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Social Security, Women and Working Families

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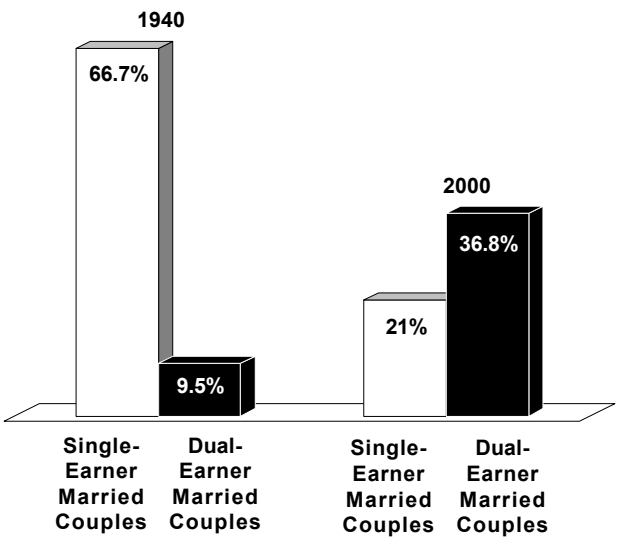
Social Security is a product of the 1930s. The United States has changed significantly over the past six decades, but Social Security remains much the same. It is out-of-date and in dire need of reform, especially with respect to benefits for married couples.

When Social Security was created, two-thirds of all households consisted of a husband employed in the labor market while his wife worked at home. Understandably, Social Security was designed to suit this 1930s-model single-earner household. Today, however, single-earner couples are no longer the norm; rather, they represent only one-fifth of American households. In contrast, dual-earner married couples represent 36.8 percent of households today, up from one in 10 in 1940. [See the Figure.]



Source: Center for Working and Family Balance, Employment Policy Foundation, 2002.

Note: Other households experiencing a change include single occupant households (9.9 to 25.5 percent) and single parent households (9.2 to 15.9 percent).

Social Security has not changed to reflect this new reality and often works to the disadvantage of women. Due to longer life expectancies, women rely more on Social Security benefits than do men. Women who work outside the home are affected even more because their employment is less consistent than men, and because they have a lower rate of private pension ownership.

Unfair Treatment of Working Wives. Many working women who pay Social Security taxes receive no more benefits from Social Security than women who never paid into the program. Upon reaching retirement age, a stay-at-home spouse (typically the wife) in a one-earner couple qualifies for a 50 percent spousal benefit based on the payroll taxes paid by the working spouse. The couple's combined benefit is therefore 150 percent of the husband's, even if the stay-at-home spouse never paid a dime into Social Security

In married working couples, however, the lower-earning spouse (again, typically the wife) is also entitled to a spousal benefit, but only if she elects to receive that benefit *rather* than the benefit based on her own earnings. She may choose one or the other, but not both. For many of today's retired women, half their husband's benefit is greater than their own. Thus, they choose the spousal benefit and receive nothing in return for the payroll taxes they paid.

Women who *do* claim benefits based on their own contributions often receive only a bit more than if they had never worked or paid taxes. According to an NCPA study by Laurence J. Kotlikoff and Jagadeesh Gokhale:

- If the second spouse in a couple comprised of two high school-educated 25-year-olds enters the workforce and works full-time, the couple's expected lifetime taxes increase 74 percent, but their benefits will increase only 17 percent.
- Among couples with college educations, if the second spouse enters the job market and works full time, the couple's taxes increase 88 percent, but their benefits increase only 24 percent.

Further, the spousal benefit creates inequities among two-earner couples: A couple with $50,000 in combined annual earnings split $45,000/$5,000 will receive substantially more benefits than a couple with the same earnings split $25,000/$25,000.

Unfair Treatment of Divorcees. Social Security treats divorced spouses even more awkwardly. When the program was established, divorce was much less common and was figured into the benefit structure largely as an afterthought. Today, a striking 50 percent of first marriages and 60 percent of subsequent marriages end in divorce.

Divorcees are entitled to spousal benefits only if the marriage lasted 10 years and the claimant does not remarry. However, today's average marriage ended by divorce lasts only seven years.

- According to the U.S. Census Bureau, 90 percent of women who married between 1945 and 1949 were still married on their 10th anniversary.
- Of those who married between 1980 and 1984, only 73 percent reached the same milestone.

If a marriage ending in divorce misses the mark by even one day, the lower-earning spouse receives no spousal benefits.

Unfair Treatment of Survivors. Social Security provides benefits to surviving spouses and children after the death of the family's primary wage earner if the marriage lasted at least nine months. However, spousal survivors benefits (usually received by women) are predicated on the assumption that she will remain home with the children. Should she work for wages, she will face a severe earnings penalty.

- A surviving spouse loses $1 of benefits for every $2 earned above $11,520 (the threshold for 2003), amounting to a 50 percent tax on her labor market income.
- She will also pay, for example, a 15 percent income tax, and she and her employer would pay a combined 15.3 percent Social Security (FICA) tax. This creates a total marginal tax rate of *80 percent* on work, not including state and local income taxes.
- If a woman is in the 28 percent income tax bracket, her marginal tax rate climbs to *100 percent* for each dollar she earns above $11,520 — which means that she gains nothing by earning more.

A widow who wants to support herself until she reaches retirement will prudently enter the labor market and begin developing job skills well before her children are grown. High marginal tax rates punish survivors who want to be self-supporting.

Create Earnings Sharing for the Future. One frequently proposed solution to some of these concerns is "earnings sharing." This would require dividing all of a couple's Social Security taxes when they are paid — crediting half to the husband and half to the wife. If they divorce, Social Security taxes and the benefits they ultimately generate would be split, just as property is divided in community property states.

Had Social Security included earnings sharing from the beginning, the problems cited above would not have arisen. Couples with the same income would receive the same benefits, regardless of who originally earned the income. A wife would be credited with one-half of her husband's contributions for as long as the marriage lasted — and vice versa.

Earnings sharing is not a perfect solution — retired widows who never worked or paid taxes would receive lower benefits. However, that problem will diminish with time, since few women remain completely outside the labor market today and they are unlikely to do so in the future.

Solution: Personal Retirement Accounts in Social Security. Even if Social Security's rules had been modernized to reflect our changing society, women would still face an uncertain retirement because of Social Security's shaky future. Personal Retirement Accounts (PRAs) are a potential reform to the existing Social Security system. Like IRAs or 401(k)s, PRAs would allow workers to save and invest for the future. Part of workers' payroll taxes would be deposited in personal accounts to *pre*fund some of their retirement benefits, while the rest would continue to support current retirees.

NCPA scholars have gone a step further, recommending that Congress enact PRAs incorporating an earnings sharing provision to improve retirement outcomes for women. Under this plan, personal account balances would continue to earn interest whether or not both married partners were continually employed. As with Social Security benefits, account funds would be divided equally between husband and wife. Additionally, the government would guarantee that no retiree or survivor would be worse off under the new system than they would have been under the old. Finally, in the case of death, the PRA would become part of the spouse's estate and could be inherited by the survivor.

Conclusion. Social Security does not reflect the needs of 21st century families. Further, due to policies established in the 1930s, many women are unfairly penalized for work. These problems should be addressed during the process of reforming Social Security in a way that allows couples to invest some of their payroll taxes in personal retirement accounts.

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