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Social Security Choices for the 21st-Century Woman

by Leanne Abdnor

Executive Summary

Since 1935 millions of elderly Americans have relied on Social Security for their retirement income. However, the program is now both structurally and financially unable to meet the needs of today's workers, especially women.

Although there has been much public attention paid to Social Security's looming financial crisis, even more important to women may be the clash between the current benefit structure and the socioeconomic changes that have occurred since 1935, such as the great increase in the number of women in the workforce, women marrying later or not at all, and the doubling of the divorce rate. By failing to keep pace with the changing nature of American families, Social Security's outdated benefit structure results in single women and dual-earner couples subsidizing the benefits of wealthier single-earner couples, which creates a sharply regressive element to the current benefit structure.

Social Security reform not only must restore the system to solvency, it should also address the program's other inequities that disadvantage women. The best way to do this would be to allow younger workers, including younger women, to privately invest at least a portion of their Social Security taxes through individual accounts. Not only would individual accounts help to solve Social Security's financial problems by taking advantage of the higher returns available to private capital investment, they would give women greater ownership and control of their retirement income and create a benefit structure far more in tune with the needs of the modern family.

Everyone who truly favors giving women more choices and control over their own lives should champion such a reform.

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Introduction

Since 1935 millions of senior citizens have relied on Social Security as the foundation for their retirement income. Women have often been the biggest beneficiaries of the program, because they have lower incomes and live longer than men and because Social Security grants generous benefits to spouses who do not work outside the home, most of whom have historically been women.

However, as our society has changed, with women achieving greater equality and becoming full participants in education, business, and politics, Social Security has failed to keep up. As a result, Social Security no longer meets the needs of today's families and today's women.

Although most women work today, Social Security's original benefit structure—designed for a time when the single-earner family was the norm—is largely unchanged. And although Social Security still provides partial protection against poverty, spousal and survivors' benefit regulations now clash with women's changed roles and options in our society.

Indeed, Social Security's outmoded benefit structure is increasingly a source of discrimination and unfairness, pitting women against women. Among those adversely affected are millions of married women who have joined the workforce and many divorced and single women who are providing for themselves and their dependents. Social Security's 1935-era benefit structure means that the benefits of wealthier single-earner couples are subsidized by everyone else, including dual-earning couples, who also often receive disproportionately lower benefits. Furthermore, many divorced women are left with no claim to spousal or survivors' benefits.

Moreover, the discrimination and unfairness in today's system are likely to increase as Social Security wrestles with impending insolvency. After all, Social Security will begin running deficits in just 15 years.

Both the system's financing problems and the inequities in its benefit structure can be resolved by allowing younger workers, including younger women, the choice of privately investing at least a portion of their Social Security taxes through personal retirement accounts. Not only would personal accounts help to solve Social Security's financial problems by taking advantage of the higher returns available to private capital investment, they would give women true ownership and control of their retirement income and create a benefit structure far more tailored to the needs of the modern family.

Ironically, however, some of the groups and individuals that have historically been outspoken in defense of women's rights have opposed voluntary personal retirement accounts and therefore find themselves in the unusual position of opposing increased choice and opportunity for women.

Social Security reform is inevitable. It is vital, therefore, that any reforms be consistent with the diversity of women's roles and opportunities in the 21st century. Those organizations and individuals who have identified themselves as advocates of women's rights should be questioned about their opposition to allowing women choices under Social Security.

Women's Roles Have Changed Since 1935; Social Security Has Not

Nothing endangers the future of retirement security for women more than continuing the current system's pay-as-you-go (PAYGO) financing structure into the next generation. Simply put, because PAYGO systems tax current workers to pay the benefits of current retirees, the program's ability to pay promised benefits is dependent on the ratio of workers to retirees, a ratio that has shrunk from 16.5 workers per retiree in 1950 to just 3.3 today. Soon almost 80 million baby boomers will start to retire and begin drawing benefits. By 2040 there will be 2.1 workers for every beneficiary.[1] As a result, Social Security's financial condition and ability to pay benefits are steadily declining.

In just 15 years Social Security will begin running deficits, spending more on benefits than it takes in through taxes. The Social Security Trust Fund is an accounting measure, not real assets, and will do nothing to stave off the program's rapidly approaching insolvency.[2]

Despite the rhetoric surrounding recent Social Security debates, PAYGO systems "guarantee" benefits only to the extent that lawmakers can afford to pay them. A series of

Supreme Court decisions has made it clear that a worker has no right to *any* of his or her Social Security contributions.[3] As a result, today's workers face sharp benefit cuts or massive tax increases.[4] Since women tend to have lower wages than men and to be more dependent on Social Security in retirement, tax increases or benefit cuts, or both, will disproportionately hurt women.

Perhaps even more important than Social Security's financial problem is the clash between the current benefit structure and the socioeconomic changes that have occurred since 1935, such as the large number of women who have entered the workforce, women marrying later or not at all, and the doubling of the divorce rate. As a result, Social Security no longer meets the needs of millions of today's families and today's women.

When Social Security was created in 1935, its authors not surprisingly designed its structure to benefit the family structure that existed at the time: a husband who earns an income outside the home and a wife who works as a homemaker and caretaker for children. But women's roles and family structure have changed since then. Today, most women work outside the home for a substantial portion of their lives. Many women marry later in life or not at all, even if they have children for whom they care. Divorce is far more common. By failing to keep pace with the changing nature of American families, Social Security's outdated benefit structure results in single women and dual-earner couples subsidizing the benefits of wealthier single-earner couples, thus creating a sharply regressive element in the current benefit structure. For example:

- Under what is known as the "dual entitlement rule" for spousal benefits, the spouse with the lower lifetime earnings in a dual-earning couple (usually the wife) receives either a benefit based on her own earnings or an amount equal to half of her spouse's benefits, but not both.[5] This provides a generous benefit for spouses who have not earned benefits in their own right, which may have made sense in an era when few women worked outside the home. But this subsidy for stay-at-home spouses comes at the price of penalizing women who work outside the home, since they often do not receive additional benefits despite paying Social Security taxes.
- A divorced woman must have been married for 10 years to receive benefits based on her husband's earnings. Again, this may have been reasonable in an era when divorce was relatively uncommon. But today it leaves millions of women without benefits they would otherwise receive.
- A widow is eligible to receive the greater of either her husband's benefit or her own, but not both. As a result, her household income may be cut by one-third or more when her husband dies, even though her cost of living will not be reduced nearly as much.
- A single workingwoman without dependents who dies before retirement age forfeits all of her contributions to Social Security.

In the past 50 years women have increasingly asserted themselves in the workplace and made life-changing strides in achieving economic independence. Increased education, longer commitments to the workforce, and reduced barriers to traditionally male-only jobs have significantly raised the earning power of women above historical levels. In 1950 just over 30 percent of women aged 20 and older worked either full-time or part-time, a figure that has nearly doubled to 60 percent today.[6]

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Consistent with the doubling of the number of women in the workforce, 70 percent of all married couples are now dual-earner families.[7] Likewise, in 1998, 51 percent of dual-earning couples had children, up from just 33 percent in 1976.[8] Viewed from another perspective, 73 percent of women aged 15 to 44 in the labor force have children, an increase from 28 percent in 1960.[9]

In 2002, 55 percent of mothers, married and unmarried, with infants under one year old participated in the workforce, almost double the 31 percent rate of 1976.[10] According to the U.S. Census Bureau, "The cumulative effect is that women's work schedules are less likely to be interrupted by the birth of their first child, and women today are making longer-term commitments to the labor force than women in the 1960s."[11]

Women are also attaining higher levels of education than ever before, earning roughly 60 percent of associate's degrees, 56 percent of all bachelor's degrees, 57 percent of all master's degrees, and 42 percent of doctoral degrees.[12] In 1970 only 11 percent of women in the labor force had completed four or more years of college; by 1997 that figure had risen to 28 percent.[13]

As a result, women today have access to countless career paths and opportunities. The number of female lawyers, physicians, financial managers, and other managers has more than doubled since 1975.[14] Women and men participate equally in managerial and "professional specialty" occupations, such as engineering, computer programming, architecture, and scientific fields.[15] Furthermore, the U.S. Census Bureau's Survey of Women-Owned Business Enterprises reports that women-owned businesses made up 26 percent of the nation's 20.8 million nonfarm businesses, employed 7.1 million paid workers, and generated $818.7 billion in sales and receipts in 1997.[16]

In 2002 two-thirds of all women aged 16 or older worked 35 hours or more per week. (Another 22 percent of workingwomen are part-time workers.) Indeed, women now work nearly as long as men, an average of 41.0 hours per week, compared to 44.2 hours for men.[17]

In the future even more women are likely to work and to move into more and more previously male-dominated professions. As economist and former head of the Congressional Budget Office June O'Neill has noted, an examination of the labor force participation of female age groups born 10 years apart showed that each group attained a higher level of participation at every stage of life than the previous group.[18] Thus, we can expect women in the future to be even better educated, wealthier, and more self-sufficient than women today.

The regressive payroll tax takes an enormous toll on single parents, yet they do not benefit from the spousal or widow's survivor benefits.

As women's financial independence has grown, so too has their social independence. The last 50 years have seen an astounding shift toward women providing for themselves and their dependents, rather than relying solely on men. Reduced marriage rates, rising divorce rates, later marriages, single parenthood, and alternative lifestyles have changed our social structure. For those reasons, married couples no longer constitute the vast majority of the population, and single people are no longer the minority.

The number of divorced people has more than quadrupled, from 4.3 million in 1970 to 20.9 million in 2002, and represents nearly 10 percent of adults, up from 3 percent in 1970.[19] The exploding rate of divorce has resulted in millions of women entering or reentering the workforce or committing more time to their existing jobs.

Currently, the divorced population is the fastest growing marital status category. One of three marriages ends prior to the 10 years required to qualify for Social Security spousal and survivors' benefits.[20] Further, the National Center for Health Statistics reports that marriages ending in divorce have a median length of just 7.7 years. Unfortunately, those who remarry do not experience a significantly improved chance for long-term marital success.[21] Fifteen percent of all remarriages end in divorce after three years, and, again, one-third of remarriages end before 10 years.

Millions of children in this country are raised in one-parent households, the great majority of which are led by women. The number of children living with a single parent rose from 8.5 million in 1970 to nearly 20 million in 2002; 83 percent of those children live with their mothers.[22] Some of that increase is due to rising divorce rates, but a significant portion is due to the increase in out-of-wedlock childbearing. Approximately 1.2 million women gave birth outside marriage in 2000; that was 31 percent of all births that year.[23]

Raising children while working full-time is an extraordinarily difficult challenge, and many single mothers are struggling to keep ahead of the financial demands on them. The regressive payroll tax takes an enormous toll on those single parents, yet they do not benefit from the spousal or widow's survivor benefits received by married couples. Sheila Zedlewski of the Urban Institute notes, "Single mothers have been a growing segment of American families, and many of these women will have no claim to a Social Security spouse benefit."[24]

For many reasons, men and women are marrying much later in life, and many are choosing to stay single. In 2000 the median age for men and women at marriage was 27 years and 25 years, respectively, whereas in 1970 the median age was 23 for men and 21 for women.[25] Much of the delay can be attributed to an increase in the number of men and women obtaining higher levels of education. At the same time, the economic factors that historically pushed women into early marriage have become less important as women have become better able to support themselves. In 2000 nearly three million women aged 35 to 44 were never married, more than double the number in 1970.[26] It is for those reasons, and many others, that today only 52 percent of all households are married households, compared with 78 percent in 1950.[27]

In addition, the increased longevity enjoyed by women means that more women face their retirement years alone. Women's life expectancies significantly exceed those of men. For example, a woman who is 65 years old today can expect to live to 84, whereas a 65-year-old man can expect to live to only 81.[28] That means that women make up a majority of the elderly population; just over half of all Americans aged 65–74, 60 percent of those aged 75–84, and fully 71 percent of those over the age of 85 are women.[29] Making the problem worse, of women 65 years and older, 45 percent are widows, and, of those, 70 percent live alone.[30]

In spite of the dramatic changes in women's roles in society and the economy, Social Security's benefit structure has remained basically unchanged since the program was founded in 1935. As Rep. Charlie Stenholm (D-TX) has pointed out: "Social Security's benefit structure is based on a portrait from 1940 of a family with a husband as the sole wage earner and a dependent wife who remains at home. As two-earner households become the norm and the typical family becomes harder to define, the failure of Social Security to adapt results in glaring inequities."[31]

An Outdated Benefit Structure

The failure of Social Security's benefit structure to keep up with the progress of women and the changing nature of the American family creates serious inequities.

For instance, Social Security's current benefit structure still provides a substantial subsidy to single-earner marriages, couples in which one spouse is the sole income producer for the family. In most cases the husband is the sole earner, and the wife is dependent on her husband to provide all of the family income.[32] At retirement, the income producer receives 100 percent of his earned benefit, and his spouse receives a "spousal benefit" of an additional 50 percent of his benefit even though she did not contribute to the system. In fact, a wife receives the spousal benefit even if there are no children and regardless of financial need. The result is that single-earner families receive this subsidy even though such couples tend to be wealthier than couples in which both spouses work.

Moreover, this subsidy comes at the expense of dual-earner couples, both members of which earn income, contribute to Social Security, and have earned benefits at retirement. Unlike single-earner couples, dual-earner families are often penalized through the dual entitlement rule. The Social Security Administration explains this rule by stating that the lower-earning spouse receives her earned benefit, and if it is less than 50 percent of her husband's earned benefit, she also receives the difference between the two. However, the effect is that the spouse with the smaller earned benefit from Social Security, usually the working wife, is entitled to the higher of *her own earned benefit or a spousal benefit equal to one-half of the benefit received by the higher earning spouse, but not both*. As a result, if a woman has spent time in the workforce and paid Social Security taxes but has not earned enough to receive Social Security benefits equal to 50 percent of her husband's, she collects a benefit that is based solely on her husband's wage history (half of his benefit) and receives no benefit based on her own earnings or taxes paid. In this case, she would receive the exactly the same benefit as a financially dependent spouse who never contributed a dime to the Social Security system.

The bias against two-earner couples has a regressive effect on Social Security benefits, taking retirement benefits from those families that depend on two incomes and subsidizing couples that can afford for only one of the spouses to work outside the home. Simply put, dual-earner couples often receive a smaller benefit than single-earner couples with exactly the same income and having paid exactly the same amount of Social Security taxes.

In a study published by the Urban Institute titled "Social Security: Out of Step with the Modern Family," the authors give the following example of two couples with the same earnings who receive different benefits at retirement.

> The Greens and the Whites each earn twice the average wage. But while Tom Green is the sole breadwinner, Ted and Becky White each earn the same amount. When Tom

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> Green retires in 2032, the couple earns a Social Security benefit of $37,769, Tom's retired benefit of $25,179 plus Beth Green's spousal benefit of half that amount, $12,590. When Ted and Becky retire in 2032, each spouse gets a retired worker benefit of $17,358, a family total of only $34,716. That's $3,053 less than Tom and Beth's benefit.[33]

In addition to the dual entitlement rule that governs retirement income, the rules governing survivors' benefits can also lead to situations in which couples with identical household earnings and contributions receive very different monthly Social Security benefits. Social Security regulations state that a widow is eligible for the greater of her husband's benefit or her own, but not both. As a result, women from households with similar total incomes could find themselves with significantly different benefits once widowed, depending on whether the woman worked or not. Again, from the Urban Institute study:

> Tom Green dies. Beth Green moves up from spousal benefit to survivor benefit and receives $25,179. But, when Ted White dies, Becky White continues to get only her retired worker benefit of $17,358.[34]

Ekaterina Shirley and Peter Spiegler of Harvard's Kennedy School of Government point out, "Generally, the more of the couple's earnings the widow earned, the smaller the share of the couple's retirement benefits she receives after he dies."[35]

Another way to look at this problem is to determine by how much a widow's Social Security income will be reduced after her husband's death. A widow who receives a retirement benefit based on her own earned income will receive a benefit as little as one-half of the couple's combined retirement income. However, a widow who receives the 50 percent spousal retirement benefit, based solely on her husband's earned benefit, will still receive two-thirds of the couple's combined benefits after his death. According to the federal government, an adequate income for a surviving spouse is approximately 80 percent of a couple's income prior to the husband's death. The poverty line for a single individual aged 65 and older was $8,628 in 2002, only about 20 percent less than the $10,874 poverty line for couples as determined by the federal government.[36] It is clear that, as does the spousal benefit, the survivors' benefit formula favors single-earner households over dual-earner households.

A single or divorced woman, without dependent children, who dies before age 62 receives not one dollar for the thousands of dollars she contributed to the system.

As we have seen, both dual-income couples and widows from dual-earner couples suffer under Social Security's current benefit structure. Another group that is disadvantaged by the current benefit structure is divorced women. According to Social Security's benefit formula, a divorced woman must have been married for at least 10 years to be entitled to the 50 percent spousal benefit based on her former husband's earnings. A divorced woman with grown children is also entitled to the survivor's benefit after her ex-husband's death, but again only if the marriage lasted at least 10 years. For example:

> John and Judy Hall end their marriage after 9 years and 11 months. George and Rita Ball obtain a divorce after 10 years and 1 month of marriage. Despite a difference of only two months in the longevity of their marriages, Judy receives no spousal or survivors' benefits while Rita gets full spousal and survivor benefits.[37]

According to the U.S. Census Bureau, the average duration of the one million marriages that end in divorce each year is approximately 7.7 years. The result is that each year hundreds of thousands of dissolved marriages are unrecognized by the Social Security system. More than half of the women divorced each year are not eligible for spousal or survivors' benefits "earned" during their marriage. They will receive no share of their ex-husbands' benefits. The arbitrary 10-year requirement compounds the unfairness of the way spousal and survivors' benefits are calculated.

Finally, Social Security's benefit structure denies any benefit to the worker who dies before retirement age without a spouse or dependents. Thus, a single or divorced woman, without dependent children, who dies before age 62 receives not one dollar for the thousands of dollars she contributed to the system. And, as stated earlier, there are now millions of women in their 30s and 40s who have never married, and the percentage of married households has dropped by one-third since 1950.

As Eugene Steuerle and Melissa M. Favreault of the Urban Institute state: "Most of the inequities noted here are illegal under the private pension system. But that still has not prompted the Social Security Administration to take the first reform step: providing measures that assess the success of different reform options in reducing inequities as well as poverty among the elderly."[38]

Personal Accounts Provide Solutions

Given Social Security's financial crisis, it is not surprising that many proposals for Social Security reform are currently being debated in Washington. But the traditional ways of tinkering with Social Security's financing, raising taxes or cutting benefits, would do nothing to fix the inequities discussed above. However, one reform would both help to restore Social Security to solvency *and* make the program fairer for women and today's families: allowing workers to invest at least part of their Social Security taxes through individual accounts.[39]

Proposals for personal retirement accounts range from diverting just 2 percent of wages to the full 10 percent of wages currently paid for Old-Age and Survivors Insurance into an individually owned and controlled account. In addition, some proposals are progressive in nature, allowing low-wage workers to divert and invest a greater percentage of wages than high-wage workers. Because women are a large proportion of those in the lower-wage group, many women would have the choice of investing more of their income.

One, but by no means the only, approach to progressive personal retirement accounts was incorporated in the President's Commission to Strengthen Social Security's Model 2, the preferred plan of the majority of the commissioners. That plan recommended that all workers have the option of investing 4 percent of their payroll taxes up to $1,000 in a personal retirement account annually. The accounts would mirror the progressive benefit structure of Social Security by allowing lower-wage workers to invest a greater percentage of their payroll taxes than higher-wage workers.

Another study done by Marianne Baxter of Boston University suggests that, indeed, "women would have more to gain, compared with men, from a reformed Social Security system that would permit investment of retirement funds in other forms of financial assets."[40] Personal accounts would eliminate the distortions that exist under the current system that favors single-earner couples.

How Would Personal Accounts Help Two-Earner Couples?

Personal accounts would help a woman who is part of a two-earner couple because she would be proportionately rewarded for her time in the workplace. Whatever funds a woman contributed to her individual account would belong to her. In contrast, as stated earlier, with the current spousal benefit, many working wives receive no extra benefits at the margin. More work doesn't necessarily equal higher benefits. Personal accounts would increase the incentive to work by allowing a woman to own and control a portion of her Social Security contributions.

How Would Personal Accounts Help Young Widows?

Under the current system, a widow is not entitled to a Social Security survivor's benefit until she reaches age 60 unless she has dependent children. However, if her husband had had a personal retirement account, the funds in the account would be part of his estate and inheritable by his wife. She could use those funds to get additional training, start a small business, or in whatever way she chose to help her adjust to a different lifestyle.

How Would Personal Accounts Help Retirement-Age Widows?

Under a system of individual accounts, a couple could choose among different distribution methods. The couple could convert the personal account into an inflation-adjusted annuity for life or leave it in safe investments and take programmed withdrawals in retirement. In the latter case, a widow would be entitled to all the remaining funds that had accumulated in the account. If the couple chose, they could leave the funds in the account to their children, grandchildren, or others. As the President's Commission to Strengthen

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Social Security states: "Unlike Social Security, assets held in personal retirement accounts can be bequeathed to heirs if the account owner dies before retirement. In this way, wealth accumulation in the family need not be cut short with the death of the primary earner."[41]

How Would Personal Accounts Help a Single Woman Retiree?

Private investment through personal retirement accounts would bring a better rate of return than can be provided by the current Social Security system.[42] Higher rates of return translate directly to higher benefits. Moreover, single women without dependents—a growing demographic group in our society—who die before retirement forfeit all of the money they have paid in taxes to Social Security. However, if those women had had the option of a personal retirement account, they could pass the account on to a relative, partner, or other person of their choice.

How Would Personal Accounts Help Divorced Women?

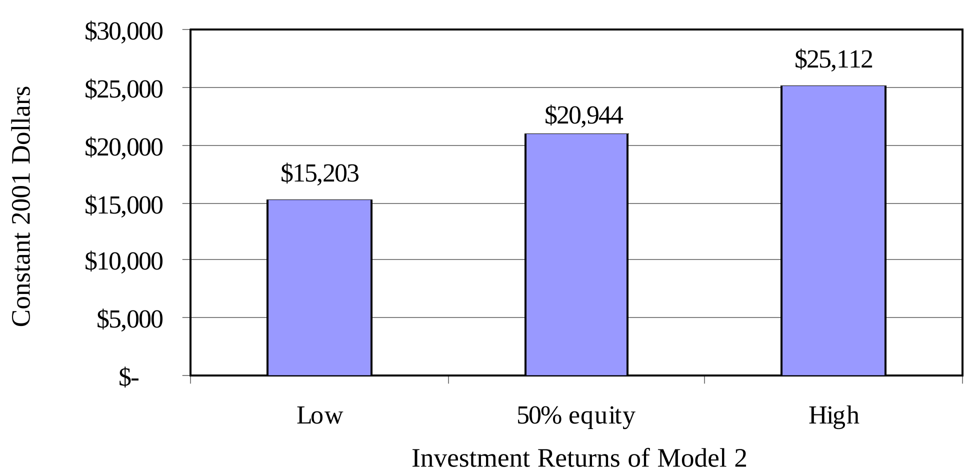
Personal retirement accounts would provide a fair solution for all divorcees by establishing property rights in spousal benefits regardless of the duration of the marriage. At divorce, the accumulations in a couple's accounts during their marriage would be split and added to their individual accounts regardless of the length of the marriage.[43] Thus, from "day one" of a marriage, a woman would own wealth.

Consider the following example: A woman marries at age 20. After 9 years, 11 months, and two young children, she divorces her husband. Thus, at age 30, she must enter the workforce without any experience or earnings history and support two children. Current Social Security rules leave this woman without entitlement to a spousal benefit from her past marriage. However, under proposed systems of personal retirement accounts, she would have accumulated the start of a nest egg upon which to build for her retirement. For example, under the commission's Model 2, the preferred approach, for a divorced spouse of an average earner, nearly 10 years of marriage would provide a lump sum upon retirement ranging from $15,000 to $25,000 (Figure 1). Annuitized distribution of those assets at retirement could increase her monthly income by nearly $200.

How Would Personal Retirement Accounts Help Low-Income Workers?

Low-income workers have the most to gain from a system of personal retirement accounts. Unlike wealthier workers, low-wage earners lack the discretionary income necessary to take

Figure 1
Lump Sums Available at Age 67 to Spouse of Average Earner Divorced at 10 Years



Source: Andrew Biggs, "Perspectives of the President's Commission to Strengthen Social Security," Cato Institute Social Security Paper no. 27, August 22, 2002, p. 20.

advantage of private investment opportunities. As a result, they are unable to accumulate real wealth. And, because Social Security benefits are not inheritable, they are unable to pass wealth on to their children. The result is a continuing cycle of poverty and growing inequality.[44]

Social Security reform would allow all workers to put part of their taxes in a personal retirement account. Low-income workers would have the opportunity, many for the first time in their lives, to save and own wealth. If the accounts were progressive, allowing an account of 4 percent up to $1,000, as under commission Model 2, low-income workers would have even more to gain. A worker who invested $1,000 annually, after 40 years would have $141,465. If she invested that money over 45 years, she would have $191,723.[45] Figure 2 illustrates the wealth that would be available to low-income workers under a system of individual accounts.

Rep. Charles Stenholm (D-TX) concludes: "Individual accounts address many of the inequities concerning divorce, dual-earner families, and widows' benefits. Individual accounts reward the two-earner household. Both spouses contribute to the accounts and assets accumulate in the name of the family. Individual accounts [remain] in the family. If there is a death, the property reverts to the surviving spouse. In a divorce, it is an asset that can be divided . . . giving every woman who is facing a divorce a property stake in the personal account accumulations that the couple's racked up during a marriage."[46]

Women's Right to Choose Personal Accounts

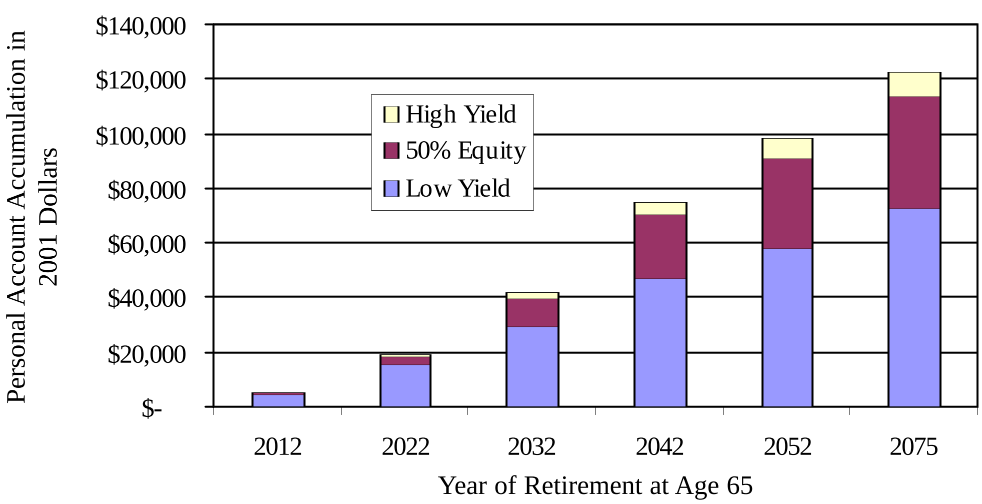
Women—and to their credit, women's advocacy groups—have broken down many walls that for centuries kept women dependent and politically unrepresented. As a society, we have come to recognize that women are as capable as men of making decisions about their own lives.

There is no longer a legal barrier to women independently achieving positions of fame, power, or wealth. Women can expect to choose where to live, what work to do, what to study, where to travel, and with whom to partner. They can choose whether to marry, divorce, conceive children, travel the world, run for public office, and so on.

It is ironic, therefore, that the largest women's advocacy groups in the United States are flatly opposed to giving women the right to have a choice between the existing insolvent

It is ironic that the largest women's advocacy groups in the United States are flatly opposed to giving women the right to have a choice between the existing insolvent system and one that gives them more control and ownership of their retirement funds.

Figure 2
Estimated Accumulation of Personal Account Assets at Retirement at Age 65 for Commmission Model 2 for a Scaled Low-Income Worker



Source: President's Commission to Strengthen Social Security, "Strengthening Social Security and Creating Personal Wealth for All Americans," p. 73.

system and one that gives them more control and ownership of their retirement funds.[47] After all, this is, ultimately, a question of choice. Under all the major reform proposals, individual accounts would be *voluntary*. A woman could choose, if she wished, to continue to direct all of her Social Security contributions to the current government system. But she would also have the choice of directing part of her taxes to an individual account.

This position of women's rights organizations—opposing the expansion of women's rights and women's freedom to choose—is strangely inconsistent with the stated goals of those organizations.

The unwillingness of these women's organizations to support individual accounts becomes even more perplexing given the unsustainability of the current Social Security system. On several occasions at public forums, including hearings before the President's Commission to Strengthen Social Security, some of the groups critical of voluntary personal retirement accounts were asked if they would be willing to put forward their own plan for correcting the fiscal shortfalls in the system. In other words: "We know what you oppose. What do you support? Further, would you be willing to have your plan modeled by the objective Social Security Administration actuaries so that each reform proposal would be compared with others using the same criteria?" Several witnesses stated that they would, but no plan has ever been offered.[48]

Women deserve a choice. Women deserve individual accounts.

More recently, at an April 2002 Conference on Women and Social Security at the Cato Institute, I asked the same question of Heidi Hartmann of the Institute for Women's Policy Research and got the same response: they oppose voluntary personal retirement accounts and agreed to put forward their own plan. Those of us who have already put a great deal of work into detailed and fully evaluated proposals are still waiting.

The organizations that persist in seeing the ailing Social Security system as the Holy Grail of retirement security for women, without putting forward a plan for overhauling the system, are not acting responsibly and cannot be taken seriously in this debate. At a minimum, they should consider the advice of Rudy Penner, a senior fellow at the Urban Institute and former director of the Congressional Budget Office, who said: "Those looking out for older women need to steer clear of subtle traps as the debate over Social Security's future gathers force. One is turning a blind eye to the difficult problems facing the system. More grievous would be to overlook the benefits of individual accounts."[49] Indeed, the women's advocacy groups that are unwilling to move forward with a legitimate proposal are helping to put women's future at risk.

Conclusion

Social Security reform is inevitable. Given the program's huge unfunded liabilities, changes will have to be made. In making them, we should recognize that our society has dramatically changed since the 1930s and Social Security's original benefit structure has not. As a result, Social Security's benefit structure has become increasingly unfair to millions of workingwomen. The Social Security taxes of workingwomen who are married subsidize, in large measure, the free spousal benefits granted to wealthier married women who do not work outside the home. Likewise, divorced and single workingwomen, many of whom are raising children, are disadvantaged under traditional Social Security. As Rochelle Stanfield and Corrina Nicolaou of the Urban Institute write, "Unless the program is adjusted to reflect the reality of today's families, important segments of the aging population—particularly widows, divorcees, other unmarried women, and minorities—face an increasingly uncertain future."[50]

In addition to Social Security's unfair benefit structure, the program's future cash shortfall puts the expected benefits of *all* workers at risk. Indeed, the last 50 years have swelled Social Security to the point where it now consumes one of every eight dollars that average Americans earn. Projections show that, if payroll taxes were increased to cover the future cash shortfall, workers would be paying one of every *five* dollars to Social Security.[51]

Low-income workers—the majority of whom are women—would bear the biggest burden of such a tax hike. Worse, they are forced to participate in a system that takes their money but denies them a legal right to a benefit in retirement, denies them ownership, denies them the opportunity to see their savings grow, and denies them the right to pass along those savings to their families. Every generation of these families must start afresh, and the common American hope that children and grandchildren will have better lives because of their hard work is lost to the taxing system.

Allowing workers the *option of redirecting* at least a portion of their payroll taxes into personal retirement accounts would be a partial but meaningful solution to all those problems. First, a system of proportional contributions and real property rights to those contributions would reduce the subsidization inequities caused by the dual entitlement rule and could help low- and middle-income women accumulate real wealth. Furthermore, creating a larger, separate source of income for those without additional means to save would decrease dependence on a bankrupt system and alleviate some of Social Security's future benefit obligations.

Surprisingly, some traditional women's organizations advocate that we maintain the current outdated Social Security system, forcing workingwomen to pay into a system that is increasingly discriminatory and, in exchange, ask them to accept unfunded future promises and remain insecure. But, if we followed the advice of those organizations, we would be turning our backs on the progress that has been made by the courageous women who fought to allow each woman the right to make her own choices and shape her own life.

Women deserve a choice. Women deserve individual accounts.

Notes

The author wishes to thank Helen Mitchell for significant assistance in the preparation of this paper.

1. *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, p. 51, ftp://ftp.ssa.gov/pub/OACT/TR/TR03/tr03.pdf.

2. According to the Clinton administration's fiscal year 2000 budget: "These [Trust Fund] balances are available to finance future benefit payments and other Trust Fund expenditures—but only in a bookkeeping sense. . . . They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not, by itself have any impact on the Government's ability to pay benefits." Executive Office of the President of the United States, *Budget of the United States Government, Fiscal Year 2000, Analytic Perspectives*, p. 337.

3. For example, the U.S. Supreme Court concluded in *Flemming v. Nestor*, 363 U.S. 603, 610–11 (1960), "To engraft upon the Social Security system a concept of 'accrued property rights' would deprive it of the flexibility and boldness in adjustment to ever-changing conditions which it demands."

4. A large and permanent tax increase would bring Social Security's finances into balance. Former Cato Institute Social Security analyst Andrew Biggs calculates the tax increases necessary to keep Social Security solvent: "To achieve permanent solvency under traditional Social Security financing would demand an immediate tax increase equal to 4.47 percent of payroll: 0.67 percent to redeem the trust fund's bonds from 2018 through 2042, 1.92 percent to maintain solvency from 2042 through 2075, and 1.88 percent to achieve permanent solvency thereafter." Andrew Biggs, "Failing by a Wide Margin: Methods and Findings in the 2003 Social Security Trustees Report," Cato Institute Briefing Paper no. 82, April 22, 2003, p. 2.

5. The Social Security Administration interprets this rule somewhat differently, stating that the lower-earning spouse receives her earned benefit, and if it is less than 50 percent of her husband's earned benefit, she also receives the difference between the two.

6. U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of the Civilian Population by Sex and Age, Historical Data," table A.1, "Women 20 Years and Over Participating in the Civilian Labor Force," http://data.bls.gov/servlet/SurveyOutputServlet.

7. U.S. Department of Labor, Bureau of Labor Statistics, "Employment Characteristics of Families in 2002," July 2003, http://www.bls.gov/news.release/pdf/famee.pdf. The 2001 and 2002 estimates are based on data from U.S. Bureau of the Census, Current Population Survey. The information relates to the labor force participation of persons 16 years and older in the civilian noninstitutional population.

8. U.S. Bureau of the Census, "Fertility of American Women," Current Population Survey, Series P20-526, June 1998, table G, http://www.census.gov/prod/2000pubs/p20-526.pdf. In the 1998 survey,

there were 28,344 married couples, 14,316 of which had one or more children. In the 1976 survey, there were 25,420 married couples, 8,331 of which had one or more children.

9. U.S. Bureau of the Census, "Fertility of American Women," Current Population Survey, Series P20-526, June 1998, table F, http://www.census.gov/prod/2000pubs/p20-526.pdf.

10. U.S. Bureau of the Census, "Fertility of American Women," Current Population Survey, Historical Time Series, table H.5, "Women 15–44 Years Old Who Have Had a Child in the Last Year and Their Percentage in the Labor Force: Selected Years, 1976 to Present," October 2003, http://www.census.gov/population/socdemo/fertility/tabH5 .pdf.

11. Kristin Smith, quoted in U.S. Bureau of the Census, "New Census Bureau Analysis Indicates Women Making Longer-Term Commitments to Workplace," news release, December 5, 2001, http://www.census.gov/Press-Release/www/2001/cb01-192.html.

12. U.S. Department of Education, National Center for Education Statistics, 1998 Integrated Postsecondary Education Data System, "Completions Survey" (IPEDS-C:97-98) and "Consolidated Survey" (IPEDS-CN:FY98).

13. U.S. Bureau of the Census, "Educational Attainment," Current Population Survey, Historical Time Series, table A-1, "Years of School Completed by People 25 Years Old and Over, by Age and Sex, 1940–2002," March 2003.

14. Barbara Wootton, "Gender Differences in Occupational Employment," *Monthly Labor Review*, April 1997, p. 16, http://www.epf.org/ff/ff 4-6.pdf.

15. In 2002 men and women had roughly equal participation in managerial and professional specialty occupations: 20,901,000 men and 21,267,000 women. U.S. Bureau of Labor Statistics, "Annual Averages: Household Data," table 9, "Characteristics of the Employed," http://www.bls. gov/cps/cpsaat9.pdf (accessed December 2, 2003).

16. U.S. Department of Labor, Women's Bureau, "Facts on Working Women," Factsheet no. 2. November 2002, http://www.dol.gov/wb/factsheets/wbo02.htm.

17. U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earning, "Annual Averages: Household Data," table 23, "Persons at Work in Nonfarm Occupations by Sex and Usual Full- or Part-Time Status," 2002, ftp://ftp.bls.gov/pub/special.requests/lf/aat23.txt.

18. June O'Neill, "The Causes and Significance of the Declining Gender Gap" (speech at Bard College, September 22, 1994), cited in "Where's My 26 Cents?" Employment Policy Foundation Newsletter, June 1998, www.epf.org/research/newsletters/1998/ff4-6.asp.

19. U.S. Bureau of the Census, "Families and Living Arrangements," Current Population Survey, Historical Time Series, table MS-1, "Marital Status of the Population 15 Years Old and Older, by Sex and Race, 1950–Present," June 2003, http://www.census.gov/population/socdemo/h h-fam/tabMS-1.pdf.

20. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, "Cohabitation, Marriage, Divorce, and Remarriage in the United States," *Vital and Health Statistics*, no. 22 (July 2002): table 21, http://www.cdc.gov/nchs/data/series/sr_23/sr23_022.pdf.

21. Although the probability of remarriage is higher for women who were under age 25 at divorce (81 percent), the probability of those women facing a second divorce before 10 years is also higher, 47 percent, compared to women over 25 at remarriage, who are significantly less likely to divorce a second time (34 percent). Ibid., table 41.

22. U.S. Bureau of the Census, "Families and Living Arrangements," Current Population Survey, Historical time series, table CH-1, "Living Arrangements of Children," June 12, 2003.

23. U.S. Bureau of the Census, "Fertility of American Women: June 2000," Current Population Reports, Series P20-543RV, October 2001.

24. Sheila Zedlewski, "Social Security and Single Mothers: Options for 'Making Work Pay' into Retirement," in *Social Security and the Family* (Washington: Urban Institute, June 19, 2000), http://www.urban.org/url.cfm?ID=900385.

25. U.S. Bureau of the Census, "America's Families and Living Arrangements: 2000," Current Population Reports, Series P20-537, June 2001, figure 3.

26. Ibid., table 5. In the survey, 2,951,000, or 13.0 percent of, women aged 35 to 44 had never married, up from 5.2 percent in 1970. Similarly, 1.6 million, or 8.6 percent of, women aged 45 to 54 had never married in 2000, up from 4.9 percent in 1970.

27. Of the nearly 110 million households in 2002, 56.7 million were married-couple households. In 1950, however, of 43.5 million households, 34 million were married-couple households. U.S. Bureau of the Census, "Families and Living Arrangements," Current Population Survey, Historical Time Series, table HH-1, "Households," March

2002. http://www.census.gov/population/socdemo/hh-fam /tabHH-1.pdf.

28. U.S. House of Representatives, Committee on Ways and Means, *2000 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington: Government Printing Office, 2000), p. 993, http://www.utdallas.edu/~jargo/green2000/contents.html.

29. U.S. Bureau of the Census, "The 65 Years and Over Population: 2000," Current Population Reports, Series C2KBR/01-10, October 2001, figure 2.

30. U.S. Bureau of the Census, "Marital Status and Living Arrangements: March 1998," Current Population Reports, Series P20-514, December 1998.

31. "Social Security and the Family," special event held at the Urban Institute, June 19, 2000.

32. In 2001 there were 2.6 million women and 26,000 men who were dual beneficiaries receiving spousal benefits. Similarly, 4.6 million women and 37,000 men received nondisabled widows' or widowers' benefits in 2001. *Social Security Bulletin, Annual Statistical Supplement*, 2002, tables 5.G2, 5.F8.

33. Rochelle Stanfield and Corinna Nicolaou, "Social Security: Out of Step with the Modern Family," Urban Institute, April 1, 2000, p. 9, http://www.urban.org/UploadedPDF/out_of_step.pdf.

34. Ibid.

35. Ekaterina Shirley and Peter Spiegler, "The Benefits of Social Security Privatization for Women," Cato Institute Social Security Paper no. 12, July 20, 1998, p. 5.

36. U.S. Bureau of the Census, "Poverty 2002," http://www.census.gov/hhes/poverty/threshld/thresh02.html.

37. Stanfield and Nicolaou, p. 13.

38. Eugene Steuerle and Melissa M. Favreault, "Social Security for Yesterday's Family," *Straight Talk on Social Security and Retirement Policy* (Urban Institute), no. 35 (November 2002), http://www.urban.org/UploadedPDF/ 310598_Straight35.pdf.

39. To the degree that some Social Security reform provides for a two-tiered structure, with some benefits continuing to be paid by the government, the author supports some additional reforms within the context of traditional Social Security. For example, the minimum benefit could be increased so that individuals who work 30 years or more would receive a benefit that equals 120 percent of the U.S. poverty line. The benefit enhancement could be phased in beginning with a 20-year worker. According to an internal agency memo at the Policy Office at SSA, if this provision were implemented immediately, it would raise significantly more than half a million of today's elderly out of poverty. Furthermore, as stated earlier, widows of beneficiaries are among the most vulnerable to poverty in our society. Currently, a widow's benefit is at least one-third less than the total benefits she and her spouse received. The benefit structure should be changed to ensure that widows of below-average wage earners receive 75 percent of the total couple's benefit. If this were implemented today, several million widows would receive an increased monthly benefit check from Social Security.

It is appropriate that policymakers reconsider the eligibility requirements for receiving the 50 percent spousal benefit. For example, should non-income-producing spouses be eligible for the spousal benefit if there are not children in the family? Should the spousal benefit be means tested?

These and other suggestions should be thoughtfully analyzed and considered in the context of a system that cannot fulfill its promises. Indeed, it is essential to consider making these changes as part of a plan to make Social Security permanently solvent in the future.

40. Marianne Baxter, "Social Security as a Financial Asset: Gender-Specific Risks and Returns," National Bureau of Economic Research, Working Paper 8329, June 2001, p. 3, http://papers.nber.org/tmp/63745-w8329.pdf.

41. President's Commission to Strengthen Social Security, "Strengthening Social Security and Creating Personal Wealth for All Americans," Report of the President's Commission, December 2001, p. 55, http://csssgov/reports /Final_report.pdf. In addition to personal retirement accounts, the authors support an increased traditional benefit for widows as described in Model 2. Andrew Biggs notes that Model 2 "increases survivors benefits to 75 percent of the couple's prior benefit. . . . For a couple with equal incomes, this would mean a 50 percent increase in benefits to the widow. An estimated 2 to 3 million widows could receive increased benefits as a result of this new provision." Andrew Biggs, "Perspectives on the President's Commission to Strengthen Social Security," Cato Institute Social Security Paper no. 27, August 22, 2002, p. 20, http:// www.cato.org/pubs/ssps/ssp-27es.html.

42. See Michael Tanner, "The Better Deal: Estimating Rates of Return under a System of Individual Accounts," Cato Institute Social Security Paper no. 31, October 28, 2003.

43. There are several ways in which this might be accomplished. One of the most commonly dis-

cussed is known as "earning sharing" under which half of a husband's or wife's individual account contributions are immediately deposited in the spouse's account. A second method would be to treat account accumulations as community property at the time of divorce. For further discussion, see Karl Borden and Charles Rounds, "A Proposed Legal, Regulatory, and Operational Structure for an Investment-Based Social Security System," Cato Institute Social Security Paper no. 25, February 19, 2002.

44. See, for example, Jagadeesh Gokhale, "The Impact of Social Security Reform on Low-Income Workers," Cato Institute Social Security Paper no. 23, December 6, 2001.

45. Author's calculations. Funds invested at 5.5 percent annually.

46. Charles Stenholm, Comments, in *Social Security and the Family*.

47. Those groups include the National Organization for Women, the Institute for Women's Policy Research, and the National Council of Women's Organizations Task Force on Women and Social Security. See, for example, Heidi Hartmann and Catherine Hill, "Why Privatizing Social Security Would Hurt Women: A Response to the Cato Institute's Proposal for Individual Accounts," Institute for Women's Policy Research and National Council of Women's Organizations Task Force on Women and Social Security, February 25, 2002.

48. Indeed, the commission's final report points out: "The Commission also notes that several witnesses who were especially critical of personal retirement accounts were specifically asked to offer alternative plans. The Commission offered to have Social Security Actuaries score the plans so we could fairly compare them with other constructive suggestions received. The Commission regrets that it has not yet received plans from some witnesses who offered to provide them." President's Commission to Strengthen Social Security, p. 151.

49. Rudolph Penner, "How Women Fare in Social Security Reform," *Indianapolis Star*, August 5, 2001.

50. Stanfield and Nicolaou.

51. *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, p. 60.

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