

CBO TESTIMONY

Statement of
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before the
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Committee on Ways and Means
U.S. House of Representatives

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NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Wednesday, April 8, 1992.



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The treatment of women under the Social Security system has been a topic of debate since the system began. The controversy is rooted in the multiple roles that many women play and in the multiple objectives of the Social Security program. As more and more women spend substantial portions of their lives in the labor force, the Congress continues to face the challenge of balancing the goal of providing an equitable return on the Social Security taxes married women pay with that of providing adequate benefits for women who have spent part or all of their adult lives outside the paid labor force. Attaining this balance can be complicated; for example, an increase in benefits for couples in which both spouses have been employed for many years would entail either reducing benefits under current law for other recipients or increasing costs for the program as a whole.

After briefly describing the relevant provisions of the Social Security benefit structure, this statement addresses three topics:

- o The changing demographic situation, including increased participation in the paid labor force by women and trends in marriage and divorce rates;
- o How these changes are likely to affect the Social Security benefits of women in the future; and

- o The provisions of the Social Security benefit structure that deal with spouses of insured workers when the spouse receives a pension based on earnings not covered by Social Security--the government pension offset.

The last section of this statement is based on a staff memorandum prepared at the request of this Subcommittee, which I would like to include in the record of this hearing.¹

BACKGROUND

As passed in 1935, the Social Security Act would have provided the same benefits to workers with and without spouses and would not have provided survivors' benefits. The addition of spousal and survival benefits to the original structure by the Social Security Act Amendments of 1939 (before any benefits were paid) provided extra protection to workers with families. Spouses of retired or deceased workers who themselves worked in covered employment effectively receive either their own benefits as workers or their benefits as spouses, whichever are larger.

1. Congressional Budget Office, "The Government Pension Offset in the Social Security Program," Staff Memorandum (April 1992).

Key features of Social Security include calculating benefits for retired workers and for auxiliary beneficiaries (that is, individuals who receive benefits as a member of the family of a retired or disabled worker). The rules for auxiliary benefits are especially important here because they affect the link between workers' earnings and the benefits they and their families subsequently receive and because, in practice, they almost exclusively affect benefits received by wives, not husbands.

Workers' Benefits

Benefits of retired workers are based on their earnings history in employment covered by Social Security, expressed as an average over their working lifetime known as the Average Indexed Monthly Earnings (AIME). This amount is entered into a formula to calculate a worker's Primary Insurance Amount (PIA); benefits payable are then adjusted for a number of factors, such as reductions for early retirement, credits for later retirement, and increases for inflation.

A worker's AIME depicts the average monthly wage earned in covered employment, with some adjustments. Particularly relevant here is that the number of years on which the AIME is based equals five fewer than the

number of years after 1950 (or the year in which the worker became age 21, if later) and before the worker reaches age 62. Thus, since 1991, the basis for calculating a new retiree's benefits has been the worker's best 35 years. If the worker had earnings in fewer years than the number required, these "best" years include some with no earnings.

The formula for calculating the worker's PIA is progressive in the sense that it is designed to provide benefits that are a higher proportion of preretirement earnings for those with low average earnings than for those with high earnings. Under the formula, 90 percent of the first part of a worker's AIME is replaced by Social Security benefits. For subsequent portions of the AIME, the proportion falls--first to 32 percent and then to 15 percent for the remainder. (For workers who become eligible for benefits in 1992, the proportion drops first at \$387 and then at \$2,333.)

Benefits for Spouses and Survivors

Spouses and survivors of workers may also be eligible for benefits. The spouse of a retired worker is entitled to an auxiliary benefit equal to 50 percent of the worker's PIA. Spousal benefits are reduced if the spouse starts receiving benefits before the normal age of retirement (now 65 but increasing

to 67, with the change phased in during two periods in the first quarter of the next century). Benefits are also reduced if the spouse, or the worker on whose record the benefit is based, has current earnings over the exempt amount (the earnings test).

A widow or widower generally is eligible for benefits based on 100 percent of the deceased worker's PIA. If the deceased worker retired early, the survivor's benefit would be limited to the amount the deceased worker would receive if still alive, except that the maximum reduction because of the deceased worker's early retirement is 17.5 percent, even though the worker's reduction could have been higher. (The maximum reduction for retirees applies to workers who retire at age 62; it is now 20 percent and will increase to 30 percent when the age of normal retirement is raised to 67.) The survivor's benefit is also reduced if receipt begins before the age of normal retirement, but again the amount of the reduction is limited. Survivors may receive benefits as early as age 60 (or age 50 if they are disabled), and the maximum reduction is 28.5 percent.

Many people eligible for auxiliary benefits as spouses or survivors of workers are also eligible for retired-worker benefits based on their own earnings. In these cases, the total amount actually received equals the higher of the two benefits to which the person is entitled. For example, a woman

who is eligible for the spousal benefit as the wife of a retired worker and also for a smaller retired-worker benefit based on her own earnings record receives an amount equal to the spousal benefit. This amount is entered in Social Security records as if she received her retired-worker benefit plus the portion of the spousal benefit that exceeded her retired-worker benefit. Such "dual entitlement," as defined in the Social Security records, occurs only when the auxiliary benefit is the larger of the two benefits.

Because women tend to have both lower wages and shorter periods of paid employment than men, many who are eligible for benefits as workers find that these benefits are smaller, or only slightly larger, than their benefits as wives. Since they can receive only the larger of the two, the return on their taxes as employees can appear to be very small--after all, other women who paid no payroll taxes are eligible for the same, or almost the same, retirement benefits.

A related concern is that one-earner families generally receive higher total benefits than two-earner families with the same total earnings and, thus, the same payroll tax payments. This outcome occurs because one-earner families receive spouses' benefits in addition to retired-worker benefits, but spouses' benefits for two-earner families are offset against the lower earner's benefits as a retired worker. The problem is exacerbated for surviving

spouses, who generally receive benefits equal to 100 percent of their deceased spouses' benefits or their own retired-worker benefits, whichever are larger. Thus, the survivor of a two-earner couple can receive considerably less than the benefit received by the survivor of a one-earner couple who had the same total earnings and payroll taxes.

Divorced spouses and survivors who were married for at least 10 years and are not currently married are essentially treated as if they were still married. At age 62, for example, an ex-wife becomes eligible for spousal benefits based on her ex-husband's PIA (assuming he is eligible for retired-worker benefits). When the ex-husband dies, she becomes eligible for a widow's benefit on the same terms as if she had still been married to him. (Both of these provisions apply whether or not he remarried.) Because of the dual entitlement rules, a divorced woman who has not developed a substantial earnings record of her own receives a relatively low Social Security benefit when she retires. Until her ex-husband dies, she receives only the higher of her benefit as a retired worker or a spousal benefit based on his PIA.

THE CHANGING SITUATION

The Social Security system was established at a time when the stereotype of the American family, in which the husband went off to work and the wife stayed home, was closer to reality than it is today. More women now have jobs, and fewer marriages last until "death do us part."

Increased Labor Force Participation and Earnings

Women's annual earnings, both absolutely and relative to those of men, have increased dramatically during the past several decades as the percentage of their lives spent in the paid labor force has climbed and, more recently, as wage rates relative to those of men have risen. These changes are likely to continue, although their precise magnitudes are impossible to predict.

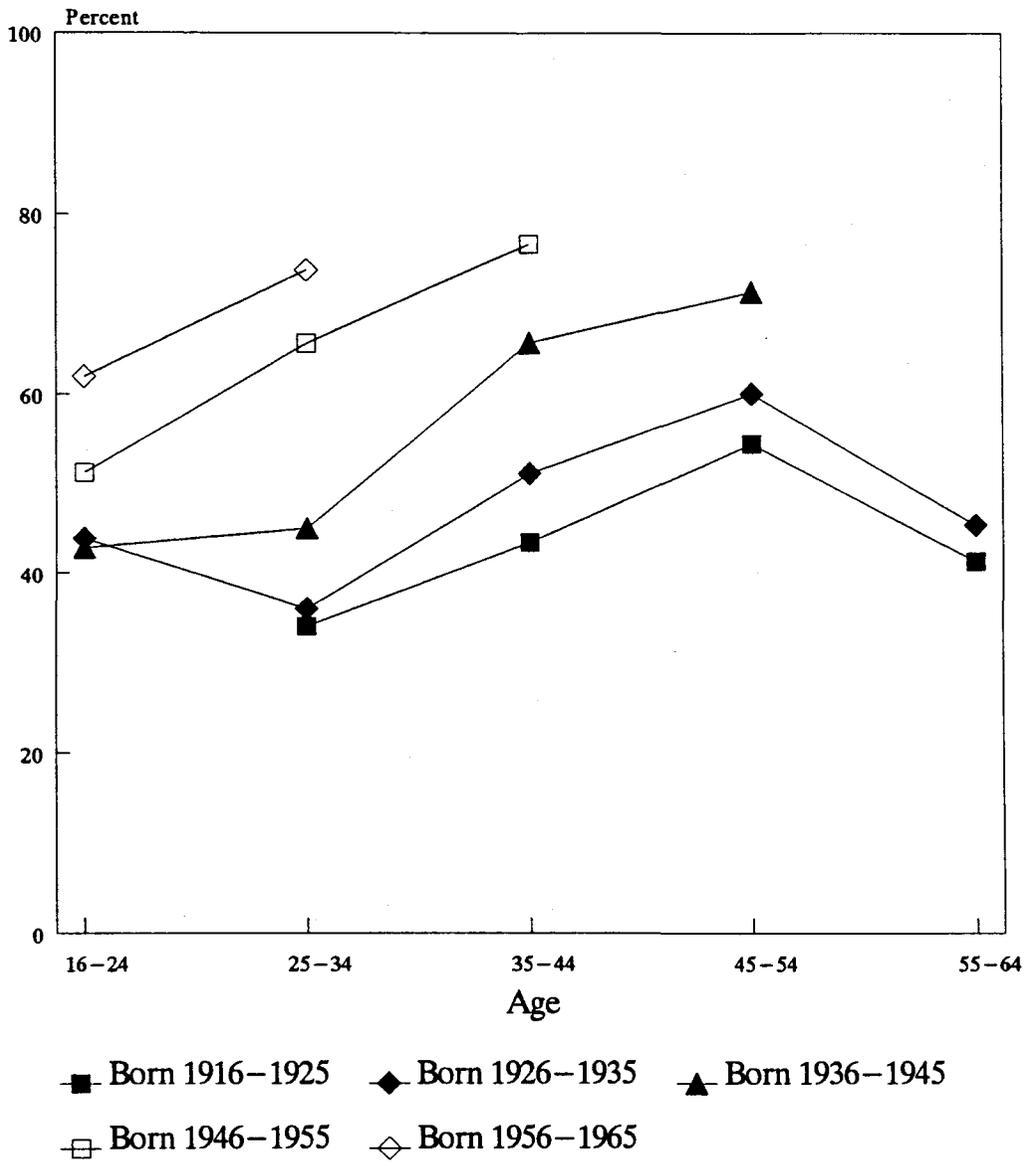
In recent months, about 58 percent of all civilian women ages 16 years and older, including 75 percent of the women ages 25 to 54, worked or looked for work. These labor force participation rates are higher than even a decade ago. Although they remain far below those of men (whose corresponding rates are about 75 percent and 93 percent), the differences have narrowed considerably.

Examination of the participation rates of successive cohorts of women illustrates how massive the change has been. As shown on the bottom line of Figure 1, women who were born between 1916 and 1925 were more likely to conform to the "traditional" pattern. When that cohort was between the ages of 25 and 34, about one-third of these women were in the labor force. That fraction grew to about one-half as they reached ages when few would have had pre-school-age children. The women born between 1926 and 1935 had similar labor force histories, albeit with somewhat higher percentages in the labor force at each age.

The revolution in women's movement into the labor force is clearly shown in the pattern for women who were born 10 years later, between 1936 and 1945. More of them worked outside the home even while they still had children who had not started school. By the time they were ages 35 to 44, two-thirds were in the labor force, compared with half of their counterparts a decade earlier. In 1990 (when they were ages 45 to 54), over two-thirds of them were in the labor force. And women born after World War II were participating at still higher rates.

Women are not only more likely to work than they were in the past, but their wages have begun to rise relative to those of men. In 1991, the

FIGURE 1.
FEMALE LABOR FORCE PARTICIPATION RATES, BY COHORT AND AGE



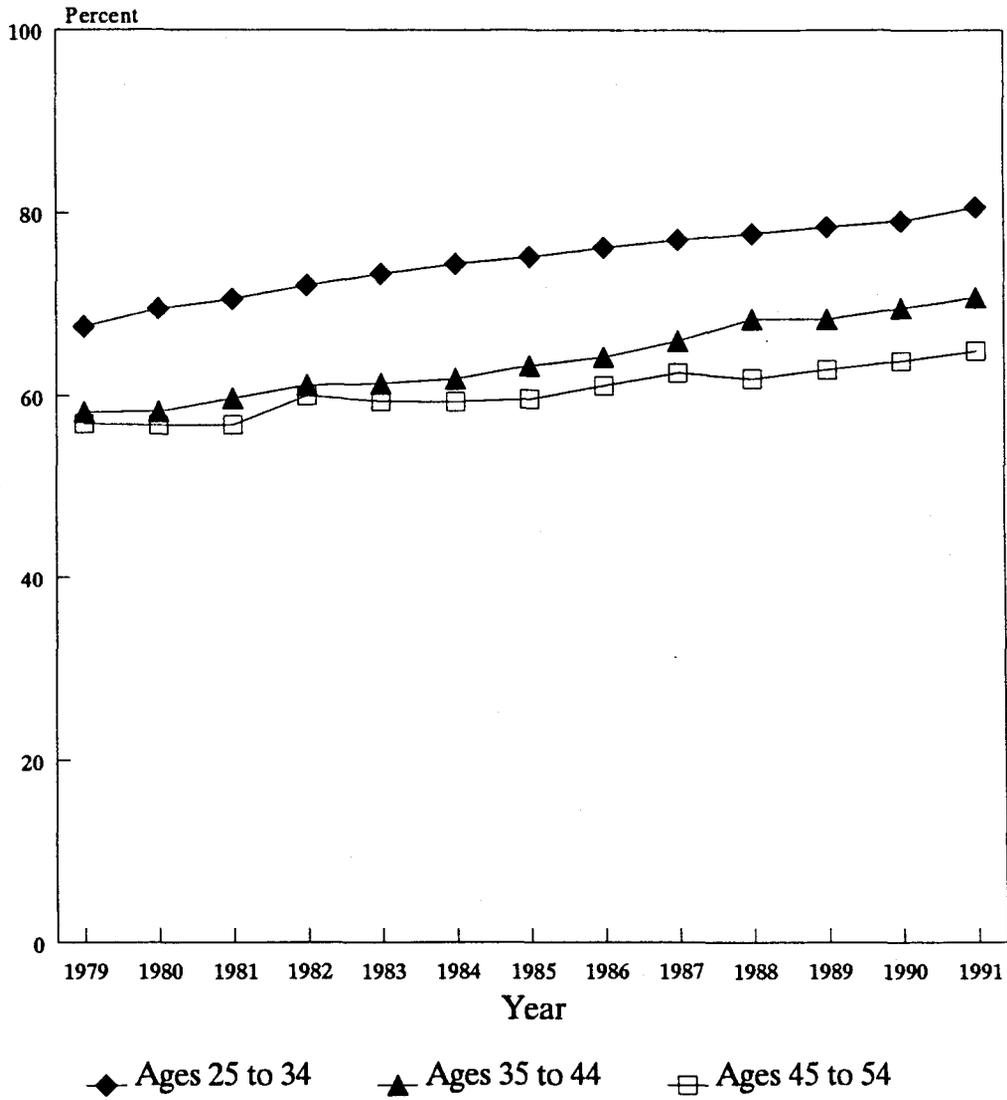
SOURCE: Congressional Budget Office calculations based on annual averages reported by the Bureau of Labor Statistics in Handbook of Labor Statistics, Bulletin 2340 (August 1989), and in Employment and Earnings, vol. 38, no. 1 (January 1991).

median weekly earnings of women who worked full time were 74 percent of those of men, compared with only 63 percent as recently as 1979. This increase in the ratio of female to male wages is associated with a 10 percent increase in the real median earnings of women and a 7 percent decrease in the real median earnings of men. The ratio of female to male wages has increased for all age groups, with the largest gains among workers under age 45 (as depicted in Figure 2).

Nonetheless, few wives earn more than their husbands. For example, only one in five wives ages 25 to 54 had annual earnings greater than those of her husband in 1990. A recent analysis by a researcher at the Social Security Administration demonstrates that even fewer women earned more than their husbands over a longer period. For example, among women born between 1945 and 1949 (that is, women now in their mid-40s), only one wife in eight had total earnings in employment covered by Social Security over a 20-year period (when she was between the ages of 22 and 41) that exceeded her husband's.² This point is especially important when considering the prospects for widows.

2. Unpublished tables provided by Howard Iams. The earnings histories with which the women's earnings were compared were those of their husbands in 1984.

FIGURE 2.
RATIO OF FEMALE TO MALE MEDIAN WEEKLY EARNINGS OF
FULL-TIME WORKERS, BY AGE, 1979 TO 1991



SOURCE: Congressional Budget Office calculations based on annual averages of median weekly earnings of full-time wage and salary workers reported by the Bureau of Labor Statistics in Handbook of Labor Statistics, Bulletin 2340 (August 1989), and in Employment and Earnings, vol. 38, no. 1 (January 1991) and vol. 39, no. 1 (January 1992).

NOTE: During this period, the median weekly earnings of female full-time workers, adjusted for inflation, increased by 10 percent; that of male full-time workers decreased by 7 percent.

The Reduction in Marriage and Increase in Divorce Rates

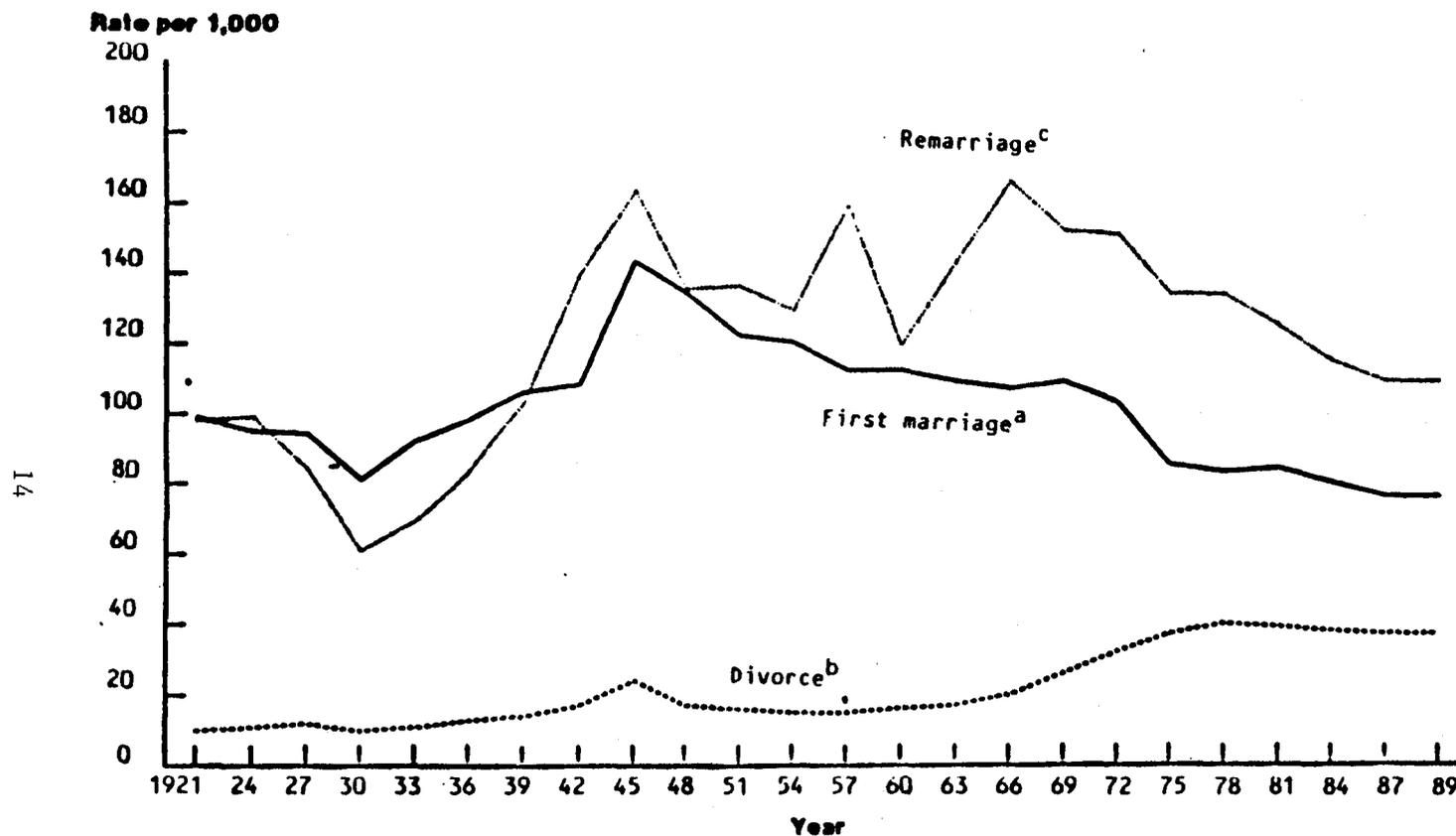
Beginning in the late 1960s, a striking reduction occurred in the percentage of single people who were marrying, and an even more dramatic increase occurred in the percentage of marriages that were ending in divorce. Some statistics from a recent paper by Arthur Norton and Louisa Miller of the Bureau of the Census illustrate the depth of the changes that occurred.³ In the early 1960s, about 11 percent of single (never married) women ages 14 to 44 married each year; by the late 1970s, only about 8 percent were getting married (see Figure 3). Meanwhile, the percentage of divorces among married women in this age group more than doubled--from less than 2 percent to about 4 percent. Remarriage, while still quite common, has been declining.

For Social Security retirement benefits, the key question is whether these changes will result in a substantial increase in the percentage of women who are neither married nor widowed when they retire. It is too soon, however, to be able to predict with confidence whether these changes will increase the percentage of women who reach retirement age and are unmarried. We do not yet know enough to be able to distinguish between women who have delayed marriage and those who will never marry.

3. Arthur J. Norton and Louisa F. Miller, "Marriage, Divorce, and Remarriage in the 1990s" (unpublished paper presented at the annual meeting of the American Public Health Association, Atlanta, Georgia, November 1991, and forthcoming in Bureau of the Census, *Current Population Report* series).

FIGURE 3.

RATES OF FIRST MARRIAGE, DIVORCE, AND REMARRIAGE, 1921 TO 1989 (Three-year averages)



SOURCE: Arthur J. Norton and Louisa F. Miller, "Marriage, Divorce, and Remarriage in the 1990s" (unpublished paper presented at the annual meeting of the American Public Health Association, Atlanta, Georgia, November 1991, and forthcoming in Bureau of the Census, *Current Population Report* series).

- a. First marriages per 1,000 single women ages 14 to 44.
- b. Divorces per 1,000 married women ages 14 to 44.
- c. Remarriages per 1,000 widowed and divorced women ages 14 to 54.

Similarly, although we know that the majority of divorces in the past have ended in remarriages, we do not know if this pattern will continue. In recent years, between two-thirds and three-quarters of the women who divorced after their first marriage had remarried before age 55. (Over one-quarter of these remarriages, though, ended in divorce.)

Thus far, the percentage of women in their late 50s and early 60s who are currently divorced has increased slightly, but the percentage of women in this age group who are single has not increased. Of women ages 55 to 64 in 1990, 9.9 percent were divorced, compared with 6.7 percent in 1980; 3.9 percent of them were single in 1990 compared with 4.6 percent in 1980.

Among women ages 45 to 54, the proportion who are divorced has increased by more than 5 percentage points--to 14.4 percent in 1990 compared with 9.2 percent a decade earlier. In contrast, the percentage of women in this age group who are single has not changed over the past decade--5.0 percent in 1990 compared with 4.7 percent in 1980.

IMPLICATIONS FOR WOMEN'S FUTURE RETIREMENT BENEFITS

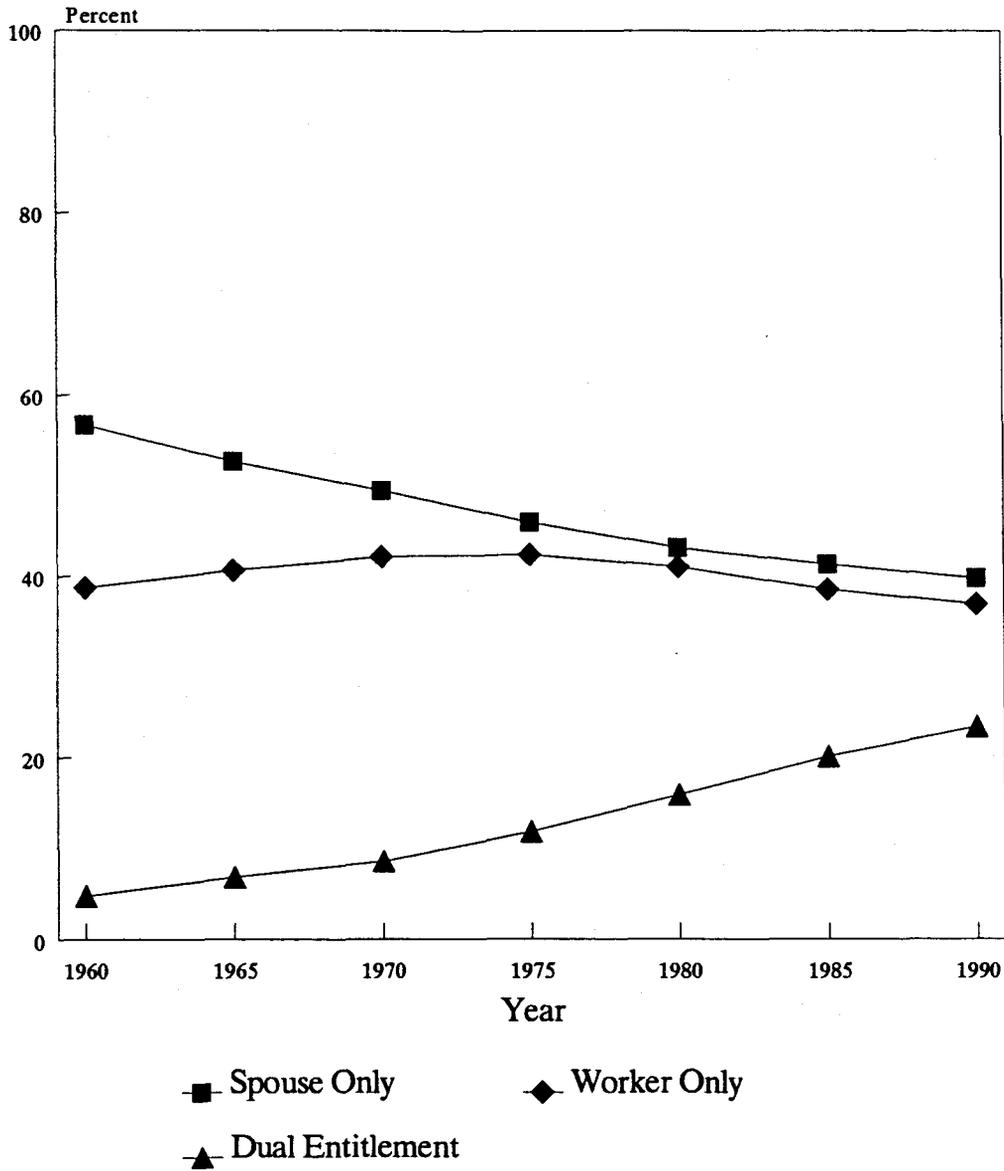
The increase in the participation of women in the labor force and the changes in marital patterns in society have implications for the Social Security benefits that women will receive in general. More narrowly, more couples will be likely to include one worker in the public sector and one worker in the private sector, so that the number of people affected by the government pension offset (GPO) will rise.

Retirement Benefits of Women

The percentage of female Social Security beneficiaries age 62 or older who are eligible for benefits based on their own earnings records has been increasing. At the same time, the percentage actually receiving higher retirement benefits as a result of their earnings has remained remarkably stable over the past three decades (shown as the "worker only" line in Figure 4).⁴ In 1960, 39 percent of female beneficiaries age 62 or older received benefits based solely on their own earnings; this percentage rose to 42 percent in 1970 and declined to 37 percent in 1990. But dual entitlement--that is,

4. Barbara Lingg, "Women Beneficiaries Aged 62 or Older, 1960-88," *Social Security Bulletin*, vol. 53, no. 7 (July 1990), pp. 2-12; and *Social Security Bulletin, Annual Statistical Supplement, 1991* (December 1991), p. 172. The information presented in this paragraph and the next are based on Lingg's article.

FIGURE 4.
TRENDS IN BASIS FOR ENTITLEMENT TO SOCIAL SECURITY
BENEFITS FOR WOMEN AGE 62 OR OLDER, 1960 TO 1990



SOURCE: Barbara A. Lingg, "Women Beneficiaries Aged 62 or Older, 1960-88," Social Security Bulletin, vol. 53, no. 7 (July 1990), p. 6, updated with data reported in Social Security Bulletin, Annual Statistical Supplement, 1991 (December 1991), p. 172.

women who were entitled to higher benefits as wives than as workers--quadrupled during this period, rising from 5 percent to 23 percent. Meanwhile, the percentage of women who had insufficient employment histories to qualify for any retired-worker benefits in their own right (depicted by the "spouse only" line in Figure 4) fell from 57 percent to 40 percent.

Why do the benefits of so many women as spouses still exceed their own benefits as workers? Two changes in the Social Security benefit structure provide at least part of the answer: increases in the maximum amount of earnings on which Social Security benefits (and taxes) are based, and increases in the number of years of work history included in the AIME calculation. The former increased the benefits of many more husbands than wives because more men had earnings above the maximum in previous years.⁵ The increase in the computation period adversely affected many more wives than husbands because women generally have more years with little or no earnings. The increase in the length of women's work histories apparently was not large enough to offset the impact of including one more year in the benefit calculation in each successive year.

5. In 1975, 24 percent of men with covered wages and salaries, but only 2 percent of such women, had earnings at or above the maximum. In recent years, about 10 percent of men, but only 1 percent or 2 percent of women, have had earnings at or above the maximum.

The continuing rise in women's labor force participation and earnings will probably result in substantial increases in the percentage of wives who receive benefits based on their own earnings in the future. Because the earnings base has been indexed to the growth in average wages since the mid-1970s, this source of past differential growth in PIAs should be of little importance for new beneficiaries. Similarly, now that the length of the computation period is set, future increases in the number of years women work should translate into higher retirement benefits.

Yet few widows are likely to gain. For most of them, the earnings histories of their late husbands are likely to remain the basis for their Social Security benefits. In general, a minimum condition for a widow to receive a higher benefit because of her own earnings is that her AIME is higher than that of her late husband. Wives today still earn much less than their husbands, on average, and spend fewer years in the paid labor force. Moreover, because of the actuarial reduction rules described earlier, even if a woman had a higher AIME than her late husband, she might still be able to get a higher benefit as a widow than as a retired worker.

Widows, as a group, have lower incomes than other elderly people and are more likely to depend on Social Security benefits for the majority of their

income. For example, in 1990 about one in five widows age 65 or older was poor, which was nearly double the poverty rate among all elderly people.

Although the Social Security benefits of many future widows will not be affected by their additional earnings, those women will nevertheless be better off as a result of their past work. They will have had higher lifetime incomes and, therefore, greater opportunity to have accumulated savings. In addition, more of them will have their own pensions. Moreover, because men's real earnings histories are likely to be higher in future years, widows' benefits will be higher as well (although the increase in their PIAs could be offset by reductions for early retirement).

Divorced women who did not remarry may receive relatively low Social Security benefits--at least until their ex-husbands die. Thus far, few women have been receiving benefits on the basis of a former husband's Social Security record. At the end of 1990, about 100,000 divorced wives of retired workers and 200,000 surviving divorced wives received benefits based on the PIA of their ex-husbands. These numbers may increase in the future because of higher divorce rates, but we cannot predict by how much.

Government Pension Offset

The provisions of the GPO illustrate the difficulties of designing a single system that can meet the needs of a diverse population. The GPO reduces Social Security auxiliary benefits payable to certain government retirees whose own work was mainly in employment not covered by Social Security. Auxiliary benefits are offset on a two-for-three basis, thereby effectively treating two-thirds of the government pension as equivalent to Social Security and one-third as equivalent to a private pension. The offset was originally enacted in 1977, but because of various phase-in provisions, most government pensioners have thus far been exempted.

The number of retirees affected by the GPO has grown over the past several years, with women making up an ever larger share of those affected. About 145,000 retirees from federal, state, and local governments had their Social Security auxiliary benefits reduced or eliminated as a result of the GPO in December 1991. Because the transition provisions are exempting relatively few new Social Security beneficiaries, this number will continue to increase. To be exempted from the GPO today, a new beneficiary would generally be required to have been eligible to receive a government pension before 1983.

Federal, state, and local pensioners, as a group, are relatively well off in comparison with other retirees, although some do have low incomes. Their combined pension and Social Security benefits are, on average, about 10 percent greater than the corresponding values for private pension recipients and almost three times the average Social Security benefit received by retirees without a pension. Government pensioners generally have higher family incomes than other retirees. For example, in 1990, the average family income of government pensioners was about \$35,000, compared with about \$32,000 for private pensioners and only \$24,000 for retirees with no pensions. About one in five people receiving a government pension was in a family with a total income below \$15,000, compared with one in four private pensioners and nearly half of retirees without pensions. Widows were much more likely to have low family incomes--39 percent of the widows who received government pensions, 51 percent of the widows with private pensions, and 68 percent of the widows without pensions had incomes below \$15,000.

Proposals have been made to modify or eliminate the GPO. Modifying the offset by applying it only to government pensions and Social Security benefits that exceed some specified amount would target the increase in Social Security benefits toward retirees who are less well off. For example, one option would be to eliminate the offset for retirees whose combined monthly government pension and spousal Social Security benefits were below

\$300 and gradually to increase the offset rate for retirees with combined pensions and Social Security benefits between \$300 and \$900. This option would raise Social Security benefits for about one in seven retirees who are now affected by the offset; it would cost about \$110 million over the next five years.

Eliminating the GPO would cost about \$3 billion over the next five years. This estimate assumes that the number of retirees affected by the GPO will grow to about 220,000 by 1997. However, an unknown number of government retirees may not have applied for Social Security benefits because they knew the GPO would prevent them from receiving them. The estimate therefore does not include benefits that would be paid to these retirees. Critics of the GPO have argued that many retirees are unaware of the offset provision when planning for their retirement and are unprepared to cope with the unexpectedly low Social Security benefits they receive. Moreover, the GPO is seen by some as being particularly burdensome for surviving spouses, whose only source of income may be a government pension.

CONCLUSION

As the Chairman of the Subcommittee noted in announcing this hearing, "the majority of today's workers do not fit the 'Ozzie and Harriet' stereotype of male breadwinner with a dependent wife and one or more children." The statistics presented in this testimony underscore the diversity of the U.S. population, the dramatic increase in women's work outside the home, and the striking changes in marriage and divorce rates. Concern about the treatment of two-earner couples and of divorced women in the Social Security system may mount as a growing number of people fall into these categories.

I understand that other witnesses have been asked to address ways that the Social Security system could be improved to respond to these changes. The heterogeneity of work histories, as well as of marital patterns, virtually assures that any attempts to alter the Social Security benefit structure to help one group would require either that the benefits of other groups be reduced or that the total cost of the system rise. The overall decline in the growth in real wages since the early 1970s, however, would make it all the more difficult to finance a larger system.

