Strengthening Social Security Benefits for Widow(er)s: The 75 Percent Combined Worker Benefit Alternative

Joan Entmacher, Vice President for Family Economic Security
National Women's Law Center

Social Security is the largest source of retirement income for most Americans, but it is especially important to older women and to widows in particular. Social Security provides 58 percent of the income of widows 65 and over, compared to 39 percent for all individuals and couples 65 and over (Social Security Administration 2006). Women also rely on Social Security's spouse and survivor benefits far more than men. Although the number of women receiving benefits entirely on their own work records has increased in the past decade, more than half of all women age 62 and older receiving Social Security receive benefits, at least in part, as a spouse or surviving spouse, compared to about two percent of men (Tamborini and Whitman 2007). Yet, even with Social Security, the poverty rate for women 65 and older was 12 percent in 2007, over 80 percent higher than the poverty rate for men 65 and older (6.6 percent) (U.S. Census Bureau 2008). A majority of poor elderly women – 55% – are widows (U.S. Census Bureau 2008), and widows are projected to remain the largest group of poor elderly women by marital status for decades to come (Smith 2002, 2003).

In addition to the factors affecting women's economic security generally, such as lower wages, time out of the labor force for caregiving, fewer assets and longer life spans (Government Accountability Office 2007; Finkle et al. 2007), there are particular reasons for widows' economic vulnerability (see Karamcheva and Munnell 2007). Income generally declines sharply at widowhood. If the couple was receiving Social Security benefits, those benefits – which provide most of the income for low- and moderate-income households – drop substantially (Reno and Lavery 2007). The decline in the widow(er)'s benefit as a share of the couple's combined benefit is between 33 percent and 50 percent, assuming both spouses claim benefits at full retirement age (FitzPatrick and Entmacher 2000).[1] While the cost of maintaining a household declines when there is one less person to support, it does not fall by half or even one third. Using the Census Bureau's poverty thresholds as a guide, a one-person elderly household needs 79 percent of the income of a two-person household to maintain the same standard of living.

Other sources of income often decline at widowhood. If the deceased spouse was working, those earnings are lost. If the deceased spouse was receiving a pension, the income to the survivor may disappear entirely or be cut in half (the 1984 Retirement Equity Act establishes a 50 percent survivor annuity as the default choice for married workers, unless the spouse waives this right in exchange for a higher payment to the pension holder while both are alive), adding to widows' poverty (Holden and Zick 2000). Lower-income couples are less likely than higher-income couples to take a reduced annuity to provide a survivor benefit for a spouse (Smith et al. 2007).

Widow(er)s also are at economic risk because assets may be depleted by the medical and other expenses incurred prior to the death of the spouse (Holden and Zick 2000, McGarry and Schoeni 2005). The time demands and stress of caregiving also may affect the surviving spouse's employment and health.

This paper presents a proposal to improve Social Security benefits for widows,the largest group of poor elderly women. However, the proposal should be considered as part of a broader package of reforms because the improvement in the widow(er)'s benefit will not assist the growing proportion of economically vulnerable women who never married or whose marriages did not last ten years—disproportionately African American women (Harrington et al. 2006).

This proposal would allow a surviving spouse to receive the higher of the current law widow(er)'s benefit or a new alternative benefit. The new alternative benefit would be calculated as 75 percent of the sum of the deceased spouse's worker benefit, computed as if he or she had claimed benefits at full retirement age, and the benefit which the surviving spouse had earned as a worker, reduced for the number of months the surviving spouse claimed worker benefits prior to full retirement age. Benefits for surviving divorced spouses with a qualifying marriage would be calculated in the same way. To limit the cost and target the benefits of the proposal to those with lower earnings, the alternative benefit would be capped at the level of the benefit of a worker who had earned the average wage over a career.

The proposal is based on a concept – calculating the widow(er)'s benefit as a fraction of the couple's combined benefits – that has been part of Social Security reform

discussions for more than a decade. However, there are two distinctive features of this proposal.

First, the 75 percent calculation is based on the combined *worker* benefits of each spouse, not including any amount received as a spouse's benefit by the lower-earning spouse. Using only the worker benefits in the alternative calculation increases the effectiveness of this proposal in reducing the disparity in widow(er)'s benefits between single- and dual-earner couples with equal combined earnings and contributions to Social Security, improving benefit equity as well as the adequacy of benefits for eligible widow(er)s. (Individuals who rely entirely or heavily on the spouse's benefit who do not receive an increase under the proposal would continue to receive their current-law benefit.)

Second, the value of the benefit of the deceased spouse used in the 75 percent calculation would not be reduced because the deceased spouse claimed benefits before full retirement age. This avoids the reduction in the widow(er)'s benefit that occurs under current law because of the deceased spouse's retirement decision. It is more consistent with the way the reduction in the current law spouse's benefit for early claiming is determined. And, it increases the effectiveness of the proposal in improving the adequacy of benefits for lower earners and their surviving spouses, because lower earners are more likely to claim benefits early.

The potential beneficiaries of this proposal are surviving spouses in dual-earner, low- to moderate-income couples. A majority of women in the future, although a smaller percentage than today, will have marital histories that will qualify them for a widow's benefit (Tamborini and Whitman 2007). Because of the increased labor force participation among married women, most women in the future will have high enough Social Security benefits on their own work records to potentially qualify for an increase under this proposal (Favreault and Sammartino 2002). The surviving spouse in couples whose earnings are more nearly equal would receive the greatest increase in benefits. Some data suggest that this feature of the proposal could particularly benefit couples with lower incomes, and Black and Hispanic couples (Hayghe 1993; Winkler 1998; U.S. Census Bureau 2008). The large majority of beneficiaries of this proposal are likely to be

women, although the tiny proportion of men who currently qualify for a widower's benefit is also likely to increase.

The proposal would not be difficult to implement, because Social Security already collects all the information needed to calculate benefits under the proposal, and beneficiaries would automatically receive the higher of the two benefits. The cost (and benefits) of the proposal could be adjusted in a number of ways, including by setting the cap at different levels.

The many positive features of Social Security and the heavy reliance of lower-income retirees, including widows, on Social Security income make strengthening Social Security benefits a highly effective strategy for improving the economic security of vulnerable people. Improving the adequacy and equity of the widow(er)'s benefit is one important component of a package of reforms to increase retirement security in an environment of increased economic risk.

References

Favreault, Melissa M. and Frank J. Sammartino. 2002. "The Impact of Social Security Reform on Low-Income and Older Women." AARP Public Policy Institute Paper 2002-11. Washington, DC: AARP.

Finkle, Tori, Heidi Hartmann, and Sunhwa Lee. 2007. "The Economic Security of Older Women and Men in the United States." Washington, DC: Institute for Women's Policy Research.

FitzPatrick, Christina Smith and Joan Entmacher. 2000. "Widows, Poverty, and Social Security Policy Options. NASI Social Security Brief No. 9. Washington, DC: National Academy of Social Insurance.

Government Accountability Office. 2007. *Women Face Challenges in Ensuring Financial Security in Retirement*. Washington, DC: U.S. Government Printing Office.

Harrington Meyer, Madonna, Douglas A. Wolf, and Christine L. Himes. 2006. "How Will Declining Rates of Marriage Reshape Eligibility for Social Security?" Syracuse, NY: Center for Policy Research, Maxwell School, Syracuse University.

Hayghe, Howard V. 1993. "Working wives' contributions to family incomes." *Monthly Labor Review* 116(11): 39-43.

Holden, Karen C. and Cathleen Zick. 2000. "Distributional Changes in Income and Wealth Upon Widowhood: Implications for Private Insurance and Public Policy," in *Retirement Needs Framework*, pp. 69-79. Schaumburg, Ill.: Society of Actuaries.

Karamcheva, Nadia and Alicia Munnell, 2007. "Why Are Widows So Poor?" Brief No. 7-9. Chestnut Hill, MA: Center for Retirement Research at Boston College.

McGarry, Kathleen and Robert F. Schoeni. 2005. "Medicare Gaps and Widow Poverty." *Social Security Bulletin* 66(1): 58-74.

Reno, Virginia P., Michael Graetz, Kenneth Apfel, Joni Lavery, and Catherine Hill, eds. 2005. *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy, Study Panel Final Report*. Washington, DC: National Academy of Social Insurance.

Reno, Virginia P. and Joni Lavery. 2007. "Social Security and Retirement Income Adequacy." NASI Social Security Brief No. 25. Washington, DC: National Academy of Social Insurance.

Smith, Karen E. 2002. "The Status of the Retired Population, Now and in the Future," in *Social Security and the Family: Addressing Unmet Needs in an Underfunded System*, Favreault, Sammartino and Steuerle, eds., pp. 47-87. Washington, DC: Urban Institute.

Smith, Karen E. 2003. "How Will Recent Patterns of Earnings Inequality Affect Future Retirement Incomes?" Washington, DC: Urban Institute.

Social Security Administration. 2006. *Income of the Population 55 and Older, 2004*. Washington, DC: Office of Policy.

Tamborini, Christopher R. and Kevin Whitman. 2007. "Women, Marriage, and Social Security Benefits Revisited." Social Security Bulletin 67(4):1-20.

U.S. Census Bureau. 2008. Annual Social and Economic Supplement to the 2007 Current Population Survey. Detailed tables available at http://pubdb3.census.gov/macro/032008/pov/toc.htm.

Winkler, Anne E. 1998. "Earnings of husbands and wives in dual-earner families." *Monthly Labor Review* 121(4): 42-48.

---

1 For example (assuming all benefits in these examples were claimed at full retirement age): Mr. A received a worker benefit of $1,000 per month. Mrs. A received a benefit as a dually entitled spouse equal to 50% of his, $500 per month (comprised of her own worker benefit of $300 plus a spouse's benefit top-up of $200), giving the couple $1,500 in combined benefits. At widowhood, Mrs. A is entitled to a benefit as a dually entitled widow equal to 100% of her husband's benefit, $1,000 (comprised of her own worker benefit of $300 plus a widow's benefit top-up of $700), which represents two-thirds of the couple's $1,500 combined benefits. (If Mr. A was the surviving spouse, he also would receive a benefit of $1,000, solely as a worker, similarly representing two-thirds of their combined benefits as a couple.) Mr. B received a worker benefit of $900; Mrs. B received a worker benefit of $600, for combined benefits of $1,500. Mrs. B does not receive a spouse's benefit, because her $600 worker benefit exceeds the $450 benefit she is entitled to as a spouse. At widowhood, Mrs. B receives a benefit of $900 (comprised of her own $600 worker benefit and a widow's benefit top-up of $300), which represents 60% of their combined benefits. (If Mr. B was the survivor, he would continue to receive his $900 worker benefit, similarly representing 60% of their combined benefits as a couple.) Mr. C and Mrs. C, whose lifetime earnings were equal, each received a worker benefit of $750, for combined benefits of $1,500. Neither receives a spouse's benefit. At widowhood, Mrs. C will not receive a widow's benefit, because her husband's benefit does not exceed her own worker benefit. The $750 benefit she continues to receive solely as a worker represents 50% of the couple's $1,500 combined benefits.