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SOCIAL SECURITY: IS A KEY FOUNDATION OF ECONOMIC SECURITY WORKING FOR WOMEN?

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SOCIAL SECURITY: IS A KEY FOUNDATION OF ECONOMIC SECURITY WORKING FOR WOMEN?

TUESDAY, DECEMBER 9, 2014

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:40 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Stabenow, Cantwell, Brown, Casey, Hatch, Grassley, Crapo, and Thune.

Also present: Democratic Staff: Kara Getz, Senior Tax Council; Tom Klouda, Senior Domestic Policy Advisor; Jocelyn Moore, Deputy Chief of Staff; and Kelly Tribble Spencer, Detailee. Republican Staff: Jeff Wrase, Chief Economist.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee will come to order. Beginning our session, I would first like to congratulate Senator Hatch, who will be the upcoming chairman of the Senate Finance Committee. I am going to have more to say about Senator Hatch when we have the tax bills on the floor of the Senate.

Senator HATCH. That is what I am worried about. [Laughter.]

The CHAIRMAN. Yes. It is certainly an ominous time for you. [Laughter.] Suffice it to say, Senator Hatch is going to continue the long tradition of bipartisanship that has been the hallmark of the Finance Committee, and the Finance Committee is going to remain the go-to place for developing economic policies that make people's lives better, in both Oregon and Utah and across the country.

Senator Hatch, as I said, I will throw some more bouquets on the floor, but I wanted you to know that as we begin.

Senator HATCH. I think that is enough bouquets.

The CHAIRMAN. Okay. Well, you will have to take a few more.

Today we are going to examine, in particular, the question of retirement and the gap between what sort of retirement people would like to enjoy and what, unfortunately, is the reality for so many Americans, and particularly older women. People who had dreams of well-earned relaxation and travel to visit loved ones in faraway destinations, instead of having that, are walking on an economic tightrope trying to balance the food costs against the fuel costs, and the fuel costs against the medical bills. And any unexpected occurrence can, in effect, push them off of that tightrope.

According to the Census Bureau, retired women are nearly twice as likely as retired men to live in poverty. Data from 2011 shows that women are falling deeper into poverty much more quickly than men. Instead of that worry-free ideal that I mentioned, those women are, in effect, simply trying to find a way to pay for the essentials, and their experiences stand in stark contrast to the national trend of seniors living a middle-class life.

So this is a growing crisis fed by a confluence of factors, a number of which do not begin at age 65. Employed women earn about 78 cents on the dollar compared to men, and they are more likely to leave a job or cut back on hours to care for children or older parents. So in many instances, they have little or no savings.

According to the Social Security Administration, millions of women—far more than men—depend on Social Security for nearly all of their income when they retire. Because women live longer on average, their savings accounts get squeezed at both ends. So the real question that we are going to pursue today is this: is the Social Security safety net, which keeps 15 million older people, including 9 million women, from tumbling into poverty, strong enough? Are there holes in the safety net? Are there ideas that, on a bipartisan basis, this committee can pursue to strengthen the economic hand of so many vulnerable older women?

To help illustrate how the crisis impacts women nationwide, we are very fortunate to be joined by Barbara Perrin of Eugene, OR. She worked hard. She planned for her retirement, did her best to save, and, as we talked about a little bit ago, she really just got hit by an economic wrecking ball. She was in a situation where her mortgage was underwater, where she was divorced, and she had been raising a child who I gather is now grown. Her industry changed, literally, under her feet.

What I like so much about Barbara is, she is a real fighter. We got together in Eugene on a retirement discussion program, and I just walked away and said, she is something else. That is why we wanted to have her come today, and she is going to talk about what women are faced with.

So we are going to kick this discussion into high gear now to look at how women can have greater financial security. We have an expert panel of witnesses who are going to shed light on several ways to strengthen the safety net.

One proposal that will be discussed is boosting the Social Security benefits for women who outlive their spouses.

Another would give caregiver credits for individuals who leave their jobs to take care of children or disabled or elderly family members. With those credits, caring for a loved one would no longer come at the cost of a reduced Social Security benefit later in life.

A third idea would close the gap between disabled widows or widowers and others who receive Social Security Disability. That concept would look at ending benefit reductions, time limits, and other restrictions.

And finally, there has been interest in revising student benefit rules and removing gender bias from Social Security, so that couples and their kids, regardless of gender, could get equal benefits.

So this is an important hearing. This will be my last hearing as chair, and I want our panel members to know that the reason why I thought this was so important is, this really goes back to my roots. I was co-director of the Oregon Gray Panthers for many years. Barbara and I were talking about that beforehand.

What this election was about is talking about people, real people, not polls and theories and the like, but talking about what it is like for real people. And we are going to have a chance to do that today because of all of you, and we are going to tackle these issues in a bipartisan way.

[The prepared statement of Chairman Wyden appears in the appendix.]

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

Senator HATCH. Well, thank you, Mr. Chairman, and thank you for your kind remarks earlier. We do have a good relationship, and I believe we can work in a very good, bipartisan way and hopefully bring both sides together to get more done than we have in the past. We will at least be trying, you and I together.

The CHAIRMAN. We will get it done.

Senator HATCH. And we are grateful to have Senator Grassley here, who used to chair the committee, and who is, of course, tough to beat around here.

Senator GRASSLEY. Well, thank you.

Senator HATCH. And also Senator Crapo, who is a big deal on Budget and Banking——

The CHAIRMAN. I am running with the right crowd.

Senator HATCH [continuing]. And certainly a big deal here as well.

I think today's hearing is important, and we want to thank all of you witnesses for appearing and joining us today and helping us to understand this better. Much of the structure of the Social Security system was designed long ago, when the labor market and life experiences of women were far different than they are today and what they will be in the future.

I believe there is room for modernizing Social Security to better address modern family situations, though any such effort must acknowledge that Social Security's promises, as currently structured, are unsustainable. Given the existing structure of benefits, Social Security already faces a gaping $10.6-trillion financial shortfall over the next 75 years.

Given that reality, we have a choice. Either we responsibly work to modernize benefits while also addressing Social Security's financial challenges, or we can kick the can down the road and place the burden on future generations. Alas, that has kind of been what has happened over the years.

There are some reform proposals out there, though many of the proposals I have seen would expand benefits here or there using trust fund revenue from higher taxes, all while largely, if not entirely, ignoring the program's financial realities. To provide some context to those realities, the Congressional Budget Office says that, given existing benefit promises, we would have to raise payroll taxes by more than 25 percent to put Social Security in financial balance over the next 75 years.

That would clearly mean significant increases in taxes on lower-wage earners as well as the middle class. Or, if you wanted to close the financial gap by raising the earnings cap on Social Security taxes to 90 percent of covered earnings—an approach that many of my Democratic colleagues prefer—you would have to raise the cap from next year's scheduled $118,500 to around $242,000. And, even if you did that, you would still have to increase overall payroll taxes on everyone by more than 18 percent.

So, no matter how you look at it, if we are going to shore up Social Security solely on the revenue side, middle-class workers will be hit with a massive tax hike, even though their real incomes have barely gone up at all in recent years. I do believe that there are ways for us to improve and modernize the Social Security system while also responsibly attending to the finances. We can and we should work to provide better protection against old-age poverty, which is disproportionately experienced by women, especially never-married and divorced women.

For example, the President's chained CPI proposal in one of his past budgets, which the Social Security Administration supported, provided such a focus by including protections for vulnerable populations, including Social Security beneficiaries facing old-age poverty. Meanwhile, there are a number of avenues of redistribution within Social Security, between singles, two-earner couples, and one-earner couples.

For example, a high-income one-earner couple generally gets higher returns from Social Security than a low-income two-earner couple, despite the progressivity of the basic benefit formula. And the incredibly complicated number of possible claiming strategies for Social Security beneficiaries makes it mind-numbingly difficult for recipients to figure out their best benefit claiming and retirement decisions.

One of our witnesses today, Professor Slavov, has identified that Social Security benefit claimants could be making retirement decisions costing them large amounts of potential retirement wealth. Many of those affected are women. Those costly choices are fine if made with full understanding of their implications. They are not fine if they are made unwittingly because of unnecessary complexity in the Social Security system.

The Social Security Administration tells us that, "Social Security is neutral with respect to gender or race or ethnicity. Individuals with identical earnings are treated the same in terms of benefits." That is true in that every worker has equal access to the same benefit determination formula. However, despite the neutrality in the determination of benefits, outcomes vary significantly across genders, races, and ethnicities.

Social Security benefits earned by women are influenced by their labor market experiences which generated the wages that get fed into the benefit determination formula. Benefits for women also depend on marital status, lifespans, and other factors, all of which have been subject to significant changes over time, which has affected how women experience Social Security.

Mr. Chairman, I am happy to work with you or with anyone to examine these issues, and work to modernize how Social Security deals with modern family situations. Of course, dealing with these issues, as with all issues relating to Social Security, will require both sides to work together.

If we are going to get anything done, it will require that the President engage. Unfortunately, to date, the President has been largely silent regarding Social Security, saying only that he does not wish to increase taxes, including payroll taxes on the middle class.

Yet, as I stated earlier, if Social Security reform is going to come only on the revenue side, he likely will not have a choice but to raise taxes on everyone, and raise them significantly in order to shore up the system. As you can see, Mr. Chairman, we have a lot of work ahead of us when it comes to Social Security, and I want to thank you again for holding today's very important hearing.

The CHAIRMAN. Thank you, Senator Hatch. I know we are going to work together on these issues, and let us get on with the good ideas.

[The prepared statement of Senator Hatch appears in the appendix.]

The CHAIRMAN. In addition to my inspiring constituent, Ms. Perrin, who comes from Eugene, we have Dr. Catherine Dodd, chair of the board of directors for the National Committee to Preserve Social Security and Medicare; Dr. Sita Slavov, who is a professor of public policy at George Mason University and a scholar at the American Enterprise Institute; and our final witness, Ms. Janet Barr, who is chair of the Social Insurance Committee for the American Academy of Actuaries. Thank you all for coming.

We are going to make your prepared statements a part of the hearing record in their entirety, if you could just take 5 minutes or so to summarize. We are going to have votes, I know, in a little bit, so you are going to see Senators coming and going.

How appropriate to start with Oregon. Ms. Perrin, please go ahead.

STATEMENT OF BARBARA PERRIN, SOCIAL SECURITY BENEFICIARY, EUGENE, OR

Ms. PERRIN. Thank you, Chairman Wyden. Good morning, everyone, Ranking Member Hatch, and members of the committee. Thank you for inviting me to testify today. My name is Barbara Perrin. I am a mother, a grandmother, a resident of Eugene, OR, and an AARP volunteer. I was born in 1946, the same year as President Bill Clinton, President George W. Bush, Steven Spielberg, and Susan Sarandon, the leading edge of the baby-boom generation.

Our generation has witnessed great transformations. We came of age in an era of amazing technological transition, from black and white television to downloaded movies, from rural telephone party lines to social media that span the globe, and from typewriters to personal computers.

Equally great have been the societal changes my generation has experienced: the civil rights movement, the women's movement, changes in laws regarding the institution of marriage, and now even legal possession of marijuana. As a child of the 60s, this still astonishes me.

One thing that has not changed, though, through the years is the importance of Social Security, especially for women. It has reliably provided retirement, disability, and survivor income to generations of American workers, even as the American workplace and family have changed.

My father, born at the turn of the last century, was a self-educated blue-collar worker who had no retirement income beyond Social Security. He gratefully collected his modest benefit because he had survived the Depression and understood the value of having any retirement income, no matter how small. My mother also worked her whole life, but never earned as much as my father did to benefit from the contributions that she had made. Instead she lived for years on the widow's benefit she received after my father died.

Like many women of my generation, I imagined my life would resemble that of generations of women who came before: marriage and children, and perhaps some meaningful work as well. However, many of us were swept along with the changing times and found ourselves leading lives different than the ones we had envisioned.

As a divorced, single parent with no child support and only a liberal arts degree and very few resources, I cobbled together a series of low-paying, flexible jobs on which to survive while caring for my family, my two children. All along, while I worked, I paid into Social Security, but, as a single mother raising a family on my own, saving money for my retirement was not possible.

Eventually, I worked my way into a professional career in educational publishing with a middle-class income, but by the time I was earning a better income, I was in my 50s and had very few years left in which to build up savings for my retirement. Thankfully, a lifetime of frugal habits had enabled me to start a small nest egg and to buy a modest home, which I had always been taught was a safe and reliable investment.

In early 2010, I moved from Colorado back to Oregon to be with my daughter and grandson. I left with some savings, my hope to sell the home in Colorado that I owned there, and a plan to start a publishing consulting business. Unfortunately, the housing market dropped, and I had to rent out my home. I could not find reliable tenants. They failed to pay their rent and would not leave.

I also began to look for employment in addition to clients, but the print/publishing world was also in great transition, and, combined with the slow job market and perhaps my age, I was not successful in finding either a job or clients.

Eventually I had to use up my savings to pay the mortgage on my home until those funds ran out. The house recently went into foreclosure while I waited for a lender to approve a buyer. Thankfully, my home finally closed 2 weeks ago. While I am relieved that I no longer have that burden, my savings have been depleted.

I had always planned to continue working and to supplement my income with my Social Security, my savings, and my home equity.

Instead I am living on Social Security alone. My benefit, while reliable, is also low, and I need food stamps and energy assistance to make ends meet. It was really hard for me to sign up for these, and I want to move off them as quickly as I can, but my Social Security is not enough to live on.

Four years ago, this was not what I envisioned for myself. I know that many were affected by the recession, some far worse than I, losing their health, not just their savings. But like my own parents, I am at least grateful that I have my Social Security, and I appreciate the value of having any retirement income, no matter how small. Thank you.

The CHAIRMAN. Ms. Perrin, thank you. As I said, some colleagues have come in. Ms. Perrin—if I think of her, I think about fighting, and I think about fighting back and looking at plans and speaking up for others, as I saw you do in Eugene. So I am just very pleased you are here. I will have some questions in a moment, and thank you for coming.

[The prepared statement of Ms. Perrin appears in the appendix.]

Dr. Dodd?

STATEMENT OF CATHERINE J. DODD, Ph.D., R.N., CHAIR, BOARD OF DIRECTORS, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, WASHINGTON, DC

Dr. DODD. Thank you, Chairman Wyden and Ranking Member Hatch, for the opportunity to testify here today. Thirty-two years ago, the National Committee was created by Congressman James Roosevelt, the son of President Franklin Roosevelt and First Lady Eleanor Roosevelt.

Through the years, we have focused on protecting their greatest achievement, Social Security. And now it is in the spirit of our Roosevelt heritage and Eleanor's work on women's issues that we have launched "Eleanor's Hope," an initiative to focus greater attention on women's retirement issues.

While women have come a long way since Eleanor's day, several inequalities continue to threaten our important retirement security. For example, women have been, and continue to be, subjected to persistent gender wage discrimination leading to smaller Social Security benefits, as you have mentioned. Women often give up jobs and paychecks to care for children and elderly parents, and this leads to reductions in their Social Security benefits. Women are less likely to have a pension, and, even if they do have a pension income, it is usually less than what men receive. Women live longer than men, and consequently are more likely to outlive their retirement savings.

A growing number of older women rely on Social Security for all or most of their income in retirement. Without Social Security, over half of these women would be living in poverty. Even with Social Security, 11 percent of older women still live in poverty. For widows, the poverty rate is worse at 15 percent, which is 50 percent higher than the poverty rate for all people 65 or older.

Although Social Security is gender-neutral, life is not. Women pay the price of that inequity as long as they live. As a result of lower lifetime earnings, the average monthly Social Security benefit of a retired woman in 2012 was $1,103, while the average monthly benefit of a retired man was $1,417. These facts led to the National Committee's decision to prioritize the "Eleanor's Hope" vision of retirement equity through supporting legislation that rights the economic wrongs threatening millions of retired women.

To that end, we support several proposals that would improve benefit equity for women—which are explained in my written testimony—and I would like to highlight a few of our recommendations.

First, we support improving Social Security survivor benefits, because it would treat one-earner and two-earner couples more fairly and would reduce the likelihood of survivors falling into poverty. We believe Social Security credits should be given to caregivers who must leave the workforce to care for children and elderly family members. We propose that future cost-of-living adjustments be based on a fully developed Consumer Price Index for the Elderly or CPI–E. The CPI–E would more accurately measure the rising prices of goods and services paid by seniors than the current urban and clerical worker index does.

Seniors age 85 or older, and women in particular, are more likely to be financially vulnerable, even with Social Security. To ensure additional security, we support a benefit bump-up for all beneficiaries 20 years after retirement. To make these important proposals affordable, the National Committee supports strengthening the financing of the Social Security program by eliminating the cap on the Social Security payroll contributions.

Mr. Chairman, 3 decades of stagnant middle-class wages and eroding retirement benefits are threatening to put millions of retirees on a highway to hardship. Women are on a more troubling road, because we face this retirement crisis and bear the burden of economic inequality. The proposals I have discussed today will address Social Security inequality for women and help to ensure a livable retirement for more Americans. We applaud Senators Tom Harkin, Mark Begich, Patty Murray, and other members who have introduced many of these proposals as legislation.

Eleanor Roosevelt devoted 40 years to gender equality by advancing women politically, economically, and socially. To continue the work she started, I urge the Finance Committee to approve legislation that will ensure women have as much protection against retirement, disability, and survivorship risks as men do.

Thank you for the opportunity to testify today.

The CHAIRMAN. Thank you. That was very helpful.

[The prepared statement of Dr. Dodd appears in the appendix.]

The CHAIRMAN. Dr. Sita Slavov, welcome, and please proceed.

STATEMENT OF SITA NATARAJ SLAVOV, Ph.D., PROFESSOR OF PUBLIC POLICY, GEORGE MASON UNIVERSITY, AND VISITING SCHOLAR, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. SLAVOV. Thank you, Chairman Wyden, Ranking Member Hatch, and members of the committee, for the opportunity to speak to you today about women and Social Security.

Social Security's rules are gender-neutral, but they can affect men and women in different ways because of differences in their work histories. Women have, on average, lower earnings than men, and they are also more likely to take time out of the labor force.

As a result, around half of female beneficiaries receive higher benefits as a spouse or survivor than as a worker claiming on their own record.

As many of us have mentioned, one serious concern for policymakers is the relatively high rate of poverty among unmarried older women. Many of these women are widows who receive survivor benefits.

So I am going to make two points today: first, household decisions about when to claim Social Security matter a lot, and they especially matter for women; second, Social Security spousal and survivor benefits should be modernized to better serve today's two-earner families.

On the first point, Social Security provides a survivor benefit that is tied to the primary earner's actual benefit. That, in part, depends on when the primary earner claims benefits. A primary earner who delays claiming until age 70 leaves the surviving spouse with a benefit that is up to 60 percent higher than it would have been if the primary earner had claimed at 62.

However, empirically, if you look at the data, many primary earners claim right at age 62, and very few delay beyond their normal retirement age. My research with my co-author, John Shoven of Stanford University, suggests that most people can benefit from delaying claiming.

Professor Shoven and I have shown that, given today's low real interest rates, many couples can increase the lifetime value of their Social Security benefits by 14 to 19 percent through optimal delay. These delays could be financed by tapping into other retirement assets like IRAs and 401(k)s, or they could be financed by working longer. The gains from delaying Social Security are particularly large for primary earners, precisely because delay by primary earners boosts benefits for widows.

Other researchers have used a sample of actual couples, and they have shown that, in the event of widowhood, women receive benefits that are 17 percent lower over their remaining lifetime as a result of early claiming by their husbands. So, given all of that, it is somewhat of a puzzle why primary earners claim benefits so early.

Social Security's rules are complex, and the gains from delay have increased substantially in the past 15 years or so. So individuals may not be fully aware of how much money they are leaving on the table by claiming early. Some recent studies have shown that people's claiming ages are affected by the way in which the claiming decision is framed. So it could be worth spending some time carefully considering what information is available to individuals when they make their claiming decisions, and how that information is presented.

Now, coming to my second point, reforms that modernize Social Security's family benefits would also improve the way that Social Security treats women. Many of Social Security's family benefits were designed in the 1930s, when single-earner families were the norm.

Social Security's rules allow spouses who stay out of the labor force to collect a spousal benefit even if they paid no payroll tax. The spousal benefit is paid regardless of financial need, and the spouses of higher-income individuals qualify for higher spousal benefits.

This formula gives one-earner couples higher benefits than two-earner couples who paid the same amount in payroll taxes through their lifetime. It also provides a financial disincentive for women who expect to claim a spousal benefit to work outside the home, because these women will need to pay payroll taxes on their earnings without receiving any additional Social Security benefits.

Researchers at the Urban Institute have examined the impact of several expenditure-neutral reforms that would modernize Social Security's family benefits. For example, spousal and survivor benefits could be replaced with earnings-sharing in which half the couple's total earnings are accredited to each member of the couple, and that could be combined with a provision to protect survivors. Alternatively, a reduction in spousal benefits could be combined with a minimum benefit that anyone can receive. Finally, spousal benefits could be replaced with caregiver credits for those who raise children, or become caregivers in other ways. These researchers find that all of these reforms would reduce disparities between one- and two-earner couples and reduce poverty.

Thank you very much.

The CHAIRMAN. I just wanted to make sure, Doctor, on that earnings-sharing concept—which is something I have always found very interesting and attractive—you are talking about something that would be voluntary, right?

Dr. SLAVOV. Not necessarily. I believe some of the proposals that have been considered in the past would simply replace spousal and survivor benefits with earnings-sharing combined with some protections for survivors.

The CHAIRMAN. We will want to hear more from you about that, because I have always thought it was a very promising idea, and apparently, with the economics, there may be some winners and losers.

Dr. SLAVOV. Yes, certainly.

The CHAIRMAN. So I am anxious to talk with you about it.

[The prepared statement of Dr. Slavov appears in the appendix.]

The CHAIRMAN. All right. Let us go now to Ms. Barr.

STATEMENT OF JANET BARR, ACTUARY, AMERICAN ACADEMY OF ACTUARIES, CHICAGO, IL

Ms. BARR. Chairman Wyden, Senator Hatch, and distinguished members of the Senate Finance Committee, thank you for the opportunity to testify today. My name is Janet Barr, and I am representing the American Academy of Actuaries.

The Academy is a nonpartisan professional association representing all actuaries in the United States. Our mission is to serve the public by providing independent and objective actuarial information to help in the formation of sound public policy.

The purpose of my testimony is to, first, provide data on the gender-related factors that cause differences in the adequacy of retirement benefits between men and women; and second, to describe the principles of income equity and social adequacy so that we can use them in talking about the impact of reform options on women. Third, I want to describe the spouse and surviving spouse benefits in more detail and provide examples of several simplified situations. This is intended to give background to help in the discussion of whether Social Security is working for women.

In general, Americans' Social Security benefits are based on their average indexed earnings in their 35 highest-paid years. Social Security rules are gender-neutral, so that a woman who retires with the same lifetime earnings as a man will receive the same monthly benefit. However, some of the program rules have a different impact on women, because the average work history is not the same for a woman as for the average man.

Women are more likely than men to be out of the workforce or to have breaks in employment. Women, on average, earn less than men. Women live longer, on average, than men and so will need more assets in retirement. Women are more likely than men to be single, widowed, or divorced in retirement. This combination of factors means that the average woman has a higher risk of insufficient income and savings in her retirement years.

Switching gears, my testimony explains how Social Security was designed based on two competing principles: individual equity and social adequacy. The term "individual equity" has been used to describe the savings or investment aspects of the program. The term "social adequacy" has been used to characterize the benefit adequacy and social insurance aspects of the program.

When evaluating reform proposals and their impact on women, it is important to consider the trade-offs between individual equity and social adequacy. The social adequacy features of Social Security benefit all Americans, since they provide a form of insurance against the adverse financial effects associated with the uncertainties in life. The individual equity features allow the system to be seen as fair by all Americans and take away some of the risks of providing retirement income.

Now for my third point, I would like to direct your attention to the slide—Table 6 in my written testimony—which shows spouse and surviving spouse benefits. When the current benefit structure was set up, the traditional roles of men in the family as primary wage earners and women as the primary childcare providers were well-established.

As one of the social adequacy design features, the current system allocates benefits disproportionately, relative to taxes, to one-earner couples compared with two-earner couples and single people. As my slide shows, the single-earner couple on the left has higher benefits than the two-earner couple on the right

In summary, the current Social Security law is gender-neutral. It contains spousal and other subsidized benefit provisions that mitigate, but do not eliminate, the impact of gender-related factors that produce lower benefits for women. It is worth noting that the present system provides a lower level of benefits relative to Social Security taxes paid for two-earner families where the second earner has a significant income.

As members of Congress evaluate options to reform the Social Security system, you should not only address its financial problems, but also consider that Social Security remains an even more important source of retirement income for many women than men.

In closing, I want to thank you for the opportunity to present some ideas on behalf of the American Academy of Actuaries, and I would be happy to answer any questions.

The CHAIRMAN. Thank you very much, Ms. Barr.

[The prepared statement of Ms. Barr appears in the appendix.]

The CHAIRMAN. All of you have been excellent, and we appreciate it.

Let me start with you, if I might, Ms. Perrin. Almost like in our earlier conversation in Eugene, you are being very modest, and I am just struck by the fact that, through your life, you always were doing what was right. You were frugal, you supported your spouse, you raised a child, you volunteered, you just always were there doing what was right.

Then retirement comes along and sort of hits you like a wrecking ball. The mortgage is underwater, and you had the divorce, and the publishing industry changed underneath you.

So now your income is about $775 a month. I was just doing some math and thinking about your own situation with your mom, who lived until she was almost 90. So, if you look at your genes, you are looking at the realistic prospect of needing enough money to get by for more than 20 years.

Having seen you in Eugene, I know that you have plans and that you are out there looking at a variety of ways to increase your income, and you are going to stay at it to get that done. But you are also talking to other women who may not be able to fight back in as powerful a way as yourself.

Tell me and the committee a little bit about what you are hearing from those women, women who might be looking at an income of well under $1,000 a month, maybe not in a position to fight back like you. What are they telling you?

Ms. PERRIN. Thank you for your support of my experiences. I have spoken recently with several women who have expressed to me that they do not know how they are going to survive. They do not have a clue. You are right. I always have a plan in mind. I am always trying to figure things out. That is the way I have survived. My daughter even says, "Mom, I think you should stop trying to figure things out. Just let things happen." [Laughter.] But that does not work.

I do not know what they are thinking of doing, and some of them have serious health issues which I am very thankful that I do not have, and that is scary. With Medicare, they do have care, but that means they cannot do the things that would possibly get them more income.

I do not think that a lot of women have any plans to work. They are kind of in a state of giving up and hoping that something will happen. As I was telling people that I was coming here, they said, "Go tell them we need help." So I cannot do anything on my own except relay that message that there is a need for women who have not been able to put aside enough money or have resources through a marriage, or family resources, or something to be able to survive in the last couple of decades of their life.

The CHAIRMAN. So you have been listening over the last half hour, 45 minutes to those at the witness table talking about a variety of ideas. Do any of the ideas strike you as appealing and ones you think we ought to follow up on?

Ms. PERRIN. Well, one of the things that I wrote down here—which I did not do myself because of the situation I was in—is that the delayed claiming seems to be something that there should at least be more education about with members of the community, especially through organizations like AARP, to let people know that when they are claiming early, just because they can, it is not necessarily in their benefit, and bringing the idea of what might be on the table, as you said, for them later would be something, I think, that would be helpful, at least education about it.

I do not know the intricacies—I am sorry—of all of the other possibilities, but I think it is important to be aware that Social Security is never going to be enough to live the way they had been living when they had income, even if it was low. I have given up a lot to be able to just live on very, very, very little. I can get by, but it is hard.

The CHAIRMAN. I think most people are going to leave here and say there is something out of whack when we cannot figure out a better retirement policy to make sure that a woman like yourself, with a life expectancy—certainly the prospect of 20 more years—cannot have more opportunities for a dignified retirement than what we are talking about today. That is the reason why I asked the question the way I did. I saw that you were such a fighter, and I think you are going to find your way, but I think there are a lot of others who, whether it is for physical or other reasons, are not going to be able to do it, and I think we have to figure out a better course, and that is why we are glad you could be here.

Senator Hatch?

Senator HATCH. This is an extremely interesting panel to me. Each of you has helped us to maybe understand this a little bit better.

Ms. Barr, there is a disproportionate number of women receiving Social Security benefits who live in poverty. I think that has been established. And that is especially so for non-married women, widows, and divorced women as well. Yet, it is also the case that Social Security provides auxiliary benefits to spouses, widows, and survivors of retired, disabled, and deceased workers, and women are affected by these benefits.

Now, I wonder if you could provide a summary of those auxiliary benefits, including eligibility requirements and benefit amounts, and any thoughts you might have on how those benefits could be changed to keep women out of poverty in their older ages.

Ms. BARR. Thank you, Senator Hatch, for that question regarding poverty and whether Social Security has provisions that could help in those situations, and also the chance to give a little more detail on the auxiliary benefits. First of all, on the auxiliary benefits, there are very detailed rules, so I am going to try to paint it with a broad brush. Where you have the spousal benefit, it is payable based on the primary worker's benefit. So, if you do work, you receive the better of your spouse's or your own work record history. So, that benefit is 50 percent. You can claim it at age 62.

Then there is the widow's benefit, payable at age 60 generally. Then there is the divorced spouse's benefit, also payable at 62. If you are caring for minor children, you are also allowed a benefit that I think also applies to dependent, elderly family members.

So the American Academy of Actuaries has not done much research on Social Security and poverty. I am hearing from this testimony that that is something we maybe should focus on a little more. Just to kind of point you to some ideas, in my testimony on page 9, we have some options that address challenges specifically faced by women. This would be more for people retiring in the future. I do not know that it can help people who are currently retired.

The first one is modifying the computation period for benefits. As I mentioned, there is a 35-year period that is used in the average in determining Social Security benefits. So what one of the options is, is to allow credits for childcare so that maybe if you were out of the workforce for 5 years, you could earn a credit, and it is yet to be determined how the earnings would be credited. So that is one option.

You could also, instead of crediting years, just drop the number of years. So, instead of doing an average over 35 years, you might do an average over 30 years, although it would raise the average earnings that the benefit is based on. There is also an idea of providing maybe a benefit for low earners with long careers, sort of a modified minimum—not a minimum that would be payable to everyone, but sort of like Barbara's situation of being a long-term worker at lower-paid earnings. So those are a couple of options.

Senator HATCH. That will be fine. You did okay.

We are running out of time. Let me ask Dr. Slavov—and you can augment the record in writing if you care to—as some of our research shows, taking the right Social Security benefits at the right time can make a huge difference in someone's retirement standard of living. Making a wrong decision can result in significant losses in retirement wealth. According to economist Larry Kotlikoff, "For an age 62 couple, there are over 100 million combinations of months for each of the two spouses to take retirement benefits, spousal benefits, and decide whether or not to file and suspend one's retirement benefits."

Are you able to give us a sense of the number of claiming options that are available in Social Security? What might be the stakes if someone made an incorrect choice because the rules seem to be very complex?

Dr. SLAVOV. Yes, so the rules are indeed complex. So for a couple, just to kind of simplify it, a claiming strategy would involve choosing a claiming age for each spouse. For two-earner couples, it is also possible for one member of the couple to claim spousal benefits at their full retirement age then switch to their worker benefit at age 70, after letting it grow. So that is a strategy that is not very well-known, but it is legal under Social Security Administration rules.

So I did a calculation, and, according to the sort of modeling that I have done, at today's lower real interest rates, a hypothetical two-earner couple born in 1953 and entitled to roughly average benefits could gain over $100,000 over their lifetime from optimal delay compared to claiming at 62. A hypothetical one-earner couple could gain more than $80,000 over their lifetime.

The CHAIRMAN. Senator Brown? And with a little luck, we can get everybody here in. Senator Brown, then we will have Senator Stabenow, and Senator Thune has joined us. So proceed.

Senator BROWN. Thank you, Mr. Chairman. I particularly appreciate that Senator Hatch and Senator Wyden appreciate the theme of this hearing. The debate over Social Security should not be how much we cut from the program to balance the budget. It should not be about raising the retirement age. It should not be about limiting benefits. It is all about retirement security. I think our panelists illustrate that well.

We know that Social Security fundamentally is social insurance that most working families could not afford to buy on their own. That is the reason that President Roosevelt, and Eleanor Roosevelt obviously, helped to create this, and were such strong supporters of this. We know a number of other facts: for the bottom two quintiles of Americans over 65, Social Security benefits are 84 percent of their income. Even in the middle quintile—and I think it is important always to look at the middle quintile, meaning half the people are doing better, half the people are not—in the middle quintile, Social Security represents 65 percent of retirement income.

So we know about whom we are speaking when we do this, and we should keep these numbers in front of us. That is why it is not the time to discuss cutting Social Security, whether it is through chained CPI, through privatization, through any other way that people tend to promote that.

I am proud to pick up, as a result, where my colleague Senator Harkin left off and introduce his legislation in the next Congress, The Strengthening Social Security Act. I look forward to a number of you joining me in both parties in co-sponsorship of that.

My question is to you, Dr. Dodd. Under current Social Security guidelines—to preface it—we have talked at length about the impact of the wage gap on women. We know what it means for their standard of living in their work years. We know the wage gap means lower income, less savings, and it means reduced Social Security benefits. That problem may be worse—may and is in many cases—for female caregivers. One study said that female caregivers risk losing up to $324,000 in wages, Social Security benefits, and private pension contributions as a result of leaving the workforce or reducing their hours. Unmarried caregivers—because they do not have the spousal assistance in retirement—obviously are even more vulnerable when they give up their work to be caregivers.

Talk to me if you would, Dr. Dodd. Under current Social Security's guidelines, how can a woman who leaves her job, or who works fewer hours to care for a dependent family member or friend, how can she protect herself against seeing her benefits drop as a result? Is it some caregiver credit? Give me thoughts on where we go and, under current law, what we can do, and under proposed changes, what we should do.

Dr. DODD. Thank you for the question, Senator Brown. I think that you have heard from all of us that the caregiver credits would be an important way to protect her Social Security earnings. I do not know that there are other solutions to that.

I think, if we look in the long run, if she is likely, as women are, to live more than 20 years after retirement, we could look at boosting, giving a boost to people, both men and women, who live more than 20 years after retirement, because their Social Security COLAs have not kept up with the inflationary increases of medical costs and other costs. The COLAs do not parallel the CPI.

Senator BROWN. So some CPI adjustment in terms of really reflecting the costs of being 70 or 80 years old versus a CPI based on the cost of being a 40-year-old?

Dr. DODD. As well as a CPI adjustment during the first 20 years of collection that is based on what the elderly pay for goods and services, not based on what the urban clerical index is. So you can give credit for caregiver years, and you can increase the payment on a CPI–E for the elderly. Then, if they do live beyond 20 years, give them a boost, based again on the fact that their COLAs have not kept up with inflation over time.

Senator BROWN. My understanding, Mr. Chairman, really quickly—and, if you could give a really brief answer—my understanding is other high-end OECD countries have something like this; correct?

Dr. DODD. I believe so.

Senator BROWN. All right. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Stabenow?

Senator STABENOW. Well, thank you very much, Mr. Chairman and Ranking Member. This is an incredibly important discussion. I have always felt that Social Security was the great American success story. It is income insurance, and it is disability insurance; it is life insurance.

I will never forget people coming in after the Enron crisis, losing everything, people from Michigan coming in and saying to me, "Thank God for Social Security." That was it. So this is a very, very important discussion.

I feel like what you are really talking about today is, unfortunately, the 1,2,3,4 punch for women. Women in Michigan earn 75 cents for every dollar a man earns. So, therefore, they are contributing less and are more likely to leave the workforce to care for children or parents or other family members. That is two. They are more likely to be in a minimum-wage or low-wage job. That is three. And finally, on top of all of that, we live longer. So we are in a situation—and, Ms. Perrin, you have clearly laid out the challenge for women, and we thank all of you.

I wanted to ask you about Social Security Disability, because one of the things that concerns me is, I am hearing now, periodically, these concerns that Disability claims are through the roof. When you really look at it, one of the challenges is that more women are working, therefore, more women are in a situation where they may have a disability on the job.

Therefore, we see Social Security Disability claims going up, even though we know that, in fact, they are hard to qualify for. It is not a large amount of money, but more women in the workforce means that we are changing the demographics of who is applying for and receiving Social Security Disability. So I wonder if, Dr. Dodd, you might speak to that, and then if anyone else would want to as well.

I think this is very important as we go into next year, and we look at the three trust fund buckets, and what we need to do to really understand a major driver of the pressure on Social Security Disability.

Dr. DODD. Thank you for asking that question, Senator Stabenow. Indeed, in 2013 the report of the Social Security trustees projected that the Disability trust fund would be substantially depleted by 2016, which would mean up to 20-percent across-the-board cuts in Disability pay, and it is a heavy burden in the minds of millions of people. I think you mentioned that there are over 11 million disabled Social Security beneficiaries, workers, and dependents.

So the time is now to rebalance how that fund is set up and to get the revenue flowing into the Disability trust fund. And recommendations have been made to take it out of the Social Security trust fund. When you spread it across how large our Social Security trust fund is now, it is really a very, very, very small amount. I think this is an important time to do that. So thank you.

Senator STABENOW. Is this not directly related to, as I said, more women coming into the workforce? We are putting now more pressure on the Disability part of Social Security because of more women in the workforce?

Dr. DODD. Absolutely.

Senator STABENOW. Does anyone else want to respond to that particular piece? [No response.]

I know we are going to be faced with that, Mr. Chairman, coming up very soon, and I am concerned about that and making sure we kind of look at the reasons why.

I am wondering if anyone would also want to comment about the fact that, if we want to deal with the retirement crisis and what is happening to women, raising the minimum wage and enforcing equal pay laws would go a long way to help with an underlying piece of this, in terms of women being able to receive what they should by paying more into Social Security.

Dr. DODD. I am happy to comment on that.

Senator STABENOW. Dr. Dodd?

Dr. DODD. The National Committee agrees that raising the minimum wage is a good idea. It lifts all of the boats, but, even though women are in a lower lock, it raises our boat as well. It not only improves living and working conditions now, but it improves their contributions to Social Security and, hence, the income they would receive from Social Security, although it will still be unequal to men's.

Senator STABENOW. Anyone else? [No response.]

All right. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Stabenow. In order of appearance, it goes Casey, Thune, and Cantwell. And let us see if we can get everyone in. We have 10 minutes left on the vote, then maybe a 5-minute window.

So, Senator Casey?

Senator CASEY. Thank you so much, Mr. Chairman. Thanks for having this hearing, and I will be probably under my time. I will make sure I am quick. I really appreciate the panel's testimony. This is an issue, I think, that, no matter where you are from, no matter what part of the country, what party, what point of view, we all have a concern about it.

I will submit other questions for the record, but I will direct my question first to Dr. Dodd. In particular, I noticed that in your testimony, on pages 4, 5, and 6, you have—I think I counted 12—policy proposals.

I want to focus on page 4, number 4, "Equalizing Rules for Widows and Disabled Widows," and then, at the bottom of the next page, "Improving Benefits for Adult Children Who Have a Disability." If you could, just kind of walk through the basic problem there, and what you hope would be the policy resolution or solution to both of those categories of issues.

Dr. DODD. Thank you for the question. In terms of equalizing benefits for widows, the concept is that a widow gets to claim 50 percent as a surviving spouse. Yet, her costs are not changing other than probably her husband's food and basic needs. The basic costs of daily living are still the same, but her income goes down by 50 percent.

So the idea is, let us give a bump-up to those, again, single women to prevent them from falling into poverty, which they are so close to even being on his Social Security retirement.

Senator CASEY. And also, in the context of an adult child who has a disability, can you explain that difficulty?

Dr. DODD. A surviving adult child?

Senator CASEY. Correct.

Dr. DODD. So, a surviving adult child, similarly, adult children with disabilities are expensive in general, so that if their benefits are to be cut by 50 percent when their single provider dies, it is just inadequate to cover the costs of their care.

Senator CASEY. And finally—and I will end with this—but when you set forth your proposals or what you call "program improvements," I realize every one of them has a level of importance, but if you had to choose, and I am not sure whether you outlined them in a priority order, are there several on this list that you think are more urgent and more in need of early action? Or is it more of a collective set of proposals?

Dr. DODD. We have not prioritized them at this point. They are a menu, but I think all of them deserve consideration, and you cannot balance inequity by just taking action on one of them, because the system is so complex and because people's situations are so complex. Each one addresses a different kind of inequity. So that is why we have been so broad.

Senator CASEY. I apologize to the other witnesses, but I want to give back 1 minute and 20 seconds.

The CHAIRMAN. Thank you, Senator Casey.

Chivalry lives. Senator Thune wanted Senator Cantwell to go next.

Senator CANTWELL. Thank you, Mr. Chairman, and thank you for this hearing. I know we have a vote going on, so I am going to just try to be precise in a few questions.

I want to be clear: I know my colleague brought up chained CPI a little bit, but does chained CPI reflect the realities of inflation for many Social Security beneficiaries, Dr. Dodd?

Dr. DODD. No.

Senator CANTWELL. So it is really preposterous to say that you can do chained CPI and not affect the bottom line of beneficiaries?

Dr. DODD. Correct. And over time, chained CPI will have an even more significant effect, because you will be increasing the cost-of-living adjustments at a lower rate and enhancing the risk of entering into poverty.

Senator CANTWELL. I wish we could get on the same page on these numbers, because I think there is some mysterious thing that has been discussed about chained CPI, like it does not have an impact on existing and future beneficiaries, and it does.

Second question: I do not feel like we drilled down enough on the market basket of goods of seniors, and women particularly. What do you think that market basket of goods would be that would truly reflect their expenses and costs, that would be a better part of a formula?

I do not know if you know what I am referring to, but I look at it and think, for seniors, their biggest cost is obviously medication or other healthcare. So here we have this index, but it does not really reflect the things they buy. It reflects what the rest of us buy. Well, I guarantee you, the difference between what I purchase and what my mother purchases is very, very great.

Dr. DODD. I think you have made an excellent point, which is why we wanted to base Social Security on an elderly CPI that looked exactly at their market basket and specifically included medical costs, copays, prescription drugs, nonprescription drugs.

The other thing I think that is not in there is, many seniors stop driving, and the costs of transportation to go to and from the doctor, or the hospital, or wherever it is they are receiving care, go up. Many adult day health programs no longer provide transportation and are relying on the individual to pay for it for themselves. So, as you said, their expenditures are much different from our expenditures.

Senator CANTWELL. And so it is just—I do not know. I feel like we need to put it on a billboard or something. It is just wrong to assume that their CPI is the same as everybody else's and that they are not going to be negatively affected if we do not do something to address it. They are just losing more and more market power every year.

Dr. DODD. Exactly. And coming closer and closer to poverty every year.

Senator CANTWELL. Yes. And well, with a baby-boomer population starting to reach that bracket, we definitely need to deal with this, not just for seniors. We definitely need to help seniors now, but, for the future, it is going to have an even more significant impact on our budget if a percentage of them do slip into poverty and then are demanding a different level of service and care.

So, anyway, I thank the chairman very much for this important hearing.

The CHAIRMAN. Thank you, Senator Cantwell. Senator Cantwell, as usual, brings us back to drilling down on the numbers. I want you all to know what numbers I am taking out of this room, because this has been very constructive.

Ms. Perrin is a woman who has done everything right—everything right. Through factors beyond her control, she is now, based on her genes, looking at the prospects of living 20 more years, and her income is now $775 a month.

Because I know Ms. Perrin, she is going to figure out how to turn this around and make more income and deal with it. But I think it is very clear that there is a challenge out there, because there are going to be many women who are not, for a variety of reasons, going to be able to do that.

So that is our challenge. All of you have been a very, very constructive panel. We are going to tackle these issues in a bipartisan kind of fashion.

With that, the Committee on Finance is adjourned.

[Whereupon, at 10:45 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

AMERICAN ACADEMY *of* ACTUARIES

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Committee on Finance

United States Senate

Hearing on

"Social Security: Is a Key Foundation of Economic Security Working for Women?"

Statement of

Janet Barr, MAAA, ASA, EA

on behalf of

the American Academy of Actuaries

December 9, 2014

The American Academy of Actuaries is an 18,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Chairman Wyden, Senator Hatch, and distinguished members of the Senate Finance Committee, thank you for the opportunity to testify on the issue: "Social Security: Is a key foundation of economic security working for women?" My name is Janet Barr. I am a consulting actuary specializing in retirement practice and I am representing the American Academy of Actuaries, where for the past several years I have been the chairperson of its Social Security Committee.

The Academy is the nonpartisan professional association representing all actuaries in the United States. Our mission is to serve the public and the actuarial profession by providing independent and objective actuarial information, analysis, and education to help in the formation of sound public policy.

Social Security provides benefits on a gender-neutral basis. Nevertheless, gender-related differences in the American work culture, family structure, and longevity have meant that, in reality, Social Security provides different levels of retirement security for women and men. In this testimony, I discuss women and Social Security in four sections:

1. Gender-related factors that can cause differences in the adequacy of retirement benefits between men and women.
2. Principles upon which Social Security was built that provide a framework for discussing changes to Social Security and how the changes impact women.
3. An example of how Social Security's spousal benefit is currently impacting women.
4. A discussion of individual changes that have been considered for Social Security reform and how those changes might impact women because of the different gender-related factors.

1. Gender-Related Factors That Affect Adequacy of Retirement Benefits

In general, Americans' Social Security benefits are based on their average indexed earnings in their 35 highest-paid years. Social Security's rules are gender neutral, so that a woman who retires with the same average lifetime earnings as a similarly situated man will receive the same monthly benefit. However, some of the program's rules have a different impact on women because the average woman's work history is not the same as that of the average man.

Women are more likely than men to be out of the workforce or to have breaks in employment. Even with the narrowing gender gap in the rates of labor force participation, women often leave temporarily or permanently for pregnancy, child care, and other family care responsibilities. As a result, women tend to have shorter work histories and thus smaller Social Security benefits than men.

Table 1

Percentage of U.S. Men and Women in the Workforce				
	2004[1]		2013[2]	
Ages	Women	Men	Women	Men
25 – 54	75%	91%	74%	89%
55 – 64	56%	69%	59%	70%

Women on average earn less than men. For benefits based on their own earnings records, the average woman will receive lower Social Security benefits than the average man with the same number of years of covered earnings due to differences in earnings.

The average covered wage reported to the Social Security Administration for women ages 25 to 34 years was 55 percent in 1980. That percentage for the same age group had risen to 73 percent by 1993. In 2011, the average covered wage reported to the Social Security Administration was $39,500 for men and $29,250 for women, giving a ratio of women's earnings as a percentage of men's of 74 percent.[3]

Despite gains in education, professional and managerial jobs, and business ownership, women have not achieved wage parity with men.

Women live longer on average than men and so will need more assets in retirement. Because women on average live longer than men, their time in retirement will be longer, and thus will need income for a longer period of time than the average man. In addition, since women generally have less wealth and income from other sources, these resources will have to be spread out over a longer expected lifetime. Thus, Social Security benefits are a more significant component of women's retirement security. Consider:

- The average life expectancy at age 65 is about 18 years for males and 20 years for females.[4]
- Recently released 2014 tables of mortality for men and women receiving single-employer pensions project life expect at age 65 at 21.6 years for men and 23.8 years for women.[5]
- In addition, most married women have older spouses.[6]

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[1] U.S. Bureau of Labor Statistics, *Monthly Labor Review*, November 2005, Table 5.
[2] U.S. Bureau of Labor Statistics, Women in the Labor Force: A Databook, May 2014, Table 11.
[3] Social Security Administration, "Actuarial Note 135," Table 5. 2011 amounts are rounded and calculated from the table at http://www.socialsecurity.gov/policy/docs/statcomps/eedata_sc/2011/table01.html.
[4] Society of Actuaries, "Impact of Retirement Risk on Women, 2013 Risks and Process of Retirement Survey Report."
[5] Assumes 2014 age 65 cohort with mortality improvement using Scale MP-2014. Page 52 of the RP-2014 Mortality Tables Report found at https://www.soa.org/Research/Experience-Study/pension/research-2014-rp.aspx.
[6] Husband and wife ages from Tables 1.2 and 1.3 at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2012/sect01.html.

Table 2

	Husbands		Wives	
All Husbands	Age 62-64	Age 65+	Age 62-64	Age 65+
% with spouse age 55 -61	60.4%	14.5%	18.0%	3.8%
% with spouse age 62-64	29.0%	14%	28.4%	3.2%
% with spouse age 65 or older	10.6%	72.5%	53.6%	92.9%

- As a result, elderly women are more likely to become widows and not have a spouse to assist them financially. They also face health and long-term care costs alone or with the help of relatives.[7]
- 30 percent of elderly women (but only about 23 percent of elderly men) depend on Social Security for more than 90 percent of their family income.[8]
- The nationwide trend of decreasing defined-benefit plan coverage also means that one of the primary retirement security tools is further eroded for women. In 2005, 44 percent of men received a pension payment compared with 29 percent of women.[9]

Women are more likely than men to be single, widowed, or divorced in retirement. Widow(er)s can continue to be eligible for survivor benefits based on their deceased spouse's earnings if they remarry after age 60. Widow(er)s who remarry prior to age 60 are not eligible for widow(er)s benefits. Those who have been divorced before 10 years of marriage are not eligible for spousal benefits and not entitled to survivor benefits at the divorced spouse's death.

- Women are more likely than men to be unmarried.

Table 3

Percent Married by Age Group[10]		
Age Group	Women	Men
65 – 74	47%	71%
75 – 84	29%	67%
85 and older	12%	49%

- Data on 2012 Social Security beneficiaries by sex and marital status tells a similar story.

Table 4

Marital Status of 2012 Social Security Beneficiaries				
	Married	Widowed	Divorced	Never Married
Men	72%	12%	9%	4%
Women	45%	55%	38%	4%

[7] 2013 Risks and Process of Retirement Survey Report."
[8] Amounts are calculated from Table 5.B7 at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2012/sect05.html#table5.b7.
[9] EBRI Fast Facts: Pension, Annuity Income: Differences between Men and Women (March 2007). Based on the March 2006 Current Population Survey, conducted by the U.S. Census Bureau. - See more at: http://www.ncpssmfoundation.org/DetailsPage/tabid/92/ArticleID/5/The-Gender-Gap-in-Pension-Coverage.aspx#sthash.salRCgq3.dpuf.
[10] U.S. Census Bureau, "2013 American Community Survey," Table B12002.

- In 2013, more women at ages 75 to 84 were widowed (39 percent), compared with married (29 percent), divorced or separated (10 percent), and never married (4 percent).[8]
- The poverty rates for never-married women over age 65 are some of the highest for any subgroup in the country. For example, while the poverty rate for a married couple (over 65) is only 4.2 percent, the poverty rate for a single woman is 20.3 percent.[11]

This combination of factors means that the average woman has a higher risk of having insufficient income or depleting savings in her retirement years.

2. Principles Upon Which Social Security Was Based

Social Security was designed based on two competing principles, **individual equity** and **social adequacy**. The balance between these two elements has been maintained to varying degrees since Social Security first began. Many attribute the popularity and success of the program to the fact that there is a balance between these two important principles. It is helpful to discuss the impact of reform proposals on women with an understanding of these principles.

The term **individual equity** has traditionally been used to describe the savings or investment aspects of the program where investment, as I use it here, is defined as putting money to use with an expectation of income in return. If individual equity were the sole objective of the program, benefit levels might have been directly related only to contribution levels. For example, a retiring worker with twice the accumulated contributions of another similarly situated worker might receive twice the old-age benefit.

The term **social adequacy** has traditionally been used to characterize the benefit adequacy and social insurance aspects of the program. If social adequacy were the sole objective, benefits might have been set at the same level for all workers, regardless of earnings and contribution levels. Benefits might not have been payable until the occurrence of certain risk-based events.

The current system provides for **individual equity** in important ways:

- Receipt of benefits is based on a worker's age and employment history prior to disability or retirement, without regard to need.
- The benefit formula provides additional benefits to workers with higher earnings or longer working careers who have paid more into the system than someone with lower earnings or a shorter working career.
- Social Security taxes are not progressive, with the same tax rate being paid by workers (and their employers and the self-employed) whether they have high (but less than the taxable wage base) or low earnings.
- The maximum taxable wage base limits the amount of Social Security taxes an individual will have to pay but also limits the amount of benefits that an individual can accrue.

[11] Social Security Administration, "Marital Status & Poverty Fact Sheet," October 2013.

The current system also serves the demands of **social adequacy**:

- The relative amount of the benefit is skewed to favor lower-paid employees. A worker's benefit is determined by his or her indexed career-average earnings replacing 90 percent of the first tier of earnings, 32 percent of the next tier of earnings, and 15 percent of remaining earnings. Lower-wage workers thus receive larger benefits relative to their contributions than higher-wage workers.
- Earnings are indexed to help insure that initial Social Security benefits incorporate changes in living standards over a worker's career.
- Benefits after retirement are indexed for inflation to help ensure that the purchasing power of Social Security benefits does not decrease significantly during retirement.
- Workers who live longer are subsidized by workers with shorter lifespans, similar to how insurance company annuities and life insurance products function.
- Workers who do not become disabled subsidize workers who do, similar to how a disability income insurance product operates.
- Workers who retire without dependent family members subsidize workers who retire with dependent family members.

The individual equity features of Social Security affect men and women similarly. Many of the social adequacy features help mitigate but do not eliminate the gender-related retirement adequacy issues for women discussed previously. Below are some examples of how Social Security addresses these issues.

- By skewing the amount of the benefit to favor lower-paid employees, Social Security addresses the benefit adequacy of a working insured woman with lower average wages due to periods out of the workforce.
- By paying spousal benefits based on an insured worker's earnings, Social Security addresses the fact that women are more likely to be out of the workforce.
- Spousal and widow benefits are a major source of income for Social Security women beneficiaries. From 1960 to 2005, approximately 60 percent of women beneficiaries received a benefit at least partly based on the record of their spouse or previous spouse.[12]
- The Social Security formula provides proportionately greater benefits (as a percentage of career average earnings) to women who on average have lower average wages than men.
- The cost-of-living increases provided by Social Security benefit women proportionately more than men since on average women live longer. They allow for an adequate retirement income even after a long period of retirement.
- Benefits are payable to divorced spouses to whom an insured worker was married at least 10 years, without any reduction in benefits to the worker or to other family members.
- If a worker dies before becoming eligible for retirement, but was fully insured at death, Social Security pays benefits to the worker's spouse and dependent children. As a result of spousal and survivor benefits, women with low earnings or little work history can still receive Social Security benefits based on the insured spouse's earnings history.

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[12] Chart 1 at http://www.socialsecurity.gov/policy/docs/ssb/v67n4/67n4p1.html.

The median family Social Security benefit provided to men and women in 2012 by age group is shown in the chart below:

Table 5

Median Family 2012 Social Security Benefit provided to Men and Women by Age Group[13]		
Age Group	Men	Women
65-69	$ 20,000	$ 19,595
70-74	23,998	20,027
75-79	22,997	17,399
80 or older	20,399	15,599

The social-adequacy features of Social Security benefit all Americans since they provide a form of insurance against the adverse financial effects associated with the uncertainties of life. The individual equity features allow the system to be seen as fair to all Americans and take away some of the risks of providing retirement income. Proposals for reform often involve a trade-off between individual equity and social adequacy.

3. An Example of How Social Security's Spousal Benefit Is Currently Impacting Women

When the current benefit structure was set up, the traditional roles of men in the family as primary wage earners and women as primary child care providers were well established. Social Security provides the highest benefits relative to contributions to married couples with a primary wage earner, usually the husband, and with dependent children. As one of the social adequacy design features, the current system allocates benefits disproportionately (relative to taxes) to one-earner couples compared with two-earner couples and single people.

There can be significant differences in retirement benefits and surviving spouse benefits for families with the same earnings histories and payroll tax contributions, but with different splits of earnings between the spouses.

- One-earner households receive a higher benefit from Social Security than two-earner couples with the same total household earnings.
- The survivor of a two-earner couple receives a smaller survivor benefit than the survivor of a one-earner couple with the same total earnings.
- Compared to a one-earner household, the survivor of a two-earner couple may receive no additional benefits, even though he or she may have worked for many years and contributed payroll taxes to the program.

[13] http://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/sect05.html#table5.b2.

- In the case of a two-earner couple where the primary earner has the same income as the one-earner couple, the secondary earner's benefit is only marginally higher than if she or he did not work at all.
- Stated differently, the bullets above mean that the secondary earner's income is effectively taxed at a higher rate than the primary earner's income.

As women have increasingly assumed roles as heads of families or as primary or co-equal wage earners in their families, situations frequently arise where Social Security provides lower benefits for the same contributions, or requires significantly higher contributions with little, if any, increase in benefits compared to the "traditional" family with one male earner.

Social Security provides a spousal benefit equal to 50 percent of the worker's benefit while the worker is alive, and generally 100 percent after the worker's death, provided that the spouse is not entitled to a higher benefit based on his or her own earnings history. The table below provides an example of the impact on Social Security benefits based on different family circumstances.

Table 6

Impact on Social Security Benefits of Different Family Circumstances[14]

	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Annual Social Security Tax of 6.2%	$3,100/year	$3,100/year	$4,650/year
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

As more women continue in the workforce and earn higher wages, more will have retirement benefits greater than 50 percent of their spouses' benefit, so the spousal benefit will be provided to a declining proportion of women. However, as long as women continue to earn less on average than men, their retirement benefits will be less on average than their spousal benefit, so the survivor benefit of 100 percent of the higher wage earners' benefit will continue to apply for a high percentage of women.

[14] Benefit Estimates are rounded and assume both spouses are age 66 and retired in 2014, discounting earnings for years prior to 2014 using National Average Earnings assuming earnings begin at age 18.

4. How Individual Changes to Social Security Might Impact Women

There have been many recent proposals to restore the financial soundness of the Social Security program within the current benefit and investment structure. The intent of this section is to provide an analysis of some of the individual options and their impact on women. Our discussion of the options has been separated into: i) options that address challenges faced by women, followed by ii) options that address Social Security's funding challenges, which also impact women because of gender-related factors.

Options that Address Challenges Faced by Women

Modify the Computation Period for Benefits: Social Security currently uses a 35-year averaging period in the formula for calculating a benefit. If a worker is out of the workforce to care for family members for a period of years, his or her Social Security Benefit is adversely affected by those years with zero earnings. To address this issue, one reform option is to impute, or credit, income for a certain number of years of child care. Another option is to reduce the 35-year period for every year of child care. This latter approach is already in use, to a limited extent, for disabled individuals where the 35-year average might be reduced to 30 years. One of these options could be combined with the elimination of the spousal benefit to offset some of the financial impact of an increase in benefits.

Enhance Benefits for Low Earners with Long Careers: A proposal from the 2001 President's Commission to Strengthen Social Security would protect low-income workers, disproportionately women, against poverty by guaranteeing that an individual who worked at least 30 years at the minimum wage would retire with an income of between 100 percent and 120 percent of the poverty line. This proposal would shift the balance toward social adequacy and away from individual equity, but is different from a true minimum with no years of earnings requirement.

Change Spousal Benefits: A proposal from the 1994-1996 Advisory Council on Social Security would reduce the 50-percent spousal benefit to 33 percent and would increase survivor benefits for two-earner couples to 75 percent of the total benefit paid to them when both were alive (or 100 percent of either worker's benefit if greater). Please see an example comparing this proposal to current law at the top of the following page.

This proposal would also make it more likely that working spouses will be entitled to retirement benefits solely on their own work records, rather than as spousal benefits. However, it does reduce the benefits to low-earning and nonworking women to 33 percent of the benefit of the working spouse. This could be particularly problematic for divorced women, who have the highest poverty rate of the elderly. One possible remedy would be to split the benefits 50/50, just as pensions are divided upon divorce in some states. Such a remedy, of course, would reduce the benefit of the higher-wage earner and his or her subsequent spouse(s) and family, if applicable.

Example comparing the 1994-1996 Advisory Council on Social Security Spouse proposal to benefits based on current law

Advisory Council Proposal Spousal Benefit: 33 percent of insured worker benefit

Advisory Council Proposal Widow(er) Benefit: 75 percent of the total benefit paid when both spouses were alive (or 100 percent of either worker's benefit if greater)

Table 7

Advisory Council Proposal			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total benefit at retirement	$1,770 spouse A + $590 spouse B (Total $2,360)	$1,120 spouse A + $1,120 spouse B (Total $2,240)	$1,770 spouse A + $1,120 spouse B (Total $2,890)
Total benefit to survivor	$1,770	$1,680	$2,168

Current Law Spousal Benefit: 50 percent of insured worker benefit

Current Law Widow(er) Benefit: 100 percent of insured worker benefit

Table 8

Current Law[15]			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

[15] Benefit Estimates are rounded and assume both spouses are age 66 and retired in 2014, discounting earnings for years prior to 2014 using National Average Earnings assuming earnings begin at age 18.

Earnings Sharing: Under an earnings-sharing proposal, the spousal benefit would be eliminated. Instead, a couple's earnings would be added together and split evenly each year. This would help dual-earner couples in which both spouses have substantial (but unequal) employment histories, and divorced women – especially those who were married for less than 10 years. However, married households in which only one spouse has a substantial employment history, and which currently receive spousal benefits for little or no additional tax contributions, would be adversely affected. This proposal would also reduce the benefits of workers who shared their earnings, and then divorced after retirement.

Options that Address Social Security's Funding Challenges

Modify the Computation Period for Benefits: Most proposals would phase-in a change to the 35-year averaging period to help improve Social Security's financial condition and to encourage people to work for more years. For example, current proposals would increase the averaging period from 35 to 38 or 40 years. In general, this option could affect women disproportionately, if additional years add lower-paid or zero years into the calculation of the average earnings upon which the benefit is based. The effect on benefits of an increase to 38 years would depend on the worker's earnings history but would reduce scheduled benefits, on average, by about 3 percent.

Reduce Benefits Across the Board: One proposal would reduce all Social Security benefits by 3 percent. This reform option is consistent with individual equity but can be seen as hurting social adequacy. Such a change would have a greater impact on women because of their longer life expectancy and greater reliance on Social Security relative to other types of retirement income.

Change the Benefit Formula: There are several approaches to changing the benefit formula. One would reduce the formula percentages (90%, 32% and 15% for the three tiers of earnings) each year by a constant factor – for example, 1 percentage point per year. Such a change would maintain individual equity but would gradually reduce benefit adequacy, particularly for low-wage earners, and would have a greater impact on women. Reducing only the percentages applicable to the higher-wage levels, the 32% and 15% levels but not the 90% level, would shift the balance toward social adequacy by maintaining program adequacy for very-low-wage earners.

A similar proposal involves indexing the earnings tiers in the Social Security benefit formula to the generally slower changes in the Consumer Price Index (CPI), as compared to the wage index. This has the effect of gradually reducing the benefit below current law levels. Initially, this proposal would affect the highest earners the most, but it eventually could lead to a large shift in the balance between individual equity and social adequacy.

Increase the Full Retirement Age: The full (unreduced) retirement age is the earliest age at which full benefits are payable and currently ranges from ages 66 to 67, according to the worker's year of birth. Benefits before the full retirement age may begin as early as age 62, but such benefits are permanently reduced to make lifetime benefits approximately actuarially equivalent, regardless of retirement age. Increasing the full retirement age as life expectancy increases is a means for solving the system's financial problems by reducing benefits relative to current law and encouraging healthy workers with jobs to continue to work. Adopting this reform hurts benefit adequacy for those who cannot find or continue in employment in older ages.

Lower COLAs: Social Security benefits increase each year by a cost-of-living adjustment (COLA) equal to the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI). Some economists think the CPI overstates the real annual rate of inflation by an estimated 0.3 percentage points because of indirect product substitution where some goods and services with prices that have increased are substituted with goods and service with prices that have decreased (chained CPI).

However, the cost of living of the elderly does not change at the same rate as the CPI because the elderly not only consume a different mix of goods and services than the population as a whole, but they may be less willing to substitute as product prices change.

A lower COLA is cumulative over time and the reduction in benefits disproportionately affects the oldest elderly, a group consisting of mostly women and having the highest rate of poverty.

Increase the Payroll Tax: The tax rate for Social Security is 12.4 percent, split equally between employers and employees or the full amount paid by self-employed. Increases to the tax rate provide a hardship to lower-paid workers in meeting current needs but would provide increased retirement benefits relative to current law. Women on average fall into this category. An increase in the payroll tax rate would decrease individual equity since lower-paid workers contribute a higher portion of their total income to Social Security, but it would increase social adequacy since they would also receive higher retirement income relative to current law.

The impact of the change can be mitigated if the payroll tax increase is phased in over a sufficiently long period and if incomes for women are rising. For example, increasing the payroll tax rate by 0.1 percentage points per year for a sufficiently long period would improve Social Security finances while the after-tax income of workers could continue to increase. This scenario would require real wage increases over the same period. However, the costs of other social insurance programs that benefit women, particularly Medicare and Medicaid, are increasing much more rapidly and will also require additional funding in the future unless eligibility and/or benefits are reduced.

Increase the Limit on Taxable Earnings: In 2012, about 83 percent of earnings in covered employment were below the 2012 limit on taxable earnings of $110,100.[16] This limit also applies to earnings taken into account in the benefit formula. One proposal is to raise the earnings limit gradually so that Social Security taxes about 90 percent of all earnings in covered employment as was the case in the beginning years of Social Security. Such a reform would require raising the limit by about 25 percent in addition to annual adjustments based on increases in average wages. An increase in the taxable wage base would increase individual equity since higher-paid workers

[16] Section C6 of the 2014 OASDI Trustees Report.

would contribute a higher portion of their total income to Social Security. Women on average would be impacted less than men by an increase in the limit on taxable earnings.

A variation would remove the limit for taxes on both employees and employers but retain the limit for calculating benefits. This would more significantly shift the balance between individual equity and social adequacy provided by Social Security, and could impact the popularity of the program.

Summary

The current Social Security law is gender neutral, and contains spousal and subsidized benefit provisions that mitigate, but do not eliminate, factors that produce lower benefits for women, including lower earnings, shorter work histories, longer life spans, greater dependency on spouses, divorce, and prior death of spouses. It is worth noting that the present system provides a lower level of benefits relative to Social Security taxes paid for two-earner families where the second earner has significant income. As policymakers evaluate various options to reform the Social Security system, they should not only address its financial problems, but also consider that Social Security remains an even more important source of retirement income for many women than men. This greater dependency on Social Security suggests that proposals to directly or indirectly address the significant issues of women and multiple-earner families should be studied carefully and modeled to show the impact on families/beneficiaries in a variety of situations before being adopted.

In closing, I again thank you for the opportunity to present some ideas on behalf of the actuarial profession to you today on whether key provisions of Social Security are working for women. I would be happy to answer any questions.

# # #

AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

January 15, 2015

Senator Orrin Hatch
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Senator Ron Wyden
Ranking Member, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: December 9, 2014 Hearing on "Social Security: Is a Key Foundation of Economic Security Working for Women?"

Dear Chairman Hatch and Ranking Member Wyden:

I am pleased to respond to your request for further comments regarding my December 9 testimony on whether Social Security provides economic security for working women. While Social Security provides benefits on a gender-neutral basis, gender-related differences in the American family structure, work culture and longevity have meant that Social Security provides different levels of retirement security for men and women. As Members of Congress evaluate various options to reform the Social Security system, they should not only address its financial problems but also consider that Social Security remains an even more important source of retirement income for many women than men.

You have asked me to address several questions.

From Ranking Member Wyden

Questions for Ms. Barr

1. **Your testimony states "the reduction in benefits disproportionately affects the oldest elderly, a group consisting mostly of women and having the highest rate of poverty." Benefits for the "the oldest elderly" seems an area where we should focus our efforts to help those most in need. What do you think would be the best policy to address poverty among the "oldest elderly"? In your answer, please discuss how that proposal would work and what challenges you foresee in administering the policy.**

If Social Security is changed to address poverty among the oldest elderly, this change should be part of a package of changes over a period of time that will result in sustainable solvency of the program. The changes should be implemented in a way that preserves the balance between social adequacy and individual equity and should target three types of beneficiaries distinctly:

- Current "oldest elderly."
- Near retirees and current retirees who are not yet "oldest elderly."
- Future retirees.

If a change is made to address poverty among the oldest elderly, the first challenge is to define an age considered the oldest elderly age. One option would be to use statistical methods and life expectancy calculations to calculate this age. For example, if life expectancy at age 65 is the target age for the oldest elderly group, actuaries can calculate the age (currently, about 82) at which someone age 65 has an 80 percent (or another percent could be used) probability of dying prior to that age. The target for near retirees and current retirees who are not yet oldest elderly might be life expectancy at age 66 (about 83) and the target for future retirees might be life expectancy at age 67 (about 83). The calculations would be done on a unisex (gender neutral) basis since men and women have different life expectancies. Another option would be to calculate the number of years expected to be lived (about 17) after Social Security Normal Retirement Age (SSNRA) for which someone at SSNRA has an 80 percent (or another percent) probability of dying prior to that age.

Since a greater percentage of the oldest elderly are women, an increase for the oldest elderly will tend to benefit women.

In order to preserve the balance between social adequacy and individual equity, any increase for the oldest elderly should apply to all retirees and widows (possibly spouse benefits would be excluded since married couples are not as likely to be in poverty) but should also provide a greater increase for those with lower benefits. For example, a one-time increase in future benefits could be made to all retirees who reach a certain age. The one-time increase could be determined by a table of increases based on benefit amount at a certain age or by recalculating benefits under the then-current Social Security formula. Any changes should integrate with the income tax provisions of Social Security in a way that is tax efficient for those currently paying income tax on their Social Security benefits.

A different type of program change that would address poverty in the oldest elderly without a specific targeted increase to that group is a small increase in the inflation index. For example, an additional increase of approximately 0.3% to an average inflation increase of 3.0% would increase a $1,000 monthly benefit at age 62 by $17 after 5 years, $40 after 10 years, $69 after 15 years and $108 after 20 years.

Any increase in benefits for the oldest elderly would require additional income sources and/or alternative benefit decreases in order for Social Security to pay scheduled benefits.

The American Academy of Actuaries believes that gradually increasing the retirement age should be considered as part of this package of changes that will result in a sustainable solvency and preserve the balance between individual equity and social adequacy.

2. **If you could do only one thing to modify the Social Security program to improve outcomes for women while working or during retirement, what policy option would you adopt?**

   If only one aspect of the Social Security program could be changed to improve outcomes for women while working or during retirement, first and foremost the change should not reduce the solvency of the system and it should be designed to preserve the balance between individual equity and social adequacy. The Social Security Committee of the American Academy of Actuaries has not determined a single, preferred way to address improved outcomes for women. However, in order to not reduce the solvency of the system but also improve outcomes for women, the following changes could be made, with the caveat that they be accomplished gradually:

   - Add a credit for time spent out of the workforce due to child care.
   - Eliminate the spouse benefit.
   - Increase the surviving spouse benefit to the greater of 75% of the total benefit paid to the employee and spouse or 100% of the greater of the employee or spouse benefit.

   For example, spousal benefits could be decreased according to a table based on year of birth until no Social Security spousal benefits are paid to people born after a certain year. The child care credit could be paid based on child care years after a certain year. The child care credit could be graduated such that it is reduced but generally not eliminated for retirees with higher earnings relative to those with lower earnings. Also, the child care credit could be based on the number of children so that people with three or more children receive a full subsidy while people with one or two children receive a reduced subsidy.

   Outcomes for women's Social Security benefits can be improved over time relative to current law in a way that does not reduce the solvency of the system and which preserves the balance between individual equity and social adequacy.

<u>From Chairman Hatch</u>

Questions for Ms. Barr

1. Your testimony discusses comparisons of two-earner couples with a single-earner couple. In one case in which a two-earner couple has a primary earner with the same income as the one-earner couple, the secondary earner in the two-earner couple receives benefits that are only slightly higher than if she or he did not work at all. And, compared to a one-earner household, the survivor of a two-earner couple can end up receiving no additional benefit, even though she or he may have worked for many years and paid payroll taxes all along.

   Your testimony points to the fact that the current Social Security system allocates benefits disproportionately, relative to taxes, to one-earner couples compared with two-earner couples and single persons. And, you identify that in many cases a secondary earner's income is effectively taxed at a higher rate than a primary earner's income.

   Could you discuss how the current structure of benefits tends to favor one-earner couples, which was the predominant type of household structure when Social Security but may not be today?

   And, could you elaborate on how income from a couple's secondary earner can effectively be taxed by the Social Security system at a higher rate than a primary earner's income?

For ease of reference I have provided Table 6 from my testimony below.

Table 6. Impact on Social Security Benefits of Different Family Circumstances[1]			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Annual Social Security Tax of 6.2%	$3,100/year	$3,100/year	$4,650/year
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

The example shows Social Security taxes and benefits for three households. In the first column, there is one worker earning $50,000, and in the second column there are two workers each earning $25,000. In the third column, there is one worker earning $50,000 and a second worker earning $25,000. The total monthly Social Security benefit for the one-earner couple in the first column of the example is $415 per month more than the two-earner couple benefit in the second column ($2,655 - $2,240 = $415). Social Security pays the greater of a worker benefit based on one's own earnings record or a spouse benefit equal to 50 percent of the benefit payable to a retiree's spouse. The total monthly benefit for the two-earner couple in the third column is $235 per month more than the one-earner couple.

At the time that Social Security was designed, one-earner couples (with the male as the earner) were prevalent and the design reflected that the family would need more income in retirement than a one-person family would need. It was a social adequacy feature of the system. If Social Security were designed under today's circumstances where two-earner couples are prevalent there may have been a different spouse features.

Now focusing on survivor benefits, Social Security pays 100 percent of the deceased spouse's worker benefit or else continues to pay the worker benefit, whichever is greater. In the example, the one-earner survivor benefit is $650 per month more than the two-earner couple benefit in the first column ($1,770 -$1,120=$650) and the same as the two-earner couple in the third column. This result helps provide social adequacy where one-

[1] Benefit Estimates are rounded and assume both spouses are age 66 and retired in 2014, discounting earnings for years prior to 2014 using National Average Earnings assuming earnings begin at age 18.

earner couples are prevalent but indicates lower individual equity today when two-earner couples are prevalent.

Regarding the question on how income from a couple's secondary earner can effectively be taxed by the Social Security system at a higher rate than a primary earner's income; this issue has the same cause as the previous example, which showed that total Social Security benefits and survivor benefits are higher for one-earner couples than two-earner couples. One metric that is used to determine individual equity is where the present value of benefits received is compared to the accumulated value of payroll taxes paid by an individual. Instead of thinking of the tax rate as a percentage of earnings, consider the tax rate as the total taxes paid divided by the total value of benefits received over an individual's career. If taxes paid compared to benefits received are higher for one individual than another, the individual can be said to have paid a higher percentage of career earnings than the other individual.

In Table 6 above, the couples in the first two columns each paid the same Social Security taxes over their career but the one-earner couple will receive higher total benefits if both couples live the same amount of time. The secondary earner in the second column is taxed at the same effective tax rate as the primary earner. But in the third column if the primary and secondary earner each live the same amount of time, if the accumulated value of taxes paid is compared to the present value of benefits received, the secondary earner can be said to have paid a higher percentage of career earnings than the primary earner.

In summary, given that two-earner couples are much more prevalent than one-earner couples in America today, a change in Social Security spouse and survivor benefits could improve both individual equity and social adequacy, and could help Social Security work better for women.

2. **As an issue brief by the American Academy of Actuaries identified, a proposal from the 1994-1996 Advisory Council on Social Security would reduce spousal benefits and increase survivor benefits for two-earner couples. The result would be a shift in benefits from retired one-earner couples to survivors of two-earner couples, who generally tend to be women. Could you discuss that proposal, and any costs and benefits that you think are relevant for the proposal?**

The proposal from the 1994-1996 Advisory Council on Social Security would reduce the 50-percent spousal benefit to 33 percent and would increase survivor benefits for two-earner couples to 75 percent of the total benefit paid to them when both were alive (or 100 percent of either worker's benefit if greater). The examples shown below are based on the one and two earner couples used previously and compare benefits from the proposal to those based on current law.

Example comparing the 1994-1996 Advisory Council on Social Security Spouse proposal to benefits based on current law

Advisory Council Proposal Spousal Benefit: 33 percent of insured worker benefit

Advisory Council Proposal Widow(er) Benefit: 75 percent of the total benefit paid when both spouses were alive (or 100 percent of either worker's benefit if greater)

Table 7 - Advisory Council Proposal			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total benefit at retirement	$1,770 spouse A + $590 spouse B (Total $2,360)	$1,120 spouse A + $1,120 spouse B (Total $2,240)	$1,770 spouse A + $1,120 spouse B (Total $2,890)
Total benefit to survivor	$1,770	$1,680	$2,168

Current Law Spousal Benefit: 50 percent of insured worker benefit

Current Law Widow(er) Benefit: 100 percent of insured worker benefit

Table 8 - Current Law			
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary earners
Spouse A earns	$50,000	$25,000	$50,000
Spouse B earns	$0	$25,000	$25,000
Total monthly benefit at retirement	$1,770 spouse A + $885 spouse B ($2,655 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,770 spouse A + $1,120 spouse B ($2,890 total)
Total monthly benefit to survivor	$1,770	$1,120	$1,770

Under the Advisory Council proposal, the one-earner couple's total benefit is $120 ($2,360 - $2,240) more per month than the two-earner couple's benefit but far less than the additional $415 per month provided under current law. The one-earner couple's survivor benefit is $90 ($1,770 -$1,680) more per month than the two-earner couple's benefit but far less than the additional $650 per month provided under current law. The survivor benefits are greater for two-earner couples which are more prevalent today than under current law.

This proposal improves individual equity and the change in survivor benefit improves social adequacy compared to current law and would benefit many women under today's prevalent family circumstances. It would make it more likely that working spouses are entitled to retirement benefits solely on their own work records, rather than as spousal benefits. However, the proposal reduces the benefits to low-earning and nonworking spouses to 33 percent of the benefit of the working spouse (a total couple benefit of 133 percent of the higher-wage earner). This could be particularly problematic for divorced women, who have the highest poverty rate of the elderly. One possible remedy would be to split the benefits 50/50, just as pensions are divided upon divorce in some states. Such a remedy, of course, would reduce the benefit of the higher-wage earner and his or her subsequent spouse(s) and family, if applicable.

A gradual decrease in the spouse benefit from 50% to 33% was studied by the Social Security Office of the Actuary (OACT) and was found to solve approximately 4% of the current deficit. A change in the survivor benefit to the better of 75% of the total benefit paid (or which could have been paid at age 62 if the benefit is not currently in pay status) or 100% of the worker benefit of either worker was studied by OACT and was found to increase the current deficit by approximately 4%. The net impact of making both changes would be no change in the current deficit.

3. Some people have proposed elimination of the spousal benefit and adoption, instead, of "earnings sharing" where a couple's earnings would be added together and divided evenly every year. Could you trace out some pros and cons associated with that type of proposal, and identify who might be winners and losers from adoption of such a proposal?

It is helpful to use the examples to understand how this option would work. Please refer to the table below:

	Earnings Sharing Examples (current law amounts shaded)				
	(1)	(2)	(3)	(4)	(5)
	One-earner couple	Two-earner couple with equal total earnings	Two-earner couple with equal primary	One-earner couple at taxable max	Two-earner couple each at max
Spouse A earns	$50,000	$25,000	$50,000	$120,000	$120,000
Spouse B earns	$0	$25,000	$25,000	$0	$120,000
Each spouse assuming earnings sharing	$25,000	$25,000	$37,500	$60,000	$120,000
Total monthly benefit at retirement with **earnings sharing**	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,120 spouse A + $1,120 spouse B ($2,240 total)	$1,445 spouse A + $1,445 spouse B ($2,890 total)	$2,029 spouse A + $2,029 spouse B ($4,058 total)	$2,642 spouse A + $2,642 spouse B ($5,284 total)
Current law total monthly benefit at retirement	$2,655	$2,240	$2,890	$3,963	$5,284
Total monthly benefit to survivor with **earnings sharing**	$1,120	$1,120	$1,445	$2,029	$2,642
Current law monthly benefit to survivor	$1,770	$1,120	$1,770	$2,642	$2,642

Under an earnings sharing proposal, the survivor benefit will be less than or equal to what it would have been under current law. As women tend to live longer than their male spouses, this reduction in survivor benefits would tend to impact women more than men. Divorced women who were married for 10 years would tend to be better off under current law.

A one-earner couple earning more than the taxable maximum will receive more in total Social Security benefits under an earnings sharing arrangement than under current law. The couple in column (4) would have a monthly benefit of $3,963 under current law ($2,642 + (0.5 x $2,642) = $3,963) but a monthly benefit of $4,058 under the earnings sharing approach. This is due to the fact that Social Security replaces a lower percentage of income for higher-paid and sharing the income lowers the earnings used in the calculation and thus increases the Social Security benefit paid.

One concern with earnings sharing is that past Social Security earnings records might not be sufficient to implement earnings sharing for past earnings. Implementation could be expensive and prone to error. Another concern is whether there would be acceptance of the idea of halving earnings between spouses since a large percentage of marriages end in divorce. Such a proposal would need to specify whether divorce or legal separation determined the end date for a period of earnings sharing. Further study of how earnings sharing would impact people under different scenarios is recommended prior to further consideration of this proposal.

4. **Your testimony discusses some options to increase payroll taxes or the taxable maximum. Of course, we know that with the set of Social Security promises embedded in current law, Social Security faces $10.6 trillion of unfunded liabilities over the next 75 years. And, as you identify, costs of other social insurance programs that benefit women, particularly Medicare and Medicaid, are rising rapidly and will also require additional funding in the future unless eligibility and/or benefits are reduced.**

    I am concerned, in addition to negative economic effects of some of the large tax hikes envisioned by many of the expand-benefits and raise taxes advocates, that we could end up simply expanding promises but not have the fiscal space available to fulfill them. That would be unfair to young generations of workers who would foot the bill with yet higher taxes, or unfulfilled promises.

    In order to make good on existing Social Security promises alone, in the long run, we'd already have to raise taxes substantially if there are no changes in the benefit structure. Do you think that we could fulfill all promised entitlement benefits, including Social Security and Medicare and Medicaid, add additional benefits as some are proposing, and finance that all by only having people pay just a little bit more in taxes, or significantly more in taxes?

Regarding whether there is sufficient "fiscal space" to raise taxes such that Americans can pay for all currently promised entitlement benefits including Medicare and Medicaid and additional benefits, I am constrained to address only Social Security on behalf of the Academy. Please bear in mind the following:

- Social Security plays a vital role in protecting the financial security of seniors. As such, the program needs to be revised so that income is sufficient to pay for promised benefits.

- In order for the program to be sustainable in the long term, costs cannot increase faster than the growth of the economy.
- The Academy has published a policy statement stating that raising the Social Security Normal Retirement Age (SSNRA) should be part of a package of changes to solve the funding deficit of the program. As people live longer, they tend to have more productive and healthy years. Raising the SSNRA helps set expectations as to retirement age. If SSNRA is set too low relative to the length of time people will live in retirement, they will tend to not have sufficient savings since Social Security is only one source of retirement income. Personal savings and employer plans are the other sources of retirement income. The Academy believes this change will help the sustainability of Social Security.

The Academy also believes that Congress should act sooner rather than later to solve Social Security funding deficit to allow more gradual changes and to give Americans a chance to plan for the decreases in benefits or increases in taxes that will be required to solve the funding deficits.

The Academy's Public Interest Committee will be publishing a white paper in the near future that speaks more generally to public program sustainability that may also address your broader question and I would be happy to provide you a copy of it once published.

<u>**From Senator Grassley**</u>

Questions for Ms. Barr:

1. **As we all know, Social Security is facing long-term financing challenges. The Social Security Trust Fund is projected to be exhausted in 2033 at which time trust fund assets will only be able finance about 77 percent of current law benefits. Such a drastic reduction in benefits would be devastating to millions of retirees. What reform or reforms would you enact to ensure the long-term stability of the Trust Fund for future generations?**

   The American Academy of Actuaries has published a policy statement supporting an increase in the Social Security Normal Retirement Age (SSNRA) as part of a package of changes that would reform Social Security and solve the long-term deficit. The Social Security Office of the Actuary provides the cost impact of five proposals for changing SSNRA on their website. The proposals solve between 12% and 35%[2] of the deficit and provide for a gradual change in the SSNRA.

   The American Academy of Actuaries also believes that Congress should act sooner rather than later to resolve the funding deficits of the programs so that more gradual changes can be adopted that will allow Americans to plan for any increase in taxes or decrease in benefits adopted.

[2] http://www.ssa.gov/oact/solvency/provisions/retireage.html. Proposals are labeled C1.1 through C1.5 and financial results are based on the 2014 Trustee Report assumptions.

2. **One suggested reform at the hearing for updating how Social Security treats spouses was "earnings sharing." What are your views on "earnings sharing"? Please discuss both benefits and concerns you may have from moving to such an approach.**

   This question was also asked by Senator Hatch so please refer to Senator Hatch's question 3 above.

National Committee to Preserve
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TESTIMONY OF
CATHERINE J. DODD, PhD, RN
CHAIR, BOARD OF DIRECTORS
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

COMMITTEE ON FINANCE
UNITED STATES SENATE

HEARING ON
"SOCIAL SECURITY: IS A KEY FOUNDATION OF ECONOMIC SECURITY WORKING FOR WOMEN?"

DECEMBER 9, 2014

My name is Catherine Dodd, and I am the Chair of the Board of Directors of the National Committee to Preserve Social Security and Medicare in Washington, DC. The National Committee is a grassroots advocacy and education organization dedicated to preserving and strengthening safety net programs, including Social Security, Medicare and Medicaid.

I would like to thank the Senate Finance Committee and Chairman Ron Wyden and Ranking Member Orrin Hatch for the opportunity to testify on why Social Security is key to the economic and retirement security of women.

Thirty-two years ago, the National Committee was created by former Congressman James Roosevelt, the son of President Franklin Roosevelt and First Lady Eleanor Roosevelt. Through the years we have focused on protecting their work by thwarting attempts to cut Social Security.

But we also know that it is time to build upon those decades of success through new efforts to strengthen Social Security. That is why the National Committee Foundation, working with the National Organization for Women and the Institute for Women's Policy Research, published the "Breaking the Social Security Glass Ceiling" report in 2012 with proposals for strengthening benefits for women. It is why we launched the *Boost Social Security Now* campaign, in February of this year, to change the national discourse from cutting to improving benefits.

And now, it is in the spirit of our Roosevelt heritage and Eleanor's work on women's and social issues that our new project to direct greater attention and resources to women's issues will honor her name. Eleanor would have celebrated her 130th birthday this year, which makes it a perfect time to kick off our "Eleanor's Hope" initiative. (www.eleanorshope.org)

In so many ways, women have come a long way since Eleanor's day. However, the inequalities faced by women continue to threaten their retirement security because:

- Women have generally worked for lower wages due to persistent gender wage discrimination, leading to a smaller Social Security benefit.

- Women often interrupt their participation in the labor force to provide care to other family members, usually children and elderly parents or relatives. These temporary interruptions can lead to a significant reduction in the amount of a woman's Social Security benefit.

- Women are less likely to have a pension, and even if they do have pension income it is likely to be less than what men receive for the same reasons their Social Security benefit is often smaller.

- Women live longer than men and consequently are more likely to outlive their retirement savings.

About 22 million women aged 65 and older receive Social Security benefits. A woman who reaches age 65 can expect to live an additional 20 years. For these women, Social Security represents a vitally important source of income, and is often their only available hedge against inflation. Without Social Security, over half of these women would be living in poverty. Even with Social Security, 11 percent of older women still live in poverty; for widows, the rate is worse, at 15 percent. This is 50 percent higher than the poverty rate for all people 65 and older.

These facts led to the National Committee's support for legislation that addresses the inequities threatening millions of retired women and to our work to promote the *Eleanor's Hope* vision of retirement equity for women.

CURRENT BENEFITS AVAILABLE FOR WOMEN

Before I share this vision with you, let me first describe the benefits currently available. Social Security is neutral with respect to gender – individuals with identical earnings histories are treated the same in terms of benefits regardless of whether they are male or female. After working long enough in Social Security-covered employment, a woman becomes eligible for her own Social Security benefit. If she is married, she also may be eligible for a spouse's benefit or widow's benefit based on her deceased husband's earnings record.

A married woman who is not eligible for Social Security based on her own work record can receive a spouse's or widow's benefit. If a married woman is eligible for her own Social Security benefit, she can receive part of her spouse's or widow's benefit, if it is higher than her own benefit. In other words, she will receive her own benefit plus the difference between her benefit and the higher spouse's or widow's benefit. A woman who has worked in public service employment not covered by Social Security can receive a Social Security spouse's or widow's benefit only if it exceeds two-thirds of her public service annuity under the "Government Pension Offset" provision of the Social Security Act.

A woman divorced after 10 or more years of marriage is eligible for the same spouse's or surviving spouse's benefit she would have received even if she had not been divorced. If a woman is divorced before 10 years of marriage, she is eligible only for her own Social Security benefit.

If a woman remarries after age 60 (50 if disabled), she may still receive a surviving spouse's benefit. However, early retirement significantly reduces these benefits. A young disabled widow or an older widow with little or no work experience may have no choice but to apply for a reduced benefit at the earliest age of eligibility. Social Security offers little incentive for widows to delay benefits, especially if the deceased spouse retired early, as benefits are capped based on the husband's early retirement.

Severely disabled widows who have not yet reached full retirement age are eligible for early widow's benefits, although benefits are reduced as if the decision to elect benefits is a voluntary choice. The reduction at age 50 is 28.5 percent. A disabled widow must be age 50 in order to apply and must have become disabled generally within seven years of her husband's death.

As a result of lower lifetime earnings, the average female worker often receives a substantially smaller Social Security check than a male worker. In 2012, the average monthly Social Security benefit of a retired man was $1,417, while the average monthly benefit of a retired woman was $1,103.

Currently, when a woman's husband dies and she begins to collect widow's benefits, the household Social Security benefits decrease by 33 to 50 percent. The reduction is larger for households in which both spouses had nearly equal earnings. As more women entered the workforce in the second half of the twentieth century, their contribution to total household income increased. However, Social Security rules have not been updated to reflect this societal change. Consequently this increased share of household income contributed by wives does not result in higher widow's benefits. On the contrary, more widows will experience a reduction approaching 50 percent of household income.

NATIONAL COMMITTEE POSITION

The National Committee believes women deserve an adequate retirement income whether a work life is spent in the home, in the paid workforce, or a combination of the two. We support changes that safeguard benefits for women, especially those with the greatest need, and that improve benefit equity between one-earner and two-earner couples.

The following proposals would improve benefit equity and safeguard benefits for women. We urge the Senate Committee on Finance to consider the following program improvements:

- **Improving Survivor Benefits.** Women living alone often are forced into poverty because of benefit reductions stemming from the death of a spouse. Widows from low-earning or wealth-depleted households are particularly at risk of poverty. Providing a widow or widower with 75 percent of the couple's combined benefit treats one-earner and two-earner couples more fairly and reduces the likelihood of leaving the survivor in poverty.

- **Providing Social Security Credits for Caregivers.** We recommend, in computing the Social Security retirement or disability benefit, that imputed earnings for up to five family service years be granted to a worker who leaves or reduces his/her participation in the work force to provide care to children under the age of six or to elderly family members.

- **Enhancing the Special Minimum Primary Insurance Amount (PIA).** The Special Minimum Benefit is intended to provide a slightly more generous benefit amount to individuals who work for many years in low-wage employment. We propose to update the method by which this benefit amount is calculated so that more individuals, many of them women, can qualify for this computation. In calculating the benefit we would give individuals credit for up to 10 years spent outside the workforce providing care to family members.

- **Equalizing Rules for Disabled Widows.** Widows can qualify for disabled widow's benefits beginning at age 50. They are the only disabled persons whose benefits are subject to an actuarial reduction. Under our proposal, disabled widows should receive 100 percent of their benefit without any reduction, just like disabled workers, and they would be able to qualify for disabled widow's benefits at any age. Moreover, the seven-year application period should also be eliminated.

- **Benefit Equality for Working Widows.** Under current law, a widow's benefit is capped at the amount the deceased husband would receive if he were still alive. If a husband retires before normal retirement age, his widow generally inherits his early retirement reduction. Under our proposal, the widow's benefit would no longer be tethered to the reduction her deceased spouse elected to receive when he applied for retirement benefits. Instead, the benefit would be reduced only by the widow's own decisions about when to retire.

- **Strengthening the COLA.** We propose that future cost-of-living adjustments (COLAs) be based on a fully developed Consumer Price Index for the Elderly (CPI-E). We believe this index would more accurately measure the effect of inflation on the price of goods and services that are purchased by seniors than the current CPI-W, which reflects price increases based on the purchasing patterns of urban workers.

- **Restoring Student Benefits.** Social Security pays benefits to children until age 18, or 19 if they are still attending high school, if a working parent has died, become disabled or retired. In the past, those benefits continued until age 22 if the child was a full-time student in college or a vocational school. Congress ended post-secondary students' benefits in 1981. Restoring this benefit would help women who must defer saving for their retirement because they are assisting their children with college expenses.

- **Improving the Basic Benefit of all Current and Future Beneficiaries.** After years of operating under a COLA which does not adequately reflect the higher inflation attributable to health expenditures and the fact that seniors devote a higher percentage of their monthly spending to health care costs, seniors need to have their increased costs offset by an across-the-board benefit increase. Women, especially, who have worked a lifetime with low pay (often the result of sex-based wage discrimination) are financially vulnerable in retirement because they are less likely to have private pensions or discretionary income that would allow for saving.

- **Increasing Benefits for Seniors Who Have Received Social Security for a Long Period of Time.** Seniors who live beyond the age of 85 are more likely to be financially vulnerable, even with Social Security. Additional security should be offered by increasing benefits for all beneficiaries 20 years after retirement by a uniform amount equal to five percent of the average retired worker benefit in the prior year. This proposal would be particularly helpful to women because they live longer than men and are more likely to outlive their retirement savings.

- **Equalizing Benefits for Same-Sex Married Couples and Partners.** Although the U.S. Supreme Court has invalidated Section 3 of the Defense of Marriage Act, gay and lesbian same-sex couples are still denied Social Security benefits under many state laws. To end this discrimination, we propose that the Social Security Act be revised to provide benefits to domestic partners and the members of same-sex marriages without regard to whether they live in a state that recognizes same-sex marriage.

- **Improving Benefits for Disabled Adult Children.** One of the categories of childhood benefits that is payable on a worker's record is benefits to an adult child who becomes disabled before reaching age 22. We propose that disabled adult children be allowed to reestablish entitlement to benefits after divorce and that their benefits be computed without regard to the family maximum.

To make these important proposals aimed at women affordable, the National Committee supports strengthening the financing of the Social Security program by:

- **Eliminating the Cap on Social Security Payroll Contributions.** Currently, workers make Social Security contributions on wages up to $117,000. In 2015, the wage cap will increase to $118,500. Eliminating this cap and modestly adjusting the benefit formula for determining benefits for high-wage earners would make these improvements affordable.

CONCLUSION

These proposals represent a straightforward, common sense approach to addressing Social Security inequality for the women of America. We applaud the members of Congress, including Senators Tom Harkin, Mark Begich and Patty Murray and Representatives Linda Sanchez, Gwen Moore, Nita Lowey, Ted Deutch, Ron Kind and Mark Takano, who have embraced our recommendations and introduced many of these legislative proposals.

Eleanor Roosevelt devoted forty years to gender equality by advancing women politically, economically and socially. To continue the work she started, I urge the Finance Committee to approve legislation that will ensure women have as much protection against retirement, disability and survivorship risks as men.

Thank you for the opportunity to testify today on this important issue. I would be happy to answer any questions.

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COMMITTEE ON FINANCE
UNITED STATES SENATE
DECEMBER 9, 2014 HEARING ON
"SOCIAL SECURITY: IS A KEY FOUNDATION OF ECONOMIC SECURITY WORKING FOR WOMEN?"
QUESTIONS FOR THE RECORD

From Senator Wyden

Questions for Dr. Dodd:

1. You mentioned the proposal to add "caregiver credits" to Social Security. How would the credits work, how would the Social Security Administration administer the policy and what impact do you think caregiver credits would have on the future Social Security benefits of women?

   Answer: One of the principal reasons some individuals, often women, have fewer assets and less income in retirement than others is that they interrupt their participation in the labor force to provide services to family members. These services most often take the form of providing care to children and, more and more, to elderly or disabled spouses, parents and other family members. Because of the nature of the formula used by the Social Security Administration to calculate benefits, these temporary interruptions can lead to a significant reduction in the amount of an individual's Social Security.

   Accordingly, we recommend that the computation of the Average Indexed Monthly Earnings (AIME) primary insurance amount (PIA) be revised by granting caregiver credits in the form of imputed earnings to individuals for up to five family service years for a worker who provides care to children under the age of six or to elderly or disabled family members. To qualify for a family service year, the actual wages earned by the caregiver would have to be less than 50 percent of that year's average annual wage (estimated to be $23,393 in 2014). Imputed wages for a year would be added to the worker's other earnings, if any, to bring the total up to $23,339, which is 50 percent of that year's average annual wage.

   The principal facts to be established in administering this provision would be to identify up to five family service years so that the imputed earnings could be added to the caregiver's earnings record. Wage patterns would be the primary guide, along with the caregiver's statements regarding the nature of the caregiving that was provided during those years. We would leave to the Social Security Administration the details of the implementation and the nature of any required corroborating evidence.

2. One part of your testimony that stands out is that a widow "generally inherits" the early retirement decision of her late husband. Often inheritance is a good thing, but in this case it is not. Please provide the committee with more background about how current policy should be changed. What are the pros and cons of making such a change?

   Answer: Under current law, the benefit for widows and widowers and surviving divorced spouses is capped at the amount the deceased husband or wife would receive if he/she were still alive. If a spouse retires before his or her full retirement age, the surviving spouse receives the deceased spouse's early retirement reduction. However, the amount of the reduction is limited to no more than 82.5 percent of the deceased wage earner's full benefit. Apart from this limited protection, a widow or widower can neither cancel the spouse's early retirement reduction nor enhance it by delaying his or her own retirement. While this arrangement might have made some sense when widow's and widower's benefits were first authorized by Congress in the late 1930's, much has changed since then that makes this arrangement unfair to the spouses who find themselves saddled with a reduced benefit that is the product of a decision that can be made by a spouse with little or no input from the surviving member of the couple. Divorce and separation are a fact of life in 21st Century America, and we believe that the determination of surviving spouse's benefits needs to be updated to reflect societal change. That's why we believe that the widow/widower's benefit, including benefits for surviving divorced spouses, should no longer be tethered to the reduction the deceased spouse elected to receive when he or she applied for retirement benefits.

3. If you could do only one thing to modify the Social Security program to improve outcomes for women while working or during retirement, what policy option would you adopt?

   Answer: It would be difficult to select a single proposal as having the power, by itself, to achieve the end you describe. We view the set of proposals that we recommended in our 2012 report, "Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits," as working in concert to address a number of shortcomings in the current program as they relate to women.

From Senator Hatch

Questions for Dr. Dodd:

1. Dr. Dodd, your testimony contains around 10 benefit expansions, and you identify elimination of the maximum on taxable earnings for payroll taxes. According to the nonpartisan Congressional Budget Office, even if you did eliminate the so-called "tax max," you still would not cover the projected shortfall in Social Security (unfunded liabilities) over the next 75 years given existing benefits, let alone adding new ones. To cover existing benefit promises, you would also have to raise everyone's payroll tax rate by an additional 1.3 percentage points to 14 percent, according to CBO, which would mean hefty tax increases on low earners and the middle class. Moreover, if you only eliminate the taxable maximum, for someone earning between $120,000 and $150,000, which is comfortable but probably not someone you would regard as "rich," their lifetime payroll taxes would increase by as much as 26 percent.

   Given those facts, I find it interesting that you state in your testimony concerning the 10 or so expansions that you advocate, that "Eliminating this cap and modestly adjusting the benefit formula for determining benefits for high-wage earners would make these improvements affordable."

   Since the tax hikes alone that you advocate will not even cover existing promises, could you explain exactly what "modest" adjustments you would make to the benefit formula in order to make the benefit expansions you advocate "affordable?"

   Do you disagree with President Obama's position of not wanting to raise taxes, including payroll taxes, on the middle class, let alone low-income earners?

Have you done any analysis showing that the negative labor market effects of your tax proposals would in some sense be outweighed by any positive effects from the various benefit expansions that you advocate?

Answer: With regard to your first question, the proposal we support regarding elimination of the taxable maximum on wages and self-employment is similar to proposals that were included in a number of different bills that were introduced in the 113th Congress. For example, Senator Tom Harkin's bill, the "Strengthening Social Security Act of 2013" (S. 567) gradually phases out the "tax max" and also changes the calculation of the Social Security primary insurance amount (PIA) by adding a fourth "bend point" to the PIA formula that provides an attenuated replacement rate for workers who have wages and self-employment income in excess of the current-law "tax max." That is the kind of modest adjustment to the benefit formula that we believe needs to be included in any legislation that phases out the "tax max."

With regard to your second question, we believe that we stand with the clear majority of the American people when we say we support strengthening Social Security by increasing the investment that is dedicated to the program. Poll after poll has shown that Americans don't mind paying for Social Security because they value it for themselves, for their families and for the security and stability it provides to millions of retired Americans, disabled individuals and children and widowed spouses of deceased workers.

A recent poll conducted by the National Academy of Social Insurance (NASI) shows that, without regard to party affiliation, large majorities of Americans of all political persuasions agree they don't mind paying for Social Security. The poll also found that equally large majorities of survey participants agreed that all workers could pay more to Social Security if necessary. Seventy-seven percent agreed that it is critical to preserve Social Security benefits for future generations, even if it means increasing the investment in Social Security paid by working Americans.

With regard to your third question, we are unaware of analysis along the lines you suggest. In fact, Social Security is a benefit that workers earn with every paycheck. The benefits are modest but reliable. Perhaps some wealthier Americans might enjoy the option to discontinue participation in the workforce as a result of modest increases in the payroll tax, but the vast majority will find reassurance in knowing that the program they will depend on in their retirement years is well funded to meet their needs.

2. You propose that the Social Security system be modified to include not only caregiver credits for time spent providing care to children, but also caregiver credits for time spent providing care to others, such as elderly family members.

   According to a paper by the Social Security Administration on international experience with caregiver credits, many countries instituted caregiver credits while simultaneously cutting back on other benefits, such as survivor benefits. The effectiveness of the credits in achieving the varied intended objectives seems not to be known, at least at this point. And, in some cases, the new payment promises embedded in the caregiver credits could turn out not to be financially sustainable, according to the Social Security Administration's paper. The paper also identifies that paying for caregiver-time compensation could rely on general revenue financing, but there may be aversion to that in the United States. Finally, the paper identifies that implementation of credits for elder care would be administratively challenging, if not impossible in the U.S.

Of course, with payment error rates, including fraud, on existing refundable tax credits such as the Earned Income Tax Credit, I would have reservations about adopting something like a caregiver credit for elderly care, not because it is a bad intention, but because it would likely be nearly impossible to administer and would invite massive fraud rates. For example, it is not at all clear how SSA could check and verify whether a claim of time out of work for elder care is valid.

Have you thought about how an elderly care credit would be administered in a way that would be verifiable and that would prevent fraud?

Given that internationally it seems that caregiver credits have been implemented in other countries in concert with benefit reductions on other dimensions, do you advocate eliminating or reducing any benefits in order to accommodate something like a child-care credit?

Do you support provision of caregiver credits financed by general-fund revenue?

Answer: First, let me say that we agree with you that any provision included in the Social Security program needs to be administrable in a manner that is fair and accurate. Nothing vitiates the support of any public program more quickly than for the perception to develop that the benefits paid are going to those who do not deserve them. We agree with you that implementation of a caregiver provision would present significant administrative challenges to the Social Security Administration. But given the vast trove of data that the SSA maintains about Americans, including the name and Social Security number of each child's parents on that child's Social Security number record, it seems to us that there should be viable approaches to administer caregiver credits in a fair and accurate manner. With regard to the details of how this provision would be implemented, however, we would defer to the Social Security Administration, given their extensive experience in making determinations of this sort.

You ask whether we would support implementation of caregiver credits if that was linked to the diminishment of the Social Security program in some other manner. We do not support this linkage. Caregiver credits remediate losses of wages sustained as a result of taking time out of the workforce to provide care to children or elderly family members and the reduction in Social Security that stems from these losses. Cuts in other aspects of the Social Security program would simply undercut the helpful effects of granting caregiver credits. With regard to funding, we believe that caregiver credits should be funded in the same manner as other Social Security benefits. In our view, financing these credits from the general fund is neither necessary nor appropriate.

From Senator Grassley

Questions for Dr. Dodd:

1. As we all know, Social Security is facing long-term financing challenges. The Social Security Trust Fund is projected to be exhausted in 2033 at which time Trust Fund assets will only be able to finance about 77 percent of current law benefits. Such a drastic reduction in benefits would be devastating to millions of retirees. What reform or reforms would you enact to ensure the long-term stability of the Trust Fund for future generations?

   Answer: In my testimony, I describe a number of proposals for improving benefit equity and safeguarding benefits for all Americans, but especially for women, who depend so much on Social Security in retirement. Among these are proposals improving survivor benefits; providing Social Security credits for caregivers; enhancing the special minimum primary insurance amount; equalizing rules for disabled widows; benefit equality for working widows; strengthening the cost-of-living adjustment, or COLA; restoring student benefits; improving the basic benefit for all current and future beneficiaries; increasing benefits for seniors who have received Social Security for a long period of time; equalizing benefits for same-sex married couples and partners; and improving benefits for disabled adult children.

   Along with these benefit improvements, we also recommend eliminating the cap on Social Security payroll contributions and a number of additional revenue enhancements to strengthen the financial condition of Social Security for the long term. When these proposals were initially developed by the National Committee in 2012, the resulting increased revenue from these proposals was estimated to be sufficient to both eliminate the then-existing actuarial deficit and pay for our proposed benefit improvements. While that may no longer be the case, we believe that our revenue-enhancing proposals, if enacted, would fund the program well past mid century.

2. One suggested reform at the hearing for updating how Social Security treats spouses was "earnings sharing." What are your views on "earnings sharing"? Please discuss both benefits and concerns you may have from moving to such an approach.

   Answer: We have not considered the merits of earnings sharing proposals. We recall that in the late 1970s, the Social Security Administration conducted an analysis of proposals related to earnings sharing, and that they published a report on their findings. One consideration was the administrative difficulties attendant on dividing earnings among married couples. To our knowledge, proposals of this nature have received little attention in recent years.

Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
http://finance.senate.gov

Hatch Statement at Finance Hearing Examining Social Security's Impact on Women

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a hearing examining Social Security's impact on women:

Thank you, Chairman Wyden, for holding today's hearing and thank you to our witnesses for joining us today.

Much of the structure of the Social Security system was designed long ago, when labor-market and life experiences of women were far different from what they are today and what they will be in the future. I believe that there is room for modernizing Social Security to better address modern family situations, though any such effort must acknowledge that Social Security promises as currently structured are unsustainable.

Given the existing structure of benefits, Social Security already faces a gaping $10.6 trillion financial shortfall over the next 75 years. Given that reality, we have a choice: Either we responsibly work to modernize benefits while also addressing Social Security's financial challenges, or we can kick the can down the road and place the burden on future generations. There are some reform proposals out there, though many of the proposals I've seen would expand benefits here or there using trust fund revenue from higher taxes, all while largely – if not entirely – ignoring the program's financial realities.

To provide some context of those realities, the Congressional Budget Office says that, given existing benefit promises, we would have to raise payroll taxes by more than 25 percent to put Social Security in financial balance over the next 75 years.

That would clearly mean significant increases in taxes on lower-wage earners as well as the middle class.

Or, if you wanted to close the financial gap by raising the earnings cap on Social Security taxes to 90 percent of covered earnings – an approach that many of my Democratic colleagues prefer – you would have to raise the cap from next year's scheduled $118,500 to around $242,000.

And, even if you did that, you would still have to increase overall payroll taxes on everyone by more than 18 percent.

So, no matter how you look at it, if we're going to shore up Social Security solely on the revenue side, middle class workers will be hit with a massive tax hike, even though their real incomes have barely gone up at all in recent years.

I do believe that there are ways for us to improve and modernize the Social Security system while also responsibly attending to the finances. We can and should work to provide better protection against old-age poverty, which is disproportionately experienced by women, especially never-married and divorced women.

For example, the President's chained-CPI proposal in one of his past budgets, which the Social Security Administration supported, provided such a focus by including protections for vulnerable populations, including Social Security beneficiaries facing old-age poverty.

Meanwhile, there are a number of avenues of redistribution within Social Security between singles, two-earner couples, and one-earner couples. For example, a high-income one-earner couple generally gets higher returns from Social Security than a low-income two-earner couple, despite the progressivity of the basic benefit formula. And the incredibly complicated number of possible claiming strategies for Social Security beneficiaries makes it mind-numbingly difficult for recipients to figure out their best benefit claiming and retirement decisions.

One of our witnesses today, Professor Slavov, has identified that Social Security benefit claimants could be making retirement decisions costing them large amounts of potential retirement wealth. Many of those affected are women. Those costly choices are fine if made with full understanding of their implications. They are not fine if they are made unwittingly because of unnecessary complexity in the Social Security system.

The Social Security Administration tells us that: "Social Security is neutral with respect to gender or race or ethnicity—individuals with identical earnings are treated the same in terms of benefits." That is true in that every worker has equal access to the same benefit-determination formula. However, despite the neutrality in the determination of benefits, outcomes vary significantly across genders, races, and ethnicities.

Social Security benefits earned by women are influenced by their labor market experiences which generated the wages that get fed into the benefit-determination formula. Benefits for women also depend on marital status, life spans, and other factors, all of which have been subject to significant changes over time, which has affected how women experience Social Security.

Mr. Chairman, I am happy to work with you or with anyone to examine these issues, and work to modernize how Social Security deals with modern family situations.

Of course, dealing with these issues – as with all issues relating to Social Security – will require both sides to work together. And, if we're going to get anything done, it will require that the President engage. Unfortunately, to date, the President has been largely silent regarding Social Security, saying only that he does not wish to increase taxes, including payroll taxes, on the middle class.

Yet, as I stated earlier, if Social Security reform is going to come only on the revenue side, he likely will not have a choice but to raise taxes on everyone – and raise them significantly – in order to shore up the system.

As you can see, Mr. Chairman, we have a lot of work ahead of us when it comes to Social Security. I want to thank you for holding today's hearing.

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Testimony of Barbara Perrin
Social Security Beneficiary
United States Senate Finance Committee
Hearing on
"Social Security: Is a Key Foundation of Economic Security Working for Women?"
December 9, 2014

Chairman Wyden, Ranking Member Hatch and members of the Committee, thank you for inviting me to testify today. My name is Barbara Perrin. I am a mother, a grandmother, a resident of Eugene, Oregon, and an AARP volunteer. I was born in 1946, the same year as Bill Clinton, George W. Bush, Steven Spielberg, and Susan Sarandon—the leading edge of the baby boom generation. Our generation has witnessed great transformations. We came of age in an era of amazing technological transition: from black and white television to downloaded movies, from rural telephone party lines to social media that span the globe, and from typewriters to personal computers. Equally great have been the societal changes my generation has experienced: the civil rights movement, the women's movement, changes in laws regarding the institution of marriage—and now, even legal possession of marijuana. As a child of the sixties, this still astonishes me.

One thing that has not changed through the years is the importance of Social Security, especially for women. Social Security—which was put in place after a different period of great societal transformation, the Great Depression—has reliably provided retirement, disability and survivor income to generations of American workers, even as the American work place and family have changed.

My father, born at the turn of the last century, was a self-educated blue-collar worker who had no retirement income beyond social security. He gratefully collected his modest benefit because he had survived the depression and understood the value of having any retirement income, no matter how small. My mother worked her whole life too, but never earned as much as my father to benefit from her Social Security contributions. Instead, she lived for years on the widow's benefit she received after my father died.

Like many of the women of my generation, I imagined my life would resemble that of the generations of women who came before: marriage and children, and perhaps some meaningful work, too. However, many of us were swept along with the changing times and found ourselves leading different lives than the ones we had planned.

As a divorced single parent with no child support, a liberal arts degree and very few resources, I cobbled together a series of low-paying, flexible jobs on which to survive while caring for my family. All along, while I worked, I paid into Social Security. But, as a single mother raising a family on my own, saving money for my retirement was not possible. Too many other needs took priority.

Eventually, I worked my way into a professional career in educational publishing with a middle-class income. But by the time I was earning a better income, I was in my fifties and had very few years left in which to build up savings for my retirement. Thankfully, a lifetime of frugal habits enabled me to start a small nest egg and to buy a modest home, which I had always been taught was a safe and reliable investment.

In early 2010, I moved from Colorado back to Oregon, to be with my daughter and grandson. I left with some savings, hopes to sell the home that I owned, and a plan to start a publishing consulting business. Unfortunately, the housing market dropped, and I was forced to rent out my house, a decision that ended with tenants who failed to pay their rent. I also began to look for employment in addition to clients, but the print publishing world was also in transition, and combined with the slow job market, and perhaps my age, I was not successful in finding either clients or a job.

Eventually, I had to use up my savings to pay the mortgage on my home. The house recently went into foreclosure while I waited for a lender to approve a buyer. Thankfully, my home finally sold two weeks ago. While I am relieved that I no longer have that burden, I now no longer have a source of rental income, no home equity, and my savings have been depleted.

I always planned to continue working, and to supplement my income with my Social Security, my savings and my home equity. Instead, I am living on Social Security alone. It is the only thing I can count on. I have given up my car to save money. I have had to ask friends to help me financially. My Social Security benefit, while reliable, is also low, and I need SNAP and energy assistance to make ends meet. It was really hard for me to sign up for these and I want to move off them as quickly as I can, but my Social Security is not enough by itself to live on.

Four years ago this was not what I envisioned for myself. I know that many were affected by the recession—some far worse than I, losing their health, not just their savings. But like my own parents, I am at least grateful that I have my Social Security, and I appreciate the value of having any retirement income, no matter how small.

American Enterprise Institute
for Public Policy Research

Statement before the Senate Finance Committee On
Social Security: Is a Key Foundation of Economic Security Working for Women?

Survivor and Spousal Benefits in the Social Security Retirement Program

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and

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December 9, 2014

The views expressed in this testimony are those of the author alone and do not necessarily represent those of George Mason University or the American Enterprise Institute.

Thank you Chairman Wyden, Ranking Member Hatch, and members of the Committee for the opportunity to speak to you today about women and Social Security. My name is Sita Slavov. I am a professor of public policy at George Mason University and a visiting scholar at the American Enterprise Institute. I have been studying Social Security and retirement policy for more than ten years.

The Social Security benefit formula makes no gender-based distinctions. However, disparate outcomes arise for men and women due to differences in work history and mortality. Women have, on average, lower earnings than men, and they are also more likely to take time out of the labor force as caregivers. As a result, women are much more likely than men to receive auxiliary benefits for spouses and survivors. In 2012, slightly more than half of female beneficiaries received higher benefits as a spouse or survivor than as a worker claiming on their own record (Social Security Administration, 2014a; Table 5.A14).

One serious concern for policy makers is the relatively high rate of poverty among older unmarried women, many of whom are widows receiving Social Security survivor benefits. In 2012, the poverty rate was 16.5 percent for unmarried women aged 65 and older, compared to 9.1 percent for the age group overall (Social Security Administration, 2014b; Table 11.1). Contributing to this problem is the fact that widows frequently experience a decline in income upon widowhood. That decline may occur because end-of-life expenses for the deceased spouse deplete the family's assets (McGarry and Schoeni, 2005) or because the widow loses part of the couple's combined Social Security and private pension income.

Social Security provides a survivor benefit that is tied to the primary earner's actual benefit. Primary earners who are in their 60s today receive a benefit equal to 75 percent of their primary insurance amount (the amount that would be received at their full retirement age of 66) if they claim age 62. In contrast, if they delay to age 70, they receive a benefit equal to 132 percent of their primary insurance amount. A survivor receives a maximum benefit equal to the larger of the primary earner's actual benefit and 82.5 percent of the primary earner's primary insurance amount (Weaver, 2002). To put it more simply, a primary earner who delays claiming until age 70 receives a monthly benefit that is 76 percent higher than the benefit he or she would have received at 62. He or she also leaves the surviving spouse with a benefit that is up to 60 percent higher than it would be if the primary earner had claimed at 62. However, many primary earners claim Social Security as soon as they turn 62, and very few delay past full retirement age.

My research, with my co-author John Shoven of Stanford University, suggests that in light of improvements in life expectancy, recent changes in Social Security benefit rules, and low interest rates, most people can benefit from delaying claiming (Shoven and Slavov, 2014a,b). (In the interests of full disclosure, I should mention that this research has received support from Social Security Administration and Sloan Foundation grants to the National Bureau of Economic Research and Stanford University, and that Professor Shoven is on the board of directors of Financial Engines, a company that assists individuals with retirement planning.) In particular, Professor Shoven and I show that even when interest rates are at their historical average (and not the low rates of today), a hypothetical married couple in which the primary earner was born in 1951 and the secondary earner was born in 1953 can increase the expected present value of their benefits by at least 7 percent through delayed claiming as compared to claiming at age 62. Under the historically low interest rates of today, the gains from delaying are even greater. The increase in household benefits is particularly large when primary earners delay because delay by primary earners also boosts benefits for widows. In other words, when a primary earner delays claiming, higher monthly benefits are payable over the remainder of the couple's combined lifetimes rather than just the lifetime of the primary earner. Other researchers have used a sample of actual couples and shown that the expected present value of the average couple's benefits is 3.1 percent lower as a result of claiming Social Security early. However, in the event that the wife is widowed, the expected present value of her benefits is 17.1 percent lower as a result of early claiming by the husband (Sass, Sun, and Webb, 2013). Thus, most of the gain in the lifetime value of benefits is realized in the event that the secondary earner is widowed.

It is somewhat of a puzzle why primary earners claim benefits so early given the potential monetary gains from delay. The gains from delay have increased substantially in the past 15 years, so individuals may not be fully aware of how much money they are leaving on the table by claiming early. A few recent studies show that people's preferred claiming ages are affected by the way in which the claiming decision is framed. For example, one way to frame the claiming decision involves using "breakeven" analysis, which provides people with the number of additional years they would have to live in order to recover the benefits forgone during the delay period. This kind of framing, which has been used by the Social Security Administration in the past, appears to incentivize early claiming (Brown, Kapteyn, and Mitchell, forthcoming; Liebman and Luttmer, 2012). Other studies show that people may tend to retire and claim at their designated full retirement age because they use this age as a reference point for evaluating losses and gains, or because they view it as a social norm or recommendation from the government (Behagel and Blau, 2012; Song and Manchester, 2007). Thus, it could be worth considering carefully what information is available to individuals making claiming decisions, and how this information is presented.

Reforms that modernize Social Security's family benefits would also improve the way Social Security treats women. The Social Security retirement program was designed in the 1930s, when single-earner families were the norm. The Social Security spousal benefit allows spouses who stay out of the labor force to collect a benefit even if they paid no payroll tax. The spousal benefit is paid regardless of financial need, and the spouses of higher-income individuals qualify for higher spousal benefits. This formula punishes two-earner families, in which both spouses pay payroll tax, by giving them a lower rate of return on their Social Security contributions compared to one-earner families (see, e.g., Clingman et al., 2012). It also provides a financial disincentive for women who expect to claim a spousal benefit to work outside the home, as these women will need to pay payroll taxes on their earnings without receiving any additional Social Security benefits (see, e.g., Biggs, Reznik, and Eissa, 2010).

Researchers at the Urban Institute have examined the impact of several expenditure neutral reforms that would modernize Social Security's family benefits (Favreault and Steuerle, 2007). For example, spousal and survivor benefits could be replaced with earnings sharing, in which each member of a married couple gets credited with half the couple's total earnings, combined with a self-financed survivor annuity, in which couples trade lower benefits while both members are alive for higher survivor benefits. Alternatively, a reduction in spousal benefits could be combined with a minimum benefit that anyone can receive. Finally, spousal benefits could be replaced with caregiver credits for those who raise children. The researchers find that all of these reforms would reduce disparities between one and two-earner couples and reduce poverty. That is, they all improve the structure of Social Security – targeting benefits to those who need it while reducing the financial penalty on two-earner families – without increasing expenditures relative to current law.

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Committee on Finance, United States Senate

Hearing on December 9, 2014

"Social Security: Is a Key Foundation of Economic Security Working for Women?"

Questions for the Record

From Chairman Wyden

Questions for Dr. Slavov:

1. Your testimony mentioned replacing spousal benefits with care giver credits. Please provide more details about that change. How would that proposal work and what challenges would you foresee in administering the policy?

   The current spousal benefit provides benefits based solely on marriage. An individual could qualify for a spousal benefit even if he or she has never been a caregiver. Replacing the spousal benefit with caregiver credits could better target those who take time out of the labor force as caregivers. In general, caregiver credits would provide caregivers with a specific earnings credit in computing their Social Security benefits. Many European countries have followed this path in recent decades by reducing survivor benefits and introducing caregiver credits (Jankowski 2011). One specific proposal evaluated by Favreault and Steuerle (2007) would provide women with up to five years (or seven years for more than one child) of credits of up to half the average wage. The credit is financed by eliminating spousal benefits.

   One administrative challenge lies in determining eligibility for caregiver credits. That challenge is compounded if caregiver credits are awarded for providing care to individuals other than children (e.g., aging parents). As discussed by Jankowski (2011), European governments award credits based on birth or adoption records. France and Germany award caregiver credits to the mother by default, unless the couple requests that the credits be divided between the parents a different way. In Sweden, the credits are awarded to the lower-earning parent by default, unless the couple requests otherwise. Other challenges include determining the size of the credit and how to award credits for multiple children.

2. As we discussed during the hearing, I would like to learn more about the "earnings sharing" proposal you mentioned in your testimony. How would that proposal work and what challenges would you foresee in administering the policy?

   Under earnings sharing, each married couple would receive credit for half the couple's total earnings – in each year of marriage – for the purposes of computing Social Security benefits. One key rationale for switching to earnings sharing is that it strengthens the link between earnings and benefits for secondary earners. Under the current system, secondary earners who expect to receive the spousal benefit do not receive any increase in benefits when they work and pay the payroll tax. This can serve as a disincentive to work. In addition, earnings sharing eliminates the disparate treatment of one-earner and two-earner couples. Under the current system, one-earner couples receive a higher rate of return on their Social Security

contributions than two-earner couples due to the spousal benefit provided to nonworking spouses. This effectively punishes women who choose to work outside the home. Finally, earnings sharing can address the concern that, under current law, individuals who are married for less than 10 years cannot receive any benefit based on their ex-spouses' earnings records during the marriage. Earnings sharing would give these individuals credit for half the couple's total earnings for the duration of the marriage.

In its simplest form, earnings sharing would completely replace current spousal and survivor benefits. Recent studies (Iams et al. 2009; Favreault and Steuerle 2007) show that this basic proposal would indeed reduce disparities between one-earner and two-earner couples. Many divorced women would also experience an increase in benefits. The main concern with the simple version of earnings sharing is that the majority of widows would receive lower benefits due to the fact that they would continue to receive their own worker benefit (based on shared earnings) after their spouses' deaths. This is an undesirable outcome given the high poverty rate among widows.

To address this problem, many earnings sharing proposals contain specific provisions that would protect widows. For example, some early earnings sharing proposals included a provision for widows to inherit their deceased spouses' earnings credits (e.g., CBO 1986). A recent investigation of such a proposal suggests that the majority of widowed women at all income levels would receive higher benefits. However, some low-income widows would still see substantial decreases (Iams et al. 2010). Another study (Favreault and Steuerle 2007) considers adding a self-financed survivor benefit, in which married couples receive lower benefits while both members are alive in exchange for higher benefits for the survivor. This provision substantially improves outcomes for widows, with the vast majority of widows receiving benefit increases. In addition, this reform reduces poverty among beneficiaries overall, as well as among widowed and divorced women. (Note that Favreault and Steuerle look at expenditure neutral reforms by increasing benefits across the board to offset the cost reduction from the earnings sharing proposals.)

Overall, earnings-sharing is worth considering because of its potential to reduce disparities between one-earner and two-earner couples, and to improve the link between contributions and benefits for secondary earners. However, policy makers need to think carefully about the design of earnings sharing to ensure that low-income retirees are protected. Another challenge in implementing earnings sharing is that policy makers would need to think about how disability benefits would work under this system. Still another challenge is that the Social Security Administration would need to keep records on marriages and divorces in order to keep track of earnings credits. It currently does not keep such records.

3. Please evaluate the proposal mentioned by Dr. Dodd of removing or modifying the early retirement reduction that a widow "generally inherits" from her late husband. What are the arguments for the current policy, and what concerns would you have about a change like Dr. Dodd proposes?

Dr. Dodd's proposal would essentially increase benefits for widows. It would also reduce the attractiveness of delaying Social Security benefits for primary earners. In general, there is a

good case to be made for raising widows' benefits given the high rate of poverty among this group. My main concern is that adopting this change by itself would increase Social Security's costs. Thus, in my opinion, this would be worth considering as part of a cost-neutral reform that reduces benefits for other groups (for example, one option would be to reduce spousal benefits and increase survivor benefits), or as part of a comprehensive Social Security reform that restores long-run solvency to the program.

4. If you could do only one thing to modify the Social Security program to improve outcomes for women while working or during retirement, what policy option would you adopt?

   I would look at ways to modernize the spousal benefit, which is a holdover from the 1930s and does not serve the needs of today's two-earner families. Replacing the spousal benefit with some combination of earnings sharing, caregiver credits, increased survivor benefit, or minimum benefit could represent a substantial improvement. I am not particularly committed to a specific reform proposal in this area. I think any proposal along these lines is worth further study, refinement, and discussion.

<u>From Ranking Member Hatch</u>

Questions for Dr. Slavov

1. Social Security taxes and benefits for unmarried individuals are based on their own earnings. Married individuals pay payroll taxes on their own earnings, yet can collect retirement benefits based on their spouse's earnings, if those earnings are higher than their own. If someone expects to claim a spousal benefit, which can be claimed regardless of a secondary earner's work record, then working and paying extra payroll taxes means they pay a tax, but may not receive any corresponding additional retirement benefits.

   To put it in slightly different terms, a worker can steadily work throughout her life, but earn far less than her spouse. She pays 12.4 percent in payroll taxes for every dollar earned, but may not get a single penny back out of Social Security in exchange for all of the payroll tax she paid. Moreover, her neighbor may not work a day in his life, and therefore pay nothing in Social Security taxes, and could end up with higher benefits than the worker because his spouse made more money.

   Is what I just said an accurate description of Social Security?

   Does the way secondary earners are treated in Social Security represent neutrality in tax disincentives to extra work for those earners, many of whom are women?

   Is it the case that couples pay an additional amount of payroll tax to finance the spousal benefit to which they are entitled?

   That is an accurate description. As I mentioned in the hearing, Social Security's rules can affect men and women differently because of differences in labor force behavior. One example of this is the one you cited – the rules disincentivize work by secondary earners who expect to claim a

spousal benefit, and many of these secondary earners are women. Couples do not pay any additional payroll tax for the spousal benefit they receive. This is why one earner couples receive a higher rate of return on their contributions compared to two-earner couples and singles.

2. Your research identifies that terms for delaying a claim for Social Security beyond the so-called "normal retirement age," or "full retirement age," have been largely unchanged since 1956 for women and 1961 for men, and that the terms for delaying have become more generous over the years. For example, one of your papers says that "members of the 1924 birth cohort could earn 3 percent of their base benefit per year of delay beyond the full retirement age, while members of cohorts born in 1943 and later can earn 8 percent of their base benefit per year of delay beyond full retirement age." Your research finds little evidence that actual benefit claiming behavior is related to the actuarial—that is, the expected financial—advantage of delay. And one hypothesis as to why people for whom delayed claiming could amount to large amounts of retirement wealth—and many of those would likely be women—do not delay claiming is that Social Security beneficiaries may lack full understanding of "Social Security's complex rules."

   Some of your research involves summarizing available Social Security retirement-benefit claiming options that are available to workers who paid into the system, and essentially plugging those options into computer programs. Given increased longevity of workers, and relatively greater longevity for women, what option to choose in terms of when to retire and begin to collect benefits matters, and can matter to the tune of hundreds of thousands of dollars.
   I am curious whether someone like you, with significant financial literacy, think that the available options for workers facing choices about when to decide to begin taking retirement benefits are simple.

   Can the available options for claiming benefits facing a married woman or a divorced woman be easily described in a few simple steps, or easily described by the Social Security Administration, or does it require a financial planner or purchase of financial-planning software?

   Do you know why Social Security offers delayed credits amounting effectively to an 8% rate of return, when nominal 10-year Treasury rates have been below 3% for years?

   The available options aren't simple, but our research does suggest some basic principles. For example, we find that there is a large monetary gain if the primary earner delays claiming as long as possible. However, the stakes are much smaller for secondary earners. In other words, it doesn't make a huge difference if the secondary earner claims at 62 or delays. In addition, for two earner couples (where both spouses will eventually take a worker benefit), it makes sense for one member of the couple to take a spousal benefit at full retirement age and switch to a worker benefit at age 70. (This strategy is allowed under Social Security's rules even though the spousal benefit was designed with one-earner couples in mind.) Divorced women may be entitled to a benefit based on their ex-spouse's earnings record in addition to their own worker benefit. Some of these women may be able to come out ahead by starting their spousal benefit at full retirement age, and then switching to their own worker benefit at 70. Of course, it's possible to fine-tune these strategies, and there are often additional complexities based on a person's particular situation. But we think these rules of thumb can provide some guidance for many couples in thinking about their claiming options. In addition, we have come across some free resources that

can help people decide on a claiming strategy – for example, AARP has a free calculator on its website. It's also worth noting that the gains from delaying Social Security have received much more attention in recent years. For example, the October 2014 issue of *Consumer Reports* advises readers to try to delay claiming Social Security benefits. A September 2014 article in *USA Today* does the same. So, as we move forward, I would hope to see more people taking that general advice and making a considered decision about when to claim Social Security.

Two-earner couples who delay Social Security can earn a return that's equivalent to holding a bond that pays around 7 percent after inflation. In comparison, 20-year inflation-indexed Treasuries currently pay a real return of less than 1 percent. I can't speculate about the motivation behind the rules that give rise to this outcome, but I can explain why large gains from delay can arise under the rules. Delaying Social Security is equivalent to buying an annuity; that is, individuals give up benefits today in exchange for higher monthly benefits for the rest of their lives. When an unmarried person delays Social Security, he or she effectively purchases a single life annuity; that is, the higher payments continue until the individual dies. When the primary earner in a married couple delays benefits, he or she effectively purchases a joint life annuity; that is, the higher benefits are paid until both spouses die. Joint life annuities are more valuable than single life annuities. That's why private insurance companies charge more for joint life annuities than single life annuities. Private insurance companies also continually adjust prices based on changing life expectancy and real interest rates. The Social Security benefit formula does not make any of these adjustments; it effectively "sells" annuities on the same terms regardless of whether they are based on one or two lives, and regardless of the prevailing interest rate. Thus, delaying Social Security is actuarially advantageous for primary earners, who receive a more valuable joint life annuity. It has also become more advantageous for everyone – not just for primary earners – due to improving life expectancy and historically low interest rates.

3. The number of possible ways for a married couple to claim Social Security benefits for retirement is mind numbing. Among the possible so-called "strategies" is one where a beneficiary claims benefits and then immediately suspends them to allow a spouse to get a spousal benefit while he or she continues to work and earn delayed retirement credits. There are other cases where, as I understand it, someone can take benefits, then decide to effectively engage in a do-over by paying Social Security back any benefits that have been paid in order to claim anew and capture some delayed credits. And credits for delaying retirement can generate returns of up to eight percent for a beneficiary. This may all be very confusing.

   Do you think there may be ways to reduce the complexity?

   The rules are indeed complex, and that complexity has an economic cost. All the time and effort that people have to spend to understand and implement their optimal claiming strategies could be put to better use. In addition, complex rules can lead to disparate outcomes for individuals based solely on their understanding of the intricacies of the benefit formula. Unfortunately, I don't have a simple prescription for reducing complexity. The complexity results from a myriad of rules that interact in complicated ways. I suspect that simplifying the program in a meaningful way will require a complete overhaul as part of a comprehensive reform plan.

4. Some people have proposed to extend the number of years of earnings included in computing Social Security benefits, from the current 35 years of earnings to perhaps 38 or 40.

   Could you describe the possible pros and cons of such a proposal, including whether it would disproportionately affect women who tend to have years away from the labor force while providing caregiver services to children or other family members?

   Additionally, could an extension of the number of years of earnings in benefit computation be coupled with a child-care credit for time spent in that activity to offset any possible adverse disproportionate effect on caregivers, many of whom would likely be women? Would there be any downsides to such an approach?

   That proposal has several pros and cons. Under the current benefit formula, once a worker reaches 35 years of earnings, additional earnings do not increase benefits by much. However, workers pay payroll taxes on these earnings. This creates a financial disincentive to work beyond 35 years. Using 38 or 40 years in the computation can reduce this disincentive. However, it can worsen work incentives for people with short careers; for these individuals, if more years are counted in the benefit formula, each year of work would count less. Also, this change may adversely affect individuals who take time out of the workforce to raise children. But as you point out, that effect could be alleviated by offering caregiver credits. As I discussed in my response to Senator Wyden, one challenge in offering caregiver credits lies in determining eligibility.

5. I share the concern of many that there is a relatively high rate of poverty among some Social Security beneficiaries, including older unmarried women. I also share the concern of many that the existing structure of the Social Security system is financially unsustainable and that higher taxes alone will not prove to be the responsible answer. I wonder if you have thought about, or are aware of, any proposals that could help eliminate poverty among elderly women by expanding their benefits while simultaneously changing benefits elsewhere in the Social Security system in a tax-neutral way.

   Some options include replacing spousal benefits with some combination of minimum benefits, caregiver credits, increased survivor benefits, or earnings sharing. Earnings sharing could be combined with provisions to protect widows as described above in my response to Senator Wyden's question. These options are all geared towards modernizing Social Security's family benefits, targeting benefits towards those who need them while recognizing the role that many women play today as both workers and caregivers. As I mentioned at the hearing, one study by Urban Institute researchers (Favreault and Steuerle 2007) found that such reforms can improve the treatment of two-earner versus one-earner families and reduce poverty.

6. With Social Security promises embedded in current law, the system faces $10.6 trillion of unfunded liabilities, which is something that must be kept in mind when people talk about expanding benefits even further. Some would have us finance expanded benefits, and maybe even some of the existing unfunded-liability shortfall, through higher taxes. But the nonpartisan Congressional Budget Office has told us that increasing payroll tax rates and/or increasing the maximum taxable earnings for

payroll taxes would generate significant increases in marginal tax rates, including on low earners and the middle class, and generate significant increases in lifetime taxes, especially for younger generations of workers, even with no accompanying benefit increase in many cases. I have concern about those taxes, since they would push some earners who are decidedly in the so-called middle class into situations with marginal tax rates exceeding 50 or even 60 percent, when all taxes are taken into account. Simply put, the reward for some workers to supply their labor would fall and the cost to employers of that labor would rise, both of which mean less employment.

We know that there has been a reversal in work in continental European countries compared to work in the U.S. over the past 50 years or so, in that European workers many decades ago worked more than workers in the U.S., but now work significantly less. And we have compelling evidence that the large increases in taxes on labor and social security arrangements across countries account for a lot of that reversal.

My concern with proposals that would expand Social Security benefits, and pay for those expansions along with paying for some, but not all, of the existing unfunded liabilities in the Social Security system is at least twofold. First, most proposals that I have seen still leave significant unfunded liabilities in the system and remain unsustainable in the long run, which is not fair to young generations of workers. Second, the proposals involve large tax hikes at least on earnings that fall in the range of the so-called middle class, and in some cases on low earners, which will be detrimental to labor supply, labor demand, employment, and the availability of job opportunities.

If we were to eliminate the maximum on earnings subject to payroll taxes and perhaps increase payroll tax rates, driving marginal tax rates up to 50 to 60 percent or more in the process for some workers, am I wrong to be concerned about negative labor market and economic effects?

You are not wrong to be concerned about these effects. Labor supply decisions do respond to taxes, though economists don't always agree on how much. That reflects a basic tradeoff in public programs: expanding the size of a public program (which may have social benefits) requires higher taxes, which distort people's economic choices. Economists can help policymakers understand that tradeoff. But ultimately, whether that tradeoff is worth it has to be determined by the public, through their elected officials. However, it is very important for this tradeoff to be recognized in the public debate.

From Senator Grassley

Questions for Dr. Slavov:

1. Your testimony raises concerns that the current spousal benefit may act as a disincentive to work in certain cases. This is due to the rules that provide a spouse the option between half of their spouses benefit or a benefit based on their own earnings, whichever is higher. While this rule helps ensure a lower earning spouse receives some minimal benefit, it also results in their paying into the Social Security trust fund with no additional benefit for doing so. Your testimony suggests "earnings sharing" as one possible solution to address this issue. Could you explain a little more about how "earnings sharing" would work? How would it impact both the husband's and wife's benefits and what would its effects be on the Social Security trust fund?

   Under earnings sharing, each married couple would receive credit for half the couple's total earnings – in each year of marriage – for the purposes of computing Social Security benefits. To see how this would affect the husband and wife's benefits, consider a one earner couple in which the primary earner has (indexed) earnings of $48,000 each year, and the secondary earner has no earnings. Assume both spouses turn 62 in 2015. Under current rules, the primary earner would be entitled to a worker benefit of $1,759 at age 66, while the secondary earner would be entitled to a spousal benefit of $879.50 at age 66. The family's combined benefit is therefore $2,638.50. Now consider a two-earner couple in which each spouse has (indexed) earnings of $24,000 each year. Again, assume both spouses turn 62 in 2015. Under current rules, each member of the two-earner couple would be entitled to a worker benefit of $1,119 per month at age 66, for a family total of $2,238.[1] Thus, the one-earner couple receives a larger monthly benefit than the two-earner couple despite the fact that both couples had the same total earnings and paid the same amount in payroll taxes (assuming careers of equal lengths). Under earnings sharing, the two-earner couple's benefit would not change. However, each member of the one-earner couple would be credited with $24,000 in earnings each year, just like the two-earner couple. Therefore, each member of the one-earner couple would receive a monthly benefit of $1,119, again just like the two-earner couple. Thus, earnings-sharing helps to equalize benefits across families that pay the same amount in payroll taxes.

   In its simplest form, earnings sharing would completely replace current spousal and survivor benefits. However, because of concerns about the adequacy of benefits for widows (see my response to Senator Wyden above), many earnings sharing proposals contain specific provisions that would protect widows. For example, some early earnings sharing proposals included a provision for widows to inherit their deceased spouses' earnings credits (e.g., CBO 1986; Iams et

[1] This calculation uses the 2015 primary insurance amount (PIA) bend points of $826 and $4,980. The calculation also assumes that all earners work for the same number of years, and that they all have careers that are at least 35 years. In this case, for the one-earner couple, the primary earner's average indexed monthly earnings (AIME) are $4,000, resulting in a benefit of $826(.9) + ($4,000 - $826)(.32) = $1,759 (rounded down to the nearest 10 cents). The spousal benefit for the secondary earner is half of the primary earner's PIA, or $879.50. For the two-earner couple, each spouse has an AIME of $2,000, resulting in a benefit of $826(.9) + ($2,000 - $826)(.32) = $1,119 (again, rounded down to the nearest 10 cents).

al. 2010). Another study (Favreault and Steuerle 2007) considers adding a self-financed survivor benefit, in which married couples receive lower benefits while both members are alive in exchange for higher benefits for the survivor.

I'm not aware of a good, recent estimate of the impact that earnings sharing would have on the trust fund. According to Favreault and Steuerle (2007), a simple earnings sharing proposal with no special provisions for widows would lower total costs. So would the proposal that combines earnings sharing with a self-financed survivor benefit. For these proposals, the researchers find that they would need to increase benefits across the board by around 4.5 percent to keep the reform expenditure neutral. According to Iams et al. (2010), a simple earnings sharing proposal with no special provisions for widows would reduce average benefits by around 8 percent. If combined with a provision for widows to inherit their deceased spouses' earnings credits, earnings sharing would increase average benefits by one percent.

2. The Social Security benefits tax imposes a substantial marriage penalty on two earner families. In the case of individuals, up to 85% of Social Security benefits are taxed on wages exceeding $34,000, while for married couples the wage threshold is only slightly higher at $44,000. What is your understanding of the impact of the marriage penalty on participation in the workforce by women?

   There are two separate issues here. The first issue is the fact that the wage threshold is higher, but not twice as high, for married couples as it is for singles. This can create or exacerbate marriage penalties, where two individuals face a higher tax bill when they are married than when they are not. (It is worth noting that this provision can also increase marriage bonuses for some couples; that is, the provision may lower a married couple's taxes relative to what they would have paid as two singles. It is also worth noting that any household-based tax system with progressive rates will necessarily create either marriage penalties or marriage bonuses.) Marriage penalties and bonuses are not likely to have a direct effect on work. It is possible that they may influence marriage decisions, but most empirical research suggests that this effect is small (Eissa and Hoynes 2000; Alm and Whittington 1999, 2003). Thus, fairness is the main concern. The second issue is that taxes are calculated at the household level rather than the individual level. When households are taxed rather than individuals, a secondary earner can face high tax rates on even the first dollar of income if the primary earner's income already subjects the family to high marginal tax rates. The Social Security benefits tax contributes to this effect by raising effective marginal tax rates over a particular income range (as it is phased in). This can discourage work by secondary earners who have spouses with earnings in this range. In general, secondary earners tend to be quite responsive to tax incentives (Keane 2011; Blundell and MaCurdy 1999).

3. As we all know, Social Security is facing long-term financing challenges. The Social Security Trust Fund is projected to be exhausted in 2033 at which time trust fund assets will only be able finance about 77 percent of current law benefits. Such a drastic reduction in benefits would be devastating to millions of retirees. What reform or reforms would you enact to ensure the long-term stability of the Trust Fund for future generations?

I am not committed to a specific reform plan, but a sound reform plan would include some combination of benefit cuts and tax increases that restore solvency to the system, not just over the next 75 years but for the indefinite future. The mix of tax increases and benefit cuts will ultimately determine the size of the program. As I mentioned in my response to Senator Hatch, there is a basic tradeoff in public programs, including Social Security. A larger or more progressive program may have social benefits, but it also requires higher taxes, which distort people's economic choices. The right point on this tradeoff has to be determined by the public through their elected officials, not by economists. But the tradeoff needs to be recognized in the reform debate. In addition to addressing the level of benefits and taxes, a good reform plan would also improve the structure of the system by improving work incentives (i.e., strengthening the link between contributions and benefits) and modernizing family benefit provisions. Finally, reform needs to occur now rather than in 2033. Each year of delay increases the burden that will be passed on to future generations and subjects young people to uncertainty.

4. Your testimony discusses research you have done with regard to the increased benefits an individual and spouse can receive by delaying when they claim Social Security. While this may be the case, more often than not individuals do not delay claiming benefits. Is there a place for Congressional action on this issue, or is it more of need for better information for claimants from the Social Security Administration?

   From my perspective, it is a puzzle why people claim Social Security early. It is a question I continue to study. However, I do feel strongly that the claiming decision should be an informed one. Therefore, I think there is a role for the Social Security Administration in providing information and considering carefully how the information that is provided is framed. I'm also encouraged by the fact that organizations like AARP have been providing education about Social Security claiming, and that the gains from delaying Social Security have been receiving more attention in the popular press. I'm not sure there's a clear role for Congress in providing this kind of information. But it's important to recognize that the complexity of the Social Security benefit formula has an economic cost. All the time and effort that people have to spend to understand and implement their optimal claiming strategies could be put to better use. In addition, complex rules can lead to disparate outcomes for individuals based solely on their understanding of the intricacies of the benefit formula. There is an important role for Congress to undertake serious Social Security reform that would simplify the benefit rules in addition to restoring solvency to the system.

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The United States Senate
COMMITTEE on FINANCE
CHAIRMAN RON WYDEN, D-OREGON
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Wyden Hearing Statement on Strengthening Social Security for Women

I'd like to start today by congratulating my friend Orrin Hatch on his upcoming chairmanship of the Finance Committee. A few weeks from now, this room will look a little different, but it will remain the go-to place for developing policies that can improve people's lives in Oregon and Utah and across the country. And before we get to the subject at hand, I'll add that this committee has a long tradition of bipartisanship that I look forward to continuing.

When Americans envision the retirement they'd like to someday enjoy, they imagine it being worry-free. They dream of well-earned relaxation, travel to visit loved ones and far-away destinations, and a steady income to support a comfortable life.

But for millions of elderly American women – a growing number every year – that dream never comes to pass. According to the Census Bureau, retired women are nearly twice as likely as retired men to live in poverty. And data from 2011 shows that women are falling deeper into poverty much more quickly than men.

Instead of living the worry-free ideal, they struggle to make ends meet – to pay for grocery bills and keep their homes heated in winter. And their experiences stand in stark contrast to the national trend of seniors living in the middle class.

This is a growing crisis fed by a confluence of factors that don't begin at age 65 – they start much earlier. Employed women earn about 78 cents on the dollar compared to men, and they are more likely to leave a job or cut back on hours to care for children or parents. As a result, their savings lag behind.

According to the Social Security Administration, millions of women – far more than men – depend on Social Security for nearly all of their income when they retire. And because women live longer on average, their savings accounts get squeezed at both ends.

So the main question for today is this: Is the Social Security safety net – which keeps 15 million elderly Americans, including 9 million women, from tumbling into poverty – strong enough? The numbers indicate that for many women, the answer is no.

To help illustrate how this crisis impacts women nationwide, the Finance Committee is extremely fortunate to be joined today by Barbara Perrin of Eugene, Oregon. Barbara worked hard, planned for her retirement, did her best to save, and still found herself in a tough spot.

Our discussion today can kick into high gear the effort to strengthen the safety net and give women greater financial security in retirement.

Also here today is an expert panel of witnesses, who will shed light on several ways to strengthen the safety net. One such proposal would boost the Social Security benefits for women who outlive their spouses.

Another would create caregiver credits for people who leave their jobs to take care of children or disabled or elderly family members. With those credits, caring for a loved one would no longer come at the cost of a reduced Social Security benefit later in life.

A third idea would close the gap between disabled widows or widowers and others who receive Social Security disability benefits. It would end benefit reductions, time limits, and other restrictions.

And a fourth proposed solution would include revising student benefit rules and removing gender bias from Social Security so that couples and their children – regardless of gender – would receive equal benefits.

I look forward to a constructive discussion of how this Committee can work on a bipartisan basis to achieve the goal we all want – strengthening retirement security for women.

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December 18, 2014

The Honorable Ron Wyden
Chairman
Senate Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Senate Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Wyden and Senator Hatch:

As the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families, we write to thank you for your recent hearing entitled "Social Security: Is a Key Foundation of Economic Security Working for Women," and to submit a written statement for the record. Your spotlight on this topic is important. Women are at greater financial risk in retirement than men, and without Social Security benefits, almost half of older women would live in poverty today.

We would like to submit for the hearing record the linked testimony prepared by AARP for a related hearing on women's retirement security held by the Joint Economic Committee this year: http://1.usa.gov/1J3PL45.

Social Security is critical to the economic security of women. We look forward to continuing to work with you and the other members of the Committee to ensure that all aspects of the Social Security program remain strong for future generations of American workers and their families. If you have any questions, please feel free to call me, or have your staff contact Michele Varnhagen on our Government Affairs staff at 202-434-3829.

Sincerely,

Joyce A. Rogers

Joyce Rogers
Senior Vice President
Government Affairs

AARP Real Possibilities

Written Testimony of
Lisa Maatz, Vice President of Government Relations
American Association of University Women (AAUW)
United States Senate Committee of Finance
Hearing on Women and Social Security
December 9, 2014

Chairman Wyden, Ranking Member Hatch, and members of the Subcommittee, thank you for the opportunity to submit testimony on the challenges faced by women ready to claim Social Security. On behalf of the more than 170,000 members and supporters of the American Association of University Women (AAUW), I am pleased to share AAUW's perspective on the importance of a Social Security plan that is inclusive to the needs of aging women. Since its founding in 1881, AAUW has been breaking through barriers for women and girls and strongly supports strengthening retirement benefits and programs, including pension improvements and protecting Social Security from privatization.[1]

The Social Security system is more than just a retirement program. It is one of the most successful anti-poverty programs in our nation's history. Since the Social Security Act of 1935,[2] Social Security has provided benefits to children, disabled workers, surviving spouses, and retirees. However, the current system is outdated and Americans are seeking change. According to a recent survey, 75 percent of Americans think we should raise benefits to provide a better retirement and 82 percent agree that preserving Social Security is necessary even if it means increasing taxes.[3] AAUW believes that Social Security is of particular importance to the economic security of women, who are more likely to suffer financial insecurity in their later years. Gender pay inequities reverberate in women's lower-than-average benefit levels, and women's benefits are also affected by their time away from the workforce and longer lifespans. In 2012, the average annual Social Security income received by women 65 years and older was $12,520. In comparison, men 65 and older received an average of $16,398.[4] This discrepancy in Social Security benefits highlights the need to reform, strengthen, and modernize the system to reflect the needs and realities of today's women.

The Gender Pay Gap

Women who work full time earn 78 cents on average for every dollar men earn.[5] Even when controlling for factors known to affect earnings such as education and training, parenthood, and hours worked, AAUW has found that college-educated women still earn 7 percent less than men one year out of college and 12 percent less than men 10 years out of college, even when they have the same major and occupation as their male counterparts.[6] Women earn less than men when working in the same position and are more likely to work in job fields that pay less.[7] Although more women work now than ever before in a multitude of different industries and occupations, they are still concentrated in certain fields. Women working in traditionally female industries make 20 to 30 percent less than women in nontraditional fields, which also are more likely to offer retirement benefits.[8] In fact, 60 percent of women still work in low-wage positions– including clerical, sales, and service jobs – that often do not offer pension plans.[9] Without Social Security, single women who work in low-wage positions would have to save 25 percent of their earnings starting from their first day of work in order to adequately provide for retirement.[10] This is simply not realistic given that many such women are living in poverty despite working full time.

Women today participate in the labor force at a much higher rate; however, an entire career of income inequality often results in lower lifetime earnings for women. Compared to men, women have fewer resources to draw upon in their later years. In 2012, 49.6 percent of all non-married (divorced, widowed, or never married) elderly women received 90 percent or more of their income from Social Security.[11] That same year, unmarried women over 65 received 50.4 percent of their total income from Social Security, while in contrast, only 35.9 percent of non-married men's income was comprised of Social Security benefits.[12] This income disparity not only affects women's retirement, but it also hurts their family's economic security if they become disabled or die. Continuing pay inequity results in women having fewer savings, lower Social Security benefits, and lower (if any) pension benefits, leaving them on an unequal retirement footing. AAUW urges the new Congress to bring public attention to the gender pay gap and make the necessary policy changes to Social Security that take the gap into account.

Time Out of the Workforce
Women still bear a disproportionate burden of caregiving responsibilities, which can take them out of the paid workforce to care for children and aging parents.[13] Women are an estimated 66 percent of the people who provide unpaid caregiver services, and thus have fewer years than men in the paid workforce.[14] AAUW believes that Social Security should be given to caregivers or to low earners with longer careers. Providing a caregiver credit is not only necessary for the economic security of retired women, it will also recognize the value of this unpaid work and the sacrifices women make to provide essential care for loved ones.

Time out of the workforce also diminishes the opportunity to increase private savings. Since women are twice as likely to work on a part-time basis as men,[15] many women work in industries or occupations that do not offer 401(k)s or other defined contribution plans. On average, only 28 percent of women age 65-74 receive pension income, compared to 42 percent of men.[16] When women have pensions, they tend to be smaller on average than those earned by men. While the current Social Security benefit formula compensates women for lower lifetime earnings by providing a higher return of income for lower-income workers, it cannot make up for the substantial amount of time some women are out of the workforce or the fact that women are also unlikely to be making pension or retirement savings investments during their displacement.[17] AAUW supports efforts to publicize and address this dilemma and urges the next Congress to devote resources to equalizing these benefits.

Women's Longer Lifespans
Women face a different time frame than men when sufficiently planning for retirement since women, on average, live longer than men. Women reaching age 65 in 2012 are expected to live, on average, an additional 21.4 years compared with 19.1 years for men.[18] Additionally, women represent 56 percent of all Social Security beneficiaries over age 62 and are approximately 66.7 percent of beneficiaries over 85.[19] Because of the insufficiencies of many private pension plans, women who live longer are also more likely to need survivors' benefits. Their longevity makes Social Security's lifetime, cost-of-living-adjusted benefits even more important to them.

Older women especially benefit from Social Security, since many depend upon it as their primary source of retirement income.[20] Social Security supports millions of older women – more than half would fall into poverty without Social Security benefits.[21] Many women cobble together retirement benefits from a number of sources, and even then are left to rely on the benefits of their spouse, other public assistance programs, or live in poverty. Since women make up two thirds of the low wage workforce,[22] they face higher poverty rates than men across all racial groups,[23] and are therefore more likely to experience greater economic insecurity during retirement.

Strengthening Social Security to Benefit Women
Although Social Security needs reform, the system is not broken. The most recent Social Security trustees' report shows that the system can pay all scheduled benefits through 2033.[24] AAUW supports reform that updates the program while guaranteeing solvency, such as lifting the payroll tax cap. Currently, someone who makes $113,700 a year pays the same amount into Social Security as a billionaire, as all income above that amount is exempt from the payroll tax.[25] One possible reform to strengthen the system is lifting the payroll tax cap. AAUW supports legislation that would subject all income over $250,000 to the Social Security payroll tax, putting the wealthiest Americans on equal footing with everyone else. The Chief Actuary of the Social Security Administration has projected that applying the payroll tax to income above $250,000 will extend the full solvency of Social Security for the next 75 years,[26] protecting the benefits of millions of Americans for generations to come.

Additionally, AAUW supports measures to increase women's ability to participate in alternate forms of retirement programs. This includes counting the time women take off as part of the Family Medical Leave Act towards vesting, promoting the availability of 401(k) and other defined contribution plans for part-time workers, and encouraging more women to work in higher-wage, nontraditional jobs. To further reduce the inequity in retirement security, AAUW strongly supports new laws that seek to close the persistent and sizable wage gaps between men and women, as well as raising the minimum wage and enforcing equal pay laws.

Other AAUW-Supported Potential Reforms:
- Expand information and education on the benefits on delaying claiming, since household decisions on when to claim Social Security can make a difference and gains from delay have increased in the past 15 years.[27]
- Equalize benefits for same sex married couples and partners, as well as their children.
- Improve survivor benefits by providing a widow, widower or surviving divorced spouse with 75 percent of the couple's combined benefits. This fair policy would be capped at the benefit level of a lifelong average earner and would dramatically reduce the likelihood of the survivor living in poverty.[28]
- Expand disability benefits since more than half of women older than 65 are living with a disability.[29]
- Update and improve the special minimum benefit. Providing the lowest wage earners who have significant work or caregiving history with a guaranteed minimum benefit that is at least 125 percent of the federal poverty line, will also drastically reduce the number of seniors living in poverty.[30]

Reforms We Oppose
AAUW strongly opposes changes that would reduce Social Security benefits, such as introducing a "chained" consumer price index (CPI) or privatizing Social Security. AAUW believes the chained CPI would cut benefits that particularly hurt older women and should not be an option.[31] The cuts for veterans, seniors and people with disabilities may seem small at first, but by age 85, someone who began to receive benefits at 65 would lose $984 in benefits that year. By age 95, the annual loss in benefits would be $1,392.[32] The chained CPI would revise the methodology for calculating the cost-of-living adjustments for Social Security and veterans benefits and does not take into consideration the appropriate health care costs that this portion of the population requires. The current measure of inflation that is used to determine the annual COLA, the CPI-W, is not based on seniors' unique

spending, which typically have higher spending on health care.[33] AAUW supports an annual Cost of Living Adjustment (COLA) that is based on modern and realistic senior spending patterns.

Further, AAUW strongly opposes privatizing Social Security, which would be especially bad for women. A system of private accounts instead of Social Security would risk lifetime retirement income, as well as forgo survivors benefits and disability insurance. Beneficiaries would have to rely on the uncertainties of their investments in place of Social Security benefits, which means women could actually outlive their benefits because of their longer life spans. The existing Social Security program provides guaranteed lifetime benefits to retirees, spouses, and widows. There should be no uncertainty attached to the benefits of our most vulnerable citizens.

Conclusions

Through the generations, Social Security has remained a constant foundation of American life and reflects our nation's commitment to retired Americans. It is one of the most successful anti-poverty programs in our nation's history, but it needs necessary reforms to create a better, stronger retirement policy for women. By protecting and expanding benefits, implementing a caregiver credit and raising the payroll tax cap, America can meet the trials posed by demographic and economic changes. AAUW believes it is vital to women's economic security to provide for the long-term solvency of Social Security and to maintain its current guaranteed benefits. We must keep our promise to one another. Thank you for the opportunity to submit testimony. We are pleased to be working with you on this critical issue.

Thank you for this opportunity to submit testimony to the committee on this important issue.

Sincerely,

Lisa M. Maatz

Vice President of Government Relations

American Association of University Women

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STRENGTHEN SOCIAL SECURITY
...don't cut it.

Statement of the
Strengthen Social Security Coalition
to the
Committee on Finance
U.S. Senate
Hearing on
"Social Security: Is a Key Foundation of Economic Security Working for Women?"

The Strengthen Social Security Coalition, which is comprised of more than 350 national and state organizations representing more than 50 million Americans from many of the nation's leading aging, labor, disability, women's, anti-poverty, consumer, civil rights and Netroots organizations, submits the following statement for the December 9, 2014 hearing on how Social Security is a key foundation of economic security for women.

Guiding Values for Federal Retirement Policies

Everyone in America should look forward to retirement free from financial worry and hardship. After a lifetime of working hard and playing by the rules, Americans deserve to live out their years with the dignity and respect that comes from financial independence and with the confidence that they will be able to maintain the standard of living they worked hard over decades to attain. With that measure of financial independence in retirement comes peace of mind. With that modicum of financial independence in retirement, the risk is reduced that families will be forced to choose between saving/paying for their children's college education, providing for their own retirement and helping their parents make ends meet. For nearly 80 years, Social Security has been a sturdy pillar of American life. It reflects our shared national commitment and has secured the dignity of Americans in retirement. It has grown to protect us when unimaginable disability or death strikes our families. We built this system; we pay for it. It protects our parents, children, grandchildren and ourselves, this is what America is all about.

The Retirement Security Crisis

We have a retirement security crisis that threatens the middle class and everyone working their way into it. The erosion of good jobs, attacks on workplace benefits, and the recent financial crisis have stripped millions of their assets, including large losses to the value of their homes. The Center for Retirement Research at Boston College has estimated that, prior to the so-called Great Recession, 43% of households would not be able to maintain their standards of living during their retirement years.[i] That percentage rose to 61% when the costs of health care and long-term care are taken into account.[ii] Since the Great Recession, the 43% figure has increased to 53%.[iii] There is a real gap between what households have saved through Social Security employer pensions and other savings, and what is needed to maintain a basic standard of living in retirement.

The Only Reliable Retirement System for Most Americans

It was intended to provide one of three sources of retirement income for seniors, with pensions and personal savings constituting the other two. However, the decline of defined-benefit pension plans, declines in home equity and the very small retirement savings of the large majority of American household have created an alarming and growing retirement crisis.

Less than half of all private sector workers have any kind of employer-sponsored retirement plan, and only about 20% have a defined-benefit pension.[iv] 42 percent of men aged 65-74 receive income from their own pensions; compared to just 28 percent of women the same age.[v] Approximately 67.9 million workers do not have any employer sponsored retirement plan in which they can participate.[vi]

Moreover, the distributional dynamics of private sources of retirement 401(k) plans and IRA accounts are extremely skewed to the most affluent in our society. For several decades, most Americans have been under growing financial stress which intensified during the Great Recession. Since the 1970s, real wages of households have stagnated even as health care and higher education costs climbed.[vii] On average women earn less than men. In 2013, among full-time, yearlong workers, women made 78 cents for every dollar men earned, exacerbating insecure retirements amongst women.[viii] And although they represent less than half of all workers, women make up two-thirds of the low-wage workforce.[ix] High unemployment among the young since the Great Recession has delayed their ability to save and build equity, while millions of their parents experienced unprecedented increases in long-term unemployment and lost billions in home equity. Long-term unemployment among women has risen from 29.3 percent in June 2009 to 37.6 percent in May 2014.[x] In 2010, 75% of Americans nearing retirement had, on average, less than $30,000 in their retirement accounts.[xi] Almost half of Americans have less than $10,000 in savings.[xii] Furthermore, the fact that many women exit the workforce to perform family caregiving work often puts gaps in their earnings records that lower Social Security benefits.

Efforts to radically change and diminish Social Security's earned benefits and the decline of employer-sponsored pensions have left Americans worried about their ability to retire at all.

Social Security is Vital to Women's Economic Security

Social Security benefits are vitally important to most women – both those currently receiving benefits and those who will need Social Security in the future. On average women 65 and older rely on Social Security for 61 percent of their income. Nearly 3 out of 10 retired women rely on Social Security for 90 percent or more of their income.[xiii]

Other parts of our nation's Social Security system, as well as related benefits under Supplemental Security Income (SSI), also play a key role in women's economic security. For example, in 2013, nearly 4.3 million women received disabled worker benefits averaging just $12,137.[xiv] The Social Security Administration estimates that for over half (58 percent) of women receiving Social Security Disability Insurance (SSDI) in 2010, these modest benefits represented at least 75 percent of their incomes.[xv] Additionally, many women rely on Social Security survivor's benefits after the death of a spouse as well as Social Security family benefits when a spouse is retired or disabled. Women are also a majority (53 percent) of SSI beneficiaries, who received an average benefit of just $6,348 in 2013.[xvi]

These trends are likely to intensify in future years because of the failure of the retirement savings system and the decline of pension plans. In addition, growing numbers of seniors are outliving their savings and assets, leaving them to depend only on their earned Social Security benefits.

All workers must have a guaranteed retirement income for life that allows them (and their spouses/partners) to maintain their standard of living after a lifetime of work and prevents all Americans from falling into poverty as they age, in disability, or following the death of a family wage earner. Social Security lifted over 22 million people out of poverty in 2012, including about 9 million women aged 65 or over.[xvii] Without Social Security, the poverty rate among elderly women would have increased, from 11 percent in 2013, to nearly half.[xviii]

Retirement shouldn't be a gamble. Workers must be able to count on a steady lifetime stream of retirement income that isn't subject to the ups and downs of Wall Street. The most stable part of the stool now is Social Security and a sustainable retirement system must preserve, strengthen and build on Social Security and the SSI program as well as existing defined benefit systems, such as public pension, multi-employer and single-employer plans.

Social Security Benefits are Modest

Social Security benefits average just $13,467 a year for women 65 and older.[xix] Benefit checks continue to shrink as they pay for Medicare Part B and Part D premiums.

Medicare and Medicaid should be strengthened so that retirees have health care they can afford and access to long-term care if they need it so they can truly enjoy economic security.

Disability and Survivors Benefits are Also Critical

Social Security benefits are important before retirement as well. Social Security assists insured workers of any age who experience severe and work-precluding disabilities; in addition, auxiliary benefits help support the children of disabled workers. As the labor force changed in recent decades, women became increasingly likely to earn sufficient credits for Social Security Disability Insurance. In 1970, only 41% of women had SSDI coverage, but in 2013, 73% did.[xx] In addition to the financial stability provided by SSDI to women with disabilities, Social Security benefits also help women whose spouses become disabled or die. Survivor's benefits, which are payable to children of deceased workers until age 18 (longer if the child is in secondary school or has a disability) and to spouses caring for a deceased worker's child aged 15 or under, are there during some of the most emotionally and financially challenging times a family can face. Protecting and expanding disability and survivor's benefits, as well as retirement benefits, helps workers and their families.

Expanding Social Security Would Strengthen Women's Financial Security

The retirement income crisis can be addressed by expanding Social Security. So can difficulties women face when they experience disability or the death of a spouse. Adding a caregiver credit to Social Security would improve the income security for the growing number of caregivers, disproportionately women, who take time out of the workplace to provide care for dependent children and/or adults.

The National Academy of Social Insurance (NASI) developed one of numerous opinion surveys that indicate that the vast majority of the public -- of all political persuasions and age groups -- would be willing to pay a modest increase in the payroll tax in order to improve benefits. According to NASI's polling, 88 percent of Democrats and 74 percent of Republicans agree that "it is critical to preserve Social Security even if it means increasing Social Security taxes paid by working Americans."[xxi] NASI's polling also found that Americans support lifting the cap on income subject to the payroll tax.

Instead of focusing on how to reduce already-modest benefits for millions of people, and especially women, through a change in the cost-of-living formula or by other cuts, we urge Congress to broaden the conversation on how to expand Social Security's role in addressing the needs of workers and their families.

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Senate Committee on Finance

Social Security: Is a Key Foundation of Economic Security Working for Women?

December 9, 2014

Statement for the Record

Women's Institute for a Secure Retirement

Women's Institute for a Secure Retirement

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Introduction

The Women's Institute for a Secure Retirement (WISER) is a nonprofit organization that works to help women, by working with long-standing partners from aging and women's organizations, educators, employers, the financial industry, the business community, and policymakers to promote understanding of the important issues surrounding women's retirement income.

Our primary mission is financial education/capability --- providing women with the crucial skills and information they need to avoid poverty in retirement. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through research, training workshops, educational materials and outreach. For nearly 19 years, WISER has worked to help women improve their economic circumstances and approach their retirement years with the most optimal financial situation.

WISER operates the National Resource Center on Women and Retirement Planning under a cooperative agreement with the Administration on Aging. The Center is a gateway of information created with strategic public-private coalitions to provide hard to reach women with financial tools and actionable information. The Center's goal is to help low- and moderate-income women make the best decisions they can with the assets and income that they have. These decisions are complicated and the financial implications of getting it wrong will mean a stronger likelihood of poverty in old age and a stronger reliance on government programs, or worse.

The Center has directly reached tens of thousands of women through our own and our partners' workshops. We have reached millions with our publications and website. WISER's approach is to provide women with core financial knowledge that encourages them to make financial planning and retirement readiness a priority in their lives.

We commend the Senate Finance Committee and Chairman Ron Wyden and Ranking Member Orin Hatch for examining the role of Social Security as a key foundation to the economic and retirement security of women.

We are submitting this statement to ensure that Committee members understand that there is a crucial need to provide women (and men) with the knowledge they need to make the best retirement decisions possible. These decisions are complicated and the financial implications of getting it wrong will mean a stronger reliance on government programs.

Women's Retirement Security Challenges

Women face a number of retirement risks. Historically, older women have been at greater risk of poverty as a result of several major factors: women have lower average earnings, are more likely to work part-time, are more likely to be single, and while today they may be as likely as men to work for an employer offering a retirement plan, they are less likely to be eligible or to participate in those plans. Women eligible for defined contribution plans also contribute less to their plans for a number of reasons but mainly due to earning less. Women also tend to live longer and therefore need their retirement assets to last longer. A Hewitt Associates study projected that women, on average, need to replace nearly 130% of their final pay at retirement due to life expectancy.[1]

Women are more likely to live alone during retirement; if widowed, they are less likely to remarry and to pay more for medical care due to costly chronic health conditions as they age. Many women have uneven work histories due to taking time out of the workforce to provide care for family members as caregivers. This last factor – family caregiving – and the financial issues of family caregiving that can jeopardize the long-term retirement security of women will be the focus of my testimony.

The Caregiving Effect

Despite sweeping labor force changes in which more women than ever before are in the workforce, women remain the nation's **primary** caregivers whether caring for children or older family members. While it is commonly known that caregiving responsibilities are challenging and time-consuming, it is also important to realize that these family responsibilities affect workforce earnings as well as career development and retirement income.

As caregivers, women are at an even greater risk of experiencing financial setbacks. Some of these are obvious: women will work part-time, stop working, decline a promotion that requires longer hours, or leave a job altogether. Women making these compromises miss out on opportunities for compounded returns on 401(k) matching contributions and experience reduced savings and investments. According to one study of working caregivers, two-thirds reported having to take time off for caregiving-related reasons.[2] Another report found that caring for adult parents increased women's risk of poverty.[3]

When a two-income couple has a family, it still remains largely the mother's responsibility to maintain the home and take care of the children. Among full-time workers who are parents of children under 18, married mothers were more likely to provide childcare to household children than were married fathers. On an average day, 71 percent of mothers and 54 percent of these fathers spent time caring for and helping household children.[4]

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In the majority of cases where a family elder requires care, it is women who provide it. Research studies indicate that nearly 66 million people provide unpaid eldercare in this country, and 61 percent of them are women.[5] Women provide eldercare an average of 3.5 hours a day. And 5.4 million women who provide eldercare have children under 16 at home to take care of, too.[6]

Findings from a survey report conducted by the Pew Research Center provides a profile of the *sandwich generation*, those adults who are *sandwiched* between children and aging parents. Among respondents providing care and financial support to an aging parent and supporting a child, nearly a third (30 percent) were just able to meet their basic expenses while 11 percent were not able to meet their basic expenses.[7]

The effects of unpaid elder caregiving are many. Caregivers often reduce paid work hours or have to quit work altogether. A MetLife study estimates that caregivers lose nearly $303,880 in wages, lost pensions and reduced Social Security benefits.[8]

Further, caregivers pay an estimated $5,531 in out-of-pocket costs each year for the person to whom they provide this eldercare.[9] These caregivers often pay for household goods, food and meals, travel and transportation costs, and medical care costs, including prescriptions. To cover these costs, some caregivers either stop saving for their own retirement or dip into their retirement savings. Others cut back on their own health and home care.

Another aspect of caregiving in today's America is "grandfamilies," where grandparents who are near or in retirement are raising their grandchildren. Almost 20 percent of the 2.5 million grandparents who provide this care live in poverty.[10]

When women take time out of the workforce to care for their children or an elder family member, their future Social Security benefits take a huge hit. For each year a woman (or man) does not work for pay, the Social Security Administration includes a zero into her benefit calculation. According to SSA, women average 12 years of zeros for non-earning years. This is 12 years of zeroes added into a formula that takes into account an individual's 35 highest earning years. Consider the impact each zero has on the numbers and how it pulls down the Social Security benefit.

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[10] American Society of Aging. *Growth of Grandfamilies Leads to Food Insecurity*. May 9, 2012. http://www.asaging.org/blog/growth-grandfamilies-leads-food-insecurity

Adding Up the Factors: The Impact on Women's Retirement Income

Women are worried about their financial security in retirement and saving enough, and rightly so. The end result of the whole of women's unique challenges is that when they hit their retirement years, women have 25 percent less retirement income and twice the poverty rate of men.[11] When widowhood or divorce occurs, the effects are even more harmful. A GAO report found that the income of women near or in retirement dropped 37 percent as a result of widowhood, while men's fell 22 percent. Divorce or separation reduced women's income by 41percent– almost twice the decline of men's income.[12]

Today, the rate of poverty for women age 65 and over is 10.7 percent, compared to 6.2 percent for men.[13] When looking at single women over age 65, the poverty rate jumps to 17.4 percent.[14] In this mix is a poverty rate for white single women of 15.3percent ; 32.5 percent for single African American women; and 43.7 percent for single Hispanic women.[15]

Why Women?

The main reason we are focusing on women is the sheer volume of the numbers – at age 65, there are more than 6 million more women than men, and the expected growth in the population of the "oldest-old" – those age 85 and older -- has been dramatic over the last century and is expected to continue to grow.

Recently, the National Institute on Aging has redefined this age group (85+) to ages 90 and older. Estimates indicate these numbers will greatly increase as the boomer population reaches **very** old age. By 2050, the number of nonagenarians will make up more than 10 percent of the population. The oldest-old population is mainly made up of women who live alone – 24 men for 100 women. The number of men who are married in that age group is 43 percent compared to about 6 percent of women.[16] Yet women are still facing a longer retirement with less income – the median income for women age 65 and older is only 60 percent of men's income in that same age group.

Solutions to Increase Women's Retirement Security

For the broader issues women face regarding retirement income insecurity, many solutions should be considered. We need to strengthen our existing programs wherever possible. That means focusing in particular on Social Security, as this program is critical to the financial foundation and well-being of women and is the only thing that protects millions of women from poverty in their older years.

[11] GAO. *Retirement Security: Women Still Face Challenges*. GAO-12-699. July 19, 2012.
[12] GAO. *Retirement Security: Women Still Face Challenges*. GAO-12-699. July 19, 2012.
[13] Current Population Reports. Income, Poverty and Health Insurance Coverage in the United States, 2011. September 2012.
[14] Women's Institute for a Secure Retirement. *Fact Sheet: Single Older African American Women and Poverty*. 2012.
[15] Ibid.
[16] Wan He & Mark Muenchrath, *90+in the United States*: 2006-2008 (Washington. D.C.),U.S. Government Printing Office, 2011.

The private retirement system which includes employer –sponsored plans needs to be extended so that those without access to a workplace plan will have the opportunity to save. These opportunities need to be extended to part-time and temporary workers. Recognizing the difference in men's and women's work experience as well as their longevity indicates the need for financially-innovative products, and increased financial education and planning to improve the financial security of older women and men.

The role of lifetime income products, like immediate annuities and longevity insurance (insurance for the age 85+ group) is little understood and needs more focused discussion. Both immediate or longevity annuities could play an important role in providing future retirement security for women. However, the industry would serve women well by further education and innovation on these lifetime income products.

The Social Security system should also reflect the longevity of women (and men). Various proposals have long been offered to help women because they are likely to outlive their spouses as well as their savings. One such proposal would assist beneficiaries who reach their age of life expectancy by adding a special longevity benefit which would increase their benefit by a certain amount.

Reform Options to Improve the Financial Security of Caregivers:

Over the decades, a variety of reform options have been proposed to offer retirement protection to women who have spent several years out of the workforce as caregivers for dependents. These reforms, however, are piecemeal and will only take care of some problems. These policy options also have cost implications but they could help women decrease their risk of living in poverty. The list below is meant to identify features of various proposals. The idea of providing credits for years served as a family caregiver has long been discussed and may be a well-timed proposal.

The first two policy options mentioned below include two basic variations for improving Social Security benefits for those who have worked as family caregivers without earnings or low earnings for a certain number of years:

- **A specified earnings credit**: This credit would provide the caregiver a set amount of earnings for each year in which there was a child or parent in care and the caregiver's actual earning was zero or greatly reduced from previous years. This credit would be provided for a set number of years (e.g., 3-5 years).

- **Modifying the traditional Social Security benefit formula:** This option would help workers who take time out of the workforce by adjusting their Social Security benefits. SSA would drop out a set number of caring years from the highest 35 years required to determine the benefit.

Caregiver Tax Credit: AGE Act Legislation[17]:

- This bill would establish a federal tax credit to help cover out-of-pocket expenses for caregivers caring for an aging family member. The bill would allow families a credit of up to $1,200.

The Challenges of Working Longer

When faced with insufficient assets for retirement, working women may have no other choice but to try to work longer. The positive effects of this choice may include more time to save and invest, a higher monthly Social Security benefit, and fewer retirement years to finance. It's clear that working Americans' thinking about when to retire has evolved over the last decade. A recent study shows that 56% of Americans plan to work past age 65.[18] Other studies show similar changes in retirement age expectations.

It is one thing to plan on working longer, but it is another matter to have the ability to do so. We only have to look around today to see the millions of people who want to work but can't due to a lack of jobs. During the Great Recession, millions of older workers who lost their jobs were unable to find new ones. Analysis by the Urban Institute shows that 37% of older workers who lost their jobs between 2008 and 2011 and did not return to work, ended up claiming Social Security as soon as they turned 62.[19] The impact of unemployment has hit women especially hard. While it is widely known that the majority of jobs lost during the recession were by men, they have also captured the vast majority of jobs gained. Only 8% of new jobs created since June 2009 have gone to women.[20]

It is also important to note that for low-skilled workers, the ability to collect early Social Security benefits is an important safety net. Another Urban Institute study found poverty rates for those with little education spikes as they approach 62, then declines sharply when they qualify for Social Security early retirement benefits.[21]

Holding out to collect Social Security retirement benefits beyond full retirement age may be a good idea, but it is simply not feasible for many people. Whether it is a lack of job opportunities, poor health, or the need to provide care for a spouse or parent, many obstacles stand in the way of working longer for millions of women. And what happens when the plan to work longer doesn't pan out? Is there a backup plan? The Transamerica study found that 57% of Americans

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[17] The *Americans Giving Care to Elders (AGE)* Act, 2012, introduced by Senators Klobuchar and Mikulski, would also establish a central clearinghouse for best practices and promising innovations to support families in their caregiving role. It would also increase funding to federal caregiver support efforts.

[18] *Transamerica Study Shows American Workers Shifting Expectations of Retirement, Reveals Need to Redefine 'Retirement Readiness.'* Transamerica Center for Retirement Studies. May 16, 2012.

[19] *The Takeaway: Forced to Take Early Social Security.* Elizabeth Nolan Brown. June 11, 2012. http://blog.aarp.org/2012/06/11/the-takeaway-forced-to-take-early-social-security/

[20] *Modest Recovery Largely Leaves Women Behind.* National Women's Law Center. February 2012.

[21] *Raising Social Security's Retirement Age.* Urban Institute Fact Sheet on Retirement Policy. July 2010.

have a retirement strategy, but only 15% have factored in a backup plan for retiring sooner than expected or savings shortfalls.[22]

Conclusion

While women are at a particularly high risk for poverty in retirement, there are a number of policy options that can help them to avoid this outcome. We need to continue to build on what is working and make it better. While there are endless discussions about what the correct solution is, millions of Americans are just trying to achieve financial stability and protect their future.

Thank you.

Retirement Readiness Agenda

- Educate near retirees on the value of claiming Social Security later to attain higher Social Security benefits.[23]

The following are suggested actions for building and supporting increased economic and financial security for women of all ages.

- Protect, preserve and strengthen Social Security – a program critical to the financial well-being of women:
    - Preserve Social Security as an income-based social insurance system.
    - Improve benefits for low-wage workers—those with very low benefits are primarily low-wage, unmarried and widowed women.
    - Study ways to offer retirement protection to women with significant time spent as caregivers, including the provision of Social Security credits.
- Support employer plans, recognize the difference in men's and women's employment experience and promote individual saving behavior:
    - Encourage more employers to offer a retirement program and make it easy for employers to do so.

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[22] *Transamerica Study Shows American Workers Shifting Expectations of Retirement, Reveals Need to Redefine 'Retirement Readiness.'* Transamerica Center for Retirement Studies. May 16, 2012.
[23] James Mahaney, Strategic Initiatives, Prudential Financial. Updated Edition, 2012.
Innovative Strategies to Help Maximize Social Security.

  - Encourage plan sponsors offering 401(k) and similar plans with better default investment options to enable more savers to accumulate more assets for retirement.
  - Extend retirement savings opportunities so that part-time and temporary workers have a way to save.

- Enable later retirement and support better work options at later ages:
  - Study the interaction of increasing longevity and retirement ages, and develop a dynamic system to keep retirement ages in step with greater longevity.
  - Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.
- Encourage financial product innovation that help older Americans preserve and protect their retirement incomes and assets:
  - Support and encourage the continued sponsorship of retirement plans with risk-protection features, such as lifetime income options.
  - Support development of more products that include combining income and long term care.
  - Support development of longevity insurance.
- Educate women of all ages about financial products, financial planning and saving:
  - Encourage employers to offer meaningful and appropriate financial education programs and assistance.
  - Government and foundations should act together to support community efforts of non-profit aging organizations to offer financial education, particularly those programs that target at-risk populations. WISER works with n4a, the National Association of Area Agencies on Aging as well as the National Council on Aging's Economic Security Initiative model that works well. We need to promote these programs that are successful on a larger scale.[24]
  - We know Americans are not saving enough; now we need to direct more resources to getting them the information, tools, and services we know can help and that can make a real difference in their retirement savings.

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[24] Economic Security Initiative Fact Sheet 2012, National Council on Aging.