. However, if the survivor benefit is first received after age 65, the survivor benefit will not be reduced even if the survivor had first received another type of benefit (for example, as a retired worker or spouse) that was reduced because it was first received before the survivor attained age 65. Benefits of widowed mothers and fathers and surviving divorced mothers and fathers, who qualify because they are caring for an entitled child, are equal to 75 percent of the deceased worker's PIA. These benefits are not reduced for age at first benefit receipt. Disabled survivors and disabled surviving divorced spouses are eligible for benefits as early as age 50. If first received before age 60, these benefits are equal to 71.5 percent of the worker's PIA.

Retired, disabled, and auxiliary beneficiaries will receive benefits as calculated above. Benefits of dually entitled beneficiaries require additional steps. First, the PIA of the current or former spouse is multiplied by the appropriate factor to determine the unreduced benefit for the auxiliary beneficiary. Subsequent steps differ for dually entitled spouses and dually entitled widows.

For dually entitled spouses, the dually entitled beneficiary's retired worker PIA is subtracted from the unreduced spouse (auxiliary) benefit to determine the unreduced incremental auxiliary benefit. Then, the appropriate age-at-retirement adjustment factors are independently applied to the beneficiary's retired worker PIA and the unreduced incremental auxiliary benefit. Finally, the resulting figures are summed to determine the total dually entitled benefit.

For dually entitled widows, the age-at-retirement adjustment factors are independently applied to the beneficiary's retired worker PIA and to the unreduced survivor benefit. The beneficiary then receives the larger of these two amounts.

Adequacy Concerns

The primary focus of this report is equity concerns relating to Social Security and women, but discussions of Social Security and women often include adequacy concerns as well. These adequacy concerns are based on the notion that Social Security should provide at least a minimal standard of living for workers and their families and survivors. In this appendix, we discuss adequacy concerns for three groups—elderly unmarried women, divorced women, and homemakers and caregivers—and list some options that have been proposed for improving the benefits of these groups. In addition, we discuss a proposal that was not specifically designed to address either equity or adequacy concerns but that would affect the benefits for spouses and survivors, if enacted.

Elderly Unmarried Women

The low incomes of elderly women, especially of unmarried women aged 75 and older, raise concerns about the adequacy of Social Security benefits.⁴⁹ For example, in 1992 almost one in four unmarried women aged 75 or older was poor (had an income below the poverty line) and nearly two in five were poor or near poor (had incomes below 125 percent of the poverty line).⁵⁰ In contrast, only about one in four unmarried men aged 75 or older was poor or near poor. Elderly married couples were less likely than unmarried men to be poor or near poor.

The problem these women have is one of low incomes, not necessarily one of low Social Security benefits. Most widows already receive Social Security benefits based on their deceased husbands' work records and these benefits are indexed to offset the effects of inflation, thus maintaining the benefits' purchasing power over time. Other sources of income, such as private pensions and income from assets, are rarely indexed and sometimes disappear upon the death of the spouse who "owned" them.

To improve income adequacy for these women, some advocate increasing Social Security survivor benefits. Increasing Social Security benefits for widows (who account for more than 80 percent of the unmarried women aged 65 and older living in poverty) and elderly divorced spouses (the elderly group with the highest poverty rate) is seen as a relatively direct and focused way of addressing this problem. Others believe that Social Security is doing the job it was intended to do and that any income improvement for these women should come from a different program such

⁴⁹"Unmarried" women refers to those who are widowed, divorced, or never married.

⁵⁰These rates were significantly higher for black and hispanic unmarried women than for white unmarried women.

as the Supplemental Security Income (SSI) program, which is designed to assist the aged, blind, and disabled who have low incomes and low levels of assets.

If it is decided that Social Security benefits should be increased to improve the incomes of the very elderly, the proposals listed below would accomplish this. However, each of these proposals would increase program costs and most would do a poor job of targeting those elderly truly in need.

Increase Benefits of the Very Elderly

This option would provide a special benefit increase (for example, 10 percent) once a beneficiary attained a specified age (for example, age 80 or age 85). Such an increase would allow the benefits of these elderly to catch up with improvements in the country's standard of living that occurred since the beneficiary first began drawing benefits.⁵¹ This option is not well targeted to those in or near poverty because it presumably would be given to everyone attaining the specified age regardless of the adequacy of their incomes.

Increase COLAs for Elderly

A second option would give a special, one-time COLA to beneficiaries once they reach a given age. A related option would provide COLAs in excess of the annual increase in prices for beneficiaries above a specified age. Both of these options would increase benefits for all elderly beneficiaries, and, thus, do not target just the poor.

Provide Unreduced Benefits for Survivors

Currently, beneficiaries who first receive survivor benefits before age 65 have their benefits reduced (by as much as 28.5 percent if survivor benefits are first received at age 60). Providing unreduced survivor benefits regardless of the survivor's age at first receipt would increase the benefits of many widows. This option would improve benefits only for those who become widowed before age 65.

⁵¹Social Security benefits are indexed by a COLA to maintain the benefits' purchasing power over time. If all the beneficiary's income were fully indexed, he or she would be able to maintain the same standard of living he or she enjoyed when benefits were first received. However, real wage increases raise the standard of living for the country as a whole. Over time, the beneficiary's standard of living will fall relative to the standard of living in the country as a whole and what once might have been considered an adequate income level might no longer be.

Allow Survivors to Inherit Earnings Credits of Their Deceased Spouses

This option would allow the survivor to inherit the earnings credits of his or her deceased spouse, which would increase survivor benefits for survivors of all two-earner couples. However, it would not improve the benefits of survivors of one-earner couples.

Base the Survivor Benefit on the Couple's Total Benefit

Under this proposal, the survivor of a married couple would receive a benefit equal to two-thirds the combined benefit of the couple. This would effectively increase the benefit for the survivor of a two-earner couple to the level of the benefit received by the survivor of a one-earner couple under current law.

Divorced Women

As shown in chapter 3, divorced spouse benefits are available if the marriage lasted at least 10 years before the divorce. However, divorced spouse benefits are often considered to be inadequate. For married couples, the spousal benefit is intended to supplement the worker's benefit and, if both spouses first collect benefits at age 65, the total benefit is 150 percent of the worker's benefit alone. The divorced wife's benefit, in contrast, is only 50 percent of her former husband's benefit (again, if first taken at age 65), but this benefit is not paid in addition to a higher benefit. On a per person basis, the married couple is receiving benefits that are 50 percent larger than those received by the husband's divorced spouse (75 percent of the husband's PIA each for the married couple but only 50 percent of his PIA for the divorced spouse).

The following options would improve benefits for divorced beneficiaries.

Reduce the 10-Year Marriage Requirement

Reducing the 10-year marriage requirement would make more individuals eligible for divorced spouse benefits but would also increase the probability that several former spouses would receive benefits on one worker's earnings record. This option raises the question of why a person should be eligible for years of benefits based on a former spouse's lifetime earnings history when the couple was married for only a short time. In addition, it does not address the primary concern—the adequacy of benefits for divorced spouses.

Split the Couple's Earnings Credits at Divorce

Splitting the couple's earnings credits at divorce, a component of the earnings sharing proposal, would equally divide the couple's total covered earnings for each year of marriage. Divorced women, who were married

less than 10 years and, thus, are not eligible for divorced spouse benefits under current law, and currently eligible divorced spouses, whose retired worker benefits exceed their divorced spouse benefits, would generally benefit from this option.

However, the proposal could reduce benefits for other divorced women who are currently eligible for divorced spouse benefits or especially surviving divorced spouse benefits because their benefits would no longer be based on their former husbands' full lifetime earnings as is presently the case. This proposal would also reduce the benefits available to most divorced men and to their subsequent wives and families.

Homemakers and Caregivers

Homemakers are only eligible for spouse and survivor benefits based on their husbands' work records. The contributions these women make to their families are not compensated with paid wages and, therefore, are not reflected with Social Security credits. If a homemaker becomes disabled or dies, the family will incur a cost to replace the services she provided. Social Security does not provide funds to replace these services.

A related group of women, caregivers, have some attachment to the covered workforce, but spend a portion of their working lives out of the labor force caring for children or other relatives. Caregivers can lose disability coverage when they drop out of the labor market.⁵² In addition, the time spent out of the labor force performing caregiver activities is reflected in their Social Security earnings histories as years with no earnings or years with low earnings (if they worked only part of the year or part time) and results in small retired worker benefits.

The following options could improve benefits for homemakers and caregivers.

Homemaker Credits

Retired worker, disability, and survivors coverage would be provided to homemakers through credits that would be based on the imputed value of the homemaker's unpaid services in the home. Spousal benefits would be eliminated. Providing homemakers with earnings credits would recognize the economic value to the family of their work in the home. Such

⁵²To be insured for disability coverage, a person generally needs to have earned 20 quarters of coverage during the 40-quarter period ending with the quarter in which the worker became disabled. People under age 31 need quarters of coverage in at least half the quarters beginning with the quarter after they attained age 21 and ending with the quarter of disability onset (with a minimum of 6 quarters of coverage).

homemaker credits would also benefit those who drop out of the labor force to care for family members.

However, the homemaker credit option poses several questions. Should women who hold full- or part-time jobs in addition to performing unpaid homemaker services receive homemaker credits? How is the economic value of homemaker services determined? Who pays for the earnings credits provided to homemakers? If they are paid for by the homemaker and her spouse through a supplemental payroll tax, are such payments voluntary or mandatory? How would low-income families afford their payments? If the earnings credits are financed out of general revenues, an equity problem would be created since covered workers have to pay Social Security taxes to receive earnings credits.

Caregiver Credits

The caregiver credits option would reduce the 35-year benefit computation period by the number of years the caregiver was out of the labor force providing caregiving activities. Usually, the proposal specifies a maximum number of caregiver credits that could be earned by any one person (for example, 5 or 10 credits), and often the caregiver would be required to have a preschool-aged child in her or his care. This proposal would reduce the number of years of highest earnings used to calculate AIMEs and would result in increased AIMEs and benefits for caregivers.

However, this option may not accurately target the population of concern because women are returning to work more quickly after the births of their children. If economic necessity causes mothers from low-income families, but not high-income families, to return to work while their children are young, then mothers from high-income families would be the primary beneficiaries of this change, while mothers from low-income families, presumably the primary target group for this proposal, would forfeit caregiver credits for the years they worked.

Earnings Sharing and the Double-Decker Plan

Under earnings sharing, homemakers would become eligible to receive retired worker and disabled worker benefits and their dependents would be insured for survivor benefits because earnings sharing would provide the homemakers with an earnings history and a benefit eligibility of their own. Married women who reduce their attachment to the paid labor force to care for children or other people would also find that their earnings histories and benefit eligibility generally improved from earnings sharing. However, if they could not inherit all their spouses' earnings credits, they

could receive lower benefits than under current law when they become widowed.

Under the double-decker plan, homemakers and caregivers would each be entitled to the flat-rate benefit designed to provide an adequate floor-level benefit. The caregiver would also receive the earnings-related component based on her covered earnings; the homemaker would not because she would have no covered earnings.

The Joint and Survivor Plan

This joint and survivor proposal is not directly related to adequacy concerns, but its implementation would have consequences for the benefits women receive as spouses and survivors.

The rationale under which Social Security pays benefits to married workers, their spouses, and their survivors is based in large part on the adequacy goal of the system. As currently structured, benefits to auxiliary beneficiaries are not earned benefits. Married workers did not pay a higher payroll tax than unmarried workers to provide the funding for auxiliary benefits. Nor are their retired worker or disabled worker benefits reduced to provide funding for such benefits. Instead, these auxiliary benefits are transfers to the auxiliaries from the program and are paid for by a combination of higher taxes on all workers than would be necessary and lower benefits for all retired and disabled beneficiaries than could be provided if these auxiliary benefits were not available.

Another major source of retirement income, pensions, does not embody an adequacy goal. Like Social Security, pension plans very often pay benefits in the form of a life annuity; that is, a benefit that is paid to the retiree as long as he or she lives. Spousal benefits are rarely, if ever, provided by pension plans and survivor benefits are usually provided only under a joint and survivor option.

The joint and survivor option reduces a retired worker's benefit and, in the event of his or her death, pays an annuity for the life of his or her designated survivor. The annuity value of the joint and survivor option must be as great as the annuity value of the single life option covering the retired worker alone. However, many pension plans allow the joint and survivor option to be waived, in which case, the survivor would not receive an annuity upon the death of the worker.

If Social Security auxiliary benefits were restructured following the joint and survivor model, spousal benefits would not be paid. The benefits of all married retired worker and disabled worker beneficiaries would be reduced to provide survivor benefits to their spouses in the event of the beneficiaries' deaths. Thus, all married couples, especially one-earner couples and two-earner couples in which the lower earner is dually entitled, would receive lower benefits than they would receive under current law. However, the cost savings from eliminating the spousal benefit and reducing the transfers inherent for many in current survivor benefits could be used to increase retired worker and disabled worker benefits.

The survivor would receive his or her own retired worker benefit (which also would have been reduced to provide a survivor benefit in the event he or she died before his or her spouse) plus the survivor benefit from his or her deceased spouse. Survivors of one-earner couples and many two-earner couples with uneven within-couple distributions of earnings would receive lower benefits than under current law, while survivors of two-earner couples with a more equal distribution of earnings could receive increased benefits.

Comments From the Social Security Administration



SOCIAL SECURITY

Office of the Commissioner
February 26, 1996

Ms. Jane L. Ross
Director, Income Security
Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

This is in response to your report titled "Social Security: Issues Involving Benefit Equity for Working Women" (GAO/HEHS-96-55) dated January 26, 1996. Although we find that the report adequately addresses the objectives of the study, we have some concerns with its contents.

First, the report follows the premise that the authors of the 1939 amendments did not envision a world where most wives would work. In fact, the authors of the 1939 amendments specifically wrote that "...most wives, in the long run, will build up wage credits on their own employment,..."

In addition, we note that the report addresses mainly "individual equity issues." We suggest an expanded discussion of the adequacy effects of certain proposals. For example, the distributional consequences of removing the spouse and survivor benefits from the benefit formula should be considered.

Finally, we believe that the cross-sectional data used in the report may provide biased estimates of Social Security lifetime earnings and wealth. Our Office of Research and Statistics has used alternative data available from Social Security records, matched to nationally representative surveys, to better estimate lifetime earnings and wealth. These data are available if you are interested in expanding the report.

We appreciate the opportunity to comment. Additional comments, mostly technical in nature, will be shared with your staff under separate cover. Please let us know if we may be of further assistance.

Sincerely,

Shirley S. Chater
Commissioner
of Social Security

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

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