

# Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits



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## FOREWORD

By Carroll L. Estes, Terry O'Neill,  
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The U.S. workforce looked very different in 1946, at the start of the Baby Boom generation, than it does today. A big part of this workforce transformation has been due to the contributions of women. Starting with very low labor-force participation rates in the immediate post-World War II period, women today participate in the labor-force at a much higher rate, although still lower than that of men (See chart 1). While it is true that some women have broken through the glass ceiling and have entered the corporate

board rooms of some of our largest and most successful companies, inequities remain. An enduring pay gap, under which women earn 19 percent less than men<sup>1</sup> means lower lifetime earnings for many women. Lower earnings, in turn, mean the accumulation of fewer assets. And a lifetime spent juggling the competing needs of career and family means employment patterns that contain frequent periods of unemployment, part-time employment, and absence from the labor market. Over a lifetime these disparities aggregate and become glaring in retirement, especially for those from communities of color and those who live to an advanced age. For too many women, retirement is the culmination of an entire career – an entire lifetime – of pay and income inequality.

<sup>1</sup> Bureau of Labor Statistics Press Release, dated January 24, 2012.

The National Committee to Preserve Social Security and Medicare Foundation has joined with the National Organization for Women Foundation and the Institute for Women's Policy Research to urgently call for our retirement system to catch up with the changing needs of women in the workforce. As millions of women from the Baby Boom generation have transformed the workforce, they too will change the very notion of retirement. The concept of retirement must be strengthened to reflect the needs of today's generations of women – those currently in retirement, those nearing retirement, and those at the height of their wage-earning potential.

Women remain a dynamic part of the workforce, even though they frequently reduce their time at work in order to take care of family needs. When Social Security was enacted more than 76 years ago, it was hard to imagine the expanded role women would play in the workforce today. That is why it is time to re-examine some of those very same policies and to look for new solutions. This report examines the valuable role women play as caregivers to both their children and to their aging parents. It looks at the impact of widowhood, and the difference in life expectancy between men and women and how that affects a growing number of older women – especially those over age 85 – who are living below the poverty line. And it examines the special role that Social Security plays in meeting the income security needs of women from communities of color.

Most importantly, this report outlines a number of policy solutions to remedy the inequities that are still present in Social Security. Our organizations are committed to addressing and advancing improvements to Social Security. Our nation cannot let temporary fiscal

constraints sentence an entire generation of older women to live their final years in poverty. We view the recommendations in this report as a roadmap to a brighter future for all women. Working together, we believe we can chart a fair and equitable course for ourselves, our mothers, daughters, grandmothers, and great grandmothers.

## BACKGROUND

While Social Security is a program that is vitally important to all Americans, it is especially critical to the financial security of women. There are a number of reasons why this is so. First, women live longer than men. On average, women today who reach age 65 outlive men by 2.4 years.<sup>2</sup> These additional years of longevity increase the risk that women may outlive their savings or that their pensions may lose their purchasing power. For women from communities of color, greater longevity is particularly challenging.

Women, and especially women of color, are less likely than men to have employer pensions. On average, only 28 percent of women age 65-74 receive pension income compared to 42 percent of men age 65-74.<sup>3</sup> And when women do have pensions, they tend to be smaller on average than those earned by men. The picture is even more dismal for individuals from communities of color, where less than half of employed African Americans and less than one-third of employed Latinos are covered by employer-sponsored retirement plans.<sup>4</sup>

2 Social Security Administration: [Social Security is Important to Women](http://www.ssa.gov/women), January 2012, [www.ssa.gov/women](http://www.ssa.gov/women).

3 Institute for Women's Policy Research: [Six Key Facts on Women and Social Security](#), June 2011.

4 Rhee, Nari, "Black and Latino Retirement (In) Security," University of California Berkeley Center for Labor Research and Education, 2012, p. 1.

## BACKGROUND

Stated simply, women depend substantially in retirement on the benefits they receive from Social Security. These benefits last a lifetime and unlike many private pensions, Social Security benefits are adjusted for increases in inflation. In 2010, 46 percent of elderly unmarried women and 58 percent of elderly unmarried women of color, relied on Social Security for 90 percent or more of their total income.<sup>5</sup>

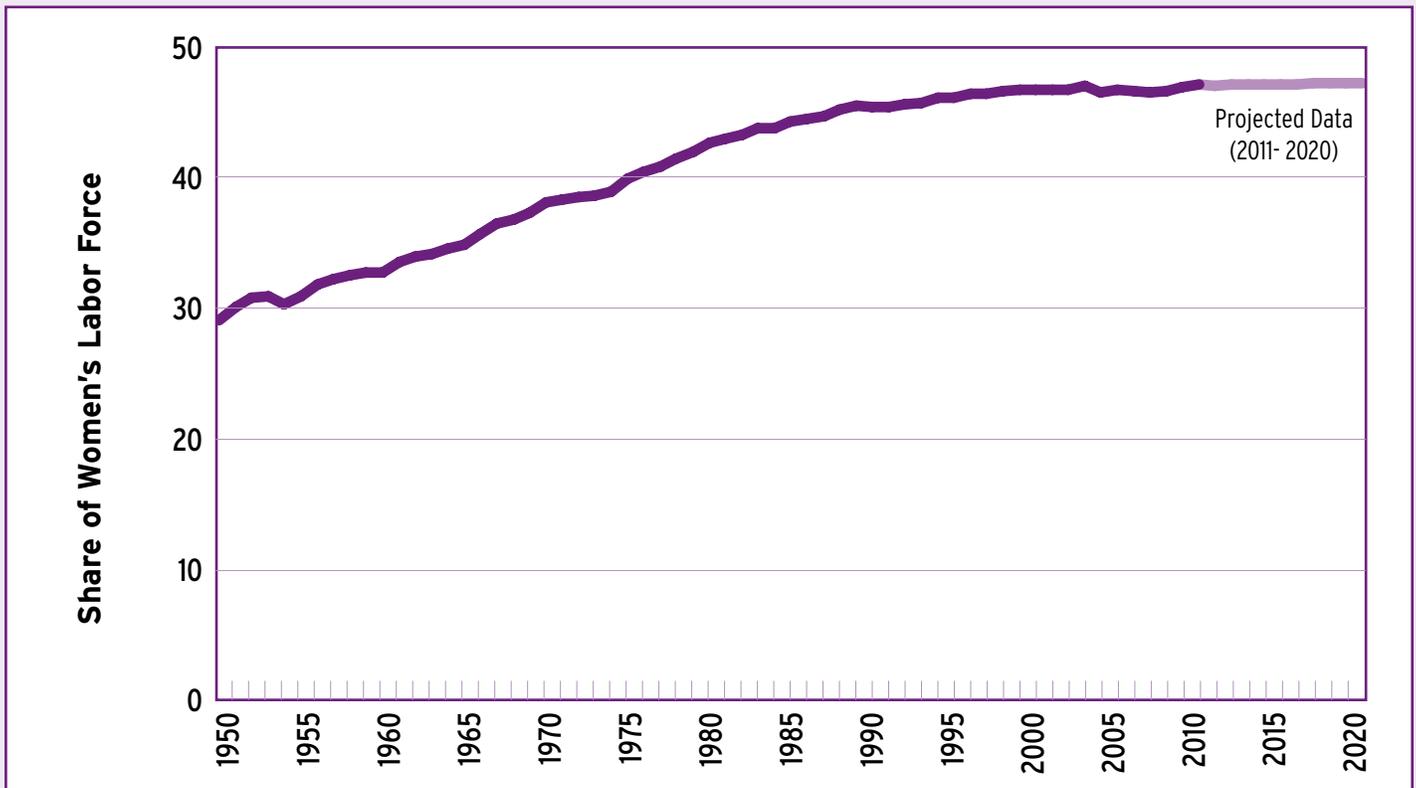
<sup>5</sup> IWPR Analysis of 2011 Current Population Survey Annual Social and Economic Supplement. Income is reported for 2010. Unmarried includes separated, divorced, widowed, and never married individuals.

As women have increased their participation in the workforce, the number of women insured to receive Social Security benefits on their own record has grown.<sup>6</sup> The following graphs display women's increased participation from 1975 to 2010 and the subsequent increase in insured status due to increased women's work participation over the last forty years.

<sup>6</sup> Generally, a person becomes fully insured for Social Security benefits on his or her own record when he or she has worked enough in covered employment to be credited with 40 credits. Only 4 credits can be earned in any year, which means that, in order to be fully insured, an individual has to have worked in a minimum of 10 years. There is a slightly different insurance requirement for disability benefits that is described elsewhere in this report.

# 1

## WOMEN'S SHARE OF THE LABOR FORCE



SOURCE: IWPR analysis of Data from the Bureau of Labor Statistics.



## SOCIAL SECURITY INSURED STATUS BY SEX, 1970 AND 2010

Although men are still more likely than women to become insured for Social Security retirement and disability benefits, the gender gap is shrinking. Both Social Security retirement and disability benefits require older adult workers to have 40 quarters of coverage (work credits) in order to be fully insured for benefits. These can be earned at any time during a worker's life.<sup>7</sup> However, to be fully insured for disability benefits, a worker must have what is called a "current connection" with the workforce. Basically, this means that, in addition to having a total of 40 quarters, an individual must also have worked for 5 of the 10 years preceding the start of a person's disability in order to qualify for disability benefits.

Forty years ago, far fewer women than men worked regularly enough to be insured for

<sup>7</sup> A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program. A worker must earn at least a specified amount (in 2012, this is \$1,130 per quarter, or \$4,520 per year) in order to receive this credit and cannot earn more than 4 quarters of coverage in one year.

disability benefits. But as the following graph shows, that has changed. Although men are still more likely than women to be insured for both retirement and disability benefits, this gap is also shrinking. The proportion of men who are insured has remained essentially stable during this time, with 91 percent fully insured for retirement benefits and 81 percent insured for disability.<sup>8</sup> By contrast, the proportion of women who are insured has increased dramatically. Today 85 percent of women are fully insured for retirement benefits while 74 percent are insured for disability benefits.

While increased labor force participation has been a positive development for women in general, many still remain economically vulnerable, especially in old age. Part-time and sporadic employment, coupled with the persistent disparity between men's and women's earnings, results in Social Security benefits that are inadequate and that allow for little in the way of retirement savings. These problems are especially acute among women of color.

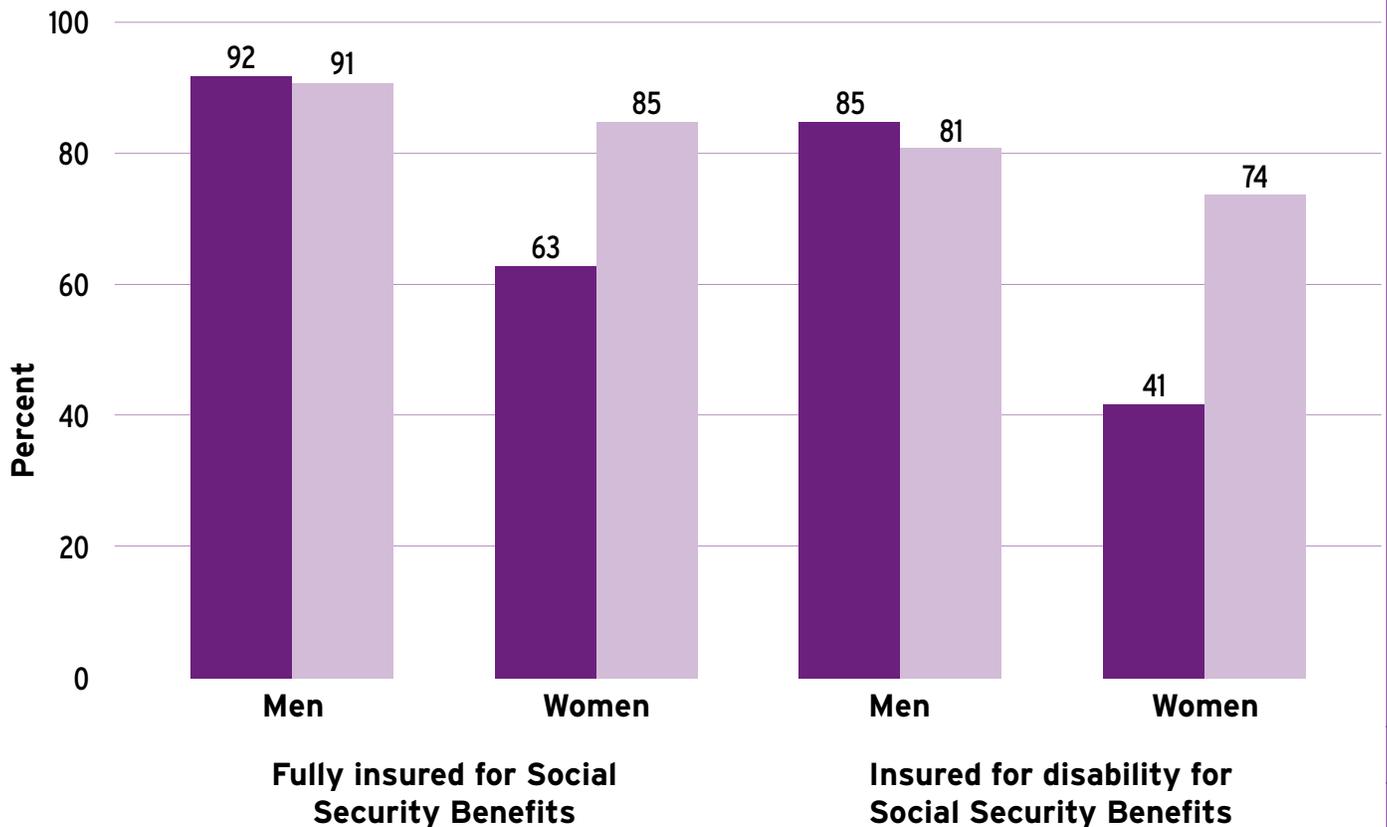
<sup>8</sup> The number of individuals insured for disability benefits does not include those who have already reached their full retirement age.

2

## PERCENTAGE OF POPULATION WHO ARE FULLY INSURED FOR SOCIAL SECURITY AND INSURED FOR DISABILITY BENEFITS, BY SEX

1970

2010



SOURCE: Social Security Administration, Office of the Chief Actuary.

NOTES: The population of those who are insured for Social Security includes residents of the 50 states and the District of Columbia adjusted for net census undercount; civilian residents of American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands; federal civilian employees and persons in the armed forces abroad and their dependents; crew members of merchant vessels; and all other U.S. citizens abroad. Based on workers 20 through 64.

Figures are subject to revision.

## IMPORTANCE OF SOCIAL SECURITY TO WOMEN OF COLOR

While all women depend heavily on the benefits provided to them by Social Security, no discussion of this topic would be complete without considering the special case of women from communities of color. Constituting a majority of all Social Security beneficiaries, women depend more than men on the program for their support in retirement and old age. Why is this so? As we have stated earlier, women live longer than men, have a history of lower earnings during their working years, take more time out of the workforce to care for family members, and live in more difficult economic circumstances.<sup>9</sup> As a result, they enter retirement with little or no protection from private pensions, inadequate retirement savings, and smaller Social Security benefits than those received by men.

The effects of these disparities are magnified for women of color. They are disproportionately lower earners, and are more likely to have worked in part-time positions.<sup>10</sup> A substantial segment of women of color, especially single women of color, approach retirement with little or no retirement savings and little access to private pensions.<sup>11</sup> The absence of alternative financial support has the effect of leaving women of color primarily dependent upon what is usually a very modest Social Security retirement income. Further, families of color are more dependent than

other families on survivor and disability benefits under Social Security.<sup>12</sup>

The National Committee Foundation, the National Organization for Women Foundation, and the Institute for Women's Policy Research believe it is vitally important that any proposals to strengthen the adequacy of Social Security for women must effectively address these neediest of women. The proposals for improving Social Security for women that appear later in this report pass this test. All of these proposals are intended to provide greater protection to all women, but some will be especially beneficial to women of color. By granting credits for child/elder care years, improving the adequacy of the special minimum benefit, increasing the amount of the widow's benefit when the husband dies, and by using a consumer price index designed specifically to measure the effects of inflation on the elderly, the adequacy of Social Security for all women, including the most vulnerable, will be strengthened and improved.

What follows is a description of the kinds of benefits women can receive from Social Security today followed by our recommendations for modernizing and strengthening the program so that all women will receive an adequate income in the event of retirement or disability.

## SOCIAL SECURITY BENEFITS FOR WOMEN

Since Social Security began paying monthly benefits in 1939, the program has offered a broad array of benefits for women. For example, women who are insured on their own earnings records can qualify for either

<sup>9</sup> Plan for a New Future: The Impact of Social Security Reform on People of Color. A Report of the Commission to Modernize Social Security, 2011, p. 12.

<sup>10</sup> Ibid., p. 18-19.

<sup>11</sup> <http://mariko-chang.com/LiftingAsWeClimb.pdf>.

<sup>12</sup> Op. Cit., Plan for a New Future, p. 13.

## SOCIAL SECURITY BENEFITS FOR WOMEN

retirement or disability benefits based on those earnings. If married, a woman may also be eligible for a spouse's or widow's benefit based on a husband's earnings record.

A married woman who is eligible both for her own Social Security benefit and a spousal benefit can receive more from Social Security if the amount payable as a spouse is higher than her own benefit. In other words, she can receive her benefit plus the difference between her benefit and the spouse's or widow's benefit.

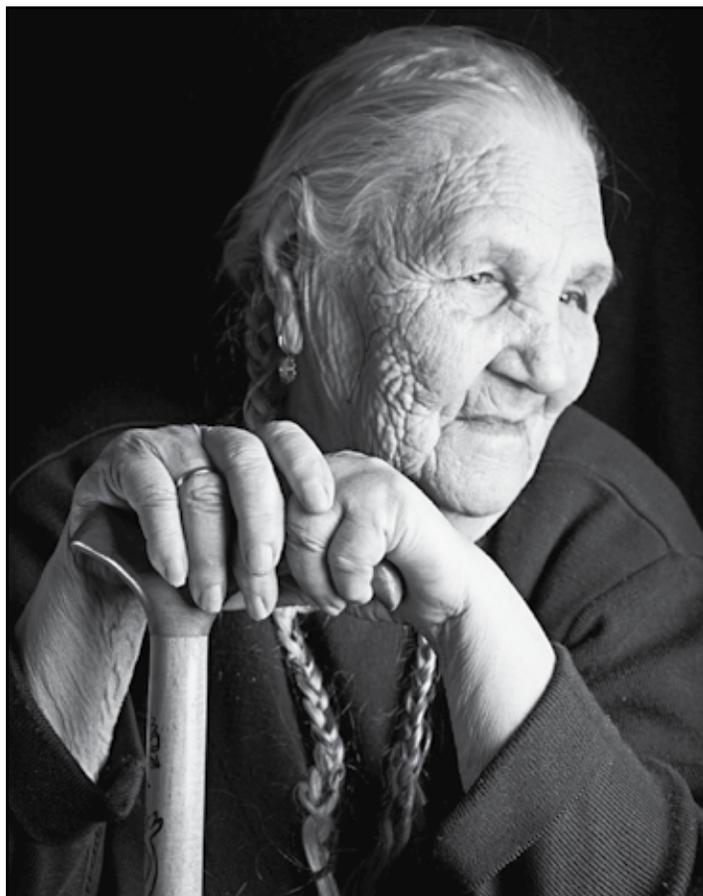
Women who have been married more than once might be eligible on one or more spouses' records in addition to being eligible for benefits on their own. To qualify for divorced wife's or divorced widow's benefits, the marriage must meet the "duration of marriage test." Under the current test, a marriage must have lasted for a minimum of 10 years. If divorce occurs before 10 years of marriage, a woman would not be eligible on that husband's work record. If divorce occurs after 10 or more years of marriage, a woman can qualify for the same spousal benefit she would have received had there been no divorce.

Divorce is more common among the Baby Boom and later generations than among earlier generations, as is childbirth outside marriage. Many women will enter retirement not having had a 10-year marriage or not being married and will be ineligible for spousal benefits. Time they took out of the labor market for caregiving will not be compensated by receiving spousal benefits, and it is important for Social Security to be modernized to compensate this group for caregiving.

Early retirement significantly reduces benefits. A disabled widow or an older widow with no work experience may have no choice but to

apply for a reduced benefit at the earliest age of eligibility. For those who are not disabled, the earliest age of eligibility for a widow's benefit is 60. Social Security offers little incentive for widows to defer filing for benefits because, if the deceased spouse retired early, as is often the case, her benefits will be reduced based on the husband's decision to claim early retirement.

Widows who are severely disabled are eligible for widow's benefits as early as age 50, although benefits are reduced by 28.5 percent if eligibility commences at this early age. In addition, a widow's disability must begin within a certain period of time. The period is measured against two possible benchmarks, depending on which is most advantageous to the widow. One benchmark relates to women who qualify for mother's benefits, which are



paid to a widow, without regard to age, who is caring for a child of her late husband while the child is either under age 16 or is disabled. Under this benchmark, the widow is eligible for benefits if she became disabled within the seven year period following the last month after she qualified for mother's benefits. The other benchmark is the husband's date of death. Under this benchmark, the widow is eligible if she became disabled within seven years after the death of her husband.

The average woman generally receives a substantially smaller Social Security check than a male worker. In 2009, the average annual Social Security income of a retired man was \$15,620, while the average yearly income of a retired woman was \$12,155. This disparity is explained, in part, because women generally have lower earnings than men. For example, in 2009, the median earnings of full-time working age women were \$35,000 annually, compared to \$46,800 annually for men.<sup>13</sup> Additionally, women are more likely to spend years outside the workforce devoted to providing uncompensated care to children and other family members.

In 2009, over 20 million women aged 65 and older received Social Security benefits.<sup>14</sup> A woman who reaches age 65 today can expect to live an additional 20.7 years.<sup>15</sup> For these women, Social Security represents a critical source of income, and is often their only available hedge against inflation. Without Social Security, over half of these women

would be living in poverty.<sup>16</sup> Even with Social Security, 12 percent of older women still live in poverty; for widows, the rate is worse, at 15 percent. This is 50 percent higher than the poverty rate for all people 65 and older.<sup>17</sup>

The problem is even greater for women of color. In 2009, 26.1 percent of African American women who were 75 or older and who were receiving Social Security were living in poverty. For Hispanic women of the same age, 21.4 percent were living in poverty, despite the fact that they were receiving Social Security.<sup>18</sup>

A husband's death can lead to enormous financial hardship. Currently when a woman's husband dies, the total amount of Social Security benefits paid to the household are reduced by as much as 33 to 50 percent. The reduction is larger for households in which both spouses have had nearly equal earnings. As more women entered the workforce in the second half of the twentieth century, their contribution to total household income increased. However, Social Security rules have not been updated to reflect this societal change. Consequently this increased contribution to household income by wives may not result in higher Social Security benefits.

As increasing numbers of women earn wages that equal or exceed those of their husbands, more of them will experience a benefit reduction approaching 50 percent of household Social Security benefits when the husband dies. To illustrate, consider the case of a couple, where

13 Op. Cit. *Social Security is Important to Women*.

14 Joint Economic Committee, U.S. Congress: *Social Security Provides Economic Security to Women*, October, 2010.

15 The 2011 Annual Report of the Board of Trustees of the Old Age and Survivors Insurance and Disability Insurance Trust Funds, Washington DC, p. 91.

16 The authors wish to acknowledge that Federal poverty data are an unreliable gauge of the actual extent of poverty in the United States, as many studies have shown. In addition, while the data focus on those who fall below the annual poverty indexes, there are many who fall in a range that are near poverty.

17 Op. Cit.

18 Hartman, Heidi, Jeff Hayes and Robert Drago, "Social Security: Especially Vital to Women and People of Color, Men Increasingly Reliant." Institute for Women's Policy Research, Washington DC, 2011.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

both husband and wife worked. Each receives \$1,500 per month for a combined family benefit of \$3,000. When the husband dies, the woman's monthly Social Security benefit remains \$1,500, while the husband's benefit ends. She receives no widow's benefit because her own Social Security benefit is equal to her husband's benefit. Thus, the effect of the husband's death is to reduce the total family benefit by 50 percent.

By contrast, if this same woman had no Social Security on her own record, and instead, received a wife's benefit of \$750, the total family benefit would be \$2,250. Upon the husband's death, the widow would receive a benefit of \$1,500, the same amount that was being paid to her late husband. In this case, the reduction in the total family benefit would be 33 percent. The effect of this reduction can be devastating, especially for women living alone after age 65, for women of color, who are more likely to be poor, and for women from low-earning or wealth-depleted households.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

Women deserve an adequate retirement income whether their work lives are spent in the home, in the paid workforce, or a combination of the two. The National Committee Foundation, the National Organization for Women Foundation, and the Institute for Women's Policy Research support changes that safeguard benefits for women, especially those with the greatest need, and improve benefit equity between one-earner and two-earner couples.

The following proposals would improve benefit equity and safeguard benefits for women.

- **Improving Survivor Benefits.** Women living alone often are forced into poverty because of benefit reductions stemming from the death of a spouse. Widows from low-earning or wealth-depleted households are particularly at risk of poverty. Providing a widow, widower or surviving divorced spouse with 75 percent of the couple's combined benefit treats one-earner and two-earner couples more fairly and reduces the likelihood of leaving the survivor in poverty. The new benefit would be capped at the benefit level of a lifelong average earner (about \$1,584 for an individual retiring at age 66 in 2012).

*Proposal: Increase the benefit paid to a surviving spouse to an amount that is equal to 75 percent of the total combined benefits that were paid to the couple prior to the spouse's death, capped at the benefit level of a lifelong average earner.*

- **Providing Social Security Credits for Caregivers.** One of the principal reasons women have fewer assets and less income in retirement than do men is that they often interrupt their participation in the labor force to provide services to family members. This service most often takes the form of providing care to children and, more and more, to elderly or disabled parents, parents-in-law, and other family members. Because of the nature of the formula used in its calculation, these temporary interruptions can lead to a significant reduction in the amount of a woman's Social Security benefit. These interruptions occur for unmarried women as well as married women since women increasingly have children outside marriage and many adults, whether married or not, care for other family members.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

Up until now, spousal benefits have been the only way women were partially compensated for caregiving. Over the years, a number of approaches have been advanced to remedy this lack of attention to caregiving, but no action has been taken to address it. We believe it is time to fix this long-recognized deficiency in the Social Security program's design.

Accordingly, we recommend that the computation of the Average Indexed Monthly Earnings (AIME) primary insurance amount (PIA)<sup>19</sup> be revised as follows: Imputed earnings for up to five family service years would be granted to a worker who provides care to children under the age of six or to elderly or disabled family members. To qualify for a family service year, the actual wages earned by the caregiver would have to be less than 50 percent of that year's average annual wage (\$21,758 in 2011).<sup>20</sup> Imputed wages for a year would be added to the worker's other earnings, if any, to bring the total up to 50 percent of that year's average annual wage.

For each family service year, wages equal to as much as 50 percent of each such year's national average wage index would be imputed to the worker. The AIME PIA would then be calculated in the usual fashion. This proposal would also help women who are not eligible for spousal benefits because they never married or had marriages that lasted for fewer than 10 years.

*Proposal: Compute the AIME PIA by imputing an annual wage for each family*

*service year so that total earnings for the year would equal 50 percent of that year's average annual wage index. Family service years would be those in which an individual provides care to children under the age of six or to elderly or disabled family members. Up to five family service years could be granted to any worker.*

- **Enhancing the Special Minimum PIA.** In addition to computing the AIME PIA, Social Security also calculates a worker's monthly benefit based on an alternate computational method known as the Special Minimum PIA. If this method results in a higher benefit, then the worker's payment is based on this computation. The intent of this computational method is to provide a more adequate benefit to those who have spent the preponderance of their working lives in low-wage employment. But because the Special Minimum Benefit has been indexed for many years to inflation rather than to growth in wages, it needs to be updated. Our proposal does this. It also incorporates into the computation the concept of providing years of coverage to those who must leave the workforce in order to provide care to family members. These improvements will generally help more retirees qualify for this benefit and will especially enhance its effectiveness in providing income security to women, who disproportionately shoulder the task of providing care to family members and thus often have gaps in their earnings history.

The Special Minimum Benefit is a multiple of a dollar amount times the number of earning years, known as years of credit, over ten and up to thirty. Currently, a year of credit is granted if the amount of an individual's earnings is equal to or exceeds

<sup>19</sup> The AIME PIA is the amount that a worker can receive if application for benefits is deferred until reaching the worker's normal retirement age, or NRA.

<sup>20</sup> Op. Cit., 2011 Trustees' Report, p. 108.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

\$12,280. In 2012, the Special Minimum method provides a worker with 30 years of substantial earnings a benefit of \$790.60 per month. We recommend a number of improvements to this computation.

First, we believe that up to ten years spent caring for children or dependent adults should be counted towards the Special Minimum Benefit. As a result, many women with careers divided between home and the paid workforce would be eligible for higher worker benefits. Counting up to ten family service years toward the Special Minimum would make it available to more individuals.

Second, the Special Minimum Benefit should be adjusted so that it is equal to 150 percent of the poverty level for a single aged person, which would yield a monthly benefit of about \$1,307 for a person with 30 years of credit. This amount should be indexed in the future for growth in wages rather than indexed to the Consumer Price Index (CPI). Finally, the amount required for a year of credit should be reduced to that required for receiving four Social Security credits (\$4,520 in 2012).

We also recommend that an adjustment be made to the Supplemental Security Income (SSI) program so that improving the Special Minimum Benefit would not have the undesirable effect of making some elderly poor women ineligible for SSI, which in many states also serves as an avenue for eligibility to Medicaid.<sup>21</sup> A reasonable option would be to increase the amount of

the \$20 monthly general income exclusion in the SSI program, which would help some of those who qualify for a higher Social Security benefit under the improved Special Minimum Benefit from losing eligibility for SSI. This exclusion, which allows for disregarding a portion of an SSI recipient's income, has remained at the same level since the program's enactment in 1972. We propose that the exclusion be increased to \$100 per month. We would also propose to index the benefit to future growth in wages.

*Proposal: Improve the Special Minimum Benefit as follows: 1) Increase the benefit to equal 150 percent of the aged poverty level for workers with 30 years of credit; 2) Reduce the wages required to receive a year of credit toward the minimum benefit to the amount required for four Social Security credits; 3) Index future increases in the minimum benefit to growth in wages rather than the CPI; 4) Provide up to ten family service years of credit toward the computation of the benefit; and 5) Increase the SSI general income exclusion to \$100 and adjust it in future years for inflation.*

- **Equalizing Rules for Disabled Widows.**<sup>22</sup>

Widows and surviving divorced spouses can qualify for benefits based on disability beginning at age 50. They are the only disabled persons whose benefits are subject to an actuarial reduction.<sup>23</sup> The amount of this reduction is 28.5 percent of the deceased spouse's full retirement age (FRA) benefit. In contrast, the benefits

<sup>21</sup> The Supplemental Security Income program provides a nationwide minimum benefit for individuals with very minimal income and assets and who have attained age 65 or have been found to be blind or disabled. Usually, qualifying for SSI also means becoming eligible for health care benefits under the Medicaid program, which provides low-income individuals with a comprehensive package of health care benefits. These benefits are especially important for disabled individuals who often can qualify for live-in personal health aides and, of course, nursing home care for those who need this level of care.

<sup>22</sup> This provision would be equally applicable to widowers and surviving divorced husbands.

<sup>23</sup> Most individuals who apply for Social Security benefits prior to attaining their "full retirement age" have their benefits reduced to make sure that, on average, there is no increase in the total lifetime benefits paid as a result of the early claiming of benefits. The resulting adjustment is called an actuarial reduction.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

paid to disabled workers are not actuarially reduced. Instead, they receive 100 percent of the full retirement age benefit.

This disparate treatment must end. Disabled widows should receive 100 percent of their benefit without any reduction, just like disabled workers, and they should be able to qualify for disabled widow's benefits at any age. Moreover, the seven-year application period should also be eliminated.

*Proposal: Treat disabled widows and surviving divorced spouses in the same manner as other disabled individuals in determining their eligibility to benefits by making the following changes: 1) Eliminate the provision that restricts eligibility to widows who are age 50 or older; 2) Eliminate the actuarial reduction that currently accompanies eligibility for disabled widow's benefits; and 3) Eliminate the seven-year time limit for when widows must become disabled in order to qualify for benefits.*

- **Benefit Equality for Working Widows.**<sup>24</sup> Under current law, the benefit for widows and surviving divorced spouses is capped at the amount the deceased husband would receive if he were still alive. If a husband retires before normal retirement age, his widow inherits his early retirement reduction. However, the amount of the reduction is limited to no more than 82.5 percent of the wage earner's full benefit. Apart from that limited protection, a widow can neither cancel her husband's early retirement reduction nor enhance her widow's benefit by delaying her own

retirement. We believe that the widow's benefit, including benefits for surviving divorced spouses, should no longer be tethered to the reduction her deceased spouse elected to receive when he applied for retirement benefits.

*Proposal: Eliminate the pass-through to widows and surviving divorced spouses of the actuarial reduction that stems from their husbands' decisions about when to apply for retirement benefits. The only factor that should be relevant in determining a widow's benefit should be the actuarial reduction that results from the surviving spouse's own decisions about when to retire.*

- **Strengthening the COLA.** When automatic cost of living adjustments (COLAs) for Social Security benefits were enacted in the 1970s, there was only one Consumer Price Index (CPI) available for use, the CPI-W, which reflects price increases based on the purchasing patterns of urban wage earners and clerical workers. The purpose of the COLA is to adjust the Social Security benefit so that inflation does not erode its purchasing power. Beginning in 1987, the Bureau of Labor Statistics developed, and has since maintained, an experimental CPI, known as the CPI-E, that is specifically based on the purchasing patterns of America's seniors.

Historically, the CPI-E has reflected a rate of inflation that has been between 0.2 and 0.3 percentage points higher than inflation as measured under the CPI-W. This is primarily attributable to the greater weight placed on health expenditures in this index, which reflects the fact that seniors devote a higher percentage of their monthly spending to health care costs than do younger

<sup>24</sup> This provision would be equally applicable to widowers and surviving divorced husbands.

## STRENGTHENING THE PROGRAM TO PROTECT WOMEN

consumers. The current CPI-W formula does not come close to staying in line with the rapidly-increasing cost of health care, which consumes a significant portion of every retiree's benefit.

Although it is still an experimental index that needs more work in order to be fully developed, we believe the CPI-E is a more accurate measure of inflation than the CPI-W. It is more accurate because it is based on a market basket of goods and services that better reflects the purchasing patterns of seniors, especially their greater consumption of health care services. We urge Congress to direct the Bureau of Labor Statistics to complete its development of this index and enact legislation that adopts it as the index that is used to adjust Social Security benefits for inflation. Using a more accurate index would benefit all seniors, but

it would be especially valuable to women, who live longer, on average, than men, and who enter retirement with less income and other assets than men.

*Proposal: Adopt the CPI-E for the purpose of determining the amount of the COLA adjustment for Social Security benefits.*

- **Restoring Student Benefits.** Social Security pays benefits to children until age 18, or 19 if they are still attending high school, if a working parent has died, become disabled or retired. In the past, those benefits continued until age 22 if the child was a full-time student in college or a vocational school. Congress ended post-secondary students' benefits in 1981. Research has shown that recipients of this benefit were disproportionately children of parents in blue-collar jobs, African Americans, and with lower incomes than other college students.<sup>25</sup> This benefit would help women who must defer saving for their retirement because they are assisting their children with college expenses.

*Proposal: Reinstate benefits for children of disabled or deceased workers until age 22 when the child is attending a college or vocational school on a full-time basis.*

- **Improving the Basic Benefit of all Current and Future Beneficiaries.** After years of operating under a COLA which does not reflect the higher inflation attributable to health expenditures and the fact that seniors devote a higher percentage of their monthly spending to health care costs, seniors need to have their increased costs offset by an across-the-board benefit increase. This



<sup>25</sup> Hertel-Fernandez, A. A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students. Washington, DC: National Academy of Social Insurance, 2010.

would also compensate them for the losses they have suffered during the recent financial crisis and recession. Women, especially, who have worked a lifetime with low pay (often the result of sex-based wage discrimination) are financially vulnerable in retirement because they are less likely to have private pensions or discretionary income that would allow for saving.

*Proposal: Increase the basic benefit of all current and future beneficiaries by five percent of the average benefit (approximately \$55 per month).*

- **Equal Benefits for Same-Sex Married Couples and Partners.** Gay and lesbian same-sex couples, whether married or not, are denied a host of benefits under state and federal law that are routinely provided to heterosexual married couples.<sup>26</sup> These laws confer rights, protections, and benefits to married couples. However, partners in same-sex relationships, many of whom are lesbians, cannot receive these benefits, usually because federal laws do not recognize any form of same-sex relationship in determining eligibility for family benefits.

More and more states now recognize the right of gay and lesbian couples to marry, and others extend some type of formal recognition of same-sex relationships, such as maintaining registries of domestic partnerships. None of these relationships result in eligibility to family benefits provided in federal law. However, there are numerous states, localities, and employers who provide equal benefits for same-sex married couples as well as for couples in

civil unions and domestic partnerships.

We believe that the time has come to end this pernicious form of discrimination. The Social Security Act should be revised to provide benefits to domestic partners and the members of same-sex marriages. Further, the children of these relationships should receive Social Security benefits under the same terms and conditions as children of heterosexual couples.

*Proposal: Amend the Social Security Act to define “wife,” and “husband” so that they no longer rely on gender-specific pronouns; provide eligibility to spousal benefits to individuals who are members of same-sex marriages, domestic partnerships, civil unions, or any other such relationship as the states, by law, may prescribe; and further, extend to the children of these relationships, benefits under the same terms and conditions as children of heterosexual couples. Further, all family eligibility determinations under Social Security should be exempted from the provisions of the Defense of Marriage Act.*

- **Improving Benefits for Disabled Adult Children.** One of the categories of childhood benefits that is payable on a worker’s record is benefits to an adult child who becomes disabled before reaching age 22. In addition to being disabled, the child must be unmarried at the time the application for benefits is filed. Eligibility continues as long as the child remains disabled and unmarried. Benefits may also be affected if the child becomes employed. Marriage at any time ends entitlement to this type of benefit, unless the child’s husband or wife is receiving benefits either as a disabled adult child or

<sup>26</sup> Improving the Lives of LGBT Older Elders; The Sage Foundation, Washington, D.C., p. 13.

## CHANGES WE OPPOSE

as a disabled widow or widower. Marriage to anyone else permanently ends a disabled adult child's eligibility unless the marriage is annulled. Marriages ending in divorce preclude re-entitlement. These complicated and convoluted rules are not well understood and result in great hardship to the affected individuals.

When a disabled adult child qualifies on a parent's record, benefits for the child and for other family members may be adjusted due to the family maximum. If all eligible family members live in the same household, expenses and income are usually shared. However, people with disabilities are increasingly deciding to live independently from their families. A consequence of doing so is a substantial reduction in total family income from Social Security. A remedy is to compute the benefit for a disabled adult child without regard to the family maximum, as is already done when calculating the benefit for a divorced spouse.

*Proposal: Improve benefits for disabled adult children by 1) allowing beneficiaries to reestablish entitlement to benefits after divorce; and 2) by computing the benefit for these individuals without regard to the provisions of the family maximum.*

## CHANGES WE OPPOSE

A variety of proposals to change Social Security have been circulated recently, many of which would adversely affect women. The National Committee Foundation, the National Organization for Women Foundation, and the Institute for Women's Policy Research are

committed to a secure, equitable retirement for all Americans. We believe the following proposals would weaken the protections offered by Social Security for all Americans, men and women, and should not be incorporated into the Social Security program.

- **Privatizing Social Security.** Over the years, some policy makers and politicians have proposed plans that would offer a privatized Social Security option for workers under age 55. Plans of this nature usually call for diversion of payroll taxes out of Social Security into private accounts. These diversions put additional strains on the system. There is no doubt these proposals would result in benefit reductions. Americans said "no" to a similar proposal by President George W. Bush in 2005 and are saying "no" once again to this proposal. Women and minorities, who are frequently on the lower end of the wage scale and rely more heavily on Social Security, would be particularly vulnerable to privatization schemes. Today's Social Security system replaces a higher percentage of salary for low-income wage earners and thus especially benefits women and minorities.<sup>27</sup>

Additionally, Social Security's all important cost-of-living adjustments (COLAs) ensure that benefits are protected against inflation, a protection that would not be available with private accounts. Polls have consistently shown that, across the political spectrum, Americans oppose privatizing Social Security. The simplicity and dependability of the current program has made it the bedrock foundation of

<sup>27</sup> Estes, Carroll L., "Social Security Privatization and Older Women," *Journal of Aging Studies*, 2004, p. 9-26.

most Americans' retirement plans, and we agree. Privatizing Social Security was a bad idea back when President Bush was pushing for it, and it remains just as bad an idea today.

- **Increasing the Retirement Age.** The 2010 National Commission on Fiscal Responsibility and Reform, and other commissions have proposed increasing the retirement age. These commissions argue that people are living longer and can therefore work longer. Although on average, people are living longer, these longer life expectancies are by no means across-the-board. Over the last quarter-century, the life expectancy of lower-income men increased by one year compared to five years for upper-income men. Lower-income women have actually experienced a decline in longevity during this period. Moreover, lower-income workers are far more likely than higher earners to be employed in occupations that require hard manual labor and the performance of duties that compromise their health and their ability to work. The proposed increases in the retirement age would apply to all workers, regardless of occupation, and whether or not they are living longer. An increase in the retirement age represents a benefit cut. If this proposal is enacted, future retirees will face benefit reductions that grow larger with each generation, resulting in as much as a 15 percent cut in benefits.
- **Means Testing the Benefit Formula.** Several proposals have been offered to change the benefit computation formula in an effort to make it less generous for moderate to high-wage earners. However, some of these proposals have been drafted so that they reduce benefits for virtually all workers, even those earning as little as \$11,000

per year.<sup>28</sup> With women and minorities disproportionately represented in occupations that pay lower wages, introducing means testing into the current benefit formula should be avoided because of the adverse impact these reductions would have on their lives.

- **Switching to the Chained CPI.** In recent months a number of commissions and some in Congress have proposed shifting to a chained consumer price index to determine the Social Security COLA. While proponents of this switch argue that it is a technical correction that would make the COLA more accurately reflect the cost of living, we are opposed to this move. We believe that switching to a chained CPI will permanently cut COLAs for generations of retirees and the disabled, making it harder and harder for them to make ends meet. Studies have shown that over time switching to the chained CPI will cut benefits annually by a total of almost \$1,400. Because the full impact of such a reduction plays out over a lengthy period of time, the burden of these reductions would fall most heavily on those who live longest – especially women. Elderly women rely on Social Security for more of their income than any other group and, by virtue of their greater longevity are the likeliest to have exhausted other sources of retirement income. We agree that it is critical that the COLA be calculated based on an accurate formula. But if accuracy is really the goal, Congress should change to a COLA formula that more accurately factors in the large health care expenses most seniors face. If that's the goal, then the CPI-E, rather than the chained CPI, is the way to go.

<sup>28</sup> Memorandum from the Social Security Chief Actuary, dated 12/1/2010 to the Co-chairs of the National Commission on Fiscal Responsibility and Reform, table B1.

## OPTIONS FOR STRENGTHENING SOCIAL SECURITY'S FINANCING

While some assert that the Social Security program is in a deep funding crisis, such characterizations are simply not true. Social Security is not bankrupt or in crisis, and it can pay all promised benefits in full for the next 20 years, through 2033. After that, the program will still be able to pay 75 percent of all benefits that are owed to Social Security beneficiaries in subsequent years.<sup>29</sup>

According to the Social Security Trustees, the program's funding shortfall, known as an actuarial deficit, is 2.67 percent of taxable payroll.<sup>30</sup> In our view, this shortfall is manageable and resolvable. There are a number of straightforward reforms that, if adopted, would increase Social Security's funding by more than enough both to close the actuarial deficit and pay for most of the costs associated with the program improvements called for by this report. While we are not at this time endorsing a specific set of financing reforms, we have compiled a list of options that fall within the historic tradition the Congress has followed in the past when strengthening the financial condition of the Social Security program.

- **Eliminate the Cap on Social Security Payroll Contributions.** Currently, there is a cap of \$110,100 on the amount of a worker's wages that are subject to Social Security contributions. One option is to eliminate this cap and modestly adjust the

benefit formula when determining benefits for high-wage earners. Under current law, the benefit formula is based on the average indexed monthly earnings (AIME). Basically, this formula divides the AIME into three segments, known as bend points. Next, the benefit is calculated, using a formula that provides a different wage replacement rate for each bend point. For persons reaching age 62 in 2012, the AIME included in the first bend point is \$767, which is replaced at a rate of 90 percent. AIME between \$768 and \$4,624 is replaced at a rate of 32 percent, and AIME above \$4,624 is replaced at a rate of 15 percent. The monthly benefit is the sum total of each of these calculations.

To avoid paying overly-generous benefits as a result of this change, the benefit formula should be modified. Such a modification could establish a fourth bend point for AIMEs based on wages above the current taxable maximum along with a smaller replacement rate for this segment of the AIME, such as 3 percent. By itself, this option would eliminate much of Social Security's current actuarial deficit by producing revenue equal to about 2.17 percent of taxable payroll.<sup>31</sup>

- **Slowly Increase the Social Security Contribution Rate by 1/20th of One Percent Over 20 Years.** Scheduling a gradual increase in the Social Security payroll tax rate by a very small percentage, as suggested here, and phasing it in over a long period of time would significantly strengthen Social Security's financial condition, both now and well into the future. This option would provide revenue equal to 1.34 percent of taxable payroll.

<sup>29</sup> Social Security Administration. The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. Washington, DC, 2012.

<sup>30</sup> Ibid.

<sup>31</sup> Reno, Virginia and Lavery, J. Fixing Social Security: Adequate Benefits, Adequate Financing. Washington, DC: National Academy of Social Insurance, 2009.

- **Treat All Salary Reduction Plans Like 401(k)s.** Currently, workers pay Social Security and Medicare taxes on their contributions to retirement accounts, such as 401(k), 403(b), and 527 plans, but do not pay these taxes on their contributions to flexible spending accounts, such as health care, transit, and dependent care plans. Adopting this change provides revenue equal to about 0.48 percent of taxable payroll.

The above set of proposals provides a combined total savings of 3.99 percent of taxable payroll. They would close the current actuarial deficit (2.67 percent of payroll) while also funding the modest set of program improvements that we recommend.

Collectively, they illustrate the kinds of options that are available to policy makers for strengthening the financial condition of the Social Security program. They are modest in their effect on individual workers, they are consistent with the approaches that have been employed by Congress in the past, and they show what can be done when Social Security is reformed for its own sake rather than as part of an austerity plan designed to shrink the size of government.<sup>32</sup>

## CONCLUSION

There is a consensus that changes are necessary to close Social Security's modest funding gap, and, as the foregoing illustrates, there are a number of options, all within the

traditional framework of Social Security, that are available to policy makers to strengthen Social Security. It is also important that any plan must strike the right balance between the overall financial needs of the program and the specific needs that still exist for strengthening the protections that Social Security provides.

Despite the dramatic increases that have occurred in women's participation in the labor force, and the economic benefits derived from that participation, women continue to have fewer assets and income in retirement, and depend more heavily than do men on Social Security as the primary source of their financial well-being in retirement. The need for women to reduce the hours they work or to leave the work force for periods of time in order to serve as family care givers, coupled with persistent gender wage discrimination against women, clearly reduces the amount of Social Security that women receive when compared to the benefits received by men. These facts make it imperative that options such as those recommended in this report be incorporated into the Social Security program. The well-being of the nation and the well-being of the women of America demand nothing less.

We believe that the policy options recommended here should be considered alongside proposals that would strengthen the financial base of the program. It is well within the historical tradition of Social Security to include in any package of legislation that strengthens the overall soundness of the program provisions that also strengthen the effectiveness and fairness of the program. Congress should again move simultaneously to achieve these twin goals.

<sup>32</sup> Other policies, beyond the scope of this report, aimed at economic growth, full employment, and reduced income and wealth inequality would also improve Social Security's revenue, thus providing more resources for improved benefits and long-term solvency.

## PROPOSALS TO IMPROVE SOCIAL SECURITY BENEFITS FOR WOMEN

Proposal	Cost as a Percent of Taxable Payroll	Cost as a Percent of Increase in Shortfall
1. Improving Survivor Benefits	0.06	2.3
2. Providing Social Security Credits for Caregivers	0.24	9
3. Enhancing the Special Minimum Benefit	*	*
4. Equalizing Rules for Disabled Widows	0.02	1
5. Benefit Equality for Working Widows	No estimate available	No estimate available
6. Strengthening the COLA	0.34	13
7. Restoring Student Benefits for Children of Disabled or Deceased Workers up to Age 22	0.07	3
8. Improving the Basic Benefit of all Current and Future Beneficiaries	0.75	28
9. Equal Benefits for Same-Sex Married Couples and Partners	0	Negligible
10. Improving Benefits for Disabled Adult Children	No estimate available	No estimate available

Estimates for proposals 1, 2, 4, 6, 7, and 8 are from the National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing*, published in October 2009.

Estimate for proposal 9 is from the Adequacy Committee Recommendations to the Save Social Security Coalition for a Plan to Strengthen and Improve Social Security and SSI (c.a. 2011).

\*An estimate for this proposal is not available. However, a similar proposal by NASI, increasing the benefit to 125 percent of poverty and including 8 years of coverage based on credit for a child under age 5 costs 0.26 percent of taxable payroll and increases the actuarial shortfall by 13 percent (2009).

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**Terry O'Neill** is the President of the National Organization for Women Foundation and of the National Organization for Women (NOW), the largest feminist grassroots organization in the U.S. with hundreds of thousands of members and contributing supporters in every state and the District of Columbia. O'Neill is a former attorney and a law professor, having taught at Tulane University and the University of California at Davis. She is widely in demand as a speaker on a range of issues important to women, including equal pay, women's economic well-being, and Social Security. For many decades, NOW and NOW Foundation have proposed modernizing Social Security in a number of ways to better meet the needs of today's women and their families.

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## STAFF ACKNOWLEDGEMENTS

The authors wish to acknowledge the assistance of the staff from our three organizations who have participated in the development of this report. Among the staff whom we thank for their steadfast devotion and tireless efforts are the following: From the National Committee to Preserve Social Security and Medicare, Webster Phillips, Senior Legislative Representative; Mary Ann Phillips, Consultant; Julie Tippens, Director of Strategic Partnerships; and Deborah Johnson, Marketing Associate; From the National Organization for Women Foundation, Jan Erickson, Director of Programs; From the Institute for Women's Policy Research, Jocelyn Fischer, Special Assistant to the President, and Jeff Hayes, Senior Research Associate.

And finally, we would like to add a special note of acknowledgement for Max Richtman's leadership in the development of this joint project to strengthen the protections offered to women through Social Security. As President and CEO of the National Committee and the National Committee Foundation, Max's support has been instrumental in the development of our report.



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