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Senate Special Committee on Aging

Hearing on Enhancing Women's Retirement Security

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As President and Chief Executive Officer of the National Committee to Preserve Social Security and Medicare, I appreciate the opportunity to submit this statement for the record. With millions of members and supporters across America, the National Committee is a grassroots advocacy and education organization devoted to the retirement security of all citizens.

Chairman Kohl, Ranking Member Corker and members of the Special Committee on Aging, the National Committee appreciates your holding this hearing to examine the unique issues affecting the retirement income security of American women as well as the role of Social Security in women's financial stability.

The National Committee is committed to addressing and advancing improvements to Social Security. For that reason, in May, we released **"Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits,"** a report which examines the special role that Social Security plans in meeting the income security needs of woman and outlines a number of policy solutions to remedy the inequities that are still present in Social Security. This paper was co-authored by National Committee to Preserve Social Security and Medicare (NCPSSM) Board Chair Carroll Estes, National Organization for Women (NOW) President Terry O'Neill, and Institute for Women's Policy Research (IWPR) President Heidi Hartmann.

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, grandmothers, and great grandmothers.

BACKGROUND

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

Although women generally have experienced increased labor force participation, 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, result 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.

Additionally, women, and especially women of color, are less likely than men to have an employer-sponsored pension. On average, only 28 percent of women receive pension income compared to 42 percent of men. 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.

Stated simply, women depend substantially 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, 48 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.

SOCIAL SECURITY BENEFITS FOR WOMEN

A woman who works a sufficient length of time in Social Security-covered employment becomes eligible for her own Social Security benefit. If she is married, she also may be eligible for a spouse benefit or widow benefit based on her husband's earnings record.

A married woman who is not eligible for Social Security based on her own work record can receive a spouse or widow benefit. 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. Similarly, a woman who works in non-Social Security-covered public employment can receive a Social Security spouse or widow benefit only if it exceeds two-thirds of her public-service retirement annuity.

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 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.

If a woman remarries after age 60 (50 if disabled), she may still receive a surviving spouse benefit. Early retirement severely reduces benefits. A young 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. Social Security offers little incentive for widows to delay benefits, especially if the deceased spouse retired early, as benefits are capped based on the husband's early retirement.

Currently when a woman is widowed and begins to collect widow benefits, household Social Security benefits decrease by 33 to 50 percent. The decrease in benefits at widowhood is larger for households in which both spouses 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 share of household income contributed by wives will not result in higher widows' benefits. On the contrary, more widows will experience a reduction approaching 50 percent of household income.

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. Disabled widow benefits are not payable before age 50 and disability must occur within seven years of widowhood or seven years of eligibility for mother benefits (caring for a dependent child under age 16 or disabled).

While there is no gender discrimination in how Social Security benefits are determined, the average female worker generally receives a substantially smaller Social Security check than a male worker. In 2009, the average annual Social Security benefit of a retired man was $15,620, while the average annual benefit of a retired woman was $12,155. This 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. Additionally, women are more likely to spend years outside the workforce providing uncompensated care to children and other family members.

In 2009, over 20 million women aged 65 and older received Social Security benefits. A woman who reaches age 65 can expect to live an additional 20 years. 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. 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.

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.

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 supports 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. In a one-earner family, when one spouse dies, the survivor receives two-thirds of the couple's combined benefits; however, if each spouse has earned a worker benefit, the survivor receives only the larger of the two benefits. This can be as little as half of the couple's combined checks. Providing a widow or widower 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.

- **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 care-giving services to 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. Over the years, a number of approaches have been advanced to remedy this problem, 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 the computation of the Average Indexed Monthly Earnings (AIME) primary insurance amount (PIA)[1] 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 interrupted her attachment to the work force, including a reduction in the number of hours worked, in order to provide care to children under the age of 6 or to elderly family members. Not more than 5 family service years could be granted to any worker.

- **Enhancing the Special Minimum Benefit**: Social Security determines monthly benefits under a "special minimum" method if that method will result in a higher benefit than under the regular method. The intent of this computational method is to provide a more generous 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. In 2012, the Special Minimum method provides a worker with 30 years of substantial earnings a benefit of only $790.60 per month.

  The Special Minimum benefit should be adjusted so that it is equal to 150 percent of the poverty level for a single aged person— about $1,307 for a person with 30 years of credit. Furthermore, 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

[1] 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.

higher worker benefits. Counting up to ten family service years toward the Special Minimum would make it available to more individuals and assure at least a poverty level income to anyone with 25 or more years of credit.

- **Equalizing Rules for Disabled Widows.** A disabled widow is the only disabled person whose benefit is reduced for early retirement. The amount of this reduction is 28.5 percent of the deceased spouse's full retirement age benefit. In contrast, the benefits paid to disabled workers are not actuarially reduced. Instead, they receive 100 percent of the full retirement age benefit. 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 7-year application period should also be eliminated.

- **Benefit Equality for Working Widows.** Under current law, a widow's benefit 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 if the widow is at least 62 before beginning to receive the 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 should no longer be tethered to the reduction her deceased spouse elected to receive when he applied for retirement benefits.

- **Strengthening the COLA.** The purpose of the cost of living adjustment (COLA) is to adjust the Social Security benefit so that inflation does not erode its purchasing power. When automatic 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. Utilizing the CPI-W to calculate the COLA, however, undercounts the higher inflation experienced by seniors, whose incomes are disproportionately spent on health care costs. Beginning in 1987, the Bureau of Labor Statistics developed, and has since maintained, an experimental CPI that is specifically based on the purchasing patterns of America's seniors.

  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 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. Therefore, we urge the 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 do men, and who enter retirement with less income and other assets than do men.

- **Restoring Student Benefits.** If a working parent has died, become disabled or retired, Social Security pays benefits to the children until age 18, or 19 if they are still attending high school. 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 student's benefits in 1981. Research has shown that recipients of this benefit were disproportionately children of parents in blue-collar jobs, African Americans, and had a lower income than other college students. Reinstating 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 would help women who must defer saving for their retirement because they are assisting their children with college expenses.

- **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. Therefore, we propose that the basic benefit of all current and future beneficiaries be increased by 5 percent of the average benefit (approximately $55 per month). This 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 are financially vulnerable in retirement because they are less likely to have private pensions or discretionary income that would allow for saving.

- **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. These laws confer rights, protections, and benefits to married couples. However, partners in same-sex couples, 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 allow gay and lesbian couples to marry, and others extend other types 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. 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 under the same terms and conditions as children of heterosexual couples.

- **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. The rules determining eligibility for disabled adult children are complicated and not well understood, resulting in great hardship to the affected individuals. In addition to being disabled, the child must be unmarried at the time the application for benefits is filed. Marriage at any time ends entitlement to this type of benefit, unless the spouse is receiving benefits either as a disabled adult child or as a disabled widow(er). Marriages ending in divorce preclude re-entitlement. Another issue is that 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. A consequence of doing so is a substantial reduction in total family income from Social Security. Benefits for disabled adult children could be improved by allowing beneficiaries to reestablish entitlement to benefits after divorce, and 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 is 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 55. Plans of this nature usually call for diverting payroll taxes out of Social Security and into private accounts, which puts 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 proposals to privatize Social Security. Moreover, polls have consistently shown that, across the political spectrum, Americans oppose privatizing Social Security. Women and communities of color, who are frequently on the lower end of the wage scale, fare somewhat better under today's Social Security system, which replaces a higher percentage of salary for low-income wage earners. Additionally, Social Security's all important COLAs ensure that benefits are protected against inflation, a protection that would not be available with private accounts. 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, these proposals have been drafted so that they reduce benefits for virtually all workers, even those earning as little as $11,000 per year. With women and people of color disproportionately represented in occupations that pay lower wages, any change from the current benefit formula should be avoided because of the adverse impact these reductions will have on their lives.

- **Switching to the Chained CPI.** Within the last two years, 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 increasingly 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 will 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.

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 21 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. According to the Social Security Trustees, the program's funding shortfall, known as an actuarial deficit, is 2.67 percent of taxable payroll. In our view, this shortfall is manageable and resolvable.

Accordingly, we have compiled 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 aforementioned program improvements. Collectively, these proposals illustrate the kinds of options that are available to policy makers for strengthening the financial condition of Social Security. They are modest in their effect on individual workers, are consistent with the approaches that have been employed 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.

- **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 use a less generous benefit formula when determining benefits for high-wage earners. To avoid paying overly-generous benefits as a result of this change, the benefit formula should be modified.

By itself, this option would eliminate most of Social Security's current actuarial deficit by producing revenue equal to about 1.90 percent of taxable payroll.

- **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 1.41 percent of taxable payroll.[2]

- **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 contributes 0.25 percent toward closing the deficit and funding necessary program improvements.

SOCIAL SECURITY STATEMENTS

We would now like to discuss the importance of an important public service that the Social Security Administration has provided to the American public for many years, but which has been curtailed since March 2011. That is the provision of annual Social Security statements.

The Social Security statement is one of the many enduring legacies left to the nation by one of its most distinguished lawmakers, Senator Daniel Patrick Moynihan of New York. He regarded the statement as a simple and efficient way of building public support and understanding for Social Security. Senator Moynihan's simple, common sense provision has been highly successful. According to the bipartisan Social Security Advisory Board, "SSA's public survey data has shown a link between increasing public confidence and receipt of a statement. People who receive a statement not only experience higher knowledge of Social Security than non-recipients, but also exhibit…greater confidence that the program still will be there for them when they need it."[3]

Educating the public about Social Security has always been one of the principal objectives of the SSA, and so it continues today. Given the greater reliance of women and communities of color on the Social Security program, it is especially important to them that they are aware of their rights under the program. Even more important is to know whether their employers have properly and accurately reported their earnings. The statements provide this information, and we urge that automatic distribution of these statements be resumed at the earliest opportunity. We understand that the Commissioner of Social Security made the decision to suspend distribution of the annual statements in the face of harsh and deep cuts to his agency's budget. We think the Congress should provide adequate funding to the agency

[2] Interaction of the two proposals— applying the new rate above the current cap— would equal, roughly, 0.28 percent of taxable payroll.
[3] Social Security Advisory Board, "The Social Security Statement and How It Can Be Improved, August 2009, p. 9.

so that the Commissioner doesn't have to choose between delivery of Social Security statements and the completion of the Agency's other vitally important functions.

We are aware of and are impressed by the very-recently completed project to make Social Security statements available online. Despite the availability of an online statement, however, we strongly oppose viewing it as an acceptable substitute for the SSA-initiated statements. The reason for our view is the belief that many Americans, knowing little about Social Security, will be unaware of the statement's online availability and thus will never request one.

CONCLUSION

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 statement 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 in this statement 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. The Congress should again move simultaneously to achieve these twin goals.

Thank you again for the opportunity to submit this testimony. We would be happy to answer any questions for the hearing record.