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Social Security Benefits for Economically Vulnerable Beneficiaries
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Chairman McNulty, Ranking Member Johnson, and members of the Subcommittee, thank you for this opportunity to testify on behalf of the National Women's Law Center. There has been much discussion about the future of Social Security in recent years, but too little of that discussion has been about ways to increase Social Security benefits to improve economic security for vulnerable beneficiaries.

This testimony will focus on two proposals: an increased minimum benefit for people with low lifetime earnings and improved benefits for surviving spouses. These proposals are highlighted because of their potential to help a significant number of economically vulnerable older Americans, especially women, if they are well-designed and provide an increase over current benefits, not merely a mitigation of benefit cuts. There are other options for improving benefits and other vulnerable populations, including beneficiaries who rely on Social Security's non-retirement benefits, for the Subcommittee to consider when it develops a package of reforms.

Millions of Older Americans, Especially Women, Are Economically Vulnerable

Social Security is at the core of economic security for nearly all Americans, insuring workers and their families against the loss of income due to retirement, disability or death. Social Security plays a critical, and widely recognized, role in reducing poverty among the elderly. Without family income from Social Security, half of all women and nearly four out of ten men 65 and older would be poor.[1] In 2006, Social Security reduced the number of poor elderly women by 7.7 million, and the number of poor elderly men by 4.9 million.[2] But Social Security isn't just for older Americans. Family income from Social Security lifts one million children out of poverty, more than any means-tested program except the Earned Income Tax Credit (EITC), and Social Security does more than even the EITC to close the poverty gap for children.[3]

Social Security is the largest source of retirement income for most Americans, but it is especially important to women. Social Security provides 53% of the income of single women 65 and older (widowed, divorced and never-married), compared with 38% for comparable men.[4] And, for many single women 65 and older, Social Security is virtually their only source of income. Social Security provides 90% or more of the retirement income for nearly half (46%) of all single

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[1] NWLC calculations from the March Supplement to the 2007 Current Population Survey [hereafter "2007 Current Population Survey"].
[2] *Ibid*.
[3] *See* Arloc Sherman, Center on Budget and Policy Priorities, Social Security Lifts One Million Children Above the Poverty Line (2005), available at http://www.cbpp.org/5-2-05socsec.htm (last visited January 9, 2008).
[4] Social Security Administration, Income of the Population 55 and Older, 2004 at Table 7.6 (2006), *available at* http://www.ssa.gov/policy/docs/statcomps/income_pop55/2004/sect06.html (last visited January 9, 2008).

women 65 and older who receive Social Security, over half (55%) of Black single women 65 and older, and six out of ten single Hispanic women 65 and older.[5]

Yet, despite Social Security, 2.4 million women and 1 million men 65 and older are still living in poverty. The overall poverty rate for older women is 11.5%, compared to 6.6% for older men.[6] Within this overall figure, moreover, are variations in poverty rates for different groups of women that highlight the need for a combination of policy responses.

Single older women – widowed, divorced and separated, and never-married – and older women of color are most likely to be poor.[7] The poverty rate for currently married women is 5.2%, but they constitute less than half (43.5%) of all women 65 and older. In comparison, the poverty rate for widows, who are more than half (55%) of all poor elderly women, is 15.1%. Poverty rates are even higher for never-married women, 26.1%; and divorced or separated women, 18.4%. More than one in four older Black women (26.7%) and more than one in five Hispanic women (20.8%) are poor.

There are multiple reasons for women's greater economic vulnerability in retirement.[8] Women earn lower wages than men and spend more time out of the labor force for caregiving, sometimes by choice and sometimes because they cannot afford the high cost of child or elder care. These combine to produce lower lifetime earnings. Lower lifetime earnings, in turn, mean workers have lower retirement income from pensions, savings and Social Security: nearly half (47%) of female retired worker beneficiaries receive Social Security benefits that provide less than a poverty-level income, compared to about one-fifth of men.[9] In addition, women generally live longer than men; over a longer lifespan, assets are depleted, income other than Social Security is eroded by inflation, and medical needs and costs increase. And women spend more years in retirement without the support of a spouse because of their longer lifespan and other social patterns.

Women have greatly increased their participation in the paid labor force in recent decades, and the gap between men's and women's earnings has narrowed. Future cohorts of women will receive higher Social Security benefits as workers than today's female retirees. But substantial gaps remain, and women will remain at higher risk of poverty in old age than men.

The wage gap for women working full time, year round, is smaller than in the past but persistent; overall, women earn 77% of what men earn, and the earnings gap is particularly large for women of color. Black women earn 37% less and Hispanic women earn 48% less, on average, than

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[5] Social Security Administration, Income of the Population 55 and Older, 2004 at Table 6.B2 and 6.B4 (2006), *available at* http://www.ssa.gov/policy/docs/statcomps/income_pop55/2004/sect06.html (last visited January 9, 2008).
[6] 2007 Current Population Survey, *supra* note 1.
[7] All figures in this paragraph are based on the 2007 Current Population Survey, *supra* note 1.
[8] *See* Government Accountability Office, Women Face Challenges in Ensuring Financial Security in Retirement, GAO-08-105 (October 2007) [hereafter "GAO 2007"], and Tori Finkle, Heidi Hartmann, and Sunhwa Lee, Institute for Women's Policy Research, The Economic Security of Older Women and Men in the United States (December 2007).
[9] Melissa M. Favreault, Gordon B. T. Mermin, and C. Eugene Steuerle. The Urban Institute, Minimum Benefits in Social Security at Table 3 (2006) [hereafter "Minimum Benefits 2006"].

White, non-Hispanic men.[10] Women are still more likely than men to work part time or take time out of the labor force for family caregiving.[11] According to one study, the lifetime earnings gap between women and men is more than twice as large as the annual earnings gap.[12]

Many women today receive higher retirement benefits based on the work record of a higher-earning spouse. However, in the future, a larger proportion of women will enter retirement never having been married, or having been divorced after a marriage that lasted fewer than ten years, and will be ineligible to receive such benefits. Only 4% of women born in the 1930s had never married before reaching retirement. Models predict that by 2040, 11% of women will have reached retirement without ever having married.[13] Black women are especially unlikely to be able to qualify for spousal benefits. According to one study, 82% of White women but only 50% of Black women born in the 1960s will reach retirement having had a marriage that qualifies them for spouse or widow benefits.[14]

Finally, scheduled changes in Social Security benefits disproportionately affect low-income beneficiaries. The increase in the full retirement age, which is gradually being raised from 65 to 67, is the equivalent of an across-the-board benefit cut. The impact of this cut is the same, in percentage terms, for those with low Social Security benefits as for those with high benefits. But for those with low benefits, who are also more likely to rely on Social Security for most or all of their income, the cut will have a greater impact on their total income. Also, those with lower lifetime earnings will be more likely to experience these reductions because they tend to file for Social Security retirement benefits at younger ages than those with higher earnings.[15]

Improving Social Security benefits should be a key strategy for increasing the wellbeing of economically vulnerable Americans. The remainder of this testimony will focus on two approaches: improving the minimum benefit to help workers with low lifetime earnings, including people who have less time in the paid labor force because of family caregiving and those ineligible for spousal benefits, and improving the benefit for surviving spouses to reduce poverty among widows, the majority of poor elderly women.

Improving Benefits for Low Lifetime Earners

Social Security benefits are based on a progressive formula, which provides workers with low lifetime earnings benefits that represent a higher percentage of their pre-retirement income than higher-income workers. However, benefits are proportional to average lifetime earnings, and for workers with very low lifetime earnings, benefits calculated under the regular formula will still

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[10] 2007 Current Population Survey, *supra* note 1.
[11] GAO 2007, *supra* note 8.
[12] Stephen J. Rose and Heidi I. Hartmann, Institute for Women's Policy Research, Still a Man's Labor Market: the Long-Term Earnings Gap (2004). The study looks at prime-age workers over a fifteen-year period from 1983 to 1998.
[13] Karen Smith, Urban Institute, How Will Recent Patterns of Earnings Inequality Affect Future Retirement Incomes? (2003).
[14] Madonna Harrington Meyer, Douglas A. Wolf, and Christine L. Himes, Center for Policy Research, Maxwell School, Syracuse University, How Will Declining Rates of Marriage Reshape Eligibility for Social Security? (2006).
[15] *See* Karen E. Smith, Melissa M. Favreault, Caroline Ratcliffe, Barbara Butrica, Eric Toder and Jon Bakija, Final Report: Modeling Income in the Near Term 5, Table 9-4 (2007).

be very low. For example, under the regular formula, a worker who retires at age 62 after 40 years of work at the minimum wage would receive a benefit equal to about 76% of poverty.[16]

To "provide long-term workers with an income that would free them from dependency on welfare," Congress created the Special Minimum Benefit (SMB) in 1972.[17] The SMB is an alternate way of calculating benefits; workers receive the higher of a benefit calculated under the SMB or any other benefit to which they are entitled, under the regular formula as a worker or as a spouse, surviving spouse, or divorced spouse of a higher earner.

Under the SMB formula, benefits are calculated based on the number of years of qualifying earnings rather than average lifetime earnings. For every year in excess of ten in which a worker meets the SMB earnings threshold, up to a maximum of 30 years, workers receive a certain benefit. The number of years of work – ten – required to achieve eligibility for the SMB is the same as for regular Social Security benefits. However, the amount of earnings required to qualify for a year of credit toward the SMB is substantially higher than for four quarters of Social Security credits, and the SMB does not provide partial years of credit for earnings just under the threshold.[18] For each year with qualifying earnings between 10 and 30, the SMB provides a certain amount in monthly benefits, $34.20 per month in 2005. In 2005, the maximum annual SMB was $8,193, below the 2005 poverty threshold of $9,367 for a single person 65 and older. Initial benefits under the SMB are indexed to prices, while initial benefits under the regular formula are indexed to wages; as a result, the value of the SMB is eroding relative to benefits under the regular formula.

The current SMB provides benefits to very few workers. In 2005, just 106,000 beneficiaries – 0.22% of all beneficiaries – received benefits under the SMB.[19] Largely because the SMB is price-indexed, while the regular formula is wage indexed, the number will continue to drop. In just five years, no newly retiring workers are expected to benefit from the SMB.[20] But, while the SMB is disappearing, the problem the SMB was supposed to address has not.

A well-designed minimum benefit could reduce poverty among elderly beneficiaries. However, to be effective, the benefit must take account of the realities of the low-wage labor market and the patterns of women's lives. The low-wage labor market, for men and women, is characterized by instability; high turnover, temporary and seasonal employment, and part-time work lead to gaps in employment. The 25% of workers with the lowest lifetime earnings had, on average, only 23 years with any covered earnings between ages 22 and 61.[21] A minimum benefit should

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[16] Minimum Benefits 2006, supra note 9, Table 2. At full retirement age, benefits would be 99% of the poverty level.

[17] *See* Olsen and Hoffmeyer, *Social Security's Special Minimum Benefit*, Social Security Bulletin 64(2) (2001-2002).

[18] Congress lowered the amount of earnings to qualify for a year of credit toward the SMB as of 1991. In 2006, a worker needed to earn $10,485, about 27% of the average wage, to qualify for a year of SMB credit. But the change was not made retroactive, so equivalent earnings in years prior to 1991 would not qualify for credit. To qualify for four quarters of credit toward regular Social Security in 2006 required $3,880 in earnings.

[19] Social Security Administration, Annual Statistical Supplement, 2006, Table 5.A8.

[20] Kelly A. Olsen and Don Hoffmeyer, Social Security's Special Minimum Benefit, Social Security Bulletin 64(2) (2001/2002).

[21] Chad Newcomb, Social Security Administration, Timing of Zero Years (2003), unpublished analysis for the Social Security Subcommittee of the Ways and Means Committee. Analysis was for workers born between 1946 and 1960 projected to survive until at least age 62 and have at least 40 quarters of coverage by age 67.

ensure that a worker with 40 years of full-time minimum wage work receives at least a poverty-level benefit; but a minimum benefit that requires such a work history to receive a poverty-level benefit would help a limited number of men, and even fewer women, escape poverty.

There are various ways to improve the minimum benefit.[22] Lowering the number of years required to get a higher benefit, providing credits for years of caregiving toward the minimum,[23] reducing the earnings threshold to qualify for a year of credit and making the change retroactive, providing partial credits, and increasing the benefit awarded for each qualifying year or credit, would increase benefits for many low-earners, especially women. Adjustments to these different parameters should be analyzed and tested, and considered in conjunction with other proposed changes to the benefit formula. The results also should be compared to a different approach to increasing the progressivity of benefits: adjusting the regular benefit formula to provide a higher replacement rate for workers with low lifetime earnings.[24]

To maintain the effectiveness of a new minimum benefit, initial benefits should be indexed to wage growth; otherwise, like the current SMB, it will wither in value over time. In addition, improvements to the minimum benefit should be integrated with existing means-tested benefits such as Supplemental Security Income (SSI) and Medicaid, to ensure that access to Medicaid is protected and income is improved for poor SSI recipients.

Improving benefits for surviving spouses

Social Security provides retirement benefits for spouses, surviving spouses, and former spouses of retired workers. A spouse is eligible for a retirement benefit equal to 50% of the worker's benefit; a surviving spouse, to a benefit equal to 100% of the worker's benefit, assuming no early retirement reductions apply. Divorced spouses and divorced surviving spouses, if married to the worker for at least ten years, are entitled to the same benefits as current spouses. These spousal benefits are equally available to men and women, husbands and wives, widows and widowers, but virtually all (98%)[25] of the recipients of spousal benefits are women.

Social Security spousal benefits are designed to ensure basic income security for spouses and surviving spouses when a worker retires or dies. A beneficiary can receive the higher of her or his own worker benefit or the benefit to which she or he is entitled as a spouse or surviving spouse, but not both, a policy referred to as the "dual entitlement" rule. A few examples: (1)George is entitled to a monthly Social Security benefit of $1,000. His wife Martha does not

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[22] *See* Minimum Benefits 2006, supra note 9, and Christina Smith FitzPatrick, Catherine Hill, and Leslie Muller, Increasing Social Security Benefits for Women and Men with Long Careers and Low Earnings, Paper Presented to the Institute for Women's Policy Research Conference (June 2003).
[23] *See* Heidi Hartmann and Catherine Hill, Institute for Women's Policy Research, Strengthening Social Security for Women: A Report from the Working Conference on Women and Social Security: Making Social Security Work Better for Women: Report on Reform Recommendations (1999) [hereafter "Hartmann and Hill"]; Nancy Duff Campbell, National Women's Law Center, Report of the Social Security Subgroup of the Women and Retirement Study Group of the House Select Committee on Aging on Social Security Structural Issues (1992).
[24] *See* Hartmann and Hill, *supra* note 23, for a discussion of three approaches to making the regular benefit formula more progressive for those with lower average lifetime earnings.
[25] Office of the Chief Actuary, Social Security Administration, Beneficiary Database (December 2007), available online at http://www.ssa.gov/cgi-bin/currentpay.cgi (last accessed January 8, 2008).

have sufficient credits to qualify for Social Security on her own work record. Martha is eligible for a spousal benefit of $500, giving the household combined Social Security income of $1,500 per month. As a widow, Martha is eligible for a benefit as a surviving spouse of $1,000, equal to 67% of their combined benefits. (2)John is entitled to a monthly benefit of $1,000. His wife Abigail has earned a benefit of $700 on her own work record. While John is alive, Abigail will receive her $700 worker benefit, and no benefit as a spouse. Their combined benefits are $1,700. As a widow, Abigail would be entitled to a benefit of $1,000 ($700 based on her own work record and $300 as a surviving spouse), equal to 59% of their combined benefits. (3)Franklin and Eleanor have equal lifetime earnings. Each has earned a monthly benefit of $1,000, for combined benefits of $2,000. As a widow, Eleanor would receive a $1,000 benefit based on her own work record, which completely offsets her benefit as a widow. Her benefit is equal to 50% of their combined benefits.

The examples above illustrate two important points. First, household Social Security benefits drop substantially at widowhood, by 33% to 50%. Second, the decline is largest for households in which the spouses' earnings were more equal.

The decline in Social Security income at widowhood is a significant factor in widows' poverty, and is often accompanied by a drop in pension income, loss of earnings from a spouse who was still employed, or depletion of assets due to medical and other expenses associated with the death of a spouse.[26] While the cost of maintaining a household declines when there is only one person to support, it does not fall by half, or even by a third. Using the Census Bureau's poverty thresholds as a guide, a one-person elderly household needs 79% of the income of a two-person household to maintain the same standard of living.

The economic security of widows, the largest group of poor, elderly women, could be improved by adjusting the Social Security survivor benefit to allow surviving spouses to receive a larger fraction of the couple's benefits.[27] Increasing the survivor benefit to 75% of the couple's benefits could increase benefits for many surviving spouses, other things being equal.[28] In addition to improving the adequacy of benefits, this approach would provide the greatest increase to the survivor of a two-equal-earner couple, reducing the disparity in survivor benefits between one- and two-earner couples with similar combined lifetime earnings. To target the proposal to the most economically vulnerable beneficiaries and reduce its cost, the amount that anyone could receive from the proposed alternative calculation of the survivor benefit could be capped; for example, at the level of the maximum earner's benefit or the average benefit level for all new retirees.[29]

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[26] McGarry, Kathleen and Robert F. Schoeni, Medicare Gaps and Widow Poverty, Social Security Bulletin, Vol. 66, No. 1, 2005. In addition, those most likely to be widowed tend to have lower income before widowhood than intact couples, reflecting poorer health and less education. Nadia Karamcheva and Alicia Munnell, Center for Retirement Research at Boston College, Why Are Widows So Poor? (July 2007).
[27] *See* FitzPatrick and Entmacher, National Academy of Social Insurance, Widows, Poverty, and Social Security Poverty Options, Social Security Brief No. 9 (Aug. 2000).
[28] Increasing the survivor benefit to 75% of the couple's benefits will not necessarily mean higher benefits if the higher percentage is applied to reduced benefits.
[29] The GAO recently modeled the effect of an alternate benefit for surviving spouses equal to 75% of the couple's previous combined benefits, capped at the average benefit for new retirees. *See* GAO 2007, *supra* note 8.

As with improvements to the minimum benefit, different options for improving the benefit for surviving spouses should be analyzed and tested, and considered in conjunction with other reforms, both to understand the interactions among reforms and to develop an equitable reform package. An adjustment only to the survivor benefit will not help economically vulnerable people who have never married or whose marriages did not qualify them for spousal benefits, disproportionately Black women. Improvements to the survivor benefit also should be integrated with existing means-tested benefits, including SSI and Medicaid.

Conclusion

Social Security benefits should be improved for vulnerable beneficiaries, and it is feasible to do so. Social Security is not in crisis; its projected financing shortfall is longterm and manageable,[30] and its benefits are modest.[31] And, improving Social Security benefits is the most effective way to improve retirement security for Americans facing an environment of increased economic risk.

Social Security has many of the features of an ideal pension system. It's virtually universal; fully portable between jobs; covers low-paid, part-time and temporary workers and the self-employed; provides secure, life-long retirement benefits not subject to the ups and downs of the market or the risk of depletion prior to reaching retirement; keeps up with increases in the cost of living; provides benefits to spouses, surviving spouses and divorced spouses; includes disability and life insurance benefits as well as retirement benefits; imposes few responsibilities on employers; and is highly efficient, spending less than 1% of the funds collected each year on administrative costs.[32] Building on this strong foundation can continue the progress Social Security has made in reducing poverty for millions of Americans.

I thank the Subcommittee again for holding this hearing on ways to improve benefits for vulnerable beneficiaries, and for this opportunity to testify.

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[30] *See* Virginia Reno and Joni Lavery, National Academy of Social Insurance, Can We Afford Social Security When Baby Boomers Retire, Social Security Brief No. 22 (2006); Reno and Lavery, National Academy of Social Insurance, Options to Balance Social Security Trust Funds Over the Next 75 Years, Social Security Brief No. 18 (2005).

[31] *See* Virginia Reno and Joni Lavery, National Academy of Social Insurance, Social Security and Retirement Income Adequacy, Social Security Brief No. 25 (2007).

[32] Virginia Reno and Joni Lavery, National Academy of Social Insurance, Social Security and Retirement Income Adequacy, Social Security Brief No. 25 (May 2007).