

SOCIAL SECURITY PRIVATIZATION

*A False Promise for Women*

  
THE VOICE OF MIDLIFE AND OLDER WOMEN  
2002 MOTHER'S DAY REPORT

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# A Message from OWL's President

JOAN B. BERNSTEIN, MAY 2002

## *Happy Mother's Day!*

**O**N THIS DAY, WHEN WE PAY TRIBUTE TO mothers, we also need to remind lawmakers and the public of the unmet needs of women as they age. OWL has a 22-year history of speaking the truth about the lives of midlife and older women and working to effect social and policy improvements for them.

There's never been a better time for this year's Mother's Day report, *Social Security Privatization: A False Promise for Women*. In the halls of Congress and around kitchen tables, Social Security's future is being debated. Is Social Security facing financial crisis? Does the future provide too few young people to support too many older people? Will private accounts cost the system less? Will women benefit from privatization? The answer to these questions is "No, no, no, and no." And this report tells you why.

Social Security is a women's issue. I would go so far as to say that it is **the** retirement security issue for women today! Women comprise 58 percent of Social Security beneficiaries over age 65 and 71 percent of those at age 85. Without this regular cost-of-living-adjusted benefit, over half of older women would fall into poverty.

But it's not just older women's lives at stake here. Children and non-retired adults constitute one-third of current Social Security beneficiaries. They draw benefits due to their own disability or a parent or spouse's disability or death. Women of all ages and children rely on these unmatched insurance protections.

Social Security remains the financial bedrock of women's retirement income despite their increasing presence in the paid work force. Women earn less than men, 73 cents on every dollar a man earns. Women are not compensated for their years of unpaid caregiving—for children, spouse, parents, and other relatives—even though caregiving keeps women out of the paid work force about 12 years on average. Thus, their private pension coverage, if available, suffers from years out of the work force and lower earnings.

Nevertheless, there are those who would eviscerate our current Social Security system with the promise that all individuals, taking their chances with private accounts, will somehow obtain greater payouts while solving an alleged solvency problem.

President Bush's Commission to Strengthen Social Security released a report in December 2001, setting out three proposals for changes. All of the proposals, however, imperil the long-term financial stability of Social Security: they all cut the defined benefit for future retirees. And, by phasing in benefit cuts over the years, the youngest of us will suffer the largest benefit cuts while paying the most in taxes to finance the huge transition costs. Like other privatization plans, the commission's recommendations offer women false promises.

On this Mother's Day and beyond, we must work to keep the promise of Social Security for ourselves and generations of women, men, and children yet to come. Women are daughters, sisters, nieces, aunts, wives, and mothers. Social Security is the first line of economic defense for families, single workers, and all generations.

Happily, the trustees stated in their last report that Social Security solvency has been extended to 2041 due to increased productivity, despite the current recession and the naysayers. Treasury Secretary Paul O'Neill recently stated that he anticipates further productivity improvements. Full employment, good wages, and productivity will assure solvency of the current system of protections well into the foreseeable future.



Joan B. Bernstein  
President, OWL

# Executive Summary

## *Social Security and Women*

- The Social Security system is an embodiment of the long-standing American principle of social insurance, providing nearly universal coverage for workers and their families through a pooling of resources, benefits, and risk.
- One-third of the program's beneficiaries are not retirees but include children, widows, and people with disabilities. Social Security offers an unmatched set of insurance protections for workers and their families, providing protection against poverty in the event of death, disability or old age.
- Women comprise the majority of Social Security beneficiaries, representing 58 percent of all Social Security recipients at age 65 and 71 percent of all recipients by age 85.
- Accounting for more than 70 percent of older adults living in poverty, women are more vulnerable in retirement. During this time they most need the stability of a guaranteed source of income—their Social Security check. Without it, 52 percent of white women, 65 percent of African American women, and 61 percent of Latinas over age 65 would be poor.

## *Women's Realities and Retirement Consequences*

- For women, poverty in old age is often rooted in the realities that shaped their lives early on: the reality of the wage gap, the reality of caregiving, and the reality of flexible jobs that offer few benefits, especially pensions.
- Almost 40 years after the Equal Pay Act was passed, women still earn only 73 percent of what men earn. You can't save what you don't earn.

- Caregiving directly affects women's retirement security, as they often take more flexible, lower-wage jobs with few benefits or stop working altogether in order to provide unpaid caregiving services. In fact, women spend, on average, 12 years out of the work force for family caregiving over the course of their lives.
- Older women are less likely than older men to receive pension income (28 percent to 43 percent); when they do, the benefit is only about half the benefit men receive.
- Women live an average of six years longer than men. Women's longer lifespans make them more vulnerable to the impact of inflation and to the risk that they will outlive their money.

## *The Great Solvency Debate*

- Social Security is a "pay-as-you-go" system. Current workers not only see the societal and family benefits of supporting our nation's vulnerable seniors, but also know that they are covered by the same set of social insurance protections.
- Changing demographics mean that the system will eventually have to use trust fund dollars to cover outgoing benefits. This situation was predicted and addressed by Congress in 1983, when it adjusted the system to build up the trust fund for the retirement of the baby boomers.
- The trust fund consists of U.S. Treasury bonds, considered the safest investment vehicle available to individual or institutional investors worldwide.
- Experts *do* have suggestions about how to plan for a potential financing shortfall. There are many proposals that preserve the integrity of the program while shoring it up for the future. These stand in stark contrast to private accounts, which would speed insolvency and destroy the social insurance compact that is Social Security.

## *Why Privatization Is a False Promise for Women*

- Privatization plans would divert Social Security payroll taxes into individually owned private accounts, shifting the system from shared risk and collective gain among workers to private accounts that would leave workers to sink or swim on their own.
- Although privatizers work hard to convince skeptics that their proposals have been developed with women's unique needs in mind, privatization won't work for women because:
  - Private accounts destroy the social insurance nature of Social Security.
  - Private accounts don't offer Social Security's insurance against unexpected events.
  - Private accounts don't come with an inflation-adjusted guarantee.
  - Private accounts ask women to bear more risk.
  - Private accounts offer less reward than promised.
  - Private accounts are tied to stock market volatility.
  - Private accounts cost more to administer.
  - Private accounts speed up insolvency.
  - Private accounts may drive benefit cuts.
  - Private accounts promise high "rates of return" but can't compare to Social Security's unmatchable set of protections.

By and large, Social Security is the only source of retirement income that a majority of women can truly count on. As America ages, it will become an increasingly significant program, offering steady, reliable support to all older women. Meanwhile, privatization schemes are laced with false promises and false guarantees that only mimic the very real promises and guarantees the current Social Security program has delivered on, on time, every month for 65 years. Privatization is nothing but a gamble for less, and women deserve more than that.

## *Public Policy Recommendations*

- To improve Social Security for women, Congress should amend the law to recognize women's caregiving work; increase benefits and simplify the rules for widows, divorced women, disabled widows, and low-wage workers; offer coverage to same-sex couples; and remedy the Government Pension Offset and Windfall Elimination Provision's effect on women.
- Outside of Social Security, America's retirement savings system needs to better respond to the realities of women's lives. The wage gap needs to be addressed through federal pay equity legislation and other methods necessary to remedy this fundamental inequity that hinders women's financial security. OWL urges the reform of the private pension system, to expand access to and improve benefits for more women. Finally, there are numerous ways to minimize the negative financial impact of unpaid caregiving on women's retirement security.

# Introduction

**B**EFORE THIS DISCUSSION OF WOMEN'S STAKE IN THE Social Security debate begins in earnest, allow us to paint a picture of what life is like for the average older woman in America.

Typically living alone, she struggles to make ends meet on a limited annual income of \$15,615 (compared with an average of \$29,171 for men).<sup>1</sup> As part two of this report will show, women's work patterns, outdated public policies, and societal discrimination combine to affect women's financial security in retirement. As her retirement income is smaller, she spends a higher proportion of her income on vital necessities. She spends 30 percent of her income on housing costs<sup>2</sup> and 22 percent of her income on out-of-pocket health care costs.<sup>3</sup> Her tendency toward chronic illness as she ages drives up her prescription drug bill—the average woman on Medicare spends 20 percent more on prescription drugs than men.<sup>4</sup>

Older women are three times more likely to lose their spouse than men, and this rate only increases as women age.<sup>5</sup> Her risk of slipping into poverty also increases as she ages. When her health deteriorates, she will need increasing levels of caregiving and support—two-thirds of nursing home residents are women.<sup>6</sup>

It comes as no surprise, then, that women's dependence on Social Security is significant; part one will provide details of this phenomenon.

We cannot forget these statistics—and the real older women behind them—when considering the impact of Social Security reform on women.

## PART ONE:

# Social Security and Women

**W**HEN PRESIDENT FRANKLIN DELANO Roosevelt signed the Social Security Act in 1935, he was responding to an overwhelming national need to address economic insecurity in old age. At that time, when there were no official retirement support systems, over half of the older population lacked sufficient income to live.<sup>1</sup> Since then, Social Security has evolved into an increasingly significant program, offering critical retirement benefits as well as invaluable protections from the risks people confront throughout the course of their lives. Over the past six decades, Social Security has lifted millions of older Americans out of poverty and has provided enormous relief to widows, widowers, children, and disabled persons. It is the most successful federal government anti-poverty program in U.S. history, and it is vitally important to all Americans, young and old.

The Social Security system is an embodiment of the long-standing American principle of social insurance, a national commitment whereby everyone pays, everyone benefits, and no one gets left behind.<sup>2</sup> (Even before the Social Security Act was conceived, this principle inspired comparable initiatives—an early example was the Civil War Pension program.)<sup>3</sup> It is this principle of social insurance that makes the Social Security program so valuable. Across the generations, we build a strong system of support through a “pay-as-you-go” formula in which funds paid by current workers are used to pay for current beneficiaries. It represents an important social contract that Americans have with one another, marked by the concept that strong societies are built through mutual support, shared risk, and mutual gain.

Social Security is more than a retirement program. It is the heart of our nation’s social insurance system, providing nearly universal coverage for workers and their families through a pooling of resources that guarantees benefits to all who qualify. One-third of the program’s beneficiaries are not retirees, but include children, widows, and people with disabilities.<sup>4</sup> The Social Security program has always been very effective in creating a bedrock of financial sup-



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port in old age, but the insurance protections of Social Security cannot be underestimated. For all who qualify, Social Security provides critical insurance against defined risks, such as disability or the death of a spouse or parent. Indeed, Social Security is designed to provide an unshakable foundation upon which Americans can build their financial security.

Social Security is a shared-risk program that is based on a very simple concept: when we work, we and our employers pay taxes into the system, often referred to as FICA (Federal Insurance Contributions Act), or payroll taxes. Currently, both a worker and his or her employer each pay 6.2 percent (12.4 percent total) of the first \$84,900 in earnings into the Social Security system.<sup>5</sup> When workers pay their payroll taxes, they receive Social Security credits up to a maximum of four credits per year (in 2002, \$870 of covered earnings equals one credit). To be eligible for any Social Security benefit, only 40 credits (or 10 years of work) are necessary. The amount of any Social Security benefit is based on a worker’s earnings and number of credits. However, Social Security is a progressive program, based on a formula that replaces a higher proportion of pre-retirement earnings for lower-income workers than for high-income workers.

When workers retire, become disabled, or die, their spouses and dependent children receive monthly benefits based on the worker’s credits and earnings. The benefits are

portable, following workers from job to job. Disability and survivors coverage is provided through the Social Security program, as well, without regard to the recipient's health or occupation, unlike private disability and life insurance policies. Social Security benefits are also augmented on a regular basis by a cost-of-living adjustment (COLA) calculated by changes in the Consumer Price Index (CPI).<sup>6</sup>

Incoming payroll taxes are paid into different trust funds. There are two trust funds for Social Security: the federal Old-Age and Survivors Insurance (OASI) Trust Fund and the federal Disability Insurance (DI) Trust Fund. The OASI fund is used to provide retirement and survivors benefits, while the DI fund is used to pay disability benefits. Together, they are often referred to as OASDI. As taxes flow into the trust funds, benefit payments flow out. Because the Social Security system is currently operating with a surplus, there is a remaining balance of funds, which are invested in interest-bearing U.S. government Treasury bonds—the safest of all securities. The trust funds are supervised by a Board of Trustees, a five-member body comprised of the Secretary of Treasury, the Secretary of Labor, the Secretary of Health and Human Services, and two public trustees serving four-year terms. Each year, the trustees present a comprehensive report to Congress on the financial health of the funds and program operations.

One leg of the "three-legged stool" of retirement planning, Social Security benefits are designed to be complemented by both pension benefits and personal savings to produce a substantial nest egg for retirement (see box 2 on page 13). This critical program is also designed to protect workers and their families from life's risks. Insuring about 185 million people and paying benefits to approximately 46 million people, Social Security touches the lives of almost everyone.<sup>7</sup>

## *Women and Social Security—What's at Stake*

More than any other group, women know the value of a Social Security check. Women are the majority of Social Security beneficiaries, representing 58 percent of all Social Security recipients at age 65 and 71 percent of all recipients by age 85.<sup>8</sup> Whether they are receiving retirement benefits, survivors benefits, or disability benefits, women have the largest and most critical stake in the continued success of this important program.

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### **Retirement Benefits**

Due to work and life patterns, women are much less likely to have a pension or other savings for retirement, leaving only one steady leg of the three-legged stool: Social Security. Although both men and women depend on Social Security retirement benefits, older women depend on them more.

Social Security retirement benefits are based on a worker's top 35 years of earnings averaged over an entire working career. At 65 years old, a worker may collect full retirement benefits. If a person collects a retirement benefit at age 62, that benefit will be adjusted downward, to account for the additional years of benefit receipt. If collected after age 65, the benefits can actually increase.

The age of retirement with full benefits is being incrementally raised from age 65 to age 67 for those born before 1960. Those born during or after 1960 will be eligible for full retirement Social Security benefits at age 67. A special credit is awarded for each year a person delays retirement beyond the full retirement age.

Social Security retirement benefits are also family benefits; members of a worker's family can actually receive benefits based on the worker's earnings record if the worker is already receiving retirement benefits. Family members who are eligible include:

- wife or husband age 62 or older;
- wife or husband under age 62, if she or he is taking care of worker's child who is under age 16 or disabled;
- former wife or husband age 62 or older;
- children up to age 18;
- children age 18-19, if they are full-time students through grade 12; and
- children over age 18, if they are disabled.

For women, the most important family retirement benefits are the widows benefit and the spousal benefit. A

widow is eligible to receive benefits at age 60 (or age 50 if disabled) based on her deceased husband's record. A spouse can receive a benefit equal to 50 percent of the retired worker's benefit, if this amount is higher than the benefit she or he would receive based on his or her own work record. If a worker's spouse wants to take benefits before age 65, the amount of the spousal benefit is reduced, as is the worker's. But, if a worker's spouse is caring for a child who is under the age of 16 or disabled, he or she will receive the full benefit regardless of age.

A divorced spouse can also take advantage of the spousal benefit. If the marriage lasted at least 10 years, a divorced spouse can collect on her ex-husband's record, but she must be 62 or older and unmarried, and her ex-

husband must be 62 or older. If they have been divorced more than two years, she can collect benefits even if her ex-husband is not yet drawing benefits. Whether or not a divorced woman collects a benefit or how much that benefit is worth has no bearing on the benefits available to her ex-husband's current wife or other ex-wives. If a woman's ex-husband is deceased, she will receive the full surviving spousal benefit of 100 percent of his benefit.

(For ways Social Security could be improved for widows and divorced women, see part five).

### **Survivors Benefit**

The Social Security survivors benefit is evidence of the important insurance protections Social Security offers:

#### *Profile: Helen*



Helen, a 76-year-old retired professor, depends heavily on Social Security. Her monthly Social Security retiree benefit of \$594 accounts for over 50 percent of her total monthly income (approximately \$1,000). Helen earned her Ph.D. in 1964 after using her entire savings for her education. To prepare for her retirement, she enrolled in the Teacher's Insurance Annuity Insurance of America-College Retirement Equities Fund (TIAA-CREF) as a supplement to another retirement plan. Helen never realized that the TIAA-CREF benefit of \$400 would come to comprise so much of her monthly income. In fact, it's the only other steady income she has besides Social Security.

Following a legal dispute at age 46 with the state university where she was an

associate professor, Helen was prohibited from drawing from her state pension. Although a small portion of her pension was granted in a lump sum, it was insufficient to provide for a comfortable retirement. She has not worked full-time since her employment at the university ended.

Retirement has not been easy for Helen. To compensate for her lack of pension benefits or savings, Helen has been forced to sell her furniture and other possessions, to cash out her life insurance policy, and to depend on food stamps. Helen has never owned a home and is currently living in Section 8 housing. "Whether they own or rent, older women spend a higher proportion of their incomes on housing than their male counterparts. Women (such as myself) account for the great majority of elderly tenants in federally assisted housing for the poor," observes Helen.

Helen is solely responsible for her retirement, as she never married and has no children. She joins the ranks of women whose economic status has been overlooked because of assumptions that are made about women's marital status.

"A surprising percentage of women do not get married. Most Americans assume that when a woman grows up and even if she gets a career, she will automatically get

married and have children, and that is not the case. Most low-income 'seniors' are women. A large part of that population has never been married and can only depend on their own income and benefits for their retirement. We depend heavily on Social Security because we have no choice."

As a longtime advocate for the preservation and strengthening of Social Security, Helen is very active in the aging community. She is a member of several advisory

*Helen joins the ranks of women whose economic status has been overlooked because of assumptions that are made about women's marital status.*

groups, including the North Senior Center Advisory Council, the Berkeley Housing Authority Board, and the Alameda County Advisory Commission on Aging. In addition to her advocacy work, Helen is the author of *Women and Aging: A Guide to Literature*. And until recently, she taught a class on "Strong Women" at the Berkeley Adult School's Older Adult Program.

### *Box 1: Women on Their Own: Social Security and Unmarried Women*

Social Security makes up the bulk of most women's retirement income, but this is especially true for unmarried women. Social Security provides 90 percent or more of income for 19 percent of older married white couples and 28 percent of older married African American couples. In contrast, the rates for unmarried women are much higher: Social Security provides 90 percent or more of income for 40 percent of older unmarried white women, 54 percent for older unmarried African American women, and 55 percent for older unmarried Latinas.<sup>18</sup>

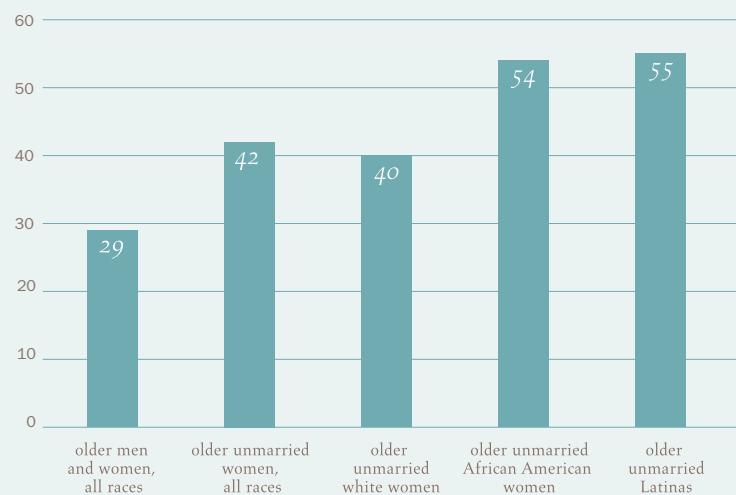
*It's imperative that changes to Social Security are considered with regard to how they affect the financial security of unmarried women.*

Significant percentages of unmarried older women rely on Social Security as their **sole source** of retirement income—unmarried women of all races (26 percent), white women (24 percent), African American women (45 percent), and Latinas (46 percent).<sup>19</sup>

It's imperative that changes to Social Security are considered with regard to how they affect the financial security of unmarried women. The family dynamic of American society is rapidly changing, and by 2030, the number of divorced women over 65 will nearly double, while the number of never-married women over 65 will actually double.<sup>20</sup> In fact, it's especially important to consider never-married women, as they are more likely to be living in poverty than other unmarried women. Unmarried women often face the challenge of balancing the demands of financing a single household with the reality of a smaller income and fewer assets. They are therefore more reliant on the guarantee Social Security provides.

*chart 1: Reliance on Social Security*

*Percentage of people who rely on Social Security for 90 percent or more of their income*



**source:** Social Security Administration, *Income of the Population 55 or Older, 2000* (Washington, D.C., 2002), 103, table 6.A1; 114, table 6.B2; and 121, table 6.B4.

almost 7 million Americans (including spouses and children) received survivors benefit checks in 2001.<sup>9</sup> The survivors benefit is especially critical to women because they often outlive their spouses. The social and financial value of this benefit is enormous. The Social Security Administration estimates that survivors benefits paid to a widow(er) with two children, based on the loss of a young average wage earner, is equivalent to a \$374,000 life insurance policy.<sup>10</sup>

When a contributing worker dies, survivors benefits can be paid to widow(er)s, divorced widow(er)s, children, and even dependent parents. Ninety-eight percent of children under 18 would receive a monthly cash survivors benefit if a working parent died today.<sup>11</sup> In fact, Social Security provides more assistance to children than any other government program.<sup>12</sup>

Whether or not specific members of a worker's family are eligible depends on several factors including age, program participation, and earnings. Under a special rule, survivors benefits can be paid to a worker's spouse and the children he or she is caring for, even if the worker has not

accumulated the number of credits needed. They can receive benefits if the worker earned credit for one-and-a-half years of work in the three years just before death. Social Security survivors benefits can be offered to:

- Widow(er)—receives full benefits at age 65 or older or reduced benefits as young as 60. A disabled widow(er) can get benefits between age 50 and 60.
- Widow(er)—at any age, a widow(er) can receive a benefit if he or she cares for the worker's child who is under 16, or who is disabled and also receiving benefits.
- Unmarried children—under 18 (or up to age 19 if still attending primary or secondary school). A person is also eligible for benefits at any age if he or she was disabled as a child (before age 22) and remains disabled as an adult. It is also possible for benefits to be paid to stepchildren or grandchildren.
- Dependent parents—are eligible if they are 62 or older and were dependent on the worker for more than 50 percent of their income.

### Profile: Blanche



**B**lanche, a 62-year-old former home healthcare worker of 35 years, is a recipient of Social Security disability benefits. After a long career of caregiving for patients in their homes and local hospices, along with raising her own two children, Blanche became disabled at 58 due to a serious case of asthma and an injured knee. Because moving patients (for bathing, eating, and getting to medical appointments) comprised a large part of her work, Blanche's physical conditions

meant she was no longer able to perform her job.

"I couldn't take care of patients the way I used to. I couldn't do my job anymore, so I grew more and more depressed until I was forced to apply for disability."

Blanche received her first disability check when she was 60, following a two-year wait that included a year-long application process and an additional year's wait to assure the government that she was physically unable to work.

Never having earned more than \$8 an hour, Blanche and her husband have little savings, few investment options, and only one pension to look forward to. Her portion of the household monthly income dropped from \$600 to \$432 with the implementation of her disability benefits. If it weren't for Social Security, Blanche would have no other way to replace her prior income of \$600. Her husband plans to retire this summer, so the pair will depend on Blanche's benefits more than ever.

Blanche's financial and health challenges mirror what millions of other midlife and older women also face: "I am currently recovering from breast cancer I was treated for two years ago. I depend heavily on prescription drugs because of my past illness and my chronic asthma. I estimate I spend \$200 on co-payments alone through my husband's health insurance. I don't know how we are going to pay for all of my prescriptions when my husband retires and loses his health insurance."

*"I depend heavily on prescription drugs because of my past illness and my chronic asthma. I estimate I spend \$200 on co-payments alone through my husband's health insurance."*

- Divorced spouse—may also collect if the marriage lasted 10 years or longer. If he or she is caring for the worker’s child who is under age 16 and/or disabled and who is also receiving benefits under the worker’s record, the length-of-marriage requirement does not apply to the divorced spouse.

## Disability Benefits

In 2001, about 7 million beneficiaries and their dependents received disability benefits from Social Security.<sup>13</sup> Much like survivors benefits, disability benefits are another form of insurance, providing millions of Americans with a type of coverage that is typically unaffordable on the private market. The Social Security Administration estimates that for an average income earner with a spouse and two children, the disability protection in Social Security is equivalent to a disability policy worth \$223,000.<sup>14</sup>

Disability benefits go to eligible workers who both can no longer perform the work they customarily do and are unable to adjust to other work because of medical conditions. The disability must last, or be expected to last, at least a year or to result in death. Upon receiving disability for 24 months, beneficiaries are also eligible for Medicare benefits. Just as with retirement and survivors benefits, disability benefits are also family benefits. The following family members are eligible if a worker becomes disabled:

- children, dependent stepchildren, or dependent grandchildren under age 18;
- children, dependent stepchildren, or dependent grandchildren who became disabled before age 22 and remain disabled;
- children, dependent stepchildren, or dependent grandchildren who are age 18 to 19 and attending elementary school or secondary school full-time;
- a married spouse age 62 or older; and
- a married spouse caring for the worker’s child who is under age 16 or disabled and entitled to benefits.

Disability benefits are critical for all workers, especially for African Americans, who represent a disproportionate share of disability beneficiaries. African Americans account for 12 percent of the general population, yet make up 17 percent of disabled workers receiving benefits and 23 percent of all children receiving Social Security survivor benefits.<sup>15</sup>

## Women depend on Social Security.

At any age, women are poorer than men, and as women get older, they often get poorer. Accounting for more than 70 percent of older adults living in poverty, women are most vulnerable in retirement.<sup>16</sup> It is during this time, then, that they most need the stability of a guaranteed source of income—their Social Security check. Without it, 52 percent of white women, 65 percent of African American women, and 61 percent of Latinas over age 65 would be poor.<sup>17</sup> In America today, the reality is that millions of older women depend on this program for their livelihood. It is the cornerstone of their retirement income, it is their insurance against disability and the death of a spouse, it is their guarantee, and it is their earned right.

The economic status of women is a reflection of their work and life patterns, which conflict with a retirement system that does not respond to their special needs. To understand women’s path to poverty in retirement and especially their reliance on Social Security, it is important to understand the realities of women’s lives.

## PART TWO:

# Women's Realities and Retirement Consequences

**W**OMEN DEPEND ON SOCIAL SECURITY because they have to. Social Security was designed to serve as a foundation upon which to build a healthy retirement, but for most older women, it is their primary source of income. Without Social Security's monthly benefits, more than half of older women would fall into poverty.<sup>1</sup>

This dependence, however, is not *because of* Social Security, a false claim made by some privatizers. Social Security is extremely successful at keeping most older women out of poverty. It was never meant to be the sole financial support in retirement, but is supposed to be just one leg of the three-legged stool of retirement planning:

*You can't save what you don't earn, and the impact of wage discrimination doesn't end when the job does.*

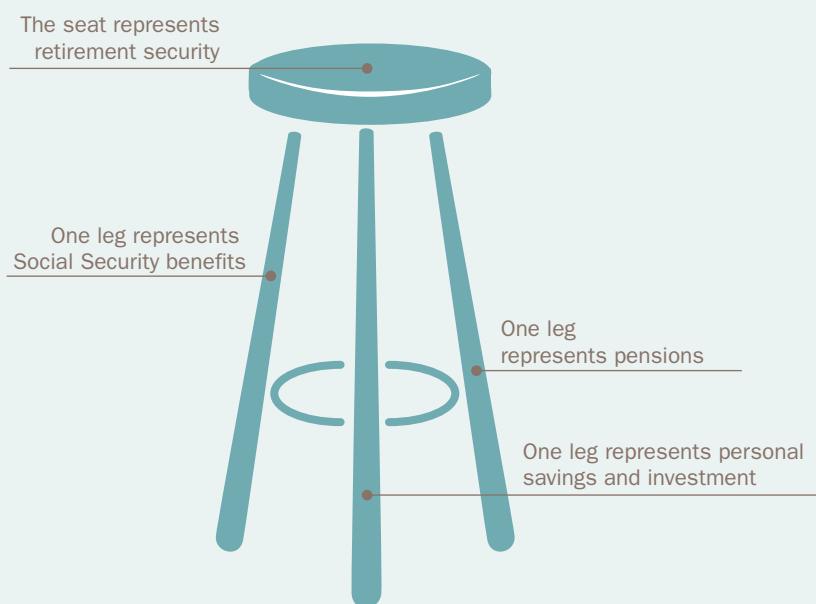
Social Security, pensions, and personal savings/investments (see box below).

The reality is that throughout their lives, women must reconcile their work and life patterns with a retirement system that does not respond to their needs. If women end up disproportionately dependent on just the Social Security leg, it's not because that leg isn't sturdy, but because it's often the only security older women have. Let's examine why this situation exists for women.

Women's experience of growing old in America is very different from men's. The financial problems women often

### Box 2: The Three-Legged Stool of Retirement Planning

**R**etirement planning strategy has long been illustrated by the image of a three-legged stool, upon which one could base one's retirement security. One leg represents Social Security benefits, another leg stands for income derived from pensions (generally thought of as traditional, defined benefit pensions), and the third leg is built upon one's personal savings and investments. The three legs are supposed not only to give the worker three sources of retirement income, but to create a balance of risk, so that the employer, the worker, and the government all bear a share of the risk. OWL has often said that this stool is a myth for women, as they are less likely to have income from pensions, and their lower wages mean they have less to save and invest.



face in old age are extensions of the problems and choices they faced earlier in their lives. Race and ethnicity, family and work arrangements, and economic resources are the primary influences on the quality of older women's retirement. For women, poverty in old age is often rooted in the realities that shaped their lives early on: the reality of the wage gap, the reality of caregiving, and the reality of flexible jobs that offer few benefits, especially pensions.

### *Women earn less.*

The economic chasm that is evident between women and men during their work lives grows much larger during retirement years. Almost 40 years after the Equal Pay Act was passed, women still earn only 73 percent of what men earn.<sup>2</sup> And the pay gap only increases with age. For workers ages 45-54 (a peak earning period), women's earnings are only 71 percent of men's, and among workers ages 55-64, women earn only 68 percent of what men earn.<sup>3</sup> The impact of the wage gap extends far beyond the years women participate in the work force. As they enter retirement, women experience the impact of unequal pay to an even greater degree. Over a lifetime, the wage gap adds up to an average of about \$250,000 less in earnings for a

woman to invest in her retirement.<sup>4</sup>

The wage gap affects all women, but it affects women of color the most. African American women experience some of the harshest pay inequities: they earn only 65 percent of what white men earn.<sup>5</sup> Over a 35-year career, that's \$420,000 less to save or invest for retirement.<sup>6</sup> For Latinas, it's even worse: they earn a dismal 55 percent of what white men earn.<sup>7</sup> Over a 30-year career, that's \$510,000 less to save or invest.<sup>8</sup> The wage gap ensures that the average woman will consistently have a lower retirement income than the average man. And for the average woman, in particular for a woman of color, the wage gap ensures that she will depend on Social Security that much more.

Even a progressive system like Social Security cannot entirely offset the impact of wage discrimination. Social Security benefits are wage-based, and women's continuing lower earnings, combined with time out of the work force for caregiving, translate into lower retirement benefits. In fact, in 2001, women's average monthly Social Security benefits were \$756, compared to average monthly benefits of \$985 for men.<sup>9</sup> For all women, the wage gap undermines economic security at each stage of life.

### *Profile: Geraldine*



Geraldine, an 82-year-old retired domestic worker, sees the value of Social Security every day. Her monthly retiree benefit of \$600 is her sole source of income, so she is extremely grateful for Social Security.

Geraldine remembers learning about Social Security at an early age; when she began working, the system was still in its infancy. She also tried to save money for her retirement whenever she could.

But Geraldine worked the majority of her life in a variety of part-time domestic jobs in hotels, restaurants, and private homes—jobs that offer low wages and no pensions, and are predominately held by women. The nature of her jobs and her wages meant that Geraldine was unable to save much for her retirement and never earned any pension benefits.

*Geraldine worked the majority of her life in a variety of part-time domestic jobs in hotels, restaurants, and private homes—jobs that offer low wages and no pensions.*

"Today, I'm living hand to mouth. A lot of women had husbands to contribute to the household income and retirement savings, but I didn't. I was just working so hard to keep my head above water."

Geraldine has long been an advocate for women's rights. At 52, Geraldine founded the Household Technicians Organization, which works to ensure equal rights for women who work primarily in "under the table" jobs. As the first chair of the National Organization for Women's Women of Color Task Force, Geraldine says, "women need to help one another in providing education to prevent the poverty of older women. Because we all get older, we need to fight racism and break down the barriers so all women will have access to the same benefits when they get older."

## *Women are America's caregivers, and they pay for it in retirement.*

Today in America, as many as 52 million Americans, or 31 percent of the adult population, are informal caregivers, providing unpaid care and financial support to people with chronic illness or disabilities.<sup>10</sup> It is an irreplaceable source of long-term care and support in America, and by and large, it is "women's work." Across the generations, it is women who act as informal caregivers for parents, children, friends, spouses, and partners. Unfortunately, they often pay a steep personal price for the care they provide. Women's health, earnings, and retirement security are put at risk by informal caregiving, and increasingly so the longer they provide care.

Nearly three-quarters of informal caregivers for seniors are women.<sup>11</sup> The typical informal caregiver for an elder is a married woman in her mid-forties to mid-fifties. She is employed full-time and also spends an average of 18 hours per week on caregiving.<sup>12</sup> In addition to juggling her career with caring for a parent, partner, or spouse, she may be the primary caregiver for her children and, increasingly, for her grandchildren as well. In fact, many women are a part of the "sandwich generation," caring for children at home in addition to older family members. Others who care for a partner or older relative, a child, or a grandchild may also be caught in the "club sandwich generation," with three or more layers of caregiving responsibilities.

Race makes a difference when it comes to informal caregiving, too. Women of all races and ethnicities juggle their jobs and caregiving roles, but caregiving has an even greater impact on African American women and Latinas, who earn much less and often care for more people. In fact, more than half of African American caregivers find themselves "sandwiched" between caring for an older person and a younger person, compared with 20 to 40 percent of the general population.<sup>13</sup> Latinas are also likely to be caring for more than one person. More than half of all Latino/a caregivers to elders also have a child age 18 or younger living at home.<sup>14</sup>

Caregiving can be an economic disaster for women and is one of the largest barriers to their retirement security. Caregiving shapes women's work force participation, as they often take more flexible, lower-wage jobs with few benefits, or stop working altogether in order to provide unpaid caregiving services. In fact, women spend, on aver-

### *Box 3: Pension Definitions*

Although this report uses the term "pension" to mean most types of employer-based retirement plans, it is important to clarify the differences between the two primary types of pensions.

**Defined Benefit Pension:** Traditional pension plans are based on a defined benefit system where the employer bears the risk for the worker's retirement plan. Subject to certain rules, such as length of service to the company and earnings, a worker is promised a set monthly benefit when she retires. The name refers to the fact that the pension offers a defined monthly benefit upon retirement.

**Defined Contribution Pension:** These pension plans gained popularity in the 1990s and now cover more American workers than their defined benefit ancestors. Often known by various names, such as 401(k), 403(b), 457, SEP-IRA, SIMPLE IRA, profit-sharing or other plans, all defined contribution plans make the employee bear all the risk for the investments. The emphasis is on the contribution, or front-end funding, and not on what the investments later may or may not offer a worker in retirement.

age, 12 years out of the work force for family caregiving over the course of their lives—whether for children, a spouse, and/or parents.<sup>15</sup> Time out of the work force diminishes their earning power even beyond the impact of the wage gap. The sacrifices caregivers routinely make during midlife—a peak earning period—reduce lifetime earnings and retirement savings. As a result of caregiving, women lose an average of \$550,000 in lifetime wage wealth and about \$2,100 annually in already desperately needed Social Security benefits.<sup>16</sup>

## *Most women don't have income from pensions or savings.*

The flexible jobs that allow women to be caregivers are usually low-wage work with few, if any, benefits, especially pensions. In order to balance the demands of family and financial need, many women have no other option but to seek part-time employment. Women make up about two-thirds of the part-time labor force, working in jobs that offer little, if any, pension coverage.<sup>17</sup> Twenty-five percent of all female workers work part-time, compared to 10 per-

cent of male workers.<sup>18</sup> And women are much more likely to work part-time during peak earning years: from age 45 to 54, women are about twice as likely to have part-time employment compared with men in the same age group.<sup>19</sup>

Part-time work is an enormous obstacle to women's achieving pension and savings parity with men. Part-time employment doesn't just mean working less; it means getting paid less for your work. In general, hourly wages for part-time workers are significantly lower compared with full-time counterparts. Women who work part-time earn an average of 20 percent less per hour than women who work full-time with comparable backgrounds.<sup>20</sup>

Because women often work part-time and dominate the industries (e.g., service sector) that generally offer low-

wage, part-time work, they are much less likely to have access to a pension. Only 21 percent of part-time workers have access to their employer's pension plan.<sup>21</sup>

Even women who work full-time aren't always offered pension plans at their jobs. In rates of pension coverage, which don't necessarily translate into vested retirement income, Latinas fare the worst. In fact, only 26 percent of Latinas have pension coverage, compared to 39 percent of both African American and white women.<sup>22</sup>

Women also change jobs more frequently than men, making vesting in a pension more difficult.<sup>23</sup> Although federal law was changed in 2001 to lower vesting requirements from five to three years in some "defined contribution" plans (e.g., 401(k)s), many women will still

### *Profile: Bev*



**B**ev, 51, says she is "counting on" Social Security for her retirement—just as she has already counted on it throughout her life. When Bev was 18, her father, the family's sole wage earner, died, leaving Bev and her mother with Social Security's widows and survivors benefits to keep them financially stable. These benefits helped send Bev to college, something her mother could not have done on her own. (Note: Social Security no longer pays benefits to survivors over 18 and in college.)

After having a child and working for a short time as teacher, Bev started a career in retail and human resources management. Her first management job, at age 30, provided a defined benefit pension that would have vested after 10 years of employment.

But because the job required frequent travel, Bev left after seven years in order to spend more time with her daughter. Despite her seven years of service, Bev received nothing from the pension.

When she was 38, Bev started contributing to a 401(k) (defined contribution) plan. Many of the jobs that she has held since have either not matched employee contributions to the plan, or have not offered a 401(k) program at all. Her current job used to match her 401(k) contributions dollar for dollar, but due to the economic downturn, the company recently cut that match by half, significantly reducing the amount Bev can put away for her retirement.

Bev's 401(k) nest egg now totals approximately \$40,000, but she has lost about 8 percent of her account during the past year: "Almost every dollar I put in this year, I lost." Her husband, whose work history has been much more varied than hers, has a much smaller pool of retirement savings in addition to a small government pension. At 51, Bev, like so many other women her age, is facing the fact that she will be dependent on Social Security in her retirement. Bev's Social Security benefits estimate shows that her retirement benefit will be \$1,600 a month at age 66, providing a significant part of Bev's retirement income.

*At 51, Bev, like so many other women her age, is facing the fact that she will be dependent on Social Security in her retirement.*

Social Security's family protections have come full circle for Bev and her mother. Bev is now a full-time caregiver for her mother, Kate, age 87, who lives in an apartment attached to Bev's house in New Hampshire. Bev's job is flexible enough that she can work full-time while providing care for her mother, but she subsidizes her mother's rent and some living expenses. Kate lives off interest and dividends from her savings, a small pension from her late husband, and Social Security. Without Social Security, Kate would have to live on about \$12,000 per year, requiring Bev to provide much more economic support to her mother.

As a human resources manager, Bev advises her employees, especially younger employees, to put in at least as much in their 401(k) as the company matches. Though she has tried to save, she knows that Social Security will be the guaranteed bedrock of her retirement income, just as it is for her mother now.

not work long enough at a job to vest in and benefit from an employer's pension plan. Older women are less likely than older men to receive pension income (28 percent to 43 percent),<sup>24</sup> when they do, the benefit is only about half the benefit men receive.<sup>25</sup>

When it comes to savings, women don't fare well in general. The hard reality is that many women live paycheck to paycheck, and little or nothing is left to invest for the future. In fact, women's lower wages prevent them from preparing adequately for retirement. You can't save what you don't earn, and the impact of wage discrimination doesn't end when the job does. While most women struggle to save for retirement, women of color have even greater income losses. Only 24 percent of older African American women and 26 percent of older Hispanic women have income from savings or assets.<sup>26</sup>

By all accounts, women will continue to be segregated in low-paying occupations. The work patterns of today's young women are also likely to follow the same course as their mothers' in the baby boom generation—with periods of paid work interspersed with time taken off for caregiving. It is an unfortunate reality that most of these young women can expect to do the same low-paying work as their mothers and, when they retire, face the same financial struggles. The concentration of women in lower-paying jobs with few benefits will continue to reduce the financial security of older women, resulting in continued over-reliance on Social Security.

### *Women live longer.*

Women live an average of six years longer than men.<sup>27</sup> A longer life expectancy affects all aspects of an older woman's life, especially in relation to retirement income. Most older Americans live on "fixed" incomes; except for their inflation-protected Social Security benefits, their monthly income will not increase in the future. Over time, inflation erodes the purchasing power of the dollar, making it increasingly difficult to make ends meet. Women's longer lifespans, combined with their lower retirement income, make them more vulnerable to the impact of inflation.

Life expectancy also has a direct effect on women's marital status, which in turn impacts women's financial security. Marital status is one of the most important factors in determining economic independence and support in old

*Almost two-thirds of women today have the same kinds of "pink collar" jobs that women have traditionally held—sales, clerical, and retail—low-wage positions that frequently offer no benefits. And they hold those jobs for the same reasons: the need to move in and out of the work force to care for families, partners, and friends.*

age. Over half of older women are single, whether widowed (45 percent), divorced or separated (8 percent), or never married (3.6 percent). In contrast, only 26 percent of older men are unmarried.<sup>28</sup> Women are four times more likely to lose their spouse than men.<sup>29</sup> Seven in ten "baby boom" women can expect to live as widows for 15 to 20 years.<sup>30</sup>

Widowed women often live alone. Of the more than 9 million older persons living alone in the United States, 80 percent are women.<sup>31</sup> Women living alone face increased economic hardships and social isolation, which has a devastating impact on their overall welfare and their financial security in particular. As single householders, women living alone have more expenses and fewer resources to live comfortably in old age.

More than half of elderly widows now living in poverty were not poor before the death of their husbands.<sup>32</sup> Compared to 4.4 percent of married elderly women, 20.3 percent of divorced, 16.5 percent of widowed, and 23.1 percent of never-married elderly women are living in poverty. For women of color, these poverty rates are even more severe. Forty-two percent of divorced, 34.1 percent of widowed, and 38 percent of never-married African American women live in poverty, while 30.8 percent of divorced and 31.2 percent of widowed Latinas live in poverty. Comparatively, 20.2 percent of divorced, 14.7 percent of widowed, and 21.9 percent of never-married white women are living in poverty.<sup>33</sup> The longer women live, the harder it becomes to financially support their growing needs.

## *Result: Women are poorer than men in retirement.*

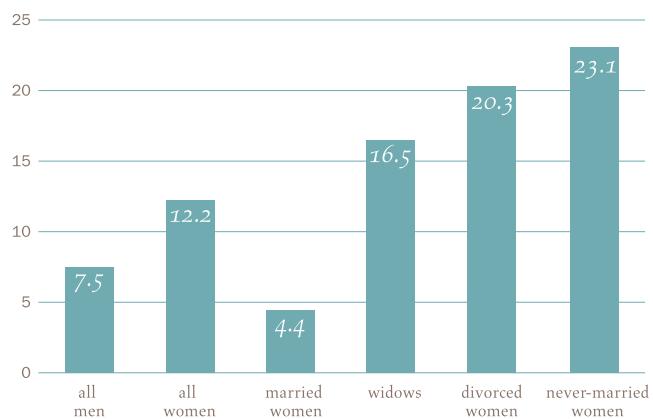
Overall, women are far more likely to live in poverty than men, but this is especially true for women as they age. As women get older, they often get poorer. With a poverty rate of 12.2 percent (compared to 7.5 percent for men), women over age 65 account for more than 70 percent of older adults living in poverty.<sup>34</sup> Women of color are more likely to be poor in retirement: 20 percent of Latinas and 26 percent of African American women over age 65 live in poverty, compared to 11 percent of white women.<sup>35</sup> For women, the risk of poverty in old age is all too real. That's why Social Security is so critical—women need the guarantee it provides. *Without it, over half of older women would be poor.*<sup>36</sup> In 1999, women accounted for three out of every five older persons lifted out of poverty by Social Security.<sup>37</sup>

The challenges women face and the decisions they make upon entering the work force have serious consequences for their economic well-being in old age. Simply put: non-entry or late entry into the job market, job interruptions, and temporary or part-time employment characterize most women's work histories. Many younger women assume this is a problem of the past, and as more women enter the work force and have greater access to pensions and other benefits, many believe their lives in old age will be different. Almost two-thirds of women today, however, have the same kinds of "pink collar" jobs that women have traditionally held—sales, clerical, and retail—low-wage positions that frequently offer no benefits.<sup>38</sup> And they hold those jobs for the same reasons: the need to move in and out of the work force to care for families, partners, and friends.

Across the spectrum, women cannot count on savings or pension income in their later years. What they can and do count on is Social Security. The reality is that young or old, poor or not, Social Security is there for women. Across the generations, it has been a constant source of needed retirement income. It has been there for grandmothers, mothers, wives, sisters, and daughters, and it must continue to be there.

*chart 2: Poverty Rates*

*Poverty rates for people, 65 and older,  
expressed as a percentage*



**source:** Social Security Administration, *Income of the Population 55 and Older, 2000* (Washington, D.C., 2002), 139–140, table 8.1.

**O**WL's SUPPORT OF SOCIAL SECURITY AS A BEDROCK of financial security for women does not preclude criticism of some inequities within the system.

OWL's recommendations both to improve Social Security for women and to reform the private pension system to better reflect women's work realities are offered in part five. This last section of the report, which begins on page 44, provides a clear picture of how OWL would remedy the problems women face in retirement.

These recommendations should not, however, be confused with the debate over privatization. Social Security's programmatic weaknesses can be corrected, women's access to pensions can be expanded, equal pay can be made a reality, and women's caregiving roles can be better recognized financially—all without destroying Social Security with privatization.

The positive effects of these improvements for women, however, would be undermined by the introduction of private accounts in Social Security. Thus, the next two sections of this report will focus on exposing the false promises of the privatization campaign.

## PART THREE:

# The Great Solvency Debate

IT SHOULD COME AS NO SURPRISE THAT discussion of Social Security's future is often heated. The sheer size of the program, as well as its importance to so many Americans, makes for passionate political and public debate. There is wide disagreement on the state of Social Security's future financial situation, making it difficult to come to a national consensus. This chapter will address the basic elements of "the great solvency debate."

### *How Social Security Is Financed*

Social Security is a "pay-as-you-go" system. Since the late 1930s, workers have paid payroll taxes to support Social Security; these funds are not kept in personal accounts, but are used to support the current generation of retirees, disabled workers, survivors, and their families. It continues to operate this way today. Current workers not only see the societal and familial benefits of supporting our nation's vulnerable seniors, but also know that they are covered by the same set of social insurance protections.

Not every generation of workers, however, is perfectly balanced in number with the concurrent generation of retirees; therefore, payroll tax revenues (income) don't always match Social Security outlays (benefits paid). For the past few decades, revenues exceeded what was needed to pay benefits. (This was an intentional result of 1983 legislation designed to shore up Social Security and prepare for the future and the retirement of the baby boom generation in particular.) The surpluses have been placed in a trust fund for Social Security, intended to be used when the baby boomer generation retired and payroll taxes alone could not cover all outgoing benefits.

### *Current Projections for Social Security's Future*

Changing demographics mean that the system will eventually have to use trust fund dollars to cover outgoing benefits. The number of workers per Social Security beneficiary is expected to drop from 3.4 in 2000 to 2.1 in 2030.<sup>1</sup> This in itself should not be cause for alarm, as the trust fund was



*Changing demographics mean that the system will eventually have to use trust fund dollars to cover outgoing benefits. This in itself should not be cause for alarm, as the trust fund was created for this exact purpose.*

created for this exact purpose—to balance the system during periods of shifting demographics or finances. Another factor is expected to affect the shortfall as well: increasing life expectancies. As people live longer, the system will have to pay benefits for a longer period of time.

Social Security's Board of Trustees (made up of three cabinet secretaries, the Commissioner of Social Security, and two outside economists) monitors the fiscal health of the program and predicts that the government will need to add interest earned from the trust fund's bonds to payroll tax revenues to meet benefit obligations starting in 2017.<sup>2</sup>

The trustees claim that in 2017, payroll tax revenues (income) will fall short of outlays (benefits paid), creating the need to spend the interest earned on the trust fund's bonds.<sup>3</sup> By 2027, the trust fund's principal will need to be tapped. The trustees' 2002 annual report estimated that in 2041 the trust fund would be exhausted. At that point, incoming revenues would be able to cover only about 73 percent of full benefit levels.<sup>4</sup> It's important to note that these estimates vary year to year, and that the past several trustees' reports have consistently postponed the date of the trust fund's exhaustion. An estimate is just that, and while it can be used to spot possible future trends, it should not be taken as simple truth.

It should also be remembered that the trustees are focused on the long-term health of the program some 75 years from now, and that it is an especially challenging task to look so far into the future. In 2001, the federal government was expecting record (non-Social Security) budget surpluses for years to come, but by early 2002, these surpluses had evaporated and Congress was predicting short-term deficits. While the surplus was partially "spent" on a massive tax cut and increases in defense and other spending, it was also quickly eroded by a downturn

in the economy. Predicting payroll tax revenues for the next 75 years is that much more difficult than shorter-term forecasting. This is evident in the fact that the trustees' projections typically change every year; in their 2002 annual report, the trustees extended the life of the trust fund by three years, from 2038 to 2041.<sup>5</sup>

The trustees' projections also assume that no changes will be made to the program's structure to head off this potential shortfall. When faced with much more dire financing challenges in the late 1970s and early 1980s, Congress made adjustments to the system's financing to boost the trust fund's long-range health.<sup>6</sup>

It can be difficult to sort out the facts amidst all the rhetoric. Some in favor of privatizing Social Security claim that the system is virtually bankrupt, while others argue that Social Security is fundamentally sound. OWL believes that we must separate passionate rhetoric from basic facts in order to come to some degree of consensus on Social Security's financing.

### *The Question of the Trust Fund*

A second question of the solvency debate is whether the trust fund actually exists. Let's put this to rest right now: the trust fund exists. The trust fund is an account in the

### *Profile: Jennifer*



Jennifer, 28, was raised by a single mother who worked diligently to provide for her two children. Jennifer says her own determination to save adequately for retirement comes in part from watching her mother work so hard—24 years at the same dry cleaner's—and still struggle to remain economically independent. Jennifer's mother's limited income made it impossible for her to put aside money for retirement—she only started contributing to a retirement plan at age 55.

Since the age of 14, Jennifer has worked at a series of jobs, all of them covered by Social Security. From 14 to 19, Jennifer worked alongside her mom at the dry cleaner's. When Jennifer was 19, her son Estevan was born. After taking six months off to adjust to her new role as a parent, Jennifer went back to work full-time. As a single mom, she is the sole provider for her family. Should she become disabled

and unable to work, Social Security's disability protections cover both her and Estevan, and for that she is grateful: "I know that the payroll taxes I pay help my grandfather to live independently and at the same time protect me and my son."

During her 20s, Jennifer has focused on raising her son, advancing her career, and building up her economic security. But her work patterns and employer experiences are typical of many her age: short tenures, modest salaries, and varying degrees of defined contribution plan coverage.

Jennifer did not qualify for her first 401(k) because she was not yet 21, even though she was clearly an adult with adult responsibilities. Her next job offered better pay but had no pension plan for its employees. At 24, Jennifer finally found a job that had a very generous 401(k) plan: a 7 percent dollar-for-dollar match and full vesting at the start of employment. Jennifer was only able to put away 2.5 percent into the plan, however, because she faced the economic reality of supporting her son on her salary alone.

As she moved from job to job, Jennifer focused on raising her income and her professional skills, and she is now employed as a web designer for a consulting firm in Virginia. She's contributing as much as she can afford (5 percent) to her current

*"When Estevan enters the work force in 10 years or so, I will teach him that his Social Security taxes go to support his grandmother and so many others like her."*

401(k), and her employer makes an annual lump-sum contribution that varies according to the company's performance. She's not fully vested in these employer contributions yet; that will take five years of service.

"I know my mother will depend heavily on Social Security in retirement. In fact, my grandfather gave my mom some of his Social Security checks over the years so that she could keep her family afloat financially. So it's already been a family program for us.

"I don't think privatizing Social Security is a good idea for any of us. I like having a 401(k) at work, but I don't want to take those risks with Social Security, and I wonder what would happen to women like my mom if young workers all pulled money out of the system to fund their own private accounts.

*"When Estevan enters in work force in 10 years or so, I will teach him that his Social Security taxes go to support his grandmother and so many others like her."*

United States Treasury where revenues are deposited and benefits paid. As the Social Security Advisory Board explains: "Funds not used for current expenses are invested in government securities, as required by law, and the interest earned is also deposited in the trust funds."<sup>7</sup> In other words, as incoming revenues have exceeded outgoing benefits, the trust fund has kept a running total of all surplus funds and has turned those surplus dollars into Treasury bond investments. It is these funds that the system will need to tap in 2027, or beyond, as estimates change. In 2001, the trust fund's assets totaled over \$1 trillion.<sup>8</sup>

Because Social Security is a government program, it isn't organized in the same way as a household budget or a bank account. Throughout the 1980s and 1990s, funds were borrowed from the trust fund to pay for other items, such as paying down the national debt, or to offset other spending to prevent the federal budget from running a deficit. When this occurred, the trust fund was issued interest-bearing Treasury bonds from the federal government—one

of the most conservative and stable investments available, backed by the full faith and credit of the United States government. If Social Security outlays exceed revenues in 2017, the interest earned on the bonds will be used to pay out full benefits. In 2027 or later, the Treasury bonds will be cashed in and the money returned directly to the trust fund in order to meet benefit obligations.

Some critics say that because the trust fund dollars have to be paid back by the government—which may mean borrowing the money from other government sources (such as general tax revenues), raising taxes, or issuing new government debt—then the trust fund does not truly exist. OWL believes the stronger argument is that the U.S. government is too powerful, wealthy, and aware of the consequences to allow a default on the bonds it owes one of its most successful and necessary programs. Calling the trust fund bonds "worthless," as some privatization advocates have, essentially challenges the safety and security of government-issued Treasury bonds,

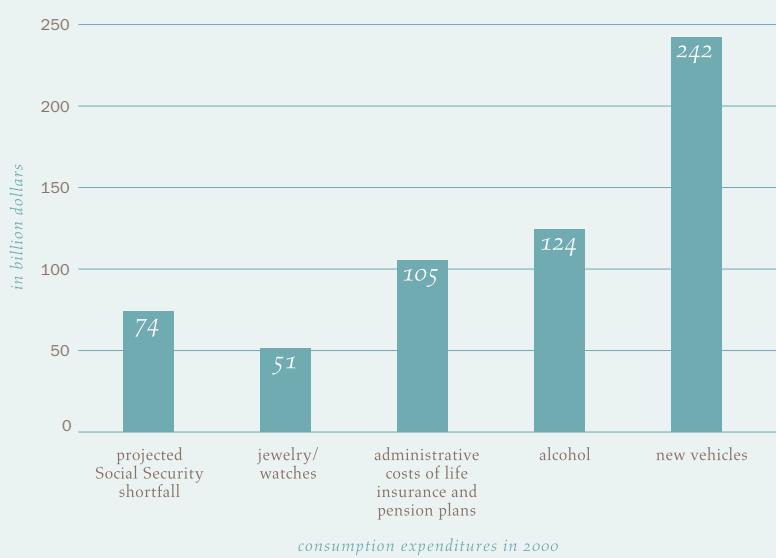
### *Actual Size of the Social Security Shortfall*

**S**ome have argued that the Social Security shortfall is large, and that the system is unaffordable. But the fact of the matter is that for the huge American economy, the shortfall represents only a fraction of what we spend on a number of consumer items, and it is dwarfed in comparison to the size of the federal government's budget.

Chart 3a takes the projected 75-year Social Security shortfall of 1.87 percent of taxable payroll, which is equivalent to \$74 billion in 2000 dollars, and compares this to the cost of national consumption expenditures in 2000 on alcohol; jewelry and watches; administrative costs of pension plans and life insurance policies; and new vehicles.

Chart 3b compares the 1.87 percent shortfall (again expressed as 1.87 percent of 2000 payroll, or \$74 billion) to total federal government spending in 2000.

*chart 3a: Actual Size of the Social Security Shortfall Compared to What We Spend On ...*



a dangerous claim with ramifications far beyond the Social Security privatization debate. The government is no more likely to default on Social Security's trust fund's bonds than it is to default on the same Treasury bonds owned by millions of individual and institutional investors.

It's easy to develop a chart illustrating the potential future solvency gap of Social Security in a way that creates alarm or a sense of urgency and wrongly predicts a doomsday scenario, but this would be misleading if not put into a larger context. OWL recognizes that Social Security may face some long-term solvency challenges. If the trustees' estimates come to pass, then the government will have to act to prevent a shortfall from cutting benefits. The political reality, however, is that lawmakers realize the importance of shoring up the financing of this vital program and would not hesitate to provide a remedy. Failure to do so would not only undermine our commitment to beneficiaries and their families but would roil the world's financial markets.

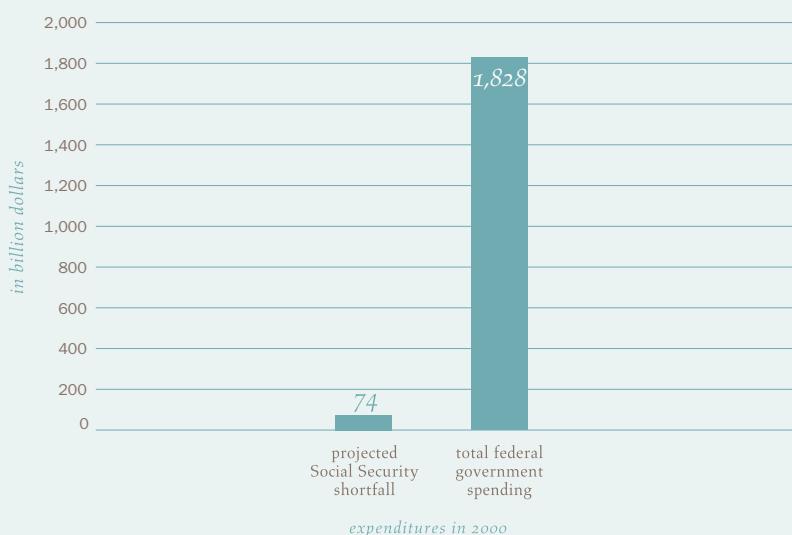
Honoring the trust fund bonds is also a political necessity.

### *The Shortfall: A Manageable Problem*

Experts do have suggestions about how to plan for a potential financing shortfall. There are many proposals that preserve the integrity of the program while shoring it up for the future. These stand in stark contrast to private accounts, which would speed insolvency and destroy the social insurance compact that is Social Security.

In 1983, lawmakers responded decisively to the threat of a short-range deficit of \$150-200 billion—a much more pressing challenge than the one we face today—and a long-term shortfall of 1.8 percent of payroll.<sup>9</sup> There were anxious cries that Social Security was poised to go bankrupt. By gradually raising the retirement age by two years for future retirees, raising payroll taxes, and making several other adjustments, not only was Social Security restored to solvency, but the trust fund was built up to prepare for future generations of retirees. Such adjustments are among a range of options that could be made today, or in 2017 if a

*chart 3b: Actual Size of the Social Security Shortfall Compared to Total Government Spending*



**SOURCES:** Social Security Administration, *2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C., 2002), and U.S. Department of Commerce, Bureau of Economic Analysis, "Personal Consumption Expenditures by Type of Expenditure," *National Income and Product Accounts Tables*, table 2.4 (2 August 2001), <<http://www.bea.doc.gov/bea/dn/nipaweb/index.asp>> (11 April 2002).

shortfall is still predicted, to ensure that there will be no shortfall in 2041.

The following ideas are not necessarily endorsed by OWL, but represent a sampling of the proposals that have been scored<sup>10</sup> by the Social Security Advisory Board, an independent advisory board created by Congress, and published in the board's 2001 report, *Social Security: Why Action Should Be Taken Soon*.<sup>11</sup>

OWL believes that the following four options represent a reasonable starting point, even if they also present some hard choices.<sup>12</sup>

- If all earnings were subject to the payroll tax (currently only the first \$84,900 of earnings is subject to FICA tax), and benefits were adjusted accordingly, *88 percent of the shortfall would be resolved*. This means that high-income people would have all of their earnings taxed, but would see higher benefits in return.
- If 40 percent of the trust fund were invested in stocks, phased in between 2002 and 2016, and earned a 6 percent yield, *42 percent of the shortfall would be resolved*. This would maintain the shared risk–shared benefit nature of Social Security whereby the individual bears no investment risk, while potentially increasing the trust fund surplus at a faster rate and helping to close the solvency gap. Private pension plans often use this tactic to share risk while maximizing return.
- General tax revenues (in addition to current payroll taxes) may be needed to guarantee that Social Security will be able to meet all of its obligations in 2041 and beyond. The general surpluses projected until recently would have gone a long way to solving any potential solvency problems, but the 2001 tax cut made most of these funds unavailable for the next 10 years.
- Raising payroll taxes by 2 percent (1 percent each for workers and employers) *would close 100 percent of the shortfall*. While not a favorite option for most taxpay-ers, this proposal still has a place in the solvency discussion. If it helps preserve the universal nature of Social Security, so that no one individual is left to sink or swim alone, then it may be worth the cost. Plus, there is an argument to be made that even with increased pay-roll taxes, workers will have more money in their pockets due to the fact that wages may very well increase faster than 2 percent over the same period.

The advisory board has also scored other proposals to close the shortfall. OWL has concerns with the following proposals—for example, cutting women's already lower benefits or removing the all-important inflation adjustment would be particularly harmful to women—but shares them here to illustrate the breadth of options available.

- If all earnings were subject to the payroll tax, but benefits were not proportionately adjusted upward for higher earners, *100 percent of the shortfall would be resolved*.
- Cutting benefits by reducing the cost-of-living adjustment (COLA) by 0.5 percentage point below CPI, beginning in 2002, *would close 40 percent of the shortfall*.
- Reducing benefits across the board by 5 percent for those newly eligible for benefits, beginning in 2002, *would close 33 percent of the shortfall*.

Even though few of the solutions are palatable to all populations, including midlife and older women, it's important to show that **this is a manageable problem**. This nation has a range of fixes to shore up Social Security, and panic should be neither encouraged nor tolerated.

While the size of the shortfall seems large, it must be viewed in relation to the size of the program, the federal government's budget, and the American economy. (See chart 3 on page 22 for an illustration of the scale of the potential shortfall.)

Another intriguing comparison is that of the shortfall to the 2001 federal tax cuts. If these tax cuts are made permanent, then they will cost the government twice as much over 75 years as Social Security's shortfall over the same period.<sup>13</sup> When the tax cut package was being debated, supporters claimed that the bill was modest in size and reasonable in cost. Surely an expense that is half as much, yet will have a greater positive financial impact on most Americans, can be affordable as well.

OWL wants to address long-term solvency issues to ensure the longevity and health of this critical program, but we reject alarmist proposals that play off unfounded fears and threaten Social Security's guarantees. Instead, we must come together to develop a studied, rational, and measured approach to keeping Social Security healthy for generations to come.

## PART FOUR:

# Why Privatization Is a False Promise for Women

**T**HIS REPORT DOES NOT ATTEMPT TO ANALYZE the details of every Social Security privatization plan proposed by lawmakers and privatization advocates. Instead, OWL will present ample evidence showing that privatization plans offer false promises to women, undermining the very social insurance system upon which women depend.

## Defining Privatization

As generally defined in the public debate, privatization plans divert Social Security payroll taxes into individually owned private accounts. The degree to which the system is thus privatized, fully or partially, differs from plan to plan, but the underlying emphasis remains the same: shifting the system from shared risk and collective gain among workers to private accounts which leave workers to sink or swim on their own. For example, during the presidential campaign of 2002, then-Governor George W. Bush proposed diverting 2 percent of a worker's salary from the Social Security trust fund to private accounts. After becoming president, he appointed a 16-member commission, the Commission to Strengthen Social Security, to provide details as to what a private account system might look like. (For more on the commission's results, see box 4 on page 26.)

### Privatizers

Who are these privatizers and why do they believe as they do? It's important for women to understand what is motivating privatization's proponents, so with all due respect to those on the opposite side of this debate, OWL offers this informal breakdown of "types" of privatizers.

### Ideology-Driven

The original privatizers for the most part are members of libertarian and conservative think tanks, and are convinced

*The new reality of increased worker responsibility for risk makes it all the more critical that Social Security's social insurance nature, with its guaranteed lifetime benefits, is preserved.*

that privatization is one way to reduce the federal government's role in citizens' lives. These advocates may also promote ideals of personal wealth building, and thus espouse private accounts as a means to this end. Their primary mission, however, is to end government support of economic security and social welfare programs and to drastically minimize the amount of federal income tax paid. One institutional example of this perspective is the Cato Institute, a libertarian think tank in Washington, D.C., with which OWL has had an ongoing healthy debate about privatization for years.

While ideology-driven privatization advocates will usually admit their ultimate goal is to dismantle Social Security and similar government programs, their arguments for private accounts are cleverly couched in terms of their concern for women, minorities, and low-wage workers, or, more broadly, wrapped up in the myth that the Social Security trust fund is bankrupt and that private accounts will improve solvency.

### Crisis-Driven

Another group of privatizers is driven by economic concerns. They believe the system's financing is unstable, cannot survive into the future, and will result in bankruptcy if something dramatic is not done soon. Although this report will show that solvency is hindered—not helped—by private account plans and that the potential shortfall is manageable, these crisis-driven privatizers are willing to completely change the social insurance nature of the system because they see the current structure as unsupportable.

### Market-Driven

If Social Security is diverted into private accounts, workers will need to find new vehicles in which to invest their

money; this does not come as a surprise to Wall Street. Billions of new dollars stand to be won by the investment and financial services industry if private accounts are built into Social Security. Consequently, Wall Street and the larger financial services industry have a huge stake in privatization and have poured large amounts of money into promoting it.

Individual investors are seen by market-driven privatizers as potential converts. The number of American households holding stock market investments (whether directly or through retirement plans) rose an astounding 61 percent from 1989 to 1998.<sup>1</sup> Saving for retirement and building a secure financial future should be a top goal for American workers; on this OWL agrees strongly. However, shifting Social Security from a defined benefit based on collective risk to a defined contribution system in which each individual bears all the risk would leave workers with no safety net and no baseline of financial protection.

### Not Driven

While not necessarily privatizers, many citizens are receptive to the 2 percent private account plans proposed by the president and many others. Gloomy predictions about Social Security's future have sunk into the consciousness of many Americans, especially younger workers, who have been told repeatedly by some that Social Security won't be there for them. A worker with this point of view has little incentive to support preserving the program. Plus, privatization plans are often wrongly advertised as added benefits on top of Social Security, or an easy way to build up a lucrative nest egg. When further educated about the strength of Social Security, however, and presented with the trade-offs of private accounts, many in this cohort are less willing to take the risk of privatization.

### Privatization Plans

To reiterate, this report does not aim to detail or critique any particular privatization plan, but rather to point out the pitfalls of common privatization strategies.

President Bush's 2 percent private accounts, his commission's three reform options, and other plans proposed by think tanks and legislators share similar concepts:

- Private accounts would be carved out of existing Social Security revenues, so that a portion of a worker's payroll taxes would not be credited to Social Security, but

would instead be diverted into a private account.

- This diversion would have an immediate and profound effect on the health of the existing system, draining it of needed taxes to pay current benefits and hastening its insolvency. In fact, the creation of 2 percent private accounts would double the current 75-year shortfall.<sup>2</sup>
- Privatizers argue that the money in individual accounts would grow to surpass the future shortfall, preserving or exceeding the level of benefits to retirees.
- Private accounts could replace a portion of one's Social Security benefits, but only if a worker's account performs very well in the market. If the private account does not perform as expected, the worker is out of luck, and his or her overall benefits would be reduced. In addition, privatization of the system would mean reduced traditional Social Security benefits for all, exerting further pressure on the private account to make up for the increased shortfall in one's benefits.

### *Box 4: President Bush's Commission to Strengthen Social Security*

In May 2001, President Bush appointed 16 people to his Commission to Strengthen Social Security. Traditionally, commissions can be an effective way for complicated problems to be solved by experts who are willing to explore numerous options, but this commission had its final recommendation predetermined by the president, as he selected only pro-privatization advocates to serve on his commission. While the 16 members were evenly split between Republicans and Democrats, all of them publicly supported private individual accounts for Social Security, making the commission a neatly stacked deck in favor of privatization.

The commission was directed to report back with specific recommendations to alter the Social Security system, but all options had to include the president's "roadmap of six principles":

1. no change in benefits for retirees or near-retirees;
2. any Social Security surplus may only be spent on Social Security;
3. payroll taxes must not be increased;

- The management of the private accounts would likely be contracted to private industry, which would in turn charge workers set management fees to invest their money.
    - Social Security is an efficient program with extremely low administrative costs (0.9 percent of benefit payments). The management fees for private accounts would likely range from 1 to 3 percent of principal, given current fee structures for similar products in the private market. This may not sound like much, but the fees would have a serious impact on women's account balances over time. (See chart 5 on page 35.)
  - Workers would have some degree of control over the investment of their private account balances.
    - In exchange for this new "power" to control contributions, workers would assume all risk for their account. While this may seem like a reasonable trade-off, it is already the basis of today's workers' retirement savings vehicles: personal savings and investment and pension plans (such as 401(k)s)
- that are invested in the market by individuals. If we shift even more risk to workers via private Social Security accounts, the trade-offs may be severe—poor investment choices, bad luck, and small accounts eroded by high management fees. Even if some benefit personally from private accounts, the collective nature of Social Security would be lost, and many would suffer the consequences. (For more on the shifting of risk argument, see page 32.)
- To absorb the loss of income to the trust fund, privatization plans nearly always involve proposals to cut benefits in some way. One proposal from the president's commission would change the way a worker's initial benefits are calculated. Now, the benefits are based on nationwide wage growth; the commission would switch to using inflation as the basis.
    - This idea is not a meaningless economic trick. Because wages generally rise faster than inflation, shifting to an inflation indexation would lower benefits substantially.

4. the government must not invest Social Security funds in the stock market;
5. disability and survivors benefits must be preserved; and
6. the plan has to include "individually controlled, voluntary personal retirement accounts."

In December 2001, the commission released its final report, which outlined three options for reform. All three options include diversion of payroll taxes from the general trust fund into private accounts—from one to four percentage points. Option one does not even attempt to restore solvency—the commissioners admit that it only makes a "modest" contribution to solvency restoration and really just serves the "higher objective" of opening private accounts.

Options two and three claim to offer increased benefits for private account holders—the argument being that the private account dollars will grow to exceed what one would have received with Social Security alone. However, many critics of this approach point out that this diversion of dollars will eventually lead to benefit cuts. Without the flow of everyone's payroll taxes into the trust fund, there will inevitably be less to support the system, leading to a reduction in benefits. One of the plans goes a step further and changes the formula by which Social Security benefits are calculated from a wage

index to an inflation index. This would also lead to reduced benefits for future retirees.

Another critical issue in this debate involves the source of the money that would be needed to cover the "transition" costs to private accounts. The commission left Congress to decide where this money would come from. This is no small accounting task—it would take more than \$1 trillion to bridge the gap between the current system and one with private accounts.<sup>26</sup> To take this money out of the trust fund would only hasten the system's solvency threat by many years, and, OWL argues, would break the promises made to the workers who generated the trust fund surplus.

In the commission's report and at their press events, the commissioners went to great lengths to highlight the benefits they feel would especially help low-income workers, minorities and women. In particular, options two and three include increased survivors benefits (75 percent of previous joint benefits, instead of roughly 66 percent) to more effectively keep older women out of poverty—an improvement to Social Security that OWL has long advocated for. But if benefits are reduced and Social Security's security is undermined, then 75 percent of less won't be a better deal at all.

## Why Privatization Won't Work for Women

In parts one and two of this report, OWL illustrates the state of women's retirement security and its underlying causes, as well as women's unique stake in Social Security's future. Part five provides detailed policy recommendations to both strengthen Social Security for women and simultaneously reduce their dependence on the program. Part three addresses concerns about Social Security's solvency, and the need for measured, and not alarmist, debate.

Given these retirement realities for women, let's look very closely at the promises privatizers are making to women.

### *False Promises*

Although privatizers work hard to convince skeptics that their proposals have been developed with women's unique needs in mind, OWL reminds women to scrutinize these promises carefully. Many provisions to improve the current system for women (found in part five of this report and promoted by women's organizations like OWL for decades) have been incorporated into privatization plans, but this token effort is eclipsed by the destructive design of private accounts. For example, a private account plan that increases widows benefits to 75 percent sounds good—until you consider it's only 75 percent of a benefit that's already been cut by 42 percent (see chart 7 on page 37), as a result of the diversion of dollars from the entire system into private accounts.

### *Profile: Tyra*



Tyra, 23 and a management analyst at the National Weather Service, has already reaped the benefits of Social Security. Although people sometimes assume Social Security is only financially beneficial for individuals 65 and over, Tyra received survivors benefits when her mother died at a young age.

"After I lost my mother to heart failure when I was 15, I began to receive Social Security survivors benefits. My grandmother, who became my legal guardian, did not expect to be raising another child in her senior years in life," recounts Tyra.

Tyra's grandmother relied on the monthly Social Security income to supplement her own retirement savings and benefits in order to raise Tyra. Now saving for her own retirement through a federal pension plan comparable to a 401(k), Tyra will never forget the importance of Social Security for women of all ages.

"Mother's Day is always a very reflective time for me. The pain of not having my mother with me is eased by the warm memories of her and me together and the thoughts of how proud she would be of me today.

"Because of these benefits, I was able to attend college. There was no way my grandmother would have had the financial ability to send me to college, without tapping even further into her own retirement savings. Thanks to the survivor benefits, I have had the opportunity to earn a bachelor's degree from Howard University and a master's degree in human services and counseling from Regent University.

*"Social Security helped me to secure my future by obtaining higher education. I am so very grateful it was there for me..."*

"Social Security helped me to secure my future by obtaining higher education. I am so very grateful it was there for me, and it is my hope and prayer that Social Security will remain strong and available for all Americans—generation after generation."

Due to her positive experience with Social Security, Tyra spends much her time telling her story at public and press events; she recently testified before the Social Security Subcommittee of the House Committee on Ways and Means. She has worked with a number of Social Security campaigns, including OWL's "Just the Facts Ma'am: The Truth about Women and Social Security."

*Here's what privatization plans really do for women:*

**Private accounts destroy the social insurance nature of Social Security.** The collective spirit and structure of Social Security, with its shared risk and shared gain, are especially critical for women. Women benefit from the progressive approach to paying benefits because they make less money than men and are more likely to take time out of the work force for unpaid caregiving. Many African American women and Latinas are particularly assisted by the progressive formula, because, on average, they earn even less than other women.

A private account would immediately divert a large piece (almost a fifth; see chart 6 on page 36) of payroll tax away from paying current beneficiaries their retirement, survivors, or disability benefits. Risk would be borne by the individual worker, and workers, especially those who benefit from the progressive formula, would be less protected by the collective system. Current beneficiaries would also be at risk, as funding for their benefits would be compromised by the private account diversion. *Soon, it would be every worker for him or herself.* A high-wage worker who earned more money and who consequently would have more to invest would have a greater chance of surviving with a private account, assuming the investments do well and he or she doesn't become disabled or die.

Another worker, however, such as a woman who earns 73 percent of what a man earns for comparable work and takes 12 years out of the work force to raise children and care for elderly parents, would have far less to show for her private account. Privatizers counter that they would preserve minimum benefit levels, or even increase benefits paid to the most vulnerable workers, but their version of Social Security could not possibly afford to do so. With so much of the payroll diverted, how could a crippled system increase minimum benefits for workers? It couldn't, and women would suffer the consequences.

**Private accounts don't offer Social Security's insurance against unexpected events.** Another feature of a social insurance program like Social Security is its protection against unexpected, life-changing events. As described in part one, Social Security offers a wide array of protections for workers and their families, far beyond other retirement plans.

*Although the lure of "better stock market returns" is enticing to workers concerned about retirement, we cannot lose sight of the forest for the trees.*

*Private accounts will weaken a strong set of insurance protections already in place in Social Security, and will not replace them.*

For example, only 15 percent of American workers have private long-term disability insurance plans, and most of these policies are provided by employers.<sup>3</sup> Social Security disability insurance, however, covers nearly all of the American work force, serving an acute need that otherwise would go unmet.

Social Security is not just for retirees; it is also there when life takes tragic or unexpected turns. Social Security is there for the 28-year-old widow who must now provide for her children on her own; for the 35-year-old single woman who becomes disabled after an accident or illness; for the children of a working 40-year-old mother who dies; and for so many more. *In fact, one-third of all Social Security beneficiaries are children, widows, and people with disabilities.*<sup>4</sup> This system of social insurance allows families to count on a minimum floor of financial support should they lose their primary or sole breadwinner.

How would a privatized system provide a safety net for divorced women, widows, survivors with young children, women with disabilities, and others? Privatizers claim that they would preserve the disability and survivors elements of Social Security, but it's hard to imagine how. First, the massive diversion of dollars out of the system and into private accounts would be felt particularly hard by the disability and survivors programs, as it would immediately reduce the amount of revenue available to pay current beneficiaries. Second, disability beneficiaries who are not working, and thus are not paying payroll tax, would not receive the option of having a private account.<sup>5</sup>

In the future, it's also unlikely that private accounts would protect individual workers from financial hardship due to death or disability as well as Social Security does. A 32-year-old stay-at-home mother would not have enough saved in her or her husband's private accounts to help keep her family from financial ruin if she became a widow, whereas Social Security's rock-solid guarantee would protect her.

It is highly unlikely that disabled workers or children of disabled workers would benefit from private accounts, as funds most likely could not be withdrawn from such an account before retirement or until the death of the account holder. On the other hand, surviving spouses and children might benefit from a deceased worker's individual account, as they could inherit the money in the account. It's not clear whether a wife would have access to her husband's account at the time of his death, or if she would have to wait until she reaches retirement age to access the funds in his account. Moreover, if a man were in debt at the time of his death, the funds in the private account might be attachable to the debt, in which case his wife and children might therefore receive nothing from the account.

Under the current Social Security system, a divorced woman who had previously been married for 10 or more years may be entitled to 50 percent of her deceased former husband's Social Security benefits. However, a divorced woman would not be entitled to receive a share of her ex-husband's private account, unless the divorce settlement specifically stated otherwise. How might a man's private account be divided among multiple ex-wives?

Further, under the current system, children under the age of 18 are entitled to 75 percent (up to a certain maximum) of a deceased parent's Social Security benefits. However, children might not be guaranteed a portion of the deceased parent's private account. Rather, a child would have to share it with other siblings, a surviving parent, other dependents of the deceased parent, and others who may have legal claim to the money.

Although the lure of "better stock market returns" is enticing to workers concerned about retirement, we cannot lose sight of the forest for the trees. Private accounts will weaken a strong set of insurance protections already in place in Social Security, and will not replace them.

### *Box 5: False Promises to Divorced and Minority Women*

The President's Commission to Strengthen Social Security took special notice of divorced and minority women in its writings, and other privatizers pitch private accounts to these two populations in particular. Here's why their promises ring false.

#### **Divorced Women and Social Security Privatization**

*The facts about divorced women, retirement income, and Social Security:*

- Older women who are single are much more likely to be poor than those who are currently married. Compared to 4.4 percent of married elderly women, 20.3 percent of divorced older women are living in poverty.<sup>18</sup>
- Ninety times more women than men are dependent on a spouse's or ex-spouse's earnings for Social Security retirement benefits.<sup>19</sup>
- Divorced women have reduced access to pensions. Not only do women as a whole have less pension coverage, but a divorced woman might not receive any benefits from her ex-spouse's pension because such decisions vary case by case and court order by court order.<sup>20</sup>
- Divorced women may have increased caregiving responsibilities, such as being a single parent or caring for their extended family members by themselves. Caregiving impacts women's retirement security for a variety of reasons, including time out of the work force to provide care and taking lower-paying but more flexible work to juggle caregiving and employment.

#### **Risks of privatization:**

- No guarantee of any of his retirement benefits. Privatized accounts would not offer the same guarantees for divorced women as Social Security's guaranteed, inflation-adjusted benefits. Social Security provides survivors and retirement benefits to a woman who was married for at least 10 consecutive years to the same man—the ex-husband has no say in the matter and it doesn't reduce his benefits at all. But under private accounts, an ex-wife would have only one chance to get a share of her ex-husband's private account: the divorce proceedings. Because this would automatically reduce his retirement security, it's likely to be a contested asset. Second and third marriages are becoming

increasingly common, yet a later ex-wife may be completely out of luck, as the first woman to the courthouse would have the best chance of securing some of her ex-husband's private account. And it's certainly not a guarantee that a divorced woman would be entitled to any of her ex-spouse's account.

- No protection against disability or early death. Privatization destroys the social insurance nature of the Social Security system—it's each woman for herself, instead of a communal approach to helping those in need. Social Security protects families against unexpected events like the loss of a breadwinner or the onset of a disability. Private accounts can't offer this level of protection, so a divorced woman who becomes disabled, or whose ex-husband dies, might not have Social Security to turn to for financial assistance.

#### **Women of Color and Social Security Privatization**

*The facts about women of color, retirement income, and Social Security:*

- Women of color earn less, have less to save, and therefore end up with less in retirement. African American women earn only 65 cents for each dollar earned by white men and Hispanic women only earn 55 cents, while white women earn 75 cents for each dollar earned.<sup>21</sup> Only 24 percent of older African American women and 26 percent of older Hispanic women have income from savings or assets.<sup>22</sup>
- Women of color are 2 to 2.5 times more likely to be living in poverty than white women. Almost 20 percent of Hispanic women over 65 and 25.8 percent of African American women over 65 are living in poverty, compared with 10.8 percent of white women.<sup>23</sup> Without benefits, 66 percent of African American women and 61 percent of Hispanic women over age 65 would be poor, compared with 52 percent of white women.<sup>24</sup>
- More than any other group, women of color depend on Social Security. Because of their lower lifetime earnings, women of color rely heavily on the progressive benefit formulas of the program. Fifty-four percent of older unmarried African American women and 55 percent of older unmarried Hispanic women depend on the program for at least 90 percent of their income.<sup>25</sup>



*Privatization destroys the social insurance nature of the Social Security system—it's each woman for herself, instead of a communal approach to helping those in need.*

#### **Risks of privatization:**

- Loss of disability and survivors benefits. Privatization would undermine these social insurance benefits and important guarantees they provide. Because African Americans and Hispanics draw disability and survivors benefits to a greater degree, women of color would be the most severely affected if these benefits were cut.
- Loss of the current progressive benefit. Privatization would negatively alter the basic structure of the program, moving it from one based on shared risk to one based on individual risk. Because women of color earn less and are more vulnerable to a life of poverty, they depend most on the progressive distributive formula, the cost-of-living increases (COLA), and the basic lifetime guaranteed benefit.

**Private accounts don't come with an inflation-adjusted guarantee.** Private accounts cannot offer what Social Security does: guaranteed benefits that never decrease, benefits that are adjusted for inflation, and benefits that workers can never outlive. For all the reasons listed in part two—lower wages, lower pension coverage, more time out of work force for caregiving, and longer life spans—women must have Social Security as a solid financial base they can depend upon.

If Social Security were converted to private accounts, retirees would likely be forced by plan regulations to turn to annuities to convert their cash account into equal monthly payments. The insurance company offering the annuity determines how much of a monthly benefit will be granted, based on the amount of money in the account and the projected life expectancy of the retiree; the goal is to have a steady stream of income for as long as the retiree lives.<sup>6</sup>

Private insurance companies, however, will be making market-based (i.e., profit-minded) decisions, which in this case may work against women's interests. For example, women's longevity means that an insurer must hedge against the likelihood that his female client will live longer, so her annuity will buy her less of a monthly benefit than a man with the same account balance. The fact that women have smaller accounts to start with and are likely to live many years longer than men means that annuity policies offer women a reduced monthly benefit from the start.

Privatizers have made much of the fact that private accounts could be passed down from one generation to another, building family wealth. This overlooks the fact, however, that all major privatization plans require that workers annuitize most or all of their private accounts upon retirement in order to ensure they do not outlive their money.<sup>7</sup> Once an account is annuitized, there is no lump sum investment to leave to heirs.

Worst of all, the private annuity market does not offer inflation-adjusted policies that are reasonable in cost and do not further decrease women's monthly payments. Even if a woman found a rare inflation-adjusted policy that she could afford, she would receive a dramatic reduction in monthly benefit in exchange for inflation indexing.

Cost-of-living adjustments, which are built into Social Security, keep women's standard of living decent as they age. Without such protections, inflation is a major risk for

retirees living on a fixed income. For example, assuming a 3 percent annual rate of inflation, the purchasing power of \$10,000 of retirement income erodes to \$7,441 after 10 years.<sup>8</sup> This cost-of-living feature cannot be replicated by the private insurance market without further reducing women's monthly income, and this is yet another reason why private accounts wouldn't work for women.

**Private accounts ask women to bear more risk.** Remember the "three-legged stool" theory of retirement from part two? The three legs (Social Security, pensions, and personal savings) are supposed to not only give a worker three sources of retirement income, but to create a balance of risk, so that the employer, the worker, and the government all bear a share of the risk. (See box 2 on page 13.)

Women have been balancing on a one-legged stool for some time now. The personal savings and investment leg is wobbly or non-existent for most women. The wage gap (73 cents to a man's dollar in 2001<sup>9</sup>) means women cannot save their way to parity with men; you simply can't save what you don't earn. Contrary to popular opinion, this situation is not improving for women. The wage gap remains a chronic problem: It hovered between 70 and 74 percent throughout the 1990s.<sup>10</sup>

Women also have low rates of pension coverage, so they can't rely on the pension leg. Classic "defined benefit" pensions are growing increasingly rare. The newer forms of employer-based pension plans are called "defined contribution" plans (for example, 401(k), 403(b), SEP-IRA, and profit-sharing). Defined contribution plans more than doubled in number from 1978 to 1998, while the number of defined benefit plans fell by half during the same 20-year period.<sup>11</sup> (For definition of terms, see box 3 on page 15.)

While women have greater access to defined contribution plans, they must bear all the risk of those plans. For example, a worker with a defined benefit pension certainly contributes to her retirement plan, as does her employer, but she does not have to worry about the investment of those funds. The employer handles the long-term health of the program and promises the worker a set amount based on years of service, salary, and other factors. This provides a retiree with a dependable source of monthly income after her years of service.

The newer, increasingly popular, defined contribution plans allow workers and their employers to make tax-advantaged contributions to the plan, but the worker is the one who manages the account and maintains investment control over her money. There is no promise of investment return, and the worker bears all the responsibility for her portfolio's performance. It's up to the worker to convert the lump sum into an annuity in retirement, or find another way for the money to last for as long as she lives in retirement.

This persistent shift from defined benefit plans to defined contribution plans must be taken into consideration when looking at the three-legged stool and Social Security. Although there are arguments in favor of defined contribution plans (they are easier for companies to manage; more portable; more suited to changes in work force patterns; and popular with workers), there is no denying that they shift the risk from employer to worker.

A worker with a defined contribution pension plan is now bearing the risk for two of the three legs of the stool:

pensions *and* personal savings. Given the popularity of the stock market, it's also likely that a majority of her defined contribution pension (401(k) plan) and personal savings (IRAs, mutual funds) is invested in the stock market. Incorporating private accounts into Social Security means she'll have to take on even more risk and give up the protection of the one risk-free leg of the stool.

The fact remains that only 53 percent of working Americans have any form of pension coverage.<sup>12</sup> The rest have only two legs of the stool to balance upon, making Social Security's steady income even more critical.

It's wise to save on your own and to contribute to a retirement plan at work, but that means you take on all the risk—the risk of investment performance, the risk that your savings will erode over time, the risk that you will outlive your assets. This new reality of increased worker responsibility for risk makes it all the more critical that Social Security's social insurance nature, with its guaranteed lifetime benefits, is preserved.

### *Profile: Amy*



**A**my, a 31-year-old graphic designer, is exactly the type of American that privatizers would like to recruit. She's young, earns a decent salary, believes in the long-term prospects of the stock market, and is actively involved in her own retirement planning.

Amy contributes 10 percent of her pre-tax salary to a 401(k) at work, puts away the maximum she can into a Roth IRA every year, buys stock directly through an online brokerage, and is even

involved in a stock investing club in her community.

Yet she firmly believes in preserving Social Security as a social insurance program with a guaranteed, lifetime benefit.

"Private accounts are a horrible idea for Social Security. As someone who's heavily invested in the stock market and will likely never work at a job with an old-fashioned [defined benefit] pension, I don't need another opportunity to take on more personal risk in my investments. I have plenty of exposure, opportunity, and risk in my 401(k), my IRAs, and my direct stock investments. Instead, I need a baseline of protection that I can't outlive, that I can't lose to poor investments, and that I know will be adjusted for inflation in my retirement years."

"Plus, I like the concept of collective social insurance—I know my parents, my partner's parents, and so many elders in our society can rely on it for a baseline of retirement benefits, which in turn makes

my life more financially secure. Also, the disability protections are particularly valuable to me, given my age and my dependence on my paycheck.

"The only thing I don't like about Social Security is the fact that, as part of a lesbian couple, my partner would not be eligible for any benefits based on my earnings should I die before she does, should she become a caregiver to our (future) children, or should I become disabled. I hope this discriminatory approach can be rectified soon."

*"I need a baseline of protection that I can't outlive, that I can't lose to poor investments, and that I know will be adjusted for inflation in my retirement years."*

**Private accounts offer less reward than promised.** Privatization of Social Security has been promoted as a means to build wealth for retirement and to pass on wealth to children. However, a closer look behind the numbers reveals that most working women would only accumulate a small amount in their individual accounts.

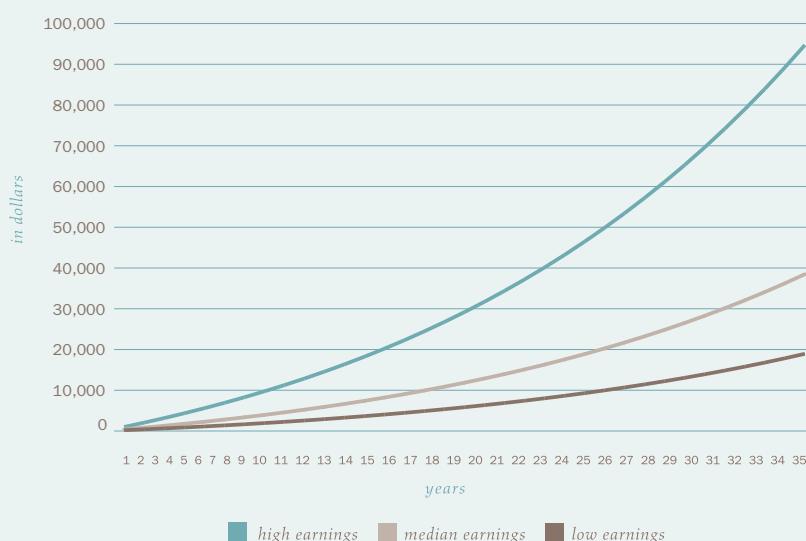
For example, the median wage for a woman in 2000 was \$20,309 annually. Under a privatized system, this woman could deposit up to \$406 dollars into her private account (2 percent of her wages). If she did this every year for 35 years, she'd have a total of \$38,470 (in 2000 dollars).

This includes the compounding of investment return and a net real return on investment of 4.6 percent. How far will \$38,480 take her in retirement? Assuming she lives for another 20 years after retiring, and shifts her investment to 100 percent government bonds at retirement, she will receive about \$204 (in 2000 dollars) per month of income from the individual account alone. However, after 20 years she will have exhausted her savings. Had she stretched her savings over a longer period of time—30 years—she would have received only \$153 per month. The income from her private account is on top of Social Security, of course, but

### 2 Percent Doesn't Add Up: Retirement Income from Private Accounts for Working Women

	<b>Annual Contribution into Private Account</b>	<b>Total Amount Accumulated after 35 Years</b>	<b>Monthly Retirement Income from Private Account</b>	<b>Note:</b> The calculation assumes 35 years in the workforce, 1 percent real wage growth, and a net real return on investment of 4.6 percent (6.5 percent on stocks, 3.5 percent on corporate bonds, 3 percent on government bonds; and a very low 0.3 percent management fee).
Low Earnings: \$10,000/year	\$200	\$18,942	\$100	
Median Earnings: \$20,309/year	\$406	\$38,470	\$204	
High Earnings: \$50,000/year	\$1,000	\$94,712	\$502	

*chart 4: Accumulation of Funds in a Woman's Private Account Over 35 Years*



**Sources:** Social Security Administration, *2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C., 2001), table V.B1; President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans*, final report (Washington, D.C., 2001), 88; U.S. Bureau of the Census, "Work Experience in 2000—People 15 Years Old and Over by Total Money Earnings in 2000, Age, Race, Hispanic Origin and Sex," *Annual Demographic Survey: March Supplement*, table PINC-05, part 61 (10 December 2001) <[http://ferret.bls.census.gov/macro/032001/perinc/new05\\_000.htm](http://ferret.bls.census.gov/macro/032001/perinc/new05_000.htm)> (11 April 2002); Dean Baker and Mark Weisbrod, *Social Security: The Phony Crisis* (Chicago: University of Chicago Press, 1999); and Social Security Administration, 2002 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C., 2002).

those benefits would likely be dramatically reduced due to privatization (see chart 7 on page 37).

Chart 4 shows how women in three wage brackets might fare with 2 percent private accounts.

Low-income women would accumulate much less. About 26 percent of working women earn \$10,000 or less per year, and would have limited ability to save up sufficient funds for retirement under a privatized system. A typical low-income woman earning \$10,000 who deposits 2 percent into a private account would accumulate only \$18,942 (in 2000 dollars) over a 35-year period. This would provide her with a monthly income of \$100 per month (in 2000 dollars)—not even enough to pay for her groceries.

Only for high-income women does a privatized system provide a viable opportunity to save for retirement. In 2000, only 10 percent of working women earned \$50,000 or more per year. A woman with annual earnings of \$50,000 per year could accumulate almost \$100,000 (in 2000 dollars) over a 35-year period, leaving her with \$502 per month (in 2000 dollars) over 20 years in retirement.

However, it is important to note that this likely overestimates the accumulated retirement savings of most women. Many women will take time off for caregiving, thereby spending less than 35 years in the work force, and

therefore have fewer working years and less money to deposit into a private account.

### Private accounts are tied to stock market volatility.

A woman's retirement security should not depend on the year she is born, the year she starts working, or the year she retires, yet all of these dates affect her rate of return on stock market investments. Averages in stock market growth are just that—averages. They don't tell us how an individual woman will fare, nor do they protect her from the inevitable fluctuations of a risky market.

Acknowledging the uncertainty and added risk of stock market investing does not disparage such investing by women outside of Social Security, nor is it meant to imply that OWL does not strongly encourage women to save and invest for the future; we do. But the opportunity for higher returns is always paired with a higher level of risk, and rates of return can vary greatly.

When considering this issue, the Congressional Budget Office (CBO) reminds us that: "According to historical data, investors face about a 25 percent lower return from holding a portfolio of stocks in the Standard & Poor's 500 index for 10 years than from holding 10-year government notes for the same time. Moreover, for several years

*chart 5: Erosion of Investment in Private Accounts Due to Management Fees*



Note: The calculation assumes a one-time investment of \$100 and a real rate of return of 4.9 percent per year.

**Sources:** Social Security Administration, 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2001); Dean Baker, "The Hidden Costs of Private Accounts," chap. 3 in *Saving Social Security with Stocks: The Promises Don't Add Up* (New York: The Century Foundation, 1996); Kelly A. Olsen and Dallas L. Salisbury, "Individual Social Security Accounts: Issues in Assessing Administrative Feasibility and Costs," EBRI Issue Brief 203 (November 1998), 20, chart 5 <<http://www.ebri.org/pdfs/1198ib.pdf>> (11 April 2002); *Are Individual Accounts Administratively Feasible?* (Washington, D.C.: Employee Benefit Research Institute, 2001), 2; and Social Security Administration, 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2002).

in a row, a stock portfolio could lose money relative to a bond portfolio.”<sup>13</sup>

The question is not whether women should be invested in the stock market, but whether it is wise risking the security and stability of Social Security’s guaranteed benefits to the stock market’s unpredictability. Given that more and more women with pensions have defined contribution pensions (such as 401(k)s), which tend to be individually invested in the market, and given the popularity of IRAs, mutual funds, and online brokerage accounts for additional savings and investment, *it would be a fundamental mistake to turn Social Security’s rock-solid financial protections into yet another asset that will depend on the fluctuations of the stock market.* Financial advisors warn clients not to put all their eggs in one basket and to keep a balanced approach to their retirement planning. A balanced approach includes Social Security in its current form. Americans, particularly women, must not overlook this message for the sake of the false promises of private accounts.

### Private accounts cost more to administer.

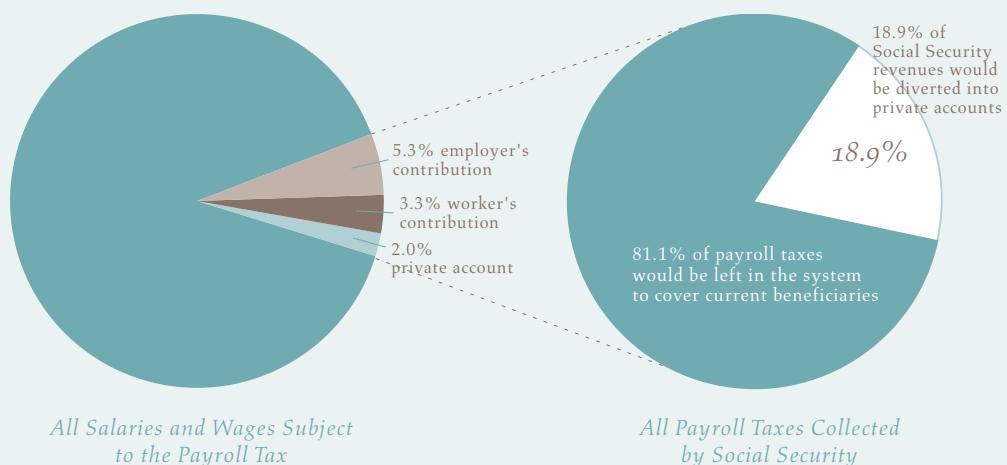
Social Security has a very low administrative cost rate of 0.9 percent (based on total outlays; it’s 0.8 percent based on total revenues). It would be virtually impossible for millions of private accounts, divided among workers, to match that rate. We know who would benefit from this arrangement—the financial industry, which would levy 1 to 3 percent fees in order to manage the money in private accounts. Who will lose? The worker whose investments are slowly eaten up by fees. Women, whose lower wages translate into smaller private account balances, will be particularly harmed by this pattern.

Administrative or management fees don’t always sound like a lot, but the impact on investment is clear over time. Chart 5 on page 35 shows the erosion of investments with varying levels of administrative or management fees. For example, even using the extraordinarily low 0.3 percent management fee used by the president’s commission, if you deposited \$100 today, you would pay 30 cents this year in management/administrative fees. The

*chart 6: 2 Percent is More Than It Appears...It's 18.9 Percent of Payroll Taxes*

In 2000, the total taxable payroll was \$3,960 billion, and the total amount collected in payroll taxes was \$420 billion.

If a 2 percent private account plan were in effect in 2000, then 2 percent of payroll, or \$79 billion, would have been diverted to private accounts, thereby reducing Social Security’s revenues by \$79 billion, which is equal to a reduction of 18.9 percent.



**SOURCES:** Social Security Administration, 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2001), and Social Security Administration, 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2002).

Note: This chart uses a figure of 5.3 percent for employer and worker contributions, representing the full 6.2 percent tax less the 0.9 percent paid to the disability (DI) trust fund, because private accounts merely offer a retirement savings vehicle and would not include disability protections.

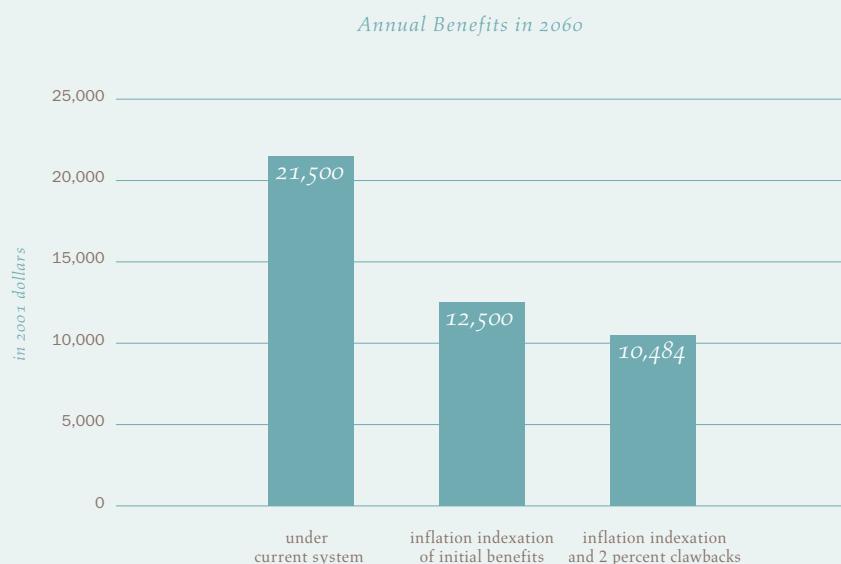
## *Privatization Could Cut Social Security Benefits by 42 Percent or More*

**O**ne plan proposed by President Bush's Commission to Strengthen Social Security would index initial benefits to inflation instead of wage growth. Under the current system, initial benefits, earned over the years a person is in the work force, are indexed to the economy-wide growth in wages for the determination of Social Security benefits. Because wages generally are increasing faster than inflation, shifting to an inflation indexation of initial benefits would significantly lower benefits. Aaron, Munnell, and Orszag (2001) estimate that this could reduce Social Security benefits by 42 percent—from \$21,500 to \$12,500—for a worker retiring in 2060 (in 2001 dollars).

Furthermore, the proposed plans involve so-called “clawbacks,” whereby money is diverted from the Social Security system into private accounts. Aaron, Munnell, and Orszag argue that “traditional Social Security benefits would be reduced by an amount that is related to the amount that was contributed to the individual accounts.” A 2 percent clawback could reduce Social Security benefits by an additional 16 percent to \$10,484.

Indexation of benefits to inflation instead of to wage growth, combined with a clawback of 2 percent, could reduce traditional Social Security benefits to less than half of what a retiree would be guaranteed under the current system.

*chart 7: Privatization Could Cut Social Security Benefits by 42 Percent or More*



Note: These estimates do not reflect the fact that women are likely to receive even lower benefit levels due to the wage gap and time out of the work force for caregiving. The average Social Security benefit for men and women the first year of retirement in year 2060 is \$21,500. Given that women earn about 72 percent of men's earnings, women's Social Security benefit would be about 28 percent less than men's. It follows that women's benefit, as percentage of the average benefit for men and women, would be about 83 percent. In sum, if the average Social Security benefit for men and women were \$21,500, then the average for women would be \$17,845.

**sources:** Henry Aaron, Alicia Munnell, and Peter Orszag, *Social Security Reform: The Questions Raised by the Plans Endorsed by President Bush's Social Security Commission* (New York: The Century Foundation, 2001) <<http://www.centeronbudget.org/11-30-01socsec.htm>> (11 April 2002).

next year, you would pay 31 cents if your investment of \$100 had grown to \$105; the following year, 33 cents, and so on. After 35 years, you would pay a total of 5 percent of your total accumulated investment in management fees alone. Again, it's far more likely that management fees would run from 1 to 3 percent, not the commission's estimated 0.3 percent.

Typical management fees on 401(k) plans, however, range between 1 and 1.5 percent annually and can be higher, depending on the brokerage firm and range of investment options. Management fees of 1 to 1.5 percent significantly reduce the return on the investment. *A 1 percent annual management fee adds up to 20 percent of accumulated investment after 35 years.* This means that a person has 28 percent less (\$367 compared to \$509) in her account after 35 years than she would have had if there were no management fee. Finally, an annual fee of 1.5 percent is equal to fully 31 percent of accumulated investment over 35 years—or 39 percent less compared with no management fee.

For some earners, these fees may be insurmountable to achieving real growth in private accounts. The Employee Benefit Research Institute (EBRI) estimates that the average administrative cost (excluding investment fees) of private defined contribution plans with over 10,000 participants is \$49 per participant per year. According to EBRI: “Administrative costs would equal at least 10 percent of annual account balances for the 46 percent of workers earning \$15,000 or less in a given year. In other words, many participants would need to earn over 10 percent returns on their investments that year in order to break even.”<sup>14</sup>

**Private accounts speed up insolvency.** To the casual observer, taking 2 percent of one's salary for private accounts would seem to have a negligible impact on the overall system. This is what privatizers would like you to believe, but this is yet another misleading argument.

Two percent of one's own salary means roughly one-third of employee contributions to the payroll tax, *not* 2 percent of the total tax paid, a point that is often overlooked. Diverting 2 percent of payroll to private accounts translates into diverting 18.9 percent of payroll taxes paid into the system (see chart 6 on page 36).<sup>15</sup> A privatization plan with 2 percent diverted accounts would mean an 18.9 percent cut in Social Security taxes available to pay current

*The question is not whether women should be invested in the stock market, but whether it is wise risking the security and stability of Social Security's guaranteed benefits to the stock market's unpredictability.*

beneficiaries, which could very well lead to a corresponding cut in benefits.

Less money coming into the system to pay current beneficiaries changes the long-term fiscal health of the Social Security system, of course. The diversion of 18.9 percent of incoming revenues, plus the addition of costly transition expenses, would damage Social Security's finances immediately and definitively. This dramatic reduction in the trust fund would increase the necessity of program reforms—which would likely include benefit cuts and raising the retirement age.

**Private accounts may drive benefit cuts.** As chart 7 (page 37) illustrates, privatization plans have several components that could reduce benefits by as much as 42 percent. Changes in the way initial benefits are calculated (changing from a wage-based index to an inflation-based index) could dramatically affect the level of benefits for future retirees. These cuts, moreover, would affect all Social Security beneficiaries, not just those who opt for private accounts.

Add to this the fact that a set amount of the 2 percent private account balances will be “clawed back” at the time of retirement. In other words, a worker's private account income would offset his or her Social Security benefits, basically replacing a portion of what they would have received under traditional Social Security. Most people assume the private account income would be on top of their usual Social Security benefits, but this is simply not true. As chart 7 shows, a 2 percent clawback alone could reduce Social Security benefits by 16 percent.

*chart 8: Social Security's Unmatchable Set of Protections*

	Social Security	Private Account
<b>Coverage</b>	Almost universal	Limited coverage
<b>Benefits</b>	Known and guaranteed	Benefits depend on: • investment choices • luck in the financial market • timing of retirement
<b>Duration of Benefits</b>	Social Security retirement and survivor benefits are good for a lifetime	Depends on the monthly amount withdrawn. The account holder could outlive the funds in the account.
<b>Types of Insurance</b>	1. Retirement insurance program 2. Survivor insurance program 3. Disability insurance program	Primarily retirement investment program.
<b>Administrative Costs</b>	Low: Social Security's administrative costs are very low—only 0.9 percent of all outgoing benefit payments.	High: Management fees on private accounts would be much higher, similar to IRA and 401(k) fees, which range from approx. 1.5 to 2 percent annually, which equals 22–30 percent of payouts.
<b>Time</b>	Almost zero. Fill out form to begin receiving benefits.	Time consuming. Requires the account holder to make investment decisions. Therefore, the investor must educate herself about available investment options, the functioning of various financial markets, and economic conditions. Market downturns could lead to sleepless nights or poverty-filled “golden years.”

**Sources:** Social Security Administration, 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2001); Dean Baker, “The Hidden Costs of Private Accounts,” chap. 3 in *Saving Social Security with Stocks: The Promises Don’t Add Up* (New York: The Century Foundation, 1996); and Social Security Administration, 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., 2002).

On top of these hurdles, privatization would divert a massive amount of money—approximately \$1 trillion over the next 10 years<sup>16</sup>—out of the Social Security program. To pay for this expense, there would have to be sharp benefit cuts in the guaranteed portion of the program, steep increases in payroll taxes to cover the loss and pay transition costs, and/or further raising of the retirement age. The private accounts are supposed to make up for these cuts, but they fail to do so and leave beneficiaries, especially future beneficiaries, short of where they would be under current law.

**Private accounts promise high “rates of return,” but can’t compare to Social Security’s unmatchable set of protections.** Privatization proponents are pitching such reforms with the lure of a “better” rate of return on the dollar, an argument that can be especially appealing to younger people. This is a misleading and dangerous argument, not just for the reasons outlined above but also because it compares apples and oranges. You can’t compare the social insurance nature of Social Security’s guaranteed, inflation-protected, lifetime benefits to an individual account that carries no such protections and many more risks.

First, Social Security was not meant to be a retirement investment account, and therefore is not comparable to a 401(k) or IRA in terms of measurable “rate of return.” Since it is a pay-as-you-go system, and workers’ contributions go directly into beneficiaries benefit checks, you also cannot compare it directly to an individual account. As the Congressional Budget Office found:

[T]axes paid into Social Security are not an investment. The implicit return is determined by the program’s rules for taxes and benefits, not by the return on any real asset....The low rate of return expected by some beneficiaries does not reflect inefficient investment or administration....Rate-of-return comparisons can be misleading for two other reasons. First, some of the revenues from the Social Security payroll tax are used to finance survivors and disability insurance. Ignoring the value of that insurance can underestimate the benefits of the current Social Security program. Second, some rate-of-return comparisons overlook differences in risk.<sup>17</sup>

*Privatization proponents are pitching such reforms with the lure of a “better” rate of return on the dollar, an argument that can be especially appealing to younger people. This is a misleading and dangerous argument, not just for the reasons outlined above but also because it compares apples and oranges. You can’t compare the social insurance nature of Social Security’s guaranteed, inflation-protected, lifetime benefits to an individual account that carries no such protections and many more risks.*

Social Security offers a wide social insurance safety net that covers most working Americans. It’s there when you need it, and the collective financing and structure of Social Security is what allows it to provide an incredible array of generous protections to almost every working American.

Second, Social Security offers much more than a retirement investment account. Social Security offers a full package of insurance protection—including life, disability, and survivors insurance—and provides a defined benefit that is adjusted for inflation and cannot be outlived. This set of protections offers women a baseline of financial security throughout their lives.

Given its reliability and efficiency, Social Security remains a wise and much-needed third leg of the retirement stool. Indeed, for many women it remains the only stable leg of that stool.

## Women Facing Private Accounts

Here are some examples of how individual women might fare under private accounts. While each example is based on averages, all three spotlight many of women's work force patterns, family situations, and economic realities.

**Assumptions:** The Latina is 27 years old at the time of privatization of Social Security. She earns \$16,850 her first year, and in the following years her real wage increases by 1.6 percent (1.1 percent general real wage growth and 0.5 percent seniority pay). She works for 35 years, and takes 5 years off due to disability, illness, or caring for an elderly parent. The Latina retires 40 years later at 67 years of age, with full retirement benefits.

Note: All the amounts are in 2001 dollars.

The Latina in this example would receive \$16,840 per year (in 2001 dollars), or \$1,403 per month, in Social Security retirement benefits under the current system. Under a privatized system, the Latina could deposit up to 2 percent of her earnings into a private account. Over 40 years, she could accumulate a total of \$41,303 in her account, assuming a net real return of 4.6 percent. This would provide her with an additional retirement income of \$2,629 per year (\$219 per month) over 20 years. However, under a privatized system, her Social Security benefits would most likely be cut as she has diverted 18.9 percent of her payroll taxes into an individual account. This could reduce her traditional Social Security benefits to \$13,662 per year (\$1,139 per month). All in all, the Latina is worse off with the individual account, as she loses a total of \$548 each year in her first 20 years of retirement, and \$3,183 each year after 20 years. The loss in benefits would be even greater if the indexation of initial benefits were changed to inflation instead of wages as is currently done.

**Sources:** Social Security Administration, *Social Security Handbook: Your Basic Guide to Social Security Programs*, 14th ed. (Washington, D.C., 2001), and U.S. Bureau of the Census, "Educational Attainment—People 18 Years Old and Over, by Total Money Earnings in 2000, Work Experience in 2000, Age, Race, Hispanic Origin, and Sex," *Annual Demographic Survey: March Supplement*, table PINC-04 (10 December 2001) <[http://ferret.bls.census.gov/macro/032001/perinc/new04\\_000.htm](http://ferret.bls.census.gov/macro/032001/perinc/new04_000.htm)> (11 April 2002).

### *chart 9a: How a 27-Year-Old Unmarried Latina Might Fare under a Privatized Social Security System*

#### **Latina**

Age	27
Annual Earnings	\$ 16,850
Years in the Work Force	35

#### **Retirement Benefits:**

Under current system (in 2001 \$)	\$ 1,403 per month
	\$ 16,840 per year

#### **Under privatized system of 2 percent accounts**

Private account	\$ 219 per month
	\$ 2,629 per year
Social Security plus private account	\$ 1,139 per month
	\$ 13,662 per year
Gain in total benefits from private account	\$ - 46 per month
	\$ - 548 per year

#### **Under privatized system with indexation of benefits to inflation**

Social Security plus private account	\$ 662 per month
	\$ 7,943 per year
Gain in total benefits from private account and inflation indexed	\$ - 522 per month
	\$ - 6,267 per year

**Assumptions:** The divorced white woman is 40 years old at the time of privatization of Social Security and has two children. Further, she was married to her husband for more than 10 years before they divorced. She has been in the work force for a number of years, and earns \$26,300. She will work a total of 35 years, taking 5 years off due to disability, illness, or caring for the children. She will retire when she is 67 years old with full retirement benefits. Because of her long work history and relatively high earnings, her Social Security retirement benefits would probably be higher than 50 percent of her husband's benefits, and therefore, in the case of his death, she would choose to receive her own benefits. Thus, the divorced woman would not be affected by changes made to survivors benefits.

If she or her former husband were to die, then each child (under the age of 18) would be entitled to 75 percent of Social Security benefits (Primary Insurance Amount determined as an adjusted average of the highest annual earnings for a given number of years) up to a certain maximum. For example, if the woman's former husband earned \$53,200 the year he passed away, and had been in the work force for 20 years, then the monthly survivors benefits to each child would be \$1,314 until the child turns 18. The changes proposed by the president's commission would most likely not affect the survivor benefits in this case, since the benefits are derived from wages earned before the implementation of privatization.

However, if the privatization plan had been implemented 20 years earlier, then the children could face significant cuts in survivors benefits. For example, if the former husband had diverted 2 percent of his earnings into a private account, then basic survivors benefits to each child would be cut by \$248 per month (\$2,980 per year). Further, change in the indexation formula could cut benefits by an additional 29.5 percent (or \$314 per month) in this case. If the former husband had remarried, it is unlikely that the children would have any claim to the funds in their father's private account, unless the divorce settlement specified so, or he had explicitly bequeathed it.

If the divorced white woman or her former husband were to become disabled, their dependent children would be entitled to up to 50 percent of Social Security benefits (Primary Insurance Amount determined as the adjusted monthly average of the best 10 years of earnings). Only one of the divorced parents can claim a child as a dependent for tax purposes and Social Security disability benefits. At this point, it is unclear how dependent children of disabled workers would be affected by privatization plans. The president's commission's report does not explicitly address disability insurance, only states that the disability insurance program needs reform. However, disability benefits are likely to be cut if the proposed privatization plan is implemented, in order to pay for the transition to the private account plan.

**Sources:** Social Security Administration, *Social Security Handbook: Your Basic Guide to Social Security Programs*, 14th ed. (Washington, D.C., 2001), and U.S. Bureau of the Census, "Educational Attainment—People 18 Years Old and Over, by Total Money Earnings in 2000, Work Experience in 2000, Age, Race, Hispanic Origin, and Sex," *Annual Demographic Survey: March Supplement*, table PINC-04 (10 December 2001) <[http://ferret.bls.census.gov/macro/032001/perinc/new04\\_000.htm](http://ferret.bls.census.gov/macro/032001/perinc/new04_000.htm)> (11 April 2002).

*chart 9b: How a 40-Year-Old Divorced White Woman and Her Two Children Might Fare under a Privatized Social Security System*

**Deceased former husband and father**

Age	45
Annual Earnings	\$ 53,200
Years in the Work Force	20

**Survivor Benefits to Child:**

Under current system (in 2001 \$)	\$ 1,314 per month
	\$ 15,764 per year

Under privatized system of 2 percent accounts	\$ 1,066 per month
	\$ 12,790 per year

Under privatized system with indexation of benefits to inflation	\$ 752 per month
	\$ 9,023 per year

Gain in total benefits from private accounts.	\$ -248 to -562 per month
	\$ -2,974 to -6,741 per year

**Assumptions:** The African American woman is 55 years old at the time of privatization of Social Security. Her husband has recently died, and she is forced to enter the labor market. In her job, she earns \$11,580 her first year, and in the following years her real wage increases by 1.6 percent (1.1 percent general real wage growth and 0.5 percent seniority pay). It is further assumed that she works for 10 years and takes 2 years off due to disability, illness, or caring for a family member. The African American woman retires 12 years later when she is 67 years old.

At age 60, she would be entitled of 71 percent of her husband's retirement benefit, and at age 67 she would be entitled to 100 percent of his benefits if she so chooses. Because of her short work history and low earnings, the survivors benefits from her husband would most likely be greater than her own Social Security retirement benefits.

Under a privatized system, the woman could deposit up to 2 percent of her earnings into a private account, equal to \$232 the first year. Over 12 years, she would accumulate a total of \$3,249 in her private account, assuming a net real return of 4.6 percent. This would provide her with an additional retirement income of \$207 per year (or \$17 per month) over 20 years. Though the widowed woman chooses her husband's benefits, she may still have entitlement to the funds in her private account. If this is so, the private account plan would make her \$17 a month better off compared to under the current system—not much gain for much more risk.

Since her husband died before the implementation of Social Security privatization, the survivors benefits probably would not be affected by changes to the system. However, two exceptions may apply in order to fund implementation of a privatized system: (1) The formula for calculating retirement and survivors benefits is changed retroactively, such that benefits earned before privatization are still affected. For instance, initial benefits could be indexed to inflation instead of wage growth or survivors benefits could be reduced to pay for the transition to private accounts—even though the deceased person did not divert any money to a private account; or (2) The COLA for retirement benefits is reduced (this has not been proposed by the president's commission, but has previously been suggested as a way to cut Social Security benefits). Finally, if private accounts had been introduced while her husband was still alive, the woman might have experienced a different result.

**Sources:** Social Security Administration, *Social Security Handbook: Your Basic Guide to Social Security Programs*, 14th ed. (Washington, D.C., 2001), and U.S. Bureau of the Census, "Educational Attainment—People 18 Years Old and Over, by Total Money Earnings in 2000, Work Experience in 2000, Age, Race, Hispanic Origin, and Sex," *Annual Demographic Survey: March Supplement*, table PINC-04 (10 December 2001) <[http://ferret.bls.census.gov/macro/032001/perinc/new04\\_000.htm](http://ferret.bls.census.gov/macro/032001/perinc/new04_000.htm)> (11 April 2002).

*chart 9c: How a 55-Year-Old African American Widow Might Fare under a Privatized Social Security System*

**African American Widow**

Age	55
Annual Earnings	\$ 11,580
Years in the Work Force	10

**Retirement Benefits:**

Under current system (in 2001 \$) based on late husband's earnings	\$ 288 per month \$ 3,461 per year
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**Under privatized system  
of 2 percent accounts**

Gain from her private account	\$ 17 per month \$ 207 per year
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PART FIVE:

## Public Policy Recommendations

**O**WL'S SUPPORT OF SOCIAL SECURITY AS A bedrock of financial security for women does not preclude criticism of some inequities within the system. Perhaps the only positive outcome from engaging in the privatization battle is the new attention paid to how Social Security works for women. Privatizers often highlight weaker points in the system as a rationale for destroying it, even though privatization, as this report has shown, would only hinder women's financial security. Social Security's social insurance nature should be preserved for generations to come, but several improvements for women should be implemented now.

OWL supports a range of public policy recommendations to strengthen Social Security while increasing women's other financial assets and income sources. While not an exhaustive list, the following recommendations serve as an excellent starting point.

Please note that all recommendations made for widows, divorced women, and surviving wives, also include widowers, divorced men and surviving husbands; in this section, the female terms will be used as the standard.

### *I. Improvements to Social Security: Public policy recommendations to ensure equity for women*

#### **1. Caregiving should not penalize women in retirement.**

Time spent out of the work force for caregiving—whether for children, parents, spouses, or other family members—has a dramatically negative effect on women's Social Security benefits. When calculating a worker's retirement benefits, the formula counts the 35 years of a worker's highest taxable earnings, yet the average woman only spends 32 years in the full-time work force (compared with 44 years for men).<sup>1</sup> If a woman has fewer than 35 years in the work force, those missing years are counted as "zeroes" in the equation, diminishing the level of her benefits.

*Time spent out of the work force for caregiving—whether for children, parents, spouses, or other family members—has a dramatically negative effect on women's Social Security benefits.*

There are several ways to help ensure that benefits are not reduced in retirement due to caregiving during working years. One approach is to **disregard up to five additional years of lower or no income when calculating Social Security retirement benefits**, if income has been reduced due to unpaid caregiving. For example, a worker who moves from full-time to part-time work, or who leaves the work force temporarily to provide care, should not have that period of lower or no income included in a Social Security base year computation. This does not create further "zeroes" in a woman's earnings history, but instead reduces the number of years counted toward the benefit formula.

Alternatively, **a worker could receive credits in the Social Security system for up to five years of work for unpaid caregiving**. For example, one proposal offered caregivers a credit worth up to \$16,500 annually in wages counted toward Social Security. Either of these revisions would help reduce the extent to which women are penalized in retirement for fulfilling caregiving responsibilities during prime earning years. This proposal in particular would help women caregivers who cannot afford to drop out of the work force entirely but who have low earnings, as the credit may be higher than their real earnings during the caregiving years.

Another way to improve the Social Security system for informal, unpaid caregivers would be to **expand access to spousal disability benefits for adults caring for a dependent, disabled spouse**. While caregivers of disabled children are eligible for benefits, caregivers of disabled spouses (with the same degree of disability and need for aid) are not. A spousal benefit should be paid in these cases, since her caregiving work prevents her from entering the work force.

## 2. Increase widows benefits.

Currently, a woman is eligible for Social Security benefits based on her own work record or may receive half of the benefit that her husband has earned. Because caregiving and the wage gap affect a woman's earnings over her lifetime, most women do better with half of their husbands' (or ex-husbands') benefit than all of their own. In this case, when the husband dies, the household income drops dramatically—by a third—because the woman's widow's benefit is now equal to two-thirds of the couple's combined benefit. (For example, Mary receives 50 percent of her husband's benefit, and he receives 100 percent of his benefit. When he dies, she is eligible for 100 percent of his benefit, but this is reduced by the amount of her spousal benefit, leaving her with roughly a third less than they had before he died.)

If a couple instead receives benefits based on their own work records—in other words, if the woman's own work record drives a benefit larger than 50 percent of her husband's—then the death of a spouse creates an even larger hardship, as household income could drop by 50 percent.

Perhaps one of the most significant factors in poverty among older women is the life-altering decline in their standard of living once they are widowed, frequently plunging them into poverty. The poverty rate of widows over age 65 is 16.5 percent, almost four times that of all married women over age 65 (4.4 percent).<sup>2</sup> When one spouse dies, very few of the household and living expenses decrease by half. Instead, the widow still must meet the mortgage or rent and still has similar utility bills to pay.

**Increasing widows benefits to 75 percent of the couple's combined benefits** would go a long way toward keeping older women out of poverty. If Congress chooses to cap this expansion so that it does not exceed the maximum earner benefit level, then an exception should be made for widows of workers who earned delayed retirement credits.

**Widows should also get credit for delayed retirement via higher benefit levels,** just as workers do. However, a better way to address this need is to pay widows benefits depending on the age the widow benefits begin, not on the age at which the husband retired.

### Profile: Fran

The Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) (see box 6 on page 47) affect thousands of women in this country.

Fran, 75, receives a state pension after 18 years as a social worker for the State of Illinois, and consequently has her spousal Social Security benefit reduced by approximately \$900.

As a young woman, Fran worked until she was married and had children. For 14 years, Fran provided full-time at-home care to her children. At 40, she re-entered the work force as a part-time employee of her state's mental health department, where she worked for 18 years. The state system was not subject to Social Security. Fran also worked for several years in Social Security-covered employment with a private hospital.

*"The GPO rule that reduces my Social Security benefits by two-thirds of my pension is unfair, but I really worry about women worse off than me."*

In 1978, her 60-year-old husband died, and Social Security provided survivors benefits to their two children. Fran remarried in 1982, then retired in 1991 to provide care for her ailing second husband and her frail mother.

When Fran's second husband died in 1992, she applied for Social Security benefits based on his work record. In 2002, without the GPO and adjusted for ten years of cost-of-living increases, her spousal benefit would be roughly \$1,400. With the GPO and her state pension of \$1,011, she receives only \$500 a month from Social Security. When her state pension increased to reflect the cost of living, the offset provision acted to flatten any gain in the Social Security benefit.

"The GPO rule that reduces my Social Security benefits by two-thirds of my pension is unfair, but I really worry about women worse off than me," says Fran. "I know other women who are even more adversely affected by GPO/WEP, and who struggle to make ends meet on the reduced income."

### **3. Increase benefits for divorced spouses.**

Divorced women have higher rates of poverty in old age (20.3 percent) than married women (4.4 percent) or widows (16.5 percent).<sup>3</sup> It is estimated that the number of divorced women over age 65 will double by 2030,<sup>4</sup> making it all the more important to explore how Social Security can be strengthened to assist this population.

Currently, a divorced woman who was married for at least 10 years is entitled to either 50 percent of her ex-husband's Social Security benefit while he is alive or all of her own, just as a married woman is. This 50 percent level does not take into account, however, the divorced woman's additional expense of running a separate household.

**Therefore, the divorced spousal benefit should be increased from 50 to 75 percent of the former spouse's benefit.** Current law dictates that upon the death of the former spouse, the divorced woman receives the equivalent of 100 percent of his benefit, just as a married widow does.

If this policy recommendation is implemented, then divorced spouses should also be eligible for 75 percent of the combined benefit (*his and hers*) after the death of the worker.

Given that the average length of a marriage that ends in divorce is less than seven years, **the 10-year consecutive marriage requirement for divorced spouses to qualify for benefits needs to be re-examined.** If a simple reduction from 10 years to seven is not politically feasible, then perhaps a combination of marriage and work years could replace the current marriage requirement. Or, multiple marriages could count toward the 10-year requirement if no single marriage lasts longer than 10 years.

**Lawmakers should eliminate the two-year waiting period for benefits after divorce.** A divorced woman age 62 and older can receive Social Security upon divorce if her former husband is already drawing benefits. If the divorce takes place less than two years before her 62nd birthday, and her former husband is still in the work force, then she must wait two years to apply for benefits. This provision was enacted to prevent couples from obtaining divorce in order to avoid loss of spousal benefits if one spouse was still working full-time, but the result is punitive and unfair. For many women without other options, this waiting period can be a time of great deprivation, and the rule can be regarded as imposing a penalty on divorce. Moreover, the gender inequity is clear: 90 times more

*Perhaps one of the most significant factors in poverty among older women is the life-altering decline in their standard of living once they are widowed, frequently plunging them into poverty.*

women than men are dependent on their spouse's or ex-spouse's earnings for Social Security retirement benefits.<sup>5</sup>

### **4. Improve access to benefits for disabled widows.**

A disabled widow is not eligible for benefits based on her husband's work record unless she is 50 years of age and her disability started before or within seven years of her husband's death.<sup>6</sup> For example, Ruth is widowed at 45 and becomes disabled at 53. Since her disability begins more than seven years after the death of her husband, she cannot qualify for disability benefits based on his work record.

A seven-year limit was considered adequate because a previously uninsured widow in good health entering the labor market after the spouse's death could develop his or her own eligibility for disability benefits. When this rule was enacted in 1967, a worker needed only seven years of Social Security earnings to qualify for disability benefits. Today this is no longer true. Even if a widow entered the labor force within a few months after the spouse's death, it would take, under subsequent adjustments to the law, close to 10 years to develop eligibility for disability benefits.

Thus a spouse who diligently went to work and became disabled during the seventh to 10th years following her spouse's death could be left without benefit eligibility that would have been assured to widows who developed their disabilities just a few years after the spouse's death. This is an inequity that weighs most heavily upon older women who were not in the Social Security-covered work force during their family-rearing and caregiving years. **Therefore, the seven-year restriction on disabled widows should be eliminated.**

## *Box 6: When Government Pensions Meet Social Security: GPO/WEP*

**T**here is a controversial provision in Social Security law that affects a number of midlife and older women who were, or whose husbands were, government employees at some point in their work life. The Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) affect all federal employees and retirees hired before 1986 and about 25 percent of state and local government employees and retirees.

### **Government Pension Offset (GPO)**

Enacted in 1977, the GPO prevents government retirees from collecting both a full government annuity based on their own work record and full Social Security benefits based on their spouse's work record. The law provides that two-thirds of the government annuity offsets whatever Social Security benefits would be payable to the retired government worker as a wife or widow. For example, a woman who receives an annuity benefit of \$900 a month based on her earnings as a public school teacher applies for a spousal benefit worth \$500. The amount of Social Security spousal benefit she's eligible for (\$500) is reduced by two-thirds of the government pension (\$600), leaving her with no Social Security benefit.

### **Windfall Elimination Provision (WEP)**

The WEP affects people who have worked in a government system not subject to Social Security, and who have also held other jobs that were subject to the Social Security system. For example, a long-time state government employee who also worked in the private sector at some point might be subject to WEP, which would mean that her Social Security earned benefits would be reduced in relation to her government annuity.

There are several bills pending in Congress to address part or all of these problems. OWL works in coalition with organized labor and other concerned groups to remedy the GPO and WEP problems that women face.

(For one woman's GPO/WEP story, see the profile on page 45.)

In addition, **the 50-year-old age requirement for disabled widows should be eliminated**, or at least lowered to age 40. Developing a 10-year earnings record is a considerable burden on those midlife and older women who for the most part have been out of the work force up to the date of spousal death and may still have children or parents requiring care.

**Benefits for disabled widows should be increased to provide an adequate benefit.** Since these women are involuntarily out of the work force, the benefits should be 100 percent of the Primary Insurance Amount, as is a widow's benefit. (The Primary Insurance Amount (PIA) is based on a worker's taxable earnings averaged over the number of years in the system and becomes the monthly benefit amount.)

## **5. Make Social Security's protections available to same-sex partners.**

Social Security's social insurance nature, which encourages a societal approach to collective risk and reward, extends to families as well. Dependents of a bread-

winner can benefit from his or her work record, whether they are spouses or minor children. This narrow definition of family, however, ignores the needs of millions of American workers in same-sex relationships and their children. Because gay or lesbian couples still do not have the legal right to marry, no matter how long or interdependent their relationships, they are excluded from the range of protections—including disability, survivors, and retiree benefits—available to their legally married counterparts. Lesbian couples fare the worst, as both earners in the family are subject to the wage gap, reduced rates of pension income, and other work realities of women. (See chart 1 on page 10 for rates of poverty among never-married women; this pool of women would include many lesbians, whether partnered or single.) **Social Security's protections should be made immediately available to same-sex couples and their families.**

## **6. Increase benefits for lowest-wage earners.**

Although Social Security is a progressive system which benefits lower-wage workers (who are predominate-

ly women), more can be done to address women's poverty in retirement. Even with Social Security's lifetime, guaranteed, progressive benefits, older women still have almost twice the poverty rate of older men.<sup>7</sup> Several proposals—including expanding the Special Minimum provision or modifying the calculation of the Primary Insurance Amount (PIA)<sup>8</sup>—have been developed by policy researchers to address this need. **These and other creative solutions should be explored by policy-makers to improve Social Security's progressive benefit structure.**

## 7. Address inequities in GPO/WEP situations.

The Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) are two regulations that hinder the financial security of many older women. (See box 6 on page 47 for further information.) **Bills to reduce the unfair impact of GPO and WEP rules on women's Social Security benefits have been introduced in Congress and should be passed into law.**

## II. Outside Social Security: Public policy recommendations to level the playing field for women

### 1. Enact pay equity legislation.

Raising women's wages is a pivotal and necessary policy step toward reducing women's financial instability in retirement. Women will not be able to save as much for retirement as men until they earn as much as men. Research consistently shows that pension coverage and income are associated with higher wages, so enactment of strong pay equity legislation would go a long way toward strengthening all three legs of women's retirement security stool.

### 2. Improve women's access to pensions.

Only 53 percent of working Americans have pension coverage (defined contribution and/or defined benefit plans), and coverage rates are lower for women and part-time workers. Although women's rates of *coverage* have increased in recent years, and are drawing close to the rates for men, women are less likely to have *income* from pensions in retirement (28 percent to men's rate of 43 percent).<sup>9</sup> When they do receive pension income,

women, on average, receive 44 percent less than their male counterparts.<sup>10</sup>

There are many ways to improve women's access to and income from pensions, which must be done if women are to adequately prepare for their retirement. Starting points should include the following policy recommendations.

- a) **Expand pension coverage to more workers.** While women's rates of coverage under retirement plans are growing closer to men's, roughly half of American workers have no retirement plan at work. We need to extend current and develop new types of retirement savings plans to reach more Americans.
- b) **Extend pension coverage to part-time and temporary workers.** Part-time and temporary workers, who are more likely to be women, would be protected by reform legislation providing pension credits to all employees working 500 hours or more a year.
- c) **Institute portability provisions in all pension plans.** Portability reform for both defined contribution and defined benefit pension plans would help workers who change jobs take their vested benefits with them to new plans or invest them in Individual Retirement Accounts.
- d) **Educate employers about Simplified Employee Pensions (SEPs).** One way to expand pension coverage to more women is to encourage participation in existing systems. SEPs allow employers to contribute a percentage of an employee's salary to a defined contribution plan without administrative expenses or filing requirements, providing a viable alternative to more complicated pension plans. Women working for small firms, which are less likely to have retirement plans, could benefit if their employers adopted SEPs.
- e) **Modify joint and survivor annuities.** Even though the Retirement Equity Act of 1984 (REA) required private pensions to pay survivor benefits unless a spouse waives this protection in writing, the widow typically receives only about two-fifths the amount received while her spouse was alive. Women would benefit from a reform requiring that either surviving spouse would receive a benefit equal to 75 percent of the benefit prior to the death of the spouse.
- f) **Improve pension division upon divorce.** REA made it possible for pension plans to pay benefits

directly to divorced spouses. However, state court judges still determine the amount a divorced woman will receive from her former spouse's pension. Women would benefit from a default option stipulating that pension benefits would be divided unless the couple agrees otherwise in its separation agreement, or unless a court order specifies that the benefits would not be divided.

- g) **Eliminate defined benefit pension integration.** Elimination of pension integration (when an employer subtracts part of a worker's Social Security benefit from her pension benefit) in defined benefit plans would improve the retirement security of some women.
- h) **Institute cost-of-living adjustments in defined benefit plans.** Because defined benefit pension plans are rarely indexed for inflation, the value of benefits erodes after retirement. The impact of inflation is especially harsh for women, who typically live longer than men. Requiring employers to offer an indexed pension option would help correct this imbalance.

### **3. Women should not be penalized for caregiving.**

This happens again and again in America today, because our employment policies and pension rules fail to reflect women's invaluable unpaid contribution of caregiving for children, elders, spouses, and friends. The following recommendations are only a starting point, but would go a long way toward recognizing the fact that women still provide vastly more unpaid caregiving services than men. Such recognition would help to prevent caregiving from jeopardizing women's retirement security.

- a) **Provide caregiving credits under Social Security.** As detailed above in the Social Security recommendations, there are several ways to help ensure that benefits are not reduced in retirement due to unpaid caregiving during working years. One approach is to disregard up to five years of lower income when calculating Social Security retirement benefits; another is to give caregivers credits toward their Social Security earnings record.
- b) **Expand the Family and Medical Leave Act (FMLA).** Just as current FMLA law makes mandatory the continuation of health benefits during a covered

leave period, so should the FMLA be expanded to require continued employer contributions to qualified retirement plans during a covered leave period as well.

- c) **Count caregiving leave time toward vesting requirements.** Women's vesting rates are consistently lower than men's,<sup>11</sup> another factor contributing to their reduced pension income in retirement. Leave time under the FMLA should count as service time and should accrue to help meet any pension vesting requirements.
- d) **Expand pension coverage to part-time workers.** Many caregivers seek flexible or part-time jobs and would be greatly assisted by such a policy. Employers should not be allowed to exclude part-time and temporary workers from pension benefits or contributions, as the law now permits.

These recommendations, if implemented, would go a long way to improving women's retirement security. If Social Security is strengthened for women in the ways OWL suggests, and if this nation's private pension system is reformed to better reflect women's work realities, women's three-legged stool might actually become well-balanced, sturdy, and reliable.

# Conclusion

SOCIAL SECURITY IS AN INSURANCE PROGRAM designed to protect Americans from the threat of poverty at all ages, whether young or old. For decades, it has served as a bedrock of financial support for retirees, disabled persons, widows, and their families and children, keeping millions from impoverishment. Social Security is a valuable community program, based on a strong contract of mutual support and mutual gain. It is rooted in a simple but profound American tradition of social insurance, whereby *everyone* pays and *everyone* benefits. For so many Americans, Social Security is nothing less than a foundation of security, offering the most valuable insurance against disability and death and the most steady and reliable source of income in retirement.

Social Security is also a women's program. As the majority of beneficiaries and the majority of those who depend most on its progressive, lifetime benefits, women have a unique stake in the future of Social Security. Because they live longer than men and are more likely to be poor in old age, women rely on the steadfast protections Social Security provides most of all. Without it, more than half of all older women would be poor.

The Social Security program is not without flaws. OWL has several suggestions for improving Social Security so that it better reflects the realities of older women's lives. Privatization, however, is not one of them. *Privatizing Social Security would have a devastating impact on American women.* Because of their work and life patterns, women would start off with much less to invest in any individual account, would lose the often desperately needed cost-of-living adjustments, and would face the reality of outliving their assets. Women only stand to lose with privatization, as do the vast majority of Americans, because it would only dismantle the very aspects of Social Security that we all count on. Privatization ignores the social insurance tradition of Social Security, it ignores the national commitment to insure all Americans against life's risks, and it threatens the overall vitality of this critical program.



Women only stand to lose with privatization, as do the vast majority of Americans, because it would only dismantle the very aspects of Social Security that we all count on. Privatization ignores the social insurance tradition of Social Security, it ignores the national commitment to insure all Americans against life's risks, and it threatens the overall vitality of this critical program.

By and large, Social Security is the only source of retirement income that a majority of women can truly count on. As America ages, it will become an increasingly significant program, offering steady, reliable support to all older women. Meanwhile, privatization schemes are laced with false promises and false guarantees that only mimic the very real promises and guarantees the current Social Security program has delivered on, on time, every month for 65 years. Privatization is nothing but a gamble for less, and women deserve more than that.

## *Endnotes for Introduction*

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<sup>2</sup> AARP, *Facts About Older Women: Housing and Living Arrangements* (Washington, D.C.: AARP, 1998).

<sup>3</sup> Mary Jo Gibson and Normandy Brangan, *Out-of-Pocket Spending on Health Care by Women Age 65 and Over in Fee-For-Service Medicare: 1998 Projections* (Washington, D.C.: AARP, 1998) <[http://research.aarp.org/health/fs72\\_oldwm.html](http://research.aarp.org/health/fs72_oldwm.html)> (8 April 2002).

<sup>4</sup> National Economic Council, Domestic Policy Council, *Disturbing Truths and Dangerous Trends: The Facts about Medicare Beneficiaries and Prescription Drug Coverage* (22 July 1999) <<http://clinton2.nara.gov/WH/New/html/Medicare/DrugCoverage/document/toc.html>> (8 April 2002).

<sup>5</sup> U.S. Bureau of the Census, *Marital Status and Living Arrangements: March 1998 (Update)*, Current Population Reports (December 1998) <<http://www.census.gov/prod/99pubs/p20-514.pdf>> (8 April 2002).

<sup>6</sup> Enid Kassner and Robert W. Bectel, *Midlife and Older Americans with Disabilities: Who Gets Help?* (Washington, D.C.: AARP, 1998) <[http://research.aarp.org/il/d16883\\_midlife.pdf](http://research.aarp.org/il/d16883_midlife.pdf)> (8 April 2002).

## *Endnotes for Part One*

<sup>1</sup> Social Security Administration, "Brief History of Social Security," *Social Security Online History Page*, <<http://www.ssa.gov/history/briefhistory3.html>> (6 April 2002).

<sup>2</sup> While this universal participation and coverage is the ideal of Social Security, it is correct to say that this has not yet been fully realized. There are women who work in jobs not covered by Social Security—household employment or farm work, for example—and others who are left outside of the system.

<sup>3</sup> Social Security Administration, "Brief History of Social Security."

<sup>4</sup> Social Security Administration, *Annual Statistical Supplement* (draft 2001), table 5.A1, <<http://www.ssa.gov/statistics/Supplement/2001/index.html>> (8 April 2002).

<sup>5</sup> Social Security Administration, *Fact Sheet: 2002 Social Security Changes*, <<http://www.ssa.gov/cola/cola2002.htm>> (6 April 2002).

<sup>6</sup> The COLA for 2002 is 2.6 percent. *Ibid.*

<sup>7</sup> Social Security Administration, *Social Security Beneficiary Statistics: Number of Beneficiaries Receiving*

*Benefits on December 31, 1970-2001*, <<http://www.ssa.gov/OACT/STATS/OASDIbenes.html>> (6 April 2002).

<sup>8</sup> Social Security Administration, *Fact Sheet: Women and Social Security* (February 2002), <<http://www.ssa.gov/pressoffice/womenfact.htm>> (6 April 2002).

<sup>9</sup> Social Security Administration, *Social Security Beneficiary Statistics*.

<sup>10</sup> Social Security Administration, *Basic Facts About Social Security* (January 2001), <<http://www.ssa.gov/pubs/10080.html>> (10 April 2002).

<sup>11</sup> Social Security Administration, *Social Security Survivors Benefits* (August 2000), <<http://www.ssa.gov/pubs/10084.html>> (6 April 2002).

<sup>12</sup> *Ibid.*

<sup>13</sup> Social Security Administration, *Social Security Beneficiary Statistics*.

<sup>14</sup> Social Security Administration, *Basic Facts About Social Security*.

<sup>15</sup> Social Security Administration, *Fact Sheet: Social Security Is Important to African Americans* (February 2002), <<http://www.ssa.gov/pressoffice/afamfact.htm>> (6 April 2002).

<sup>16</sup> U.S. Bureau of the Census, *Poverty in the United States: 1999* (Washington, D.C., 2000) and U.S. Administration on Aging, *Older Women-Older Americans Month 2000: In the New Century . . . the Future is Aging* (Washington, D.C., 2000).

<sup>17</sup> Kilolo Kijakazi, "Improving Retirement Income of Low-Wage Earners," in *The Future of Social Insurance: Incremental Action or Fundamental Reform?*, eds. Peter Edelman, Dallas L. Salisbury, and Pamela J. Larson (Washington, D.C.: National Academy of Social Insurance, 2002).

<sup>18</sup> Social Security Administration, *Income of the Population 55 or Older* (Washington, D.C., 2002), 103, table 6.A1; 114, table 6.B2; and 121, table 6.B4.

<sup>19</sup> *Ibid.*, 121, table 6.B4, and 114, table 6.B2.

<sup>20</sup> Congressional Budget Office, *Social Security: A Primer* (Washington, D.C., 2001), 41, figure 12.

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<sup>2</sup> U.S. Bureau of the Census, *Money Income in the United States: 2000* (Washington, D.C., 2001), 2, table A.

<sup>3</sup> U.S. Department of Labor, Bureau of Labor Statistics, "Women's Earnings, Earnings Difference Highest after Age

45," *Monthly Labor Review: The Editor's Desk* (11 May 1999), <<http://www.bls.gov/opub/ted/1999/may/wk2/art02.htm>> (6 April 2002).

<sup>4</sup> American Association of University Women, *Social Security: Why Reform is Important to Women* (January 2002), <<http://www.aauw.org/1000/posspapers/pdfs/SSReformWomen.pdf>> (6 April 2002).

<sup>5</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Current Population Survey* (March 2001), 209, table 37, <<http://www.bls.gov/cps/cpsaat37.pdf>> (9 April 2002).

<sup>6</sup> National Committee on Pay Equity, *Wage Gaps: Minority Women* (October 2001), <<http://www.feminist.com/fairpay/minori.html>> (6 April 2002).

<sup>7</sup> Bureau of Labor Statistics, *Current Population Survey*, 209, table 37.

<sup>8</sup> National Committee on Pay Equity, *Wage Gaps*.

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