# Joint Task Force on Issues Affecting Women as They Age

## The Chicago Bar Association & The Women's Bar Association of Illinois

# TODAY, TOMORROW AND BEYOND:

## ISSUES AFFECTING WOMEN AS THEY AGE – SOCIAL SECURITY & SECURING YOUR FINANCIAL FUTURE

This paper was prepared following the above titled symposium that took place in Chicago, Illinois on October 9, 2002. The symposium was designed to educate women and individuals who counsel women regarding retirement and Social Security issues and to serve as a public policy forum to help women understand Social Security reform options and their impact on older women.

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# SOCIAL SECURITY REFORM:

# THE IMPACT ON WOMEN

by

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March 27, 2003

*This paper was prepared by law students at Loyola University School of Law, as part of a project between Loyola's Elder Law Initiative and the Joint Task Force on Issues Affecting Women as They Age of The Chicago Bar Association and Women's Bar Association of Illinois. The Loyola Elder Law Initiative seeks to sensitize law students to the legal needs of the elderly and prepare them to serve the legal needs of the elderly throughout their careers.

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## I. INTRODUCTION

On October 9, 2002, the Chicago Bar Association (CBA) and Women's Bar Association of Illinois (WBAI)'s Joint Task Force on Issues Affecting Women as They Age held a symposium entitled "Today, Tomorrow and Beyond: Issues Affecting Women as They Age—Social Security and Securing Your Financial Future."[1] Social Security experts discussed Social Security reform and various proposals to deal with long-term solvency issues and their impact on women. The panel members were as follows:[2]

Dr. Melissa Favreault – Senior Research Associate at the Urban Institute;

Dr. Heidi Hartmann – Director of the Washington-based Institute for Women's Policy Research;

Dr. Kilolo Kijakazi – Senior Policy Analyst with the Center on Budget and Policy Priorities;

Ms. Evelyn Morton – Senior Legislative Representative for AARP;

Ms. Anna Rappaport – Actuary with Mercer Human Resources Consulting.

The objective of the Social Security Act of 1935 was to ensure that the elderly did not live in poverty.[3] Presently, Social Security offers retirement, disability, and survivors benefits to workers, their spouses, their widows or widowers, and eligible children. One-third of the program's beneficiaries are not retirees but include children, widows and people with disabilities.[4] The Social Security system is an embodiment of the long-standing principle of social insurance providing nearly universal coverage for workers

[1] The Symposium sponsors included: Task Force on Issues Affecting Women as They Age, The Actuarial Foundation, Retirement Research Foundation, Loyola University Elder Law Initiative, AARP and Older Women's League of Illinois (OWL).
[2] See Appendix A.
[3] Johnson, Richard W., *Distributional Implications of Social Security Reform for the Elderly: The Impact of Revising COLAs, the Normal Retirement Age, and the Taxation of Benefits,* National Tax Journal Vol. LII, No. 3, 505.
[4] Owl, The Voice of Midlife and Older Women, *Social Security Privatization, A False Promise for* Women, 2002 Mother's Day Report, p. 7.

and their families through a pooling of resources, benefits and risks.[5] Women are 58 percent of beneficiaries at 65 years of age and 71 percent of recipients at age 85.[6]

As a result of the creation of the Social Security system, the economic status of older Americans has improved substantially.[7] However, the economic status of this group varies greatly depending on their age, ethnic origin, marital status, and most importantly, gender.[8] It is important for women to know what Social Security means to them since it is the major means of support for more than half of America's elderly women.

The solvency of the Social Security system is currently at issue. Policy experts and politicians have attempted to address this issue by proposing various Social Security reforms. It was reported in December, 2002 that 24.2 million women and 18.1 million men receive Social Security benefits.[9] Some of these reforms will work very well for some and not so well for others.

This paper begins by providing background on how Social Security works now, indicates why reform is needed and then presents some of the options for reform.

## II. BACKGROUND: HOW THE CURRENT SYSTEM OPERATES AND AFFECTS WOMEN

The current Social Security system is a partially prefunded system. Current workers pay Social Security taxes, Social Security credits are earned and payroll taxes are used to pay benefits to current beneficiaries. The Retirement Age for full benefits is rising from age 65 but reduced benefits will continue to be available at age 62.[10] The

[5] Ibid.
[6] Ibid. at 8.
[7] Ibid. at 7.
[8] Ibid. at 12.
[9] Ibid.
[10] *Social Security: What Every Woman Should Know*, Social Security Administration, SSA Publication No. 05-10127, ICN 480067, March 2002.

program's benefit formula is progressive and redistributes benefits to lower-earning workers.[11]

Workers and eligible family members can qualify for disability and survivors' benefits in addition to retirement benefits. When an insured worker dies, the surviving spouse, eligible children, may receive survivor benefits. The benefit amount is based on the worker's earnings history. For those born after 1937, the age for receiving full benefits will increase gradually until it reaches age 67 for those born after 1959. [12] (See Figure 1.)[13]

**FIGURE 1**

Age To Receive Full Social Security Benefits

| Year of Birth | Full Retirement Age |
|---|---|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

A. BENEFITS AT RETIREMENT

1. Determining the Social Security Benefit from Wages Earned

If someone is eligible for benefits as a spouse and as a worker the person will receive the worker's benefit. However, spousal benefit is reduced dollar-for-dollar. At full

[11] Ibid.
[12] *Social Security: What Every Woman Should Know,* Social Security Administration, SSA Publication No. 05-10127, ICN 480067, March 2002.
[13] Ibid. p. 9.

retirement age, a wife receives the higher of 50% of her husband's benefit or her benefit as a worker.[14]

If a woman's husband works past full retirement age and does not collect his benefit, the spouse can retire and get benefits on her own. When her husband retires, he will receive a higher benefit. If the spouse chose to take reduced benefits, that benefit reduction amount does not change (even if she later switches to her husband's benefit).[15]

2. Cost-of-Living Adjustments (COLA)

Every year Social Security recipients receive a cost of living adjustment. The COLA is designed to maintain the real value of retirement benefits over time. Benefits increase yearly by the percentage change in the Consumer Price Index.[16] The purpose of the COLA is to protect the purchasing power of the Social Security benefit. The annual COLA helps ensure beneficiaries can keep pace with the rising cost of goods and services.[17]

B. CHANGE IN MARITAL STATUS

1. Death of a Spouse

If a spouse dies, widow/er is eligible for benefits beginning at age 60 (50 if the survivor is disabled) but the benefits will be smaller than if she waits until reaching the age for collecting full benefits[18]. If she remarries before age 60, she cannot receive the benefits based on her first husband's earnings unless she later is divorced or the new spouse also dies. If she remarries after age 60 and her new husband is eligible for

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[14] Ibid.
[15] Ibid.
[16] Favreault, Melissa M. and Sammartino, Frank J., *The Impact of Social Security Reform on Low-Income and Older Women,* July 2002, 2002-11, *as reported by*(SSA, Office of Research, Evaluation and Statistics, 2002b, Table 8.1, pp. 139-140
[17] National Committee to Preserve Social Security and Medicare. *Ask Mary Jane: Excerpts from Ten Years of Questions and Answers,* Washington, D.C., 2001, p. 11. See also www.ncpssm.org.

[18] See fn 4 at 11.

benefits, she can choose either the wife's benefit of the living husband or the widow's benefit, which ever is higher. Widower's benefits are also available at any age if the widower is caring for the worker's child who is under 16, or who is disabled and also receiving benefits.[19] Children's benefits stop at age 19, even if the child is still in high school. Additionally, the child must attend school full-time.[20]

2. Divorce

A woman can receive divorced spousal benefits if her ex-husband is receiving benefits (or is deceased) if: a) her marriage was ten or more years (not required if he is deceased); b) she is unmarried; c) she is age 62 or more (60 or more if he is deceased; 50 or more if she is disabled) and d) his benefit is higher than hers.[21]

If her ex-husband is 62 or more, but has not applied for benefits, she is still eligible if she has been divorced at least two years. Benefits are not affected if other wives/ex-wives are receiving benefits from the same record.[22]

C. TWO-WORKER FAMILIES

In 2002 28 percent of beneficiaries were "dually entitled", i.e. they are entitled as a worker and as the spouse or surviving spouse of another worker.[23] Some individuals become "dually entitled" (entitled as a worker and as the spouse or surviving spouse of another worker). They receive either their own earned benefit, or their spouse's benefit, whichever is greater. "The spousal benefit is currently 50 percent of the worker's benefit, while the survivor's benefit is 100 percent of the deceased worker's benefit."[24]

[19] Ibid.
[20] Ibid. at p. 12.
[21] Ibid. at pp. 14-15.
[22] Ibid. at p. 14.
[23] SSA, Office of Policy Office of Research, Evaluation and Statistics June, 2002, pg. 22
[24]Shirley, Ekaterina et. al., *The benefits of Social Security Privatization for Women*, The Cato Project on Social Security Privatization, SSP No. 12, July 20, 1998. See www.cato.org/pubs/ssps/ssp12.html at p. 4.

The dual entitlement rule produces some unintended consequences: For example, in a single-family household with both spouses 65 of age and total household earnings of $34,200 if the husband dies, the widow will receive Social Security benefits of about $1,075 a month. However, in a dual-earner family with the same household income, but with the husband and wife each earning $17,100, the widow will only get $675 a month when their spouse dies.[25]

D. CAREGIVERS

It is important to note that no recognition is currently given to those who take time from the paid labor force to care for a spouse or other family members. In America, it is reported that as many as 52 million Americans are informal caregivers.[26] For example, women are caregivers for parents, children, friends, spouses and partners. Even though some countries do give credit for care giving years, or do provide a flat benefit, regardless of work history, our country does not.[27]

Nearly three-fourths of caregivers providing assistance to elderly or disabled family members are women. Because of their caregiving responsibilities women work part-time and work at lower-wage jobs that often provide fewer benefits. Lost work years are factored in as zeros, to the extent that the worker has fewer than 35 years in the paid labor force.[28] (See figure 2).[29] Reduced benefits puts women's retirement security at risk.[30]

Another important consideration for caregivers is the requirement for eligibility for disability benefits. A disabled worker must be both fully insured and recently insured to

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[25] Rappaport, Anna M. , Background Material: Social Security Reform Options and Their Implications for Women, prepared October 9, 2002, p. 3.
[26] Ibid. fn 4 at p. 15
[27] Rappaport, Anna M. *Background on Women and Social Security*, Symposium Power Point Presentation, and Handout, October 9, 2002, Slide 15.
[28] Hounsell, C. et. al., *Your Future Paycheck: What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments*, WISER Women's Institute for a Secure Retirement 2002, pp. 10-11.
[29] Ibid. at p. 10.
[30] See fn. 4 at p. 15.

be eligible for Social Security disability benefits.[31] To be recently insured the disabled worker must have 20 Social Security work credits in the 10 year period ending with the calendar quarter in which disability begins.[32] This requirement of recently insured may impact caregivers and leave them without disability protection, in additional to receiving less Social Security benefits at retirement age.

**FIGURE 2**

**The Impact of Caregiving**


E. POVERTY AND WOMEN

The poverty threshold for a person 65 and older in 2001 was $8,494. 90 percent of older women receive Social Security. More than half (52.5 percent) of older women would be living in poverty were it not for their Social Security benefits.[33] Since women's life expectancy is greater than men's, women are most at risk of outliving their resources and slipping in to poverty.[34] (See Figure 3.)[35]

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[31] National Committee to Preserve Social Security and Medicare, Ask Mary Jane Excerpts from Ten Years of Questions and Answers, Copyright @ 1997, 1998, 1999, 2000, 2001, p. 17.
[32] Ibid.
[33]Ibid at 17.
[34] Anzick, Michael A. et. al. *Reducing Poverty Among Elderly Women*, ORES Working Paper Series, Number 87, Social Security Administration: Office of Policy: Office of Research, Evaluation, and Statistics, Wash. D.C., January 2001, p. 6.

In 2000, 12.2% of women ages 65 and older were poor as compared to 7.5 percent of men.[36] The likelihood of a woman being poor increases with age. About one in five unmarried elderly women is poor.[37] Unmarried women constitute 23.1 percent of those in poverty, while unmarried women of color represent 38 percent. Poverty among unmarried women can be attributed to inadequate pension benefits, interrupted work careers, and lower wages. [38] The poverty rates for married women is substantially less than for unmarried women.[39]

Women of color are especially at risk because they rely more heavily on Social Security. Twenty-five percent of Latina American women over age 65 live in poverty.[40] Elderly African American women are three times more likely to live in poverty than white women.[41] Thirteen percent of Asian American women over 65 are poor.[42] Poverty among elderly women of color is generally caused by the same factors that affect elderly women in general. These factors include the wage gap between men and women, caregiving, and the scarcity of jobs that offer pension benefits.

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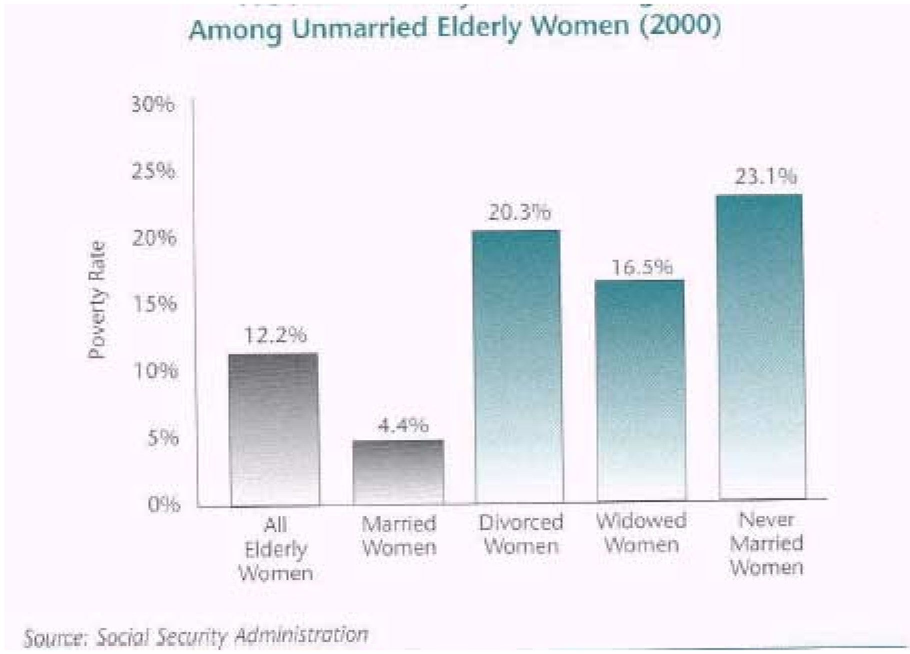
[35]See fn 15 at p. 14.
[36] OWL-18
[37] See fn 15 at pp. 14-15.
[38] See fn. 29 at p.6.
[39] Ibid.
[40] OWL, The Voice of Midlife and Older Women, *The Color of Money, Retirement Security & Women of Diverse Communities,* Series Number 87, Social Security Administration: Office of Policy. Office of Research, Evaluation, and Statistics, January 2001, p.6.
[41] Ibid.
[42] Ibid.

**FIGURE 3**

**POVERTY RATES ARE HIGH**




F. HEALTH OF THE SOCIAL SECURITY TRUST FUND IN GENERAL

According to the American Association for Retired People, "the program can pay full benefits, in a timely manner, until 2041 without a single change in current law".[43] [44] Social Security continues to take in more revenue than is needed to pay benefits through 2016. It is not until 2027 that the principal will have to be tapped. This trust fund will be exhausted by 2041 and at that point incoming payroll taxes will cover about 70 percent of currently promised benefits.[45] (See Figure 4.)[46]

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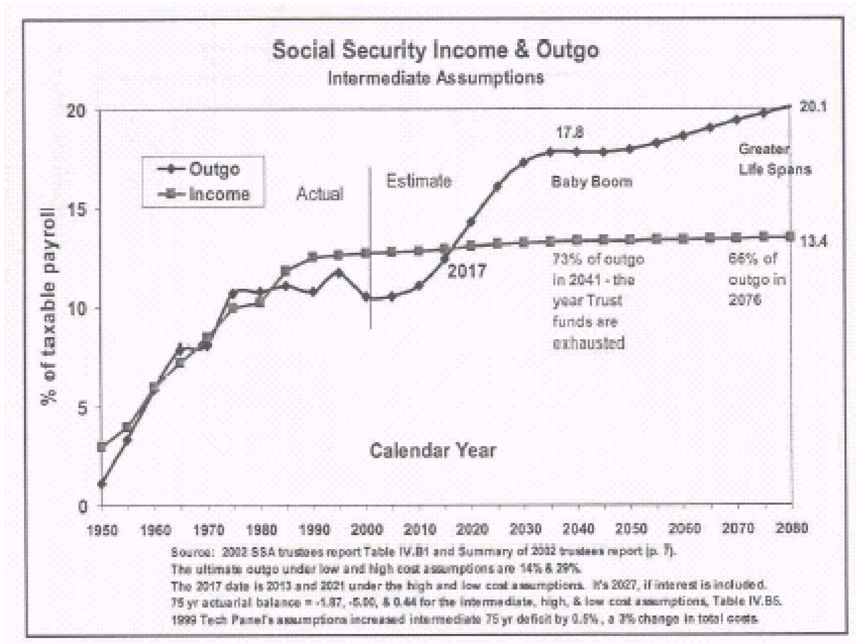
[43] *AARP: The 2002 Social Security Trustees' Report for the Old Age and Survivors and the Disability Insurance Trust Funds (OASDI)*, prepared by Federal Affairs Department Economic Team, April 2002, p 1. As reported in the 2002 report.

[44] This figure is likely to change based on the release of The 2003 Trustees Report.

[45] See fn. 43.

[46] American Academy of Actuaries, *Understanding Social Security*, Symposium (see fn 1) handout Slide 13, October 9, 2002.

## FIGURE 4




The draw down of the trust fund reflects a decline in the ratio of workers to beneficiaries and increased longevity.[47] Although proposals have been introduced to address the long-term inbalance many of them do not adequately take into consideration how these changes would affect women.

## III. REFORMS IN SOCIAL SECURITY

There are many proposals for reform of the Social Security system and those discussed in this paper are by no means exhaustive. Some proposals focus on changes that preserve the basic structure of the current system with some modifications (for example, raising the age for full benefits or adding newly hired state workers to the Social Security system).[48] Others would transform the current Social Security system from a social insurance based system to one which replaces a portion of Social Security's

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[47] The Century Foundation, *Social Security Reform: What's Wrong with Social Security?* See www.tcf.org/Publications/Basics/Social_Security/Whats_Wrong-1.html. p. 1.
[48] President's Commission, "Strengthening Social Security and Creating Personal Wealth for All Americans", December 2001.

guaranteed benefit with investment returns.[49] They argue that this approach is needed to "preserve" the system while also giving young workers more control over their future.[50]

Two presidential advisory commissions and numerous private advisory groups have been convened over the last decade to recommend changes to Social Security. In June 1994, the Secretary of Health and Human Services appointed a thirteen-member Advisory Council on Social Security to review the program's financing and recommended changes.[51] The 1994-1996 Social Security Advisory Council presented three proposals that would restore the actuarial balance of the Social Security Trust Fund.[52] The three plans are the Maintain Benefits plan, the Individual Account plan and the Personal Security Account plan.[53] A common factor in these three proposals is the investment of a portion of the trust fund into the private markets, individually or on behalf of all workers. In December 2001, The President's Commission to Strengthen Social Security proposed three plans to replace a portion of the traditional Social Security benefits with voluntary private accounts.[54] Two of these proposals would restore long-term Social Security solvency and reduce traditional social security benefits to help pay for these accounts.

In addition to the comprehensive recommendations of advisory panels there are options that would reduce, but not eliminate, the projected long term deficit. Some of these include: 1) raising the number of years used in benefit formula from thirty-five years to thirty-eight or 40 years; 2) extending Social Security coverage to newly hired

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[49] The Century Foundation, *Social Security Reform: An Overview of the Major Proposed U.S. Reforms* See www.tcf.org/Publications/Basics/Social_Security/Proposed_Reforms-1.html. p. 1.
[50] Hounsell, C. et. al., *Your Future Paycheck: What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments*, WISER Women's Institute for a Secure Retirement 2002, p. 20.
[51] Wade, Rebecca E., *The Face of Social Security in the Twenty-First Century: An Analysis of the Reform Proposals Offered by the Social Security Advisory Council*, 6 Elder Law Journal, 115, 118 (1998).
[52] See fn 45 at 120.
[53] Ibid.
[54] Kijakazi, Kilolo, Kogan, Richard and Greenstein, Robert, *The Shaw Social Security Proposal: The Role of Massive General Revenue Transfer*, Center on Budget and Policy Priorities, September 30, 2002, p. 1.

state and local workers who participate in their own system; 3) increasing the retirement age to sixty-seven in 2011 and indexing it based on longevity thereafter; and 4) adjusting the Consumer Price Index.[55] Since women live longer than men on average and depend more on their Social Security benefits, some are using the solvency debate to help make the case for benefit improvements for women. Proposed changes include increasing survivor's benefits, benefit adjustments for childcare, and helping divorced women.

This section will discuss the various proposals to either change the benefit structure of Social Security or transform the current system to one that is partially privatized.

## A. CHANGING THE BENEFIT STRUCTURE

Various proposals address changing Social Security without changing the general structure of the system such as raising the age for full benefits, adding newly hired state and local workers to the social security system, changing the way benefits are calculated, reducing the cost of living adjustments (COLA), and increasing the number of years used for calculating benefits. Examples of such proposals included increasing spouse and survivor's benefits, eliminating the 10-year marriage requirement for divorced women, and providing child credit, and ultimately caregiver credits.

### 1. RAISING THE AGE FOR FULL BENEFITS

Since people are living much longer than when Social Security started in 1935, in 1983 the age for eligibility for full benefits was raised.[56]

Currently the retirement age for full benefits will increase to 67 for people born in 1960 or later. Early retirement benefits continue to be available at age 62. Some proposals would increase the retirement age by two months per year until it reaches age

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[55] The Century Foundation, Social Security Reform: *An Overview of the Major Proposed U.S. Reforms* See www.tcf.org/Publications/Basics/Social_Security/Proposed_Reforms-1.html. pp. 1-2.
[56] See fn 47 at p.20.

70 at the end of 2029.[57] Also, one of the plans of the 1994-1996 Advisory Council on Social Security proposed raising the normal retirement age to 70 by the year 2083.[58] According to the National Council of Women's Organization (NCWO), older women are more dependent on Social Security than their counterpart for various reasons, mainly that women live longer than men.[59] Women live on average seven years longer than men and spend more retirement years living alone with just one retirement benefit.

Many experts and some of the panelists feel that changing the age of receipt of full benefits is a viable option, based on the fact that the period of retirement is increasing as life spans increase. Most workers are electing to receive benefits at age 62 or soon thereafter.[60] However, if the retirement age is raised, it will affect women more than men because 1) women rely more on Social Security benefits than men and 2) women live longer than men. For some women, who are employed in menial jobs that are physically demanding, [61] raising the age of retirement could create a hardship.[62]

2. ADDING NEWLY HIRED STATE AND LOCAL GOVERNMENT WORKERS TO THE SOCIAL SECURITY SYSTEM

The proposal to add newly hired state and local government workers to the Social Security system is not a new one. Originally, state and federal government employees were covered under their own systems and received a pension from their own systems instead of from Social Security. Today, over 70 percent of state and local government workers participate in Social Security. Federal employees hired before 1984 participated

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[57] See fn. 3 at p.510.
[58] Ibid.
[59] http/www.women/4social.org/strength. "Strengthening Social Security for Women"
[60] Social Security Bulletin, Annual Statistical Supplement, 2000, xix
[61] National Tax Journal, Vol. L11, No. 3, Distributional Implications of Social Security Reform for the Elderly: The Impact of Revising COLAs, the Normal Retirement Age, and the Taxation of Benefits., pg. 510.
[62]Rappaport, Anna M., "*Social Security Reform Options and their Implications for Women*," American Academy of Actuaries (Comments prepared for Nationwide Teleconference on Women and Social Security Under the Sponsorship of Hillary Rodham Clinton and Rep. Jennifer Dunn) , January 23, 1999.

in the Civil Service Retirement System (CSRS) and could elect to switch to a new Social Security-based system. Beginning in 1984, all newly hired federal workers must participate in Social Security. Proponents argue that mandating coverage for these workers is consistent with the true intent of the Social Security system as a universal program. It requires the participation of all workers in order to sustain it. Many state and local workers have benefited from Social Security without having contributed to the fund. On its face this appears to be gender-neutral and may not have a significantly different impact on men and women.[63]

3. INDEXING BENEFIT CALCULATIONS USING PRICES—NOT WAGES

Presently, workers' Social Security benefits at retirement are based on average monthly earnings over a 35-year work life.[64] A worker's earnings are adjusted to reflect the increase in average wages between the years in which wages were earned and the year in which the worker reaches age 60.[65] Earnings at age 60 and older are not adjusted. One of the proposals by the President's Commission to Strengthen Social Security involved a major change in the program's benefit formula that would cause a large benefit reduction over time. Instead of using the present system of wage indexing, the Commission proposed to adjust a worker's earnings using the Consumer Price Index (CPI), or price indexing beginning in 2009.[66]

This would mean a smaller benefit for all workers (including as well as disabled beneficiaries and widows) than under the present system, since the CPI grows more

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63 Ibid.

64 Kijakazi, Kiololo, et. al., *Replacing " Wage Indexing" With "Price Indexing" Would Result In Deep Reductions Over Time In Social SecurityBenefits,* Center on Budget and Policy Priorities, Revised December 14, 2001.

65 Ibid.

66 Ibid.

slowly than wages do over time.[67] Wages rise more rapidly than prices resulting in an increase over time of the standard-of-living.[68] It is reported that between 1988 and 1998, average wages rose 49 percent while the CPI rose 38 percent.[69] The amount of the reduction will grow over time. For example, a worker who earned the average wages and retires in the year 2040 would receive a benefit 24 percent lower than under the current system.[70] For someone retiring in 2070, the benefit received would be 43 percent lower than under the current system.[71]

The impact of this proposal would also reduce the standard of living for elderly retirees in comparison to the rest of society and from what they were accustomed to before retirement.[72] Additionally, the benefits for disabled and survivors would also be cut significantly.[73] "Wage indexing" was designated to ensure that the percentage of wages that Social Security replaces when workers retire remains constant across generations.[74]

It is already noted that this proposal would profoundly affect all types of beneficiaries, but how would this proposal affect women? Today, women generally receive a smaller benefit at retirement because they are paid less than men and are likely to leave the work force temporarily or permanently for childcare and other family/home responsibilities. Since price indexing reduces benefits for everyone over time and

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[67] Ibid.

[68] Ibid.

[69] Ibid. (Annual Statistical Supplement, Social Security Administration, Table 2, A8, 2000; and Council of Economic Advisers, Economic Report of the President, Table B-60, January 2001.

70Ibid.

71Ibid.

72Ibid.

73Ibid.

74Ibid.

women live longer than men,[75] females will be most affected because they typically receive benefits for a longer period.

4. Reduction in the Cost of Living Adjustment (COLA).

Under the present Social Security system, benefits are increased each year by a cost of living adjustment that is equal to the annual change in the Consumer Price Index (CPI).[76] COLAs maintain the real value of retirement benefits.[77] A study conducted in 1996 by the Advisory Commission to Study the Consumer Price Index indicated that CPI overstates the changes in the cost of living. This finding resulted in changes in the way the Bureau of Labor Statistics computes the CPI.

Social Security provides an inflation protection for the elderly not provided by most private pension plans. The purpose of a COLA is to approximate the same standard of living for retirees. This is especially important to women, since the typical women who reaches age 62 in 2000 can expect to live another 22 years[78] and because women are less likely to have a pension benefit. A reduction or elimination would significantly affect the very old who are largely women and who have the highest rates of poverty.[79]

B. Reform proposals that focus on women

Various organizations have expressed concern that the Social Security reforms proposed in the past proposals did not take into consideration the needs or effect of any propsals on women. Some of these groups have offered the following proposals to the solvency debate which improve benefits for women.

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[75] Michael A. Anzick, et. al., *Reducing Poverty Among Elderly Women*, ORES Working Paper Series, Number 87, Social Security Administration: Office of Policy: Office of Research, Evaluation, and Statistics, Wash. D.C., January 2001.
[76] Women and Social Security, American Academy of Actuaries, February, 1999, pg. 4.
[77] See fn. 3 at p.507
[78] Ibid. pg. 507
[79] Americans Discuss Social Security "What every woman Should Know About Social Security," a project funded by the Pew Charitable Trusts, Washington, D.C. January, 1999, See www.Americansdiscuss.org

1. Reduction of spousal benefits and increase of survivor's benefits

The 1994-1996 Advisory Council on Social Security proposed to reduce spouses' benefits from 50% to 33% and increase surviving spouses' benefits to 75 percent of the couple's combined benefit.[80] The goal of this proposal was to reduce poverty among widows and help reduce the differences in benefits for single and dual-earning couples.[81] Currently the system provides more generous benefits to one-earner couples than to two-earner couples.[82] These differences reflect the fact that when the Social Security system was created, one-earner couples predominated..[83] The Advisory Council's proposal could be problematic. Although widows would benefit greatly from this proposal, divorced women and never married women who also have high rates of poverty would not.[84]

2. Expand minimum benefits

A plan to provide a benefit equal to 60 percent of of the poverty level for individuals who work at least 20 years.[85] In 1999, the National Council of Women's Organizations proposed reinstating the minimum benefit for lifetime very low-wage workers.[86] Since this minimum benefit would increase with average wages in the economy, recipients would maintain their economic standing in the population[87] Those benefited by this proposal would include older workers and some retirees whose initial retirement benefits exceed the minimum would switch later on when their price-indexed benefit fell below

[80] See fn. 16 at p.7
[81] Ibid.
[82] American Academy of Actuaries *Women & Social Security,* Feb. 1999, p.1.
[83] Ibid.
[84] Melissa Favreault, *Social Security reform proposals and women retirees: Seven lessons from Social Security and the Family*, The Actuary, September 2002, p.15.
[85] See fn. 82.
[86] Women's Institute for a Secure Retirement, Your Future Paycheck, What Women Need to Know about Pay, Social Security, Pensions, Savings and Investments, May 2002, pg. 23.
[87] See fn. 16 at p.11.

the minimum.[88] However, this proposal would apply to future retirees and not take effect very soon. Again, since women typically live longer than men, this proposal would undoubtedly impact them.

3. Provide Caregiving Credits

As previously indicated, women are more likely than men to spend time out of the work force due to caregiving. This proposal would provide up to five years of earning credits to parents who have children under the age of six in their care.[89] This credit would raise countable annual earnings used to compute Social Security benefits to one-half of the average wage for each childcare year.[90] The National Council of Women propose four drop out years and extend this credit to the care for any family member.[91]

4. Improve benefits for divorced women

Because divorced women represent the second highest group of elderly women in poverty, it has been proposed that the amount they received as divorced spouses be increased from 50 percent of the former spouse's benefits to 75 percent. Additionally, it is proposed that the number of years of marriage needed to qualify for spousal benefits be reduced from 10 to 7 years, provided the combined marriage and work history totals 10 years.[92]

Similar to the proposals to create child care credits and increase widows benefits, this proposal would benefit divorced women significantly, and have no impact on women who never marry or single women.

In summary, because women are not heterogenous, the above mentioned proposals have varying impact on women.

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[88] Ibid. 12
[89] Ibid.
[90] Ibid.
[91] See fn. 86.
[92] See fn. 86 at p.23.

C. MOVE THE CURRENT SOCIAL SECURITY SYSTEM TO ONE THAT IS PARTIALLY PRIVATIZED.

The current Social Security system operates as a social insurance-based system. In balancing equity and adequacy benefits are partially paid based on perceived needs (spousal and dependent benefits) as well as based on a level of earnings (retirement benefits).[93] The last reform proposal, and perhaps the most controversial one, would move the current system from an insurance-based system to one that would substitute investment returns for a portion of Social Security's guaranteed benefits. Although there has been discussion on shifting to full privatization, thereby removing the government from its role as manager of the Social Security system, this is not the norm. The focus of this section of the paper will be on the proposal to a partially privatized Social Security system.

1. Partial Privatization of the Social Security system

Partial privatization is not a new concept. Many proposals for Social Security reform have included privatization in one way or another. For example, the 1994-1996 Social Security Advisory Council report featured two proposals that would include partial privatization.[94] In 2001, the President's Commission to Strengthen Social Security developed three options for reform that featured individual accounts. Moreover, private organizations and lawmakers have also proposed partial privatization. While none proposed total privatization each option did contain a provision for diverting payroll taxes from the Social Security trust fund into private accounts.[95] The percentage that would be

[93] Rappaport, Anna M., "*Will Privatization of Social Security Help or Hurt Women?*, The American Academy of Actuaries, Vol.24, No. 1, February, 1999.
[94] The Century Foundation. *Social Security Reform, An Overview of the Major Proposed U.S. Reforms*, see www.tcf.org/Publications/Basics/Social_Security/Proposed_Reforms-1.html. p. 1.
[95] Kijakazi, Kogan, Greenstein., *The Shaw Social Security Proposal: The Role of Massive General Revenue Transfers*, September 30, 2002, p. 1.

diverted vary from plan to plan, but frequently it is between 2 percent of the 6.2 percent payroll taxes that worker pay.[96]

2. Concerns with partial privatization

a. Investment Risks

Partial privatization may create an unknown or unforeseen investment risk. As previously stated, most proposals involve diverting a portion of payroll taxes that are deducted from workers' paychecks into individual or private accounts.[97] Advocates of private accounts assume that workers will receive a rate of return based on the average historical long-term rates of return.[98] However, there is no guarantee on returns, particularly in light of the recent fluctuations in the stock market.[99] Another consideration is whether workers will have the knowledge or skills needed to understand investing or can afford to hire an investment advisor. [100] This investment risk could result in the worker retiring and receiving less benefits than expected from their individual account. Additionally, because a portion of the worker's earnings would be diverted into this account, the worker's traditional Social Security benefits may also be reduced.[101]

b. Administrative Costs

There are many administrative costs associated with creating private accounts. Such costs include transaction fees, management fees, etc. These reduce the expected return on these accounts. In addition, moving to a partially privatized system would

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[96] OWL The Voice of Midlife and Older Women, *Social Security Privatization A False Promise for Women*, 2002 Mother's Day Report, p. 25. NOTE: OWL is the only national grassroots membership organization to focus solely on issues unique to women as they age. OWL strives to improve the status and quality of life of midlife and older women. OWL is nonpartisan and nonprofit.
[97] Ibid. p.27.
[98] Moore, Kathryn L., *Privatization of Social Security: Misguided Reform,* 71 Temp. L., Rev. 131, 154.
[99] Ibid.
[100] See fn. 96 at p. 2.
[101] See fn 94 at p. 26.

involve substantial transition costs.[102] This consequence falls directly on the transitioning generation; that will have to pay for two systems at once.[103]

c. Destroys social nature of the current Social Security system

As previously noted, the current system balances two objectives, equity and social adequacy. Also, under that system there is a shared risk and gain.[104]Workers who earn less have traditionally benefited from the progressive nature of the social security system. The formula used to calculate Social Security benefits redistributes from higher income earners to lower income earners.[105] With individual accounts, the burden shifts from shared or collective risks to individual risks.

3. Implications for Women and Women of Color

This proposal is problematic for workers in general and particularly low-wage workers, many of whom are women.[106] Privatization may undermine cost-of-living adjustments (COLA), the progressive formula and disability and survivors benefits which women tend to rely on more heavily than men. For example, because there is a more guaranteed benefit under privatization, private accounts cannot offer women the same economic security that Social Security does. As previously identified, on average women generally make less money than men, receive lower or sometimes no pension coverage are likely to take time off for family needs and caregiving and live longer. In sum, unless a woman is a high earner and able to allocate more earnings toward an individual

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[102] Owl, The Voice of Midlife and Older Women, *Social Security Privatization, A False Promise for* Women, 2002 Mother's Day Report, p. 26.
[103] Ibid.
[104] See fn. 100 at p. 28.
[105] See fn. 94 at p. 29.
[106] Kijakazi, Kilolo. *The Shortcomings of Individual Accounts,* Center on Budget and Policy Priorities, Revised July 18, 2001, p. 1.

account, it is unlikely those investments accounts will offer adequate protection to most women at retirement.[107]

Similarly, women of color, who depend on Social Security benefits more than their counterparts benefit from the progressive benefit calculation. It is reported that women of color are 2 to 2.5 times more likely to be living in poverty than white women.[108] Likewise, a woman of color who typically earns less and has less to save may also end up with fewer benefits in retirement years. Particularly important to women of color is the social insurance component of the current system. Women of color tend to draw survivors benefits to a greater degree and would be adversely affect if these benefits are cut.[109]

## V. CONCLUSION

Since, most women live longer than men, earn less than men, and interrupt their work to give care, they often receive smaller social security benefits. Yet, they usually depend on Social Security far more than men, particularly as they age.[110] The situation is equally, if not more, bleak for women of color.

Chairpersons for the "Joint Task Force for Issues Affecting Women as They Age" stated that the purpose of the symposium was to bring women and women's issues to the table in the discussion of Social Security reform proposals. It is important that those who would fundamentally change the Social Security system know and understand that without monthly Social Security benefits most elderly women would be thrust into poverty in their old age.[111] Therefore, it is necessary that women advocate on their

[107] See fn. 94 at p. 32.
[108] Ibid. p. 31.
[109] See fn. 94 at p. 31.
[110] Ibid, at p.44.
[111] *Your Future Paycheck, What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments,* Women's Institute for a Secure Retirement, May 2002.

behalf and ensure that at the very least, the range of protections presently offered by Social Security remain intact.[112]

It is generally agreed that addressing social security's solvency is important to all.[113] However, the policy-makers should consider the impact of changes on women, and others who rely on the program for their economic well-being.[114]

[112] Ibid.
[113] *Women and Social Security*, Issue Brief American Academy of Actuaries, February 1999, p.6.
[114] Ibid.

**APPENDIX A**

SPEAKER BIOGRAPHIES

## Dr. Melissa Favreault

Dr. Melissa Favreault is a Senior Research Associate at the Urban Institute, where she focuses on retirement income issues. For the past six years, she has worked primarily on the development, evaluation, and use of a number of large-scale micro simulation models designed to facilitate distributional analysis of reforms to the Social Security program. In Social Security and the Family, a recent Urban Institute Press volume that she co-edited with Frank Sammartino and Gene Steuerle, she uses the DYNASIM model to examine the distributional implications of changes to Social Security spouse and survivor benefits.

Dr. Favreault received her Ph.D. in Sociology from Cornell University.

## Dr. Heidi Hartmann

Heidi Hartmann is the director of the Washington-based Institute for Women's Policy Research, an independent, non-profit, scientific research organization, which she founded in 1987 to inform and stimulate debate on issues of critical importance to women. Dr. Hartmann is currently the Chair of the National Council of Women's Organizations' Task Force on Women and Social Security.

She is an economist with a B.A. from Swarthmore College and M.Phil. and Ph.D. degrees from Yale University, all in economics. In 1994, Dr. Hartmann was the recipient of a MacArthur fellowship award. She is also the recipient of an honorary Doctor of Laws degree from Swarthmore College and the Wilbur Cross Medal for distinguished alumni of the graduate school of Yale University.

## Dr . Kilolo Kijakazi

Dr. Kilolo Kijakazi is a senior policy analyst in the Income Security Division at the Center on Budget and Policy Priorities. Dr. Kijakazi specializes in Social Security and was selected to participate on a panel for the White House Conference on Social Security in December 1998.

Before coming to the Center, she worked at the Food and Nutrition Service, of the U.S. Department of Agriculture as a program analyst.

She earned her Ph.D. in public policy from the George Washington University and worked as a research fellow while there.

## Evelyn Morton

Evelyn Morton is a Senior Legislative Representative for the American Association of Retired People (AARP). She handles Social Security, Supplemental Security Income, and Federal retirement systems for the Association, as well as budget and intergenerational issues. She works with members of Congress and congressional staff to ensure that the concerns of AARP's members are represented.

Prior to joining AARP in 1985, Ms. Morton was a professional staff member of the Senate Finance Committee.

She has a Master of Arts degree from the University of Pennsylvania and a Bachelor of Arts from Connecticut College.

## Anna M. Rappaport, F.S.A.

Anna Rappaport is an actuary in the Chicago office of Mercer Human Resource Consulting.   is an actuary and futurist with 40 years' experience. She consults with major clients on benefits strategy and human resources issues, focusing in recent years in strategic benefit planning and pension and retiree health care plan management.

Prior to joining Mercer in 1976, Anna spent nearly 20 years in the life insurance industry working with the design, marketing and financial management of financial security products.

Anna is a Fellow of the Society of Actuaries and has a Master's of Business Administration from the University of Chicago.