

IN BRIEF: THE IMPACT OF SOCIAL SECURITY REFORM ON LOW-INCOME AND OLDER WOMEN

Introduction

In this study, Melissa M. Favreault and Frank J. Sammartino of the Urban Institute use a dynamic microsimulation model, DYNASIM3, to compare how proposed reforms to the Social Security system might affect American women's economic well-being. Although Social Security is vitally important to American women, many older women live in poverty. In addition, many observers have expressed concern over the fact that the program provides smaller benefits to some women who contributed to the system than to other women who never worked or who worked very little.

Favreault and Sammartino examine eight reform proposals that would increase Social Security benefits and three packages of reforms that would combine benefit increases for some women with reductions for others. These programmatic reforms are:

Proposals That Increase Benefits

1. Change the current level of survivor benefits by increasing the survivor benefit from 67 percent to 75 percent of a couple's benefit;
2. Change the current level of survivor benefits by increasing the survivor benefit to 67 percent of a couple's benefit, a change that would raise benefits only for survivors from two-earner couples, as survivors from one-earner couples already receive roughly 67 percent;
3. Expand the minimum benefit by providing a benefit equal to 60 percent of the wage-indexed poverty threshold for workers with at least 20 years of qualified earnings, and

increasing it by 2 percentage points for each additional year of qualified earnings to reach a maximum of 100 percent of the wage-indexed poverty threshold for workers with 40 or more years of earnings;

4. Raise the divorced spouse benefit from 50 to 100 percent of the worker's primary insurance amount (PIA, the benefit amount payable to a retired worker at the full or normal retirement age);
5. Raise the divorced spouse benefit from 50 to 75 percent of the worker's PIA;
6. Reduce the required marriage duration for eligibility for divorced spouse and survivor benefits from 10 to 5 years;
7. Reduce the required marriage duration for eligibility for divorced spouse and survivor benefits from 10 to 7 years;
8. Credit parents with half of the average wage for up to five total years in which they have a child under six in their care.

Packages That Combine Benefit Increases with Cuts

1. Change the current mix of spousal and survivor benefits by combining an increase in the survivor benefit to 75 percent of a couple's benefit with a reduction in the spouse benefit to 33 percent of a worker's PIA and reductions of 5 percent in the upper two bend percentages used in calculating a retiree's Social Security benefit;
2. Change the current mix of spousal and survivor benefits by combining an increase in the survivor benefit to 67

Source: Melissa M. Favreault and Frank J. Sammartino, *The Impact of Social Security Reform on Low-Income and Older Women*, prepared for the AARP Public Policy Institute, July 2002. © AARP.

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- percent of a couple's benefit with a reduction in the spouse benefit to 33 percent of a worker's PIA and reductions of 1 percent each in the upper two bend percentages;
3. Change the indexation of benefits in retirement by cutting initial benefits by 12 percent and wage indexing subsequent benefits.

Findings

In coming decades, fewer women will be entitled to benefits solely as spouses or survivors, and more will receive worker-only benefits, dually entitled spouse benefits, and especially dually entitled survivor benefits. This trend should reduce, though not eliminate, some concerns about the equity of Social Security benefits.

The distributional implications of the benefit increase proposals differ in significant ways. In brief, increases in survivor benefits (options 1 and 2) effectively target older and widowed women. In the case of the increase to 75 percent of the couple's benefit, over half of women who are ages 80 and older receive higher benefits in 2040, compared to about 17 percent of women ages 62 to 64. However, these options grant the largest increases to women in the highest lifetime family earnings quintiles.

Increased eligibility and benefit levels for divorced spouse benefits (options 4 through 7) target more of their gains to women in the bottom family earnings quintiles, but, of course, do not reach women who never marry. The reforms that reduce marriage duration requirements (options 6 and 7) reach a higher percentage at older ages than younger ages.

Higher minimum benefits (option 3) have a more global reach. Although older women receive the bulk of the aggregate gains from this option, the fractions that would experience benefit increases are more uniform across age groups. This option targets those with the lowest lifetime earnings quite effectively and does not exclude any potential

recipients on the basis of marital status. The minimum benefit, in contrast to the other options, has very dramatic effects on the gap between Social Security benefits and the poverty threshold. It reduces the fraction of women who had Social Security benefits that failed to bring them above the poverty level in 2040 from the current-law level of 7.8 percent to just 4.8 percent.

Childcare credits (option 8) have fairly modest effects but are likewise well targeted toward women at the bottom of the lifetime earnings distribution. They also primarily benefit women who are younger. This option, like the minimum benefit option, is neutral with respect to marital status. Both the childcare and minimum benefit options help never-married women to a significant extent, a group at considerable risk of poverty in old age.

The three packages that combine benefit increases and cuts largely maintain the relative positions of women at different points in the earnings distribution. Although all three successfully redistribute women's benefits from earlier to later in life, the wage indexing proposal (balance option 3) does this more progressively than the spouse/survivor options. In the aggregate, the two spouse/survivor changes are very slightly regressive. The simulations of packages do suggest that reforms to improve the adequacy and equity of the Social Security system for women could be designed to be low-cost or revenue-neutral.

The sometimes surprising patterns revealed in this study suggest that unless legislators use analytical methods that take into account the complexity and diversity of women's lifetime experience, the proposed reforms could have unintended consequences.